

NEW SOUTH WALES

FINANCIAL ARRANGEMENTS
BETWEEN THE
COMMONWEALTH AND
NEW SOUTH WALES

1990–91

BUDGET PAPER No. 4



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1 INTRODUCTION

Historically, Commonwealth payments and allocations to New South Wales have funded a significant, though declining, proportion of the State Budget. In 1990-91 the Commonwealth will fund some 39 per cent of New South Wales Budget expenditure. This compares with 47 per cent five years ago. In addition to this funding, the Commonwealth Government also controls the level of borrowings by State semi-government and local authorities (through Loan Council).

Commonwealth payments and allocations to New South Wales take three main forms:

- General revenue funds in the form of the financial assistance grant which is an unconditional payment to the State.
- Specific purpose payments. These are conditional payments which are to be used for either specific recurrent or capital purposes. They may be either grants (non-repayable) or advances (repayable). In addition, advances may be at market related interest rates, at concessional rates, or interest-free. Specific purpose payments predominantly take the form of grants.
- Loan Council allocations. These consist of both general purpose capital funds provided by the Commonwealth in the form of grants and borrowing allocations for State authorities and departments.

Chapter 2 of this Budget Paper discusses the latest developments in intergovernmental financial relations. Chapter 3 provides an overview of payments and allocations and recent trends. Chapters 4 to 6 describe each of these forms of funding in turn. Chapter 7 describes the financial assistance provided by the Commonwealth to local government in New South Wales. The appendix describes the history of the various forms of payments made by the Commonwealth to New South Wales.

It should be noted that in Chapters 2 and 3 references to aggregate levels for specific purpose payments (and consequently total net payments) take account of those payments for which the States only act as an agent for the Commonwealth. Payments in the areas of higher education, non-government schools and local government financial assistance grants are deducted from published Commonwealth specific purpose payments. In addition, growth figures for aggregate payments take account of the 1990-91 deduction from financial assistance grants to adjust for the Commonwealth decision to transfer the Bank Debts tax to the States, and the increased loan repayments resulting from the Loan Council decision on the takeover by the States of Commonwealth debt raised on their behalf.

Unless indicated otherwise, amounts shown in this document are as shown in the Commonwealth Budget Paper Number 4 "Commonwealth Financial Relations with Other Levels of Government". Where different figures appear in other New South Wales Budget documents, this will generally reflect the different timing of estimates or accounting adjustments.

2 RECENT DEVELOPMENTS IN INTERGOVERNMENTAL FINANCIAL RELATIONS

Several recent developments in intergovernmental financial relations have important implications for New South Wales. The most significant of these developments include the Commonwealth Grants Commission 1990 Update Report, the 1990 Premiers' Conference-Loan Council meeting and the forthcoming Premiers' Conference on microeconomic reform.

REVIEW OF RELATIVITIES BY THE COMMONWEALTH GRANTS COMMISSION

The Commonwealth Grants Commission is required to report on relativities for the distribution of general revenue funds between the States and Northern Territory based on the principle of fiscal equalisation. The distribution of funds "should enable each State to provide, without having to impose taxes and charges at levels appreciably different from the levels imposed by the other States, government services at a standard not appreciably different from the standards provided by the other States".

In April 1990 the Commonwealth Grants Commission completed its 1990 Update review of the distribution of Commonwealth financial assistance grants between the States. Earlier full reviews were completed in 1981, 1982, 1985 and 1988. The Commission's 1990 Update Report is the second of a series of annual updates of relativities which will occur before the next full review in 1993. Annual updates are based on the methodology applying in the 1988 review.

The terms of reference for the 1990 Update required the Commission to calculate relativities on the basis of both a three and five year review period. A final decision on the most appropriate relativities for the distribution of general revenue grants between the States was to be a matter for the 1990 Premiers' Conference. New South Wales' assessed relativities in 1990-91 were higher under the five year review period option.

The Premiers' Conference decision to fully implement the Commission's assessed relativities based on a five year review period has resulted in an increased share of general revenue assistance for New South Wales in 1990-91, but with lower shares in later years. Overall, the adoption of five year relativities is a net benefit to New South Wales. Special revenue assistance is to be provided in 1990-91 to the Northern Territory to ensure the Territory is not faced with an unreasonably severe cut in total general revenue assistance. This assistance is expected to be \$50.2 million and will reduce the pool of funds to be distributed according to the Grants Commission's relativities.

New South Wales benefited from five year relativities relative to those based on three years of data predominately because of the inclusion of the two earlier years (1984-85 and 1985-86) in the Commission's calculations. The inclusion of these earlier years favoured New South Wales due to a lower assessed revenue raising capacity in those years for payroll tax and stamp duty on property conveyances. In addition, these revenue raising areas were of less significance in the overall revenue raising context.

New South Wales argued strongly that relativities should be based on the fiscal position of the States during the previous five years rather than three years. The use of five years of data will smooth out the impact on Commonwealth funding of cyclical changes in State own source revenues while at the same time ensuring that fiscal equalisation between the States is still being achieved. Relativities based on five years of data will assist in avoiding situations such as New South Wales faced in 1989-90 whereby both own source revenue and Commonwealth funding fall in the same year.

While the Commonwealth's use of the Grants Commission's five year relativities will result in increased revenue for New South Wales, its share of financial assistance grants on a per capita basis still remains substantially less than that of the four smallest States, as indicated in the following table. Overall New South Wales receives \$ 221 per capita less than the other States and Northern Territory. If all States received the same per capita payments, New South Wales would receive an additional \$ 864 million.

Table 2.1
Financial Assistance Grants per capita In 1990-91
\$

New South Wales	633
Victoria	618
Queensland	860
Western Australia	942
South Australia	996
Tasmania	1143
Northern Territory	4309
6 States and Northern Territory	778

1990 PREMIERS' CONFERENCE AND LOAN COUNCIL

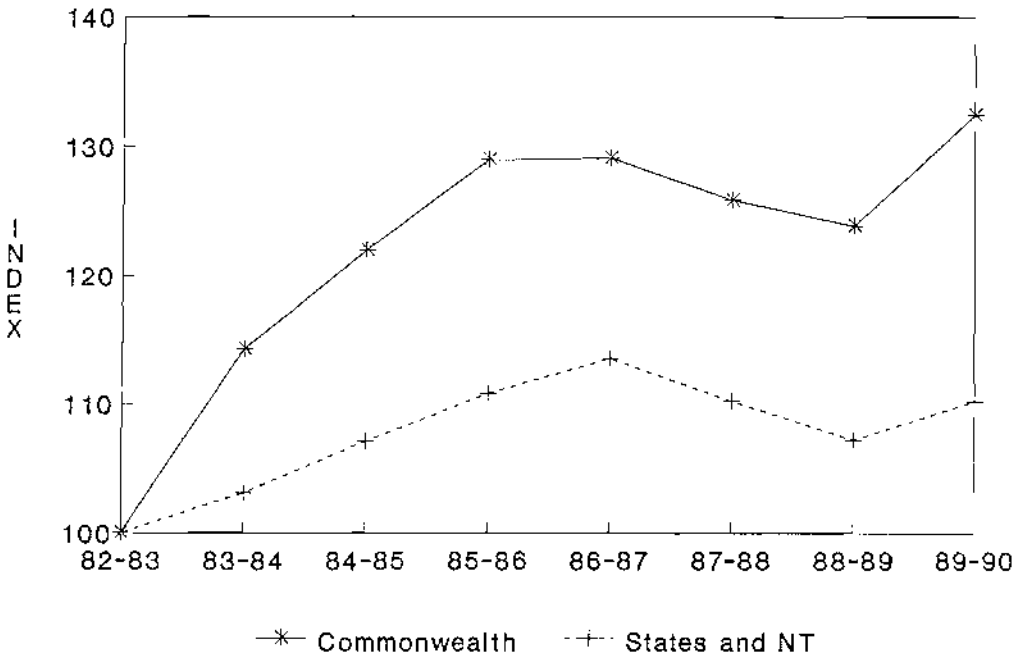
An increased spirit of co-operation between the States was a feature of preparations prior to the 1990 Premiers' Conference-Loan Council meeting. There was general agreement between the States on the relative degree of fiscal restraint shown by the States and the Commonwealth.

The States' Case

It was recognised that Australia's macroeconomic problems required continued restraint in the growth of government outlays and revenues and the financing demands placed by government upon the economy. However, it was argued this burden of restraint must be shared equally between all levels of government. The facts, based on Australian Bureau of Statistics figures*, clearly show that over the seven years to 1989-90 the States have been more restrained in both expenditure and revenue growth than the Commonwealth. When expressed in real terms, over the seven years to 1989-90, State own purpose outlays have increased by 10.2 per cent compared with 32.5 per cent for the Commonwealth (see Figure 2.1). Over the same period, State revenue in real terms has increased by 23.9 per cent compared with 38.7 per cent for the Commonwealth (see Figure 2.2).

Figure 2.1

REAL OWN PURPOSE OUTLAYS

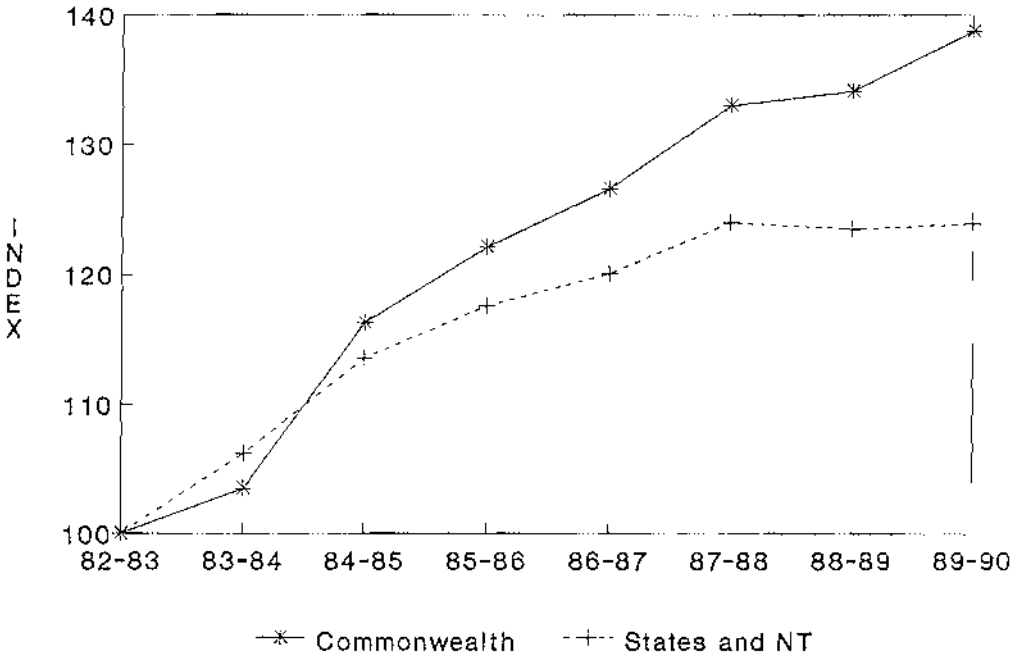


Source: Australian Bureau of Statistics

* These figures are not calculated on the same basis as those provided in Chapter 3 and other Chapters. The figures quoted above are from the Government Financial Estimates publication of the Australian Bureau of Statistics and relate to the overall public sector, encompassing full inner and outer budget sectors.

Figure 2.2

REAL TOTAL REVENUES

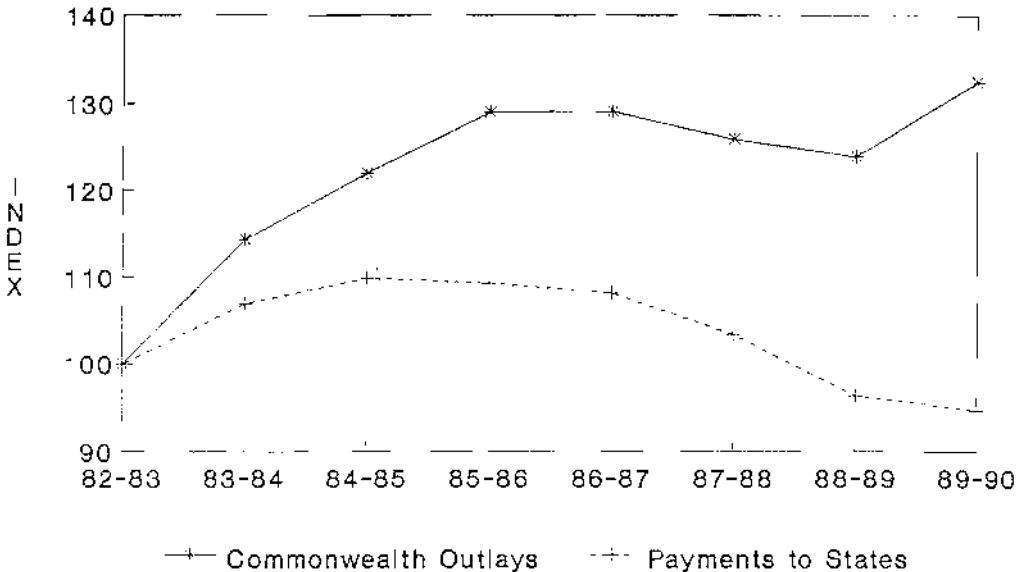


Source: Australian Bureau of Statistics

Furthermore, the Commonwealth has been more restrictive in its payments to the States compared to expenditure on its own functions. While increasing its own spending by 32.5 per cent in real terms, the Commonwealth has decreased payments to the States by 5.3 per cent in real terms (see Figure 2.3). It is therefore wrong to suggest that the States have been less fiscally responsible than the Commonwealth.

Figure 2.3

COMPARISON OF REAL COMMONWEALTH
OWN SPENDING AND PAYMENTS
TO THE STATES AND NT



Source: Australian Bureau of Statistics

The States argued that if the Commonwealth wishes the States to further reduce their net financing requirement this can only be achieved in one of three ways.

- (a) Further cutbacks in State outlays
- (b) Increases in State taxation and charges
- (c) Increases in Commonwealth payments to the States

The States argued that they have already borne the brunt of expenditure restraint and that further reductions in outlays will only result in significant reductions in the level and quality of State services and public infrastructure.

Increases in State taxes and charges were also argued to be undesirable, as they generally tend to be inflationary, inefficient and inequitable. Given the subdued outlook for the economy in the 1990's the outlook for State revenue is bleak. The States as a group were projecting deficits in 1990-91 in excess of 5 per cent of general government outlays - that is more than \$2.5 billion.

The third and only remaining option within the current framework of Commonwealth/State financial relations therefore was for the Commonwealth to provide adequate funding to the States and for the burden of future expenditure restraint to be borne equitably. Since it is the Commonwealth sector which has had the greatest growth in its own outlays in recent years the States argued that it was logical to assume that Commonwealth own purpose outlays have the greatest scope for cutbacks.

The States argued that further cutbacks in Commonwealth funding to the States which result in increases in State deficits will not assist Australia's current account deficit. It was stated that the point had now been reached whereby if the Commonwealth continues with its unbalanced approach to expenditure restraint, the States would be forced to act in ways that would not be helpful to macroeconomic policy but would be necessary to maintain the financial viability of the States.

New South Wales Strategy

New South Wales proposed that at the Premiers' Conference—Loan Council meetings the Commonwealth adopt the following eleven point package.

In return for the Commonwealth agreeing to:

1. Financial assistance grants along with total net payments to the States and Territories to be maintained in real per capita terms.
2. The adoption of a five year base period for calculating the distribution of financial assistance grants to the States and Territories in order to avoid volatile shifts in the States' funding shares.
3. Establishment by the Commonwealth of a Microeconomic Reform Transition Cost Fund that would be shared by the States in accordance with the level of short term costs incurred in implementing agreed microeconomic reforms.
4. Inclusion of Commonwealth—State fiscal relations on the microeconomic reform agenda involving:
 - longer term commitment by the Commonwealth of funding levels for financial assistance grants to facilitate planning by the States;
 - rationalisation of State tax powers to provide a broader, more efficient and equitable tax base and achieve greater correspondence between tax powers and expenditure responsibilities;
 - rationalisation of State and Commonwealth functional responsibilities; and
 - simplification and less prescriptive approach to Commonwealth specific purpose payments.
5. Removal by the Commonwealth of the Bank Accounts Debit (BAD) tax (with offsets in grants to States) to leave the field of taxation of financial transactions to the States.
6. Removal from the global borrowing limits of commercial Government agencies that conform with the principles of corporatisation.

The States to commit to the following:

7. No greater than zero real increase in total Budget Expenditure and States Capital Programs in 1990-91.
8. Global borrowing limits for the States and Territories to be maintained in money terms.
9. Full co-operation with the Commonwealth to achieve microeconomic reform, including commitment to provide all necessary information and facilitate to the maximum possible extent current Industry Commission reviews of energy generation and distribution, rail transport and statutory marketing authorities.
10. Agreement to negotiate terms and conditions for a takeover by the States of Commonwealth debt raised on their behalf.
11. Uniform, timely and accurate presentation of information on States' finances.

New South Wales believed its proposals would have assisted in addressing Australia's macroeconomic problems by reducing the need for States to increase taxes in 1990-91 to fund services demanded by the Australian public.

In addition to releasing its own detailed proposals, New South Wales endorsed a statement of six principles which formed the basis of a common position the States took at the Premiers' Conference-Loan Council meeting. The six principles reflected in a more general way the thrust of New South Wales' eleven point proposal.

Premiers' Conference and Loan Council Outcome

The 1990 Premiers' Conference and Loan Council meetings resulted in a real decline in general revenue payments and borrowing allocations to the States. In contrast, tied payments to the States, reflecting Commonwealth priorities, increased in real terms.

General revenue payments to New South Wales were cut in real terms by \$150.3 million or 3.8 per cent (after taking account of the Commonwealth's decision to transfer the Debits tax to the States). By contrast, the Commonwealth increased its real own purpose outlays by 2.0 per cent. Tied funds* (specific purpose payments) increased by \$131.2 million or 4.5 per cent in real terms. Overall, total net payments* to New South Wales will be \$18.8 million less in real terms in 1990-91 compared with 1989-90. This represents a real decrease of 0.3 per cent.

In summary, the main outcomes of the 1990 Premiers' Conference-Loan Council were:

Financial Assistance Grants

- A cut in financial assistance grants of \$400 million in real terms for all States and the Northern Territory. New South Wales' financial assistance grant is expected to increase by 1.1 per cent. This represents a reduction, in real terms, of \$150.3 million or 3.8 per cent (after taking account of the Commonwealth's decision to transfer the Debits tax to the States).

* For State Purposes and with adjustments to 1990-91 figures (see Introduction).

- A commitment to maintaining financial assistance grants in real terms between 1991-92 and 1993-94 provided there is no "major deterioration in (Australia's) economic circumstances".
- Distribution of financial assistance grants based on five years of data rather than only three years.

Specific Purpose Payments

- Real growth of 3.3 per cent (4.5 per cent for NSW) in specific purpose payments* with much of this growth resulting from increased payments for roads, welfare and natural disaster relief.

Loan Council Allocations

- Maintenance of six States global borrowing limits in money terms (a reduction of 6.5 per cent in real terms) with an increase in New South Wales' global borrowing limit by 3.0 per cent to \$1,177.9 million (\$1,144.1 million in 1989-90).
- Five year phasing in of an equal per capita distribution of global borrowing limits. Currently New South Wales' share is only 30 per cent compared with our population share of 35 per cent.
- Further examination of whether commercial authorities (particularly corporatised entities) should be permitted to be exempted from global borrowing limits.
- Permitting overseas borrowings at present level (ie. at 22 per cent of global borrowing limits).
- Takeover by the States of Commonwealth debt raised on their behalf with full compensation by the Commonwealth.

Microeconomic Reform

- An October Premiers' Conference to be held to discuss microeconomic reform (including a review of functional responsibilities of Commonwealth and State Governments).

Standardised Budget and Accounting Formats

- A working party of Commonwealth and State officers to facilitate an accurate, timely and uniform presentation of information about States' finances and employment (for instance, abolishing the practice of balancing budgets by treating borrowings as revenue).

* For State Purposes and with adjustments to 1990-91 figures (see Introduction).

SPECIAL PREMIERS' CONFERENCE ON MICROECONOMIC REFORM

There was a recognition at the 1990 Premiers' Conference of the need to manage the relationship between levels of government across a wide range of Federal issues more effectively and cooperatively than has been the case in the past. It was agreed that there would be a special Premiers' Conference on the issue of microeconomic reform, including reform of Commonwealth-State financial relations.

Subsequently, the Prime Minister announced a special Premiers' Conference in Brisbane on 31 October and 1 November 1990 and the establishment of a Commonwealth-State Steering Committee to coordinate preparations for the Conference.

The key microeconomic reform issues that need to be discussed by the Conference are:

(1) Reform of Commonwealth-State Financial Relations

There are a range of issues that need to be addressed including:

- Vertical Imbalance

Broadly speaking, the Commonwealth raises 80 per cent of public sector taxation and is responsible for 50 per cent of own purpose outlays. In contrast the States raise only 17 per cent of public sector taxation but are responsible for 45 per cent of own purpose outlays. The result is that the States are dependent on Commonwealth payments for almost 50 per cent of their revenue. This phenomena is termed vertical imbalance. While present in all Federal systems to varying degrees, Australia ranks as having the most extreme degree of imbalance of all Federations. This reflects the predominant power of the Commonwealth in taxation, particularly the monopoly on income and sales taxes.

Professor Wiltshire in a recent EPAC Discussion Paper "Towards A More Cooperative Federalism?" (July 1990) identifies this issue as the fundamental underlying problem in the Australian fiscal federal system. Vertical imbalance is said to produce a number of adverse impacts, namely:

- unclear delineation of responsibilities between levels of Government, leading to overlap and duplication.
- separates, at the State level, accountability for raising revenue from the responsibility for expenditures and hence can act as an impediment to responsible government.
- forces the States to rely on a host of inefficient and distorting State taxes.

- Taxation Assignment and Rationalisation

Closely allied to the issue of vertical imbalance is the issue of what is the most appropriate assignment of taxes between the levels of Government. State Government taxes are relatively narrow and inefficient and an important aspect of any rationalisation would be the replacement of such taxes with broader, more efficient and equitable tax bases.

- Tax Sharing

Currently financial assistance grants are determined unilaterally by the Commonwealth and within the Commonwealth's budget process. However, historically, such grants are compensation for the States vacating the income tax field. An alternative (second best approach) to reducing vertical imbalance would be a return to a tax sharing basis for Commonwealth payments.

