

FINANCIAL ARRANGEMENTS
BETWEEN THE
COMMONWEALTH AND
NEW SOUTH WALES
1988-89

BUDGET PAPER No. 4

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INTRODUCTION

The financial relationship between the Commonwealth and State Governments originated with the commencement of Federation in 1901. 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.

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.

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 the Commonwealth 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 The Gentlemen's Agreement has been subsequently superseded by the Global Resolution.

These various forms of Commonwealth/State financial arrangements represent a most significant component of the States' budgetary systems. The purpose of this document is to compile, in a single source, a detailed description of the financial arrangements as they relate to New South Wales.

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

- General revenue funds. In 1988-89 these comprise
 - * the financial assistance grant which is an unconditional payment to the State.
 - * some States will receive special assistance to supplement their financial assistance grant, to ensure that total general revenue funds do not fall in nominal terms. New South Wales will not receive special revenue assistance in 1988-89.
 - * all States will receive special assistance to compensate for the transfer of responsibility for a number of programs from the Commonwealth to the States.
- Specific purpose payments. These are conditional payments which are to be used for either specific recurrent or capital purposes. They may be either grants (i.e. non-repayable) or advances (i.e. repayable). In addition, advances may be at market related interest rates, at concessional rates, or interest-free. In 1988-89, funding for hospitals is a specific purpose payment instead of being part of general revenue funds, as in 1987-88.
- Loan Council allocations. These consist of both general purpose capital funds provided by the Commonwealth and borrowing allocations available to finance the capital works of State authorities and departments.

Chapter 1 discusses general trends and recent developments in these payments and allocations. Chapters 2 to 4 describe each of these forms of funding in turn. A brief history is provided, giving details of any Commonwealth legislation underlying the provision of funding followed by a description of the manner in which they are treated in the New South Wales accounting system.

Finally, a separate chapter is devoted to a description of the financial assistance provided by the Commonwealth to local government in New South Wales. This assistance comprises a general purpose financial assistance grant, payments of a conditional nature paid direct to local government bodies and payments made to New South Wales for on-passing to local government for specific purposes. Reference is also made to local government loan raisings.

In recent years, the State's procedures for accounting for Commonwealth payments and advances has been rationalised. The standard practice is to initially 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, as is appropriate, either within the "Commonwealth Payments—Recurrent" or the "Commonwealth Payments—Capital" sections of the Special Deposits Account. Subsequently the majority of the payments, generally those relating to Departmental expenditure programs, are transferred to the Consolidated Fund. Within this Budget paper, an accounting treatment is included with the description of the payment only when there is a departure from that practice.

To ensure consistency, 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.

In 1988–89, the Northern Territory has been brought into the arrangements applying to the six States. In this document, a reference to the States also includes the Northern Territory, unless otherwise noted.

1 RECENT TRENDS AND DEVELOPMENTS IN COMMONWEALTH PAYMENTS AND LOAN COUNCIL ALLOCATIONS

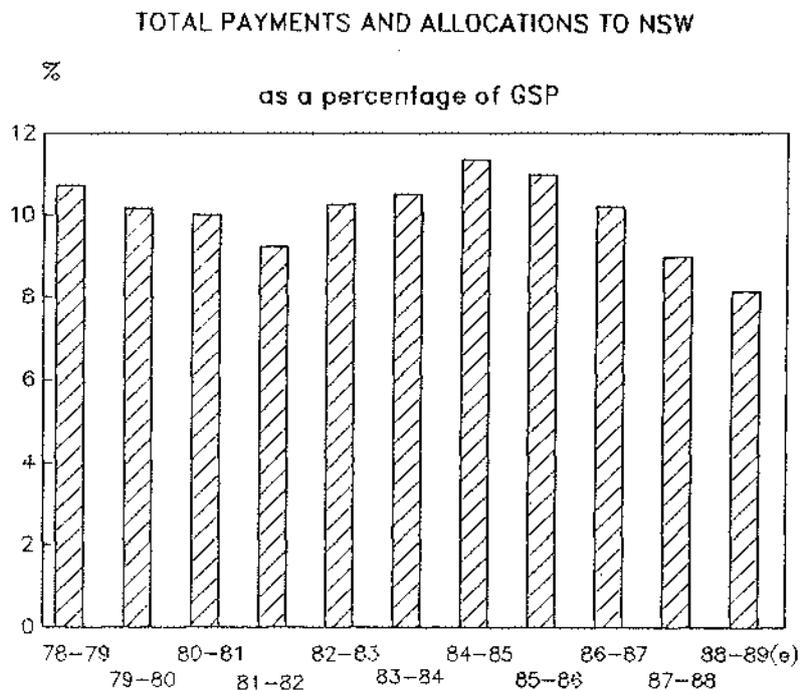
TRENDS

Over the past ten years there have been significant variations in the growth of both aggregate and individual payments and allocations to New South Wales. These variations have reflected both changes in the emphasis of Commonwealth and State policies as well as the needs of the Australian economy in general.

Trends in major payments and allocations to New South Wales over the period 1978-79 to 1988-89 are outlined below. Information is sourced from Commonwealth Budget Paper No 4 "Commonwealth Financial Relations with Other Levels of Government 1988-89" and corresponding earlier volumes. Tables 1 to 3 at the end of this chapter provide aggregate information on payments and allocations for the last ten years and more detailed information for the last five years.

During the period 1978-79 to 1988-89 Commonwealth payments and Loan Council allocations to New South Wales have grown substantially in money terms. Table 1 shows that in 1978-79 payments and allocations totalled \$4,136.1 million compared with an estimated \$9,047.3 million in 1988-89, representing an average annual growth of 8.1 per cent per annum.

Figure 1.1 (a)



Note: (a) Data for all Figures in this chapter is sourced from Commonwealth Budget Paper No. 4, "Commonwealth Financial Relations with other levels of Government, 1988-89" and corresponding earlier issues. Gross State Product for 1978-79 to 1985-86 is from ABS "Australian National Accounts—State Accounts, 1986-87" Cat No. 5220.0. Later years are NSW Treasury estimates.

The significant growth in the absolute level of payments and allocations over the period, however, disguises the fact that total available funds from these sources have grown substantially slower than the estimated increase in New South Wales Gross State Product. Over the ten years to 1988-89 total payments and allocations to New South Wales have increased by 119 per cent compared with an increase in Gross State Product over the same period of 188 per cent. As a proportion of Gross State Product total payments and allocations have fallen from 10.7 per cent in 1978-79 to 8.2 per cent in 1988-89 (see Figure 1.1).

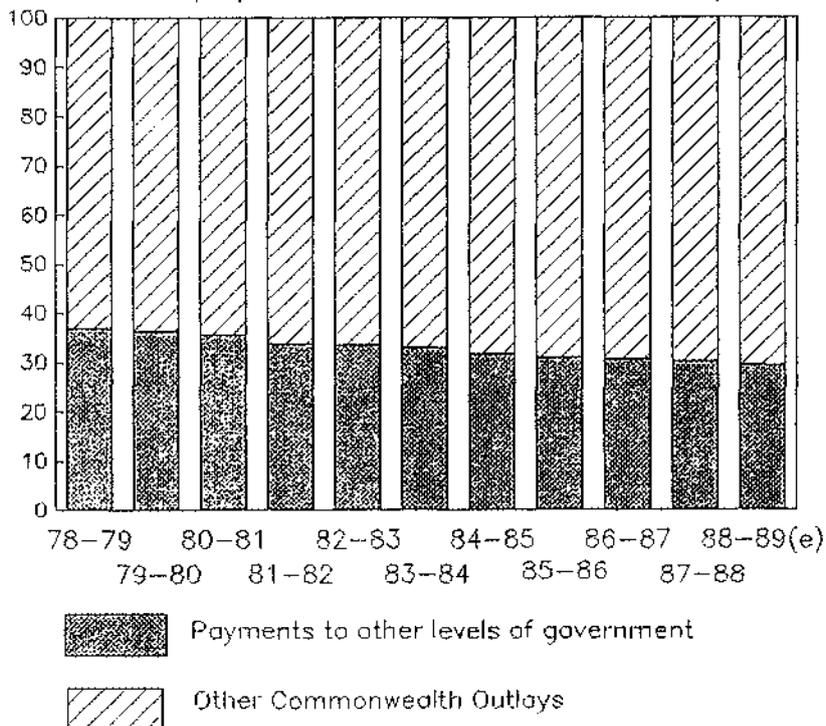
Commonwealth payments and allocations to other levels of government (including the Northern Territory and local government) have increased at an average annual rate of 8.4 per cent over the last ten years. This is considerably slower than the growth in Commonwealth own purpose outlays of 12.2 per cent per annum. As a result, Commonwealth payments and allocations to the States that pass through the Commonwealth Budget have declined as a proportion of total Commonwealth outlays from 36.9 per cent in 1978-79 to 29.3 per cent in 1988-89 (see Figure 1.2).

Figure 1.2

COMMONWEALTH PAYMENTS TO OTHER LEVELS OF GOVERNMENT

%

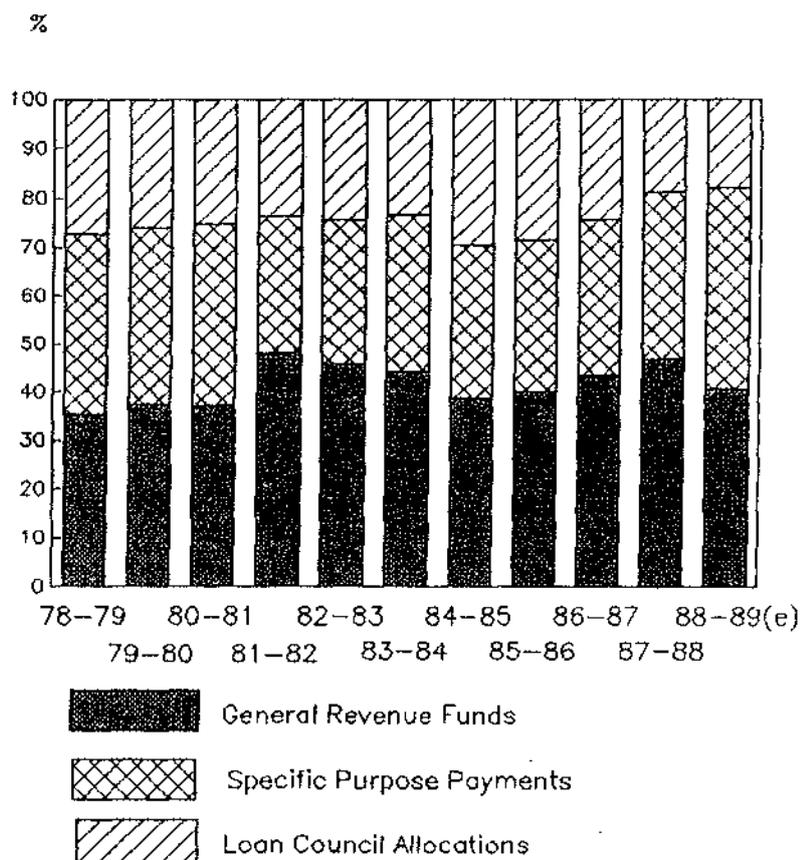
as a proportion of total Commonwealth Outlays



Turning now to the composition of these payments and allocations, it can be seen from Figure 1.3 that until 1988-89 there has been a persistent shift towards the provision of general purpose assistance (general revenue funds and Loan Council allocations) and away from payments for specific purposes. This reflects both the establishment of the identified health grant as effectively a general revenue payment and also a shift in philosophy towards untied funding. The trend would have been even more notable had it not been for the Medicare Compensation payment and the Australian Bicentennial Road Development Program. However the trend has been reversed by the replacement of the identified health grant with a specific purpose payment for hospital funding in 1988-89.

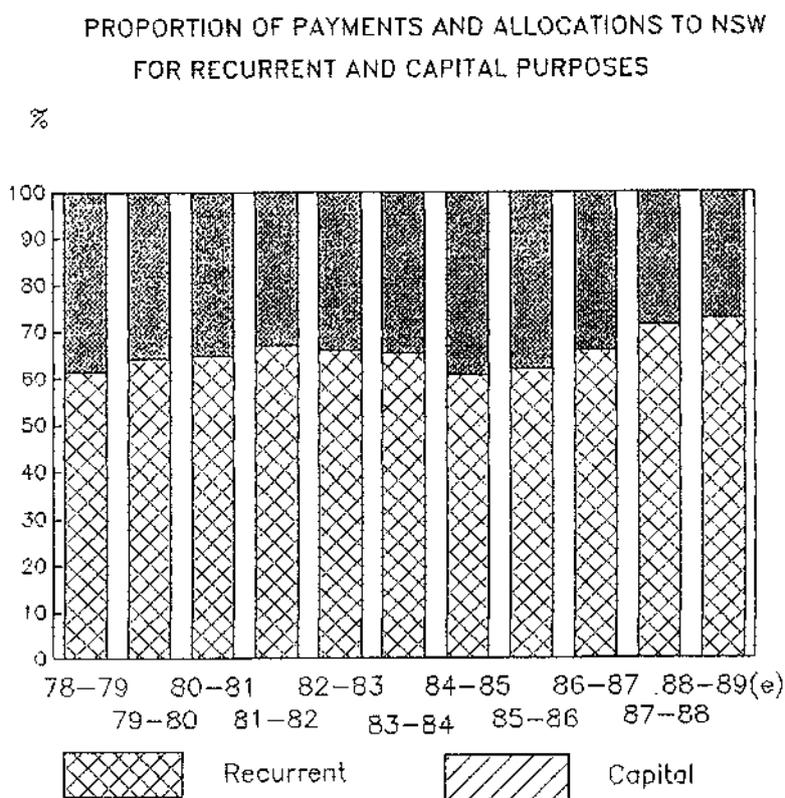
Figure 1.3

**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 1.4). In 1988-89 capital payments and allocations represented only 27.2 per cent of total funds compared with 38.6 per cent in 1978-79. This reduction is more pronounced as the scope of allocations has been broadened over the period to include, under the global approach, all forms of financing.

Figure 1.4



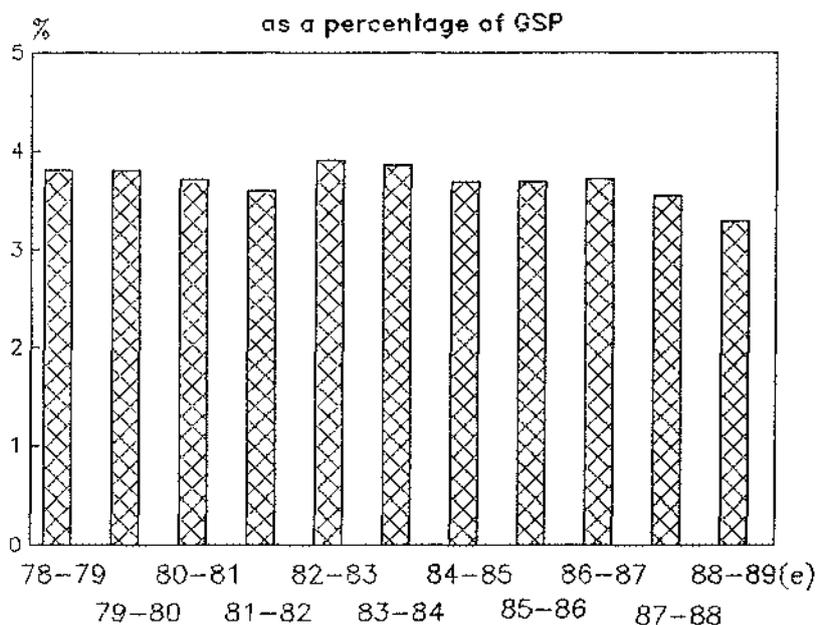
Financial Assistance Grants

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 past ten years these grants have generally shown the fastest growth of all Commonwealth payments to New South Wales, reflecting the guarantee provisions and their linkage over most of the period to the growth in Commonwealth taxation receipts (see Chapter 2 of this volume).

In particular, over the ten years to 1988-89 financial assistance grants to New South Wales have increased by an average of 9.6 per cent per annum compared with an increase in total payments and allocations of 8.1 per cent. Despite this faster growth, financial assistance grants as a proportion of Gross State Product have fallen from 3.8 per cent in 1978-79 to 3.3 per cent in 1988-89 (see Figure 1.5).

