

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.

In 1987-88 total current and capital expenditure, by State and local government in Tasmania, was \$1 888.1 million, five per cent above

5.1 STATE AND LOCAL GOVERNMENT EXPENDITURE, TASMANIA (\$ million)

| Expenditure item | 1985-86 r | 1986-87 | 1987-88 p |
|-----------------------------------|-----------|---------|-----------|
| Current expenditure - | | | |
| General government | | | |
| final consumption | | | |
| expenditure | 852.7 | 887.7 | 954.8 |
| Interest payments | 296.5 | 334.0 | 363.1 |
| Subsidies paid | 41.1 | 43.1 | 44.1 |
| Current grants | 47.9 | 59.0 | 69.7 |
| Other | 20.1 | 25.4 | 27.9 |
| Total | 1 258.3 | 1 349.1 | 1 459.6 |
| Capital expenditure - | | | |
| Expenditure on new | | | |
| fixed assets | 451.0 | 429.0 | 421.7 |
| Expenditure on | | | |
| second-hand | | | |
| fixed assets | - 10.5 | - 12.1 | - 18.9 |
| Increase in stocks | 2.5 | 1.6 | 1.2 |
| Expenditure on land | | | |
| and intangible assets | 3.0 | - 0.1 | 0.8 |
| Capital grants | 0.8 | 0.7 | 0.9 |
| Advances paid | 27.0 | 27.7 | 22.8 |
| Total | 473.7 | 446.9 | 428.5 |
| Total current and capital outlays | 1 732.0 | 1 796.0 | 1 888.1 |



The State Government spent \$247.7 million in 1987-88 on health services. Photo: Don Stephens

that of the previous year. Fifty-one per cent of this total was outlaid on the provision of goods and services such as health, education, and public order and safety. Of the remaining outlays, expenditure on new fixed assets accounted for 22 per cent of the total with interest payments accounting for 19 per cent.

There are three major sources of funding for State and local government outlays - revenue, grants, and financing transactions (for example, borrowings and reductions in investments and currency holdings).

In 1987-88 Commonwealth Government grants continued to be the major source of funds (52 per cent of revenue and grants) for Tasmanian State and local government income with the other significant sources being taxes, fees

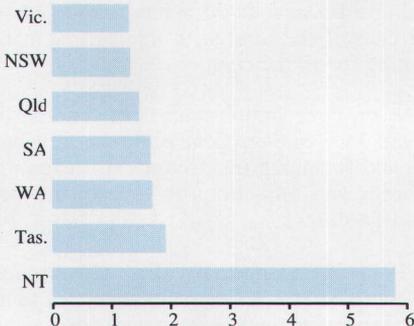
**5.2 STATE AND LOCAL GOVERNMENT INCOME, TASMANIA
(\$ million)**

| <i>Income item</i> | <i>1985-86 r</i> | <i>1986-87</i> | <i>1987-88 p</i> |
|---|------------------|----------------|------------------|
| Revenue and grants received - | | | |
| Taxes, fees and fines | 317.3 | 365.0 | 426.8 |
| Net operating surpluses of public trading enterprises | 212.1 | 248.8 | 266.2 |
| Property income | 87.4 | 104.2 | 107.1 |
| Other revenue | 2.8 | 4.0 | 4.2 |
| Grants from the Commonwealth Government | 823.4 | 854.6 | 866.1 |
| Total | 1 442.9 | 1 576.6 | 1 670.4 |
| Financing transactions - | | | |
| Advances from the Commonwealth Government | 53.3 | 36.5 | 18.8 |
| Net borrowing | 195.3 | 233.4 | 129.5 |
| Decrease in investments | 4.4 | - 10.7 | - 14.1 |
| Decrease in currency and deposits | - 3.9 | - 84.1 | - 1.6 |
| Increase in provisions | 32.2 | 40.0 | 57.0 |
| Other | 7.8 | 4.4 | 28.1 |
| Total financing transactions | 289.2 | 219.4 | 217.7 |

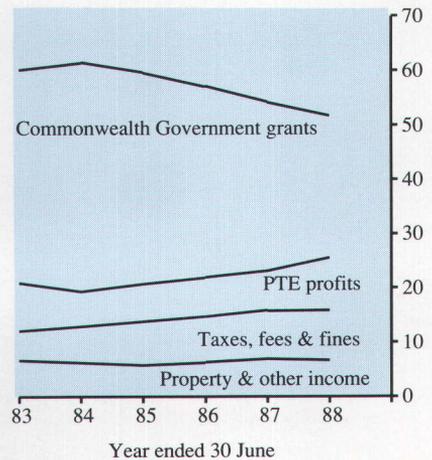
and fines (26 per cent) and net operating surpluses of public trading enterprises (16 per cent). Of all the States and the Northern Territory, Tasmania was second only to the Northern Territory (80 per cent of revenue and grants) in its reliance on Commonwealth grants as a major source of funds. NSW and Victoria were the least dependent on Commonwealth grants (42 per cent of revenue and grants for both States) with the average for all States and the Northern Territory being 45 per cent.

