

Part 1: Australia's Federal Relations

Overview

In 2024–25, the Australian Government will provide state and territory governments (states) with \$185.9 billion in total payments, estimated to be 25.3 per cent of total Australian Government expenditure. This includes payments of \$91.5 billion for specific purposes including for schools and hospitals, and general revenue assistance of \$94.4 billion.

Through its payments to the states, the Australian Government is:

- contributing \$133.0 billion from 2024–25 to 2027–28 for public health and hospital services
- investing \$127.9 billion in Quality Schools funding from 2024–25 to 2027–28
- committing \$57.8 billion from 2024–25 to 2027–28 to invest in nation-building infrastructure
- committing \$3.9 billion from 2024–25 to 2025–26 through the Energy Bill Relief Fund, including an additional \$3.5 billion for a one-year extension to provide cost of living relief to all Australian households (more than ten million) and around one million small businesses
- making available a further \$1 billion through the Housing Support Program in 2023–24, to fund urgent and significant infrastructure projects in order to build more homes for Australians in well-located areas. This is in addition to the existing Housing Support Program streams, which are providing \$500.0 million through 2024–25 to fund enabling infrastructure, community amenities and planning capability
- providing an estimated \$20.4 billion in horizontal fiscal equalisation (HFE) transition payments (also known as the No Worse Off guarantee) from 2024–25 to 2027–28 to support the transition to the new HFE system
- permanently boosting the size of the GST pool that is distributed among the states each year. From 2021–22, the Australian Government has injected \$600.0 million annually into the GST pool, with this amount growing each year in line with the underlying growth of the GST. From 2024–25 the Australian Government will further boost the GST pool by an additional \$250.0 million annually, bringing the total in 2024–25 to \$964.1 million.

Box 1.1: Fiscal pressures across the federation

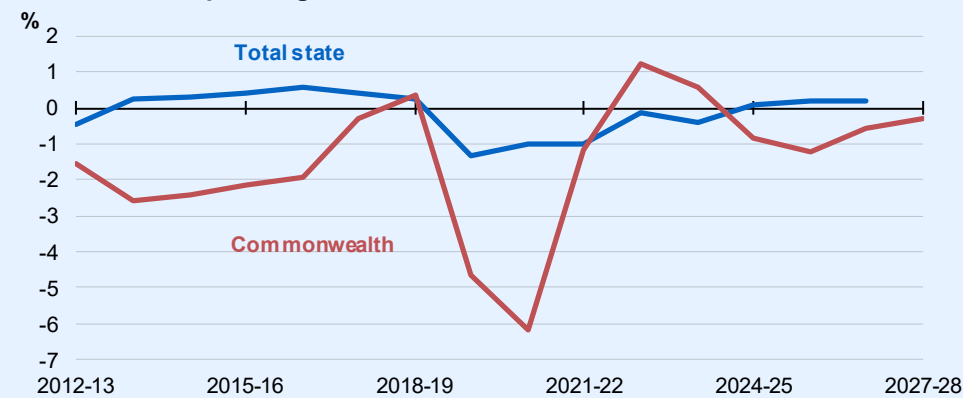
The Commonwealth and the states and territories (the states) are all facing significant fiscal pressures, which are driven by current spending pressures and the fiscal legacy of the COVID-19 pandemic.

Current major spending pressures for the Commonwealth include health and aged care, the National Disability Insurance Scheme, defence and interest payments on Government debt. In the 2023 Intergenerational Report, these were projected to rise from 8.8 per cent of GDP in 2022–23 to around 14.4 per cent in 2062–63. Health and aged care expenditure is expected to grow significantly with around 40 per cent of the projected increase in Commonwealth expenditure from 2022–23 to 2062–63 being attributed to demographic ageing. The states are also affected by fiscal pressures, particularly health and interest payments on their own debt.

The Commonwealth and the states are carrying higher levels of debt compared to pre-pandemic. Both levels of government used debt to fund the response to the pandemic, resulting in debt levels which were high by historical standards. The Commonwealth funded a larger share of pandemic-related expenditure, as it is responsible for social security and almost 60 per cent of health funding.

