

Attachment D

AUSTRALIA'S FEDERAL RELATIONS

This attachment provides information on payments for specific purposes and general revenue assistance provided to the States and Territories (the States).

The current framework for federal financial relations under the *Intergovernmental Agreement on Federal Financial Relations* (the Intergovernmental Agreement) was introduced on 1 January 2009.

More detailed information on the Intergovernmental Agreement and Australia's federal financial relations is provided in Budget Paper No. 3, *Federal Financial Relations 2017-18*, and at www.federalfinancialrelations.gov.au.

Overview of payments to the States

Payments to the States in 2017-18 are estimated to be \$118.7 billion, or 25.4 per cent of total Commonwealth expenditure for the year. This amount comprises payments for specific purposes of \$55.6 billion and general revenue assistance of \$63.1 billion.

Table 3.25 shows payments for specific purposes and general revenue assistance to the States.

Table 3.25: Commonwealth payments to the States, 2017-18 to 2020-21

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2017-18									
Payments for specific purposes(a)	17,351	12,539	11,802	6,029	4,304	1,228	937	1,235	55,600
GST entitlement	17,511	14,989	14,848	2,255	6,284	2,378	1,244	2,891	62,400
Other general revenue assistance(c)	50	25	-	27	-	-	40	-	742
Total payments to the States	34,911	27,553	26,650	8,311	10,587	3,606	2,221	4,126	118,741
2018-19									
Payments for specific purposes(a)	18,039	14,267	13,090	6,426	3,998	1,321	900	1,072	59,348
GST entitlement(b)	~	~	~	~	~	~	~	~	65,800
Other general revenue assistance(c)	50	25	-	23	-	-	40	-	679
Total payments to the States(d)	18,089	14,292	13,090	6,449	3,998	1,321	940	1,072	125,827
2019-20									
Payments for specific purposes(a)	17,182	13,133	12,531	7,129	3,700	1,151	912	1,052	56,965
GST entitlement(b)	~	~	~	~	~	~	~	~	68,280
Other general revenue assistance(c)	50	25	-	25	-	-	41	-	667
Total payments to the States(d)	17,232	13,158	12,531	7,153	3,700	1,151	952	1,052	125,913

Table 3.25: Commonwealth payments to the States, 2017-18 to 2020-21 (continued)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21									
Payments for specific purposes(a)	17,025	13,768	12,869	6,175	3,618	1,194	950	942	56,757
GST entitlement(b)	~	~	~	~	~	~	~	~	71,940
Other general revenue assistance(c)	50	25	-	27	-	-	41	-	668
Total payments to the States(d)	17,075	13,793	12,869	6,201	3,618	1,194	991	942	129,366

(a) State allocations for some programs have yet to be determined. These payments are not included in State totals, and consequently, total payments may not equal the sum of State totals.

(b) State allocations are dependent upon the GST sharing relativities for that financial year. These relativities are not forecast beyond the Budget year.

(c) State allocations for royalties are not published due to commercial sensitivities. These payments are not included in State totals, and consequently, total payments may not equal the sum of State totals.

(d) State allocations reflect payments for specific purposes and other general revenue assistance only.

Payments for specific purposes

The Commonwealth provides payments to the States for specific purposes in areas administered by the States. Payments to the States for specific purposes are estimated to total \$55.6 billion in 2017-18, which is 11.9 per cent of total Commonwealth expenditure for the year and an increase of \$472 million (or 0.9 per cent) on the \$55.1 billion the States received in 2016-17.

The Commonwealth provides the following types of specific purpose payments (SPPs) to the States:

- National Specific Purpose Payments (National SPPs) in respect of key service delivery sectors – disability services, skills and workforce development, and affordable housing;
- National Health Reform (NHR) funding, largely for public hospital services;
- National Housing and Homelessness funding from 2018-19;
- Quality Schools funding for government and non-government schools; and
- National Partnership payments in a wide range of areas.

Table 3.26 shows total payments for specific purposes by each type of SPP.

