Chapter 3: Specific Purpose Payments, and Financial Assistance Grants to Local Government

This Chapter provides an overview of Specific Purpose Payments (SPPs), including Financial Assistance Grants to local government.

SPECIFIC PURPOSE PAYMENTS

Specific Purpose Payments are payments for policy purposes that relate to particular functional activities (for example, health and education). Specific Purpose Payments are made under section 96 of the Constitution, which states that the Commonwealth Parliament may grant financial assistance to any State on such terms as it thinks fit.

Specific Purpose Payments can be classified into three groups:

- Specific Purpose Payments paid 'to' the States — payments direct to State governments, totalling $15,827.2 million in 2002-03;
- Specific Purpose Payments 'through' the States — payments to State governments to be passed on to local government, other bodies and individuals, totalling $5,491.3 million in 2002-03. The main payments in this category relate to non-government schools and local government Financial Assistance Grants; and
- Specific Purpose Payments made direct to local government, totalling $332.1 million in 2002-03. The main payments in this category relate to the 'Roads to Recovery' programme, child care programmes administered by local governments on behalf of the Commonwealth and funding for aged and disabled persons' homes and hostels.

The distribution of SPPs among the States and indexation arrangements vary for each SPP. In most cases, SPPs are subject to conditions reflecting Commonwealth policy objectives or national policy objectives agreed between the Commonwealth and the States. It is because of the conditions attached to SPPs that they are sometimes referred to as 'tied grants'. Such conditions may include:

- general policy requirements on States (for example, the provision of free public hospital access for Medicare patients as a condition of receiving Health Care Grants);
- a requirement that a payment be expended for a specific purpose (for example, housing assistance for homeless people);
- meeting broad Commonwealth-State national objectives covering principles and programme delivery mechanisms (for example, the Commonwealth-State Housing Agreement); and

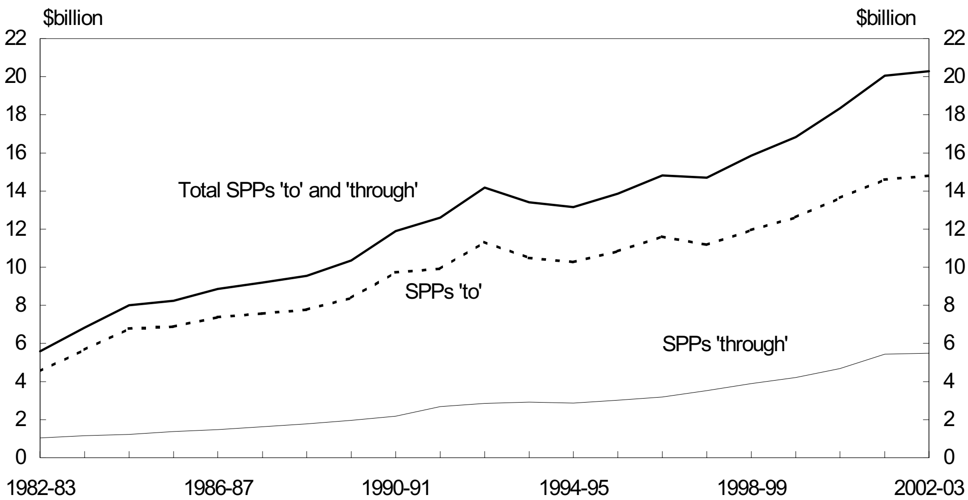
- conditions on joint expenditure programmes, including project approval, matching funding arrangements and performance information.

Specific Purpose Payments also include some payments which are not subject to conditions. These typically relate to revenue sharing arrangements or compensation (either for the transfer of responsibilities or for other Commonwealth action). For example, compensation payments are made to the States for revenue forgone as a result of the national system of companies and securities regulation.

Specific Purpose Payments 'to' and 'through' are estimated to total $21,318.5 million in 2002-03. This is an increase of $270.8 million or 1.3 per cent on 2001-02 (after removing the $105.0 million and $132.0 million cost of the Natural Disaster Relief Programme in 2001-02 and 2002-03 respectively). Specific Purpose Payments 'to' the States are expected to increase by $221.3 million or 1.4 per cent in 2002-03 (after abstracting from the cost of SPPs associated with natural disaster relief).

Chart 3 shows the trend in the level of SPPs ('to' and 'through' the States) from 1982-83 to 2002-03.

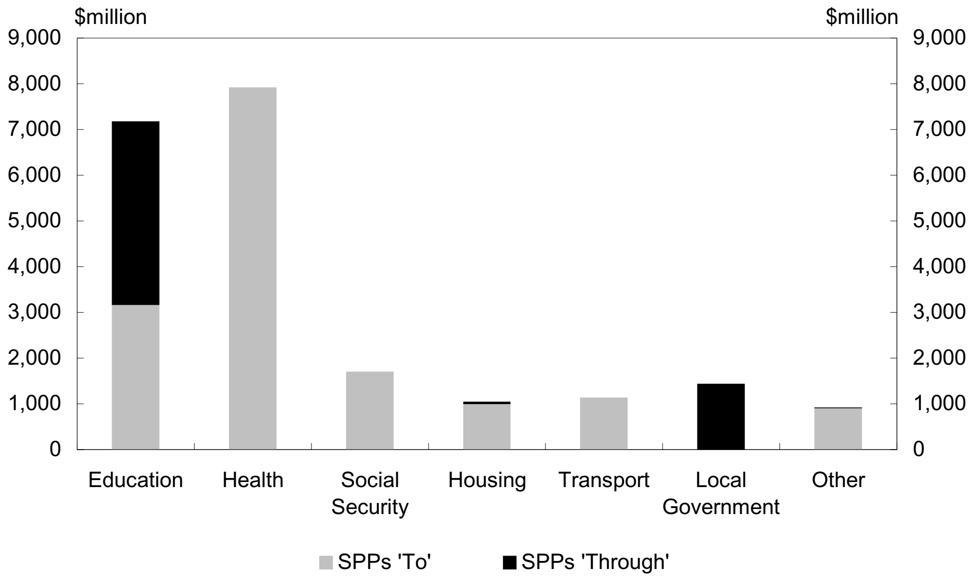
Chart 3: Specific Purpose Payments 1982-83 to 2002-03



