

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 made within the frame of 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 also necessary to address Australia’s economic and social challenges and opportunities.

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 2025–26* 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 2024–25, the Australian Government provided the states with payments totalling \$194.7 billion, comprising specific purpose payments of \$97.4 billion and general revenue assistance (predominantly GST entitlements) of \$97.3 billion, as shown in Table 3.1. Payments to the states constituted 25.3 per cent of total Australian Government expenditure in 2024–25.

Table 3.1: Australian Government payments to the states, 2024–25

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	28,463	20,413	23,348	13,020	6,917	2,119	1,372	1,760	97,411
General revenue assistance	26,561	24,075	19,044	8,193	9,243	3,625	2,081	4,466	97,288
Total payments to the states	55,024	44,488	42,392	21,212	16,160	5,744	3,453	6,227	194,700

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 2024–25, the Australian Government provided the following types of specific purpose payments to the states:

- National Health Reform funding
- Better and Fairer Schools funding for government and non-government schools
- National Skills Agreement funding
- National Agreement on Social Housing and Homelessness funding
- Payments under the Energy Bill Relief Fund
- National Legal Assistance Partnership funding
- National Partnership payments across a wide range of policy areas, including infrastructure.

Funding for key service delivery sectors

In 2024–25, the Australian Government continued to provide funding for key service delivery sectors through National Health Reform funding, Better and Fairer Schools funding, National Skills Agreement funding, National Agreement on Social Housing and Homelessness funding, and National Legal Assistance Partnership funding. The Australian Government also supported households by extending the Energy Bill Relief Fund to all Australians in 2024–25.

Payments for 2024–25 National Health Reform funding are made in advance, based on advice from the Administrator of the National Health Funding Pool. The funding amount 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 in Table 3.2 of this Part comprise advance payments for estimated service delivery in 2024–25 and adjustments for 2023–24 final entitlements determined by the Assistant Minister for Competition, Charities and Treasury in December 2024. Final entitlements for 2024–25 will be determined following the Administrator’s annual reconciliation of actual public hospital service delivery.

Better and Fairer Schools is a needs-based funding model 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. Better and Fairer Schools funding is distributed among the states in accordance with the *Australian Education Act 2013* and agreements made under that Act.

The National Agreement on Social Housing and Homelessness commenced on 1 July 2024 and is made up of a general funding component and a specified homelessness funding component, which is matched by the states.

Payments for 2024–25 for the National Agreement on Social Housing and Homelessness were made in advance based on Australian Government estimates of the relevant growth factors. Final entitlements for 2024–25 will be determined following the end of the financial year.

The National Skills Agreement commenced on 1 January 2024 and comprises flexible funding to support state training systems, deliver national priorities, and for seven Specific Policy Initiatives. In 2024–25, payments under the flexible funding component were made in advance based on Australian Government estimates of relevant growth factors and the funding methodology specified in the National Skills Agreement. Final entitlements for 2024–25 will be determined following the end of the financial year once final data is available. Payments for the seven Specific Policy Initiatives were made in accordance with the National Skills Agreement and its associated implementation plans.

The Australian Government expanded the Energy Bill Relief Fund into 2024–25 to extend financial assistance to households and eligible small businesses in accordance with agreements with the states. The Australian Government is reimbursing the states for payments made in accordance with these agreements.

The National Legal Assistance Partnership commenced on 1 July 2020 and expired on 30 June 2025. Payments for the National Legal Assistance Partnership were made in accordance with the agreement. It was replaced by the National Access to Justice Partnership from 1 July 2025, which provides ongoing funding to the legal assistance sector.

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. Federal Funding Agreements for National Partnership payments are publicly available at: www.federalfinancialrelations.gov.au.

Total payments for specific purposes

In 2024–25, the states received \$97.4 billion in payments for specific purposes, which constituted 12.6 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, 2024–25

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Health Reform(a)	8,897	7,307	7,072	3,265	2,045	661	544	427	30,217
Better and Fairer Schools(b)	9,230	7,804	6,772	3,291	2,263	699	467	501	31,027
National Skills Agreement(c)	712	569	455	248	152	47	38	20	2,242
National Agreement on Social Housing and Homelessness(d)	540	451	355	190	120	37	30	56	1,779
Energy Bill Relief	1,041	911	707	368	250	78	62	28	3,446
National Legal Assistance Partnership 2020-25(e)	155	109	123	69	45	19	12	37	569
National Partnership payments(f)	7,888	3,262	7,863	5,589	2,041	578	218	692	28,131
Total payments for specific purposes	28,463	20,413	23,348	13,020	6,917	2,119	1,372	1,760	97,411

