

## CHAPTER TWENTY-FOUR

### PUBLIC FINANCE

This chapter deals with the financial activities of the organisations which make up the three levels of government in the Australian political system—Commonwealth, State and local—and which collectively constitute the public sector. An account is given of the activities of each level of government, with particular emphasis being given to the Commonwealth Government. Tables are then presented which bring together the transactions of all public non-financial enterprises to highlight the role in the Australian economy of the public sector as a whole. Then follows a section on government borrowing activities at all levels. A special article covering the development of Commonwealth–State financial arrangements is included at the end of the chapter.

#### Concepts and definitions used in public finance statistics

The tables below (except those explicitly sourced to Budget Papers) are provided from the system of government finance statistics (GFS). To assist users in understanding the statistics presented in these tables, a separate publication *Classifications Manual for Government Finance Statistics, Australia* (1217.0) has been produced. It outlines the major concepts used, provides definitions of the enterprise unit used for GFS collections and the categories in each of the main unit, and of transactions classifications employed. The GFS classifications used in the tables that follow are:

- the *Economic Transactions Framework* (ETF) which categorises outlays, revenue, grants received and financing transactions according to their economic character to facilitate study of the macroeconomic effect of government activity on the economy and to provide the basic building blocks for grouping transactions to be incorporated into the Australian National Accounts;
- the *Taxes, Fees and Fines Classification* (TFFC) which dissects this major form of government revenue according to the type of tax, fee or fine collected; and
- the *Government Purpose Classification* (GPC) which is used to group outlays with similar functions to facilitate study of the broad purposes of public sector spending and assessment of the effectiveness of outlays in meeting government policy objectives.

#### Commonwealth Government finance

##### Financial provisions of the Constitution

The main provisions of the Constitution relating to the initiation and development of the financial system of the Commonwealth of Australia are contained in Sections 81 to 105A of the Commonwealth Constitution.

Two other sections which have a most important bearing on questions of Commonwealth finance are Sections 69 and 51. Section 69 provides for the transfer from the States to the Commonwealth of certain specified departments, and Section 51, in outlining the powers of the Commonwealth Parliament, implies the transfer or creation of other departments.

Sections 87 and 96 of the Constitution deal with the financial relations between the Commonwealth and the States. The full text of the Financial Agreement of 1927 was given in *Year Book* No. 31, page 21; accounts of this Agreement as affected by subsequent Agreements were included in later issues of the *Year Book* up to No. 37; details of the main provisions appeared in further issues of the *Year Book* up to No. 50. For details of current provisions for financial assistance to the States reference should be made to the Commonwealth Budget Paper No. 7 *Payments to or for the States, the Northern Territory and Local Government Authorities, 1986–87*.

The *Audit Act 1901* lays down the procedure which must be followed in accounting for the receipt and disbursement of public funds. The general administration of Commonwealth Government finances is the responsibility of the Commonwealth Minister for Finance.

## Commonwealth Government Budget

The Commonwealth Government Budget records the transactions of those enterprises of the Commonwealth Government whose receipts and payments are summarised in the statements of Public Account balances. In 1985-86 the change in cash balances was represented by the following:

	\$'000
Net Cash receipts of the Consolidated Revenue Fund . . . . .	65,513,488
<i>plus</i> cash receipts of Loan Fund . . . . .	37,498,087
<i>plus</i> cash receipts of Trust Fund . . . . .	6,310,132
<i>Total</i> . . . . .	109,321,707
<i>less</i> cash payments from Consolidated Revenue Fund . . . . .	65,513,488
<i>less</i> cash payments from Loan Fund . . . . .	37,498,016
<i>Less</i> cash payments from Trust Fund (including decrease in investments of the Trust Fund) . . . . .	5,869,176
<i>Total</i> . . . . .	108,880,680
<i>equals</i> increase in cash balances . . . . .	441,027

Revenues from taxation and other sources are paid into the Consolidated Revenue Fund, from which the main expenditures are for defence, social services, payments to the States and general administration. The Trust Fund covers special transactions outside the ordinary operations of departmental expenditures, such as pension funds and moneys held for expenditure by the Commonwealth Government at some future time. The Loan Fund receives its funds from the sale of the Commonwealth Government securities, and the expenditures from the Fund are made in accordance with the purpose of issue of each loan. The main disbursements from the Loan Fund are to the States by way of distribution of the proceeds of loans raised by the Commonwealth Government on their behalf and by capital assistance grants, the remaining disbursements being mainly for Commonwealth Government purposes.

The estimated outlay, revenue and deficit of the Budget for 1986-87 are set out in the table which follows, together with figures for the years 1981-82 to 1985-86. The national accounting presentation of the Budget is shown in order to be consistent with other transactions figures given in this chapter.

It should be noted that some transactions undertaken by enterprises covered by the Budget are not reflected in the change in cash balances, usually because they are not cash transactions or because a receipt and a payment are offset against each other so that only a net amount is included in published totals. The national accounting presentation of the Budget includes these additional transactions.

### OUTLAYS, REVENUE AND DEFICIT OF THE COMMONWEALTH BUDGET

(\$ million)

(Source: Budget Paper No. 1 Budget Statements 1986-87)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 Budget Estimates
<b>Outlay—</b>						
<b>Net expenditure on goods and services—</b>						
Current . . . . .	7,548	8,567	9,964	11,201	12,634	14,010
Capital (a) . . . . .	205	340	275	377	409	491
<b>Total</b> . . . . .	7,753	8,907	10,239	11,578	13,043	14,501
<b>Transfer payments—</b>						
Personal benefit payments . . . . .	12,790	15,588	18,399	20,677	22,373	24,149
Grants to States and Northern Territory . . . . .	13,181	15,388	17,780	19,637	20,997	22,425
Grants to non-profit institutions . . . . .	132	506	603	729	777	927
Interest paid . . . . .	2,881	3,378	4,334	5,664	7,088	7,547
Transfers overseas . . . . .	638	697	749	834	832	792
Subsidies . . . . .	1,308	1,204	1,229	1,346	1,358	1,100
Grants for private capital purposes . . . . .	192	241	328	388	331	307
Transfers to non-budget sector (b) . . . . .	1,288	1,481	1,590	1,886	2,249	2,443
Other Transfers n.e.c. . . . .	35	51	59	71	81	114
<b>Total</b> . . . . .	32,445	38,535	45,071	51,234	56,085	59,804

**OUTLAYS, REVENUE AND DEFICIT OF THE COMMONWEALTH BUDGET—continued**  
(*\$ million*)

(Source: Budget Paper No. 1 *Budget Statements 1986-87*)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 Budget Estimates
Net advances—						
States and Northern Territory . . . . .	866	1,056	1,002	799	783	535
Non-budget Commonwealth Authorities	13	183	-18	-16	-102	-125
Other sectors . . . . .	111	111	136	116	106	48
<b>Total . . . . .</b>	<b>990</b>	<b>1,349</b>	<b>1,120</b>	<b>899</b>	<b>788</b>	<b>459</b>
<b>Total outlay . . . . .</b>	<b>41,188</b>	<b>48,792</b>	<b>56,430</b>	<b>63,712</b>	<b>69,917</b>	<b>74,764</b>
Revenue—						
Taxation—						
Income tax on companies . . . . .	5,258	5,107	4,940	6,034	6,702	8,065
Income tax on persons . . . . .	21,224	22,967	24,710	29,300	32,734	36,740
Sales tax, Customs and Excise duties . . . . .	11,004	12,399	14,294	16,507	18,273	19,296
Tax on Certain Bank Transactions . . . . .	..	30	183	189	202	260
A.C.T. taxes and charges . . . . .	74	92	105	125	150	172
Other taxes, fees, fines, etc . . . . .	151	169	208	266	339	351
<b>Total . . . . .</b>	<b>37,711</b>	<b>40,764</b>	<b>44,438</b>	<b>52,421</b>	<b>58,399</b>	<b>64,885</b>
Non-Taxation Revenue—						
Interest, rent, dividends, royalties, etc.	2,923	3,574	4,060	4,567	5,792	6,374
Miscellaneous income from Commonwealth enterprises . . . . .	2	6	..	4	..	2
<b>Total . . . . .</b>	<b>2,925</b>	<b>3,580</b>	<b>4,060</b>	<b>4,571</b>	<b>5,792</b>	<b>6,376</b>
<b>Total revenues . . . . .</b>	<b>40,636</b>	<b>44,344</b>	<b>48,499</b>	<b>56,992</b>	<b>64,191</b>	<b>71,261</b>
<b>Deficit . . . . .</b>	<b>552</b>	<b>4,448</b>	<b>7,932</b>	<b>6,720</b>	<b>5,726</b>	<b>3,503</b>

(a) Expenditure on new fixed assets *plus* increase in stocks *less* sales of previously rented houses. (b) The Commonwealth Non-Budget sector consists of enterprises which operate outside the Public Account. This includes both general government enterprises which largely depend on budget funding (e.g. ABC) and public trading enterprises which are largely self-financing (e.g. Telecom).

### Financing of the Commonwealth Government deficit

The deficit shown in the last line of the preceding table represents the net excess of Budget outlay over revenue. In other words, the estimated deficit shown for 1986-87 represents the Commonwealth Government budget sector's 'financing requirements'. Most such transactions involve the issue, repurchase, redemption or acquisition of Commonwealth Government securities, but some involve or are represented by changes in other assets or liabilities of the Commonwealth Government.

Specifically the deficit is financed as follows:

Net sales of Commonwealth Government securities (new issues *less* redemptions *less* net purchases from Commonwealth Government balances in the Trust Fund);  
*less* net purchases of other investments from Commonwealth Government balances in the Trust Fund  
*plus* minor items of indebtedness (such as borrowing by Australian Capital Territory housing trust account)  
*less* net additions to cash balances, and funds provided for the International Monetary Fund and the Australian Wheat Board.

A table summarising the financial transactions of the Commonwealth Government budget sector for recent years is given on page 378, Table 1 in 1986-87 *Budget Paper No. 1*.

### Commonwealth non-budget enterprises

In addition to the group of Commonwealth Government enterprises whose transactions are covered by the Budget (i.e. itemised in the Consolidated Revenue Fund, the Loan Fund, or recorded in a Trust Fund), there are a number of organisations owned or controlled by the Commonwealth Government whose transactions do not, for the most part, pass through the

Public Account. This category includes public trading enterprises such as the Australian Postal Commission, Australian Telecommunications Commission, Overseas Telecommunications Commission, Qantas Airways Ltd, Australian National Airlines Commission, the Australian Shipping Commission, the Snowy Mountains Hydro-electric Authority, and public financial enterprises such as the Reserve Bank and the Commonwealth Banking Corporation. Public trading and financial enterprises, it should be noted, are bodies which aim at covering the bulk of their expenses by revenue either from sales of goods and services (trading enterprises), or by charges for services and net interest receipts (financial enterprises). As well as these enterprises, there are other government enterprises which record most of their transactions outside the Public Account but have only minor independent sources of revenue and are financed almost entirely from funds voted to them each year from the Consolidated Revenue Fund. In order that the national accounting presentation may indicate, as completely as possible, the direct effect of the Budget on demand, appropriations to this last group of enterprises are treated as final expenditure in the Budget. Enterprises in this category include the Australian Broadcasting Corporation, Australian National University, National Capital Development Commission, and the Australian Nuclear Science and Technology Organisation.

The transactions of Commonwealth Government bodies not covered by the Budget may be brought together and consolidated with the transactions recorded in the Budget to yield figures of the transactions of all Commonwealth public sector enterprises which are owned and/or controlled by the Commonwealth Government. The remaining tables in this section have been prepared on that basis.

Public financial enterprises have been omitted from the consolidated accounts presented here largely on the ground that combining the income and outlay and capital financing transactions of the Reserve Bank, the publicly owned trading and savings banks, government insurance offices and other public financial institutions with the equivalent transactions of public trading enterprises and general government enterprises seems to provide a less meaningful account of public sector activity. For example, omission of the borrowing and lending activities of the government banks and the Reserve Bank allows attention to be centred on the borrowing and lending activities of general government and public trading enterprises, which are quite different in nature and economic effect from the financing activities of the banking system.

### **Coverage—Northern Territory Government**

On 1 July 1978 the Northern Territory became self-governing with expenditure responsibilities and revenue raising powers broadly approximating those of a State. In public finance statistics the Northern Territory Government is grouped with State and local governments from 1978–79 onwards. This results in a discontinuity in time series for the financial transactions of Commonwealth Government enterprises because:

- In the period up to and including 1977–78 Commonwealth spending on State-type services in the Northern Territory is included under the various Commonwealth outlay categories such as final consumption expenditure and gross capital formation. Similarly, State-type taxation and income from the Northern Territory public trading enterprises is included in the respective Commonwealth revenue categories.
- From 1978–79 onwards, Commonwealth spending in respect of the Northern Territory consists to a large extent of grants and advances to Northern Territory general government enterprises while State-type taxation and income from the Northern Territory public trading enterprises are no longer part of Commonwealth revenue.
- Not all State-type functions were fully transferred to the Northern Territory Government from 1 July 1978. Responsibility for health services was transferred on 1 January 1979 and responsibility for education services was transferred from 1 July 1979. The Commonwealth retains responsibility for certain State-type matters such as uranium mining and Aboriginal affairs (other than provision of services to Aboriginal communities).

### **Summary of outlay, revenue and net public sector borrowing requirement**

The outlay and revenue, and net public sector borrowing requirement, of all non-financial enterprises of the Commonwealth Government for the six-year period ending 1985–86 are given in the following table.

