

7 Intergovernmental financial relations

Features

- The federal financial relations framework recognises that coordinated action and clear lines of responsibility for funding and service delivery are crucial for maximising economic and social outcomes and to strategically position the nation for the future.
- One of the Australian Government’s functions under this framework is providing funding to states to deliver essential services and infrastructure, representing approximately 47.9 per cent of all Queensland’s General Government revenue in 2023–24.
- It is estimated the Australian Government will provide the Queensland Government with \$39.300 billion in 2023–24 (\$3.175 billion more than in 2022–23), comprising:
 - \$18.613 billion¹ in payments for specific purposes (\$1.471 billion more than 2022–23)
 - \$1.210 billion in other Australian Government grants, including payments direct to Queensland Government agencies for Australian Government own-purpose expenditure (\$623 million more than 2022–23)
 - \$19.477 billion in payments for general purposes (\$1.080 billion more than 2022–23). Further detail is provided in Chapter 4.
- Payments for specific purposes to Queensland in 2023–24 include:
 - \$6.509 billion for Quality Schools funding²
 - \$6.503 billion for National Health Reform funding
 - \$4.903 billion for National Partnership payments (including the Infrastructure Investment Program, Disaster Recovery Funding Arrangements (DRFA), National Energy Bill Relief, the South East Queensland City Deal and the Brisbane 2032 Olympic and Paralympic Games)
 - \$356 million for National Housing and Homelessness funding
 - \$343 million for National Skills and Workforce Development funding.
- National Partnership payments to Queensland will increase in 2023–24 primarily due to: large Disaster Recovery Funding Arrangements (DRFA) payments relating to the 2021–22 floods, funding to support projects in the South East Queensland City Deal and funding to support the delivery of targeted energy bill assistance to eligible households and small businesses in Queensland.
- The Queensland Government provides considerable assistance to local governments, recognising the important services they provide to the community, and will provide a total of \$2.866 billion to local governments in 2023–24.

¹ Total payments for specific purposes may not add due to rounding.

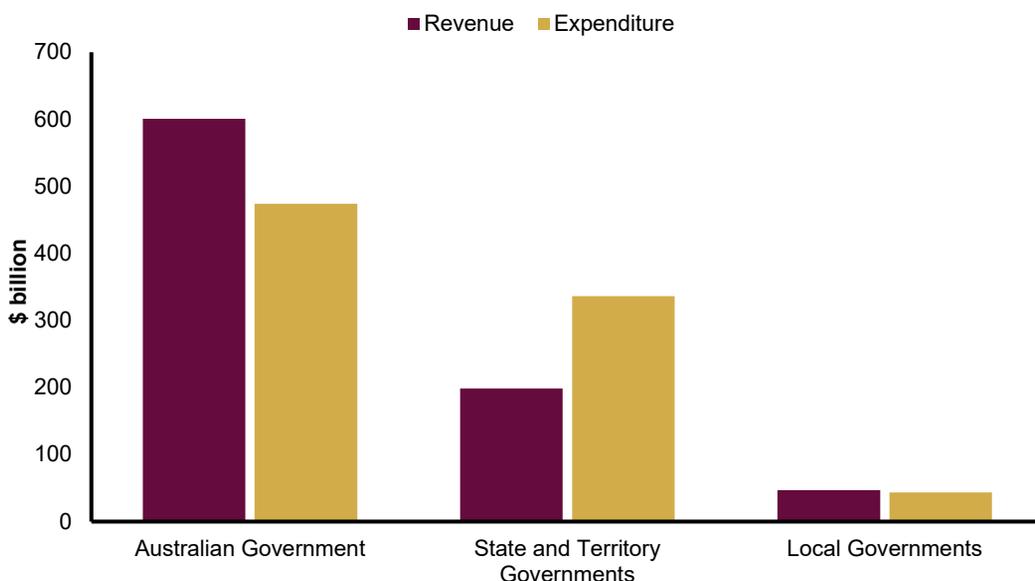
² Quality Schools funding includes payments for government schools (exclusive of GST) and non-government schools (inclusive of GST).

7.1 Federal financial arrangements

The Australian Government has greater capacity to raise revenue than is required to meet its service delivery responsibilities. Conversely, states and territories' (states) ability to raise revenue is less than required to meet their service delivery and infrastructure responsibilities. This vertical fiscal imbalance (VFI) is addressed through a system of intergovernmental payments from the Australian Government to the states.