Figure 1.5

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. Financial assistance grants grew particularly slowly in real terms during the early 1980s. This reflected a reassessment by the Commonwealth of its financial commitment to the States following cessation of the provisions of the States (Personal Income Tax Sharing) Act 1976.

In 1985-86 the financial assistance grant to New South Wales increased substantially, reflecting the introduction of new relativities as recommended by the 1985 report of the Commonwealth Grants Commission (for further details see Chapter 2 of this volume). This increase followed the third report by the Commission recommending a greater share of Commonwealth funds for New South Wales. Nevertheless, New South Wales continues to receive a per capita payment 33 per cent less than the average for the less populous States of Queensland, Western Australia, South Australia and Tasmania, and the Northern Territory.

Identified Health Grants

The Commonwealth began the payment of identified health grants in 1981-82 following the cessation of the hospital cost-sharing agreement with New South Wales.

Over the six years to 1987-88 identified health grants grew at an average annual rate of 6.0 per cent compared with an increase in total payments and allocations over the same period of 9.7 per cent per annum. As a proportion of Gross State Product identified health grants fell from 0.8 per cent in 1981-82 to 0.7 per cent in 1987-88. Identified health grants were replaced by a specific purpose payment for hospital costs in 1988-89.

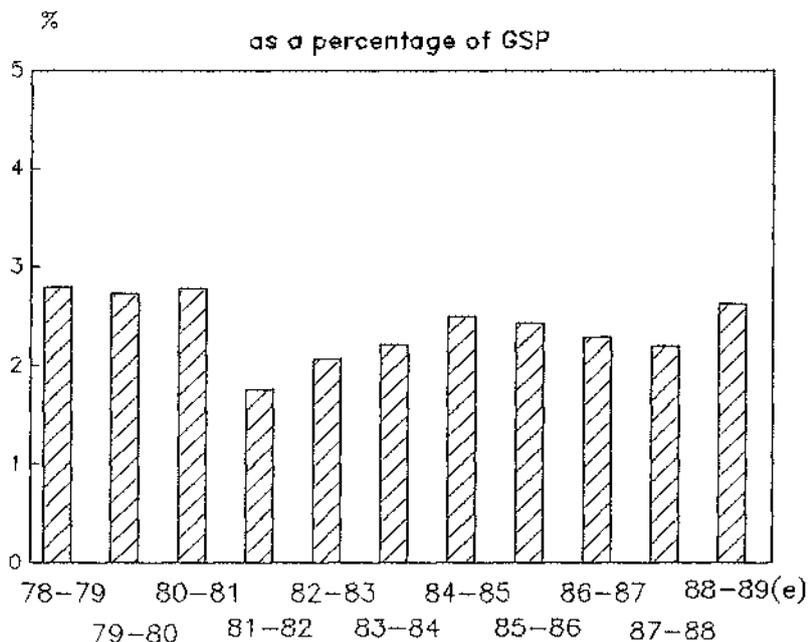
Specific Purpose Payments—Recurrent

Growth in specific purpose payments for recurrent purposes has been relatively volatile over the ten years to 1988-89. In 1981-82 these payments fell sharply following the introduction of identified health grants (see above). This was followed in the next three years by a substantial increase in these payments with the introduction of Medicare and various employment programs.

Between 1978-79 and 1988-89 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. Overall specific purpose payments for recurrent purposes have increased at an average annual rate of 10.5 per cent. Excluding the effect of the hospital grant in 1988-89, recurrent specific purpose payments increased by 10.6 per cent. As a proportion of Gross State Product total payments have declined from 2.8 per cent in 1978-79 to 2.6 per cent in 1988-89 (see Figure 1.6).

Figure 1.6

SPECIFIC PURPOSE RECURRENT PAYMENTS TO NSW



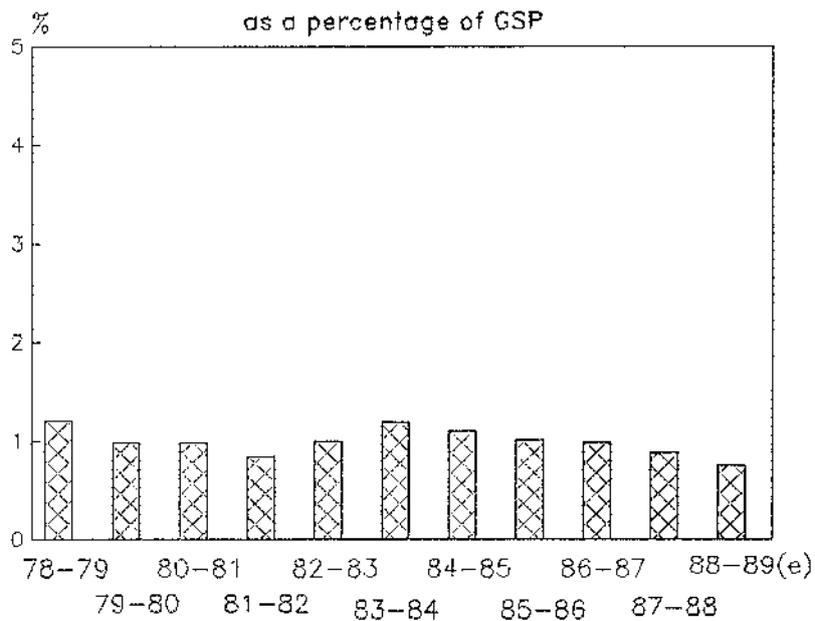
Specific Purpose Payments—Capital

Growth in specific purpose payments for capital purposes has also been volatile. Between 1978-79 and 1979-80 specific purpose payments for capital purposes fell in money terms reflecting in particular a reduction in funding for public housing. Large increases in total funds were experienced in 1982-83 and 1983-84 resulting from both a reversal in the priority given to public housing and the decision to upgrade the level of road funding.

Generally specific purpose payments for capital purposes have been one of the slowest growing of all payments to New South Wales. Over the ten years to 1988-89 specific purpose payments for capital purposes have increased at an average annual rate of 6.1 per cent. As a proportion of Gross State Product they have fallen from 1.2 per cent in 1978-79 to 0.8 per cent in 1988-89 (see Figure 1.7).

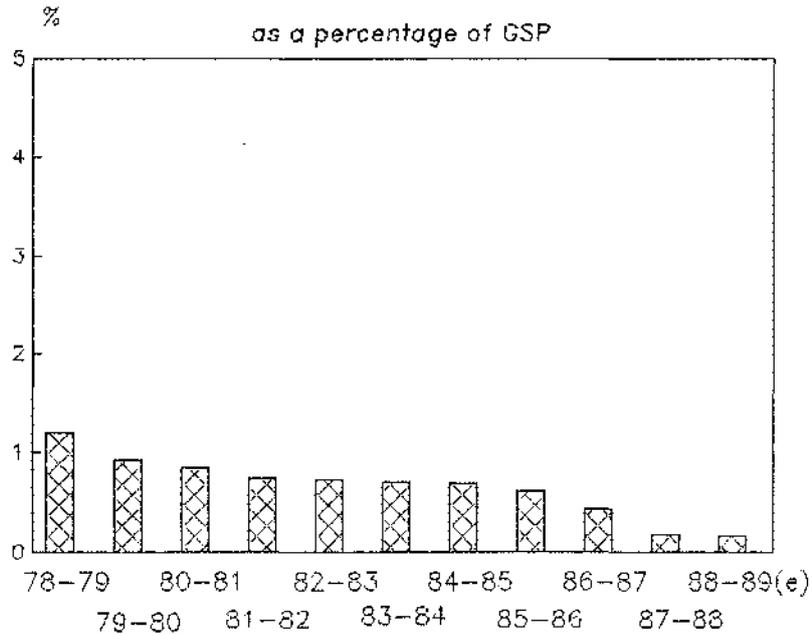
Figure 1.7

SPECIFIC PURPOSE CAPITAL PAYMENTS TO NSW



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 1978-79 these funds totalled \$463.5 million for New South Wales. By 1988-89 this payment had been cut to only \$172.7 million—a reduction of 63 per cent in dollar terms or 83 per cent in real terms. Most of this reduction has occurred in the past two years. It should also be noted that the reduction in this form of funding has been only offset to a minor degree by more generous terms and conditions associated with its provision (see Chapter 4 of this volume). As a proportion of Gross State Product general purpose capital funds have fallen from 1.2 per cent in 1978-79 to 0.2 per cent in 1988-89 (see Figure 1.8).

Figure 1.8**GENERAL PURPOSE CAPITAL PAYMENTS TO NSW****Semi-Government and Local Authority Borrowings**

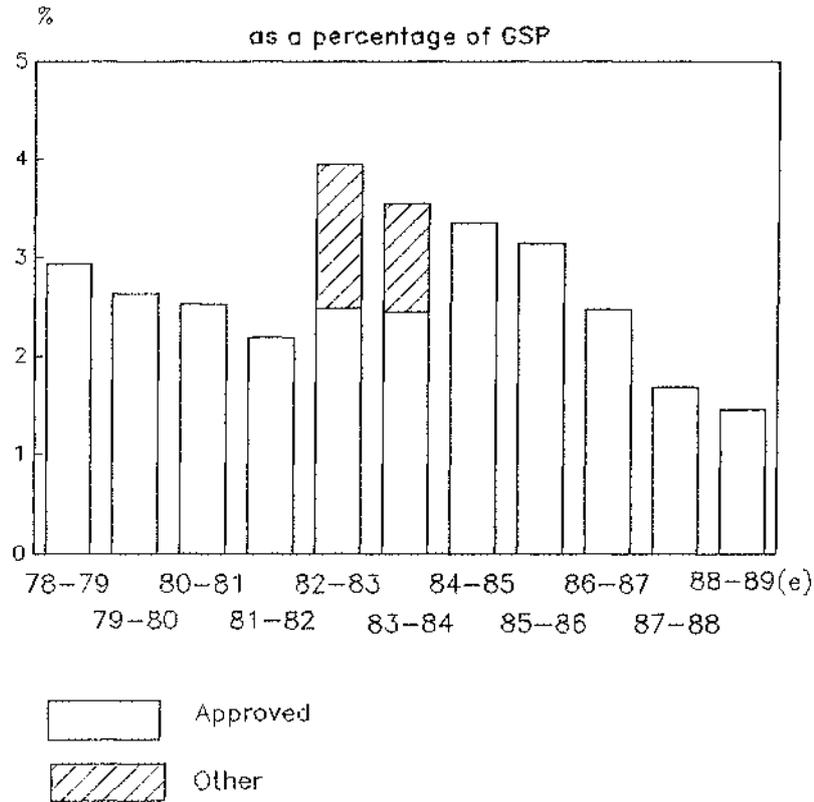
Discussion of trends in semi-government and local authority borrowings is complicated by the introduction of the global borrowings concept in 1984-85. Previously non-conventional borrowings by the States were not subject to the control of Loan Council. The introduction of the global borrowing concept artificially increased the apparent growth in Loan Council approved semi-government and local authority borrowings since all forms of financing were now included.

Generally, approved semi-government and local authority borrowings as a proportion of Gross State Product remained constant during the period 1978-79 to 1983-84. This disguises however the fact that in the early 1980s there was increased recourse to non-conventional funding reflecting primarily the capital expenditure needs of the NSW Electricity Commission. These non-conventional financings took the form of leases, supplier credits and sale/leaseback transactions. For 1982-83 and 1983-84 non-conventional funding totalled \$882 million and \$730 million respectively.

In 1984-85 approved semi-government and local authority borrowings increased sharply following the introduction of the global borrowing concept (see Chapter 4 for details). Since that time semi-government and local authority borrowings have declined sharply, reflecting general restraint in public sector outlays. Borrowings by semi-government and local authorities now represent 1.3 per cent of Gross State Product compared with 1.7 per cent in 1978-79. Since 1984-85, however, there has been a substantial decline in these borrowings from 2.7 per cent to 1.3 per cent of Gross State Product (see Figure 1.9).

Figure 1.9

SEMI-GOVERNMENT AND LOCAL AUTHORITY BORROWINGS BY NSW

**RECENT DEVELOPMENTS****Review of Relativities by the Commonwealth Grants Commission**

In March 1988 the Commonwealth Grants Commission completed its fourth review of the distribution of Commonwealth funds between the States. Earlier reviews were completed in 1981, 1982 and 1985.

For its 1988 Review, the Grants Commission was required to report on relativities for the distribution of general revenue funds between the States (and 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".

The Grants commission recommended an increased share of general revenue assistance for New South Wales. However a guarantee was provided that total general revenue assistance for each State would not be below the level it had received in 1987-88. Special revenue assistance is to be provided in 1988-89 to the three smaller States and the Northern Territory to meet the guarantee. This assistance is expected to be \$87.4 million and will reduce the pool of funds to be distributed according to the Grants Commission's new relativities. This negates the movement toward the relativities recommended by the Grants Commission.

Despite the Grants Commission's recommendation for increased revenue for New South Wales, New South Wales' share of financial assistance grants on a per capita basis remains substantially less than that of the four smallest States, as indicated in the following table.

Table 1.1
Financial Assistance Grants per capita in 1988-89

New South Wales	637
Victoria	615
Queensland	800
Western Australia	923
South Australia	911
Tasmania	1,034
Northern Territory	3,952
6 States and Northern Territory	752

In addition to reporting on the needs of the States by applying the principle of fiscal equalisation, the Grants Commission was required to "report on whether, in its view, application of the principle of fiscal equalisation has any significant consequences for the efficient allocation of resources across Australia".

New South Wales argued in its principal submission to the Commission that fiscal equalisation has a negative impact on the efficient allocation of resources across Australia. This indicates the need to reduce the transfer of resources from the two most populous States to the other States.

The Grants Commission found in its report that fiscal equalisation created little cost to the economy through allocative inefficiency.

The increased relativities recommended by the Grants Commission for New South Wales resulted from:

- a reduced allowance for the smaller States on account of their smaller scale of operation
- recognition of higher than average demand for TAFE services
- recognition of the higher costs in providing services presented by New South Wales' more highly urbanised society
- a reduction in the capacity to raise revenue by New South Wales, on account of slower growth in the economy.

There were a number of factors which disadvantaged New South Wales and partially offset the areas of gain. These included a changed treatment for business undertakings such as non-metropolitan transport, country water supply and sewerage and irrigation, and exclusion of rail freight from the review.

Procedures for the next Grants Commission review have been revised. The next review is to be completed in March 1993. During the interim five years, relativities will be updated annually based on the methodology applying in the 1988 review.

1988 Premiers' Conference and Loan Council Meeting

At the 1988 Premiers' Conference and Loan Council meetings, further reductions were made in payments to the States and global borrowing limits.

In 1988-89, a cut of \$650 million was made over the amount projected by the Commonwealth in its forward estimates for total general purpose funding (comprising financial assistance grants, hospital payments, special revenue assistance and general purpose capital assistance). The States have also been given the right to impose payroll tax on Commonwealth business enterprises, and general revenue assistance has been reduced to account for 90 per cent of the increased revenue. Taking account of this change, the level of general purpose assistance in 1988-89 was increased by \$132 million or 0.8 per cent. This amounts to a cut in real terms of nearly \$850 million or 4.9 per cent.

At the Premiers' Conference, the Commonwealth decided to transfer responsibility for a number of programs to the States, and to provide special revenue assistance to compensate the States in 1988-89. In future years, payments are to be absorbed into the financial assistance grant and the hospital funding grant. The programs are

- Family Support Program
- Emergency Relief
- Vaccination Program
- Miscellaneous Pharmaceutical Benefits
- Royal Far West Children's Health Scheme
- Royal Queensland Bush Children's Health Scheme

The Commonwealth allocated \$15.043 million to New South Wales in 1988-89 on account of these programs. However New South Wales has not agreed to the transfer of all programs.

Borrowings by State and local authorities under the global borrowing limits have also been reduced substantially. At the 1988-89 Loan Council, all States except Queensland agreed to a reduction on the 1987-88 global limits totalling \$513 million or 9.6 per cent. In real terms, this amounts to a reduction of nearly \$850 million or 14.7 per cent. However in 1987-88 Victoria exceeded its global borrowing limit by \$158 million, which means that the decrease in the 1988-89 global limit on actual borrowing in 1987-88 is 17.2 per cent or \$1,000 million in real terms.

New South Wales' share of these cutbacks was \$450 million in real terms, comprised of a real reduction in general purpose assistance of \$270 million and in borrowings of \$180 million.

