

6 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 to provide funding to states to deliver essential services and infrastructure, representing approximately 44 per cent of all Queensland's General Government Sector revenue in 2025–26.
- It is estimated the Australian Government will provide the Queensland Government with \$40.595 billion in 2025–26 (\$391 million less than in 2024–25), comprising:
 - \$22.851 billion¹ in payments for specific purposes (\$1.381 billion more than 2024–25)
 - \$1.119 billion in other Australian Government grants, including payments direct to Queensland Government agencies for Australian Government own-purpose expenditure (\$519 million more than 2024–25)
 - \$16.625 billion in payments for general purposes (\$2.292 billion less than 2024–25).
 - Further detail is provided in Chapter 3.
- Payments for specific purposes to Queensland in 2025–26 include:
 - \$7.531 billion for National Health Reform funding
 - \$7.393 billion for Better and Fairer Schools funding²
 - \$7.105 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)
 - \$460 million for National Skills Agreement funding
 - \$363 million for National Agreement on Social Housing and Homelessness funding.
- The Queensland Government is committed to rebuilding and strengthening its relationship with local governments, recognising the important services they provide to the community. In this regard, the Queensland Government has made permanent the Works for Queensland program and will provide \$100 million ongoing to deliver local projects.
- The Queensland Government is also delivering the \$2 billion Residential Activation Fund to accelerate delivery of essential infrastructure to fast-track new homes.

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

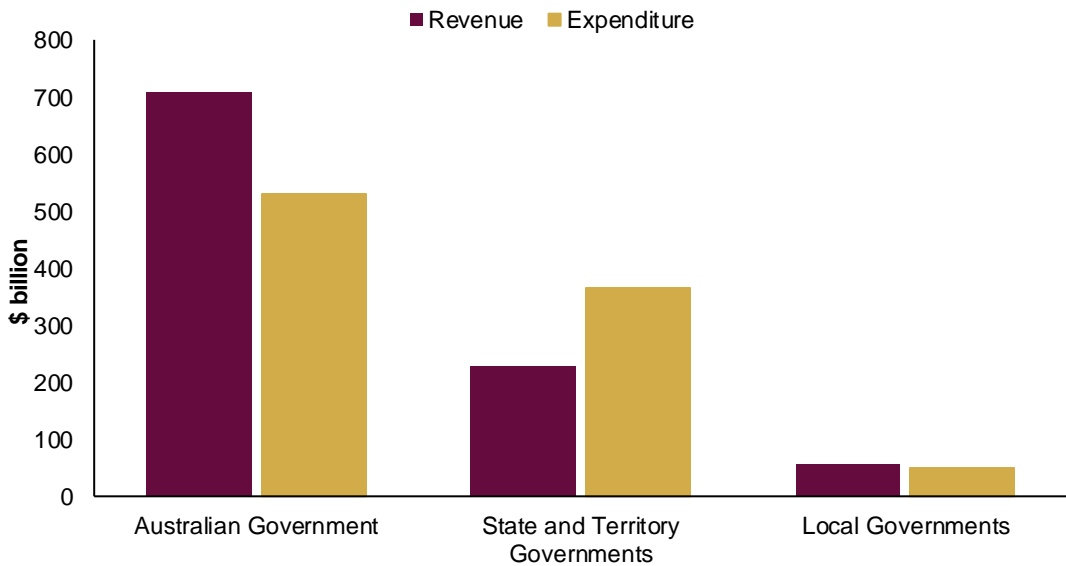
² Better and Fairer Schools funding includes payments for government schools (exclusive of GST) and non-government schools (inclusive of GST).

6.1 Federal financial arrangements

The Australian Government has greater capacity to raise revenue than is required to fund 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 2023–24, the Australian Government collected 71.1 per cent of government revenue nationally, while states collected 23.2 per cent, and local governments the balance (5.7 per cent). Chart 6.1 illustrates the revenue and expense disparity between the different levels of government.

Chart 6.1 Own-source revenue and expenses by levels of government, 2023–24^{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.

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:
 - payments for National Health Reform, Better and Fairer Schools, the National Skills Agreement and the National Agreement on Social Housing and Homelessness, which are a contribution toward states' service delivery priorities

- National Partnership (NP) payments, which represent funding to support the delivery of specific priorities, outputs, or projects and to facilitate or incentivise reforms.