In 2021–22, the Australian Government collected 71 per cent of government revenue nationally, while states collected 23.5 per cent, with local governments responsible for the balance (5.6 per cent)¹. Chart 7.1 illustrates the revenue and expense disparity between the different levels of government.

Chart 7.1 Own-source revenue and expenses by levels of government, 2021–22^{1,2}



Notes:

1. Revenue calculated as total revenue minus grant revenue.
2. Expenses calculated as total expenses minus grant expenses.

Source: ABS Government Finance Statistics.

¹ ABS Government Finance Statistics.

To address VFI, the Australian Government makes 2 types of payments:

- general revenue assistance payments (largely GST revenue) which can be used by states for any purpose ('untied' funding)
- payments for specific purposes ('tied' funding) such as National Specific Purpose Payments (SPPs), which are a contribution toward states' service delivery priorities, and National Partnership (NP) payments, which represent funding to support the delivery of specific priorities, outputs or projects and to facilitate or incentivise reforms.

Given the Australian Government's significant revenue raising capability, states are heavily reliant on these intergovernmental transfers to provide essential services and infrastructure.

As part of the national governance arrangements, the Council on Federal Financial Relations (CFFR; Chaired by the Australian Treasurer and comprising all state Treasurers) oversees national agreements and transfers between the Australian Government and states.

States have also formed the Board of Treasurers (the Board) to collaborate on common issues, advance national reform priorities from state and territory perspectives, and promote united agenda setting in federal affairs. The Board is chaired by a state Treasurer on a rotational basis for a calendar year — Queensland is the Chair in 2023.

The Board focuses on key community issues such as health and housing. This includes the implementation of the National Housing Accord which supports outcomes from the Queensland Housing Summit.

The remainder of this chapter focuses on payments for specific purposes. Detail on GST revenue is provided in Chapter 4.

Box 7.1 The four major funding agreements

Queensland Government is committed to working collaboratively with the Australian Government towards sustainable, long-term funding arrangements that give states the flexibility to deliver services and infrastructure that are responsive to the local context.

Queensland Government is currently negotiating multiple agreements with the Australian Government, including the National Health Reform Agreement, National School Reform Agreement, National Skills Agreement and the National Housing and Homelessness Agreement. Combined, these 4 agreements account for \$13.710 billion of the \$18.613 billion (73.7 per cent) Queensland will receive in 2023–24 in specific purposes funding.

Health

The 2020–25 Addendum to the National Health Reform Agreement (NHRA) — an agreement between the Australian Government and the states to improve health outcomes for all Australians and ensure a sustainable health system — will expire on 30 June 2025.

The mid-term review of the NHRA has commenced and is due to be delivered to Health Ministers by the end of 2023. The review will consider whether the current NHRA funding arrangements are fit-for-purpose given emerging priorities, such as the need for better integrated care and improving interfaces between the health and primary care, mental health, aged care and disability sectors.

The Queensland Government is providing input to the review ahead of renegotiations of the next NHRA, which is due to commence from 1 July 2025. The Queensland Government seeks funding flexibility to deliver best outcomes and will work with the Australian Government to address short-term funding issues and embed long-term fiscal sustainability in the Queensland and national health systems.

Education

The National School Reform Agreement (NSRA) — an agreement between the Australian Government and the states to lift student outcomes across Australian schools — will expire at the end of 2023.

In December 2022, Education Ministers agreed to establish an expert panel to undertake a review to inform the development of the next NSRA, with the final report to be delivered to Education Ministers by 31 October 2023. To provide time for this work, it is proposed the current NSRA will be extended for 12 months to 31 December 2024.

The Queensland Government will work with the Australian Government to ensure a well-resourced school system that enables better learning and wellbeing outcomes for all Queensland school students.

Housing

The National Housing and Homeless Agreement (NHHA) — the key agreement that defines roles in funding and provides housing and homelessness services — is supported by bilateral schedules that expire on 30 June 2023. The Australian and Queensland governments have agreed in-principle to extend the existing NHHA bilateral schedule by 12 months to 30 June 2024 while long-term funding arrangements are being considered.

The Queensland Government seeks to secure long-term future funding arrangements that account for the pressures on the state's housing market, in the context of the recommendations from the Productivity Commission's study report on the NHHA — *In Need of Repair: The National Housing and Homeless Agreement* — the National Housing Accord, and the National Housing and Homelessness Plan.

