

6. FEDERAL FINANCIAL RELATIONS

- All Australian states and territories (the states), including NSW, rely on the Australian Government to fund essential public services, primarily through National Agreements, partnerships and GST payments.
- New South Wales revenue from National Agreements has increased over the forward estimates relative to the forecast at the 2024-25 Half-Yearly Review, driven by the landmark Better and Fairer Schools Agreement and a one-year extension of the National Health Reform Agreement.
- Several key national partnerships are also scheduled to be agreed over 2025-26, including a long-term National Health Reform Agreement and a new Preschool Reform Agreement.
- The Better and Fairer Schools Agreement, agreed in March 2025, will fully fund NSW Government schools by delivering 100 per cent of the Student Resource Standard. This represents a \$10.4 billion funding injection, comprising \$5.6 billion from the NSW Government and \$4.8 billion from the Australian Government.
- NSW GST relativity will decline from 0.87 in 2024-25 to 0.86 in 2025-26. While New South Wales is forecast to receive a historically low share of the national GST pool, the release of the Commonwealth Grants Commission's 2025 Methodology Review and near-term strength in national GST collections have increased forecast GST revenue by \$1.5 billion in 2025-26 compared to the 2024-25 Half-Yearly Review.

6.1 Introduction

Australia's federal system, as set out in the Constitution, confers specific powers on the Commonwealth but leaves the states with full powers with respect to any matters other than those taken from them by the Constitution. These include the provision of essential services such as schools, hospitals, transport, and emergency services.

Due to the Vertical Fiscal Imbalance (refer to Box 6.1 below), New South Wales relies on the Australian Government to assist in funding essential public services. The Intergovernmental Agreement on Federal Financial Relations guides this relationship across governments.

Box 6.1: Vertical Fiscal Imbalance and the role of the Australian Government

Vertical Fiscal Imbalance arises because the states have close to equal share of spending responsibilities under Federation, while the Australian Government has most of the revenue raising power. Limits on the ways in which the states can raise revenue constrains their ability to meet the costs of education and training, health, public transport, police and emergency services, courts and correctional facilities, and other vital public services.

While the states deliver almost half of all government operating expenditure, the Australian Government raises more than 80 per cent of tax revenue and provides around 45 per cent of state revenues. The disproportion in revenue collection and spending responsibilities means that the financial capacity across the Australian governments is imbalanced.

The Australian Government provides two primary forms of financial assistance to states to fill this funding gap – tied grants and general revenue assistance (the latter mostly comprised of GST). For New South Wales, the Australian Government provided 39.5 per cent of the NSW Government's total estimated revenue in 2024-25.

It is estimated the Australian Government will provide the NSW Government with \$49.8 billion in 2025-26 (\$1.7 billion more than forecast in the 2024–25 Half-Yearly Review).

Australian Government payments to New South Wales are expected to be 40.1 per cent of total NSW revenue in 2025-26 and are received through:

- tied funding for core public services and specific program delivery. This tied funding is provided through National Agreements, summarised in Table 6.1 and discussed in detail in section 6.2, and Federation Funding Agreement schedules, summarised in Table 6.2 and discussed in detail in section 6.3
- GST payments, which account for virtually all untied Australian Government payments. GST payments are determined by the size of the total GST pool, the NSW GST relativity recommended by the Commonwealth Grants Commission (CGC) and the NSW population share. GST revenue payments to New South Wales are discussed in detail in section 6.4.

The 2025-26 Australian Government Budget adjusted the amount, profile, and composition of Australian Government funding to New South Wales over the forward estimates.

The Australian Government is expected to deliver \$95.9 billion in tied funding to support areas such as health, education and concessions across the states in 2025-26. This is an increase of \$3.5 billion, or 3.8 per cent, compared to the 2024-25 Australian Government Budget forecast.

6.2 National Agreements

The NSW and Australian Governments partner through National Agreements to deliver key public services and infrastructure. These agreements are typically long-term, enduring and usually negotiated and renewed before expiration to support reliable and uninterrupted delivery of public services. National Agreements will make up \$14.3 billion, or over 67.1 per cent of all tied Australian Government funding to New South Wales and roughly 28.8 per cent of total Australian Government funding received in 2025-26.

