

## Part 3: Australia's Federal Financial Relations

This part provides information on payments to state and territory governments (the states) for specific purposes and general revenue assistance, including the GST entitlement.

Australian Government payments to the states are framed by the Intergovernmental Agreement on Federal Financial Relations (the Intergovernmental Agreement), which has been in place since 1 January 2009. The Intergovernmental Agreement recognises that the states have primary responsibility for many areas of service delivery, but that coordinated action is necessary to address Australia's economic and social challenges.

On 29 May 2020, National Cabinet assigned the Council on Federal Financial Relations (CFFR) responsibility for all Commonwealth-state funding agreements. CFFR's role is to ensure that agreements are negotiated and administered efficiently. On 28 August 2020, CFFR implemented new governance arrangements for Commonwealth-state funding agreements, known as the Federation Funding Agreements (FFA) Framework. The FFA Framework complements the Intergovernmental Agreement.

More detailed information on Australia's federal relations can be found in Budget Paper No. 3, *Federal Financial Relations 2021-22* and on the Federal Financial Relations website at: [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

### Overview of payments to the states

The states receive substantial financial support from the Australian Government. In 2020-21, the Australian Government provided the states with payments totalling \$144.0 billion, comprising specific purpose payments of \$68.9 billion and general revenue assistance (including GST entitlements) of \$75.1 billion, as shown in Table 3.1. Payments to the states constituted 22.1 per cent of total Australian Government expenditure in 2020-21.

**Table 3.1: Australian Government payments to the states, 2020-21**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	20,532	16,706	16,298	6,913	4,455	1,568	1,078	1,336	68,885
General revenue assistance	21,373	18,216	15,524	5,402	6,848	2,927	1,456	3,351	75,097
<b>Total payments to the states</b>	<b>41,905</b>	<b>34,922</b>	<b>31,822</b>	<b>12,315</b>	<b>11,303</b>	<b>4,494</b>	<b>2,534</b>	<b>4,687</b>	<b>143,982</b>

## **Payments for specific purposes**

The Australian Government provides payments to the states for specific purposes in policy areas administered by the states, including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment.

In 2020-21, the Australian Government provided the following types of specific purpose payments to the states:

- National Specific Purpose Payments (National SPPs) in respect of skills and workforce development
- National Health Reform funding for public hospitals and COVID-19 response
- Quality Schools funding for government and non-government schools
- National Housing and Homelessness funding
- National Partnership payments across a wide range of policy areas.

### **National SPPs, National Health Reform, Quality Schools and National Housing and Homelessness funding**

In 2020-21, the Australian Government continued to provide funding for key service delivery sectors through the National Skills and Workforce Development SPP, National Health Reform funding, Quality Schools funding and National Housing and Homelessness funding.

The states are required to spend each National SPP in the relevant sector. The National SPPs are indexed each year by growth factors specified in the Intergovernmental Agreement.

Payments made throughout the year for National SPPs were made in advance based on Australian Government estimates of the relevant growth factors. A balancing adjustment is made after the end of the financial year once final growth factor data is available.

The National SPPs are distributed among the states in accordance with population shares based on the Australian Statistician's determination as at 31 December of that year.

Payments made throughout the year for National Health Reform were made in advance on the basis of advice from the Administrator of the National Health Funding Pool. This funding is calculated by reference to growth in public hospital activity and the national

efficient price determined by the Independent Hospital Pricing Authority. The amounts published are for payments made in respect of services delivered in 2020-21, and previous years. The Treasurer will determine the final amount and state allocations for 2020-21 following the Administrator's final reconciliation of activity data.

Quality Schools funding includes recurrent and capital funding for government and non-government schools, funding for non-government representative bodies and other prescribed purpose funding. Quality Schools funding is distributed among the states in accordance with the *Australian Education Act 2013* and agreements made under that Act.

Quality Schools is a needs-based funding model introduced in the 2017-18 Budget that aims to improve the educational outcomes of Australian students. Funding is provided to government and non-government schools in all states, which includes recurrent funding, capital funding and special circumstances funding for non-government schools, funding for non-government representative bodies and other prescribed purpose funding.

Payments made throughout the year for National Housing and Homelessness were made in advance based on Australian Government estimates of the relevant growth factors. A balancing adjustment is made after the end of the financial year once final growth factor data is available.

