

## 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 2023–24* 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 2022–23, the Australian Government provided the states with payments totalling \$170.3 billion, comprising specific purpose payments of \$82.7 billion and general revenue assistance (including GST entitlements) of \$87.6 billion, as shown in Table 3.1. Payments to the states constituted 26.7 per cent of total Australian Government expenditure in 2022–23.

**Table 3.1: Australian Government payments to the states, 2022–23**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	24,031	20,707	17,710	9,276	5,804	2,141	1,307	1,704	82,679
General revenue assistance	25,917	19,175	18,306	7,648	7,668	3,395	1,695	3,815	87,618
<b>Total payments to the states</b>	<b>49,948</b>	<b>39,882</b>	<b>36,015</b>	<b>16,924</b>	<b>13,472</b>	<b>5,535</b>	<b>3,002</b>	<b>5,519</b>	<b>170,297</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 2022–23, the Australian Government provided the following types of specific purpose payments to the states:

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

### **National Health Reform, Quality Schools, National Housing and Homelessness funding and National Skills and Workforce SPP**

In 2022–23, the Australian Government continued to provide funding for key service delivery sectors through National Health Reform funding, Quality Schools funding, National Housing and Homelessness funding and the National Skills and Workforce Development SPP.

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 2022–23, and previous years. The Treasurer will determine the final amount and state allocations for 2022–23 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 purposes 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.

The National Agreement for Skills and Workforce Development identifies the long-term objectives of the Australian Government and the states in the areas of skills and workforce development. The states are required to spend the National Skills and Workforce Development SPP in these areas. The National Skills and Workforce Development SPP is indexed each year by growth factors specified in the Intergovernmental Agreement.

Payments made throughout the year for the National Skills and Workforce Development SPP 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 Skills and Workforce Development SPP is distributed among the states in accordance with population shares based on the Australian Statistician’s determination as at 31 December of that year.

### **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](http://www.federalfinancialrelations.gov.au).

### **Total payments for specific purposes**

In 2022–23, the states received \$82.7 billion in payments for specific purposes, which constituted 13.0 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, 2022–23**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Skills and Workforce Development SPP(a)	504	410	329	173	112	35	28	15	1,608
National Health Reform funding(b)	8,618	7,830	6,226	2,869	1,871	612	522	407	28,954
Quality Schools funding(c)	8,143	6,712	5,895	2,822	1,969	602	414	442	27,000
National Housing and Homelessness funding(d)	499	419	342	182	116	37	29	21	1,646
National Partnership payments(e)	6,267	5,335	4,917	3,229	1,736	855	313	819	23,471
<b>Total payments for specific purposes</b>	<b>24,031</b>	<b>20,707</b>	<b>17,710</b>	<b>9,276</b>	<b>5,804</b>	<b>2,141</b>	<b>1,307</b>	<b>1,704</b>	<b>82,679</b>

- a) The 2022–23 National Skills and Workforce Development SPP funding outcome will be finalised following a Determination by a Treasury portfolio minister.
- b) Entitlements for 2022–23 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 2022–23 Quality Schools funding outcome will be finalised following a Determination by the Minister for Education.
- d) Entitlements for 2022–23 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, 2022–23**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	8,618	7,830	6,226	2,869	1,871	612	522	407	28,954
National Partnerships	98	172	67	29	69	29	17	49	530
Total health payments	8,715	8,002	6,293	2,898	1,939	641	539	456	29,484
<i>Education</i>									
Quality Schools funding(b)	8,143	6,712	5,895	2,822	1,969	602	414	442	27,000
National Partnerships(c)	229	199	150	137	55	19	14	31	835
Total education payments	8,373	6,911	6,046	2,959	2,024	621	428	473	27,835
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP(d)	504	410	329	173	112	35	28	15	1,608
National Partnerships	239	144	116	58	40	18	7	4	626
Total skills and workforce development payments	743	554	445	231	153	53	35	19	2,234
<i>Community services</i>									
National Partnerships	395	302	263	24	92	29	22	84	1,212
<i>Affordable housing</i>									
National Housing and Homelessness funding(e)	499	419	342	182	116	37	29	21	1,646
National Partnerships	664	557	449	242	165	63	70	214	2,424
Total affordable housing payments	1,162	977	791	425	282	99	99	235	4,070
<i>Infrastructure</i>									
National Partnerships(c)	2,458	1,873	2,320	1,836	875	432	68	293	10,156
<i>Environment, energy and water</i>									
National Partnerships(c)	546	182	205	29	51	65	9	46	1,134
<i>Contingent payments</i>									
National Partnerships	268	837	367	326	64	20	-	8	1,889
<i>Other</i>									
National Partnerships(c)	1,370	1,069	980	547	324	180	105	90	4,665
<b>Total payments for specific purposes</b>	<b>24,031</b>	<b>20,707</b>	<b>17,710</b>	<b>9,276</b>	<b>5,804</b>	<b>2,141</b>	<b>1,307</b>	<b>1,704</b>	<b>82,679</b>

- a) Entitlements for 2022–23 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 2022–23 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 2022–23 National Skills and Workforce Development SPP funding outcome will be finalised following a Determination by a Treasury portfolio minister.
- e) Entitlements for 2022–23 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by a Treasury portfolio minister.

