Part 1: Australia's Federal Relations

While maintaining a sustainable fiscal position, the Commonwealth is working with the States and Territories to implement progressive and fiscally responsible reforms which will enhance the wellbeing of all Australians.

The Commonwealth is introducing historic reforms to school education and disability care, which will help shape a stronger, smarter and fairer Australia into the future. These reforms build on the Government's significant investments in areas such as health, infrastructure, skills, Indigenous support and affordable housing.

The States and Territories receive substantial financial support from the Commonwealth through two broad categories of payments. These payments comprise specific purpose payments, targeting key service delivery sectors, areas of nationally significant reform and policy collaboration, and general revenue assistance, including distribution of Goods and Services Tax (GST) revenue.

In 2013-14, the Commonwealth will provide $95.3 billion in total payments to the States, a 3.6 per cent increase on 2012-13. This represents around 24 per cent of total Commonwealth expenditure. Around 85 per cent of this funding is broadly untied which allows States flexibility to support service delivery as they choose.

Overview

Commonwealth payments to the States and Territories (the States) are framed by the *Intergovernmental Agreement on Federal Financial Relations* (the Intergovernmental Agreement). Since 1 January 2009, the Intergovernmental Agreement has provided the framework for the Commonwealth and the States to work in partnership to deliver reforms for the benefit of all Australians.

These reforms support the States through substantial financial investments in critical areas of service delivery and infrastructure, including funding for stimulus to protect jobs during the global financial crisis. The Commonwealth's support to the States has included major new investments in healthcare, education, disability support and housing.

While charting a pathway to surplus, despite large tax revenue write-downs, the Commonwealth will continue to provide substantial levels of funding to the States through both specific purpose payments and general revenue assistance. This funding is aimed towards advancing historic social reforms, assisting in key service delivery sectors, and supporting delivery of significant social and economic outcomes.

Overall, the Commonwealth will provide the States with $95.3 billion in payments for specific purposes and general revenue assistance in 2013-14. This represents a $3.3 billion increase in total financial assistance compared to 2012-13. Commonwealth payments to the States in 2013-14 are expected to be $27 billion higher than in 2006-07. Total payments to the States as a proportion of Commonwealth expenditure are estimated to be 23.9 per cent in 2013-14. National Partnership payments are expected to be $12.8 billion in 2013-14, a change of $1.2 billion from $13.9 billion in 2012-13. This change is in large part driven by the early payment of $1.1 billion in Financial Assistance Grants to assist local governments and an increase in estimated natural disaster relief and recovery payments in 2012-13.

National Specific Purpose Payments (National SPPs), including National Health Reform funding and National Education Reform funding, will increase by $2.2 billion from $29.1 billion in 2012-13 to $31.3 billion in 2013-14. This increase is provided by the Commonwealth in accordance with the indexation arrangements established under the Intergovernmental Agreement and provides the States with a secure and growing funding base for the delivery of activities across the main service sectors. In addition, National Education Reform funding delivers new funding arrangements for school education that will drive long-term improvements in education outcomes and a fairer approach to funding based on the needs of every student.

General revenue assistance, principally comprising GST entitlements, provides another stable funding base to support the delivery of State services. Notwithstanding that current GST forecasts are below levels projected in last year's *Mid-Year Economic and Fiscal Outlook*, State GST entitlements are still expected to increase from $47.7 billion in 2012-13 to $50.3 billion in 2013-14, an increase of $2.6 billion.

In 2008-09, the year in which the current federal financial relations framework was introduced, the Commonwealth increased payments to the States by approximately $7 billion over those provided in 2007-08. Since this increase, that funding has been maintained and total Commonwealth payments are expected to increase at over 4.7 per cent per annum on average over the forward estimates period, after adjusting for the transfer of responsibility for home and community care to the Commonwealth. This growth demonstrates the strong support the Commonwealth is providing for State service delivery and economic and social infrastructure.

Around 85 per cent of the financial support provided by the Commonwealth to the States is broadly untied and therefore can be spent by the States in the manner that each jurisdiction believes will best support service delivery in key areas of government activity such as health, education and skills, housing, and disabilities. The remaining 15 per cent of funding supports specific reforms or projects that the Commonwealth and States jointly agree should be pursued in the national interest.

TOTAL PAYMENTS TO THE STATES

In 2013-14, the Commonwealth will provide the States with payments totalling $95.3 billion, comprising payments for specific purposes of $44.1 billion and general revenue assistance of $51.2 billion.

