

Part 1: Australia's Federal Relations

Overview

In 2022-23, the Australian Government will provide the states with \$166.4 billion in total payments, including payments of \$81.6 billion for specific purposes like schools and hospitals and general revenue assistance of \$84.8 billion. It will continue to provide significant financial support as part of Australia's transition to living with COVID-19 and in response to natural disasters (see Box 1.1).

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

- delivering more doctors, more nurses and more services across public hospitals in every state through funding of \$149.8 billion from 2021-22 to 2025-26
- investing \$137.5 billion in schools over the five years from 2021-22 to 2025-26
- increasing its payments to support state infrastructure services to \$76.9 billion from 2021-22 to 2025-26
- providing \$2.2 billion over five years from 2021-22 in Commonwealth funding to preschools
- permanently boosting the size of the GST pool to be distributed among the states each year. From 2021-22, the Australian Government will inject \$600 million annually into the GST pool, followed by a further \$250 million annually from 2024-25, with these amounts to grow each and every year in line with the underlying growth of the GST.
- providing an estimated \$14.9 billion in horizontal fiscal equalisation (HFE) transition payments from 2021-22 to 2025-26 to support the transition to the new HFE system.

Box 1.1: Working with the states to support Australians through challenging times

Australia has faced some remarkable challenges in recent years, including bushfires, a global pandemic and devastating floods. The Australian Government continues to work with the states to overcome such challenges and manage the economic impacts of uncertainty, while guaranteeing the essential services Australians rely on. The Australian and state governments remain committed to working together to benefit the Australian people, building on the effective management of the pandemic and securing a strong economic recovery.

Australia's National COVID-19 Response has been pivotal in managing the impact of the pandemic. The Australian Government has worked in partnership with state governments to support state health services, including through the delivery of vaccinations to Australians. Under the National Agreement on COVID-19 Response, the Government has committed \$11.6 billion to public health measures, including a further \$982.5 million in this Budget to extend funding until 30 September 2022.

Australians have also benefited from \$14.4 billion in COVID-19 business support payments that have been jointly funded by the Australian and state governments. The Australian Government's share of this was \$7.1 billion in 2021-22 to businesses across Australia impacted by COVID-19 lockdowns and other restrictions. These payments have been administered by the states under COVID-19 Business Support Agreements.

The Australian Government, jointly with state governments, is supporting Australians in regions affected by natural disasters. The Government has committed funding under the Disaster Recovery Funding Arrangements and the Emergency Response Fund to assist communities with recovery from natural disasters and reducing the impact of future events. Further information on the Government's response to floods can be found in *Statement 3: Fiscal Strategy and Outlook* of Budget Paper No. 1, *Budget Strategy and Outlook 2022-23*.

The Government's health and economic measures have bolstered the resilience of the Australian economy, with the result that the economic recovery has been much stronger than expected. A significant benefit of this is increased GST payments to the states. GST-related payments (entitlements plus HFE transition payments) to the states in 2022-23 are expected to be \$5.7 billion greater than estimated at the 2021-22 Budget and well above pre-pandemic levels. Over the four years from 2021-22 to 2024-25, estimated GST payments to the states have been revised up by \$18.4 billion since last budget.

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 continues to support important productivity-enhancing projects and reforms. In addition, the Australian Government provides general revenue assistance that can be spent according to states' own budget priorities.

The states are estimated to receive total Australian Government payments of \$166.4 billion in 2022–23.

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

Payments for specific purposes

As at this Budget update, the Australian Government is expected to provide \$90.9 billion of payments for specific purposes in 2021–22. This includes significant support the Australian Government provided for COVID-19 related measures, including \$7.1 billion of business support arrangements.

In 2022–23, the Australian Government will provide the states with \$81.6 billion in payments for specific purposes. This represents a decrease of \$9.3 billion or 10 per cent compared with 2021–22 due to the unwinding of temporary COVID-19 measures 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.

