

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 financial relations can be found in Budget Paper No. 3, *Federal Financial Relations 2024–25* 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 2023–24, the Australian Government provided the states with payments totalling \$175.2 billion, comprising specific purpose payments of \$83.9 billion and general revenue assistance (predominantly GST entitlements) of \$91.3 billion, as shown in Table 3.1. Payments to the states constituted 25.5 per cent of total Australian Government expenditure in 2023–24.

Table 3.1: Australian Government payments to the states, 2023–24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	24,919	18,846	19,425	9,351	5,930	2,167	1,353	1,918	83,910
General revenue assistance	26,547	20,170	19,284	7,255	8,664	3,389	1,930	4,067	91,305
Total payments to the states	51,466	39,016	38,709	16,607	14,594	5,556	3,283	5,985	175,215

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 2023–24, 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
- Payments for skills and workforce development activities, including through the new National Skills Agreement (NSA)
- Payments under the Energy Bill Relief Fund
- National Partnership payments across a wide range of policy areas, including infrastructure.

National Health Reform, Quality Schools, National Housing and Homelessness, and Skills and Workforce Development funding

In 2023–24, 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 National Skills and Workforce Development funding.

Payments for 2023–24 National Health Reform funding entitlements were made in advance, based on advice from the Administrator of the National Health Funding Pool. This funding is linked to growth in public hospital services activity, and the national efficient price and cost determined by the Independent Health and Aged Care Pricing Authority. The amounts published comprise advance payments for estimated service delivery in 2023–24 and adjustments for 2022–23 final entitlements determined by the Assistant Minister for Competition, Charities and Treasury in December 2023. Final entitlements for 2023–24 will be determined following the Administrator’s annual reconciliation of actual public hospital service delivery.

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, and 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 for 2023–24 for National Housing and Homelessness purposes were made in advance based on Australian Government estimates of the relevant growth factors. Final entitlements for 2023–24 will be determined following the end of the financial year once final 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 by population share 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 NSA commenced on 1 January 2024, replacing the National Agreement for Skills and Workforce Development. Through the NSA, the Commonwealth and states committed to implementing improved funding arrangements to replace the National Skills and Workforce Development Specific Purpose Payment (SPP) established by the *Federal Financial Relations Act 2009*.

Payments for 2023–24 for the SPP and the NSA were made in advance based on Australian Government estimates of relevant growth factors (for the SPP) and the funding methodology specified in the NSA. As 2023–24 was a transitional year, amounts reflect the combined payments for the SPP (1 July 2023 to 31 December 2023) and the NSA (1 January 2024 to 30 June 2024). A balancing adjustment is made after the end of the financial year once final data is available.

Energy Bill Relief Fund

On 16 December 2022, the *Federal Financial Relations Act 2009* was amended to enable financial assistance for Temporary Energy Bill Relief to be provided to eligible households and small businesses during 2023–24 in accordance with agreements with the states. The Australian Government is reimbursing the states for payments made in accordance with these agreements. Final reimbursement amounts for 2023–24 will be determined after the end of the financial year following receipt of states’ closing statements of assurance.

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 2023–24, the states received \$83.9 billion in payments for specific purposes, which constituted 12.2 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, 2023–24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Skills Agreement(a)	594	488	390	204	132	41	34	18	1,903
National Health Reform funding(b)	8,406	6,163	6,799	3,025	1,992	625	497	390	27,898
Quality Schools funding(c)	8,718	7,292	6,351	3,031	2,134	650	433	456	29,064
National Housing and Homelessness Agreement(d)	515	436	355	190	120	37	30	22	1,706
Energy Bill Relief(e)	453	354	308	88	76	36	8	6	1,330
National Partnership payments(f)(g)	6,232	4,112	5,221	2,812	1,476	778	351	1,026	22,009
Total payments for specific purposes	24,919	18,846	19,425	9,351	5,930	2,167	1,353	1,918	83,910

- a) Entitlements for 2023–24 will be finalised after states report on their actual Eligible State Expenditure and a subsequent Determination by a Treasury portfolio minister.
- b) Entitlements for 2023–24 will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool and a subsequent Determination by a Treasury portfolio minister.
- c) The 2023–24 Quality Schools funding outcome will be finalised following a Determination by the Minister for Education.
- d) Entitlements for 2023–24 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by a Treasury portfolio minister.
- e) Entitlements for the 2023–24 relief program will be finalised after states provide closing statements of assurance and a subsequent Determination by a Treasury portfolio minister.
- f) 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*.
- g) Excludes National Skills Agreement payments which are shown separately.