As part of this Budget, the Commonwealth will provide additional substantial support to the States in 2013-14 and over the forward estimates including:

- additional funding to implement a new needs-based funding model for schools;
- additional funding to assist the States with their contribution to DisabilityCare Australia;
- $1.0 billion for the Health and Hospitals Fund Regional Priority Round;
- $655.6 million in additional funding for Early Childhood Education; and
- the next wave of the Government's flagship Nation Building Program, with the Commonwealth spending around $24 billion on productivity enhancing infrastructure for roads, rail and ports from 2014-15 to 2018-19.

Payments for specific purposes

In 2013-14, the Commonwealth will provide the States with $44.1 billion in payments for specific purposes, an increase of $1.0 billion compared with $43.0 billion in 2012-13. National SPPs, National Health Reform and National Education Reform funding will total $31.3 billion in 2013-14, a $2.2 billion increase in National SPPs from 2012-13, with the remaining $12.8 billion to be distributed through National Partnership payments. Payments for specific purposes as a proportion of Commonwealth expenditure are estimated to be 11.1 per cent in 2013-14.

Part 2 of this Budget Paper provides further information on payments for specific purposes to the States.

General revenue assistance

In 2013-14, States are expected to receive $51.2 billion in general revenue assistance, comprising GST payments of $50.3 billion and $1.0 billion in other general revenue assistance. This is an increase of $2.3 billion compared with the $48.9 billion the States are expected to receive in total general revenue assistance in 2012-13. Payments for general revenue assistance are estimated to be 12.9 per cent as a proportion of Commonwealth expenditure in 2013-14.

Part 3 of this Budget Paper provides further information on general revenue assistance to the States, including GST.

Table 1.1: Commonwealth payments to the States

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2012-13									
Payments for specific purposes	12,772	10,145	10,030	4,476	3,055	1,070	615	858	43,021
General revenue assistance	14,666	10,947	9,478	2,907	4,463	1,694	984	2,734	48,935
Total payments to the States	27,438	21,093	19,508	7,383	7,518	2,765	1,599	3,592	91,956
2013-14									
Payments for specific purposes(b)(c)	13,573	10,892	8,982	4,865	2,960	993	701	946	44,067
General revenue assistance	15,608	11,345	10,741	2,499	4,595	1,801	1,059	2,756	51,234
Total payments to the States	29,180	22,238	19,723	7,365	7,555	2,794	1,760	3,702	95,300
2014-15									
Payments for specific purposes(c)	14,160	11,006	10,143	4,895	3,082	1,039	781	912	46,018
General revenue assistance	16,652	11,817	11,558	2,101	4,754	1,965	1,163	2,968	53,804
Total payments to the States	30,812	22,824	21,701	6,996	7,836	3,003	1,944	3,880	99,822
2015-16									
Payments for specific purposes(c)	14,593	11,543	10,130	5,256	3,524	1,148	780	931	47,906
General revenue assistance	17,682	12,636	11,974	2,354	4,839	2,150	1,245	3,082	56,778
Total payments to the States	32,275	24,179	22,105	7,610	8,363	3,299	2,025	4,013	104,684
2016-17									
Payments for specific purposes(c)	15,101	12,081	11,016	5,888	3,581	1,172	863	1,196	50,899
General revenue assistance	18,545	13,357	12,606	2,622	5,040	2,205	1,305	3,151	59,647
Total payments to the States	33,646	25,438	23,622	8,511	8,621	3,378	2,168	4,347	110,546

(a) Total column may not equal sum of State totals. As there is no basis on which to estimate State allocations for a small number of payments, these payments are not reflected in State totals.

(b) Payments for specific purposes includes National Schools SPP funding, which ceases on 31 December 2013.

(c) Payments for specific purposes from 2013-14 onwards include National Education Reform funding, which commences from 1 January 2014. As the Commonwealth's offer to States under the *National Education Reform Agreement* is open until 30 June 2013, the Budget makes provision for National Education Reform funding for all States from 1 January 2014.

For 2013-14, total payments to the States as a proportion of GDP are estimated to be 6.0 per cent, payments for specific purposes are estimated to be 2.8 per cent and general revenue assistance is estimated to be 3.2 per cent as a proportion of GDP.

