

Chapter 5

PUBLIC FINANCE

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Chapter 5

PUBLIC FINANCE

With Australia politically organised as a Federation, the collection of public revenue and the expenditure of public money are undertaken by three spheres of government; Commonwealth, State governments and instrumentalities and local government authorities. This chapter examines the financial relations between Commonwealth, Tasmanian and local government authorities and provides details of revenue and expenditure.

5.1 COMMONWEALTH-STATE FINANCIAL RELATIONS

The Commonwealth has made payments of various kinds to the States since Federation. Prior to W.W.2 the payments were mainly of a marginal nature and designed to assist the financially weaker States. W.W.2 saw a major change in this relationship. The Commonwealth became the sole Government levying income tax thus removing the States' principal tax revenue source. This led to a major increase in both general revenue and specific purpose payments made to the States. Increases also reflected added scope of assistance to States as the range of government activities expanded.

As part of States giving up their right to levy income taxes the Commonwealth passed the *States Grants (Income Tax Reimbursement) Act* 1942. This brought in what was known as 'tax reimbursement grants' to States. These continued until 1958-59 and were conditional upon the States not levying income tax. For 1959-60 the tax reimbursement grants were replaced by 'financial assistance grants'. The main change was that calculation of the grants included a 'betterment factor' as well as increases in average wages and State population. Financial assistance grants were paid over the period 1959-60 to 1975-76. The legislation authorising payment did not specifically preclude States from entering the field of income taxation. However, the Commonwealth made it clear that the grants were conditional upon this factor.

Since 1976-77 general revenue grants to the States have been based on shares of Commonwealth taxes. Initially the sharing was limited to a proportion of personal income taxes. Since 1981-82 the arrangements have been extended to encompass all Commonwealth tax collections.

5.1.1 Commonwealth-State Tax Sharing Arrangements

State governments, through the Premiers' Conferences had expressed dissatisfaction with the financial assistance grants. They felt that the grants did not adequately reflect growth in revenue available from major tax sources; nor did they keep pace with the growth in expenditure on government services. Premiers felt States should be given direct access to income tax. In 1975 the States proposed that the general revenue grants should be based on the broad principle of compensation for lack of access to income tax. This broadly fitted in with the Coalition Parties' 1975 election policy of entering tax-sharing arrangements with the States. It was seen as giving States greater autonomy in their financial arrangements. Broadly the policy involved: giving States a direct share in the personal income tax; the right to levy their own income tax; more collective use of specific purpose payments and where appropriate absorption, of these into general revenue funds; and sharing with local government personal income taxes raised.

The proposed new tax sharing arrangements were discussed at the 1976 Premiers' Conferences and agreed to. The new system was introduced in two stages. The first commenced in 1976-77 and gave the States a specific proportion of personal income tax collected by the Commonwealth. The second stage gave States the right to either impose a surcharge or grant a rebate on personal income tax to be collected or paid by the Commonwealth on behalf of the States. This stage came into effect in 1978 when the federal *Income Tax (Arrangements with the States Act)* 1978 received Royal Assent. To date no State has imposed a surcharge nor granted a rebate on personal income tax.

Key elements in the 1976-77 Commonwealth-State income tax sharing arrangements.

- the scheme related only to personal income tax;
- the base to which the percentage was applied was net personal income tax collected in the year;
- the proportion of personal income tax to be shared among the States was 33.6 per cent in 1976-77;
- the total amount for division to be first determined and then apportioned to the States;
- initial per capita (head of population) relativities were the 1975-76 financial assistance grant relativities;
- the four less populous States could continue to apply for Grants paid on recommendation of the Grants Commission;
- State relativities were to be reviewed periodically.

Review of State Relativities

At the 1977 Premiers' Conference review of State relativities was discussed and in 1978 the Commonwealth passed legislation to enable the Commonwealth Grants Commission to undertake the review. The Grants Commission worked from the underlying principle that all States should be able to provide services not appreciably different in quality at tax and charge levels similar in each State. In doing the review, the Commission had to take account of the differing revenue raising capacities and differing levels of costs in providing similar quality services between the States.

The Grants Commission presented its report, *State Tax Sharing Entitlements*, in 1981. It concluded that changes in the State per capita relativities were desirable and set out proposed new relativities. These meant a significant shift of funds away from Western Australia, South Australia and Tasmania. Implementation would

have cost Tasmania \$64 m in lost revenue from tax sharing grants in 1981-82. State premiers could not agree and the Commission was asked to prepare a further report for consideration in 1982. For 1981-82 the Commonwealth agreed not to change the relativities used for distribution of the tax grants.

The second report was presented in May 1982. Some minor changes to relativities were made. These were largely a result of revisions to the States' estimated population. The Commission re-confirmed its views that changes in relativities were desirable if the principle of equality were to be achieved. The new relativities meant a marked shift in the distribution of tax sharing grants from the less populous States to New South Wales, Victoria and Queensland. Had the Commission's recommended relativities been applied in 1982-83 Tasmania would have received \$69 m less than under relativities prescribed in the 1981 *States (Tax Sharing and Health Grants) Act*. Table 5.1 shows the alternative distributions of the estimated 1982-83 tax sharing grants based on: (i) relativities prescribed in the 1981 Act; and (ii) under the Commission's 1982 preferred relativities.