Recently negotiated major national agreements include the following:

- Better and Fairer Schools Agreement (BFSA) – the landmark 10-year funding agreement was reached in March 2025 and will inject \$10.4 billion into NSW public schools by 2035:
 - \$5.6 billion from the NSW Government
 - \$4.8 billion from the Australian Government
- National Health Reform Agreement (NHRA) – a one-year extension of the NHRA was signed in February 2025 to facilitate the negotiation of a new long-term NHRA deal throughout the remainder of 2025. This will deliver \$9.5 billion in 2025-26, plus an additional \$407.0 million in additional one-time funding under the interim agreement
- National Skills Agreement (NSA) – a five-year deal signed in October 2023, which commenced in 2024 and will deliver \$727.8 million in 2025-26
- National Agreement on Social Housing and Homelessness (NASHH) – a five-year agreement successfully finalised in June 2024 which will deliver \$550.9 million in 2025-26.

Negotiation of several National Agreements including a long-term NHRA and the Preschool Reform Agreement will either commence or continue throughout late 2025 and the first half of 2026. The terms of these new agreements will have significant implications for grant revenue and key public service delivery over NSW's forward estimates.

Revenue across all National Agreements in the four years to 2028-29 has increased by \$2.4 billion relative to the 2024-25 Half-Yearly Review. This is largely driven by additional schools funding from the new BFSA (\$4.8 billion additional Australian Government funding over 10 years) which replaces the one-year Interim School Funding Agreement, and an uplift in skills funding announced at the 2024-25 Australian Government Mid-Year Economic and Fiscal Outlook (MYEFO) and 2025-26 Australian Government Budget. This funding supports the delivery of high-quality vocational education and training (VET) in New South Wales (\$312.8 million over four years).

Table 6.1: National Agreement payments to New South Wales^{(a)(b)}

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	% Average growth p.a. 2024-25 to 2028-29
	Actual \$m	Revised \$m	Budget \$m	Forward estimates \$m		\$m	
Health	8,380	8,897	9,477	10,489	11,144	11,842	7.4
Education	3,304	3,440	3,555	3,710	3,891	4,127	4.7
Skills and workforce development	595	715	728	734	653	601	(4.2)
Affordable housing	516	540	551	564	575	588	2.2
Other	164	...	...	...	...	...	...
Total National Agreement payments	12,958	13,591	14,311	15,497	16,264	17,158	6.0

(a) Total National Agreements payments include the BFSA, NHRA, NSA and the NASHH.

(b) Forecast National Agreement payments for years following the expiry of an agreement are provisional based on historic trends and subject to future negotiations with the Australian Government.

Box 6.2: Better and Fairer Schools Agreement

The 10-year BFSA, agreed in March 2025, will fully fund NSW Government schools by delivering 100 per cent of the Student Resource Standard (SRS) by 2035. The Australian Government's increased funding share to 25.0 per cent of the Government school SRS will mark the first time that the funding standard developed as part of the Gonski Review is met.

New South Wales will invest an additional \$5.6 billion alongside \$4.8 billion from the Australian Government in NSW public schools over 10 years to 2034-35. In total, this funding injection is the largest uplift in public school funding in NSW history.

The previous version of the school agreement signed in 2018, and the subsequent extension in 2024, included non-cash expenses like depreciation towards the NSW share of the SRS. This led to a reduction in funding for public schools in New South Wales. Under the current agreement, New South Wales will progressively remove these provisions to boost funding for standard expenses that impact learning outcomes. This will ensure the full SRS contribution is directed towards funding improved outcomes for students.

The BFSA commits the NSW and Australian Governments to 10 National Reform Directions targeting three priority areas:

- equity and excellence
- wellbeing for learning and engagement
- a strong and sustainable workforce.

These National Reform Directions range from Year 1 phonics checks and initiatives to encourage the early uptake of Science, Technology, Engineering, and Mathematics subjects, to programs which recognise and reward high performing teachers, and to support student wellbeing by creating safe and respectful environments.

