

# Part 1: Australia's Federal Relations

## Overview

In 2022–23, the Australian Government will provide state and territory governments (states) with \$170.2 billion in total payments, including payments of \$81.8 billion for specific purposes like schools and hospitals, and general revenue assistance of \$88.5 billion.

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

- contributing \$118.7 billion from 2022–23 to 2025–26 for public health and hospital services, including \$1.8 billion for continuing COVID-19 support to 31 December 2022
- providing \$59.5 billion from 2022–23 to 2025–26 to invest in nation-building infrastructure
- investing \$115.1 billion in Quality Schools funding from 2022–23 to 2025–26, with an additional \$265.0 million for the new Schools Upgrade Fund and \$192.0 million for the Student Wellbeing Boost
- providing \$1.7 billion from 2022–23 to 2025–26 to preschools
- delivering 480,000 fee-free TAFE places over 4 years, beginning with 180,000 fee-free TAFE places in 2023 through its contribution of \$550.1 million to the 12-Month Skills Agreement
- permanently boosting the size of the GST pool that is distributed among the states each year. From 2021–22, the Australian Government will inject \$600.0 million annually into the GST pool, followed by a further \$250.0 million annually from 2024–25, with this amount to grow each year in line with the underlying growth of the GST
- providing an estimated \$15.7 billion in horizontal fiscal equalisation (HFE) transition payments from 2022–23 to 2025–26 to support the transition to the new HFE system.

### **Box 1.1: Fiscal positions and pressures across the federation**

Fiscal positions for the Commonwealth and states were significantly weakened by the COVID-19 pandemic, associated health restrictions and the significant fiscal policy response that was required to protect the health and economy of the nation.

Even as fiscal positions are recovering from the worst period of the COVID-19 pandemic, all governments face shared risks from rising debt servicing costs and long-term spending pressures associated with an ageing population and rising community expectations.

Over coming years, while state budgets are on a trajectory towards balance, the Commonwealth budget is not projected to return to balance in the medium term.

In 2022–23, the estimated aggregate fiscal balance for states is a deficit of 2.0 per cent of GDP, while the Commonwealth’s fiscal deficit is 1.6 per cent of GDP.

By 2025–26, the estimated aggregate state fiscal balance is a deficit of 0.3 per cent of GDP. The Commonwealth’s expected fiscal deficit is 1.9 per cent of GDP.

As a share of revenue, the estimated aggregate state fiscal balance will improve from a deficit of 14.7 per cent in 2022–23 to a deficit of 2.5 per cent in 2025–26; whereas the Commonwealth fiscal balance as a share of revenue will move from a deficit of 7.2 per cent in 2022–23 to a deficit of 8.4 per cent in 2025–26.

The significant deficits of 2019–20 and 2020–21 mean that debt has increased markedly across both levels of government since the pandemic began.

Commonwealth net debt has increased from 19.2 per cent of GDP in 2018–19 and is forecast to reach 28.5 per cent of GDP by 2025–26. Total state net debt has increased from 1.8 per cent of GDP in 2018–19 and is forecast to reach 14.6 per cent of GDP by 2025–26.

As a share of revenue, total state net debt has increased from 12.9 per cent in 2018–19 and is expected to reach 105.9 per cent by 2025–26. Commonwealth net debt has increased from 87.7 per cent of revenue in 2018–19 and is forecast to peak at 128.8 per cent of revenue in 2025–26.<sup>1</sup>

Commonwealth spending as a share of the economy will remain at a higher level than prior to the pandemic, with total payments having risen from 24.6 per cent of GDP in 2018–19 and expected to increase to 27.9 per cent of GDP by the end of the medium term.

*continued on next page*

<sup>1</sup> Commonwealth revenue excludes GST.

**Box 1.1: Fiscal positions and pressures across the federation (continued)**

This is partly due to stronger than expected growth in spending arising from the National Disability Insurance Scheme (NDIS), aged care, public hospitals and the Medicare Benefits Schedule, defence, age pension, and interest payments. For example, Commonwealth payments for NDIS supports are expected to have an average annual growth rate of 13.8 per cent between 2022–23 and 2032–33.

Across the states, there are also fiscal pressures. Fiscal impacts differ across states based on factors such as remoteness, variations in population needs and demands for government services and policy priorities, against a backdrop of rising service demand overall.

Both levels of government are likely to face shared major challenges in the health and care sectors in the near to medium term. Ongoing workforce shortages and wage pressure will also be significant factors at play. These areas of fiscal pressure require ongoing collaboration and a focus on shared objectives and interconnected solutions given the joint roles and responsibilities as well as shared ambitions to improve fiscal positions over the medium term.

