

14. OTHER PURPOSES

This category covers outlays on Public Debt Interest (PDI) and outlays to the six States, the Northern Territory, the Australian Capital Territory and local government. It also includes items classified to Natural Disaster Relief, the Contingency Reserve, and the Asset Sales functions.

14A. PUBLIC DEBT INTEREST

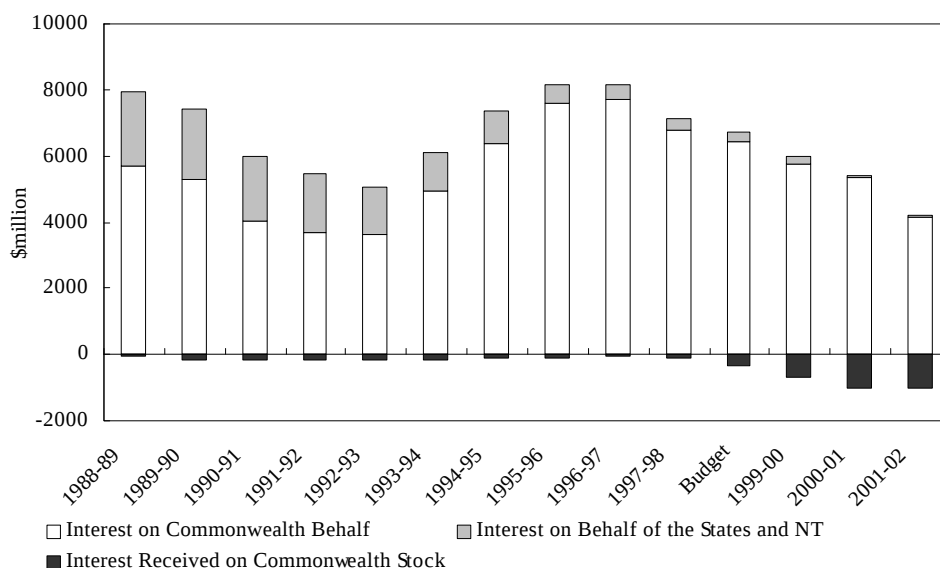
NATURE OF OUTLAYS

PDI outlays reflect the cost of servicing the stock of Commonwealth debt incurred to meet budget financing and other borrowing requirements. It does not include interest on instalment purchase of buildings, overpayment of tax and other interest not associated with borrowings.

The Commonwealth stock of long term debt is predominantly of Treasury Fixed Coupon Bonds. Interest is also incurred in relation to Treasury Indexed Bonds, and floating interest rate instruments in the form of short term securities (5, 13 and 26 week Treasury Notes) and longer term Treasury Adjustable Rate Bonds.

The bulk of outlays for this function relate to the Treasury portfolio, with a very small component coming from the Finance and Administration portfolio.

Chart 1. Overview of Commonwealth Outlays on Public Debt Interest (1989-90 Prices)



TRENDS IN PUBLIC DEBT INTEREST OUTLAYS

Trends in PDI outlays are governed by the volume of outstanding Commonwealth debt, the average cost of debt service (the net effect of interest and exchange rate movements), the mix of debt instruments and the term structure of the debt. The balance of influence of these factors on the growth of total PDI outlays in real terms will vary over time.

During the early 1990s, the falling average cost of debt service (due to falling interest rates) outweighed the rise in the volume of debt, resulting in a fall in PDI outlays. Volume and cost effects subsequently led to increases in PDI outlays until 1996-97, when lower interest rates dampened the growth in PDI outlays associated with the increased debt volume. PDI outlays are projected to fall from 1997-98 in line with projected reductions in the volume of debt on issue.

The decrease in PDI from 1997-98 to 1998-99 largely reflects the impact of the reduction in debt associated with the projected headline surpluses in both years. The State and NT component of PDI is falling progressively as Commonwealth Government security debt previously raised by the Commonwealth on their behalf are refinanced by the States and the NT on maturity.