Skills

The Queensland Government is currently negotiating a long-term National Skills Agreement (NSA) with the Australian Government to replace the existing National Agreement for Skills and Workforce Development following the Productivity Commission's review in 2019.

Through this process, the Queensland Government is focused on ensuring Queenslanders can access high quality and relevant training and skills required to support the ongoing growth and resilience of the Queensland economy and prepare us for the future.

7.2 Australian Government funding to all states and territories

In the *2023–24 Federal Budget Paper No.3: Federal Financial Relations*, the Australian Government estimates it will provide funding of \$179.863 billion in 2023–24 across all states, which is \$11.039 billion (or 6.5 per cent) more than in 2022–23, comprising:

- \$91.536 billion in payments as shares of general revenue assistance (i.e. GST revenue) (\$5.078 billion more than in 2022–23)
- \$87.393 billion in payments for specific purposes (\$6.590 billion more than in 2022–23) including:
 - \$28.535 billion in National Health Reform funding
 - \$28.288 billion in Quality Schools funding
 - \$1.707 billion in National Housing and Homelessness funding
 - \$1.670 billion in National Skills and Workforce Development funding
 - \$1.110 billion in National Energy Bill Relief
 - \$26.083 billion in National Partnership payments (e.g. Infrastructure Investment Program, National Water Grid Fund, DisabilityCare Australia Fund and Preschool Reform Agreement).
- \$934.3 million in other payments to states, including:
 - \$890.3 million for certain royalty payments to Western Australia
 - \$44.0 million for municipal services to the Australian Capital Territory.

Australian Government payments for specific purposes may not fully fund all underlying programs. Some require states to provide matching contributions or other financial or in-kind contributions. This reduces budget flexibility for states, particularly in cases where it is not a Queensland Government priority or where the Australian Government dictates specific conditions related to the funding.

Box 7.2 Australian Government Independent Strategic Review of the Infrastructure Investment Program

The Australian Government commenced an Independent Strategic Review of its Infrastructure Investment Program (the review) in May 2023, to be completed within 90 days. The purpose is to deliver a pipeline of land transport infrastructure that is sustainable, aligned to market capacity and comprised of nationally significant projects.

While the review is conducted, the Australian Government has deferred decisions on future infrastructure investment for projects within the scope of the review.

The Queensland Government will continue to advocate for the state's fair share of the national program through this process. This must reflect Queensland's status as the state with the fastest growing population — the Queensland Government will seek to ensure Queensland will not be worse off and that the Australian Government maintains its current level of funding for the transport corridors that connect the state's dispersed population centres and other priority locations.

The Queensland Government would expect that priority transport infrastructure projects, including those that support delivery of the Brisbane 2032 Olympic and Paralympic Games, will be considered separately from any deferral arrangements as part of the review.

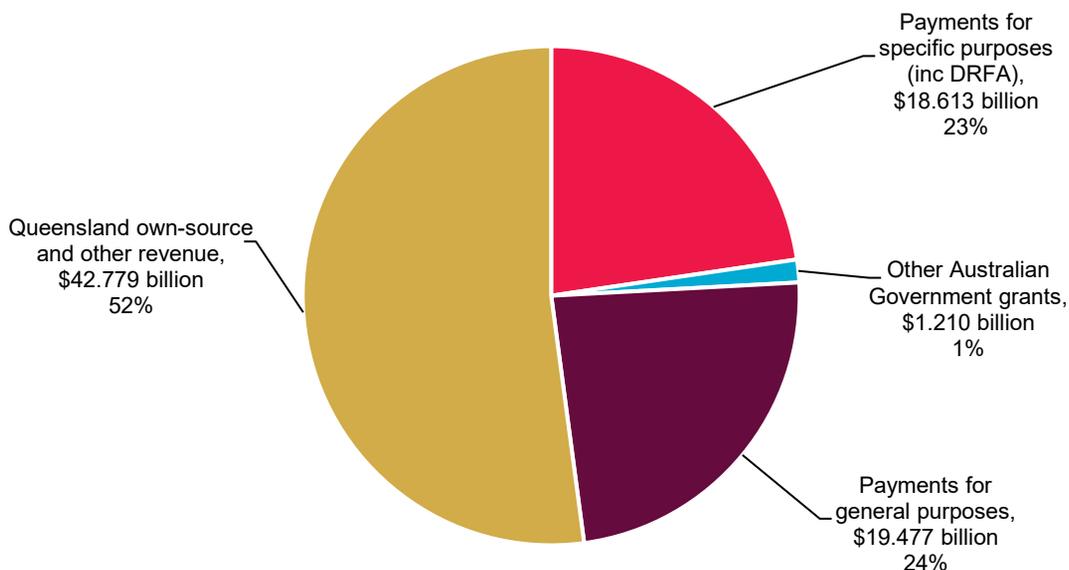
7.3 Australian Government funding to Queensland

It is estimated the Australian Government will provide the Queensland Government with \$39.300 billion in 2023–24 (\$3.175 billion more than in 2022–23).

