

14B. GENERAL PURPOSE INTER-GOVERNMENT TRANSACTIONS

NATURE OF OUTLAYS

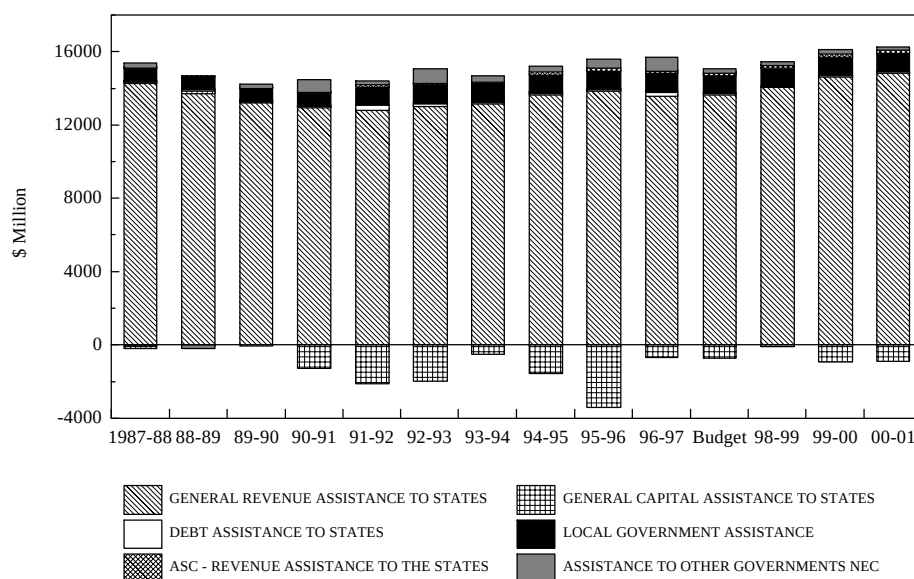
This function covers grants and advances to States and local government authorities which are not classifiable to other functions. General purpose assistance to the States comprises untied assistance that State governments can spend according to their own budgetary priorities. This assistance is predominantly determined at the annual Premiers' Conference.

As local government is a constitutional responsibility of State governments, general purpose assistance for local government is classified by the Commonwealth as a specific purpose payment through State governments. Most specific purpose assistance to the States is classified elsewhere in *Statement 4* under the relevant function. Detailed information is provided in *Budget Paper No. 3*.

This function includes outlays of the following portfolios:

- Treasury;
- Environment, Sport and Territories;
- Primary Industries and Energy;
- Transport and Regional Development; and
- Finance.

**Chart 1. Overview of Commonwealth Outlays on
General Purpose Inter-Government Transactions
(1989-90 Prices)**



TRENDS IN GENERAL PURPOSE INTER-GOVERNMENT TRANSACTIONS OUTLAYS

At the March 1994 Premiers' Conference, it was agreed that Financial Assistance Grants (FAGs) to the States would be maintained in real per capita terms over the next three years. At the 1995 Council of Australian Governments (COAG) meeting, the Commonwealth agreed, as part of the Agreement to Implement the National Competition Policy (NCP) and Related Reforms, to maintain the real per capita guarantee of the FAGs pool on a rolling three year basis, and to provide three tranches of general purpose payments in the form of a series of Competition Payments commencing in 1997-98. The Commonwealth has subsequently extended the real per capita indexation arrangements for FAGs until the end of 1999-2000, conditional upon the States meeting their obligations under the Agreement to Implement the NCP and Related Reforms.

The 1996 Premiers' Conference decided that the States would make State Fiscal Contribution payments to the Commonwealth in the three years to 1998-99 to assist the Commonwealth's deficit reduction programme. The 1997 Premiers' Conference agreed on payments of \$627 million in 1997-98 and \$313 million in 1998-99. These payments reflect the decision to partially defer scheduled payments from the Australian Capital Territory (ACT) and Tasmania from 1997-98 to 1998-99. The methods of payment include nominated reductions in specific purpose payments, direct payments, or reductions in FAGs.