Table 1.2: Total Commonwealth payments to the States as a proportion of GDP

$million	National SPPs (a)	National Health Reform funding	National Education Reform funding (b)	National Partnership payments (c)	GST entitlement	Other general revenue assistance	Total	Change from previous year	Per cent of GDP
2012-13	15,805	13,280	-	13,936	47,700	1,235	91,956	-	6.0
2013-14	10,420	14,040	6,824	12,783	50,250	984	95,300	3.6	6.0
2014-15	4,052	15,531	14,314	12,120	52,820	984	99,822	4.7	6.0
2015-16	4,164	17,164	15,630	10,947	55,800	978	104,684	4.9	5.9
2016-17	4,283	18,956	17,099	10,562	58,670	977	110,546	5.6	5.9

(a) Includes National Schools SPP funding which ceases on 31 December 2013.
(b) National Education Reform funding commences from 1 January 2014. As the Commonwealth's offer to States under the *National Education Reform Agreement* is open until 30 June 2013, the Budget makes provision for National Education Reform funding for all States from 1 January 2014.
(c) Includes financial assistance grants for local government and payments direct to local government.

GAINS FOR THE STATES SINCE 2007

From 2007-08 to 2011-12, the Commonwealth has provided over $450 billion in assistance to the States (including stimulus payments), comprising $227 billion for payments for specific purposes and $224 billion for general revenue assistance. This is an increase of approximately 28 per cent in real terms on assistance provided to States from 2002-03 to 2006-07 by the previous government.

The Commonwealth's investments have supported important social and economic reforms that spread opportunity, support a fairer and more prosperous society and ensure the continuation of high quality delivery of key services now and into the future.

The Government has provided significant additional levels of support to the States to fund healthcare. From 2014-15, National Health Reform funding will be directly linked to the level of services delivered by public hospitals. The Commonwealth has guaranteed that its contribution will be at least $16.4 billion greater than the amount the States would have received under the former National Healthcare SPP between 2014-15 and 2019-20.

Investing in programs to assist Australians affected by mental health issues is a key priority for the Commonwealth. To that effect, up to $200 million has been committed to fund significant reform, to address service gaps in the mental health system. The Government's mental health initiatives are helping people with severe mental illness to receive the support they need to help them to break the cycle of hospitalisation and unplanned re-admission. The reforms also ensure their families and carers have a place to turn to for help if additional information or services are needed.

In this Budget, the Commonwealth has committed to significant new spending in the education sector with the introduction of National Education Reform funding. This new commitment builds on a legacy of investment in education. From 2008-09, the

Commonwealth has provided funding to ensure access to affordable quality childcare, Trade Training Centres in schools, the Digital Education Revolution, and improving literacy and numeracy outcomes for students in Australian schools. Furthermore, since 2009-10 the Commonwealth has provided significant financial contributions to support state and non-government early childhood and school services under national early childhood development and schools agreements. By investing in the earliest years, in school education, and beyond into higher education and vocational education and training, the Government is providing opportunities for all Australians to maximise their potential and build a smarter nation.

The Government continues to place a priority on advancing opportunities for Indigenous Australians through both direct investments and support to State governments to deliver services. The Commonwealth has provided over $800 million to the Northern Territory since 2009-10, as part of the *Closing the Gap* initiative and continues to support investment in this area through the *Stronger Futures in the Northern Territory* initiative. This funding has been provided to benefit communities in the Northern Territory in the areas of law and order, community safety, education, health, food security and interpreters. Further, from 2008-09 the Commonwealth has provided funding for housing and infrastructure for Indigenous Australians in remote areas across Australia.

The Commonwealth is committed to improving outcomes in the housing sector. Since 1 January 2009, the Commonwealth has provided funding to support state housing services under the National Affordable Housing SPP. This has included the provision of public rental housing for low to moderate income households, and assistance for those who are homeless and in crisis, including the delivery of up to 600 homes across Australia for families and individuals.

The Commonwealth has demonstrated a substantial commitment to supporting communities affected by natural disasters, contributing over $6 billion in payments under the Natural Disaster Relief and Recovery Arrangements between 2007-08 and 2011-12. This funding has assisted recovery and reconstruction efforts for Australian communities affected by floods, bushfires and cyclones. This Budget continues to provide support for those affected by natural disasters, including the January 2013 floods in Queensland and New South Wales.