Table 3.26: Total payments for specific purposes by category, 2017-18 to 2020-21

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2017-18									
National Specific Purpose Payments	1,408	1,133	881	462	308	93	48	44	4,375
National Health Reform funding	6,020	4,969	4,127	2,119	1,306	394	375	255	19,563
Quality Schools funding	5,711	4,543	3,928	1,790	1,251	424	301	350	18,324
National Housing and Homelessness funding	-	-	-	-	-	-	-	-	-
National Partnership payments(b)	4,212	1,894	2,866	1,658	1,439	318	214	587	13,337
Total payments for specific purposes	17,351	12,539	11,802	6,029	4,304	1,228	937	1,235	55,600
2018-19									
National Specific Purpose Payments	485	808	624	326	105	65	25	31	2,469
National Health Reform funding	6,350	5,216	4,372	2,252	1,364	408	399	279	20,640
Quality Schools funding	6,061	4,852	4,172	1,937	1,328	447	318	373	19,528
National Housing and Homelessness funding	472	381	306	160	105	32	25	19	1,500
National Partnership payments(b)	4,671	3,011	3,616	1,751	1,096	369	132	370	15,212
Total payments for specific purposes	18,039	14,267	13,090	6,426	3,998	1,321	900	1,072	59,348
2019-20									
National Specific Purpose Payments	493	400	308	334	106	32	26	15	1,713
National Health Reform funding	6,696	5,475	4,630	2,392	1,423	424	426	304	21,770
Quality Schools funding(c)	6,422	5,188	4,483	2,101	1,410	467	329	399	20,843
National Housing and Homelessness funding	479	389	311	162	106	32	25	19	1,523
National Partnership payments(b)	3,092	1,681	2,800	2,139	654	196	106	314	11,116
Total payments for specific purposes	17,182	13,133	12,531	7,129	3,700	1,151	912	1,052	56,965
2020-21									
National Specific Purpose Payments	500	408	312	162	107	32	26	15	1,561
National Health Reform funding	6,975	5,701	4,823	2,494	1,483	441	444	317	22,677
Quality Schools funding(c)	6,814	5,556	4,811	2,278	1,499	489	345	428	22,267
National Housing and Homelessness funding	486	396	316	164	107	32	25	20	1,547
National Partnership payments(b)	2,250	1,706	2,607	1,077	423	199	110	162	8,705
Total payments for specific purposes	17,025	13,768	12,869	6,175	3,618	1,194	950	942	56,757

(a) As State allocations for some programs have yet to be determined, relevant payments are not included in State totals. Consequently, total payments may not equal the sum of State totals.

(b) Includes financial assistance grants for local government.

(c) State allocations from the 2018 school year onwards are indicative only and final allocations are subject to formal negotiations between the Commonwealth, the States and the non-government schools sector.

Payments for specific purposes cover most areas of State and local government activity including health, education, skills and workforce development, community services, affordable housing, infrastructure and the environment. Table 3.27 shows total payments for specific purposes by sector.

Table 3.27: Payments for specific purposes by sector, 2017-18 to 2020-21

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2017-18									
Health	6,053	4,995	4,168	2,143	1,380	424	380	296	19,966
Education	5,864	4,671	4,039	1,847	1,289	435	310	402	18,891
Skills and workforce development	590	474	370	195	129	39	31	18	1,845
Community services	1,092	743	563	655	254	72	65	93	3,538
Affordable housing	465	373	488	337	121	32	24	214	2,056
Infrastructure	2,693	684	1,715	660	899	156	45	169	7,021
Environment	106	217	99	13	106	22	44	14	634
Contingent payments	2	2	4	1	..	1	-	1	12
Other(b)	485	380	355	177	125	47	39	28	1,637
Total payments for specific purposes	17,351	12,539	11,802	6,029	4,304	1,228	937	1,235	55,600
2018-19									
Health	6,358	5,232	4,389	2,267	1,367	432	400	305	20,911
Education	6,147	4,935	4,233	1,970	1,349	453	324	414	19,873
Skills and workforce development	601	484	376	197	130	39	31	18	1,877
Community services	1,047	1,478	1,198	563	244	139	18	86	4,776
Affordable housing	472	381	306	160	105	32	25	23	1,504
Infrastructure	2,303	876	1,889	915	506	113	21	172	6,795
Environment	184	164	64	1	81	25	14	6	560
Contingent payments	..	..	14	2	..	..	-	..	17
Other(b)	927	715	622	350	218	88	68	47	3,035
Total payments for specific purposes	18,039	14,267	13,090	6,426	3,998	1,321	900	1,072	59,348
2019-20									
Health	6,701	5,490	4,643	2,397	1,427	435	426	314	21,862
Education	6,422	5,188	4,483	2,102	1,411	467	329	437	20,888
Skills and workforce development	618	500	386	202	133	40	32	19	1,929
Community services	321	260	205	1,151	76	24	18	88	2,146
Affordable housing	479	389	311	162	106	32	25	23	1,528
Infrastructure	1,695	606	1,891	777	359	67	15	124	5,532
Environment	64	17	36	-	2	-	..	2	215
Contingent payments	..	..	8	..	-	-	-	..	9
Other(b)	881	684	568	338	187	86	66	46	2,856
Total payments for specific purposes	17,182	13,133	12,531	7,129	3,700	1,151	912	1,052	56,965
2020-21									
Health	6,980	5,715	4,828	2,498	1,486	442	444	327	22,745
Education	6,814	5,556	4,811	2,278	1,499	489	345	458	22,299
Skills and workforce development	619	503	386	202	132	40	32	19	1,931
Community services	333	271	213	112	79	25	18	46	1,100
Affordable housing	486	396	316	164	107	32	25	23	1,552
Infrastructure	959	656	1,765	603	143	85	23	28	4,261
Environment	..	20	25	-	..	-	-	2	187
Contingent payments	..	-	-	-	-	-	-	-	..
Other(b)	834	650	526	317	172	82	62	39	2,683
Total payments for specific purposes	17,025	13,768	12,869	6,175	3,618	1,194	950	942	56,757