1997-98 AND FORWARD ESTIMATES

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
14B.1 General Revenue Assistance to the States	\$m	15822.3	16203.4	17066.7	18237.7	18897.5
	%		2.4	5.3	6.9	3.6
14B.2 General Purpose Capital Assistance to the States	\$m	-747.8	-768.0	-80.0	-1135.9	-993.5
	%		2.7	-89.6	na	-12.5
14B.3 Debt Assistance to the States	\$m	233.0	72.7	36.4	91.0	84.3
	%		-68.8	-49.9	150.0	-7.4
14B.4 General Purpose Assistance for Local Government through the States	\$m	1216.4	1205.2	1257.9	1304.2	1351.8
	%		-0.9	4.4	3.7	3.6
14B.5 Australian Securities Commission - Revenue Assistance to the States	\$m	130.3	134.4	138.5	142.8	147.3
	%		3.1	3.1	3.1	3.2
14B.6 Assistance to Other Governments, nec	\$m	785.6	205.1	199.4	207.7	216.1
	%		-73.9	-2.8	4.2	4.0
TOTAL	\$m	17439.8	17052.7	18618.9	18847.5	19703.5
	%		-2.2	9.2	1.2	4.5

14B.1 GENERAL REVENUE ASSISTANCE TO THE STATES

		1996-97	1997-98	1998-99	1999-00	2000-01
		Estimate	Budget	Estimate	Estimate	Estimate
Financial Assistance Grants (a)	\$m	14959.0	15517.5	16817.5	17761.3	18409.3
	%		3.7	8.4	5.6	3.6
Identified Road Grants to the States (b)	\$m	383.4	-	-	-	-
	%		-100.0	na	na	na
Special Revenue Assistance	\$m	479.9	470.8	28.8	24.4	25.0
	%		-1.9	-93.9	-15.3	2.5
Competition Payments	\$m	-	215.1	220.5	452.0	463.3
	%		na	2.5	105.0	2.5
TOTAL	\$m	15822.3	16203.4	17066.7	18237.7	18897.5
	%		2.4	5.3	6.9	3.6

(a) In the absence of State Fiscal Contributions, Financial Assistance Grants would be \$15,435.6m in 1996-97, \$16,144.0m in 1997-98 and \$17,131.0m in 1998-99.

(b) The notional amounts of road grants that are incorporated in the forward estimates of FAGs and distributed among the States on the same basis as FAGs are \$391.0m in 1997-98, \$405.5m in 1998-99, \$420.5m in 1999-00 and \$435.8m in 2000-01.

This subfunction covers general revenue assistance which is not required to be spent by the States in a specific area. It comprises Financial Assistance Grants (FAGs), Identified Road Grants (IRGs), Special Revenue Assistance (SRA) and Competition Payments.

Financial Assistance Grants

The 1997-98 Budget and the forward estimates reflect the decisions of the 1997 Premiers' Conference and previous conferences to maintain the level of FAGs in real per capita terms on a three year rolling basis.

The States have agreed to make State Fiscal Contributions to the Commonwealth's deficit reduction programme in 1997-98. The need for the contribution of \$313 million in 1998-99 will be reviewed at the 1998 Premiers' Conference in light of developments in the Commonwealth's fiscal position.

Identified Road Grants to the States

From 1997-98, all Identified Road Grants will be included in the FAGs pool and distributed on the same basis as FAGs, as agreed at the 1996 Premiers' Conference (see footnote (b) to Table 14B.1).

Special Revenue Assistance

The majority of Special Revenue Assistance (SRA) in 1997-98 consists of Medicare guarantee payments to New South Wales and Victoria. In line with the agreed arrangements, the Commonwealth funds part of these payments directly, with the remainder being funded from the FAGs pool. These payments extend until the end of 1997-98, when the five year Medicare Agreements with the States expire.

In 1997-98, the ACT will continue to receive SRA in the form of a transitional allowance and an allowance for special fiscal needs. The 1997 Premiers' Conference agreed to additional SRA to the ACT of \$10 million in 1997-98 and \$5 million in 1998-99, in the form of transitional allowances for education and health. The payments to the ACT are provided directly from the Commonwealth and not funded from the FAGs pool.

Competition Payments

Under the 1995 Agreement to Implement the NCP and Related Reforms, the Commonwealth agreed to provide three tranches of general purpose Competition Payments to the States from 1997-98, conditional upon them meeting their obligations under the Agreement. Actual payments in 1997-98 will be determined after the National Competition Council reports in June 1997. The increase from 1999-2000 reflects the second tranche of an additional \$200 million in 1994-95 prices. Payments are indexed to the Consumer Price Index (CPI) and distributed to the States on a per capita basis.