Despite these current and legacy pressures, the states are expecting their budget balances to recover over the forward estimates, with most states reaching an operating surplus by 2026–27 (Chart 1.1). The states forecast that the aggregate net operating position, which incorporates Commonwealth transfers, will be balanced on average across the forward estimates. The Commonwealth is forecast to remain in an operating deficit over the same period.

Chart 1.1: Net operating balance as a share of GDP



Source: Treasury calculations based on ABS Government Finance Statistics (GFS), State and Territory MYEFOs, and Budget Paper No. 1, *Budget Strategy and Outlook 2024–25, Statement 11: Historical Australian Government Data*.

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Box 1.1: Fiscal pressures across the federation (continued)

Commonwealth support ensures the states can fund essential services. The states are estimated to receive \$193.7 billion in annual Commonwealth payments on average over the forward estimates. The Commonwealth has recently increased funding in key areas of shared responsibility, including:

- an additional \$7 billion in new commitments to the states for housing since May 2022, taking total payments to the states for housing to more than \$17 billion over ten years; not including the Housing Australia Future Fund, under which states can apply for funding for social and affordable housing
- extending the GST No Worse Off guarantee (NoWO) by three years to 2029–30 to provide funding certainty to states. It is estimated the total cost of the 2018 GST distribution reforms, which include the NoWO, annual pool boost and top-up transitional payments, will be \$52.9 billion from 2019–20 to 2029–30
- increasing infrastructure payments, with annual payments for infrastructure services forecast to average \$14.4 billion from 2024–25 to 2027–28.

The Commonwealth and the states have been discussing the implications of the recent High Court decision in *Vanderstock & Anor v State of Victoria*. The Commonwealth has been working with the states to ensure they have secure own-source revenue bases, and will continue to explore options, including legislative options, to protect state revenue sources.

Tackling fiscal pressures across the federation will require collaborative solutions and can be complemented by actions of individual governments to ensure essential service delivery and fiscal sustainability.

Australian Government funding to the states

The Australian Government provides substantial funding to the states in key sectors such as health, education and community services, and supports important productivity enhancing projects and reforms, such as investments in infrastructure and skills. In addition, the Australian Government provides general revenue assistance that states can spend according to their own budget priorities.

The states are estimated to receive total Australian Government payments of \$185.9 billion in 2024–25.

Payments to the states in 2024–25 are estimated to be 25.3 per cent of total Australian Government expenditure and 6.7 per cent of GDP.

Payments for specific purposes

In 2024–25, the Australian Government will provide the states with \$91.5 billion in payments for specific purposes. This represents an increase of \$7.6 billion or 9.0 per cent compared with the 2023–24 estimate, primarily due to the expansion of the Energy Bill Relief Fund, and increases in National Health Reform and Quality Schools funding. Payments for specific purposes are estimated to make up 12.5 per cent of total Australian Government expenditure in 2024–25 and be 3.3 per cent of GDP.

Payments for skills and workforce development activities (including through the new National Skills Agreement), National Health Reform, the National Agreement on Social Housing and Homelessness, and Quality Schools funding are expected to total \$64.5 billion in 2024–25.

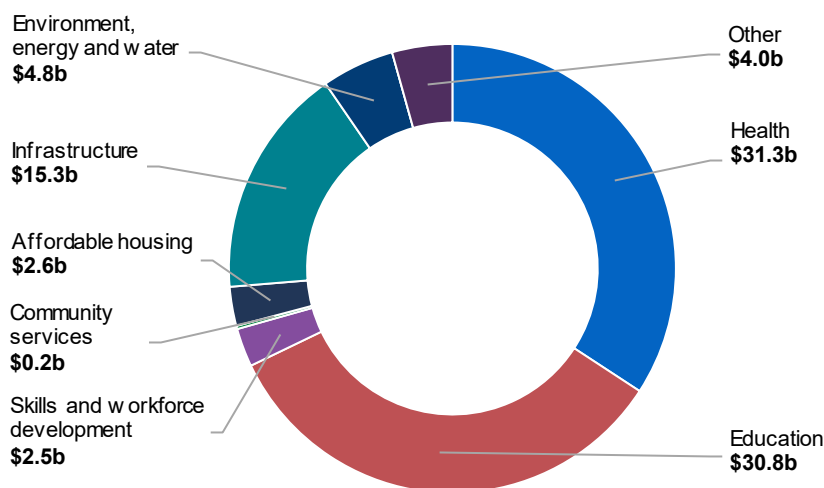
National Partnership payments are expected to be \$24.0 billion in 2024–25.