Whilst the percentage contribution of Commonwealth Government grants to revenue fell by five per cent during the period 1985-86 to 1987-88, the contributions from taxes, fees and fines rose by four per cent during the same period. Operating surpluses from public trading enterprises remained relatively static during the period 1985-86 to 1987-88.

COMMONWEALTH GOVERNMENT GRANTS TO STATE AND LOCAL GOVERNMENT, 1987-88 (\$ per capita)



PERCENTAGE CONTRIBUTION TO TOTAL REVENUE



5.1 STATE GOVERNMENT FINANCE

State Government financial transactions are split between the general government sector and public trading enterprises. The general government sector provides goods and services (for example health, education, and law and order) free of charge or at a cost which is significantly below their cost of production. Public trading enterprises aim to recover all or most of their operating costs.

5.1.1 General Government

The major areas of current and capital outlay showed little change as a percentage of total outlays during the period 1985-86 to 1987-88. Final consumption expenditure (59 per cent of total outlays), interest payments (13 per cent of total outlays) and expenditure on new fixed assets (12 per cent of total outlays) continued to account for the majority of funds outlaid on current and capital expenditure in 1987-88.

The major source of funds for the general government sector is Commonwealth Government grants (62 per cent of all revenue and grants received in 1987-88) with taxes, fees and fines being the other major sources of funds (25 per cent in 1987-88).

5.3 GENERAL GOVERNMENT EXPENDITURE, TASMANIA (\$ million)

| <i>Expenditure item</i> | <i>1985-86 r</i> | <i>1986-87</i> | <i>1987-88 p</i> |
|-----------------------------------|------------------|----------------|------------------|
| Current expenditure - | | | |
| Final consumption expenditure | 787 | 817 | 876 |
| Interest payments | 165 | 179 | 188 |
| Subsidies paid | 41 | 43 | 44 |
| Personal benefit payments | 20 | 25 | 27 |
| Current grants | 73 | 84 | 95 |
| Total | 1 086 | 1 149 | 1 231 |
| Capital expenditure - | | | |
| Expenditure on - | | | |
| new fixed assets | 175 | 176 | 181 |
| second-hand fixed assets | - 2 | - 2 | - 3 |
| land and intangible assets | 3 | 1 | 1 |
| Capital grants to - | | | |
| public trading enterprises | 48 | 45 | 30 |
| local government | 12 | 10 | 9 |
| other sectors | 1 | 1 | 1 |
| Advances to - | | | |
| public trading enterprises | - 4 | 15 | 14 |
| local government | 2 | 2 | 2 |
| other sectors | 24 | 23 | 21 |
| Total | 258 | 270 | 256 |
| Total current and capital outlays | 1 344 | 1 419 | 1 487 |

5.4 GENERAL GOVERNMENT INCOME, TASMANIA (\$ million)

| <i>Income item</i> | <i>1985-86 r</i> | <i>1986-87</i> | <i>1987-88 p</i> |
|--|------------------|----------------|------------------|
| Revenue and grants received - | | | |
| Taxes, fees and fines | 254 | 295 | 349 |
| Income from public trading enterprises | 5 | 8 | 9 |
| Income from State public financial enterprises | 3 | 2 | 2 |
| Interest - | | | |
| Public trading enterprises | 84 | 82 | 84 |
| Other sectors | 29 | 35 | 38 |
| Other property income and other revenue | 39 | 27 | 38 |
| Grants received | 820 | 851 | 862 |
| Total | 1 232 | 1 301 | 1 383 |
| Financing transactions - | | | |
| Net advances received | 53 | 36 | 19 |
| Net domestic borrowing | 43 | 106 | 78 |
| Increase in provisions | - | - | - |
| Other | 15 | - 26 | 6 |
| Total financing transactions | 112 | 117 | 103 |

Even though grants are the main revenue item for the general government sector, their percentage contribution to total income fell significantly during the period 1985-86 to 1987-88 (67 per cent in 1985-86 to 62 per cent in 1987-88). This shortfall was made up primarily from increased tax collections (21 per cent of total revenue and grants in 1985-86 compared with 25 per cent of total revenue and grants in 1987-88).

Current Expenditure

Government expenditure on the provision of goods and services (known as final consumption expenditure) comprises current expenditure on wages, salaries and supplements, and goods and services other than fixed assets and stocks. Fees, and other charges for goods and services rendered are offset against purchases.

In 1987-88 education and health continued to be the largest areas of current expenditure, accounting for 38 per cent and 28 per cent respectively (38 per cent and 28 per cent in 1986-87) of total current expenditure for the year. With the exception of general public services, the distribution of current expenditure remained relatively static during the period 1985-86 to 1987-88. Although expenditure on general public services (costs associated with legislative and executive branches of government, superannuation payments etc.) rose significantly between 1986-87 and 1987-88 there was no particular area of expenditure which made a significant contribution to the increase.