- Commonwealth Grants Commission

The Commission is charged with the responsibility for assessing and recommending to the Commonwealth the distribution of financial assistance grants between the States.

The distribution is based on the principle of fiscal equalisation, that is, essentially giving each State the capacity to provide a standard level of services by applying average taxation rates.

The issue that needs to be addressed is to what degree the fiscal equalisation approach, with its emphasis on interstate equity, is in conflict with allocative efficiency of the Australian economy and hence with the objective of microeconomic reform.

- Specific Purpose Payments

In 1990-91 Commonwealth specific purpose payments for State programs increased by 3.3 per cent in real terms while general revenue payments declined by 2.9 per cent (after taking account of the Commonwealth's decision to transfer the Bank Debts tax to the States). This meant that while overall there was not a significant real funding cut, the States were locked into the Commonwealth's priorities and hence, despite their difficult budget positions, had to use Commonwealth funds to increase expenditure rather than cut deficits. There is a need for major reform in this area. There are a number of concerns that need to be addressed to give greater flexibility and responsibility to the States:

- Excessive conditions being imposed on the use of funds provided and onerous financial accountability and other reporting requirements, resulting in inflexible program administration, heavy resource commitment to administrative overheads, inefficiency, waste and duplication of effort (School Education, TAFE, Home and Community Care, Roads, Housing);
- States being required to establish complex project approval and consultation mechanisms with multi-tiered committees and advisory systems involving local community, regional, State, State/Commonwealth and finally joint Ministerial approvals, often with little regard to existing consultative mechanisms (HACC, Roads, Public Transport);
- requiring matching of Commonwealth monies by the States which can put significant pressure on State budgets and have undue influence on State priorities (HACC, Supported Accommodation Assistance Program, Children's Services, Roads, Housing, Health);

- Inadequate prior consultation on program objectives and design resulting in some poorly conceptualised programs and frequent and costly administrative changes after programs have been accepted by State governments (Children's services, Health)
- late publication of program guidelines with resultant delays in commencement and particular State needs being overlooked (School Education, HACC);
- annual appropriations which generate uncertainty and make effective planning by the States virtually impossible (School Education, TAFE, Roads).

What is required to address these problems are:

- (i) Early bilateral consultation on program objectives and conditions so agreement can be reached on the policy context, on program aims, on the specific responsibilities of each government, on performance criteria and monitoring procedures.

The agreed objectives and performance targets should reflect the Commonwealth program-based policy objectives as well as the States' assessed needs and priorities.

- (ii) Grant conditions imposed by the Commonwealth should relate to the objectives of the program and reflect genuine national priorities. Funding should be conditional upon fulfilment of the specified performance measures.

Outcomes not processes should be the focus of attention.

- (iii) Once agreement has been reached on what is to be done, how performance will be measured and what resources are required and these are allocated, the Commonwealth (or the State if the function is to be exercised by the Commonwealth) should not interfere in the detailed implementation of the program. They should step back and let the managers manage.

- (iv) To the maximum extent, specific purpose payments should be made as "block" allocations with small programs being amalgamated to maximise the autonomy of the government responsible for implementing the relevant program.

- (v) Maximum use of existing community consultation mechanisms should be made and approval processes should be speedy and uncomplicated.

Expenditure authority needs to be delegated as close as possible to service delivery levels where expertise is greatest. This also makes for clear lines of accountability.

- (vi) A clear distinction needs to be made between information required by the Commonwealth (or State) for performance evaluation purposes and that required for financial accountability purposes.

- (vii) Three-yearly or five-yearly plans of action to be implemented and administered by the States for all joint programs; and planning and consultative arrangements which are consistent across program areas and take account of existing State planning and consultation mechanisms.

- Global Borrowing Limits

At present the borrowings of all State and Commonwealth authorities, other than financial institutions and statutory marketing authorities, are included within the annually determined global borrowing limit.

There is a strong case for excluding from the limits corporatised bodies which should be placed on an equal footing with the private sector.

- Procedural reforms

There is the need for meaningful Head of Government interaction. Elements of such reforms could include:

- Meetings of Commonwealth and State Treasurers in, say, February, to discuss the outlook for the economy and its impact on the appropriate fiscal policies of governments.
- Reform of Premiers' Conference and Loan Council by the provision of the Commonwealth financial offer at least one week prior to the Conference.
- Establishment of an Intergovernmental Secretariat to service Premiers' Conferences, act as a small research body into intergovernmental financial relations and follow through on agreed areas of reform.

(2) Functional Rationalisation

There is a need for a fundamental reassessment of the respective roles of the various levels of government directed at reducing or eliminating duplication and overlap. This has been the subject of a number of New South Wales Government statements, including a discussion paper prepared for the June Premiers' Conference, "Microeconomic Reform of Commonwealth-State Relations", and a speech by the Premier on 25 July 1990.

While it is extremely desirable to rationalise the administration of joint programs, and in particular, specific purpose payments, there is a more fundamental need to rationalise the respective responsibilities of each level of government.

This can be achieved by:

- (i) clarifying the roles and responsibilities of State and Commonwealth governments and, where appropriate, transferring full responsibility for programs to the relevant level of government; and
- (ii) introducing modern management practices including clear statements of program objectives, performance criteria and monitoring/evaluation mechanisms to place greater emphasis on outputs (what is produced) and outcomes (what is achieved) rather than processes and functions (how services are delivered).

An indication of the extent of overlap, duplication and over-administration is shown by the massive commitment of resources just in negotiating with and reporting to the Commonwealth on some programs. For example, the Departments of Family and Community Services and Health spend almost 75 person years a year on the Home and Community Care program which was worth only \$82 million to NSW in 1989-90. Similarly, the Department of School Education spends about 25 person years a year on the Schools Funding program (\$724 million in 1989-90). These figures relate only to NSW. The situation in other States is similar.

At present we have a framework of unclear responsibilities, conflicting policies and objectives and blurred lines of accountability in relation to some key joint Commonwealth/State programs. As a result, there is wasteful overlap and ineffective reporting mechanisms.

The Commonwealth has become involved in a number of areas that should more appropriately be State responsibilities and it would be to the advantage of all Australians if the Commonwealth were to leave the management of policy in these areas to the States who are generally the service providers.

State governments are better placed than any other level of government to achieve integration and co-ordination of programs delivering services and address emerging needs while still being able to respond to particular local needs.

The Premiers and the Prime Minister need to develop an Agreement or Protocol which will be the framework for rationalizing functions among the different levels of government. The following principles would need to be embodied in any such Agreement:

(i) The Australian Constitution

The matters listed in Section 51 of the Constitution are genuinely national matters and should be the responsibility of the Commonwealth, provided they are interpreted sensibly and not used simply as a device for extending Commonwealth power and influence eg. the use of the Foreign Investment Review Board to override State land use planning responsibilities.

(ii) The National Economy

The development and management of the national economy and what that entails should be the responsibility of the Commonwealth. This would include such matters as companies and securities regulation, standards for packaging and labelling, food standards and public health measures requiring a national focus associated with the import and export of goods and the setting of uniform standards in consumer affairs, and perhaps industrial relations.

(iii) National and Global Environmental Problems

Programs relating to national environmental controls which contribute to the minimization of global and national environmental problems and have clear cross-border implications should also be matters for the Commonwealth.

(iv) Income Support and Redistribution

Programs for income support and redistribution should be a matter for the Commonwealth.

The States, over time, have intruded in the area of income support and redistribution. As a result, inefficient and inequitable structures have emerged. There is scope for rationalisation and development of a consistent Australia-wide approach in this area.

(v) Regional and Local Problems and Issues

The States should be responsible for:

- provision of services to particular regions or local areas; and
- programs needing to be responsive to localised requirements.

Decentralised provision is made necessary (and desirable) by the lack of homogeneity of the demands and aspirations of diverse communities in Australia which have differing political, social and ethical values and the responsibility of governments to respond to local and regional needs.

The physical, economic and social needs of people are not the same throughout Australia. The more localised are the benefits generated by a particular public service, the more likely is it that regional or local provision will be more efficient and effective.

In summary, functions which produce benefits only at a regional level should be the domain of State governments who are best placed to ascertain and respond to localised requirements. These functions include education, hospitals and health, housing and community welfare services like HACC and Children's Services.

(3) Government Trading Enterprise Reforms

State Governments are important providers of services through their ownership of Government Trading Enterprises in such areas as electricity, gas, public transport, water supply and sewerage, port services, grain handling and a host of other trading activities.

The efficiency with which these activities are handled has an important impact on the efficiency and competitiveness of the private sector.

The fundamental need in these areas is the introduction of competitiveness to encourage efficiency, including the removal of barriers to the interstate provision of services.

New South Wales has embarked on a major program of reforms in these areas which is covered in some detail in Chapter 7 of Budget Paper No. 2.

It is desirable that all governments proceed with reform in this area with all due speed. The matters raised have a significant range of intergovernmental issues that need to be addressed, including the across border provision of services and linking of networks (for example in the area of electricity and freight) and clarification of taxation and Loan Council policy for genuinely corporatised bodies.

(4) Reform of Regulatory Systems

Fundamental to the reform of regulatory systems is the choice between national regulation and State based regulations. Where there are State based systems, the issue is one of the most efficient method of coordination. Based on the European experience, an approach based on mutual recognition by Governments of certain agreed principles has more chance of success than an exhaustive approach of uniformity.

(5) Reform of Industries Assistance Policy

All Governments maintain various forms of industry assistance policy. Such policy can be competitive and thus produce a zero sum game for Australia. It would be desirable to seek to establish broad agreed principles to mitigate against negative effects.

(6) Labour Market Reform

While in recent years there have been significant changes in the labour market, involving greater flexibility at the margin in wage determination, there is considerable scope for further reform.

The New South Wales Government is committed to moving towards an enterprise level approach to the labour market which will involve decentralisation of decision making.

3 OVERVIEW OF COMMONWEALTH PAYMENTS AND LOAN COUNCIL ALLOCATIONS

INTRODUCTION

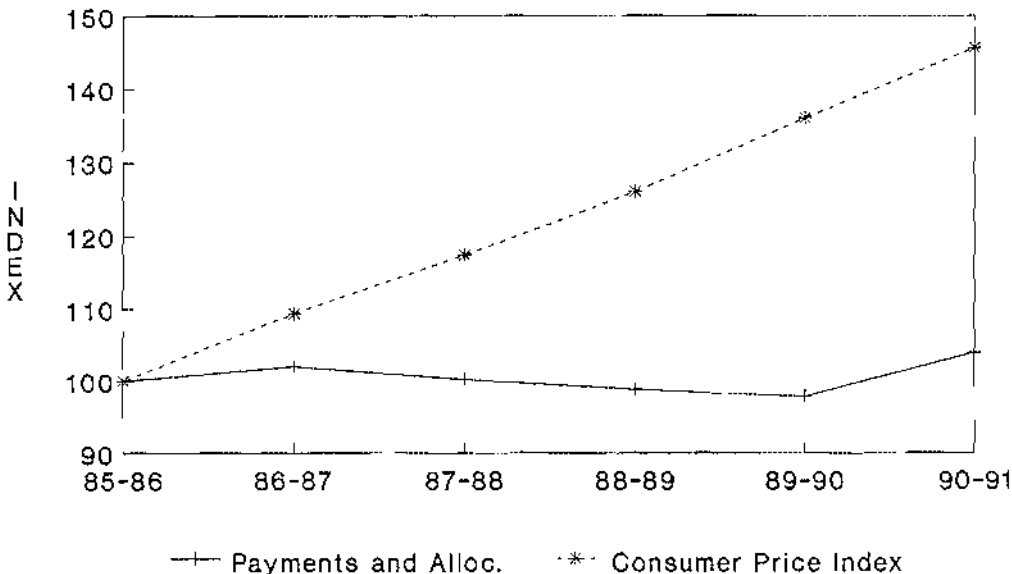
Over the past five years there have been significant real cuts of both aggregate and individual payments and allocations to New South Wales.

During the period 1985-86 to 1990-91 Commonwealth net payments* and Loan Council allocations to New South Wales have grown, in money terms, by 0.8 per cent per annum. Net payments* have grown by 3.9 per cent per annum while Loan Council allocations have declined by 10.6 per cent per annum over the period.

Expressed in real terms, there has been an average annual reduction in New South Wales net payments* and allocations of 6.5 per cent in the five year period since 1985-86. Since 1985-86 total net payments* and allocations increased by only 3.9 per cent compared to an increase of 45.6 per cent in the Consumer Price Index (see Figure 3.1). This represents a real decline of \$ 3,191 million over the period.

Figure 3.1

COMPARISON OF GROWTH IN TOTAL NET PAYMENTS AND ALLOCATIONS TO NSW AND THE CONSUMER PRICE INDEX



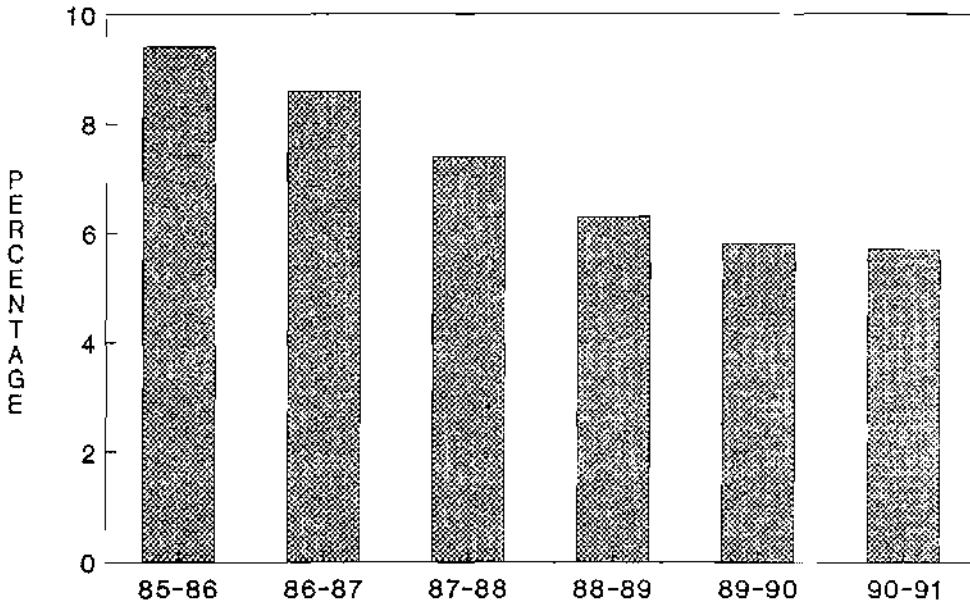
Note: Data for all Figures in this chapter is sourced from Commonwealth Budget Paper No. 4 "Commonwealth Financial Relations with other levels of Government, 1990-91" and corresponding earlier issues. Gross State Product figures up to 1988-89 are based on ABS "1988-89 Australian National Accounts - State Accounts", Cat No. 5220.0. Later years are NSW Treasury estimates.

* For State Purposes and with adjustment to 1990-91 figures (see Introduction).

As a proportion of Gross State Product total net payments* and allocations have fallen from 9.4 per cent in 1985-86 to 5.7 per cent in 1990-91 (see Figure 3.2).

Figure 3.2

TOTAL NET PAYMENTS AND ALLOCATIONS
TO NSW
as a percentage of GSP

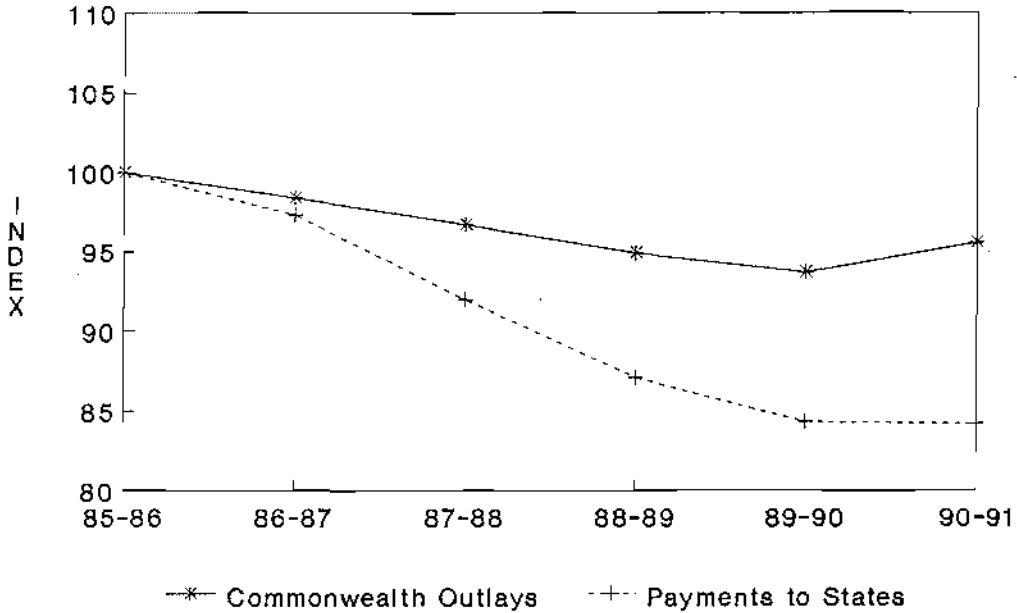


The Commonwealth's own outlays have grown faster than its payments to the States and Local Government. Over the five year period since 1985-86, total Commonwealth own purpose outlays have increased at an average annual rate of 6.8 per cent compared with a growth rate of 4.2 per cent in Commonwealth net payments* to the States and Northern Territory. When expressed in real terms, over the five years since 1985-86, net Commonwealth payments to the States and Northern Territory for own purposes have fallen by 15.8 per cent compared with a fall of 4.5 per cent in Commonwealth own purpose expenditure (see Figure 3.3).

* For State Purposes and with adjustments to 1990-91 figures (see Introduction).

Figure 3.3

REAL COMMONWEALTH OWN PURPOSE OUTLAYS
AND PAYMENTS TO THE STATES AND NT

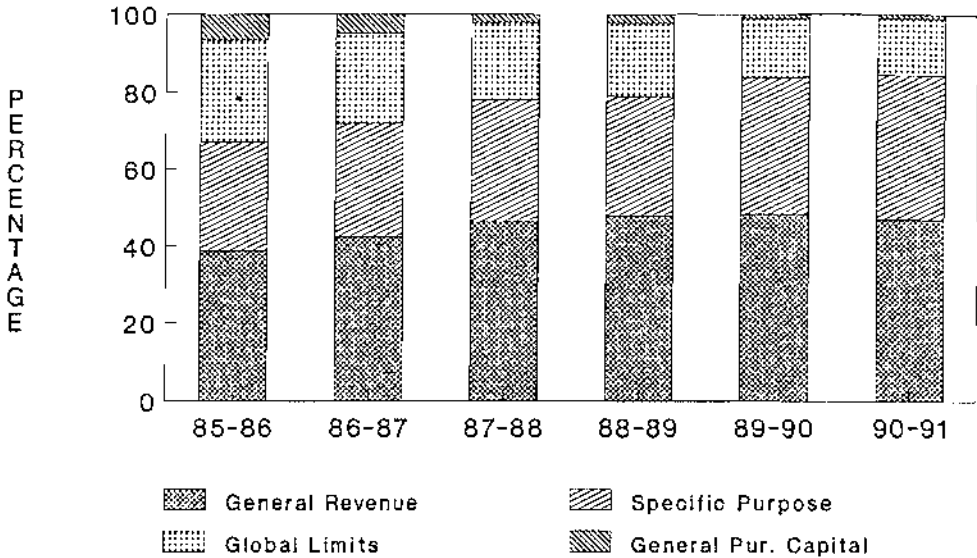


In regard to the composition of these payments* and allocations, it can be seen from Figure 3.4 that until 1988-89 there has been a persistent shift towards the provision of general purpose funds (Identified Health Grants are treated as recurrent specific purpose payments). This reflected a shift in philosophy towards untied funding. The increased share going to specific purpose payments* since 1988-89 appears to reflect both the Commonwealth cutbacks in payments to the States, concentrated in the area of untied grants, and a move by the Commonwealth back towards a more prescriptive approach in its dealings with the States.

* For State Purposes and with adjustments to 1990-91 figures (see Introduction)

Figure 3.4

PROPORTION OF PAYMENTS AND ALLOCATIONS
TO NSW FOR GENERAL AND SPECIFIC
PURPOSES

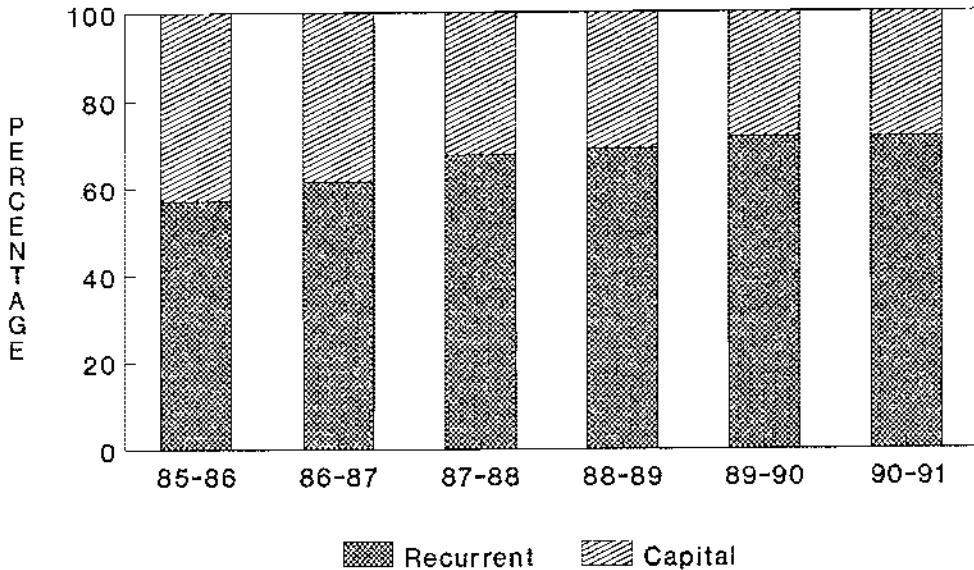


A further trend evident over the period has been the reduction in the proportion of payments* and allocations for capital purposes (see Figure 3.5). In 1990-91 capital payments and allocations represented only 28.5 per cent of total funds compared with 42.8 per cent in 1985-86.

