

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 key functions under this framework is providing funding to states to deliver services.
- Australian Government payments represent approximately 47 per cent of all of Queensland’s General Government revenue in 2022–23.
- The Australian Government estimates it will provide the Queensland Government with \$34.925 billion in 2022–23 (\$1.907 billion more than in 2021–22), comprising:
 - \$16.399 billion¹ in payments for specific purposes (\$243 million more than 2021–22)
 - \$715 million in other Australian Government grants, including payments direct to Queensland Government agencies for Australian Government own-purpose expenditure (\$333 million less than 2021–22)
 - \$17.811 billion in payments for general purposes (\$1.998 billion more than 2021–22).

Further detail is provided in Chapter 4.

- The 2022–23 Federal Budget defined payments to Queensland for specific purposes in 2022–23 include:
 - \$6.030 billion for National Health Reform funding
 - \$6.094 billion for Quality Schools funding²
 - \$3.606 billion for National Partnership (NP) payments (including the Infrastructure Investment Program, Disaster Recovery Funding Arrangements (DRFA) and DisabilityCare Australia Fund)
 - \$342 million for National Housing and Homelessness funding
 - \$328 million for National Skills and Workforce Development funding.
- NP payments to Queensland will be lower in 2022–23 primarily due to:
 - cessation of the temporary COVID-19 business support grant program in 2021–22
 - expected reduction in HomeBuilder grant payments due to the program drawing to a close towards the end of 2022–23.

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).

- Queensland has 23 funding agreements expiring in 2021–22. While the 2022–23 Federal Budget allocated funding for 7 expiring agreements, 2 expiring agreements had no funding allocated beyond 2021–22. A funding renewal was not sought for the remaining 14 expiring agreements due to the short-term nature of the programs (e.g. temporary funding provided for COVID-19 measures and bushfire support).
- The Queensland Government provides considerable assistance to local governments, recognising the important services they provide to the community. In 2022–23, the Queensland Government will provide a total of \$2.280 billion in grants to local governments.

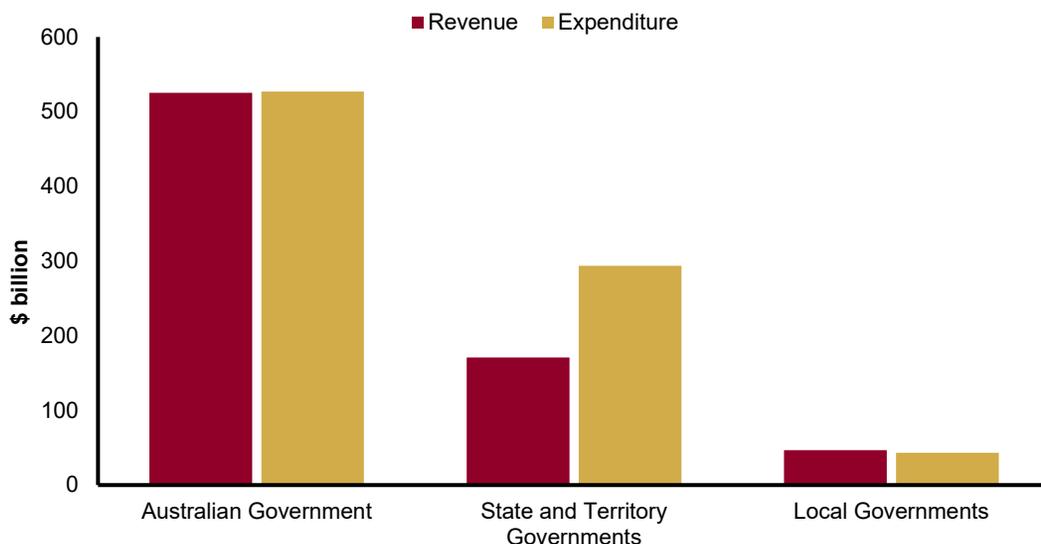
7.1 Federal financial arrangements

The Australian Government has greater capacity to raise revenue than is required to meet its service delivery responsibilities. Conversely, states' ability to raise revenue is less than required to meet their service delivery and infrastructure responsibilities. This vertical fiscal imbalance (VFI) requires the sharing of revenue between the Australian Government and states.

