

## Appendix E: Appropriations and conditions

Funding to state and territory governments (states) is provided through grants of financial assistance. This is supported by section 96 of the Constitution which provides that the Commonwealth Parliament ‘may grant financial assistance to any State on such terms and conditions as Parliament thinks fit’ (and by section 122 for Territories). This is the mechanism used to enable payments under the Federal Financial Relations framework.

Under the *Federal Financial Relations Act 2009 (FFR Act)*, the amount of National Partnership payments and other general revenue assistance in each financial year must not exceed specified debit limits. The limits are deliberately set well above the expected level of expenditure to ensure the Australian Government has sufficient scope not only to deal with existing commitments to the states but also to deal with large-scale natural disasters or unforeseen agreements with the states that require large payments to be made in the current financial year. The debit limits, which are set out in *Appropriation Acts No.2* and *No.4*, and *Supply Act No.2* as relevant, do not appropriate amounts to be paid to the states; they only set a limit to the amount that can be paid.

Agreements underpinning Commonwealth–state payments are available on the Federal Financial Relations website, at: [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au). All legislation is available at: [www.legislation.gov.au](http://www.legislation.gov.au).

**Table E.1: Appropriation mechanisms and terms and conditions for state payments**

Payment type	Appropriation mechanism	Terms and conditions
National Partnerships	The FFR Act (section 16) allows the Treasurer to make a determination crediting amounts to the Federation Reform Fund for the purpose of making these payments <sup>(a)</sup> . The <i>Federation Reform Fund Act 2008</i> (section 6) and the <i>Public Governance, Performance and Accountability Act 2013</i> (section 80) provide the appropriation for these amounts.	The <i>Federation Reform Fund Act 2008</i> (section 7) provides that the terms and conditions for National Partnership payments must be set out in a written agreement between the Australian Government and the recipient state. Agreements are signed either at first minister, Treasurer, or portfolio minister level.
National Health Reform (NHR)	NHR payments are made under the FFR Act (section 22). Monthly advance payments throughout the year are made under section 17.	The statutory framework for NHR payments is set out in the <i>National Health Reform Act 2011</i> . Terms and conditions are set out in the <i>National Health Reform Agreement</i> .
Better and Fairer Schools	Payments of recurrent funding are made under the <i>Australian Education Act 2013</i> (AEA) (section 26). Special circumstances funding (section 69), prescribed circumstances funding (section 69A) and funding for non-government representative bodies (section 70) are also made under the AEA, through ministerial determinations.	Terms and conditions are set out in the AEA and the <i>Australian Education Regulations 2023</i> and the <i>Better and Fairer Schools Agreement 2025–2034</i> .
National Skills Agreement (NSA)	NSA ‘flexible funding’ payments are made under the FFR Act (section 22). Monthly advance payments throughout the year are made under section 17.  NSA payments for ‘Policy Initiatives’ are made in line with payments for National Partnerships.	Terms and conditions are set out in the <i>NSA and subsidiary agreements</i> . Agreements are signed either at first minister or portfolio minister level.
National Agreement on Social Housing and Homelessness (NASHH)	NASHH payments are made under the FFR Act (section 22). Monthly advance payments throughout the year are made under section 17.	Terms and conditions are set out in FFR Act (section 15C) and in the <i>NASHH and bilateral schedules</i> , signed at portfolio minister level.
Energy Bill Relief (EBR)	EBR payments relating to the 2023–24 financial year are made under the FFR Act (section 22). Advance payments are made under section 17.  EBR payments relating to the 2024–25 and 2025–26 financial years are made in line with payments for National Partnerships.	Terms and conditions are set out in the <i>EBR agreements</i> between the Australian Government and the states.

**Table E.1: Appropriation mechanisms and terms and conditions for state payments (continued)**

Payment type	Appropriation mechanism	Terms and conditions
National Access to Justice Partnership (NAJP)	NAJP payments are made in line with payments for National Partnerships.	Terms and conditions are set out in the <u>NAJP</u>
Water for the Environment Special Account	Payments are made under the <u>Water Act 2007</u> (section 86AD), through the Water for the Environment Special Account.	Under the <u>Water Act 2007</u> (section 86AF), terms and conditions are set out in a ministerial-level funding agreement between the Australian Government and relevant states.
Financial Assistance Grants to local governments	Payments are made under the <u>Local Government (Financial Assistance) Act 1995</u> (section 19).	Funding under the <u>Financial Assistance Grant program</u> is allocated in accordance with national principles ( <u>Local Government (Financial Assistance) Act 1995</u> , section 6).
Sinking Fund on State Debt	Payments are made under the <u>Financial Agreement Act 1994 (FAA Act)</u> (section 5).	The method and rate for determining the value of annual Australian Government contributions to the Debt Retirement Reserve Trust Account are prescribed in the Schedule to the FAA Act.
Payments under Appropriation Acts	Some payments for schools, Roads to Recovery <sup>(b)</sup> and Local Roads and Community Infrastructure Program <sup>(b)</sup> are made under annual Appropriation Acts.	Terms and conditions are set out in ministerial determinations under the AEA, the <u>National Land Transport Act 2014</u> relating to the Roads to Recovery Program and <u>Local Roads and Community Infrastructure Program Guidelines</u> .
GST payments	GST Payments are made under the FFR Act (section 22). Monthly advance payments throughout the year are made under section 17.	The distribution of the GST among the states is set out in the FFR Act (section 5). Further provisions governing the GST payments are also included in the <u>Intergovernmental Agreement on Federal Financial Relations</u> (IGA).
Other general revenue assistance	The FFR Act (section 9) allows the Treasurer to make a determination crediting amounts to the Federation Reform Fund for the purpose of making these payments. The <i>Federation Reform Fund Act 2008</i> (section 6) and the <i>Public Governance, Performance and Accountability Act 2013</i> (section 80) provide the appropriation for these amounts.	Terms and conditions are set out in Schedule D to the IGA.

a) In limited circumstances, amounts from other Appropriation Acts can be credited to the Federation Reform Fund for making National Partnership payments.

b) Includes payments made directly to local governments.