* For State Purposes and with adjustments to 1990-91 figures (see Introduction)

Figure 3.5

PROPORTION OF PAYMENTS AND ALLOCATIONS
TO NSW FOR RECURRENT AND CAPITAL
PURPOSES

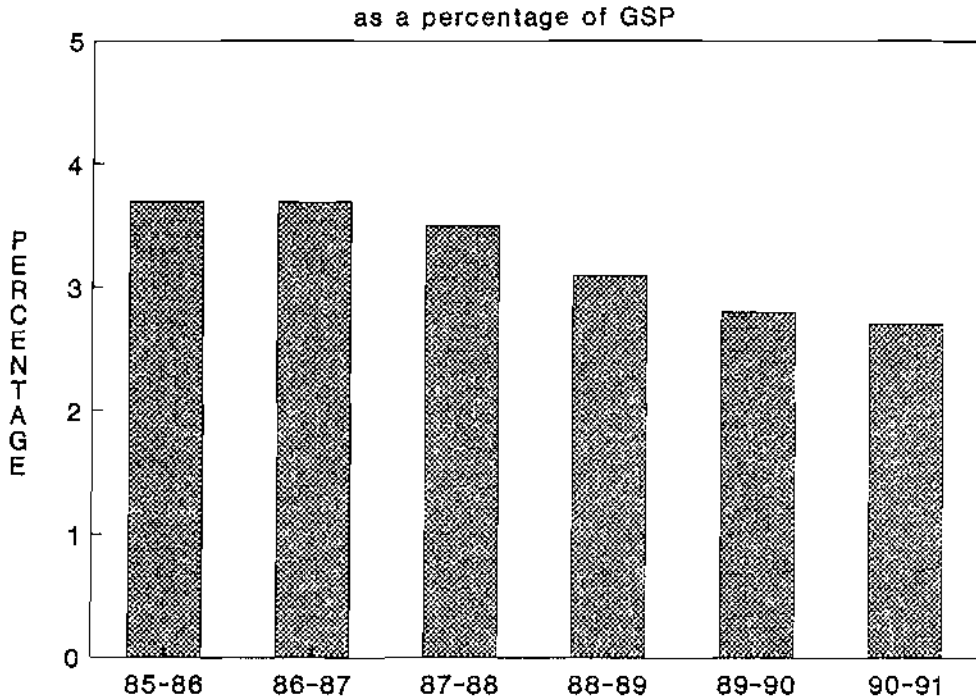


Financial Assistance Grants

The Commonwealth Government provides the bulk of its recurrent assistance to the States in the form of financial assistance grants which are, historically, compensation for the transfer of income taxing powers to the Commonwealth. Over the five years to 1990-91 financial assistance grants to New South Wales have increased by an average of 4.6 per cent per annum (after allowing for the Commonwealth decision to transfer the Bank Debits tax to the States), a real decline over that period of 13.9 per cent. Financial assistance grants as a proportion of Gross State Product have fallen from 3.7 per cent in 1985-86 to 2.7 per cent in 1990-91 (see Figure 3.6).

Figure 3.6

FINANCIAL ASSISTANCE GRANTS TO NSW



The growth in financial assistance grants has varied considerably from year to year. This variation has been due to changes in the basis of, and guarantee provisions associated with, these grants.

After allowing for the Commonwealth's decision to transfer the Debits tax to the States, New South Wales' financial assistance grant in 1990-91 is expected to increase by 2.9 per cent. This represents a reduction, in real terms, of \$150.3 million or 3.8 per cent compared with 1989-90. This reduction was largely due to the Commonwealth's \$400 million real reduction in the pool of financial assistance grants to the States. New South Wales' position would have been even worse if not for the Commonwealth's decision to base the distribution of Commonwealth funds on five year relativities instead of the three year relativities used in previous years. The Grants Commission's 1990 Update Report provided relativities on both a three and five year basis.

New South Wales' 1990-91 financial assistance grant represents a per capita payment 37 per cent less than the average for the less populous States of Queensland, Western Australia, South Australia and Tasmania, and the Northern Territory.

Specific Purpose Payments – Recurrent

Growth in specific purpose payments for recurrent purposes has been relatively volatile over the five years to 1990-91.

Between 1985-86 and 1990-91 there have been major increases in Commonwealth specific purpose payments for recurrent purposes in the areas of schools, home and community care and financial assistance to local government. A significant increase occurred in 1988-89 when Identified Health Grants were replaced by Hospital Funding Grants. After allowing for the transfer of Identified Health Grants, specific purpose payments* for recurrent purposes have increased at an average annual rate of 6.7 per cent. On a similar basis, recurrent specific purpose payments* as a proportion of Gross State Product have declined from 1.8 per cent in 1985-86 to 1.4 per cent in 1990-91 (see Figure 3.7).

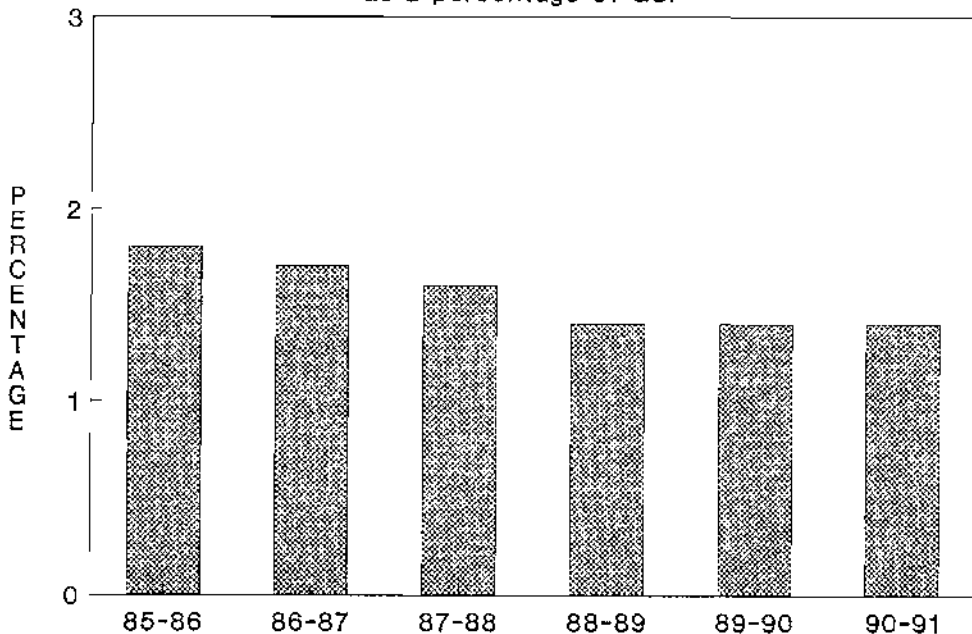
Specific purpose recurrent payments* to New South Wales increased significantly in 1990-91. In real terms, payments rose by 3.9 per cent. Significant increases were experienced in the areas of legal aid, HACC and natural disaster relief.

Increases in tied funds (at the expense of untied funding) are strongly opposed by New South Wales. Reviews of specific purpose payments in New South Wales have highlighted the many problems that exist with such forms of funding. The excessive conditions imposed on many specific purpose payments and the use of matching requirements have led to an extensive degree of overlap, duplication and over-administration in the public sector. New South Wales argues that as part of a broader move to the rationalisation of functions between levels of Government there should in fact be a move to untied funding.

Figure 3.7

SPECIFIC PURPOSE RECURRENT PAYMENTS TO NSW

as a percentage of GSP



* For State Purposes and with adjustments to 1990-91 figures (see Introduction)

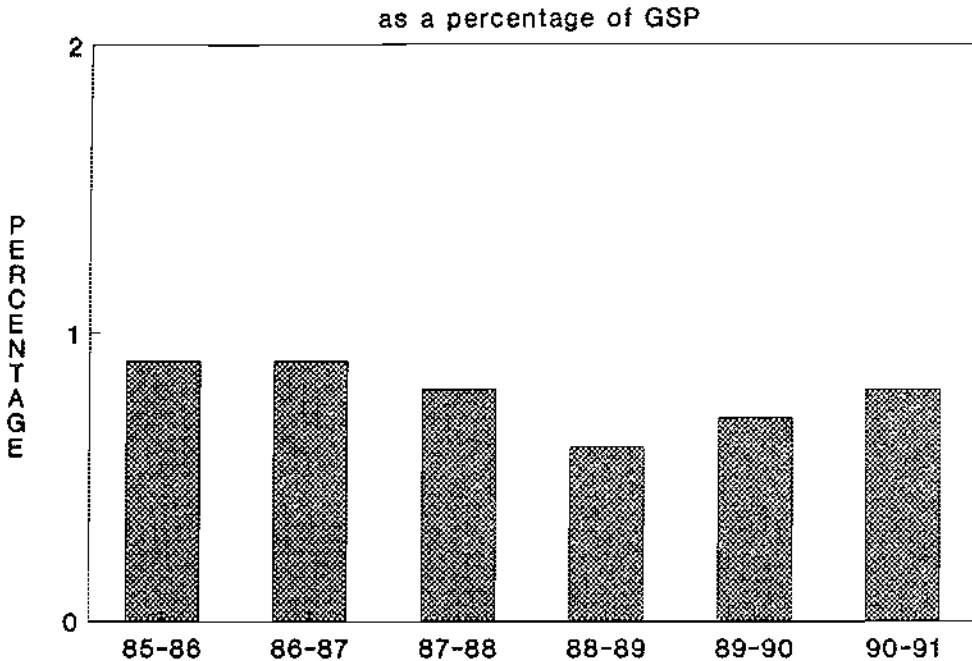
Specific Purpose Payments – Capital

Growth in specific purpose payments for capital purposes* has also been volatile. A large increase has occurred in 1990–91 due to increased funding for roads and natural disaster relief. In real terms, payments have increased by 5.7 per cent from 1989–90.

Over the five years to 1990–91 specific purpose payments for capital purposes* have increased at an average annual rate of 6.5 per cent. As a proportion of Gross State Product they have fallen from 0.9 per cent in 1985–86 to 0.8 per cent in 1990–91 (see Figure 3.8).

Figure 3.8

SPECIFIC PURPOSE CAPITAL PAYMENTS TO NSW



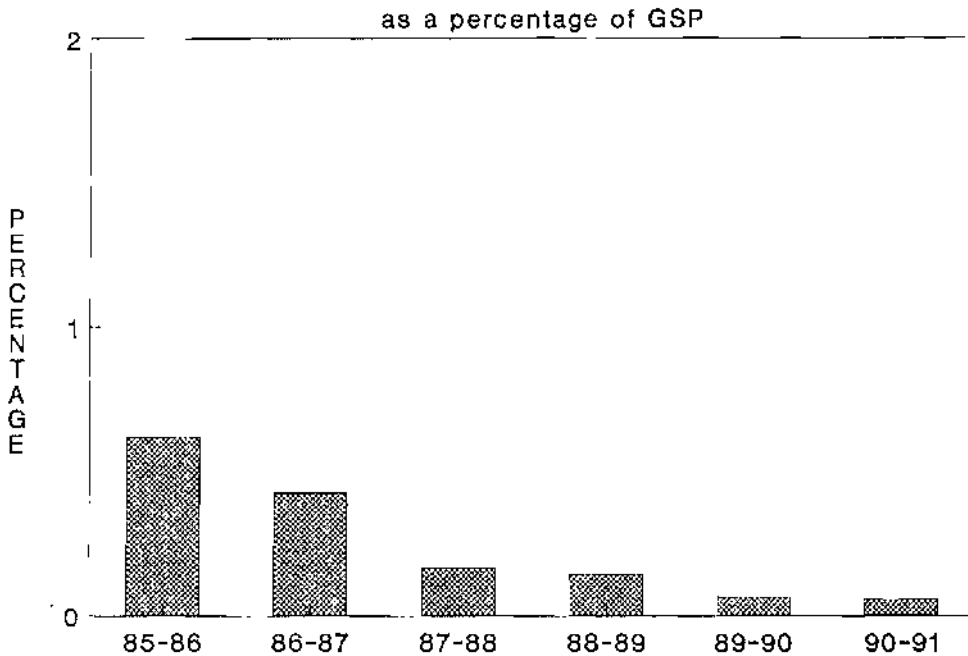
* For State Purposes and with adjustments to 1990–91 figures (see Introduction)

General Purpose Capital Funds

The greatest proportional cutback in Commonwealth funding to the States in recent years has occurred in the area of general purpose capital funds. In 1985-86 these funds totalled \$505.7 million for New South Wales. By 1990-91 this payment had been cut to \$79.8 million - a reduction of 89.2 per cent in real terms over the whole period. As a proportion of Gross State Product general purpose capital funds have fallen from 0.6 per cent in 1985-86 to 0.1 per cent in 1990-91 (see Figure 3.9).

Figure 3.9

GENERAL PURPOSE CAPITAL PAYMENTS TO NSW



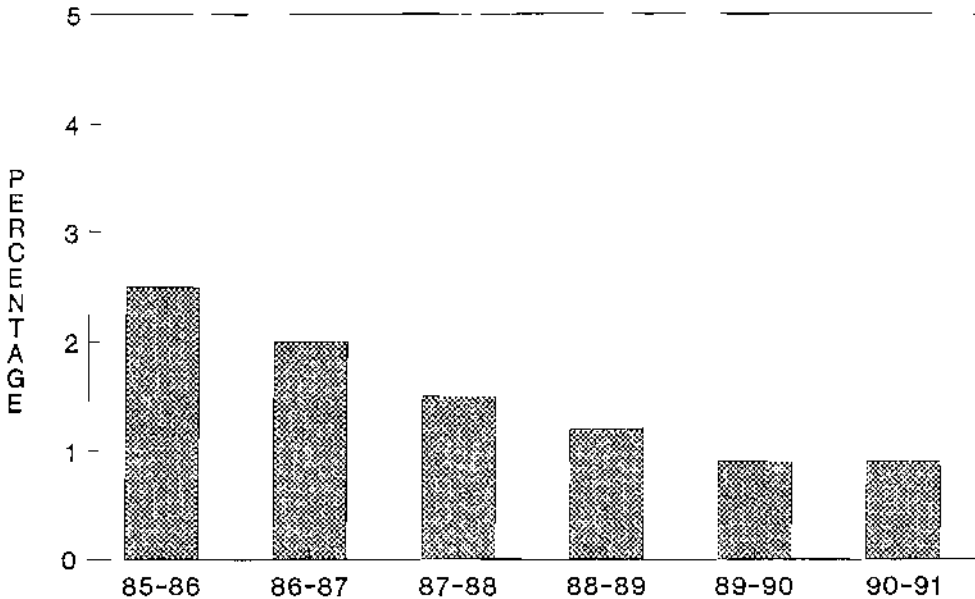
Semi-Government and Local Authority Borrowings

The introduction of the global borrowing concept in 1984-85 (see Chapter 6 for details) initially saw approved semi-government and local authority borrowing limits increase significantly. However, since 1985-86, semi-government and local authority borrowing limits have declined sharply, reflecting general restraint in public sector outlays. Semi-government and local authorities borrowing limits now represent 0.9 per cent of Gross State Product compared with 2.5 per cent in 1985-86 (see Figure 3.10).

New South Wales' global borrowing limit in 1990-91 was reduced in real terms by \$46.3 million or 3.8 per cent.

Figure 3.10

SEMI-GOVERNMENT AND LOCAL AUTHORITY BORROWINGS BY NSW as a percentage of GSP



Tables

The following tables set out in detail the sum of Commonwealth payments and allocations to New South Wales for the period 1986-87 to 1990-91.

Table 3.1 presents information on payments and allocations, with specific purpose payments including payments where the State only acts as an agent for the Commonwealth. Table 3.2 in contrast excludes these "letterbox" payments. Table 3.3 provides full details on all specific purpose payments, including "letter box" items.

Table 3.1: Gross Commonwealth Payments and Loan Council Allocations to or for New South Wales

	1985-86	1986-87	% change previous year	1987-88	% change previous year	1988-89	% change previous year
	Amount	Amount		Amount		Amount	
	\$m	\$m		\$m		\$m	
General Revenue Funds – Financial Assistance Grant	3,012.6	3,350.0	11.2	3,594.9	7.3	3,665.1	2.0
Identified Health Grant	563.0	626.6	11.3	674.0	7.6	...	n.a.
Special Revenue Assistance	...	2.1 (4)	n.a.	7.9 (4)	281.5	15.1 (4)	91.4
Total General Revenue Funds	3,575.6	3,978.7	11.3	4,276.8	7.5	3,680.1	2.1 (5)
General Purpose Capital	505.7	389.2	-23.0	172.7	-55.6	172.7	...
Specific Purpose Payments Recurrent	1,987.8	2,058.5	3.6	2,231.0	8.4	2,892.3	-0.4 (5)
Capital	833.1	893.5	7.2	895.2	0.2	838.9	-6.4
Total Specific Purpose Payments	2,820.7	2,952.0	4.7	3,126.3	5.9	3,730.6	-1.8 (5)
TOTAL GROSS PAYMENTS	6902.1	7319.9	6.1	7575.7	3.5	7583.4	0.1
Less Repayments of Advances	120.7	103.8	-14.1	104.7	0.9	126.9	21.3
TOTAL NET PAYMENTS	6781.3	7216.1	6.4	7471.0	3.5	7456.5	-0.2
Loan Council Allocation Semi-Government and Local Authority Global Limit	2,060.0	1845.0	-10.4	1,539.7 (11)	-16.5	1,449.9 (11)	-5.8
TOTAL NET PAYMENTS AND ALLOCATIONS – Amount \$m	8,841.3	9,061.1	2.5	9,010.7	-0.6	8,906.4	-1.2
Per Capita \$ (1)	1,608	1,626	1.1	1,592	-2.1	1,551	-2.6
Inflation – C.P.I. (2)	148.7	152.6	9.3	174.5	7.3	187.3	7.3
Economic Activity – GSP \$b (3)	81.6	91.4	11.9	104.1	13.9	119.3	14.6

FOOTNOTES TO TABLE 3.1:

- (1) Annual mean resident populations have been used for all years except 1989-90 and 1990-91 for which estimated resident population as at 31st December, 1989 and 1990 respectively have been used.
- (2) Weighted average 8 Capital cities Index.
- (3) NSW Gross State Product. NSW Treasury estimates.
- (4) Special revenue assistance was provided in 1986-87, 1987-88, 1988-89, and 1989-90 in recognition of additional State costs following the termination or transfer of Commonwealth programs.
- (5) In order to derive meaningful figures increases have been calculated after transferring the 1987-88 Identified Health Grant from the "General Revenue Funds" category to the "Specific Purpose Payments – Recurrent" category.
- (6) In order to derive meaningful figures increases have been calculated after taking account of the 1990-91 recoupmnt of \$66.8 million from financial assistance grants (due to the Commonwealth decision to transfer the Debts tax to the States).
- (7) In order to derive meaningful figures increases have been calculated after transferring the 1984-85 Identified Health Grant from the "General Revenue Funds" category to the "Specific Purpose Payments – Recurrent" category.

Table 3.1: Gross Commonwealth Payments and Loan Council Allocations to or for New South Wales (Continued)

	1989-90		1990-91		Av Annual % change 1990-91 over 1985-86
	Amount \$m	% change previous year	Amount \$m	% change previous year	
General Revenue Funds - Financial Assistance Grant	3,668.4	0.1	3,708.0	2.9 (6)	4.6 (6)
Identified Health Grant	...	n.a.	...	n.a.	n.a.
Special Revenue Assistance	...	-99.8	...	-100.0	n.a.
	(4)				
Total General Revenue Funds	3,668.4	-0.3	3,708.0	2.9 (6)	4.6 (6)(7)
General Purpose Capital	86.3 (8)	-50.0 (8)	79.8 (9)	-7.6 (9)	-30.9 (8)(9)
Specific Purpose Payments Recurrent	3,178.0	9.9	3,562.7	12.1	6.9 (7)
Capital	1,000.9 (8)	19.4 (8)	1,162.1	16.1	6.9
Total Specific Purpose Payments	4,178.9 (8)	12.0 (8)	4,724.9	13.1	6.9 (7)
TOTAL GROSS PAYMENTS	7,933.6	4.6	8,512.6	8.1 (6)	4.4 (6)
Less Repayments of Advances	113.7	-10.4	403.2	-4.4 (10)	-2.1 (10)
TOTAL NET PAYMENTS	7,819.9	4.9	8,109.5	8.3 (6)(10)	4.5 (6)(10)
Loan Council Allocation Semi-Government and Local Authority Global Limit	1,144.1 (11)	-21.1	1,177.9	3.0	-10.6
TOTAL NET PAYMENTS AND ALLOCATIONS - Amount \$m	8,964.0	0.6	9,287.4	7.6 (6)(10)	1.8 (6)(10)
Per Capita \$ (1)	1,546.1	-0.3	1,585.7	6.6 (6)(10)	0.5 (6)(10)
Inflation - C.P.I. (2)	202.3	8.0	216.5 (12)	7.0	7.8
Economic Activity - GSP \$b (3)	129.9	8.9	138.5 (12)	6.6	11.1

(8) Housing nomination loan component (\$86.3 million) transferred to Commonwealth State Housing Agreement (included in Capital Specific Purpose payments) in 1989-90 and converted to a grant. No adjustment has been made to percentage changes.

(9) General purpose capital funds were notionally maintained in money terms and then adjusted for recoupment of 90 per cent of State motor taxes levied on Telecom and Australia Post from 1989-90. No adjustment has been made to percentage changes.

(10) In order to derive meaningful figures increases have been calculated after taking account of the increased loan repayments (\$294.4 million) resulting from the Loan Council decision on the takeover by the States of Commonwealth debt raised on the States behalf.

(11) Actual global new money borrowings were \$2,059.1 million in 1985-86, \$1,539.6 million in 1987-88, \$1,143.9 million in 1988-89 and \$1,134.0 million in 1989-90.

(12) NSW Treasury forecast.

SOURCE: Commonwealth Budget paper No.4, "Commonwealth Financial Relations with Other Levels of Government" 1990-91 and corresponding earlier volumes.