In 2020–21, the Australian Government collected 70.7 per cent of government revenue nationally, while states collected 23 per cent with local governments responsible for the balance at 6.3 per cent¹. Chart 7.1 illustrates the revenue and expense disparity between the different levels of government.

¹ ABS Government Finance Statistics.

Chart 7.1 Own-source revenue and expenses by levels of government, 2020–21^{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.

In Australia, VFI is addressed through a system of intergovernmental payments from the Australian Government to the states. The Australian Government makes 2 types of payments in this regard:

- 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 Australian Government 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.

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

Box 7.1 Effective federal financial relations – positioning Queensland for the future

- 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.
- Combined effort is required to address Queensland’s needs and priorities—to transform the energy sector, ensure sustainable service delivery in areas such as health, housing and skills, and to successfully deliver international events like the Brisbane 2032 Olympic and Paralympic Games.
- The Australian, state and territory governments are strategically planning to support the least-cost transition to a reliable, accessible and affordable renewable energy sector. With all levels of government agreeing to achieve zero net emissions by 2050, Queensland is progressing with material and measured investment in transmission, generation, storage and hydrogen infrastructure to secure critical policy outcomes. There are clear opportunities for the Australian Government to support these investments and accelerate energy projects critical to energy transformation.
- Health services are a large and growing cost for the Australian, state and territory governments. The COVID-19 pandemic caused significant disruption to health systems and states and territories are bearing financial risks under the current funding arrangement. The Queensland Government will work closely with the Australian Government to address short-term funding issues and embed long-term fiscal sustainability in the Queensland and national health systems.
- The pressure on accessing safe, secure and affordable housing is a matter of national interest as it underpins social, economic and public health outcomes. This is particularly relevant as the Australian Government and state and territory governments begin to review the National Housing and Homelessness Agreement (NHHA)—the key agreement that defines their roles in funding and providing housing and homelessness services. The review is critical to ensure sustainable investment to meet national and local needs. Through the review, the Queensland Government will seek to secure future funding arrangements that account for the pressures on the state’s housing market, specifically in regional and remote areas.
- The Queensland Government will re-engage with the Australian Government regarding negotiation of a new National Skills Agreement. Through this process, the Queensland Government is focused on ensuring Queenslanders can access high quality and relevant training to address state priorities, local economic needs and sector skills shortages, including in emerging industries.
- Brisbane 2032 offers a significant opportunity to showcase Queensland and Australia. The Queensland Government is committed to working with the Australian Government, International Olympic Committee and Games Partners to best position Queensland to successfully deliver this major international sporting and cultural event in 2032.

7.2 Australian Government funding to all states and territories

Across all states, the Australian Government estimates it will provide funding of \$166.433 billion in 2022–23, which is \$995.6 million (or 0.6 per cent) less than in 2021–22, comprising:

- \$83.885 billion in payments as shares of general revenue assistance (i.e. GST revenue) (\$8.326 billion more than in 2021–22)
- \$81.646 billion in payments for specific purposes (\$9.288 billion less than in 2021–22) including:
 - \$28.139 billion in National Health Reform funding, including \$934.1 million in COVID-19 public health response funding
 - \$26.413 billion in Quality Schools funding
 - \$1.645 billion in National Housing and Homelessness funding
 - \$23.844 billion in National Partnership payments (e.g. Infrastructure Investment Program, National Water Grid Fund, DisabilityCare Australia Fund and Preschool Reform Agreement)
 - \$1.606 billion in National Skills and Workforce Development funding.
- \$901.9 million in other payments to states, including:
 - \$816.8 million for certain royalty payments to Western Australia
 - \$42.7 million to Western Australia to compensate for reduced royalties
 - \$42.4 million for municipal services to the Australian Capital Territory.

