1991-92 BUDGET PAPER No. 1

BUDGET STATEMENTS 1991-92

CIRCULATED BY
THE HONOURABLE JOHN KERIN, M.P.,
TREASURER OF THE COMMONWEALTH OF AUSTRALIA, AND
THE HONOURABLE RALPH WILLIS, M.P.,
MINISTER FOR FINANCE
FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 1991-92

AUSTRALIAN GOVERNMENT PUBLISHING SERVICE
CANBERRA 1991

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1991-92 BUDGET PAPERS

Budget Speech

No. 1 Budget Statements 1991-92
Contains detailed information on the Budget figuring and measures, an historical perspective and explanatory material on the broader economic context.

No. 2 The Commonwealth Public Account 1991-92
Contains information relating to the Consolidated Revenue Fund (including the Appropriation Bills Nos 1 and 2 and Appropriation (Parliamentary Departments) Bill), the Loan Fund and the Trust Fund.

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Provides data on the structure and movement of securities of the Commonwealth, the States and the Territories.

No. 2 National Income and Expenditure 1990-91
Gives estimates of gross domestic product, gross national expenditure and national income for the last five years.

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Contains a summary of certain income tax data for individuals and companies for the income year 1989-90.

No. 4 Australia's Overseas Aid Program 1991-92
Details Australia's overseas aid programs.

No. 5 Women's Budget Statement 1991-92
An assessment of the impact on women of the 1991-92 Budget.

No. 6 Science and Technology Budget Statement 1991-92
Outlines Commonwealth support for science and technology with a particular focus on major Commonwealth research agencies and programs supporting research-related activities.

No. 7 Social Justice for Indigenous Australians 1991-92.
Outlines Commonwealth programs and services for Aboriginal and Torres Strait Islander people.

No. 8 Program Performance Statements
19 Volumes—Presents details of 1990-91 expenditure and estimates for 1991-92 on a program basis and relates these figures to program performance.

No. 9 Health Care in Australia—Directions for reform in the 1991-92 Budget
Describes the major structural problems facing Australia's health care system, and outlines reforms in the 1991-92 Budget to the equity and efficiency of the health care system.

Report of the Auditor-General
A report on the Financial Statements prepared by the Minister for Finance for the year ended 30 June 1991.
(This document is to be released in November 1991.)

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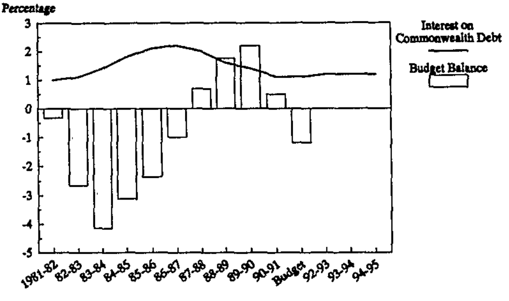
CORRIGENDA

Page 3-7, Line 4 — Replace 2.5 % by 5.3 %.

Page 3-283 — Replace Chart 6 with the following:

Chart 6. Public Debt Interest and Budget Balance as a percentage of GDP



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Notes:

(a) Figures in tables and, generally in the text, have been rounded. Discrepancies in tables between totals and sums of components are due to rounding. Percentage changes in all tables are based on the underlying unrounded amounts and not the rounded amounts.

(b) In the tables showing revenue, the sign in front of the 'change' reflects the impact of the change on the aggregate concerned. For Statement 3, however, see the style convention notes on page 3.2.

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:

NEC/nec	not elsewhere classified
–	nil
..	not zero, but rounded to zero
na	not applicable (unless otherwise defined)
$m	$ million
$b	$ billion

Budget Statements 1991–92 is one of a series of Budget Papers, the purpose of which is to provide information supplementary to that in the Budget Speech. A full list of the series is printed on the inside cover of this paper.

STATEMENT 1—SUMMARY OF THE 1991–92 BUDGET AGGREGATES

1

The budget deficit for 1991–92 is estimated at $4732m, compared with a surplus of $1896m in 1990–91. After four consecutive surpluses, the swing into deficit has arisen primarily from the slowdown in economic activity that has increased budget outlays—especially outlays on unemployment benefits—and reduced revenue. The major budget aggregates for 1991–92, together with comparable figures for 1990–91, are:

	1990–91			1991–92		
	Actual	Change on 1989–90		Estimate	Change on 1990–91	
	$m	$m	%	$m	$m	%
Outlays	96041	8206	9.3	101508	5467	5.7
Revenue						
Tax	93078	1834	2.0	91163	–1915	–2.1
Non Tax	4859	232	5.0	5613	754	15.5
Total	97937	2066	2.2	96776	–1161	–1.2
Balance	1896	–6140		–4732	–6628	

Total outlays are estimated to increase by 5.7 per cent in nominal terms and 2.6 per cent in real terms. As indicated in Table 4 of Statement 3, policy decisions taken since the 1990–91 Budget have reduced outlays by a net $50m. As a percentage of GDP, outlays are still below the levels of the mid 1970s and most of the 1980s. Details of the 1991–92 outlays estimates, the forward estimates for the period 1992–93 to 1994–95, the 1990–91 outcome and an historical overview are provided in Statement 3.

Total budget revenue is estimated to decrease by 1.2 per cent in nominal terms, a decrease of 4.1 per cent in real terms. Details of the 1991–92 revenue estimates, the 1990–91 outcome and an historical overview are provided in Statement 4.

The ratio of the Commonwealth budget sector's total debt outstanding to GDP is expected to be about 13¾ per cent at end-June 1992, well below the recent peak of 26.3 per cent at end-June 1986. Details are provided in Statement 5.

The 1991–92 Budget aggregates and the total public sector net borrowing requirement—that is, comprising the Commonwealth budget and non-budget sectors as well as the State and local governments sectors—as proportions of forecast GDP, together with comparable data for recent years, are:

	1988–89	1989–90	1990–91	1991–92 Estimate
		(% of GDP)		
Outlays	24.4	23.6	25.3	25.7
Revenue				
Tax	24.7	24.5	24.5	23.1
Total	26.1	25.8	25.8	24.5
Balance	1.7	2.2	0.5	–1.2
Net PSBR	–1.6	0.5	2.2	4.3

Owing primarily to cyclical factors, the public sector is expected to be a net borrower again in 1991–92; details are provided in Statement 6.

STATEMENT 2—THE BUDGET AND THE ECONOMY

CONTENTS

2

PART I: RECENT DEVELOPMENTS

The Australian economy moved into recession in mid-1990 and the labour market deteriorated sharply from late 1990 onwards. The downturn has been longer and more severe than forecast at the time of the 1990–91 Budget. A combination of international and domestic factors contributed to the weaker outcome: the full extent and severity of balance sheet weaknesses owing to high gearing levels was more rapidly exposed by the unwinding of unsustainable asset prices and the lengthy period of high interest rates; a sharp fall in the terms of trade and a marked weakness of farm incomes as well as slower world growth; and a sharper than forecast decline in business investment. Business and consumer confidence remained weak in the face of these factors and the fragility of some financial institutions.

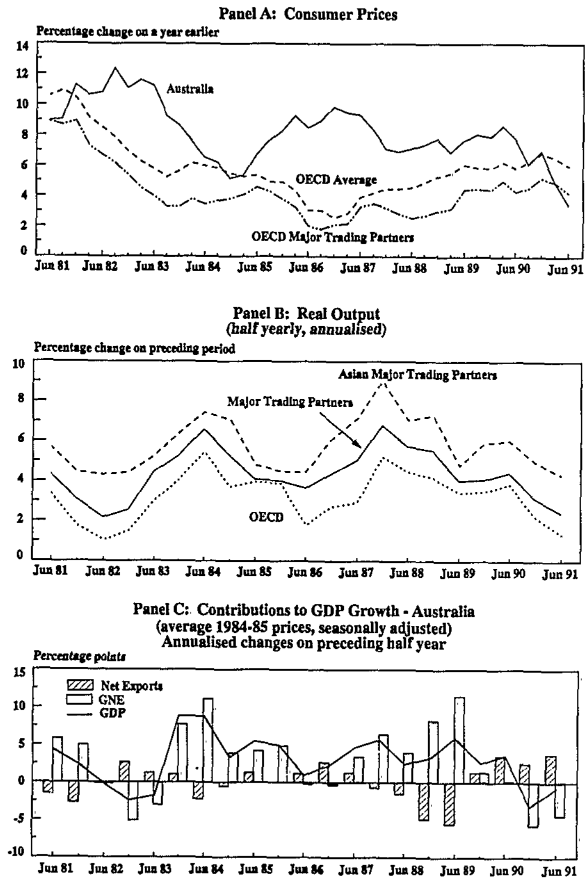
There was a significant slowing in world economic activity in 1990–91, with several major OECD countries moving into recession. This partly reflected firmer monetary policy from mid-1988 in a number of major industrial countries in response to growing concern about inflationary pressures. The slowdown was exacerbated by the impact of the Gulf crisis and the continued effects of financial sector weakness as well as high consumer and corporate debt levels in several countries. There were also broader concerns about demands on world savings to finance continuing large budget deficits in several countries, German unification and reconstruction in Eastern and Central Europe and the Middle East. Despite these uncertainties, activity in our major Asian trading partners remained more buoyant than the average for the OECD countries.

Even though the terms of trade were weaker, there was a significant improvement in the current account in 1990–91. Subdued domestic demand contributed by reducing the demand for imports and allowing the switching of some domestic production to exports. The very strong net export performance meant that domestic production did not fall so sharply as demand (Chart 1, Panel C). It also produced a merchandise trade surplus of $2.5 billion, our first merchandise trade surplus since 1987–88. While the current account improved overall, it still remained large relative to output under the weight of the continuing cost of servicing the stock of debt.

Falling demand was also reflected in a decline in inflation and inflationary expectations. For the first time in 10 years, Australia's inflation performance was significantly better than that of our major OECD trading partners (Chart 1, Panel A). Finally, and with some lags, the drop in activity in Australia was followed by falling employment, a declining labour force participation rate and sharply rising unemployment.

The Australian economy has proved to be more than usually difficult to forecast in this cycle. Forecasting is always difficult because it is not possible to predict with any certainty the timing and strength of shocks which can hit the economy—such as sharp terms of trade movements—and because the lags before policy changes affect the economy are so variable. On this occasion the structural changes flowing from financial market deregulation and the effects of a sharp run-up in asset prices on wealth and perceptions of wealth have added further complexity. While the importance of these factors is clearer with hindsight, they were not fully appreciated at the time in the

CHART 1: THE INTERNATIONAL ECONOMY



forecasting process. Similar forecasting difficulties were encountered in many OECD nations.

INTERNATIONAL ECONOMIC CONDITIONS

In 1990–91, the long expansion period of the 1980s came to an end in a number of OECD economies, though strong growth continued in Germany and in our Asian trading partners. Overall the slowdown in growth in our major trading partners was slightly more than assumed at budget time and inflation rates were lower than expected (Panel A of Table 1). Although the Gulf crisis meant that oil prices were high and volatile in the first half of 1990–91, average oil prices were in line with budget expectations.

The slowing in world economic activity started in 1988 as output approached capacity limits and the investment boom of 1987–88 waned. Monetary policies in the major OECD economies were tightened in 1988 and 1989 to stem inflationary pressures emerging during the long period of demand growth. Inflation rates were slow to respond to the policy tightening.

The sharp oil price rise that occurred at the onset of the Gulf crisis was generally passed through in full to consumers. Higher oil prices reduced purchasing power but, more importantly, the loss of confidence and general uncertainties associated with the crisis tended to reduce consumption and investment. This may have exacerbated the slowing already under way. More subdued activity and the return of oil prices to pre-Gulf crisis levels in January 1991 helped moderate inflationary pressures in the first half of 1991.

As in Australia, the downturn in economic activity in 1990–91 in the United States, Canada and the United Kingdom was marked. In Canada, output fell first in the June quarter 1990; in the United Kingdom, the September quarter; and in the United States, the December quarter. In each of these countries, the authorities exercised caution in reducing interest rates as activity slowed because of continued evidence of inflationary pressures.

A further contribution to the downturn in these countries in 1990–91 was the wealth and confidence effects induced by high levels of indebtedness and asset price deflation. The increased indebtedness of the household and corporate sectors, particularly in the United States and the United Kingdom, may have heightened sensitivity to increases in interest rates. Moreover, at the same time, monetary conditions may have been tightened by weakened financial institutions (especially in the United States) tending to restrict credit growth to strengthen their balance sheets and to meet Bank for International Settlements capital adequacy requirements.

Economic growth rates also fell in most of the other OECD countries in 1990–91. Germany was an exception, with faster growth in 1990–91 than in 1989–90 because of the stimulus to demand from unification. Growth in Japan slowed but to a rate still well above the OECD average. The slowdown in Japan primarily reflected the effects of past monetary policy tightenings intended to curb inflationary pressures and stem rapid rises in equity and land prices. Recession in the United States and still strong demand growth in Japan and Germany helped to further narrow global external imbalances.

The Asian Newly Industrialising Economies (NIEs) grew by $6^1/4$ per cent in 1990–91, at the same rate as in 1989–90, and almost 4 percentage points higher than Australia's major OECD trading partners.

Macroeconomic policy continued to be set within a medium-term framework in most OECD countries in 1990–91, with monetary policy focussing on reducing inflation and inflationary expectations. In those economies where growth slowed markedly, interest rate reductions were made only cautiously late in 1990 and early in 1991, reflecting concern about the extent of underlying inflationary pressures for this stage of the cycle and the possible pro-cyclical effects of a policy easing. In countries where growth remained strong, vigilance against inflation remained an important policy objective. A complicating factor for the operation of monetary policy was that this was the first downswing since the financial market deregulation and extensive financial innovation of the 1980s. This made the interpretation of monetary conditions more difficult and increased the uncertainties associated with policy operation.

The fiscal positions of many OECD countries weakened cyclically as slower growth significantly increased deficits or reduced surpluses. Most OECD governments allowed the automatic stabilisers to operate, although fiscal policy was tightened in some countries (in particular, Canada and Italy) which had especially large budget deficits. No large OECD country took significant discretionary fiscal measures to counter the effects of the downturn, demonstrating a widespread commitment to the need for continued progress on fiscal consolidation over the medium-term.

Structural reform continues to be of critical importance in improving competition, raising productive potential and increasing the flexibility of all economies. However, the lack of support for liberalising international trade displayed in 1990–91 by major countries was disappointing. In particular, the failure by major countries to agree on liberalisation measures for agriculture stalled the Uruguay Round of trade negotiations—making the achievement of further substantive multilateral trade liberalisation more difficult and highlighting the disturbing risks of a regression towards major trading blocs.

World developments in 1990–91 affected Australia in a number of ways. Clearly, slower growth in world activity tended to depress commodity prices and reduced demand for exports. The Gulf crisis restricted access for Australia's rural exports to important Middle East markets. It is also likely that uncertainty about the international effects of the crisis reinforced the weakness in domestic business and consumer confidence. The effect on our exports of slow growth in North America and Europe was ameliorated by comparatively stronger growth in Japan and the Asian NIEs, which account for more than half of Australia's exports (Chart 1, Panel B).

THE AUSTRALIAN ECONOMY

The growth of the Australian economy had slowed through 1989–90. This was partly a result of the waning of the factors that had given particular impetus to rapid economic growth in the late 1980s—the upswing in the terms of trade, the investment boom and the dwelling cycle. It also reflected the increasing impact of tighter policy settings. In short, the general momentum of economic expansion was slowing in Australia, as it was in a number of other OECD countries. (For more detail on the latest economic cycle see Part II of this Statement.)