(a) As State allocations for some programs have yet to be determined, relevant payments are not included in State totals. Consequently, total payments may not equal the sum of State totals.

(b) Includes financial assistance grants for local government.

Table 3.28 shows total payments for specific purposes by sector and category (National SPPs, NHR funding, Quality Schools funding, National Housing and Homelessness and National Partnership payments).

Table 3.28: Payments for specific purposes by sector and category, 2017-18 to 2020-21

\$million	2017-18	2018-19	2019-20	2020-21
<i>Health</i>				
National Health Reform funding	19,563	20,640	21,770	22,677
National Partnerships	403	272	92	69
<i>Education</i>				
Quality Schools funding	18,324	19,528	20,843	22,267
National Partnerships	567	345	46	32
<i>Skills and workforce development</i>				
National Skills and Workforce Development SPP	1,495	1,517	1,539	1,561
National Partnerships	350	360	390	370
<i>Community services</i>				
National Disability SPP	1,520	952	174	-
National Partnerships	2,018	3,824	1,972	1,100
<i>Affordable housing</i>				
National Affordable Housing SPP	1,360	-	-	-
National Housing and Homelessness funding	-	1,500	1,523	1,547
National Partnerships	695	4	5	5
<i>Infrastructure</i>				
National Partnerships	7,021	6,795	5,532	4,261
<i>Environment</i>				
National Partnerships	634	560	215	187
<i>Contingent payments</i>				
National Partnerships	12	17	9	..
<i>Other</i>				
National Partnerships(a)	1,637	3,035	2,856	2,683
Total payments for specific purposes	55,600	59,348	56,965	56,757

(a) Includes financial assistance grants for local government.

Detailed tables of payments for specific purposes are provided in Annex A (available online).

The Commonwealth provides funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the States following natural disasters. For accounting purposes, the Commonwealth recognises a liability equal to the present value of future payments expected to be made to the States under the NDRRA. This is regardless of whether or not a State has completed eligible reconstruction work or submitted an eligible claim under the NDRRA. Estimated NDRRA cash payments are shown in Table 3.29 below. Accrual estimates are presented in Table A.8 in Annex A (available online).

Table 3.29: Estimated NDRRA cash payments, 2017-18 to 2020-21

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2017-18	116.9	133.2	162.6	13.5	10.6	51.6	-	43.9	532.3
2018-19	10.2	8.7	296.1	77.5	0.3	5.8	-	16.0	414.5
2019-20	-	1.7	421.4	14.1	-	-	-	4.3	441.5
2020-21	-	-	-	-	-	-	-	-	-

General revenue assistance

General revenue assistance is provided to the States without conditions, and can be spent by the States according to their own budget priorities.

In 2017-18, the States are expected to receive \$63.1 billion in general revenue assistance from the Commonwealth, comprising \$62.4 billion in GST entitlements and \$742 million in other general revenue assistance. This is a 4.3 per cent increase in general revenue assistance on the \$60.6 billion the States received in 2016-17. General revenue assistance to the States is estimated to represent 13.5 per cent of total Commonwealth expenditure in 2017-18.