Loan Council deferred discussion of the officers' report it had commissioned at its 1987 meeting on the option of absorbing the grant and loan components of the general purpose capital payments into the financial assistance grant and the global borrowing limit respectively.

Table 1.2: Gross Commonwealth Payments and Loan Council Allocations to or for New South Wales

	1978-79		1979-80		1980-81		1981-82	
	Amount	Amount	Percentage change previous year	Amount	Percentage change previous year	Amount	Percentage change previous year	
	\$m	\$m		\$m		\$m		
General Revenue Funds -								
Tax Share/Financial Assistance Grant	1,464.4	1,663.5	13.6	1,839.1	10.6	2,034.6	10.6 (7)	
Identified Health Grant	..	..	..	..	..	477.7	n.a.
Special Revenue Assistance	..	..	..	..	..	..	..
Total General Revenue Funds	1,464.4	1,663.5	13.6	1,839.1	10.6	2,512.3	10.6 (8)	
Specific Purpose Payments								
Recurrent	1,075.6	1,196.0	11.2	1,378.6	15.3	990.9	6.5 (8)	
Capital	465.4	432.8	-7.0	488.1	12.8	478.4	-2.0	
Specific Purpose Payments	1,541.0	1,628.8	5.7	1,866.7	14.6	1,469.2	4.3 (8)	
Loan Council Allocations -								
General Purpose Capital	463.5	402.4	-13.2	422.6	5.0	422.6	..	
Semi-Government and Local Authority Normal Borrowings (1)	667.2	751.2	12.6	831.7	10.7	818.3	-1.6	
Other Financings (2)	..	..	..	..	..	..	..
Total Semi-Government and Local Authorities Borrowings (3)	667.2	751.2	12.6	831.7	10.7	818.3	-1.6	
Total Loan Council Allocations	1,130.7	1,153.6	2.0	1,254.2	8.7	1,240.8	-1.1	
Total -								
Amount \$m	4,136.1	4,445.9	7.5	4,960.0	11.6	5,222.4	5.3	
Per Capita \$ (4)	814	865	6.3	953	10.2	991	4.0	
Inflation - C.P.I. (5)	83.0	91.4	10.1	100.0	9.4	110.4	10.4	
Economic Activity - GSP \$b (6)	38.5	43.8	13.6	49.6	13.2	56.6	14.2	

Table 1.2: Gross Commonwealth Payments and Loan Council Allocations to or for New South Wales (Continued)

	1982-83		1983-84		1984-85		1985-86	
	Amount	Percentage change previous year	Amount	Percentage change previous year	Amount	Percentage change previous year	Amount	Percentage change previous year
	\$m		\$m		\$m		\$m	
General Revenue Funds -								
Tax Share/Financial Assistance Grant	2,361.8	16.1	2,576.8	9.1	2,693.1	4.5	3,012.6	11.9
Identified Health Grant	469.0	-1.8	489.1	4.3	521.4	6.6	563.0	8.0
Special Revenue Assistance	..	..	47.1 (9)	n.a.	..	-100.0	..	..
Total General Revenue Funds	2,830.8	12.7	3,113.0	10.0	3,214.6	3.3	3,575.6	11.2
Specific Purpose Payments								
Recurrent	1,245.8	25.7	1,480.5	18.8	1,824.6	23.2	1,987.6	8.9
Capital	609.0	27.3	798.5	31.1	812.9	1.8	833.1	2.5
Total Specific Purpose Payments	1,854.7	26.2	2,279.0	22.9	2,637.5	15.7	2,820.7	7.0
Loan Council Allocations -								
General Purpose Capital	443.8	5.0	474.8	7.0	505.7	6.5	505.7	..
Semi-Government and Local Authority								
Normal Borrowings (1)	1,066.5	30.3	1,164.2	9.2	1,337.3	14.9	1,757.7	31.4
Other Financings (2)	..	..	..	..	603.4	-17.3	301.4	-50.1
Total Semi-Government and Local Authority Borrowings (3)	1,066.5	30.3	1,164.2	9.2	1,940.6	2.5 (10)	2,059.1	6.1 (10)
Total Loan Council Allocations	1,510.3	21.7	1,639.0	8.5	2,446.4	3.3 (10)	2,564.8	4.8 (10)
Total -								
Amount \$m	6,195.8	18.6	7,031.1	13.5	8,298.5	6.9 (10)(11)	8,961.5	8.0 (10)(11)
Per Capita \$ (4)	1,161	17.3	1,308	12.5	1,527	5.8 (10)(11)	1,630	6.7 (10)(11)
Inflation - C.P.I. (5)	123.1	11.5	131.6	6.9	137.2	4.3	148.7	8.4
Economic Activity - GSP \$b (6)	60.5	6.9	66.9	10.6	73.1	9.2	81.8	11.9

Table 1.2: Gross Commonwealth Payments and Loan Council Allocations to or for New South Wales (Continued)

	1986-87		1987-88		1988-89 (est)		Ave Annual % change 1988-89 over 1978-79
	Amount	Percentage change previous year	Amount	Percentage change previous year	Amount	Percentage change previous year	
	\$m		\$m		\$m		
General Revenue Funds -							
Tax Share/Financial Assistance Grant	3,350.0	11.2	3,594.9	7.3	3,654.1	1.6	9.6
Identified Health Grant	626.6	11.3	674.0	7.6	-	n.a.	n.a.
Special Revenue Assistance	2.1 (12)	n.a.	7.9 (12)	281.5	15.0 (12)	91.1	n.a.
Total General Revenue Funds	3,978.7	11.3	4,276.8	7.5	3,669.2	1.8 (13)	9.6
Specific Purpose Payments							
Recurrent	2,057.9	3.5	2,232.1	8.5	2,915.6	0.3 (13)	10.5
Capital	893.5	7.2	894.9	0.2	839.9	-6.2	6.1
Total Specific Purpose Payments	2,951.4	4.6	3,127.0	6.0	3,755.5	-1.2 (13)	9.3
Loan Council Allocations -							
General Purpose Capital	389.2	-23.0	172.7	-55.6	172.7	0	-9.4
Semi-Government and Local Authority							
Normal Borrowings (1)	1,792.6	2.0	-	n.a.	-	n.a.	n.a.
Other Financings (2)	52.4	-82.6	-	n.a.	-	n.a.	n.a.
Total Semi-Government and Local Authority Borrowings (3)	1,845.0	-10.4	1,539.6	-16.6	1,449.9	-5.8	8.1 (14)
Total Loan Council Allocations	2,234.2	-12.9	1,712.3	-23.4	1,662.6	-5.2	3.7 (14)
Total -							
Amount \$m	9,164.2	2.3	9,116.1	-0.5	9,047.3	-0.8	8.1 (14)
Per Capita \$ (4)	1,645	0.9	1,612	-2.0	1,577	-2.2	6.8 (14)
Inflation - C.P.I. (5)	162.6	9.3	174.0	7.0	184.4	6.0	8.3 (15)
Economic Activity - GSP \$b (6)	90.3	10.5	101.4	12.3	110.7	9.2	11.1 (15)

FOOTNOTES TO TABLE 1.2:

- (1) Electricity Authorities were not formally inside Loan Council control for the years 1982-83 and 1983-84; however their borrowings are included in the section.
- (2) "Other Financings" comprises non-conventional methods of financing such as deferred payment, overseas trade credit, financial leasing, sale and leaseback and similar arrangements and security deposits. From 1984-85 "Other Financings" are included within the global limit. Such financings were not within Loan Council prior to 1984-85. For information, "Other Financing" amounted to \$881.2m in 1982-83 and \$729.7m in 1983-84. Comparable figures are not available for earlier years.
- (3) Includes "Other Financings" from 1984-85 (see footnote (1)).
- (4) Annual mean resident populations have been used for all years except 1986-87 and 1987-88 for which estimated resident population as at 31st December, 1986 and 1987 respectively have been used.
- (5) Weighted average 6 Capital cities index for 1977-78 to 1979-80; Weighted average 8 Capital cities index thereafter.
- (6) NSW Gross State Product. ABS estimates for 1977-78 to 1983-84, NSW Treasury estimates thereafter.
- (7) This includes the adjustment in lieu of the introduction of the Grants Commission's recommended relativities (\$24.5m) and the specific purpose payments being absorbed (\$23.3m). The basic Tax Grant (\$1,986.8m) increased by 8 per cent.
- (8) In order to derive meaningful figures increases have been calculated after transferring the 1981-82 Identified Health Grant from the "General Revenue Funds" category to the "Specific Purpose Payments - Recurrent" category.
- (9) In recognition of the unusually severe budgetary difficulties facing the States in 1983-84 the Commonwealth provided a special temporary revenue assistance grant (six States, \$155.5m).
- (10) In order to derive meaningful figures increases have been determined after the addition of "Other Financings" (\$730m) to 1983-84 base figures.
- (11) The percentage increase reflects the fact that in 1984-85 Medicare Compensation Grants were paid in respect of a full year whilst in 1983-84 they related only to that part of the year after the introduction of the Medicare arrangements on 1 February 1984. After adjustment for this fact the percentage increase in the "Total Amount" was +3.8%, and on a per capita basis, +2.7%.
- (12) Special revenue assistance is being provided in 1986-87, 1987-88 and 1988-89 in recognition of additional State costs following the termination or transfer of Commonwealth programs.
- (13) 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.
- (14) Increases overstated as "Other Financing" (see footnote (2)) were not subject to Loan Council regulation in 1978-79.
- (15) The 1988-89 estimate of CPI is in line with the Commonwealth Budget's forecasts. NSW Treasury estimate of GSP for 1988-89.

SOURCE: Commonwealth Budget paper No.4, "Commonwealth Financial Relations with Other Levels of Government" 1988-89 and corresponding earlier volumes.

Table 1.3: Net Commonwealth Payments to New South Wales

	1984-85	1985-86	1986-87	1987-88	1988-89 (est)
	\$ thousands				
General Revenue Funds (a)	3,214,557	3,575,615	3,978,654	4,276,775	3,669,180
Specific Purpose Payments (b)	2,637,407	2,820,727	2,951,406	3,127,046	3,755,538
General Purpose Capital Funds	<u>505,715</u>	<u>505,715</u>	<u>389,188</u>	<u>172,671</u>	<u>172,671</u>
Gross Payments to or for the State (c)	6,357,679	6,902,057	7,319,248	7,576,492	7,597,389
<u>Less</u> Repayment of and Interest on Loans and Advances (d)	<u>860,847</u>	<u>877,008</u>	<u>886,635</u>	<u>905,181</u>	<u>923,672</u>
Net Payments to or for the State	5,496,832	6,025,049	6,432,613	6,671,311	6,673,717
<u>Less</u> Payments for Commonwealth Programs (e)	882,873	985,964	1,032,402	1,111,273	1,140,260
Payments to Local Government through the State(f)	<u>307,243</u>	<u>324,222</u>	<u>319,465</u>	<u>325,613</u>	<u>310,535</u>
Net Payments to the State for State's Own Purposes	4,306,716	4,714,863	5,080,193	5,234,425	5,222,922

- (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 has been replaced by a specific purpose payment for hospital funding.
- (c) Commonwealth payments only. Excludes semi-government and local authorities' borrowings.
- (d) Comprises debt charges 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 and 1988-89 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 for cost escalation for education in 1988-89 between individual education sectors has been estimated.
- (f) As per section 4 of table 1.3.

Source: Commonwealth Budget Paper No 4, "Financial Relations with other levels of Government", 1988-89 and corresponding earlier issues.

Table 1.4: Financial Arrangements Between the Commonwealth and New South Wales

	1984-85	1985-86	1986-87	1987-88	1988-89 (est)
\$ thousands					
1. GENERAL REVENUE FUNDS					
Tax Sharing Grant/Financial Assistance Grant	2,693,115	3,012,615	3,350,031	3,594,903	3,654,137
Identified Health Grant (a)	521,442	563,000	626,560	674,001	-
Special Revenue Assistance	-	-	2,063	7,871	15,043
Total General Revenue Funds	3,214,557	3,575,615	3,978,654	4,276,775	3,669,180
2. SPECIFIC PURPOSE PAYMENTS					
Recurrent Purposes					
Law, Order and Public Safety					
Legal Aid	562	434	6,032	27,939	31,828
Reimbursement of Costs -					
Law Library	320	367	330	-	607
Human Rights	314	333	500	415	431
Company Fees - Revenue Sharing	-	-	179	191	300
Total Law, Order and Public Safety	1,196	1,134	7,041	28,545	33,166
Education					
Education - Allowance for Cost Escalation (b)	-	-	-	-	35,753
Higher Education	579,039	640,599	652,153	707,851	718,647
State's Contribution to Higher Education Superannuation	-	-	-	-4,229	-10,967
Technical and Further Education	48,240	51,529	55,603	46,291	45,202
Schools	409,726	455,835	491,185	527,977	564,825
Participation and Equity Program (c)	31,825	22,070	11,881	11,824	-
Pre-School Education	7,130	3,565	-	-	-
School to Work Transition (c)	-	-	-	1,246	-
Second Language Program	-	-	-	-	-
Total Education	1,075,960	1,173,598	1,210,822	1,290,960	1,353,460
Health					
Hospital Funding Grant (a)	-	-	-	-	1,076,200
Medicare (a)	351,903	420,755	414,988	443,520	-
Hospital Waiting List Reduction	-	-	-	9,073	9,573
Nurse Education	-	-	-	-	4,656
Drug Education Campaigns	547	4,724	5,045	5,384	5,691
Acquired Immune Deficiency Syndrome	1,529	2,397	2,325	4,757	5,221
Blood Transfusion Services	3,228	3,719	3,782	4,404	4,537
National Diseases Control	103	103	82	90	-
School Dental Scheme	301	-	-	-	-
National Better Health	-	-	-	-	340
Health Program Grants	-	-	-	-	1,180
Total Health	357,611	431,698	426,222	467,228	1,107,398

Table 1.4: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1984-85	1985-86	1986-87	1987-88	1988-89 (est)
	\$ thousands				
Social Welfare Services					
Home and Community Care (e)(f)	-	21,587	42,609	57,583	70,505
Home Care Services (e)	15,736	-	-	-	-
Geriatric Assessment Services	-	1,305	2,071	2,554	4,530
Senior Citizens' Centres (e)(f)	723	-	-	-	-
Supported Accommodation Assistance (f)	6,287	10,723	13,937	12,432	21,338
Mortgage and Rent Relief	7,658	8,020	8,508	8,817	9,257
International Year of Homeless Rehabilitation Centres	-	32	38	-	-
Rehabilitation Centres	326	378	976	423	461
Women's Emergency Services	670	-	-	-	-
Children's Services (f)	1,902	1,556	2,012	1,285	1,304
Family Support Scheme (f)	569	773	1,525	2,581	-
Aboriginal Advancement	4,505	4,068	3,357	2,881	1,869
Translating/Interpreting Services	217	182	255	247	246
Unattached Refugee Children	-	88	221	164	153
Total Social Welfare Services	38,593	48,712	75,509	88,967	109,663
Housing and Community Services					
Assistance for Housing	1,848	1,848	1,848	1,848	1,848
Urban Flood Mitigation	-	-	207	14	10
Total Housing and Community Services	1,848	1,848	2,055	1,862	1,858
Recreation and Cultural Services					
Rainforest Conservation	-	-	881	1,617	1,300
International Youth Year	139	-	-	-	-
Total Recreation and Cultural Services	139	-	881	1,617	1,300
Economic Services					
Community Employment Program (f)	125,316	90,750	63,903	35,573	500
Employment Training - Aboriginal	-	3,076	2,909	3,434	3,650
Special Employment Programs (f)	-	-	-1,807	-	-
Coal Mining Industry - Long Service Leave	15,034	13,968	13,866	29,800	17,200
Interstate Road Transport	-	-	570	1,711	3,491
Aerodrome Local Ownership Plan	35	10	39	-	-
National Industry Extension Service	-	-	2,319	2,499	2,713
Expo 88 Participation	-	-	-	100	-
Assistance to Tin Mining	-	-	112	-	-
Coal Rail Freight	-	-	-	10,000	10,000
Other Mining Assistance	-	-	-	262	-
Agricultural Research	38	73	141	418	304
Afforestation Program	-	-	-	338	664