## **Australian Government funding to the states**

The Australian Government provides substantial funding to the states in key sectors such as health, education, community services and infrastructure, and supports important productivity-enhancing projects and reforms, such as the Schools Upgrade Fund and access to fee-free TAFE. 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 \$170.2 billion in 2022–23.

Payments to the states in 2022–23 are estimated to be 26 per cent of total Australian Government expenditure and 6.9 per cent of GDP.

## Payments for specific purposes

In 2022–23, the Australian Government will provide the states with \$81.8 billion in payments for specific purposes. This represents a decrease of \$4.6 billion or 5.3 per cent compared with 2021–22 due to the unwinding of temporary COVID-19 support measures (particularly joint Commonwealth-state funded business support) and the bring-forward of financial assistance grants for local government. Payments for specific purposes are estimated to make up 13 per cent of total Australian Government expenditure in 2022–23 and be 3.3 per cent of GDP.

National Specific Purpose Payments (National SPPs), National Health Reform, the National Housing and Homelessness Agreement and Quality Schools funding are expected to total \$58.4 billion in 2022–23.

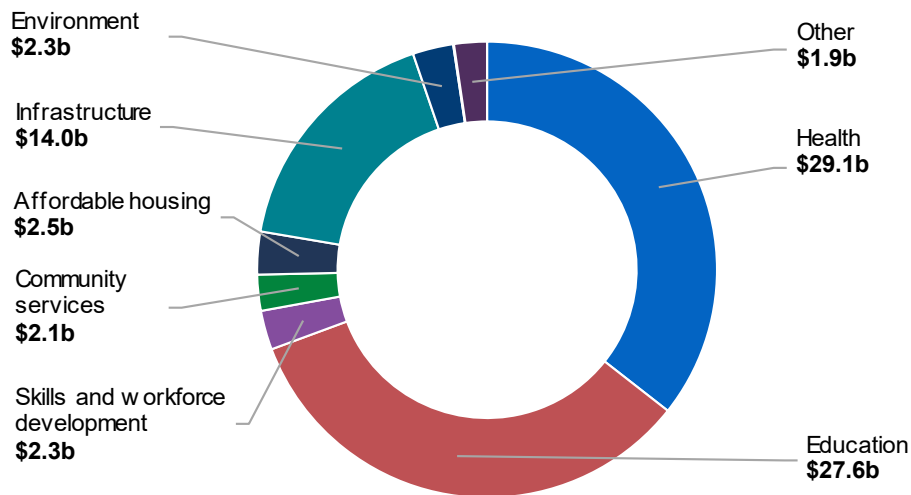
National Partnership payments are expected to be \$23.4 billion in 2022–23.

Chart 1.1 shows estimated specific purpose payments to the states in 2022–23 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](http://www.federalfinancialrelations.gov.au).

**Chart 1.1: Payments for specific purposes 2022–23, 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 2022–23, the states are expected to receive \$88.5 billion in general revenue assistance, including \$83.1 billion for the GST entitlement. General revenue assistance to the states is estimated to represent 14 per cent of total Australian Government expenditure in 2022–23 and be 3.6 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, 2022–23 to 2025–26**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<b>2022-23</b>									
Payments for specific purposes(a)	23,320	19,014	16,908	9,911	5,721	2,143	1,256	1,896	81,788
GST-related payments(b)	26,204	19,397	18,510	6,228	7,797	3,493	1,692	3,976	87,297
Other general revenue assistance	-	-	-	1,112	-	-	42	-	1,155
<b>Total payments to the states</b>	<b>49,524</b>	<b>38,411</b>	<b>35,418</b>	<b>17,251</b>	<b>13,518</b>	<b>5,635</b>	<b>2,990</b>	<b>5,872</b>	<b>170,239</b>
<b>2023-24</b>									
Payments for specific purposes(a)	23,886	19,126	18,095	9,774	5,815	2,177	1,344	1,829	83,467
GST-related payments(b)	27,091	20,186	19,232	6,482	8,071	3,621	1,757	4,141	90,582
Other general revenue assistance	-	-	-	923	-	-	44	-	966
<b>Total payments to the states</b>	<b>50,977</b>	<b>39,312</b>	<b>37,328</b>	<b>17,178</b>	<b>13,886</b>	<b>5,797</b>	<b>3,145</b>	<b>5,970</b>	<b>175,015</b>
<b>2024-25</b>									
Payments for specific purposes(a)	24,698	19,679	18,908	9,302	5,640	2,031	1,309	1,683	83,956
GST-related payments(b)	27,825	20,866	19,816	7,177	8,282	3,719	1,815	4,262	93,762
Other general revenue assistance	-	-	-	756	-	-	45	-	801
<b>Total payments to the states</b>	<b>52,523</b>	<b>40,545</b>	<b>38,724</b>	<b>17,235</b>	<b>13,923</b>	<b>5,750</b>	<b>3,168</b>	<b>5,945</b>	<b>178,519</b>
<b>2025-26</b>									
Payments for specific purposes(a)	24,900	20,779	19,735	8,646	5,746	2,019	1,337	1,511	85,140
GST-related payments(b)	28,215	21,206	20,212	7,525	8,463	3,837	1,862	4,456	95,776
Other general revenue assistance	-	-	-	606	-	-	45	-	651
<b>Total payments to the states</b>	<b>53,115</b>	<b>41,986</b>	<b>39,947</b>	<b>16,777</b>	<b>14,209</b>	<b>5,856</b>	<b>3,244</b>	<b>5,966</b>	<b>181,567</b>