Table 3.30 summarises GST and other general revenue assistance payments to the States. Detailed tables of GST and other general revenue assistance are provided in Annex A (available online).

Table 3.30: General revenue assistance, 2017-18 to 2020-21

\$million	2017-18	2018-19	2019-20	2020-21
GST entitlements	62,400.0	65,800.0	68,280.0	71,940.0
Other payments				
<i>ACT municipal services</i>	39.6	40.1	40.7	41.2
<i>Compensation for reduced royalties</i>	26.7	23.3	24.7	26.7
<i>Royalties</i>	600.4	540.4	526.9	525.4
<i>Snowy Hydro Ltd tax compensation</i>	75.0	75.0	75.0	75.0
Total other	741.6	678.8	667.3	668.4
Total GST and other payments	63,141.6	66,478.8	68,947.3	72,608.4

GST payments

Under the Intergovernmental Agreement, the States are entitled to receive payments from the Commonwealth equivalent to the revenue raised from the GST in any given financial year, after some minor adjustments, as discussed below.

The Commonwealth makes monthly payments (advances) to the States throughout the year based on GST estimates for that year. Estimates of the GST are used, as the actual amount of GST revenue for the financial year is unknown until after the end of the financial year. Once the amount of GST revenue is known, the Treasurer makes a determination of the GST entitlement for that year. A balancing adjustment payment is then made to each State to ensure the States receive the GST to which they are entitled. These balancing adjustments (referred to as the 'prior year balancing adjustment') are made in the following financial year.

States compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office (ATO) in administering the GST. In practice, this is achieved by the Commonwealth reducing the monthly GST payments to the States by the GST administration costs.

Calculating the GST payments

Some additional adjustments are made to GST revenue in order to calculate the amount of GST paid to the States in any given year.

- Some GST revenue accrued during a financial year is not remitted to the ATO by 30 June of that year because it is not due to be paid until Business Activity Statements (BAS) are lodged the following financial year.
- Penalties owed to the ATO, other than general interest charge (GIC) penalties, are not included in the GST to be paid to the States, as defined in the *Federal Financial Relations Act 2009*.
- Some GST collected by Commonwealth agencies is not remitted to the ATO by 30 June in each financial year, because it is not due to be paid until the next BAS is lodged.

In 2016-17, the States' GST entitlement was \$605.5 million higher than the advances paid during that year. A balancing adjustment was made to States' GST payments in 2017-18 to account for this.

A reconciliation of GST revenue and the States' GST entitlement is provided in Table 3.31.

Table 3.31: Reconciling GST revenue and the States' GST entitlement

\$million	2017-18	2018-19	2019-20	2020-21
GST revenue	65,560	68,550	71,360	75,300
less Change in GST receivables	2,958	2,511	2,845	3,115
GST receipts	62,602	66,039	68,515	72,185
less Non-GIC penalties collected	200	220	230	240
less GST collected by Commonwealth agencies but not yet remitted to the ATO	2	19	5	5
States' GST entitlement	62,400	65,800	68,280	71,940

Table 3.32 provides a reconciliation of estimates of the States' GST entitlement since the 2017-18 Budget. The reconciliation accounts for policy decisions and parameter and other variations.

Table 3.32: Reconciliation of the GST entitlement estimates since the 2017-18 Budget

\$million	2017-18	2018-19	2019-20	2020-21
GST entitlement at 2017-18 Budget	62,340	65,590	67,670	71,540
<i>Changes between 2017-18 Budget and 2017-18 MYEFO</i>				
Effect of policy decisions	-60	-290	120	80
Effect of parameter and other variations	120	500	490	320
Total variations	60	210	610	400
GST entitlement at 2017-18 MYEFO	62,400	65,800	68,280	71,940

Specific policy decisions taken since the 2017-18 Budget that affect the GST entitlement are shown in Table 3.33. These decisions decrease the amount of the GST entitlement by \$150.0 million over four years.

Detailed information on policy decisions since the 2017-18 Budget is included in Appendix A.