Some further slowdown in 1990–91 could have been expected in Australia from the weakening of these earlier stimuli, the usual behaviour of the economy over the course of the business cycle and the lagged impact of earlier policy changes designed to address the unsustainable demand conditions of the preceding years. In the event, the slowdown was more severe and Australia—along with a number of other OECD countries—moved into recession. Related to the world slowdown, but also influenced by developments affecting specific commodities, the terms of trade fell and they were again an important factor in determining the nature of the Australian recession.

The factors that pushed the Australian economy into recession in 1990–91 were:

- the fall in the terms of trade, which had a particularly adverse effect on farm incomes;
- balance sheet weakness owing to accumulated debt and the unwinding of the unsustainable asset price build-up. This weakness became fully apparent as a result of the lengthy period of high interest rates necessary to rein in the unsustainably strong growth in demand of the earlier period;
- the weakening of non-residential construction investment after a long expansion phase, which had resulted in over building, particularly of CBD offices. Expectations of excess supply added to the downward pressure on asset prices;
- the downturns in plant and equipment investment and the dwelling construction sector that were also affected by high interest rates; and
- weak business and consumer confidence that tended to reduce further investment and consumption expenditure.

The 1990–91 Budget Forecasts and the Preliminary Outcome(1)

The 1990–91 Budget forecasts were finalised in August 1990 at a time when the policy objective of improving the balance between production and domestic demand (GNE) appeared within reach. The rate of growth of domestic demand had fallen sharply from the unsustainable rates of 1988 and 1989, while the rate of growth of production had fallen more slowly. Employment growth had, however, remained fairly strong owing to an extended period of wage restraint and previously strong growth in output.

Last year's Budget forecasts (Panels B and C of Table 1) depicted an economy growing at a moderate pace during 1990–91. Domestic demand was expected to remain flat because of slower growth of private consumption, falling private investment and slow growth in employment. The better balance between production and domestic demand

(1) The comparisons made here are primarily with the economy for 1990–91 as shown in the June quarter 1991 National Accounts. However, the June quarter figures will be subject to revision by the Australian Bureau of Statistics as additional data come to hand. The final picture of the shape of the economy in 1990–91, and of key aggregates, may therefore be somewhat different from that currently shown.

was to be reflected in the significant contribution to growth expected from net exports. As a result, GDP was forecast to grow by around 2 per cent. The forecasts also had inflation falling and the current account improving, despite a moderate fall in the terms of trade. While the labour market was forecast to weaken, employment was still expected to grow, partly because of the expectation that wage growth would be moderate and real unit labour costs would improve.

In the event, the economy—and, in particular, farm income—weakened in 1990–91 to a greater extent than expected. This greater weakness was reflected in domestic demand falling sharply by 3.8 per cent rather than stabilising, production declining by 0.9 per cent rather than increasing and, as a consequence, employment falling sharply rather than showing a slight increase. Precise decomposition of the slowdown is clouded by the significant reduction in the statistical discrepancy in the National Accounts data (Chart 2)(2).

Bearing that in mind, details of the extent to which specific 1990–91 Budget forecasts for demand and production differed from the preliminary outcome are shown in Panel B of Table 1. The greater than forecast decline in production owed most to three expenditure aggregates.

- The larger than expected detraction from growth by non-farm stocks reflected falling rather than rising sales through 1990–91 and an especially rapid adjustment of stock levels to that downturn. There was also a post-budget upward revision in the National Accounts to 1989–90 stock accumulation and stock levels increasing the apparent decline in 1990–91.
- Private consumption grew more slowly than forecast and declined in *per capita* terms. Contributing factors were: real household disposable income fell as the part year effect of tax cuts in January 1991 was more than offset by lower employment; within this, farm incomes fell sharply as a result of the fall in farm prices; wealth effects resulting from falling asset prices; and low levels of consumer confidence. The decline in real disposable income and consumption *per capita* was moderated by the operation of automatic stabilisers—including increased cash benefit transfers—from the public sector.
- Plant and equipment investment declined more rapidly than expected.

The impact of the falls in domestic demand on GDP in 1990–91 was cushioned by the continued major contribution from net exports, which was around one percentage point

(2) The statistical discrepancy is not an economic variable but, rather, the difference between independently generated estimates of GDP from the income and expenditure sides of the National Accounts. It is customary to assume that the discrepancy makes no contribution to GDP growth in the forecast financial year. This set the discrepancy at $4.5 billion in the forecasts for 1990–91 but, in the event, the discrepancy was $1.3 billion for the period, representing a 1.6 percentage point detraction from growth in output. It is *not possible to ascertain* whether and how this change in the discrepancy will be apportioned. The apportionment will involve either a reduction in the extent of the decline in GDP measured through the income side and/or a slower rise (or a fall) in GDP as measured by the sum of the expenditure items. This all means, however, that the current assessment of the preliminary outcome for 1990–91 against the budget time forecasts must remain approximate.

Table 1: Actual and Forecast Economic Developments (a)

	1989-90 Actual	1990-91 Forecast	1990-91 Actual
Panel A - International Assumptions			
Growth of major trading partners	3.8	3 1/2	3
Inflation rate of major trading partners	4.5	5 1/4	4 1/2
Terms of trade	-1.6	-3 1/2	-5.2
Exchange rate (b)	60.0	61.0	58.9
Oil prices ($US/bbl)	17.89	23.00	23.51
Panel B - Demand and Output			
Private final consumption expenditure	4.3	2 1/4	1.0
Private Investment -			
Dwellings	-4.7	-9	-11.4
Non-dwelling construction	4.2	-13 1/2	-14.5
Plant and equipment	-2.2	-4	-10.6
Business investment	-0.1	-7 1/4	-11.9
Public final demand	6.7	2 3/4	2.9
Increase in stocks (c) -			
Non-farm	-0.6	-1/4	-1.2
Farm and public authority	0.7	-1/2	-0.4
Discrepancy (c)	-0.1	-	-1.6
Gross National Expenditure	3.3	..	-3.8
Exports of goods and services	7.3	7 1/2	13.0
Imports of goods and services	5.2	-3	-3.6
Net exports (c)	0.2	2	3.1
Gross Domestic Product	3.6	2	-0.9
Panel C - Other Selected Economic Measures			
Average earnings			
(national accounts basis)	6.9	7	6.0
Consumer price index	8.0	6 1/2	5.3
Employment	3.8	3/4	-0.4
Unemployment rate (per cent)	6.2	7 1/4	8.4
Real household disposable income	5.3	1	-0.9
Current account balance -			
$ billion	-22.3	-18	-15.7
Percentage of GDP	-6	-4 1/2	-4.1

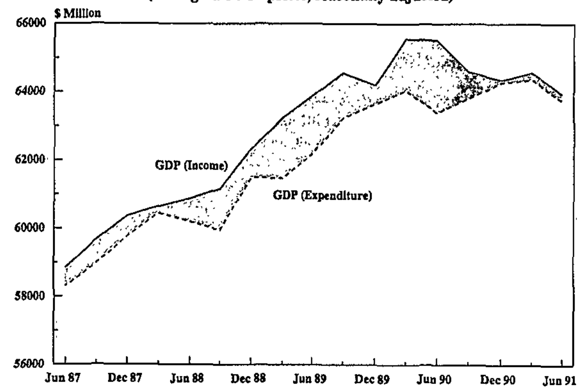
(a) Average 1984-85 prices. Unless otherwise indicated, figures are percentage change on preceding year.
(b) Trade weighted index.
(c) Percentage points contribution to change in GDP.

greater than expected. As a result, the shortfall on GDP compared with the budget estimates was less than the shortfall on GNE.

A comparison of the 1990–91 Budget forecasts and the outcome for other key economic aggregates is shown in Panel C of Table 1—the key points follow.

CHART 2: GDP MEASURES (a)

(average 1984-85 prices, seasonally adjusted)



(a) Shaded area represents the statistical discrepancy.

- Average earnings growth was lower than forecast. The greater than forecast slowing in economic activity and the wage-tax trade-off agreed in November 1990 tended to moderate wages growth. By contrast, the recession-induced change in the composition of the employed work-force—as lower paid workers tended to bear the brunt of job losses—and a greater number of redundancy payments, tended to push measured earnings upwards. However, although this resulted in measured earnings increasing by 6 per cent, the employment cost of individual workers who remained in employment increased by considerably less. Award wages increased by less than 5 per cent in year-average terms and by only slightly more than 2 per cent through the year.

- Rather than rising as forecast, employment fell in 1990–91 consequent upon the fall in output. At the same time, the average participation rate was around the level assumed at budget time. The turnaround in the employment outlook was therefore fully translated into higher than expected measured unemployment.

- The inflation outcome was considerably better than expected. The slower growth in the CPI reflected:
  - — the impact of reduced mortgage interest costs;
  - — falling demand as businesses attempted to maintain sales in weak markets by reducing costs and profit margins;

— slower growth than expected in import prices, despite the TWI averaging 59 points over the course of 1990–91, two index points below the level assumed in the budget forecasts; and

— slower AWE growth most probably contributed to the lower outcome although volatility of the recorded quarterly movements makes quantification difficult. Slower growth in the second half of 1990–91 is an important factor contributing to the improved inflationary outlook in 1991–92 (see Part III of this Statement).

- Finally, the current account deficit was smaller than forecast both in absolute terms and as a proportion of GDP. This partly flowed from the weaker economy reducing the rate of growth in imports: endogenous import volumes fell by 3.4 per cent with a small fall in import penetration. There was also stronger than expected growth in export volumes, particularly from non-rural exports, with large increases in the export of manufactures, iron and steel, gold, liquefied natural gas and steaming coal. These factors were partly offset by a greater fall in the terms of trade than forecast because of weaker commodity prices.

Key Characteristics of the Downturn

The downturn in 1990–91 was exacerbated by the combined impact of a number of factors. Some of these which influenced the shape and extent of the downturn are discussed below. Comparisons for key aggregates between 1989–90 and 1990–91 are shown in Table 1.

Terms of Trade

The terms of trade fell by 5.2 per cent in 1990–91.

- Farm export prices fell generally during 1990–91, with the major falls being in wheat and wool which accounted for most of the fall in the terms of trade.

- Non-farm commodity export prices changed little over the course of the year. This reflected the offsetting effects of higher energy prices because of the Gulf crisis and weaker metals prices as world activity slowed.

- Despite the fall in the exchange rate, import prices grew very slowly, reflecting changes in the composition of imports and possibly less buoyant conditions lowering margins on imported goods.

Illustrating the significance of the weaker terms of trade is the Australian Bureau of Statistics' measure of GDP adjusted for the terms of trade. This suggests that the fall in the terms of trade reduced the purchasing power of national income by around one percentage point. The fall in the terms of trade therefore made a substantial contribution to the downturn in 1990–91.

Farm Incomes

The fall in the terms of trade impacted heavily on farm incomes.

- Wheat prices fell by about a third, with the major decline occurring in the second half of 1990. This reflected record levels of world wheat production and weaker demand for Australian wheat because of the loss of some Middle East markets and the effects of continuing subsidy wars.

- Wool prices had begun to fall in June 1990 with the reduction in the reserve price from 870 to 700 cents a kilogram. Continuing low levels of demand and the resultant additional accumulation of wool stocks led to the suspension and subsequent abandonment of the reserve price scheme. Wool prices fell from around 700 cents a kilogram at the start of 1991 to around 430 cents by late February and then rose slowly to reach 570 cents by the end of 1990–91. Individual growers were compensated for the decline in wool prices below 700 cents by a government subsidy, which helped to support their incomes.

Farm export prices fell by 15 per cent in 1990–91, and farm product prices fell by 26 per cent overall. Despite farm output increasing by 10 per cent in 1990–91, falling prices and some rise in costs meant a massive fall in farm income—of around 80 per cent. Naturally, this was reflected in lower levels of farm expenditure.

The fall in farm income in 1990–91 is evident from the September quarter onwards. The extent of the decline was far more severe than forecast. Although the farm sector is only small, around 3 per cent of GDP, the decline in farm income is likely to have played a role in the weakness in economic activity in the second half of 1990 and the labour market towards the end of the year.

Investment and Inventory Investment

Business fixed investment declined in 1990–91 from the historically high levels of recent years when investment in both the tradable and non-tradable sectors was very strong. Falling business profitability and lower levels of final demand contributed to the decline. Other influences were the lagged effects of high interest rates, unwinding of the rapid run-up in asset prices and increased cash flow problems faced by some businesses. Non-residential construction is subject to longer swings than either dwellings or equipment investment, reflecting the comparable durability of buildings and the lengthy gestation periods typical of major projects. Following an especially strong boom, non-residential investment fell in 1990–91 in the face of emerging excess supply of office space—and in response to the more general factors affecting the economy as a whole.

Dwelling investment declined in 1990–91, although it appeared that the downswing may have run its course by the end of the year. Affordability improved over the year because interest rates fell significantly and house prices fell in real terms. On the other hand, the fall in real household income as employment declined as well as the higher risk of unemployment reduced the confidence of households to acquire major assets. Investor and owner occupier demand for dwellings fell over the year.

Non-farm stocks were run down substantially for the year as a whole in response to falling sales. The particularly rapid adjustment in the current downturn reinforced the effect of lower private demand on production[(3)].

Business and Consumer Confidence

Falling confidence levels are a part of any significant economic downturn. Business and consumer confidence plays a key role in economic decisions and, in Australia and elsewhere, a number of factors appeared to severely reduce confidence in the downturn. Chief amongst these were the unwinding of the run-up in asset prices, the burden of debt expansion in the 1980s and weakness in parts of the financial sector as well as the unsettling effects of the Gulf crisis.

It is very difficult to measure the level and rate of change of confidence with any accuracy—and the precise influence on decisions in the economy is impossible to quantify. The available indicators do, however, suggest that business and consumer confidence fell sharply in Australia over the course of 1989, and remained around historically low levels through 1990 and early 1991[(4)]. The extent of the declines according to these measures was greater than in previous downturns in the 1980s, and/or historically low levels of confidence were recorded for longer.

It is likely that sustained low levels of consumer and business confidence would have worked to depress consumption and investment expenditure, resulting in greater falls in output—and, in turn, employment—than would otherwise have occurred. In turn, falling output and employment is likely to have reinforced the decline in confidence.

Asset Prices and Debt[(5)]

Although the effects of the unwinding of the asset price boom are likely to be spread over several years, they nevertheless had a major impact in 1990–91. Prices for each of the three major asset series—equities, dwellings and offices—fell in real terms in 1990–91. This was the first time that this occurred in more than a decade. Falling asset prices, particularly in conjunction with high debt levels, resulted in reduced incentives to invest, reduced net wealth, weakened company balance sheets and increased insolvency. They also had an indirect impact through their effects on confidence. It is, however, difficult in practice to assess the relative contribution of declining asset prices to the downturn in 1990–91. As noted in Budget Statement 2 last year, 'the effects of asset price deflation over the past year and still under way, together with associated adjustments in the financial sector, are not easy to assess'[(6)].

(3) For comparisons with past cycles see The Treasury (1991) 'Non-farm Stocks and the Australian Economy', *Economic Round-up*, AGPS, Winter edition, pp10–20.

(4) This general pattern can be discerned from the CAI/Westpac Survey of Industrial Trends and the Westpac/Melbourne Institute Index of Consumer Sentiment.

(5) The full asset price cycle and the factors contributing to it are discussed in Part II of this Statement.

(6) *Budget Statement 2* 1990–91, AGPS, p2.62.

Prices of those assets that affect businesses fell in 1990–91—for shares by 12 per cent and for commercial property by 20 per cent—following low growth in the previous year[(7)]. This no doubt contributed to the difficulties encountered by some enterprises in refinancing debt. At a time when demand and profits were already falling, these additional difficulties exacerbated the downturn by contributing to business failures and rationalisations, particularly for highly leveraged firms. In turn, this meant a greater fall in investment and a greater shakeout in the labour market than otherwise.

