

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 under the Intergovernmental Agreement on Federal Financial Relations (the Intergovernmental Agreement), which has been in place since 1 January 2009. The Intergovernmental Agreement recognises that 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) oversees 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 2026–27* 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 2025–26, the Australian Government provided the states with payments totalling \$204.0 billion, comprising specific purpose payments of \$101.3 billion and general revenue assistance (predominantly GST entitlements) of \$102.7 billion, as shown in Table 3.1. Payments to the states constituted 25.1 per cent of total Australian Government expenditure in 2025–26.

Table 3.1: Australian Government payments to the states, 2025–26

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	27,799	25,666	22,717	11,059	7,889	2,392	1,676	2,134	101,332
General revenue assistance	28,230	28,403	16,913	8,464	9,761	3,871	2,168	4,875	102,684
Total payments to the states	56,028	54,070	39,630	19,522	17,651	6,263	3,843	7,009	204,016

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 2025–26, 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
- Energy Bill Relief funding
- National Access to Justice Partnership funding
- National Partnership payments across a wide range of policy areas, including infrastructure.

Funding for key service delivery sectors

In 2025–26, the Australian Government continued to provide support 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 Access to Justice Partnership funding. The Australian Government also supported households by providing Energy Bill Relief to all Australians until 31 December 2025.

Payments for 2025–26 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 this Part comprise advance payments for estimated service delivery in 2025–26 and adjustments for 2024–25 final entitlements determined by the Assistant Minister for Productivity, Competition, Charities and Treasury in December 2025. Final entitlements for 2025–26 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 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 2025–26, 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 2025–26 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 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 2025–26 were made in advance based on Australian Government estimates of the relevant growth factors. Final entitlements for 2025–26 will be determined following the end of the financial year.

The Australian Government extended Energy Bill Relief until 31 December 2025. The rebates have provided 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 Access to Justice Partnership commenced on 1 July 2025 and provides ongoing funding for legal assistance services delivered by legal aid commissions, community legal centres and Aboriginal and Torres Strait Islander Legal Services.

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

Total payments for specific purposes

In 2025–26, the states received \$101.3 billion in payments for specific purposes, which constituted 12.5 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, 2025–26

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Health Reform funding(a)	9,497	7,784	7,543	3,468	2,179	707	580	483	32,240
Better and Fairer Schools funding(b)	9,659	8,270	7,168	3,564	2,392	748	501	556	32,858
National Skills Agreement(c)	768	606	487	260	172	55	48	31	2,427
National Agreement on Social Housing and Homelessness(d)	551	460	363	195	122	38	31	57	1,817
Energy Bill Relief	463	448	365	184	126	39	31	14	1,672
National Access to Justice Partnership	192	129	158	98	58	24	15	62	736
National Partnership payments(e)	6,669	7,969	6,632	3,290	2,840	781	471	932	29,581
Total payments for specific purposes	27,799	25,666	22,717	11,059	7,889	2,392	1,676	2,134	101,332

- a) Entitlements for 2025–26 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 2025–26 Better and Fairer Schools funding outcome will be finalised following a Determination by the Minister for Education.
- c) Entitlements for 2025–26 will be finalised after states report on their actual Eligible State Expenditure and a subsequent Determination by a Treasury portfolio minister.
- d) Entitlements for 2025–26 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 governments, payments direct to local governments, and payments funded through legislative appropriations other than section 16 (National Partnership payments) of the *Federal Financial Relations Act 2009*. Excludes National Partnership payments made under the National Skills Agreement, Energy Bill Relief and National Access to Justice Partnership, which are shown separately.