Table 3.33: Policy decisions since the 2017-18 Budget that affect the GST entitlement

\$million	2017-18	2018-19	2019-20	2020-21
GST on low value imported goods —				
1 July 2018 start date	-60.0	-30.0	-20.0	-20.0
Improving the integrity of GST on property transactions — transitional arrangements	0.0	-270.0	120.0	80.0
Pacific Labour Scheme	0.0	5.0	10.0	10.0
Seasonal Worker Programme — improving take-up and streamlining administration	0.0	5.0	10.0	10.0
Indirect Tax Concession Scheme — diplomatic and consular concessions	..	..	..	..
Total	-60.0	-290.0	120.0	80.0

Distribution of the GST among the States

The Commonwealth distributes the GST among the States based on the GST revenue sharing relativities recommended by the Commonwealth Grants Commission.

Table 3.34 shows the detailed calculation for the distribution of the States' estimated GST entitlement in 2017-18. This method of calculation is prescribed in legislation in the *Federal Financial Relations Act 2009*.

Table 3.34: Distribution of the GST entitlement, 2017-18^(a)

	Estimated 31 December 2017 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2017-18 GST entitlement \$million (5)
NSW	7,909,753	0.87672	6,934,639	28.1	17,510.6
VIC	6,366,439	0.93239	5,936,004	24.0	14,988.9
QLD	4,951,041	1.18769	5,880,302	23.8	14,848.3
WA	2,593,928	0.34434	893,193	3.6	2,255.4
SA	1,728,151	1.43997	2,488,486	10.1	6,283.6
TAS	521,734	1.80477	941,610	3.8	2,377.6
ACT	412,388	1.19496	492,787	2.0	1,244.3
NT	245,696	4.66024	1,145,002	4.6	2,891.2
Total	24,729,130	na	24,712,023	100.0	62,400.0

(a) Amounts shown are estimates of each State's GST entitlement, based on the estimated total GST pool and population splits. These amounts do not take into account the 2016-17 balancing adjustment of \$605.5 million, which was made to States' GST payments in 2017-18.

The calculation of the GST entitlement for 2016-17 is shown in Table 3.35. The Treasurer made a Determination giving effect to this entitlement on 31 October 2017.

The table also includes the distribution of the balancing adjustment, taking account of differences between advances of GST paid to each State and each State's final entitlement for 2016-17.

Table 3.35: Calculation of the GST entitlement and balancing adjustment, 2016-17^(a)

	31 December 2016 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2016-17 GST entitlement \$million (5)	2016-17 GST advances \$million (6)	Balancing adjustment \$million (5) - (6) (7)
NSW	7,797,791	0.90464	7,054,194	29.0	17,335.4	17,215.9	119.5
VIC	6,244,227	0.90967	5,680,186	23.3	13,958.8	13,631.7	327.1
QLD	4,883,739	1.17109	5,719,298	23.5	14,054.9	13,955.1	99.8
WA	2,567,788	0.30330	778,810	3.2	1,913.9	1,950.0	-36.1
SA	1,716,966	1.41695	2,432,855	10.0	5,978.6	5,933.9	44.7
TAS	519,050	1.77693	922,316	3.8	2,266.6	2,259.2	7.3
ACT	406,403	1.15648	469,997	1.9	1,155.0	1,129.0	26.0
NT	245,048	5.28450	1,294,956	5.3	3,182.3	3,165.2	17.1
Total	24,381,012	na	24,352,611	100.0	59,845.5	59,240.0	605.5

(a) These amounts do not take into account the 2015-16 balancing adjustment of -\$98.4 million which was made in 2016-17.

GST administration

States compensate the Commonwealth for the costs incurred by the ATO in administering the GST, including costs incurred by the Department of Home Affairs (formerly the Department of Immigration and Border Protection). The GST administration budget for the ATO is estimated to be \$631.1 million for 2017-18, as shown in Table 3.36.

Table 3.36: GST administration budget

\$million	Actual	Estimates			
	2016-17	2017-18	2018-19	2019-20	2020-21
Australian Taxation Office budget	682.4	631.1	599.2	472.3	474.4
less Prior year adjustment	0.0	0.0			
<i>equals</i> State government payments	682.4	631.1	599.2	472.3	474.4
less Australian Taxation Office outcome(a)	682.4				
<i>equals</i> Commonwealth budget impact	0.0				
plus Prior year adjustment	0.0				
<i>equals</i> Following year adjustment	0.0				

(a) Estimated outcome for 2016-17 pending confirmation by the Australian National Audit Office.