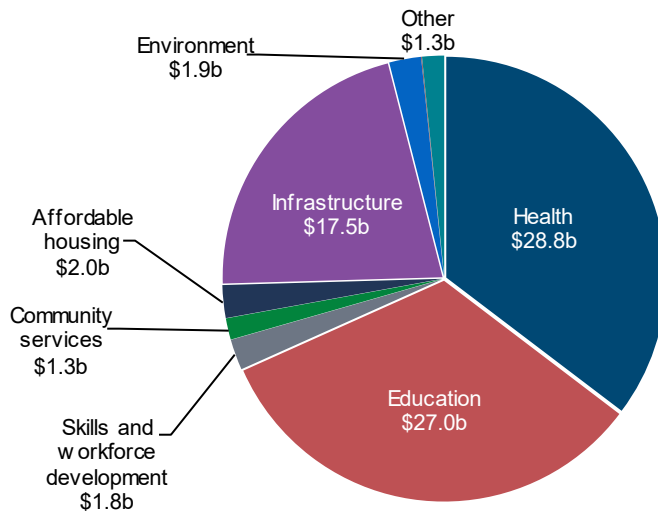
National Specific Purpose Payments (National SPPs), National Health Reform, the National Housing and Homelessness Agreement and Quality Schools funding are expected to total \$57.8 billion in 2022–23.

National Partnership payments are expected to be \$23.8 billion in 2022–23.

The conditions for payments to states for specific purposes are outlined in written 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.

Part 2 of this Budget Paper provides further information on payments to the states for specific purposes. Chart 1.1 illustrates estimated specific purpose payments to the states in 2022–23 by sector.

Chart 1.1: Payments for specific purposes 2022-23, by sector



General revenue assistance

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

In 2022–23, the states are expected to receive \$84.8 billion in general revenue assistance, including \$80 billion for the GST entitlement. General revenue assistance to the states is estimated to represent 13 per cent of total Australian Government expenditure in 2022–23.

Part 3 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.

Table 1.1: Australian Government payments to the states, 2021–22 to 2025–26

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2021-22									
Payments for specific purposes(a)	29,720	21,811	16,945	9,605	5,422	1,813	1,390	1,964	90,934
GST-related payments(b)	22,289	17,500	15,813	5,324	6,805	3,025	1,431	3,371	75,558
Other general revenue assistance(c)	-	-	-	34	-	-	42	-	936
Total payments to the states	52,008	39,311	32,758	14,963	12,227	4,839	2,863	5,335	167,429
2022-23									
Payments for specific purposes(a)	23,785	19,415	17,146	9,532	5,405	2,042	1,197	1,800	81,646
GST-related payments(b)	25,456	18,889	17,811	5,868	7,378	3,201	1,539	3,743	83,885
Other general revenue assistance(c)	-	-	-	43	-	-	42	-	902
Total payments to the states	49,240	38,304	34,957	15,443	12,783	5,242	2,778	5,544	166,433
2023-24									
Payments for specific purposes(a)	24,861	20,315	18,635	10,010	6,110	2,100	1,351	1,557	85,509
GST-related payments(b)	26,517	19,803	18,636	6,132	7,680	3,335	1,602	3,904	87,609
Other general revenue assistance(c)	-	-	-	39	-	-	43	-	796
Total payments to the states	51,378	40,119	37,270	16,181	13,790	5,435	2,997	5,461	173,913
2024-25									
Payments for specific purposes(a)	25,296	19,846	19,078	8,966	5,979	1,963	1,254	1,601	84,229
GST-related payments(b)	27,656	20,796	19,477	6,879	7,985	3,466	1,673	4,052	91,985
Other general revenue assistance(c)	-	-	-	30	-	-	44	-	682
Total payments to the states	52,952	40,642	38,555	15,875	13,964	5,429	2,971	5,653	176,896
2025-26									
Payments for specific purposes(a)	23,744	19,505	18,779	8,194	5,501	1,923	1,306	1,406	80,536
GST-related payments(b)	27,978	21,109	19,798	7,173	8,126	3,553	1,705	4,199	93,641
Other general revenue assistance(c)	-	-	-	22	-	-	44	-	517
Total payments to the states	51,722	40,615	38,577	15,388	13,627	5,476	3,056	5,605	174,694

(a) State allocations for a number of programs have yet to be 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, transitional GST top-up payments 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.

