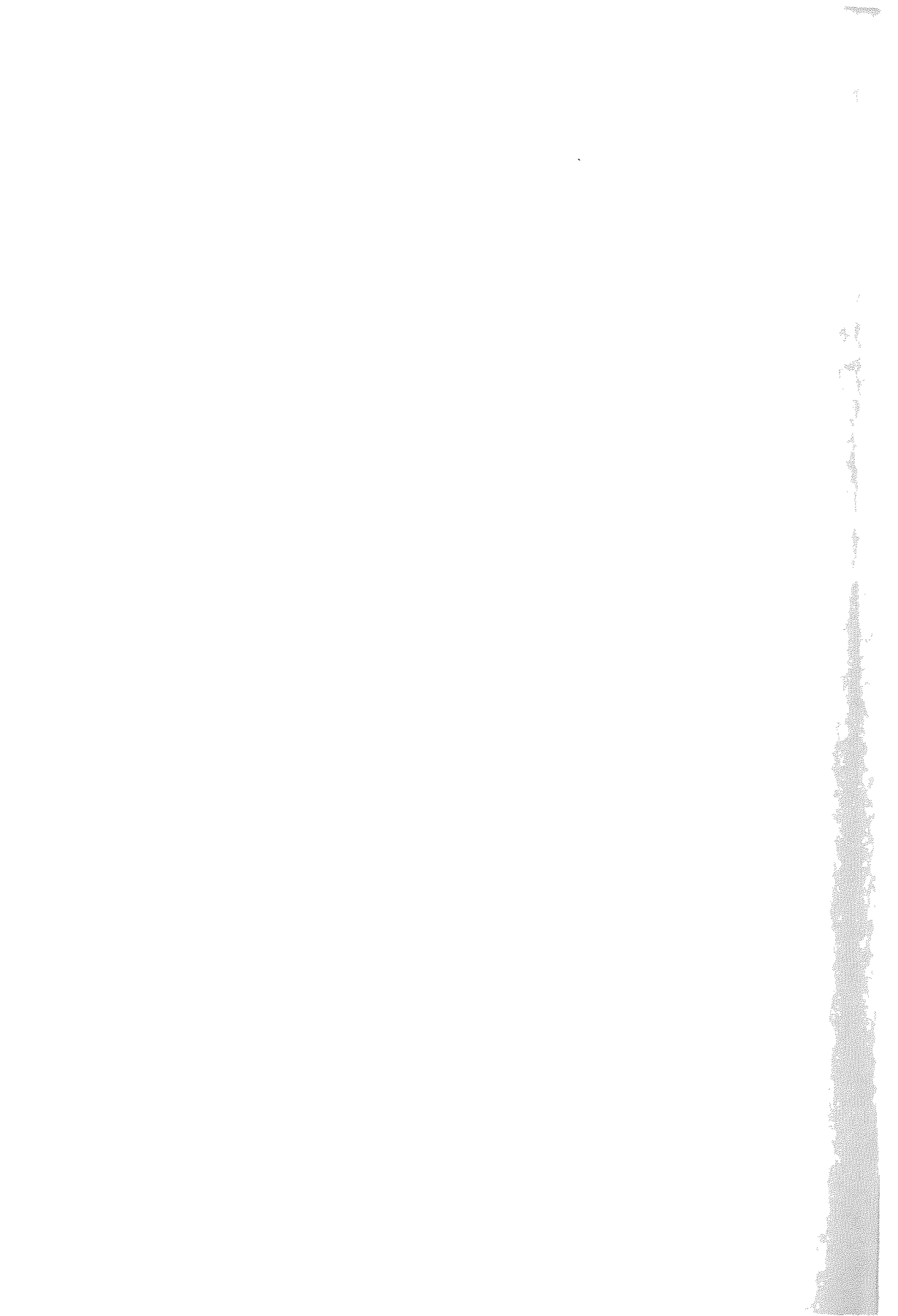




NEW SOUTH WALES

FINANCIAL ARRANGEMENTS
BETWEEN THE
COMMONWEALTH AND
NEW SOUTH WALES
1989-90



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PREFACE

Further large reductions were made in payments to the States and global borrowing limits at the 1989 Premiers' Conference and Loan Council meetings.

Total payments to New South Wales will be \$231.6 million less in real terms in 1989-90 compared with 1988-89. This represents a real cut of 2.8 per cent. By contrast, the Commonwealth decreased its own purpose outlays by only 1.2 per cent in real terms.

The outcome was made more severe for New South Wales by the Commonwealth's decision to implement, in full, the recommendations of the Commonwealth Grants Commission's 1989 Update Report. The Commission's recommendations resulted in a \$100 million loss for New South Wales.

New South Wales' global borrowing limit was reduced, in real terms, by \$414.2 million or 26.6 per cent.

The New South Wales Government had proposed a financial strategy for 1989-90 Commonwealth/State financial arrangements whereby significant public sector restraint would be achieved by large reductions in global borrowing allocations and a small decline in total net Commonwealth payments to the States and Northern Territory. Specifically, New South Wales called for a \$2.5 billion reduction in global borrowing allocations to the Commonwealth, States and Territory Authorities in 1989-90. Under the proposal, allocations to the States and Northern Territory would have fallen by \$1.35 billion, a reduction in real terms of 32.0 per cent. New South Wales argued strongly that such reductions in global borrowing allocations were needed if interest rates were to be reduced.

In a further effort to contain the demands on resources of the public sector and to reduce interest rates in particular, New South Wales proposed that net Commonwealth payments to the States and Northern Territory in 1989-90 should increase by the forecast growth of the Consumer Price Index less one per cent. This was proposed on the basis that the increase in net payments to the States and Northern Territory in 1989-90 should be in line with the growth in Commonwealth own purpose outlays.

The New South Wales strategy followed four years of cuts in payments and allocations to the States and Northern Territory. When expressed in real terms, net Commonwealth payments to the States and Northern Territory fell by 13.8 per cent in the four years to 1988-89 compared to a reduction of only 3.1 per cent in Commonwealth expenditure for its own purposes. Similarly, over the same four year period, there was a substantial real decline in the States' global borrowing allocation. Global borrowing limits in this period fell by 48.1 per cent in real terms, compared with an increase of 54.2 per cent for the Commonwealth.

To a significant extent, this strategy was adopted by the Commonwealth Government. Global limits for the States and Northern Territory were reduced by \$1,176.1 million compared with 1988-89 - a fall of 23.5 per cent. In real terms, this amounts to a reduction of 28.8 per cent. However, the Commonwealth imposed larger cuts in payments to the States and Northern Territory than proposed by New South Wales. Total net payments to the States and Northern Territory fell by \$754.8 million or 2.9 per cent in real terms. General revenue funding to the States and Northern Territory was reduced even more severely. The level of general revenue grants in 1989-90 was cut in real terms by nearly \$655.8 million or 4.9 per cent.

The Premiers' Conference decision to base the distribution of the pool of general revenue grants on the implementation, in full, of the relativities recommended in the Grants Commission's 1989 Update Report has had significant implications for New South Wales. The recommended relativities have resulted in New South Wales receiving a significantly reduced share of Commonwealth General Revenue Grants.

New South Wales argued that the Grants Commission's recommendations should have been phased in to reduce the fiscal impact on individual States and the Northern Territory from sharp changes in relativities. This has been an approach used in the past by the Commonwealth where new relativities would have resulted in significant shifts in the distribution of Commonwealth funds between States. Past phasing in of Grants Commission recommendations has cost New South Wales nearly \$300 million in real terms. However, this argument was rejected by the Commonwealth.

The Loan Council decided on major restructuring of general purpose capital assistance to the States and the Northern Territory. Allocations previously provided as loans (\$310.5 million in 1988-89) will instead be replaced by additional grants to the States and Northern Territory under the Commonwealth/State Housing Agreement (CSHA). The additional grants are to be maintained at 1988-89 nominal levels. These changes are discussed in more detail in Chapter 3.

INTRODUCTION

Historically, Commonwealth payments and allocations to New South Wales have funded a significant proportion of the State Budget. In 1989-90 the Commonwealth will fund some 40 per cent of New South Wales Budget outlays. In addition to this funding, the Commonwealth Government also controls the level of borrowings by State semi-government and local authorities.

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

- . General revenue funds. In 1989-90 these comprise
 - * the financial assistance grant which is an unconditional payment to the State.
 - * special assistance to compensate for the transfer of responsibility 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 (non-repayable) or advances (repayable). In addition, advances may be at market related interest rates, at concessional rates, or interest-free.
- . 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 of this Budget Paper discusses the general trends and recent developments in these payments and allocations. Chapters 2 to 4 describe each of these forms of funding in turn. Chapter 5 describes the financial assistance provided by the Commonwealth to local government in New South Wales. The appendix describes the history, up to 1984-85, of the various forms of payments made by the Commonwealth to New South Wales.

In recent years, the NSW procedures for accounting for Commonwealth payments and advances have been rationalised. The standard practice is initially to deposit all payments into an account within the Special Deposits Account having the same title as the specific program for which the payment is intended. These accounts are classified either within the "Commonwealth Payments - Recurrent" or the "Commonwealth Payments - Capital" sections of the Special 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, the accounting treatment is only included with the description of the payment when there is a departure from this 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.

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

TRENDS

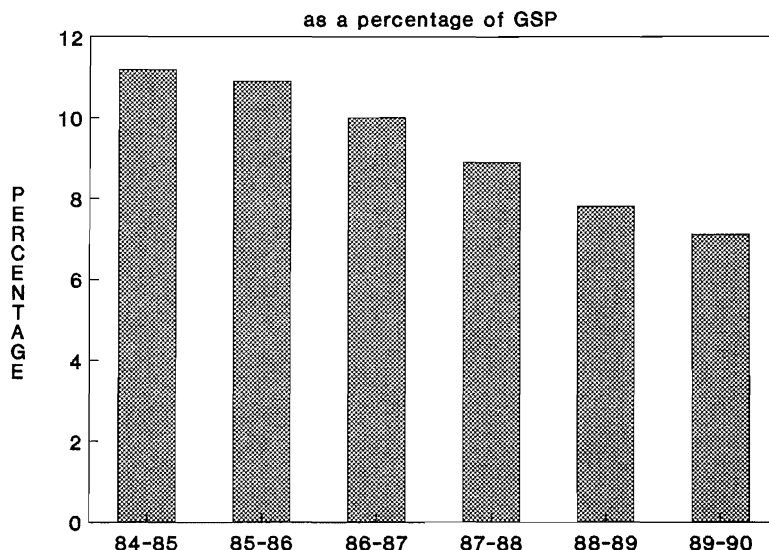
Over the past five years there have been significant real cuts of both aggregate and individual payments and allocations to New South Wales.

During the period 1984-85 to 1989-90 Commonwealth payments and Loan Council allocations to New South Wales have grown slowly in money terms. Table 1.2 shows that in 1984-85 payments and allocations totalled \$8,298.3 million compared with an estimated \$9,062.0 million in 1989-90, representing an average annual growth of 1.8 per cent per annum.

Expressed in real terms, there has been an average annual reduction in payments and allocations of 5.7 per cent in the five year period since 1984-85.

In addition to the slow growth in the level of payments and allocations over the period, the total available funds from these sources have grown substantially slower than the estimated increase in New South Wales Gross State Product. Over the five years to 1989-90 total payments and allocations to New South Wales have increased by 9.2 per cent compared with an increase in Gross State Product over the same period of 72.7 per cent. As a proportion of Gross State Product total payments and allocations have fallen from 11.2 per cent in 1984-85 to 7.1 per cent in 1989-90 (see Figure 1.1).

Figure 1.1
TOTAL PAYMENTS AND ALLOCATIONS TO NSW

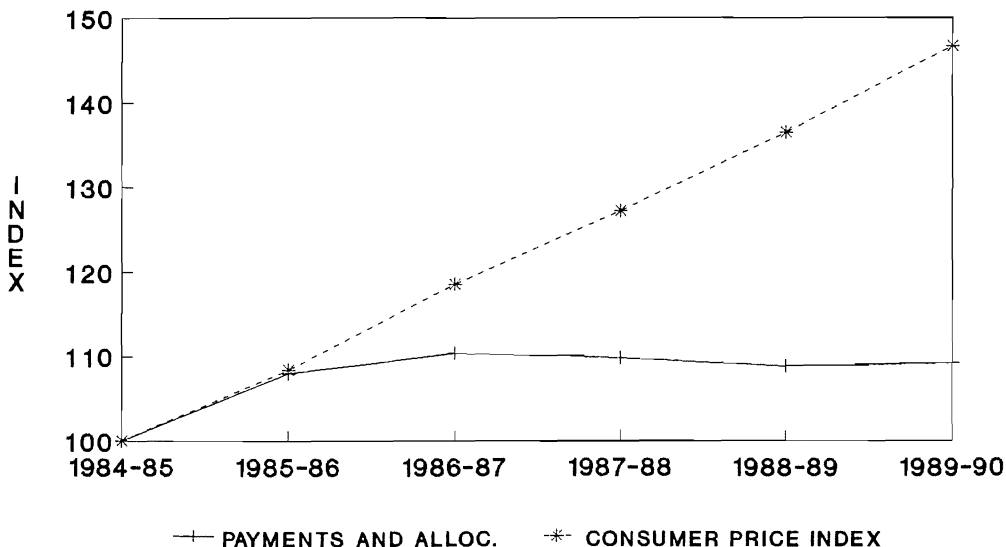


Note: Data for all Figures in this chapter is sourced from Commonwealth Budget Paper No. 4 "Commonwealth Financial Relations with other levels of Government, 1989-90" and corresponding earlier issues. Gross State Product for 1984-85 and 1985-86 is from ABS "Australian National Accounts - State Accounts, 1986-87" Cat No. 5220.0. Later years are NSW Treasury estimates.