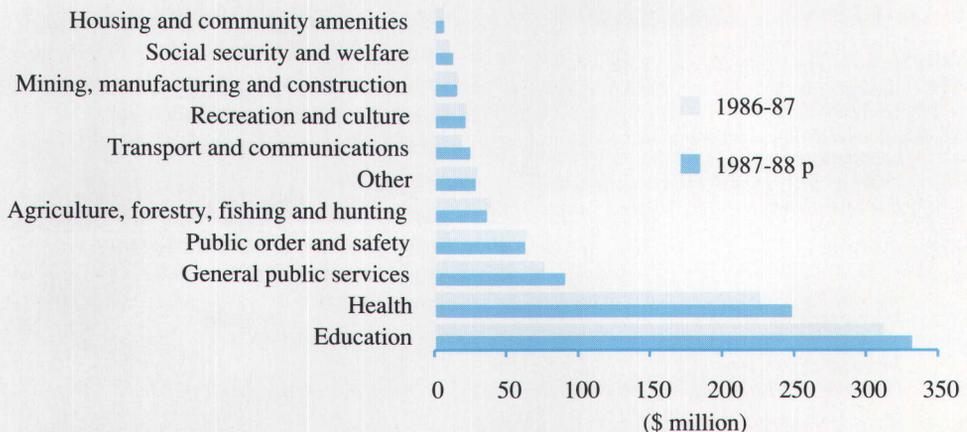
5.5 GENERAL GOVERNMENT: FINAL CONSUMPTION EXPENDITURE (\$ million)

| Expenditure item | 1985-86 r | 1986-87 | 1987-88 p |
|--|--------------|--------------|--------------|
| General public services | 88.5 | 75.8 | 90.2 |
| Public order and safety | 61.2 | 63.5 | 62.3 |
| Education - | | | |
| Primary and secondary | 168.8 | 190.1 | 200.3 |
| Tertiary | 83.7 | 84.4 | 97.6 |
| Other | 48.7 | 37.9 | 33.4 |
| Health | 199.9 | 226.0 | 247.7 |
| Social security and welfare | 10.7 | 10.3 | 12.7 |
| Housing and community amenities | 6.9 | 5.7 | 6.0 |
| Recreation and culture | 19.6 | 21.6 | 21.2 |
| Agriculture, forestry, fishing and hunting | 40.5 | 38.3 | 36.0 |
| Mining, manufacturing and construction | 14.1 | 15.9 | 15.5 |
| Transport and communications | 19.8 | 18.3 | 24.5 |
| Other | 24.5 | 29.5 | 28.3 |
| Total | 786.9 | 817.4 | 875.8 |

Capital Expenditure

In the general government sector the major areas of expenditure on new fixed assets in 1987-88 were transport and communications (35 per cent of total expenditure), health (15 per cent of total expenditure) and education (15 per cent of total expenditure).

GENERAL GOVERNMENT: FINAL CONSUMPTION EXPENDITURE



Of the \$73.6 million spent on transport and communications in 1987-88, \$72.6 million was spent on road transport (including \$.9 million on Hobart's second bridge) with the balance being spent on water transport.

Almost all of the capital expenditure on education was devoted to the extension of facilities at existing schools and colleges with some of the more significant outlays being for the Burnie Technical College (\$4.9 million), Nurse Training Centre at the Newnham Campus of the TSIT (\$4.1 million) and the Alanvale College (\$2.0 million).

Of the \$31.4 million capital expenditure on health, the major areas of expenditure were the Launceston General Hospital (\$18.4 million) and the Mersey General Hospital (\$3.4 million).

Of the remaining sectors the only one to show a significant increase in capital expenditure during 1987-88 was general public services. There was no one area of expenditure which made a significant contribution to the increase, it being more the result of a return to normal levels of expenditure after an abnormally low outlay in 1986-87.

5.6 GENERAL GOVERNMENT: CAPITAL EXPENDITURE (\$ million)

| <i>Expenditure item</i> | <i>1985-86 r</i> | <i>1986-87</i> | <i>1987-88 p</i> |
|--|------------------|----------------|------------------|
| Transport and communications | 84.6 | 82.0 | 73.6 |
| Health | 8.1 | 19.4 | 31.4 |
| Education - | | | |
| Primary and secondary | 26.8 | 18.1 | 14.4 |
| Tertiary | 8.2 | 11.5 | 14.8 |
| Other | 3.0 | 4.3 | 1.6 |
| General public services | 12.7 | 5.5 | 14.7 |
| Public order and safety | 7.6 | 13.1 | 8.3 |
| Social security and welfare | 0.5 | 0.8 | 1.1 |
| Housing and community services | 17.8 | 12.9 | 13.4 |
| Recreation and culture | 17.8 | 20.3 | 13.2 |
| Electricity and other energy | 6.7 | 0.8 | 0.1 |
| Agriculture, forestry, fishing and hunting | 11.9 | 10.2 | 10.0 |
| Mining, manufacturing and construction | 3.5 | 7.3 | 13.4 |
| Other | 4.5 | 3.9 | 1.5 |
| Total | 213.7 | 210.1 | 211.6 |

5.1.2. Public Trading Enterprises

The major difference between public trading enterprises and the general government sector is the degree to which public trading enterprises are able to fund current and capital outlays from their own revenue sources. In 1987-88 government grants funded only seven per cent of total outlays for public trading enterprises (compared with 52 per cent of outlays for the general government sector) whereas revenue funded 65 per cent (35 per cent for general government). Of the remainder, 23 per cent was funded primarily by domestic borrowings.