(c) As state allocations for royalties are not published due to commercial sensitivities, these payments are not reflected in state totals. Total general revenue assistance does not therefore equal the sum of the state figures.

For 2022–23, total payments to the states are estimated to be 7.2 per cent of GDP. Payments for specific purposes are estimated to be 3.5 per cent of GDP and general revenue assistance is estimated to be 3.7 per cent of GDP.

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

\$million	2021-22	2022-23	2023-24	2024-25	2025-26
<i>Payments for specific purposes</i>					
National SPPs	1,578	1,606	1,631	1,658	1,684
National Health Reform funding	29,604	28,139	28,717	30,659	32,653
Quality Schools funding	25,030	26,413	27,701	28,690	29,659
National Housing and Homelessness funding	1,616	1,645	1,605	1,631	1,655
National Partnership payments	33,106	23,844	25,855	21,592	14,885
Total payments for specific purposes	90,934	81,646	85,509	84,229	80,536
Per cent change from previous year	32.0	-10.2	4.7	-1.5	-4.4
Per cent of GDP	4.0	3.5	3.6	3.4	3.1
<i>General revenue assistance</i>					
GST entitlement	73,310	80,005	83,534	87,504	91,306
Other general revenue assistance	3,185	4,782	4,871	5,163	2,852
Total general revenue assistance	76,495	84,787	88,405	92,667	94,158
Per cent change from previous year	1.9	10.8	4.3	4.8	1.6
Per cent of GDP	3.3	3.7	3.7	3.7	3.6
Total payments to the states	167,429	166,433	173,913	176,896	174,694
Per cent change from previous year	16.3	-0.6	4.5	1.7	-1.2
Per cent of GDP	7.3	7.2	7.3	7.1	6.7

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

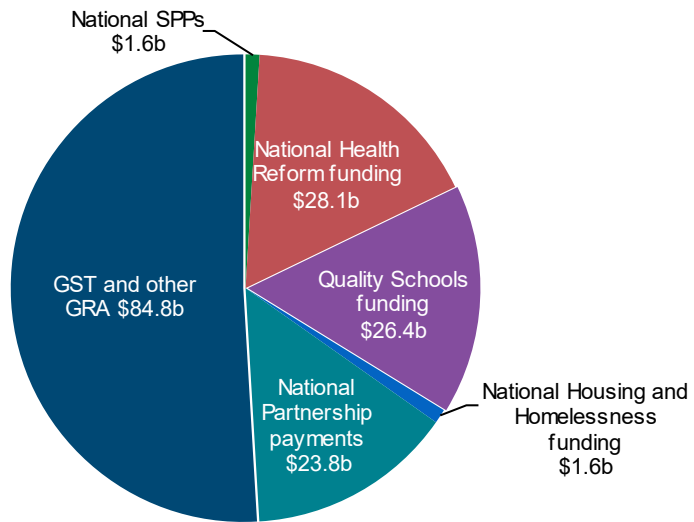


Table 1.3 provides information on the Australian Government’s financial contributions to state expenditure in key sectors in 2020–21 (the latest year for which there are data to enable this calculation). It shows that Australian Government financial assistance in 2020–21 effectively supported 45 per cent of states’ expenditure.

Table 1.3: Australian Government’s contribution to state expenditure

2020-21	Commonwealth tied payments \$million	State spending supported by general revenue assistance (b) \$million	Total state spending \$million	State spending supported by Commonwealth revenue per cent
Health	25,838	20,246	94,450	49
Education	24,834	12,823	68,291	55
Housing and community amenities	3,137	1,873	9,485	53
Transport	8,606	8,555	37,599	46
Social protection	1,862	7,896	28,623	34
Other functions (a)	4,608	23,703	84,938	33
Payments for specific purpose	68,885			
General revenue assistance		75,097		
Total			323,385	45

Source: Australian Government 2020-21 Final Budget Outcome and state and territory 2020-21 Final Budget Outcomes.