**OUTLAYS, REVENUE AND DEFICIT OF COMMONWEALTH GOVERNMENT**  
(**\$ million**)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86p
Current outlays . . . . .	33,493	38,448	45,047	52,432	59,551	65,560
General government final consumption expenditure . . . . .	7,269	8,538	9,843	11,344	12,806	14,461
Required current transfer payments (a) . . . . .	2,767	3,284	3,761	4,803	6,178	7,563
Unrequited current transfer payments . . . . .	23,457	26,625	31,443	36,285	40,567	43,537
Subsidies paid to enterprises . . . . .	1,114	1,208	1,313	1,459	1,708	1,679
Personal benefit payments . . . . .	11,083	12,875	15,664	18,383	20,660	22,355
Current grants . . . . .	11,260	12,543	14,466	16,443	18,199	19,503
to non-profit institutions . . . . .	377	474	597	703	858	910
to foreign governments and organisations . . . . .	574	665	736	773	855	853
to the States and Northern Territory . . . . .	10,295	11,384	13,108	14,935	16,429	17,645
to Local governments (direct) . . . . .	15	19	24	32	57	95
Other current transfer payments . . . . .	—	—	—	—	—	—
Capital outlays . . . . .	4,397	5,113	6,006	6,957	7,339	8,222
Gross fixed capital expenditure . . . . .	1,642	1,888	2,118	2,330	2,975	3,817
Expenditure on new fixed assets . . . . .	1,761	1,926	2,132	2,299	3,185	4,111
Expenditure on secondhand fixed assets (net) . . . . .	-119	-38	-14	31	-210	-293
Increase in stocks . . . . .	113	274	294	216	-84	-6
Expenditure on Land and intangible assets (net) . . . . .	-142	-13	-34	-51	-91	-101
Capital transfer payments . . . . .	1,811	2,005	2,510	3,161	3,601	3,647
Capital grants . . . . .	1,811	2,005	2,510	3,161	3,601	3,647
to the States and Northern Territory . . . . .	1,666	1,770	2,216	2,773	3,147	3,241
to Local governments (direct) . . . . .	7	7	20	21	19	16
to other sectors . . . . .	138	227	274	367	435	390
Other capital transfer payments . . . . .	—	—	—	—	—	—
Advances paid (net) . . . . .	973	958	1,118	1,301	938	865
to the States, Northern Territory and Local governments . . . . .	936	865	1,050	995	790	783
to other sectors . . . . .	37	93	67	306	147	82
Revenue . . . . .	35,593	41,520	44,977	49,580	58,676	65,768
Taxes, fees and fines . . . . .	32,683	37,941	41,011	44,753	52,910	58,743
Income taxes levied on individuals . . . . .	17,532	21,205	22,943	24,691	29,289	32,721
Income taxes levied on enterprises and non-residents . . . . .	4,841	5,258	5,103	4,927	6,011	6,656
Other taxes, fees and fines . . . . .	10,310	11,478	12,966	15,135	17,610	19,365
Net operating surpluses of public trading enterprises . . . . .	769	1,060	915	1,439	1,881	1,983
Property income and other revenue . . . . .	2,140	2,519	3,051	3,388	3,885	5,042
Financing transactions . . . . .	2,298	2,040	6,076	9,810	8,214	8,015
Increase in provisions . . . . .	819	881	1,074	1,381	1,061	1,346
Net public sector borrowing requirement . . . . .	1,479	1,160	5,001	8,429	7,153	6,668

(a) Interest, land rent, royalties and dividends paid.

## Grants and advances to the States and the Northern Territory

Commonwealth Government financial assistance to the States and the Northern Territory takes two main forms: (i) grants for general and specific purposes, and (ii) assistance for developmental and other specific purposes in the form of repayable advances. Some information about these forms of financial assistance is given below, but for more complete information reference should be made to the Commonwealth Government Budget Paper No. 7 *Payments to or for the States, the Northern Territory and Local Government Authorities*. Further information also appears in chapters of this *Year Book* dealing with the specific function which the payments are designed to serve.

### Grants to the States and the Northern Territory

The following tables show details of grants to the States and the Northern Territory classified by purpose.

**GRANTS TO STATES AND NORTHERN TERRITORY BY GOVERNMENT PURPOSE  
CLASSIFICATION AND STATE, 1985-86**

(\$ million)

	<i>N.S.W.</i>	<i>Vic.</i>	<i>Qld</i>	<i>S.A.</i>	<i>W.A.</i>	<i>Tas.</i>	<i>N.T.</i>	<i>Total</i>
<i>Current grants</i> . . . . .	5,559.1	4,188.9	2,903.0	1,805.1	1,838.6	658.5	666.6	17,619.8
General public services, defence, public order and safety . . . . .	1.8	18.6	11.9	6.8	8.6	0.2	2.0	49.8
Education . . . . .	1,174.9	1,022.9	525.7	310.4	324.6	92.4	22.9	3,473.8
Primary and secondary education . . . . .	467.7	389.8	210.7	102.8	113.9	33.0	12.7	1,330.7
Tertiary education . . . . .	702.3	627.0	310.8	203.1	205.2	58.6	9.8	2,116.8
University education . . . . .	438.3	302.7	164.9	107.3	93.9	40.5	—	1,147.6
Other higher education . . . . .	202.3	284.6	124.8	80.3	95.1	12.3	—	799.4
Technical and further education . . . . .	61.7	39.7	21.1	15.5	16.1	5.8	9.8	169.8
Preschool education and education not definable by level . . . . .	4.8	6.0	4.2	4.5	5.5	0.8	0.4	26.2
Preschool education . . . . .	3.6	4.5	3.3	1.9	2.4	0.7	0.2	16.5
Other education not definable by level . . . . .	1.3	1.5	0.8	2.6	3.0	0.1	0.2	9.7
Health . . . . .	433.2	266.1	81.4	116.3	100.4	34.9	13.6	1,045.9
Hospitals and other institutional services and benefits . . . . .	420.8	256.0	72.1	111.9	89.1	33.3	13.2	996.3
Clinic and other non-institutional services and benefits . . . . .	3.7	4.9	1.9	1.7	1.5	1.0	0.2	14.8
Public Health . . . . .	8.8	5.2	7.4	2.8	9.8	0.6	0.3	34.9
Social security and welfare . . . . .	45.9	31.4	15.0	21.0	12.8	6.5	2.0	134.5
Social security . . . . .	0.4	—	—	—	—	1.6	—	2.0
Welfare services . . . . .	37.5	25.3	11.2	19.0	10.8	4.2	1.7	109.7
Family and child welfare . . . . .	2.4	2.9	0.9	7.8	1.3	0.3	0.3	15.9
Aged and handicapped welfare . . . . .	22.9	16.7	5.3	4.8	3.7	2.0	0.4	55.7
Welfare services n.e.c. . . . .	12.2	5.7	5.1	6.3	5.8	2.0	1.0	38.1
Social security and welfare n.e.c. . . . .	8.0	6.0	3.7	2.0	2.1	0.6	0.2	22.7
Housing and community amenities Housing and community develop- ment . . . . .	1.8	1.3	0.4	1.3	1.9	0.3	4.4	11.6
Housing . . . . .	1.8	1.3	0.4	0.9	0.6	0.3	—	5.5
Community Development . . . . .	—	—	—	0.4	1.2	—	4.4	6.1
Community amenities . . . . .	—	—	—	—	—	2.0	—	2.0
Recreation and culture . . . . .	—	—	—	—	1.8	—	—	1.8
Fuel and energy . . . . .	14.0	—	3.1	—	0.7	0.1	44.0	61.9
Agriculture, forestry, fishing and hunting . . . . .	9.3	12.2	22.4	7.6	10.6	0.4	9.9	72.3
Agriculture . . . . .	9.3	12.2	22.4	7.6	10.6	0.4	9.9	72.3
Agricultural land management . . . . .	6.5	7.3	16.7	2.8	3.3	0.2	9.7	46.5
Other agriculture . . . . .	2.8	4.8	5.7	4.7	7.4	0.2	0.2	25.8
Transport and communications . . . . .	—	—	0.7	—	—	0.2	—	1.0
Other transport and communi- cations . . . . .	—	—	0.7	—	—	0.2	—	1.0
Other economic affairs . . . . .	90.8	68.5	42.1	22.7	23.2	7.4	2.3	256.9
Other purposes . . . . .	3,787.5	2,768.1	2,200.3	1,318.9	1,354.1	514.1	565.4	12,508.4
General purpose inter-government transactions . . . . .	3,787.5	2,768.1	2,194.1	1,318.9	1,354.1	514.1	565.2	12,502.0
Natural disaster relief . . . . .	—	—	6.2	—	0.1	—	0.1	6.4

**GRANTS TO STATES AND NORTHERN TERRITORY BY GOVERNMENT PURPOSE  
CLASSIFICATION AND STATE, 1985-86—continued**

(\$ million)

	<i>N.S.W.</i>	<i>Vic.</i>	<i>Qld</i>	<i>S.A.</i>	<i>W.A.</i>	<i>Tas.</i>	<i>N.T.</i>	<i>Total</i>
<i>Capital grants</i> . . . . .	1,002.9	712.0	568.3	290.2	363.2	161.4	167.8	3,265.9
<i>Education</i> . . . . .	170.8	140.7	93.5	36.9	50.5	10.9	12.5	515.8
Primary and secondary education . . . . .	74.2	54.4	43.7	17.6	22.2	6.1	4.6	222.8
Tertiary education . . . . .	96.3	86.2	49.2	19.3	28.2	4.8	7.7	291.7
University education . . . . .	32.2	21.1	9.9	6.0	6.7	3.4	—	79.1
Other higher education . . . . .	18.8	24.4	10.7	4.4	5.4	0.6	—	64.3
Technical and further education . . . . .	45.4	40.8	28.6	8.9	16.1	0.7	7.7	148.3
Preschool education and education not definable by level . . . . .	0.2	—	0.6	0.1	0.1	—	0.3	1.3
Other education not definable by level . . . . .	0.2	—	0.6	0.1	0.1	—	0.3	1.3
<i>Health</i> . . . . .	17.1	13.0	8.2	4.3	4.6	2.2	0.5	50.0
Hospitals and other institutional services and benefits . . . . .	16.8	12.7	7.7	4.2	4.3	2.2	0.5	48.3
Clinic and other non-institutional services and benefits . . . . .	0.3	0.3	0.2	0.1	0.3	0.1	—	1.3
Public health . . . . .	—	—	0.3	—	—	—	—	0.3
<i>Social security and welfare</i> . . . . .	5.8	6.6	3.7	1.5	2.5	0.4	0.2	20.6
Welfare services . . . . .	5.8	6.6	3.7	1.5	2.5	0.4	0.2	20.6
Family and child welfare . . . . .	4.7	3.5	2.7	1.2	2.0	0.4	0.2	14.6
Aged and handicapped welfare . . . . .	1.2	3.1	1.0	0.4	0.4	—	—	6.0
Welfare services n.e.c. . . . .	—	—	—	—	—	—	—	—
<i>Housing and community amenities</i> . . . . .	211.2	147.7	88.1	72.7	64.5	26.7	31.7	642.8
Housing and community development . . . . .	204.1	146.3	86.6	70.0	64.2	26.6	29.6	627.4
Housing . . . . .	200.0	146.3	85.9	69.9	60.2	26.6	29.6	618.5
Community development . . . . .	4.1	—	0.7	0.1	4.0	—	—	8.9
Community amenities . . . . .	7.2	1.4	1.4	2.7	0.4	0.2	2.1	15.5
Recreation and culture . . . . .	9.1	6.1	3.8	2.3	18.8	1.2	0.2	41.5
<i>Fuel and energy</i> . . . . .	—	—	—	—	—	25.3	19.4	44.7
<i>Agriculture, forestry, fishing and hunting</i> . . . . .	3.6	4.3	32.2	1.4	2.6	0.2	1.5	45.7
Agriculture . . . . .	3.6	4.3	31.1	1.4	2.6	0.2	1.5	44.6
Agricultural water resources management . . . . .	3.6	4.0	31.1	1.4	2.5	0.2	1.5	44.3
Other agriculture . . . . .	—	0.3	—	—	—	—	—	0.3
<i>Forestry, fishing and hunting</i> . . . . .	—	—	1.1	—	—	—	—	1.1
<i>Transport and communications</i> . . . . .	402.4	253.9	257.7	97.3	167.9	47.2	40.5	1,266.9
Road transport . . . . .	396.4	253.9	257.6	97.3	158.1	47.1	40.5	1,251.0
Water transport . . . . .	6.0	—	—	—	—	—	—	6.0
Other transport and communications . . . . .	—	—	0.1	—	9.8	0.1	—	9.9
<i>Other economic affairs</i> . . . . .	2.1	—	—	0.8	—	—	—	2.9
<i>Other purposes</i> . . . . .	180.8	139.9	81.2	72.8	51.9	47.4	61.2	635.0
General purpose inter-government transactions . . . . .	180.4	140.2	74.0	72.7	51.6	47.4	61.2	627.4
Natural disaster relief . . . . .	0.4	-0.3	7.2	—	0.3	—	—	7.6
<b>Total current and capital grants</b> . . . . .	<b>6,562.1</b>	<b>4,901.0</b>	<b>3,471.3</b>	<b>2,095.3</b>	<b>2,201.9</b>	<b>819.9</b>	<b>834.4</b>	<b>20,885.7</b>

### Advances to the States and the Northern Territory

The Commonwealth is also providing financial assistance for State projects by way of repayable advances. Borrowings of the Loan Council which are advanced to the States for their work programs and advances for State housing projects represent the largest proportion of the total funds advanced. Full descriptions of the various programs for which funds have been advanced in recent years are given in *Payments to or for the States, the Northern Territory and Local Government Authorities*.