(a) Chart 3 incorporates the reclassification of funding under higher education from SPPs through the States to grants to the multi-jurisdictional sector. It also contains adjustments for reclassifications such as: payments under the *Vocational Education and Training Act 1992*; the transfer in 1989-90 of nominated housing advances into Commonwealth-State Housing Agreement grants; and significant changes in the structure of hospital funding.

Chart 4 illustrates the composition of SPPs ('to' and 'through' the States) in 2002-03.

Chart 4: Composition of estimated Specific Purpose Payments 'to' and 'through' the States, 2002-03



More detailed information on SPPs, including estimated payments on a State-by-State basis for 2001-02 and 2002-03 and data on repayments of advances, advances and interest payments, is contained in Appendix B.

FINANCIAL ASSISTANCE GRANTS TO LOCAL GOVERNMENT

The Commonwealth has provided financial assistance to local government since 1974-75. Under current arrangements, the Commonwealth provides Financial Assistance Grants to local government in the form of general purpose assistance and untied local road funding. This assistance is paid to the States as an SPP on the condition that all of the funds are passed on to local government. Both forms of funding can be spent by local government on any purpose.

Financial Assistance Grants are provided to local government authorities under the *Local Government (Financial Assistance) Act 1995* (the Act). Under the Act, the Treasurer is responsible for determining the annual increase in Commonwealth Financial Assistance Grants paid to local government. The Act provides for the Treasurer to determine the escalation factor with reference to population growth and the CPI.

The Commonwealth is providing a total of $1,382.1 million in local government Financial Assistance Grants in 2001-02. These payments are based on an escalation factor of 1.0353, estimated in June 2001, and take into account an underpayment of $7.2 million in 2000-01. In June 2002, the Treasurer will determine the final 2001-02 escalation factor on the basis of the Australian Statistician's determination of population, and the adjusted CPI (which excludes the estimated impact of the indirect tax reform measures in *The New Tax System*). This is consistent with the decision in the 2000-01 Budget that the CPI adjusted for the impact on indirect tax reform will be used for indexation purposes for most Commonwealth expenses, including SPPs. The current estimate for the 2001-02 escalation factor is 1.0439.

Financial Assistance Grants to local government are estimated to be $1,447.5 million in 2002-03. This includes an estimate of the amount necessary to adjust for the difference between the 2001-02 escalation factor estimated in June 2001 and used to calculate payments in 2001-02, and the final factor for 2001-02 to be determined by 30 June 2002. On the basis of the current estimate of the 2001-02 escalation factor, this adjustment is estimated to be $11.4 million. Financial Assistance Grants in 2002-03 will be paid on the basis of an estimate of the escalation factor which the Treasurer will make in June 2002. The current estimate for the 2002-03 escalation factor is 1.0359. The Treasurer will determine the final escalation factor for 2002-03 in June 2003.

As in the past, the interstate distribution of local government general purpose assistance for 2002-03 will be on an equal per capita basis, using the State populations at 31 December 2001. Untied local road funding is distributed between the States on the basis of historical shares. State Grants Commissions determine the intrastate distribution of these payments to local governments. General purpose assistance is distributed within States, as far as practicable, on a Horizontal Fiscal Equalisation basis, while untied local road funding is distributed on the basis of relative road needs.

Table 13 sets out the payments of Financial Assistance Grants to local government in 2001-02 and 2002-03.

Table 13: Financial Assistance Grants to local government, 2001-02 and 2002-03 (estimated)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
2001-02									
General purpose assistance	322.6	238.4	178.8	94.2	74.7	23.4	15.5	9.8	957.3
Untied local road funding	123.2	87.6	79.6	65.0	23.3	22.5	13.6	10.0	424.8
Total Financial Assistance Grants(a)	445.8	326.0	258.4	159.2	98.0	45.9	29.1	19.7	1,382.1
2002-03									
General purpose assistance	**337.6**	**250.0**	**188.1**	**98.8**	**77.4**	**24.2**	**16.2**	**10.2**	**1,002.6**
Untied local road funding	**129.1**	**91.7**	**83.4**	**68.0**	**24.4**	**23.6**	**14.3**	**10.4**	**444.9**
Total Financial Assistance Grants(a)	**466.7**	**341.7**	**271.5**	**166.8**	**101.9**	**47.8**	**30.5**	**20.6**	**1,447.5**

(a) Total Financial Assistance Grants are the cash payments that the State receives on behalf of local government. It is equal to the estimated entitlement for a given year adjusted for an over or under payment from the previous year.