Note: 2020–21 data on an ABS Classification of the Functions of Government (COFOG-A) basis is unavailable for the Commonwealth. Commonwealth expense by purpose data has 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 all measures in the 2022–23 *Budget* that affect payments to the states. Details of the measures are available in Budget Paper No. 2, *Budget Measures 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 Response Package – guaranteeing Medicare and Access to medicines	Payments – Health
COVID-19 public health response	Part 2 – Health	COVID-19 Response Package – personal protective equipment and rapid antigen tests	Payments – Health
COVID-19 public health response	Part 2 – Health	COVID-19 Response Package – supporting hospitals and emergency response extension	Payments – Health
COVID-19 public health response	Part 2 – Health	COVID-19 Response Package – vaccines and treatments	Payments – Health
Japanese encephalitis virus mosquito surveillance and control	Part 2 – Health	Japanese Encephalitis Virus National Plan	Payments – Health
Multidisciplinary outreach care	Part 2 – Health	Ageing and Aged Care	Payments – Health
Reducing stillbirths	Part 2 – Health	Women's Health Package	Payments – Health
Surge Capacity for BreastScreen Australia	Part 2 – Health	Preventive Health	Payments – Health
Western Australia Children's Hospice	Part 2 – Health	Preventive Health	Payments – Health
Western Australia Comprehensive Cancer Centre	Part 2 – Health	Fighting Cancer	Payments – Health
Northern Territory Remote Aboriginal Investment – Health component	Part 2 – Health	Development of Future Support for Improved Outcomes for Indigenous Australians in the Northern Territory	Payments – Prime Minister and Cabinet
Public dental services for adults	Part 2 – Health	Guaranteeing Medicare – strengthening primary care	Payments – Health
Northern Territory Remote Aboriginal Investment – Children and schooling component	Part 2 – Education	Development of Future Support for Improved Outcomes for Indigenous Australians in the Northern Territory	Payments – Prime Minister and Cabinet
JobTrainer Fund	Part 2 – Skills and workforce development	Boosting Participation and Building Australia's Workforce	Payments – Education, Skills and Employment

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

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
National Skills and Workforce Development SPP	Part 2 – Skills and workforce development	Skills Reform to Support Future Growth	Payments – Education, Skills and Employment
Skilling Australians Fund	Part 2 – Skills and workforce development	Skills Reform to Support Future Growth	Payments – Education, Skills and Employment
Electronic monitoring of family, domestic and sexual violence offenders	Part 2 – Community services	Women's Safety	Payments – Cross Portfolio
Family, domestic and sexual violence responses	Part 2 – Community services	Women's Safety	Payments – Cross Portfolio
Northern Territory Remote Aboriginal Investment – Community safety implementation plan	Part 2 – Community services	Development of Future Support for Improved Outcomes for Indigenous Australians in the Northern Territory	Payments – Prime Minister and Cabinet
Remote Community Store Licensing Scheme	Part 2 – Community services	Development of Future Support for Improved Outcomes for Indigenous Australians in the Northern Territory	Payments – Prime Minister and Cabinet
Northern Territory Remote Aboriginal Investment – Remote Australia strategies component	Part 2 – Affordable housing	Development of Future Support for Improved Outcomes for Indigenous Australians in the Northern Territory	Payments – Prime Minister and Cabinet
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment	Payments – Infrastructure, Transport, Regional Development and Communications
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – Australian Capital Territory	Payments – Infrastructure, Transport, Regional Development and Communications
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – New South Wales	Payments – Infrastructure, Transport, Regional Development and Communications
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – Northern Territory	Payments – Infrastructure, Transport, Regional Development and Communications
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – Queensland	Payments – Infrastructure, Transport, Regional Development and Communications