Over the five year period since 1984-85 total payments and allocations to New South Wales have increased at a much slower rate than the Consumer Price Index. Since 1984-85 total payments and allocations increased by only 9.2 per cent compared to an increase of 46.7 per cent in the Consumer Price Index (see Figure 1.2).

Figure 1.2

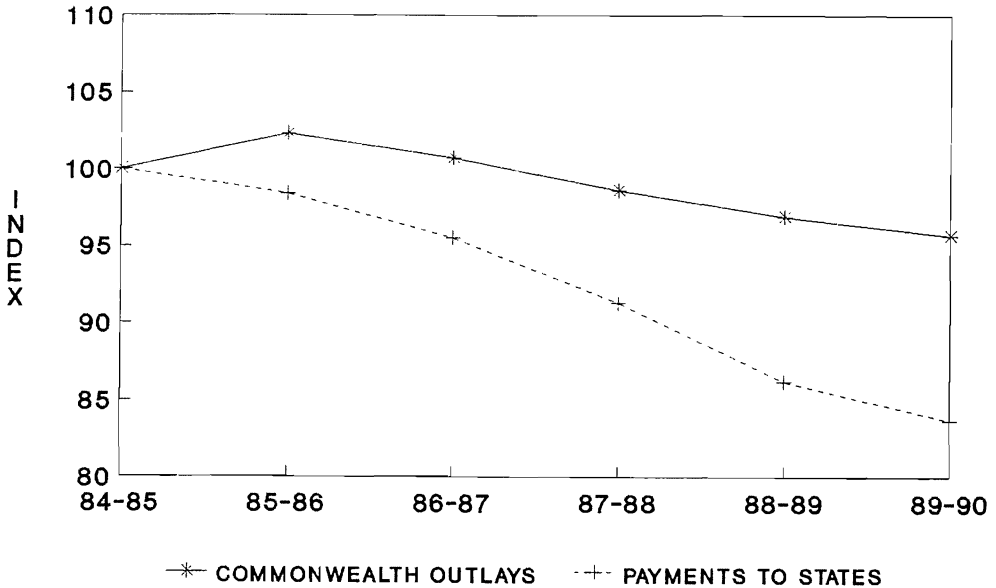
COMPARISON OF GROWTH IN TOTAL PAYMENTS AND ALLOCATIONS TO NSW AND THE CONSUMER PRICE INDEX



The Commonwealth's own outlays have grown faster than its payments to the States and Local Government. Over the five year period since 1984-85, total Commonwealth own purpose outlays have increased at an average annual rate of 7.0 per cent compared with a growth rate of 4.2 per cent in Commonwealth net payments to the States and Local Government. When expressed in real terms, over the five years since 1984-85, net Commonwealth payments to the States have fallen by 16.3 per cent compared with a fall of 4.3 per cent in Commonwealth expenditure for its own purposes (see Figure 1.3).

Figure 1.3

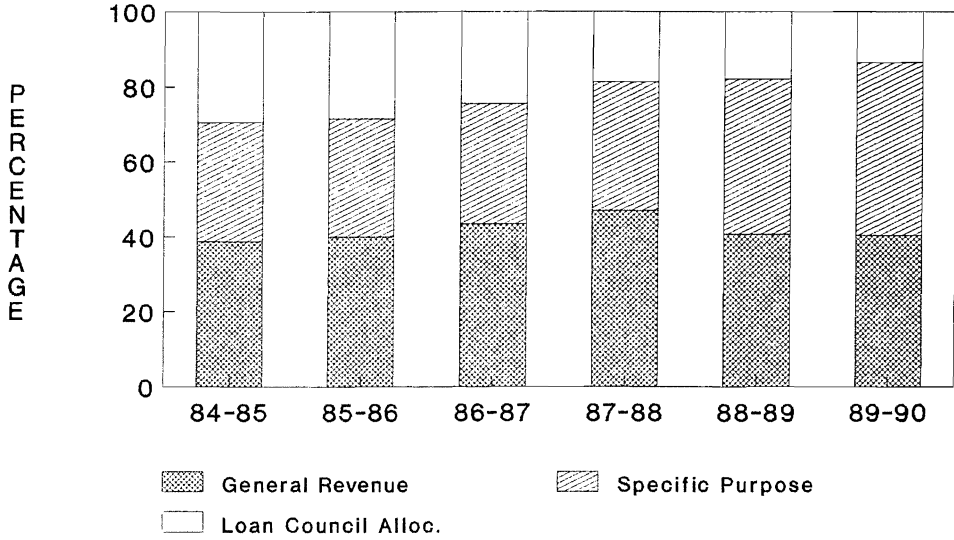
REAL COMMONWEALTH OWN PURPOSE OUTLAYS AND PAYMENTS TO THE STATES AND NT



In regard to the composition of these payments and allocations, it can be seen from Figure 1.4 that until 1988-89 there has been a persistent shift towards the provision of general revenue funds. This reflected both the establishment of the Identified Health Grant as effectively a general revenue payment and also a shift in philosophy towards untied funding. The increased share going to specific purpose payments since 1988-89 reflects the transfer of Identified Health Grants and the nominated loan component of General Purpose Capital funds to specific purpose payments and the degree of restraint being imposed by the Commonwealth on State general revenue funding.

Figure 1.4

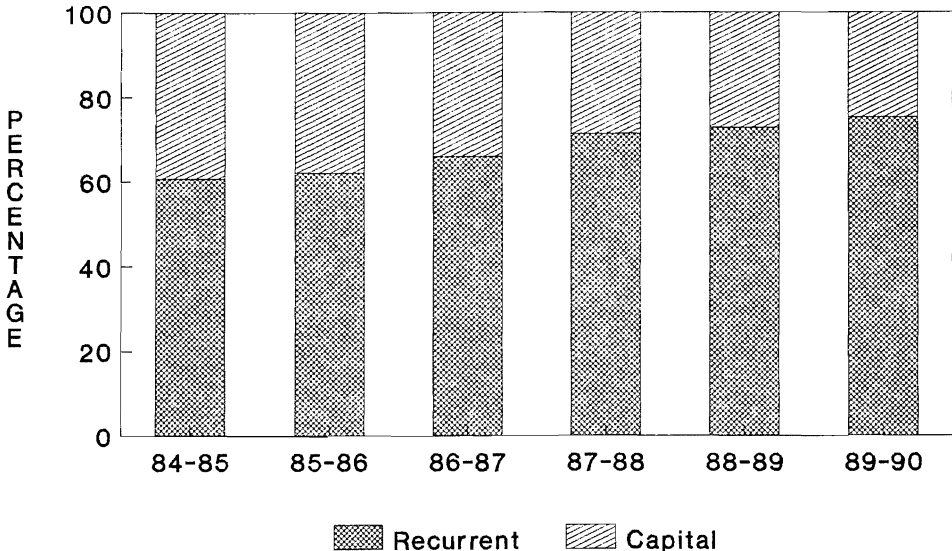
PROPORTION OF PAYMENTS AND ALLOCATIONS TO NSW FOR GENERAL AND SPECIFIC PURPOSES



A further trend evident over the period has been the reduction in the proportion of payments and allocations for capital purposes (see Figure 1.5). In 1989-90 capital payments and allocations represented only 24.7 per cent of total funds compared with 39.3 per cent in 1984-85.

Figure 1.5

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

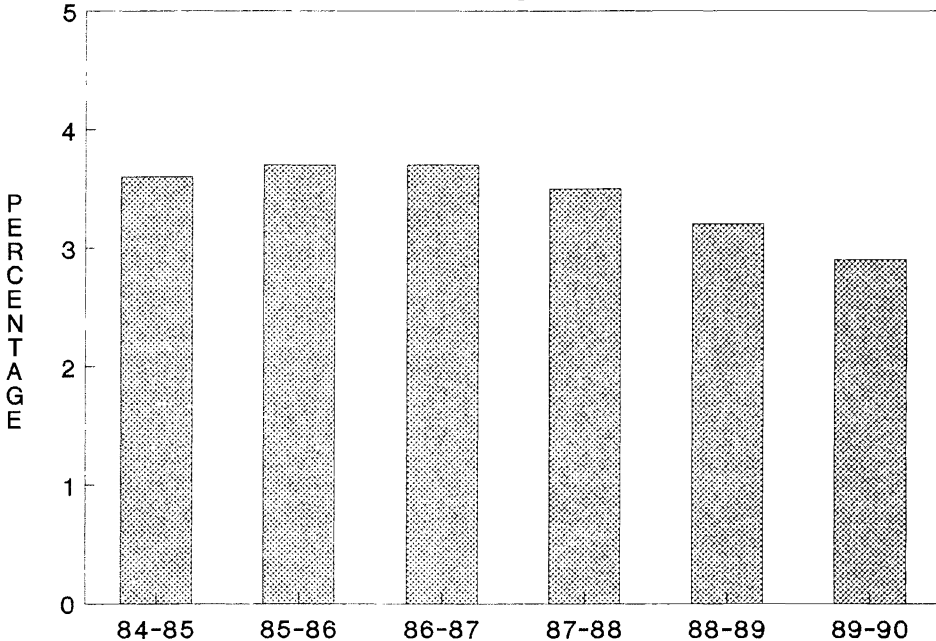


Financial Assistance Grants

The Commonwealth Government provides the bulk of its recurrent assistance to the States in the form of financial assistance grants which are, historically, compensation for the transfer of income taxing powers to the Commonwealth. Over the five years to 1989-90 financial assistance grants to New South Wales have increased by an average of 6.3 per cent per annum compared with an increase in total payments and allocations of 1.8 per cent. Despite this faster growth, financial assistance grants as a proportion of Gross State Product have fallen from 3.6 per cent in 1984-85 to 2.9 per cent in 1989-90 (see Figure 1.6).

Figure 1.6

FINANCIAL ASSISTANCE GRANTS TO NSW as a percentage of GSP



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.

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. This contrasts with the fall, in nominal terms, of New South Wales' financial assistance grant in 1989-90. This reduction followed the Grants Commission's 1989 Update Report which recommended a reduced share of Commonwealth funds for New South Wales. As a result, New South Wales will now receive, in real terms, \$289.9 million or 7.4 per cent less compared with 1988-89.

New South Wales' 1989-90 financial assistance grant represents a per capita payment 36 per cent less than the average for the less populous States of Queensland, Western Australia, South Australia and Tasmania, and the Northern Territory.

Specific Purpose Payments - Recurrent

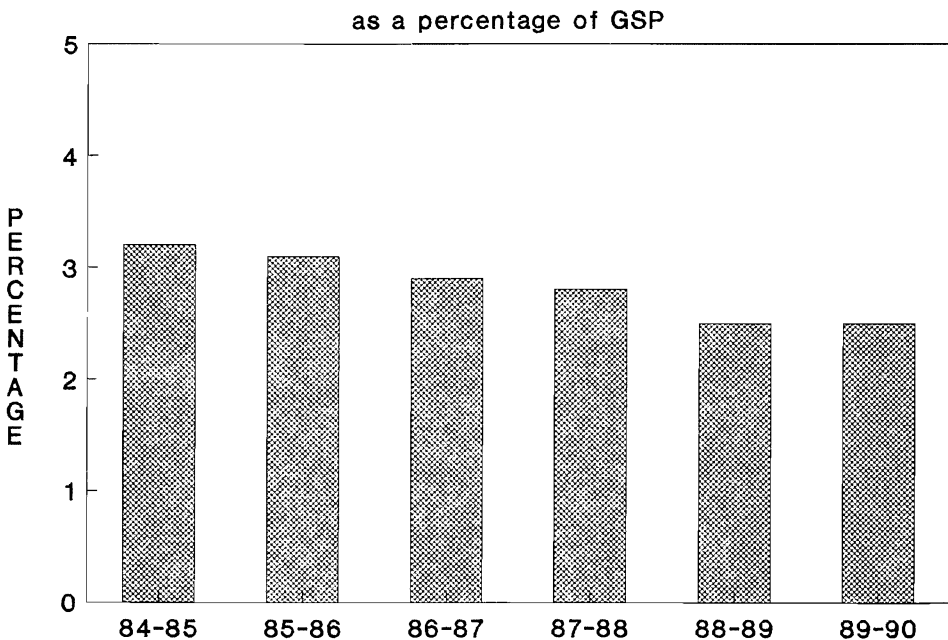
Growth in specific purpose payments for recurrent purposes has been relatively volatile over the five years to 1989-90.