- a) Entitlements for 2024–25 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 2024–25 Better and Fairer Schools funding outcome will be finalised following a Determination by the Minister for Education.
- c) Entitlements for 2024–25 will be finalised after states report on their actual Eligible State Expenditure and a subsequent Determination by a Treasury portfolio minister.
- d) Entitlements for 2024–25 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by a Treasury portfolio minister.
- e) The National Legal Assistance Partnership 2020–25 (NLAP) was included in the National Partnership payments line in the 2024–25 Budget and prior budget updates.
- f) Includes financial assistance grants for, and/or payments direct to, local government, and/or payments funded through appropriations in addition to section 16 of the *Federal Financial Relations Act 2009*. Excludes National Partnership payments made under the National Skills Agreement, Energy Bill Relief and NLAP, which are shown separately.

Table 3.3: Total payments for specific purposes by sector and category, 2024–25

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Health									
National Health Reform funding(a)	8,897	7,307	7,072	3,265	2,045	661	544	427	30,217
National Partnerships	189	182	121	64	135	53	20	101	865
Total health payments	9,086	7,489	7,193	3,329	2,180	714	564	528	31,083
Education									
Better and Fairer Schools funding(b)	9,230	7,804	6,772	3,291	2,263	699	467	501	31,027
National Partnerships(c)	182	159	135	59	45	15	12	48	653
Total education payments	9,412	7,962	6,907	3,349	2,308	714	479	549	31,680
Skills and workforce development									
National Skills Agreement(d)	712	569	455	248	152	47	38	20	2,242
National Partnerships(e)	20	16	16	10	10	2	6	4	84
Total skills and workforce development payments	732	586	471	258	162	48	44	24	2,326
Community services									
National Partnerships	39	30	32	857	14	5	3	72	1,052
Affordable housing									
National Agreement on Social Housing and Homelessness(f)	540	451	355	190	120	37	30	56	1,779
National Partnerships	158	43	103	29	28	2	..	88	452
Total affordable housing payments	697	494	458	219	148	40	31	144	2,231
Infrastructure									
National Partnerships(c)	3,986	2,092	3,167	4,179	1,367	359	98	284	15,532
Environment, energy and water									
Energy Bill Relief	1,041	911	707	368	250	78	62	28	3,446
National Partnerships(c)(g)	542	170	421	70	102	52	17	54	1,428
Total environment, energy and water payments	1,583	1,081	1,128	438	352	130	79	82	4,874
Contingent payments									
National Partnerships	2,046	15	3,409	40	3	15	-	..	5,528
Other									
National Legal Assistance Partnership 2020-25(h)	155	109	123	69	45	19	12	37	569
National Partnerships(c)	728	555	459	281	336	76	61	41	2,537
Total other payments	883	664	583	350	382	95	73	77	3,107
Total payments for specific purposes	28,463	20,413	23,348	13,020	6,917	2,119	1,372	1,760	97,411

- a) Entitlements for 2024–25 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 2024–25 Better and Fairer Schools funding outcome will be finalised following a Determination by the Minister for Education.
- c) Includes financial assistance grants for, and/or payments direct to, local government and/or payments funded through appropriations in addition to section 16 of the *Federal Financial Relations Act 2009*.

- d) Entitlements for 2024–25 will be finalised after states report on their actual Eligible State Expenditure and a subsequent Determination by a Treasury portfolio minister.
- e) Excludes National Partnership payments made under the National Skills Agreement, which are shown separately.
- f) Entitlements for 2024–25 will be finalised after states report on their actual expenditure via statements of assurance and a subsequent Determination by a Treasury portfolio minister.
- g) Excludes National Partnership payments made under Energy Bill Relief, which are shown separately.
- h) National Legal Assistance Partnership 2020–25 was included in the National Partnership payments line in the 2024–25 Budget and prior budget updates.

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, 2024–25

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
DRFA	58.5	92.0	1,220.3	-	5.3	1.5	-	-	1,377.6
Total	58.5	92.0	1,220.3	-	5.3	1.5	-	-	1,377.6

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 2024–25, the states received \$97.3 billion in general revenue assistance from the Australian Government, consisting of \$91.2 billion in GST entitlements (comprising GST revenue and the Commonwealth funded GST pool boost), \$5.4 billion in horizontal fiscal equalisation (HFE) transition payments (also known as the No Worse Off Guarantee) and \$730 million in other general revenue assistance (Table 3.5). Total general revenue assistance to the states constituted 12.6 per cent of total Australian Government expenditure in 2024–25.