In response to the significant changes in the global economy since 2008-09, the Commonwealth responded with major stimulus packages aimed at boosting economic growth and assisting States to deal with the pressures following the global financial crisis. The additional funding supported the States' economic and fiscal positions in a period when most States experienced falls in revenues from their own taxes.

In this period, the Commonwealth supported economic growth and jobs through the Economic Security Strategy and the Nation Building and Jobs Plan. These initiatives delivered stimulatory measures, increased investment in schools, housing, community infrastructure and roads, and assistance for young people to access education and training places.

As part of the $10.4 billion Economic Security Strategy, the Commonwealth announced the introduction of the First Home Owners Boost in October 2008, complementing the States' existing First Home Owners Grant payments. This funding stimulated housing activity, supported the construction industry and assisted Australians to purchase their first home.

Along with the Economic Security Strategy, the other stimulus packages which helped ensure the Australian economy was well placed to withstand the impacts of the global recession were:

- the $15.2 billion COAG Funding Package which accompanied the introduction of the new framework of federal financial relations in 2008, including maintaining the benefits of ongoing National SPPs and introducing substantial new National Partnership Agreement funding for healthcare, schools, productivity, affordable housing and Indigenous reform;
- the $4.7 billion Nation Building Package, including $110 million for Black Spot funding to improve road safety and support jobs in Australia, and $150 million to improve road safety by funding the construction of boom gates at rail crossings; and
- the $42 billion Nation Building and Jobs Plan including $28.8 billion in direct Government investment in schools, housing, energy efficiency, community and transport infrastructure and support to small businesses.

MAJOR GOVERNMENT REFORMS AND DEVELOPMENTS

Delivering key reforms while maintaining fiscal sustainability

Commonwealth payments to the States continue to grow across the forward estimates period despite the tight fiscal environment. Challenging economic conditions have had a significant impact on the level of tax receipts expected in 2012-13 and over the forward estimates. Since the *Mid-Year Economic and Fiscal Outlook 2012-13*, tax receipts have been revised down by around $60 billion over the four years to 2015-16. Had tax receipts remained at their 2007-08 share of GDP, the Budget would have been in surplus from 2012-13 onwards.

The impact of further tax write-downs will see a delay in the return to surplus, but the Government is delivering long-term savings to improve the sustainability of the budget. The Government remains committed to maintaining strong public finances, consistent with its fiscal strategy, while also supporting important reforms. A strong economy is a critical foundation for strong public finances. Offsetting the large revenue write-down in a short time period would have come at a significant cost to jobs and growth. Commonwealth assistance to the States will contribute to supporting jobs and growth across Australia.

Within this general economic environment, GST entitlements to the States are also forecast to be lower than previously estimated in 2012-13 and across the forward estimates period. GST entitlements in 2013-14 have been revised down by $750 million since the 2012-13 MYEFO. This reflects weakness in current year collections and slightly lower growth in consumption subject to GST. This lower growth in consumption reflects weaker domestic prices.

Notwithstanding these movements, total payments to the States will increase by 3.6 per cent in 2013-14.

Schools reform

The Commonwealth is committed to ensuring that every Australian child has the opportunity to access first class education and to achieve excellent education outcomes. This will place Australia at an internationally competitive level.

The *National Education Reform Agreement,* which introduces the National Plan for School Improvement and a new and more equitable funding system, will help deliver on this commitment.

To drive improvements in student outcomes across the board, the National Plan for School Improvement focuses on five key reform areas:

- quality teachers;
- quality learning;
- empowered school leadership;
- meeting student need; and
- transparency and accountability.

The Agreement introduces a new needs-based funding model for schools, based on a Schooling Resource Standard (SRS). The Commonwealth's SRS will provide a base amount of funding for every Australian school student, which will be supplemented by additional loadings for regional and remote schools, students from a low-socioeconomic status background, Indigenous students, and students with low English-language proficiency. The new funding arrangements will apply for both government and non-government schools, with additional investment to be phased in over six years and shared between the Commonwealth and the States.

Commonwealth National Education Reform funding, to be calculated according to the SRS methodology, will replace the National Schools SPP from 1 January 2014.

Further information on the *National Education Reform Agreement* can be found in Part 2 of this Budget Paper.

Implementing other education reforms

Consistent with the Commonwealth and States' ongoing commitment to universal access to early childhood education, this Budget includes an additional $660.1 million for the National Partnership Agreement on Early Childhood Education (including $655.6 million in payments to the States and $4.5 million in Commonwealth expenditure). Building on the Commonwealth's investment of $970 million over five years under the current National Partnership, this additional investment will ensure that current levels of service delivery are maintained, with an additional focus on Indigenous, vulnerable and disadvantaged children.