The 1982 Grants Commission recommendations were debated at the Premiers' Conference in June 1982. The States were unable to agree. The Commonwealth therefore proposed a distribution considered to be fair and equitable. In arriving at the distribution, the Commonwealth took account of the following points:

- the size of the change involved for some States if an immediate move to the new relativities occurred;
- with equal phasing in of new relativities over the three year period there would be some very low increases for some States. Therefore there should be a minimum increase guaranteed.
- the Commission had assessed that Tasmania and South Australia should have a lower share of tax sharing grants because of the above

5.1 Alternative Distributions of Estimates 1982-83 Tax Sharing Grants

State	Per capita grants			Difference in total grants
	Relativities prescribed in States (Tax Sharing and Health Grants) Act 1981	Relativities assessed in Grants Commission 1982 report	Percentage difference	
	(\$)	(\$)	(%)	(\$m)
New South Wales	443	450	+1.6	+38
Victoria	434	442	+1.8	+32
Queensland	601	676	+12.6	+185
South Australia	658	619	-5.9	-52
Western Australia	705	604	-14.2	-135
Tasmania	861	702	-18.5	-69

average amounts paid to them under hospital or cost sharing arrangements. However, both States were entitled to these amounts under previously negotiated agreements with the Commonwealth. The Commonwealth decided it would be appropriate to modify the Commission's assessments to reflect that both States were entitled to the above average payments.

The Commonwealth put the following to the Premiers:

- the Commission's assessed relativities for South Australia and Tasmania be modified so that hospital cost-sharing agreements had no adverse effects upon their part of the tax sharing grants;
- the modified relativities be phased in over three years ending 1984-85;
- a guaranteed minimum real increase in tax sharing grants for each State — two per cent in 1982-83 and 1984-85;
- a sum of approximately \$149 m, representing escalated amounts made available in 1981-82 and in 1975-76 in consideration of transfer of South Australia's and Tasmania's railway systems, be set aside from the 1982-83 tax sharing pool and used firstly to fund the guarantee and any left-over amounts then be distributed between the States.

The Commonwealth also imposed the condition that no special grants would be paid in the period 1982-83 to 1984-85. The Premiers accepted the proposals.

1981-82 Changes

In 1981 the States put to the Commonwealth an agreed State position on general revenue assistance. Main points were:

- the starting point for 1981-82 determinations should be the aggregate level of actual grants paid in 1980-81, including the 1979-80 special grant to Queensland. This total should then be expressed as a percentage of the tax base chosen;
- the base should either be personal income tax or total Commonwealth taxation collections;
- new arrangements should include a guaranteed increase factor.

The Commonwealth stated it would not accept the guaranteed increase factor since it would lead to growth in general revenue grants inconsistent with the objective of containing public sector growth. The Commonwealth accepted the move to a total Commonwealth tax collection base. The taxes identified as part of the base included import duties, excise duty, income tax, sales tax, departure tax and estate and gift duties. A part of the proposal included replacement of hospital-cost sharing assistance with new identifiable general purpose health sharing grants. The guarantee that a State's grant would not be less,

in absolute terms, than in the previous year was retained. Also retained was the right for States to levy a surcharge or grant a rebate on personal income tax.

The new tax sharing arrangements were enacted in the *States (Tax Sharing and Health Grants) Act 1981*. The total amount to be paid to the States and the Northern Territory for 1981-82 was calculated as \$7 004 800.

5.2 Total Tax Sharing Grant, 1981-82

	(\$m)
Tax Sharing Grants to States and Northern Territory in 1980-81	6 285.5
Plus 9% increase over 1980-81 (less \$27 million)	538.7
Plus allocations to States and Northern Territory as per Schedule 2 to <i>States (Tax Sharing and Health Grants) Act 1981</i>	105.1
Plus additional grants agreed at 20 June 1981 Premiers' Conference	60.0
Plus special additional grant to Queensland	9.0
Plus estimated additional grant to Northern Territory	6.5
Total General Revenue Payments	7 004.8

After minor adjustment, this was distributed between the States on the basis of per capita relativities, which derived from the relativities based on the 1975-76 financial assistance grants, and population distribution.

For 1982-83 to 1984-85 the Northern Territory was excluded from the calculation of total tax sharing grants. The total amount paid to the States in 1981-82 (including the additional \$60 m grant agreed to at the 1981 Premiers' Conference but excluding the additional \$9 m to Queensland) was expressed as a percentage of total Commonwealth tax collections made in 1980-81.

This percentage (20.72 per cent of total Commonwealth tax collections) was then to be applied in 1982-83, 1983-84 and 1984-85 to the previous year's total Commonwealth tax collections. This determined the total pool for distribution.

The total pool was split into two parts:

- the basic tax sharing pool — 20.3233 per cent of total Commonwealth tax collections;
- 'supplementary pool' — 0.397 per cent of total Commonwealth tax collections.

The basic pool is split up among the States according to State populations weighted by per capita relativities.

5.3 Per Capital Relativities for Distribution of Tax Sharing Grants 1982-83 to 1984-85

State	1982-83	1983-84	1984-85
NSW	1.01960	1.01880	1.018
Vic.	1.00000	1.00000	1.000
Qld	1.43516	1.48508	1.535
SA	1.49634	1.47567	1.455
WA	1.54072	1.45686	1.373
Tas.	1.87261	1.75931	1.646

The purpose of the supplementary pool was to ensure that each State's total tax share grant increased in real terms by two per cent over the year before. Any balances left over were distributed between the States in accordance with the per capita relativities effective for that year. The following illustrates the calculation of Tasmania's basic tax sharing grant for 1984-85:

- (i) Estimated population 31 December 1984 ('000) (438.9) x per capita relativity (1.646) = 722.5
- (ii) The figure 722.5 is expressed as a percentage of the sum of each State's population multiplied by its per capita relativity — in 1984-85 this process gave a figure of 18127.5. Tasmania's percentage, calculated by this method, was 3.98549 for 1984-85.
- (iii) The total basic tax sharing pool in 1984-85 was \$8815.5 m; applying Tasmania's percentage calculated in (ii) gave a basic tax sharing grant for Tasmania of \$351.3 m.

Following application of guaranteed minimum increases and distribution of the supplementary tax sharing pool Tasmania's 1984-85 grant was \$415.0 m.