By achieving 100 per cent of SRS funding, the NSW Government will deliver on its 2023 election commitment to fully fund NSW Government schools.

Box 6.3: National Health Reform Agreement

In February 2025, the Australian Government and all states and territories agreed to a one-year interim NHRA, effective from 1 July 2025 to 30 June 2026. This interim agreement provides continuity in hospital funding while longer-term NHRA arrangements are negotiated.

Under the interim agreement, hospital funding is capped at a 6.5 per cent annual growth rate and provides approximately \$32.2 billion in national funding for public hospital services in 2025-26 (up from \$30.2 billion in 2024-25). In addition, the Australian Government has committed \$1.7 billion in one-time, fixed funding nationally for hospitals and related health services.

New South Wales will receive an estimated \$407.0 million share in the additional one-time funding in 2025-26 under this interim agreement.

Negotiations are underway between the Australian Government and states and territories on a new five-year NHRA, linked to negotiations on disability reforms. As part of the National Cabinet commitments made in 2023, the Australian Government agreed to progressively increase its hospital funding contribution to 42.5 per cent by 2030 and 45.0 per cent by 2035 alongside commitments to progress disability reforms. The current Australian Government Contribution Rate is 37.6 per cent, the lowest since 2015-16.

Achieving the 42.5 per cent target expenditure by 2030 will require significant new investment from the Australian Government.

These funding commitments are critical to ensuring the sustainability and responsiveness of the New South Wales public hospital system.

National Agreement on Social Housing and Homelessness

The NSW and Australian Governments agreed to the NASHH, which superseded the outgoing National Housing and Homelessness Agreement from July 2024, and expires in June 2029. The NASHH delivers funding to assist people who are experiencing, or at risk of experiencing, homelessness and supports the provision of social housing across New South Wales.

Initiatives delivered through the NASHH includes crisis and transition accommodation, the construction of new social housing, repairs to existing social housing, and programs for boosting the supply of community housing. The NASHH is supported by annual reporting against the National Outcomes Framework to track progress in reducing the risk of homelessness and equitable social housing provision.

New South Wales is boosting funding by \$114.3 million in 2024-25 and \$482.8 million over the four years to 2028-29 to dedicated homelessness services. NSW support for homelessness is expected to be matched with \$539.6 million in funding provided by the Australian Government through the NASHH in 2024-25, and \$2.3 billion over the four years to 2028-29.

National Skills Agreement

The five-year NSA is a landmark funding agreement between the NSW and Australian Governments which is delivering improvements to the equity, accessibility and quality of NSW's vocational education and training sector. The funding delivered through the NSA is building TAFE NSW's capability to respond to the demand for skills in the labour market by delivering high-quality tertiary training to boost NSW's productivity over the medium and long-term.

Initiatives under the NSA include the Improved Completions for Priority Groups and the NSW TAFE Centres of Excellence which are industry-leading education facilities such as the Western Sydney Advanced Manufacturing Centre of Excellence in Wetherill Park and the Hunter Net Zero Manufacturing Centre of Excellence in Tighes Hill.

New South Wales is expected to receive \$2.7 billion over the four years to 2028-29. This includes an additional \$187.1 million in Australian Government flexible funding under the agreement based on increased New South Wales eligible expenditure of \$377.4 million for skills measures in the 2025-26 Budget.

National Disability Insurance Scheme

The bilateral agreement between the NSW and the Australian Government on the National Disability Insurance Scheme (NDIS) remains in place until 30 June 2028. This agreement secures NSW's contribution at approximately \$38.0 billion over 10 years (2018-19 to 2027-28), with a fixed annual indexation rate of 4.0 per cent.

The National Partnership on Disability Care Australia Fund Payments expired at the end of 2024. It facilitated the payment of funds from the Australian Government to states for expenditure incurred in relation to implementation of the NDIS. Over the life of the agreement, New South Wales received \$3.1 billion.

Negotiations on a longer-term agreement on disability reform will continue throughout 2025. The Disability Reform Ministerial Council recently reaffirmed the 2023 National Cabinet commitment that the combined disability and health reforms will see all states and territories better off.