1998-99 AND FORWARD ESTIMATES

		1997-98	1998-99	1999-00	2000-01	2001-02
		Estimate	Budget	Estimate	Estimate	Estimate
14A.1	Gross Interest Payments -					
	For the Commonwealth	\$m 7975.7	7797.4	7148.5	6767.0	5414.8
		%	-2.2	-8.3	-5.3	-20.0
	For the States	\$m 391.2	319.8	259.0	117.4	43.9
		%	-18.3	-19.0	-54.7	-62.6
	Sub-total	\$m 8366.9	8117.2	7407.5	6884.4	5458.7
		%	-3.0	-8.7	-7.1	-20.7
14A.2	Interest Received	\$m -92.8	-372.2	-831.5	-1325.4	-1357.7
		%	na	123.4	59.4	2.4
	TOTAL	\$m 8274.1	7745.0	6576.0	5559.0	4101.0
		%	-6.4	-15.1	-15.5	-26.2

14A.1 GROSS INTEREST PAYMENTS

		1997-98	1998-99	1999-00	2000-01	2001-02
		Estimate	Budget	Estimate	Estimate	Estimate
For the Commonwealth -						
Domestic and Overseas	\$m	8164.6	7947.4	7298.5	6917.0	5564.8
Borrowings (a)	%		-2.7	-8.2	-5.2	-19.5
Other (b)	\$m	-188.9	-150.0	-150.0	-150.0	-150.0
	%		-20.6	na	na	na
Sub-total	\$m	7975.7	7797.4	7148.5	6767.0	5414.8
	%		-2.2	-8.3	-5.3	-20.0
For the States -						
Borrowings for six States & NT (a)	\$m	362.9	294.5	238.5	101.6	30.9
	%		-18.8	-19.0	-57.4	-69.6
Savings Bank Agreements (c)	\$m	25.0	22.0	18.0	15.0	13.0
	%		-12.0	-18.2	-16.7	-13.3
Interest on Behalf of the ACT	\$m	3.3	3.3	2.5	0.8	-
	%		na	-24.2	-68.0	-100.0
Sub-total	\$m	391.2	319.8	259.0	117.4	43.9
	%		-18.3	-19.0	-54.7	-62.6
TOTAL	\$m	8366.9	8117.2	7407.5	6884.4	5458.7
	%		-3.0	-8.7	-7.1	-20.7

14A.2 INTEREST RECEIVED

The main source of interest received is that paid to the Loan Consolidation and Investment Reserve (LCIR), an element of the Reserved Money Fund, which receives interest on its investments in Commonwealth securities. Interest paid by the Commonwealth to itself is offset against payments to provide meaningful outlay figures.

14B. GENERAL PURPOSE INTER-GOVERNMENT TRANSACTIONS

NATURE OF OUTLAYS

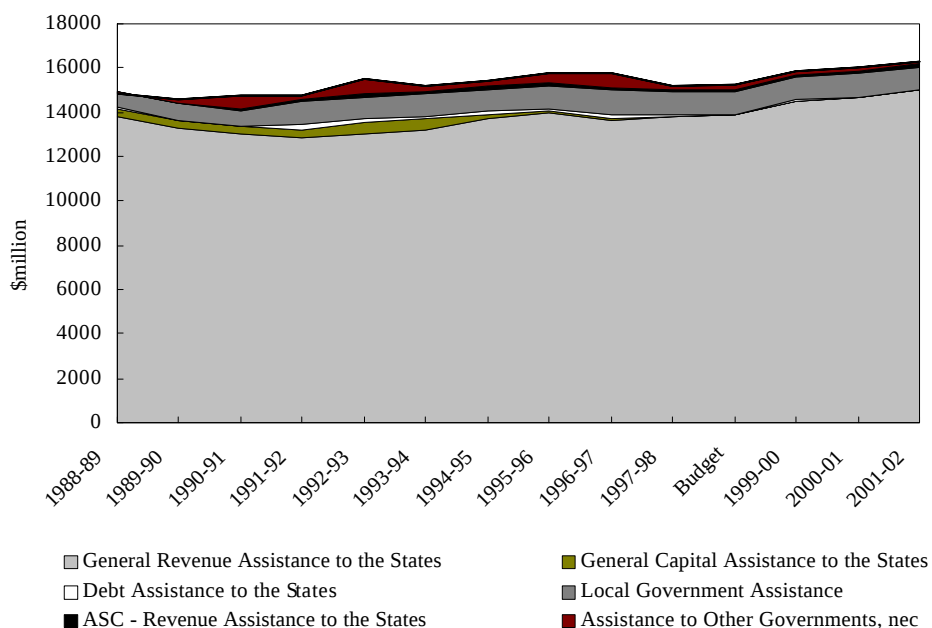
This function covers grants and advances to the States and local government authorities which are not classifiable to other functions. General revenue assistance to the States comprises untied assistance that State governments can spend according to their own budgetary priorities. This assistance is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

As local government is a constitutional responsibility of State governments, general revenue 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;
- Primary Industries and Energy;
- Transport and Regional Development; and
- Finance and Administration.