1985 Review of State Relativities

The provisions of the *States (Tax Sharing and Health Grants) Act* 1981 expired at 30 June 1985. It was therefore necessary that State relativities, used to distribute tax-sharing grants, should be reviewed and agreed to for implementation from 1 July 1985. In February 1984 the Commonwealth Grants Commission was given the task of reviewing State relativities.

The 1985 review was the third comprehensive review undertaken by the Grants Commission of State relativities since passage of the *States (Personal Income Tax Sharing) Act* 1976. The Commission had to:

- report on the per capita relativities for distribution of tax-sharing grants between the States.
- adopt, as for the 1981 and 1982 reviews, fiscal equalisation as the underlying principle.
- present the relativities on two bases — relative health needs reflected in the distribution of tax sharing grants and not reflected.

- assess whether the Northern Territory should or should not be treated separately for distribution of tax sharing grants.
- assessment was to be based on the years 1981-82 to 1983-84 inclusive.

The Grants Commission presented its 1985 report on 1 April 1985. The Commission's principal findings were:

- the relativity factors used to distribute tax sharing grants should continue to reflect States' relative health needs;
- the Northern Territory should continue to be treated as a special case because Commonwealth-Northern Territory financial arrangements were quite dissimilar to those existing between the Commonwealth and States; and there was insufficient time for the Grants Commission to fully investigate the special factors affecting the Northern Territory.

The Commission, in recommending relativity factors which reflect relative health needs, stated this was the only option which gave full effect to the principle of fiscal equalisation between the States. Application of the principle of fiscal equalisation meant a substantial reduction in the relativity factor from that actually applied for Tasmania in 1984-85. (The actual 1984-85 relativity factor for Tasmania and other States included Guarantee payments in accordance with the 1982 Premiers' Conference.)

Changes in distribution of tax-sharing grants resulting from the Grants Commission review meant that New South Wales, Victoria and South Australia each gained in terms of the proportion of the grants allocated to them.

5.4 Shares of Tax Sharing Grants Based on 1985 Grants Commission Report and Actual 1984-85 Distribution (Per Cent)

State	Actual 1984-85 distribution of tax share grants	Based on 1985 Grants Commission report
NSW	29.751	30.482
Vic.	22.240	22.813
Qld	20.875	20.019
SA	11.013	11.185
WA	11.537	11.358
Tas.	4.584	4.142
Total	100.000	100.000

Application of the 1985 Report factors to tax sharing grants actually paid (including guarantee payments) would have meant a substantial loss of revenue for Queensland, Western Australia and Tasmania. In absolute terms Queensland would have suffered the largest reduction (\$77m). However, the \$40m reduction for Tasmania

5.5 Distribution of Tax Sharing Grants (\$m)

State	Actual distribution of tax sharing grants 1984-85 (1)	Distribution of grants if Grants Commission Report factors applied (2)	Difference (2) minus (1)
New South Wales	2693.7	2759.8	+66.1
Victoria	2013.6	2065.5	+51.9
Queensland	1890.0	1812.6	-77.4
South Australia	997.1	1012.7	+15.6
Western Australia	1044.6	1028.3	-16.3
Tasmania	415.0	375.1	-39.9
Total	9054.0	9054.0	—

would have represented nearly a 10 per cent loss in tax sharing grant revenue and the largest proportional reduction for any state. Strong opposition to the Grants Commission proposals were voiced by the Tasmanian and Queensland Premiers.

5.1.2 Identified Health Grants

Based on findings of the Committee of Inquiry into the Efficiency and Administration of Hospitals (Jamison Committee) the Commonwealth changed health funding to the States. Hospital-cost sharing agreements with the States were not to be renewed after 30 June 1981. Tasmanian and South Australian agreements were not due to expire until 30 June 1985. However, they were terminated on 1 February 1984 and the specific purpose payments involved were absorbed into the identified health grants payable during the remainder of 1983-84.

The Commonwealth changed its assistance from assistance specifically related to health costs to payments for general purposes. These payments are identifiable as a Commonwealth contribution towards the cost of health programs. The intention was that health grants be ultimately fully absorbed into the general purpose tax sharing grant. The identified health grants do not reflect relative health needs. These are reflected in the distribution of the tax-sharing grants as agreed at the 1982 Premiers' Conference. This, in the Commonwealth's view, gave the States their full constitutional responsibility for the provision of health services. It also enables State Governments to decide on their own expenditure priorities. The move also included an objective that users, who were able to pay, should do so.

5.2 COMMONWEALTH PAYMENTS TO OR FOR TASMANIA

For 1983-84 the Commonwealth agreed to provide the States with special revenue assistance. This was in response to State claims that

they faced severe budgetary problems for 1983-84. The total amount provided was \$155.5 million of which Tasmania received \$7.2m. This was a once-off payment and did not form part of the base for determining the 1983-84 tax sharing grants.

5.6 Commonwealth Payments to or for Tasmania, 1983-84 and 1984-85 (\$'000)

Item	1983-1984	1984-85
<i>GENERAL REVENUE FUNDS</i>		
Tax sharing grants	397 042	417 147
Special revenue assistance	7 200	—
Health grants	27 236	58 970
Total	431 479	476 117
<i>GENERAL PURPOSE CAPITAL</i>		
Capital grants	34 318	36 549
<i>SPECIFIC PURPOSE PAYMENTS — RECURRENT PURPOSES</i>		
Universities	35 020	37 240
Colleges of advanced education	10 367	11 125
Schools	26 290	28 722
Public hospitals — running costs	26 997	—
Medicare	10 675	31 945
Local government tax-sharing	14 697	15 568
Other	25 988	51 601
Total	150 034	176 201
<i>SPECIFIC PURPOSE PAYMENTS — CAPITAL PURPOSES</i>		
Schools	5 993	6 024
Other housing assistance	22 449	24 913
Roads	34 349	36 424
Australian bicentennial road development	12 517	14 900
Assistance for South-West Tasmania	62 906	12 378
Other	19 660	36 388
Total	157 874	131 027
Total general and specific purpose payments	773 705	819 894

The main grant paid to Tasmania is the general revenue tax-sharing grant. The State has complete autonomy how this money is spent. In recent years the tax-sharing grant has represented around 45 to 50 per cent of total receipts into the State's consolidated revenue fund.