National Housing and Homelessness funding was introduced in 2018-19 and is made up of a general funding component and a homelessness funding component which is matched by the states. The general funding is allocated to the states in accordance with population shares based on the Australian Statistician's determination as at 31 December of that year. The homelessness funding is allocated in accordance with the state's share of total homelessness based on 2006 Australian Bureau of Statistics Census homelessness estimates.

### **National Partnership payments**

Under the Intergovernmental Agreement, National Partnership payments to the states are the key vehicle to support the delivery of specified projects, facilitate reforms or reward jurisdictions that deliver on nationally significant reforms.

National Partnerships are typically time limited, reflecting the nature of the project or reform involved. National Partnership agreements are publicly available at: [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

### Total payments for specific purposes

In 2020-21, the states received \$68.9 billion in payments for specific purposes, which constituted 10.6 per cent of total Australian Government expenditure. Total payments for specific purposes by category are shown in Table 3.2.

**Table 3.2: Total payments for specific purposes by category, 2020-21**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Specific Purpose									
Payments(a)	496	405	316	162	108	33	26	15	1,561
National Health Reform									
funding(b)	7,623	6,633	5,510	2,591	1,559	511	462	357	25,245
Quality Schools funding(c)	6,741	5,632	4,938	2,193	1,408	522	360	367	22,161
National Housing and Homelessness									
funding(d)	490	412	328	171	111	35	27	20	1,595
National Partnership payments(e)	5,182	3,624	5,207	1,796	1,269	467	202	577	18,324
<b>Total payments for specific purposes</b>	<b>20,532</b>	<b>16,706</b>	<b>16,298</b>	<b>6,913</b>	<b>4,455</b>	<b>1,568</b>	<b>1,078</b>	<b>1,336</b>	<b>68,885</b>

- (a) The 2020-21 National Skills and Workforce Development SPP funding outcome will be finalised following a Determination by the Assistant Treasurer.
- (b) Entitlements for 2020-21 will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool and a subsequent Determination by the Treasurer.
- (c) The 2020-21 Quality Schools funding outcome will be finalised following a Determination by the Minister for Education.
- (d) Entitlements for 2020-21 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by the Treasurer.
- (e) Includes financial assistance grants for local governments.

Total payments for specific purposes by sector and category are shown in Table 3.3.

**Table 3.3: Total payments for specific purposes by sector and category, 2020-21**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	7,623	6,633	5,510	2,591	1,559	511	462	357	25,245
National Partnerships	104	107	96	37	69	17	34	144	607
<b>Total health payments</b>	<b>7,726</b>	<b>6,740</b>	<b>5,606</b>	<b>2,627</b>	<b>1,628</b>	<b>528</b>	<b>496</b>	<b>500</b>	<b>25,852</b>
<i>Education</i>									
Quality Schools funding(b)	6,741	5,632	4,938	2,193	1,408	522	360	367	22,161
National Partnerships	143	143	100	55	37	12	10	33	532
<b>Total education payments</b>	<b>6,884</b>	<b>5,774</b>	<b>5,037</b>	<b>2,248</b>	<b>1,445</b>	<b>534</b>	<b>370</b>	<b>400</b>	<b>22,692</b>
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP(c)	496	405	316	162	108	33	26	15	1,561
National Partnerships	228	106	112	93	37	20	16	4	616
<b>Total skills and workforce development payments</b>	<b>725</b>	<b>511</b>	<b>427</b>	<b>255</b>	<b>144</b>	<b>53</b>	<b>42</b>	<b>19</b>	<b>2,177</b>
<i>Community services</i>									
National Partnerships	649	277	722	44	82	25	18	48	1,867
<i>Affordable housing</i>									
National Housing and Homelessness funding(d)	490	412	328	171	111	35	27	20	1,595
National Partnerships	167	285	305	97	82	20	5	32	993
<b>Total affordable housing payments</b>	<b>657</b>	<b>696</b>	<b>634</b>	<b>268</b>	<b>193</b>	<b>54</b>	<b>32</b>	<b>53</b>	<b>2,588</b>
<i>Infrastructure</i>									
National Partnerships	2,774	1,781	2,730	1,183	713	261	43	258	9,742
<i>Environment</i>									
National Partnerships	128	128	144	51	50	16	7	10	535
<i>Contingent payments</i>									
National Partnerships	54	58	372	-140	-5	-2	-2	-20	315
<i>Other</i>									
National Partnerships(e)	934	740	625	378	204	97	71	69	3,117
<b>Total payments for specific purposes</b>	<b>20,532</b>	<b>16,706</b>	<b>16,298</b>	<b>6,913</b>	<b>4,455</b>	<b>1,568</b>	<b>1,078</b>	<b>1,336</b>	<b>68,885</b>

(a) Entitlements for 2020-21 will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool and a subsequent Determination by the Treasurer.