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. The Commonwealth also agreed 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 to 2000-01, 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. State Fiscal Contributions in 1998-99 are estimated at \$313.4 million. The methods of payment may include nominated reductions in specific purpose payments, direct payments, or reductions in FAGs.

1998-99 AND FORWARD ESTIMATES

		1997-98 Estimate	1998-99 Budget	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
14B.1	General Revenue Assistance to the States	\$m 16198.8	16782.8	17952.2	18591.9	19485.2
	%		3.6	7.0	3.6	4.8
14B.2	Debt Assistance to the States	\$m 72.7	36.4	91.0	84.3	40.6
	%		-49.9	150.0	-7.4	-51.8
14B.3	General Purpose Assistance for Local Government through the States	\$m 1205.2	1228.8	1285.0	1331.2	1378.9
	%		2.0	4.6	3.6	3.6
14B.4	Australian Securities Commission - Revenue Assistance to the States	\$m 132.6	134.8	137.1	139.4	141.8
	%		1.7	1.7	1.7	1.7
14B.5	Assistance to Other Governments, nec	\$m 245.6	222.1	233.3	191.7	185.3
	%		-9.6	5.0	-17.8	-3.3
TOTAL		\$m 17854.9	18404.9	19698.5	20338.5	21231.7
		%	3.1	7.0	3.2	4.4

14B.1 GENERAL REVENUE ASSISTANCE TO THE STATES

		1997-98 Estimate	1998-99 Budget	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
Financial Assistance Grants (a)	\$m	15518.8	16540.7	17482.2	18110.2	18757.3
	%		6.6	5.7	3.6	3.6
Special Revenue Assistance	\$m	466.8	25.0	24.3	24.9	25.5
	%		-94.6	-2.8	2.5	2.4
Competition Payments	\$m	213.2	217.2	445.6	456.8	702.3
	%		1.9	105.2	2.5	53.7
TOTAL		\$m 16198.8	16782.8	17952.2	18591.9	19485.2
		%	3.6	7.0	3.6	4.8

(a) In the absence of State Fiscal Contributions, Financial Assistance Grants would be \$15,589.1 million in 1997-98 and \$16,854.1 million in 1998-99.

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), Special Revenue Assistance (SRA) and Competition Payments.

Financial Assistance Grants

The level of FAGs in 1998-99 and in each of the forward years is maintained in real per capita terms. Payment of FAGs will be conditional upon the States making fiscal contribution payments of \$313.4m in 1998-99, pursuant to the agreement at the 1996 Premiers' Conference.

Special Revenue Assistance

The ACT will receive Special Revenue Assistance (SRA) totalling \$25 million in 1998-99, comprising \$11.1 million for transitional allowances and \$13.9 million for special fiscal needs. These amounts are in accordance with recommendations of the Commonwealth Grants Commission and will be funded directly by the Commonwealth rather than 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 over the period 1997-98 to 2002-03, conditional upon them meeting their obligations under the Agreement. Actual payments in 1998-99 will be determined after the National Competition Council reports in June 1998. Payments are indexed to the Consumer Price Index (CPI) and distributed to the States on a per capita basis.