5.7 Tax Sharing Grants

Year	Amount		Tax sharing grants as a proportion of total consolidated revenue fund receipts
	(\$'000)	per head of mean population	
1980-81	298 602	702	48.1
1981-82	322 031	752	47.1
1982-83	362 777	842	47.4
1983-84	397 042	913	46.5
1984-85	417 147	949	43.8

5.2.1 Grants Related to Health

Until 1981 the Commonwealth's grants to States in relation to health were specific purpose in nature — e.g. hospital costs, community health and school dental programs. From 1981-82 the Commonwealth moved away from provision of specific purpose health grants to provision of general nature identified health grants. States could then determine their own priorities in spending these grants. In the case of Tasmania its hospital-cost grants agreement with the Commonwealth did not expire until 30 June 1985 and the Commonwealth continued to pay hospital cost grants to Tasmania. Tasmania's initial health grants (first paid in 1981-82) thus related only to community health, school dental health and other identified health needs. However, in February 1984 the Commonwealth terminated the hospital cost agreement with Tasmania and put all States on the same footing for grants related to health. The other major development in relation to health type grants occurred in 1983-84 when the Commonwealth, as part of its *Medicare* program, introduced payments to the States. These payments were to ensure States were not financially disadvantaged by the introduction of Medicare into their public hospital systems.

5.2.2 Compensation: South-West Tasmania

In March 1983 the Commonwealth Government gazetted regulations under the federal *National Parks and Wildlife Act 1975* making further work on the Gordon-below-Franklin power scheme illegal. The matter went to the High Court on 1 July; the decision was handed down in favour of the Commonwealth. The Commonwealth had offered financial assistance to offset employment, other costs and effects of termination of the work. Once the High Court decision was handed down, negotiations as to the

level of assistance were entered into. Agreement was reached that the following assistance would be provided in full settlement of the undertakings:

- \$45.3 m for employment creation projects (\$16.9 m was paid in 1983-84) plus direct Commonwealth expenditure of \$5.6 m on upgrading the Hobart Airport. (\$2.6 m was spent in 1983-84.)
- \$200 m in equal annual instalments over 10 years as subsidy to providing 112 MW of electricity which would have been the output of the Gordon River Power Development Stage 2.
- Ex-gratia payment of \$25 m for expenditure incurred on the scheme.

The Commonwealth also entered discussions to decide on arrangements for the joint management of the South-West Heritage Area.

5.3 STATE FINANCIAL TRANSACTIONS

5.3.1 The Public Account

The overall result of the Government's financial transactions for a year are recorded in the Public Account. This records the accumulated fund balances and, in summary, form the transactions in the Consolidated Revenue Fund, Loan Fund and Trust Fund which determine the balances.

5.8 Public Account: Summary of Transactions, 1984-85

Particulars	\$'000
Opening balance	
1 July 1984	58 655
Add —	
Funds receipts from —	
Consolidated Revenue Fund	
receipts —	
Commonwealth	549 847
Other	403 362
Total	953 209
Trust Fund receipts —	
Commonwealth	164 195
Other	664 751
Total	828 946
Loan Fund receipts —	
New loan raisings	54 849
Conversions and redemptions	149 554
Commonwealth capital works grants	36 549
Other	45 081
Total	286 033
Accumulated revenue account receipts —	
deficit funded in	
1984-85	5 644
Total	2 073 832

5.8 Public Account: Summary of Transactions, 1984-85 (cont)

Particulars	\$'000
Less —	
Funds expended from —	
Consolidated Revenue	
Fund expenditure	952 922
Trust Fund expenditure	833 396
Loan Fund —	
Expenditure (excluding deficit financing)	135 908
Loans refinanced or converted	149 554
Total	285 462
Total funds expended	2 071 780
Closing Balance at 30 June 1984	60 706

5.3.2 Consolidated Revenue Fund (CRF)

This fund records the annual recurrent transactions relating to government revenue and expenditure. CRF records receipts of Commonwealth grants made to the State, and taxation and departmental receipts from rents, charges and sales. The operational spending of government departments is recorded in CRF; for example wages and salaries, power and fuel charges, office supplies, maintenance expenses, etc. CRF does not record all receipts and expenditure of government bodies. For example, the receipts and payments of the Hydro-Electric Commission do not enter the CRF. Also some receipts and payments go to or are made from trust funds — for example Commonwealth payments for roads are credited to the State Highways Trust Fund and road payments are made out of it. Whether the Government has a surplus or deficit on its yearly operation is determined by the net result recorded in CRF, i.e. if receipts are greater than expenditure, then a surplus is recorded; if the reverse applies, then the government's operations have resulted in a deficit.

Two methods are used to fund deficits. If CRF records a surplus then this may be used to offset the deficit. Alternatively, the deficit is funded by charging it against Loan Fund, i.e. new loan borrowings are used to cover the excess CRF expenditure. Until funding of the deficit takes place the balances are carried in the Accumulated

Revenue Account. At 30 June 1985 total deficits funded from Loan Fund were \$100.4 m. The balance carried in the Accumulated Revenue Fund at 30 June 1985 was \$286 358.

