

Payment Arrangements

INTERGOVERNMENTAL AGREEMENT ON FEDERAL FINANCIAL RELATIONS

PAYMENT ARRANGEMENTS

- D1 This Schedule may be amended by the unanimous agreement of the Ministerial Council for Federal Financial Relations.
- D2 The Parties agree that payment and administrative arrangements will be simplified and centrally administered through monthly payments from the Commonwealth Treasury to each State and Territory Treasury in respect of all financial transfers under this Agreement.
- D3 Payments classified as Commonwealth own-purpose expenses are the only intergovernmental financial transfers which are not covered by these payment arrangements.
- D4 Commonwealth funding to the States and Territories will comprise three categories of payments:
- (a) National Specific Purpose Payments (SPPs) in respect of key service delivery sectors;
 - (b) three types of National Partnership payments-
 - (i) project payments;
 - (ii) facilitation payments;
 - (iii) incentive payments;
 - (c) general revenue assistance, consisting of:
 - (i) Goods and Services Tax (GST) payments; and
 - (ii) other general revenue assistance.
- D5 All intergovernmental financial transfers will be processed through one of two payments from the Commonwealth Treasury to each State or Territory Treasury each month:
- (a) a payment on the 7th day of the month for all National SPP and National Partnership payments; and
 - (b) a payment on 21st day of the month for all general revenue assistance, including GST payments.
- D6 Each of these payments will be one twelfth of the estimated annual payment, to simplify administration, unless an alternative payment arrangement is agreed by the Parties — for example, where a National Partnership agreement provides that pre-determined milestones and performance benchmarks be met before an incentive payment may be made.

- D7 An adjustment amount (which may be positive or negative) to account for any difference between the estimated and actual outcome for the items listed in Clause D₄ for the previous financial year will be acquitted in the first available payment following advice of the final outcome.
- D8 Where the scheduled payment day is a Saturday, Sunday or public holiday in Canberra, the payment will be made on the next business day of the Reserve Bank of Australia in Canberra.
- D9 The Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made. The advice will include, for each payment:
- (a) the date of payment;
 - (b) the purpose of each component in the payment;
 - (c) the sector and National SPP or National Partnership to which each component relates;
 - (d) any conditions imposed on each component of the payment; and
 - (e) any change to the estimated amount of annual payment.
- D10 Where a payment to a State or Territory includes a nominated amount in respect of a third party — for example, non-government schools and local governments — that State or Territory will on-forward that payment to the third party in a timely manner.
- D11 The timing of specific payments, or other administrative arrangements in this schedule, may be varied when necessary by the agreement of the affected Parties.
- D12 Where a State or Territory needs to make a payment to the Commonwealth — for example, the payment of GST administration costs — and where agreed with the States and Territories, these payments will be netted from the monthly payment of general revenue assistance.

NATIONAL SPPS

Accountabilities

- D13 The Commonwealth will provide National SPPs to the States and Territories as a financial contribution to support State and Territory service delivery in the areas of:
- (a) healthcare;
 - (b) schools;
 - (c) skills and workforce development;
 - (d) disabilities services; and
 - (e) affordable housing.
- D14 The States and Territories are required to spend each National SPP in the service sector relevant to the SPP — for example, the National healthcare SPP must be expended in the healthcare sector — but they will have full budget flexibility to allocate funds within that sector as they see fit to achieve any mutually agreed objectives for that sector.

- D15 While the States and Territories will not be able to redistribute National SPPs from one sector to another, there will be no conditions attached to the National SPPs in respect of how States or Territories allocate their own funding across or within sectors.
- D16 In order to demonstrate compliance with Clause D14, each State and Territory Treasurer will provide a report to the Ministerial Council within six months of the end of every financial year, disclosing the following information:
- (a) gross State or Territory expenditure in each sector listed in Clause D13;
 - (b) National SPPs received in respect of each sector listed in Clause D13;
 - (c) of the amount referred to in sub-Clause D16 b), how much was spent in the relevant sector; and
 - (d) detailed explanation for any discrepancy between the amounts specified in sub-Clauses b) and c) above.