Major Public Trading Enterprises - Tasmania

Housing Department
 Cressy-Longford Irrigation Scheme
 The Government Printer
 Hydro-Electric Commission
 Southern Regional Cemetery Trust
 Burnie Port Authority
 Marine Board of Circular Head
 Port of Devonport Authority
 Marine Board of Flinders
 Marine Board of Hobart
 The Marine Board of King Island
 Port of Launceston Authority
 Metropolitan Transport Trust
 Hobart Regional Water Board
 North Esk Regional Water Supply
 North-West Regional Water Authority
 Prosser River Water Scheme
 The Public Trustee
 Stanley Cool Stores Board
 Tasmanian Grain Elevators Board
 Herd Improvement Board of Tasmania
 Tasmanian Museum and Art Gallery
 Tasmanian Totalisator Agency Board
 Transport Tasmania
 West Tamar Water Supply
 Western Creek and Dale Brook Improvement Scheme

During the period 1986-87 to 1987-88 sufficient revenue was generated to meet current outlays with borrowings being used primarily to fund capital expenditure on new fixed assets.

The largest public trading enterprise in Tasmania is the Hydro-Electric Commission. In 1987-88, 70 per cent of the \$171.4 million spent on asset acquisition for public trading enterprises was for electricity and other energy production. Of the \$119.6 million spent by the Hydro-Electric Commission, \$71.8 million was spent on the creation of new power developments: \$42.5 million on the King River power development and \$29.3 million on the Anthony power development. Of the remaining \$47.8

million some of the more significant outlays included extensions to the distribution system (\$28.8 million), sundry buildings (\$12.0 million), Gordon River system (\$6.6 million) and stores and general plant (\$5.5 million).

5.7 PUBLIC TRADING ENTERPRISES: EXPENDITURE AND INCOME, TASMANIA (\$ million)

| Item | 1986-87 | 1987-88 <i>p</i> |
|--|---------|------------------|
| Current expenditure - | | |
| Interest payments | 227 | 248 |
| Income transferred to general government | 8 | 9 |
| Total | 235 | 257 |
| Capital expenditure - | | |
| Expenditure on new fixed assets | 200 | 183 |
| Expenditure on second-hand fixed assets | -8 | -14 |
| Increase in stocks | 1 | 1 |
| Capital transfer payments | -5 | 1 |
| Advances to local government | - | - |
| Advances to other sectors | 5 | 2 |
| Other | -1 | -1 |
| Total | 191 | 172 |
| Total current and capital expenditure | 426 | 429 |
| Revenue and grants received - | | |
| Net operating surpluses | 228 | 243 |
| Interest received | 37 | 36 |
| Other property income and other revenue | - | - |
| Grants received | 45 | 30 |
| Total | 311 | 309 |
| Financing transactions - | | |
| Net advances received | 15 | 14 |
| Net domestic borrowing | 119 | 100 |
| Net borrowing from abroad | -4 | -67 |
| Increase in provisions | 39 | 56 |
| Other financing transactions | -53 | 18 |
| Total | 116 | 120 |
| Deficit (financing transactions less increase in provisions) | 77 | 64 |

Capital funds allocated to housing fell in 1987-88, housing and community development down \$7.2 million and water supply down \$4.8 million. Capital expenditure on water transport fell in 1987-88 primarily because of a decrease (\$4.2 million after allowing for depreciation) in the value of the T T Line's fixed assets between 1986-87 and 1987-88.

The larger than normal expenditure on agriculture, forestry, fishing and hunting in 1985-86 was due to the construction of the Craigbourne Dam (\$7.1 million in 1985-86). In other transport and communication expenditure, the Port of Devonport Authority spent \$5 million on airport acquisition (\$2 million in 1986-87) in 1985-86.

5.8 PUBLIC TRADING ENTERPRISES: CAPITAL EXPENDITURE (\$ million)

| Expenditure item | 1985-86 <i>r</i> | 1986-87 | 1987-88 <i>p</i> |
|--|------------------|---------|------------------|
| Housing and community services - | | | |
| Housing and community development | 37.2 | 42.8 | 35.6 |
| Water supply | 4.5 | 7.2 | 2.4 |
| Recreation and culture | 0.7 | 1.9 | 1.9 |
| Electricity and other energy | 159.5 | 125.5 | 119.6 |
| Agriculture, forestry, fishing and hunting | 7.2 | 3.0 | 1.0 |
| Transport and communications - | | | |
| Road transport | 4.0 | 4.7 | 6.3 |
| Water transport | 9.3 | 8.5 | 5.2 |
| Other | 5.4 | 2.3 | -1.0 |
| Other | 0.9 | 0.9 | 0.3 |
| Total | 228.7 | 196.9 | 171.4 |

5.2 COMMONWEALTH-STATE FINANCIAL RELATIONS

The financial relations between the Commonwealth and the State fall into three major categories:

- financial assistance from the Commonwealth budget as general purpose or specific purpose payments, payments for recurrent or capital purposes, and grants or advances;
- Commonwealth borrowings on behalf of the States; and
- the determination, by the Australian Loan Council, of the level of borrowings, by States, that can be undertaken each financial year.