Between 1984-85 and 1989-90 there have been major increases in Commonwealth specific purpose payments for recurrent purposes in the areas of schools, home and community care and financial assistance to local government. A significant increase occurred in 1988-89 when Identified Health Grants were replaced by Hospital Funding Grants. After allowing for the transfer of Identified Health Grants, specific purpose payments for recurrent purposes have increased at an average annual rate of 6.3 per cent. On a similar basis, total payments as a proportion of Gross State Product have declined from 3.2 per cent in 1984-85 to 2.5 per cent in 1989-90 (see Figure 1.7).

Specific purpose recurrent payments to New South Wales increased significantly in 1989-90. In real terms, payments rose by 2.3 per cent.

Figure 1.7

SPECIFIC PURPOSE RECURRENT PAYMENTS TO NSW



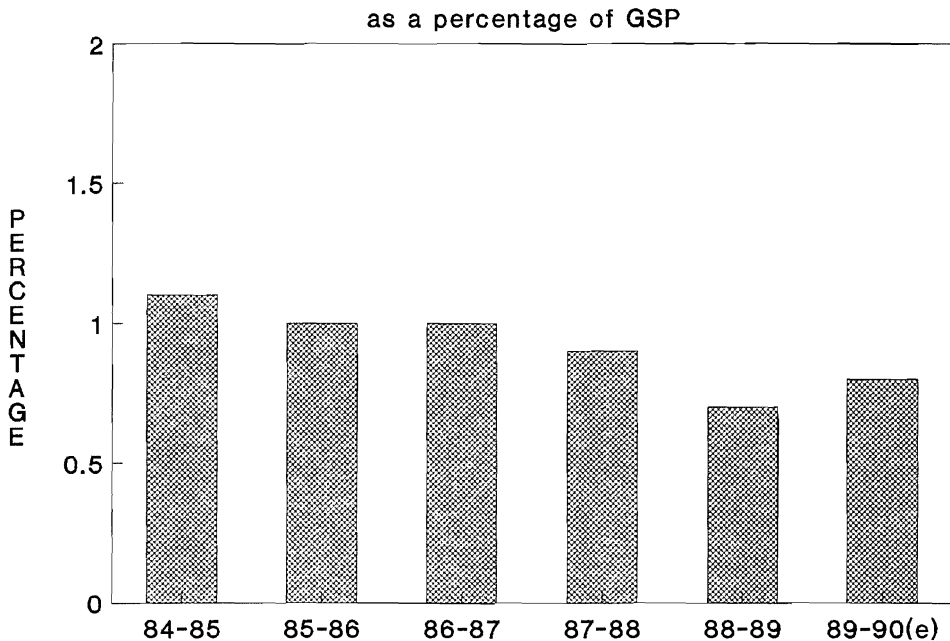
Specific Purpose Payments – Capital

Growth in specific purpose payments for capital purposes has also been volatile. A large increase has occurred in 1989-90 due in part to the transfer of the nominated loans component of the general purpose capital allocation to the Commonwealth State Housing Agreement (as a grant). Payments increased at a significantly greater rate than other forms of payments to New South Wales. In real terms, payments have increased by 11.4 per cent from 1988-89.

Generally specific purpose payments for capital purposes have been one of the slowest growing of all payments to New South Wales. Over the five years to 1989-90 specific purpose payments for capital purposes have increased at an average annual rate of 4.3 per cent. As a proportion of Gross State Product they have fallen from 1.1 per cent in 1984-85 to 0.8 per cent in 1989-90 (see Figure 1.8).

Figure 1.8

SPECIFIC PURPOSE CAPITAL PAYMENTS TO NSW

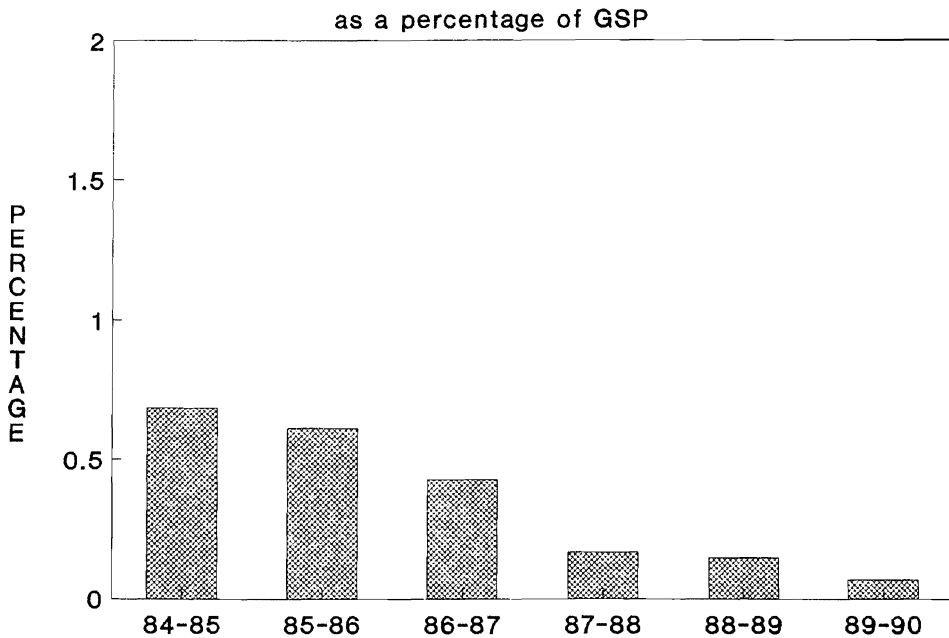


General Purpose Capital Funds

The greatest proportional cutback in Commonwealth funding to the States in recent years has occurred in the area of general purpose capital funds. In 1984-85 these funds totalled \$505.7 million for New South Wales. By 1989-90 this payment had been cut to only \$86.3 million - a reduction of 88.4 per cent in real terms over the whole period. Most of this reduction has occurred since 1985-86, with the 1989-90 allocation being reduced by 50 per cent due to the transfer of the nominated loan component to the Commonwealth State Housing Agreement. As a proportion of Gross State Product, general purpose capital funds have fallen from 0.7 per cent in 1984-85 to 0.1 per cent in 1989-90 (see Figure 1.9).

Figure 1.9

GENERAL PURPOSE CAPITAL PAYMENTS TO NSW

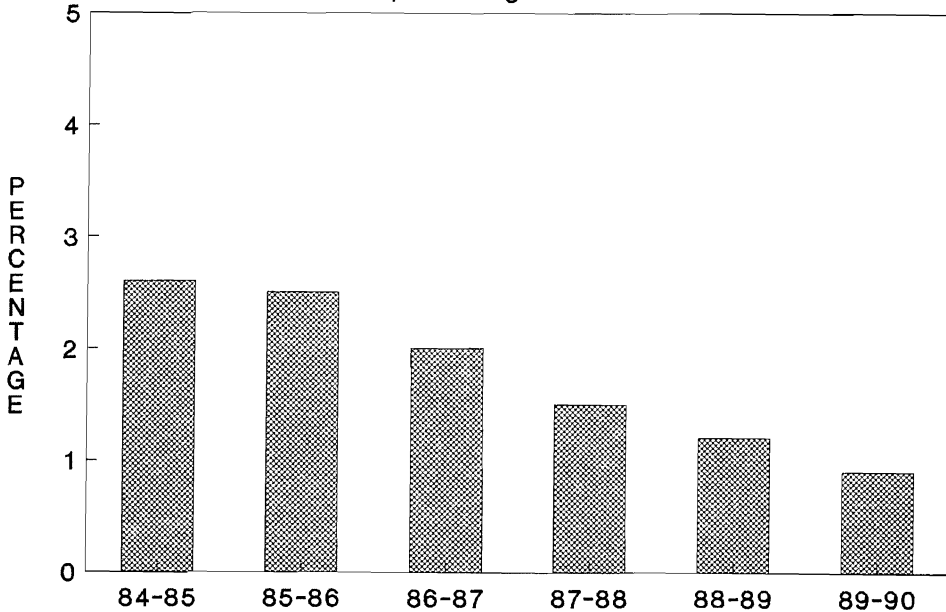


Semi-Government and Local Authority Borrowings

The introduction of the global borrowing concept in 1984-85 (see Chapter 4 for details) initially saw approved semi-government and local authority borrowing limits increase significantly. However, since 1985-86, semi-government and local authority borrowing limits have declined sharply, reflecting general restraint in public sector outlays. Semi-government and local authorities borrowing limits now represent 0.9 per cent of Gross State Product compared with 2.6 per cent in 1984-85 (see Figure 1.10).

New South Wales' global borrowing limit in 1989-90 was reduced in real terms by \$414.2 million or 26.6 per cent.

Figure 1.10
**SEMI-GOVERNMENT AND LOCAL AUTHORITY
BORROWINGS BY NSW**
as a percentage of GDP



RECENT DEVELOPMENTS

Review of Relativities by the Commonwealth Grants Commission

In March 1989 the Commonwealth Grants Commission completed its 1989 Update review of the distribution of Commonwealth Financial Assistance Grants between the States. Earlier reviews were completed in 1981, 1982, 1985 and 1988.

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

The Grants Commission recommended a decreased share of general revenue assistance for New South Wales. The Premiers' Conference decision to fully implement the Commission's recommended relativities has resulted in total general revenue grants distributed to New South Wales falling below the level received in 1988-89. However, unlike in 1988-89, the Commonwealth has not given a guarantee that total general revenue assistance for each State would not fall below the level received in the previous year. Special revenue assistance is to be provided in 1989-90 to the Northern Territory to ensure the Territory is not faced with an unreasonably severe cut in total general revenue assistance. This assistance is expected to be \$45 million and will reduce the pool of funds to be distributed according to the Grants Commission's new relativities.

The Grants Commission's recommendation for reduced revenue for New South Wales means its share of financial assistance grants on a per capita basis remains substantially less than that of all other states except Victoria, as indicated in the following table.

Table 1.1
Financial Assistance Grants per capita in 1989-90
\$

New South Wales	628
Victoria	619
Queensland	844
Western Australia	920
South Australia	971
Tasmania	1101
Northern Territory	4134
6 States and Northern Territory	766

The Grants Commission's 1989 Update Report is the first of a series of annual updates of relativities which will occur before the next full review in 1993. Annual updates are based on the methodology applying in the 1988 review.

The reduced relativities recommended by the Grants Commission for New South Wales have resulted from a number of factors:

- . the increase in New South Wales' assessed revenue raising capacity due to the large increases in both land and housing prices and the volume of turnover in the real estate market. This affected New South Wales' ability to raise revenue in both the conveyancing and land tax areas.
- . a significant increase in revenue raising capacity in the payroll tax area.
- . an increase in the reliance of the States on raising their own revenue via taxation rather than relying on Commonwealth grants. The Grants Commission has assessed New South Wales as having a relative advantage compared to the other States in raising revenue. The increased reliance of the States on their own source revenue to finance their budgets therefore disadvantages New South Wales.
- . New South Wales in 1987-88 received a larger share of Commonwealth specific purpose payments paid to the States and Northern Territory compared to 1984-85. This reduces New South Wales' assessed need for general revenue funding.
- . New South Wales' capacity to raise revenue from black coal rose significantly due to the continued application of the methodology adopted by the Grants Commission in its 1988 review. New South Wales believes it is unfairly disadvantaged by the approach taken by the Commission in the assessment of revenue raising capacity from coal royalties.