The asset price decline also had ramifications for financial institutions and their lending practices. The difficulties facing some institutions, which started to emerge in the first half of 1990, partly reflected a combination of falling asset prices and a growing realisation by lenders and investors that the process of credit evaluation had been too lax in the 1980s. Many financial institutions experienced greatly reduced profitability or losses and some depositors in non-bank financial institutions lost money. More generally, the public perception of the difficulties experienced by many financial institutions may have acted to depress business and consumer confidence. To the extent that financial institutions reverted to more cautious lending practices—and there is some anecdotal evidence of this—the result would have been either to restrict the flow of funds to marginal businesses or raise the cost of funds.

Labour Market

Employment in the June quarter of 1991 was 2.2 per cent below that of a year earlier. The fall in employment over the current recession is broadly consistent with the decline in output, reflecting the lagged relationship between employment and production. However, the decline in non-farm employment in the current recession has been smaller relative to the decline in non-farm output than was the case in 1982–83 (Chart 3, Panel A). A major difference between the two periods is the substantial real wage increase in 1982–83 and subdued real wage growth in this cycle.

The participation rate rose sharply from the September quarter 1988 but, as employment declined over 1990–91, so the participation rate fell. The discouraged worker effect cushioned the rise in the unemployment rate (Chart 3, Panel B).

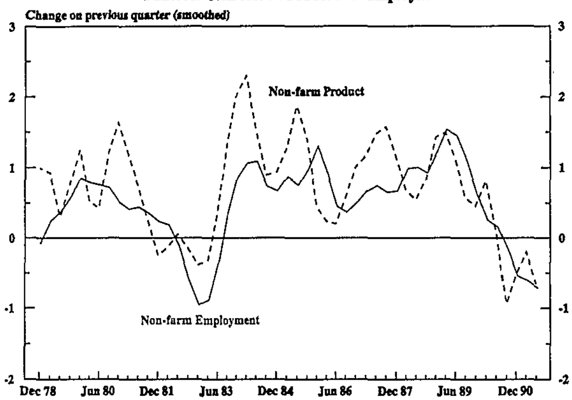
In the current downturn, male employment has contracted more sharply than female employment. This has reflected the greater stability of activity in the services sector, where female employment tends to be relatively important, by contrast to the marked cyclical declines in the typically male-dominated industries of construction and manufacturing.

The fall in employment was also concentrated amongst full-time workers, while part-time employment increased by 3.3 per cent over 1990–91. Part-time employment—defined as a working week of less than 35 hours—has increased over the past decade and, indeed, increased more rapidly than trend growth through both the recession of 1982–83 and the latest downturn. This may reflect several factors, including the predominance of males amongst full-time workers, employers seeking greater

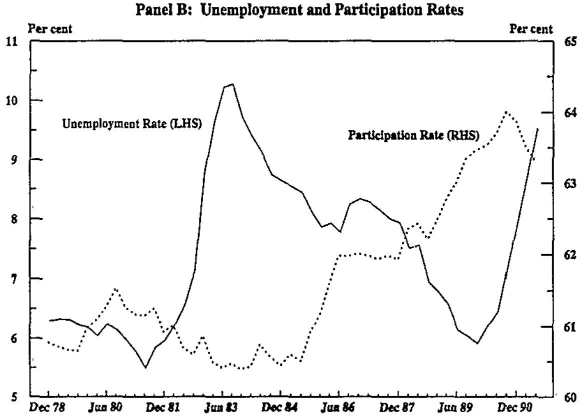
(7) Share prices are measured by the Australian All Ordinaries index; commercial property prices are measured by an average of Jones Lang Wootten CBD office prices for Melbourne and Sydney.

CHART 3: LABOUR MARKET INDICATORS

Panel A: Non-farm Product and Employment



Panel B: Unemployment and Participation Rates



flexibility in the use of labour and growth in the number of self-employed. Moves to short time working (for example, four day weeks) in some industries in response to falling demand has resulted in working weeks of less than 35 hours.

The Policy Response

Monetary Policy

Activity and price developments in 1990–91 were influenced importantly by the monetary policy action taken in response to the overly strong expansion in 1988 and into 1989. Monetary policy has been eased substantially since early 1990 but the effect on economic activity is only becoming clear as 1991 progresses and will continue to impact on activity well into 1992. Given the lags it is necessary to be forward looking in setting monetary policy.

One useful indicator of the changing stance of monetary policy is the yield curve (for example, the yield on 10 year bonds less the yield on 90 day bank bills). The yield curve was sharply inverse in the period of monetary tightening in 1988 and 1989 but the slope of the curve moderated as policy was eased. Since around August 1990, the yield curve had been about flat. Through this period, reductions in policy sensitive short-term interest rates have been approximately matched by reductions in long-term rates which tend to be more reflective of inflationary expectations.

Long-term interest rates fell over the course of the year, with 10 year bond yields touching $10^1/2$ per cent in May 1991, their lowest level for a decade, before increasing a little. This fall reflected reductions in inflationary expectations in Australia, although rates remained relatively high in real terms. Surveys of consumers also point to a marked decline in inflationary expectations in Australia.

Official short-term interest rates were reduced by $4^1/2$ percentage points in 1990–91, giving a total fall of about $7^1/2$ percentage points since January 1990, with a smaller fall in real interest rates. These falls have reduced official short-term rates to around $10^1/2$ per cent.

Credit growth slowed from a rate of 10.7 per cent over the twelve months to June 1990 to 1.8 per cent over the twelve months to June 1991, reflecting a weaker real economy, lower inflation and weaker asset prices, reductions in pre-existing debt and reduced lending. Over 1990–91, the growth in the broad monetary aggregates declined, while the narrower aggregates of currency and the money base accelerated due to a number of one-off factors.

Fiscal Policy

The Commonwealth Budget surplus declined from $8.0 billion in 1989–90 (2.2 per cent of GDP) to $1.9 billion in 1990–91 (0.5 per cent of GDP). The decline primarily reflected a cyclical unwinding of the surplus as the automatic stabilisers affecting both expenditure and revenue were allowed to operate.

The causes of the cyclical deterioration in the Commonwealth's budgetary position were also evident in State budgets as they grappled with the effects of the downturn on their revenue base. As a result, the general government sector financial balance moved into deficit for the first time since 1986–87. The public sector borrowing requirement (PSBR) also increased sharply as a result of the deterioration in the general government sector. From a surplus of 1.6 per cent of GDP in 1988–89, the estimated PSBR in 1990–91 was 2.2 per cent of GDP.

Wages Policy

With declining demand putting downward pressure on prices and with unemployment rising, wages policy was directed towards achieving nominal wage outcomes consistent with declining inflation, while encouraging greater flexibility and devolution in wage setting arrangements.

The February 1990 Accord VI Agreement between the Federal Government and the Australian Council of Trade Unions (ACTU) provided the main focus for the conduct of wages policy throughout 1990–91. The Accord arrangements ensured that real wage costs did not rise excessively (as in 1974 and 1982) and provided scope for nominal wages growth to be adjusted downwards to assist in reducing inflation.

Accord VI was renegotiated in November 1990 in the wake of the relatively low September quarter CPI outcome. The result was the replacement of the general wage adjustment proposed for late 1990 with additional personal income tax cuts effective from 1 January 1991. As a consequence, the 1990–91 wages growth target of 7 per cent agreed in Accord VI was reduced to 'no more than $6^1/4$ per cent'. The effect of the amended Accord VI arrangements was to provide a significant increase in household disposable income at a cost to the Commonwealth Budget but at no direct cost to employers.

The replacement of the wage increase originally planned for late 1990 by tax cuts meant that most employers were likely to face only one centrally determined wage increase in 1990–91—that being the $12 per week proposed in Accord VI and intended to take effect from mid-May 1991. In the event, the adverse reaction to the Australian Industrial Relations Commission's (AIRC) April 1991 National Wage Case Decision has meant that most employers were not required to pay a centrally determined wage increase in 1990–91, and some employers did not incur any increase in wage costs during 1990–91.

It had been expected that the 1991 National Wage Case Decision would provide a framework for a managed transition to a more flexible and devolved wages system involving enterprise bargaining established under agreed guidelines endorsed by the AIRC. However, the National Wage Case Decision delivered by the AIRC on 16 April 1991:

- substituted a maximum 2.5 per cent increase to award rates of pay from 16 May 1991 for the $12 per week increase supported by the Accord partners;

- declined to generally endorse enterprise bargaining based on achieved improvements in productivity, but left the issue open for reconsideration in subsequent reviews of the wage-fixing principles; and

- adjourned hearing of the claim for phased increases in superannuation contributions supported by the Accord partners.

The Government viewed the Commission's decision as an impediment to the effective transition to a more decentralised and flexible wage system.

PART II: THE MEDIUM-TERM PERSPECTIVE

Since 1986 the Australian economy has undergone a full cycle. An initial period of recovery from the downturn in 1986 saw production growing faster than domestic demand. This gave way to a period of very rapid and unsustainable increases in demand fuelled by a sharp expansion in private investment and a strong boost from the terms of trade. At the same time, real wage restraint combined with output growth to encourage strong employment growth. However, the unsustainability of these conditions was evident in the deterioration in the current account; growth in domestic demand spilled unduly into imports and diverted potential exports into the domestic market.

The over-heated conditions of 1989 gave way to a downturn which gathered momentum in 1990 and into 1991. Important contributing factors included the unwinding of the asset price boom; a decline in Australia's terms of trade; and the lagged effects of tight monetary policy designed to address the previous overheated demand conditions. The fall in activity over these years was accompanied by a marked deterioration in the labour market, an easing of inflation and inflationary expectations, and an improvement in the external imbalance.

This Part comments on the factors underlying the swings in activity and assesses the role of policy over the cycle. It also tries to draw some policy lessons from the experience.

THE RECENT CYCLE

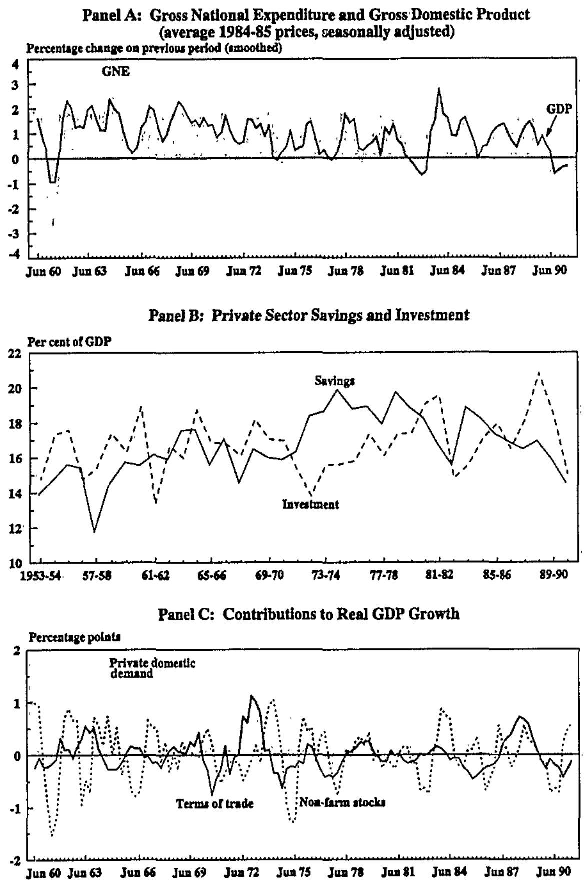
All economic cycles have their distinctive characteristics. Panels A–F of Chart 4 highlight the more important similarities and differences between the most recent cycle (mid-1986 to mid-1991) and earlier movements in key economic aggregates.

- Most prominently, the rate of growth of domestic demand was particularly marked *from mid-1988 to mid-1989 (Chart 4, Panel A)*. Indeed, the rate of growth in demand was higher than any recorded since the early 1970s, other than for short periods immediately after a major recession when there was also considerable unused capacity. One disappointing aspect of this cycle was that so much of this strong demand growth spilled over into higher imports rather than resulting in higher domestic production (the rate of GDP growth was not particularly high by past standards).

- The strength of the growth in demand over this cycle was underpinned by a surge in private *investment—as a share of nominal GDP it reached record levels (Chart 4,* Panel B). The investment surge was clearly evident in both the tradable and non-tradable sectors: in the latter, investment in central business district development was overly strong.

- Terms of trade influences were very significant. While changes in the terms of trade have significantly affected most Australian economic cycles in the past thirty years, the recent cycle saw the largest movements since the early 1970s. Also for the first time since the early 1970s, the swings in the terms of trade broadly coincided with

CHART 4: CHARACTERISTICS OF THE CYCLE



those in expenditure—reinforcing both the upswing and the subsequent downturn in demand (Chart 4, Panels C and D).

- The behaviour of inflation (as measured by the CPI) differed from previous cycles. Inflation for goods and services did not pick up significantly in the upswing, despite the strength of domestic demand and the rise in asset prices. Conversely, inflation and, in particular, inflationary expectations fell in the downturn.

- The substantial turnaround in gross factor shares that occurred in the mid-1980s was maintained. Real wage restraint continued over the upswing of the cycle despite the strength of the growth in demand, employment and profitability (Chart 4, Panel E). Nominal wage increases were still relatively high but were matched to a considerable extent by the still relatively high inflation rates—in short, wage and price inflation were sticky during the upswing. As the economy slowed, the corporate gross profit share edged downwards but still remains above the levels of previous recessions (Chart 5).

- On the other hand, the late 1980s witnessed an asset price cycle of unprecedented (at least in recent times) amplitude with particularly strong rises and subsequent falls in the real prices of each of the major asset series—dwellings, offices and equities (Chart 4, Panel F and Chart 6).

- Such movements in asset prices had an important impact on wealth and perceptions of wealth. Related to that and possibly to greater access to debt instruments in the wake of financial deregulation, the asset price cycle was accompanied by a continued increase in private gross debt that commenced in the early 1980s. The increase was concentrated in corporate debt. The associated increase in corporate gearing *represented an escalation of an upward trend also evident since the late 1970s* (Chart 4, Panel F).

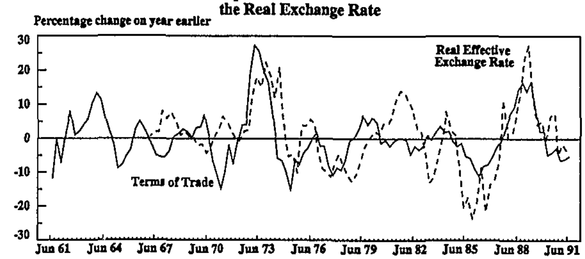
- The recent cycle—and especially the downturn in 1990—was notable for the fast adjustment of stocks to changes in demand. This meant that the stock cycle tended to add to, rather than buffer, the effects of fluctuations in demand on production (Chart 4, Panel C).

- While private investment as a share of nominal GDP reached record levels in the upswing of the recent cycle, if anything, private savings tended to decline (Chart 4, Panel B). Despite a substantial increase in public savings, there was a sharp deterioration in the current account in 1988–89 and 1989–90.

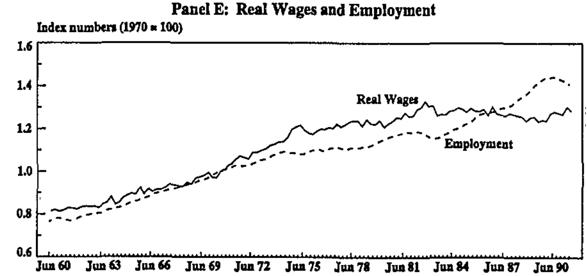
These characteristics of the recent cycle contributed to the challenges faced in setting policy over the cycle.