Chart 1.2 shows estimated specific purpose payments to the states in 2024–25 by sector.

Part 2 of this Budget Paper provides further information on payments to the states for specific purposes.

The conditions for payments to states for specific purposes are documented in agreements between the Commonwealth and the states. The Federation Funding Agreement (FFA) Framework sets out the governance arrangements for these agreements. Further information on the FFA Framework can be found on the Federal Financial Relations website at www.federalfinancialrelations.gov.au.

Chart 1.2: Payments for specific purposes 2024–25, by sector



General revenue assistance

General revenue assistance, which principally comprises the states' GST entitlement, provides untied funding to support the states' delivery of services.

In 2024–25, the states are expected to receive \$94.4 billion in general revenue assistance, including \$88.5 billion for the GST entitlement. General revenue assistance to the states is estimated to represent 12.9 per cent of total Australian Government expenditure in 2024–25 and be 3.4 per cent of GDP.

Part 3 of this Budget Paper contains further details of general revenue assistance to the states.

Payments to the states

Total Australian Government payments to the states are shown in Table 1.1 and as a proportion of GDP in Table 1.2.

Table 1.1: Australian Government payments to the states, 2023–24 to 2027–28

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2023-24									
Payments for specific purposes(a)	24,068	18,191	18,355	10,279	5,948	2,134	1,293	1,989	83,965
GST-related payments(b)	26,780	20,349	19,459	6,573	8,744	3,419	1,907	4,099	91,331
Other general revenue assistance	-	-	-	732	-	-	44	-	776
Total payments to the states	50,847	38,540	37,814	17,584	14,693	5,553	3,244	6,088	176,072
2024-25									
Payments for specific purposes(a)	26,530	20,128	19,326	11,254	6,418	2,283	1,478	2,061	91,519
GST-related payments(b)	25,841	23,479	18,525	7,223	8,942	3,519	1,963	4,208	93,700
Other general revenue assistance	-	-	-	666	-	-	45	-	711
Total payments to the states	52,370	43,607	37,851	19,143	15,361	5,802	3,487	6,269	185,931
2025-26									
Payments for specific purposes(a)	26,045	20,533	20,425	10,193	6,546	2,256	1,414	2,073	90,654
GST-related payments(b)	27,215	24,827	19,531	7,591	9,362	3,673	2,070	4,402	98,671
Other general revenue assistance	-	-	-	524	-	-	46	-	571
Total payments to the states	53,260	45,360	39,956	18,309	15,908	5,929	3,531	6,475	189,895
2026-27									
Payments for specific purposes(a)	25,625	22,028	21,082	9,392	6,752	2,225	1,421	1,949	91,997
GST-related payments(b)	28,358	26,016	20,385	9,152	9,761	3,834	2,173	4,635	104,314
Other general revenue assistance	-	-	-	410	-	-	47	-	458
Total payments to the states	53,983	48,045	41,468	18,954	16,513	6,059	3,642	6,584	196,768
2027-28									
Payments for specific purposes(a)	26,370	22,945	21,398	9,084	6,839	2,159	1,455	1,666	93,111
GST-related payments(b)	29,463	27,183	21,218	9,656	10,153	3,994	2,273	4,869	108,809
Other general revenue assistance	-	-	-	386	-	-	48	-	434
Total payments to the states	55,833	50,128	42,616	19,126	16,991	6,153	3,776	6,535	202,354