Upcoming National Agreement Negotiations

Several other National Agreements are set to be negotiated between the NSW and Australian Government ahead of their expiry over the next 18 months.

- The Preschool Reform Agreement (PRA) supports the delivery of 15 hours of preschool a week, or 600 hours per year, for all children in the year before they commence primary school. Initiatives under the PRA are also in place to boost attendance and better prepare children to transition into school. The PRA is due to expire in December 2025.
- The National Mental Health and Suicide Prevention Agreement, due to expire on 30 June 2026, funds vital support services to improve general mental health, reduce the risk of suicide, and improve the quality and capacity of the mental health and suicide prevention system.

6.3 Federation Funding Agreements

The Australian Government provides payments to support specified projects, ongoing service delivery, or service delivery improvements which fall outside of the core public services delivered through National Agreements.

NSW total Federation Funding Agreement (FFA) funding in 2024-25 is expected to be \$1.1 billion lower than forecast at the 2024-25 Half-Yearly Review, and \$1.5 billion higher over the four years to 2028-29.

This increase over the forward estimates has largely been driven by:

- reprofiling of expected payments under the Disaster Recovery Funding Arrangements due to timing adjustments in the associated expenditure profiles and additional expected payments for natural disaster events experienced in New South Wales in 2025
- an upward revision to the FFA Schedule on Land Transport Infrastructure Projects 2024-2029, largely driven by new funding commitments including the Fifteenth Avenue upgrade in Western Sydney. This is partially offset by reprofiling of revenue for joint Australian Government projects to align with updated project schedules into the forward and planning years
- \$407.0 million for the additional one-time funding in 2025-26 under the interim one-year NHRA.

Table 6.2: Federation Funding Agreement payments to New South Wales

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	% Average growth p.a. 2024-25 to 2028-29
	Actual	Revised	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Transport	3,413	3,637	3,122	2,974	2,494	2,257	(11.2)
Education and skills	138	287	162	50	...	...	(100.0)
Disability	362	...	...	...	...	...	...
Health	118	198	634	87	106	1	(76.1)
Housing	13	5	6	...	...	...	...
Environment	105	319	1,815	1,447	2,360	663	20.0
Other	840	2,169	1,267	1,133	1,504	1,889	(3.4)
Total Federation Funding Agreement payments	4,988	6,615	7,006	5,692	6,464	4,809	(7.7)

Of all FFA funding received by New South Wales, infrastructure funding will comprise 56.4 per cent in 2024-25. The 2025-26 Australian Government Budget allocated New South Wales \$4.5 billion in total Australian Government infrastructure funding in 2024-25 and \$14.1 billion over the four years to 2028-29.¹ This equates to 28.7 per cent of total Australian Government infrastructure funding in 2024-25 and 24.1 per cent over the forward estimates. NSW's share of the national population is forecast to average 31.0 per cent over the same period.

Chart 6.1 compares each state's share of total Australian Government infrastructure expenditure relative to their share of the national population.

Chart 6.1: State infrastructure funding share vs population share over the four years to 2028-29^(a)

(a) Data sourced from the 2025-26 Australian Government Budget.

¹ Data sourced from the 2025-26 Australian Government Budget.

6.4 GST revenue

The Australian Government distributes GST revenue to the states and territories based on a combination of their population share, expenses associated with providing public services, and their capacity to raise revenue. The CGC assesses the revenue and expense needs of each jurisdiction and assigns them a relativity which determines their share of the GST pool each year.

Table 6.3 shows the impact that changes to NSW's population, relativity, and the national GST pool is expected to have on GST revenue over the forward estimates.

