Attachment E

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.

The Commonwealth provides substantial funding to the States through both general revenue assistance and specific purpose payments.

More detailed information on the Intergovernmental Agreement and Australia's federal financial relations is provided in Budget Paper No. 3, *Australia's Federal Relations 2013-14,* and at www.federalfinancialrelations.gov.au.

Overview of payments to the States

Payments to the States in 2013-14 are estimated to be $96.3 billion, or 23.4 per cent of total Commonwealth expenditure for the year. This amount comprises payments for specific purposes of $45.1 billion and general revenue assistance of $51.2 billion.

Table 3.22 shows payments for specific purposes and general revenue assistance to the States.

Table 3.22: Commonwealth payments to the States, 2013-14 to 2016-17

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2013-14									
Payments for specific purposes	11,962	10,614	8,148	4,422	2,864	934	671	863	45,053
General revenue assistance	15,528	11,268	10,696	2,510	4,558	1,786	1,055	2,751	51,221
Total payments to the States	**27,490**	**21,882**	**18,844**	**6,932**	**7,422**	**2,720**	**1,726**	**3,614**	**96,274**
2014-15									
Payments for specific purposes	12,615	10,603	8,486	4,551	3,018	944	787	920	47,885
General revenue assistance	16,614	11,762	11,555	2,125	4,723	1,952	1,161	2,978	53,872
Total payments to the States	**29,229**	**22,365**	**20,040**	**6,676**	**7,741**	**2,896**	**1,948**	**3,898**	**101,757**
2015-16									
Payments for specific purposes	13,351	10,747	8,930	4,872	3,439	1,032	743	928	48,786
General revenue assistance	17,669	12,583	12,005	2,380	4,813	2,142	1,245	3,118	56,947
Total payments to the States	**31,020**	**23,331**	**20,935**	**7,252**	**8,252**	**3,174**	**1,988**	**4,047**	**105,733**
2016-17									
Payments for specific purposes	14,279	11,178	9,754	5,292	3,397	1,030	817	1,009	49,433
General revenue assistance	18,617	13,350	12,712	2,661	5,032	2,208	1,311	3,221	60,102
Total payments to the States	**32,896**	**24,528**	**22,467**	**7,954**	**8,429**	**3,237**	**2,128**	**4,230**	**109,535**

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

Payments for specific purposes

The Commonwealth provides payments to the States for specific purposes in areas that may be administered by the States. Payments to the States for specific purposes will total $45.1 billion in 2013-14, which is estimated to represent 10.9 per cent of total Commonwealth expenditure in 2013-14.

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;
- National Health Reform (NHR) funding, which commenced from 1 July 2012;
- Students First — A fairer funding agreement for schools, which will commence from 1 January 2014; and
- National Partnership payments — project, facilitation and reward payments.

Table 3.23 shows total payments for specific purposes by category (National SPPs, NHR funding, Students First — A fairer funding agreement for schools and National Partnership payments).

Table 3.23: Total payments for specific purposes by category, 2013-14 to 2016-17

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2013-14									
National Specific Purpose Payments	3,295	2,574	2,149	1,098	685	194	182	109	10,285
National Health Reform funding(b)	4,457	3,459	2,816	1,529	1,005	308	232	144	13,949
Students First – A fairer funding agreement for schools	2,082	1,682	1,434	713	515	165	118	118	6,827
National Partnership payments(c)	2,127	2,900	1,749	1,082	660	267	140	492	13,992
Total payments for specific purposes	**11,962**	**10,614**	**8,148**	**4,422**	**2,864**	**934**	**671**	**863**	**45,053**
2014-15									
National Specific Purpose Payments	1,315	1,024	844	459	224	64	71	26	4,028
National Health Reform funding(d)	4,873	3,794	3,102	1,730	1,115	333	267	168	15,383
Students First – A fairer funding agreement for schools	4,333	3,537	3,049	1,518	1,062	342	244	247	14,331
National Partnership payments(c)	2,094	2,248	1,491	844	616	205	205	479	14,143
Total payments for specific purposes	**12,615**	**10,603**	**8,486**	**4,551**	**3,018**	**944**	**787**	**920**	**47,885**
2015-16									
National Specific Purpose Payments	1,341	1,049	866	477	228	65	73	26	4,125
National Health Reform funding(d)	5,351	4,159	3,429	1,962	1,242	361	308	196	17,009
Students First – A fairer funding agreement for schools	4,671	3,850	3,404	1,686	1,126	370	258	268	15,633
National Partnership payments(c)	1,988	1,689	1,231	747	843	236	105	438	12,019
Total payments for specific purposes	**13,351**	**10,747**	**8,930**	**4,872**	**3,439**	**1,032**	**743**	**928**	**48,786**
2016-17									
National Specific Purpose Payments	1,369	1,075	890	496	232	65	75	27	4,229
National Health Reform funding(d)	5,871	4,551	3,787	2,218	1,380	392	352	226	18,778
Students First – A fairer funding agreement for schools	5,111	4,146	3,776	1,849	1,195	400	273	293	17,043
National Partnership payments(c)	1,927	1,405	1,301	730	591	172	117	463	9,383
Total payments for specific purposes	**14,279**	**11,178**	**9,754**	**5,292**	**3,397**	**1,030**	**817**	**1,009**	**49,433**