CHART 4: CHARACTERISTICS OF THE CYCLE

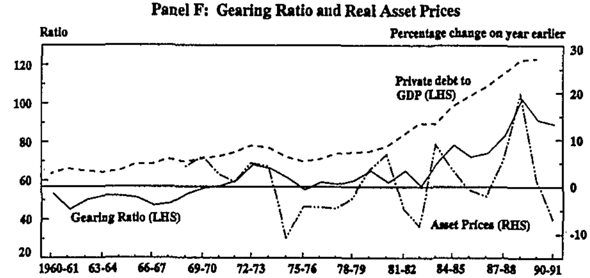
Panel D: Competitiveness - Terms of Trade and the Real Exchange Rate



Panel E: Real Wages and Employment



Panel F: Gearing Ratio and Real Asset Prices



The External Dimension

The most important international influence on the Australian economy in the recent period was the terms of trade. While commodity prices were clearly influenced by developments in particular commodity markets, the strong surge in private investment in many OECD countries in the late 1980s caused rapid price rises for many commodities including those exported by Australia. As a result, the rise in the terms of trade contributed more to the expansion of demand in Australia in the late 1980s than it had in any other period since the early 1970s.

The terms of trade directly added something like 4 percentage points to the real purchasing power of national income (compared with growth in national income of $8^1/2$ per cent over this period) in the two years to mid-1989. Conversely, the deterioration in the terms of trade since mid-1989 has reduced the real purchasing power of national income by around $1^3/4$ percentage points. The terms of trade is an important factor in explaining why demand grew much faster than expected in the cyclical upswing and contracted more rapidly than expected in the downswing.

Swings in the terms of trade have had a major impact on the real exchange rate. Abstracting from short-term fluctuations, movements in the terms of trade may explain up to two-thirds of the movements in the real effective exchange rate over the past 15 years(8). By comparison, real interest rates appear somewhat less important—only about a fifth of movements in the real effective exchange rate seem to be related to real interest rate differentials(9).

The marked growth in world activity and trade over the 1980s also helped underpin growth in the volume of Australia's exports—as well as encouraging general business and consumer confidence over much of the period. Equally, the slowing of the world economy and the Gulf crisis may have contributed to lower levels of business and consumer confidence in 1990.

Another important international influence on the nature of the recent economic cycle was the increased integration of world financial markets that followed financial market liberalisation and the removal of exchange controls in many countries. International markets have become far more unified, and perceptions—whether concerning national economies or business matters—are now formed far more within an international framework. The sustained international surge in equity prices before October 1987 and, to some extent, asset prices more generally, as well as their subsequent collapse or unwinding, reflected the closely interlinked global capital market of the late 1980s.

Increased capital mobility has allowed for easier financing of current account deficits in the 1980s—though at the cost of increased external indebtedness. While Australia has traditionally been a capital importer with a significant current account deficit, the 1980s saw a marked increase in the size of the deficit with more of it financed through borrowings rather than equity. Net equity accounted for 75 per cent of net external liabilities in 1980–81 and net external debt was equal to around 6 per cent of GDP. By the end of the 1980s, net external debt accounted for 75 per cent of net external liabilities and represented around 35 per cent of GDP. More recently, the balance has moved back in favour of equity financing with about 70 per cent of net capital inflows in 1990–91 accounted for by net equity flows.

(8) See for example C. Murphy and J. Smith *Determinants of the Australian Real Exchange Rate*, EPAC Background Paper No 9, January 1991.

(9) This also suggests that some of the concern over exchange rate volatility under a freely floating exchange rate may be overstated. Excluding the very sharp adjustment in 1986, short-term volatility has increased since the $A was floated in December 1983 but medium-term volatility has not been significantly different.

Wages and Profitability

A feature of the most recent cycle has been the subdued behaviour of real wages, continuing the trend since the early 1980s. This reflected high rates of nominal wage increases being partially or fully matched by still high rates of inflation. That stickiness in the wage and price movements, of course, was very much interrelated.

Real wage restraint was also a feature of the 1980s in several of the major OECD economies but the degree of restraint in Australia since 1982–83 has been unprecedented in the post-war period. It was particularly marked between 1986 and 1989. Given the strength of demand pressures in those years, the Accord made a significant contribution to moderating real wage behaviour.

Real wage restraint—and related reductions in real unit labour costs—provided a substantial stimulus to employment growth. This operated through increased use of labour in the production process in response to its lower relative cost and through the boost to private investment and output from improved profitability. The effect of real wage restraint on profitability meant that the gross corporate profit share in the late 1980s exceeded the levels of the late 1960s (Chart 5).

Over the period 1986 to 1990, private employment growth increased at an annual rate of 3.3 per cent. About one quarter of this growth, or around one quarter of a million jobs, was attributable to real wage restraint. As discussed in this Statement last year, and even allowing for faster growth of the labour force (reflecting both demographic factors and encouraged worker effects), growth in the ratio of employed persons to working age population in this period exceeded that of most OECD economies.

Part I of this Statement suggested that, unlike the two previous recessions, excessive real wage growth has not been a key factor in the latest downturn in employment. Nominal and real wage growth has remained broadly unchanged in the recent downturn. Treasury analysis suggests that increases in real labour costs may have accounted for around two-thirds of the peak to trough fall in employment in 1982–83.

By contrast, Treasury analysis suggests that the dominant cause of the fall in employment in 1990–91 seems to have been the slump in demand. Businesses are no doubt taking the opportunity of weaker labour market conditions to make or accelerate some structural adjustments to their workforces. However, the overall adjustment is still broadly in keeping with the slowing in non-farm activity.

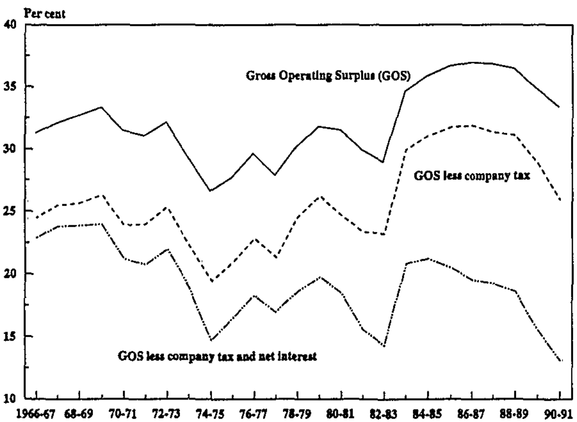
This cycle has been characterised by the absence of a generalised real wage shock. In 1982–83 the real wage shock may have been important in the broad based labour shakeout—the different conditions across State labour markets in the latest downturn may, conversely, reflect the absence of that sort of generalised real wage increase.

The timing of the slowing of inflation in 1990–91 has also been affected by the absence of a generalised wage shock. Inflation has generally fallen in line with activity whereas the initial deflationary impact of falling activity in 1974–75 and 1982–83 was more than countered by the inflationary stimulus of the preceding nominal (and real) wage shock.

After firming through the upswing the corporate gross profit share fell back in 1989–90 and 1990–91 from the very high levels of 1988–89 (Chart 5). However, even in the midst of the downturn, the share remained comparable to the average levels of the late 1960s and early 1970s—and markedly above the levels of the late 1970s and early 1980s.

Much of the recent decline in the gross profit share can be attributed to the cyclical decline in demand and labour productivity over the past year. There was also some increase in real labour costs, reflecting, in part, a considerable slowing in the growth of the implicit price deflator for GDP.

CHART 5: CORPORATE TRADING ENTERPRISES PROFIT SHARES



After allowances for company tax payments, the gross profit share has been somewhat weaker in recent years—with this weaker performance more marked in the share net of both company tax and interest payments. The decline in the profit share after interest payments during the second half of the 1980s largely reflects the interaction of the higher

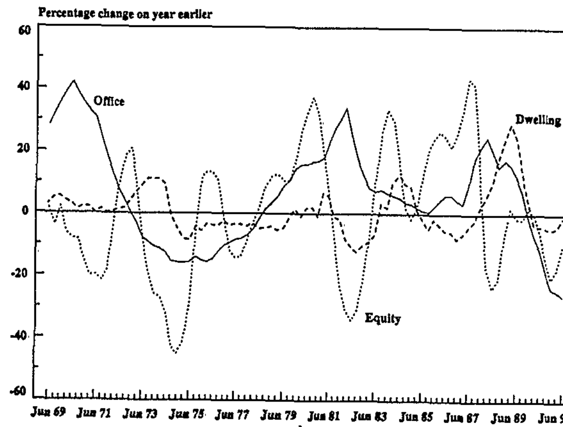
levels of gearing and higher interest rates. Indeed, ABS statistics suggest that the ratio of earnings to interest payments nearly halved over the 1980s. The significant reductions in nominal interest rates over the past 18 months will tend to counter this downward trend.

The cyclical decline in business profitability can be expected to unwind as the economy moves out of recession, helping to provide a more solid foundation for recovery in business investment.

Asset Price Inflation, Indebtedness and Private Investment

While asset price cycles are by no means new in Australia, key characteristics of the recent cycle are the strength and the broadly synchronised movements in the main components of the aggregate asset price index (Chart 6)[(10)]. Indeed, *synchronisation* seems to underlie much of the amplitude of the recent cycle.

CHART 6: MOVEMENTS IN REAL ASSET PRICES



(10) Although private sector holdings of all assets should ideally be included, data limitations restrict the analysis to private sector holdings of dwellings and business capital (in total representing around 80 per cent of Treasury estimates of private sector wealth). The aggregate real asset price series in Chart 4, Panel F is derived as a weighted average of the components shown in Chart 6. For further details on the construction of this index see A. Urbanski (1990) *Asset Price Inflation*, Treasury Research Paper No 1, AGPS, December.

A number of factors in the mid-to-late 1980s provided a set of pre-conditions for an increase in asset prices. These suggested that a sharp increase in the expected rate of return on the stock of dwellings and business capital was likely.

- **For dwellings:** pent-up demographic demand for housing and the upward drift in migration levels; a greater willingness of institutions to lend for housing because of the removal of regulatory restraints associated with financial deregulation; more flexible finance packages through innovative loan arrangements; lower housing interest rates in 1987 and 1988; and the reintroduction of negative gearing for investors in housing.

- For **commercial property** (especially office building): the rapid increase in the demand for office space associated with the strong growth in employment in the finance, property and business services sector (which averaged 7 per cent per annum between 1983 and 1989); increased space requirements for each office worker because of computerisation; the growing importance of tourism, particularly international tourism; the increased availability of debt financing; and portfolio switching from shares into commercial property after October 1987. The expansion in non-residential construction commenced in the mid-1980s but the peak in activity was roughly coincident with the broader economic cycle.

- **For business capital:** wage moderation; increased profitability; the lagged impact of lower interest rates between mid-1986 and mid-1988; increased availability of finance; and reduced effective rates of corporate and personal taxation.

As would be expected, these factors encouraged increases in both the amount of investment in, and the price of, those assets in the late 1980s. However, these pressures were rapidly unwound in 1989 and 1990 as the demand for the services of dwellings and business capital were met and, importantly, the cost of funds increased. 'Tobin's Q' Ratio provides some guide to new investment in these assets over the recent cycle—*particularly for dwellings (Chart 7)*[11].

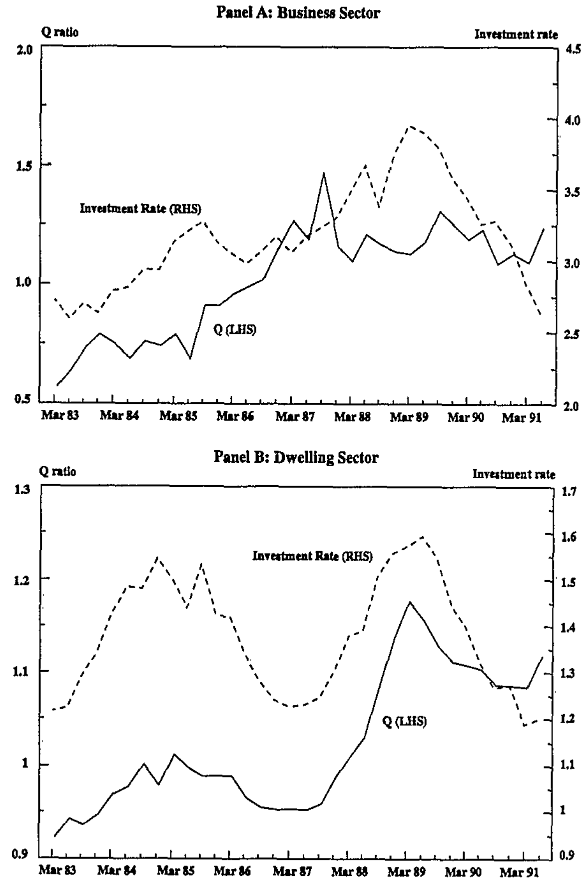
Increases in asset prices can allow business and households to increase their borrowings, without impairing medium-term net worth positions, providing the asset price movements are soundly based and funding costs are stable.

In the event, developments suggest that a considerable part of the borrowing was based on unsustainably inflated asset prices or even on projections of continuing rapid rates of asset price inflation. So strong were expectations of further price rises that substantial increases in interest rates had comparatively little immediate impact on highly geared purchases of assets.

Finance for investment in assets (and other purposes) was more readily available in the newly deregulated environment in which financial institutions—and banks in particular—were keen to retain or increase market share. The phenomenon of rising asset

(11) Tobin's Q Ratio is the ratio of the market value of the capital stock to its replacement value—that is, one measure of the incentive to invest.

CHART 7: TOBIN'S Q AND INVESTMENT RATE



prices and increased gross debt levels developed a momentum of its own, with both lenders and borrowers more prepared to transact on the basis of unusually high asset values and, in some cases, expected increases in wealth based on the continued strong asset inflation. As noted by a recent EPAC study, the rate of increase in gross debt in Australia in the late 1980s was most marked in the business sector(12).

The subsequent decline in asset prices significantly increased net debt positions and weakened corporate balance sheets. At the same time, high debt levels along with high interest rates and falling demand as the economy weakened caused substantial cash flow problems and strained business capacity to service debt. The resulting corporate and related financial sector weakness adversely affected business and consumer confidence.

Australia was not alone in experiencing asset price inflation over this period. The speculative bubble in equity prices that developed in 1986–87 (Chart 8) and burst in October 1987 occurred in many countries. More generally, in many countries—including the USA, the UK, Japan, Sweden, Finland, Norway and Canada—personal net worth increased in the late 1980s underpinned by rapid increases in gross personal debt. Housing (including land) and equities appear to have accounted for much of the build-up (and subsequent slowing) in wealth in these countries. A common feature in many of these countries was an easing of the borrowing constraints stemming from financial market liberalisation and/or innovation, leading in turn to increased private gross debt and/or reduced private saving ratios.

Some of the increase in asset prices reflected underlying sectoral and broader forces but it clearly spilled over into speculative excesses. The dividing line is impossible to determine. Chart 9 illustrates the movements in asset prices compared with a synthetic series designed to capture underlying factors relevant to asset values(13). Whatever the influences leading to the asset price surge, the cycle had important implications for policy makers and helped generate powerful forces.