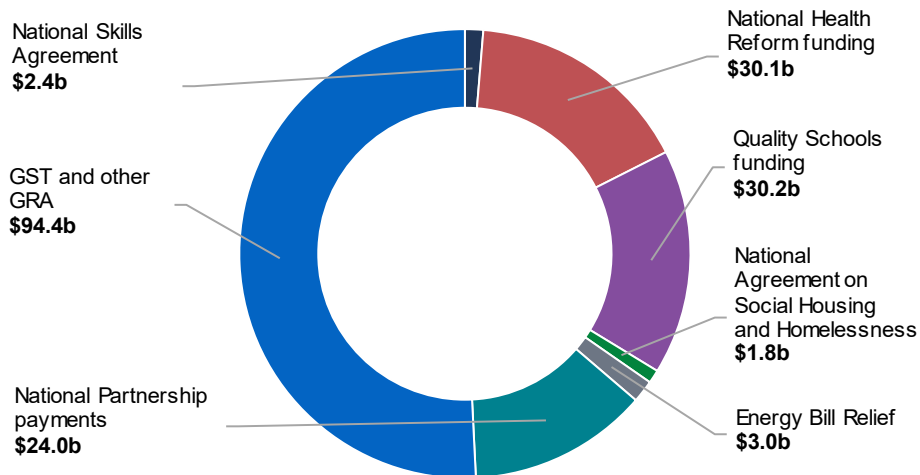
- a) State allocations for a number of programs have not yet been determined. These payments are not reflected in state totals. As a result, total payments for specific purposes may not equal the sum of the state figures.
- b) Includes GST entitlement and HFE transition payments. State allocations are dependent upon the GST revenue sharing relativities for each financial year. They are calculated using the Commonwealth Grants Commission's 2024–25 GST relativities as the starting point. The estimates do not reflect any attempt to project future GST relativities or GST entitlements. See Part 3 for further information.

Table 1.2: Total Australian Government payments to the states as a proportion of GDP

\$million	2023-24	2024-25	2025-26	2026-27	2027-28
<i>Payments for specific purposes</i>					
National Skills Agreement	2,015	2,432	2,457	2,496	2,535
National Health Reform funding	27,995	30,149	32,187	34,229	36,454
Quality Schools funding	29,154	30,156	31,356	32,584	33,834
National Agreement on Social Housing and Homelessness	1,706	1,778	1,814	1,856	1,888
Energy Bill Relief	1,110	3,000	872	-	-
National Partnership payments(a)	21,985	24,004	21,969	20,833	18,400
Total payments for specific purposes	83,965	91,519	90,654	91,997	93,111
Per cent change from previous year	1.6	9.0	-0.9	1.5	1.2
Per cent of GDP	3.1	3.3	3.2	3.0	2.9
<i>General revenue assistance</i>					
GST-related payments(b)	91,331	93,700	98,671	104,314	108,809
Other general revenue assistance	776	711	571	458	434
Total general revenue assistance	92,107	94,412	99,241	104,771	109,243
Per cent change from previous year	5.1	2.5	5.1	5.6	4.3
Per cent of GDP	3.4	3.4	3.5	3.5	3.4
Total payments to the states	176,072	185,931	189,895	196,768	202,354
Per cent change from previous year	3.4	5.6	2.1	3.6	2.8
Per cent of GDP	6.6	6.7	6.6	6.5	6.4

a) Excludes National Skills Agreement and Energy Bill Relief payments which are shown separately.
 b) Includes GST entitlement and HFE transition payments.

Chart 1.3: Total Australian Government payments to the states, 2024–25



Note: National Partnership payments exclude National Skills Agreement and Energy Bill Relief payments which are shown separately.

Table 1.3 provides information on the Australian Government’s financial contributions to state expenditure in key sectors in 2022–23 (the latest year for which there are data to enable this calculation). It shows that Australian Government financial assistance in 2022–23 effectively supported 47.3 per cent of states’ expenditure.