The dependence of the State Government on Commonwealth grant funds for financing its day-to-day operations is highlighted in Table 5.10 with almost 58 per cent of receipts in 1984-85 coming from this source. The largest single Commonwealth Grant item was the tax-sharing grant (\$417.1 m) or 43.8 per cent of total CRF receipts. State taxation (as defined by State Treasury) accounted for just over 22 per cent of revenue. The next most important item was debt charge recoveries of \$92 m or 9.6 per cent of CRF receipts.

5.10 Consolidated Revenue Fund Receipts, 1984-85

Revenue item	Amount (\$'000)	Proportion of total receipts (%)
Commonwealth grants —		
General purpose —		
Tax sharing	417 147	43.8
Health	58 970	6.2
Specific purpose —		
Education	21 277	2.2
Health, youth and community services	36 023	3.8
Other	16 430	1.7
Total Commonwealth Grants	549 847	57.7
State taxation (a)	211 253	22.2
Territorial and departmental revenue	80 005	8.4
Recovery of public debt charges	91 960	9.6
Other	20 144	2.1
Total revenue	953 209	100.0

(a) Includes payments made by the Victorian Government to the Tasmanian Government on the sale of lottery tickets in Tasmania. The amount in 1984-85 was \$16.2 million.

5.3.3 Loan Fund

The Loan Fund is primarily for funding State Government capital works such as building and construction activity and purchase of equipment.

5.9 Consolidated Revenue Fund : Summary (\$'000)

Year	Receipts	Expenditure	Surplus (+) deficit (-)	Aggregate funded deficit at end of year
1980-81	620 307	627 441	- 7133	56 348
1981-82	683 231	717 628	-34397	90 745
1982-83	764 990	772 735	- 7745	98 490
1983-84	853 107	855 006	- 1899	100 389
1984-85	953 209	952 922	+ 286	100 103

It is also used for making advances of a capital nature to statutory authorities (e.g. Hydro-Electric Commission, Metropolitan Transport Trust) and to the private sector (e.g. tourist development loans). The Loan Fund is also used to fund CRF deficits. It needs to be remembered that loan fund expenditure represents only part of the total government capital works program. (For further information about the full extent of the program see the later section 'State Government Works Program'.)

The two main receipt items into the Loan Fund are new borrowings and Commonwealth General purpose and specific purpose capital grants. Borrowings credited to the Loan Fund are arranged through the Loan Council. This was set up under the Financial Agreement 1927. Representatives of the Commonwealth and each State Government make up the Council. It determines aggregate Commonwealth and State Government borrowing programs and allocates the States' portion among them. The Loan Council arranges the borrowing — it does not borrow money itself.

Loan conversions and redemption through re-issue of the loans are also recorded through the Loan Fund. These transactions merely alter the maturity date of the loan; no additional funds for works purposes become available.

5.11 Loan Fund Receipts, 1984-85 (\$'000)

<i>Loan fund receipt item</i>	<i>Amount</i>
Loan proceeds —	
New cash part — net (a)	54 849
Conversion and redemption	149 554
Loan repayments — State sources	37 286
Commonwealth specific purpose payments	7 795
Commonwealth interest-free grant for capital purposes	36 549
Total	286 033

(a) Amount raised and available for new capital works program.

The total amount of loan fund receipts available for funding capital works in 1984-85 was \$139.9 m — the net proceeds from new borrowing (\$54.8 m) plus repayments to Loan Fund (\$45.0 m) plus the Commonwealth grant for capital purposes (\$36.5 m) less increase in the Loan Fund balance over the year (\$0.6 m).

5.3.4 Public Debt

The public debt represents the indebtedness of the State Government at a point in time. It is the aggregate of loans, borrowed on behalf of the Tasmanian Government, which still have to be redeemed. Under the Financial Agreement of 1927 the Loan Council became the borrowing

agent for the States. Also under the Agreement redemption and conversion of State loans is carried out by the National Debt Commission.

At 30 June 1985 Tasmania's public debt was \$1 200 358 000 in Australia and US\$219 000 raised in New York.

Public debt has grown at a rate of four to five per cent per annum. In terms of public debt expressed at current rates of exchange, less than one per cent was redeemable outside Australia at 30 June 1985. The annual interest liability on the State's public debt at 30 June 1985, at current rates of exchange, was \$133.6 million.

5.12 State Public Debt and Annual Interest Liability at 30 June at Current Rates of Exchange (\$'000)

<i>Public debt</i>		
<i>At 30 June</i>	<i>Amount (\$'000)</i>	<i>Increase over previous year (%)</i>
1981	1 020 804	5.2
1982	1 071 606	5.0
1983	1 114 397	4.0
1984	1 154 510	3.6
1985	1 200 687	4.0
<i>Annual interest liability</i>		
<i>At 30 June</i>	<i>Amount (\$'000)</i>	<i>Increase over previous year (%)</i>
1981	91 494	14.1
1982	105 333	15.1
1983	116 405	10.5
1984	124 349	6.8
1985	133 617	7.5

National Debt Commission

The National Debt Commission manages a sinking fund for redemption of government borrowing. Details of transactions relating to Tasmanian Government debt for 1984-85 are shown below.

National Debt Commission: Receipts and Expenditure Relating to Tasmanian Public Debt, 1984-85 (\$'000)

Balance 1 July 1984		160
<i>Add receipts —</i>		
Commonwealth Government contribution	3 194	
Tasmanian Government contribution	11 690	
Interest	16	14 901
<i>Less payments —</i>		
Repurchase and redemption of securities		14 828
Balance 30 June 1985		233

5.3.5 Trust Fund

The Trust Fund comprises numerous individual trust and special accounts. Some merely re-iterate transactions recorded in CRF; others are holding or suspense accounts; while some show in them major Government transactions not elsewhere recorded. In 1984-85 total receipts recorded into the Trust Fund were \$833.4 m and expenditure from the Fund \$828.9 m. The Trust Fund balance at 30 June 1985 was \$57.9 m.