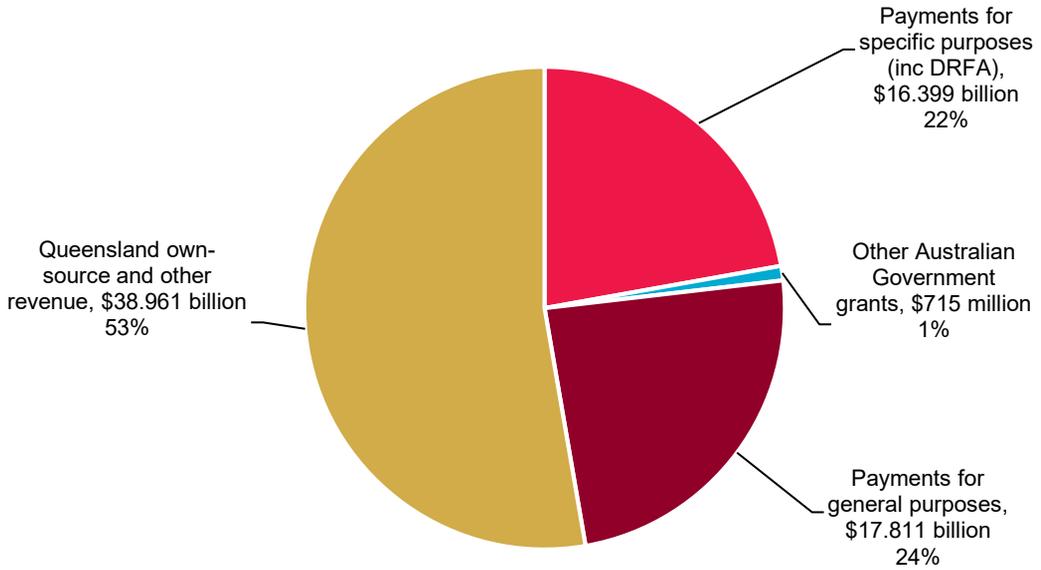
Australian Government payments for specific purposes may not fully fund all underlying programs. Some require states to provide matching contributions (e.g. JobTrainer Fund) or other, financial or in-kind contributions. This reduces budget flexibility for states, particularly where it is not a Queensland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

7.3 Australian Government funding to Queensland

It is estimated the Australian Government will provide the Queensland Government with \$34.925 billion in 2022–23 (\$1.907 billion more than in 2021–22).

Australian Government funding is estimated to account for 47 per cent of Queensland's total General Government Sector revenue sources in 2022–23 (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 2022–23^{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: 2022–23 Federal Budget Paper No. 3 and Queensland Treasury estimates.

7.4 Payments to Queensland for specific purposes

In 2022–23, Queensland expects to receive \$16.399 billion¹ in payments for specific purposes, \$243 million (1.5 per cent) more than in 2021–22.

Table 7.1 Estimated payments of Australian Government grants¹

	2020–21 Actual \$ million	2021–22 Est. Act. \$ million	2022–23 Budget \$ million
Payments for specific purposes			
Skills and Workforce Development funding	315	321	328
National Health Reform funding ²	5,510	5,879	6,030
Quality Schools funding ³	5,226	5,785	6,094
National Housing and Homelessness funding	328	334	342
National Partnership payments (incl. DRFA)	4,588	3,837	3,606
Total payments for specific purposes	15,967	16,157	16,399
Other Australian Government grants ⁴	1,287	1,048	715
Total payments for specific purposes and other Australian Government grants	17,254	17,205	17,114
Notes:			
1. Numbers may not add due to rounding.			
2. Includes funding for the COVID-19 public health response of \$267 million in 2020–21 and \$220.3 million 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: 2022–23 Federal Budget Paper No. 3 and Queensland Treasury estimates.</i>			

Payments for specific purposes comprise funding for National Health Reform, Quality Schools, National Housing and Homelessness, the Skills and Workforce Development National Specific Purpose Payment (SPP) and National Partnership (NP) payments.

In 2022–23, National Health Reform funding, which accounts for 36.8 per cent of the total payments for specific purposes, is estimated to increase by \$150 million (2.6 per cent) from 2021–22. The low increase in 2022–23 is due to the inclusion of COVID-19 public health response funding in 2021–22 (\$220.3 million). If the impact of the COVID-19 health response funding in 2021–22 is removed, National Health Reform funding is expected to increase by \$370.6 million (6.5 per cent) from 2021–22.

¹ Queensland Treasury estimates.

Queensland Government projections of National Health Reform funding differ from the projections contained in the 2022–23 Federal Budget as Australian Government projections assume higher activity growth than projected in service agreements between the Queensland Department of Health and Hospital and Health Services. 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 37.2 per cent of the total payments for specific purposes, is estimated to increase by \$309 million (5.3 per cent) to \$6.094 billion in 2022–23.