Since Federation, a number of institutions have evolved for the management of Commonwealth-State financial relations.

5.2.1 Premiers' Conference

Although final allocations to the States are made at the discretion of the Commonwealth, the amount of general revenue assistance for the following financial year to each State is subject to negotiation at an annual Premiers' Conference which is usually held in May of each year.

5.2.2 Australian Loan Council

Under the 1927 Financial Agreement, the Australian Loan Council has the responsibility for determining the level of borrowings which the Commonwealth can undertake on behalf of the States. Borrowings by State authorities (semi-government and local government authorities, government-owned companies and trusts) are not strictly subject to the Financial Agreement, although the Loan Council approves the annual borrowing programs of these authorities.

5.2.3 Commonwealth Grants Commission

Under the *Commonwealth Grants Commission Act 1973*, the Commission is required to investigate any application made by a State or the Northern Territory for financial assistance, to enable that State (or the Northern Territory) to function at a standard similar to that of the other States. In most instances the level of payments made to individual States is based on per capita (that is, a fixed amount per head of population) relativities, which are periodically reviewed by the Commonwealth Grants Commission.

5.9 PER CAPITA RELATIVITIES - FINANCIAL ASSISTANCE GRANTS

| State | 1986-87 (a) | 1987-88 (a) | 1988-89 (b) |
|-------|-------------|-------------|-------------|
| NSW | 1.008 | 1.008 | 1.026 |
| Vic. | 1.000 | 1.000 | 1.000 |
| Qld | 1.416 | 1.416 | 1.218 |
| SA | r 1.397 | r 1.397 | 1.381 |
| WA | r 1.455 | r 1.455 | 1.360 |
| Tas. | 1.605 | 1.605 | 1.528 |
| NT | n.a. | n.a. | 5.042 |

(a) Per capita relativities for the triennium commencing 1985-86.

(b) Per capita relativities adopted at the 1988 Premiers' Conference to apply in 1988-89.

Since 1985-86, payments to Tasmania have declined relatively quickly reflecting adjustments in line with the recommendations of the Commonwealth Grants Commission's Report on Tax Sharing Relativities released in 1985.

To ease the reduction in general revenue assistance and the introduction of new relativities (for the 1988-89 financial year), it was agreed at the 1988 Premiers' Conference that special revenue assistance (an estimated \$16.4 million for Tasmania) would be provided to those governments most affected by these changes.

5.3 LOCAL GOVERNMENT FINANCE

In classifying local government financial transactions it is useful to distinguish between ordinary services and trading activities.

Trading activities are grouped separately because they are operated in a commercial manner, rather than as a 'service' such as parks and gardens. The only activities classified as 'trading activities' are water supply and sewerage. All other activities, such as garbage and waste disposal facilities, roads and foot paths, drainage, health inspection, parks, recreation facilities, gardens, cemeteries, and community centres are classified as ordinary services.



Service activities such as the maintenance of parks is a local government responsibility. Photo: Don Stephens

5.3.1 Receipts and Outlays

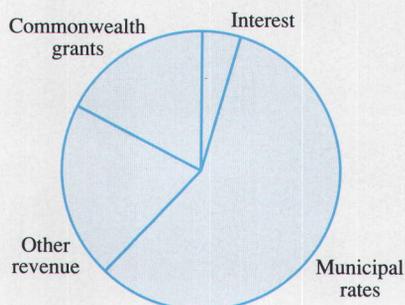
The principal source of revenue for local government authorities is rates (58 per cent of revenue and grants received in 1987-88). These are direct charges to owners of property, based on the gross annual income the owner might obtain by letting the land and its fixtures. Valuations are carried out by the Land Valuation Branch of the State Lands Department on a rotational basis, with each property being valued every five years.

5.10 TOTAL PROPERTY VALUATION, TASMANIA (\$ million)

| Year (at 1 July) | Total capital value | Assessed annual value | Land value |
|---------------------|------------------------|--------------------------|---------------|
| 1985 | 9 511.2 | 667.0 | 3 207.6 |
| 1986 | 10 271.9 | 720.3 | 3 464.8 |
| 1987 | 11 315.4 | 801.5 | 3 818.1 |
| 1988 | 12 591.1 | 900.2 | 4 265.0 |
| 1989 | 13 612.5 | 968.0 | 4 589.3 |

Unlike the general State Government sector the local government sector does not rely heavily on Commonwealth Government grants (62 per cent and 17 per cent respectively of total revenue and grants received in 1987-88). In 1987-88 rates and other charges funded 75 per cent of total outlays, with grants and loans being used primarily to fund capital expenditure.