Table 1.4: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1984-85	1985-86	1986-87	1987-88	1988-89 (est)
\$ thousands					
Rural Adjustment Scheme	1,261	1,019	8,285	11,691	14,636
Fertiliser Assistance	-	1,584	7,271	2,788	1,805
Exotic Diseases Eradication	72	84	64	49	16
Destruction of Organochlorines	-	-	-	-	260
Bovine Brucellosis and T.B. Eradication	6,433	5,106	3,137	1,955	1,340
Sugar Industry	-	-	762	1,779	773
Soil Conservation	825	973	1,157	1,295	1,423
Irrigation and Other Water Projects	-	1,446	311	998	170
Urban Water Supply and Treatment	-	-	105	105	225
Total Economic Services	149,014	118,089	103,144	104,795	59,170
Other Purposes					
Payments under Financial Agreement					
- Interest on State Debt	5,835	-	-	-	-
- Sinking Fund on State Debt	15,680	16,258	16,775	16,902	16,874
State Emergency Services (f)	716	680	721	840	823
Natural Disaster Relief	381	-	2,993	1,595	2,500
Drought - Fodder Subsidy	62	-	-	-	-
Road Safety Practices	37	-	-	-	-
Financial Assistance - Local Government	177,574	195,615	211,754	228,800	229,435
Total Other Purposes	200,161	212,553	232,243	248,136	249,632
Total Specific Purpose Payments - Recurrent Purposes	1,824,521	1,987,629	2,057,918	2,232,110	2,915,648
Capital Purposes					
Education					
Education - Allowance for Cost Escalation (b)	-	-	-	-	900
Higher Education	41,662	50,416	65,905	73,210	51,750
Technical and Further Education	50,739	44,332	57,004	65,113	64,969
Schools	71,152	74,245	68,192	72,343	77,565
Video Facilities	223	206	202	93	-
Total Education	163,776	169,199	191,303	210,759	195,184
Health					
Teaching Hospitals	-	16,811	16,811	16,811	8,312
Women's Health Screening	-	-	-	169	273
Blood Transfusion Services	336	276	401	449	543
Albury RALCA Sub-Centre	-	-	-	85	-
Total Health	336	17,087	17,212	17,514	9,128

Table 1.4: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1984-85	1985-86	1986-87	1987-88	1988-89 (est)
	\$ thousands				
Social Welfare Services					
Attendant Care Scheme	-	-	-	839	-
Home and Community Care (e){f}	-	1,185	994	1,934	1,841
Senior Citizens' Centres (e){f}	1,954	-	-	-	-
Supported Accommodation Assistance	-	-	-	-	2,000
Crisis Accommodation Assistance	4,443	4,651	4,933	5,447	6,835
Children's Services (f)	3,634	-	26	3,544	1,711
Aboriginal Advancement	2,021	100	-	206	489
Total Social Welfare Services	12,052	5,936	5,953	11,970	12,876
Housing and Community Services					
Pensioner Housing Grants	13,376	13,913	14,282	14,517	13,869
Housing Assistance for Aborigines	12,345	12,771	12,345	12,345	13,641
Local Government and Community Housing Grants (f)	2,475	3,533	3,883	4,201	5,596
Other Housing Assistance (g)	160,461	169,739	182,340	184,439	179,027
Housing for Servicemen (h)	4,685	3,891	1,634	1,471	373
Growth Centres (h)	9,832	6,046	-	-	-
Urban Rehabilitation	630	4,000	3,000	-	-
Captains Flat Project (g)	120	174	182	-	-
Urban Flood Mitigation(f)	1,783	2,656	2,442	2,280	3,370
Total Housing and Community Services	205,707	216,723	220,108	219,253	215,876
Recreation and Cultural Services					
National Estate (f)	438	458	490	508	547
Bicentennial Program Assistance	3,915	1,986	8,949	3,928	-
National Maritime Museum	-	2,000	18,000	10,000	-
National Standard Sports Facilities	5,194	4,698	485	-	-
Total Recreation and Cultural Services	9,547	9,142	27,924	14,436	547
Economic Services					
Support for Steel Regions	16,150	14,791	32,695	9,053	-
Roads/Land Transport Program (f)(i)	392,348	394,494	395,050	408,500	387,200
Burbong Bridge Construction	1,000	100	294	-	-
Aerodrome Local Ownership Plan	17	-	-	-	-
Rural Adjustment Scheme (h)	6,423	2,520	-	-	-
Plant Genetic Resource Program	177	-	-	6	-
Other Mining Assistance (h)	2,048	-	-	-	-
Irrigation and Other Water Projects (f)	1,307	13	50	24	-
Salinity Reduction Control	2,000	2,100	2,266	1,576	1,380
Urban Water Supply and Treatment	-	575	632	1,844	2,200
Total Economic Services	421,470	414,593	430,987	421,003	390,780

Table 1.4: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1984-85	1985-86	1986-87	1987-88	1988-89 (est)
	\$ thousands				
Other Purposes					
Natural Disaster Relief (g)	-	418	-	-	15,500
Total Specific Purpose Payments - Capital Purposes	812,886	833,097	893,488	894,936	839,890
Total Specific Purpose Payments	2,637,407	2,820,727	2,951,406	3,127,046	3,755,538
3. LOAN COUNCIL ALLOCATIONS					
General Purpose Capital Funds					
Loan Council Borrowings (h)(j)	337,143	325,344	250,379	114,447	86,336
Capital Grants	168,572	180,371	138,809	58,224	86,336
Total General Purpose Capital Funds	505,715	505,715	389,188	172,671	172,671
Semi-Government & Local Authorities					
Normal Borrowings	1,337,282	1,757,683			
Other Financings (k)	603,366	301,381	n.a.	n.a.	
Total Semi-Government & Local Authorities Financings	1,940,648	2,059,064	1,845,000	1,539,600	1,449,900
Total Borrowings Under Loan Council Agreement	2,446,363	2,564,779	2,234,188	1,712,371	1,622,571
4. PAYMENTS TO OR FOR LOCAL GOVERNMENT					
<u>Payments through the State (l)</u>					
Local Government Financial Assistance	177,574	195,615	211,754	228,800	229,435
Social Welfare Services					
Senior Citizens' Centres (e)	1,664	-	-	-	-
Home and Community Care Program	-	2,886	1,630	690	n.y.a.
Children's Services	1,995	1,471	297	598	n.y.a.
Supported Accommodation Assistance	-	73	-	89	n.y.a.
Family Support Services	793	831	-	68	n.y.a.
Housing and Community Services					
Local and Community Housing	-	3,533	3,883	1,744	n.y.a.
Recreation and Cultural Services					
National Estate	16	134	125	167	n.y.a.
Economic Services					
Community Employment Program	58,104	43,410	27,663	19,665	n.y.a.
Special Employment Programs	-	-	-	-	-
Roads/Land Transport Program	64,769	73,500	71,332	68,861	81,100
Flood Mitigation	2,223	2,687	2,698	3,873	n.y.a.
Support for Steel Regions	-	-	-	883	n.y.a.

Table 1.4: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1983-84	1984-85	1985-86	1986-87	1987-88 (est)
\$ thousands					
Other Purposes					
State Emergency Services	105	83	84	176	n.y.a.
Total Payments to or for Local Government through the State	307,243	324,222	319,465	325,613	310,535(m)
5. REPAYMENT OF LOANS AND ADVANCES					
<u>Sinking Fund Payments on Loan</u>					
<u>Council Borrowings</u>	82,037	86,060	69,018	69,169	77,428
<u>Repayment of Commonwealth Government</u>					
<u>Advances</u>					
Housing and Community Services					
Loan Council Housing Nomination	198	593	934	1,703	2,333
Housing for Servicemen	441	467	495	524	556
Public Housing	15,307	15,919	16,557	17,221	17,913
War Service Land Settlement	221	229	238	247	256
Growth Centres	58	46	62	67	74
Land Acquisition	16,950	-	-	-	-
Urban Rehabilitation	-	80	65	-	411
Captains Flat Project	12	13	14	16	18
Total Housing and Community Services	33,187	17,347	18,365	19,778	21,561
Economic Services					
Sewerage	450	495	544	443	657
Railway Projects	96	96	96	96	96
Railway Mainline Upgrading	2,063	1,520	1,520	1,520	1,520
Softwood Forestry	446	530	628	728	743
Canned Fruit Industry	-	-	383	383	383
Dairy Adjustment Program	163	122	102	59	63
Rural Adjustment Scheme	892	1,062	1,272	1,489	1,904
Beef Industry Assistance	222	-	-	-	-
Rural Reconstruction	2,537	2,691	2,859	3,029	3,215
Chowilla Reservoir	130	99	49	11	-
Dartmouth Dam	108	275	462	587	587
Blowering Reservoir	1,776	1,323	732	230	20
Other Mining Assistance	-	1,586	393	66	-
Total Economic Services	8,883	9,799	9,040	8,641	9,188
Other Purposes					
Natural Disaster Relief	7,160	7,532	7,350	7,071	6,967
Total Repayments of Commonwealth Government Advances	49,231	34,678	34,753	35,490	37,715
Total Sinking Fund Payments and Repayment of Advances	131,267	120,738	103,770	104,659	115,143

Table 1.4: Financial Arrangements Between the Commonwealth and New South Wales (Continued)

	1984-85	1985-86	1986-87	1987-88	1988-89 (est)
	\$ thousands				
6. INTEREST ON LOANS AND ADVANCES					
<u>Interest on Loan Council Borrowings</u>	<u>626,408</u>	<u>652,817</u>	<u>682,554</u>	<u>695,793</u>	<u>700,000</u>
<u>Interest on Commonwealth Government Advances</u>					
Housing and Community Services					
Loan Council Housing Nomination	3,041	6,461	10,308	17,550	20,642
Housing for Servicemen	9,392	10,143	10,530	10,681	10,847
Housing	61,330	60,717	60,080	59,415	58,734
War Service Land Settlement	371	363	354	345	336
Growth Centres	10,187	6,360	307	301	294
Land Acquisition	-	-	-	-	-
Urban Rehabilitation	-	-	-	-	-
Captains Flat Project	36	36	39	45	35
<u>Total Housing and Community Services</u>	<u>84,357</u>	<u>84,080</u>	<u>81,618</u>	<u>88,337</u>	<u>90,888</u>
Economic Services					
Sewerage	7,957	8,395	7,889	6,036	7,751
Railway Projects	3,426	3,195	2,958	2,729	2,486
Softwood Forestry	1,634	1,799	1,989	2,214	2,274
Canned Fruit Industry	-	-	40	40	41
Dairy Adjustment Program	58	48	52	48	44
Rural Adjustment Scheme	2,743	3,201	3,287	3,192	3,071
Rural Reconstruction	1,956	1,802	1,639	1,464	1,280
Chowilla Reservoir	13	7	2	-	-
Blowering Reservoir	189	100	38	8	1
Dartmouth Dam	838	825	797	750	694
<u>Total Economic Services</u>	<u>18,814</u>	<u>19,372</u>	<u>18,691</u>	<u>16,481</u>	<u>17,642</u>
<u>Total Interest on Commonwealth Government Advances</u>	<u>103,372</u>	<u>103,453</u>	<u>100,311</u>	<u>104,819</u>	<u>108,529</u>
<u>Total Interest on Loan Council Borrowings and Commonwealth Government Advances</u>	<u>729,580</u>	<u>756,270</u>	<u>782,865</u>	<u>800,612</u>	<u>808,529</u>

- (a) In 1988-89 the Identified Health Grant and medicare payment were discontinued and a specific purpose payment for hospitals was introduced.
- (b) Cost supplementation amount. A dissection between the individual education sectors is not yet available.
- (c) The School to Work Transition Program was subsumed into the Participation and Equity Program from January 1984.
- (d) Program incorporated in "Identified Health Grants".
- (e) From 1985-86 the payments for home care services and senior citizens' centres have been subsumed within the Home and Community Care Program.
- (f) Includes amount for on-passing to Local Government. See section 4 of table.

- (g) includes a repayable advance component (below). See also sections 5 and 6.

	\$ thousands		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Natural Disaster Relief	-	-	2,574
Captains Flat Project	24	35	36

- (h) Payment is in the nature of a repayable advance. See sections 5 and 6 for repayments and interest respectively.
- (i) Includes the following payments to New South Wales under the Australian Bicentennial Road Development Program: 1984-85, \$134.2m; 1985-86, \$141.2m; 1986-87, \$140m; 1987-88, \$164.5m; and 1988-89, \$73.6m. Also includes a payment of \$187.6m in 1988-89 under the Australian Centennial Road Development program.
- (j) Includes the following amounts nominated for public housing purposes: 1984-85, \$80.0m; 1985-86, \$65m; 1986-87, \$150.2m; 1987-88, \$114.4m and 1988-89, \$86.3m. Borrowings so nominated attract the concessional interest rate specified within the Commonwealth/State Housing Agreement. See also sections 5 and 6 for repayments and interest respectively.
- (k) Since 1984-85, a global limit has applied to total borrowings including "Other Financings". (See footnote 1 of Table 1 for definition of "Other Financings".)
- (l) These payments are included in the Specific Purpose Payments sections above. In addition, certain Commonwealth payments are made direct to Local Government - see Chapter 5.
- (m) Total is incomplete as it excludes schemes for which details of payments are not yet available (n.y.a.).

Source: The amounts shown in Commonwealth Budget Paper No.4, "Commonwealth Financial Relations with Other Levels of Government 1988-89" have been used to prepare this summarised version of the Financial Arrangements between the Commonwealth and New South Wales.

2 GENERAL REVENUE FUNDS

In 1942, with the implementation of Uniform Taxation, the Commonwealth Government assumed from the States the right to levy income tax. Since then it has made annual reimbursement payments to the States in recognition of their loss of revenue. The significance of these payments is such that they continue to represent 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. These arrangements are described fully below.

A more detailed summary of the first three phases of the Commonwealth's financial reimbursement arrangements with the States is contained in the 1985-86 issue of this Budget document.

PHASES OF TAX REIMBURSEMENT GRANTS

From time to time the arrangements governing the tax reimbursement payments have been altered, 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.

Table 2.1 indicates the relative positions of the States at the beginning of each new phase of Commonwealth general revenue assistance.

Table 2.1
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
1958-60								
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	80.75	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 \$	546.86	542.70	768.20	789.09	758.39	870.92		632.87
State Share of Population %	35.64	26.80	16.62	9.21	8.85	2.88		100.00
1988-89 (est) (d)(e)								
Amount \$000	3,664,100	2,635,300	2,215,800	1,438,200	1,289,700	463,500	616,600	12,313,200
State Share %	29.68	21.40	18.00	11.68	10.47	3.76	5.01	100.00
Per Capita \$	636.74	615.32	799.81	922.75	911.06	1,034.14	3,952.56	752.1
State Share of Population %	35.06	26.16	16.92	9.52	8.64	2.73	0.95	100.00

* All States refers to the six States and the Northern Territory in 1988-89.

Notes

- (a) As defined in 1988-89. 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 on account of the introduction of new relatives.
- (d) Grant is net of payroll tax reimbursement from States to Commonwealth on account of extension of States' payroll tax base to Commonwealth public trading enterprises. Also excludes
- (i) special revenue assistance on account of the introduction of new relatives and the transfer of Commonwealth programs to the States;
 - (ii) hospital grants which are specific purpose payments in 1988-89. Identified Health Grants were part of General revenue assistance from 1980-81 to 1987-88.
- (e) The Northern Territory has been brought into the arrangements for distribution of financial assistance grants from 1988-89. The equivalent figures for New South Wales if the Northern Territory is excluded from the pool of funds available for distribution are: Amount \$4,721; State Share 30.8%; Per Capita \$822.61; Population Share 35.1%.

It can be seen that New South Wales' 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.

The figures for 1988-89 in Table 2.1 do not include the new specific purpose payment for hospital costs which replaced the identified health grants and Medicare grants (see later in this chapter). Table 2.2 shows the distribution of the total of financial assistance grants and hospital grants in 1988-89.

Table 2.2
Financial Assistance Grants and Hospital Funding Grants
Estimated Payments in 1988-89 (a)

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL* STATES
Recurrent:								
Amount \$000	4,720,800	3,426,600	2,715,400	1,706,500	1,567,800	549,600	636,200	15,323,000
Per Capita \$	822.61	800.80	980.15	1,094.18	1,107.52	1,226.24	4,078.21	936.01
State Share %	30.8	22.4	17.7	11.1	10.2	3.6	4.2	100.0

Note: (a) Excludes special revenue assistance and net of payroll tax reimbursement by the States to the Commonwealth.