Table 3.2: Net Commonwealth Payments to New South Wales

	1986-87	1987-88	1988-89	1989-90	1990-91 (est)
	\$ thousands				
General Revenue Funds (a)	3,978,654	4,276,775	3,680,137	3,668,395	3,708,035
Specific Purpose Payments (b)	2,952,026	3,126,251	3,730,603	4,178,908	4,724,853
General Purpose Capital Funds	<u>399,198</u>	<u>172,671</u>	<u>172,671</u>	<u>66,335</u>	<u>79,756</u>
Gross Payments to or for the State (c)	7,319,868	7,575,698	7,583,411	7,933,638	8,512,644
Less Repayment Loans and Advances (d)	<u>103,771</u>	<u>104,660</u>	<u>126,903</u>	<u>113,735</u>	<u>403,159</u>
Net Payments to or for the State	7,216,098	7,471,039	7,456,508	7,819,903	8,109,485
Less Payments for Commonwealth Programs (e)	1,032,955	1,106,741	1,106,126	1,227,294	1,446,013
Local Government Financial Assistance Grants	<u>211,754</u>	<u>229,800</u>	<u>229,435</u>	<u>237,124</u>	<u>243,138</u>
Net Payments to the State for State's Own Purposes	5,971,389	6,133,498	6,120,947	6,355,485	6,420,335

- (a) Includes Tax Sharing Grant/Financial Assistance Grant, Special Revenue Assistance and, until 1988-89, the Identified Health Grant.
- (b) In 1988-89, the Identified Health Grant was replaced by a specific purpose payment for hospital funding.
- (c) Commonwealth payments only. Excludes semi-government and local authorities' borrowings.
- (d) Comprises debt repayments paid in respect of New South Wales' loan liability to the Commonwealth.
- (e) Comprises payments for universities, colleges of advanced education and non-State Schools. In 1987-88, 1988-89, 1989-90 and 1990-91 it includes a negative payment for Higher Education Superannuation. These are payments for which the State acts as intermediary on the Commonwealth's behalf. The dissection of the cost escalation for education in 1990-91 between individual education sectors has been estimated.

Source: Commonwealth Budget Paper No 4, "Financial Relations with other levels of Government", 1990-91 and corresponding earlier issues.

Table 3.3: Financial Arrangements Between the Commonwealth and New South Wales

	1986-87	1987-88	1988-89	1989-90	1990-91 (est)
	\$ thousands				
1. GENERAL REVENUE FUNDS					
Tax Sharing Grant/Financial Assistance Grant	3,350,031	3,594,903	3,665,075	3,668,369	3,708,035
Identified Health Grant (a)	628,560	674,001	...	...	...
Special Revenue Assistance	2,063	7,871	15,062	26	...
Total General Revenue Funds	3,978,654	4,276,775	3,680,137	3,668,395	3,708,035
2. GENERAL PURPOSE CAPITAL FUNDS					
Loan Council Borrowings (b)(c)	250,379	114,447	86,336	...	...
Capital Grants	138,809	58,224	86,336	86,335	79,756
Total General Purpose Capital Funds	389,188	172,671	172,671	86,335	79,756
3. SPECIFIC PURPOSE PAYMENTS					
Recurrent Purposes					
Law, Order and Public Safety					
Legal Aid	6,032	27,939	29,552	30,941	36,055
Sharing of Criminal Asset Recovery	...	...	...	...	122
Reimbursement of Costs - Law Library	330	465	525	485	553
Human Rights	500	415	431	460	388
Compensation - Company regulation	...	...	...	...	18,270
Company Fees - Revenue Sharing	179	191	343	307	166
Total Law, Order and Public Safety	7,041	29,010	30,851	32,193	55,554
Education					
Allowance for Cost Escalation (d)	...	...	...	...	61,909
Higher Education*	652,153	705,747	686,974	745,923	821,792
State's Contribution to Higher Education Superannuation*	...	-4,229	-9,430	-12,481	-14,232
Technical and Further Education	55,603	46,291	46,212	49,541	51,050
Schools - Government	189,392	208,038	237,903	260,266	279,835
- Non-Government*	289,543	310,729	344,897	381,727	402,453
- Joint Programs*	12,250	9,210	9,465	11,833	13,483
Aboriginal Advancement	1,267	1,583	2,850	1,513	17,187
Participation and Equity Program (e)	11,881	11,824	...	...	...
National Policy on Languages	...	1,867	2,434	2,389	2,671
Total Education	1,210,089	1,291,060	1,321,305	1,440,711	1,636,148
Health					
Hospital Funding Grant (a)	...	...	1,087,271	1,185,683	1,281,098
Medicare (a)	414,988	443,520	...	...	...
Hospital Waiting List Reduction	...	9,073	9,573	...	...
Geriatric Assessment	2,071	2,554	4,783	6,787	8,677
Womens Health Screening	...	169	433	714	306
Nurse Education	...	...	5,065	6,829	12,810
Transfer Pathology Laboratory	...	...	1,139	7,030	7,595
Drug Education Campaigns	5,045	5,384	5,691	6,259	8,201
Acquired Immune Deficiency Syndrome	2,325	4,757	5,221	7,640	9,486
Blood Transfusion Services	3,782	4,404	4,637	5,060	7,199
National Diseases Control	82	90	...	...	...
National Better Health	...	...	123	826	826
Health Program Grants	...	...	1,180	1,180	1,180
Liver/heart Transplant Program	620	650	679	719	762
Youth Health Services	...	...	...	313	702
Total Health	428,913	470,601	1,125,795	1,229,040	1,338,822

* Programs for which the State only acts as an agent for the Commonwealth (only applies to the non-government schools component of joint school programs).

Table 3.3: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1986-87	1987-88	1988-89	1989-90	1990-91 (est)
	\$ thousands				
Social Welfare Services					
Home and Community Care (f)(g)	42,609	57,583	69,320	83,099	97,133
Supported Accommodation Assistance (g)	13,937	12,432	21,026	26,087	30,007
Mortgage and Rent Relief	8,508	8,817	9,257	13,229	8,062
Rehabilitation Centres	976	423	428	400	431
Children's Services (g)	2,012	1,285	1,916	1,091	1,317
Family Support Scheme (g)	1,525	2,581	...	...	...
Aboriginal Advancement	2,090	1,298	50	36	...
Translating/Interpreting Services	255	247	173	149	...
Unattached Refugee Children	221	164	177	117	144
Total Social Welfare Services	72,133	84,830	102,349	124,208	137,094
Housing and Community Services					
Assistance for Housing	1,848	1,848	1,848	1,848	1,848
International Year of Homeless	38	...	...	...	...
Rental Housing Subsidy	...	...	...	...	4,480
Home Deposit Assistance	...	...	...	...	4,800
Urban Flood Mitigation	207	14	8	...	...
Total Housing and Community Services	2,093	1,862	1,856	1,848	11,128
Recreation and Cultural Services					
Rainforest Conservation	881	1,617	980	1,386	395
Total Recreation and Cultural Services	881	1,617	980	1,386	395
Economic Services					
Community Employment Program (g)	63,903	35,573	...	...	...
Employment Training - Aboriginal	2,909	3,434	2,974	2,694	2,961
Special Employment Programs	-1,807	...	...	...	...
Coal Mining Industry - Long Service Leave	13,886	29,800	22,792	18,152	15,540
Interstate Road Transport	570	1,711	4,357	6,817	7,635
Aerodrome Local Ownership Plan	39	...	...	61	65
National Industry Extension Service	2,319	2,499	2,713	2,998	3,500
Expo 88 Participation	...	100	...	...	...
Assistance to Tin Mining	112	...	...	-112	...
Coal Rail Freight	...	10,000	...	10,000	...
Other Mining Assistance	...	262	...	...	...
Agricultural Research	141	419	304	319	15
Afforestation Program	...	338	1,324	1,547	870
Rural Adjustment Scheme	8,285	11,691	16,674	16,044	18,392
Fertiliser Assistance	7,271	2,768	307	...	...
Exotic Diseases Eradication	64	49	19	100	32
Destruction of Organochlorines	...	...	255	...	...
Bovine Brucellosis and T.B. Eradication	3,137	1,956	1,271	1,354	1,198
Sugar Industry	782	1,779	605	93	...
Soil Conservation	1,157	1,295	1,802	5,909	5,100
Irrigation and Other Water Projects	311	120	50	50	200
Urban Water Supply and Treatment	105	105	140	70	110
Total Economic Services	103,144	103,919	55,587	66,096	55,418
Other Purposes					
Payments under Financial Agreement					
- Sinking Fund on State Debt	16,775	16,902	16,678	16,486	16,297
Debt Redemption Assistance	...	...	...	...	883
ARC Research Funds*	...	...	4,503	26,993	61,139
State Emergency Services (g)	721	840	822	855	1,001
Natural Disaster Relief (h)	2,993	1,595	2,175	1,074	5,732
Financial Assistance - Local Government	211,754	228,800	229,435	237,124	243,138
Total Other Purposes	232,243	248,137	253,613	282,532	328,190
Total Specific Purpose Payments - Recurrent Purposes	2,058,538	2,231,035	2,892,338	3,178,016	3,562,747

* Programs for which the State only acts as an agent for the Commonwealth.

Table 3.3: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1986-87	1987-88	1988-89	1989-90	1990-91 (est)
	\$ thousands				
Capital Purposes					
Education					
Higher Education*	65,905	72,782	53,226	58,806	96,333
Technical and Further Education	57,004	65,113	53,167	72,311	71,027
Schools - Government	50,245	54,149	58,709	64,552	65,062
- Non-Government*	17,948	18,195	20,355	19,290	22,470
Aboriginal Advancement	...	...	...	879	...
Video Facilities	202	93	...	...	...
Total Education	191,304	210,332	185,457	215,838	254,892
Health					
Teaching Hospitals	16,811	16,811	8,100	16,042	17,146
Blood Transfusion Services	401	449	543	372	560
Albury RALA Sub-Centre	...	85	...	...	...
Total Health	17,212	17,345	8,643	16,414	17,706
Social Welfare Services					
Attendant Care Scheme	...	839	...	...	...
Home and Community Care (f)(g)	994	1,934	3,062	3,645	4,266
Supported Accommodation Assistance	...	...	1,000	1,000	...
Crisis Accommodation Assistance	4,933	5,447	6,835	13,656	13,595
Youth Accommodation	...	...	...	3,444	...
Children's Services (g)	26	3,544	2,440	649	1,802
Aboriginal Advancement	...	206	1,093	...	...
Total Social Welfare Services	5,953	11,970	14,430	22,394	19,663
Housing and Community Services					
Pensioner Housing Grants	14,282	14,517	13,869	18,520	18,520
Housing Assistance for Aborigines	12,345	12,345	13,641	17,777	17,777
Local Government and					
Community Housing Grants (g)	3,883	4,201	5,596	8,404	8,366
Other Housing Assistance	182,340	184,439	179,027	244,874	252,918
Housing for Servicemen (b)	1,634	1,471	373	...	...
Urban Rehabilitation	3,000	...	...	...	...
Captains Flat Project (h)	182	...	...	...	...
Urban Flood Mitigation(g)	2,442	3,158	3,356	4,100	5,050
Total Housing and Community Services	220,108	220,131	215,862	293,675	302,631
Recreation and Cultural Services					
National Estate (g)	490	508	547	597	600
Bicentennial Program Assistance (g)	8,949	3,928	...	...	...
National Maritime Museum	18,000	10,000	...	...	...
National Standard Sports Facilities	485	...	...	...	...
Total Recreation and Cultural Services	27,924	14,436	547	597	600
Economic Services					
Support for Steel Regions (g)	32,695	9,053	...	...	...
Land Transport Program (g)	255,050	243,600	134,895	...	...
Bicentennial Road Development (g)	140,000	164,900	82,254	...	...
Centennial Road Development (g)	...	...	170,051	436,500	527,586
Burbong Bridge Construction	294	...	...	...	...
Forestry Development	...	...	...	800	500
Plant Genetic Resource Program	...	6	...	...	...
Irrigation and Other Water Projects	50	24	25	463	1,779
Salinity Reduction Control	2,266	1,576	1,300	1,550	2,675
Urban Water Supply and Treatment	632	1,844	1,586	1,340	1,527
Total Economic Services	430,987	421,003	390,111	440,653	534,087
Other Purposes					
Natural Disaster Relief (h)	...	...	23,214	11,322	32,548
Total Specific Purpose Payments - Capital Purposes					
	893,488	895,217	839,265	1,000,892	1,162,107
Total Specific Purpose Payments					
	2,952,026	3,126,251	3,730,603	4,178,908	4,724,853

* Programs for which the State only acts as an agent for the Commonwealth.

Table 3.3: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1986-87	1987-88	1988-89	1989-90	1990-91 (est)
	\$ thousands				
4. LOAN COUNCIL ALLOCATIONS					
Total Semi-Government & Local Authorities Global Limit	1,845,000	1,539,700	1,449,900	1,144,100	1,177,900
5. PAYMENTS TO OR FOR LOCAL GOVERNMENT					
<i>Payments through the State (i)</i>					
Local Government Financial Assistance	211,754	228,800	229,435	237,124	243,138
Social Welfare Services					
Home and Community Care Program	1,630	3,547	6,336	6,066	na
Children's Services	297	598	713	743	na
Supported Accommodation Assistance	...	89	44	42	na
Family Support Services	...	68	119	...	na
Housing and Community Services					
Local and Community Housing	3,683	1,649	1,154	1,253	na
Recreation and Cultural Services					
National Estate	125	167	152	28	na
Economic Services					
Community Employment Program	27,663	19,665	...	...	na
Roads/Land Transport Program	71,332	68,861	81,125	83,590	90,100
Flood Mitigation	2,698	2,510	3,390	4,100	na
Support for Steel Regions	...	863	2,312	...	na
Australian Bicentenary	...	...	775	...	na
Other Purposes					
State Emergency Services	84	176	104	149	na
Total Payments to or for Local Government through the State	319,465	327,013	325,659	333,095	333,238(j)
6. REPAYMENT OF LOANS AND ADVANCES					
<u>Sinking Fund Payments on Loan Council Borrowings</u>					
	69,017	69,169	76,580	67,527	361,243
<u>Repayment of Commonwealth Government Advances</u>					
Housing and Community Services					
Loan Council Housing Nomination	934	1,703	2,302	2,855	2,983
Housing for Servicemen	495	524	556	589	622
Public Housing	16,556	17,222	17,913	18,633	17,504
War Service Land Settlement	238	247	256	265	276
Growth Centres	62	67	13,034	6,561	6,569
Urban Rehabilitation	65	...	191	...	220
Captains Flat Project	14	16	18	20	22
Total Housing and Community Services	18,364	19,779	34,300	28,923	28,196

Table 3.3: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1986-87	1987-88	1988-89	1989-90	1990-91 (est)
	\$ thousands				
Economic Services					
Sewerage	544	443	657	722	793
Railway Projects	1,616	1,616	1,616	1,616	1,616
Softwood Forestry	628	728	743	743	689
Canned Fruit Industry	383	383	383	383	383
Dairy Adjustment Program	102	59	63	66	71
Rural Adjustment Scheme	1,272	1,489	1,772	1,960	2,077
Rural Reconstruction	2,859	3,029	3,217	4,242	3,618
Chowilla Reservoir	49	11	...	...	...
Dartmouth Dam	462	587	587	587	587
Blowering Reservoir	732	230	20	...	...
Other Mining Assistance	393	66	...	...	...
Total Economic Services	9,040	8,641	9,058	10,319	9,834
Other Purposes					
Natural Disaster Relief	7,350	7,071	6,967	6,967	3,885
Total Repayments of Commonwealth Government Advances	34,753	35,490	50,323	46,208	41,915
Total Sinking Fund Payments and Repayment of Advances	103,771	104,660	126,903	113,735	403,159
7. INTEREST ON LOANS AND ADVANCES					
Interest on Loan Council Borrowings	682,554	695,793	691,104	707,771	689,000
Interest on Commonwealth Government Advances					
Housing and Community Services					
Loan Council Housing Nomination	10,308	17,550	21,584	24,282	24,084
Housing for Servicemen	10,530	10,681	10,841	10,858	10,990
Housing	60,080	59,415	58,724	58,004	57,275
War Service Land Settlement	354	345	336	327	316
Growth Centres	307	301	294	287	279
Captains Flat Project	39	45	41	41	38
Total Housing and Community Services	81,618	88,337	91,820	93,799	92,982
Economic Services					
Sewerage	7,889	6,036	7,751	7,693	7,615
Railway Projects	2,958	2,729	2,485	2,249	2,012
Softwood Forestry	1,989	2,214	2,274	2,214	2,025
Canned Fruit Industry	40	40	40	40	41
Dairy Adjustment Program	52	48	45	41	37
Rural Adjustment Scheme	3,287	3,192	3,072	2,932	2,715
Rural Reconstruction	1,639	1,464	1,274	1,375	876
Chowilla Reservoir	2	...	...	...	...
Blowering Reservoir	38	8	1	...	...
Dartmouth Dam	797	750	694	638	582
Total Economic Services	18,691	16,481	17,636	17,182	15,903
Other Purposes					
Natural Disaster Relief	...	...	...	39	112
Total Interest on Commonwealth Government Advances	100,311	104,819	109,455	111,019	108,997
Total Interest on Loan Council Borrowings and Commonwealth Government Advances	782,865	800,612	800,559	818,790	797,997
TOTAL GROSS PAYMENTS AND ALLOCATIONS	9,164,668	9,115,398	9,033,311	9,077,738	9,690,544
TOTAL NET PAYMENTS AND ALLOCATIONS	9,061,098	9,010,739	8,906,408	8,964,003	9,287,386

FOOTNOTES TO TABLE 3.3

- (a) In 1988-89 the Identified Health Grant and medicare payment were discontinued and a specific purpose payment for hospitals was introduced.
- (b) Payment is in the nature of a repayable advance. See sections 6 and 7 for repayments and interest respectively.
- (c) Includes the following amounts nominated for public housing purposes: 1986-87, \$150.2m; 1987-88, \$114.4m and 1988-89, \$86.3m. Borrowings so nominated attracted the concessional interest rate specified within the Commonwealth/State Housing Agreement. See also sections 6 and 7 for repayments and interest respectively.
- (d) Cost supplementation amount. A dissection between the individual education sectors is not yet available.
- (e) The School to Work Transition Program was subsumed into the Participation and Equity Program from January 1984.
- (f) From 1985-86 the payments for home care services and senior citizens' centres have been subsumed within the Home and Community Care Program.
- (g) Includes amount for on-passing to Local Government. See section 5 of table.
- (h) Includes a repayable advance component (below). See also sections 6 and 7 for repayments and interest respectively.

\$ thousands

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Natural Disaster Relief	--	--	805	1,376	5,732
Captains Flat Project	36	--	--	--	--

- (i) These payments are included in the Specific Purpose Payments sections above. In addition, certain Commonwealth payments are made direct to Local Government - see Chapter 7.
- (j) Total is incomplete as it excludes schemes for which details of payments are not yet available (na).

Source: The amounts shown in Commonwealth Budget Paper No.4, "Commonwealth Financial Relations with Other Levels of Government 1990-91" have been used to prepare this summarised version of the Financial Arrangements between the Commonwealth and New South Wales.

4 GENERAL REVENUE FUNDS

General revenue funds are untied grants provided to the States to assist in the financing of their recurrent expenditures. Since 1985-86 the main form of funding has been in the form of financial assistance grants. General revenue funds have also been made available at various times for expenditure on health and to provide special short term supplementation for particular reasons. These arrangements are described fully below.

Financial Assistance Grants

The May 1985 Premiers' Conference agreed on new arrangements to apply during the three years 1985-86 to 1987-88. These arrangements were subsequently provided for within the States Grants (General Revenue) Act of 1985.

Level of the Grant

The original arrangements provided for the aggregate grant to the States during each of the three years commencing 1985-86 to be linked to inflation as measured by the Consumer Price Index (CPI), with an allowance for real growth or "betterment" in the latter two years.

As a consequence of these new arrangements, the six States' grant in 1985-86 was held to the same real level as in 1984-85. This arrangement was accepted at the May 1985 Premiers' Conference following the agreement that the current economic climate required a degree of restraint to be exercised by all levels of government.

The aggregate grant grew by the "betterment" factor in 1986-87. However, at the May 1987 Premiers' Conference the Commonwealth required that the 2 per cent real increase in general revenue payments would not apply in 1987-88. This decision was again taken in light of current economic conditions which required continued fiscal restraint by all governments.

The 1988 and 1989 Premiers' Conferences imposed further fiscal restraint on the States by arbitrarily cutting, in real terms, \$650 million and \$550 million respectively from forward estimates for total general purpose funding. A further cut of \$400 million was made at the 1990 Premiers' Conference (detailed more fully in Chapter 2 of this Budget Paper). The Commonwealth did however recognise the need for the States to undertake longer term planning, and therefore made a commitment to maintaining financial assistance grants in real terms between 1991-92 and 1993-94, provided there is no "major deterioration in (Australia's) economic circumstances".

Distribution of the Grant

Distribution of the Grant has been based on relativities recommended by the Commonwealth Grants Commission. The Grants Commission's 1985 Review recommended new relativities which would distribute an increased share of financial assistance grants to New South Wales and Victoria. The Commonwealth Government accepted the Commission's findings and consequently new recommended relativities were implemented in 1985-86 (discussed in more detail in 1988-89 Budget Paper Number 4).

As under the previous tax sharing arrangements (see Appendix), provision was made for the ongoing review of relativities by the Grants Commission. The Commission completed its fourth review in 1988. The review recommended an increased share of general revenue assistance for New South Wales. However, a guarantee was provided that total revenue assistance for each State would not fall below the level it had received in 1987-88. Special revenue assistance was provided in 1988-89 to the three smallest States and the Northern Territory to meet this guarantee. This assistance totalled \$88 million and reduced the pool of funds distributed by the Grants Commission formula. This negated the movement towards the relativities recommended by the Grants Commission.

The Grants Commission's 1989 Update Report, the first of a series of annual updates of relativities, recommended a decreased share of general revenue assistance to New South Wales. The 1989 Premiers' Conference decided to implement fully the Commission's assessed relativities.

The 1990 Update Report was released on 30 April 1990 (reported fully in Chapter 2). Relativities were calculated on the basis of both a three and five year review period. The 1990 Premiers' Conference decided to fully implement relativities based on a review period of five years. This decision resulted in New South Wales receiving an additional \$100 million in general revenue grants compared to what would have been received using a three year review period.

Table 4.1
1990-91 Financial Assistance Grants to the States

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Amount \$000	3,708,035	2,721,741	2,532,150	1,560,839	1,440,008	522,900	675,215	13,160,888
State Share %	28.17	20.68	19.24	11.86	10.94	3.97	5.13	100.00
Per Capita \$	633.09	618.04	859.81	941.51	995.79	1,142.70	4,308.97	777.65
State Share of Population %	34.61	26.02	17.40	9.80	8.54	2.70	0.93	100.00

Identified Health Grants

In the years 1980-81 to 1987-88 the Commonwealth provided Identified Health Grants to the States, to be allocated according to the States' priorities. From 1988-89, Identified Health Grants were combined with Medicare compensation payments to form a new specific purpose payment called Hospital Funding Grants (See Chapter 5). Further details concerning Identified Health Grants can be obtained from the 1988-89 Budget Paper Number 4.