## 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, 2022–23**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
DRFA and NDRRA	892.6	-	1,378.5	93.9	62.5	5.1	0.1	-	2,432.7
<b>Total</b>	<b>892.6</b>	<b>-</b>	<b>1,378.5</b>	<b>93.9</b>	<b>62.5</b>	<b>5.1</b>	<b>0.1</b>	<b>-</b>	<b>2,432.7</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 3.20 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 2022–23, the states received \$87.6 billion in general revenue assistance from the Australian Government, comprising \$82.0 billion in GST entitlements, \$4.1 billion in horizontal fiscal equalisation (HFE) transition payments and \$1.5 billion of other general revenue assistance (Table 3.5). Total general revenue assistance to the states constituted 13.8 per cent of total Australian Government expenditure in 2022–23.

**Table 3.5: General revenue assistance, 2022–23**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	24,453	17,972	17,358	6,174	7,354	3,308	1,572	3,803	81,994
HFE transition payments	1,464	1,204	947	-	314	87	81	12	4,108
Other general revenue assistance(b)	-	-	-	1,474	-	-	42	-	1,516
<b>Total</b>	<b>25,917</b>	<b>19,175</b>	<b>18,306</b>	<b>7,648</b>	<b>7,668</b>	<b>3,395</b>	<b>1,695</b>	<b>3,815</b>	<b>87,618</b>

- a) The 2022–23 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 has injected \$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 2022–23, GST revenue was \$87.9 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, 2022–23**

\$million	Total
GST revenue	87,908
less Change in GST receivables	6,390
GST receipts	81,518
less Non-GIC penalties collected	82
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	103
plus GST pool boost	662
<b>States' GST entitlement(a)</b>	<b>81,994</b>

a) The 2022–23 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

For 2022–23, the states' GST entitlement is expected to be \$82.0 billion, which includes an additional top-up to the GST pool of \$662 million. This is \$353 million lower than the advances paid during 2022–23. Table 3.7 provides a reconciliation of the states' GST entitlement and GST advances.

**Table 3.7: States' GST entitlement and GST advances, 2022–23**

\$million	Total
States' GST entitlement(a)	81,994
less Advances of GST made throughout 2022-23	82,346
<i>equals</i> Balancing adjustment	-353

a) The 2022–23 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 2022–23 in July 2022. The relativities for 2022–23 are shown in Table 3.8.

**Table 3.8: GST relativities, 2022–23**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2022-23	0.95065	0.85861	1.03377	0.70000	1.28411	1.85360	1.09250	4.86988

The detailed calculation for the distribution of the GST entitlement in 2022–23 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 2022, as determined by the Australian Statistician.



**Table 3.9: Calculation of the 2022–23 GST entitlements<sup>(a)</sup>**

	Population as at 31 December 2022 (1)	GST revenue sharing relativities (2)	Adjusted population (1) x (2)	Share of adjusted population (per cent)	Share of GST pool (\$million)
NSW	8,238,801	0.95065	7,832,216	29.8	24,453
VIC	6,704,281	0.85861	5,756,363	21.9	17,972
QLD	5,378,277	1.03377	5,559,901	21.2	17,358
WA	2,825,178	0.70000	1,977,625	7.5	6,174
SA	1,834,275	1.28411	2,355,411	9.0	7,354
TAS	571,596	1.85360	1,059,510	4.0	3,308
ACT	460,855	1.09250	503,484	1.9	1,572
NT	250,149	4.86988	1,218,196	4.6	3,803
Total	26,263,412	na	26,262,706	100	81,994

a) The 2022–23 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

Table 3.10 provides a summary of the advances made in 2022–23 against the states' estimated final entitlements shown in Table 3.9. The variance between advances paid in 2022–23 and the states' final entitlements will be included as an adjustment to payments in the 2023–24 financial year.

**Table 3.10: Summary of GST advances made in 2022–23 and distribution of the balancing adjustment across states<sup>(a)</sup>**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	24,453	17,972	17,358	6,174	7,354	3,308	1,572	3,803	81,994
22-23 advances	24,521	18,034	17,448	6,183	7,388	3,339	1,581	3,853	82,346
Balancing adjustment	-68	-62	-89	-9	-34	-31	-9	-50	-353

a) The 2022–23 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. 2022–23 is the second 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 2022–23, the states' entitlement to HFE transition payments is expected to be \$4.1 billion.

Table 3.11 provides a summary of the advances made in 2022–23 against the states' estimated final entitlements to HFE transition payments. Similar to the GST entitlements process, the variance between advances paid in 2022–23 and the states' final entitlements to HFE transition payments will be included as an adjustment to payments in the 2023–24 financial year.

**Table 3.11: HFE transition payments and advances made in 2022–23**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
HFE transition									
payments	1,464	1,204	947	-	314	87	81	12	4,108
22-23 advances	1,474	1,213	954	-	318	89	82	12	4,141
Balancing									
adjustment	-10	-9	-6	-	-4	-2	-2	..	-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, 2022–23**

\$million	Actual	
	2021-22	2022-23
Australian Taxation Office budget	676	677
<i>less</i> Prior year adjustment	83	23
<i>equals</i> State government administration payments	592	655
<i>less</i> Australian Taxation Office outcome	653	653
<b><i>equals</i> Commonwealth budget impact</b>	<b>-61</b>	<b>1</b>
<i>plus</i> Prior year adjustment	83	23
<i>equals</i> Following year adjustment	23	24