The following table shows figures of net advances to the States and Northern Territory by purpose.

### NET ADVANCES TO STATES AND THE NORTHERN TERRITORY BY GOVERNMENT PURPOSE CLASSIFICATION, 1985-86

(\$ million)

	N.S.W.	Vic.	Qld	S.A.	W.A.	Tas.	N.T.	Total
<i>Net advances</i> . . . . .	216.8	175.6	95.8	87.7	51.8	53.2	102.5	783.4
Defence . . . . .	3.4	-0.1	-0.3	—	—	—	—	3.0
Social Security and Welfare . . . . .	—	—	—	—	—	—	—	—
Housing and community amenities . . . . .	53.9	58.0	35.3	127.1	81.2	18.5	31.9	406.1
Housing and community development . . . . .	54.4	58.5	35.5	123.4	81.5	18.6	32.0	403.9
Housing . . . . .	48.5	61.7	35.5	123.4	88.5	18.6	32.0	408.2
Community development . . . . .	5.9	-3.2	—	—	-7.0	—	—	-4.3
Water supply . . . . .	—	—	—	3.8	-0.1	—	—	3.7
Sanitation and protection of the environment . . . . .	-0.5	-0.4	-0.1	-0.1	-0.2	—	-0.1	-1.5
Recreation and Culture . . . . .	—	—	—	—	-0.2	—	—	-0.2
Fuel and energy . . . . .	-1.6	—	-3.2	—	—	—	-1.9	-6.7
Agriculture, forestry, fishing and hunting . . . . .	-4.1	-4.6	-3.1	-11.6	-1.2	-0.5	0.8	-24.3
Agriculture . . . . .	-3.6	-4.4	-2.7	-0.5	-1.0	-0.3	0.8	-11.7
Agricultural land management . . . . .	0.8	—	-0.7	—	—	—	0.9	1.0
Agricultural water resources management . . . . .	-1.9	-0.5	—	-0.3	-0.2	—	—	-2.9
Agriculture support schemes . . . . .	-1.7	-3.9	-2.6	-0.4	-0.8	-0.3	—	-9.8
Other agriculture . . . . .	-0.8	—	0.6	0.2	—	—	—	—
Forestry, fishing and hunting . . . . .	-0.5	-0.2	-0.4	-11.1	-0.2	-0.2	—	-12.6
Mining, manufacturing and construction . . . . .	—	—	—	—	—	—	—	—
Manufacturing . . . . .	—	—	—	—	—	—	—	—
Transport and communications . . . . .	-1.6	-0.8	-0.8	—	-3.3	—	—	-6.5
Water transport . . . . .	—	—	-0.1	—	—	—	—	-0.2
Rail transport . . . . .	-1.6	-0.8	-0.7	—	-3.3	—	—	-6.4
Other purposes . . . . .	166.8	123.1	67.8	-27.8	-24.8	35.3	71.8	412.1
Public debt transactions . . . . .	—	—	—	—	—	—	-5.4	-5.4
General purpose inter-government transactions . . . . .	174.3	126.9	66.4	-22.8	-18.3	35.6	77.2	439.4
Natural disaster relief . . . . .	-7.5	-3.8	1.3	-5.0	-6.5	-0.4	—	-21.9

Minus sign (-) denotes excess of repayments.

## Main sources of finance

The main sources of Commonwealth Government finance are taxation, income of public trading and financial enterprises, other factor income transfers, borrowing, and other financing transactions. Taxation constitutes by far the major source of revenue. In recent years, however, borrowing has become an increasingly significant source of funds.

In what follows, an account is given of the system of Commonwealth Government taxation, and some details are given of the current operations of Commonwealth public enterprises. Borrowings and other financing activities of Commonwealth enterprises are dealt with for convenience in a later section relating to the debt of all public sector enterprises.

### Commonwealth Government taxation—summary

The following table shows Commonwealth Government taxation revenue classified by type of tax for the six years ending 1985–86.

COMMONWEALTH GOVERNMENT—TAXES, FEES AND FINES BY TYPE  
(\$ million)

Type of tax	1980–81	1981–82	1982–83	1983–84	1984–85	1985–86
Taxes, fees and fines . . . . .	32,683.0	37,941.0	41,010.9	44,753.0	52,890.5	58,690.5
Taxes on income . . . . .	22,373.1	26,462.7	28,045.3	29,618.0	35,300.7	39,352.4
Income taxes levied on individuals . . . . .	17,532.4	21,205.0	22,942.6	24,691.5	29,288.6	32,713.8
Personal income tax . . . . .	17,532.1	21,204.5	22,941.6	24,690.5	29,287.4	32,712.5
Mining withholding tax . . . . .	0.3	0.5	1.0	0.9	1.2	1.2
Income taxes levied on enterprises . . . . .	4,564.0	4,903.1	4,688.8	4,460.3	5,414.3	5,928.0
Company income tax (a) . . . . .	4,552.8	4,883.3	4,663.6	4,439.2	5,400.2	5,906.1
Income tax paid by superannuation funds . . . . .	11.1	19.8	25.2	21.2	14.2	22.0
Income taxes levied on non-residents . . . . .	276.7	354.6	414.0	466.2	597.7	710.6
Dividend withholding tax . . . . .	114.1	125.6	133.8	129.6	154.8	209.3
Interest withholding tax . . . . .	46.6	79.0	124.1	174.7	247.9	351.3
Other income tax levied on non-residents . . . . .	116.0	150.0	156.0	162.0	195.0	150.0
Employers' payroll taxes . . . . .	36.5	37.6	38.8	43.1	55.8	60.6
General taxes (payroll tax) . . . . .	17.0	19.3	21.4	23.8	28.8	33.9
Selective taxes (stevedoring industry charges) . . . . .	19.5	18.2	17.5	19.3	26.9	26.8
Taxes on property . . . . .	43.4	33.9	67.6	227.9	239.6	267.7
Taxes on immovable property . . . . .	19.2	20.9	24.5	24.5	28.1	38.2
Estate, inheritance and gift duties . . . . .	17.0	4.4	1.6	3.5	0.7	0.4
Taxes on financial and capital transactions . . . . .	7.1	8.6	41.5	200.0	210.8	229.1
Stamp duties . . . . .	7.1	8.6	11.9	17.3	21.4	27.0
Financial institutions' transaction taxes . . . . .	—	—	29.6	182.7	189.5	202.1
Taxes on provision of goods and services . . . . .	10,115.7	11,243.8	12,672.3	14,656.5	17,031.3	18,705.2
General taxes (sales tax) . . . . .	2,102.3	2,854.2	3,490.1	4,164.8	4,966.1	5,728.3
Excises . . . . .	6,094.3	6,226.4	7,067.5	8,084.2	9,056.1	9,604.6
Excises on crude oil and LPG . . . . .	3,107.9	3,163.3	3,486.0	3,664.5	4,241.8	4,065.8
Other Excise Act duties . . . . .	2,726.1	2,830.5	3,320.1	4,081.7	4,351.6	5,186.1
Agricultural production taxes . . . . .	260.2	232.6	261.4	338.0	462.7	352.7
Taxes on international trade . . . . .	1,916.4	2,158.2	2,104.3	2,397.9	2,995.4	3,357.9
Customs duties on imports . . . . .	1,799.5	2,059.7	2,035.6	2,329.0	2,926.6	3,281.9
Customs duties on exports . . . . .	84.9	96.9	66.6	66.6	60.3	57.7
Agricultural produce export taxes . . . . .	32.0	1.6	2.1	2.3	8.6	18.3
Taxes on gambling . . . . .	1.5	2.8	7.3	6.1	9.0	8.8
Taxes on insurance . . . . .	1.3	2.2	3.1	3.6	4.7	5.6
Taxes on use of goods and performance of activities . . . . .	51.5	82.5	100.6	113.9	131.7	146.9
Motor vehicle taxes . . . . .	7.8	10.6	13.6	16.7	19.3	21.2
Franchise taxes . . . . .	3.0	3.5	3.5	4.3	5.0	5.5
Other taxes on use of goods etc. . . . .	40.7	68.4	83.4	92.9	107.4	120.2
Broadcast and TV station licences . . . . .	21.5	30.9	40.4	48.4	58.8	68.8
Departure tax . . . . .	18.7	36.1	41.7	43.2	46.9	50.1
Other taxes on use of goods etc. n.e.i. . . . .	0.5	1.4	1.3	1.3	1.7	1.2
Fees and fines . . . . .	63.0	80.6	86.3	93.5	131.5	157.7
Fees from regulatory services . . . . .	58.8	72.8	78.4	83.9	123.6	150.3
Fines . . . . .	4.2	7.8	7.9	9.6	7.9	7.4
Taxes paid by public trading enterprises . . . . .	25.9	19.4	29.1	27.0	26.1	48.2

(a) Excludes income taxes paid by public trading enterprises.

## Taxes on income

A description of the development of income taxes in Australia appeared in *Year Book* No. 35, page 926. With the advent of Uniform Taxation in 1942, the States withdrew from the income tax field. While the Commonwealth remains the sole government imposing taxes on income, tax sharing arrangements have been made under which State and local government bodies receive a share of Commonwealth revenue.

The laws dealing with the assessment, declaration and imposition of income tax at 30 June 1987 were:

- *Income Tax Assessment Act 1936* (later referred to as 'the Assessment Act')
- *Income Tax Rates Act 1986* (as amended by the *Income Tax Rates Amendment Act 1987*)
- *Income Tax Act 1986*
- *Income Tax (Dividends and Interest Withholding Tax) Act 1974*
- *Income Tax (Drought Bonds) Act 1969*
- *Income Tax (Withholding Tax Recoupment) Act 1971*
- *Income Tax (Bearer Debentures) Act 1971*
- *Income Tax (Film Royalties) Act 1977*
- *Income Tax (Non-Resident Companies) Act 1978*
- *Income Tax (Mining Withholding Tax) Act 1979*
- *Income Tax (Diverted Income) Act 1981*
- *Income Tax (Securities and Agreements) (Withholding Tax Recoupment) Act 1986*

Both individuals and companies are liable for income tax. Private companies were subject to tax on certain undistributed income in addition to the primary income tax levied on all companies. Subject to phasing-out arrangements, however, this additional tax generally does not apply in relation to profits of the 1986-87 and latter income years.

The operation of the Assessment Act is affected by other Acts, the more important of which are:

- (a) *Taxation Administration Act 1953*, which provides for the administration of certain Acts relating to taxation and the screening for taxation purposes of applications for exchange control approval.
- (b) *Income Tax (International Agreements) Act 1953*, which gives the force of law to agreements with other countries for the avoidance of double taxation. Australia has concluded comprehensive agreements for the avoidance of double taxation with the United Kingdom, the United States of America, Canada, New Zealand, Singapore, Japan, the Federal Republic of Germany, the Netherlands, France, Belgium, the Philippines, Switzerland, Malaysia, Sweden, Denmark, Ireland, Norway, the Republic of Korea, Malta, Italy and Finland. In addition, as at 30 June 1985, a comprehensive agreement with Austria had been signed but had not entered into force. Limited agreements dealing with airline profits have been concluded with France, Italy, Greece and India.
- (c) *Taxation (Unpaid Company Tax) Assessment Act* and related legislation.
- (d) *The States (Tax Sharing and Health Grants) Act 1981*, which provides for the States and Northern Territory to receive a proportion of total Commonwealth tax collections.
- (e) *Income Tax (Arrangements with the States) Act 1978*, which enables each State to increase or reduce personal income tax levied on residents of the State.
- (f) *International Organizations (Privileges and Immunities) Act 1963*, and Regulations made under that Act, which provide for the exemption from income tax of certain income of international organisations and their officials.
- (g) *Diplomatic Privileges and Immunities Act 1967*, which provides for the exemption from income tax of certain income of diplomatic representatives, their staff and families.
- (h) *Consular Privileges and Immunities Act 1972*, which provides for the exemption from tax of certain income of consular representatives, their staff and families.
- (i) *The Loan (Income Equalization Deposits) Act 1976*, which provides for the making of interest bearing income equalization deposits by primary producers with the Commissioner of Taxation.
- (j) *Taxation (Interest on Overpayments) Act 1983*, which provides for the payment of interest on certain refunds of tax.

- (k) *Taxation (Interest on Underpayments) Act 1986*, which imposes an interest charge in respect of underpayment of income tax.
- (l) *Loan (Drought Bonds) Act 1969*, which authorizes the issue of drought bonds and empowers the Commissioner of Taxation to declare when drought bonds have become redeemable.
- (m) *Banking Act 1959* and Regulations, under which certain exchange control applications are screened to prevent avoidance and evasion of Australian taxes.
- (n) *The Crimes (Taxation Offences) Act 1980*, which established a number of criminal offences relating to the fraudulent evasion of income tax (and sales tax) by stripping companies or trusts of their capacity to pay.
- (o) *Medicare Levy Act 1986*, which imposes medicare levy on certain individuals subject to assessment of the levy in accordance with the Assessment Act.
- (p) *Local Government (Personal Income Tax Sharing) Act 1976*, which provides for local government bodies in the States to receive a specified proportion of net personal income tax collections.

More detailed information on taxation can be obtained from the Australian Taxation Office's reports and papers.