Table 3.3: Total payments for specific purposes by sector and category, 2023–24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	8,406	6,163	6,799	3,025	1,992	625	497	390	27,898
National Partnerships	117	142	102	49	59	38	35	45	588
Total health payments	8,523	6,306	6,902	3,074	2,051	663	532	436	28,486
<i>Education</i>									
Quality Schools funding(b)	8,718	7,292	6,351	3,031	2,134	650	433	456	29,064
National Partnerships(c)	247	220	180	104	59	19	17	77	923
Total education payments	8,965	7,512	6,531	3,135	2,193	668	450	532	29,987
<i>Skills and workforce development</i>									
National Skills Agreement(d)	594	488	390	204	132	41	34	18	1,903
National Partnerships(e)	102	83	68	37	22	12	8	5	335
Total skills and workforce development payments	696	571	459	241	154	53	42	23	2,238
<i>Community services</i>									
National Partnerships	401	313	254	16	95	33	21	83	1,217
<i>Affordable housing</i>									
National Housing and Homelessness Agreement(f)	515	436	355	190	120	37	30	22	1,706
National Partnerships	318	261	206	110	69	27	31	299	1,320
Total affordable housing payments	833	696	561	300	189	64	61	320	3,025
<i>Infrastructure</i>									
National Partnerships(c)	3,550	2,102	2,527	1,964	860	501	78	403	11,985
<i>Environment, energy and water</i>									
Energy Bill Relief(g)	453	354	308	88	76	36	8	6	1,330
National Partnerships(c)	347	119	193	30	62	41	79	20	890
Total environment, energy and water payments	800	473	501	118	138	77	87	26	2,220
<i>Contingent payments</i>									
National Partnerships	50	55	1,005	25	19	1,155
<i>Other</i>									
National Partnerships(c)	1,100	819	686	478	250	108	81	76	3,598
Total payments for specific purposes	24,919	18,846	19,425	9,351	5,930	2,167	1,353	1,918	83,910

- a) Entitlements for 2023–24 will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool and a subsequent Determination by a Treasury portfolio minister.
- b) The 2023–24 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) Entitlements for 2023–24 will be finalised after states report on their actual Eligible State Expenditure and a subsequent Determination by a Treasury portfolio minister.
- e) Excludes National Skills Agreement payments which are shown separately.
- f) Entitlements for 2023–24 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by a Treasury portfolio minister.
- g) Entitlements for the 2023–24 relief program will be finalised after states provide closing statements of assurance and a subsequent Determination by a Treasury portfolio minister.

The Disaster Recovery Funding Arrangements

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

Table 3.4: DRFA cash payments, 2023–24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
DRFA	-	-	1,387.6	-	-	-	-	-	1,387.6
Total	-	-	1,387.6	-	-	-	-	-	1,387.6

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. 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 2023–24, the states received \$91.3 billion in general revenue assistance from the Australian Government, consisting of \$85.6 billion in GST entitlements (comprising GST revenue and the Commonwealth funded GST pool boost), \$4.9 billion in horizontal fiscal equalisation (HFE) transition payments (also known as the No Worse Off Guarantee) and \$772 million of other general revenue assistance (Table 3.5). Total general revenue assistance to the states constituted 13.3 per cent of total Australian Government expenditure in 2023–24.

Table 3.5: General revenue assistance, 2023–24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	24,807	18,731	18,155	6,527	8,289	3,278	1,790	4,028	85,605
HFE transition payments	1,740	1,439	1,129	-	375	112	96	39	4,929
Other general revenue assistance(b)	-	-	-	728	-	-	44	-	772
Total	26,547	20,170	19,284	7,255	8,664	3,389	1,930	4,067	91,305

a) The 2023–24 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

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.

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 because 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 because 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, with this amount growing in line with the underlying growth of the GST. From 2024–25 the Australian Government will further boost the GST pool by an additional \$250 million annually. This additional funding will be distributed to the states in the same way as GST revenue. In 2023–24, GST revenue was \$90.3 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, 2023–24

\$million	Total
GST revenue	90,329
<i>less</i> Change in GST receivables	5,298
GST receipts	85,031
<i>less</i> Non-GIC penalties collected	94
<i>less</i> Net GST collected by Commonwealth agencies but not yet remitted to the ATO	19
<i>plus</i> GST pool boost	686
States' GST entitlement(a)	85,605

a) The 2023–24 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

For 2023–24, the states' GST entitlement is expected to be \$85.6 billion, which includes an additional top-up to the GST pool of \$686 million. This is \$766 million lower than the advances paid during 2023–24. Table 3.7 provides a reconciliation of the states' GST entitlement and GST advances.

