

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 the states have primary responsibility for many areas of service delivery, but coordinated action is necessary to address Australia’s economic and social challenges.

The Council on Federal Financial Relations (CFFR) is responsible for overseeing the financial relationship between the Commonwealth and the states. On 28 August 2020, CFFR implemented the Federation Funding Agreements (FFA) Framework to govern Commonwealth-state funding agreements. 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 2022-23* and on the Federal Financial Relations website at: www.federalfinancialrelations.gov.au.

Overview of payments to the states

The states receive substantial financial support from the Australian Government. In 2021-22, the Australian Government provided the states with payments totalling \$163.9 billion, comprising specific purpose payments of \$86.4 billion and general revenue assistance (including GST entitlements) of \$77.5 billion, as shown in Table 3.1. Payments to the states constituted 26.3 per cent of total Australian Government expenditure in 2021-22.

Table 3.1: Australian Government payments to the states, 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	27,633	21,168	18,684	8,784	5,275	1,846	1,378	1,586	86,355
General revenue assistance	22,313	17,466	16,062	6,480	6,998	3,211	1,559	3,442	77,531
Total payments to the states	49,946	38,634	34,746	15,264	12,273	5,058	2,936	5,028	163,886

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 2021-22, 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, including COVID-19 business support.

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

In 2021-22, 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 2021-22, and previous years. The Treasurer will determine the final amount and state allocations for 2021-22 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 Partnership payments are typically time limited, reflecting the nature of the project or reform involved. Funding agreements are publicly available at: www.federalfinancialrelations.gov.au.

Total payments for specific purposes

In 2021-22, the states received \$86.4 billion in payments for specific purposes, which constituted 13.9 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, 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Specific Purpose									
Payments(a)	496	402	322	169	111	35	28	15	1,578
National Health Reform									
funding(b)	9,073	7,373	6,504	3,364	1,914	674	540	435	29,877
Quality Schools funding(c)	7,651	6,189	5,463	2,573	1,785	565	389	424	25,038
National Housing and Homelessness									
funding(d)	490	411	336	178	115	37	29	21	1,616
National Partnership payments(e)	9,923	6,794	6,059	2,499	1,351	536	393	692	28,246
Total payments for specific purposes	27,633	21,168	18,684	8,784	5,275	1,846	1,378	1,586	86,355

(a) The 2021-22 National Skills and Workforce Development SPP funding outcome will be finalised following a Determination by a Treasury portfolio minister.

(b) Entitlements for 2021-22 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 2021-22 Quality Schools funding outcome will be finalised following a Determination by the Minister for Education.

(d) Entitlements for 2021-22 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by a Treasury portfolio minister.

(e) Includes financial assistance grants for local government, payments direct to local government and payments funded through appropriations including but not limited to section 16 of the *Federal Financial Relations Act 2009*.

Table 3.3: Total payments for specific purposes by sector and category, 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	9,073	7,373	6,504	3,364	1,914	674	540	435	29,877
National Partnerships	87	96	106	46	49	15	17	225	640
Total health payments	9,160	7,469	6,610	3,411	1,964	689	557	659	30,518
<i>Education</i>									
Quality Schools funding(b)	7,651	6,189	5,463	2,573	1,785	565	389	424	25,038
National Partnerships(c)	155	147	107	56	40	12	11	32	560
Total education payments	7,806	6,336	5,570	2,629	1,825	577	400	455	25,598
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP(d)	496	402	322	169	111	35	28	15	1,578
National Partnerships	156	123	65	63	57	19	9	7	499
Total skills and workforce development payments	651	525	388	232	168	54	37	22	2,077
<i>Community services</i>									
National Partnerships	670	293	232	8	87	27	18	47	1,383
<i>Affordable housing</i>									
National Housing and Homelessness funding(e)	490	411	336	178	115	37	29	21	1,616
National Partnerships	228	412	284	307	163	42	16	93	1,544
Total affordable housing payments	718	823	619	485	278	79	45	114	3,161
<i>Infrastructure</i>									
National Partnerships(c)	2,156	1,517	2,039	1,478	576	264	57	182	8,269
<i>Environment</i>									
National Partnerships(c)	377	179	180	20	46	26	6	22	856
<i>Contingent payments</i>									
National Partnerships	1,488	17	2,022	6	11	1	-	-	3,544
<i>Other</i>									
Business support	3,323	3,066	160	1	14	-	163	2	6,729
National Partnerships(c)(f)	1,285	945	864	515	307	129	94	81	4,220
Total other payments	4,607	4,011	1,024	516	321	129	258	83	10,950
Total payments for specific purposes	27,633	21,168	18,684	8,784	5,275	1,846	1,378	1,586	86,355