(a) State allocations are not yet finalised for several National Partnership payments; unallocated payments are not included in State totals.
(b) State allocations of National Health Reform funding for 2013-14 are shown on the equal per capita basis provided for under the previous National Healthcare SPP. Adjustments will take place with respect to cross-border activity, where residents of one State receive hospital treatment in another State.
(c) Includes financial assistance grants for local government.
(d) The efficient growth funding component of National Health Reform funding in 2014-15, 2015-16 and 2016-17 is indicative only. The distribution of efficient growth funding will be determined by efficient growth in activity in each State.

The majority of payments for specific purposes relate to National SPPs, NHR funding and Students First — A fairer funding agreement for schools, and total $31.1 billion in 2013-14, an estimated increase of $1.9 billion over the $29.2 billion States received in 2012-13.

States will receive increased NHR funding in 2013-14 of $13.9 billion, compared to $13.3 billion in 2012-13, with NHR funding expected to grow at an average of 9.0 per cent across the forward estimates. The government has decided to provide additional funding to the States to offset a downward parameter adjustment to NHR funding in 2013-14 in accordance with the National Health Reform Agreement. This will prevent a mid-year cut to health budgets and ensure that Local Hospital Networks are provided with increased funding certainty in the 2013-14 financial year.

Downward variation between the 2013-14 Budget and the 2013-14 MYEFO	- $91.2 million
Upward variation at the 2012-13 Final Budget Outcome	+ $25.0 million
Net additional Commonwealth funding to States and Territories	+ $66.3 million

The Government has announced that, under its Students First — A fairer funding agreement for schools programme, it will restore the $1.2 billion of States' shares of additional school funding to Queensland, Western Australia and the Northern Territory, which had been removed. This will bring the total additional funding for Students First — A fairer funding agreement for schools over the next four years to $2.8 billion, in line with the funding announced in the 2013-14 Budget.

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 environment. Table 3.24 shows total payments for specific purposes by sector.