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

	1984-85	1985-86		1986-87		1987-88	
	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	2,693.1	3,012.6	11.9	3,350.0	11.2	3,594.9	7.3
Identified Health Grant	521.4	563.0	8.0	626.6	11.3	674.0	7.6
Special Revenue Assistance	...	...	...	2.1 (6)	n.a.	7.9 (6)	281.5
Total General Revenue Funds	3,214.6	3,575.6	11.2	3,978.7	11.3	4,276.8	7.5
Specific Purpose Payments							
Recurrent	1,824.6	1,987.6	8.9	2,057.9	3.5	2,230.2	8.4
Capital	812.9	833.1	2.5	893.5	7.2	895.4	0.2
Total Specific Purpose Payments	2,637.5	2,820.7	7.0	2,951.4	4.6	3,125.6	5.9
Loan Council Allocations -							
General Purpose Capital	505.7	505.7	...	389.2	-23.0	172.7	-55.6
Semi-Government and Local Authority							
Normal Borrowings	1,337.3	1,757.7	31.4	1,792.6	2.0	-	n.a.
Other Financings (1)	603.4	301.4	-50.1	52.4	-82.6	-	n.a.
Total Semi-Government and Local Authority Global Limit (2)	1,940.6	2,059.1	6.1	1845.0	-10.4	1,539.7 (10)	-16.5
Total Loan Council Allocations	2,446.4	2,564.8	4.8	2,234.2	-12.9	1,712.4	-23.4
Total Payments and Allocations -							
Amount \$m	8,298.3	8,961.1	8.0	9,164.2	2.3	9,114.7	-0.5
Per Capita \$ (3)	1,527	1,630	6.7	1,645	0.9	1,611	-2.1
Inflation - C.P.I. (4)	137.2	148.7	8.4	162.6	9.3	174.5	7.3
Economic Activity - GSP \$b (5)	73.9	82.4	11.5	91.4	10.8	102.7	12.4

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

	1988-89		1989-90 (est)		Ave Annual % change 1989-90 over 1984-85
	Amount	Percentage change previous year	Amount	Percentage change previous year	
	\$m		\$m		
General Revenue Funds -					
Tax Share/Financial Assistance Grant	3,665.1	2.0	3,649.1	-0.4	6.3
Identified Health Grant	...	n.a.	...	n.a.	n.a.
Special Revenue Assistance	15.1 (6)	91.4	0.0 (6)	-99.8	n.a.
Total General Revenue Funds	3,680.1	2.1 (7)	3,649.1	-0.8	6.3 (8)
Specific Purpose Payments					
Recurrent	2,891.2	-0.4 (7)	3,178.7	9.9	6.3 (8)
Capital	838.7	-6.3	1,003.7	19.7	4.3
Total Specific Purpose Payments	3,729.9	-1.8 (7)	4,182.4 (9)	12.1 (9)	5.8 (9)(8)
Loan Council Allocations -					
General Purpose Capital	172.7	...	86.3	-50.0	-29.8
Semi-Government and Local Authority					
Normal Borrowings	...	n.a.	...	n.a.	n.a.
Other Financings (1)	...	n.a.	...	n.a.	n.a.
Total Semi-Government and Local					
Authority Global Limit (2)	1,449.9 (10)	-5.8	1,144.1	-21.1	-10.0
Total Loan Council Allocations	1,622.6	-5.2	1,230.4	-24.2	-12.8
Total Payments and Allocations -					
Amount \$m	9,032.6	-0.9	9,062.0	0.3	1.8
Per Capita \$ (3)	1,574	-2.3	1,560	-0.9	0.4
Inflation - C.P.I. (4)	187.3	7.3	201.3	7.5	8.0 (11)
Economic Activity - GSP \$b (5)	116.3	13.2	127.7	9.8	11.6 (12)

FOOTNOTES TO TABLE 1.2:

- (1) "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.
- (2) Includes "Other Financings" from 1984-85 (see footnote (1)).
- (3) Annual mean resident populations have been used for all years except 1988-89 and 1989-90 for which estimated resident population as at 31st December, 1988 and 1989 respectively have been used.
- (4) Weighted average 8 Capital cities index.
- (5) NSW Gross State Product. NSW Treasury estimates.
- (6) Special revenue assistance was provided in 1986-87, 1987-88, 1988-89 and 1989-90 in recognition of additional State costs following the termination or transfer of Commonwealth programs. In 1989-90 this assistance totalled \$26,000.
- (7) 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.
- (8) In order to derive meaningful figures increases have been calculated after transferring the 1984-85 Identified Health Grant from the "General Revenue Funds" category to the "Specific Purpose Payments - Recurrent" category.
- (9) Housing nomination loan component (\$86.3 million) transferred to Commonwealth State Housing Agreement (included in Capital Specific Purpose payments) and converted to a grant. No adjustment has been made to percentage changes.
- (10) Actual global new money borrowings were \$1,539.6 million in 1987-88 and \$1,152.7 million in 1988-89.
- (11) The 1989-90 estimate of CPI is in line with the Commonwealth Budget's forecasts.
- (12) NSW Treasury forecast of GSP for 1989-90.

SOURCE: Commonwealth Budget paper No.4, "Commonwealth Financial Relations with Other Levels of Government" 1989-90 and corresponding earlier volumes.

Table 1.3: Net Commonwealth Payments to New South Wales

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
	\$ thousands				
General Revenue Funds (a)	3,575,615	3,978,654	4,276,775	3,680,137	3,649,135
Specific Purpose Payments (b)	2,820,727	2,951,406	3,125,601	3,729,887	4,182,442
General Purpose Capital Funds	<u>505,715</u>	<u>389,188</u>	<u>172,671</u>	<u>172,671</u>	<u>86,336</u>
Gross Payments to or for the State (c)	6,902,057	7,319,248	7,575,047	7,582,695	7,917,913
<u>Less</u> Repayment of and Interest on Loans and Advances (d)	<u>877,008</u>	<u>886,635</u>	<u>905,271</u>	<u>927,462</u>	<u>909,988</u>
Net Payments to or for the State	6,025,049	6,432,613	6,669,776	6,655,233	7,007,925
<u>Less</u> Payments for Commonwealth Programs (e)	985,964	1,032,955	1,108,741	1,106,127	1,211,670
Payments to Local Government through the State(f)	<u>324,222</u>	<u>319,465</u>	<u>327,013</u>	<u>323,778</u>	<u>320,960</u>
Net Payments to the State for State's Own Purposes	4,714,863	5,080,193	5,234,022	5,225,328	5,475,295

(a) Includes Tax Sharing Grant/Financial Assistance Grant, Special Revenue Assistance and, until 1988-89, the Identified Health Grant.

(b) In 1988-89, the Identified Health Grant was replaced by a specific purpose payment for hospital funding.

(c) Commonwealth payments only. Excludes semi-government and local authorities' borrowings.

(d) Comprises debt 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, 1988-89 and 1989-90 ??? it includes a negative payment for Higher Education Superannuation. These are payments for which the State acts as intermediary on the Commonwealth's behalf. The dissection of the cost escalation for education in 1989-90 between individual education sectors has been estimated.

(f) As per section 4 of table 1.4.

Source: Commonwealth Budget Paper No 4, "Financial Relations with other levels of Government", 1989-90 and corresponding earlier issues.

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

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
\$ thousands					
1. GENERAL REVENUE FUNDS					
Tax Sharing Grant/Financial Assistance Grant	3,012,615	3,350,031	3,594,903	3,665,075	3,649,109
Identified Health Grant (a)	563,000	626,560	674,001	...	...
Special Revenue Assistance	...	2,063	7,871	15,062	26
Total General Revenue Funds	3,575,615	3,978,654	4,276,775	3,680,137	3,649,135
2. SPECIFIC PURPOSE PAYMENTS					
<u>Recurrent Purposes</u>					
Law, Order and Public Safety					
Legal Aid	434	6,032	27,939	29,552	34,917
Reimbursement of Costs -					
Law Library	367	330	465	525	485
Human Rights	333	500	415	431	452
Company Fees - Revenue Sharing	...	179	191	343	360
Total Law, Order and Public Safety	1,134	7,041	29,010	30,851	36,214
Education					
Education - Allowance for Cost Escalation (b)	...	...	...	...	48,055
Higher Education	640,599	652,153	705,747	691,478	727,982
State's Contribution to Higher Education Superannuation	...	...	-4,229	-9,430	-11,093
Technical and Further Education	51,529	55,603	46,291	46,212	47,187
Schools - Government	174,908	189,392	208,038	237,903	266,236
- Non-Government	266,587	289,543	310,729	344,897	364,115
- Joint Programs	14,339	12,250	9,210	9,465	11,328
Participation and Equity Program (c)	22,070	11,881	11,824	...	...
Pre-School Education	3,565	...	...	...	...
National Policy on Languages	...	...	1,867	2,434	1,800
Total Education	1,173,597	1,210,822	1,289,477	1,322,959	1,455,610
Health					
Hospital Funding Grant (a)	...	...	...	1,087,271	1,183,779
Medicare (a)	420,755	414,988	443,520	...	...
Hospital Waiting List Reduction	...	...	9,073	9,573	...
Nurse Education	...	...	...	5,065	6,732
Transfer Pathology Laboratory	...	...	...	1,139	6,994
Drug Education Campaigns	4,724	5,045	5,384	5,691	6,259
Acquired Immune Deficiency Syndrome	2,397	2,325	4,757	5,221	6,984
Blood Transfusion Services	3,719	3,782	4,404	4,637	4,559
National Diseases Control	103	82	90	...	...
National Better Health	...	...	...	123	860
Health Program Grants	...	...	...	1,180	1,180
Youth Health Services	...	...	...	...	315
Total Health	431,698	426,222	467,228	1,119,900	1,217,662

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

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
	\$ thousands				
Social Welfare Services					
Home and Community Care (d)(e)	21,587	42,609	57,583	69,320	82,666
Geriatric Assessment Services	1,305	2,071	2,554	4,783	6,462
Supported Accommodation Assistance (e)	10,723	13,937	12,432	21,026	26,087
Mortgage and Rent Relief	8,020	8,508	8,817	9,257	15,812
International Year of Homeless	32	38	...	...	...
Rehabilitation Centres	378	976	423	428	450
Children's Services (e)	1,556	2,012	1,285	1,918	2,046
Family Support Scheme (e)	773	1,525	2,581	...	...
Aboriginal Advancement	4,068	3,357	2,881	2,900	5,923
Translating/Interpreting Services	182	255	247	173	454
Unattached Refugee Children	88	221	164	140	115
Total Social Welfare Services	48,712	75,509	88,967	109,945	140,015
Housing and Community Services					
Assistance for Housing	1,848	1,848	1,848	1,848	1,848
Rental Housing Subsidy	...	...	...	...	2,250
Urban Flood Mitigation	...	207	14	8	...
Total Housing and Community Services	1,848	2,055	1,862	1,856	4,098
Recreation and Cultural Services					
Rainforest Conservation	...	881	1,617	980	1,230
Total Recreation and Cultural Services	...	881	1,617	980	1,230
Economic Services					
Community Employment Program (e)	90,750	63,903	35,573	...	...
Employment Training - Aboriginal	3,076	2,909	3,434	2,974	6,151
Special Employment Programs	...	-1,807	...	...	...
Coal Mining Industry - Long Service Leave	13,968	13,866	29,800	22,792	20,000
Interstate Road Transport	...	570	1,711	4,357	4,608
Aerodrome Local Ownership Plan	10	39	...	...	26
National Industry Extension Service	...	2,319	2,499	2,713	2,991
Expo 88 Participation	...	...	100	...	...
Assistance to Tin Mining	...	112	...	...	...
Coal Rail Freight	...	...	10,000	...	10,000
Other Mining Assistance	...	...	262	...	...
Agricultural Research	73	141	418	304	408
Afforestation Program	...	...	338	1,324	2,566

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

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
	\$ thousands				
Rural Adjustment Scheme	1,019	8,285	11,691	16,674	17,093
Fertiliser Assistance	1,584	7,271	2,788	307	...
Exotic Diseases Eradication	84	64	49	19	18
Destruction of Organochlorines	...	...	...	255	...
Bovine Brucellosis and T.B.					
Eradication	5,106	3,137	1,955	1,271	1,139
Sugar Industry	...	762	1,779	605	167
Soil Conservation	973	1,157	1,295	1,802	3,762
Irrigation and Other Water Projects	1,446	311	120	50	50
Urban Water Supply and Treatment	...	105	105	140	70
Total Economic Services	118,089	103,144	103,917	55,587	69,049
Other Purposes					
Payments under Financial Agreement					
- Sinking Fund on State Debt	16,258	16,775	16,902	16,678	16,650
State Emergency Services (e)	680	721	840	822	931
Natural Disaster Relief (f)	...	2,993	1,595	2,175	1,000
Financial Assistance - Local Government	195,615	211,754	228,800	229,435	236,259
Total Other Purposes	212,553	232,243	248,137	249,110	254,840
Total Specific Purpose Payments - Recurrent Purposes	1,987,629	2,057,918	2,230,216	2,891,189	3,178,717
Capital Purposes					
Education					
Education - Allowance for Cost Escalation (b)	...	...	...	...	1,171
Higher Education	50,416	65,905	72,782	53,226	66,620
Technical and Further Education	44,332	57,004	65,113	53,167	71,490
Schools - Government	54,541	50,245	54,149	58,709	62,697
- Non-Government	19,704	17,948	18,195	20,355	19,829
Video Facilities	206	202	93	...	...
Total Education	169,199	191,304	210,332	185,457	221,807
Health					
Teaching Hospitals	16,811	16,811	16,811	8,100	17,237
Women's Health Screening	...	...	169	433	395
Blood Transfusion Services	276	401	449	543	372
Albury RALA Sub-Centre	...	...	85	...	...
Total Health	17,087	17,212	17,514	9,076	18,004