(a) Entitlements for 2021-22 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 2021-22 Quality Schools funding outcome will be finalised following a Determination by the Minister for Education.

(c) Includes financial assistance grants for local government, payments direct to local government and/or payments funded through appropriations including but not limited to section 16 of the *Federal Financial Relations Act 2009*.

(d) The 2021-22 National Skills and Workforce Development SPP funding outcome will be finalised following a Determination by a Treasury portfolio minister.

(e) Entitlements for 2021-22 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by a Treasury portfolio minister.

(f) Excludes business support payments.

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: DRFA and NDRRA cash payments, 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
DRFA and NDRRA	5.7	-	525.5	78.0	11.6	7.1	2.1	22.4	652.4
Total	5.7	-	525.5	78.0	11.6	7.1	2.1	22.4	652.4

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 3.20 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 2021-22, the states received \$77.5 billion in general revenue assistance from the Australian Government, comprising \$74.2 billion in GST entitlements, \$2.1 billion in transitional top-up payments, \$157.7 million in horizontal fiscal equalisation (HFE) transition payments and \$1.1 billion of other general revenue assistance (Table 3.5). Total general revenue assistance to the states constituted 12.4 per cent of total Australian Government expenditure in 2021-22.

Table 3.5: General revenue assistance, 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	22,248.6	17,409.8	16,028.8	3,331.9	6,995.5	3,211.3	1,514.9	3,440.0	74,180.8
Transitional GST									
top-up payments	-	-	-	2,115.2	-	-	-	-	2,115.2
HFE transition									
payments	64.3	55.7	33.0	-	2.7	-	2.1	-	157.7
Other general revenue									
assistance(b)	-	-	-	1,033.2	-	-	41.7	2.1	1,076.9
Total	22,312.9	17,465.5	16,061.7	6,480.3	6,998.2	3,211.3	1,558.7	3,442.0	77,530.7

(a) The 2021-22 GST outcome will be finalised following a Determination by a Treasury portfolio minister. This figure reflects the most recent data received from the Australian Taxation Office.

(b) More detail about other general revenue assistance payments is provided in Table 3.22.

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, subject to some minor adjustments. From 2021-22, the states' GST entitlements are boosted each year by additional Australian Government funding as discussed below.

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 raised 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.

GST receipts are the basis for GST paid to the states in any given year as GST revenue (an accrual concept) includes amounts not yet collected by the Australian Government. Minor adjustments are made to GST receipts to calculate the states' GST entitlement for that year as detailed below.

- 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.

From 2021-22, the Australian Government is boosting the states' GST entitlement each year with additional funding. From 2021-22, the Australian Government is injecting \$600 million annually into the GST pool, which will be followed by a further \$250 million annually from 2024-25. Each year, these amounts will grow in line with the underlying growth of the GST and be distributed to the states in the same way as GST revenue. In 2021-22, GST revenue was \$77.0 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, 2021-22

\$million	Total
GST revenue	76,996
less Change in GST receivables	3,498
GST receipts	73,498
less Non-GIC penalties collected	69
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-152
plus GST pool boost	600
States' GST entitlement (a)	74,181

(a) The 2021-22 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

For 2021-22, the states' GST entitlement is expected to be \$74.2 billion, which includes an additional top-up to the GST pool of \$600 million. This is \$871 million higher than the advances paid during 2021-22. Table 3.7 provides a reconciliation of the states' GST entitlement and GST advances.