**COMMONWEALTH INCOME TAX PAYABLE ON SPECIFIED RESIDENT INDIVIDUAL INCOMES**

(\$)

Taxable income (a)	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
<b>TAXPAYER WITH NO DEPENDANTS</b>						
3,000 . . . . .	..	..	..	..	..	..
5,000 . . . . .	257.60	165.00	121.50	108.01	101.25	26.86
7,000 . . . . .	897.60	778.40	721.50	641.41	601.25	515.26
10,000 . . . . .	1,857.60	1,698.50	1,621.50	1,441.50	1,351.25	1,247.86
15,000 . . . . .	3,457.60	3,232.00	3,121.50	2,858.26	2,726.25	2,590.94
20,000 . . . . .	5,352.44	4,916.99	4,701.50	4,438.26	4,306.25	4,136.09
<b>TAXPAYER WITH DEPENDENT WIFE</b>						
3,000 . . . . .	..	..	..	..	..	..
5,000 . . . . .	..	..	..	..	..	..
7,000 . . . . .	67.60	..	..	..	..	..
10,000 . . . . .	1,027.69	868.50	791.50	611.51	521.25	417.86
15,000 . . . . .	2,627.60	2,402.00	2,291.50	2,028.26	1,896.25	1,760.94
20,000 . . . . .	4,522.44	4,086.99	3,871.50	3,608.26	3,476.25	3,306.09

(a) Income remaining after allowing all deductions.

**Income tax assessments—individuals**

The following tables show the number of taxpayers, taxable income, and net income tax assessed for individuals.

**COMMONWEALTH INCOME TAX ASSESSMENTS (a): TAXABLE INDIVIDUALS BY GRADE OF TAXABLE INCOME**

(Income derived in the year 1984-85)

Grade of taxable income	Number of taxpayers			Net income(b)	Taxable income(c)	Net tax
	Males	Females	Total			
\$ \$				\$'000	\$'000	\$'000
Under 4,000. . . . .	18,948	14,011	32,959	82,428	74,280	11,349
4,000- 4,999. . . . .	33,200	52,286	85,486	429,633	411,124	6,031
	52,148	66,297	118,445	512,061	485,404	17,380
5,000- 5,999. . . . .	119,237	182,116	301,353	1,730,102	1,674,621	63,459
	171,385	248,413	419,798	2,242,163	2,160,025	80,839

**COMMONWEALTH INCOME TAX ASSESSMENTS (a): TAXABLE INDIVIDUALS BY  
GRADE OF TAXABLE INCOME—continued**

(Income derived in the year 1984-85)

Grade of taxable income	Number of taxpayers			Net income(b)	Taxable income(c)	Net tax
	Males	Females	Total			
\$ \$				\$'000	\$'000	\$'000
6,000- 6,999 . . . . .	139,015	204,391	343,406	2,294,038	2,226,146	155,977
	310,400	452,804	763,204	4,536,200	4,386,171	236,816
7,000- 7,999 . . . . .	127,027	168,092	295,119	2,287,480	2,212,905	228,661
	437,427	620,896	1,058,323	6,823,681	6,599,076	465,478
8,000- 8,999 . . . . .	124,158	155,334	279,492	2,454,940	2,373,885	287,319
	561,585	776,230	1,337,815	9,278,621	8,972,961	752,796
9,000- 9,999 . . . . .	120,564	145,962	266,526	2,617,290	2,531,153	343,217
	682,149	922,192	1,604,341	11,895,911	11,504,114	1,096,014
10,000-10,999 . . . . .	122,432	140,614	263,046	2,855,485	2,760,858	409,315
	804,581	1,062,806	1,867,387	14,751,395	14,264,972	1,505,329
11,000-11,999 . . . . .	123,672	138,871	262,543	3,124,332	3,020,227	479,761
	928,253	1,201,677	2,129,930	17,875,727	17,285,200	1,985,090
12,000-12,999 . . . . .	131,571	143,976	275,547	3,563,072	3,445,389	580,276
	1,059,824	1,345,653	2,405,477	21,438,800	20,730,589	2,565,366
13,000-13,999 . . . . .	146,654	152,167	298,821	4,171,169	4,036,283	718,064
	1,206,478	1,497,820	2,704,298	25,609,969	24,766,871	3,283,430
14,000-14,999 . . . . .	167,159	160,973	328,132	4,910,268	4,758,650	886,046
	1,373,637	1,658,793	3,032,430	30,520,236	29,525,521	4,169,476
15,000-15,999 . . . . .	181,969	147,812	329,781	5,272,999	5,110,649	985,755
	1,555,606	1,806,605	3,362,211	35,793,236	34,636,170	5,155,231
16,000-16,999 . . . . .	188,636	130,304	318,940	5,433,989	5,261,028	1,045,634
	1,744,242	1,936,909	3,681,151	41,227,225	39,897,198	6,200,865
17,000-17,999 . . . . .	195,570	111,551	307,121	5,554,010	5,373,432	1,095,580
	1,939,812	2,048,460	3,988,272	46,781,235	45,270,630	7,296,444
18,000-18,999 . . . . .	196,560	92,953	289,513	5,537,431	5,354,367	1,116,283
	2,136,372	2,141,413	4,277,785	52,318,666	50,624,997	8,412,727
19,000-19,999 . . . . .	191,530	84,245	275,775	5,554,605	5,374,132	1,150,790
	2,327,902	2,225,658	4,553,560	57,873,271	55,999,128	9,563,517
20,000-21,999 . . . . .	321,698	113,150	434,848	9,430,304	9,112,349	2,080,298
	2,649,600	2,338,808	4,988,408	67,303,575	65,111,477	11,643,815
22,000-23,999 . . . . .	265,457	82,456	347,913	8,273,550	7,990,886	1,977,901
	2,915,057	2,421,264	5,336,321	75,577,125	73,102,363	13,621,715
24,000-25,999 . . . . .	217,302	58,410	275,712	7,124,156	6,882,240	1,816,130
	3,132,359	2,479,674	5,612,033	82,701,281	79,984,603	15,437,845
26,000-27,999 . . . . .	180,728	42,304	223,032	6,223,817	6,012,593	1,671,885
	3,313,087	2,521,978	5,835,065	88,925,098	85,997,196	17,109,731
28,000-29,999 . . . . .	139,144	27,211	166,355	4,985,794	4,815,233	1,398,951
	3,452,231	2,549,189	6,001,420	93,910,893	90,812,429	18,508,682
30,000-34,999 . . . . .	220,894	36,757	257,651	8,603,956	8,305,060	2,566,540
	3,673,125	2,585,946	6,259,071	102,514,849	99,117,489	21,075,222
35,000-39,999 . . . . .	112,769	20,849	133,618	5,140,344	4,954,751	1,666,237
	3,785,894	2,606,795	6,392,689	107,655,192	104,072,240	22,741,459
40,000-49,999 . . . . .	78,485	11,456	89,941	4,126,166	3,957,137	1,488,513
	3,864,379	2,618,251	6,482,630	111,781,358	108,029,378	24,229,972
50,000-99,999 . . . . .	47,877	8,718	56,595	3,739,696	3,573,231	1,577,956
	3,912,256	2,626,969	6,539,225	115,521,054	111,602,609	25,807,928
100,000 and over . . . . .	5,893	1,426	7,319	1,197,939	1,148,136	612,466
<b>Total . . . . .</b>	<b>3,918,149</b>	<b>2,628,395</b>	<b>6,546,544</b>	<b>116,718,993</b>	<b>112,750,745</b>	<b>26,420,394</b>

(a) Assessments in respect of 1984-85 income year issued during the period 1 July 1985 to 30 June 1986. (b) Net income is total assessable income less total deductions for expenses incurred in gaining assessable income. (c) Taxable income is the income remaining after deducting from assessable income all allowable deductions.

The previous table excludes details of assessments raised to trustees. However, the following table includes all 1984-85 income year assessments issued during the period 1 July 1985 to 30 June 1986.

**COMMONWEALTH INCOME TAX ASSESSMENTS: TAXABLE INDIVIDUALS BY STATE OR TERRITORY OF RESIDENCE**  
(Income derived in the year 1984-85)

State	Number	Taxable income	Net tax
		\$'000	\$'000
New South Wales . . . . .	2,168,627	38,132,320	9,160,329
Victoria . . . . .	1,843,861	31,839,000	7,563,347
Queensland . . . . .	967,585	15,976,070	3,593,567
Western Australia . . . . .	603,903	10,343,941	2,400,668
South Australia . . . . .	594,712	9,730,059	2,206,091
Tasmania . . . . .	181,566	3,012,884	682,726
Northern Territory . . . . .	50,827	1,005,749	234,362
Australian Capital Territory . . . . .	170,712	3,270,411	830,944
<b>Australia . . . . .</b>	<b>6,581,793</b>	<b>113,310,434</b>	<b>26,672,035</b>

## Yield of income taxes

### Income taxes collected

The following table shows the net amounts of taxes collected and the proportions of the several components over recent years.

**COMMONWEALTH INCOME TAXES COLLECTED**

Source of income tax	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
<b>NET AMOUNTS COLLECTED (\$'000)</b>						
Individuals—						
Instalments—salaries and wages	17,417,317	18,840,314	19,940,085	23,424,083	26,324,401	29,526,429
Other payments . . . . .	3,806,998	4,126,459	4,521,095	5,465,869	5,895,139	7,781,993
Companies . . . . .	5,052,697	4,828,547	4,563,382	5,564,476	6,111,311	6,714,103
Withholding tax . . . . .	205,098	258,985	305,168	403,912	561,815	639,075
Prescribed payments system . . . . .	..	..	250,513	411,640	514,884	765,359
Fringe benefits tax . . . . .	..	..	..	..	..	534,859
<b>Total . . . . .</b>	<b>26,482,110</b>	<b>28,054,305</b>	<b>29,580,245</b>	<b>35,269,980</b>	<b>39,407,550</b>	<b>45,961,818</b>
<b>PERCENTAGES</b>						
Individuals—						
Instalments—salaries and wages	65.77	67.16	67.41	66.41	66.80	64.24
Other payments . . . . .	14.38	14.71	15.28	15.50	14.96	16.93
Companies . . . . .	19.08	17.20	15.43	15.78	15.51	14.61
Withholding tax . . . . .	0.77	0.92	1.03	1.14	1.42	1.39
Prescribed payments system . . . . .	..	..	0.85	1.17	1.31	1.67
Fringe benefits tax . . . . .	..	..	..	..	..	1.16
<b>Total . . . . .</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

## State governments

The State government enterprises dealt with in this section include the central government of each State, statutory bodies created by or under State legislation to carry out activities on behalf of the central government, and incorporated organisations in which individual State governments have a controlling interest.

The transactions of many of the State government enterprises are itemised in State Consolidated Revenue Funds or in Trust Funds, so that a satisfactory coverage of their transactions can be obtained from a detailed analysis and reclassification of the published

accounts whose receipts and payments are summarised in the Statement of Treasury balances for each State. The remaining statutory bodies and other publicly owned or controlled organisations maintain accounts entirely, or largely, separate from the public accounts, although there may be transactions between them and State governments (such as advances and capital contributions, interest and dividends, and votes for running expenses and capital works) which would affect the public accounts. The accounting reports of this group of organisations have to be collected and analysed in order to present a complete statement of the transactions of State government enterprises—or at least methods of analysis need to be adopted which adequately reflect their transactions so that they are in principal, covered by the statistics.

In the figures which follow in this section, all expenditure by State central government enterprises on certain institutions, whether direct (e.g. new building charged to Loan Fund) or indirect by way of current or capital grants to the bodies administering them, has been treated as final expenditure on goods and services by State government; fees and gifts from persons or private businesses to these institutions are not included, nor is the expenditure of the institutions from their own resources. Universities and hospitals are particular examples of organisations for which this practice has been adopted.

Many of these State government enterprises have been granted autonomy by State legislatures to the extent that they are largely financially independent. Some of these are funded from earmarked tax revenues and are vested with independent borrowing powers. A considerable number of others belong to the category of public trading enterprises, since they are able to charge for their services so as to cover their costs of operation. These bodies have usually been created to control a specific activity or provide a specific service within a State. It is often the case that in other States similar activities are carried out, or services are provided, by central government or local governments. Details of the activities of autonomous or semi-autonomous State government enterprises engaged in such fields as construction and maintenance of roads and bridges, provision of water supply and sewerage services, harbour facilities, transport, electricity and gas, housing and banking may be found in chapters relevant to those subjects and in *State Year Books*.

Details of the transactions of State governments are given in the tables which follow and in *State and Local Government Finance, Australia* (5504.0). Additional information relating to the activities of the State governments may also be found in the *Year Books* of the individual States.

### Outlay, revenue, grants received, and deficit

The outlay, revenue, grants received and deficit of State governments for the six year period ended 1985-86 are given in the following table.