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

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
	\$ thousands				
Social Welfare Services					
Attendant Care Scheme	...	...	839	...	...
Home and Community Care (d)(e)	1,185	994	1,934	3,062	3,656
Supported Accommodation Assistance	...	...	...	1,000	1,000
Crisis Accommodation Assistance	4,651	4,933	5,447	6,835	13,656
Youth Accommodation	...	...	...	...	3,444
Children's Services (e)	...	26	3,544	2,440	3,245
Aboriginal Advancement	100	...	206	1,093	...
Total Social Welfare Services	5,936	5,953	11,970	14,430	25,001
Housing and Community Services					
Pensioner Housing Grants	13,913	14,282	14,517	13,869	18,520
Housing Assistance for Aborigines Local Government and Community Housing Grants (e)	12,771	12,345	12,345	13,641	17,777
Other Housing Assistance	3,533	3,883	4,201	5,596	8,404
Housing for Servicemen (g)	169,739	182,340	184,439	179,027	244,874
Growth Centres (g)	3,891	1,634	1,471	373	...
Urban Rehabilitation	6,046	...	...	...	...
Captains Flat Project (f)	4,000	3,000	...	...	...
Urban Flood Mitigation(e)	174	182	...	...	...
Total Housing and Community Services	2,656	2,442	3,158	3,356	3,900
	216,723	220,108	220,131	215,862	293,475
Recreation and Cultural Services					
National Estate (e)	458	490	508	547	597
Bicentennial Program Assistance (e)	1,986	8,949	3,928	...	...
National Maritime Museum	2,000	18,000	10,000	...	...
National Standard Sports Facilities	4,698	485	...	...	...
Total Recreation and Cultural Services	9,142	27,924	14,436	547	597
Economic Services					
Support for Steel Regions (e)	14,791	32,695	9,053	...	...
Land Transport Program (e)	253,300	255,050	243,600	134,895	...
Bicentennial Road Development (e)	141,194	140,000	164,900	82,254	...
Centennial Road Development (e)	...	...	...	170,051	436,553
Burbong Bridge Construction	100	294	...	...	...
Rural Adjustment Scheme (g)	2,520	...	...	...	...
Plant Genetic Resource Program	...	...	6	...	...
Irrigation and Other Water Projects	13	50	24	25	...
Salinity Reduction Control	2,100	2,266	1,576	1,300	1,550
Urban Water Supply and Treatment	575	632	1,844	1,586	1,540
Total Economic Services	414,593	430,987	421,003	390,111	439,643

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

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
	\$ thousands				
Other Purposes					
Natural Disaster Relief (f)	418	...	...	23,214	5,200
Total Specific Purpose Payments - Capital Purposes	833,097	893,488	895,386	838,698	1,003,725
Total Specific Purpose Payments	<u>2,820,727</u>	<u>2,951,406</u>	<u>3,125,601</u>	<u>3,729,887</u>	<u>4,182,442</u>
3. LOAN COUNCIL ALLOCATIONS					
General Purpose Capital Funds					
Loan Council Borrowings (g)(h)	325,344	250,379	114,447	86,336	...
Capital Grants	180,371	138,809	58,224	86,336	86,336
Total General Purpose Capital Funds	<u>505,715</u>	<u>389,188</u>	<u>172,671</u>	<u>172,671</u>	<u>86,336</u>
Semi-Government & Local Authorities					
Normal Borrowings	1,757,683)				
Other Financings (i)	301,381)	n.a.	n.a.	n.a.	n.a.
Total Semi-Government & Local Authorities Global Limit	<u>2,059,064</u>	<u>1,845,000</u>	<u>1,539,600</u>	<u>1,449,900</u>	<u>1,144,100</u>
Total Borrowings Under Loan Council Agreement	<u>2,564,779</u>	<u>2,234,188</u>	<u>1,712,271</u>	<u>1,622,571</u>	<u>1,230,436</u>
4. PAYMENTS TO OR FOR LOCAL GOVERNMENT					
<u>Payments through the State (j)</u>					
Local Government Financial Assistance					
	195,615	211,754	228,800	229,435	236,259
Social Welfare Services					
Home and Community Care Program	2,886	1,630	3,547	4,302	n.y.a.
Children's Services	1,471	297	598	726	n.y.a.
Supported Accommodation Assistance	73	..	89	44	n.y.a.
Family Support Services	831	...	68	119	n.y.a.
Housing and Community Services					
Local and Community Housing	3,533	3,883	1,649	1,399	n.y.a.
Recreation and Cultural Services					
National Estate	134	125	167	152	n.y.a.
Economic Services					
Community Employment Program	43,410	27,663	19,665	...	n.y.a.
Roads/Land Transport Program	73,500	71,332	68,861	81,125	84,300
Flood Mitigation	2,687	2,698	2,510	3,390	n.y.a.
Support for Steel Regions (k)	...	...	883	2,419	401
Australian Bicentenary	...	...	...	563	n.y.a.

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

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
	\$ thousands				
Other Purposes					
State Emergency Services	83	84	176	104	n.y.a.
Total Payments to or for Local Government through the State	324,222	319,465	327,013	323,778	320,960
5. REPAYMENT OF LOANS AND ADVANCES					
<u>Sinking Fund Payments on Loan Council Borrowings</u>	86,060	69,018	69,169	76,580	73,379
<u>Repayment of Commonwealth Government Advances</u>					
Housing and Community Services					
Loan Council Housing Nomination	593	934	1,703	2,333	2,856
Housing for Servicemen	467	495	524	556	589
Public Housing	15,919	16,557	17,221	17,913	18,641
War Service Land Settlement	229	238	247	256	265
Growth Centres	46	62	67	13,034	6,561
Urban Rehabilitation	80	65	...	191	...
Captains Flat Project	13	14	16	18	19
Total Housing and Community Services	17,347	18,365	19,778	34,301	28,931
Economic Services					
Sewerage	495	544	443	657	722
Railway Projects	1,616	1,616	1,616	1,616	1,616
Softwood Forestry	530	628	728	743	743
Bovine Brucellosis and TB Eradication	...	...	...	...	-12
Canned Fruit Industry	...	383	383	383	383
Dairy Adjustment Program	122	102	59	63	66
Rural Adjustment Scheme	1,062	1,272	1,489	1,772	2,204
Rural Reconstruction	2,691	2,859	3,029	3,217	3,413
Chowilla Reservoir	99	49	11	...	...
Dartmouth Dam	275	462	587	587	587
Blowering Reservoir	1,323	732	230	20	...
Other Mining Assistance	1,586	393	66	...	...
Total Economic Services	9,799	9,040	8,641	9,058	9,722
Other Purposes					
Natural Disaster Relief	7,532	7,350	7,071	6,967	7,000
Total Repayments of Commonwealth Government Advances	34,678	34,753	35,490	50,323	45,654
Total Sinking Fund Payments and Repayment of Advances	120,738	103,770	104,659	126,903	119,032

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

	1985-86	1986-87	1987-88	1988-89	1989-90 (est)
	\$ thousands				
6. INTEREST ON LOANS AND ADVANCES					
<u>Interest on Loan Council Borrowings</u>	<u>652,817</u>	<u>682,554</u>	<u>695,793</u>	<u>691,104</u>	<u>680667</u>
<u>Interest on Commonwealth Government Advances</u>					
Housing and Community Services					
Loan Council Housing Nomination	6,461	10,308	17,550	21,584	23,857
Housing for Servicemen	10,143	10,530	10,681	10,841	10,856
Housing	60,717	60,080	59,415	58,724	58,014
War Service Land Settlement	363	354	345	336	327
Growth Centres	6,360	307	301	294	287
Captains Flat Project	36	39	45	41	32
Total Housing and Community Services	<u>84,080</u>	<u>81,618</u>	<u>88,337</u>	<u>91,820</u>	<u>93,373</u>
Economic Services					
Sewerage	8,395	7,889	6,036	7,751	7,686
Railway Projects	3,195	2,958	2,729	2,485	2,249
Softwood Forestry	1,799	1,989	2,214	2,274	2,214
Canned Fruit Industry	...	40	40	40	41
Dairy Adjustment Program	48	52	48	45	41
Rural Adjustment Scheme	3,201	3,287	3,192	3,072	2,932
Rural Reconstruction	1,802	1,639	1,464	1,274	1,085
Chowilla Reservoir	7	2	...	...	...
Blowering Reservoir	100	38	8	1	...
Dartmouth Dam	825	797	750	694	638
Total Economic Services	<u>19,372</u>	<u>18,691</u>	<u>16,481</u>	<u>17,636</u>	<u>16,886</u>
Other Purposes					
Natural Disaster Relief	...	...	...	...	32
Total Interest on Commonwealth Government Advances	<u>103,453</u>	<u>100,311</u>	<u>104,819</u>	<u>109,455</u>	<u>110,289</u>
Total Interest on Loan Council Borrowings and Commonwealth Government Advances	<u>756,270</u>	<u>782,865</u>	<u>800,612</u>	<u>800,559</u>	<u>790,956</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) From 1985-86 the payments for home care services and senior citizens' centres have been subsumed within the Home and Community Care Program.
- (e) Includes amount for on-passing to Local Government. See section 4 of table.

- (f) Includes a repayable advance component (below). See also sections 5 and 6 for repayments and interest respectively.

\$ thousands

	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Natural Disaster Relief	-	-	-	805	1,000
Captains Flat Project	35	36	-	-	-

- (g) Payment is in the nature of a repayable advance. See sections 5 and 6 for repayments and interest respectively.
- (h) Includes the following amounts nominated for public housing purposes: 1985-86, \$65m; 1986-87, \$150.2m; 1987-88, \$114.4m and 1988-89, \$86.3m. Borrowings so nominated attracted the concessional interest rate specified within the Commonwealth/State Housing Agreement. See also sections 5 and 6 for repayments and interest respectively.
- (i) Since 1984-85, a global limit has applied to total borrowings including "Other Financings". (See footnote 1 of Table 1.2 for definition of "Other Financings".)
- (j) These payments are included in the Specific Purpose Payments sections above. In addition, certain Commonwealth payments are made direct to Local Government - see Chapter 6.
- (k) NSW Treasury estimate for 1988-89. Differs from the amount published in the 1989-90 Commonwealth Budget Paper No. 4 (\$2,312,000).
- (l) 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 1989-90" have been used to prepare this summarised version of the Financial Arrangements between the Commonwealth and New South Wales.

2 GENERAL REVENUE FUNDS

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

Financial Assistance Grants

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

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 (CPI), with an allowance for real growth or "betterment" in the latter two years.

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

The aggregate grant grew by the "betterment" factor in 1986-87. However, at the May 1987 Premiers' Conference 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.

The 1988 Premiers' Conference imposed further fiscal restraint on the States by cutting, in real terms, \$650 million from forward estimates for total general purpose funding. Further cuts were made at the 1989 Premiers' Conference and are detailed more fully in the preface to this Budget Paper.

Distribution of the Grant

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

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

The 1989 Update Report was released on 31 March 1989 (reported fully in Chapter 1).

1989-90 Financial Assistance Grants to the States

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL* STATES
Amount \$000	3,649,109*	2,690,052	2,415,328	1,485,748	1,390,135	497,058	651,955	12,779,385
State Share %	28.55	21.05	18.90	11.63	10.88	3.89	5.10	100.00
Per Capita \$	628.06	618.94	843.96	920.37	971.10	1,100.90	4,134.15	766.47
State Share of Population %	34.85	26.07	17.16	9.68	8.59	2.71	0.95	100.00

* New South Wales Treasury estimates that Financial Assistance Grants in 1989-90 will be \$3,666.1 million.

Identified Health Grants

In the years 1980-81 to 1987-88 the Commonwealth provided Identified Health Grants to the States, to be allocated according to the States' priorities. From 1988-89, Identified Health Grants were combined with Medicare compensation payments to form a new specific purpose payment called Hospital Funding Grants (See chapter 3). Further details concerning Identified Health Grants can be obtained from the 1988-89 Budget Paper Number 4.

Special Revenue Assistance

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

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

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 was \$15.1 million. New South Wales is expected to receive \$26,000 in 1989-90.

Arrangements Beyond 1989-90

The arrangements for general revenue funding in 1989-90 are described in the preface to this Budget Paper. No commitment was made by the Commonwealth to a procedure for determining the level of funds beyond 1989-90. The distribution of funds could be affected by the decision taken at Premiers' Conference to ask the Commonwealth Grants Commission to report on the appropriateness of updates of per capita relativities and the period of review to be used by the Commission in assessing per capita relativities.

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 the introduction to this Budget Paper.

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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	34,917	28,555	16,618	12,406	10,562	94	0	103,152
Per Capita \$	6.01	6.57	5.81	7.69	7.38	0.21		6.19
State Share %	33.9	27.7	16.1	12.0	10.2	0.1		100.0

The Commonwealth allocation to New South Wales for 1989-90 includes \$2,517,000 for grants to Community Legal Centres and \$3,253,000 million for the Child Support Program. This Program component is fully Commonwealth funded and provides 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 1989-90 is estimated at \$485,000.

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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	452	671	0	210	234	0	0	1,567
Per Capita \$	0.08	0.15		0.13	0.16			0.09
State Share %	28.8	42.8		13.4	14.9			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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	360	153	120	90	83	70	53	930
Per Capita \$	0.06	0.04	0.04	0.06	0.06	0.16	0.34	0.06
State Share %	38.7	16.5	12.9	9.7	8.9	7.5	5.7	100.0

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

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 \$48,055,000 has been allocated to New South Wales in 1988-89 for supplementation of recurrent expenditures and \$1,171,000 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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent & Capital:								
Amount \$000	49,226	43,733	22,604	12,872	11,460	3,469	1,030	144,394
Per Capita \$	8.47	10.06	7.90	7.97	8.01	7.68	6.53	8.66
State Share %	34.1	30.3	15.7	8.9	7.9	2.4	0.7	100.0

Higher Education

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

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	727,982	665,810	324,429	218,040	213,018	60,558	13,634	2,223,470
Per Capita \$	125.30	153.19	113.36	135.07	148.81	134.13	86.46	133.36
State Share %	32.7	29.9	14.6	9.8	9.6	2.7	0.6	100.0
Capital:								
Amount \$000	66,620	34,203	27,833	14,176	9,6570	1,705	0	154,193
Per Capita \$	11.47	7.870	9.739	8.787	6.759	3.78		9.25
State Share %	43.2	22.2	18.1	9.21	6.3	1.1		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. 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 loan allocations were reduced by amounts equivalent to the support of universities from their own funds.