Table 3.7: States' GST entitlement and GST advances, 2023–24

\$million	Total
States' GST entitlement(a)	85,605
<i>less</i> Advances of GST made throughout 2023-24	86,370
<i>equals</i> Balancing adjustment	-766

a) The 2023–24 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 2023–24 in June 2023. The relativities for 2023–24 are shown in Table 3.8.

Table 3.8: GST relativities, 2023–24

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2023-24	0.92350	0.85169	1.03118	0.70000	1.39463	1.79080	1.19540	4.98725

The detailed calculation for the distribution of the GST entitlement in 2023–24 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 2023, as determined by the Australian Statistician.

Table 3.9: Calculation of the 2023–24 GST entitlements^(a)

	Population as at 31 December 2023 (1)	GST revenue sharing relativities (2)	Adjusted population (1) x (2)	Share of adjusted population (per cent)	Share of GST pool (\$million)
NSW	8,434,754	0.92350	7,789,495	29.0	24,807
VIC	6,905,978	0.85169	5,881,752	21.9	18,731
QLD	5,528,292	1.03118	5,700,664	21.2	18,155
WA	2,927,888	0.70000	2,049,522	7.6	6,527
SA	1,866,318	1.39463	2,602,823	9.7	8,289
TAS	574,705	1.79080	1,029,182	3.8	3,278
ACT	470,232	1.19540	562,115	2.1	1,790
NT	253,634	4.98725	1,264,936	4.7	4,028
Total	26,961,801	na	26,880,490	100	85,605

a) The 2023–24 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

Table 3.10 provides a summary of the advances made in 2023–24 against the states' estimated final entitlements shown in Table 3.9. The variance between advances paid in 2023–24 and the states' final entitlements will be included as a balancing adjustment to payments in the 2024–25 financial year.

Table 3.10: Summary of GST advances made in 2023–24 and distribution of the balancing adjustment across states^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	24,807	18,731	18,155	6,527	8,289	3,278	1,790	4,028	85,605
23-24 advances	25,028	18,900	18,323	6,573	8,367	3,307	1,811	4,061	86,370
Balancing adjustment	-221	-169	-168	-46	-78	-29	-21	-33	-766

a) The 2023–24 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. 2023–24 is the third year in the six-year transition to the updated GST distribution system, which will ensure that no state has a per capita GST share lower than the fiscally stronger of New South Wales or Victoria.

From 2021–22 to 2029–30, the Australian Government has guaranteed that each state will not receive less than they would have under the previous GST distribution system using, if necessary, HFE transition payments (also known as the No Worse Off Guarantee). For 2023–24, the states' entitlement to HFE transition payments is expected to be \$4.9 billion.

Table 3.11 provides a summary of the advances made in 2023–24 against the states' estimated final entitlements to HFE transition payments. Similar to the GST entitlements process, the variance between advances paid in 2023–24 and the states' final entitlements to HFE transition payments will be included as a balancing adjustment to payments in the 2024–25 financial year.

Table 3.11: HFE transition payments and advances made in 2023–24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
HFE transition									
payments	1,740	1,439	1,129	-	375	112	96	39	4,929
23-24 advances	1,711	1,417	1,108	-	368	110	94	37	4,844
Balancing									
adjustment	29	22	21	-	7	2	1	2	85

GST administration

States compensate the Australian Government for the agreed costs incurred by the ATO in administering the GST, including by the Department of Home Affairs, as shown in Table 3.12.

Table 3.12: GST administration, 2023–24

\$million	Actual	
	2022-23	2023-24
Australian Taxation Office budget	677	719
<i>less</i> Prior year adjustment	23	24
<i>equals</i> State government administration payments	655	696
<i>less</i> Australian Taxation Office outcome	653	618
<i>equals</i> Commonwealth budget impact	1	78
<i>plus</i> Prior year adjustment	23	24
<i>equals</i> Following year adjustment	24	102

- a) Budget estimates increased in 2023–24 due to the extension and expansion of the GST Compliance Program.
- b) The 2023–24 GST administration cost outcome of \$618 million reflects the previously published revised forecast and is driven by GST resourcing limitations and lower than estimated GST technology and sustainment costs.