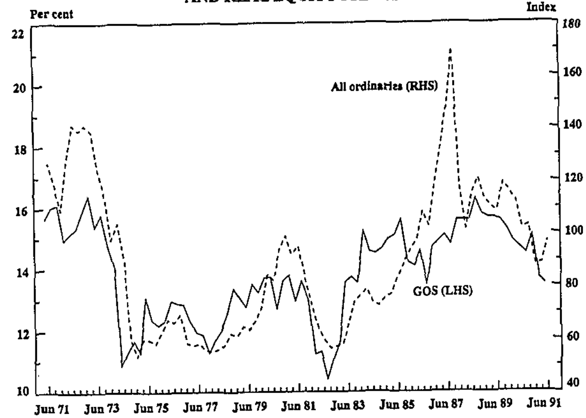
- In the first instance, corporate sector gearing ratios increased significantly (Chart 4, Panel F). Although the average gearing ratio of corporate Australia more than doubled in the 1980s, this result was heavily influenced by a rapid escalation in leverage of a few firms and sectors—especially entrepreneurial investors, media and parts of the resource sector(14). Although many other corporates increased their gearing ratios, the degree of leverage attained in Australia was not out of line with international standards. It did, nevertheless, lead to greater exposure to changes in interest rates and cash flow—as reflected in the declining interest to earnings ratios. The combination of high gearing ratios, falling asset prices, high interest rates and reduced cash flows as conditions weakened led to the collapse and severe weakening of a number of corporate entities, aggravating the downturn of the cycle.

(12) Office of the Economic Planning Advisory Council, 'Developments in Private Debt', in EPAC (1991) *The Surge in Australia's Private Debt: Causes, Consequences, Outlook*, Background Paper No 14, AGPS, June.

(13) The synthetic asset price index is based on an estimate of the present value of current and future net returns on private business and dwelling capital. These returns are capitalised using the yield on indexed Commonwealth Government bonds. The synthetic series seeks to embody the influence of the more fundamental sectoral and broader forces underlying asset price movements.

(14) G. Stevens, 'The Rise in Private Debt in the 1980s: Why Did it Happen and Will it Continue in the 1990s', in EPAC *op. cit.*

CHART 8: PRIVATE NON-FARM PROFIT SHARE AND REAL EQUITY PRICES



- To the extent that some investment decisions were driven or importantly influenced by misplaced expectations of continuing asset price inflation, resources were diverted into the dwelling and, particularly, the commercial property sectors and away from the tradables sector. Although investment in the tradables sector was strong during this period the diversion of resources to dwellings and office building limited the extent to which the benefits of the improvements in international competitiveness were realised.

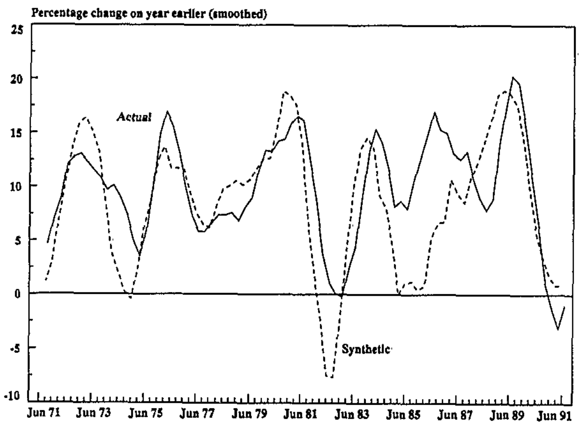
- Measurable wealth effects associated with asset price inflation are estimated to have added around 2 percentage points to the growth in consumption expenditure in the period 1987 to 1989(15). The subsequent decline in wealth, partly associated with asset price deflation, may have detracted almost one percentage point from consumption growth since end 1989. To the extent that consumption and savings decisions reflect movements in both income and wealth, increased asset prices may have contributed to some downward movement in private savings in the late 1980s, although the growth in consumption was not unusually rapid.

(15) Based on Treasury estimates of the effect on consumption of keeping increases in wealth in this period to longer term trend values.

- Asset prices affected inflation as measured through the CPI directly, as well as inflation measures more generally through their impact on domestic demand. Asset price movements are estimated to have been responsible for around one tenth of the recorded increase in the CPI from the beginning of 1987 to mid-1990.

- Increased borrowings based on rising asset values, may have weakened the impact of tighter monetary policy through 1988–89 but, conversely, increased the strength of monetary policy on the economy eventually in the subsequent period of falling asset prices.

CHART 9: ACTUAL AND SYNTHETIC ASSET PRICE GROWTH



Private Savings and Investment

One of the features of the recent cycle has been the sharp divergence between movements in private savings and investment. While there was a strong surge in private investment in the late 1980s, the underlying private savings rate remained broadly unchanged in the recent cycle (after allowing for a cyclical response to declining income levels as households attempted to smooth effects on consumption). As noted previously, the impact of wealth may have resulted in some marginal edging down in both household and business savings during the cycle.

The resultant gap between private savings and investment reached levels larger than at any time since the early 1960s (Chart 4, Panel B). This gap was also the major proximate

reason why the fiscal consolidation of recent years was not reflected in an improvement in the external accounts. Yet, without that fiscal consolidation, the marked shift in private investment relative to savings would have been reflected in an even more serious current account position.

The Non-Farm Stock Cycle[16]

Movements in non-farm stocks have played an important role in recent economic cycles—especially at turning points. In contrast to the 1970s when stocks typically acted as a buffer to changes in demand, stock movements in the 1980s have tended to accentuate swings in production and GDP. In turn, this may have contributed to the greater volatility of economic cycles in the 1980s compared with earlier decades.

LESSONS FROM THE CYCLE

Looking back over the second half of the 1980s, a number of observations can be made.

As the economy accelerated out of the 1986 slowdown, its likely path was clouded by the stock market crash of October 1987, that saw the largest market disruption since the crash of 1929. Understandably concerned to ensure the stability of the world financial system and minimise the possible real effects on activity, monetary authorities stood ready to support the financial system. This led Central Banks worldwide to err on the side of easier credit conditions. As events turned out, the confidence effects of the crash and its impact on activity proved to be much less significant than expected by governments and financial markets worldwide.

In Australia's case, monetary policy was eased substantially in 1987 as part of a policy reweighting which involved significant fiscal tightening. After the stockmarket crash, Australia was one of the first countries to tighten policy with an increase of around 1 percentage points in official short-term interest rates during April-May 1988. With the benefit of hindsight, however, the initial and subsequent tightening in 1988 may have been unduly cautious as subsequent data indicated that the terms of trade were moving substantially in our favour and demand was picking up. Earlier adjustment may have lessened the extent of the subsequent policy tightening. In addition, as early tightenings were not highlighted by formal announcements by the authorities, the announcement effects (and immediate impact on expectations) were not as pronounced as they might have been.

Overlaying all this, the policy trade-off between monetary and fiscal policy in the upswing proved less favourable than was expected. Fiscal policy was not moderating demand pressures as effectively as expected. The impact of the asset price boom on demand was at the same time not fully appreciated.

Over the cycle, the interpretation and operation of monetary policy were complicated by the effects of financial deregulation and innovation as well as asset price swings. The upswing in the terms of trade, the asset price cycle and the upswing in non-dwelling

(16) For more detail on the changing contribution of stocks to the economic cycle see The Treasury (1991) *Economic Round-Up*, Winter edition.

construction worked to offset the effects of tighter monetary policy during late 1988 and 1989.

In deregulated financial markets, private sector expectations play a much more important role in determining the speed of the transmission of monetary policy changes to the real economy. In particular, judgments about the likely future course of interest rates—and the economy more generally—affect the response of business decisions to changes in current interest rates. One factor which bears on these judgments is the perceived willingness of governments to sustain policy changes to their intended end. As a result:

- the degree of 'policy credibility' can be important in determining both the size of required policy adjustments and the speed of the flow-through effects;

- announcement effects, where the changes in interest rates and their relation to the policy stance are immediately and clearly articulated, can be important—especially as borrowers and lenders are coming to terms with the 'new environment'; and

- continued adherence to defined policy objectives can help build credibility minimising confused signals and inappropriate policy adjustments.

Given the difficulties of assessing and interpreting the impact of monetary policy in such an environment, it is necessary to guard against the danger of over-reacting to current and short-term developments in judging the setting of policy. While, for the reasons mentioned above, the length and distribution of the impact of changes in monetary policy are difficult to predict, an average lag of the order of a year seems to be involved. If such lags are not allowed for, monetary policy can have unintended, and possibly pro-cyclical, effects.

That said, Australian and international experience shows that setting policy successfully in such a prospective framework is a very significant challenge, not least because of the limited availability of genuinely forward-looking statistical and other information that provides a reliable guide to future trends. The recent cycle has been a reminder of those difficulties.

Not all of the key lessons of the past cycle relate to what may be perceived as policy shortcomings. One of the key policy lessons of the 1980s was the powerful positive effects on investment, employment and growth potential associated with real wage restraint and improved levels of profitability.

Overall, the past five years have provided a clear reminder of the difficulties that macroeconomic policy faces when economic events are unusually difficult to predict, where economic trends are not easily discernible and where policy responses operate with substantial and uncertain lags. Those circumstances will always confront, in varying degree, an internationally open economy like Australia's. This points to the advantages of relating policy more to the medium-term and assigning policy instruments to their area of greater effectiveness. Such a framework entails:

- monetary policy clearly enunciated and focussed on reducing inflation and inflationary expectations but remaining very much alive to the implications of settings for domestic demand;

- fiscal policy targeted towards contributing to an appropriate balance between domestic demand and production, particularly through its contribution to raising national savings; and

- wages policy aimed at restraining aggregate wage pressures to maximise employment growth and contribute to progress on inflation, while increasing labour market *flexibility.*

It is important to appreciate that a policy focus on such medium-term objectives does not rule out the desirability or likelihood of policy changes in response to changing economic circumstances. Quite clearly, the need for such policy adjustments will remain. However, such changes need to be cognisant of the difficulties of fine tuning given the lags and uncertainties involved in economic systems.

A necessary corollary of the medium-term objectives for macroeconomic policy is the need for flexible goods and labour markets to enable smooth and timely adjustments to external influences and other factors. This need is heightened in Australia's case by our susceptibility, as a commodity exporter, to movements in commodity prices. Greater flexibility in goods and labour markets can significantly ease the adjustment costs associated with economic cycles, as well as increase medium-term growth potential via more efficient utilisation of both labour and capital. Lack of flexibility, on the other hand, by inhibiting the relocation of resources within the domestic economy, can magnify dislocation costs and result in a lower long-term growth path.

PRESENT POLICY CHALLENGES AND OPPORTUNITIES

Australia faces a number of important policy challenges as we move into the next upswing and beyond. The fundamental objective of macroeconomic policy remains unchanged: to achieve a solid and sustainable rate of economic growth. But, given the circumstances Australia now faces, important elements in achieving this objective will be:

- generating enduring employment growth;

- ensuring that the gains made on inflation are sustained and built upon; and

- reducing the current account deficit and stabilising our external debt relative to GDP.

As the experience over the past cycle demonstrated, achieving these goals will require a co-ordinated and consistent policy response, embracing all of the arms of macroeconomic policy and industry reform.

Sustained Employment Growth

Renewed scope for employment growth can be expected as the recovery proceeds. As noted previously, one lesson apparent from the 1980s is the critical role of wages in influencing employment growth. If Australia is to achieve sustained employment growth in coming years, wages growth must be consistent with continued moderation of labour costs.

The shift toward enterprise bargaining now under way provides an important mechanism by which lower unit labour cost growth can be achieved through linking nominal wage increases and other costs of employing labour more closely to productivity growth. But increasing labour productivity requires appropriate incentives to change work practices and upgrade skill levels. Some recent progress has been made toward enterprise-bargained wage increases involving direct incentives for delivering improvements in productivity. This process will need to be continued and extended.

Moderate growth of real unit labour costs is essential to ensure the greatest possible employment gains from recovery. However, as the recovery in prospect is likely to be relatively subdued (see Part III), the reduction in unemployment may not be rapid. It will therefore be particularly important both to encourage the most cyclically sensitive sectors of the labour market (such as potential new entrants) to actively seek work and to minimise the de-skilling of the unemployed.

These factors contributed to significant increases in long-term unemployment in 1984–85, which subsequently took much of the decade to unwind. The Government has, in recent times, established several programs designed to help alleviate these problems, as well as develop a better trained, more highly skilled and more flexible workforce. Such programs are important in addressing weaknesses in certain areas of the labour market.

Australia's Inflation Performance in the 1980s: Costs and Current Opportunities

In the 1980s, Australia's annual inflation rate averaged around 8 per cent. This rate was consistently above that of our major OECD trading partners and usually above the OECD average. Indeed, prior to the recent downturn, Australia's rate of inflation had been above the average of our major OECD trading partners since the early 1970s, with the exception of 1980 when world inflation rates accelerated (Chart 1, Panel A). By contrast, Australia's inflation rate is now significantly better than these countries. However, inflationary outcomes in many OECD countries will probably improve over the next year or so in response to tighter policy settings. The challenge for Australia is to maintain the progress now firmly in prospect for this year into 1992–93 and beyond.

The current slowing in inflation presents an opportunity to lower inflation on a sustainable basis and realise the benefits of low inflation growth. Overseas experience shows that a number of major OECD countries were successful in reducing inflation in the early 1980s and experienced a period of sustained economic growth once inflation and inflationary expectations were wound back to pre-1970 levels and kept there.

Inflation has significant economic costs. It creates important distortions to economic decision-making, impairs the efficiency of the price and taxation systems, generates arbitrary redistributions of income and wealth and can result in a lower medium-term growth outcome. While various arrangements have been devised to allow sections of the community to live more comfortably with inflation, these are at best only a partial remedy and, indeed, may over time perpetuate relatively high inflation by discouraging the development of an effective anti-inflation constituency such as exists in several major OECD countries[(17)].

Over the past year the rate of inflation, as measured by the CPI, has fallen to 3·4 per cent. Inflationary expectations have also fallen significantly as indicated by surveys of consumers and business as well as the significant reduction in yields of long bonds.

International experience suggests that inflationary expectations may not be wound back as quickly as inflation itself partly because markets take time to be convinced of policy makers' commitment to sustained anti-inflationary policies. Ultimately, the credibility of policy commitment depends on maintaining low inflation.

A major challenge as the economy enters the recovery phase will be to consolidate the gains made on the inflation front. This important objective will be aided by the moderately paced recovery forecast through the course of 1991–92. Monetary settings will also have an important role in influencing inflation and inflationary expectations as the recovery unfolds and beyond.

Nominal short-term interest rates have fallen to their lowest levels since early 1988 and long-term rates to their lowest levels in more than a decade. However, real interest rates remain higher than at the turning point of previous recessions, reflecting relatively high international real interest rates and the risk premium required by markets on Australia's external debt. Markets are also conscious of the policy challenge involved in achieving further and sustained reductions in inflation as the recovery proceeds.

In the medium-term, continuing reform of the labour and product markets will have an important role to play in achieving sustained levels of low inflation. More flexible and responsive markets are crucial in allowing future inflationary shocks to pass through the economy quickly without being built into underlying inflation and inflationary expectations—and in minimising the extent to which economic growth may need to be slowed to counter inflationary expectations. More generally, increased competition, including reduced levels of protection, and further decentralisation of wage bargaining, will help achieve a sustained lower inflation outcome by promoting the better use of resources and raising productivity.

External Liabilities and the Restraint on Growth

As noted earlier in Part II, the growth and persistence of large external imbalances under a regime of high capital mobility and flexible exchange rates were important features of the international economy during the 1980s. Australia was no exception in that regard. The willingness of international financial markets to continue financing historically large

(17) Some of the costs of inflation are canvassed in more detail in B. Cassidy (1991) *The Redistributive Effects of Inflation*, Treasury Research Paper No 2, AGPS, March.

current account deficits over a longer period has, however, led to a reappraisal of the nature of current account imbalances and their implications for economic policy.