New South Wales' share of these payments is slightly higher than its share of financial assistance grants, but is still well below its 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 which was initially determined and distributed among the States based on average State income tax collections in the years 1939-40 and 1940-41. On that basis, the level of grant and its distribution remained fixed from 1942-43 until 1945-46.

The States Grants (Tax Reimbursement) Act, 1946 introduced new provisions for determining the level of grant and its distribution among the States for each year from 1946-47 until 1958-59. Ultimately, the total grant was to be increased annually having regard to the movement in Australian population and average wages. The distribution of the grant was based on adjusted population and was to be phased in during the ten years to 1958-59.

In addition to these formula grants the Commonwealth made supplementary and special grants to the States. These grants were based on both the distribution of formula grants and the recommendations of the Grants Commission.

During this first phase New South Wales' 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 was somewhat ad hoc and 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. This initial amount and its distribution were broadly based on the amalgamation and distribution of the 1958-59 formula grants, supplementary grants and special grants (then being paid to the claimant States South Australia, Western Australia and Tasmania under the Grants Commission arrangements—see below).

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 number of events however resulted in adjustments being made to the formula from time to time. These included:

- additional grants to some or all of the States which were sometimes incorporated into the "base grants" e.g. payments for a State withdrawing from claimancy before the Grants Commission.
- adjustments reflecting changes in revenue arrangements or fiscal responsibilities, i.e. compensation for States ceasing to impose receipt duty (1970-71), transfer of payroll tax to the States (1971-72), the transfer to the Commonwealth of tertiary education (1973-74) and the South Australian and Tasmanian railways (1975-76).

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. Again, as with the previous system of Tax Reimbursement Grants, the Commonwealth made supplementary grants each year from 1966-67.

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 facilitate the imposition of State surcharges/rebates on Commonwealth income tax.

Stage 1

● The Aggregate Grant

Reimbursement payments to the States during the years 1976-77 to 1980-81 were provided for by the States (Personal Income Tax Sharing) Act 1981 and the States (Personal Income Tax Sharing) Amendment Act 1978. The States' Tax Share Entitlement, as the payment was called, was determined in aggregate as a percentage of the Commonwealth's net personal income tax collections (in 1976-77, 33.6 per cent of current year collections; in subsequent years, 39.87 per cent of the previous year's collections).

These arrangements were reviewed by the Commonwealth at the end of 1980-81 and subsequently the basis of Stage 1 reimbursement payments was converted from a share of personal income tax collections to a share of the Commonwealth's total tax collections. At this time payments were renamed Tax Sharing Grants and the new arrangements formalised within the States (Tax Sharing and Health Grants) Act. (The new legislation also provided for changed health funding arrangements between the Commonwealth and States to take effect from 1981-82—see "Identified Health Grant" section later in this chapter).

In effect 1981-82 served as a transition year in the changeover to total tax sharing with a permanent downward adjustment being made to the level of State reimbursement payments in that year. (The cost to New South Wales of the reduction was estimated in 1981-82 to be \$143 million.)

Based on the reduced level of 1981-82 grants, the States' share (20.72 per cent) of Commonwealth total tax collections in the previous year was established and this prescribed percentage was to be subsequently applied to determine the aggregate States' tax sharing grant from 1982-83 to 1984-85.

● Distribution of the Grant

Under the personal income tax sharing arrangements, from 1976-77 to 1980-81, the distribution of the aggregate six States' grant was based on the relativities of individual State per capita grants during the last year of the superseded Phase 2 financial assistance grant arrangements. State shares varied from year to year merely in line with relative population growths. In practice, effective State shares were also affected by the application of underlying guarantee provisions. (From 1976-77 to 1979-80 each State was guaranteed that it would not receive less in a given year than it would have received under the previous financial assistance grant formula. For 1980-81, a Consumer Price Index based guarantee applied.)

The arrangements for the distribution of the six States' grant were altered following the transition to total tax sharing. Following the interim arrangements of 1981-82, and after considering the Commonwealth Grants Commission's 1982 Report on State Tax Sharing Grants, (see below), the Commonwealth provided for new relativities to be "phased in" over the three years 1982-83 to 1984-85.

At the same time, provision was also made for a real terms guarantee to underlie the arrangements. This guarantee however was to be initially funded from within the six States' tax sharing pool. This meant that, once it became operative for one or more States, the transition towards the new relativities would be either partially or completely nullified. In effect, the pool was split into a basic pool which was distributed according to the phased in relativities and a supplementary pool which was used to top up individual States to ensure that they received their guaranteed payments. This procedure meant that the overall distribution ceased to be in accord with the Grants Commission's recommended relativities. In fact by 1984-85 when the new relativities had been fully "phased in", New South Wales' share of total grants had declined despite the recommendations of the Grants Commission.

In summary, Phase 3 continued the downward adjustment of New South Wales' share of State reimbursement payments (including Special Grants). By 1984-85 New South Wales' share had fallen to 29.7 per cent compared with 30.4 per cent in 1976-77.

• 1981 and 1982 Reviews of Tax Sharing Relativities

When the system of tax sharing was introduced it was agreed that the distribution of the tax sharing pool among the States should be reviewed by the Commonwealth Grants Commission. The Commission's task was to determine an appropriate set of State relativities based on the principle that the resulting State shares would enable each State to provide a comparable level of government services without having to impose any higher levels of taxation.

The Grants Commission presented its first Report in June 1981. Its recommendations were that the shares of New South Wales, Victoria and Queensland be increased, while those of the other three States decreased. Compared with actual shares, the proposed relativities would have meant the following changes to 1981-82 tax sharing grants:

	\$M		\$M
N.S.W.	+116	W.A.	-160
Vic.	+ 55	S.A.	- 77
Qld.	+128	Tas.	- 66

Even with these recommended changes, the per capita payments to New South Wales and Victoria would still have been substantially less than the other States.

The Commonwealth Government did not implement these relativities in 1981-82 but instead asked the Grants Commission to undertake a further review. In light of this decision the Commonwealth made additional payments to New South Wales, Victoria, and Queensland of \$24.5M, \$15.0M and \$20.5M respectively.

The Grants Commission's second report was presented in May 1982. Once again its recommendations implied that the existing shares of the three more populous States were inadequate and that the three less populous States were receiving a relatively higher share of Tax Sharing Grants than was appropriate.

Full implementation of the revised recommendations would have had the following effect on 1982-83 tax sharing grants:

	\$M		\$M
N.S.W.	+ 38	W.A.	-135
Vic.	+ 32	S.A.	- 52
Qld.	+185	Tas.	- 69

As indicated above, the Commonwealth Government decided to phase in over the three years to 1984-85 the recommendations of the 1982 Grants Commission Report. However, the application of the new relativities was negated by guarantee arrangements which were financed within the pool of funds available to the States.

• Special Revenue Assistance

In 1983-84, in recognition of the unusually severe budgetary difficulties facing the States, the Commonwealth provided special temporary revenue assistance to the States totalling \$155.5 million. This was shared between the States on the same basis as the distribution of the total tax sharing grants. New South Wales received \$47.1 million.

Stage 2

When tax sharing was introduced in 1976–77 provision was also made, through Stage 2 of the arrangements, for each State to increase or reduce personal income tax levied on its residents to its own benefit or cost. Stage 2 was legislated by the Commonwealth within the Income Tax (Arrangements with the States) Act 1978 and, although no State has introduced the necessary complementary legislation, the Stage 2 provision still exists despite the demise of tax sharing. A significant obstacle to States activating Stage 2 was the failure by the Commonwealth to make room for a State surcharge by reducing its own rates of income tax.

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.

While the new arrangements represent a return in name to Financial Assistance Grants, in principle these grants differed significantly from those of Phase 2. In particular, during Phase 4, a specified formula was applied to the six States' total grant of the preceding year to determine an aggregate pool to be distributed among the States according to prescribed relativities. Phase 2, on the other hand, involved the calculation of each State's grant separately by the application of a formula to the individual grant of the preceding year.

● The Aggregate 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 (C.P.I.), with an allowance for real growth or "betterment" in the latter two years. The measure of inflation was the growth in the six State capitals C.P.I. for the year ending March in the year of the grant over the same period in the previous year. (Under the system of Phase 2 Financial Assistance Grants the formula, which incorporated the movement in average wages and each State's population together with provision for betterment, was applied individually for each State.)

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 decision concerning the new arrangements meant that, instead of an increase of 15 per cent which would have been received had the previous arrangements continued unaltered, the six States' grant increased by just under 8 per cent.

At the May 1987 Premiers' Conference it was agreed 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.

● Distribution of the Grant—1985 Review of Tax Sharing Relativities

A third review by the Commonwealth Grants Commission of State tax sharing relativities (since renamed general revenue assistance relativities) was also considered at the May 1985 Premiers' Conference.

Following its 1981 and 1982 Reviews, the Commonwealth Grants Commission again concluded in its 1985 Report that some change was needed to the distribution of Financial Assistance Grants. Once again the Commission's conclusions indicated that the shares of New South Wales and Victoria should be increased. The Commonwealth Government accepted the Commission's findings and consequently new recommended relativities were implemented in 1985-86.

The effect of the new relativities on general revenue assistance grants in 1984-85 (including identified health grants) would have been as follows:

	\$M		\$M
N.S.W.	+99	W.A.	-10
Vic.	+67	S.A.	-34
Qld.	-64	Tas.	-58

Despite the increased share of funds being received by New South Wales, per capita grants of to this State remained substantially below those of the four smallest States.

As under the previous tax sharing arrangements, provision was made for the ongoing review of relativities by the Grants Commission and in that regard the Commission completed a further review on 31 March, 1988. This was reported fully in Chapter 1.

• 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, as in Stage 1 of Phase 3 (see above). This again had the effect of reducing the funds available to New South Wales.

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 is \$15.0M.

• Arrangements beyond 1988-89

The arrangements for general revenue funding in 1988-89 are described fully in Chapter 1. No commitment was made by the Commonwealth to a procedure for determining the level of funds beyond 1988-89. The distribution of funds will be based on updated relativities using the methodology of the Commonwealth Grants Commission's 1988 report. However the provision of special revenue assistance would again negate these relativities if it were made available.

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 State's priorities. This was enacted in the States (Tax Sharing and Health Grants) Act 1981.

This involved the termination at the end of 1980-81 of a number of specific purpose payments for health and their replacement with an "identified" health component of general revenue assistance. (Payments replaced included those previously made under the various Public Hospitals Cost Sharing Agreements, the Community Health Program and the School Dental Scheme—see Chapter 3.) Identified health payments were first made to New South Wales, Victoria, Queensland and Western Australia in 1981-82 following the expiry of the Commonwealth's Hospitals Cost Sharing Agreements with those States. Such agreements with South Australia and Tasmania continued until 1 February 1984 when they were terminated as part of the arrangements for the introduction of Medicare compensation arrangements. As a consequence these States were only included within the identified health grants arrangements since 1984-85.

While the new arrangements provided that payments during the years 1981-82 to 1984-85 would continue to be identified as the Commonwealth's contribution towards State health expenditures, it was foreshadowed that they ultimately would be fully absorbed within the Financial Assistance Grant. However in 1988-89 the identified health grant and the Medicare grant were replaced by a specific purpose payment for hospital costs, a return to the previous treatment.

The introduction of the identified health grants was conditional upon the States providing free public hospital services to eligible pensioners, persons in special need and their dependants.

The implementation of the new health funding arrangements was estimated in 1982-83 to have cost New South Wales \$180 million compared with the previous arrangements.

By 1984-85 the six States' identified health grant was increasing annually in line with the growth in the tax sharing grant, i.e., in line with the increase in total Commonwealth tax collections in the previous year.

Details of the determination of the distribution of the grant between States during the years 1981-82 to 1984-85 are contained within the 1984-85 edition of this document.

Arrangements for determining the level and distribution of grants for the years 1985-86 to 1987-88 were included within the States Grants (General Revenue) Act 1985.

Consistent with the arrangements for determining the six States' financial assistance grant, the six States' identified health grant in 1985-86 was increased by the movement in the all Groups Consumer Price Index (C.P.I.) for the six State capitals in the year ending in the March quarter 1986 over the preceding year. In 1986-87 and 1987-88, the total identified health grant was to be increased each year by 2 per cent in real terms with reference to the C.P.I. While the 2 per cent real increase was provided in 1986-87, following consideration at the May 1987 Premiers' Conference zero real increase was made in 1987-88.

During the three years to 1987-88 the six States' pool was distributed on the basis of the per capita relativities implicit within the 1984-85 distribution of identified health grants. In effect, the percentage distribution among States altered only to the extent of interstate variations in population growth.

SPECIAL GRANTS

Payments of additional general revenue assistance in the form of special grants have been made to one or more of the four less populous States in the majority of years since 1910-11.

Since 1934-35, such grants have been made on the recommendation of the Commonwealth Grants Commission. The principle gradually evolved (and is now defined in the Commonwealth Grants Commission Act, 1973) that a special grant is "for the purpose of making it possible for the State, by reasonable effort, to function at a standard not appreciably below the standards of other States". New South Wales and Victoria have always been included by the Commission in the "standard" States against which the needs of claimant States have been measured, and since 1959-60, they have been the only standard States. The Commonwealth has generally sought to preclude these two States from applying for a special grant under successive Commonwealth/State financial arrangements.

Queensland was the only claimant State in respect of the years 1975-76 to 1980-81. There have been no claimancy applications by any State in respect of any year since 1980-81. In this regard, under the previous tax sharing arrangements which provided for the "phasing in" of tax sharing relativities over the three year period 1982-83 to 1984-85 no special grants were paid in respect of those years. Similarly, in light of the implementation of new relativities in 1985-86 and given the provision for their further review by March 1988, it was broadly agreed at the May 1985 Premiers' Conference that it would be inappropriate to pay special grants to any States during the triennium of those arrangements.

3 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 is shown only where it is at variance with the standard practice set out in Chapter 1.

Table 1.4 earlier in this volume provides details of the amount of specific purpose payments to New South Wales for 1988-89 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. However, all pre-merger costs are met by the Government which initially incurred the expenditure.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	31,828	24,240	15,199	11,330	9,638	37	0	92,273
Per Capita \$	5.55	5.66	5.49	7.27	6.81	0.08		5.64
State Share %	34.5	26.3	16.5	12.3	10.4	0.0		100.0

The Commonwealth allocation to New South Wales for 1988-89 includes \$648,000 for grants to Community Legal Centres and a provisional sum of \$3.190 million for the new Child Support Program. This Program component is to be fully Commonwealth funded and is to provide for assistance to an eligible parent seeking child maintenance payments.

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 1988-89 is estimated at \$607,000.

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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	431	564	0	201	223	0	0	1,419
Per Capita \$	0.08	0.13		0.13	0.16			0.09
State Share %	30.4	39.7		14.2	15.7			100.0

Company Fees—Revenue Sharing

1987-88 was the first full year of operation of the Commonwealth State Scheme for Co-operative Companies and Securities Regulations—Fee Sharing Agreement. 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	300	121	110	88	78	66	53	816
Per Capita \$	0.05	0.03	0.04	0.06	0.06	0.15	0.34	0.05
State Share %	36.8	14.8	13.5	10.8	9.6	8.1	6.5	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—Businesses and Consumer Affairs".

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 \$35,753,000 has been allocated to New South Wales in 1988-89 for supplementation of recurrent expenditures and \$900,000 in respect of 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent & Capital:								
Amount \$000	36,653	31,118	16,401	9,978	9,186	2,676	771	106,782
Per Capita \$	6.39	7.27	5.92	6.40	6.49	5.97	4.94	6.52
State Share %	34.3	29.1	15.4	9.3	8.6	2.5	0.7	100.0

Higher Education

In 1988-89, the Commonwealth has revised its education policy. It has not separately identified 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	718,647	648,281	321,516	214,469	206,915	55,227	9,593	2,174,648
Per Capita \$	125.23	151.37	116.05	137.60	146.17	123.22	61.49	132.84
State Share %	33.0	29.8	14.8	9.9	9.5	2.5	0.4	100.0
Capital:								
Amount \$000	51,750	54,800	32,382	17,884	16,260	4,472	103	177,651
Per Capita \$	9.02	12.80	11.69	11.47	11.49	9.98	0.66	10.85
State Share %	29.1	30.8	18.2	10.1	9.2	2.5	0.1	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 and certain courses conducted by Technical Colleges. 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.