#### OUTLAYS, REVENUE AND GRANTS RECEIVED, AND DEFICIT OF STATE GOVERNMENTS (\$ million)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Current outlays . . . . .	18,579	21,460	25,137	28,293	31,850	35,607
General government final consumption expenditure . . . . .	13,027	14,820	16,662	18,543	20,740	22,951
Required current transfer payments . . . . .	2,766	3,372	4,362	5,053	5,962	7,060
Unrequited current transfer payments . . . . .	2,787	3,268	4,112	4,698	5,148	5,596
Subsidies paid to enterprises . . . . .	1,060	1,302	1,710	1,814	1,935	2,197
Personal benefit payments . . . . .	398	433	561	591	643	676
Current grants . . . . .	1,315	1,521	1,824	2,276	2,553	2,717
to non-profit institutions . . . . .	869	1,026	1,237	1,529	1,697	1,853
to Local governments . . . . .	446	494	587	747	856	864
Other current transfer payments . . . . .	14	13	17	16	16	7
Capital outlays . . . . .	6,719	8,108	9,818	10,419	10,376	11,645
Gross fixed capital expenditure . . . . .	6,048	7,387	8,797	9,393	9,418	10,492
Expenditure on new fixed assets . . . . .	6,085	7,421	8,804	9,451	9,536	10,635
Expenditure on second hand fixed assets (net) . . . . .	-37	-34	-7	-58	-118	-144
Increase in stocks . . . . .	110	129	178	69	-10	112
Expenditure on Land and intangible assets (net) . . . . .	47	66	43	63	121	-44

**OUTLAYS, REVENUE AND GRANTS RECEIVED, AND DEFICIT OF STATE GOVERNMENTS—continued**  
(**\$ million**)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Capital transfer payments . . . . .	342	392	438	581	626	573
Capital grants . . . . .	342	392	438	581	626	573
to Local governments . . . . .	275	302	336	440	460	419
to other sectors . . . . .	67	90	101	141	166	154
Other capital transfer payments . . . . .	—	—	—	42	37	16
Advances paid (net) . . . . .	171	135	363	314	221	512
to Local governments . . . . .	16	20	22	12	24	28
to other sectors . . . . .	155	115	341	302	197	484
Revenue and grants received . . . . .	21,212	23,990	28,183	31,905	35,904	39,449
Taxes, fees and fines . . . . .	6,133	7,223	8,355	9,286	10,426	11,497
Net operating surpluses of public trading enterprises . . . . .	1,487	1,698	2,400	2,639	3,141	3,612
Property income and other revenue . . . . .	1,534	1,812	2,005	2,263	2,728	3,456
Grants received from Commonwealth government . . . . .	12,058	13,257	15,423	17,717	19,609	20,884
Financing transactions . . . . .	4,086	5,578	6,772	6,808	6,322	7,603
Increase in provisions . . . . .	674	864	1,026	1,490	1,726	1,879
Deficit . . . . .	3,412	4,714	5,746	5,318	4,596	5,724
Deficit financing . . . . .						
Net advances received from Commonwealth Government (ETF 41) . . . . .	910	862	1,044	1,001	840	808
Other deficit financing . . . . .	2,502	3,852	4,702	4,317	3,756	4,916

For more recent information on State government finance statistics, reference should be made to the publications listed in the bibliography at the end of this chapter.

### Local governments

In each State of Australia and in the Northern Territory there exists a system of local government whose powers and responsibilities are generally similar and cover such matters as the construction and maintenance of roads, streets and bridges; water, sewerage and drainage systems; health and sanitary services; the supervision of building; and the administration of regulations relating to items such as weights and measures, slaughtering, the registration of dogs, etc. In addition to these obligatory functions, there are also many which may be performed by a local authority either with or without the consent of the ratepayers or the Governor-in-Council. These include transport facilities, electricity, gas and other business undertakings, hospitals, charitable institutions, recreation grounds, parks, swimming pools, libraries, museums, etc.

The system is based on the principle of a grant of specific powers by the State and Northern Territory legislatures to the local government bodies, their autonomy, however, being more or less limited by the provision for general supervision by a department of the central government or by the Governor-in-Council. Otherwise, within the scope of the Acts under which they are constituted or which they have to administer, they are responsible only to the ratepayers. While the broad pattern of local government throughout the States of Australia is similar, the range of activities, election of officers, methods of valuation and rating powers, etc. vary considerably from State to State, and even within States.

The areas over which local government bodies, numbering almost 900, exercise general control, are known in New South Wales as cities, municipalities and shires; in Victoria as cities, towns, boroughs and shires; in Queensland as cities, towns and shires; South Australia as cities, corporate towns and district council areas; in Western Australia as cities, towns and shires and in Tasmania and the Northern Territory as cities and municipalities. In New South Wales some local authorities in an area have combined to form County Councils which provide services such as electricity and water supply. Within shires there are also some municipal units known as urban areas. Apart from the Australian Capital Territory and the more sparsely populated parts of New South Wales, South Australia and the Northern Territory, practically the whole of Australia comes within local government jurisdiction. For further details see *State Year Books*.

## Area, population, dwellings, and rates and penalties for ordinary services

The area, population, dwellings, and the amount of rates and penalties collected for ordinary services in the incorporated areas of each State are shown in the following table. Particulars of dwellings are in accordance with the definition used in the Census, and are compiled from information collected on the Census Schedules. In the table, where the boundary of a capital city statistical division cuts across a local government area, the area of that capital city statistical division has been estimated. Particulars of population for capital city statistical divisions take account of those local government areas which overlap with capital city statistical division boundaries.

The item 'Rates and Penalties for Ordinary Services' relates to general and other special or local rates (excluding water and sewerage rates) levied or declared or, where the cash accounting system operates, the rates collected.

### LOCAL GOVERNMENT: AREA, POPULATION, DWELLINGS, AND RATES AND PENALTIES FOR ORDINARY SERVICES—30 JUNE 1985

<i>Location(a)</i>	<i>No. of local authorities</i>	<i>Area(a)</i> square kilometres	<i>Population</i> '000	<i>Dwellings</i> '000	<i>Rates and penalties—ordinary services</i> \$'000
<b>New South Wales(b)—</b>					
Sydney Statistical Division . . . . .	43	12,407	3,392	(c)1,150	584,737
Other . . . . .	132	693,255	2,081	(c)672	361,430
<b>Total New South Wales</b> . . . . .	<b>175</b>	<b>705,662</b>	<b>5,473</b>	<b>(c)1,822</b>	<b>946,167</b>
<b>Victoria(d)—</b>					
Melbourne Statistical Division(e) . . . . .	56	7,359	2,938	(f)965	506,702
Other . . . . .	155	219,741	1,185	(f)403	206,405
<b>Total Victoria</b> . . . . .	<b>211</b>	<b>227,100</b>	<b>4,123</b>	<b>(f)1,368</b>	<b>713,107</b>
<b>Queensland—</b>					
Brisbane Statistical Division . . . . .	10	3,080	1,158	(g)415	(h)171,866
Other . . . . .	129	1,723,920	1,390	(g)428	199,314
<b>Total Queensland</b> . . . . .	<b>139</b>	<b>1,727,000</b>	<b>2,548</b>	<b>(g)843</b>	<b>371,180</b>
<b>South Australia—</b>					
Adelaide Statistical Division(i) . . . . .	30	1,893	(j)986	(j)373	131,120
Other . . . . .	95	151,994	(j)365	(j)143	55,969
<b>Total South Australia</b> . . . . .	<b>125</b>	<b>153,887</b>	<b>(j)1,351</b>	<b>(j)516</b>	<b>187,089</b>
<b>Western Australia—</b>					
Perth Statistical Division . . . . .	26	(k)5,363	(l)994	(l)372	127,158
Other . . . . .	113	(k)2,520,137	(l)412	(l)142	61,144
<b>Total Western Australia</b> . . . . .	<b>139</b>	<b>(k)2,525,500</b>	<b>(l)1,407</b>	<b>(l)514</b>	<b>188,302</b>
<b>Tasmania—</b>					
Hobart Statistical Division(m) . . . . .	7	3,345	185	(n)66	28,270
Other . . . . .	42	64,988	257	(n)93	34,136
<b>Total Tasmania</b> . . . . .	<b>49</b>	<b>68,333</b>	<b>442</b>	<b>(n)159</b>	<b>62,406</b>
<b>Northern Territory—</b>					
Darwin Statistical Division . . . . .	1	114	66	(n)25	8,850
Other . . . . .	3	209	47	(n)14	5,376
<b>Total Northern Territory</b> . . . . .	<b>4</b>	<b>323</b>	<b>113</b>	<b>(n)39</b>	<b>14,226</b>

(a) Unincorporated areas are excluded in all States. (b) Based on year ended 31 December 1983. (c) Figures as at 30 June 1981 (Census data). (d) Based on year ended 30 September 1983. (e) Includes all of Cranbourne (S), Healesville (S) and Pakenham (S) even though parts are outside the Melbourne Statistical Division. (f) Figures as at 30 June 1981 (Census data). (g) Figures as at 30 June 1986 (Census data). (h) Includes the Moreton Statistical Division component for five local authorities. (i) Excludes Gumeracha (DC) and Onkaparinga (DC) but includes the part of Willunga (DC) which is included in the Outer Adelaide Statistical Division. (j) Figures as at 30 June 1986 (Census data). (k) Figures as at 30 June 1981. (l) Figures as at 30 June 1986 (Census data). (m) Includes all of Brighton (M), Kingsborough (M), New Norfolk (M) and Sorell (M) even though parts are outside the Hobart Statistical Division. (n) Figures as at 30 June 1986 (Census data).

### OUTLAYS, REVENUE AND GRANTS RECEIVED AND DEFICIT OF LOCAL GOVERNMENTS

(\$ million)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Current outlays	1,804	2,090	2,526	2,814	3,107	3,406
General government final consumption expenditure	1,362	1,570	1,889	2,090	2,308	2,533
Required current transfer payments	371	438	535	609	677	737
Unrequited current transfer payments	72	82	102	115	122	136
Capital outlays	1,385	1,643	1,662	1,714	2,016	2,215
Gross fixed capital expenditure	1,367	1,610	1,635	1,727	2,020	2,231
Expenditure on new fixed assets	1,409	1,617	1,687	1,775	2,091	2,315
Expenditure on secondhand fixed assets (net)	-42	-7	-52	-48	-71	-85
Increase in stocks	18	20	16	-10	-9	10
Expenditure on land and intangible assets (net)	-14	-5	17	-7	-2	-24
Capital transfer payments	9	12	2	-	3	2
Advances paid (net)	4	6	-8	4	4	-4
Revenue and grants received	2,835	3,258	3,775	4,386	4,824	5,273
Taxes, fees and fines	1,595	1,817	2,080	2,309	2,537	2,779
Net operating surpluses of public trading enterprises	236	278	292	390	385	409
Property income and other revenue	248	326	436	447	515	702
Grants received	756	838	968	1,241	1,388	1,382
from Commonwealth Government	35	41	45	53	73	101
from State governments	721	797	923	1,187	1,315	1,282
Financing transactions	355	474	412	142	299	349
Increase in provisions	155	234	224	244	231	276
Deficit	200	240	188	-78	68	73
Deficit financing						
Net advances received from Commonwealth and State governments	16	20	22	12	24	28
Other deficit financing	184	220	166	-90	44	45

For more recent information on local government finance statistics, reference should be made to the publications and statistical services listed in the bibliography at the end of this chapter.

### All levels of government

In the following table the transactions of the Commonwealth, State and local governments have been brought together and consolidated to provide details of the outlays and revenue of the public non-financial sector as a whole.

#### Summary of outlays, revenue and deficit

The outlays, revenue and deficit of all governments for the years 1980-81 to 1985-86 are set out in the following table.

### OUTLAYS, REVENUE AND DEFICIT OF COMMONWEALTH, STATE AND LOCAL GOVERNMENTS(a)

(\$ million)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Current outlay	41,483	48,286	56,963	65,598	74,823	83,550
General government final consumption expenditure	21,664	24,937	28,405	31,990	35,848	39,946
Required current transfer payments	4,311	5,328	6,679	8,291	10,551	13,051
Unrequited current transfer payments	15,508	18,021	21,880	25,318	28,425	30,553
Subsidies paid to enterprises	2,187	2,528	3,044	3,295	3,669	3,829
Personal benefit payments	11,482	13,307	16,225	18,974	21,303	23,032
Current grants	1,826	2,174	2,594	3,033	3,439	3,687
to non-profit institutions	1,252	1,509	1,858	2,260	2,583	2,831
to foreign governments and organisations	574	665	736	773	855	856
Other current transfer payments	14	13	17	15	15	6
Capital outlays	9,585	11,877	13,830	14,832	15,190	17,590
Gross fixed capital expenditure	9,053	10,870	12,478	13,386	14,234	16,567
Expenditure on new fixed assets	9,251	10,957	12,618	13,516	14,719	17,161
Expenditure on secondhand fixed assets (net)	-199	-88	-140	-130	-485	-594
Increase in stocks	241	424	488	275	-102	110
Expenditure on land and intangible assets (net)	-108	48	25	5	28	-145

**OUTLAYS, REVENUE AND DEFICIT OF COMMONWEALTH, STATE AND LOCAL GOVERNMENTS**(a)—*continued*

(\$ million)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Capital transfer payments . . . . .	204	317	376	509	603	520
Capital grants . . . . .	204	317	376	467	565	504
Other capital transfer payments . . . . .	—	—	—	42	37	16
Advances paid (net) . . . . .	195	219	464	657	427	538
Revenue . . . . .	45,188	52,852	58,522	64,670	76,058	85,832
Taxes, fees and fines . . . . .	40,407	46,977	51,442	56,344	65,848	72,963
Net operating surpluses of public trading enterprises . . . . .	2,498	3,042	3,615	4,431	5,414	5,939
Property income and other revenue . . . . .	2,283	2,833	3,465	3,895	4,796	6,931
Financing transactions . . . . .	5,880	7,311	12,271	15,760	13,955	15,308
Increase in provisions . . . . .	1,648	1,979	2,324	3,142	3,017	3,668
<b>Deficit . . . . .</b>	<b>4,232</b>	<b>5,332</b>	<b>9,947</b>	<b>12,618</b>	<b>10,938</b>	<b>11,640</b>

(a) Excludes financial enterprises.