Special Revenue Assistance

The Commonwealth provided special assistance to South Australia and Tasmania in 1985-86 and 1986-87 to assist them in the adjustment to the new relativities recommended by the Grants Commission. These special revenue assistance payments were quite separate from the financial assistance grants but were financed from the pool of funds available for distribution. This had the effect of reducing the funds available to New South Wales.

Special revenue assistance was provided in 1988-89 to the three smallest States and the Northern Territory to meet the guarantee that Commonwealth general purpose funding would not fall below the level set in 1987-88. Special revenue assistance totaling \$45 million and \$50 million was allocated to the Northern Territory in 1989-90 and 1990-91.

Additionally, following its decision to terminate a number of Commonwealth programs the Commonwealth provided special revenue assistance grants to the States in 1987-88 and 1988-89 in recognition of the additional costs imposed upon them. New South Wales' share of this assistance in 1988-89 and 1989-90 was \$15.1 million and \$26,000 respectively.

5 SPECIFIC PURPOSE PAYMENTS

In addition to general purpose revenue payments to the States, the Commonwealth Budget also makes provision for payments to the States which must be used for specific purposes. The authority for such payments is Section 96 of the Constitution.

The conditions attached to the specific purpose payments may give the States some discretionary control as to the way in which they are spent (e.g. grants for government schools) or they may simply involve the State as a "paying agent" (e.g. recurrent grants for non-government schools, Universities and Colleges of Advanced Education).

The purpose specified may be of a capital or a recurrent nature and the payment to the State may be either a grant (i.e. non-repayable) or an advance (i.e. repayable). Where payments are on a "matching" basis with expenditure from the State's own resources, they are generally subject to a limitation in terms of the amount provided by the Commonwealth.

This chapter describes specific purpose payments to New South Wales, outlining the conditions attached to and the nature of each payment. An accounting treatment for individual payments is shown only where it is at variance with the standard practice. The standard accounting practice is initially to deposit all payments into an account within the Special Deposits Account having the same title as the specific program for which the payment is intended. These accounts are classified either within the "Commonwealth Payments - Recurrent" or the "Commonwealth Payments - Capital" sections of the Special Deposit Account. Subsequently, the majority of the payments, generally those relating to Departmental expenditure programs, are transferred to the Consolidated Fund progressively as they are spent. The practice is to match the drawdown of the payments and expenditure.

Table 3.3 earlier in this volume provides details of the estimated amount of specific purpose payments to New South Wales for 1990-91 as well as actual amounts for the previous four years.

LAW, ORDER AND PUBLIC SAFETY

Legal Aid

The Commonwealth provides grants under the Commonwealth Legal Aid Commission Act 1977 to State Legal Aid Commissions and, in addition, to approved voluntary and community legal aid services (e.g. Redfern Legal Centre).

Increased payments to New South Wales since 1987-88 reflect the merger of the Legal Aid Commission of New South Wales and the Australian Legal Aid Office, which took effect from 3 April 1987. Net costs from the date of the merger are shared on the basis of 55 per cent Commonwealth and 45 per cent State.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	36,055	29,506	15,704	11,975	10,165	0	2,468	105,892
Per Capita \$	6.16	6.70	5.33	7.22	7.04		15.75	6.26
State Share %	34.0	27.9	14.8	11.3	9.6		2.3	100.0

The Commonwealth allocation to New South Wales for 1990-91 includes grants to Community Legal Centres and for the Child Support Program. This Program component is fully Commonwealth funded and provides assistance to an eligible parent seeking child maintenance payments.

Sharing of Criminal Asset Recovery

The Commonwealth has previously announced that it will establish a Criminal Assets Trust Fund into which will be paid all funds forfeited under the Proceeds of Crime Act 1987 or the drug trafficking provisions of the Customs Act 1901. Proceeds from the sale of forfeited assets will also be paid into the Fund. The funds will be distributed 50 per cent to the law enforcement agencies and 50 per cent to programs for drug rehabilitation and drug education, providing an increase in available resources for these activities.

Where there has been participation by a State law enforcement agency in any investigation leading to forfeiture of assets, the Federal Attorney-General, on receipt of a written request from his State counterpart, will decide the appropriate apportionment, if any, of these proceeds between the Commonwealth and the State concerned.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	122	300	0	62	0	0	0	484
Per Capita \$	0.02	0.07		0.04				0.03
State Share %	25.2	62.0		12.8				100.0

Law Library - Reimbursement of Costs

The Commonwealth each year provides New South Wales with a grant as its contribution towards the salary and operating costs of the Joint Law Courts Library in Sydney. The payment in 1990-91 is estimated at \$553,000.

Human Rights

The Commonwealth is providing grants under co-operative arrangements with the States towards the cost of administering human rights matters. The objective is to enable all human rights matters to be dealt with through a single office in each State. In that regard, assistance is aimed at enabling State equal opportunities organisations to implement the provisions of Commonwealth legislation relating to sex and racial discrimination.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	388	324	0	226	252	0	0	1,190
Per Capita \$	0.07	0.07		0.14	0.17			0.07
State Share %	32.6	27.2		19.0	21.2			100.0

Company Fees - Revenue Sharing

The first full year of operation of the Commonwealth State Scheme for Co-operative Companies and Securities Regulations - Fee Sharing Agreement was 1987-88. This Agreement provides for a State or Territory to collect all fees associated with registration of a company in other States at the time it is first registered in the State. Refunds of duty are then made to the other States. The amount received from the Commonwealth represents a refund on behalf of companies registered in the Australian Capital Territory.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	166	73	69	51	50	43	35	486
Per Capita \$	0.03	0.02	0.02	0.03	0.03	0.09	0.22	0.03
State Share %	34.2	15.0	14.2	10.5	10.3	8.8	7.2	100.0

Accounting treatment: Funds received by New South Wales from the Commonwealth under this Agreement are credited to the Consolidated Fund receipts item "Fees - Business and Consumer Affairs".

Compensation - Companies Regulation

As part of the arrangements agreed between the Commonwealth and the States for the establishment of a national corporate regulatory body, the Australian Securities Commission, the Commonwealth has agreed to reimburse the States for the revenue cost as a result of the transfer. It is anticipated that the Commission will commence operating from 1 January 1991.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	18,270	15,972	8,995	5,536	4,118	1,276	814	54,980
Per Capita \$	3.12	3.63	3.05	3.34	2.85	2.79	5.19	3.25
State Share %	33.2	29.1	16.4	10.1	7.5	2.3	1.5	100.0

EDUCATION

The major specific purpose recurrent and capital payments for education fall into three main areas:

- higher education
- technical and further education
- government and non-government schools

In providing for payments in each of these areas Commonwealth Budget estimates are prepared at constant cost levels, with an additional separate supplementation for budget year cost escalation. An amount of \$61.9 million has been allocated to New South Wales in 1990-91 for supplementation of recurrent and capital expenditures. The division of this cost supplementation between tertiary education and schools will not be determinable until the end of the financial year.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent & Capital:								
Amount \$000	61,909	50,704	28,325	16,533	15,131	4,752	1,751	179,106
Per Capita \$	10.57	11.51	9.62	9.97	10.46	10.38	11.17	10.58
State Share %	34.6	28.3	15.8	9.2	8.4	2.7	1.0	100.0

Higher Education

In 1988-89, the Commonwealth revised its education policy. It now does not separately identify the payment for higher education into components for the two major groups of institutions, universities and colleges of advanced education.

While grants are classified as payments to New South Wales, the State is in effect only a paying agency for the Commonwealth. Estimated payments shown below do not include cost supplementation amounts.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	821,792	738,542	366,645	245,951	231,912	67,880	17,581	2,490,302
Per Capita \$	140.31	167.71	124.50	148.36	160.37	148.34	112.20	147.15
State Share %	33.0	29.7	14.7	9.9	9.3	2.7	0.7	100.0
Capital:								
Amount \$000	96,333	39,937	25,291	31,836	11,402	5,258	0	210,056
Per Capita \$	16.45	9.07	8.59	19.20	7.88	11.49		12.41
State Share %	45.9	19.0	12.0	15.2	5.4	2.5		100.0

Accounting treatment: Payments for Universities will be credited to the respective "Universities" Accounts within Special Deposits Account and then paid out to the relevant institutions.

For CAEs, the Commonwealth capital and recurrent payments will be credited to the respective "Colleges of Advanced Education" Accounts. Payments will be made directly from these accounts to Colleges of Advanced Education (including non-government teachers' colleges and non-government business colleges). In addition a transfer will be made to the Consolidated Fund in reimbursement of recurrent expenditure by that Fund in respect of the Conservatorium of Music. An amount in respect of capital expenditures by the Conservatorium of Music will also be transferred to the "Advanced Education - Distribution of Capital Funds" Account within the Special Deposits Account.

Refer to the 1989-90 edition of this budget Paper for the history of payments to these groups.

States' Contributions to Higher Education Superannuation

The Commonwealth has determined that States will be required to contribute towards the cost of higher education superannuation. State contributions will be determined on the basis of

- the proportion of recurrent costs funded by the State prior to 1974; and
- liabilities falling due in excess of those which would have been incurred had employer contributions been limited to 14 per cent of contributors' salaries. The figure of 14 per cent is the cost of the Superannuation Scheme for Australian Universities. The Commonwealth argues that Tertiary academics should have been transferred to that scheme at its commencement in 1981.

An amount of \$14.2 million has been suggested by the Commonwealth as New South Wales' share of this contribution in 1990-91. The payments by each State to the Commonwealth in 1990-91 are presently set at the following levels:

	\$'000		\$'000
NSW	14,232	South Australia	3,437
Victoria	12,396	Tasmania	149
Queensland	0	Northern Territory	0
Western Australia	3,169	Total	33,384

Technical and Further Education

Since 1964-65 the Commonwealth has provided grants towards the recurrent and capital costs associated with technical and further education (TAFE). These payments are made under the provisions of the States Grants (Tertiary Education Assistance) Act. Payments for both recurrent and capital programs are currently determined on an annual basis.

The cost supplementation amount to be allocated to TAFE is excluded from the estimated payments shown below.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	51,050	35,078	22,845	12,219	12,258	5,237	1,836	140,523
Per Capita \$	8.72	7.97	7.76	7.37	8.48	11.44	11.72	8.30
State Share %	36.3	25.0	16.3	8.7	8.7	3.7	1.3	100.0
Capital:								
Amount \$000	71,027	53,836	32,958	18,007	16,175	3,662	2,378	198,042
Per Capita \$	12.13	12.22	11.19	10.86	11.19	8.00	15.18	11.70
State Share %	35.9	27.2	16.6	9.1	8.2	1.8	1.2	100.0

Schools

Specific purpose payments to the States for schools commenced in 1964-65. Originally the grant was for science laboratories and equipment only but by 1975-76 the payment had been extended to cover both State and non-State schools in the areas of: general recurrent grants, general building grants for science laboratories and equipment, primary and secondary school libraries, schools for handicapped children, disadvantaged schools, migrant children, teacher development, innovatory projects and information programs.

Payments are made under the States Grants (Schools Assistance) Acts. Payments are, in the main, determined annually.

The specific purpose payments cover primary and secondary education at State and non-State schools. The recurrent grants also include an amount for joint programs involving both State and non-State schools.

The estimates below show the breakup for government and non-government schools and joint programs but excludes the Schools' share of the allowance for cost escalation.

Estimated Payments in 1990-91

Government Schools

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	279,835	201,106	132,348	74,842	67,133	22,065	9,362	786,692
Per Capita \$	47.78	45.87	44.84	45.15	46.42	48.22	59.74	46.48
State Share %	35.6	25.6	16.8	9.5	8.5	2.8	1.2	100.0
Capital:								
Amount \$000	85,062	48,058	32,517	17,960	16,048	5,810	2,295	185,550
Per Capita \$	11.11	10.46	11.04	10.83	11.10	12.26	14.65	10.96
State Share %	35.1	24.8	17.5	9.7	8.6	3.0	1.2	100.0

Non-government Schools

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	402,453	348,886	187,017	99,437	78,105	25,115	7,863	1,148,876
Per Capita \$	68.71	79.22	63.50	59.98	59.01	54.01	50.18	67.88
State Share %	35.0	30.4	16.3	8.7	8.8	2.2	0.7	100.0
Capital:								
Amount \$000	22,470	23,429	8,480	4,813	4,896	1,481	512	66,081
Per Capita \$	3.84	5.32	2.88	2.90	3.39	3.24	3.27	3.90
State Share %	34.0	35.5	12.8	7.3	7.4	2.2	0.8	100.0

Joint programs

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	13,483	10,994	8,052	5,147	4,224	1,115	833	43,848
Per Capita \$	2.30	2.50	2.73	3.10	2.92	2.44	5.32	2.59
State Share %	30.7	25.1	18.4	11.7	9.8	2.5	1.9	100.0

Accounting treatment: The capital and recurrent payments will be credited to the respective "Schools" Accounts. The payments in respect of State schools will be transferred from this account to the Consolidated Fund. The payments in respect of non-State Schools will be disbursed directly from the account to schools concerned.

Aboriginal Advancement

The Commonwealth has provided recurrent and capital specific purpose grants to the States since 1968-69 for the purpose of Aboriginal advancement, particularly in the areas of education, housing, health and social welfare. From 1981-82, the component for Aboriginal housing has been included under the "Housing and Community Services" category.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	17,187	5,084	16,843	14,085	7,757	2,261	21,788	85,004
Per Capita \$	2.93	1.15	5.72	8.50	5.38	4.94	139.04	5.02
State Share %	20.2	6.0	19.8	16.6	9.18	2.7	25.6	100.0

National Policy on Languages

In late 1987 the Commonwealth announced a National Policy on Languages to take effect from the beginning of 1988.

The policy is designed to make a major contribution towards lifting language skills in the workforce as a necessary step in the restructuring of the Australian economy. It does this by a range of programs aimed at:

- enhancing the level of English language competence amongst Australians of non English speaking background;
- enhancing the level of English literacy for all Australians; and
- by providing opportunities for the study of the languages of our major trading partners.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,671	2,149	1,614	771	899	238	214	8,545
Per Capita \$	0.46	0.49	0.55	0.47	0.61	0.52	1.37	0.50
State Share %	31.3	25.1	18.9	9.00	10.4	2.8	2.5	100.0

HEALTH

Hospital Funding Grants

Under new hospital funding arrangements, introduced from 1 July 1988 and to apply for five years, specific purpose grants are made to the States, replacing the identified health grants and the Medicare compensation payments. The grants will be indexed for award wages, CPI and age/sex weighted population growth. Penalties will be applied (estimated at \$17.2 million for all States) if public bed days and fee for service medicine provisions by medical practitioners are at variance with the national average.

Incentives payments are included in the 1990-91 grant for expansion of post acute and palliative care services and day only treatment (estimated at \$46.6 million for all States and \$14.5 million for New South Wales). These measures are designed to promote reduced length of stay in hospitals, allowing more effective use of inpatient resources, increased throughput and reduced waiting times. Funds will also be provided for the development of cost based case mix systems on a national basis to allow more informed resource management in the hospital system and assist meaningful comparisons of hospital performance (estimated at \$1.7 million for New South Wales).

The Commonwealth has continued to recognise its greater responsibility towards the treatment of AIDS patients in public hospitals by the inclusion of a separate component in the grant. The level of funds is indexed to the actual growth in AIDS cases treated and in 1990-91 will total \$30.3 million. New South Wales' share is \$17.3 million.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,281,098	932,159	615,153	329,900	324,436	99,028	22,278	3,604,051
Per Capita \$	218.73	211.67	208.88	199.00	224.35	216.41	142.17	212.96
State Share %	35.5	25.9	17.1	9.2	9.0	2.7	0.6	100.0

Transfer of Nurse Education

The Commonwealth has provided for assistance towards the costs of transferring nurse education from hospitals to colleges of advanced education (CAEs). The program will run from 1985 to 1993.

An indexed subsidy of \$1,500 per annum (December 1983 prices) per nurse trainee is payable towards the cost of educating an agreed number of nurses in CAEs. Where the number of nurses commencing training exceeds this agreed number, the subsidy is reduced by the costs that the Commonwealth incurs in respect of these students on AUSTUDY. New South Wales was in this situation until 1987-88 and received its first grant in 1988-89.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	12,810	8,492	2,567	1,722	3,239	923	155	28,908
Per Capita \$	2.19	1.93	0.87	1.04	2.24	2.02	0.99	1.77
State Share %	42.8	28.4	8.6	5.8	10.8	3.1	0.5	100.0

Hospital Enhancement Program

The Teaching Hospitals Capital Equipment program, which expired at the end of 1987-88, was replaced by a three year program to upgrade infrastructure of public hospitals. \$125 million was made available by the Commonwealth as follows: \$25 million in 1988-89 and \$50 million in each of the following years on the basis that the States will provide \$ for \$ funding for \$25 million in the last two years of the program.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	17,146	12,320	8,257	4,632	4,754	1,617	443	49,169
Per Capita \$	2.93	2.80	2.80	2.79	3.29	3.53	2.83	2.91
State Share %	34.9	25.1	16.8	9.4	9.7	3.3	0.9	100.0

Transfer Pathology Laboratory

During 1988-89 New South Wales agreed to integrate the former Commonwealth pathology laboratories at Albury, Tamworth and Lismore within the State's Health System on the basis that the Commonwealth would transfer real estate and plant and equipment at no cost and would provide annually an indexed grant to meet operating costs.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	7,595	2,786	12,979	0	0	1,719	0	25,079
Per Capita	1.30	0.63	4.41			3.76		1.48
State Share %	30.3	11.1	51.8			6.9		100.0

National Drug Programs

The National Campaign Against Drug Abuse programs include drug abuse treatment rehabilitation and prevention programs, the "drug offensive" public information campaign and the development of national drug abuse data together with research and evaluation. Of the total Commonwealth provision of \$33.1 million in 1990-91, \$21.6 million is for the States and Northern Territory. This includes a component for projects approved by the Ministerial Council on Drug Strategy.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	8,201	5,500	3,325	1,807	1,756	694	275	21,558
Per Capita \$	1.40	1.25	1.13	1.09	1.21	1.52	1.75	1.27
State Share %	38.0	25.5	15.4	8.4	8.1	3.2	1.3	100.0

Acquired Immune Deficiency Syndrome (AIDS)

Apart from the \$30.3 million provided in the Hospital Funding Grant for the treatment of AIDS afflicted persons, a further \$23.2 million will be provided by the Commonwealth in 1990-91 for AIDS. The Commonwealth funds are allocated on a cost sharing basis with the States for education, prevention and counselling.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	9,468	5,696	2,947	2,251	1,633	560	619	23,173
Per Capita \$	1.62	1.29	1.00	1.36	1.19	1.22	3.95	1.37
State Share %	40.8	24.6	12.7	9.7	7.0	2.4	2.7	100.0

Women's Health Screening

In 1987-88 the Commonwealth commenced support for a program to conduct selected trials of breast and cervical screening and to monitor the effectiveness of such screening in reducing the mortality of women from breast and cervical cancer.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	306	113	34	59	112	25	17	666
Per Capita \$	0.05	0.03	0.01	0.04	0.08	0.05	0.11	0.04
State Share %	45.9	17.0	5.1	8.9	16.8	3.8	2.6	100.0

Blood Transfusion Services

The States have received specific purpose payments from the Commonwealth since 1953-54 as a contribution towards the operating expenses of the Blood Transfusion Services conducted by the Australian Red Cross Society. Since 1975-76 the States have also received a Commonwealth contribution towards approved capital expenditure for the Service.

The current arrangement is that the States are responsible for 60 per cent of the recurrent costs of the Service. The Society is responsible for the lower of 5 per cent of operating costs or 10 per cent of the previous year's income from donations. The Commonwealth meets the remaining recurrent costs. Approved capital costs are shared equally by the Commonwealth and the States.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	7,199	7,678	4,326	3,157	2,314	469	324	25,467
Per Capita \$	1.23	1.74	1.47	1.90	1.60	1.02	2.07	1.50
State Share %	28.3	30.1	17.0	12.4	9.10	1.8	1.3	100.0
Capital:								
Amount \$000	560	672	683	475	638	50	54	3,131
Per Capita \$	0.10	0.15	0.23	0.29	0.44	0.11	0.34	0.19
State Share %	17.9	21.5	21.8	15.2	20.4	1.6	1.7	100.0

National Better Health

In April 1988, a report entitled "Health for All Australians" was presented to the second International Conference on Health Promotion in Adelaide. Following this conference, a national program to be shared with the States, the National Better Health Program, was developed during 1988-89. The Commonwealth has allocated \$2.2 million in 1990-91.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	826	618	385	0	206	87	122	2,245
Per Capita \$	0.14	0.14	0.13		0.14	0.19	0.78	0.13
State Share %	36.8	27.5	17.1		9.2	3.9	5.4	100.0

Youth Health Services

The Commonwealth announced a cost shared agreement for innovative health services for homeless youth following the Burdekin Report.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	702	750	492	275	228	79	37	2,563
Per Capita \$	0.12	0.17	0.17	0.17	0.16	0.17	0.24	0.15
State Share %	27.4	29.3	19.2	10.7	8.9	3.1	1.4	100.0

Liver/Heart Transplant Program

The Commonwealth has allocated \$762,000 to New South Wales under this program as a contribution to the operating costs of Liver and Heart Transplant Units at Royal Prince Alfred and St Vincents respectively.

Health Program Grants

In 1988-89 the Commonwealth classified the Medicare Grants as part of the new Hospital Funding Grant. Grants had been available as part of the Medicare Grant to organisations for provision of health-related services approved by the Commonwealth Minister for Community Services and Health. From 1988-89 these grants were continued as Health Program Grants.

From 1988-89 to 1990-91 New South Wales will receive grants towards the capital cost of the Lithotripter facility at Prince Henry Hospital (\$450,000) and the Resonance Imaging facility at Royal North Shore Hospital (\$730,000).