National Housing and Homelessness funding is estimated to increase by \$7 million (2.2 per cent) in 2022–23, which includes additional temporary funding allocated by the Australian Government to support social and community service workers wages in the housing and homelessness sectors.

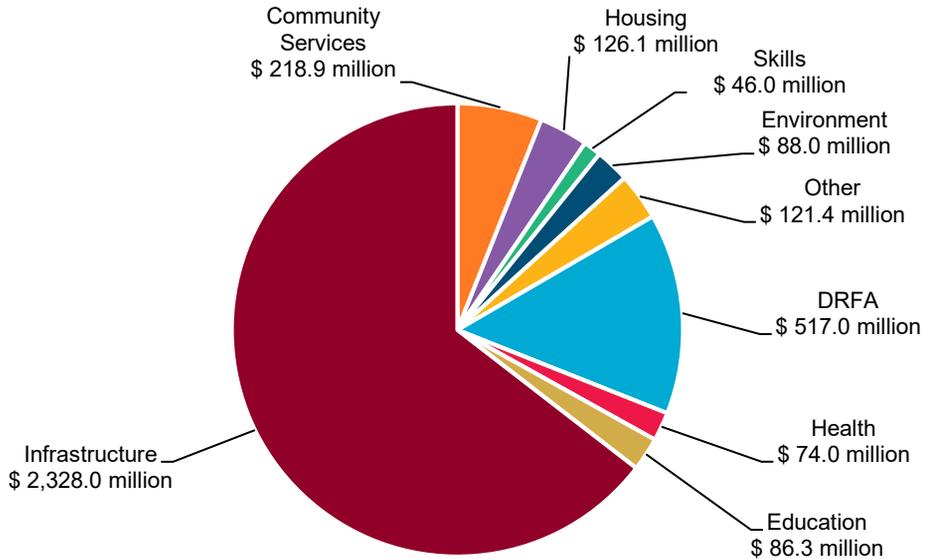
Skills and Workforce Development funding is expected to increase by \$7 million (2.3 per cent) in 2022–23 compared to 2021–22. Given its high priority in a tight labour market, the Australian Government and state and territory governments are working towards finalising a new National Skills Agreement to replace the Skills and Workforce Development SPP.

NP payments (including DRFA), which account for 22 per cent of the total payments for specific purposes, are estimated to decrease by \$231 million (6.0 per cent) in 2022–23 compared to 2021–22. A significant proportion of NP payments is allocated to infrastructure, DRFA and community services (refer to Chart 7.3).

The reduction in NP payments between 2021–22 and 2022–23 is mainly due to the:

- cessation of the temporary COVID-19 business support grant program in 2021–22
- expected reduction in HomeBuilder grant payments due to the program drawing to a close towards the end of 2022–23.

Chart 7.3 National Partnership Payments by sector, 2022–23¹



Note:

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

Sources: 2022–23 Federal Budget Paper No. 3 and Queensland Treasury estimates.

Other Australian Government grants include payments direct to Queensland Government agencies for Australian Government own-purpose expenditure. In 2022–23, Queensland expects to receive \$715 million in other Australian Government grants, \$333 million (31.8 per cent) less than in 2021–22. The decrease 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 are expected to steadily increase, with average growth of approximately 3.1 per cent between 2022–23 and 2025–26.

While increases in overall funding are timely, payments tied to specific purposes and Australian Government criteria restricts Queensland’s capacity to respond to local needs, reduces state budget flexibility, adds administrative costs, and impacts on the achievement of policy outcomes and priorities. This negative impact is amplified when funding is conditional on Queensland matching Australian Government funding, unrealistic timeframes, rudimentary national price benchmarks and misalignment with state priorities.

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. The COVID-19 pandemic continues to put pressure on the state's health system as it responds to increased demand, deferred care and ongoing workforce challenges. If growth in hospital activity exceeds 6.5 per cent, the state risks assuming a significantly larger financial burden to address these challenges.

Growth in Quality Schools funding for Queensland is expected to average 3.9 per cent between 2022–23 and 2025–26 in line with enrolment growth and increased funding per student. Queensland is expecting to receive \$9.690 billion for state schools and \$16.230 billion (including GST) for non-government schools from 2022–23 to 2025–26.