### Public sector borrowing

Figures given in this section do not purport to show either 'public debt' or 'net public debt', but are designed to provide details of securities issued on behalf of the Commonwealth Government, the States and the Northern Territory together with some details of the amounts borrowed by State, Territory and local governments with independent borrowing powers.

For a number of reasons, this information cannot be aggregated, without adjustment, to provide a measure of the 'debt' of public sector enterprises. There are forms of debt not evidenced by the issue of securities, such as Commonwealth Government advances to the States and Northern Territory for specific capital purposes. Governments themselves maintain significant holdings of their own securities; for example, the Commonwealth Government, in the National Debt Sinking Fund, the Loan Consolidation and Investment Reserve, and in other Trust Funds, holds large investments in securities issued either directly by itself or on behalf of the States and the Northern Territory. Some of the securities issued on behalf of the States and held by the Commonwealth Government represent the proceeds of overseas loans, securities for which were issued directly by the Commonwealth Government, the Australian currency counterpart proceeds of the loans being invested in special loans to finance State and Northern Territory works programs. A number of State and Northern Territory public corporations and local governments also maintain significant investments in government securities (including their own securities). Aggregation of the figures for securities on issue which follow would clearly involve a substantial degree of duplication; the sum of securities on issue therefore cannot be regarded as representing 'net public debt'.

### Commonwealth Government and States and the Northern Territory: government securities on issue

Under the 1927 Financial Agreement between the Commonwealth Government and the States (as amended to 1976), the Commonwealth Government accepted responsibility for the securities of State governments then on issue and was empowered to arrange for all future borrowings on behalf of the Commonwealth and the States and to issue Commonwealth Government securities for all moneys borrowed.

During 1985-86, an agreement was reached with the Northern Territory Government for the formal allocation of securities relating to the Northern Territory Government's Borrowing program and associated (nominal) debt allocations.

A National Debt Sinking Fund, which is administered by the National Debt Commission, was established by the *National Debt Sinking Fund Act, 1923* for the redemption of securities issued on behalf of the Commonwealth Government. Under the terms of the Financial

Agreement, the sinking funds existing in respect of the States' debts were also placed under the control of the Commission. The Commonwealth Government is reimbursed by the States and the Northern Territory for interest, exchange, etc. paid on their behalf, and the securities are redeemed from the Fund to which both the Commonwealth, the State government and the Northern Territory (from 1985-86) make pre-determined contributions. The amounts to be contributed were varied when the *National Debt Sinking Fund Act, 1966* repealed all previous legislation on sinking funds relating to securities on issue on behalf of the Commonwealth Government, and again in 1976 when the Act was amended to reflect the amendments to the Financial Agreement. In 1976, the Commonwealth assumed the responsibility for over \$1,000 million of States' debt existing as at 30 June 1975. As a consequence, the separate States' Sinking Funds were absorbed into the National Debt Sinking Fund, with separate accounts being maintained for the Commonwealth and each State and the Northern Territory.

For further information relating to the recent operations of the National Debt Sinking Fund reference should be made to the fifty-seventh annual report of the National Debt Commission. Particulars of the creation and operation of sinking funds by the *National Debt Sinking Fund Act, 1923* are included in issues of the *Year Book* prior to No. 23, and a general description of the provisions applying between 1966 and 1976 is given in issue No. 61.

In the tables which follow, details are given of transactions in Commonwealth Government securities issued on account of the Commonwealth Government, the States and the Northern Territory from 1985-86. Amounts relating to overseas loans are shown in Australian currency equivalent calculated on the basis of the rates of exchange ruling at 30 June in each year shown. All amounts are at face value.

For figures which permit accurate analysis of the structure and movement of securities issued on behalf of the Commonwealth and States, refer to the Commonwealth Budget Paper No. 8, *Government Securities on Issue*.

### Net movement in securities on issue

Summary details of the net movement in securities issued for Commonwealth Government purposes and on account of the States during the period 1981-82 to 1986-87, are given in the following group of tables.

#### NET MOVEMENT IN GOVERNMENT SECURITIES ON ISSUE (\$ million)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
<b>NEW SECURITIES ISSUED</b>						
<b>Securities repayable in Australian currency—</b>						
Treasury bonds . . . . .	3,385.8	6,253.8	10,850.0	9,222.2	6,850.3	5,402.7
Treasury indexed bonds . . . . .	—	—	—	—	331.8	303.7
Australian savings bonds . . . . .	1,312.9	4,204.6	3,599.1	505.2	487.9	138.7
Special bonds . . . . .	—	—	—	—	—	—
Income equalization deposits . . . . .	57.6	55.6	24.0	3.7	0.8	0.4
Drought bonds . . . . .	—	—	—	—	—	—
Overdue securities . . . . .	—	—	—	—	—	—
Tax-free stock . . . . .	—	—	—	—	—	—
Debentures . . . . .	—	—	—	—	—	—
Stock issued to Government savings banks under special agreements (a) . . . . .	53.3	61.9	114.6	71.1	—	—
Treasury notes . . . . .	12,594.5	—	—	—	—	—
Treasury bills—						
Internal . . . . .	1,718.0	—	—	—	—	—
Public . . . . .	14,200.0	—	—	—	—	—
Other (b) . . . . .	—	—	—	—	31.0	—
<b>Total . . . . .</b>	<b>33,322.1</b>	<b>10,575.9</b>	<b>14,587.8</b>	<b>9,802.2</b>	<b>7,701.9</b>	<b>5,845.5</b>
<b>Securities repayable in overseas currencies (c) . . . . .</b>	<b>831.3</b>	<b>1,077.0</b>	<b>1,238.4</b>	<b>1,729.1</b>	<b>2,555.2</b>	<b>2,886.1</b>
<b>Total new securities issued . . . . .</b>	<b>34,153.4</b>	<b>11,652.9</b>	<b>15,826.2</b>	<b>11,531.3</b>	<b>10,254.1</b>	<b>8,731.6</b>

NET MOVEMENT IN GOVERNMENT SECURITIES ON ISSUE—*continued*

(\$ million)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
<b>REDEMPTIONS, REPURCHASES, CANCELLATIONS(d)</b>						
Securities repayable in Australian currency—						
Treasury bonds . . . . .	2,317.0	3,117.0	3,189.2	2,990.2	4,621.6	3,587.2
Treasury indexed bonds . . . . .	—	—	—	—	0.5	0.6
Australian savings bonds . . . . .	1,913.9	1,736.8	1,619.9	1,177.3	2,493.0	650.5
Special bonds . . . . .	122.8	71.0	31.5	—	—	—
Income equalization deposits . . . . .	55.2	65.8	48.6	40.5	27.9	19.1
Drought bonds . . . . .	0.1	—	—	—	—	—
Overdue securities . . . . .	-3.3	8.2	9.0	8.8	2.4	1.4
Tax-free stock . . . . .	0.9	0.1	0.2	0.1	—	—
Debentures . . . . .	4.4	3.3	—	—	—	—
Stock issued to Government savings banks under special agreements(a) . . . . .	3.6	5.8	6.0	6.2	19.0	31.8
Treasury notes . . . . .	12,441.9	44.2	1,562.8	-821.7	-3,958.8	-1,286.9
Treasury bills—						
Internal . . . . .	1,509.7	152.2	479.6	212.9	-107.3	627.1
Public . . . . .	14,700.0	1,400.0	—	—	—	—
Other(b) . . . . .	—	—	—	—	—	5.4
<b>Total . . . . .</b>	<b>33,068.9</b>	<b>6,604.5</b>	<b>6,946.9</b>	<b>3,614.4</b>	<b>3,098.5</b>	<b>3,636.1</b>
Securities repayable in overseas currencies(c) . . . . .	131.3	1,523.9	666.1	2,697.0	4,217.2	2,533.5
<b>Total redemptions, etc. . . . .</b>	<b>33,199.4</b>	<b>8,128.4</b>	<b>7,612.9</b>	<b>6,311.4</b>	<b>7,315.7</b>	<b>6,169.6</b>

## NET MOVEMENT

Securities repayable in Australian currency—						
Treasury bonds . . . . .	1,068.8	3,136.8	7,653.9	6,227.4	2,228.7	1,813.1
Treasury indexed bonds . . . . .	—	—	—	—	331.3	303.1
Australian savings bonds . . . . .	-601.0	2,467.8	1,975.6	-674.2	-2,005.1	-509.3
Special bonds . . . . .	-122.8	-71.0	-31.9	—	—	—
Income equalization deposits . . . . .	2.4	-10.2	-24.5	-36.8	-27.1	-18.6
Drought bonds . . . . .	-0.1	—	-0.1	—	—	—
Overdue securities . . . . .	3.3	-8.2	2.0	-2.2	-2.4	-1.4
Tax-free stock . . . . .	-0.9	-0.1	-0.2	-0.1	—	—
Debentures . . . . .	-4.4	-3.3	—	—	—	—
Stock issued to Government savings banks under special agreements(a) . . . . .	47.7	56.1	108.7	64.9	-19.0	-31.8
Treasury notes . . . . .	152.6	44.2	-1,562.8	821.7	3,958.8	1,286.9
Treasury bills—						
Internal . . . . .	208.3	-152.2	-479.6	-212.9	107.3	-627.1
Public . . . . .	-500.0	-1,400.0	—	—	—	—
Other(b) . . . . .	—	—	—	—	30.8	-5.4
<b>Total . . . . .</b>	<b>254.0</b>	<b>3,971.4</b>	<b>7,640.9</b>	<b>6,187.8</b>	<b>4,603.4</b>	<b>2,209.4</b>
Securities repayable in overseas currencies(c) . . . . .	700.0	-446.9	572.3	-967.9	-1,662.0	352.6
<b>Net movement in securities on issue . . . . .</b>	<b>954.0</b>	<b>3,524.5</b>	<b>8,213.3</b>	<b>5,219.9</b>	<b>2,941.4</b>	<b>2,562.0</b>

(a) Recorded in Commonwealth Government Loan Fund as State domestic raisings. (b) Loans taken over from the previous Canberra Commercial Development Authority. (c) Australian currency equivalent at rates of exchange ruling at 30 June in each of the years shown. (d) Includes conversions from one type of security to another, which affect the net movements of individual loan categories, but do not affect the overall net movement.

NOTE: For securities repayable in overseas currencies the amounts shown also include an element due to exchange rate variations in Securities on Issue.

**Government securities on issue**

The following table provides details of government securities on issue on account of the Commonwealth Government, the States and the Northern Territory, repayable in Australian and in overseas currencies.

**GOVERNMENT SECURITIES ON ISSUE: COMMONWEALTH GOVERNMENT AND STATES  
AND NORTHERN TERRITORY**  
(*\$ million*)

	30 June					
	1982	1983	1984	1985	1986	1987
<b>For Commonwealth Government purposes—</b>						
Repayable in Australian currency—						
Treasury bonds . . . . .	5,570.0	8,307.7	15,493.6	21,288.6	22,310.8	23,826.0
Treasury indexed bonds . . . . .	—	—	—	—	331.3	634.5
Australian savings bonds . . . . .	381.2	2,633.9	4,577.3	3,914.7	2,033.6	1,682.8
Special bonds . . . . .	11.1	1.3	—	—	—	—
Income equalization deposit . . . . .	165.7	155.5	130.9	94.1	67.1	48.4
Drought bonds . . . . .	0.2	0.1	—	—	—	—
Advance loan subscriptions . . . . .	—	—	—	—	—	—
Overdue securities . . . . .	7.8	6.8	8.8	6.7	5.5	4.7
Treasury notes . . . . .	3,680.0	3,635.8	2,073.0	2,894.7	6,853.5	8,140.4
Treasury bills—						
Internal . . . . .	1,364.5	1,212.3	732.7	519.8	627.1	—
Public . . . . .	1,400.1	—	—	—	—	—
Other(a) . . . . .	—	—	—	—	30.7	25.3
<i>Total</i> . . . . .	<i>12,580.4</i>	<i>15,953.4</i>	<i>23,016.4</i>	<i>28,718.7</i>	<i>32,259.7</i>	<i>34,362.0</i>
Repayable in overseas currencies(b) . . . . .	5,335.7	6,905.2	7,076.2	9,786.4	13,827.0	15,058.8
<b>Total Commonwealth Government</b> . . . . .	<b>17,916.1</b>	<b>22,858.5</b>	<b>30,092.6</b>	<b>38,505.1</b>	<b>46,086.7</b>	<b>49,420.9</b>
<b>On account of States—</b>						
Repayable in Australian currency—						
Treasury bonds . . . . .	13,067.0	13,464.2	13,932.2	14,364.6	15,569.6	15,867.5
Australian savings bonds . . . . .	1,828.7	2,038.9	2,071.1	2,059.4	1,934.7	1,776.3
Special bonds . . . . .	92.5	30.6	—	—	—	—
Tax-free stock . . . . .	13.9	13.8	13.6	13.5	13.5	13.5
Stock issued to Government savings banks under special agreements . . . . .	651.6	707.8	816.5	881.3	862.3	830.5
Debentures . . . . .	3.3	—	—	—	—	—
Overdue securities . . . . .	—	0.2	0.1	—	1.2	0.6
<i>Total</i> . . . . .	<i>15,657.0</i>	<i>16,255.5</i>	<i>16,833.4</i>	<i>17,318.9</i>	<i>18,381.3</i>	<i>18,488.4</i>
Repayable in overseas currencies(b) . . . . .	16.3	13.9	7.7	6.4	5.4	5.3
<b>Total States</b> . . . . .	<b>15,673.3</b>	<b>16,269.4</b>	<b>16,841.1</b>	<b>17,325.2</b>	<b>18,386.7</b>	<b>18,493.7</b>
<i>of which—</i>						
New South Wales . . . . .	5,108.1	5,327.9	5,566.5	5,773.5	5,999.2	6,042.6
Victoria . . . . .	3,932.4	4,045.3	4,204.1	4,385.5	4,550.1	4,587.2
Queensland . . . . .	2,113.0	2,198.7	2,291.6	2,376.6	2,459.2	2,477.5
South Australia . . . . .	1,961.9	2,035.2	2,009.4	1,598.2	1,982.9	1,577.3
Western Australia . . . . .	1,486.3	1,547.8	1,614.9	1,990.6	1,591.5	1,965.4
Tasmania . . . . .	1,071.6	1,114.4	1,154.5	1,200.7	1,246.3	1,256.4
Northern Territory . . . . .	—	—	—	—	557.7	587.4
<b>Total Commonwealth Government and States</b> . . . . .	<b>33,589.4</b>	<b>39,127.9</b>	<b>46,933.6</b>	<b>55,830.3</b>	<b>64,473.4</b>	<b>67,914.6</b>

(a) Includes loans taken over from the previous Canberra Commercial Development Authority. (b) Australian currency equivalent.