Australian Government funding is estimated to account for 47.9 per cent of Queensland's total General Government Sector revenue sources in 2023–24 (shown in Chart 7.2).

The proportion of Queensland's revenue derived from Australian Government funding has grown significantly from 35 per cent at the time of the introduction of the GST in 2000.

Chart 7.2 General Government Sector revenue sources, Queensland 2023–24^{1,2}



Notes:

1. Queensland own-source and other revenue figure includes taxation revenue, sales of goods and services, royalties and land rents.
2. Queensland Treasury estimates. Other Australian Government grants include payments direct to Queensland Government agencies for Australian Government own-purpose expenditure.

Sources: 2023–24 Federal Budget Paper No. 3 and Queensland Treasury estimates.

7.4 Payments to Queensland for specific purposes

In 2023–24, Queensland expects to receive \$18.613 billion¹ in payments for specific purposes, \$1.471 billion (8.6 per cent) more than in 2022–23.

Payments for specific purposes comprise funding for National Health Reform, Quality Schools, National Housing and Homelessness, the Skills and Workforce Development National SPP and NP payments.

¹ Queensland Treasury estimates.

Table 7.1 Estimated payments of Australian Government grants¹

	2021–22 Actual \$ million	2022–23 Est. Act. \$ million	2023–24 Budget \$ million
Payments for specific purposes			
Skills and Workforce Development funding	321	330	343
National Health Reform funding ²	6,505	6,232	6,503
Quality Schools funding ³	5,793	6,219	6,509
National Housing and Homelessness funding	335	343	356
National Partnership payments (incl. DRFA)	3,663	4,019	4,903
Total payments for specific purposes	16,617	17,142	18,613
Other Australian Government grants ⁴	1,082	587	1,210
Total payments for specific purposes and other Australian Government grants	17,699	17,729	19,824
Notes:			
1. Numbers may not add due to rounding.			
2. Includes funding for the COVID-19 public health response of \$894.6 million in 2021–22 and \$192.7 million in 2022–23. The National Partnership on COVID-19 Response expired on 31 December 2022, with the Australian Government minimum funding guarantee ending in 2021–22.			
3. Quality Schools funding includes payments for government schools (exclusive of GST) and non-government schools (inclusive of GST).			
4. Includes direct Australian Government payments to Queensland agencies for Australian Government own-purpose expenditure (e.g. financial assistance grants to local government and funding to Hospital and Health Services).			
<i>Sources: 2023–24 Federal Budget Paper No. 3 and Queensland Treasury estimates.</i>			

In 2023–24, National Health Reform funding, which accounts for 34.9 per cent of the total payments for specific purposes, is estimated to increase by \$271 million (4.4 per cent) from 2022–23. The small increase in 2023–24 is due to the unwinding of COVID-19 public health response funding. If the impact of the COVID-19 health response funding is removed, National Health Reform funding is expected to increase by \$464 million (7.7 per cent) from 2022–23.

Queensland Government projections of National Health Reform funding differ from the projections contained in the 2023–24 Federal Budget as Australian Government projections represent cash payments made in the financial year (rather than the entitlement amount for the financial year) and include adjustments for services delivered in prior years. Actual National Health Reform payments vary from estimates provided in budget papers as they are based on actual public hospital activity delivered each year.