National SPP base funding

D17 The base funding for each National SPP for 2009-10 is set out in Table D1 below:

Table D1: National SPP base funding, 2009-10

National SPP	Commonwealth financial contribution
Healthcare	\$11,224,185,000
Schools (government schools component)	\$3,286,594,000
Skills and workforce development	\$1,317,877,000
Disabilities services	\$903,686,000
Affordable housing	\$1,202,590,000

- D18 The non-government schools component of the **National schools SPP** will be determined in accordance with the *Schools Assistance Act 2008*.
- D19 The base funding for each National SPP will be provided on an on-going basis and indexed on 1 July 2010 and each year thereafter by a growth factor.

National SPP growth factors

- D20 The growth factor for the **National healthcare SPP** will be the product of:
- (a) a health specific cost index (the Australian Institute of Health and Welfare health price index);
 - (b) growth in population estimates weighted for hospital utilisation; and
 - (c) a technology factor (Productivity Commission derived index of technology growth).
- D21 The growth factor for the government schools component of the **National schools SPP** will be the product of:
- (a) growth in average government schools recurrent cost; and
 - (b) growth in full-time equivalent enrolments in government schools.

- D22 The growth factor for the non-government schools component of the **National schools SPP** will be determined in accordance with the *Schools Assistance Act 2008*.
- D23 The growth factor for the **National skills and workforce development SPP** will be the product of:
- (a) 85 per cent Wage Cost Index 1 (comprising safety net wage adjustment weighted by 75 per cent and all groups CPI weighted by 25 per cent); and
 - (b) 15 per cent Wage Cost Index 6 (comprising safety net wage adjustment weighted by 40 per cent and all groups CPI weighted by 60 per cent).
- D24 The growth factor for the **National disabilities services SPP** will be a rolling five year average of nominal GDP year-on-year growth.
- D25 The growth factor for the **National affordable housing SPP** will be Wage Cost Index 1 (comprising safety net wage adjustment weighted by 75 per cent and all groups CPI weighted by 25 per cent).

Distribution of National SPPs

- D26 A State's or Territory's share of a National SPP in a financial year will be its population share, based on the Australian Statistician's determination of State and Territory population shares as at 31 December for that year. The Australian Statistician will make a determination of State and Territory population shares prior to the Commonwealth publishing its Final Budget Outcome.
- D27 In the case of the government schools component of the **National schools SPP**, the relevant population will be each State's and Territory's share of full-time equivalent student enrolments in government schools. The distribution of the non-government schools component of the **National schools SPP** will be determined in accordance with the *Schools Assistance Act 2008*.
- D28 The Parties acknowledge that:
- (a) an equal per capita distribution ensures that all Australians, regardless of the jurisdiction they live in, have the same share of Commonwealth funding support for state service delivery; and
 - (b) the treatment of the National SPPs by 'inclusion' for the purpose of the Commonwealth Grants Commission determining GST revenue sharing relativities provides for State disabilities in respect of service delivery to be incorporated into the calculation of each State's and Territory's share of GST revenue.

NATIONAL PARTNERSHIP PAYMENTS

- D29 The Commonwealth will provide National Partnership payments to the States and Territories to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms. Schedule E provides further detail on National Partnerships.
- D30 National Partnerships will clearly set out the payment profile in respect of each State and Territory.