- 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 2022–23 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	2022-23	2023-24	2024-25	2025-26
<i>Payments for specific purposes</i>				
National SPPs	1,608	1,661	1,694	1,724
National Health Reform funding	28,367	28,325	30,030	31,982
Quality Schools funding	26,787	28,286	29,462	30,587
National Housing and Homelessness funding	1,646	1,630	1,661	1,689
National Partnership payments	23,379	23,565	21,109	19,157
Total payments for specific purposes	81,788	83,467	83,956	85,140
Per cent change from previous year	-5.3	2.1	0.6	1.4
Per cent of GDP	3.3	3.4	3.3	3.2
<i>General revenue assistance</i>				
GST-related payments(a)	87,297	90,582	93,762	95,776
Other general revenue assistance	1,155	966	801	651
Total general revenue assistance	88,451	91,548	94,562	96,427
Per cent change from previous year	14.1	3.5	3.3	2.0
Per cent of GDP	3.6	3.7	3.7	3.6
<b>Total payments to the states</b>	<b>170,239</b>	<b>175,015</b>	<b>178,519</b>	<b>181,567</b>
Per cent change from previous year	3.9	2.8	2.0	1.7
Per cent of GDP	6.9	7.1	7.0	6.7

a) Includes GST entitlement and HFE transition payments.

**Chart 1.2: Total Australian Government payments to the states, 2022–23**

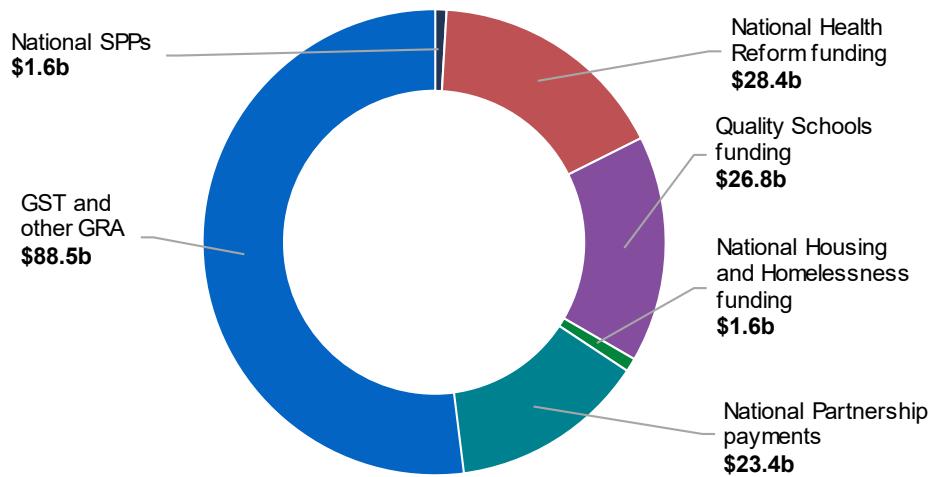


Table 1.3 provides information on the Australian Government’s financial contributions to state expenditure in key sectors in 2020–21 (the latest year for which there are data to enable this calculation). It shows that Australian Government financial assistance in 2020–21 effectively supported 46 per cent of states’ expenditure. This percentage of financial assistance to the states has largely remained constant over time.