Table 1.3: Australian Government’s contribution to state expenditure

	Australian Government tied payments (\$million)	State spending supported by general revenue assistance (a) (\$million)	Total state spending (\$million)	State spending supported by Australian Government payments (per cent)
2022-23				
Health	29,495	25,233	109,336	50.1
Education	30,065	12,793	70,543	60.8
Housing and community amenities	4,815	1,277	8,854	68.8
Transport	9,338	8,465	36,123	49.3
Economic affairs (b)	822	5,308	17,616	34.8
Social protection	1,170	9,482	31,171	34.2
Other functions (c)	7,009	25,061	86,306	37.2
Payments for specific purpose	82,715			
General revenue assistance		87,618		
Total			359,949	47.3

Source: Australian Bureau of Statistics (ABS), *Government Finance Statistics 2022–23*; and Australian Government, *Final Budget Outcome 2022–23*.

Note: Australian Government payments to the states in 2022–23 is unavailable on an ABS Classification of the Functions of Government (COFOG-A) basis. These payments have been adjusted to align with COFOG-A.

- a) General Revenue Assistance (GRA) is provided to the states without conditions to spend according to their own budget priorities. For illustrative purposes, GRA is allocated to expense functions based on the ratio of discretionary spending in each function as a share of states’ total discretionary spending.
- b) Economic affairs include COVID–19 Business Support Payments for 2022–23.
- c) Other functions include additional functions not elsewhere itemised.

Measures affecting payments to the states

Table 1.4 lists measures in the 2024–25 Budget that affect payments to the states. Details of the measures are available in Budget Paper No. 2, *Budget Measures 2024–25*, arranged by portfolio. Information on the payments affected is available in Parts 2 and 3 of this Budget Paper.

Table 1.4: Measures affecting payments to the states

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
Access to HIV treatment	Part 2 – Health	Response to HIV Taskforce Recommendations – eliminating HIV in Australia	Payments – Health and Aged Care
Comprehensive palliative care in aged care	Part 2 – Health	Strengthening Medicare	Payments – Health and Aged Care
Hummingbird House	Part 2 – Health	Ensuring Service Delivery at Hummingbird House	Payments – Health and Aged Care
Management of Torres Strait / Papua New Guinea cross border health issues	Part 2 – Health	Management Of Torres Strait and Papua New Guinea Cross Border Health Issues	Payments – Health and Aged Care
Medicare Urgent Care Clinics	Part 2 – Health	Strengthening Medicare – Medicare Urgent Care Clinics – additional funding	Payments – Health and Aged Care
Mosquito control in the Torres Strait Protected Zone	Part 2 – Health	Management Of Torres Strait and Papua New Guinea Cross Border Health Issues	Payments – Health and Aged Care
National bowel cancer screening program – participant follow-up function	Part 2 – Health	Improving Cancer Outcomes	Payments – Health and Aged Care
National Critical Care and Trauma Response Centre	Part 2 – Health	Preventive Health	Payments – Health and Aged Care
OzFoodNet	Part 2 – Health	Preventive Health	Payments – Health and Aged Care
Specialist dementia care	Part 2 – Health	Improving Aged Care Support	Payments – Health and Aged Care
Supporting older Australian patients	Part 2 – Health	Strengthening Medicare	Payments – Health and Aged Care
Vaccine-preventable diseases surveillance	Part 2 – Health	Preventive Health	Payments – Health and Aged Care
Community Health, Hospitals and Infrastructure projects	Part 2 – Health	Portfolio Administrative Matters	Payments – Health and Aged Care

Table 1.4: Measures affecting payments to the states (continued)