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 reflected the Commonwealth's decision to introduce in 1987 an administration charge on student enrolments. This charge was set at \$262 in 1988. Universities collected the charge directly and consequently Commonwealth grants were reduced by 90 per cent of the estimated revenue involved. Effectively, universities could retain 10 per cent of the charge for their own purposes. From 1989, the administration charge was replaced by a Higher Education Contribution Scheme under which the Commonwealth collected payments from ex-students through the tax system. As a result, grants to universities will be increased to the equivalent of the administration fee.

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 \$11.1 million has been suggested by the Commonwealth as New South Wales' share of this contribution in 1989-90. The payments by each State to the Commonwealth in 1989-90 are presently set at the following levels:

	\$'000		\$'000
NSW	11,093	South Australia	3,301
Victoria	11,216	Tasmania	113
Queensland	0	Northern Territory	0
Western Australia	2,752	Total	28,475

Technical and Further Education

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

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	47,187	35,165	22,558	12,031	11,160	4,093	2,010	134,204
Per Capita \$	8.12	8.09	7.88	7.45	7.80	9.07	12.75	8.05
State Share %	35.2	26.2	16.8	9.0	8.3	3.0	1.5	100.0
Capital:								
Amount \$000	71,490	59,851	27,260	16,937	8,595	11,689	5,246	201,247
Per Capita \$	12.30	13.77	9.53	10.49	6.00	25.89	34.41	12.07
State Share %	35.5	29.7	13.5	8.4	4.3	5.8	2.7	100.0

Schools

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

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

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

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

Estimated Payments in 1989-90

Government Schools

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	266,236	184,765	117,842	67,650	61,103	20,368	9,456	727,419
Per Capita \$	45.82	42.51	41.18	41.91	42.68	45.11	59.96	43.63
State Share %	36.6	25.4	16.2	9.3	8.4	2.8	1.3	100.0
Capital:								
Amount \$000	62,697	46,079	33,426	19,074	16,807	5,477	5,288	188,847
Per Capita \$	10.79	10.60	11.68	11.82	11.74	12.13	33.53	11.33
State Share %	33.2	24.4	17.7	10.1	8.9	2.9	2.8	100.0

Non-government Schools

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	364,115	324,695	164,941	85,064	70,541	21,785	6,224	1,037,365
Per Capita \$	62.67	74.71	57.63	52.69	49.28	48.25	39.47	62.22
State Share %	35.1	31.3	15.9	8.2	6.8	2.1	0.6	100.0
Capital:								
Amount \$000	19,829	19,764	11,974	5,279	4,828	1,288	1,416	64,378
Per Capita \$	3.41	4.55	4.18	3.27	3.37	2.85	8.98	3.86
State Share %	30.8	30.7	18.6	8.2	7.5	2.0	2.2	100.0

Joint programs

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	11,328	9,625	6,441	4,146	3,406	1,111	963	37,019
Per Capita \$	1.95	2.21	2.25	2.57	2.38	2.46	6.11	2.22
State Share %	30.6	26.0	17.4	11.2	9.2	3.0	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.

National Policy on Languages

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

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

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,800	1,300	900	550	500	400	300	5,750
Per Capita \$	0.31	0.30	0.31	0.34	0.35	0.89	1.90	0.34
State Share %	31.3	22.6	15.7	9.60	8.72	7.0	5.2	100.0

HEALTH

Hospital Funding Grants

Under new hospital funding arrangements, introduced from 1 July 1988 and to apply for five years, specific purpose grants are made to the States replacing the identified health grants and the Medicare compensation payments. The grants will be indexed for award wages, CPI and age/sex weighted population growth. Penalties will be applied (estimated at \$37.5 million for all States) if public bed days and fee for service medicine provisions by medical practitioners are at variance with the national average.

Incentives payments are included in the 1989-90 grant for expansion of post acute and palliative care services and day only treatment (estimated at \$38.6 million for all States and \$13.5 million for New South Wales). These measures are designed to promote reduced length of stay in hospitals allowing more effective use of inpatient resources, increased throughput and reduced waiting times. Funds will also be provided for the development of cost based case mix systems on a national basis to allow more informed resource management in the hospital system and assist meaningful comparisons of hospital performance (estimated at \$3.5 million for all States and \$1.2 million for New South Wales).

The Commonwealth has continued to recognise its greater responsibility towards the treatment of AIDS patients in public hospitals by the inclusion of a separate component in the grant. The \$15 million provided in 1988-89 has been indexed to the actual growth in AIDS cases treated and in 1989-90 will increase to \$21.7 million. New South Wales' share is \$14.2 million.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,183,779	840,537	560,881	300,979	300,169	91,359	20,707	3,298,410
Per Capita \$	203.75	193.40	195.98	186.45	209.69	202.35	131.31	197.83
State Share %	35.9	25.5	17.0	9.1	9.1	2.8	0.6	100.0

Reduction of Public Hospital Waiting Lists

The Commonwealth began a two year program in July 1987 to assist the States in reducing public hospital waiting lists. Funds were provided on a dollar for dollar matching basis. The program was terminated at the end of 1988-89.

Transfer of Nurse Education

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

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	6,732	8,162	830	1,625	3,211	743	165	21,468
Per Capita \$	1.16	1.88	0.29	1.01	2.24	1.65	1.05	1.29
State Share %	31.4	38.0	3.9	7.6	15.0	3.5	0.8	100.0

Hospital Enhancement Program

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	17,237	12,863	8,321	4,681	4,252	1,346	469	49,169
Per Capita \$	2.97	2.96	2.91	2.95	2.97	2.98	2.97	2.95
State Share %	35.1	26.2	16.9	9.5	8.6	2.7	1.0	100.0

Transfer Pathology Laboratory

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	6,994	2,055	12,000	0	0	1,626	0	22,675
Per Capita	1.20	0.47	4.19			3.60		1.36
State Share %	30.8	9.1	52.9			7.2		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 \$30 million in 1989-90, \$18.5 million is for the States and Northern Territory. This includes a component for projects approved by the Ministerial Council on Drug Strategy.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	6,259	4,739	3,035	1,767	1,715	694	275	18,484
Per Capita \$	1.08	1.09	1.06	1.09	1.20	1.54	1.74	1.11
State Share %	33.9	25.6	16.4	9.6	9.3	3.8	1.5	100.0

Acquired Immune Deficiency Syndrome (AIDS)

Apart from the \$21.7 million provided in the Hospital Funding Grant for the treatment of AIDS afflicted persons, a further \$35.5 million will be provided by the Commonwealth in 1989-90 for AIDS. Of this total, \$18.3 million has been allocated on a cost sharing basis with the States for education, prevention and counselling. The remaining \$17.2 million is to be spent on a national program covering research, media and education campaigns, community projects and information exchange programs.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	6,984	4,302	2,162	1,965	1,485	687	679	18,264
Per Capita \$	1.20	0.99	0.76	1.22	1.04	1.52	4.31	1.10
State Share %	38.2	23.6	11.8	10.8	8.1	3.8	3.7	100.0

Women's Health Screening

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	395	409	425	224	338	0	88	1,878
Per Capita \$	0.07	0.09	0.15	0.14	0.24		0.56	0.11
State Share %	21.0	21.8	22.6	11.9	18.0		4.7	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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	4,559	6,257	2,654	2,168	1,823	563	237	18,260
Per Capita \$	0.78	1.44	0.93	1.34	1.27	1.25	1.50	1.10
State Share %	25.0	34.3	14.5	11.9	10.0	3.1	1.3	100.0
Capital:								
Amount \$000	372	328	466	321	383	452	34	2,356
Per Capita \$	0.06	0.08	0.16	0.20	0.27	1.00	0.22	0.14
State Share %	15.8	13.9	19.8	13.6	16.3	19.2	1.4	100.0

National Better Health

In April 1988, a report entitled "Health for All Australians" was presented to the second International Conference on Health Promotion in Adelaide. Following this conference, a national program to be shared with the States, the National Better Health Program, was developed during 1988-89. The Commonwealth has allocated \$2.5 million in 1989-90.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	860	640	420	230	210	80	80	2,520
Per Capita \$	0.15	0.15	0.15	0.14	0.15	0.18	0.51	0.15
State Share %	34.1	25.4	16.7	9.1	8.3	3.2	3.2	100.0

Youth Health Services

This program is yet to be developed and no information is available.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	315	235	150	80	85	25	15	905
Per Capita \$	0.05	0.05	0.05	0.05	0.06	0.06	0.10	0.05
State Share %	34.8	26.0	16.6	8.8	9.4	2.8	1.7	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 were continued as Health Program Grants.

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,180	2,951	730	8,036	14,115	0	0	27,012
Per Capita \$	0.20	0.68	0.26	4.98	9.86			1.62
State Share %	4.4	01.9	2.7	29.7	52.3			100.0

SOCIAL WELFARE SERVICES

Home and Community Care

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

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

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	82,666	75,313	24,542	24,733	17,844	5,364	1,066	231,528
Per Capita \$	14.23	17.33	8.58	15.32	12.47	11.88	6.76	13.89
State Share %	35.7	32.5	10.6	10.7	7.7	2.3	0.5	100.0
Capital:								
Amount \$000	3,656	1,887	2,344	1,118	1,014	281	135	10,435
Per Capita \$	0.63	0.43	0.82	0.69	0.71	0.62	0.86	0.63
State Share %	35.0	18.1	22.5	10.7	9.7	2.7	1.3	100.0

Geriatric Assessment Services

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	6,462	5,565	2,885	2,065	1,075	517	470	19,039
Per Capita \$	1.11	1.28	1.01	1.28	0.75	1.15	2.98	1.14
State Share %	33.9	29.2	15.2	10.8	5.6	2.7	2.5	100.0

Supported Accommodation Assistance

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

New South Wales was allocated an amount of \$2,000,000 as a provision for upgrading five Homeless Persons' Accommodation Services. A payment of \$1,000,000 was received in 1988-89 with a further \$1,000,000 expected in 1989-90.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	26,087	15,801	11,260	6,929	6,560	3,252	1,871	71,760
Per Capita \$	4.49	3.64	3.93	4.29	4.58	7.28	11.86	4.30
State Share %	36.4	22.0	15.7	9.70	9.1	4.5	2.6	100.0

Mortgage and Rent Relief

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

In 1989-90, the Commonwealth is providing an additional one off payment (with no matching requirements) of \$14,752,000 to the States and Northern Territory for mortgage interest relief. New South Wales' share of this payment is \$5,166,000.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	15,812	11,824	7,638	4,304	3,905	1,241	432	45,156
Per Capita \$	2.72	2.72	2.67	2.67	2.73	2.75	2.74	2.71
State Share %	35.0	26.2	16.9	9.5	8.6	2.7	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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	13,656	10,212	6,598	3,717	3,372	1,072	373	39,000
Per Capita \$	2.35	2.35	2.31	2.30	2.36	2.37	56.42	2.34
State Share %	35.0	26.2	16.9	9.5	8.6	2.7	1.0	100.0

Youth Accommodation

As part of the overall package of measures to assist homeless youth in the community, the Commonwealth has implemented a new Youth Housing program. The program is designed to provide medium term supported accommodation for homeless youth. 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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	3,444	2,575	1,664	937	850	270	94	9,834
Per Capita \$	0.59	0.59	0.58	0.58	0.59	0.60	1.99	0.59
State Share %	35.0	26.2	16.9	9.5	8.6	2.7	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 \$450,000 will be provided in 1989-90.

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 1989-90 will be used for the provision of an additional 9,810 child care places over the next three years.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,046	3,285	681	488	8,544	158	234	15,436
Per Capita \$	0.35	0.76	0.24	0.30	5.97	0.35	1.48	0.93
State Share %	13.3	21.3	4.4	3.2	55.4	1.0	1.5	100.0
Capital:								
Amount \$000	3,245	1,608	804	418	617	292	101	7,085
Per Capita \$	0.56	0.37	0.28	0.26	0.43	0.65	0.64	0.42
State Share %	44.8	22.7	11.3	5.9	8.7	4.1	1.4	100.0

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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	5,923	3,197	8,931	9,424	9,013	379	2,610	39,477
Per Capita \$	1.02	0.74	3.12	5.84	6.30	0.84	16.55	2.37
State Share %	15.0	8.1	22.6	23.9	22.8	1.0	6.6	100.0
Capital:								
Amount \$000	0	0	0	4,285	725	0	4,500	9,510
Per Capita \$				2.65	0.51		28.54	0.57
State Share %				45.1	7.6		47.3	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 Galbally Report on Post-Arrival Services for Migrants.