- D31 Where the achievement of pre-determined milestones or performance benchmarks is required before a payment is made to a State or Territory:
- (a) in the case of incentive payments to reward nationally significant reforms or service delivery improvements, and following receipt of a recommendation from the COAG Reform Council as to whether a pre-determined performance benchmark has been achieved, the relevant Commonwealth Minister will make a determination as to whether the incentive payment will be paid;
 - (b) the Commonwealth Minister will make the determination with regard to incentive payments as soon as possible after receipt of the report from the COAG Reform Council, and such payments will be paid as a single instalment on the first possible payment date after the Minister's determination;
 - (c) in the case of facilitation and project payments, the relevant Commonwealth Minister will make a determination, based upon expenditure and performance reporting arrangements set out in the National Partnership, as to whether the facilitation or project payment will be paid; and
 - (d) payment will be made in accordance with Clause D5 in respect of all such determinations on the next available payment date.
- D32 Where the achievement of a performance benchmark is not required before a payment is made to a State or Territory, payments will be scheduled in accordance with the payment profile set out in the National Partnership.
- D33 In relation to project and facilitation payments under National Partnerships, each State and Territory Treasurer will provide a report to the Ministerial Council for Federal Financial Relations within six months of the end of every financial year, reporting total expenditure under the relevant National Partnership agreement, stating both expenditure of Commonwealth project and facilitation funding and State and Territory co-contributions, where these are required by the National Partnership.

GENERAL REVENUE ASSISTANCE

GST payments

- D34 The Commonwealth will make GST payments to the States and Territories equivalent to the revenue received from the GST. GST payments provide the States and Territories with revenue from a robust tax base that can be expected to grow over time and will be available for use by the States and Territories for any purpose.
- D35 The total amount of GST payments to the States and Territories in a financial year will be defined as:
- (a) the sum of GST collections, voluntary and notional payments made by government bodies, and amounts withheld from any local government authority representing the amount of unpaid voluntary or notional GST;
- reduced by:
- (b) the amounts paid or applied under a provision of a Commonwealth law that requires the Commonwealth to refund some or all of an amount of GST that has been paid.

- D36 The total amount of GST revenue to be paid to the States and Territories in a financial year will be determined by the Commonwealth Treasurer in the following way:
- (a) estimated outcomes for the items listed in Clause D35 for the financial year;
- plus:
- (b) an adjustment amount (which may be positive or negative) to account for any difference between the estimated and actual outcome for the items listed in Clause D35 for the previous financial year.

Other general revenue assistance

- D37 The Commonwealth may make payments of other general revenue assistance to the States and Territories that will be available for use by the States and Territories for any purpose, including:
- (a) revenue sharing arrangements other than GST — for example, offshore petroleum royalty revenues;
 - (b) compensation payments for Commonwealth policy decisions; or
 - (c) payments for national capital influences.

GST revenue sharing relativities

- D38 The Commonwealth will distribute GST payments among the States and Territories in accordance with the principle of horizontal fiscal equalisation.
- D39 A State or Territory's share of GST payments in a financial year will be based on its adjusted population share, and calculated as the product of:
- (a) the Commonwealth Treasurer's determination of GST revenue for that year;
 - (b) the Australian Statistician's determination of the State's or Territory's population as at 31 December for that year; and
 - (c) the Commonwealth Treasurer's determination of the GST revenue sharing relativity for the State or Territory;
- divided by:
- (d) the sum of the adjusted population of all of the States and Territories.
- D40 The Commonwealth Treasurer will determine the GST revenue sharing relativities, which embody per capita financial needs based on recommendations of the Commonwealth Grants Commission, after consulting with each State and Territory.
- D41 For the purpose of the Commonwealth Grants Commission determining GST revenue sharing relativities:
- (a) National SPPs and National Partnership project payments will be treated by 'inclusion', recognising that these payments provide the States and Territories with budget support for providing standard state and territory services;
 - (b) National Partnership facilitation and incentive payments will be treated by 'exclusion' so that any benefit to a State or Territory from achieving specified outputs sought by the

Commonwealth, or through implementing reforms, will not be redistributed to other States or Territories through the horizontal fiscal equalisation process; and

- (c) general revenue assistance, excluding GST payments, will be treated by 'inclusion', recognising that these payments are available to provide untied general budget support to a State or Territory, however, the Commonwealth Grants Commission may treat, on a case by case basis, any component of general revenue assistance as 'out of scope' if it considers such treatment is more appropriate.