14B.2 DEBT ASSISTANCE TO THE STATES

		1997-98 Estimate	1998-99 Budget	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
Commonwealth Sinking Fund	\$m	10.4	8.3	8.1	4.9	2.2
Contributions	%		-20.2	-2.4	-39.5	-55.1
Assistance for Debt Redemption	\$m	62.3	28.1	82.9	79.4	38.4
	%		-54.9	195.0	-4.2	-51.6
TOTAL	\$m	72.7	36.4	91.0	84.3	40.6
	%		-49.9	150.0	-7.4	-51.8

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 Commonwealth Government Securities (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.3 GENERAL PURPOSE ASSISTANCE FOR LOCAL GOVERNMENT THROUGH THE STATES

		1997-98 Estimate	1998-99 Budget	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
Financial Assistance Grants	\$m	834.8	851.1	890.0	922.1	955.1
	%		2.0	4.6	3.6	3.6
Identified Local Road Grants	\$m	370.4	377.7	394.9	409.1	423.8
	%		2.0	4.6	3.6	3.6
TOTAL	\$m	1205.2	1228.8	1285.0	1331.2	1378.9
	%		2.0	4.6	3.6	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.

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 Local Government Grant Commissions established in each State and the Northern Territory on the basis of fiscal equalisation.

14B.4 AUSTRALIAN SECURITIES COMMISSION - REVENUE ASSISTANCE TO THE STATES

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

14B.5 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 1997-98, 1998-99, 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

	1997-98 Estimate \$m	1998-99 Budget \$m	1999-00 Estimate \$m	2000-01 Estimate \$m	2001-02 Estimate \$m
TO STATES					
General Revenue Grants (a)	16198.8	16782.8	17952.2	18591.9	19485.2
Total General Revenue Assistance	16198.8	16782.8	17952.2	18591.9	19485.2
Base Hospital Funding Grants	4100.1	5339.9	5516.7	5776.2	6054.5
Education	1617.6	1642.1	1613.4	1613.9	1651.4
Roads Programmes	837.6	814.2	800.9	805.8	811.3
Housing (a)	793.1	932.3	921.7	912.1	902.7
Accommodation Support Programme	167.3	168.6	170.8	171.1	172.0
Home and Community Care	476.3	500.2	526.1	568.2	613.2
Rural Adjustment	98.8	41.7	11.4	3.7	2.1
Debt Assistance	72.7	36.4	91.0	84.3	40.6
Compensation - Companies Regulation	132.6	134.8	137.1	139.4	141.8
Other	2862.9	1699.2	1738.3	1775.0	1831.3
Total Specific Purpose Payments	11159.0	11309.5	11527.2	11849.8	12220.9
Total 'To' Payments	27357.7	28092.4	29479.4	30441.7	31706.1
THROUGH STATES					
Non-Government Schools	2228.2	2367.7	2441.7	2552.2	2638.0
Local Government Financial Assistance	834.8	851.1	890.0	922.1	955.1
Identified Road Grants	370.4	377.7	394.9	409.1	423.8
Other	96.3	65.2	64.5	73.6	44.1
Total 'Through' Payments	3529.7	3661.7	3791.2	3957.1	4061.0
Payments Direct to Local Government	204.9	224.5	235.1	249.5	265.6
TOTAL OUTLAYS TO/THROUGH OTHER GOVERNMENTS	31092.4	31978.6	33505.7	34648.3	36032.7

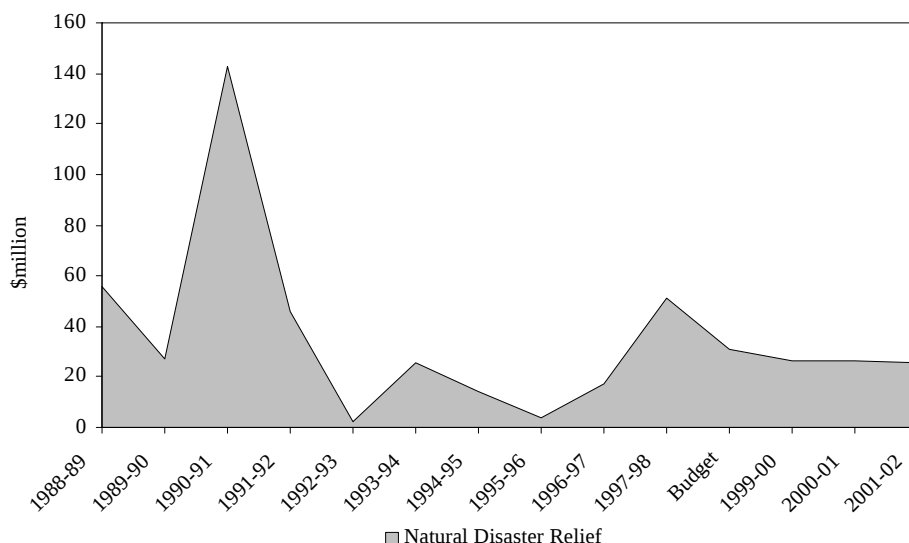
(a) The amounts shown are net of State Fiscal Contributions.