As part of the national governance arrangements, the Council on Federal Financial Relations – 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 perspectives, and promote united agenda setting in federal affairs. The Board is chaired by a state Treasurer for a calendar year on a rotational basis.

Key priority areas for the Board in 2025 include health and disability services reform, early engagement on the 2026 Australian Productivity Commission inquiry on Horizontal Fiscal Equalisation and overseeing negotiations of major funding agreements expiring within the next 12 months.

This chapter largely focuses on the Australian Government's payments for specific purposes (sections 6.2 and 6.3). Information on State–Local Government Relations is provided in section 6.4.

6.2 Australian Government funding to Queensland

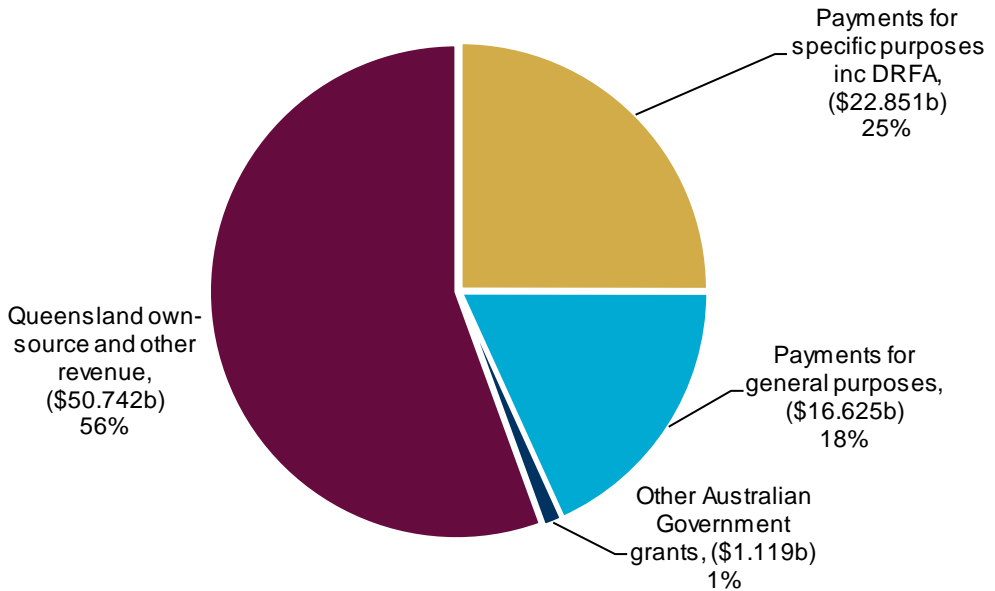
It is estimated the Australian Government will provide the Queensland Government with \$40.595 billion in 2025–26.

The primary driver for the decrease in Australian Government funding in 2025–26 is a significant reduction in Queensland's GST revenue of \$2.292 billion.

A detailed discussion of Queensland's GST revenue, including the key factors leading to the reduced GST in 2025–26, is provided in Chapter 3.

Australian Government funding is estimated to account for 44 per cent of Queensland's total General Government Sector revenue sources in 2025–26 (shown in Chart 6.2).

Chart 6.2 General Government Sector revenue sources, Queensland 2025–26^{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: 2025–26 Federal Budget Paper No. 3 and Queensland Treasury estimates.

Box 6.1 Major agreements to be negotiated in the next 12 months

The Queensland Government will collaborate with the Australian Government to secure sustainable, long-term funding arrangements for agreements expiring within the next 12 months.

Major agreements to be renegotiated in the next year include the National Health Reform Agreement (NHRA), the National Mental Health and Suicide Prevention Agreement and the Preschool Reform Agreement. All are set to expire on 30 June 2026.

Combined, these 3 agreements account for \$7.602 billion¹ in funding that Queensland will receive for 2025–26.

Health and disability

On 6 December 2023, National Cabinet agreed that the Australian Government and state and territory governments would work together to deliver system-wide structural health reform and

¹ This excludes \$414 million of additional funding in 2025–26 provided by the Australian Government under a separate bilateral funding schedule, in line with the agreement to extend the NHRA for one year.

work to secure the future of the National Disability Insurance Scheme (NDIS), including jointly designing and funding new Foundational Supports to improve services outside of the NDIS.