**Table 1.3: Australian Government’s contribution to state expenditure**

2020-21	Australian Government tied payments (\$million)	State spending supported by general revenue assistance (b) (\$million)	Total state spending (\$million)	State spending supported by Australian Government payments (per cent)
Health	25,838	21,250	94,214	50.0
Education	24,834	11,358	61,382	59.0
Housing and community amenities	3,137	1,634	8,395	56.8
Transport	8,606	7,501	32,742	49.2
Social protection	1,862	8,341	28,701	35.5
Other functions (a)	4,608	25,014	85,095	34.8
Payments for specific purpose	68,885			
General revenue assistance		75,097		
<b>Total</b>			<b>310,529</b>	<b>46.4</b>

Source: Australian Bureau of Statistics, Government Finance Statistics 2020–21; and Australian Government, Final Budget Outcome 2020–21.

Note: Australian Government payments to the states in 2020–21 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) “Other functions” includes additional functions not elsewhere itemised.
- b) 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.



## Measures affecting payments to the states

Table 1.4 lists measures in the 2022–23 *October Budget* that affect payments to the states. Details of the measures are available in Budget Paper No. 2, *Budget Measures October 2022–23*, 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
COVID-19 public health response	Part 2 – Health	COVID-19 Package – hospitals and emergency response	Payments – Health and Aged Care
COVID-19 public health response	Part 2 – Health	COVID-19 Package – vaccines and treatments	Payments – Health and Aged Care
Reducing stillbirths	Part 2 – Health	Strengthening Women’s Health During Pregnancy – stillbirth autopsies	Payments – Health and Aged Care
Urgent Care Clinics	Part 2 – Health	Urgent Care Clinics	Payments – Health and Aged Care
World-class newborn bloodspot screening program	Part 2 – Health	Expanding Newborn Screening – world-class newborn bloodspot screening programs	Payments – Health and Aged Care
Bentley Hospital Surgicentre	Part 2 – Health	Bentley Surgicentre	Payments – Health and Aged Care
Child Development Unit at Campbelltown Hospital	Part 2 – Health	Responsible Investment to Grow Our Regions	Payments – Infrastructure, Transport, Regional Development, Communications, and the Arts
Comprehensive Cancer Centres	Part 2 – Health	Comprehensive Cancer Centres	Payments – Health and Aged Care
Expansion of the Flinders Medical Centre	Part 2 – Health	Flinders Medical Centre	Payments – Health and Aged Care
Health and Medical Research Centre for Launceston	Part 2 – Health	Improving Primary Care in Rural and Regional Australia	Payments – Health and Aged Care
Supporting Palliative Care in Launceston	Part 2 – Health	Improving Primary Care in Rural and Regional Australia	Payments – Health and Aged Care
Expansion of the John Flynn Prevocational Doctor Program	Part 2 – Health	Rural and Regional Health	Payments – Health and Aged Care
Registration Scheme for Personal Care Workers	Part 2 – Health	Fixing the Aged Care Crisis	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
Consent and respectful relationships education	Part 2 – Education	Consent and Respectful Relationships Education	Payments – Education
Schools Upgrade Fund – Round 1	Part 2 – Education	Schools Upgrade Fund	Payments – Education
Schools Upgrade Fund – Round 2	Part 2 – Education	Schools Upgrade Fund	Payments – Education
Student Wellbeing Boost	Part 2 – Education	Student Wellbeing Boost	Payments – Education
12-Month Skills Agreement (including TAFE Technology Fund)	Part 2 – Skills and workforce development	Vocational Education – fee-free TAFE and TAFE Technology Fund	Payments – Employment and Workplace Relations
Fee-free TAFE from 2024	Part 2 – Skills and workforce development	Vocational Education – fee-free TAFE and TAFE Technology Fund	Payments – Employment and Workplace Relations
Resources Centre of Excellence	Part 2 – Skills and workforce development	Responsible Investment to Grow Our Regions	Payments – Infrastructure, Transport, Regional Development, Communications, and the Arts
Innovative approaches to addressing perpetrator behaviour	Part 2 – Community services	Women’s Safety	Payments – Social Services
Family, domestic and sexual violence frontline and community sector workers	Part 2 – Community services	Women’s Safety – 500 community workers	Payments – Social Services
Housing and essential services on Northern Territory Homelands	Part 2 – Affordable housing	Restoring Funding for Homelands	Payments – Prime Minister and Cabinet
Infrastructure Investment Program(a)	Part 2 – Infrastructure	Building a Better Future through considered Infrastructure Investment	Payments – Infrastructure, Transport, Regional Development, Communications, and the Arts
Cairns Regional Development	Part 2 – Infrastructure	Responsible Investment to Grow Our Regions	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	Government Spending Audit – National Water Grid Fund – responsible investment	Payments – Climate Change, Energy, the Environment and Water