Table 3.3: Total payments for specific purposes by sector and category, 2025–26

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	9,497	7,784	7,543	3,468	2,179	707	580	483	32,240
National Partnerships	660	578	532	247	317	98	68	182	2,682
Total health payments	10,156	8,362	8,075	3,714	2,497	805	647	665	34,922
<i>Education</i>									
Better and Fairer Schools funding(b)	9,659	8,270	7,168	3,564	2,392	748	501	556	32,858
National Partnerships(c)	220	195	162	87	64	27	21	35	811
Total education payments	9,879	8,466	7,330	3,651	2,456	775	522	591	33,669
<i>Skills and workforce development</i>									
National Skills Agreement(d)	768	606	487	260	172	55	48	31	2,427
National Partnerships(e)	64	48	38	24	17	6	8	2	206
Total skills and workforce development payments	832	654	525	284	189	61	56	33	2,634
<i>Community services</i>									
National Partnerships	43	30	27	16	16	6	3	86	228
<i>Affordable housing</i>									
National Agreement on Social Housing and Homelessness(f)	551	460	363	195	122	38	31	57	1,817
National Partnerships	27	3	4	74	21	10	..	120	258
Total affordable housing payments	578	463	367	268	143	48	31	176	2,075
<i>Infrastructure</i>									
National Partnerships(c)	3,671	5,370	2,717	2,158	1,671	339	242	270	16,437
<i>Environment, energy and water</i>									
Energy Bill Relief	463	448	365	184	126	39	31	14	1,672
National Partnerships(c)(g)	413	402	208	66	176	121	11	66	1,461
Total environment, energy and water payments	876	850	573	250	302	160	42	79	3,133
<i>Contingent payments</i>									
National Partnerships	103	197	1,948	6	15	2	1	94	2,366
<i>Other</i>									
National Access to Justice Partnership	192	129	158	98	58	24	15	62	736
National Partnerships(c)(h)	1,468	1,144	997	612	544	172	117	78	5,132
Total other payments	1,660	1,273	1,155	711	602	196	132	139	5,868
Total payments for specific purposes	27,799	25,666	22,717	11,059	7,889	2,392	1,676	2,134	101,332

- a) Entitlements for 2025–26 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 2025–26 Better and Fairer Schools funding outcome will be finalised following a Determination by the Minister for Education.
- c) Includes financial assistance grants for local governments, payments direct to local governments, and/or payments funded through legislative appropriations other than section 16 (National Partnership payments) of the *Federal Financial Relations Act 2009*.

- d) Entitlements for 2025–26 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 2025–26 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) Excludes National Partnership payments made under the National Access to Justice Partnership, which are shown separately.

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, 2025–26

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
DRFA	2,279.3	540.4	2,330.9	26.2	28.8	2.8	0.2	9.8	5,218.3
Total	2,279.3	540.4	2,330.9	26.2	28.8	2.8	0.2	9.8	5,218.3

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 2025–26, the states received \$102.7 billion in general revenue assistance from the Australian Government, consisting of \$97.1 billion in GST entitlements (comprising GST revenue and the Commonwealth funded GST pool boost), \$5.1 billion in horizontal fiscal equalisation (HFE) transition payments (also known as the No Worse Off Guarantee) and \$459 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 2025–26.

Table 3.5: General revenue assistance, 2025–26

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	25,939	26,519	16,855	8,051	9,258	3,719	1,993	4,807	97,140
HFE transition payments	2,291	1,884	58	-	504	152	129	68	5,085
Other general revenue assistance(b)	-	-	-	413	-	-	46	-	459
Total	28,230	28,403	16,913	8,464	9,761	3,871	2,168	4,875	102,684

- a) The 2025–26 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 2025–26 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. 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, 2025–26

\$million	Total
GST revenue	100,575
less Change in GST receivables	4,471
GST receipts	96,105
less Non-GIC penalties collected	168
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-159
plus GST pool boost	1,044
States' GST entitlement(a)	97,140

a) The 2025–26 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

For 2025–26, the states' GST entitlement is expected to be \$97.1 billion, which includes a top-up to the GST pool of \$1.0 billion. This is \$115 million lower than the advances paid during 2025–26. Table 3.7 provides a reconciliation of the states' GST entitlement and GST advances.