LOCAL GOVERNMENT INCOME, REVENUE AND GRANTS RECEIVED, TASMANIA, 1987-88 (\$ million)



5.11 LOCAL GOVERNMENT INCOME, TASMANIA, 1987-88 (\$ million)

| Income item | Ordinary services | Trading activities | Total |
|-------------------------------|----------------------|-----------------------|--------------|
| Revenue and grants received - | | | |
| Municipal rates | 73.2 | 63.3 | 136.5 |
| Interest | 10.7 | - | 10.7 |
| Other revenue | 36.9 | 11.6 | 48.5 |
| Grants from the Commonwealth | 36.7 | 4.3 | 41.0 |
| Total | 157.5 | 79.2 | 236.7 |
| Financing transactions - | | | |
| Loans | 14.0 | 8.8 | 22.8 |
| Other | - | 9.6 | 9.6 |
| Total | 14.0 | 18.4 | 32.4 |

In 1987-88 internal revenue for ordinary services, amounting to \$121 million, funded 97 per cent of total current expenditure while internal revenue for trading activities actually exceeded current expenditure by \$11.6 million.

For both the ordinary services and trading activities sectors of local government, capital expenditure in 1987-88 was devoted entirely to the acquisition of land and fixed assets (87 per cent and 80 per cent respectively of total capital expenditure) and debt redemption (13 per cent and 20 per cent respectively of total capital expenditure).

5.12 LOCAL GOVERNMENT EXPENDITURE, TASMANIA, 1987-88 (\$ million)

| Expenditure item | Ordinary services | Trading activities | Total |
|-----------------------|----------------------|-----------------------|--------------|
| Current expenditure - | | | |
| Goods and services | 109.3 | 51.2 | 160.5 |
| Interest payments | 11.1 | 11.8 | 22.9 |
| Levies | 2.2 | - | 2.2 |
| Other | 2.0 | 0.3 | 2.3 |
| Total | 124.6 | 63.3 | 187.9 |
| Capital expenditure - | | | |
| Land and fixed assets | 43.2 | 18.2 | 61.4 |
| Debt redemption | 6.5 | 4.6 | 11.1 |
| Total | 49.7 | 22.8 | 72.5 |

5.4 PUBLIC DEBT

5.4.1 State Government Debt

State Government debt is the aggregate of loans, taken out 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. The redemption and conversion of loans is carried out by the National Debt Sinking Fund Commissioners for, and on behalf of, all of the States under the provisions of the Financial Agreement of 1927.

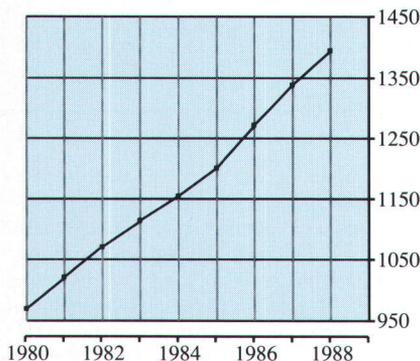
5.13 STATE PUBLIC DEBT, TASMANIA (\$ million)

| At 30 June | Amount (\$ million) | Increase over previous year (%) | Debt per head of mean population (\$ (a)) |
|-------------------|------------------------|---------------------------------------|--|
| 1984 | 1 154.5 | 3.6 | 2 653 |
| 1985 | 1 200.7 | 4.0 | 2 728 |
| 1986 ^r | 1 271.6 | 5.9 | 2 860 |
| 1987 | 1 338.5 | 5.3 | 2 991 |
| 1988 | 1 394.9 | 4.2 | 3 114 |

(a) Mean resident population as at 30 June.

At 30 June 1988 State Government public debt stood at \$1 394.9 million, an increase of 4.2 per cent over the previous year. In addition to the public debt, certain statutory authorities

STATE PUBLIC DEBT, TASMANIA (\$ million)



have raised loans throughout Australia and overseas. The balance of these loans, net of sinking fund balances, at 30 June 1988, was approximately \$1850 million.

During the period 30 June 1984 to 30 June 1988 Tasmania's public debt rose from \$2653 per head of population to \$3114 per head of population, a rise of 17 per cent over the four year period.

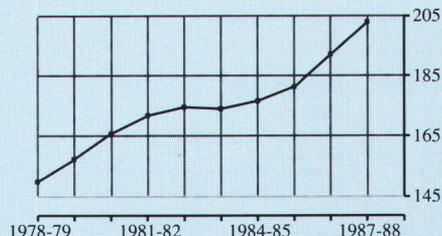
5.4.2 Local Government Debt

The principal source of funds used to finance new capital works programs of local government is external borrowing. However, some of the larger authorities do finance a substantial part of such activity from internal reserves and revenue sources. At the end of 1988, total indebtedness of local government authorities was \$203 million. Ninety-one and one half per cent of this debt was owed to financial institutions such as banks and insurance companies.