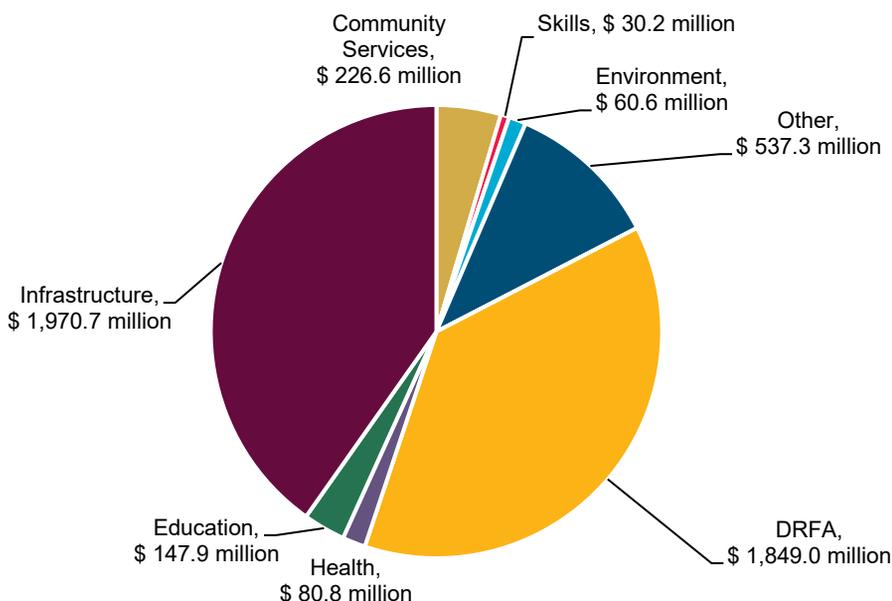
Quality Schools funding, which accounts for 35 per cent of the total payments for specific purposes, is estimated to increase by \$290 million (4.7 per cent) to \$6.509 billion in 2023–24.

National Housing and Homelessness funding is estimated to increase by \$13 million (3.8 per cent) in 2023–24, which comprises indexation and a temporary funding boost to address the homelessness challenges revealed in the 2021 Census.

Skills and Workforce Development funding is expected to increase by \$13 million (3.9 per cent) in 2023–24 compared to 2022–23. Given the priority to grow a skilled and highly productive workforce in a tight labour market, the Australian, state and territory governments are working towards finalising a new National Skills Agreement to replace the Skills and Workforce Development SPP.

NP payments (including DRFA) account for 26.3 per cent of the total payments for specific purposes in 2023–24. It is estimated to increase by \$885 million (22 per cent) from 2022–23 to 2023–24. A significant proportion of NP payments in 2023–24 is allocated to DRFA, infrastructure and other (refer to Chart 7.3).

Chart 7.3 National Partnership Payments by sector, 2023–24¹



Note:

1. Excludes Australian Government funding to local government and payments direct to Queensland Government agencies for Australian Government own-purpose expenditure.

Sources: 2023–24 Federal Budget Paper No. 3 and Queensland Treasury estimates.

The increase in NP payments between 2022–23 and 2023–24 is mainly due to:

- large DRFA payments in 2023–24 relating to the 2021–22 flood events
- new Australian Government funding from 2023–24 to support projects in the South East Queensland City Deal
- new Australian Government funding from 2023–24 to support the delivery of targeted energy bill assistance to eligible households and small businesses in Queensland.

Other Australian Government grants include payments direct to Queensland Government agencies for Australian Government own-purpose expenditure.

In 2023–24, Queensland expects to receive \$1.210 billion in other Australian Government grants, \$623 million (106.2 per cent) more than in 2022–23. The significant increase is mainly due to the Australian Government's bring forward of financial assistance grants to local governments from 2022–23 to 2021–22.

7.4.1 Projections of payments for specific purposes to Queensland

Across the forward estimates, total payments for specific purposes (including DRFA payments) are expected to increase modestly, with average growth of approximately 1.5 per cent between 2023–24 and 2026–27. If the impact of DRFA payments is removed, the average growth of total payments for specific purposes is expected to be 5.1 per cent between 2023–24 and 2026–27.

National Health Reform funding is expected to grow by an average of 6.5 per cent over the forward estimates. Under the National Health Reform Agreement, the Australian Government will fund 45 per cent of efficient growth in hospital activity subject to a national growth cap of 6.5 per cent per annum. Current estimates are based on this methodology.

Growth in Quality Schools funding for Queensland is expected to average 3.4 per cent between 2023–24 and 2026–27 in line with enrolment changes, increased funding per student and legislated Commonwealth funding shares. Queensland is expecting to receive \$10.111 billion for state schools and \$17.342 billion (including GST) for non-government schools from 2023–24 to 2026–27.