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
Addressing blood-borne viruses and sexually transmissible infections in the Torres Strait	Part 2 – Health	Management Of Torres Strait and Papua New Guinea Cross Border Health Issues	Payments – Health and Aged Care
Northern Territory Remote Aboriginal Investment – Health component	Part 2 – Health	Further Investment to Closing the Gap	Payments – Prime Minister and Cabinet
Essential vaccines	Part 2 – Health	Supporting Ongoing Access to Vaccines	Payments – Health and Aged Care
Short-term workforce reforms – Kruk Review implementation	Part 2 – Health	Health Workforce	Payments – Health and Aged Care
Northern Territory Remote Aboriginal Investment – Children and schooling implementation plan	Part 2 – Education	Further Investment to Closing the Gap	Payments – Prime Minister and Cabinet
Capital and Equipment Investment Fund	Part 2 – Skills and workforce development	Future Made in Australia – Workforce and Trade Partnerships for Renewable Energy Superpower Industries	Payments – Cross Portfolio
Fee-Free TAFE Skills Agreement	Part 2 – Skills and workforce development	Housing Support	Payments – Cross Portfolio
Turbocharge the Teacher, Trainer and Assessor Workforce	Part 2 – Skills and workforce development	Future Made in Australia – Workforce and Trade Partnerships for Renewable Energy Superpower Industries	Payments – Cross Portfolio
Extra high visibility police and law enforcement operations	Part 2 – Community services	Attorney-General's Portfolio – additional resourcing	Payments – Attorney General's
Northern Territory Remote Aboriginal Investment – Community safety implementation plan	Part 2 – Community services	Further Investment to Closing the Gap	Payments – Prime Minister and Cabinet
Northern Territory Remote Aboriginal Investment – Remote Australia strategies implementation plan	Part 2 – Community services	Further Investment to Closing the Gap	Payments – Prime Minister and Cabinet

Table 1.4: Measures affecting payments to the states (continued)

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
National Agreement on Social Housing and Homelessness	Part 2 – Affordable housing	Housing Support	Payments – Cross Portfolio
Housing Support Program – Priority Works Stream	Part 2 – Affordable housing	Housing Support	Payments – Cross Portfolio
Improving housing and essential services on Northern Territory Homelands	Part 2 – Affordable housing	Northern Territory Homelands and Housing	Payments – Prime Minister and Cabinet
Northern Territory Remote Housing	Part 2 – Affordable housing	Northern Territory Homelands and Housing	Payments – Prime Minister and Cabinet
Infrastructure Investment Program	Part 2 – Infrastructure	Building a Better Future Through Considered Infrastructure Investment	Payments – Infrastructure, Transport, Regional Development, Communications and the Arts
Infrastructure Investment Program(a)	Part 2 – Infrastructure	Supporting Transport Priorities	Payments – Infrastructure, Transport, Regional Development, Communications and the Arts
Darwin Cyclone Tracy Memorial	Part 2 – Infrastructure	Funding for the Territories	Payments – Infrastructure, Transport, Regional Development, Communications and the Arts
Local Roads and Community Infrastructure	Part 2 – Infrastructure	Building a Better Future Through Considered Infrastructure Investment	Payments – Infrastructure, Transport, Regional Development, Communications and the Arts
National Water Grid Fund	Part 2 – Infrastructure	National Water Grid Fund – responsible investment in water infrastructure for the regions	Payments – Climate Change, Energy, the Environment and Water
Upgrades to the Qtopia Sydney Museum	Part 2 – Infrastructure	Qtopia Sydney	Payments – Infrastructure, Transport, Regional Development, Communications and the Arts
Energy Bill Relief	Part 2 – Environment, energy and water	Energy Bill Relief Fund – extension and expansion	Payments – Treasury
Bilateral Energy and Emissions Reduction Agreements(a)	Part 2 – Environment, energy and water	Harnessing the Energy Transition to Benefit Consumers	Payments – Climate Change, Energy, the Environment and Water

Table 1.4: Measures affecting payments to the states (continued)