5.14 LOCAL GOVERNMENT LONG-TERM DEBT, TASMANIA (\$'000)

| Details | 1986-87 | 1987-88 |
|------------------------|---------|---------|
| Source - | | |
| Commonwealth-State | 13 151 | 15 017 |
| Public subscriptions | 646 | 513 |
| Financial institutions | 176 912 | 185 790 |
| Other | 1 574 | 1 654 |
| Total | 192 283 | 202 975 |
| Purpose - | | |
| Ordinary services | 93 545 | 100 184 |
| Water | 21 593 | 21 566 |
| Sewerage | 77 145 | 81 225 |
| Total | 192 283 | 202 975 |

LOCAL GOVERNMENT LONG-TERM DEBT, TASMANIA (\$ million)



5.5 STATE AND LOCAL GOVERNMENT TAXATION

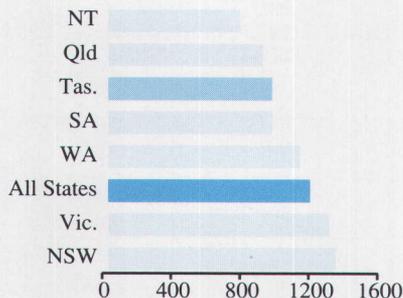
In 1987-88 taxes, fees and fines for both levels of government in Tasmania, were \$953 per head of mean population. With the exception of the Northern Territory and Queensland, this was the lowest of all the States, New South Wales having the highest level of taxation (\$1324 per head). The average of all the States was \$1175 per head of mean population.

5.15 TAXES, FEES AND FINES PER HEAD OF MEAN POPULATION (\$)

| State/Territory | 1985-86 r | 1986-87 | 1987-88 |
|--------------------|-----------|---------|---------|
| New South Wales | 1 017 | 1 130 | 1 324 |
| Victoria | 1 031 | 1 146 | 1 285 |
| Queensland | 699 | 751 | 899 |
| South Australia | 765 | 827 | 958 |
| Western Australia | 797 | 944 | 1 117 |
| Tasmania | 714 | 816 | 953 |
| Northern Territory | 609 | 678 | 769 |
| All States | 913 | 1 014 | 1 175 |

Nevertheless, in the two year period ended 1987-88 Tasmania's taxation per head of mean population rose by 33.5 per cent, second only to Western Australia (40.0 per cent). This was well ahead of the all-States' average rise of 28.7 per cent.

TAXES, FEES AND FINES PER HEAD OF MEAN POPULATION, 1987-88 (\$)



The principal source of State taxation is employer-based payroll taxes which accounted for 25 per cent of total State Government tax collections in 1987-88. Other major contributors to State revenue in 1987-88 were franchise taxes on petroleum products, tobacco and liquor (22 per cent), taxes on property (20 per cent excluding municipal rates) and motor vehicle taxes (12 per cent).

5.16 TAXES, FEES AND FINES COLLECTED, TASMANIA (\$ million)

| Tax | 1986-87 | 1987-88 |
|---|---------|---------|
| Employers' payroll taxes | 80.8 | 87.6 |
| Taxes on property - | | |
| Municipal rates | 66.4 | 73.2 |
| Other | 52.7 | 71.2 |
| Total | 199.9 | 232.0 |
| Taxes on provision of goods and services - | | |
| Excises | 8.4 | 8.9 |
| Taxes on gambling | 22.6 | 32.7 |
| Taxes on insurance | 11.6 | 12.8 |
| Total | 42.7 | 54.5 |
| Taxes on use of goods and performance of activities - | | |
| Motor vehicle taxes | 39.3 | 42.5 |
| Franchise taxes - | | |
| Petroleum products | 36.8 | 37.3 |
| Tobacco franchise taxes | 19.3 | 25.8 |
| Liquor franchise taxes | 9.7 | 12.5 |
| Other | 1.8 | 3.9 |
| Total | 106.9 | 122.0 |
| Fees and fines | 15.5 | 18.4 |
| Total taxes, fees and fines - | 365.0 | 426.9 |
| State Government | 295.1 | 349.5 |
| Local Government | 69.9 | 77.4 |

Of the major taxes, taxes on property (exclusive of municipal rates) increased the most (2.1 per cent) as a percentage of total taxes between 1986-87 and 1987-88. Taxes on gambling also increased slightly (1.7 per cent) whereas employers' payroll taxes (2.4 per cent), petroleum products franchise taxes (1.8 per cent) and motor vehicle taxes (1.1 per cent) decreased in terms of their percentage contributions to total State Government revenue.

5.5.1 State Taxation Review *

Following successive reductions in Commonwealth funding over recent years there has been a significant increase in the overall level of State taxation in Tasmania. While some concessions have been granted, existing taxes have been increased and new taxes introduced.