5.3.6 State Government Works Program

The total works program includes, in addition to loan fund expenditure, expenditure of capital nature financed from Commonwealth payments

received into trust funds (e.g. housing and roads); works funded out of revenue set aside for specific purpose (e.g. motor taxes paid into the State Highways Trust Fund); and work funded from Departmental sources (e.g. Forestry and Housing Departments). As well the program includes the activities of statutory authorities such as the Hydro-Electric Commission, regional water supply authorities and the Metropolitan Transport Trust. Statutory authorities fund their activities from advances from the Loan Fund, private borrowing (i.e. they borrow in their own name) and from internal sources. In 1984-85 the State Government works program expenditure was \$510.8 m. For 1985-86 the Government expected expenditure on the program would be \$599 m.

5.13 State Government Works Program: Source of Funds, 1984-85 (\$'000)

Source	Amount
Australian Loan Council borrowings —	
New cash borrowings credited to	
Loan Fund (net) (a)	54 849
Housing	18 250
Total	73 099
Commonwealth Contributions —	
General purpose capital	
grant (a)	36 549
Housing	27 072
Roads	49 963
Education (a) (b)	6 854
Assistance related to	
South-West Tasmania	33 525
Other Commonwealth specific	
purpose payments (a) (b)	2 152
Total Commonwealth	
contributions	156 115
Loan repayments (a)	37 286
Private borrowings —	
Hydro-Electric Commission	158 629
Tasmanian Development	
Authority	19 134
Other	13 050
Total private borrowings	190 813
Other funds —	
Motor taxation	18 169
Fuel franchise levy	12 212
Forestry revenue	13 012
Other	10 678
Total	54 071
Less increase in Loan Fund balance	570
Total funds used	510 813

(a) Credited to Loan Fund.

(b) Part of Loan Fund receipt item 'Commonwealth specific purpose payments'.

Just over 30 per cent of the total funds available for capital works programs in 1984-85 derived from Commonwealth sources. Private borrowings by statutory authorities accounted for a further 37 per cent of the total funds available — the Hydro-Electric Commission's borrowings were a third of the total funds available for governmental works. Receipts credited to Loan Fund (new borrowings for the State, Commonwealth grants and payments and repayments) made up approximately 21 per cent of the total funds available.

Expenditure by the HEC on power development and related works accounted for 34 per cent of spending on Government works programs. Road expenditure and housing made up 19 per cent and 9 per cent of total works expenditure respectively.

5.14 State Government Works Program Expenditure 1984-85

Purpose	Amount (\$'000)	Proportion of total (%)
Hydro-electricity	173 045	33.9
Roads	98 808	19.3
Housing	46 026	9.0
Forestry	39 288	7.7
Education	28 098	5.5
South-West projects	13 192	2.6
Regional water supply	7 713	1.5
Other	104 643	20.5
Total	510 813	100.0

5.4 STATE GOVERNMENT AND STATE AUTHORITY TAXATION

The principal source of State taxation is employer based payroll taxes which accounted for 32 per cent of total State Government and authority tax collections in 1984-85. The next main tax revenue source providing just under 23 per cent of total State tax revenue were stamp duties. These were closely followed by franchise taxes, tobacco and petroleum products providing 6.7 and 6.4 percent of total State tax revenue respectively.

5.15 State Government and State Authority Taxation Receipts, Tasmania (\$'000)

Tax	1983-84	1984-85
Deceased persons' estates duties	340	158
Stamp duties	39 316	48 408
Lottery tax	8 586	16 242
Land tax	8 621	9 975
Motor taxation	17 468	18 169
Fees and licences under the Licensing Act	6 552	6 712
Racing and gaming taxes	4 099	4 039
Casino tax and licence fees	3 331	3 815
Pay-roll tax	57 262	68 399
Hydro-Electric Commission — statutory levy	5 944	6 745
Soccer football pools tax	709	773
Business franchise — tobacco	9 561	14 220
Business franchise — petroleum products	13 225	13 568
Sundry licences	18	30
Total	175 033	211 253

5.5 LOCAL GOVERNMENT FINANCE

5.5.1 Rates

The largest proportion of local government revenue comes from rates (49.4 per cent in 1983-84) which are direct charges on owners of property. In Tasmania, it has been usual for rates to be based on the annual value of the land and improvements; that is the gross annual income the owner might obtain by letting the land and its fixtures. Valuations are carried out by the Land Valuation Branch of the State Lands Department, on a rotational basis, with each property being revalued every five years. Tasmania is the only State to use the assessed annual value system of rating despite campaigns in favour of taxing on the unimproved value only which is the system used almost exclusively in New South Wales and Queensland.

5.16 Total Property Valuation of all Local Government Areas, Tasmania, at 1 July (\$ m)

Year	Total capital value	Assessed annual value	Land value
1981	7 055.3	435.5	2 309.0
1982	7 702.0	480.4	2 597.5
1983	8 177.9	524.7	2 781.5
1984	8 488.3	589.7	2 985.1
1985	9 511.2	667.0	3 207.6

5.5.2 Commonwealth General Purpose Grants to Local Government

The Commonwealth first started paying general purpose grants to the States for local government in 1974-75. These were paid on the basis of Commonwealth Grants Commission recommendations. At the 1976 Premiers' Conferences the issue of local government receiving a share of personal income tax was raised. It was decided, as a part of the general review and re-arrangement of Commonwealth-State financial relations, that local government should receive a percentage of personal income tax. This amount is then divided among the States according to fixed proportions. (Since 1980-81 the percentage has been two per cent.) These are reviewed from time to time by the Commonwealth Grants Commission. Tasmania's proportion of