Table 3.7: States' GST entitlement and GST advances, 2021-22

\$million	Total
States' GST entitlement(a)	74,181
less Advances of GST made throughout 2021-22	73,310
<i>equals</i> Balancing adjustment	871

(a) The 2021-22 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

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 2021-22 in March 2021. The relativities for 2021-22 are shown in Table 3.8.

Table 3.8: GST relativities, 2021-22

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2021-22	0.95617	0.92335	1.05918	0.41967	1.34719	1.96067	1.16266	4.79985

The detailed calculation for the distribution of the GST entitlement in 2021-22 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 2021, as determined by the Australian Statistician.

In June 2022, the Australian Bureau of Statistics (ABS) rebased Australia's estimated resident population to the 2021 Census of Population and Housing. The impact of rebasing resulted in revisions to the state and territory population estimates from 2016 to 2021, including downward revisions to the populations of New South Wales and Victoria and upward revisions for most of the other states and territories.

Table 3.9: Calculation of the 2021-22 GST entitlements^(a)

	Population as at 31 December 2021 (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	8,095,430	0.95617	7,740,607	30.0	22,249
VIC	6,559,941	0.92335	6,057,122	23.5	17,410
QLD	5,265,043	1.05918	5,576,628	21.6	16,029
WA	2,762,234	0.41967	1,159,227	4.5	3,332
SA	1,806,599	1.34719	2,433,832	9.4	6,996
TAS	569,827	1.96067	1,117,243	4.3	3,211
ACT	453,324	1.16266	527,062	2.0	1,515
NT	249,345	4.79985	1,196,819	4.6	3,440
Total	25,761,743	na	25,808,539	100	74,181

(a) The 2021-22 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

Table 3.10 provides a summary of the advances made in 2021-22 against the states' estimated final entitlements shown in Table 3.9. The variance between advances paid in 2021-22 and the states' final entitlements will be included as an adjustment to payments in the 2022-23 financial year. The downward revisions to NSW and Victoria's populations means these states do not gain as large a share of the balancing adjustment (Victoria's advances exceeded its final GST entitlement).

Table 3.10: Summary of GST advances made in 2021-22 and distribution of the balancing adjustment across states^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	22,249	17,410	16,029	3,332	6,996	3,211	1,515	3,440	74,181
21-22 advances	22,233	17,450	15,787	3,209	6,805	3,025	1,430	3,371	73,310
Balancing adjustment	16	-40	242	123	191	186	85	69	871

(a) The 2021-22 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

HFE transition payments

In 2018, the Australian Government reformed the GST distribution system. 2021-22 is the first year in the six-year transition to the updated GST distribution system, which will ensure that no state will have a per capita GST share lower than the fiscally stronger of New South Wales or Victoria.

During this transition the Australian Government has guaranteed, through legislation, that each state will not receive less than they would have under the previous GST distribution system using, if necessary, HFE transition payments. For 2021-22, the states' entitlement to HFE transition payments is expected to be \$158 million.

Table 3.11 provides a summary of the advances made in 2021-22 against the states' estimated final entitlements to HFE transition payments. Similar to the GST entitlements process, the variance between advances paid in 2021-22 and the states' final entitlements

to HFE transition payments will be included as an adjustment to payments in the 2022-23 financial year.

Table 3.11: HFE transition payments and advances made in 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
HFE transition payments	64	56	33	-	3	-	2	-	158
21-22 advances	52	47	24	-	-	-	1	-	125
Balancing adjustment	12	9	9	-	3	-	1	-	33

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 3.12.

Table 3.12: GST administration, 2021-22

\$million	Actual	
	2020-21	2021-22
Australian Taxation Office budget	622	676
<i>less</i> Prior year adjustment	-	83
<i>equals</i> State government administration payments	622	592
<i>less</i> Australian Taxation Office outcome	538	653
<i>equals</i> Commonwealth budget impact	83	-61
<i>plus</i> Prior year adjustment	-	83
<i>equals</i> Following year adjustment	83	23

The estimated outcome for the 2021-22 GST administration expense is \$653 million which reflects the return to normalised GST related activity levels. The prior year adjustment 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.