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	454	384	150	164	150	0	100	1,402
Per Capita \$	0.08	0.09	0.05	0.10	0.10		0.63	0.08
State Share %	32.4	27.4	10.7	11.7	10.7		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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	115	115	37	37	38	0	0	342
Per Capita \$	0.02	0.03	0.01	0.02	0.03			0.02
State Share %	33.6	33.6	10.8	10.8	11.1			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 persons since 1945-46.

Up to 1971-72 the funds were closely aligned with the State's Loan Council borrowing programs. In 1971-72 and 1972-73 they were integrated into that program. Since 1973-74 however, capital assistance has been in the form of specific purpose payments, 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.

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

The most recent Agreement, the 1984 Agreement, commenced on 1 July 1984 and was due to operate for ten years. At the May 1989 Premiers Conference the Commonwealth put forward revised financial arrangements for housing assistance and have now proposed the introduction of a new ten year Agreement to operate from 1 July 1989.

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

The proposed new Agreement is currently the subject of discussion between the Commonwealth and States.

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 1989-90 are as follows:

Estimated Payments in 1989-90

	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	0.39	0.66	0.70		0.33
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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	18,520	10,882	9,644	4,153	3,949	1,179	523	48,750
Per Capita \$	3.19	2.50	3.37	2.57	2.69	2.61	3.32	2.92
State Share %	38.0	22.3	19.8	8.5	7.9	2.4	1.1	100.0

Housing Assistance for Aborigines

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	17,777	3,638	25,228	15,862	8,341	696	19,458	91,000
Per Capita \$	3.06	0.84	8.82	9.83	5.83	1.54	123.39	5.46
State Share %	19.5	4.0	27.7	17.4	9.2	0.8	21.4	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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	8,404	6,284	4,060	2,288	2,075	660	229	24,000
Per Capita \$	1.45	1.45	1.42	1.42	1.45	1.46	1.45	1.44
State Share %	35.0	26.2	16.9	9.5	8.6	2.8	1.0	100.0

Other Housing Assistance

Apart from the assistance provided under the Agreement for the specific housing programs outlined above, Commonwealth assistance is also provided for public housing not tied to specific programs. The 1984 Agreement provided for at least 50 per cent of untied grants to be directed to public rental housing programs, with the remainder to be allocated to home purchase assistance programs. The proposed 1989 Agreement provides that the substantial portion of the untied assistance would be directed to public housing construction programs.

Unlike the funds tied to specific programs, the other housing assistance must be matched by the States on a \$ for \$ basis. The proposed new Agreement includes revised matching arrangements. From 1989-90 one half of the States' matching requirement can be met from the value of off-budget financed home purchase assistance programs. The remainder of the matching requirement is to be met by State grants which will be directed to public housing programs. The State grant component of matching is being phased in over a four year period. In 1988-89 the State is required to contribute \$61.2 million under the new arrangements.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	244,873	190,776	92,592	66,266	82,060	44,983	55,701	777,250
Per Capita \$	42.15	43.89	32.35	41.05	57.32	99.63	353.21	46.62
State Share %	31.5	24.5	11.9	8.5	10.6	5.8	7.2	100.0

Rental Housing Subsidy

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,250	0	0	0	0	0	0	2,250
Per Capita \$	0.39							0.13
State Share %	100.0							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) Act, 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.

No payments are to be made under this program in 1989-90.

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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	597	597	597	547	547	547	285	3,867
Per Capita \$	0.10	0.14	0.21	0.37	0.42	1.32	1.81	0.23
State Share %	15.4	15.4	15.4	15.4	15.4	15.4	7.4	100.0

Rainforest Conservation

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,230	95	1,646	179	0	350	200	3,700
Per Capita \$	0.21	0.02	0.58	0.11		0.78	1.27	0.22
State Share %	33.2	2.6	44.5	4.8		9.5	5.4	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, Aboriginals, 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 were administered by the Department of Industrial Relations and Employment. Disbursements were 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 were concluded in early 1989.

No payments will be made in 1989-90.

Public Sector Training for Aborigines

The Commonwealth will provide \$6,151,000 for training Aborigines for public sector employment. The emphasis is on training leading to permanent employment of Aborigines.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	6,151	686	2,506	3,631	2,251	191	128	15,543
Per Capita \$	1.06	0.16	0.88	2.25	1.57	0.42	0.81	0.93
State Share %	39.6	4.4	16.1	23.4	14.5	1.2	0.89	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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	20,000	0	5,000	900	0	100	0	26,000
Per Capita \$	3.44		1.75	0.56		0.22		1.56
State Share %	76.9		19.2	3.5		0.4		100.0

Transport

Interstate Road Transport

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	4,608	2,742	1,495	617	1,458	57	414	11,391
Per Capita \$	0.79	0.63	0.52	0.38	1.02	0.13	2.63	0.68
State Share %	40.5	24.1	13.1	5.4	12.8	0.5	3.6	100.0

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

Australian Land Transport Program

The Australian Land Transport (Financial Assistance) Act 1985 provided for assistance for a broader category of "land transport" during the five years commencing in 1985-86. Besides roads, this program provided scope for the funding of railway improvements and transport research.

This program has now been replaced, along with the Australian Bicentennial Road Development Program, by the Australian Centennial Road Development Program. Further details can be obtained in the 1988-89 Budget Paper Number 4.

Australian Bicentennial Road Development Program

The Australian Bicentennial Road Development (ABRD) program aimed to develop the Australian road system to a high standard by 1988, the Bicentenary Year. The program commenced in 1982-83 and operated until the end of 1988 when it was replaced, along with the Australian Land Transport Program, by the Australian Centennial Road Development Program. Further details can be obtained in the 1988-89 Budget Paper Number 4.

Australian Centennial Road Development Program

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

In addition to providing for funding of categories of roads included under the previous programs (national, urban arterial, rural arterial and local roads) 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 applied under previous arrangements, the new program will also permit States to utilise part of their national arterial road or State arterial road funds towards urban public transport or mainline railway projects.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	436,553	276,323	266,032	160,114	91,309	52,307	38,506	1,321,144
Per Capita \$	75.14	63.58	92.96	99.18	63.79	115.85	244.17	79.24
State Share %	33.0	20.9	20.1	12.1	6.9	4.0	2.9	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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent & Capital:								
Amount \$000	26	0	98	0	20	360	226	730
Per Capita \$	0.00		0.03		0.01	0.80	1.43	0.04
State Share %	3.6		13.4		2.7	49.3	31.0	100.0

Industry Assistance and Development

National Industry Extension Service

The National Industry Extension Service, a joint Commonwealth/State venture, is aimed at helping enterprises improve levels of business efficiency and international competitiveness. The Scheme was launched on 1 July 1986 and it is designed to facilitate access to information and advice on these matters from both Government and private sector organisations. The Commonwealth is providing recurrent grants to the States in 1989-90 towards the costs of the Scheme.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,991	2,653	1,127	740	779	294	94	8,679
Per Capita \$	0.51	0.61	0.39	0.46	0.54	0.65	0.60	0.52
State Share %	34.5	30.6	13.0	8.5	9.0	3.4	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 matched equally by the State.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	408	576	838	342	122	171	14	2,471
Per Capita \$	0.07	0.13	0.29	0.21	0.09	0.38	0.09	0.15
State Share %	16.5	23.3	33.9	13.8	4.9	6.9	0.6	100.0

Coal Rail Freight

Assistance to the coal industry totalling \$40 million, in the form of reduced State Rail Authority freight charges, was to be funded jointly by the Commonwealth and State Governments during the 1988 calendar year. Costs were to be shared on a \$ for \$ basis. The balance of the Commonwealth contribution (\$10 million) will be received in 1989-90.

Rural Adjustment Scheme

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

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

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	17,093	11,843	8,453	6,933	7,975	1,307	996	54,600
Per Capita \$	2.94	2.72	2.95	4.29	5.57	2.89	6.32	3.27
State Share %	31.3	21.7	15.5	12.7	14.6	2.4	1.8	100.0

Fertiliser Assistance

From January 1986 the Commonwealth provided the States with recurrent grants towards the cost of assistance given to users of fertilisers subject to dumping duties. The assistance was 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.

No payments will be made in 1989-90.

Exotic Diseases Eradication

New South Wales first received a payment in 1984-85 as part of an exotic diseases preparedness program. In 1989-90 the State will receive funds on a dollar for dollar cost sharing basis for feral animal control.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	18	0	43	28	8	30	58	185
Per Capita \$	0.00		0.02	0.02	0.01	0.07	0.37	0.01
State Share %	9.7		23.2	15.1	4.3	16.2	31.4	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.

No payments for capital purposes will be made in 1989-90.

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,139	1,298	12,616	3,231	1,254	70	10,907	30,514
Per Capita \$	0.20	0.30	4.41	2.00	0.88	0.16	69.16	1.83
State Share %	3.7	4.3	41.3	10.6	4.1	0.2	35.7	100.0

Sugar Industry

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

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	167	0	2,874	0	0	0	0	3,041
Per Capita \$	0.03		1.00					0.18
State Share %	5.57		94.5					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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	3,762	2,954	2,558	3,911	1,799	693	825	16,500
Per Capita \$	0.65	0.68	0.89	2.42	1.26	1.53	5.23	0.99
State Share %	22.8	17.9	15.5	23.7	10.9	4.2	5.0	100.0

Federal Water Resources Assistance Program

During the years 1978-79 to 1983-84 Commonwealth assistance to the States for water related purposes was provided under the National Water Resources Program. In 1984-85 that program was replaced with the Federal Water Resources Assistance Program (FWRAP) which combined all previous Commonwealth programs of assistance for water resource development. Relevant programs, for which payments have been made during 1989-90, 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. \$1,550,000 is expected in 1989-90.

Urban Water Supply and Treatment

Water Conservation and Efficiency

The payment under this program is expected to be \$70,000 in 1989-90.

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 is expected to receive \$1,540,000 in 1989-90.

Urban Flood Mitigation

The Commonwealth first provided assistance by way of capital grants for approved flood mitigation works and study programs in 1964-65. Such activities continue to be eligible for assistance under the FWRAP. An amount of \$3,900,000 is expected in 1989-90.

The following table summarises estimated payments to the States under the FWRAP in 1989-90. Amounts are as published in the Commonwealth Budget.

Estimated Payments in 1989-90

Irrigation and Other Water Projects

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	50	469	0	0	251	0	0	770
Per Capita \$	0.01	0.11			0.18			0.05
State Share %	6.5	60.9			32.6			100.0

Capital:								
Amount \$000	0	0	16,871	0	75	0	0	16,946
Per Capita \$			5.90		0.05			1.02
State Share %			99.6		0.4			100.0

Salinity Reduction Control

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Capital:								
Amount \$000	1,550	1,591	0	9,250	583	0	0	12,974
Per Capita \$	0.27	0.37		5.73	0.41			0.78
State Share %	11.9	12.3		71.3	4.5			100.0

Urban Water Supply and Treatment

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	70	200	0	0	200	0	0	470
Per Capita \$	0.01	0.05			0.14			0.03
State Share %	14.9	44.6			42.6			100.0

Capital:								
Amount \$000	1,540	790	1,320	520	5,700	258	322	10,450
Per Capita \$	0.27	0.18	0.46	0.32	3.98	0.57	2.04	0.63
State Share %	14.7	7.6	12.6	5.0	54.5	2.5	3.1	100.0

Urban Flood Mitigation

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	0	0	0	0	0	0	81	81
Per Capita \$							0.51	0.00
State Share %							100.0	100.0

Capital:								
Amount \$000	3,900	1,400	951	400	0	1,100	5	7,756
Per Capita \$	0.67	0.32	0.33	0.25		2.44	0.00	0.47
State Share %	50.3	18.1	12.3	5.2		14.2	0.1	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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	2,566	2,466	42	489	292	2,144	108	8,106
Per Capita \$	0.44	0.57	0.01	0.30	0.20	4.75	0.68	0.49
State Share %	31.7	30.4	0.5	6.0	3.6	26.4	1.3	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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	16,650	12,640	6,830	4,345	5,070	3,465	1,620	50,620
Per Capita \$	2.87	2.91	2.39	2.69	3.54	7.67	10.27	3.04
State Share %	32.9	25.0	13.5	8.6	10.0	6.8	3.2	100.0

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

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 \$307,000 in 1989-90).

Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	931	602	671	548	465	241	185	3,643
Per Capita \$	0.16	0.14	0.23	0.34	0.32	0.53	1.17	0.22
State Share %	25.6	16.5	18.4	15.0	12.8	6.6	5.1	100.0

Accounting Treatment: The salaries reimbursement component (estimated at \$619,000 in 1989-90) will be credited to the "State Emergency Services" Account and subsequently transferred to the Consolidated Fund. The Accommodation Subsidy (estimated at \$140,000 for 1989-90) 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 1989-90 is \$32.75 million.