14C. NATURAL DISASTER RELIEF

NATURE OF OUTLAYS

This function comprises outlays of the Finance and Administration portfolio associated with natural disaster relief.

Chart 1. Overview of Commonwealth Outlays on Natural Disaster Relief (1989-90 Prices)



TRENDS IN NATURAL DISASTER RELIEF OUTLAYS

Commonwealth assistance towards natural disaster relief in the period reflects the unpredictability of these events in terms of incidence and severity. Outlays for 1990-91 reflect the severity and extent of flooding in NSW and QLD, a high number of cyclones in QLD and payments associated with the Newcastle earthquake. The higher than average expected outlays for 1997-98 and 1998-99 reflect the high number of floods and cyclones in QLD in 1997 and 1998 and the Katherine floods in February 1998. The forward estimates are based on a broad average of annual net payments over recent years.

1998-99 AND FORWARD ESTIMATES

		1997-98 Estimate	1998-99 Budget	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
14C	Natural Disaster Relief Assistance	\$m 60.0	37.0	33.0	33.0	33.0
		%	-38.3	-10.8	na	na

Under the Natural Disaster Relief Arrangements (NDRA), the Commonwealth reimburses part of the States' outlays on Personal Hardship and Distress payments and

payments for other eligible disaster relief measures where the expenditure exceeds certain funding thresholds. A large part of NDRA payments is made as partial reimbursement for the relief of personal hardship and distress and the repair and restoration of essential state and local government assets.

Some payments are made as concessional loans. The proportion is equivalent to the share of total State NDRA payments advanced as loans to individuals and organisations. NDRA payments are offset by repayments made by the States on past Commonwealth loans.

Since 1989-90 the effects of drought have not been eligible for relief. Drought assistance is included within *10.6 General Assistance Not Allocated to Specific Industries*.

14D. CONTINGENCY RESERVE

NATURE OF OUTLAYS

The Contingency Reserve is an allowance, included in aggregate outlays figuring, to reflect anticipated events which cannot be assigned to individual programmes at budget time. The Reserve is an estimating device used to ensure that the budget and forward estimates are based on the best information available at the time of the Budget. It is not a policy reserve.

While the Reserve ensures that aggregate estimates are as close as possible to expected outcomes, it has no legal status and is not appropriated in the Budget. Instead, allowances that are included in the Reserve can only be drawn upon once they have been appropriated by Parliament.

1998-99 AND FORWARD ESTIMATES

		1997-98 Estimate	1998-99 Budget	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
14D	Contingency Reserve	\$m -380.1 % -24.2	-288.0 -24.2	2372.3 na	4175.7 76.0	5842.2 39.9

The Contingency Reserve makes allowance in the budget and forward estimates for anticipated events including the following:

- **An allowance in the forward years for changes to forecasts of wage cost parameters.**
- **The established tendency for budget estimates of spending on existing government policy in the forward years to be revised upward.**
 - Forward year estimates, particularly for demand driven appropriations, tend to be conservative and underestimate the growth in outlays. Experience suggests that revision of the forward estimates amounts to around 1 per cent of outlays in the first year, increasing in each following year.
- **Expected running costs carryovers from 1998-99 into 1999-2000.**
 - Departments and agencies have flexibility, under the running costs arrangements, to carry forward funds from the budget year to the following. The estimated running costs outcome for 1997-98 has been adjusted to take account of carryovers into 1998-99. A negative allowance of around 3 per cent of the aggregate running costs budget has been included in the Contingency Reserve in 1998-99 to represent the effect of the expected carryover on total outlays into 1999-2000.
- **Commercial-in-confidence items which cannot be disclosed separately.**
- **The effect of economic parameter revisions for the budget and forward estimates received too late to be included in programme estimates.**