14B.2 GENERAL PURPOSE CAPITAL ASSISTANCE TO THE STATES

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
Capital Grants	\$m	52.6	-	-	-	-
	%		-100.0	na	na	na
Sinking Fund Receipts	\$m	-57.4	-49.1	-38.0	-37.2	-24.3
	%		-14.5	-22.6	-2.1	-34.7
Accelerated Sinking Fund Receipts	\$m	-743.0	-719.0	-42.0	-1098.7	-969.2
	%		-3.2	-94.2	na	-11.8
TOTAL	\$m	-747.8	-768.0	-80.0	-1135.9	-993.5
	%		2.7	-89.6	na	-12.5

Capital Grants

The Commonwealth has terminated regional development programmes to eliminate duplication with State and local governments in this area. In 1996-97, remaining general purpose capital grants consisted solely of outlays for contractual commitments existing at that time under the Better Cities Programmes. Residual administrative costs and other payments made under the programmes are included in *7. Housing and Community Amenities*.

Sinking Fund Receipts

The *Financial Agreement Act 1994* requires each of the States and the Northern Territory (NT) to pay minimum contributions each year into a sinking fund, administered on their behalf by the Commonwealth. These contributions are based on their outstanding levels of Commonwealth Government Securities (CGS) at 30 June of the previous year. In addition, the States and NT are required to make accelerated sinking fund contributions each year, as necessary, to supplement their fund balances to enable the redemption of their maturing CGS in that year.

14B.3 DEBT ASSISTANCE TO THE STATES

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
Commonwealth Sinking Fund	\$m	12.6	10.4	8.3	8.1	4.9
	%		-17.5	-20.2	-2.4	-39.5
Assistance for Debt Redemption	\$m	220.4	62.3	28.1	82.9	79.4
	%		-71.7	-54.9	195.0	-4.2
TOTAL	\$m	233.0	72.7	36.4	91.0	84.3
	%		-68.8	-49.9	150.0	-7.4

The *Financial Agreement Act 1994* requires the Commonwealth to pay contributions into the State and NT accounts of the sinking fund, administered by the Commonwealth on their behalf. These contributions are based on their outstanding levels of CGS at 30 June of the previous year.

The *Financial Agreement Act 1994* also provides for the Commonwealth to compensate the States and NT for the additional interest costs of replacing maturing CGS with borrowings in their own names, or through their Authorities, rather than by new CGS (which ceased to be issued on their behalf in 1989-90). In addition, assistance for debt redemption compensates the States for the lower Commonwealth sinking fund contributions which have resulted from the post-1989-90 arrangements. Similar assistance is provided in respect of CGS nominally allocated to the ACT. The variability in the estimates reflects the debt maturity profiles over the forward years.

14B.4 GENERAL PURPOSE ASSISTANCE FOR LOCAL GOVERNMENT THROUGH THE STATES

		1996-97	1997-98	1998-99	1999-00	2000-01
		Estimate	Budget	Estimate	Estimate	Estimate
Financial Assistance Grants	\$m	842.6	834.8	871.3	903.3	936.3
	%		-0.9	4.4	3.7	3.7
Identified Local Road Grants	\$m	373.9	370.4	386.6	400.8	415.5
	%		-0.9	4.4	3.7	3.7
TOTAL	\$m	1216.4	1205.2	1257.9	1304.2	1351.8
	%		-0.9	4.4	3.7	3.6

General purpose assistance is provided to local government authorities under the *Local Government (Financial Assistance) Act 1995*. The Act provides for local government financial assistance grants (FAGs) and local government road funds to be increased each year by an escalation factor which is determined by the Treasurer in light of the underlying movement in general purpose payments to the States. This assistance is paid to the States as a specific purpose payment on the condition that the funds are passed on to local government. The decline in outlays in the Budget year results from a Budget measure which is described in Part I of *Budget Paper No. 2*.

Local government FAGs are distributed on an equal per capita basis, whereas untied local government road funding is distributed between the States on the basis of criteria established under the *Australian Land Transport Development Act 1988*. In both cases, the intrastate distribution of these payments to local governments is determined by the State Grants Commissions on the basis of fiscal equalisation.