Table 6.3: GST (including “no worse off”) revenues to New South Wales – reconciliation statement

	2024-25 Revised \$m	2025-26 Budget \$m	2026-27 \$m	2027-28 \$m	2028-29 \$m	Four years to 2028-29 \$m
2024-25 Half-Yearly Review	25,957	26,402	26,416	27,366	28,130	108,314
Updates since 2024-25 Half-Yearly Review:						
Change in relativities	...	966	1,594	1,601	2,008	6,169
Change in pool	196	620	386	428	434	1,868
Change in population	(54)	(55)	(260)	(418)	(550)	(1,283)
2025-26 Budget	26,099	27,933	28,136	28,977	30,022	115,068
Change since 2024-25 Half-Yearly Review	142	1,531	1,720	1,611	1,892	6,754

Box 6.4: Horizontal Fiscal Equalisation and GST Distribution

GST is distributed upon the basis of Horizontal Fiscal Equalisation, which is the principle that all jurisdictions should be able to provide the same level of public services to their residents regardless of where they live in Australia.

The CGC assesses whether states have above or below average capacity to raise revenue, and whether they have above or below average costs, compared to other states. States that have an above average capacity to raise revenue or lower costs relative to other states will receive less GST per capita than other states.

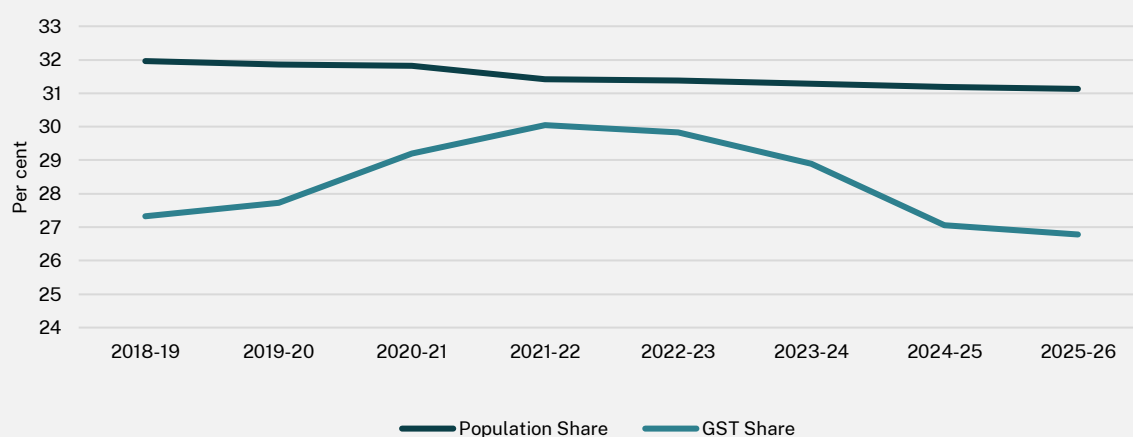
GST redistribution

In 2018, the principle underpinning GST distribution was changed so that the capacity of states to deliver public services does not have to be fully equalised, but instead reasonably equalised. This departs from horizontal fiscal equalisation.

The 2018 reforms included benchmarking other states and territories to the stronger of New South Wales or Victoria as well as implementing a relativity floor, which solely benefits Western Australia. These reforms effectively exclude Western Australia from the equalisation process at the expense of other states.

Since the introduction of the GST in 2000, New South Wales has never received as much as its population share of the GST pool. If GST was distributed on a per capita basis, from 2025-26 onwards New South Wales would receive an additional \$12.7 billion over the four years to 2028-29.

Chart 6.2: 2018-19 to 2025-26 Population vs GST distribution share



While the GST share for New South Wales has fluctuated over time, New South Wales has always been a donor state. Over the past few years, New South Wales has faced declines in relativity, significantly tightening the State's fiscal capacity.

New South Wales submissions to the 2018 Productivity Commission Review highlighted concerns that the current distribution system is complex, opaque, and understood by the states to be unfair. It is also volatile, meaning every year states' positions improve and worsen, creating unnecessary tension.

GST revenue including “no worse off” payments is estimated to be \$26.1 billion in 2024-25 and is forecast to grow modestly over the forward estimates.

Following the 2025 Review (see Box 6.5), the CGC recommended a GST relativity for New South Wales in 2025-26 of 0.86. This means that New South Wales will only receive 86 per cent of its population share of GST. Had the 2018 reforms not been implemented, New South Wales would receive 94.6 per cent of its population share from GST distribution, which equates to an extra \$2.2 billion in 2025-26. This loss has been offset by the temporary no-worse off payments.