### State and local authorities' borrowings

The borrowings of Commonwealth, State and local authorities first came within the purview of the Loan Council under a 'gentlemen's agreement' originating in 1936. Since 1984–85 the 'gentlemen's agreement' has been replaced by the Global Approach whereby the Loan Council determines a voluntary global limit to apply to all new money borrowings by all public trading enterprises (except statutory marketing boards) and local governments. Details of the Global Approach are contained in Commonwealth Budget Paper No. 7 *Payments to and for the States, the Northern Territory and Local Government Authorities*.

The following table shows the aggregate borrowings by the State and local authorities in each of the years 1983–84 to 1987–88.

**'GLOBAL' NEW MONEY BORROWINGS BY COMMONWEALTH, STATE AND NORTHERN TERRITORY SEMI-GOVERNMENT AND LOCAL AUTHORITIES (a), 1983-84 TO 1987-88**

(Source: Commonwealth Budget Paper (1987-88) No. 4 Table 99)

(\$ '000)

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory	States And The Territory	Commonwealth	Total
<b>CONVENTIONAL BORROWINGS (b)</b>										
1983-84	1,164,200	1,207,100	908,972	650,246	173,400	173,759	12,680	4,290,357	353,035	4,643,392
1984-85	1,337,282	2,007,130	736,789	770,442	478,500	225,623	37,250	5,593,016	622,065	6,215,081
1985-86	1,757,683	1,855,960	740,512	741,332	245,700	228,135	57,750	5,627,072	825,650	6,452,722
1986-87	1,792,622	1,783,270	848,700	531,133	305,600	216,053	86,300	5,563,678	678,497	6,242,175
<b>OTHER BORROWINGS (c)</b>										
1983-84	729,692	373,231	(d)743,028	148,500	307,600	6,477	3,940	2,312,468	404,914	2,717,382
1984-85	603,366 (e)	-22,308	(d)815,211	47,616	14,500	3,365	12,740	1,474,418	578,154	2,052,572
1985-86	301,381	150,700	798,400	—	154,300	1,865	7,250	1,413,896	363,517	1,777,413
1986-87	52,378	75,580	538,300	103,867	44,400	947	—	815,472	780,447	1,595,919
<b>TOTAL 'GLOBAL' BORROWINGS</b>										
1983-84	1,893,892	1,580,331	(d)1,652,000	798,746	481,000	180,236	16,620	6,602,825	757,949	7,360,774
1984-85	1,940,648	1,984,822	(d)1,552,000	818,058	493,000	228,988	49,990	7,067,434	(f)1,200,219	8,267,653
1985-86	2,059,064	2,006,660	1,538,912	741,332	400,000	230,000	65,000	7,040,968	(f)1,189,167	8,230,135
1986-87	1,845,000	1,858,850	1,387,000	635,000	350,000	217,000	86,300	6,379,150	(f)(g) 1,458,944	7,838,094
1987-88 (h)	1,539,700	1,526,400	1,160,500	584,000	300,800	181,600	65,000	5,358,000	(f) 1,187,900	6,545,900

(a) Includes borrowings by all Commonwealth, State and Northern Territory semi-government and local authorities, government-owned companies and trusts. (b) Includes 'conventional' loan raisings under the Gentlemen's Agreement for 1983-84, and within the global limits thereafter. (c) Includes borrowings by way of domestic deferred payments, overseas trade credits, financial leases, sale and leaseback and similar arrangements, security deposits and other repayable capital contributions, and identified net changes in temporary purpose borrowings over the financial year. (d) Commonwealth Treasury estimates. (e) Negative reflecting a decline in temporary purpose borrowings outstanding over the course of 1984-85. (f) Includes 'implicit' borrowings associated with the Commonwealth's instalment purchase of Commonwealth Government Offices. (g) Includes unexpected net increase in temporary purpose borrowings of \$54.9 million. (h) 'Global' new money limits agreed by Loan Council at its May 1987 Meeting.

Additional details of the transactions of public authorities engaged in particular fields of activity, such as defence, transport and communication, health and welfare, education, etc., may be found in other chapters of this *Year Book*.

# THE DEVELOPMENT OF COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS IN AUSTRALIA

*(This special article has been contributed by Professor Russell Mathews)*

This article reviews the development of Commonwealth-State financial arrangements in Australia, with special reference to the assignment of powers, taxation, grants arrangements, and public sector borrowing. References to the Australian States should be taken to include the Northern Territory, which has been self-governing since 1978. The Australian Capital Territory continues to be administered by the Commonwealth (Federal) Government.

## **The assignment of taxing, borrowing and expenditure powers**

The Commonwealth Constitution gives the Commonwealth and the States concurrent powers over all forms of taxation other than customs and excise duties, which are exclusive to the Commonwealth. Except for rents or royalties from offshore minerals, which the Commonwealth has agreed to share with adjoining States, the States control natural resource revenues resulting from the reservation of mineral rights for the Crown. States are also able to derive revenues from resource development indirectly, for example through charges for rail or electricity services. Although generally precluded from granting any bounties on the production or export of goods, this restriction does not apply to metals, and States are able to subsidise mineral production indirectly through the prices they charge for services. For its part, the Commonwealth has been able to control some mining operations indirectly by refusing to grant export licences; it also has the power to impose export taxes.

Commonwealth and State governments originally had concurrent powers with respect to borrowing and the public debt. However, following a financial Agreement between the Commonwealth and States in 1927, the Constitution was amended to establish the Australian Loan Council with the power to control the amounts, terms and conditions of most Commonwealth and State borrowing in Australia. For reasons discussed below, the Commonwealth has exercised a large measure of control over the Loan Council and hence over public sector borrowing.

Under the Commonwealth Constitution, the Commonwealth Government has the responsibility for those functions of government which are international in character (such as defence and foreign affairs), involve national matters (such as citizenship and currency) or have interstate ramifications (such as activities extending beyond the limits of individual States). The States have the formal responsibility for most aspects of law and order, social services, local government, community and economic services, and resource development. However, in many of these areas responsibility is shared between the Commonwealth and the States depending on whether the activities have international or interstate dimensions or are confined within individual States. Thus international and interstate trade and commerce, conciliation and arbitration in relation to industrial disputes extending beyond the limits of any one State, and banking other than State banking within a State are the subject of Commonwealth powers while similar activities within States are controlled by State laws. In addition, the Commonwealth has used its financial powers, especially a general grants power whereby it can provide financial assistance to States on such terms and conditions as it sees fit, to involve itself in various ways in functions such as education, health and transport which are formally State responsibilities. Both in this way and as a result of the interdependence of the two levels of government in relation to many areas of decision making, there is a significant degree of sharing of responsibility for social and economic policies.

Although the Constitution does not distinguish between the economic stabilisation, income distribution and resource allocation functions of government, the Commonwealth has assumed primary responsibility for the first two while the States retain a large measure of control over resource allocation decisions within the public sector. While the Commonwealth and the States both exercise important regulatory functions (again depending on whether activities are international/interstate or intrastate), the States and their local governments undertake

most of the final expenditure by the public sector on goods and services. The Commonwealth's budget is to a large extent a redistributive mechanism or clearing house for making financial transfers between and within the private and public sectors. Some 80 per cent of total Commonwealth outlays consist of transfer payments to persons or families, and payments to State or local governments.

The Commonwealth has explicit constitutional responsibility for the provision of cash social service benefits. This, combined with its involvement through grants to the States, means that the Commonwealth shares responsibility for social welfare with the States, which have the task of organising the direct provision of education, health, housing and other social services.

The Commonwealth and the States both operate business undertakings in fields such as banking, transport, electricity and gas, and water supply. The Commonwealth has constitutional responsibility for postal and telecommunication services.

## Taxation

Customs and excise duties provided more than three-quarters of colonial tax revenues at the time of Federation. Although these duties then became exclusive to the Commonwealth, the Constitution required at least three-quarters of the revenues derived from them to be paid to the States during the first ten years of Federation. However, first the States and then, during World War I, the Commonwealth began to exploit personal and company income taxes on a significant scale. The aggregate amount of Commonwealth and State income taxes still did not exceed the revenue from customs and excise duties at the commencement of World War II, but by then the States were collecting nearly three-quarters of all income taxes. Attempts to co-ordinate income tax arrangements during the 1920s, including a proposal by the Commonwealth that it should withdraw altogether from personal income taxes in exchange for the abolition of its general revenue grants to the States and the retention of its right to levy company taxes, had failed, except for the introduction of joint collection arrangements in 1923.

In 1942 the Commonwealth, faced with the problem of financing a massive war effort from an income tax base which could not be fully exploited because of widely differing State rates, introduced uniform tax legislation which gave it a monopoly over all income taxes. It did this by imposing rates which were as high as to preclude the continuation of State income taxes, and at the same time providing for tax reimbursement grants to be paid to the States so long as they refrained from levying their own income taxes.

As part of new tax sharing arrangements introduced in 1976 (which are discussed below in the section on grants), the Commonwealth made provision for State personal income tax subcharges to be collected by the Commonwealth on behalf of the States or for State rebates to be granted at their expense, on the basis of a continuation of uniform assessment and collection. So far no State has taken advantage of this provision.

The other factor which has played a decisive role in the distribution of taxing powers has been a series of decisions by the High Court, which have had the effect of excluding the States from sales taxes on goods on the grounds that they are excise duties, which under the Constitution are exclusive to the Commonwealth.

The result has been that the States have been denied access to the most important direct and indirect revenue sources available to states or provinces in other federations. The Australian tax system has become one of the most highly centralised in the world, with the Commonwealth collecting some 80 per cent of all taxes and the States only about 16 per cent (the remaining 4 per cent representing local taxes). There has also been a vertical separation of taxes as between the Commonwealth and State/local taxes, as well as a revenue gap with neither level of government imposing a broad-based consumption tax or, since their abolition during the 1970s, death duties. Likewise, there are no general taxes on capital or capital accretion at either the Commonwealth or State level. Only recently has the Commonwealth begun to tax capital gains on a systematic basis.

The principal Commonwealth taxes are thus individuals and company taxes (which provide more than two-thirds of total Commonwealth tax revenue), customs and excise duties, and a selective and differentiated wholesale sales tax. The principal State taxes are pay-roll tax (transferred by the Commonwealth in 1971 to alleviate the fiscal imbalance between the two levels of government), stamp duties, motor taxes, business franchise taxes, liquor taxes, gambling taxes, levies on statutory corporations and land tax.

## Grants arrangements

Commonwealth-State grants may take the form of either general purpose or specific purpose grants. Both may include grants for recurrent as well as capital purposes, both may have conditions attached to them and both may include fiscal equalisation provisions.

### General purpose grants

Although the Commonwealth was required to share its customs and excise revenues with the States during the first ten years of Federation, the initial general purpose grants strictly defined commenced in 1910-11 and took the form of equal per capita payments (of \$2.50) to all States. These continued until 1926-27, after which they were replaced by specific purpose grants in the form of debt charges assistance as part of a general financial adjustment under the Financial Agreement.

The principal general purpose grants in Australia during recent years have been those which resulted from the uniform income tax arrangements referred to in the previous section. The tax reimbursement grants which commenced in 1942-43 were succeeded by financial assistance in 1959-60, whereby the aggregate level of grants was increased each year in accordance with a formula that had regard to changes in population and wage rates and a so-called betterment (or real growth) factor. In 1976-77, the financial assistance grants were replaced by what were called, first, tax sharing entitlements and, later, tax sharing grants, the aggregate level of which depended, subject to varying guarantee provisions, on Commonwealth personal income tax collections and, later, Commonwealth total tax collections. In 1985-86, however, the Commonwealth's principal general purpose grants to the States again came to be called financial assistance grants, with provision for escalating them each year in such a way as to achieve Commonwealth-designated changes in real terms.

The basis of a distribution of the foregoing general purpose grants is considered below. Since 1970-71, the Commonwealth has also been making general purpose capital grants to the States; these also are discussed below.

### Specific purpose grants

The first important specific purpose grants from the Commonwealth to the States, which were for roads, commenced in 1923. As noted above, these were followed from 1927-28 by debt charges assistance under the Financial Agreement. After World War II, the Commonwealth began to make grants for such purposes as universities, tuberculosis and mental hospitals, railways and economic development. Advances were also made for housing at subsidised interest rates.