In a theoretical world where there are no resource allocation distortions and there is internal macroeconomic balance, savings and investment decisions should always be optimal. Rational domestic borrowers and informed lenders or investors abroad would ensure that any current account deficit generates the cash flow necessary for it to be serviced. In these circumstances, neither the current account deficit nor any resulting build up in external debt would be a matter of public policy concern.

In practice, of course, there are always distortions impacting on such decisions. The fact is that many private investment decisions have turned out to be sub-optimal in the 1980s. In addition, there was a sharp rise in the public sector borrowing requirement (PSBR) in the mid-1970s and again in the early 1980s. This all helped sustain the increase in the current account deficit and the build-up in external indebtedness.

Many of the distortions that contributed to the build-up in external debt over the 1980s are now being addressed. In particular, the public sector is paying more attention to the cost of—and return on—its borrowings. The excess demand pressures have been removed and considerable progress has been made in reducing inflation. In such an environment, it will become increasingly possible to have greater confidence that savings and investment decisions are more likely to be soundly based, which in turn will reduce the concern over any resulting current account outcome and related changes in foreign liabilities.

Moreover, as outlined earlier in this Part, there has been an important change recently in the method of financing the current account deficit, with equity investment once again exceeding debt financing. If this trend is sustained during the 1990s, it will moderate the increase in the external debt to GDP ratio and facilitate earlier debt stabilisation than would otherwise occur. One advantage of equity investment is that the return on it tends to vary with overall domestic profitability and the cost of servicing it at least partly reflects the economy's 'capacity to pay'.

Nevertheless, the consequences of the build-up in external debt over the 1980s remain and interest obligations must be serviced from current export receipts and/or by issuing new overseas debt. This makes Australia more prone to the effects of rapid reassessment by international financial markets of our economic prospects.

Although the balance of merchandise trade was in surplus in 1990–91, the servicing costs of current net external liabilities are such that a large and sustained trade surplus is required to stabilise these liabilities relative to the size of the economy. Around 20 per cent of export earnings are currently required to service external debt. With a large proportion of production already devoted to meeting income demands of foreign lenders, the nation is more vulnerable to shifts in the sentiment of those holding Australian debt. Stabilising—and eventually reducing—the level of external debt as a proportion of GDP will minimise those risks and facilitate adjustment in a more measured way.

The $1^3/4$ percentage point reduction in the current account deficit as a proportion of GDP in 1990–91 compared with 1989–90 is a significant improvement. Without the cost of

servicing existing net external liabilities, we would have recorded a current account surplus.

While this improvement in the current account is expected to be maintained as economic recovery gets under way, further progress is necessary in order to stabilise external debt. This will require a considerable period in which the rate of growth of domestic production exceeds the growth in domestic demand—with the difference constituting an increase in net exports. The requirement is to produce a sufficient wedge of net exports so that the rate of growth in foreign debt accumulation is below the rate of growth in GDP.

The achievement of external debt stabilisation within an acceptable time-frame requires making progress simultaneously on all policy fronts. There is no single, magic cure for Australia's external debt position.

- At the macroeconomic level, policies need to be appropriately firm to hold the growth in spending below the growth in production, so that demand growth does not unduly spill over into imports or draw resources away from exports.

- While there has been a largely cyclical deterioration in the budgetary position recently, fiscal policy settings during the recovery phase will need to be consistent with a substantial structural public sector surplus in order to boost national savings. The Government's initiatives to encourage the spread of superannuation should encourage higher private savings over time.

- Monetary policy can assist the policy process by keeping inflation and inflationary expectations low and creating a more stable and less distortionary environment for investors.

- Some aspects of structural reform may also assist by improving the efficiency with which the existing capital stock is used, thereby lowering investment requirements and the demands placed on savings.

There is much debate on the role of the exchange rate in this process. A lower real exchange rate would certainly improve Australia's competitiveness and in turn the trade-off between growth and external adjustment but the policy scope for achieving a lower real exchange rate is constrained. Lowering the real exchange rate by achieving a relatively better inflation performance than our trading partners would be consistent with the policy requirements outlined above. The alternative of a nominal depreciation has implications for other policy settings, especially for wages and monetary policy. A marked nominal depreciation would add to inflationary pressures and, depending on the wage response, may not achieve its intended effect of improving competitiveness. It would also add to the cost of servicing external debt.

A relaxation of monetary policy with the short-term aim of lowering the exchange rate, even if successful in reaching that goal, would not produce any lasting gain in competitiveness unless the likely impact on wages and the general price level were fully offset by other policies.

The exchange rate should continue to be determined by the market. As a major commodity exporter, Australia can expect significant swings in the value of the dollar as our terms of trade change. This, in essence, is one of the consequences we have to bear of the very significant benefits of being a resource rich nation. But the challenge for policy is to accommodate those external influences with the minimum disruption to achieving the primary objective of maximum sustainable long-term growth.

The Contribution of Microeconomic Reform

The importance of injecting greater flexibility into the economy is recognised by many commentators both in Australia and overseas. In essence, the economy will be better placed to absorb external and other shocks, and the adjustment costs will be smaller, if the reallocation of labour and capital to more efficient uses is made easier and quicker.

Microeconomic reform has a key role to play in that process and can also contribute to meeting the policy challenges noted earlier in a number of important ways.

- By raising the supply potential of the economy, higher rates of growth in output, employment, domestic demand and living standards can be sustained.

- By reducing interference with price signals in labour and product markets and enhancing competition in these markets, resources will be used more efficiently and downward pressure can be exerted on inflation.

- By facilitating the stabilisation of our external debt through improving the efficiency with which the capital stock is used, the demands on domestic saving may be reduced without reducing living standards.

The microeconomic reform strategy currently operates through several channels.

Internationalising the Economy

A number of measures have been taken to make the Australian economy more international in outlook over the course of the 1980s. An important element in the process of microeconomic reform is to promote increased competition in domestic markets and, importantly, by exposing business to international competition. In 1988 the Government introduced a plan to phase down most tariffs to either 10 or 15 per cent by 1992. Although more generous treatment was allowed for the passenger motor vehicle, and textile, clothing and footwear industries, the protection barrier for these industries was also scaled back. This program of reducing protection was extended in the March 1991 Statement, which included:

- general tariffs phasing to 5 per cent by 1996;

- tariffs on passenger motor vehicles and components, reducing to 15 per cent by 2000; and

- tariffs on textiles, clothing and footwear phasing to a maximum of 25 per cent by 2000.

The Industry Commission has estimated that the long-run effects of the measures announced in March would be to generate a $^1/2$ per cent increase in the level of real GDP (or some $1.5 billion in 1989–89 prices), a 2 per cent fall in the level of the CPI and a small positive impact on the balance of trade. These estimates do not take account of the dynamic benefits arising over the longer term from being linked into the world economy, including from more outward looking and flexible attitudes and increased innovation(18).

Other Domestic Reform Measures

Interdependence is a key consideration in the reform agenda. The continuing reduction in protection must be accompanied by further progress in other areas of microeconomic reform, including reforms to the non-traded goods and services sectors particularly where they affect business costs and competitiveness. This includes the transportation system, the waterfront and services provided by Government Business Enterprises (GBEs).

Some important progress has already been made in the provision of GBE services, especially in telecommunications and electricity supply. EPAC preliminary data suggest that in recent years aggregate GBE labour and total factor productivity has been increasing at faster rates than the private non-farm market sector(19). It will be important, however, to sustain the pace of reform in those areas as large potential efficiency dividends exist.

At the July Special Premiers' Conference, agreement was reached on a number of key areas of microeconomic reform:

- The establishment of a National Rail Corporation charged with providing an efficient interstate rail freight network. The Corporation is to operate as a fully commercial entity in line with best practice overseas.

- Agreement to establish a National Road Transport Commission responsible for regulating heavy vehicles in a nationally consistent manner and developing a heavy vehicle charging regime. Uniform operating regulations in such areas as dimension standards and roadworthiness inspections will remove impediments which have restrained productivity growth in the road transport industry. Similarly, a more efficient heavy vehicle charging regime will remove the cross-subsidy from lighter to heavier freight vehicles, and minimise the incentives to 'shop-around' for lower charges between States and Territories and thus encourage a more appropriate vehicle choice, with resultant cost savings.

(18) Industry Commission (1991) *Changes to Manufacturing Industry Assistance, March 1991*, Industry Commission Information Paper, AGPS, July.
(19) EPAC (1990) *The Size and Efficiency of the Public Sector*, AGPS, October, p3.

- Agreement in principle to the implementation of mutual recognition of regulations and standards for both goods and occupations where uniform national standards are not essential. Cross border regulatory differences have needlessly inhibited the mobility of both people and goods.

- Agreement to establish a National Grid Management Council designed to encourage and co-ordinate a more efficient and economic electricity generation industry for eastern and southern Australia. The absence of a broader approach has resulted in higher costs owing to excess capacity, inappropriate plant mix and inflexible fuel use.

- Establishment of a framework for national performance monitoring of government trading enterprises. The activities and decisions of these enterprises impact upon a significant part of the nation's resources, and the efficiency of their deployment is fundamental to economic performance and assists international competitiveness.

The other major area of reform is the labour market. Increased decentralisation of industrial relations arrangements and wage determination processes will mean that the parties most exposed to the needs and demands of a competitive trading environment will play a larger role in the determination of workplace rules and conditions (including wages). Enterprise level negotiations hold out the potential to:

- facilitate the removal of inefficient and outdated work practices and hence provide a better utilisation of labour resources in the face of changing economic and technological requirements;

- establish more appropriate wage relativities and better incentive structures for skill acquisition, retraining and labour mobility; and

- improve real wage flexibility, provide for a more efficient allocation of labour resources across and within industry, and generate higher levels of productivity.

The year ahead will be very important in continuing the transition to a more devolved wage setting system. That transition will need to be managed—and that management should involve important roles for the Australian Industrial Relations Commission together with the Government, the ACTU and employers. An overly rapid transition without an appropriate framework would have obvious implications for Australia's inflation rate and competitiveness as well as employment growth.

Clearly, some enterprises will be better placed to take more responsibility for the setting of employment and wage conditions than others. Some—and possibly predominantly the larger—enterprises may feel more comfortable with a more devolved process. Others may feel more comfortable with a slower transition. With that in mind, the Commission could play an important role in this transition by contributing to the further development of agreed principles for enterprise bargaining and by ensuring that enterprise agreements are genuine in delivering productivity growth.

As well as demands placed on government and employee groups, there are important challenges for management in the process of structural change. These include an increased international focus and achieving international best practices of performance; and the most effective use of all human and non-human resources available to the enterprise. This includes:

- the adoption of better management techniques and systems;

- greater focus on identifying possible areas of future expansion (both domestically and overseas);

- the optimal deployment of available labour and capital inputs including familiarity with and use of the most up to date technology; and

- removal of barriers and impediments to stronger domestic competition.

A point to be emphasised is that with microeconomic reform, it is not enough simply to be making progress. Our international competitors are also moving forward. If Australia is to improve its relative position and become more competitive, microeconomic reform has to deliver larger productivity gains in the private and public sectors than are being achieved by competitors.

Reform of International Markets

The moves to internationalise the Australian economy and increase domestic competition are supported by policies to achieve multilateral trade liberalisation and improve our access to important trade markets. A top priority for Australia and the Cairns Group is to achieve a successful outcome on agriculture in the Uruguay Round. This would encompass substantial and progressive reductions in internal support, market access barriers and export subsidies. Reductions in EC coal subsidies and the signing of a liberal framework for, and initial concessions on, trade in services are also important objectives in the Round. The imperative for a successful outcome to the Uruguay Round has been underlined all the more by increasing indications of a move towards trading blocs as the global fallback position were the Round to fail.

Implementation of Microeconomic Reform

Microeconomic reform is one of the most difficult areas of government policy insofar as implementation is concerned. The capital and/or labour costs are usually borne up-front by specific enterprises, industries or regions, whereas the benefits tend to flow to the community at large and are achieved over a longer time frame. This underlies the importance of progressing microeconomic reform on a broad front so that the benefits and costs are shared across the community. It also emphasises the need to encourage informed community debate on industry reform and make special efforts to identify the overall benefits of reform. The Industry Commission, through its independent advice to the Government and its public inquiries and information dissemination processes, plays an important role in that regard. The work of the Prices Surveillance Authority and the Trade Practices Commission is also useful.

A final point is the relationship that inevitably exists between the scope for microeconomic reform and the success of macroeconomic policies. While individual firms can make worthwhile structural changes during a downturn, a stable and steadily growing economy is likely to offer the environment most conducive to sustained progress on broad-scale microeconomic reform. Most importantly, such an environment is likely to provide alternative employment opportunities for those displaced from their previous jobs and the framework within which business investment can expand into new areas with confidence.

PART III: THE ECONOMIC OUTLOOK

The year ahead is forecast to bring a slow recovery.

Unlike most Australian economic cycles, the recovery will not be underpinned by a strong rebound in the world economy. Australia's major trading partners are expected to grow at around the same rate in 1991–92 as in the previous year. That reflects a mix of outcomes as major countries continue to move through different stages of the business cycle. Growth in Japan is expected to slow somewhat and activity in the Asian Newly Industrialising Economies is expected to ease slightly. Offsetting slower growth in Asia will be recovery in the United States and in several other OECD economies, but at a pace forecast to be less rapid than after previous recessions.

Inflation in our major trading partners is expected to edge down a little in 1991–92, to an annual rate of just over 4 per cent.

The downturn in Australia is considered to have broadly run its course though consistent signs of recovery will probably not be apparent till later in 1991. However, both domestic demand and production are expected to recover through 1991–92 with the pace quickening in the second half of the year. The forecast recovery is expected to be slower than that from previous downturns in the 1980s principally because of the moderate recovery for those of our major trading partners also coming out of recession and a further fall in the terms of trade. There will also be the lingering effects of weakness in the farm sector, the downturn in non-residential construction, the high levels of corporate debt and the unwinding of the asset price boom.

The recovery is expected to be driven significantly by domestic factors—an upturn in the housing sector, modest growth in private consumption and the non-farm stock cycle. However, for the third year in a row, net exports are expected to provide a positive contribution to output. Growth in public final demand is expected to slow in 1991–92, but it will still make a significant contribution to activity.

The moderate pace of recovery and the lagged response of employment to changed economic circumstances mean that employment is expected to pick-up—and the unemployment rate to fall—only slowly from mid-1991–92 onwards. Moderately paced recovery also means that the reduction in inflation is expected to continue in 1991–92, with a further fall in year-average terms.

Following the significant fall in 1990–91, the current account deficit is forecast to fall further in 1991–92.

POLICY FRAMEWORK

Consistent with the policy objectives outlined in Part II, the forecasts for 1991–92 assume that macroeconomic policy settings remain firm.

Monetary Policy

Monetary policy is assumed to remain sufficiently firm to restrain inflationary expectations and not jeopardise the recovery in domestic demand. Interest rates have already been reduced substantially since early 1990 and, because of the lags involved, a sizeable portion of these reductions has yet to impact on the economy. Further changes in interest rates will depend importantly on the prospects for inflation and inflationary expectations.

Fiscal Policy

The Commonwealth has budgeted for a deficit of $4.7 billion in 1991–92. Commonwealth Budget outlays are forecast to increase 2.6 per cent in real terms in 1991–92, while revenue is forecast to fall 4.1 per cent (Chart 10). The Commonwealth sector's net borrowing requirement is expected to increase as a ratio to GDP. As noted in Statement 6, that appears to reflect importantly the impact of cyclical factors on the Commonwealth budget sector. For example, higher outlays on unemployment benefits account for 2.1 percentage points of the 2.6 per cent growth in real outlays in 1991–92.