5.17 Commonwealth Grants to Local Government, 1984-85

State	Percentage of total	Amount of grant (\$'000)
New South Wales	36.4977	177 574
Victoria	25.4513	123 829
Queensland	16.8606	82 033
Western Australia	9.3897	45 684
South Australia	8.6010	41 847
Tasmania	3.1997	15 568
Total	100.0000	486 534

the total pool for 1984-85 was 3.1997 per cent and amounted to \$15.6 m. Distribution of the Tasmanian share between individual local government authorities is the responsibility of the State Grants Commission. Thirty per cent of the pool is distributed according to established criteria such as respective population, size, population density. The balance is allocated according to financial needs as assessed by the State Grants Commission. As far as possible, the grant recommended for a municipality will be an amount which, providing it makes a reasonable rating effort, will enable it to provide services at about the same standard as other municipalities of a similar type. In determining the grants necessary to equalise the fiscal capacity of

municipalities, the Commission has adopted the principle that a grant must basically reflect differences between the revenue-raising capacity of municipalities and the relative cost of providing services (expenditure differentials).

The Commission has adopted methods to identify and measure those factors which affect relative rateable capacity and the cost of functioning at a given standard. To the extent to which a municipality is below the standard or faced with higher costs, a *prima facie* case exists for an equalisation component.

5.5.3 Receipts and Outlays

In 1983-84, local government received a total of \$95.9 m in rates (Note 5.1). The next most important source of funds for local government was government grants which amounted to just over \$42.9 m. The most important single source of government grant revenue is the Commonwealth general purpose tax-sharing grant. In

5.18 Local Government Revenue and Loan Fund Receipts and Outlay: Ordinary Services, Tasmania, Summary, 1983-84 (\$'000)

Transactions	Amount
Receipts —	
Rates	52 442.7
Licences, fees and fines	2 324.6
Charges	12 857.3
Government grants —	
Commonwealth general purpose	14 732.5
Specific capital	10 497.6
Specific current	8 497.4
Total government grants	33 727.5
Interest	6 477.1
Transfers from trading activities	1 711.8
Other receipts (a)	9 365.6
Loan raisings —	
Commonwealth/State	839.7
Other lenders	3 888.9
Total loan raisings	4 728.6
Total revenue and loan receipts	123 635.2
Outlay —	
Outlay on goods, services and land —	
Current	75 143.5
Capital	32 756.6
Total outlay on goods, services and land	107 900.1
Debt charges —	
Interest paid	9 189.5
Debt redemption	5 531.6
Levies paid to governments	4 141.3
Donations paid	97.1
Other	2 042.1
Total outlay from revenue and loans	\$ 128 901.8

(a) Comprise ex-gratia receipts (non-rateable properties), advances repaid by public sale of land and other fixed assets, contributions and donations received and reimbursements.

1983-84 this accounted for 34.3 per cent of all government grants received by local government. 'Ordinary services' include garbage and waste disposal facilities, roads and footpaths, drainage, health inspection, parks, recreation facilities and gardens, cemeteries, community centres, etc.

The trading activities of local government in Tasmania comprise water supply, sewerage and abattoirs. These services are grouped separately as they are operated in a commercial manner, rather than as a 'service' such as parks and gardens. Abattoirs are operated only by the Devonport Council.

5.19 Local Government Trading Activities: Current and Capital Transactions, 1983-84 (\$'000)

Transactions	Amount
Total trading activities current transactions —	
Current income —	
Rates	433 94.1
Grants	9 195.0
Other (a)	5 918.4
Total	58 507.5
Current outlay —	
Working expenses (b)	24 316.5
Interest paid	9 104.2
Other (c)	15 082.8
Total	48 503.4
Surplus or deficit (-)	10 004.1
Total trading activities capital transactions —	
Source of funds —	
Loans	3 473.9
Grants	1 468.9
Reimbursements	246.0
Other (d)	6 636.4
Total	11 825.2
Use of funds —	
Land and fixed assets	8 888.5
Debt redemption	2 935.3
Other	1.4
Total	11 825.2

(a) Sales and charges, interest received and transfers from ordinary services.

(b) Wages and salaries, purchase of goods and services, payroll tax and depreciation.

(c) Levies paid to government and semi-government authorities and transfers to ordinary services.

(d) Depreciation allowances, contributions and donations received, advances repaid by public, sale of land and other fixed assets, surplus on current account, reduction in bank balances, etc. A negative amount can arise when, for example, there has been an increase in bank balances (e.g. as a result of loan monies raised but not yet spent).

The principal source of funds used to finance new capital works programs of local government is external borrowing. (Some of the larger authorities finance a substantial part of such activity from internal reserve and revenue

sources.) At the end of 1984 total indebtedness of local government authorities was \$174.0 million. Almost 93 per cent of this debt was due to financial institutions such as banks and insurance companies.

5.20 Local Government Long Term Debt (\$'000)

Particulars	1982-83	1983-84
Source —		
Commonwealth-State	10 770	10 634
Public subscription	1 555	1 332
Financial institutions	161 635	161 385
Other	665	671
Total	<u>174 644</u>	<u>174 022</u>
Purpose —		
Ordinary services	85 841	84 911
Water	19 467	19 616
Sewerage	67 760	68 095
Abattoirs	1 557	1 400
Total	<u>174 624</u>	<u>174 022</u>

5.6 STATE AND LOCAL GOVERNMENT FINANCE

This section brings together the transactions of State Government, statutory authorities and local government. This allows the economic impact of their transactions to be assessed as well as the purposes being served by the expenditure. The information is based upon ABS analysis of the budget sector accounts of State Government and the financial transactions of statutory and local government authorities. The basic principle for inclusion in the analysis is that all non-financial public enterprises be included, all funds under their control be analysed and that tables be consolidated to eliminate transfers between funds, accounts and authorities. Statutory authorities included in the Tasmanian analysis include: Agricultural Bank — Government Agency Department, ambulance boards, regional water supply authorities, Hydro-Electric Commission, Metropolitan Transport Trust, marine boards, Totalizer Agency Board, etc.