- **The established tendency for estimates of some programme expenditure to be overstated in the budget year.**
 - A small negative allowance has been included for this provision.
- **The proposed forward year expenditure for new policy relating to the Federation Fund Trust Account.**
 - Total expected expenditure from the trust account is \$1 billion over the four years to 2002-03. Approximate expenditure of \$600 million is expected between 1998-99 to 2000-01, and \$400 million over the following two years. The Fund will be used to finance a number of major projects of national significance. Refer to *Budget Paper No. 2* for more details. The measure is shown against the Prime Minister and Cabinet portfolio, and is classified against the Contingency Reserve function until the actual type of expenditure is known.
- **A provision for the Superannuation Guarantee Charge to allow for the increased rate applying from 1998-99.**
- **An allowance for the difference between possible costs of the proposed Australian Health Care Agreements being negotiated with the States and Territories and the amounts currently in the forward estimates.**

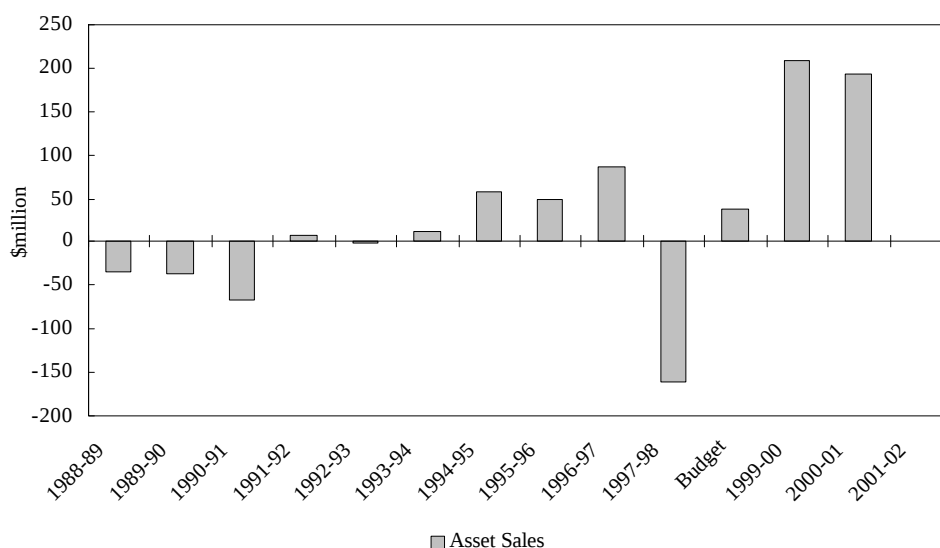
14E. ASSET SALES

NATURE OF OUTLAYS

This classification records the impact on the underlying budget balance of the Government's programme of major asset sales. This comprises project costs associated with major asset sales and the running costs of the Office of Asset Sales and Information Technology Outsourcing (OASITO). Responsibility for the Whole of Commonwealth information technology outsourcing transferred to OASITO in November 1997 and are also reported under this function.

Asset sales proceeds are recorded as offsets within outlays. However, most proceeds of sale are net advances and are not included in the underlying budget balance, and therefore are not reported in this function. Proceeds derived from the normal ongoing property disposal programmes of the Departments of Finance and Administration, and Defence are reported elsewhere (see 1. *General Public Services* and 2. *Defence*).

**Chart 1. Overview of Commonwealth Outlays on Asset Sales
(1989-90 prices)**



1998-99 AND FORWARD ESTIMATES

		1997-98 Estimate	1998-99 Budget	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
14E	Asset Sales	\$m -188.2	45.7	258.0	245.0	-
		%	na	na	-5.0	-100.0

Major asset sales previously announced which are planned to be completed in the remainder of 1997-98 or in the budget and forward years include:

- Telstra Corporation (remaining Commonwealth equity);
- National Transmission Network;
- Australian Multimedia Enterprise Limited;
- ADI Limited;
- National Railway Corporation Ltd;
- ANL Limited; and
- Oversight the collection of second instalment for the sale of shares in the Telstra Corporation.

NEW MAJOR ASSET SALES

Telstra

The Government has announced that it will seek a mandate at the next election for the sale of the remaining Commonwealth equity in Telstra. Enabling legislation was introduced to the Parliament on 31 March 1998.