Table 3.24: Payments for specific purposes by sector, 2013-14 to 2016-17

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2013-14									
Health	4,980	3,950	3,217	1,769	1,142	382	261	229	15,997
Education	4,444	3,536	2,968	1,489	1,081	328	245	299	14,391
Skills and workforce development	566	443	352	187	128	40	29	19	1,764
Community services	596	802	408	342	108	12	34	104	2,407
Affordable housing	534	346	475	351	146	37	28	162	2,080
Infrastructure	198	1,010	126	81	51	15	28	21	6,038
Environment	151	208	79	15	85	42	4	6	590
Contingent payments	17	3	135	2	..	..	..	-	158
Other(b)	475	315	387	185	124	76	41	24	1,628
Total payments for specific purposes	**11,962**	**10,614**	**8,148**	**4,422**	**2,864**	**934**	**671**	**863**	**45,053**
2014-15									
Health	5,315	4,188	3,353	1,891	1,186	375	285	294	16,886
Education	4,458	3,639	3,132	1,562	1,090	350	253	307	14,791
Skills and workforce development	587	460	374	202	133	41	30	19	1,847
Community services	625	443	391	198	139	23	32	100	1,951
Affordable housing	476	326	420	311	121	31	22	140	1,846
Infrastructure	169	723	100	66	49	14	102	14	7,199
Environment	180	219	51	9	124	30	2	7	621
Contingent payments	4	1	88	..	..	-	..	-	93
Other(b)	802	604	577	313	175	81	60	40	2,652
Total payments for specific purposes	**12,615**	**10,603**	**8,486**	**4,551**	**3,018**	**944**	**787**	**920**	**47,885**
2015-16									
Health	5,779	4,467	3,608	2,060	1,321	444	320	293	18,292
Education	4,685	3,861	3,415	1,694	1,129	371	262	323	15,738
Skills and workforce development	583	455	373	204	131	40	30	19	1,834
Community services	686	485	414	241	157	27	38	102	2,149
Affordable housing	436	331	406	274	113	31	22	132	1,746
Infrastructure	168	421	100	66	281	14	8	12	5,811
Environment	181	99	63	5	127	22	2	6	504
Contingent payments	1	-	19	..	..	-	..	-	20
Other(b)	832	628	533	328	182	84	62	42	2,691
Total payments for specific purposes	**13,351**	**10,747**	**8,930**	**4,872**	**3,439**	**1,032**	**743**	**928**	**48,786**
2016-17									
Health	6,181	4,778	3,979	2,317	1,444	413	367	278	19,756
Education	5,112	4,147	3,776	1,849	1,195	400	273	339	17,091
Skills and workforce development	634	496	407	224	142	43	33	21	2,000
Community services	750	543	475	237	180	31	47	104	2,367
Affordable housing	441	337	403	252	109	31	23	211	1,807
Infrastructure	169	120	100	66	49	14	8	12	3,214
Environment	127	104	59	3	90	11	2	1	397
Contingent payments	-	-	-	-	-	-	-	-	-
Other(b)	863	654	556	345	188	87	65	43	2,801
Total payments for specific purposes	**14,279**	**11,178**	**9,754**	**5,292**	**3,397**	**1,030**	**817**	**1,009**	**49,433**

(a) State allocations are not yet finalised for several National Partnership payments; unallocated payments are not included in State totals.
(b) Includes financial assistance grants for local government.

Total payments for specific purposes by sector and category (National SPPs, NHR funding, Students First — A fairer funding agreement for schools and National Partnership payments) are shown in Table 3.25.

Table 3.25: Payments for specific purposes by sector and category, 2013-14 to 2016-17

$million	2013-14	2014-15	2015-16	2016-17
Health				
National Health Reform funding	13,949	15,383	17,009	18,778
National Partnerships	2,048	1,503	1,283	979
Education				
National Schools SPP	6,385	-	-	-
Students First – A fairer funding agreement for schools	6,827	14,331	15,633	17,043
National Partnerships	1,178	460	105	48
Skills and workforce development				
National Skills and Workforce Development SPP	1,409	1,433	1,457	1,484
National Partnerships	355	414	377	516
Community services				
National Disability SPP(a)	1,208	1,290	1,342	1,396
National Partnerships	1,199	660	807	971
Affordable housing				
National Affordable Housing SPP	1,283	1,304	1,325	1,349
National Partnerships	797	541	420	458
Infrastructure				
National Partnerships	6,038	7,199	5,811	3,214
Environment				
National Partnerships	590	621	504	397
Contingent payments				
National Partnerships	158	93	20	-
Other				
National Partnerships(b)	1,628	2,652	2,691	2,801
Total payments for specific purposes	**45,053**	**47,885**	**48,786**	**49,433**

(a) Includes adjustment to the National Disability SPP to achieve budget neutrality under National Health Reform (see footnote to Table A.4 in Annex A (available online) for details).
(b) Includes financial assistance grants for local government.

Detailed tables of payments for specific purposes are provided in Annex A (available online). This Annex provides accrual estimates of Commonwealth payments to the States.

The Commonwealth provides funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the States with relief and recovery assistance following eligible 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 disaster reconstruction work or submitted an eligible claim under the NDRRA.

The estimated NDRRA cash payments are shown in Table 3.26 below (see Table A.8 in Annex A (available online) for accrual estimates).