D42 Notwithstanding Clause D41, and following consultation involving the Commonwealth and the States and Territories:

- (a) the Commonwealth Grants Commission may treat, on a case by case basis, any National Partnership payment differently if it considers that such treatment is more appropriate; and
- (b) the Commonwealth Treasurer may issue Terms of Reference to the Commonwealth Grants Commission directing the Commission on the treatment of a National Partnership if he considers that such treatment is appropriate.

GST administration payments

D43 The Australian Taxation Office administers the GST on behalf of the States and Territories and the States and Territories compensate the Commonwealth for the agreed costs of administration.

D44 The Parties agree that each State's and Territory's monthly GST administration payment will be deducted from that State's or Territory's monthly payment of general revenue assistance.

D45 GST administration payments will be continue to be calculated and identified separately for reporting and accounting purposes to ensure transparency.

TRANSITIONAL ARRANGEMENTS

Payment arrangements

D46 The Parties agree that the payment arrangements in this schedule will commence from 1 January 2009.

D47 The Commonwealth will introduce the legislation necessary to implement this Agreement in the autumn parliamentary sittings of 2009. Notwithstanding when the legislation receives royal assent, the legislation will have effect from 1 January 2009.

D48 However, the Parties recognise that there are practical, legislative and administrative difficulties in fully implementing the new payment and administrative arrangements prior to 1 July 2009. Accordingly, the Parties agree to a transitional period, from 1 January 2009 to 30 June 2009, to develop, test and implement the new payment arrangements.

D49 During the transitional period, Commonwealth portfolio agencies may continue to be responsible for making payments. Where agreed, these payments will be made to State and Territory Treasuries rather than State and Territory portfolio agencies.

D50 Notwithstanding the specific arrangements for particular payments during the transitional period, the Commonwealth Treasury will still provide advice of all Commonwealth payments to

the States and Territories. The advice will be of the form specified in Clause D9, to the extent practical.

- D51 The Parties agree that the payments for specific purposes which will be rolled into the new National healthcare SPP will continue unaffected until 1 July 2009. This recognises that the Parties have agreed that the National Healthcare Agreement will be signed in December 2008 with a commencement date for the new funding arrangements of 1 July 2009.
- D52 The Commonwealth will amend the profile of monthly GST payments to ensure that, to the extent practical, the total monthly payments to each State and Territory during the transitional period will be as close as possible to the payments that would be expected if Commonwealth legislation was in place from 1 January 2009.

GST revenue sharing relativities

- D53 The 2008-09 GST revenue sharing relativities endorsed by the Ministerial Council for Commonwealth-State Financial Relations on 14 March 2008 will continue to apply during the transitional period.
- D54 Treating the National healthcare SPP by 'inclusion' rather than by 'absorption', as the previous healthcare funding was treated, will be applied to the GST distribution methodology with effect from 1 July 2009.

National Disabilities Services SPP Growth factor

- D55 The National Disabilities Services SPP incorporates a large component in respect of the Disabilities Assistance Package which, for the 2009-10, 2010-11 and 2011-12 years, already includes a high rate of escalation.
- D56 For the purpose of calculating indexation on the National Disabilities Services SPP, the Disabilities Assistance Package will be deducted from the base to calculate 2010-11 and 2011-12 funding.

Distribution of National SPPs for the first five years

- D57 In recognition that the move to distributing National SPPs in accordance with population shares, as provided for in Clauses D26 and D27, may result in a shift in notional payment shares, the Parties agree that the arrangements be phased in over a period of five years.
- D58 For 2009-10, each State and Territory will receive a share of each National SPP as set out in Table D2.