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,180	2,680	730	9,293	17,345	0	0	31,228
Per Capita \$	0.20	0.61	0.25	5.61	11.99			1.85
State Share %	3.8	8.6	2.3	29.8	55.5			100.0

Geriatric Assessment Services

In 1985-86 the Commonwealth commenced providing the States with assistance towards the cost of funding multi-disciplinary assessment teams to match the needs of frail aged to the most appropriate services available. Funding of the scheme has been changed from October/March and April/September periods to a financial year basis. The program was substantially expanded in 1988-89.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	8,677	7,400	3,828	2,807	1,532	765	510	25,519
Per Capita \$	1.48	1.68	1.30	1.69	1.06	1.67	3.25	1.51
State Share %	34.0	29.0	15.0	11.0	6.0	3.0	2.0	100.0

SOCIAL WELFARE SERVICES

Home and Community Care

Under the Home and Community Care Act 1985, the Commonwealth, in conjunction with the States, is developing a comprehensive range of integrated home and community care services for frail or at risk aged persons and younger disabled persons to facilitate the maintenance of those persons in their own homes. Since 1 July 1985, payments to the States under the Home and Community Care Agreement (HACC) have replaced payments previously made to the States, local government and voluntary organisations for the Home Care Service, Senior Citizens' Centres, Home Nursing and Delivered Meals programs.

Funding is cost shared with the States based upon respective levels of Commonwealth and State outlays in the previous year. The Commonwealth also provides unmatched funds to test new methods of delivering services.

The figures below are as shown in the Commonwealth's Budget.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	97,133	84,875	33,923	27,355	22,019	7,145	1,327	273,777
Per Capita \$	16.58	19.27	11.52	16.50	15.23	15.61	8.47	16.18
State Share %	35.5	31.0	12.4	10.0	8.0	2.6	0.5	100.0
Capital:								
Amount \$000	4,266	0	0	276	584	0	229	5,355
Per Capita \$	0.73			0.17	0.40		1.46	0.32
State Share %	79.7			5.2	10.9		4.3	100.0

Supported Accommodation Assistance

A Supported Accommodation Assistance Program was introduced by the Commonwealth from 1 January 1985. This program subsumed payments previously made to the States towards women's emergency services, certain elements of the Children's Services Program and the Family Support Services Scheme as well as the Youth Services Scheme and the Homeless Persons' Assistance Program, under which payments had formerly been made direct to local government bodies. The States are required to match Commonwealth expenditure on the basis of nine dollars for every ten Commonwealth dollars above an agreed unmatched base level of Commonwealth expenditure relating to services previously funded by the Commonwealth under the Homeless Persons' Assistance Program.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	30,007	18,522	13,189	8,097	7,542	3,659	2,200	83,216
Per Capita \$	5.12	4.21	4.48	4.88	5.22	8.00	14.04	4.92
State Share %	36.1	22.3	15.8	9.70	9.1	4.4	2.6	100.0

Mortgage and Rent Relief

This scheme commenced in 1982-83 and assists the States to provide short-term assistance to low-income earners having difficulties in meeting mortgage repayments or private rental accommodation payments. The program was incorporated as a sub-program of the Commonwealth State Housing Agreement in 1984-85. Funds provided are on the basis of \$ for \$ matching by the States.

Following changes to the Scheme, which are proposed to be implemented from 1 January 1990, the Commonwealth has withdrawn funding from the States for mortgage and rent relief and applied these funds to the new Home Deposit Assistance program.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	8,062	6,038	3,960	2,226	1,991	630	165	23,073
Per Capita \$	1.38	1.37	1.34	1.34	1.38	1.38	1.05	1.36
State Share %	34.9	26.2	17.2	9.6	8.6	2.7	0.7	100.0

Crisis Accommodation Assistance

A scheme aimed at assisting States with the provision of crisis accommodation for families in distress was first introduced in 1981-82. A new Crisis Accommodation Program, replacing the earlier scheme, commenced in 1984-85. The program is complementary to the Supported Accommodation Assistance Program (see earlier description) and also replaces previous capital payments towards the provision of women's refuges and direct capital payments to local government bodies under the Homeless Persons' Assistance Program. Payments under the Program are made within the Commonwealth/State Housing Agreement and do not have to be matched by the States and the Northern Territory.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	13,595	10,182	6,678	3,754	3,358	1,064	369	39,000
Per Capita \$	2.32	2.31	2.27	2.26	2.32	2.33	14.40	2.30
State Share %	34.9	26.1	17.1	9.6	8.6	2.7	0.9	100.0

Youth Accommodation

As part of an overall package of measures to assist homeless youth in the community, the Commonwealth implemented a new Youth Housing program in 1989-90. The program was designed to provide medium term supported accommodation for homeless youth. Payments under the program were made within the Commonwealth State Housing Agreement and did not have to be matched by the States and the Northern Territory.

No payments have been made under this program in 1990-91.

Rehabilitation Centres

Since 1983-84 the Commonwealth has provided assistance to New South Wales for a rehabilitation centre in Newcastle, and from 1987-88 for a further centre at Bathurst. The Commonwealth payment represents 50 per cent of the operating costs of both centres. It is estimated that \$431,000 will be provided in 1990-91.

Accounting treatment: It is expected that the payment will be made directly to Newcastle and Bathurst Hospitals.

Children's Services

Commonwealth recurrent and capital grants to the States towards expenditures associated with services for children commenced in 1973-74. The program of assistance is administered by the Commonwealth Office of Child Care which was established to advise on programs providing for capital and recurrent assistance for pre-school and child care projects including home care, vacation and after school care projects and various other community initiated projects. The program was substantially expanded in 1987-88 in order to provide an additional 20,000 new child care places nationally. The total capital allocation for New South Wales in 1987-88 was used for this purpose. On the recurrent side, funding in 1990-91 will mainly be used for the operation of vacation care centres as well as funding of programs which target child abuse, after hours crisis welfare and handicapped children.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,317	2,062	453	318	5,891	1,316	177	11,534
Per Capita \$	0.22	0.47	0.15	0.19	4.07	2.88	1.13	0.68
State Share %	11.4	17.9	3.9	2.8	51.1	11.4	1.5	100.0
Capital:								
Amount \$000	1,802	916	724	360	404	162	0	4,368
Per Capita \$	0.31	0.21	0.25	0.22	0.28	0.35		0.26
State Share %	41.3	21.0	16.6	8.2	9.2	3.7		100.0

Translating/Interpreting Services

New South Wales received a recurrent grant between 1979-80 and 1989-90 towards a program of assistance aimed at providing additional State run translating and interpreting services. This program was a consequence of the Galbally Report on Post-Arrival Services for Migrants.

Apart from the first year of the program when the Commonwealth fully met the cost of these services in New South Wales, the costs were shared equally between New South Wales and the Commonwealth.

New South Wales will receive no payment under this program in 1990-91 because the translation and interpreter services of the State's Ethnic Affairs Commission were placed on a user pays basis in 1989-90 making New South Wales ineligible for the Commonwealth grant.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	0	283	45	0	84	0	53	465
Per Capita \$		0.06	0.02		0.06		0.34	0.03
State Share %		60.9	9.7		18.1		11.4	100.0

Unattached Refugee Children

The States first received payment in 1985-86 towards the cost of a program for supervision and welfare support for refugee minors without parents in Australia. The program is cost shared by the Commonwealth and the States on a dollar for dollar basis. New South Wales actually spends much more than its "half" on the service.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	144	104	38	36	40	0	0	363
Per Capita \$	0.02	0.02	0.01	0.02	0.03			0.02
State Share %	39.7	28.7	10.5	9.9	11.0			100.0

HOUSING AND COMMUNITY SERVICES

Public Housing

New South Wales has received funds from the Commonwealth towards the provision of housing for low or moderate income persons since 1945-46.

Up to 1971-72 the funds were closely aligned with the State's Loan Council borrowing programs. In 1971-72 and 1972-73 they were integrated into that program. Since 1973-74 however, capital assistance has been in the form of specific purpose payments and the State's Loan Council program has been "offset" as a consequence of this arrangement. These specific purpose payments are subject to the provisions of successive Commonwealth State Housing Agreements.

Financial assistance under the Commonwealth State Housing Agreement is provided by way of tied grants to specific programs (e.g. Pensioner housing) and untied grants which are not related to any specific program. States are required to match the untied housing assistance from their own sources. Details of the various programs follow.

Up to 1989-90, as well as assistance provided under the Housing Agreement, each State had the option of nominating additional amounts for housing from its General Purpose Capital Funds. This option was introduced in 1982-83, and providing the matching requirements of the Housing Agreement had been satisfied, any such nominated amounts became available on concessional terms and conditions i.e. repayable over 53 years at a rate of interest of 4.5 per cent. In 1985-86 this option was limited to no more than 30 per cent of the loan portion of the State's program. For 1986-87 the limit was raised to 60 per cent (however South Australia and Western Australia were subject to a higher limit of 100 per cent) and in 1987-88 the limit was raised to 100 per cent for all States. In 1989-90 nominated loans under General Purpose Capital funding were replaced with additional untied grants made under the Commonwealth State Housing Agreement.

The most recent Housing Agreement is the 1989 Agreement which was put forward by the Commonwealth following the May 1989 Premiers' Conference. The aim of the new Agreement is to focus financial resources on a capital construction method of delivering public rental housing. In addition (and as a result of successful negotiations by the States with the Commonwealth) provision has been made for financial assistance to be directed toward subsidy based programs both for public rental housing and home purchase assistance schemes. These initiatives will complement public housing construction by firstly involving the private sector in the provision of public housing stock, with the State Housing Authority providing a rental subsidy. Secondly, provision for the "gearing-up" of home purchase assistance programs (following the initiatives taken by New South Wales in this area) will provide more efficient use of financial resources. Financial resources can be directed to subsidy support with home lending finance being provided by the private sector.

As in the past, the financial arrangements for the 1989 Agreement provide for financial assistance to be made available by way of tied grants to specific programs and untied grants for housing assistance generally. The States are required to match the untied portion of assistance on a \$ for \$ basis with one half of the matching requirement being provided as State grants and the remaining half being met by way of loans under States' home purchase assistance arrangements. These revised matching arrangements are being phased in up to 1992-93 when the requirement will be on a \$ for \$ basis. For 1990-91 New South Wales is to receive \$252.9 million in untied funding and \$71.1 million in tied funding. The matching requirement in respect of the untied funding is \$84.3 million in grant funding and \$126.5 million in home purchase assistance funding. New South Wales more than adequately meets these requirements.

In addition to the capital allocations for public housing made under the Housing Agreement, New South Wales also receives a recurrent grant. This grant relates to the two years (1971-72 and 1972-73) when housing assistance was amalgamated with the State Loan Council Program and is to compensate for the lack of concessional interest rates as a result of that arrangement. Estimates of this recurrent grant in 1990-91 are as follows:

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,848	1,347	423	627	941	314	0	5,500
Per Capita \$	0.32	0.31	0.14	0.38	0.65	0.69		0.32
State Share %	33.6	24.5	7.7	11.4	17.1	5.7		100.0

Pensioner Housing

The States Grants (Dwellings for Aged Pensioners) Acts of 1969 and 1974 made allowance each year from 1969-70 to 1977-78 for the Commonwealth to make payments to the States towards provision of self-contained dwellings at reasonable rentals for aged (1969 Act) and other eligible pensioners (1974 Act).

Since 1978-79 these capital grants have been provided under the respective Housing Agreements which have widened the eligibility criteria - eligible persons including aged, invalid, widows, supporting parents, and some service pensioners, as well as those receiving a sheltered employment allowance and in some cases a training allowance.

There are no matching requirements attached to the Commonwealth grant.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	18,520	10,882	9,644	4,153	3,849	1,179	523	48,750
Per Capita \$	3.16	2.47	3.27	2.51	2.66	2.58	3.34	2.88
State Share %	38.0	22.3	19.8	8.5	7.9	2.4	1.1	100.0

Housing Assistance for Aborigines

Under the Housing Agreement the Commonwealth makes grants to the States for the provision of rental housing for Aborigines. The State is not required to match these grants.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	17,777	3,638	25,227	15,862	8,342	696	19,458	91,000
Per Capita \$	3.04	0.83	8.57	9.57	5.77	1.52	124.17	5.38
State Share %	19.5	4.0	27.7	17.4	9.2	0.8	21.4	100.0

Local Government and Community Housing

Under the terms of the 1984 Commonwealth State Housing Agreement New South Wales first received a grant in 1984-85 aimed at assisting local government, community and welfare organisations to purchase, construct, lease or upgrade dwellings for low cost rental housing. These dwellings may also be wholly or jointly owned by State Housing Authorities but managed by local government, community or welfare organisations. There are no matching conditions attached to the grant.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	8,366	6,268	4,109	2,310	2,067	655	227	24,000
Per Capita \$	1.43	1.42	1.40	1.39	1.43	1.43	1.45	1.42
State Share %	34.9	28.1	17.1	9.6	8.6	2.7	0.9	100.0

Other Housing Assistance

Apart from the assistance provided under the Agreement for the specific housing programs outlined above, Commonwealth assistance is also provided for public housing not tied to specific programs.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	252,918	193,991	109,368	69,202	74,715	37,383	40,673	777,250
Per Capita \$	43.18	44.05	36.80	41.74	51.67	81.69	259.58	45.93
State Share %	32.5	25.0	13.9	8.9	9.6	4.8	5.2	100.0

Rental Housing Subsidy

To increase the supply of private rental accommodation, New South Wales established a Rental Property Trust in 1988. Changes to Commonwealth taxation rules during the year have prevented any expansion of the existing Trust mechanism. Commonwealth assistance has been provided which will permit the establishment of a new vehicle which is also designed to increase the supply of private rental accommodation, targeted to low to moderate income earners.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	4,480	0	0	0	1,120	0	0	5,600
Per Capita \$	0.78				0.77			0.33
State Share %	80.0				20.0			100.0

Home Deposit Assistance

Effective from 22 August 1990 the Commonwealth has abolished the First Home Owners Scheme. This was in recognition of the fact that given wide regional variations in house prices across Australia it became increasingly difficult to maintain and develop an equitable and efficient national scheme. The aim is to put in place an enhanced deposit program, administered by each State, which is better integrated with home ownership schemes and takes into account regional differences. Further advice is anticipated from the Commonwealth.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	4,800	3,595	2,357	1,326	1,186	376	231	13,870
Per Capita \$	0.82	0.82	0.80	0.80	0.82	0.82	1.47	0.82
State Share %	34.6	25.9	17.0	9.6	8.6	2.7	1.7	100.0

Urban Flood Mitigation

This program is described below under Economic Services as part of the Federal Water Resources Assistance Program.

RECREATION AND CULTURAL SERVICES

National Estate

The Commonwealth provides capital grants to New South Wales towards the restoration, preservation and improvement of landscapes and buildings of special significance. The Australian Heritage Commission decides what projects should be so classified and payments have been made under the Urban and Regional Development (Financial Assistance) Act, 1974 since 1974-75.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	600	600	600	600	600	600	288	3,888
Per Capita \$	0.10	0.14	0.20	0.36	0.41	1.31	1.84	0.23
State Share %	15.4	15.4	15.4	15.4	15.4	15.4	7.4	100.0

Rainforest Conservation

The program aims to assist the States in acquiring and managing rainforest areas of high conservation significance.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	395	312	1,463	25	0	582	132	2,909
Per Capita \$	0.07	0.07	0.50	0.02		1.27	0.84	0.17
State Share %	13.6	10.7	50.3	0.9		20.0	4.5	100.0

ECONOMIC SERVICES

Labour and Employment

Public Sector Training for Aborigines

The Commonwealth will provide \$3.0 million in New South Wales for training Aborigines for public sector employment. The emphasis is on training leading to permanent employment of Aborigines.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,961	162	3,067	1,631	1,764	34	502	10,121
Per Capita \$	0.51	0.04	1.04	0.98	1.22	0.07	3.20	0.60
State Share %	29.3	1.6	30.3	16.1	17.4	0.3	5.0	100.0

Coal Mining Industry - Long Service Leave

New South Wales reimburses employers for long service leave payments made under certain awards and in turn is reimbursed by the Commonwealth from the proceeds of an excise on coal, including coal produced for export. The Commonwealth also reimburses the State for the cost of administering these arrangements. New South Wales has received annual grants for this purpose since 1950-51 under the States Grants (Coal Mining Industry Long Service Leave) Act 1949.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	15,540	0	7,260	1,300	0	100	0	24,200
Per Capita \$	2.65		2.47	0.78		0.22		1.43
State Share %	64.2		30.0	5.4		0.4		100.0

Transport

Interstate Road Transport

The Interstate Road Transport Act 1985 and the Interstate Road Transport Charge Act 1985 provide for the registration of vehicles and the licensing of operators engaged solely in interstate trade and commerce. Charges under these Acts are collected by State vehicle registration authorities and paid into the Interstate Road Transport Trust Fund. This is then distributed among the States and Territories for expenditure on the repair and maintenance of interstate roads.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	7,635	4,123	2,153	888	2,219	82	596	17,696
Per Capita \$	1.30	0.94	0.73	0.54	1.53	0.18	3.80	1.05
State Share %	43.1	23.3	12.2	5.0	12.5	0.5	3.4	100.0

Accounting Treatment: Funding under this program is provided direct to the Roads and Traffic Authority and does not pass through the Consolidated Fund.

Australian Centennial Road Development Program

Funding under this Program commenced from 1 January, 1989 and replaced that previously provided under both the Australian Land Transport and the Australian Bicentennial Road Development Programs. The program is funded by an earmarked share of fuel excise specifically designated as a road user charge.

In addition to providing for funding of categories of roads included under the previous programs (national highways, State arterial and local roads) a category of National Arterial roads was created to provide for construction of roads which can be identified as assisting the competitiveness of Australia's export and import-competing industries. As applied under previous arrangements, the new program will also permit States to utilise part of their national arterial road or State arterial road funds towards urban public transport or mainline railway projects. In addition, new programs are to be introduced, namely "Provincial Cities and Rural Highways" and the "Black Spots". Allocations to these programs are to be determined by the Commonwealth Minister for Land Transport from the State's overall allocation for roads.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	527,586	340,786	312,780	187,580	108,390	55,890	53,200	1,586,212
Per Capita \$	90.08	77.38	106.21	113.15	74.95	122.14	339.50	93.73
State Share %	33.3	21.5	19.7	11.8	6.8	3.5	3.4	100.0

Aerodrome Local Ownership Plan

The Aerodrome Local Ownership Plan is aimed at facilitating the transfer to local authorities of ownership of Commonwealth-owned aerodromes which service local needs. The Commonwealth provides grants towards the cost of upgrading aerodromes at the time of transfer of ownership and also for the development and maintenance of locally owned aerodromes. Most aerodromes transferred under the Plan are now owned by local authorities and with regard to these the Commonwealth payment is made direct (see Chapter 7). However a number are owned by State bodies operating in local areas and, in respect of these, payments are made to the States.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent & Capital:								
Amount \$000	65	0	146	150	157	327	111	956
Per Capita \$	0.01		0.05	0.09	0.11	0.71	0.71	0.06
State Share %	6.8		15.3	15.7	16.4	34.2	11.6	100.0

Industry Assistance and Development

National Industry Extension Service

The National Industry Extension Service, a joint Commonwealth/State venture, is aimed at helping enterprises improve levels of business efficiency and international competitiveness. The Scheme was launched on 1 July 1986 and it is designed to facilitate access to information and advice on these matters from both Government and private sector organisations. The Commonwealth is providing recurrent grants to the States in 1990-91 towards the costs of the Scheme.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	3,500	3,202	1,405	911	888	340	100	10,346
Per Capita \$	0.60	0.73	0.48	0.55	0.61	0.74	0.64	0.61
State Share %	33.8	30.9	13.6	8.8	8.6	3.3	1.0	100.0

Agricultural Research

New South Wales has received Commonwealth special research grants since 1960-61 towards financing of special investigation projects of a new, limited nature. These grants have usually been matched equally by the State.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	15	0	59	75	0	51	0	200
Per Capita \$	0.00		0.02	0.05		0.11		0.01
State Share %	7.5		29.5	37.5		25.5		100.0

Forestry Development

Funding is provided under the Commonwealth-New South Wales agreement on the South East forests to provide for additional gravelling and road works to prevent and repair winter breakdown of access roads. New South Wales is expected to receive \$500,000 in 1990-91.

Rural Adjustment Scheme

New South Wales has since 1975-76 received assistance partly by loan and partly by grant under the States Grants (Rural Adjustment) Act, 1976. This assistance has been towards a Rural Adjustment Scheme covering debt reconstruction, farm build-up, farm improvement, rehabilitation and household support.

This scheme was renewed within the States and Northern Territory Grants (Rural Adjustment) Act 1985 which took effect from 1 July 1985. However, while the same forms of assistance continue to be made available to primary producers, the financial arrangements under the renewed scheme have been significantly revised. Commonwealth assistance to farmers for debt reconstruction, farm build-up and farm improvement is now provided as an interest subsidy of 50 per cent for a maximum of seven years on funds raised from commercial sources. A similar arrangement applies for carry on finance except that the interest subsidy of 50 per cent must be shared equally by the State. The Commonwealth is continuing to meet the cost of household support and rehabilitation assistance and also contributes towards the administrative costs incurred by the State.

The major portion of the funds provided under the scheme are necessary to maintain commitments entered into in previous years.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	18,392	13,357	9,496	7,933	8,952	1,507	1,064	60,700
Per Capita \$	3.14	3.03	3.22	4.79	6.19	3.29	6.79	3.59
State Share %	30.3	22.0	15.6	13.1	14.7	2.5	1.8	100.0

Exotic Diseases Eradication

New South Wales first received a payment in 1984-85 as part of an exotic diseases preparedness program. In 1990-91 the State will receive funds on a dollar for dollar cost sharing basis for feral animal control.

Estimated Payments In 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	32	25	10	28	34	0	37	165
Per Capita \$	0.01	0.01	0.00	0.02	0.02		0.24	0.01
State Share %	19.4	15.2	6.1	17.0	20.6		22.3	100.0

Bovine Brucellosis and T.B. Eradication

Since 1969-70, New South Wales has received recurrent grants towards the eradication of bovine brucellosis and tuberculosis. The Commonwealth meets 70 per cent of the operational costs of the eradication program and the State meets the remaining 30 per cent. An additional payment is made towards partial compensation of owners of infected stock which have to be slaughtered. The Commonwealth payment in this case represents 75 per cent of net slaughter compensation, the State being required to contribute the remaining 25 per cent.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,198	1,076	8,302	7,107	785	85	28,500	47,053
Per Capita \$	0.20	0.24	2.82	4.29	0.54	0.19	181.88	2.78
State Share %	2.5	2.3	17.6	15.1	1.7	0.2	60.6	100.0
Capital:								
Amount \$000	0	0	136	216	7	0	136	495
Per Capita \$			0.05	0.13	0.00		0.87	0.03
State Share %			27.5	43.6	1.4		27.5	100.0

Sugar Industry

In view of the difficult economic conditions confronting the sugar industry the Commonwealth provided recurrent grants to New South Wales and Queensland over the three years 1986-87 to 1988-89. The State was required to match that assistance on a \$2 Commonwealth:\$1 State basis. In 1987-88 the assistance to New South Wales was solely for industry adjustment purposes. In 1986-87 part of the assistance was aimed at price support. Price support was not necessary in 1987-88 and 1988-89 due to stronger world sugar prices.