Table 3.7: States' GST entitlement and GST advances, 2025–26

\$million	Total
States' GST entitlement(a)	97,140
less Advances of GST made throughout 2025-26	97,256
<i>equals</i> Balancing adjustment	-115

a) The 2025–26 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 2025–26 in June 2025. The relativities for 2025–26 are shown in Table 3.8.

Table 3.8: GST relativities, 2025–26

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2025-26	0.86034	1.06722	0.84571	0.75000	1.38876	1.84053	1.17223	5.15112

The detailed calculation for the distribution of the GST entitlement in 2025–26 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 2025, as determined by the Australian Statistician.

Table 3.9: Calculation of the 2025–26 GST entitlements^(a)

	Population as at 31 December 2025 (1)	GST revenue sharing relativities (2)	Adjusted population (1) x (2)	Share of adjusted population (per cent)	Share of GST pool (\$million)
NSW	8,641,085	0.86034	7,434,271	26.7	25,939
VIC	7,121,913	1.06722	7,600,648	27.3	26,519
QLD	5,712,124	0.84571	4,830,800	17.4	16,855
WA	3,076,528	0.75000	2,307,396	8.3	8,051
SA	1,910,553	1.38876	2,653,300	9.5	9,258
TAS	579,110	1.84053	1,065,869	3.8	3,719
ACT	487,202	1.17223	571,113	2.1	1,993
NT	267,478	5.15112	1,377,811	4.9	4,807
Total	27,795,993	na	27,841,208	100	97,140

a) The 2025–26 GST outcome will be finalised following a Determination by a Treasury portfolio minister.

Table 3.10 provides a summary of the advances made in 2025–26 against the states' estimated final entitlements shown in Table 3.9. The variance between advances paid in 2025–26 and the states' final entitlements will be included as a balancing adjustment to payments in the 2026–27 financial year.

Table 3.10: Summary of GST advances made in 2025–26 and distribution of the balancing adjustment across states^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	25,939	26,519	16,855	8,051	9,258	3,719	1,993	4,807	97,140
25-26 advances	25,977	26,581	16,877	8,055	9,275	3,712	1,996	4,783	97,256
Balancing adjustment	-38	-62	-21	-4	-18	7	-4	24	-115

a) The 2025–26 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. 2025–26 is the fifth year in the 6-year transition to the updated GST distribution system, which ensures 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).

Table 3.11 provides a summary of the advances made in 2025–26 against the states' estimated final entitlements to HFE transition payments. Similar to the GST entitlements process, the variance between advances paid in 2025–26 and the states' final entitlements to HFE transition payments will be included as a balancing adjustment to payments in the 2026–27 financial year.

Table 3.11: HFE transition payments and advances made in 2025–26

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
HFE transition									
payments	2,291	1,884	58	-	504	152	129	68	5,085
25-26 advances	2,276	1,870	55	-	500	150	128	66	5,045
Balancing									
adjustment	15	14	2	-	4	2	1	1	39

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, 2025–26

\$million	Actual	
	2024-25	2025-26
Administration estimate at Budget(a)	709	693
Variations from Budget to MYEFO	-	-
Variations from MYEFO to Budget	-60	-
Administration budget at 2026-27 Budget	649	693
Final Administration Outcome	674	694
<i>equals</i> remaining following year outcome adjustment (future payment impact)	25	1
Variation from Budget to Budget	-60	-
remaining following year outcome adjustment	25	1
Total annual adjustment	-35	1
Administration budget at Budget	709	693
Prior year outcome adjustment	-33	25
Variations from Budget to Budget	-60	-
<i>equals</i> State government administration payments	616	719

a) Figures presented in the 2024-25 column refer to 2024-25 Budget estimates. Figures presented in the 2025-26 column refer to 2025-26 Budget estimates.