5.17 INTRODUCTION OF STATE TAXES

| Year | Tax initiative |
|---------|--|
| 1983-84 | Introduction of debits duty. Increase in tobacco franchise fees from 12% to 24%. Increase in the payroll tax small businesses deduction. Reduction in the stamp duty applicable to the registration of new motor vehicles. |
| 1984-85 | Increase from 5% to 6% in the rate of payroll tax for firms with payrolls over \$5 million (with grant arrangements for Tasmanian firms reducing the effective tax rate to 5%). Increase in tobacco franchise fees from 24% to 35%. |
| 1985-86 | Removal of the payroll tax grant arrangements for Tasmanian firms with payrolls over \$5 million increasing their effective rate to 6%. Increase in the payroll tax exemption level and small businesses deduction. |
| 1986-87 | Increase in a range of stamp duties including mortgage rates, conveyance rates, minimum duty, etc. Increase in land tax minimums from \$10 to \$25. Increase in liquor licensing fees from 8% to 11%. Increase in petroleum products business franchise fees from 6.5% to 14.75%. Introduction of financial institutions duty. Introduction of electricity consumption levy. Introduction of forest management charge. |
| 1987-88 | Increase in tobacco franchise fee from 35% to 50%. Introduction of ambulance service contribution. Introduction of 2% stamp duty on rental business. |
| 1988-89 | Increase from 6% to 7% in the rate of payroll tax for firms with payrolls over \$7.5 million. Revised forestry and mining royalty arrangements. Increase in the payroll tax exemption level and small businesses deduction. |

* Taken from a Treasury Department report 'State Taxation Review'.

The stage has been reached where on certain measures Tasmania has the highest State imposed taxation burden of any State. Information provided in the Commonwealth Grants Commission's 1989 Update Report, indicates that while Tasmania ranks third lowest of the States using actual revenue collections per capita as a measure of comparison, using the superior index of severity measure Tasmania has the highest burden of any State in terms of the severity of taxation.

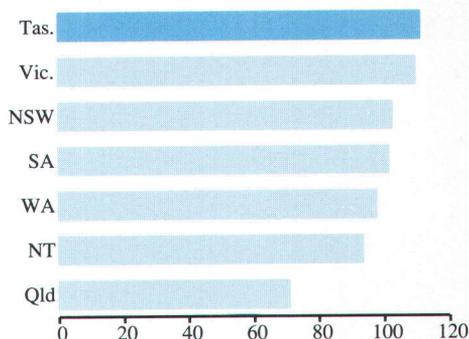
5.18 STATE TAXATION LEVELS 1987-88

| State | Taxation collections (\$ per capita) | | Index of severity (a) |
|-------|---|---------|--------------------------|
| | Actual | Std (b) | |
| NSW | 927.22 | 899.77 | 103.05 |
| Vic. | 920.18 | 834.51 | 110.27 |
| Qld | 532.00 | 745.76 | 71.34 |
| WA | 804.27 | 818.84 | 98.22 |
| SA | 634.60 | 622.63 | 101.92 |
| Tas. | 651.10 | 582.66 | 111.75 |
| NT | 602.05 | 640.86 | 93.94 |

(a) The index of severity is derived by dividing the actual revenue by the standardised revenue and multiplying by 100. This is a generally accepted basis of comparison of severity of taxation between the States.

(b) Std is the standardised taxation revenue collections and represents the revenue that would be raised by a State from the available tax base if it were to impose taxes at standard rates.

STATE TAXATION LEVELS, 1987-88 (Index of Severity)



5.19 STATE TAXATION - INDEX OF RELATIVE SEVERITY

| State | 1984-85 | 1985-86 | 1986-87 | 1987-88 |
|-------|---------|---------|---------|---------|
| NSW | 101.32 | 104.04 | 103.87 | 103.05 |
| Vic. | 116.41 | 115.21 | 112.11 | 110.27 |
| Qld | 72.33 | 70.71 | 69.36 | 71.34 |
| WA | 94.18 | 89.94 | 99.47 | 98.22 |
| SA | 97.64 | 97.22 | 96.98 | 101.92 |
| Tas. | 94.32 | 96.03 | 105.90 | 111.75 |
| NT | 67.14 | 86.94 | 87.29 | 93.94 |

The steady increase in the severity of taxation in Tasmania relative to other States, reflects the introduction of tax measures over recent years. Moreover, Tasmania's relative tax severity is likely to increase further when figures are released in relation to the 1988-89 year which will reflect the introduction of the 7 per cent payroll tax rate in Tasmania.

There was a substantial increase in the amount collected from Tasmanian taxpayers during 1988-89. Natural growth together with the full year effect of increases introduced in 1988-89 will ensure that State taxation collections will at least remain constant in real terms in 1989-90.

5.6 REFERENCES

ABS Publications:

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- Government Finance Statistics, Australia, (5512.0), annual.*
- Government Financial Estimates, Australia, (5501.0), annual.*
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Other Publications:

- Commonwealth Budget Paper No. 4, Commonwealth Financial Relations with Other Levels of Government, AGPS, Canberra.*
- Budget Paper No. 1, Supporting Budget Information, Government Printer, Hobart.*
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- Commonwealth Grants Commission's Report on Tax Sharing Relatives 1985, AGPS, Canberra.*