7.4.2 Expiring agreements

Under the Intergovernmental Agreement on Federal Financial Relations, the Australian Government provides time-limited funding to states and territories 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. The expiry of many large NPs over the last few years, such as the National Partnership on Remote Housing, which has required Queensland to invest approximately \$100 million a year, highlights this risk. 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 23 agreements¹ expected to expire in 2021–22. At the 2022–23 Federal Budget, the Australian Government allocated funding beyond 2021–22 for 7 expiring agreements:

- universal access to early childhood education – replaced by the Preschool Reform Agreement with funding from 2021–22 to 2025–26
- public dental services for adults – funding extended to 2022–23
- national bowel cancer screening program – funding extended to 2023–24
- family law information sharing program (schedule A) – national funding allocated over 3 years from 2022–23 to continue the program, with state allocations yet to be finalised
- family law information sharing program (schedule B) – national funding allocated over 3 years from 2022–23 to continue the program, with state allocations yet to be finalised
- national tropical weeds eradication program – funding extended to 2023–24
- national exotic fruit fly in Torres Strait eradication program – funding extended to 2026–27.

¹ Includes any expiring schedules to Federation Funding Agreements.

The 2022–23 Federal Budget did not allocate funding beyond 2021–22 for 2 expiring and important funding agreements – Project Agreement for Phase 2 of the Queensland Government’s Household Resilience Program and Project Agreement for Yellow Crazy Ant Control – Wet Tropics of Queensland.

A funding extension or renewal was not sought for the remaining 14 expiring agreements due to the short-term nature of the programs. These include temporary funding provided for the COVID-19 business support grant program, legal assistance for bushfire support, wildlife and habitat bushfire recovery and COVID-19 legal assistance funding.

7.5 State–local government financial relations

The Queensland Government allocates considerable funding in the 2022–23 Queensland Budget to support local governments across the state. This recognises the critical role local governments play in supporting their local communities.

In 2022–23, the Queensland Government will provide a total of \$2.280 billion in grants to local governments.

This includes current 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.

Significant stimulus delivered in response to the COVID-19 pandemic included the COVID Works for Queensland program and the Unite and Recover Community Stimulus Package. These initiatives have assisted Queenslanders in the ongoing economic recovery.

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 2025–26)
Works for Queensland	Supports local governments in regional areas to undertake job creating maintenance and minor infrastructure works.	\$970 million ¹
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
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.	\$190 million ²
Unite and Recover Community Stimulus Package	Supports SEQ 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
Transport Infrastructure Development Scheme	Provides targeted investment in regional local government transport infrastructure.	\$770 million
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.	\$318.9 million ³
Coastal Hazard Adaptation Program – QCoast2100	Assists coastal local governments to prepare plans and strategies for addressing the impact of climate change.	\$15 million
Queensland Water Regional Alliances Program	Assists regional councils to collaborate and improve the efficiency and administration of water infrastructure.	\$15 million
Notes:		
1. Total funding of \$1 billion out to 2026–27		
2. Total funding of \$200 million out to 2026–27		
3. Funding is ongoing. Figure is based on current projections.		

In addition to the above grant programs, the Queensland Government has signed the National Partnership Agreement on Disaster Risk Reduction, which is a 5-year partnership between the Australian Government and the states to support disaster mitigation projects and build resilience to natural disasters. This fund is administered by the Queensland Reconstruction Authority (QRA) and replaces the Queensland Disaster Resilience Fund.

The QRA also administers 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 government administers significant funding (close to \$1.7 billion in expenditure expected in 2022–23) 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.

The Queensland Government also understands there are added challenges faced by Indigenous councils to ensure their communities have access to essential services and critical infrastructure.

To address these challenges, the government has allocated substantial funding to specifically support Indigenous councils and their communities.

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 2025–26)
Indigenous Councils Critical Infrastructure Program	Contributes to the cost of water, wastewater and solid waste infrastructure in Indigenous communities.	\$120 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
State Government Financial Aid	A financial contribution (in lieu of rates) to meet the costs incurred by Indigenous councils in the provision of local government services.	\$387.8 million ¹
Indigenous Local Government Sustainability Program (2016–18)	Assisted Indigenous councils to increase their capacity, capability and sustainability.	\$7.7 million

Note:

1. Funding is ongoing. Figure is based on current projections