Growth in NP payments (excluding DRFA) for Queensland are expected to average 6.2 per cent between 2023–24 and 2026–27. The increase is mainly due to:

- \$1.076 billion over the forward estimates from 2023–24 to support venue infrastructure for the Brisbane 2032 Olympic and Paralympic Games
- \$390.7 million over the forward estimates from 2023–24 to support projects in the South East Queensland City Deal, in addition to other related funding arrangements
- \$328.5 million estimated from 2023–24 to 2024–25 to support the delivery of targeted energy bill assistance to eligible households and small businesses in Queensland
- \$285 million over the forward estimates from 2022–23 to support the establishment of a Queensland Cancer Centre in Brisbane.

DRFA payments of \$3.356 billion are estimated from 2022–23 to 2024–25. These mainly reflect Australian Government funding for eligible expenditure under DRFA for the 2021–22 Queensland disaster season, including significant flood events.

7.4.2 Expiring agreements

Under the Intergovernmental Agreement on Federal Financial Relations, the Australian Government provides time-limited funding to states through NP payments to support the delivery of specific projects, facilitate reforms or reward states that deliver on nominated reforms or service delivery improvements.

Over time, some NPs have been extended beyond their intended time-limited purpose to continue funding services. NPs were never intended, and are not considered the optimal way, to fund ongoing community service needs.

Expiring NP agreements that support long standing and effective services or programs leave states with limited opportunities to appropriately manage consequences as final funding decisions are made through the Australian Government's budget process.

Early indication from the Australian Government as to the continuation, lapse or other treatment of funding for an expiring agreement is necessary to enable states to effectively manage their service delivery responsibilities.

There are 26 agreements¹ expected to expire in 2022–23. At the 2023–24 Federal Budget, the Australian Government allocated funding beyond 2022–23 for 14 expiring agreements, including the following key agreements:

- National School Chaplaincy Program – replaced by the National Student Wellbeing Program with funding from 2022–23 to 2026–27
- Public Dental Services for Adults – funding extended to 2024–25
- Family, Domestic and Sexual Violence Responses – national funding allocated over two years from 2023–24 to extend the agreement, with state allocations yet to be finalised
- Wet Tropics of Queensland and Tasmanian Wilderness World Heritage Areas – funding extended to 2027–28
- World Heritage Management – funding extended to 2027–28
- Lansdown Eco-Industrial Precinct – additional funding committed to 2024–25
- Port of Townsville Channel Capacity Upgrade – funding reprofiled to 2024–25 to reflect updated project completion date
- HomeBuilder – extension announced.

The 2023–24 Federal Budget did not allocate funding beyond 2022–23 for 5 expiring funding agreements:

- Operation of Hummingbird House
- Japanese Encephalitis Virus Mitigation through Mosquito Surveillance and Control
- Recreational Fishing and Camping Facilities Program
- Improve NDIS Participant Transition in Queensland
- Stimulating South Queensland Sheep Production – Building Strategic Alliance in southwest Lamb Supply Chains (Paroo Sheep Meat Value Chain Hub).

A funding extension or renewal was not sought for the remaining 7 expiring agreements due to the short-term nature of the program or completion of the project. These include temporary funding provided for JobTrainer, COVID-19 World and National Heritage projects, implementation of the Australian Fire Danger rating system and the joint national Japanese encephalitis response program (agricultural industries).

¹ Includes any expiring schedules to Federation Funding Agreements.

7.5 State–local government financial relations

The Queensland Government allocates considerable funding in the 2023–24 Queensland Budget to support local governments across the state. This recognises the critical role local governments play in supporting their local communities.

In 2023–24, the Queensland Government will provide a total of \$2.866 billion in grants to local governments.

This includes recurrent and capital grants to local government authorities and Indigenous councils, as well as Australian Government grants paid through the state to local governments.

Grants to local governments are delivered through numerous Queensland Government departments and agencies for a variety of purposes, including through the programs discussed below.

A summary of Queensland Government grant programs that have been made exclusively available to local governments are listed in Table 7.2.