The history of payments to these groups is as follows.

• Universities

Prior to 1974 the Commonwealth and the States shared university costs, with the States first receiving contributory grants towards university recurrent costs in 1951-52 and their capital expenditures in 1957-58.

From 1 January 1974 the Commonwealth assumed full financial responsibility for universities and the States have since received specific purpose recurrent and capital payments to cover university expenditures. The States gained no financial benefit from this arrangement as their general revenue assistance grants and their loan allocations were reduced by amounts corresponding to what the States would otherwise have received.

University payments are to be recommended by the new National Board of Employment Education and Training and are authorised under the States Grants (Tertiary Education Assistance) Act.

Grants in 1987-88 and 1988-89 reflect the Commonwealth's decision to introduce in 1987 an administration charge on student enrolments. This charge is set at \$262 in 1988. Universities will collect the charge directly and consequently Commonwealth grants have been reduced by 90 per cent of the estimated revenue involved. Effectively, universities will retain 10 per cent of the charge for their own purposes. From 1989, the administration charge is to be replaced by a Higher Education Contribution Scheme.

● Colleges of Advanced Education

The States first received assistance from the Commonwealth towards the costs of colleges of advanced education in 1964-65 when capital grants were provided. Commencing with the 1967-69 triennium, specific purpose payments towards the recurrent expenditures of these colleges were also made.

The Commonwealth also provided separate grants for teachers' colleges (from 1967-68) and pre-school teachers' colleges (from 1968-69) until 1973-74 when these grants were incorporated into the total program of Colleges of Advanced Education grants.

As with universities, the program of grants for these colleges is authorised under the States Grants (Tertiary Education Assistance) Act.

Colleges are also affected by the changed arrangements for contribution to the cost of education by students under the Higher Education Contribution Scheme.

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 \$11.0 million has been suggested by the Commonwealth as New South Wales' share of this contribution in 1988-89. Negotiations have been underway on the derivation of this figure since the Commonwealth announced its decision in its 1987-88 Budget. The payments by each State to the Commonwealth in 1988-89 are presently set at the following levels:

	\$'000		\$'000
NSW	10,967	South Australia	3,280
Victoria	9,634	Tasmania	143
Queensland	0	Northern Territory	0
Western Australia	2,425	Total	26,448

Technical and Further Education

Since 1964-65 the Commonwealth has provided grants towards the recurrent and capital costs associated with technical and further education (T.A.F.E.). 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.

Since 1974, the recurrent grant has included a component to compensate the States for abolishing fees charged in respect of vocational courses.

The cost supplementation amount to be allocated to T.A.F.E. is excluded from the estimated payments shown below.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	45,202	30,653	16,970	11,775	11,202	3,760	2,024	121,586
Per Capita \$	7.88	7.16	6.13	7.55	7.91	8.39	12.97	7.43
State Share %	37.2	25.2	14.0	9.7	9.2	3.1	1.7	100.0
Capital:								
Amount \$000	64,969	49,419	27,632	15,760	12,800	8,459	5,503	184,541
Per Capita \$	11.32	11.54	9.97	10.11	9.04	18.87	35.28	11.27
State Share %	35.2	26.8	15.0	8.5	6.9	4.6	3.0	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 exclude the Schools' share of the allowance for cost escalation.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	564,825	457,544	254,153	138,782	118,607	38,414	14,388	1,586,713
Per Capita \$	98.42	106.83	91.74	89.04	83.79	85.71	92.23	96.93
State Share %	35.6	28.8	16.0	8.7	7.5	2.4	0.9	100.0
Capital:								
Amount \$000	77,565	62,126	42,803	22,776	20,227	6,299	6,283	238,079
Per Capita \$	13.52	14.51	15.45	14.61	14.29	14.05	40.28	14.54
State Share %	32.6	26.1	18.0	9.6	8.5	2.6	2.6	100.0

(Note: These are Commonwealth estimates as at the date of the Commonwealth Budget.)

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.

Participation and Equity Program

Commonwealth funds under this program, which commenced in January 1984, were paid to the States under the States Grants (Education Assistance—Participation and Equity) Act. The aim of the program was to increase participation in education and to introduce greater equity in the overall provision of education for young people. The program expired at the end of 1987.

Video Facilities

An initial three year program of grants by the Commonwealth to the States towards the cost of providing educational video facilities for loan to children in isolated areas commenced in 1981-82. The program was extended for the triennium 1985-87 and was terminated at the end of 1987.

HEALTH

Hospital Funding Grants

Under new hospital funding arrangements, to apply from 1 July 1988 for the next five years, new specific purpose grants (\$3,063 million) are to be 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 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 1988-89 grant for expansion of post acute and palliative care services (\$25.5 million) and day only treatment (\$10.2 million). 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 (\$5.1 million) 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.

The Commonwealth has also recognised greater responsibility towards the treatment of AIDS patients in public hospitals by the inclusion of a separate component in the grant (\$15 million) to be indexed to the actual growth in AIDS cases treated.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,076,200	794,908	500,372	268,957	278,589	86,129	19,652	3,024,807
Per Capita \$	187.53	185.60	180.61	172.56	196.80	192.17	125.97	184.77
State Share %	35.6	26.3	16.5	8.9	9.2	2.8	0.6	100.0

Reduction of Public Hospital Waiting Lists

In June 1987, the Commonwealth announced a two year program to assist the States in reducing public hospital waiting lists. Funds are provided on a dollar for dollar matching basis.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	9,573	7,914	2,755	1,803	2,300	335	0	24,680
Per Capita \$	1.67	1.85	0.99	1.16	1.62	0.75		1.51
State Share %	38.8	32.1	11.2	7.3	9.3	1.4		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. New South Wales has recently signed an agreement for this program.

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 will receive its first grant in 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	4,656	6,308	970	1,457	1,888	439	127	15,845
Per Capita \$	0.81	1.47	0.35	0.93	1.33	0.98	0.81	0.97
State Share %	29.4	39.8	6.1	9.2	11.9	2.8	0.8	100.0

Hospital Enhancement Program

The Teaching Hospitals Capital Equipment program, which expired at the end of 1987-88, will be replaced by a three year program to upgrade infrastructure of public hospitals. \$125 million will be made available by the Commonwealth over the next three years, \$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. The 1988-89 allocation by the Commonwealth includes \$1 million for repatriation general hospitals.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	8,312	6,256	3,814	2,105	2,080	692	247	23,506
Per Capita \$	1.45	1.46	1.38	1.35	1.47	1.54	1.58	1.44
State Share %	35.4	26.6	16.2	9.0	8.8	2.9	1.1	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 \$26.4 million in 1988-89, \$16.6 million is for the States. This includes a component for projects approved by the Ministerial Council on Drug Strategy.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	5,691	4,290	2,729	1,562	1,516	579	238	16,605
Per Capita \$	0.99	1.00	0.99	1.00	1.07	1.29	1.53	1.01
State Share %	34.3	25.8	16.4	9.4	9.1	3.5	1.4	100.0

Acquired Immune Deficiency Syndrome (AIDS)

Apart from the \$15.1 million provided in the Hospital Funding Grant for the treatment of AIDS afflicted persons, a further \$25 million will be provided by the Commonwealth in 1988-89 of which \$12.5 million has been allocated on a cost sharing basis with the States for education, prevention and counselling. The remaining \$12.5 million is to be spent on a national program covering research, media and education campaigns, community projects and information exchange programs.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	5,221	3,124	1,434	1,284	904	271	284	12,522
Per Capita \$	0.91	0.73	0.52	0.82	0.64	0.60	1.82	0.76
State Share %	41.7	24.9	11.5	10.3	7.2	2.2	2.3	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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	273	390	335	247	337	14	5	1,600
Per Capita \$	0.05	0.09	0.12	0.16	0.24	0.03	0.03	0.10
State Share %	17.1	24.4	20.9	15.4	21.1	0.9	0.3	100.1

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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	4,537	5,501	2,377	1,922	1,648	387	207	16,579
Per Capita \$	0.79	1.28	0.86	1.23	1.16	0.86	1.33	1.01
State Share %	27.4	33.2	14.3	11.6	9.9	2.3	1.2	100.0
Capital:								
Amount \$000	543	377	496	356	420	71	27	2,290
Per Capita \$	0.09	0.09	0.18	0.23	0.30	0.16	0.17	0.14
State Share %	23.7	16.5	21.7	15.5	18.3	3.1	1.2	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, is being developed during 1988-89. Subject to completion of satisfactory cost sharing arrangements the Commonwealth has allocated \$1 million in 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	340	260	160	90	90	30	10	980
Per Capita \$	0.06	0.06	0.06	0.06	0.06	0.07	0.06	0.06
State Share %	34.7	26.5	16.3	9.2	9.2	3.1	1.0	100.0

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 have been 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,180	1,180	730	8,036	12,340	0	0	23,466
Per Capita \$	0.21	0.28	0.26	5.16	8.72			1.43
State Share %	5.0	5.0	3.1	34.2	52.6			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.

The Act provides for the Commonwealth and the States (both State Governments and relevant community and local organisations) and Northern Territory to maintain an indexed base level of expenditure reflecting the 1984-85 level of outlays under the subsumed Acts. In 1988-89 the funds made available will be comprised of

- an increase in expenditure of 15.7 per cent over the 1987-88 level;
- an additional \$4.7 million in unmatched funds to be spent on testing new methods of delivering services.

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

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	70,505	63,860	22,179	21,408	16,657	4,817	800	200,226
Per Capita \$	12.29	14.91	8.01	13.74	11.77	10.75	5.13	12.23
State Share %	35.2	31.9	11.1	10.7	8.3	2.4	0.4	100.0
Capital:								
Amount \$000	1,841	2,280	1,576	620	280	0	56	6,653
Per Capita \$	0.32	0.53	0.57	0.40	0.20		0.36	0.41
State Share %	27.7	34.3	23.7	9.3	4.2		0.8	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 is to be substantially expanded in 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	4,530	4,865	2,349	1,334	860	381	353	14,672
Per Capita \$	0.79	1.14	0.85	0.86	0.61	0.85	2.26	0.90
State Share %	30.9	33.2	16.0	9.1	5.9	2.6	2.4	100.0

Supported Accommodation Assistance

A Supported Accommodation Assistance Program was introduced by the Commonwealth from 1 January 1985 and further discussions concerning its renegotiation will continue in 1988-89. 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.

New South Wales has been allocated an amount of \$2,000,000 as a provision for upgrading five Homeless Persons' Accommodation Services which have not yet been brought into the Supported Accommodation Assistance Program. Aspects of this arrangement are still under negotiation and as yet New South Wales has not signed an agreement.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	21,338	13,323	9,501	6,056	5,560	2,814	1,756	60,348
Per Capita \$	3.72	3.11	3.43	3.89	3.93	6.28	11.26	3.69
State Share %	35.4	22.1	15.7	10.0	9.2	4.7	2.9	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.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	9,257	6,949	4,418	2,471	2,302	742	261	26,400
Per Capita \$	1.61	1.62	1.59	1.59	1.63	1.66	1.67	1.61
State Share %	35.1	26.3	16.7	9.4	8.7	2.8	1.0	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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	6,835	5,131	3,262	1,824	1,700	548	200	19,500
Per Capita \$	1.19	1.20	1.18	1.17	1.20	1.22	31.71	1.19
State Share %	35.1	26.3	16.7	9.4	8.7	2.8	1.0	100.0

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 \$461,000 will be provided in 1988-89.

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. Funding in 1988-89 will be used for the provision of additional child care facilities.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,304	2,852	633	380	9,372	159	165	14,865
Per Capita \$	0.23	0.67	0.23	0.24	6.62	0.35	1.06	0.91
State Share %	8.8	19.2	4.3	2.6	63.0	1.1	1.1	100.0
Capital:								
Amount \$000	1,711	2,459	1,418	1,361	1,087	255	121	8,412
Per Capita \$	0.30	0.57	0.51	0.87	0.77	0.57	0.78	0.51
State Share %	20.3	29.2	16.9	16.2	12.9	3.0	1.4	100.0

Family Support Services

Commonwealth payments to the States for family support services have been made since 1978-79. Agreement between the Commonwealth and States was reached for the commencement of a new and continuing Family Support Program, which operated in 1986-87 and 1987-88. The base level of funding under the new program was the 1985-86 level plus funding for related family services previously provided separately by the Commonwealth and States. Indexation of the base and expansion of the program was shared on a dollar for dollar basis by the Commonwealth and States. The level of funding for the program is planned to expand by a total of 25 per cent in calendar 1988.

The program was transferred to the States at the May 1988 Premiers' Conference, and payment of \$13 million is to be made in 1988-89 as special revenue assistance (see Chapter 1).

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 housing, education, 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,869	1,386	6,032	10,958	10,008	114	2,044	32,412
Per Capita \$	0.33	0.32	2.18	7.03	7.07	0.25	13.10	1.98
State Share %	5.8	4.3	18.6	33.8	30.9	0.4	6.3	100.0
Capital:								
Amount \$000	489	0	367	13,748	1,260	0	4,207	20,072
Per Capita \$	0.09		0.13	8.82	0.89		26.97	1.23
State Share %	2.4		1.8	68.5	6.3		21.0	100.0

Translating/Interpreting Services

New South Wales has received a recurrent grant since 1979-80 towards a program of assistance aimed at providing additional State run translating and interpreting services. This program was a consequence of the Gaibally 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 are shared equally between New South Wales and the Commonwealth.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	246	483	161	146	203	0	95	1,334
Per Capita \$	0.04	0.11	0.06	0.09	0.14		0.61	0.08
State Share %	18.4	36.2	12.1	10.9	15.2		7.1	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.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	153	91	27	27	49	0	0	347
Per Capita \$	0.03	0.02	0.01	0.02	0.03			0.02
State Share %	44.1	26.2	7.8	7.8	14.1			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 families 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, the State's Loan Council program having been "offset" as a consequence of the changed arrangement. These specific purpose payments have since been subject to the provisions of successive Commonwealth State Housing Agreements.

Currently, payments to the States for housing purposes are provided for by the 1984 Commonwealth/State Housing Agreement which is to cover the ten year period from 1 July, 1984. (Details of arrangements under the previously applying 1978 and 1981 Agreements are contained within the 1984-85 edition of this document).

The 1984 Commonwealth/State Housing Agreement, including revisions agreed during 1986-87, provides for:

- guaranteed minimum Commonwealth funding of at least \$2,100 million in aggregate over the three years 1987-88 to 1989-90;
- broadened eligibility criteria to ensure that single people, particularly young single people can qualify for assistance;
- rent for public housing tenants based on the cost of providing the accommodation, with rent rebates for those unable to afford this amount;
- rental purchase schemes to facilitate home ownership for those who cannot save a deposit;
- low start loans for home purchase assistance with repayments based on income; and
- separately identified funds for assistance to specific groups and for specific purposes.

Generally successive Housing Agreements have provided for the Commonwealth's assistance in these areas to be provided by way of a mixture of grant and loan. However, in 1988-89 as in the previous four years, the Commonwealth is providing its assistance fully as grant. The 1984 Agreement provides that if assistance is by way of loan then any such amounts should be repayable over 53 years at a concessional fixed rate of interest of 4.5 per cent.

Under the terms of the 1984 Agreement this assistance is aimed at four major categories of housing capital expenditures:

- pensioner housing
- Aboriginal housing
- local government and community housing
- other housing assistance

(The Housing Agreement also provides for Commonwealth assistance towards the Mortgage and Rent Relief and Crisis Accommodation Schemes—these programs are considered under separate headings within this document).

Supplementing assistance provided under the Housing Agreement is an arrangement which gives each State the option of nominating from its General Purpose Capital Funds additional amounts for housing. This option was introduced in 1982-83 and providing the matching requirements of the Housing Agreement have been satisfied any such nominated amounts become subject to the concessional terms and conditions of advances made under the Housing Agreement. 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. (Details of amounts nominated by New South Wales under this provision are contained in chapter 4).