The State/local sector's outlays are expected to increase only moderately in 1991–92, although the underlying trend may be obscured by the impact of one-off factors. The sector's own-source revenue is forecast to grow more strongly than in 1990–91. When allowance is made for higher borrowings by the State/local sector to refinance debt which the Commonwealth had raised on their behalf, the net borrowing requirement for the sector is expected to remain at broadly the same ratio to GDP as was the case in 1990–91.

Overall, the public sector's net borrowing requirement is expected to increase as a ratio to GDP from 2.2 per cent in 1990–91 to 4.3 per cent in 1991–92—a major part of this deterioration would seem to reflect the slowing in economic activity.

Wages Policy

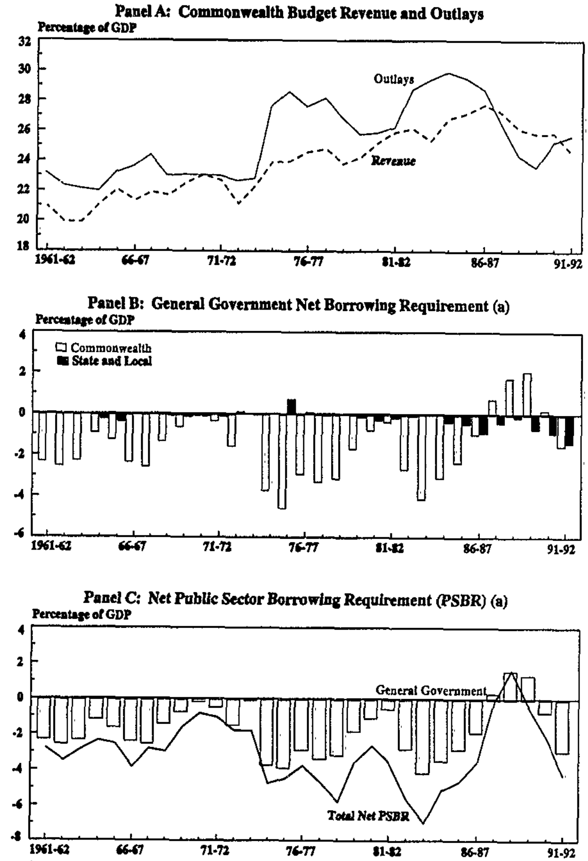
Wages policy is being developed against the background of a very substantial reduction in inflation and unemployment at a relatively high level. To achieve sustainable employment growth during the recovery and beyond, wages policy will remain focussed on achieving continued moderate growth in nominal wages and overall labour costs, with outcomes linked more directly to improvements in labour productivity.

Further development of a framework designed to guide the transition toward a more flexible and more decentralised system of wage fixation will be a crucial element of wages policy developments in the period ahead. The first steps in this direction have been taken but further progress must be made.

In the forthcoming Review of Wage Principles, a central issue for the AIRC and the parties involved will be how best to further develop a workable framework for enterprise bargaining.

With inflation dropping to a low rate, circumstances are favourable for a successfully managed transition to a more decentralised and flexible wages system. If satisfactory outcomes are to be achieved, however, it will be essential that wage increases gained through enterprise bargaining be genuinely based on achieved productivity outcomes.

CHART 10: FISCAL INDICATORS



(a) A positive (negative) value implies that the sector was a net lender (borrower).

The Government's decision to provide for a legislative framework for superannuation has important implications for wages policy. In particular, as employer superannuation contributions are increased and spread more widely throughout the workforce, the scope for wages growth from other sources will necessarily be lower than otherwise so as to ensure that enhanced superannuation does not impact adversely on cost structures and inflation.

FORECASTING ASSUMPTIONS

The policy framework and the following set of assumptions underlie the economic forecasts for 1991–92 (Table 2):

- in Australia's major trading partners, real GDP growth will be little changed from 1990–91 while consumer price inflation will edge down slightly;
- a technical assumption of an average world crude oil price of $US19 per barrel in 1991–92 compared with $US23.51 in 1990–91[20];
- overseas nominal interest rates remaining broadly around current levels;
- a year-average increase in AWE of about $4^1/2$ per cent principally reflecting the spread of the 2.5 per cent or $12 wage increase to all employees over the next few months together with increases expected to arise from the next national wage case, including those flowing from enterprise bargaining;
- the usual technical assumption of no change in the exchange rate during 1991–92 from around its recent level; and
- normal seasonal conditions for the farm sector over the remainder of 1991–92.

FORECASTS FOR 1991–92

The economic forecasts for 1991–92 are summarised in Table 2.

As usual the forecasts should be interpreted very much in terms of the broad picture of the economy and likely trends—rather than as a set of precise estimates. Importantly, the estimates for 1991–92 have been significantly affected by the starting point embodied in the national accounts estimates for the June Quarter 1991 and the labour force data for July 1991.

These releases point to recent large falls in output, earnings and employment. Those large falls in the most recent observations tend to result in lower year-average and higher through-the-year (the June month or June quarter on the same period a year earlier) growth rates in the forecast period. Hence, while the overall shape of the forecasts for 1991–92 has not substantially changed since the forecasts released on 30 May this year,

(20) The world crude oil price used is a simple weighted average of prices for West Texas Intermediate, Brent and Dubai.

estimates for some specific components of activity and demand—as well as certain prices and wages—have been significantly altered.

- For example, the June Quarter National Accounts show domestic demand and output declining in 1990–91 with a particularly sharp fall in the June quarter. This has tended to push down forecast year-average growth for GNE (and, to a lesser extent, GDP) despite faster through-the-year GNE growth in 1991–92.
- And the sharp fall in employment shown in the July labour force data means that the $1^1/4$ per cent increase in employment expected during the second half of 1991–92 should only return employment by end 1991–92 to around the level of the June quarter 1991.

Demand and Output

Against that background, **gross national expenditure (GNE)** is expected to remain fairly flat in year-average terms but will increase by around $3^1/4$ per cent over the course of the year. The pace of recovery in **gross domestic product (GDP)** over the year could be marginally faster (around $3^3/4$ per cent), translating into year-average growth in GDP of around $1^1/2$ per cent.

Production is expected to grow more rapidly than domestic demand in 1991–92, because **net exports** are expected to contribute $1^1/4$ percentage points to GDP growth. This follows a contribution of 3.1 percentage points in 1990–91 and 0.2 percentage points in the previous year.

Private consumption is forecast to recover at a steady pace. Consumption growth in year-average terms is pushed up by the sharp jump in consumption shown in the June quarter National Accounts. The through-the-year growth rate of $1^3/4$ per cent is, by contrast, held down by the June quarter outcome. The through-the-year growth figures reflect expected movements in real incomes and the employment outlook.

Despite excess capacity in a number of industries, the modest recovery forecast for activity should support some recovery in **plant and equipment** investment through the course of the year ($6^1/4$ per cent)—but most of that growth is likely to be concentrated in the second half of 1991–92. Given the weakness in plant and equipment investment in the first half of 1991, this implies further large declines in year-average terms. **Non-residential construction** is expected to continue to weaken significantly both year-average and through-the-year given the over-supply of office space and weaker asset prices. In total, **business investment** is expected to stabilise over the course of the year but decline further in year-average terms.

The **dwelling** sector is expected to provide an important impetus to recovery in 1991–92, with the upturn gaining momentum through the year. The pace of recovery will not, however, be as fast as that of recent housing cycles.

In aggregate, **private final demand** is expected to grow by around $2^1/4$ per cent through the year—with most of that growth concentrated in the second half of the year. In

Table 2: Forecasts and Forecasting Assumptions

	1989-90 Year Average	1990-91 Year Average	1991-92(f) Year Average
Panel A - International Assumptions			
Major trading partners -			
Real GDP	3.8	3	3 (a)
Inflation	4.5	4 1/2	4 1/4 (a)
Crude oil ($US/barrel)	17.89	23.51	19 (a)
TWI index (index points)	60	58.9	60 (a)
Panel B - Forecasts of Demand and Output (b)			
Private final consumption expenditure	4.3	1.0	1 1/4
Private Investment -			
Dwellings	-4.7	-11.4	4 3/4
Non-dwelling construction	4.2	-14.5	-15 1/4
Plant and equipment	-2.2	-10.6	-8
Business investment	-0.1	-11.9	-10 1/2
Total	-3.1	-11.3	-6
Private final domestic demand	2.4	-2.0	-1/4
Public final domestic demand	6.7	2.9	1 3/4
Total final domestic demand	3.4	-0.8	1/4
Increase in stocks (c) -			
Private non-farm	-0.6	-1.2	1/2
Farm and public authority	0.7	-0.4	-1/4
Gross national expenditure	3.3	-3.8	1/4
Exports of goods and services	7.3	13.0	5 1/4
Imports of goods and services	5.2	-3.6	-1 1/4
Net exports (c)	0.2	3.1	1 1/4
Gross domestic product	3.6	-0.9	1 1/2
Comprising -			
Non-farm product	3.4	-1.3	1 1/2
Farm product	10.0	10.1	1 1/2
Panel C - Forecasts of Other Selected Economic Measures (d)			
Average Earnings (national accounts basis)	6.9	6.0	4 1/2
Consumer price index	8.0	5.3	3
Gross non-farm product deflator	6.2	4.0	3
Non-farm real unit labour costs	2.3	2.0	-2
Employment (labour force survey basis)	3.8	-0.4	-1 3/4
Unemployment rate (per cent)	6.2	8.4	10 1/2
Participation rate (per cent)	63.5	63.7	62 3/4
Real household disposable income	5.3	-0.9	1 1/2
Household saving ratio (per cent)	8.0	6.3	6 1/4
Terms of trade	-1.6	-5.2	-3 1/4
Current account balance -			
$ billion	-22.3	-15.7	-14
Percentage of GDP	-6.0	-4.1	-3 1/2

(a) Assumption
(b) Average 1984-85 prices. Unless otherwise indicated, figures are percentage change on preceding year.
(c) Percentage points contribution to change in GDP.
(d) Percentage change on preceding year unless otherwise indicated.
(f) Forecast.

year-average terms, private final demand could decline marginally. Growth in **public final demand** is forecast to slow in 1991–92, reflecting the impact of fiscal policy in combination with the weak budgetary positions of many States as well as their commitments to restrain increases in taxes and charges.

Private non-farm stocks are expected to make a positive contribution to growth in year-average terms, while **farm and public marketing authority stocks** will detract from growth in year-average terms.

Incomes, Prices and Labour Costs

Real household disposable income is forecast to start to recover over the course of 1991–92 primarily reflecting growth in average earnings.

Year-average growth in **average weekly earnings (national accounts basis)** is expected to ease in 1991–92 because of the degree of wage restraint in 1991. However, the transition to a more decentralised wage fixing system means that a greater degree of uncertainty attaches to this year's forecasts than has been the case in previous budgets.

The gains made in **CPI inflation** since 1989–90 are expected to be consolidated with a further fall in the rate of year-average increase in 1991–92. Through-the-year growth is expected to be around $3^3/4$ per cent.

Labour Market

Because growth in **employment** responds to growth in activity with a lag, a fundamental turnaround in the employment situation is not expected until the second half of the year. The moderate pace of the forecast recovery and the stepping-off point implied by the employment estimate included in the preliminary July labour force release—that included a fall in employment in July—means that expected growth in employment over the remainder of 1991–92 will only return employment by year's end to around the levels recorded in June 1991.

Considerable uncertainties attend the **participation rate** forecast as demonstrated by the volatility shown in recent months. However, on the basis that the participation rate remains broadly around current levels during the year, the **unemployment rate** will continue to increase in the first half of 1991–92 before declining in the second half of the year. The unemployment rate is expected to peak at around $10^3/4$ per cent in late 1991 and average $10^1/2$ per cent for the year as a whole.

Following a rise in 1990–91, real unit labour costs are expected to decline moderately in 1991–92. The gross corporate profit share is expected to rise in 1991–92.

Balance of Payments

Following the reduction in the current account deficit as a proportion of GDP from 6 per cent in 1989–90 to around 4 per cent in 1990–91, a further decline to $3^1/2$ per cent is expected in 1991–92. Notwithstanding a forecast fall in the terms of trade, the balance of goods and services is expected to be in surplus in 1991–92, the first surplus since 1979–80. The continued reduction in the current account deficit also reflects little change in the net income deficit in 1991–92 compared with the previous year, a consequence of the full year effect of past declines in interest rates and of reduced dividend remittances overseas.

Reflecting the improved current account performance, there is the prospect that the ratio of net external debt to GDP may begin to stabilise in 1991–92.

Rural export volumes are forecast to increase in 1991–92 slightly below the rate in 1990–91. The volume of wool exports is forecast to rise significantly, reflecting the full year response of demand for wool by overseas buyers to the reduction in prices in 1991. A forecast reduction in wheat export volumes is the result of reduced sowings and lower yields.

Growth in non-rural export volumes is expected to increase by around 4 per cent in 1991–92 compared with the exceptionally strong growth of 18 per cent in 1990–91. The high rate of growth last year was heavily influenced by a very strong increase in the volume of crude oil exports in response to high prices and a sharp increase in gold exports preceding the extension of company tax to gold producing companies. Lower oil and gold export volumes in 1991–92 will be offset by continued growth in many other non-rural exports including manufactures, coal and iron and steel.

The volume of imports of goods and services is forecast to fall by around $1^1/4$ per cent in 1991–92. Endogenous import volumes are expected to fall by $2^3/4$ per cent in year-average terms. Following a concentration of office machines and computer imports in the June quarter 1991, import volumes are expected to fall in the first half of 1991–92, with a moderate rise forecast for the second half of the year in line with movements in domestic demand. Exogenous import volumes are expected to fall in 1991–92 owing to lower imports of civil aircraft. A fall in the value of oil imports is forecast reflecting the full year effect of the decline in oil prices in 1990–91.

The moderate recovery in domestic demand projected in 1991–92 combined with the high level of underutilised capacity is expected to constrain import growth. In particular, the share of import intensive components of domestic demand—such as investment in plant and equipment—is expected to be fairly subdued in 1991–92. The exceptionally strong growth in these components in the late 1980s, combined with capacity constraints in key areas, was a major factor behind the sharp rise in the import penetration ratio over this period. Since mid-1989, the import-to-sales ratio has fallen by around 5 per cent as the capacity of domestic producers to satisfy demand has increased with the economic slowdown.

CONCLUSION

Policy will continue to focus on promoting sustainable economic growth consistent with the need to prevent a re-emergence of inflationary pressures and making further progress on the balance of payments. Because activity is forecast to increase at only a moderate pace in 1991–92, the recovery in employment will be comparatively slow but will continue into 1992–93 in the wake of the pick-up in final demand. Unemployment is expected to remain relatively high but decline somewhat as the year progresses.

However, the nature of the recovery with demand growing less quickly than production means that further gains are expected on inflation and the current account deficit this year.

APPENDIX: CHARTS IN BUDGET STATEMENT 2

Chart 1:

Panel A: OECD Major Trading Partners (MTP) comprise the USA, Japan, Federal Republic of Germany, France, Italy, the United Kingdom, Canada and New Zealand, weighted on the basis of trade in 1989–90. Australian CPI data is medicare adjusted. The OECD MTP data for the June quarter 1991 is an estimate as data for Canada and Italy for June were not available. The OECD average figure for June quarter 1991 is an estimate based on the OECD average inflation rates in April and May.

Panel B: Data are seasonally adjusted. The OECD figures are weighted by GDP. The other figures are weighted by the average Australian exports to these countries for the three years ending 1989–90. Australia's major Asian trading partners comprise Japan, the Republic of Korea, Taiwan, Singapore, Hong Kong and the People's Republic of China. Australia's major trading partners include—as well as the Asian major trading partners—the 22 other countries of the OECD. The figures for the first half of 1991 include estimates principally from the OECD's 'Economic Outlook No. 49'.