Table 7.2 Grant programs exclusively available to local governments

Program name	Description	Total funding (from 2015–16 to 2026–27)
Works for Queensland	Supports local governments in regional areas to undertake job creating maintenance and minor infrastructure works.	\$1 billion
COVID Works for Queensland	Supports all local governments to respond to and recover from the COVID-19 pandemic to deliver job creating new infrastructure, maintenance or minor works projects.	\$200 million ¹
South East Queensland (SEQ) Community Stimulus Program	Supports South East Queensland local governments to fast-track investment in new infrastructure and community assets that create jobs and deliver economic stimulus to local communities.	\$200 million
Unite and Recover Community Stimulus Package	Supports South East Queensland local governments to recover from the COVID-19 pandemic by fast-tracking investment in new infrastructure and community assets that create jobs and deliver economic stimulus to local communities.	\$50 million ¹
Transport Infrastructure Development Scheme	Provides targeted investment in regional local government transport infrastructure.	\$846 million ²
Building our Regions	Provides funding for critical infrastructure in regional areas to support economic development, including generating jobs.	\$418.3 million
Local Government Grants and Subsidies Program	Provides funding for priority infrastructure projects that will enhance sustainable and liveable communities.	\$347.9 million ²
Coastal Hazard Adaptation Program – QCoast2100	Assists coastal local governments to prepare plans and strategies for addressing the impact of climate change.	\$20.2 million
Queensland Water Regional Alliances Program	Assists regional councils to collaborate and improve the efficiency and administration of water infrastructure.	\$14.2 million
Notes:		
1. These programs are stimulus measures in response to the COVID-19 pandemic and are scheduled to cease following 2023–24.		
2. Funding is ongoing. Figure is based on current projections.		

In addition to the above grant programs, the Queensland Reconstruction Authority (QRA) administers funding available under the Disaster Recovery Funding Arrangements, which is a joint funding initiative of the Queensland and Australian Governments to provide disaster relief and recovery payments to help communities recover following the effects of natural disasters.

Under these arrangements, the Queensland Government administers significant funding to local governments (more than \$1.259 billion expected in 2023–24), including to provide disaster relief and assist with reconstruction of local government infrastructure damaged during natural disasters. The amount of funding administered is dependent on the final number and value of claims submitted.

QRA also administers several resilience programs of the Queensland and Australian Governments to support disaster mitigation projects and build resilience to natural disasters. These programs include the Queensland Resilience and Risk Reduction Fund, the North Queensland Natural Disasters Mitigation Program, and the National Flood Mitigation Infrastructure Program.

The Queensland Government also understands there are added challenges and disadvantages faced by Indigenous councils to ensure their communities have access to essential services and critical infrastructure, including low populations, remoteness and dispersion. To help address these challenges, the Queensland Government has allocated substantial operating funding to specifically support Indigenous councils and their communities.

The Indigenous Council Funding Program will replace the State Government Financial Aid, the Indigenous Economic Development Grant and the Revenue Replacement Program. Funding from the replaced programs will be combined into a single grant which will continue to support Indigenous Councils to service their communities and deliver critical infrastructure. This will simplify and improve the way State funding is provided to Indigenous Councils.

The 2023–24 Budget commits \$25.8 million in 2023–24 in addition to existing funding for the Indigenous Council Funding Program.

A summary of grant programs that have been made available to Indigenous councils and their communities are listed in Table 7.3.

Table 7.3 Grant programs to support Indigenous councils and their communities

Program name	Description	Total funding (from 2015–16 to 2026–27)
Indigenous Council Funding Program ¹	Assists Indigenous councils to address financial sustainability and capacity issues.	\$208 million
Indigenous Councils Critical Infrastructure Program	Contributes to the cost of water, wastewater and solid waste infrastructure in Indigenous communities.	\$120 million
Indigenous Economic Development Grant ²	Contributes funding towards service positions to support permanent jobs that deliver local government services.	\$11.5 million
Major Infrastructure Program	Deliver environmental, health and other infrastructure upgrades within the Torres Strait Island Regional Council, Torres Shire Council and Northern Peninsula Area Regional Council areas.	\$15 million
Revenue Replacement Program ²	Provides funding to assist Indigenous councils that have divested or surrendered profitable liquor licenses.	\$28.2 million
State Government Financial Aid ²	A financial contribution (in lieu of rates) to meet the costs incurred by Indigenous councils in the provision of local government services.	\$265.7 million
Indigenous Local Government Sustainability Program (2016–18)	Assisted Indigenous councils to increase their capacity, capability and sustainability.	\$7.7 million
Notes:		
1. This is a new program, replacing the Indigenous Economic Development Grant, Revenue Replacement Program and State Government Financial Aid (total funding reflects 2023–24 to 2026–27).		
2. This program will cease from 1 July 2023 and funding will be allocated through the new Indigenous Council Funding Program (total funding reflects 2015–16 to 2022–23).		