(b) The 2020-21 Quality Schools funding outcome will be finalised following a Determination by the Minister for Education.

(c) The 2020-21 National Skills and Workforce Development SPP funding outcome will be finalised following a Determination by the Assistant Treasurer.

(d) Entitlements for 2020-21 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by the Treasurer.

(e) Includes financial assistance grants for local governments.

### The Disaster Recovery Funding Arrangements and the Natural Disaster Relief and Recovery Arrangements

The Australian Government provides funding under the Disaster Recovery Funding Arrangements (DRFA) and the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the states in relief and recovery efforts following eligible disasters.

Table 3.4 shows total cash payments made in 2020-21.

**Table 3.4: DRFA and NDRRA cash payments, 2020-21**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
DRFA and NDRRA	14.1	11.4	649.6	3.7	-	41.3	-	5.2	725.3
<b>Total</b>	<b>14.1</b>	<b>11.4</b>	<b>649.6</b>	<b>3.7</b>	<b>-</b>	<b>41.3</b>	<b>-</b>	<b>5.2</b>	<b>725.3</b>

For accounting purposes, the Australian Government recognises a liability equal to the present value of future payments expected to be made to the states under the DRFA and the NDRRA. This is regardless of whether a state has completed eligible disaster reconstruction work or submitted an eligible claim. See Table 3.19 in Attachment A for the expense outcome.

## General revenue assistance

General revenue assistance is provided to the states, without conditions, to spend according to their own budget priorities.

In 2020-21, the states received \$75.1 billion in general revenue assistance from the Australian Government, comprising \$73.1 billion in GST entitlements and \$2.0 billion of other general revenue assistance (Table 3.5). Total general revenue assistance to the states constituted 11.5 per cent of total Australian Government expenditure in 2020-21.

**Table 3.5: General revenue assistance, 2020-21**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	21,372.9	18,215.9	15,524.2	3,420.6	6,848.3	2,926.8	1,414.9	3,349.4	73,073.0
Other payments									
ACT municipal services	-	-	-	-	-	-	41.2	-	41.2
Compensation for reduced royalties	-	-	-	19.6	-	-	-	-	19.6
Royalty payments	-	-	-	415.5	-	-	-	1.5	417.0
Transitional GST top-up payments	-	-	-	1,546.6	-	-	-	-	1,546.6
Total other general revenue assistance	-	-	-	1,981.7	-	-	41.2	1.5	2,024.5
<b>Total</b>	<b>21,372.9</b>	<b>18,215.9</b>	<b>15,524.2</b>	<b>5,402.3</b>	<b>6,848.3</b>	<b>2,926.8</b>	<b>1,456.1</b>	<b>3,351.0</b>	<b>75,097.4</b>

(a) The 2020-21 GST outcome will be finalised following a Determination by the Treasurer. This figure reflects the most recent data received from the Australian Taxation Office.

## GST payments

Under the *Federal Financial Relations Act 2009*, the states are entitled to receive payments from the Australian Government equivalent to the revenue raised from the GST in any given financial year.

The Australian Government 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 is made to each state's payments to ensure they 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.

Adjustments and additions are made to GST revenue to calculate the amount of GST paid to the states in any given year. In particular, adjustments are made to move from GST revenue (an accrual concept) to GST (cash) receipts as GST receipts are the basis for the GST paid to the states.

- Some GST revenue accrued during a financial year is not remitted to the Australian Taxation Office (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. For taxpayers other than Australian Government agencies, this accrued amount is included in GST revenue, but not in GST receipts.
- 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 Australian Government 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. This amount is included in Australian Government receipts but is not included in GST payments to the states until it is remitted to the ATO.

In 2020-21, GST revenue was \$74.7 billion. A reconciliation of GST revenue and the states' GST entitlement is provided in Table 3.6.