The 1960s and early 1970s were years of acute financial crisis for State governments. Ever since the introduction of uniform taxation, they had been squeezed between the opposing forces of inadequate revenue sources and growing costs of education, health, transport and other services for which they were responsible. In addition to their attempts to have the financial assistance grants increased, therefore, they also actively sought specific purpose grants or accepted assistance when offered. The scope and size of specific purpose programs increased steadily throughout this period. In the years from 1972-73 to 1975-76, specific purpose payments to State and local governments more than quadrupled in money terms, growing from one-quarter to total payments to nearly half.

Existing programs were continued and many new programs were commenced, commissions and other statutory bodies being used to advise on the needs of tertiary education institutions, schools, children's services, hospitals and health services, social welfare, the national heritage, cities and roads. The Commonwealth Grants Commission was given the task of advising on financial assistance for local government. The Commonwealth also assumed full financial responsibility for higher education and took over some State railway systems.

The rapid growth in specific purpose payments eased the States' financial problems and made it easier for them to finance the burgeoning costs of education, health and the other services for which they were responsible, while paradoxically placing the Commonwealth's own budget under increasing strain. There were continuing disputes between the two levels of government about the planning and administration of programs, as well as serious weaknesses in the Constitution. The operation of the advisory commissions also caused problems including defining their relationship to the Commonwealth Government and Parliament, duplication of their activities with those of Commonwealth and State departments, failure to integrate their recommendations in the normal budget processes, virtual freedom

from financial constraints and arbitrary methods of distributing the funds among the States. They did not operate as intergovernmental co-ordinating agencies, even though they were advising on financial assistance to States for purposes which were State constitutional responsibilities.

Within a few years after their establishment, most of the specific purpose commissions were abolished or absorbed into Commonwealth departments, leaving only the Commonwealth Tertiary Education Commission and the Commonwealth Schools Commission with major advisory responsibilities in relation to specific purpose grants. They were now required to operate within designated Commonwealth policies and budgetary guidelines, so that they were concerned chiefly with advising on the relative needs of the educational institutions for which the Commonwealth's financial assistance was being provided.

After 1975, many specific purpose programs were abandoned or run down (especially those related to urban affairs, social welfare, housing and transport), while some of the major health programs were consolidated into block grants which the Commonwealth has announced will be absorbed into financial assistance grants after 1988. The education grants were roughly maintained in real terms, and during recent years there has been a resurgence of specific purpose payments for social welfare, housing and roads so that the aggregate level of this form of assistance remains high. The States continue to have little influence over the form, administrative procedures and conditions attaching to specific purpose programs. However, the lack of stringent revenue conditions has meant that they have generally been able to substitute grants for their own revenue raising, giving them greater revenue flexibility and not significantly impeding their own determination of budget priorities. Even when health grants are excluded, specific purpose payments continue to account for about two-fifths of all Commonwealth payments to the States.

#### **Equalisation grants**

What came to be called special grants were paid to financially weaker States, commencing in 1910-11 for Western Australia and being extended to Tasmania and South Australia in 1912-13 and 1929-30 respectively. Initially the claims for specific grants were based on disabilities associated with federal tariff, maritime, arbitration and other policies, but the grants tended to be arbitrarily determined on the basis of political decisions or following ad hoc parliamentary or other inquiries.

Secession movements developed in the three States during the early 1930s as a consequence of disaffection with the effects of Federation. In Western Australia, a secession referendum which had the support of the State Government was passed with a two-thirds majority in 1933. There was, however, no provision in the Commonwealth Constitution for secession by a State and the British Parliament declined to take any action in response to a Western Australian petition. A month after the referendum, the Commonwealth Parliament established the Commonwealth Grants Commission to inquire into and report on applications by the States for special financial assistance.

In its Third Report in 1936, the Commission decided that the financial need of a State, and not any disabilities it suffered as a result of Federation or Commonwealth policies, should be the principle used to determine whether or not a State should receive a special grant. In accordance with this principle and following annual reviews, special grants were paid to the three financially weaker States on the recommendation of the Commission; the Commission's recommendations with respect to special grants were always accepted by the Commonwealth Government.

The principle of financial need was subsequently modified until eventually the special grants became fiscal capacity equalisation grants, defined as the amounts considered necessary to enable the States seeking assistance (so-called claimant States) to provide comparable services to those being provided by the standard States (eventually New South Wales and Victoria, the States with the highest fiscal capacity), subject to them also imposing taxes and charges at comparable levels. The claimant States remained free to determine the levels and pattern of revenue raising and expenditure in accordance with their own policies, so that the special grants had the effect of reconciling equality with the diversity and decentralised decision making which are the distinguishing characteristics of a federal system.

The introduction of uniform income taxation in 1942 complicated the task of assessing special grants, since it now became necessary for the Commission to take into account the distribution of the tax reimbursement grants (later financial assistance grants) among the States as well as its assessments of the revenue and expenditure needs of the claimant States.

Except for a brief period towards the end of the 1950s, when those grants were distributed on a basis very close to equal per capita, the distribution came to reflect ad hoc political decisions and it became possible for the three financially weaker States to receive such favourable shares of the financial assistance grants as to make them ineligible for special grants. At varying times after 1959, South Australia, Western Australia and Tasmania ceased applying for and receiving special grants, although South Australia subsequently became a claimant State again between 1970 and 1974 and Queensland applied for and received special grants from 1971 to 1982, when all States agreed not to apply for special grants following reviews of the tax sharing relativities of all States by the Grants Commission.

The first review of tax sharing relativities, which was undertaken as part of the tax sharing arrangements which commenced in 1976, was completed in 1981. The Grants Commission was required to apply the fiscal equalisation principle. For this purpose, it developed a model which would distribute the total funds being provided to the States on the basis of equal per capita shares adjusted for differences in the costs of providing standard services, difference in the capacities to raise revenues from the application of a standard revenue effort, and differences in the per capita amounts of relevant specific purpose grants.

The Commission's assessments implied that, to achieve fiscal equalisation, there should be significant shifts away from the existing distribution of the tax sharing grants to the advantage of the three most populous States—New South Wales, Victoria and Queensland—and to the disadvantage of the other three States. Only marginal changes to the distribution were made following the 1981 review and a further review by the Commission that was completed in 1982, but after another review completed in 1985 State relativities were changed in line with the Commission's assessments so that State financial assistance grants are now being distributed on a fiscal equalisation basis. Another triennial review by the Commission commenced in 1986 for report by 1988.

The present arrangements for distributing financial assistance grants preclude State applications for special grants, but the Northern Territory continues to be eligible for such grants until 1988, after which it will be brought fully into the State financial assistance grants arrangements. In 1986 the Commonwealth asked the Grants Commission to report on whether the amounts of financial assistance received by the Territory in 1983–84 and 1984–85 exceeded the amounts necessary to provide standard services at standard rates of revenue raising.

Among its other tasks, the Grants Commission has also reviewed the finances of the Australian Capital Territory by reference to fiscal equalisation principles, reporting first in 1984 and again in 1986.

### **Public sector borrowing**

The Australian Constitution made provision for the Commonwealth to take over State debts existing at the time of Federation, and this was extended by the Constitutional amendment in 1910 to permit the takeover of all State debts and not merely those which existed in 1901.

During the 1920s, arrangements were made to co-ordinate public sector borrowing through the establishment of an informal Loan Council, but the Commonwealth remained unwilling to accept responsibility for State debts as long as the States were free to determine their own borrowing policies independently. Arguments about the assignment of income tax powers between the two levels of government, and about the continuation of the \$2.50 per capita grants which the Commonwealth had been making as general revenue payments to the States since 1910, eventually coalesced with the arguments about debt management and borrowing arrangements and resulted in the Financial Agreement of 1927. This provided for: the establishment of the Australian Loan Council as the body formally responsible for Commonwealth and State borrowing; the takeover of State debts by the Commonwealth while leaving the States with the obligations to indemnify the Commonwealth for interest and sinking fund payments on those debts and on all future borrowing now to be undertaken by the Commonwealth on their behalf; and the replacement of the per capita grants by debt charges assistance to be linked with sinking fund arrangements. Following Constitutional amendment in 1928, these provisions of the Financial Agreement became formally embodied in the Constitution.

Following a so-called Gentleman's Agreement in 1936, the Loan Council's control was extended to local and semi-government authorities, so that henceforth all public sector

borrowing, other than borrowing for defence or for temporary purposes, came under its jurisdiction.

During the Great Depression the Loan Council and its alter ego, the Premier's Conference, played a decisive role in the determination of economic and fiscal policy, with the States exercising control jointly with the Commonwealth. After the introduction of uniform taxation in 1942, however, the Commonwealth came to dominate the Council and henceforth decisions about the amounts and conditions of public sector borrowing, like other key elements of fiscal policy, were effectively made by the Commonwealth Government. The Commonwealth achieved this domination by a combination of its income tax monopoly, its control over the Reserve Bank, its use of the grants power and its underwriting of State loan programs through so-called special loans. These were provided to the States, on the same terms as public loans, to make up any shortfall in public loan raising in respect of approved programs. The price for the States was that the amounts and terms of all loan raising—not only by State governments but also by their semi-government and local authorities—were now determined by the Commonwealth, and the States increasingly became indebted to the Commonwealth as special loans proved to be necessary in nearly every year between the early 1950s and the early 1970s.

There were some adjustments to the borrowing and debt arrangements in the early 1970s, involving, first, the progressive takeover by the Commonwealth of \$1,000 million of State debts and the charges thereon and, second, the substitution of capital grants by the Commonwealth for approximately one-third of the approved State Loan Council programs. The Commonwealth also began to pass the State programs through its own budget, providing itself with an incentive to impose tight restraints on the size of the programs as it began to incur large deficits of its own in the second half of the 1970s and the 1980s. Over a ten-year period the real value of the State Loan Council programs was halved.

During the same period, however, there was a relaxation of controls over State semi-government and local borrowing, involving a series of decisions by the Loan Council designed mainly to facilitate the financing of resource development. These included: so-called infrastructure financing, whereby loans for individual development projects were approved between 1978 and 1981; the freeing of electricity authority borrowing from Loan Council control from 1982; and the progressive deregulation of borrowing by other authorities—as to both amounts and terms and conditions—from 1983. From 1982, also, States were permitted to establish central borrowing authorities to co-ordinate and consolidate borrowing by their authorities.

The States had been responding to the restrictions on their own Loan Council programs by resorting to a wide range of non-conventional forms of borrowing. These included: security deposit arrangements, whereby State governments required private companies involved in resource development to finance public sector infrastructure such as railway and port construction; leasing arrangements; commercial buyer or supplier credit; deferred payments; instalment purchasing; and export credits. As a result borrowing outside approved Loan Council programs accounted for about 60 per cent of total net borrowing by 1983-84. In order to restore Loan Council oversight over authority borrowing, the Gentlemen's Agreement was suspended in 1984 in favour of a so-called global approach, whereby the Commonwealth and State Governments agreed to voluntarily limit authority borrowing from all sources to global limits agreed by the Council. In 1985 the Gentlemen's Agreement was formally terminated, so that the global approach now forms the basis of the Loan Council's oversight of authority borrowings, albeit with the States exercising a greater influence over the decisions taken. Interest rates and other terms and conditions are now left to individual governments and the market to determine.

## Conclusion

It is possible to identify three phases in the development of Australian Commonwealth-State financial arrangements, involving what maybe called co-ordinate or decentralised federalism, co-operative federalism and centralised federalism respectively.

The first period, from 1901 to the 1920s, saw the Commonwealth and the States carrying out their fiscal responsibilities largely independently of each other, in accordance with the powers assigned severally to them by the Constitution.

The first period, from 1901 to the 1920s, saw the Commonwealth and the States carrying out their fiscal responsibilities largely independently of each other, in accordance with the powers assigned severally to them by the Constitution.

The period of co-operative federalism, which commenced during the 1920s and ended in 1942, was marked by the establishment of the Australian Loan Council and the Commonwealth Grants Commission, the sharing of fiscal responsibilities during the Great Depression of the 1930s and the establishment of the first Commonwealth-State ministerial councils, such as the Australian Agricultural Council, to co-ordinate policies in fields of common interest.

Centralised federalism commenced in 1942 with the uniform tax legislation and has been distinguished by Commonwealth domination over the Loan Council, constitutional amendments and judicial decisions which have had the effect of extending Commonwealth powers, the consolidation of a highly centralised taxation system, the substitution of Commonwealth general purpose grants for State income taxes, and the use of specific purpose grants on a massive scale to facilitate Commonwealth involvement in expenditure responsibilities for which the States are formally responsible under the Constitution.

At the time of Australia's bicentenary, there are some signs that some of these centralising tendencies may be relaxed or even reversed. The States have regained a degree of influence in the Loan Council within what is now a largely deregulated system of loan raising; they have access to income taxes if they choose to levy surcharges; the scale of Commonwealth general purpose and specific purpose grants during recent years has, paradoxically, substantially strengthened their fiscal positions at the expense of the Commonwealth; the recent work of the Commonwealth Grants Commission has resulted in a large measure of horizontal fiscal equalisation; and there has been a diminution in the importance of specific purpose grants relative to other funds available to the States. But the main impetus towards decentralising tendencies in Australia's federal financial arrangements is likely to come from the developing weakness in the Commonwealth's own budgetary position, as it endeavours to grapple with large deficits, contain the growth of government expenditures and reform the taxation system.

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