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

<b>Payment</b>	<b>Section of Budget Paper 3</b>	<b>Measure title</b>	<b>Section of Budget Paper 2</b>
National Water Grid Fund	Part 2 – Infrastructure	National Water Grid – delivering commitments	Payments – Climate Change, Energy, the Environment and Water
Bolstering Australia's Biosecurity System – Protecting Australia from escalating exotic animal disease risks	Part 2 – Environment	Bolstering Australia's Biosecurity System – protecting Australia from escalating exotic animal disease risks	Payments – Agriculture, Fisheries and Forestry
Community Solar Banks Program	Part 2 – Environment	Powering Australia – Solar Banks	Payments – Climate Change, Energy, the Environment and Water
Disaster Ready Fund	Part 2 – Environment	Disaster Ready Fund	Payments – Home Affairs
Improving Compliance in the Murray-Darling Basin	Part 2 – Environment	Murray--Darling Basin – compliance and science	Payments – Climate Change, Energy, the Environment and Water
Investing in Australia's Indigenous Culture and World Heritage	Part 2 – Environment	Investing in Australia's Indigenous Culture and World Heritage	Payments – Climate Change, Energy, the Environment and Water
Marine Parks Management – Northern Territory Marine Parks	Part 2 – Environment	Marine Parks Management	Payments – Climate Change, Energy, the Environment and Water
On-farm emergency water infrastructure rebate scheme	Part 2 – Environment	Water for Australia Plan	Payments – Climate Change, Energy, the Environment and Water
Paddock to Reef Monitoring	Part 2 – Environment	Reef 2050 Long-term Sustainability Plan – implementation	Payments – Climate Change, Energy, the Environment and Water
Sustainable Fisheries	Part 2 – Environment	Reef 2050 Long-term Sustainability Plan – implementation	Payments – Climate Change, Energy, the Environment and Water
Strengthen Australia's frontline biosecurity capability and domestic preparedness	Part 2 – Environment	Bolstering Australia's Biosecurity System – protecting Australia from escalating exotic animal disease risks	Payments – Agriculture, Fisheries and Forestry
Sustainable rural water use and infrastructure program	Part 2 – Environment	Murray-Darling Basin – delivering on water commitments	Payments – Climate Change, Energy, the Environment and Water
Urban Rivers and Catchments Program	Part 2 – Environment	Urban Rivers and Catchments Program	Payments – Climate Change, Energy, the Environment and Water

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

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
Yellow crazy ant control	Part 2 – Environment	Saving Native Species	Payments – Climate Change, Energy, the Environment and Water
Support Plantation Establishment(b)	Part 2 – Environment	A Better Plan for Forestry and Forest Products	Payments – Agriculture, Fisheries and Forestry
Disaster Recovery Funding Arrangements	Part 2 – Contingent payments	Disaster Support	Payments – Home Affairs
Legal assistance for floods in QLD and NSW	Part 2 – Other payments	Funding for Community Legal Centres in Flood and Bushfire Affected Areas	Payments – Attorney-General's
National Legal Assistance Partnership 2020–25	Part 2 – Other payments	First Nations Justice	Payments – Attorney-General's
Scotdesco water security project	Part 2 – Other payments	Scotdesco – water security feasibility study	Payments – Prime Minister and Cabinet
National Coronial Centre(b)	Part 2 – Other payments	Attorney-General's Portfolio – savings	Payments – Attorney-General's
Optimise and Discover Program(b)	Part 2 – Other payments	Supporting the Supply of Australian Gas	Payments – Industry, Science and Resources
GST entitlement	Part 3 – GST payments	Extend ATO Compliance Programs – Shadow Economy Program	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Powering Australia – Electric Car Discount	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Migration Program – 2022-23 planning levels	Receipts – Home Affairs
GST entitlement	Part 3 – GST payments	Tax Practitioners Board – compliance program to enhance tax system integrity	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Indirect Tax Concession Scheme – diplomatic and consular concessions	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Providing certainty on unlegislated tax and superannuation measures announced by the previous Government	Receipts – Treasury
GST entitlement	Part 3 – GST payments	Additional Assistance to Ukraine	Payments – Defence
GST entitlement	Part 3 – GST payments	Enhancing the Pacific Australia Labour Mobility Scheme	Payments – Foreign Affairs and Trade
GST entitlement	Part 3 – GST payments	Pacific Engagement Visa	Payments – Home Affairs

- a) This includes the abolition of Urban Congestion Fund. All remaining projects have been reassigned as discrete projects within the Infrastructure Investment Program.
- b) Measure redirects funding allocated to states in the 2022–23 March Budget to fund other Australian Government policy priorities.