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 1988-89 follows:

Estimated Payments in 1988-89

	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	0.15	0.40	0.66	0.70		0.34
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 parent, 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	13,869	8,794	7,382	3,268	2,819	845	523	37,500
Per Capita \$	2.42	2.05	2.66	2.10	1.99	1.89	3.35	2.29
State Share %	37.0	23.5	19.7	8.7	7.5	2.3	1.4	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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	13,641	3,417	19,000	12,121	6,391	696	14,734	70,000
Per Capita \$	2.38	0.80	6.86	7.78	4.51	1.55	94.45	4.28
State Share %	19.5	4.9	27.1	17.3	9.1	1.0	21.0	100.0

Local 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	5,596	4,200	2,671	1,494	1,391	448	200	16,000
Per Capita \$	0.98	0.98	0.96	0.96	0.98	1.00	1.28	0.98
State Share %	35.0	26.3	16.7	9.3	8.7	2.8	1.3	100.0

Other Housing Assistance

Apart from the assistance provided under the 1984 Agreement for the specific housing programs outlined above, Commonwealth assistance is also provided for public housing not tied to specific programs, which the States are free to allocate between home purchase assistance programs and rental housing programs. From 1987-88 at least 50 per cent of these untied funds are to be directed to rental housing programs. New South Wales has, for several years, directed 100 per cent of this component to rental housing programs.

Unlike the funds tied to the specific programs the assistance for other housing must be matched by the States on a \$1 for \$1 basis.

The 1984 Agreement maintains a provision that an equal per capita distribution between States of this other housing assistance be phased in during the ten years to 1990-91.

Assistance under this category may take the form of either grant or loan. However since 1984-85, it is being provided fully as a grant.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	179,027	135,989	79,428	48,502	52,053	20,952	14,649	530,600
Per Capita \$	31.20	31.75	28.67	31.12	36.77	46.75	93.90	32.41
State Share %	33.7	25.6	15.0	9.1	9.8	3.9	2.8	100.0

Housing for Members of the Australian Defence Force

Commonwealth/State Housing Agreements provided for funds to be advanced annually to the States towards the building of dwellings for Defence Force servicemen each year from 1956-57 to 1970-71. Arrangements since then are detailed in the Commonwealth/State Housing Agreement (Servicemen), 1972 and include the provision for servicemen of housing advances for construction of new houses and improvements to existing dwellings. These advances are repayable over 53 years at market rates of interest. These arrangements are continuing on an informal basis pending finalisation of a further agreement.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	373	233	46	0	0	55	0	707
Per Capita \$	0.06	0.05	0.02			0.12		0.04
State Share %	52.8	33.0	6.5			7.8		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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	547	547	547	547	547	547	261	3,541
Per Capita \$	0.10	0.13	0.20	0.35	0.39	1.22	1.67	0.22
State Share %	15.4	15.4	15.4	15.4	15.4	15.4	7.4	100.1

Bicentennial Programs Assistance

The Commonwealth is providing the States with funds within the Commonwealth-State Bicentennial Commemorative Program for projects of lasting benefit to the Australian community. Commonwealth payments to the State must be matched. 1984-85 was the first year of payments under this program and it was substantially completed in 1987-88. Some States will receive a payment in 1988-89; however New South Wales will not receive a payment.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	0	2,505	0	1,760	1,491	1,341	465	7,562
Per Capita \$		0.58		1.13	1.05	2.99	2.98	0.46
State Share %		33.1		23.3	19.7	17.7	6.1	100.0

National Maritime Museum

The Commonwealth is providing New South Wales with capital grants of up to \$30 million towards the construction of a National Maritime Museum within the Darling Harbour Redevelopment. \$2 million was received in 1985-86, \$18 million in 1986-87 and a final \$10 million was provided in 1987-88.

National Standard Sports Facilities

A three year program was commenced by the Commonwealth Government in 1981-82 with the objective of developing international standard sports facilities in the States and Territories. This program terminated in 1983-84 but was replaced in 1984-85 with a National Sports Facilities Program which maintains the aims of the original scheme. In August 1987, administration of this program passed to the Australian Sports Commission, and became a Commonwealth responsibility.

Rainforest Conservation

The Commonwealth has allocated a total of \$22.25 million over the period 1986-87 to 1988-89 to be used in rainforest conservation. The program aims to assist the States in acquiring and managing rainforest areas of high conservation significance. It is expected that funding under this program will cease at the end of 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,300	600	3,137	300	0	500	200	6,037
Per Capita \$	0.23	0.14	1.13	0.19		1.12	1.28	0.37
State Share %	21.5	9.9	52.0	5.0		8.3	3.3	100.0

ECONOMIC SERVICES

Labour and Employment

Community Employment Program

Under the Community Employment Act, 1983, New South Wales first received payments in 1983-84 for the purpose of job creation under the Commonwealth Community Employment Program.

This program aimed to provide opportunities for three to twelve month's full time employment in labour intensive projects of social and economic benefit to the community, including the construction of local roads and town water supply facilities. The overall objective was to enhance the employment prospects of disadvantaged groups such as women, Aborigines, migrants, the long term unemployed and disabled persons. Funds were allocated among the States principally on a population basis, although emphasis is given to areas of high unemployment.

Funds received by New South Wales under this program have been administered by the Department of Industrial Relations and Employment. Disbursements have been made to those departments and authorities, local governments and community groups involved in approved projects satisfying the required specifications.

In May 1987 the Commonwealth announced that the Community Employment Program would be wound down and no new projects would be entered into after 30 June 1987. The remaining projects under the program will conclude in early 1989. The Commonwealth will contribute \$500,000 in 1988-89 towards administration costs.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	500	342	100	163	145	27	23	1,300
Per Capita \$	0.09	0.08	0.04	0.10	0.10	0.06	0.15	0.08
State Share %	38.5	26.3	7.7	12.5	11.2	2.1	1.8	100.0

Public Sector Training for Aborigines

In 1988-89, the Commonwealth will provide \$3,650,000 for training Aborigines for public sector employment. The emphasis is on training leading to permanent employment of Aborigines.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	3,650	600	3,400	1,650	1,100	220	1,300	11,920
Per Capita \$	0.64	0.14	1.23	1.06	0.78	0.49	8.33	0.73
State Share %	30.6	5.0	28.5	13.8	9.2	1.8	10.9	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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	17,200	0	7,400	700	0	100	0	25,400
Per Capita \$	3.00		2.67	0.45		0.22		1.55
State Share %	67.7		29.1	2.8		0.4		100.0

Support for Steel Regions

In 1983-84 the Commonwealth first provided grants to New South Wales and South Australia as assistance for a range of infrastructure development projects in the Illawarra, Hunter and Whyalla regions. The assistance was designed to promote employment opportunities in these regions to assist in offsetting the decline in recent years in employment in the steel industry. In 1987-88, New South Wales received \$5,321,000 and South Australia, \$1,410,000.

No payments will be received in 1988-89.

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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	3,491	2,066	1,218	460	1,192	44	282	8,753
Per Capita \$	0.61	0.48	0.44	0.30	0.84	0.10	1.81	0.53
State Share %	39.9	23.6	13.9	5.3	13.6	0.5	3.2	100.0

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

Australian Land Transport Program

The Roads Grants Act 1981 expired on 30 June 1985. It was replaced by the Australian Land Transport (Financial Assistance) Act 1985 which provided for assistance for a broader category of "land transport" during the five years commencing in 1985-86. Besides roads, this program provides scope for the funding of railway improvements and transport research (although there is to be no assistance in 1988-89 for railways).

In respect of roads assistance a distinction is made between national roads, urban arterial roads, rural arterial roads and local roads, with funds being allocated for each component. The program is financed by a share of the Federal excise on motor spirit and diesel fuel. This share is indexed to the Consumer Price Index. The substantial drop in allocations for this program in 1988-89 reflects the proposed introduction of new legislation for roads funding during the year. The new Australian Centennial Road Development Program will commence from 1 January, 1989 and will replace both the current Australian Land Transport and the Australian Bicentennial Road Development Program.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	126,000	79,400	82,900	49,600	29,700	14,400	15,700	397,700
Per Capita \$	21.96	18.54	29.92	31.82	20.98	32.13	100.64	24.29
State Share %	31.7	20.0	20.8	12.5	7.5	3.6	3.9	100.0

Australian Bicentennial Road Development Program

In addition to payments made under the Australian Land Transport Program the States will continue to receive funds under the Australian Bicentennial Road Development (ABRD) program. The aim of this program is to develop the Australian road system to a high standard by 1988, the Bicentenary Year. The program commenced in 1982-83 and will operate until the end of 1988 when it will be replaced, along with the Australian Land Transport Program, by the new Australian Centennial Road Development Program. Between 1 July 1983 and 31 December 1988 this program has been financed by a surcharge of 2 cents per litre on excise on motor spirit and distillate. The Commonwealth announced in its statement of May 1987 that this surcharge is to be continued for a further five years after 1988 to finance road improvements and upgrading.

The ABRD program requires States to maintain, in real terms, their road outlays from their own sources at the average level of the five years prior to the introduction of the program. Funds are provided under the program for expenditure on projects approved for national, urban arterial, rural arterial and local roads, subject to percentage limits placed on allocations allowed for various categories of roads.

The program also provides for up to 25 per cent of the total funds allocated for urban arterial roads to be redirected to expenditure on urban public transport capital projects where it can be demonstrated that such expenditure will reduce traffic or wear and tear on the urban arterial road system. Total expenditure of \$9 million is expected on projects in this category during 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	73,600	50,500	53,000	37,300	17,600	10,100	4,500	246,600
Per Capita \$	12.82	11.79	19.13	23.93	12.43	22.53	28.85	15.06
State Share %	29.8	20.5	21.5	15.1	7.1	4.1	1.8	100.0

Australian Centennial Road Development Program

Funding under this Program will commence from 1 January, 1989 and will replace that previously provided under both the Australian Land Transport and the Australian Bicentennial Road Development Programs. The new program will be 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 current programs, a new category of National Arterial roads has been created to provide for construction of roads which can be identified as assisting the competitiveness of Australia's export and import-competing industries. As applies under current 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.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	187,600	113,900	111,100	73,000	41,400	20,100	17,600	564,700
Per Capita \$	32.69	26.59	40.10	46.84	29.25	44.85	112.82	34.49
State Share %	33.2	20.2	19.7	12.9	7.3	3.6	3.1	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 5). 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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent & Capital:								
Amount \$000	0	0	273	3	23	270	105	672
Per Capita \$			0.10	0.00	0.02	0.60	0.67	0.04
State Share %			40.6	0.4	3.4	40.2	15.6	100.3

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 1988-89 towards the costs of the Scheme.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,713	2,398	1,006	665	706	368	85	7,941
Per Capita \$	0.47	0.56	0.36	0.43	0.50	0.82	0.54	0.49
State Share %	34.2	30.2	12.7	8.4	8.9	4.6	1.1	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 equally matched by the State. Payments in 1988-89 will also include a contribution towards research into pest and disease disinfestation treatments to meet importing countries' quarantine requirements.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	304	423	417	250	80	108	0	1,582
Per Capita \$	0.05	0.10	0.15	0.16	0.06	0.24		0.10
State Share %	19.2	26.7	26.4	15.8	5.1	6.8		100.0

Other Mining Assistance

Assistance to the coal industry totalling \$40 million, in the form of reduced State Rail Authority freight charges, is being provided jointly by the Commonwealth and State Governments during the 1988 calendar year. Costs are to be shared on a \$ for \$ basis with \$10 million being provided by each party in both 1987-88 and 1988-89.

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. An amount of \$2.144 million has been provided by the Commonwealth for new debt reconstruction farm build-up and farm improvement assistance in 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	14,636	12,516	8,078	9,203	8,273	1,868	826	55,400
Per Capita \$	2.55	2.92	2.92	5.90	5.84	4.17	5.29	3.38
State Share %	26.4	22.6	14.6	16.6	14.9	3.4	1.5	100.0

Fertiliser Assistance

Since January 1986 the Commonwealth has provided the States with recurrent grants towards the cost of assistance given to users of fertilisers subject to dumping duties. The assistance is aimed at:

- offsetting the cost of the dumping duty for importers of such fertilisers;
- enabling the continuation of equivalent payments to local manufacturers of the same fertilisers; and
- extending the scheme to agras and double superphosphate fertilisers which compete with fertilisers subject to dumping duties.

The payment has been substantially lower in 1987-88 and 1988-89 than previous years, reflecting lower dumping margins of fertilisers arising from higher world prices.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,805	2,736	7,866	3,990	2,508	95	0	19,000
Per Capita \$	0.31	0.64	2.84	2.56	1.77	0.21		1.16
State Share %	9.5	14.4	41.4	21.0	13.2	0.5		100.0

Accounting treatment: The payment will be credited to the "Fertiliser Assistance Grants Scheme" Account from which payments will be made directly to eligible manufacturers/importers of fertilisers subject to dumping duties.

Exotic Diseases Eradication

New South Wales first received a payment in 1984-85 as part of an exotic diseases preparedness program. In 1988-89 the State will receive funds on a dollar for dollar cost sharing basis for feral animal control.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	16	0	41	26	8	28	55	174
Per Capita \$	0.00		0.01	0.02	0.01	0.06	0.35	0.01
State Share %		9.2	23.6	14.9	4.6	16.1	31.6	100.0

Destruction of Organochlorine Stocks

A one year program has been announced to assist States in transport and destruction of organochlorine stocks recalled under administrative arrangements aimed at eliminating chemical residue problems in the agricultural and pastoral industries. The program was carried out in 1987-88 but payment was delayed until 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	260	136	237	269	90	8	0	1,000
Per Capita \$	0.05	0.03	0.09	0.17	0.06	0.02	0.06	
State Share %	26.0	13.6	23.7	26.9	9.0	0.8		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. Figures below also reflect provision of additional funds in 1988-89 for expenditure on assistance measures including restocking freight rebates and additional holding costs, although it is not expected that New South Wales will make any claims for such assistance.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,340	1,659	17,024	4,351	1,538	74	14,812	40,798
Per Capita \$	0.23	0.39	6.14	2.79	1.09	0.17	94.95	2.49
State Share %	3.3	4.1	41.7	10.7	3.8	0.2	36.3	100.0
Capital:Amount \$000	0	0	114	120	20	0	245	499
Per Capita \$			0.04	0.08	0.01	1.57	0.03	
State Share %			22.8	24.0	4.0		49.1	100.0

Sugar Industry

In view of the difficult economic conditions confronting the sugar industry the Commonwealth is providing recurrent grants to New South Wales and Queensland over the three years 1986-87 to 1988-89. The State must 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 due to a recent upturn in world sugar prices and is not expected to be necessary in 1988-89.

Payments of \$773,000 to New South Wales and \$5,840,000 to Queensland are expected to be made in 1988-89.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	773	0	5,840	0	0	0	0	6,613
Per Capita \$	0.13		2.11					0.40
State Share %	11.7		88.3					100.0

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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,423	731	1,080	1,020	524	278	344	5,400
Per Capita \$	0.25	0.17	0.39	0.65	0.37	0.62	2.21	0.33
State Share %	26.4	13.5	20.0	18.9	9.7	5.1	6.4	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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	664	1,020	127	1,217	451	971	0	4,450
Per Capita \$	0.12	0.24	0.05	0.78	0.32	2.17		0.27
State Share %	14.9	22.9	2.9	27.3	10.1	21.8		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 1987-88, 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. \$1,576,000 was received in 1987-88 and \$1,380,000 is expected in 1988-89.

- Urban Water Supply and Treatment

Water Conservation and Efficiency

The payment under this program was \$105,000 in 1987-88 and is estimated that \$225,000 will be received in 1988-89.

Country Towns Water Supply Improvement Program (COWSIP)

This scheme was introduced in 1985-86 to improve the water supplies of small towns in country areas. New South Wales received a payment towards the program of \$1,844,000 in 1987-88 and is expected to receive \$2,200,000 in 1988-89.

- 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 and in that regard New South Wales received an amount of \$2,575,000 in 1986-87. An amount of \$3,380,000 is expected in 1988-89.

The following table summarises estimated payments to the States under the FWRAP in 1988-89. Amounts are as published in the Commonwealth Budget.