DisabilityCare Australia

DisabilityCare Australia will establish a National Disability Insurance Scheme across Australia for people with a significant and permanent disability, to be jointly funded by the Commonwealth and the States. DisabilityCare Australia will provide people with disability with choice and control over their support services and enhance their opportunities for social and economic participation. This is the most fundamental social policy reform since the introduction of Medicare in 1984.

As part of this significant reform, the Commonwealth is increasing its share of disability spending and locking in a strong and stable funding source for DisabilityCare Australia. This will provide people with disability, their families and carers, the support and care they deserve. There will be a modest increase in the Medicare levy from 1 July 2014. The additional revenue from this change will be placed in the DisabilityCare Australia Fund, which will only be drawn down to meet expenditure directly related to DisabilityCare.

To assist with funding DisabilityCare Australia, the Commonwealth will allocate $9.7 billion of revenue going into the DisabilityCare Australia Fund to the States over 10 years. The States will be eligible to draw down from the Fund once certain key conditions are met, including agreement that a state will fully implement DisabilityCare Australia.

Implementing key health reforms

In this Budget, the Commonwealth will continue to invest in healthcare across a range of initiatives aimed at improving the quality of life and wellbeing of all Australians in urban, regional and remote areas of the community.

From 2013-14 and across the forward estimates, States are expected to receive $71.6 billion in payments to support service delivery, reforms and projects in the health sector.

National Health Reform

The *National Health Reform Agreement* arrangements, which commenced on 1 July 2012, support major reforms to the funding and delivery of health and hospital services. The reforms are designed to deliver the most efficient price of delivering the services to preserve universal healthcare in Australia. National Health Reform funding reinstates the Commonwealth's share of hospital funding over time. This funding is key to public hospital resources as it had originally replaced fees charged by public hospitals prior to the introduction of Medicare.

The new funding arrangements will be in their final transition year in 2013-14, ahead of the commencement of annual growth funding to the States from 2014-15. These arrangements deliver funding to States' hospitals based on where patients are receiving hospital treatment and the national efficient price of hospital services.

Infrastructure

The 2013-14 Budget provides funding for high-quality infrastructure projects in order to boost Australia's productive capacity. This investment builds on the Government's $36.0 billion of funding for land transport infrastructure over the six years to 2013-14.

This Budget announces the next wave of the Government's flagship Nation Building Program. The Government will spend around $24 billion on productivity enhancing roads, rail and ports from 2014-15 to 2018-19. Key measures announced in this Budget include $2.4 billion towards the upgrade and maintenance of the Bruce Highway and over $3.5 billion towards substantial rail projects.

Much of this investment supports the continuing development and renewal of urban areas. Investing in our cities plays a critical role in boosting Australia's productive capacity, including by reducing congestion and improving liveability.

In this Budget, the Commonwealth is investing in two key urban passenger rail projects in Brisbane and Melbourne. The Commonwealth is providing $715.0 million to fund the Brisbane Cross River Rail project, and $3.0 billion to the Melbourne Metro rail project. Both of these projects will help to reduce traffic congestion in these major cities by providing commuters with greatly improved public transport options.

As part of this Budget, the Commonwealth is also investing in two major road projects in Sydney. The Commonwealth is making a $1.8 billion allocation towards the Sydney Motorways (M4 extension and M5 duplication), dependent on New South Wales meeting a number of preconditions. The Commonwealth is also contributing $400.0 million for the F3 to M2 tunnel in Sydney. Both of these projects will ease the movement of freight to and within the Sydney basin, which will boost productivity, reduce business costs and relieve bottlenecks and urban congestion.

Providing continued support to communities affected by natural disasters

In recent years, Australia has witnessed the considerable impact on its communities of severe natural disasters. This Budget again reflects the substantial commitment the Commonwealth makes to providing ongoing support to affected communities that have dealt, and continue to deal with, the devastating impact of these disasters.

In 2013-14, the Commonwealth will continue to provide substantial funding to the States under the Natural Disaster Relief and Recovery Arrangements to support the rebuilding of communities affected by natural disasters. In January 2013, the Commonwealth responded to disasters in Queensland by agreeing to direct additional funding to aid reconstruction and recovery efforts.