14B.5 AUSTRALIAN SECURITIES COMMISSION - REVENUE ASSISTANCE TO THE STATES

Following the establishment, on 1 January 1991, of a national scheme of companies, securities and futures regulation administered by the Australian Securities Commission, the Commonwealth compensates the six States and NT through a specific purpose payment for the loss of a State revenue base.

14B.6 ASSISTANCE TO OTHER GOVERNMENTS, NEC

This subfunction consists of assistance to other levels of Government that is not elsewhere classified. This assistance includes:

- payment by the Commonwealth to Western Australia of a portion of Commonwealth royalties obtained from the North West Shelf project, under the provisions of the *Petroleum (Submerged Land) Act 1967*;
- a grant from the Commonwealth to the Northern Territory in lieu of royalties on uranium mining due to the Commonwealth's ownership of uranium in the Northern Territory. The grant is payable at the royalty rate of 1.25 per cent of net proceeds of sales; and
- compensation to the ACT for municipal expenditure and revenue disabilities (as identified by the Commonwealth Grants Commission) arising from Canberra's status as the National Capital.

Summary of Commonwealth Outlays to Other Governments

Heads of Government agreed at the Special Premiers' Conference in July 1991 to continue a practice used for the first time at the May 1991 Premiers' Conference of disaggregating net payments to the States into 'to' and 'through' payments. This approach distinguishes:

- net payments *to* State Governments which are payments made direct to those Governments and excluding those intended to be passed on to local governments, other bodies and individuals; and
- net payments *through* State Governments which are to be passed on to local governments, other bodies and individuals.

The table below provides an overview of total Commonwealth assistance 'to' and 'through' the States in 1996-97, 1997-98, and the forward years.

Further information on payments 'to' and 'through' the States can be found in *Budget Paper No. 3*.

Summary of Commonwealth Outlays to Other Governments

	1996-97 Revised \$m	1997-98 Budget \$m	1998-99 Estimate \$m	1999-00 Estimate \$m	2000-01 Estimate \$m
TO STATES					
General Revenue Grants (a)	15822.3	16203.4	17066.7	18237.7	18897.5
General Capital Grants	52.6	0.0	0.0	0.0	0.0
Total General Purpose Assistance	15874.9	16203.4	17066.7	18237.7	18897.5
Base Hospital Funding Grants	3945.1	4102.5	4246.5	4398.2	4560.7
Education	1478.0	1508.5	1506.1	1477.8	1510.5
Roads Programmes	823.5	823.7	821.6	773.2	791.6
Housing (a)	893.1	943.0	932.3	921.7	921.7
Accommodation Support Programme	169.8	167.8	166.8	167.1	169.7
Home and Community Care	451.2	476.3	504.8	536.1	579.1
Rural Adjustment	107.5	39.9	19.7	11.6	1.3
Debt Assistance	233.0	72.7	36.4	91.0	84.3
Compensation - Companies Regulation	130.3	134.4	138.5	142.8	147.3
Other	3393.5	2604.4	2409.7	2440.8	2518.5
Total Specific Purpose Payments	11,624.9	10,873.2	10,782.4	10,960.2	11,284.6
Total 'To' Payments	27,499.8	27,076.5	27,849.2	29,197.9	30,182.1
THROUGH STATES					
Higher Education	3,682.6	3,480.0	3,272.2	3,178.7	3,169.8
Non-Government Schools	1,985.3	2,112.0	2,251.0	2,391.5	2,487.7
Local Government Financial Assistance	842.6	834.8	871.3	903.3	936.3
Identified Road Grants	373.9	370.4	386.6	400.8	415.5
Other	375.9	405.1	420.3	387.6	359.4
Total 'Through' Payments	7,260.1	7,202.3	7,201.4	7,261.9	7,368.8
Payments Direct to Local Government	244.4	247.4	249.0	264.3	278.4
TOTAL PAYMENTS	35,004.3	34,526.3	35,299.5	36,724.1	37,829.3
Repayments					
Accelerated Sinking Fund Receipts	-743.0	-719.0	-42.0	-1,098.7	-969.2
Other	-296.7	-167.7	-155.5	-154.1	-144.6
Total Repayments	-1,039.6	-886.6	-197.4	-1,252.8	-1,113.8
TOTAL OUTLAYS TO/THROUGH OTHER GOVERNMENTS	33,964.6	33,639.6	35,102.1	35,471.3	36,715.5

(a) The amounts shown are net of State Fiscal Contributions.