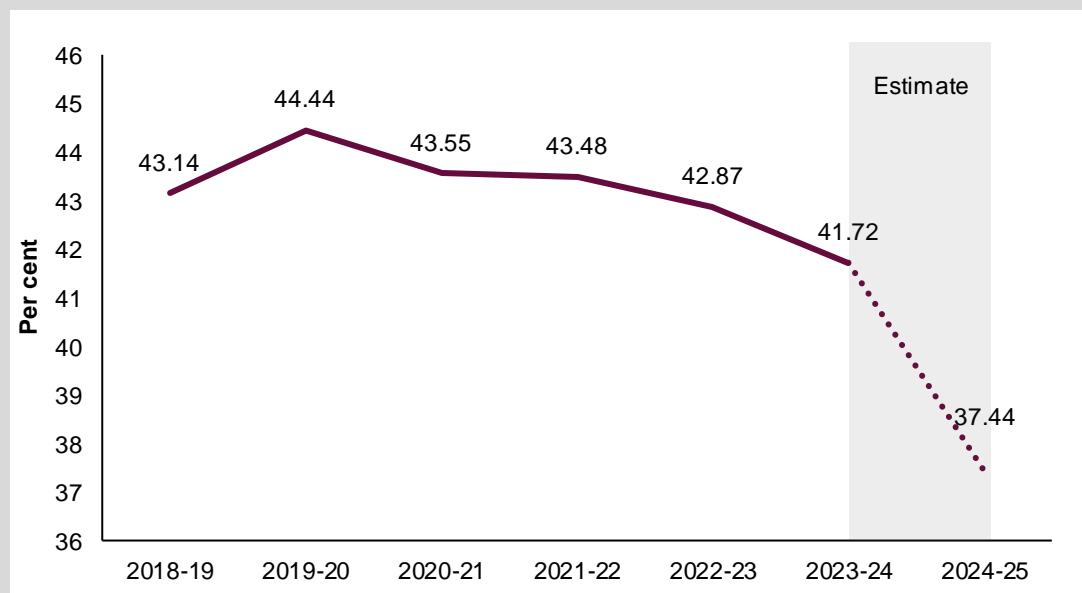
To enable more time for negotiations on health and disability reform, an interim one-year NHRA extension has been agreed with the Australian Government, providing an additional \$1.7 billion in ‘top-up’ funding across states and territories for 2025–26 under separate bilateral funding schedules. For Queensland, the top-up funding will provide \$414 million in 2025–26 in addition to the \$7.531 billion under the extended NHRA arrangements (\$7.945 billion in total). The one-year extension allows for negotiations on long-term NHRA arrangements to continue in 2025.

National Cabinet committed in December 2023 to increasing the Australian Government’s NHRA contributions to public hospitals to 45 per cent, and establishing a more generous funding cap. This commitment is to be realised over a 10-year period, from 1 July 2025 to 30 June 2035, with the Australian Government to increase its contribution to 42.5 per cent of public hospital funding by 2030.

To ensure the ongoing sustainability of Queensland’s public hospital system, it will be vital the Australian Government upholds its commitment to increase its contributions under the next NHRA, which has been declining under the current arrangements. While demand and cost pressures have continued to be experienced in recent years, the impact of the 6.5 per cent annual national growth cap on Commonwealth contributions has resulted in the Commonwealth contribution rate in Queensland falling from 44.44 per cent in 2019–20 to an estimated 37.44 per cent in 2024–25, as shown in Chart 6.3.

The Queensland Government is working with the other states territories to ensure that the National Cabinet commitment is reflected in the next long-term NHRA.

Chart 6.3 Commonwealth contribution rate, activity based funding, Queensland¹



Notes:

1. 2024–25 is a projection only based on Queensland Health estimates and is subject to change.

6.3 Payments to Queensland for specific purposes

In 2025–26, Queensland expects to receive \$22.851 billion¹ in payments for specific purposes, \$1.381 billion (6.4 per cent) more than in 2024–25.

Payments for specific purposes comprise funding for National Health Reform, Better and Fairer Schools, National Skills Agreement, National Agreement on Social Housing and Homelessness, and NP payments (refer to Table 6.1).