New South Wales will not receive any payment in 1990-91.

Soil Conservation

The Commonwealth first provided funds to the States under the National Soil Conservation Program in 1983-84. These payments are for the purposes of soil conservation and related research and extension activities.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	5,100	2,300	3,700	3,500	1,700	900	1100	18,300
Per Capita \$	0.87	0.52	1.26	2.11	1.18	1.97	7.02	1.08
State Share %	27.9	12.6	20.2	19.1	9.3	4.9	6.0	100.0

Federal Water Resources Assistance Program

During the years 1978-79 to 1983-84 Commonwealth assistance to the States for water related purposes was provided under the National Water Resources Program. In 1984-85 that program was replaced with the Federal Water Resources Assistance Program (FWRAP) which combined all previous Commonwealth programs of assistance for water resource development. Relevant programs, for which payments have been made during 1990-91, are as follows:

- **Salinity Reduction Control**

This is a co-ordinated program between New South Wales, Victoria and South Australia for the reduction of salinity and the control of drainage in the Murray Valley. Funds were first provided by the Commonwealth in 1978-79. \$2.7 million is expected in 1990-91.

- **Urban Water Supply and Treatment**

The recurrent payment under the Water Conservation and Efficiency program is expected to be \$110,000 in 1990-91.

Capital payments under the Country Towns Water Supply Improvement Program (COWSIP) scheme were introduced in 1985-86 to improve the water supplies of small towns in country areas. New South Wales is expected to receive \$1,527,000 in 1990-91.

- **Urban Flood Mitigation**

The Commonwealth first provided assistance by way of capital grants for approved flood mitigation works and study programs in 1964-65. Such activities continue to be eligible for assistance under the FWRAP. An amount of \$5,050,000 is expected in 1990-91.

The following table summarises estimated payments to the States under the FWRAP in 1990-91. Amounts are as published in the Commonwealth Budget.

Estimated Payments in 1990-91

Irrigation and Other Water Projects

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	200	440	0	104	230	50	0	1,024
Per Capita \$	0.03	0.10		0.06	0.16	0.11		0.06
State Share %	19.5	43.0		10.2	22.5	4.9		100.0
Capital:								
Amount \$000	1,779	2,354	12,373	0	600	0	0	17,106
Per Capita \$	0.30	0.53	4.20		0.41			1.01
State Share %	10.4	13.8	72.3		3.5			100.0

Salinity Reduction Control

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	2,675	3,105	0	835	450	0	0	7,065
Per Capita \$	0.46	0.71		0.50	0.31			0.42
State Share %	37.9	43.9		11.8	6.4			100.0

Urban Water Supply and Treatment

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	110	250	0	0	110	0	40	510
Per Capita \$	0.02	0.06			0.08		0.26	0.03
State Share %	21.6	49.0			21.6		7.8	100.0
Capital:								
Amount \$000	1,527	710	1,292	498	5,477	298	346	10,148
Per Capita \$	0.26	0.16	0.44	0.30	3.79	0.65	2.21	0.60
State Share %	15.0	7.0	12.7	4.9	54.0	2.9	3.4	100.0

Urban Flood Mitigation

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	0	0	0	0	0	0	130	130
Per Capita \$							0.83	0.01
State Share %							100.0	100.0
Capital:								
Amount \$000	5,050	1,200	510	175	128	250	20	7,333
Per Capita \$	0.86	0.27	0.17	0.11	0.09	0.55	0.00	0.43
State Share %	68.9	16.4	7.0	2.4	1.7	3.4	0.3	100.0

Afforestation

Funds have been provided in conjunction with the State Government for the National Afforestation Program for the development of broadacre hardwood plantations, for the rehabilitation of degraded lands and for research.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	670	250	25	150	75	200	50	1,420
Per Capita \$	0.11	0.06	0.01	0.09	0.05	0.44	0.32	0.08
State Share %	47.2	17.6	1.8	10.6	5.3	14.1	3.5	100.0

OTHER PURPOSES

Payments under the Financial Agreement – Sinking Fund on State Debt

The Financial Agreement of 1927 formalised arrangements for the Commonwealth, together with each State, to make annual contributions to a sinking fund for repayment of State debt.

These original arrangements specified contributions by the Commonwealth at the rate of 0.125 per cent per annum for 58 years on existing State debt as at 30 June 1927 and at the rate of 0.25 per cent per annum for 53 years on cash loans raised since that date. The State's contribution was to be 0.25 per cent per annum on both existing and new debt over 58 and 53 years respectively. These arrangements applied until 1974-75 when they were amended by the Financial Agreement Act 1976 which was made retrospective to 30 June 1975.

This Act specified the amount to be contributed by the Commonwealth and by New South Wales in 1975-76 (\$9.9 million and \$41.5 million respectively). From 1976-77 to 1985-86, the 1975-76 contributions were adjusted by a percentage (1.20 per cent for State contributions and 0.28 per cent for Commonwealth contributions) of the difference between the State's net debt at 30 June 1975 and its net debt at 30 June immediately preceding the year of contribution. From 1986-87 the New South Wales contribution is 0.85 per cent of its net debt at the preceding 30 June. The Commonwealth contributes at the rate of 0.28 per cent.

The 1976 Agreement also included the formal transfer of \$1,000 million of State debt (including \$330.3 million for New South Wales) to the Commonwealth as from 30 June 1975. This transfer replaced interim arrangements whereby the Commonwealth made a grant to the States in 1970-71 equivalent to the debt charges on \$200 million of the State debt, this grant being progressively increased to meet debt charges on a further \$200 million of debt in each of the following four years.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	16,297	12,383	6,699	4,257	4,480	3,395	1,581	49,094
Per Capita \$	2.78	2.81	2.27	2.57	3.10	7.42	10.09	2.90
State Share %	33.2	25.2	13.6	8.7	9.10	6.9	3.2	100.0

Accounting treatment: The Commonwealth and New South Wales payments will be credited to the National Debt Sinking Fund (within the Commonwealth Trust Fund) operated by the National Debt Commission.

Debt Redemption Assistance

At the 1990 Loan Council meeting the States agreed to takeover responsibility for Commonwealth debt raised on their behalf. As part of the Loan Council decision, the Commonwealth agreed to the States being compensated for any financial loss associated with the new arrangements. Payments to be made in 1990-91 are compensation for the higher cost of borrowing faced by the States compared to the Commonwealth. In future years the States will also be compensated for the difference between Commonwealth sinking fund contributions under present arrangements and those which will occur under accelerated debt redemption. The exact nature of the compensation arrangements are at present still subject to negotiation.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	883	833	423	375	458	247	114	3,332
Per Capita \$	0.15	0.19	0.14	0.23	0.32	0.54	0.73	0.20
State Share %	26.5	25.0	12.7	11.3	13.7	7.4	3.4	100.0

Australian Research Council Research Funds

From January 1990, funding for research allocated by the Australian Research Council (ARC) has been provided as specific purpose payments to the States under the States Grants Higher Education Funding Act. The ARC allocates research funds and advises on matters such as national research priorities, the coordination of research policy, the development and implementation of programs for selective concentration of research activity, and measures to improve the training of research personnel.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	61,139	46,676	24,339	16,190	20,055	6,721	0	175,120
Per Capita \$	10.44	10.60	8.26	9.77	13.87	14.69		10.35
State Share %	34.9	26.7	13.9	9.2	11.5	3.8		100.0

State Emergency Services

New South Wales receives a grant from the Commonwealth towards the cost of salaries of an agreed number of State Emergency Services personnel. A further component of the funding is a \$ for \$ grant towards the cost of providing accommodation for emergency services units at the local level.

The Commonwealth also provides for the costs of training of volunteers and permanent staff at the Australian Civil Defence College. Assistance is also made available towards the cost of equipment purchases.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,001	636	692	593	503	240	186	3,851
Per Capita \$	0.17	0.14	0.23	0.36	0.35	0.52	1.19	0.23
State Share %	26.0	16.5	18.0	15.4	13.1	6.2	4.8	100.0

Accounting Treatment: The salaries reimbursement component (estimated at \$670,000 in 1990-91) will be credited to the "State Emergency Services" Account and subsequently transferred to the Consolidated Fund. The Accommodation Subsidy (estimated at \$150,000 for 1990-91) will be disbursed directly to the councils responsible for constructing the depots to which the subsidies apply. The training component represents direct Commonwealth expenditure on travelling, subsistence and Defence College costs.

The equipment is purchased directly by the Commonwealth and supplied to the State for distribution to councils.

Natural Disaster Relief

New South Wales has for many years received Commonwealth assistance towards expenditure incurred by the State on approved relief and restoration measures introduced following major natural disasters.

From 1971 to 1978-79 major disasters had been defined as those involving expenditure of over \$500,000 and the State was required to meet the first \$5 million, the Commonwealth fully meeting expenditures over this base level.

In the period 1978-79 to 1983-84, inclusive, Commonwealth financial assistance was made available on a \$3 Commonwealth for \$1 State basis in respect of that expenditure incurred by the State in excess of \$10 million (referred to as the base amount) in any one financial year on major natural disasters (i.e., those involving State expenditure of at least \$1 million on relief and restoration measures).

The Commonwealth revised these arrangements with effect from 1st July 1984 such that the base amounts of expenditure to be met by the States before financial assistance is provided by the Commonwealth under the Natural Disaster Relief Arrangements was to be set at 0.24 per cent of total Budget Sector receipts (as published by the Australian Bureau of Statistics) for each State for the financial year two years earlier. In the case of New South Wales the base amount was set at \$18.49 million for 1984-85.

Following reclassification and changed definitions in the statistical series, a technical adjustment was made to the formula, and since 1 July 1985 base amounts have been set at 0.225 per cent of State annual Budget Sector receipts two years earlier. On this basis New South Wales' base amount for 1990-91 is \$37.52 million.

Most expenditure by the State on approved relief and restoration measures introduced following natural disasters is eligible for inclusion under the arrangements. Commonwealth assistance is not available for "small" natural disasters involving expenditure less than \$100,000 and for other measures not endorsed by the Federal Minister for Finance.

In respect of the expenditure incurred by the State in excess of the base amount, since 1 July 1985 the Commonwealth contributes on a \$1 for \$1 basis for expenditure up to 75 per cent in excess of the applicable base amount and on a \$3 Commonwealth for \$1 State basis for expenditure thereafter.

While, in general, the State is required to meet all expenditures below the base amount (ie. \$37.52 million) the Commonwealth does contribute on a \$1 for \$1 basis in respect of expenditure aimed at relieving personal hardship and distress.

Special cost sharing arrangements were agreed to by the Premier and the Prime Minister in regard to damage caused by the Newcastle earthquake on 28 December 1989. Under these arrangements the Commonwealth and New South Wales will share all costs on a \$1 for \$1 basis. Accordingly, expenditure on earthquake restoration is not counted towards the State's base amount.

The estimates shown below, as with other estimates shown in this document, are those in the Commonwealth Budget. For natural disaster relief, such estimates are necessarily subject to change.

Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	5,732	0	6,162	0	0	0	106	12,000
Per Capita \$	0.98		2.09				0.68	0.71
State Share %	47.8		51.4				0.9	100.0
Capital:								
Amount \$000	32,548	0	34,858	0	0	0	594	68,000
Per Capita \$	5.56		11.84				3.79	4.02
State Share %	47.9		51.3				0.9	100.0

6 LOAN COUNCIL DETERMINATIONS

This Chapter provides details of the recent trends in financial relations between the Commonwealth and New South Wales in regard to general purpose capital assistance and the determination of borrowing levels. Both these areas of Commonwealth/State financial relations come under Loan Council control through either the Financial Agreement or the Global Approach.

General Purpose Capital Funds

In June 1990 Loan Council determined that the general purpose capital allocation to the States in 1990-91 would be \$296.8 million, paid as grants and following the same distribution as in 1989-90. This represents the same dollar amount as in 1989-90 (after adjusting for the recoupment of 90 per cent of State motor taxes levied on Telecom and Australia Post from 1989).

Since 1970-71 general purpose capital funds have comprised of a grants and loans component. In 1988-89 the Commonwealth increased the grant component from 33.3 per cent to 50 per cent. As well, since 1982-83, the States and Northern Territory have been able to nominate part of the loan component for public housing. Such nominated funds were on concessional terms (4.5 per cent interest repayable over 53 years) as opposed to market rates. From 1987-88 the States were able to nominate 100 per cent of the loan component for housing at a concessional rate of interest. For 1989-90, Loan Council decided that the \$310.5 million loan nomination in the 1988-89 General Purpose Capital allocation would be converted to grants under the Commonwealth State Housing Agreement (CSHA).

At the 1990 Loan Council meeting the States agreed to take over responsibility for Commonwealth debt raised on their behalf. This will be achieved by the States borrowing funds and making payments to the National Debt Sinking Fund sufficient to redeem all maturing loans issued on their behalf. Loan Council also agreed to the States being fully compensated for any financial loss associated with the new arrangements.

The Commonwealth has proposed that compensation will be paid each year and be calculated as follows:

- The difference between Commonwealth sinking fund contributions under the present arrangements and those which would occur under accelerated debt redemption.
- The difference between the cost of borrowing by the State and the Commonwealth.

As part of the compensation arrangements the Commonwealth intends to amend the Financial Agreement to permit the States to borrow in their own name in domestic markets.

Table 6.1
General Purpose Capital Funds
Estimated payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Amount \$000	79,756	68,263	16,095	22,425	38,963	27,468	43,816	296,786
Per Capita	13.62	15.50	5.472	13.53	26.94	60.03	279.62	17.54
State Share %	26.9	23.0	5.4	7.6	13.1	9.3	14.8	100.0

Semi-Government and Local Authority Borrowings

GLOBAL BORROWING LIMIT ARRANGEMENTS (1984-85 AND THEREAFTER)

At the June 1984 meeting of Loan Council it was agreed that for a one year trial basis in 1984-85 the Gentlemen's Agreement (See Appendix) would be suspended and replaced with "global approach" arrangements which would apply to all categories of semi-government and local authority new money borrowings as well as to financings that had previously been outside the purview of Loan Council. The States voluntarily agreed that the extent of the external financings of all such authorities (i.e. the conventional and non-conventional financings of all larger and smaller authorities, including electricity authorities and the infrastructure program) should be subject to specified global limits. The distinction between the various types of authorities included within the Gentlemen's Agreement ceased to apply.

These new arrangements were introduced in recognition that, with the trial removal of electricity authority borrowings from Loan Council control and the development of innovative non-conventional financings, Loan Council had effectively ceased to determine the level of public sector financings.

At the May 1985 meeting, Loan Council agreed to the continuation of the Global Approach and resolved that the arrangements should apply as the ongoing framework for Loan Council oversight of all borrowings by state and local (and Commonwealth) government authorities. The Gentlemen's Agreement was terminated and replaced with the voluntarily agreed global borrowing arrangements.

In 1988-89 the Commonwealth effectively made observance of the Global Approach mandatory by making the payment of Financial Assistance Grants conditional on the observance of borrowing limits under the Global Approach.

Included within the global limit are:

- conventional domestic and overseas loan raisings;
- non-conventional financings, including domestic deferred payments, overseas trade credits, financial leases (including leveraged leases), sale and leaseback arrangements;
- the net change in temporary purpose borrowings over the financial year;
- any other means of financing capital expenditures.

The agreed global limits exclude operating leases which meet certain conditions, temporary purpose borrowings within the financial year and borrowings by government-owned financial institutions (except where on-lent to non-exempt authorities) and statutory marketing authorities.

The meeting of Loan Council on 13 June 1986 agreed that the global limit should also include borrowings by exempt institutions which are on-lent to governments except where such borrowings are associated with temporary or unexpected fluctuations in outlays and receipts.

Each State has the discretion to distribute its borrowings within the global limit between its semi-government and local authorities and consultation in this regard with other members of Loan Council is not required.

The approval of the timing, terms and conditions and forms of domestic borrowings included within the global arrangements is also delegated to the individual members of Loan Council (subject to Loan Council being appropriately informed).

Bodies subject to the global limit are able to refinance debt (conventional and non-conventional, domestic and overseas) outside of new money borrowing limits, provided there is no net addition to the total level of outstanding debt.

Overseas Borrowings

While overseas borrowings were initially related to the infrastructure program, since June 1980 an overseas borrowing ceiling has been set, with each State free to determine the allocation of its share of the ceiling among authorities under its control. At the June 1986 Loan Council meeting further conditions were placed on the amount of new money borrowings. Such borrowings, including the net change in temporary purpose borrowings are not to exceed for more than a two month period during the financial year the State's overseas borrowing ceiling for that year, with an upper limit at all times during the year of 150 per cent of each State's ceiling.

Global Borrowing Limits for 1990-91

For the States and the Northern Territory in total in 1990-91 a global limit of \$3880.4 million applies to the borrowings of semi-government and local authorities. For the six States this represents the same money level as the 1989-90 global limits. New South Wales supported such a real reduction in borrowings in order to further reduce pressure on interest rates.

Loan Council also decided to rationalise the distribution of global limits. The present distribution (based on historical shares), is to be replaced by a distribution based on per capita shares, phased in over five years. It was believed that such a distribution process would better reflect States' long term capital needs.

In the case of New South Wales, the limit in 1990-91 is \$1177.9 million which represents a 3.0 per cent increase on the State's global borrowing limit in 1989-90.

Table 6.2
Global Borrowing Limits
Estimated payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Basic Program	1,177,900	1,137,100	630,800	352,300	243,400	128,600	46,300	3,880,400
Special Addition				70,000		50,000	34,000	
Total	1,177,900	1,137,100	630,800	432,300	243,400	178,600	80,300	3,880,400
Per Capita	201.11	256.21	214.19	260.77	168.31	390.30	512.44	229.28
State Share %	30.4	29.3	16.3	11.1	6.3	4.6	2.1	100.0
State Share of population	34.6	26.0	17.4	9.8	8.5	2.7	0.9	100.0

As indicated above, within the overall global limit a ceiling is set on the amount of new money overseas borrowings. (Existing overseas loans can be refinanced before or at maturity outside of this ceiling.) For 1990-91, as in the previous five years, the States are able to borrow overseas up to the equivalent of 22 per cent of the total global limit (with the distribution thereof being a matter for the States themselves). This results in an overseas borrowing ceiling for the six States of \$836.0 million in 1990-91 of which New South Wales' share is \$259.1 million.

Accounting treatment: The New South Wales Treasury Corporation raises domestic loans on behalf of semi-government authorities and Electricity County Councils in this State. Funds raised are credited to a bank account in the Corporation's name and subsequently disbursed to Authorities as funds are required for cash flow purposes. The same applies to overseas borrowings that are denominated in or have been swapped into Australian currency.

In the past, overseas loans raised by the Corporation and denominated in overseas currencies were allotted to a select number of larger authorities with substantial ongoing capital works programs. However, since 1986 it has been policy that no new unhedged foreign currency liabilities should be incurred.

7 COMMONWEALTH PAYMENTS TO OR FOR LOCAL GOVERNMENT

General Purpose Payments

FINANCIAL ASSISTANCE GRANTS

A review of local government tax sharing arrangements was commissioned by the Commonwealth in May 1984. The review was subsequently undertaken by the Committee of Inquiry into Local Government Finance.

The Report of the Committee was presented on 29 October 1985 and following its consideration the Commonwealth replaced the personal income tax sharing arrangements with new general purpose assistance arrangements which commenced in 1986-87. The new arrangements, which were formalised within the Local Government (Financial Assistance) Act 1986, integrate the Northern Territory with the States. The Act provided for:

- the aggregate grant to local government authorities in 1986-87 and 1987-88 to be determined by increasing the previous year's total grant by the larger of:
 - * the increase in the All Groups CPI for the eight capital cities in the year to the March quarter over the corresponding period in the previous year; or
 - * the percentage increase in the aggregated financial assistance grants, identified health grants and general purpose capital assistance to be received by the States.

In both years the first approach yielded the highest increase.

- the aggregate grant to local government authorities in 1988-89 and thereafter to be determined by applying the same percentage increase in general purpose assistance received by the States to the local government financial assistance grant of the previous year. However the changed arrangements in respect of health funding for the States in 1988-89 mean that general purpose assistance as defined in the Act had declined sharply. An amendment to the Act was made on an interim basis to enable the level of funding in 1988-89 to be increased by 2.5 per cent, roughly equal to the increase in general purpose assistance to the States and the Northern Territory as defined in 1987-88.
- a new distribution of the aggregate grant among the States with an equal per capita distribution being phased in by 1989-90. A review of distribution arrangements beyond 1990-91 is being carried out by the Commonwealth Grants Commission. New South Wales was strongly opposed to a Grants Commission review going ahead, especially in light of the fact that the current equal per capita distribution was only decided upon by all State Local Government Ministers in 1985.

- each State to distribute its aggregate grant among its local government authorities in accord with the objective of horizontal fiscal equalisation (as defined in the Act) by 1 July 1991 at the latest.
- no local authority to receive an amount in any year less than the amount it would receive if 30 per cent of the State's grant were allocated on an equal per capita basis.

In 1988-89, the Australian Capital Territory for the first time received a payment analogous to that made to the States. The payment maintained the real level of a notional grant equal in per capita terms to that received by the States in 1987-88.

Table 7.1
Financial Assistance Grants to Local Government
Estimated Payments in 1990-91

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	243,138	182,408	120,399	67,718	60,044	19,027	6,564	699,292
Per Capita \$	41.51	41.42	40.88	40.85	41.52	41.58	41.89	41.32
State Share %	34.8	26.1	17.2	9.7	8.6	2.7	0.9	100.0
State Share of population	34.6	26.0	17.4	9.8	8.5	2.7	0.9	100.0

The payment from the Commonwealth will be credited to the Special Deposits Account, Commonwealth Payments - Recurrent, "Local Government Financial Assistance" Account. The funds will subsequently be distributed among local government authorities by the Department of Local Government on the recommendations of the Local Government Grants Commission.

Specific Purpose Payments

Commonwealth payments to local government authorities for use in specified areas take two forms - direct payments and payments passed on by the State.