**Table 3.6: Reconciliation of GST revenue and the states' GST entitlement, 2020-21**

\$million	Total
GST revenue	74,688
less Change in GST receivables	1,756
GST receipts	72,932
less Non-GIC penalties collected	21
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-162
<b>States' GST entitlement(a)</b>	<b>73,073</b>

(a) The 2020-21 GST outcome will be finalised following a Determination by the Treasurer.

For 2020-21, the states' GST entitlement is expected to be \$73.1 billion. This is \$3.3 billion higher than the advances paid during 2020-21. Table 3.7 provides a reconciliation of the states' GST entitlement and GST advances.

**Table 3.7: States' GST entitlement and GST advances, 2020-21**

\$million	Total
States' GST entitlement(a)	73,073.0
less Advances of GST made throughout 2020-21	69,760.9
<i>equals</i> Balancing adjustment	3,312.1

(a) The 2020-21 GST outcome will be finalised following a Determination by the Treasurer.

### Distribution of the GST among the states

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

Following consultation with the states, the Treasurer issued a Determination of the GST revenue sharing relativities for 2020-21 in April 2020. The relativities for 2020-21 are shown in Table 3.8.

**Table 3.8: GST relativities, 2020-21**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2020-21	0.91808	0.95992	1.04907	0.44970	1.35765	1.89742	1.15112	4.76893

The detailed calculation for the distribution of the GST entitlement in 2020-21 is shown in Table 3.9. This method of calculation is prescribed in legislation in the *Federal Financial Relations Act 2009*. The entitlements are allocated using the population as at 31 December 2020, as determined by the Australian Statistician.

**Table 3.9: Calculation of the 2020-21 GST entitlements<sup>(a)</sup>**

	Population as at 31 December 2020 (1)	GST revenue sharing relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population (per cent) (4)	Share of GST pool (\$million) (5)
NSW	8,172,505	0.91808	7,503,013	29.2	21,372.9
VIC	6,661,736	0.95992	6,394,734	24.9	18,215.9
QLD	5,194,879	1.04907	5,449,792	21.2	15,524.2
WA	2,670,241	0.44970	1,200,807	4.7	3,420.6
SA	1,770,790	1.35765	2,404,113	9.4	6,848.3
TAS	541,506	1.89742	1,027,464	4.0	2,926.8
ACT	431,484	1.15112	496,690	1.9	1,414.9
NT	246,561	4.76893	1,175,832	4.6	3,349.4
<b>Total</b>	<b>25,689,702</b>	<b>na</b>	<b>25,652,445</b>	<b>100</b>	<b>73,073.0</b>

(a) The 2020-21 GST outcome will be finalised following a Determination by the Treasurer.

Table 3.10 provides a summary of the advances made in 2020-21 against the states' estimated final entitlements shown in Table 3.9. The variance between advances paid in 2020-21 and the states' final entitlements will be included as an adjustment to payments in the 2021-22 financial year.

**Table 3.10: Summary of GST advances made in 2020-21 and distribution of the balancing adjustment across states<sup>(a)</sup>**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	21,372.9	18,215.9	15,524.2	3,420.6	6,848.3	2,926.8	1,414.9	3,349.4	73,073.0
20-21 advances	20,361.1	17,478.8	14,809.2	3,260.8	6,532.6	2,793.0	1,349.1	3,176.4	69,760.9
Balancing adjustment	1,011.9	737.1	715.0	159.8	315.7	133.8	65.8	173.1	3,312.1

(a) The 2020-21 GST outcome will be finalised following a Determination by the Treasurer.

## GST administration

States compensate the Australian Government for the agreed costs incurred by the ATO in administering the GST, including costs incurred by the Department of Home Affairs, as shown in Table 3.11.

**Table 3.11: GST administration, 2020-21**

\$million	Actual	
	2019-20	2020-21
Australian Taxation Office budget	646.6	621.5
<i>less</i> Prior year adjustment	-	-
<i>equals</i> State government administration payments	646.6	621.5
<i>less</i> Australian Taxation Office outcome	646.6	538.2
<b><i>equals</i> Commonwealth budget impact</b>	<b>-</b>	<b>83.3</b>
<i>plus</i> Prior year adjustment	-	-
<i>equals</i> Following year adjustment	-	83.3

The estimated outcome for the 2020-21 GST administration expense is \$538.2 million. The decrease in costs when compared with the Australian Taxation Office budget of \$621.5 million, was primarily as a result of the diversion of resources to stimulus measures focused on supporting the community in response to the COVID-19 pandemic.