Table 6.1 Estimated payments of Australian Government grants¹

	2023–24 Actual \$ million	2024–25 Est. Act. \$ million	2025–26 Budget \$ million
Payments for specific purposes			
National Health Reform funding ²	6,663	7,071	7,531
Better and Fairer Schools funding ³	6,758	7,187	7,393
National Skills Agreement funding	390	451	460
National Agreement on Social Housing and Homelessness funding	355	355	363
National Partnership payments (incl. DRFA)	5,046	6,406	7,105
Total payments for specific purposes	19,212	21,470	22,851
Other Australian Government grants ⁴	1,196	600	1,119
Total payments for specific purposes and other Australian Government grants	20,407	22,069	23,970
Notes:			
1. Numbers may not add due to rounding.			
2. The one-year extension to National Health Reform funding arrangements commences 1 July 2025.			
3. Better and Fairer Schools Agreement (BFSA) commenced on 1 January 2025 and replaces Quality Schools funding under the National School Reform Agreement. It includes payments for government schools (exclusive of GST) and non-government schools (inclusive of GST). Funding for 2025–26 does not include additional funding under the BFSA as negotiations with the Australian Government were not finalised until late March 2025.			
4. Includes direct Australian Government payments to Queensland agencies for Australian Government own-purpose expenditure (e.g. financial assistance to local governments and funding to Hospital and Health Services).			
<i>Sources: 2025–26 Federal Budget Paper No. 3 and Queensland Treasury estimates.</i>			

In 2025–26, National Health Reform funding, which accounts for 33 per cent of the total payments for specific purposes, is estimated to increase by \$460 million (6.5 per cent).²

¹ Queensland Treasury estimates.

² This excludes \$414 million of additional funding in 2025–26 provided by the Australian Government under a separate bilateral funding schedule, in line with the agreement to extend the NHRA for one year.

Queensland Government projections of National Health Reform funding differ from the projections contained in the 2025–26 Federal Budget. 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.

Better and Fairer Schools funding, which accounts for around 32.4 per cent of total payments for specific purposes, is estimated to increase by \$206 million (2.9 per cent) to \$7.393 billion in 2025–26.

On 24 March 2025, the Australian and Queensland Governments signed the Heads of Agreement for the new 10-year Better and Fairer Schools Agreement – Full and Fair Funding. The new agreement represents a record investment into Queensland's public schooling system over the term of the agreement.

Under the agreement, the Australian Government will increase its contribution from 20 per cent to 25 per cent of the Schooling Resource Standard by 2034, with Queensland increasing its contribution to 75 per cent.

Queensland will also remove the provision to claim 4 per cent of state school funding for indirect school costs such as capital depreciation and replace it with 4 per cent of recurrent funding on eligible expenses.

National Skills Agreement funding is estimated to increase by \$9 million (2.1 per cent) to \$460 million in 2025–26. Similarly, funding under the National Agreement on Social Housing and Homelessness is estimated to increase by \$7 million (2.1 per cent) from 2024–25.

NP payments (including DRFA) account for 31.1 per cent of the total payments for specific purposes in 2025–26. It is estimated to increase by \$699 million (10.9 per cent) from 2024–25 to 2025–26. A significant proportion of NP payments in 2025–26 is allocated to infrastructure, and DRFA payments (refer to Chart 6.4).

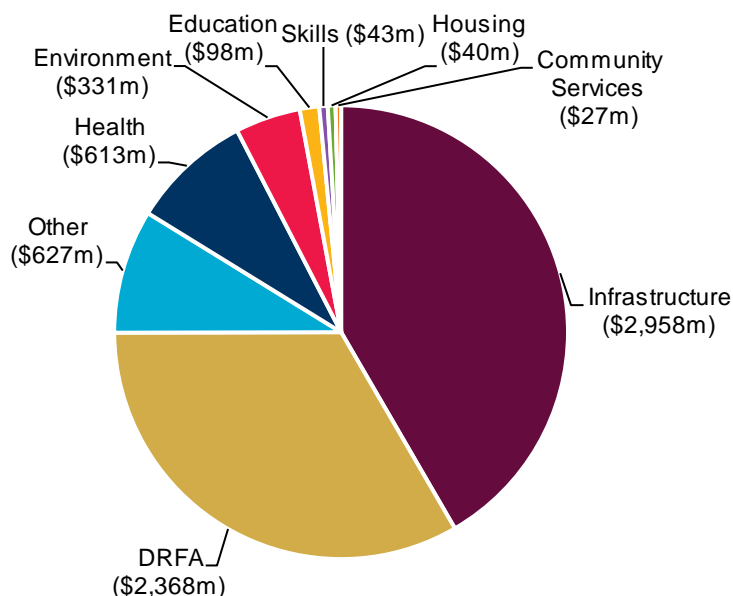
The increase in NP payments in 2025–26 is mainly due to:

- a significant DRFA payment in 2025–26 relating to disaster events in 2024
- fixed funding of \$414 million in 2025–26 provided by the Australian Government as part of the one-year extension of the 2020–2025 Addendum to the National Health Reform Agreement—which is being provided under the separate bilateral schedule Health Reform – Additional Funding Support for Hospital and Related Health Services 2025–26 (Queensland).