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

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – South Australia	Payments – Infrastructure, Transport, Regional Development and Communications
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – Tasmania	Payments – Infrastructure, Transport, Regional Development and Communications
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – Victoria	Payments – Infrastructure, Transport, Regional Development and Communications
Infrastructure Investment Program	Part 2 – Infrastructure	Infrastructure Investment – Western Australia	Payments – Infrastructure, Transport, Regional Development and Communications
Albury Wodonga Regional Deal	Part 2 – Infrastructure	Albury Wodonga Regional Deal	Payments – Infrastructure, Transport, Regional Development and Communications
Barkly Regional Deal	Part 2 – Infrastructure	School Education Support	Payments – Education, Skills and Employment
Local Roads and Community Infrastructure	Part 2 – Infrastructure	Local Roads and Community Infrastructure – Phase 3 extension	Payments – Infrastructure, Transport, Regional Development and Communications
National Water Grid Fund	Part 2 – Infrastructure	National Water Grid Fund – project funding	Payments – Infrastructure, Transport, Regional Development and Communications
Perth City Deal	Part 2 – Infrastructure	Perth City Deal – Edith Cowan University CBD Campus	Payments – Infrastructure, Transport, Regional Development and Communications
South East Queensland City Deal	Part 2 – Infrastructure	South East Queensland City Deal	Payments – Infrastructure, Transport, Regional Development and Communications
Boosting our northern Biosecurity Frontline	Part 2 – Environment	Agriculture – continuing to deliver Agriculture 2030	Payments – Agriculture, Water and the Environment
Emergency Response Fund – Flood Recovery and Resilience Package	Part 2 – Environment	Flood Package	Payments – Cross Portfolio
Management of established pest and weeds	Part 2 – Environment	Agriculture – continuing to deliver Agriculture 2030	Payments – Agriculture, Water and the Environment
Pest and disease preparedness and response programs	Part 2 – Environment	Japanese Encephalitis Virus National Plan	Payments – Health

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

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
Recycling Modernisation Fund – Plastics technology stream	Part 2 – Environment	Building Australia's Circular Waste Economy	Payments – Agriculture, Water and the Environment
Support Plantation Establishment	Part 2 – Environment	Forestry and Fishing – supporting the forestry and fishery industry	Payments – Agriculture, Water and the Environment
Supporting farmers to maximise farm gate output through traceability and on-farm biosecurity	Part 2 – Environment	Agriculture – continuing to deliver Agriculture 2030	Payments – Agriculture, Water and the Environment
Transforming Digital Environmental Assessments	Part 2 – Environment	Streamlining Environmental Protections and Modernising Indigenous Cultural Heritage Protections	Payments – Agriculture, Water and the Environment
Disaster Recovery Funding Arrangements	Part 2 – Contingent payments	Flood Package	Payments – Cross Portfolio
Additional Funding for Legal Aid Commissions to support court reform	Part 2 – Other payments	Attorney-General's Portfolio – additional resourcing	Payments – Attorney-General's
Commonwealth High Risk Terrorist Offender Regime	Part 2 – Other payments	Strengthening Australia's arrangements for managing terrorist offenders and countering violent extremism	Payments – Home Affairs
Legal assistance for floods in Qld and NSW	Part 2 – Other payments	Flood Package	Payments – Cross Portfolio
National Legal Assistance Partnership 2020-25	Part 2 – Other payments	Women's Safety	Payments – Cross Portfolio
Specialised and trauma-informed legal services for victim-survivors of sexual assault	Part 2 – Other payments	Women's Safety	Payments – Cross Portfolio
Support for businesses impacted by COVID-19	Part 2 – Other payments	COVID-19 Economic Support	Payments – Treasury
GST entitlement	Part 3 – GST payments	Addressing Cost of Living Pressures – temporary reduction in fuel excise	Payments – Treasury

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

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
GST entitlement	Part 3 – GST payments	Australia UK Free Trade Agreement – increasing market access opportunities and strengthening ties between our two countries	Payments – Home Affairs
GST entitlement	Part 3 – GST payments	Migration Program – 2022-23 planning levels	Payments – Home Affairs
GST entitlement	Part 3 – GST payments	Changes To Visa Rules – supplementing Australia's workforce during the recovery	Payments – Home Affairs
GST entitlement	Part 3 – GST payments	Indirect Tax Concession Scheme – diplomatic and consular concessions	Payments – Treasury
GST entitlement	Part 3 – GST payments	Varying the GDP uplift factor for tax instalments	Payments – Treasury
GST entitlement	Part 3 – GST payments	Humanitarian Program 2022-23 and Update on Afghan Arrivals	Payments – Home Affairs