Table 3.26: Estimated NDRRA cash payments, 2013-14 to 2016-17

$'000	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2013-14	484,038	63,163	1,860,600	53,226	3,044	15,539	-	-	2,479,610
2014-15	118,755	23,177	2,525,359	6,416	9	-	-	-	2,673,716
2015-16	-	-	692,750	-	-	-	-	-	692,750
2016-17	-	-	-	-	-	-	-	-	-

GST and 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 2013-14, the States will receive $51.2 billion in general revenue assistance from the Commonwealth, comprising $50.0 billion in GST entitlements and $1.2 billion in other general revenue assistance. This is a 4.0 per cent increase in general revenue assistance, on the $49.3 billion the States received in 2012-13. Total general revenue assistance to the States is estimated to represent 12.4 per cent of total Commonwealth expenditure in 2013-14.

GST entitlements in 2013-14 has been revised down by $460 million since the 2013 PEFO and down by $2.6 billion over the four years to 2016-17.

Table 3.27 summarises GST and general revenue assistance payments to the States. Detailed tables of GST and general revenue assistance, including state shares of each payment, are provided in Annex A (available online).

Table 3.27: GST and general revenue assistance, 2013-14 to 2016-17

$million	2013-14	2014-15	2015-16	2016-17
GST entitlements	49,980.0	52,700.0	55,780.0	58,940.0
Other payments				
ACT municipal services	*37.3*	*37.9*	*38.6*	*39.2*
Reduced royalties	*59.0*	*57.3*	*62.3*	*59.4*
Royalties	*1,070.5*	*1,002.5*	*991.8*	*989.1*
Snowy Hydro Ltd tax compensation	*74.4*	*74.4*	*74.4*	*74.4*
Total other	1,241.2	1,172.1	1,167.1	1,162.2
Total GST and other payments	51,221.2	53,872.1	56,947.1	60,102.2

GST

GST revenue variations since the 2013 PEFO

Table 3.28 provides a reconciliation of the GST revenue estimates since the 2013 PEFO. The reconciliation accounts for policy decisions and parameter and other variations.

Table 3.28: Reconciliation of GST revenue estimates since the 2013 PEFO

$million	2013-14	2014-15	2015-16	2016-17
GST revenue at 2013 PEFO	52,930	56,055	59,265	62,465
Changes between 2013 PEFO and MYEFO				
Effect of policy decisions	-8	-125	-213	-303
Effect of parameter and other variations	-242	-220	-152	-92
Total variations	-250	-345	-365	-395
GST revenue at 2013-14 MYEFO	52,680	55,710	58,900	62,070

Specific policy decisions taken since the 2013 PEFO that affect GST revenue are shown in Table 3.29. These decisions decrease the amount of GST revenue by $648.6 million over four years.

Detailed information on policy decisions since the 2013 PEFO are included in Appendix A.

Table 3.29: Policy decisions since the 2013 PEFO that affect GST revenue

$million	2013-14	2014-15	2015-16	2016-17
2013-14 Humanitarian Programme	-8.0	-25.0	-43.0	-62.6
Restoring integrity in the Australian tax system	-	-100.0	-170.0	-240.0
Total GST revenue policy decisions	-8.0	-125.0	-213.0	-302.6

Reconciling GST revenue and GST entitlements to the States

Under the Intergovernmental Agreement, the States are entitled to receive payments from the Commonwealth equivalent to the revenue received from the GST.

However, GST revenue for a financial year varies from the amount of GST paid to the States for that year because of:

- GST revenues which are recognised on a Commonwealth whole-of-government basis, but not remitted to the Australian Taxation Office (ATO) by 30 June of each financial year, as the revenues will not be remitted until the following financial year;
- penalties, other than general interest charge (GIC) penalties, which are not included in the definition in the *Federal Financial Relations Act 2009* of GST to be paid to the States;
- the GST component of sales by Commonwealth agencies which has been collected by those agencies but which, as at 30 June in each year, has not been remitted to the ATO, because it is not due to be paid until the next Business Activity Statement is lodged; and
- a balancing adjustment to account for any variation in the previous financial year between the Treasurer's final outcome determination, and GST payment advances made during that financial year.

The reconciliation of GST revenue and GST entitlements to the States is provided in Table 3.30.