Table 3.5: General revenue assistance, 2024–25

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	24,662	22,513	17,805	7,508	8,832	3,503	1,930	4,420	91,173
HFE transition payments	1,899	1,562	1,239	-	412	122	106	46	5,386
Other general revenue assistance(b)	-	-	-	684	-	-	45	-	730
Total	26,561	24,075	19,044	8,193	9,243	3,625	2,081	4,466	97,288

- a) The 2024–25 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. Since 2021–22, the states' GST entitlements have been 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 payment 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. Since 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 pool. In 2024–25 the Australian Government further boosted the GST pool by an additional \$250 million. This additional funding will be distributed to the states in the same way as GST revenue. In 2024–25, GST revenue was \$96.5 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, 2024–25

\$million	Total
GST revenue	96,543
less Change in GST receivables	6,221
GST receipts	90,322
less Non-GIC penalties collected	133
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-3
plus GST pool boost	981
States' GST entitlement(a)	91,173

a) The 2024–25 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

For 2024–25, the states' GST entitlement is expected to be \$91.2 billion, which includes a top-up to the GST pool of \$981 million. This is \$888 million higher than the advances paid during 2024–25. Table 3.7 provides a reconciliation of the states' GST entitlement and GST advances.

Table 3.7: States' GST entitlement and GST advances, 2024–25

\$million	Total
States' GST entitlement(a)	91,173
less Advances of GST made throughout 2024-25	90,284
equals Balancing adjustment	888

a) The 2024–25 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 2024–25 in May 2024. The relativities for 2024–25 are shown in Table 3.8.

Table 3.8: GST relativities, 2024–25

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2024-25	0.86736	0.96502	0.95232	0.75000	1.40312	1.82832	1.20419	5.06681

The detailed calculation for the distribution of the GST entitlement in 2024–25 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 2024, as determined by the Australian Statistician.

Table 3.9: Calculation of the 2024–25 GST entitlements^(a)

	Population as at 31 December 2024 (1)	GST revenue sharing relativities (2)	Adjusted population (1) x (2)	Share of adjusted population (per cent)	Share of GST pool (\$million)
NSW	8,545,140	0.86736	7,411,713	27.0	24,662
VIC	7,011,123	0.96502	6,765,874	24.7	22,513
QLD	5,618,765	0.95232	5,350,862	19.5	17,805
WA	3,008,697	0.75000	2,256,523	8.2	7,508
SA	1,891,670	1.40312	2,654,240	9.7	8,832
TAS	575,756	1.82832	1,052,666	3.8	3,503
ACT	481,677	1.20419	580,031	2.1	1,930
NT	262,191	5.06681	1,328,472	4.8	4,420
Total	27,395,019	na	27,400,380	100	91,173

a) The 2024–25 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

Table 3.10 provides a summary of the advances made in 2024–25 against the states' estimated final entitlements shown in Table 3.9. The variance between advances paid in 2024–25 and the states' final entitlements will be included as a balancing adjustment to payments in the 2025–26 financial year.

Table 3.10: Summary of GST advances made in 2024–25 and distribution of the balancing adjustment across states^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	24,662	22,513	17,805	7,508	8,832	3,503	1,930	4,420	91,173
24-25 advances	24,412	22,404	17,694	7,408	8,726	3,470	1,895	4,276	90,284
Balancing adjustment	250	109	111	100	106	33	35	145	888

a) The 2024–25 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. 2024–25 is the fourth 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 2024–25, the states' entitlement to HFE transition payments is expected to be \$5.4 billion.

Table 3.11 provides a summary of the advances made in 2024–25 against the states' estimated final entitlements to HFE transition payments. Similar to the GST entitlements process, the variance between advances paid in 2024–25 and the states' final entitlements to HFE transition payments will be included as a balancing adjustment to payments in the 2025–26 financial year.

Table 3.11: HFE transition payments and advances made in 2024–25

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
HFE transition									
payments	1,899	1,562	1,239	-	412	122	106	46	5,386
24-25 advances	1,879	1,551	1,228	-	404	120	103	43	5,328
Balancing									
adjustment	20	11	11	-	7	2	3	3	58

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, 2024–25

\$million	Actual	
	2023-24	2024-25
Administration budget at 2024-25 Budget	719	709
Variations from 2024-25 Budget to 2024-25 MYEFO	-69	-
Variations from 2024-25 MYEFO to 2025-26 Budget	-	-60
Administration budget at 2025-26 Budget	650	649
Final Administration Outcome	618	674
<i>equals</i> remaining following year outcome adjustment (future payment impact)	-33	25
Variation from Budget to Budget	-69	-60
remaining following year outcome adjustment	-33	25
Total annual adjustment	-102	-35
Administration budget at 2024-25 Budget	719	709
Prior year outcome adjustment	-24	-33
Variations from Budget to Budget	-69	-60
<i>equals</i> State government administration payments	626	616