Critical Minerals National Productivity Initiative	Part 2 – Environment, energy and water	Future Made in Australia – Making Australia a Renewable Energy Superpower	Payments – Cross Portfolio
Future Drought Fund – Farm business resilience	Part 2 – Environment, energy and water	Future Drought Fund – better support for farmers and communities to manage drought and adapt to climate change	Payments – Agriculture, Fisheries and Forestry
Future Drought Fund – Regional drought resilience planning	Part 2 – Environment, energy and water	Future Drought Fund – better support for farmers and communities to manage drought and adapt to climate change	Payments – Agriculture, Fisheries and Forestry
Great Artesian Basin Water Security Program	Part 2 – Environment, energy and water	Sustaining Water Functions	Payments – Climate Change, Energy, the Environment and Water
Implementation of the live sheep exports by sea phase out	Part 2 – Environment, energy and water	Phase Out of Live Sheep Exports by Sea – transition support	Payments – Agriculture, Fisheries and Forestry
Implementing water reform in the Murray–Darling Basin	Part 2 – Environment, energy and water	Murray-Darling Basin Plan – continuing delivery	Payments – Climate Change, Energy, the Environment and Water
Support Forestry Strategy Development	Part 2 – Environment, energy and water	Agriculture – other priorities	Payments – Agriculture, Fisheries and Forestry
Supporting Emissions Reduction in Queensland’s Energy Resources Sector(a)	Part 2 – Environment, energy and water	Future Made in Australia – Making Australia a Renewable Energy Superpower	Payments – Cross Portfolio
Sustainable rural water use and infrastructure program	Part 2 – Environment, energy and water	Murray-Darling Basin Plan – continuing delivery	Payments – Climate Change, Energy, the Environment and Water
Water for the Environment Special Account – Implementation of Constraints Measures	Part 2 – Environment, energy and water	Murray-Darling Basin Plan – continuing delivery	Payments – Climate Change, Energy, the Environment and Water
Water for the Environment Special Account – Off-farm Efficiency Program	Part 2 – Environment, energy and water	Murray-Darling Basin Plan – continuing delivery	Payments – Climate Change, Energy, the Environment and Water
Water for the Environment Special Account – Resilient Rivers Water Infrastructure Program	Part 2 – Environment, energy and water	Murray-Darling Basin Plan – continuing delivery	Payments – Climate Change, Energy, the Environment and Water

Table 1.4: Measures affecting payments to the states (continued)

Water for the Environment Special Account – Sustainable Communities Program	Part 2 – Environment, energy and water	Murray-Darling Basin Plan – continuing delivery	Payments – Climate Change, Energy, the Environment and Water
National Legal Assistance Partnership 2020–25	Part 2 – Other	National Legal Assistance Partnership	Payments – Attorney General's
Implementation of Mandatory Country of Origin Labelling for Seafood	Part 2 – Other	Investing in the Future of Industry and Science	Payments – Industry, Science and Resources
National Firearms Register	Part 2 – Other	National Firearms Register	Payments – Attorney General's
National Labour Hire	Part 2 – Other	Workplace Relations	Payments – Employment and Workplace Relations
North Bowen pipeline feasibility study(a)	Part 2 – Other	Supporting Safety and Responsible Decommissioning in the Offshore Resources Sector	Payments – Industry, Science and Resources
Northern Territory Remote Aboriginal Investment – Evaluation	Part 2 – Other	Further Investment to Closing the Gap	Payments – Prime Minister and Cabinet
GST entitlement	Part 3 – GST payments	Strengthening Tax Compliance – extending the Shadow Economy Compliance Program	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Migration – Mobility Arrangement for Talented Early-professionals Scheme (MATES) and extending the validity of the Business Visitor visa for Indian nationals	Receipts – Home Affairs
GST entitlement	Part 3 – GST payments	Permanent Migration Program – 2024-25 planning levels and multi-year planning	Receipts – Home Affairs
GST entitlement	Part 3 – GST payments	Migration System Reforms	Receipts – Home Affairs
GST entitlement	Part 3 – GST payments	Modernising Digital Assets and Payments Regulation	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Strengthening Tax Compliance – Australian Taxation Office Counter Fraud Strategy	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Amendments to existing measures	Receipts – Treasury

a) Measure redirects funding allocated to states in the *Mid-Year Economic and Fiscal Outlook 2023–24* to fund other Australian Government policy priorities.