Table 3.30: Reconciling GST revenue and GST entitlements to the States

	Outcome	Estimates			
$million	2012-13	2013-14	2014-15	2015-16	2016-17
GST revenue	50,313	52,680	55,710	58,900	62,070
less change in GST receivables	1,717	2,432	2,762	2,861	2,861
GST receipts	48,596	50,248	52,948	56,039	59,209
less non-GIC penalties collected	210	240	250	260	270
less net GST collected by Commonwealth agencies but not yet remitted to the ATO	326	28	-2	-1	-1
GST entitlements to the States	48,061	49,980	52,700	55,780	58,940

Table 3.31 below provides information on the balancing adjustment relating to 2012-13 which has been paid in 2013-14.

Table 3.31: Balancing adjustment relating to 2012-13

$million	Total
GST entitlements to the States in 2012-13	48,061.0
less advances of GST made throughout 2012-13	47,700.0
equals following year balancing adjustment	361.0

Distribution of GST entitlement pool among the States

As agreed by all parties in the Intergovernmental Agreement, GST payments are distributed among the States in accordance with the principle of horizontal fiscal equalisation, having regard to the recommendations of the Commonwealth Grants Commission. The calculations for the distribution of the GST pool in 2013-14 are shown in Table 3.32.

Table 3.32: Distribution of the GST entitlement pool, 2013-14[(a)]

	Estimated 31 December 2013 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2013-14 GST entitlement $million (5)
NSW	7,446,491	0.96576	7,191,523	31.0	15,478.8
VIC	5,778,372	0.90398	5,223,533	22.5	11,242.9
QLD	4,704,647	1.05624	4,969,236	21.4	10,695.6
WA	2,553,964	0.44581	1,138,583	4.9	2,450.6
SA	1,678,385	1.26167	2,117,568	9.1	4,557.8
TAS	513,871	1.61454	829,665	3.6	1,785.7
ACT	387,359	1.22083	472,899	2.0	1,017.9
NT	240,484	5.31414	1,277,966	5.5	2,750.6
Total	23,303,573	na	23,220,973	100.0	49,980.0

(a) Total may not equal sum of State totals due to rounding.

The calculations for the distribution of the 2012-13 balancing adjustment are shown in Table 3.33. This adjustment has been paid to each State in 2013-14 following the upwards revision to the States' 2012-13 GST entitlements of $361.0 million.

Table 3.33: Distribution of the GST balancing adjustment, 2012-13[(a)]

	31 December 2012 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2012-13 GST entitlement $million (5)	2012-13 GST advances $million (6)	Balancing adjustment $million (5) - (6) (7)
NSW	7,348,899	0.95312	7,004,383	30.7	14,733.5	14,616.8	116.7
VIC	5,679,633	0.92106	5,231,283	22.9	11,003.8	10,922.5	81.3
QLD	4,610,932	0.98477	4,540,708	19.9	9,551.2	9,477.9	73.3
WA	2,472,717	0.55105	1,362,591	6.0	2,866.2	2,844.2	22.0
SA	1,662,169	1.28472	2,135,422	9.3	4,491.8	4,463.1	28.6
TAS	512,422	1.58088	810,078	3.5	1,704.0	1,694.2	9.8
ACT	379,554	1.19757	454,542	2.0	956.1	947.1	9.0
NT	236,869	5.52818	1,309,454	5.7	2,754.4	2,734.1	20.3
Total	22,903,195	na	22,848,460	100.0	48,061.0	47,700.0	361.0

(a) Total may not equal sum of State totals due to rounding.

GST administration costs

States compensate the Commonwealth for the costs incurred by the ATO in administering the GST, including costs incurred by the Australian Customs and Border Protection Service, as shown in Table 3.34.

Table 3.34: GST administration budget, 2012-13 to 2016-17

	Actual	Estimates			
$million	2012-13	2013-14	2014-15	2015-16	2016-17
Australian Taxation Office budget	694.4	698.6	707.9	710.8	580.9
less prior year adjustment	-13.7	-11.0			
equals State government payments	708.1	709.6	707.9	710.8	580.9
less Australian Taxation Office outcome(a)	705.3				
***equals* Commonwealth budget impact**	**2.8**				
plus prior year adjustment	-13.7				
equals following year adjustment	-11.0				

(a) Estimated outcome for 2012-13 pending confirmation by the Australian National Audit Office.

The preliminary outcome for 2012-13 GST administration expenses of $705.3 million differs from the amount paid by the States and the prior year adjustment by $11.0 million. Once the audit of the outcome for GST administration expenses in 2012-13 is completed, the final adjustment will be incorporated into the States' administration costs for 2013-14.