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

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

While, in general, the State is required to meet all expenditures below the base amount (ie. \$32.75 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 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	1,000	20	1,300	136	0	0	300	2,756
Per Capita \$	0.17	0.00	0.45	0.08			1.90	0.17
State Share %	36.3	0.7	47.2	4.9			10.9	100.0
Capital:								
Amount \$000	5,200	0	6,036	0	0	200	808	12,244
Per Capita \$	0.89		2.11			0.44	5.12	0.73
State Share %	42.5		49.3			1.6	6.6	100.0

4 LOAN COUNCIL DETERMINATIONS

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

General Purpose Capital Funds

In May 1989 Loan Council determined that the general purpose capital allocation to the States in 1989-90 would be \$310.5 million, paid as grants and following the same distribution as in 1988-89. This represents a 50 per cent reduction on 1988-89 general purpose funding and reflects Loan Council's decision to change the structure of funding arrangements from those that operated in previous years.

Since 1970-71 general purpose capital funds have comprised of a grants and loans component. In 1988-89 the Commonwealth increased the grant component from 33.3 per cent to 50 per cent. As well, since 1982-83, the States and Northern Territory have been able to nominate part of the loan component for public housing. Such nominated funds were on concessional terms (4.5 per cent interest repayable over 53 years) as opposed to market rates. From 1987-88 the States were able to nominate 100 per cent of the loan component for housing at a concessional rate of interest.

For 1989-90 Loan Council decided that the \$310.5 million loan nomination in the 1988-89 General Purpose Capital allocation would be converted to grants under the Commonwealth State Housing Agreement (CSHA). The States have not as yet agreed to the new arrangements. Further details are given in Chapter 3.

Table 4.1
General Purpose Capital Funds
Estimated payments in 1989-90

		NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Amount	\$000	86,336	71,477	18,725	22,877	39,585	27,658	43,848	310,504
Per Capita		14.86	16.45	6.542	14.17	27.65	61.26	278.05	18.62
State Share %		27.8	23.0	6.0	7.4	12.7	8.9	14.1	100.0

Semi-Government and Local Authority Borrowings

GLOBAL BORROWING LIMIT ARRANGEMENTS (1984-85 AND THEREAFTER)

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

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

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

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

Included within the global limit are:

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

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

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

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

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

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

Overseas Borrowings

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

Global Borrowing Limits for 1989-90

For the States and the Northern Territory in total in 1989-90 a global limit of \$3,831.1 million applies to the borrowings of semi-government and local authorities. This represents a reduction of \$1,176.1 million or 23.5 per cent on the 1988-89 global limits. New South Wales supported such a large reduction in borrowings in order to help reduce interest rates.

In the case of New South Wales, the limit in 1989-90 is \$1,144.1 million which represents a 21.1 per cent decrease on the State's global borrowing limit in 1988-89.

Table 4.2
Global Borrowing Limits
Estimated payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Basic Program	1,144,100	1,173,600	625,600	361,200	223,500	134,900	81,000	3,743,900
Special Addition				87,200				
Total	1,144,100	1,173,600	625,600	448,400	223,500	134,900	81,000	3,831,100
Per Capita	196.92	270.03	218.60	277.77	156.13	298.78	513.63	229.7
8								
State Share %	29.9	30.6	16.3	11.7	5.8	3.5	2.1	100.
0								
State Share of population	34.9	26.1	17.2	9.7	8.6	2.7	1.0	100.
0								

As indicated above, within the overall global limit a ceiling is set on the amount of new money overseas borrowings. (Existing overseas loans can be refinanced before or at maturity outside of this ceiling.) For 1989-90, as in the previous four 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 \$825.0 million in 1989-90 of which New South Wales' share is \$251.7 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

FINANCIAL ASSISTANCE GRANTS

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

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

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

In both years the first approach yielded the highest increase.

- . the aggregate grant to local government authorities in 1988-89 and thereafter to be determined by applying the same percentage increase in general purpose assistance received by the States to the local government financial assistance grant of the previous year. However the changed arrangements in respect of health funding for the States in 1988-89 mean that general purpose assistance as defined in the Act had declined sharply. An amendment to the Act was made on an interim basis to enable the level of funding in 1988-89 to be increased by 2.5 per cent, roughly equal to the increase in general purpose assistance to the States and the Northern Territory as defined in 1987-88. Funding in 1989-90 has increased at a slightly higher rate than comparable Commonwealth general purpose assistance to the States.

- . a new distribution of the aggregate grant among the States with an equal per capita distribution being phased in by 1989-90. Some members of the 1989 Premiers' Conference consider that it was agreed to review distribution arrangements beyond 1989-90. Such a review would be carried out by the Commonwealth Grants Commission. New South Wales did not agree to a review at Premiers' Conference and is strongly opposed to a Grants Commission review going ahead, especially in light of the fact that the current equal per capita distribution was only decided upon by all State Local Government Ministers in 1985.
- . each State to distribute its aggregate grant among its local government authorities in accord with the objective of horizontal fiscal equalisation (as defined in the Act) by 1 July 1991 at the latest.
- . no local authority to receive an amount in any year less than the amount it would receive if 30 per cent of the State's grant were allocated on an equal per capita basis.

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

Local Government will benefit from the Commonwealth's decision in April 1989 not to recoup 90 per cent of the additional revenue that would flow to local government following the removal, from 1 July 1989, of the exemption Telecom and Australia Post received from local government rates and charges. It is estimated this will add \$28 million to Financial Assistance Grants to local government in Australia in 1989-90.

Table 5.1
Financial Assistance Grants to Local Government
Estimated Payments in 1989-90

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL STATES
Recurrent:								
Amount \$000	236,259	176,633	114,569	64,585	58,283	18,497	6,441	675,266
Per Capita \$	40.66	40.64	40.03	40.01	40.71	40.97	40.84	40.50
State Share %	35.0	26.2	17.0	9.6	8.6	2.7	1.0	100.0
State Share of population	34.9	26.1	17.2	9.7	8.6	2.7	1.0	100.0

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

Specific Purpose Payments

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

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

The indirect payments are described in detail in Chapter 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 have now been 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 are no longer recorded as payments to local government.

Aged or Disabled Persons' Homes and Hostels

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

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

New South Wales local government bodies are estimated to receive \$3,631,000 in 1989-90. Of this total \$1,501,000 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 1989-90 local government bodies in New South Wales are expected to receive \$200,000 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 \$27,321,000 in 1989-90 of which \$26,845,000 is towards recurrent expenditures.

Aboriginal Advancement

Local government authorities may receive direct payments under the employment programs of the Department of Aboriginal Affairs. Part of the payment may be aimed at providing work experience and training for Aborigines in labour intensive employment projects. In addition the Commonwealth provides assistance for the training of Aborigines in the public sector. Local government authorities in New South Wales will receive no payment under these programs in 1989-90.

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 1989-90 is estimated at \$45,000.

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 1989-90 is \$2,716,000 of which \$467,000 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 \$542,000.

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 1989-90 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 \$4,302,000 was passed on to local government authorities in 1988-89.

Children's Services

In 1988-89 a Commonwealth payment of \$726,000 was passed through the State to local government authorities.

Supported Accommodation Assistance

An amount of \$44,000 was passed through the State to local government authorities in 1988-89.

Family Support Services

No payment has been made to New South Wales since 1987-88, however an amount of \$119,000 was passed on to local government authorities in 1988-89. No payments are expected to be passed on to local government in 1989-90.

Local Government and Community Housing

Local government authorities are among those organisations qualifying for funds under this Program which commenced in 1984-85. The payment is in respect of dwellings wholly or jointly owned by the State but managed by local government authorities. The State passed on an amount of \$1,399,000 in 1988-89.

National Estate

Part of the Commonwealth payment is passed on to local government authorities in respect of projects undertaken by them. In 1988-89 \$152,000 was passed on by the State.

Support for Steel Regions

No payment has been made to New South Wales since 1987-88, however an estimated amount of \$2,419,000 was passed on to local government authorities in 1988-89. An amount of \$401,000 is expected to be passed on to local government in 1989-90. The program is expected to conclude in 1989-90.

Australian Centennial Road Development Program

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

The amount allocated by the Commonwealth for expenditure on urban and rural local roads is distributed to local government authorities in accordance with a program compiled by the State. Payments made in 1988-89 totalled \$81,125,000 while the amount for the current year is expected to be \$84,300,000.

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. The funding provided by the Commonwealth is required to be matched by the State and Local Government on a \$2 Commonwealth : \$2 State : \$1 Council basis. Of the Commonwealth contribution provided in 1988-89, some \$3,390,000 was for projects being undertaken by councils.

State Emergency Services

Some of the payment received by the State is passed on to local government authorities which provide depots for emergency service units. An amount of \$104,000 was passed on by New South Wales in 1988-89.

Australian Bicentenary Program

No payment has been made to New South Wales since 1987-88, however an amount of \$563,000 was passed on to local government authorities in 1988-89. No payments are expected to be passed on to local government in 1989-90.

Local Government Authority Borrowings

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

As outlined in Chapter 4, the Gentlemen's Agreement was terminated and replaced with the global borrowing arrangements which have governed the borrowings of semi and local government authorities since 1984-85. These arrangements provide an on-going framework for Loan Council oversight.

The aggregate borrowings of local government authorities are subject to the global limit. Within that limit, a borrowing allocation of \$178.6 million will be provided in 1989-90 for general purpose councils in New South Wales (that is excluding County Councils).

Further details are provided in Chapter 5 of this document.

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

APPENDIX: HISTORY OF FEDERAL/STATE FINANCIAL RELATIONS

A Brief History

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

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

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

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

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

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

Commonwealth Grants Commission

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

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

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

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

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

1 General Revenue Funds

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

TAX REIMBURSEMENT GRANTS

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

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

Financial Assistance Grants to the States (a)

	NSW	VIC	QLD	WA	SA	TAS	NT	ALL* STATES
1942-43								
Amount \$000	30,952	13,594	11,642	6,840	6,468	2,980		72,476
State Share %	42.71	18.76	16.06	9.44	8.92	4.11		100.00
Per Capita \$	10.88	6.92	11.19	14.34	10.59	12.33		10.09
State Share of Population %	39.63	27.37	14.49	6.64	8.51	3.37		100.00
1959-60								
Amount \$000	166,900	121,250	72,750	57,924	58,202	28,626		505,652
State Share %	33.01	23.98	14.39	11.46	11.51	5.66		100.00
Per Capita \$	43.96	43.00	49.22	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
1989-90 (est)(d)(e)								
Amount \$000	3,649,109	2,690,052	2,415,328	1,485,748	1,390,135	497,058	651,955	12,779,385
State Share %	28.55	21.05	18.90	11.63	10.88	3.89	5.10	100.00
Per Capita \$	628.06	618.94	843.96	920.37	971.10	1,100.90	4,134.15	766.47
State Share of Population %	34.85	26.07	17.16	9.68	8.59	2.71	0.95	100.00

* All States refers to the six States and the Northern Territory in 1989-90.

- (a) As defined in 1989-90. Equivalent figures are shown for earlier years (including Special Grants recommended by the Commonwealth Grants Commission).
- (b) The amount represents the Tax Share Entitlement not the actual payment. In fact, the States were overpaid in 1976-77 and adjustments were consequently made to 1977-78 grants.
- (c) Excludes special revenue assistance. Tasmania and South Australia received a payment of \$43.0m and \$34.2m respectively under "phasing in" arrangements on account of the introduction of new relativities. In addition, Queensland received a payment of \$10m as compensation for changed arrangements concerning medicare.
- (d) Grant is net of "other taxes and charges" reimbursement from States to Commonwealth on account of extension of States' tax base to Commonwealth public trading enterprises. Also excludes special revenue assistance to the Northern Territory of \$45.3 million on account of the introduction of new relativities.
- (e) The Northern Territory was brought into the arrangements for distribution of financial assistance grants from 1988-89.

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

Phase 1 - Tax Reimbursement Grants

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

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

Phase 2 - Financial Assistance Grants

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

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

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

The previous downward trend in New South Wales' share of the total Financial Assistance and Special Grants continued during this phase, with its share falling from 33.0 per cent in 1959-60 to 30.4 per cent in 1975-76.

Phase 3 - Tax Share Entitlements/Tax Sharing Grants

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

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

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

Phase 4 - Financial Assistance Grants

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

2. Specific Purpose Payments

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

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

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

Since 1981-82, the relative share of Commonwealth payments paid as specific purpose payments has increased slowly (if Identified Health Grants are treated as specific purpose payments). This is due to the increased provision of funds for social welfare, housing, roads and hospitals (Medicare). In 1984-85 specific purpose payments represented 46 per cent of total Commonwealth payments to the States, only slightly below the peak of 1975-76.

3. Loan Council Determinations

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

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

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

SEMI-GOVERNMENT AND LOCAL AUTHORITY BORROWINGS

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

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

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

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

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

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

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

Global Borrowing Limit Arrangements (1984-85 and thereafter)

Under the Gentlemen's Agreement the controls envisaged over the borrowings by semi-government and local government bodies were being eroded with the increasing use of unconventional financing. In response, the Commonwealth introduced the Global Approach in 1984. Further details on the Global Approach are provided in Chapter 4.

4. Local Government General Purpose Payments

Grants Recommended by the Grants Commission

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

Personal Income Tax Sharing Grants

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

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

Financial Assistance Grants

Since 1986-87 local government has received general purpose Financial Assistance Grants under the Local Government (Financial Assistance) Act 1986. Further details are provided in Chapter 5.

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