Table D2: National SPP shares for 2009-10

National SPP	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
(per cent share)								
Healthcare	33.0629	24.1502	19.6575	10.1173	8.1986	2.1925	1.3240	1.2970
Schools (government schools component)	33.6074	23.1115	19.4741	10.0159	7.6643	2.7365	1.4915	1.8988
Skills and workforce development	33.2777	24.7597	19.3522	9.9959	7.5215	2.3407	1.7121	1.0402
Disabilities services	33.3933	22.7063	19.1269	8.2845	10.8173	3.2431	1.3924	1.0362
Affordable housing	31.5986	22.1002	19.5017	10.3900	7.8889	2.8640	2.1722	3.4844

D59 For 2010-11, each State and Territory will receive a share of each National SPP equal to 80 per cent of the amount set out in Table D3 plus 20 per cent of the amount set out in Clauses D26 or D27.

Table D3: National SPP shares for 2010-11

National SPP	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
(per cent share)								
Healthcare	32.9396	24.1306	19.7751	10.1888	8.1550	2.1811	1.3276	1.3022
Schools (government schools component)	33.6121	23.1279	19.4729	10.0094	7.6629	2.7348	1.4925	1.8875
Skills and workforce development	33.2807	24.7597	19.3495	9.9944	7.5223	2.3411	1.7121	1.0402
Disabilities services	33.2266	22.6972	19.2070	8.2502	10.8590	3.3284	1.3757	1.0559
Affordable housing	31.5990	22.0995	19.4985	10.3900	7.8904	2.8653	2.1735	3.4838

D60 For 2011-12, each State and Territory will receive a share of each National SPP equal to 60 per cent of the amount set out in Table D4 plus 40 per cent of the amount set out in Clauses D26 or D27.

Table D4: National SPP shares for 2011-12

National SPP	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
(per cent share)								
Healthcare	32.8176	24.1096	19.8931	10.2594	8.1131	2.1700	1.3312	1.3060
Schools (government schools component)	33.6825	23.2357	19.4501	9.9586	7.6432	2.7333	1.4981	1.7985
Skills and workforce development	33.2839	24.7597	19.3467	9.9930	7.5230	2.3415	1.7121	1.0401
Disabilities services	33.2181	22.6903	19.2001	8.2461	10.8594	3.3283	1.4022	1.0555
Affordable housing	31.6008	22.0980	19.4954	10.3893	7.8920	2.8669	2.1748	3.4828

D61 For 2012-13, each State and Territory will receive a share of each National SPP equal to 40 per cent of the amount set out in Table D5 plus 60 per cent of the amount set out in Clauses D26 or D27.

Table D5: National SPP shares for 2012-13 and 2013-14

National SPP	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
(per cent share)								
Healthcare	32.8169	24.1112	19.8923	10.2592	8.1134	2.1699	1.3312	1.3059
Schools (government schools component)	33.6822	23.2353	19.4505	9.9589	7.6430	2.7333	1.4981	1.7987
Skills and workforce development	33.2869	24.7596	19.3441	9.9916	7.5238	2.3419	1.7120	1.0401
Disabilities services	33.2719	22.8840	19.0195	8.5126	10.5398	3.2652	1.4292	1.0778
Affordable housing	31.6008	22.0980	19.4954	10.3893	7.8920	2.8669	2.1748	3.4828

D62 For 2013-14, each State and Territory will receive a share of each National SPP equal to 20 per cent of the amount set out in Table D5 plus 80 per cent of the amount set out in Clauses D26 or D27.

Other transitional arrangements

D63 The payment and financial arrangements specified in this Agreement replace similar provisions in any other agreement that remains in force.

D64 For the avoidance of doubt, the arrangements in this Agreement take precedence over any conflicting arrangements in other agreements.

D65 The Parties acknowledge each government's responsibility for funding its election commitments. The Parties agree that acceptance of the financial package which accompanies this agreement extinguishes all claims of the States and Territories in respect of the funding of legitimate and additional costs of the Australian Government's 2007 election commitments. This is not intended to limit review of funding specifically provided for in National Agreements or National Partnerships.