Because of the provisions of the Australian Constitution, there are no Commonwealth programs of direct payments specifically for local government authorities as such. However, direct payments are made under other assistance programs for which the authorities satisfy the eligibility criteria.

The indirect payments are described in detail in Chapter 5 of this document, while an estimate of the amount being passed on to local authorities under each program is given later in this Chapter. In some cases the State has control over the amount of the payment to be passed on, whilst in other areas the State simply acts as an intermediary.

DIRECT COMMONWEALTH PAYMENTS

Aged or Disabled Persons' Homes and Hostels

Religious, charitable and other organisations, including local government bodies, providing certain kinds of accommodation for the aged are eligible for Commonwealth assistance towards capital and operating costs. The payments are made under the Aged or Disabled Persons Homes Act, 1954 and Aged and Disabled Persons' Hostels Act 1972. Under the first Act a capital subsidy of \$2 for \$1 up to a maximum subsidy of \$20,200 for a single unit and \$23,450 for a double unit is paid.

Assistance is also provided for the payment of personal care subsidies in respect of persons who are resident in hostel accommodation and require daily assistance with living tasks.

New South Wales local government bodies are estimated to receive \$3,976,000 in 1990-91. Of this total \$1,945,000 is for recurrent operating costs.

Disability Services

This program replaces the core provisions of the Handicapped Persons' Assistance Act, 1974. Under this program local government authorities and voluntary non-profit bodies receive assistance towards the accommodation, employment and training of disabled persons.

In 1990-91 local government bodies in New South Wales are expected to receive \$325,000, of which \$279,000 is to go towards recurrent expenditures.

Children's Services

Local government authorities providing a range of care and associated services for children receive payments towards the establishment and operating costs of such services under the Commonwealth Children's Service Program.

It is estimated that local government authorities in New South Wales providing these services will receive \$23,104,000 in 1990-91 of which \$22,970,000 is towards recurrent expenditures.

Aboriginal Advancement

Local government authorities may receive direct payments under the employment programs of the Department of Aboriginal Affairs. Part of the payment may be aimed at providing work experience and training for Aborigines in labour intensive employment projects. In addition the Commonwealth provides assistance for the training of Aborigines in the public sector. Local government authorities in New South Wales will receive no payment under these programs in 1990-91.

Aerodrome Local Ownership Plan

Local government authorities or other bodies may be eligible for Commonwealth assistance where they establish, develop and maintain local aerodromes on their own initiative or take over Commonwealth owned aerodromes. Payments are made on a \$ for \$ basis for both development and maintenance works expenditure.

The estimated payment to local government authorities in New South Wales in 1990-91 is \$2,774,000 of which \$304,000 is for capital purposes.

Local Government Development Program

This program which was introduced in 1984-85 is aimed at providing a range of support services to local government in order to strengthen its capacity to improve its efficiency and performance, strengthen local economies and infrastructure, and facilitate the provision of community services. Payments to New South Wales local government authorities in 1990-91 are expected to be \$767,000.

COMMONWEALTH PAYMENTS PASSED ON BY THE STATE

As mentioned previously a detailed description of these payments is contained in Chapter 5 of this document. Amounts quoted in that chapter include that part of the Commonwealth payment to be passed on to local government authorities. The payments concerned are listed below. (Except where otherwise indicated the amount to be passed on in 1990-91 is yet to be determined.)

Home and Community Care Program

Under this program \$6,066,000 was passed on to local government authorities in 1989-90.

Children's Services

In 1989-90 a Commonwealth payment of \$743,000 was passed through the State to local government authorities.

Supported Accommodation Assistance

An amount of \$42,000 was passed through the State to local government authorities in 1989-90.

Local Government and Community Housing

Local government authorities are among those organisations qualifying for funds under this Program which commenced in 1984-85. The payment is in respect of dwellings wholly or jointly owned by the State but managed by local government authorities. The State passed on an amount of \$1,253,000 in 1989-90.

National Estate

Part of the Commonwealth payment is passed on to local government authorities in respect of projects undertaken by them. In 1989-90 \$28,000 was passed on by the State.

Australian Centennial Road Development Program

Commonwealth funding towards roads is being provided under the Australian Centennial Road Development Act, 1988 and replaces that previously provided under both the Australian Land Transport and the Australian Bicentennial Road Development Programs.

The amount allocated by the Commonwealth for expenditure on urban and rural local roads is distributed to local government authorities in accordance with a program compiled by the State. Payments made in 1989-90 totalled \$83,590,000 while the amount for the current year is expected to be \$90,100,000.

Urban Flood Mitigation

As outlined in Chapter 5 funds are provided to the States for approved flood plain management works and studies under the Federal Water Resources Assistance Program. The funding provided by the Commonwealth is required to be matched by the State and Local Government on a \$2 Commonwealth : \$2 State : \$1 Council basis. Of the Commonwealth contribution provided in 1989-90, some \$4,100,000 was for projects being undertaken by councils.

State Emergency Services

Some of the payment received by the State is passed on to local government authorities which provide depots for emergency service units. An amount of \$149,000 was passed on by New South Wales in 1989-90.

Local Government Authority Borrowings

Prior to 1984-85 the borrowings of local government authorities had been subject to Loan Council regulation by way of the Gentlemen's Agreement.

As outlined in Chapter 6, the Gentlemen's Agreement was terminated and replaced with the global borrowing arrangements which have governed the borrowings of semi and local government authorities since 1984-85. These arrangements provide an on-going framework for Loan Council oversight.

The aggregate borrowings of local government authorities are subject to the global limit. Within that limit, a borrowing allocation of \$159.0 million will be provided in 1990-91 for general purpose councils in New South Wales (that is excluding County Councils).

Accounting Treatment: Local government authorities borrow directly from financial institutions including New South Wales Treasury Corporation and deposit the loan directly into the relevant fund with the Authority.

APPENDIX: HISTORY OF FEDERAL/STATE FINANCIAL RELATIONS

A Brief History

The financial relationship between the Commonwealth and State Governments originated with Federation in 1901. Since that time, meetings of Premiers' Conference have been held at least annually to consider the nature and volume of Commonwealth funds provided to the States and the basis on which they would be determined. Initially general purpose payments were made by the Commonwealth to the States as reimbursement for the customs and excise duties which they had foregone on Federation. The payments were in recognition of the fact that the States' expenditure responsibilities remained undiminished, despite their reduced revenue raising ability.

Commonwealth payments to the States for specific purposes commenced in 1923-24 when the Commonwealth began making payments for the purpose of road construction and maintenance. Since that time, and particularly in the post-second World War period, there has been a general increase both in the range and the complexity of these payments. The trend has eased somewhat over the last decade with a number of specific purpose payments being absorbed into general purpose payments.

The Federal financial relationship was expanded in 1927 to include borrowings by State Governments. Under the terms of the Financial Agreement, the Commonwealth assumed responsibility for the raising of loans on behalf of the States, subject to the decisions of the Loan Council. A further expansion of the role of Loan Council occurred in 1936 when borrowings by semi-government and local authorities were brought under the control of Loan Council on a voluntary basis, via the Gentlemen's Agreement. The Gentlemen's Agreement has been superseded by the Global Resolution of 1984.

The Commonwealth Grants Commission was established in 1933 as an independent advisory body. At that time, the smaller ("claimant") States made annual application for special assistance. The principle by which these grants were determined evolved away from the effects of Federation in relation to fiscal imbalance and toward a concept of fiscal need.

The States' revenue raising capacity was further reduced in 1942 when the Commonwealth assumed sole income tax power. A new system of tax reimbursement payments to the States was consequently commenced to enable them to continue to meet their financial responsibilities. These payments have become a permanent feature of the Australian federal system and while the arrangements governing their payment have changed from time to time essentially they continue to represent reimbursement for the loss by the States of income tax revenues.

The financial relationship between the Commonwealth and other levels of government expanded further in 1973 when local government was first given access to general purpose assistance grants from the Commonwealth. Prior to 1973, no Commonwealth assistance was provided specifically to local government. The Commonwealth had previously taken the view that local government was the responsibility of the States.

Commonwealth Grants Commission

The Commonwealth Grants Commission has been a key institution in the field of Commonwealth/State financial relations since its establishment in 1933. Since its formation, the Commission has undergone changes in its role and relative importance.

Initially, the Commission had responsibility for recommending the level of additional general revenue assistance (in the form of special grants) to be provided to claimant States. In determining the level of special grants the Commission adopted the principle of financial need and moved away from the principle of compensation which had been the basis of States' applications for special grants prior to the Commission's establishment. The Commonwealth invariably accepted the Commission's recommendations.

Between 1934-35 and 1958-59 special grants paid on the recommendations of the Grants Commission were important sources of funds for the then three claimant States (Tasmania, Western Australia and South Australia). By 1958-59 special grants represented 14 per cent of recurrent revenues of the claimant States. These grants increased the extent of fiscal equalisation occurring through the movement to a distribution based on equal per capita shares following the introduction of uniform income tax in 1942.

Between 1959 and 1977 the Grants Commission played a less important role in Commonwealth /State financial relations. During this period, the distribution of general revenue grants shifted from one predominately based on population to one designed to achieve a significant degree of horizontal equalisation between the States. This meant, in practice, that the Commonwealth used its financial powers to transfer general revenue funds from the wealthier to poorer States. In effect, special grants were gradually absorbed into general revenue grants. As a consequence, the claimant States received per capita payments significantly larger than those for New South Wales and Victoria. Premiers' Conference was responsible for determining the distribution of general revenue funds. The Commission's role as the institution ensuring fiscal equalisation between the States was thus largely taken over by Premiers' Conference.

As part of the changed arrangements for general revenue funds introduced from 1976-77, the Commonwealth and the States agreed that a review of the distribution of the States' entitlement under the new arrangements should be carried out by the Grants Commission. The Grants Commission's recommended per capita relativities were to be based on the principle of fiscal equalisation whereby Commonwealth general revenue funds are distributed so that each State can supply consistent standard services without having to impose tax levels appreciably different from other States. The Commission's first report was handed down in 1981 and since then the Commission's recommended relativities have become the basis for the distribution of general revenue funds between the States (after allowing for various phasing in arrangements and guarantee provisions by the Commonwealth).

1 General Revenue Funds

Since 1942, some form of annual tax reimbursement payment has represented the States' main single source of general purpose revenue funds. General revenue funds have also been made available at various times for expenditure on health and to provide special short term supplementation for particular reasons.

TAX REIMBURSEMENT GRANTS

The arrangements governing the tax reimbursement payments have been altered on a number of occasions, with the most recent fundamental change taking effect in 1985-86. Taking account of this latest change, there have been four distinct phases in the history of unconditional general revenue payments to the States (a more detailed summary of the first three phases is contained in the 1988-89 Budget Paper 4).

The table following indicates the relative positions of the States at the beginning of each phase of Commonwealth general revenue assistance.

Financial Assistance Grants to the States (a)

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL* STATES
1942-43								
Amount \$000	30,952	13,594	11,642	6,840	6,468	2,980		72,476
State Share %	42.71	18.76	16.06	9.44	8.92	4.11		100.00
Per Capita \$	10.88	6.92	11.19	14.34	10.59	12.33		10.09
State Share of Population %	39.63	27.37	14.49	6.64	8.51	3.37		100.00
1959-60								
Amount \$000	166,900	121,250	72,750	57,924	58,202	28,626		505,652
State Share %	33.01	23.98	14.39	11.46	11.51	5.66		100.00
Per Capita \$	43.96	43.00	49.22	60.75	62.34	83.19		50.12
State Share of Population %	37.63	27.95	14.65	7.11	9.25	3.41		100.00
1976-77 (b)								
Amount \$000	1,125,866	840,724	680,131	437,515	432,455	186,294		3,702,985
State Share %	30.40	22.70	18.37	11.82	11.68	5.03		100.00
Per Capita \$	226.11	219.86	322.22	367.17	337.86	450.34		268.35
State Share of Population %	36.08	27.71	15.30	8.64	9.28	3.00		100.00
1985-86 (c)								
Amount \$000	3,012,615	2,248,332	1,973,578	1,122,961	1,037,171	387,036		9,781,693
State Share %	30.80	22.99	20.18	11.48	10.60	3.96		100.00
Per Capita \$	548.02	543.02	759.95	781.19	753.32	870.53		631.34
State Share of Population %	35.48	26.72	16.76	9.28	8.89	2.87		100.00
1990-91 (est)(d)(e)								
Amount \$000	3,708,035	2,721,741	2,532,150	1,560,839	1,440,008	522,900	675,215	13,160,888
State Share %	28.17	20.68	19.24	11.86	10.94	3.97	5.13	100.00
Per Capita \$	633.09	618.04	859.81	941.51	995.79	1,142.70	4,308.97	777.65
State Share of Population %	34.61	26.02	17.40	9.80	8.54	2.70	0.93	100.00

* All States refers to the six States and the Northern Territory in 1990-91.

- (a) As defined in 1990-91. Equivalent figures are shown for earlier years (including Special Grants recommended by the Commonwealth Grants Commission).
- (b) The amount represents the Tax Share Entitlement not the actual payment. In fact, the States were overpaid in 1976-77 and adjustments were consequently made to 1977-78 grants.
- (c) Excludes special revenue assistance. Tasmania and South Australia received a payment of \$43.0m and \$34.2m respectively under "phasing in" arrangements on account of the introduction of new relatives. In addition, Queensland received a payment of \$10m as compensation for changed arrangements concerning medicare.
- (d) Excludes special revenue assistance to the Northern Territory of \$50.2 million on account of the introduction of new relatives.
- (e) The Northern Territory was brought into the arrangements for distribution of financial assistance grants from 1988-89.

It can be seen that NSW share of the population has declined slightly over the period. However the State's share of general revenue funds has decreased more sharply and the share of funds received is much less than the share of population.

Phase 1 – Tax Reimbursement Grants

During this phase, which spanned the period 1942–43 to 1958–59, payments to the States took the form of "Tax Reimbursement Grants". The States were "reimbursed" by an annual grant.

Under these arrangements, NSW's share of these grants fell from 42.7 per cent in 1942–43, to 35.1 per cent in 1946–47 and to 33.7 per cent in 1958–59.

Phase 2 – Financial Assistance Grants

The first overall review of the reimbursement system took place when the system of financial assistance grants was introduced in 1959–60 (States Grants Act 1959) to replace the Tax Reimbursement Grants. This review had no regard to the income tax raised in each State; nor was it based on a study of relative State needs.

The 1959 Act detailed the initial amount and distribution of payments for the base year of 1959–60. The financial assistance grant of each State for each subsequent year was to be determined by multiplying the grant of the previous year by a factor reflecting the increase in the State's population, the increase in wages for Australia and a "betterment" factor (the betterment factor initially took the form of 10 per cent of the increase in average wages, but from 1965 it became a fixed percentage increase). This system, in the main, applied until 1975–76.

A feature of this phase was the absorption of special grants to the claimant States into financial assistance grants. By 1976, the original claimant States (Tasmania, South Australia and Western Australia) had all withdrawn from claimancy. Only Queensland remained a claimant State.

The previous downward trend in New South Wales' share of the total financial assistance and special grants continued during this phase, with its share falling from 33.0 per cent in 1959–60 to 30.4 per cent in 1975–76.

Phase 3 – Tax Share Entitlements/Tax Sharing Grants

During Phase 3, which spanned the period 1976–77 to 1984–85, the previous system of Financial Assistance Grants was replaced with tax sharing arrangements. The continuation of reimbursement payments in the guise of tax sharing was provided for by "Stage 1" of the new arrangements. Additionally, a "Stage 2" provision was introduced to permit the imposition of State surcharges/rebates on Commonwealth income tax.

Under stage 1, aggregate payments to the States were based initially (1976–77 to 1980–81) on a percentage of Commonwealth net personal income tax collections and then on a percentage of the Commonwealth's total tax collections (1981–82 to 1984–85). The distribution of the aggregate grant between 1976–77 and 1980–81 was based on the relativities of the individual State per capita grants during the last year of the superseded Phase 2 arrangements. After transitional arrangements in 1981–82, the distribution between 1982–83 and 1984–85 was based on Commonwealth Grants Commission relativities (after allowing for phasing in arrangements and underlying guarantees provided by the Commonwealth).

Stage 2 was legislated by the Commonwealth within the Income Tax (Arrangements with the States) Act 1978. No State ever took advantage of the Commonwealth legislation. It was repealed in May 1989.

Phase 4 – Financial Assistance Grants

The provisions of the States (Tax Sharing and Health Grants) Act 1981 which expired on 30 June 1985 required that there be a review of the overall level of general revenue assistance to the States after 1984–85. Consequently, at the May 1985 Premiers' Conference, agreement was reached on new arrangements to apply during the three years 1985–86 to 1987–88. These arrangements were subsequently provided for within the States Grants (General Revenue) Act of 1985. Further details are provided in Chapter 2.

2. Specific Purpose Payments

Since the early 1960's, specific purpose payments have increased greatly in aggregate size, in the variety of programs and their relative importance as a proportion of Commonwealth payments to the States.

The most rapid rise occurred under the Whitlam Government, during the period 1972–73 to 1975–76. During these years specific purpose payments nearly doubled as a proportion of total Commonwealth payments and Loan Council borrowing program allocations (from 26 per cent to 49 per cent). In money terms the level of specific purpose payments over the three year period increased by well over 300 per cent. These significant rises reflected both the maintenance of existing programs and Commonwealth expansion into many new areas where the Commonwealth wished to direct the expansion of specific public sector services which were the responsibility of States.

After 1975–76, specific purpose payments gradually declined in importance as some programs initiated under the Whitlam Government were discontinued, run down or absorbed into General Revenue Grants. By 1981–82 specific purpose payments represented 41 per cent of total Commonwealth payments and Loan Council borrowing program allocations.

Since 1981–82, the relative share of Commonwealth payments paid as specific purpose payments has increased slowly (if Identified Health Grants are treated as specific purpose payments). This is due to the increased provision of funds for social welfare, housing, roads and hospitals (Medicare). In 1985–86 specific purpose payments represented 45 per cent of total Commonwealth payments to the States, only slightly below the peak of 1975–76.

3. Loan Council Determinations

The Financial Agreement of 1927 is a jointly legislated agreement between the Commonwealth and State Governments which aimed at co-ordinating public sector borrowings. It provides for the establishment of the Australian Loan Council (comprising the Prime Minister and the six Premiers or their nominees), giving it the responsibility for determining the total amount to be borrowed by the Commonwealth and the States, its distribution among the seven governments and the terms and conditions on which borrowings are made.

Under the Financial Agreement, State Governments cannot borrow without the approval of the Loan Council (except in a limited number of special cases), and with a few exceptions, the State allocations approved by the Loan Council are financed by Commonwealth loan raisings. Any time when loan raisings were insufficient to meet the agreed borrowing program, the Commonwealth made up the difference by subscribing, from its own resources, to a special loan.

It had been the practice for many years for Loan Council generally to accept, occasionally with some modification, a "package deal" formulated by the Commonwealth covering borrowings on behalf of State Governments and direct borrowings by semi-government and local government authorities. Since 1984-85 Loan Council has agreed to a "global limit", drawn up by the Commonwealth, on borrowings by State and local authorities.

SEMI-GOVERNMENT AND LOCAL AUTHORITY BORROWINGS

The Gentlemen's Agreement (1936-37 to 1983-84)

The "Gentlemen's Agreement" of 1936 extended Loan Council's regulation of public sector borrowings by giving it, on a voluntary basis, certain powers in respect of direct new money borrowings by State semi-government and local authorities. Until 1983-84 the Gentlemen's Agreement specified particular conditions under which such raisings should take place.

For "larger" authorities (those borrowing above a certain limit - \$1.8 million in 1983-84), Loan Council determined the overall borrowing program, its distribution between States and the terms and conditions for such borrowings, with each State being free to distribute its allocation among its larger authorities.

For "smaller" authorities, the terms and conditions of borrowing set down by the Loan Council had to be adhered to. However from 1962-63 to 1983-84 no limit was placed on the aggregate amount of such borrowings.

Guidelines were introduced by Loan Council in 1978 establishing a separate category of borrowings by "larger" authorities for "infrastructure" projects. These guidelines specified that for projects to be eligible under this category they should have special significance for economic development, concern services of a kind normally provided by government or semi-government authorities and require outlay within a relatively short time span.

The provisions of the Gentlemen's Agreement were amended in June 1982 when Loan Council agreed, for a trial period of three years, that the amount, terms and conditions of domestic borrowings by electricity authorities would be determined by the respective Governments outside of Loan Council. This decision substantially reduced the aggregate level of authority borrowings requiring Loan Council approval.

The rules governing the domestic borrowings of non electricity semi-government and local government authorities were amended at the June-July 1983 meeting of Loan Council to enable approval of interest rates, timing and terms and conditions of such borrowings to be given by the respective member of Loan Council.

Global Borrowing Limit Arrangements (1984-85 and thereafter)

Under the Gentlemen's Agreement the controls envisaged over the borrowings by semi-government and local government bodies were being eroded with the increasing use of unconventional financing. In response, the Commonwealth introduced the Global Approach in 1984. Further details on the Global Approach are provided in Chapter 6.

4. Local Government General Purpose Payments

Grants Recommended by the Grants Commission

Local government authorities were first able to apply to the Commonwealth for general financial assistance under the Grants Commission Act, 1973. Such applications were examined by the Grants Commission which recommended the payment of grants, through the States, to individual authorities based on their financial need. Grants so recommended were made in 1974-75 and 1975-76 with no conditions being attached as to their use by the authorities.

Personal Income Tax Sharing Grants

The system of grants based on individual application was replaced in 1976-77 with arrangements which provided local government, in aggregate, with a specified share of personal income tax collections. These tax sharing arrangements operated until 1985-86 and were incorporated within the Local Government (Personal Income Tax Sharing) Act, 1976. The main provisions were for:

- a percentage of the previous year's net collections of personal income tax to be allocated each year to local government. (This percentage was initially determined at 1.52 per cent but was increased to 1.75 per cent for 1979-80 and then to 2 per cent for 1980-81 and later years).
- the amount so determined to be distributed among the States in specified proportions based on relativities recommended by the Commonwealth Grants Commission.
- a minimum of 30 per cent of the total apportioned to a State to be allocated among its local government authorities on the basis of equal per capita shares.
- the remaining assistance to be allocated based on the relative financial needs of local authorities as determined by the Local Government Grants Commission or its equivalent in each State.

Financial Assistance Grants

Since 1986-87 local government has received general purpose financial assistance grants under the Local Government (Financial Assistance) Act 1986. Further details are provided in Chapter 7.

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