The CGC’s recommendation of 0.86 represents a slight decline from 0.87 in 2024-25, but is higher than the 0.84 expected at the 2024-25 Half-Yearly Review. The main driver of this upgrade is data revisions, including natural disaster relief expenses in New South Wales which were revised up as costs relating to floods in the Northern Rivers region were finalised.

GST revenue has been revised up by \$142.0 million in 2024-25 and \$6.8 billion over the four years to 2028-29.

National GST collections have been significantly stronger than expected since the 2024-25 Half-Yearly Review. As a result, the national GST pool is estimated to grow by 6.3 per cent in 2024-25. The outlook for consumption and dwelling investment is slightly weaker compared to previous forecasts as a result of tariff uncertainty. However, growth is expected to remain resilient, averaging 5.0 per cent per annum over the four years to 2028-29. Upgrades to the national GST pool since the 2024-25 Half-Yearly Review contribute to an additional \$1.9 billion in GST revenue for New South Wales over the four years to 2028-29.

NSW’s share of the national population has steadily declined over the past decade, dropping from 32 per cent in 2014-15 to an estimate of 31 per cent in 2024-25. A further decline relative to other states and territories over the forward estimates is expected, consistent with projections in the Australian Government’s 2025-26 Budget. Overall, a lower NSW population share is forecast to reduce GST revenue by \$1.3 billion over the four years to 2028-29 compared to 2024-25 Half-Yearly Review.

Box 6.5: The 2025 Methodology Review and Update

The CGC conducts five-yearly methodology reviews to ensure GST distribution reflect states' circumstances. Annual updates are conducted every year to recommend relativities, refresh data and manage new and emerging issues. The most recent methodology review concluded in March 2025, with the release of the outcomes and the 2025-26 relativities.

The CGC estimates its method changes have improved NSW's 2025-26 total GST distribution by \$237.0 million. Method changes which resulted in improvements in NSW's GST receipt include:

- COVID-19 expenditure will now be assessed on an actual per capita basis, meaning that needs assessed will reflect what each state actually spent. This has significantly improved NSW's GST for 2025-26 in the services to industry assessment (driven by business support payments) by \$456.0 million and health assessment by \$209.0 million
- recognising differences in metallurgical and thermal coal, and state royalty raising potential, results in a material gain of \$59.0 million for New South Wales
- the inclusion of a new assessment of state revenue capacity related to stamp duty for motor vehicles improved NSW's GST distribution by \$51.0 million.

Table 6.4: *Impact of the 2025 Methodology Review on GST distribution for New South Wales by category^(a)*

Assessment Category	Indicative Impact \$m
Revenue	
Land tax	(22)
Motor taxes	51
Mining	59
Expenses	
Schools	(50)
Health (Other)	71
Health (COVID-19)	209
Housing	22
Roads	21
Transport	(267)
Services to industry (Other)	(160)
Services to industry (COVID-19)	456
Other expenses	34
Wage costs	(194)
Other	
Investment	76
Commonwealth payments	(23)

(a) Table 6.4 only includes method change impacts where change was over \$20 million. Summation will therefore not add to \$237 million.

Working cooperatively across the Federation

As part of the Federal Financial Relations framework, the Council on Federal Financial Relations, a forum comprising all state Treasurers and the Australian Treasurer, oversees the development and negotiation of national agreements, joint-policy challenges and other key partnerships between the Australian Government and states.

The Board of Treasurers (the Board) was established for states to collaborate on policy issues of common interest, progress national reform priorities, and foster constructive and strategic engagement with the Australian Government. The Board is chaired by a state Treasurer on a rotational basis for a calendar year.

The NSW Treasurer is the Board Chair in 2025. This provides the NSW Treasurer an opportunity to progress and lead on key priorities for collaboration between the states and the Australian Government.

The key priority areas in 2025 for the Board are health and disability funding and reform, the Productivity Commission's review of the 2018 amendments to GST legislation, road user charging and disaster recovery and resilience funding.