Table 5.21 shows final consumption expenditure by State and local authorities and their expenditure on new fixed assets. Final consumption expenditure relates to expenditure by public authorities, other than public trading enterprises (e.g. Hydro-Electric Commission) which does not result in the creation of fixed tangible assets (e.g. offices, schools) nor the acquisition of land or other second hand assets. It largely comprises wages, salaries and supplements, purchases of goods and services. Education and health together accounted for just over 50 per cent of state public authority final consumption expenditure in Tasmania during 1982-83. Expenditure on new fixed assets

includes purchase of them, spending on creation of such assets (e.g. new construction) whether for replacement or addition. The expenditure on new fixed assets part of the table includes expenditure by units classified as public trading enterprises.

5.21 State and Local Authorities: Final Consumption and Expenditure on New Fixed Assets by Purpose, 1982-83 (\$m)

Purpose	Amount	Per Cent
<i>Final Consumption Expenditure</i>		
General public services —		
Law, order and public safety	58.6	9.9
General administration n.e.c.	62.6	10.5
Education —		
Primary and secondary	169.0	28.4
Other	73.4	12.4
Health	132.6	22.3
Social security and welfare	9.9	1.7
Housing and community amenities	6.5	1.1
Recreation and culture	23.3	3.9
Economic services —		
Soil and water resource management	14.9	2.5
Forest resource management	9.9	1.7
Other agriculture and fishing	12.9	2.2
Other	20.2	3.4
Other purposes	0.9	0.2
Total	<u>594.2</u>	<u>100.0</u>
<i>Expenditure on New Fixed Assets</i>		
General public services —		
Law, order and public safety	2.5	0.9
General administration n.e.c.	14.9	5.2
Education —		
Primary and secondary	6.7	2.4
Other	8.3	2.9
Health	9.4	3.3
Social security and welfare	0.2	0.1
Housing and community amenities		
Recreation and culture	40.2	14.1
Economic services —		
Forest resource management	9.7	3.4
Mining, manufacturing, construction	99.1	34.8
Electricity and gas		
Water supply		
Road systems and regulation	87.5	30.7
Urban transit systems		
Other	3.5	1.2
Other purposes	2.5	0.9
Total	<u>284.6</u>	<u>100.0</u>
Public trading enterprises	133.8	47.0
General government	150.8	53.0

5.7 REFERENCES

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APPENDIX

5.23 Metropolitan Water Board: Income and Expenditure 1983-84 (\$'000)

Item	Amount
Income —	
Municipal contributions (a)	9 946
Sale of water to other consumers	2 202
State government subsidy	1 243
Other	877
Total	14 267
Expenditure —	
Reimbursement municipal operating expenses	3 615
Board operating expenses	2 491
Interest	5 651
Other	2 124
Total	13 882

(a) Formula revenue contributions by Hobart, Clarence, Glenorchy and Kingborough.

Notes:

5.1 The ABS compiles statistics of the funding and expenditure activities of local government from authorities' accounts and supplementary questionnaires. The statistics are compiled according to national standards designed to generate local government finance statistics which are comparable over time and between States. The statistics are designed to reflect cash receipts and payments of local government. Items not forming a part of revenue (e.g. refunds for over-payments, suspense account items) are netted off. Also, the ABS makes a distinction in its local government finance statistics between ordinary services and trading activities. The latter, in Tasmania, comprise water supply, sewerage and abattoirs.

Regional Water Supply Authorities

Water supply in Tasmania was once the exclusive responsibility of local government. Three statutory authorities now operate regional bulk supply schemes:

Metropolitan Water Board: This authority is responsible for the bulk water supply to local government authorities in the Urban Hobart and adjacent areas. Overall control of water supply to Hobart, Clarence, Glenorchy and Kingborough is vested in the Board. The Councils retain responsibility for reticulation to consumers. The Board also sells water to major industrial consumers and authorities of Brighton, Green Ponds, New Norfolk, Richmond and Sorell.

5.24 North-West Regional Water Authority: Income and Expenditure 1983-84 (\$'000)

Item	Amount
Income —	
Municipal contributions	4 402
State government subsidy	1 500
Other	329
Total	7 863
Expenditure —	
Municipal operating expenses	1 751
Authority operating expenses	1 041
Interest	3 695
Other	470
Total	6 957

North-West Regional Water Authority: The *North-West Regional Water Act 1976* established this Authority. It is responsible for the

supply of water to the local government authorities of Circular Head, Devonport, Kentish, Latrobe, Penguin, Ulverstone and Wynyard. Burnie has remained outside the authority.

Rivers and Water Supply Commission: Among the functions of the Commission is the examination and recommendation subsidies to local government for the operation of water supply, sewerage and drainage schemes. The Commission is also responsible for operating a number of regional water supply schemes. Its North Esk Regional Water Supply Scheme provides bulk water to St Leonards, Lilydale and Georgetown and the townships of Hadspen and White Hills. The west Tamar Scheme provides water to the urbanised area of Beaconsfield, while on the east coast the Commission runs the Prosser River Water Supply. This currently supplies the township of Orford with water. Summary details of financial transactions between the local government and the Commission appear in the next table:

5.25 Rivers and Water Supply Commission: Selected Financial Transactions 1983-84 (\$'000)

Item	Amount
Subsidies provided to local government for water, sewerage and drainage	3 220
North Esk Regional Water Supply —	
Income	2 571
Expenditure	2 484
Prosser River Scheme —	
Income	101
Expenditure	90
West Tamar Water Supply —	
Income	1 014
Expenditure	898