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

In 2025–26, Queensland expects to receive \$1.119 billion in other Australian Government grants, \$519 million (86.6 per cent) more than in 2024–25. The significant increase is mainly due to the Australian Government's bring forward of financial assistance to local governments from 2024–25 to 2023–24.

Chart 6.4 National Partnership Payments by sector, 2025–26¹



Note:

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

Sources: 2025–26 Federal Budget Paper No. 3 and Queensland Treasury estimates.

6.3.1 Projections of payments for specific purposes to Queensland

Across the forward estimates, total payments for specific purposes (including DRFA payments) are expected to decrease slightly, with average growth of approximately -0.5 per cent between 2025–26 and 2028–29. If the impact of DRFA payments is removed, the average growth of total payments for specific purposes is expected to be 3.1 per cent between 2025–26 and 2028–29.

National Health Reform funding is expected to grow by an average of 6.5 per cent over the forward estimates. Under the current NHRA arrangements, 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 Better and Fairer Schools funding for Queensland is expected to average 3.8 per cent between 2025–26 and 2028–29 in line with enrolment changes, increased funding per student and legislated Australian Government funding shares. Queensland is expecting to receive \$11.269 billion for state schools and \$20.038 billion (including GST) for non-government schools from 2025–26 to 2028–29.

DRFA payments of \$4.211 billion estimated from 2025–26 to 2028–29 are principally for disaster events in 2024 and 2025.

6.3.2 Expiring agreements

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.

There are 26 agreements¹ expected to expire in 2024–25. At the 2025–26 Federal Budget, the Australian Government allocated funding beyond 2024–25 for 14 expiring agreements, including agreements for Public Dental Services for Adults, Family Law Information Sharing and Rheumatic Fever Strategy.

The 2025–26 Federal Budget did not allocate funding beyond 2024–25 for one expiring funding agreement — DisabilityCare Australia Fund. The Queensland Government is continuing to advocate for the extension of the DisabilityCare Australia Fund agreement as part of ongoing negotiations related to broader health and disability reforms.

A funding extension or renewal was not sought for the remaining 11 expiring agreements due to the short-term nature of the program or completion of the project.

6.4 State-local government financial relations

The Queensland Government is committed to rebuilding and strengthening its relationship with local governments, the level of government closest to the community, who can provide a unique perspective on what services are required and when.

To formalise this commitment and recognise this partnership, the *Equal Partners in Government* agreement was signed in March 2025, in conjunction with the Local Government Association of Queensland (LGAQ).

This Agreement recognises the roles and responsibilities of both parties, and provides a set of principles to guide the relationship. A key principle includes the Queensland Government providing funding programs to local governments to support financial sustainability and deliver benefits for advancing local communities in Queensland.

In this regard, the Queensland Government has made permanent the Works for Queensland program and will provide \$100 million ongoing, to ensure all local councils can deliver local projects that create jobs and deliver better infrastructure and services.

In addition, the Queensland Government is delivering the \$2 billion Residential Activation Fund to accelerate delivery of essential infrastructure to fast-track new homes, supporting local governments bringing forward planned housing projects.

¹ Includes any expiring schedules to Federation Funding Agreements.

The Queensland Government is also committed to stepping out of the way and empowering local governments to deliver for their communities by:

- setting up a taskforce to look into removing unnecessary regulatory burden on councils, removing red tape and providing more support for councils to deliver what is needed on the ground in communities across Queensland
- ensuring that local government operates in a fit for purpose framework that, in a relationship of mutual respect, delivers the best outcomes.

An example of this close collaborative relationship is the way the Queensland and local governments have worked with the Queensland Reconstruction Authority (QRA). QRA administers funding available under the DRFA, 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. These funds are provided to local governments to deliver these initiatives.

Three natural disasters have occurred in Queensland since the beginning of 2025.

Nearly every local government in Queensland has been impacted by one of these events. The Queensland Government worked closely with these councils and the LGAQ to ensure that the right targeted support was provided to each council to assist with their unique path to recovery.