Estimated Payments in 1988-89**Irrigation and Other Water Projects**

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	170	723	0	0	290	0	0	1,183
Per Capita \$	0.03	0.17			0.20			0.07
State Share %	14.4	61.1			24.5			100.0
Capital:								
Amount \$000	0	0	4,000	0	0	0	0	4,000
Per Capita \$			1.44					0.24
State Share %			100.0					100.0

Salinity Reduction Control

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	1,380	913	0	5,148	200	0	0	7,641
Per Capita \$	0.24	0.21	3.30	0.14	0.47			
State Share %	18.1	11.9		67.4	2.6			100.0

Urban Water Supply and Treatment

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	225	530	0	100	0	0	50	905
Per Capita \$	0.04	0.12		0.06			0.32	0.06
State Share %	24.9	58.6		11.0			5.5	100.0
Capital:								
Amount \$000	2,200	790	1,800	750	5,860	300	50	11,750
Per Capita \$	0.38	0.18	0.65	0.48	4.14	0.67	0.32	0.72
State Share %	18.7	6.7	15.3	6.4	49.9	2.6	0.4	100.0

Urban Flood Mitigation

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	10	20	0	0	50	0	120	200
Per Capita \$	0.00	0.00			0.04		0.77	0.01
State Share %	5.0	10.0			25.0		60.0	100.0
Capital:								
Amount \$000	3,370	1,460	1,080	370	0	1,000	0	7,280
Per Capita \$	0.59	0.34	0.39	0.24		2.23		0.44
State Share %	46.3	20.1	14.8	5.1		13.7		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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	16,874	12,808	6,918	4,404	5,488	3,508	1,700	51,700
Per Capita \$	2.94	2.99	2.50	2.83	3.88	7.83	10.90	3.16
State Share %	32.6	24.8	13.4	8.5	10.6	6.8	3.3	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.

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 assistance is limited at \$10,000, with a further grant of up to \$10,000 being made available in special circumstances.

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 at \$370,000 in 1988-89).

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	823	531	719	500	458	213	167	3,411
Per Capita \$	0.14	0.12	0.26	0.32	0.32	0.48	1.07	0.21
State Share %	24.1	15.6	21.1	14.7	13.4	6.2	4.9	100.0

Accounting Treatment: The salaries reimbursement component (estimated at \$590,000 in 1988-89) will be credited to the "State Emergency Services" Account and subsequently transferred to the Consolidated Fund. The Accommodation Subsidy (estimated at \$100,000 for 1988-89) 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 1988-89 is \$29.5 million.

All 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.

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. \$29.5 million) the Commonwealth does contribute on a \$1 for \$1 basis in respect of expenditure aimed at relieving personal hardship and distress.

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 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,500	0	4,500	0	0	0	0	7,000
Per Capita \$	0.44		1.62					0.43
State Share %	35.7		64.3					100.0
Capital:								
Amount \$000	15,500	0	27,500	0	0	0	0	43,000
Per Capita \$	2.70		9.93					2.63
State Share %	36.0		64.0					100.0

4 LOAN COUNCIL DETERMINATIONS

Borrowings by Commonwealth and State Governments are regulated by the Financial Agreement of 1927. This jointly legislated agreement between the Commonwealth and State Governments was aimed at co-ordinating public sector borrowings. It provided 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. If loan raisings are insufficient to meet the agreed borrowing program, it has been the practice for the Commonwealth to make up the difference by subscribing, from its own resources, to a special loan.

It had been the practice for many years for Loan Council to formulate a "package deal" generally covering borrowings on behalf of State Governments and direct borrowings by semi-government and local government authorities. Since 1984-85 the Commonwealth and the States have agreed on a "global limit" on borrowings by State and local authorities (see below). However in 1988-89 Queensland did not agree to a reduction in its global limit along with the other States.

The Commonwealth now proposes to introduce legislation to enforce global limits by penalising a State that does not abide by its limit through reducing its financial assistance grant to the extent of any excess borrowings.

GENERAL PURPOSE CAPITAL FUNDS

In May 1988 Loan Council determined that the general purpose capital allocation to the States in 1988-89 should remain constant in nominal terms. This followed reductions in the previous two years of 56 and 23 per cent respectively.

Table 4.1
General Purpose Capital Funds
Estimated payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Borrowings \$000	86,336	71,477	18,725	22,877	39,585	27,658	43,848	310,504
Grants \$000	86,336	71,477	18,725	22,877	39,585	27,658	43,848	310,504
Total \$000	172,671	142,954	37,449	45,754	79,169	55,315	87,696	621,008
Per Capita	30.09	33.38	13.52	29.36	55.93	123.42	562.15	37.93
State Share %	27.8	23.0	6.0	7.4	12.7	8.9	14.1	100.0

Since 1970-71 a percentage of the Loan Council allocation for general purpose capital funds for each State Government has been provided by the Commonwealth in the form of a capital grant, the balance incurring debt charges in accordance with the terms of each individual loan raised and the proportion of that loan allocated to a particular State.

Except for 1982-83 the grant percentage was maintained at a basic one third in each year from 1975-76 until 1984-85. (In 1982-83, the Commonwealth specified that a fixed amount of the States' Loan Council program—New South Wales, \$21 million; six States, \$65 million—should be allocated for welfare housing. This special allocation was given as a grant which the States were required to match. The one third grant, two thirds borrowings practice applied to the balance of the program.)

For 1985-86, and again in 1986-87, the percentage of the total program supplied as grant was increased by 7 per cent to 35.7 per cent and the loan component reduced by an equivalent amount. In 1987-88 the grant component for New South Wales was reduced to slightly more than one third. In 1988-89, the total amount of assistance was held constant in nominal terms, and the grant component was increased to 50 per cent of this total.

An additional development, introduced in 1982-83, has been to give the States the option of nominating part of the loan component of their Loan Council allocation for public housing, any such amount then bearing interest at the concessional rate under the Commonwealth State Housing Agreement. There was no restriction on the amount which could be so nominated during the years 1982-83 to 1984-85. However, New South Wales was subject to a maximum nomination of 30 per cent of the loan component in 1985-86. This limit was increased to 60 per cent for 1986-87 and 100 per cent in 1987-88.

Within these arrangements New South Wales has nominated the following amounts for housing purposes:

	\$m	% of Loan Component
1983-84	20	6.3
1984-85	80	23.7
1985-86	65	20.0
1986-87	150	60.0
1987-88	114	100.0
1988-89	86	100.0

SEMI-GOVERNMENT AND LOCAL AUTHORITY BORROWINGS

(It should be noted that the arrangements described under this heading do not represent Commonwealth *payments* to the States. The arrangements relate to *borrowing* programs, but are included in this document as they form an essential part of Commonwealth/State financial relations.)

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. A distinction was made between four categories of borrowings:

- Larger Authorities

The Agreement provided that for "larger" authorities (those borrowing above a certain limit—\$1.8 million in 1983-84), Loan Council should determine 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.

- Smaller Authorities

The Agreement also specified that, for "smaller" authorities, the terms and conditions of borrowing set down by the Loan Council must be adhered to. However from 1962-63 to 1983-84 no limit was placed on the aggregate amount of such borrowings.

- Electricity Authorities

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. This approval could be given, subject to consultation where new or unusual techniques were involved. Although indicative coupon interest rates, applying to smaller authorities' borrowings, continued to be published by Loan Council, these were generally expected to apply as maxima.

• Infrastructure 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.

Prior to 1981-82, Loan Council gave approval for specific borrowings for individual projects, but thereafter approval was given for annual aggregate infrastructure borrowings by each State, the State being able to allocate its approved total between projects previously approved in principle by Loan Council. As part of this arrangement, for the infrastructure program, State authorities were given access to overseas borrowings subject to limitations on types of financings and the level of such borrowings.

The decision to exempt borrowings by State electricity undertakings from Loan Council approval for a three year trial period commencing in 1982-83 substantially reduced the aggregate amount of infrastructure 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 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.

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.

In addition to all private overseas capital markets, State authorities can borrow in the following overseas public issue markets:

- the domestic \$US market
- the Eurodollar market
- the Swiss Franc market
- the Euro-sterling market
- the European Currency Unit (ECU) market
- the Euro-\$A market
- the Yen and non-Yen Tokyo market
- the Deutschemark market
- the Euro-yen market
- the Dutch Guilder market
- the Euro-Canadian dollar market

Access to these market is subject to prior right of entry of the Commonwealth, full interchange of information between members of Loan Council and queuing arrangements defined for each member. Approval to access the latter three markets was provided at the 13 June 1986 meeting of Loan Council.

Further, in respect of overseas borrowings made within the agreed ceiling:

- prior Loan Council approval is required for approaches to be made to approved public markets, but such approval is delegated to individual members in respect of borrowings in non-public markets provided that the intention to undertake any particular borrowing has previously been communicated to Loan Council; and
- Loan Council approval of terms and conditions of individual borrowings is only required in respect of private placements in the Sterling market (essentially with a view to differentiating these borrowings from public issues by the Commonwealth in this relatively small market). In all other permitted markets, approval is delegated to the individual members who must keep Loan Council fully informed of the terms achieved;

Statutory marketing authorities are permitted to borrow overseas up to 50 per cent of borrowings to finance buffer stocks held in Australia, any of the borrowing requirements to finance buffer stocks held or being shipped abroad and up to the level of their foreign currency denominated sales, provided that it does not exceed their current season's net borrowing requirement for advance payments to growers.

Global Borrowing Limits for 1988-89

For the States and the Northern Territory in total in 1988-89 a global limit of \$4,845.1 million applies to the borrowings of semi-government and local authorities. In 1987-88, the Loan Council Secretariat (as indicated in Commonwealth Budget Paper No. 4) determined that Victoria had borrowed \$158 million more than its agreed global limit of \$1,526.4 million, bringing its total borrowings to \$1,684.4 million. Taking account of Victoria's unapproved borrowings, the 1988-89 global limit for all States is 12.3 per cent less than actual borrowings in 1987-88 and 24.2 per cent less than in 1986-87.

In the case of New South Wales the limit in 1988-89 is \$1,449.9 million which represents a 5.8 per cent decrease on the State's global limit in 1987-88.

Table 4.2
Global Borrowing Limits
Agreed Limits in 1988-89 (a)

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Basic Program	1,449,900	1,487,400	792,800	482,700	258,300	171,000	95,000	4,845,100
Special Addition				108,000				
Total	1,449,900	1,487,400	792,800	590,700	258,300	171,000	95,000	4,845,100
Per Capita	252.65	347.30	286.17	387.99	182.47	381.53	608.97	295.97
State Share %	29.9	33.7	16.4	12.2	5.3	3.5	2.0	100.0
State Share of population	35.1	26.2	16.9	9.5	8.6	2.7	1.0	100.0

Note: (a) Queensland has not agreed to the limit shown in 1988-89. See page 65 of this document.

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 1988-89, as in the previous three 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 \$1,045 million in 1988-89 of which New South Wales' share is \$319 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.

5 COMMONWEALTH PAYMENTS TO OR FOR 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 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). For 1984-85, an underlying guarantee was provided that local government's tax share would not be less in real terms than it had been in 1983-84. (It was not necessary for this guarantee to be invoked).
- the amount so determined to be distributed among the States in specified proportions. (New South Wales' share as set out in the Act was 36.4977 per cent. This was on the aggregation of the Commonwealth Grants Commission's earlier recommendations for grants to individual local authorities.)
- 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 their respective populations, with consideration of respective sizes and population densities as well as any other matters agreed to by the Commonwealth and the State also being allowed.
- 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.

For 1985-86, the Commonwealth Government amended the tax sharing arrangements by enacting the Local Government (Personal Income Tax Sharing) Amendment Act 1985. In a departure from the provision of a 2 per cent share of personal income tax, the Amendment Act specified that the level of general purpose grant to be received by local government in 1985-86 would be equal to the aggregate grant provided in 1984-85, escalated by a real growth factor of 2 per cent. For that purpose the increase in the All Groups Consumer Price Index (CPI) for the six State capital cities in the year to March 1986 over the preceding year was used.

Financial Assistance Grants

A review of local government tax sharing arrangements, specifically the operation of the Local Government (Personal Income Tax Sharing) Act 1976, was commissioned by the Commonwealth in May 1984. The review was subsequently undertaken by the Committee of Inquiry into Local Government Finance. The Committee's terms of reference, which called for consideration of issues broader than the tax sharing arrangements specified within the underlying Federal legislation, were to examine:

- the respective roles of the Commonwealth and the States in regard to local government;
- the purpose and functions of local government revenue sharing; and
- the level and form of funding for local government available from Commonwealth, State and local government sources and the principles which should determine the level and allocation of the local government revenue sharing funds between and within States.

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 provides 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 ending March 1988 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 1987-88.

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 has declined sharply. An amendment to the Act has been made to alter the definition of general purpose assistance on an interim basis. The level of funding in 1988-89 has been 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. The distribution of funds between States in 1988-89 is the second step in this process (New South Wales' share is slightly greater than equal per capita).
- 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 at the latest 1 July 1991.
- 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 is to receive a payment analogous to that made to the States. The grant is based on the amount which the ACT would have received if the 1987-88 grant to the States had been distributed on an equal per capita basis. It will be indexed for the increase in the CPI in the year to March 1989.

Estimated Payments in 1988-89

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	229,435	172,726	108,322	59,892	57,348	18,530	6,248	652,500
Per Capita \$	39.98	40.33	39.10	38.43	40.51	41.34	40.05	39.86
State Share %	35.2	26.5	16.6	9.2	8.8	2.8	1.0	100.0
State Share of population	35.1	26.2	16.9	9.5	8.6	2.7	1.0	100.0

Accounting treatment: 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 3 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

● Nursing Homes

Up until 1986-87 local government authorities operating nursing homes on a non-profit basis could apply to the Commonwealth for aid under its program to cover their operating deficit. Assistance was provided to religious, charitable and other non-profit bodies operating such institutions. These payments are being phased out in favour of standard Commonwealth benefits for aged nursing home residents over the period 1987-88 to 1990-91. These payments will be made direct to nursing home residents and as such will no longer be recorded as payments to local government. In 1988-89 Estimated payments of \$30,000 will be made under the outgoing arrangements.

● 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 \$866,000 in 1988-89. Of this total \$645,000 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 1988-89 local government bodies in New South Wales are expected to receive \$135,000 of which \$125,000 is 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 \$29,801,000 in 1988-89 of which \$27,963,000 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. It is estimated that local government authorities in New South Wales will receive \$100,000 under these programs in 1988-89.

- Subsidy for Migrant Aid

Since 1981-82 the Fairfield City Council has received a grant to employ a social welfare worker to assist in the settlement of Indo-Chinese refugees in the area. The payment in 1988-89 is estimated at \$42,000.

- 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 1988-89 is \$3,039,000 of which \$1,000,000 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 1988-89 are expected to be \$528,000.

Commonwealth Payments Passed on by the State

As mentioned previously a detailed description of these payments is contained in Chapter 3 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 1988-89 is yet to be determined.)

- Home and Community Care Program

As outlined earlier in this Chapter all payments under this program are now made as payments to the States. Under this program \$690,000 was passed on to local government authorities in 1987-88.

- Children's Services

In 1987-88 a Commonwealth payment of \$598,000 was passed through the State to local government authorities.

- Supported Accommodation Assistance

An amount of \$89,000 was passed through the State to local government authorities in 1987-88.

- Family Support Services

\$68,000 was passed to local government authorities in 1987-88 by the State.

- 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 \$1,744,000 in 1987-88.

- National Estate

Part of the Commonwealth payment is passed on to local government authorities in respect of projects undertaken by them. In 1987-88 \$167,000 was passed on by the State.

- Community Employment Program

Local government authorities will receive payments, from those funds allocated to the State, in respect of their involvement in projects approved as qualifying under the conditions of the Program (a description of which is given in Chapter 3). The amount passed on in 1987-88 was \$19,665,000.

- Support for Steel Regions

An amount of \$883,000 was passed on to local government authorities by the State in 1987-88.

- Australian Land Transport Program

As detailed in Chapter 3, from 1985-86, Commonwealth payments towards roads are being made under the Australian Land Transport (Financial Assistance) Act, 1985 which replaced the Roads Grants Act 1981.

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. The payment under the program is estimated to have been \$68,861,000 in 1987-88. In 1988-89 the amount is expected to be \$81,100,000.

- Urban Flood Mitigation

As outlined in Chapter 3 funds are provided to the States for approved flood plain management works and studies under the Federal Water Resources Assistance Program. In 1987-88 \$3,873,000 of this assistance was passed on to local government authorities in New South Wales.

● 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 \$176,000 was passed on by New South Wales in 1987-88.

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 4, the Gentlemen's Agreement has now been 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 \$197.6 million will be provided in 1988-89 for general purpose councils (that is excluding County Councils).

Further details are provided in Chapter 4 of this document.

Accounting Treatment: Local government authorities borrow directly from financial institutions and deposit the loan directly into the relevant fund of the authority.

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