Panel C: Based on quarterly data from the quarterly Australian National Accounts (ABS No. 5206).

Chart 2: Data are from ABS No. 5206.

Chart 3: Seasonally adjusted estimates.

Panel A: The non-farm product (average 1984–85 prices) and non-farm employment data are from the ABS NIF database. The data are smoothed using a three period moving average.

Panel B: Data are from The Labour Force, Australia (ABS No. 6203).

Chart 4:

Panel A: Data are from ABS No. 5206. Data are smoothed using a three quarter moving average.

Panel B: Data are from the Annual Australian National Accounts (ABS No. 5204). The figure for private saving in 1990–91 is a Treasury estimate.

Panel C: Seasonally adjusted estimates from ABS No. 5206. Data are smoothed using a three quarter moving average. The contribution of the terms of trade is measured as the difference between the change in GDP adjusted for the terms of trade and the change in actual GDP. The contribution items are not additive.

Panel D: The real effective exchange rate is the ratio of Australian non-farm unit labour costs (ULCs) to a weighted average of exchange rate adjusted ULCs in the business sector of Australia's four major trading partners (the

USA, Japan, Germany and the United Kingdom). Data for the terms of trade and Australian ULCs are from ABS No. 5206. (The other country data are provided by the OECD.)

Panel E: Seasonally adjusted estimates. The data are from the NIF database. Real wages are average earnings of non-farm wage and salary earners deflated by the gross non-farm product deflator. Employment data is for total civilian employment.

Panel F: The gearing ratio is derived from the NIF database. The private gross debt data supplied by EPAC and is as at end June for each year. The asset price index comprises dwelling, equity and office price data (see footnote 10 of this Statement for more detail). The deflator used is the implicit price deflator for private final consumption expenditure. The house price series is from the NIF-88 database and the established house price series in House Price Indexes, Eight Capital Cities (ABS No. 6416). The June quarter 1991 figure is a Treasury estimate. The All Ordinaries index is used for share prices. Office prices are an average of Sydney and (from 1980) Melbourne central business district office prices supplied by Jones Lang Wootten.

Chart 5: The corporate trading enterprises gross operating surplus (GOS) share is equal to the ratio of private corporate sector GOS to gross product at factor cost of the private corporate sector (the data are from ABS No. 5206). Company tax is defined as income tax payable by corporate trading enterprises less their increase in income tax provisions. Net interest payments are equal to interest paid by corporate trading enterprises less interest received by them. Both the company tax and interest payment data are from the ABS.

Chart 6: See Chart 4, Panel F. The equity price data is smoothed using a three quarter moving average.

Chart 7:

Panel A: Tobin's Q for the business sector is the RBA Tobin Q ratio, updated from December 1990 using Treasury estimates. The investment rate is business investment as a per cent of the capital stock. The main source of data is ABS No. 5206.

Panel B: Tobin's Q for the dwelling sector is calculated using house price data divided by the implicit price deflator for private investment in dwellings. The investment rate is investment in dwellings as a per cent of the stock of dwellings. The house price data is from ABS No. 6416 and the Real Estate Institute of Australia (REIA).

Chart 8: The All Ordinaries index is used for equity prices, and is deflated by the implicit price deflator for private final consumption expenditure. The non-farm GOS share is the ratio of private non-farm trading and financial enterprises GOS (less imputed bank service charges) to the gross product at factor cost of the non-farm sector.

Chart 9: Actual asset prices are a weighted average of business sector and house prices. Business sector prices are derived by multiplying the RBA Tobin Q by the implicit price deflator for investment in plant and equipment and non-dwelling construction. The house price data is mainly from the REIA. For details on the synthetic series see footnote 13 of this Statement. The data are smoothed using a three quarter moving average.

Chart 10:

Panel A: Commonwealth Budget aggregates are taken from Table I of Appendix I to Statement 5, Budget Paper No 1, 1991–92.

Panels B and C: The general government sector's principal functions include provision of a range of non-market (or public) goods and services, provision of the legal and other institutional frameworks for the community, and administration of the income transfer system. The net Public Sector Borrowing Requirement (PSBR) measures the public sector's direct call on financial markets and is defined as total outlays less total revenues, less increase in provisions (including depreciation and superannuation) and, for the PTE and State/local sectors, excludes net advances received from general government and from the Commonwealth, respectively. Data are Australian Bureau of Statistics government financial estimates. Figures for 1991–92 are Treasury estimates.

STATEMENT 3 — OUTLAYS

CONTENTS

3

STYLE CONVENTIONS

The following style conventions are employed in this Statement in addition to those noted on page iv of this Budget Paper.

- References in the text to allocations or estimates refer to the 1991-92 financial year unless otherwise stated. Similarly, references to changes in such amounts refer to comparisons with the 1990-91 outcome unless otherwise stated. References to the 'forward years' are to the years 1992-93 to 1994-95.
- The following abbreviations are used for States and Territories: NSW (New South Wales), Vic (Victoria), Qld (Queensland), WA (Western Australia), SA (South Australia), Tas (Tasmania), NT (Northern Territory), ACT (Australian Capital Territory).
- 'States' includes the NT but excludes the ACT; 'the six States' excludes the NT and the ACT; 'States and Territories' includes the NT and the ACT but unless otherwise stated excludes other Territories; 'States and all Territories' has its natural meaning.
- Amounts shown for current or future years should be taken as estimates (whether or not so described) unless that is clearly not intended.
- Money amounts not expressed in full are rounded to the nearest $0.1m.
- All time periods are inclusive of the opening and/or closing dates or periods given (eg 'the three years to 1991-92' comprises 1989-90, 1990-91 and 1991-92).
- Real growth in outlays, unless otherwise stated, has been measured by reference to the non-farm GDP deflator.
- Functional and subfunctional tables (except for those functions which exclude salaries and the Defence function) do not include, for the budget and forward years, amounts for wage increases expected to take place after the Budget in that year. An allowance for such increases is included in 9C. Contingency Reserve.
- The sign of the percentage change reflects the result of the calculation, not the effect on the aggregate concerned. Therefore, the sign on the percentage change for an aggregate which changes sign will be negative.

PART I. BUDGET OUTLAYS IN AGGREGATE

1. HIGHLIGHTS OF THE 1991-92 BUDGET

Table 1. Summary of Outlays

	1990-91 Actual $m	1991-92 Budget $m	1992-93 Estimate $m	1993-94 Estimate $m	1994-95 Estimate $m
Outlays excluding Asset Sales	96202.8	102133.4	105905.1	109259.7	111101.8
Real growth over previous year	4.1	3.1	0.7	0.2	-1.3
Outlays as a proportion of GDP	25.3	25.9	24.9	24.2	23.2
Asset Sales	-161.7	-625.0	-200.0	-150.0	-
TOTAL	96041.1	101508.4	105705.1	109109.7	111101.8
Real growth over previous year	5.1	2.6	1.1	0.2	-1.1
Outlays as a proportion of GDP	25.3	25.7	24.9	24.2	23.2

- **In the 1991-92 Budget:**
  - **— outlays are expected to increase by 5.7% in nominal terms, an increase in real terms of 2.6%;**
  - **— real outlays are forecast to reach approximately the same level as that attained in 1985-86;**
  - **— as a proportion of Gross Domestic Product (GDP), outlays are expected to be 25.7%; and**
  - **— the major sources of growth in outlays are increases in *4. Social Security and Welfare*, *2. Education* and *3. Health*, partly offset by reductions in *9A. Assistance to Other Governments* and increased *9D. Asset Sales*.**
- **Measures taken by the Government since the 1990-91 Budget have reduced outlays by a net $50m (0.05% of total outlays). New policy costing $1917m has been offset by savings of $1967m.**
- **Over the three years of the forward estimates (1992-93 to 1994-95):**
  - **— outlays are expected to rise in real terms by 1.1% and 0.2% in 1992-93 and 1993-94 respectively, followed by a 1.1% decline in 1994-95, resulting in an almost zero net change across the period;**
  - **— the major sources of growth over the forward estimates are expected to be *3. Health*, and *9A. Assistance to Other Governments*;**
  - **— these increases are largely offset by expected declines in *4. Social Security and Welfare* (as the numbers of unemployed decline when the effects of the recession recede), *7B. Industry Assistance and Development*, *8E. Administrative Services* and *7A. Transport and Communication*; and**

— after growing rapidly in 1990-91, the ratio of outlays to GDP is expected to stabilise in 1991-92 and to decline over the forward estimates period to 23.2% in 1994-95. This is below the level attained in 1989-90.

- **The 1991-92 Budget is significantly influenced by the economic situation in which it is framed. In particular the growth in outlays is mainly due to the impact of the recession on the number of people dependent on pensions and benefits, and this increase in outlays in turn flows through to increased payments in public debt interest.**
- **In this context the Budget is directed to improving the efficiency and effectiveness of outlays. In particular the Families Assistance package is explicitly directed to improving assistance to families on low and middle incomes. The Medicare changes are designed to constrain costs of providing medical services without restricting access to those in need.**
- **Measures taken by the Government in the Budget deliberations have been cost neutral, and across the course of the year the net effect of all decisions has been to reduce outlays.**

2. THE ESTIMATES FOR 1991-92

Table 2. Outlays by Function

	1990-91 Actual $m	1991-92 Budget $m	Change %	1992-93 Estimate $m	1993-94 Estimate $m	1994-95 Estimate $m
1 Defence	9065.8	9434.8	4.1	9940.3	10191.0	10594.3
2 Education	7471.4	8261.8	10.6	8733.4	9179.2	9592.8
3 Health	12939.1	13683.7	5.8	14362.0	15272.7	16407.2
4 Social Security and Welfare	30559.8	34408.4	12.6	35424.0	36627.5	36659.2
5 Housing and Community Amenities	1084.0	1189.3	9.7	1181.1	1180.9	1183.9
6 Culture and Recreation	1193.9	1236.6	3.6	1186.4	1138.6	1163.0
7 Economic Services						
A Transport and Communication	1791.3	1440.0	-19.6	1497.7	1232.5	1202.6
B Industry Assistance and Development	4001.3	3631.9	-9.2	3203.5	3059.5	3037.5
C Labour and Employment	1435.7	1754.6	22.2	1804.9	1676.5	1664.8
D Other Economic Services	268.7	289.7	7.8	307.3	281.3	285.7
Total Economic Services	7497.0	7116.2	-5.1	6813.4	6249.9	6190.5
8 General Public Services						
A Legislative Services	349.9	356.8	2.0	431.9	359.9	376.0
B Law, Order and Public Safety	758.9	982.0	29.4	908.5	855.8	821.8
C Foreign Affairs and Overseas Aid	1696.5	1812.3	6.8	1839.2	1876.6	1926.1
D General and Scientific Research	749.2	879.0	17.3	947.2	999.6	1028.1
E Administrative Services	2782.2	3143.3	13.0	2991.1	2761.6	2927.0
Total General Public Services	6336.6	7173.4	13.2	7117.9	6853.6	7079.0
9 Not Allocated to Function						
A Assistance to Other Governments nec	13983.4	13351.7	-4.5	14151.3	15852.2	15729.2
B Public Debt Interest	6071.9	6277.6	3.4	6805.2	6754.1	6832.7
C Contingency Reserve	-	-	na	190.0	-40.0	-330.0
D Asset Sales	-161.7	-625.0	286.6	-200.0	-150.0	-
Total Not Allocated to Function	19893.6	19004.3	-4.5	20946.5	22416.3	22231.8
TOTAL	96041.1	101508.4	5.7	105705.1	109109.7	111101.8

The budget process is based upon a system of rolling forward estimates compiled by the Department of Finance in consultation with other departments, and published with the budget estimates in this Statement.

The starting point for the 1991-92 Budget process was the forward estimates published with the 1990-91 Budget for the years 1991-92 to 1993-94. The forward estimates reflect the minimum cost of maintaining ongoing policy, on the then prevailing economic and other parameter assumptions. The estimates do not include any provision for new programs, or for expansion of existing programs that has not been agreed by the Government. However, to avoid a conservative bias in the estimates an allowance is included within program estimates for renewal of some elements of existing policy for which present authority terminates during the forward years. A bulk allowance is also made to balance conservative bias evident in the estimates of the cost of existing policy (see *9C. Contingency Reserve*).

The 1991-92 forward estimates were updated in February, May and July 1991 to reflect revised assumptions following release of national accounts and other economic data. They have also been progressively updated to incorporate the effects of policy decisions and changed parameter assumptions relating to specific programs - eg the number and composition of sole parent pension beneficiaries. The forward estimates thus represent a benchmark against which the effects of Government decisions and changes in parameter assumptions can be measured.

Table 3 summarises revisions to the forward estimates since the 1990-91 Budget. Major measures contributing to the variation in 1990-91 outlays from the 1990-91 Budget estimates were the reversal of the decision to sell the Moomba-Sydney gas pipeline ($700m), assistance to the Australian Wool Industry ($300m) and defence costs associated with the Gulf deployment ($69m). At the time of the 1990-91 Budget, real outlays were expected to fall by 1.3% in 1991-92. The 1991-92 Budget estimates are now indicating an increase of 2.6%. Table 4 provides a more detailed reconciliation of the variations to the 1991-92 estimates.

The estimates for 1991-92 have increased by $3663m over the levels provided for in the 1990-91 Budget. This growth is primarily due to growth in Jobsearch and Newstart Allowances which have increased outlays by $2640m. With the decline in the expected Budget surplus public debt interest payments have increased by $1014m. These increases have been partially offset by decreases of $1551m due to lower than expected growth in prices and wages which reduces not only the costs of public sector wages, but costs of pensions and benefits and payments to the States, below previously projected levels.

Policy Decisions

The effects on the 1991-92 Budget and the forward estimates of the more significant budget outlays decisions taken by the Government since the publication of the 1990-91 Budget and forward estimates are set out in Table 5: Summary of Major Measures by Function. Full details of measures are included in tables in the relevant functional sections.

In the March 1991 Economic Development Statement the Government announced a package of measures which added $123m to outlays in 1991-92. The measures included in this Budget include these as well as measures taken during the course of the year and in the formal budget round. Over the course of 1990-91 the Government has introduced changes to existing policy which have resulted in additional outlays of $1917m offset by savings of $1967m leading to a net reduction in outlays of $50m in 1991-92.

Taken separately the policy changes in the course of the formal budget round have been budget neutral (with new policy of $513m in 1991-92 matched by equivalent savings).

Asset sales measures taken since last budget have reduced total outlays by an estimated $500m, and total net proceeds from asset sales in 1991-92 are expected to be $625m. Abstracting from the effects of asset sales, the net impact of measures on outlays would have been to add $450m over the course of 1991-92.

Table 1 shows that total outlays are expected to grow slowly in real terms over the next two years before declining in 1994-95. The cyclical upswing as the effects of the recession recede is particularly evident in the estimates for *4. Social Security and Welfare* (see Table 2) which are expected to fall in real terms by 2.5% over the period as unemployment declines.

Table 3. Reasons for Changes to 1990-91 Budget and Forward Estimates

	1990-91 Outcome $m	1991-92 Estimate $m	1992-93 Estimate $m	1993-94 Estimate $m
PUBLISHED BUDGET AND FORWARD ESTIMATES (a)	93976	97846	102798	108567
Real growth over preceding year (%)	0.7	-1.3	0.1	1.1
Outlays as proportion of GDP (%)	23.7	22.8	22.2	21.8
Post Budget Decisions	1169	-50	-117	-385
Revisions to economic parameters:				
- UBR Numbers	479	2640	2291	1334
- Prices and Wages	-69	-1551	-2969	-5151
- Interest and Exchange Rates	12	-29	-25	-27
- Public Debt Interest	74	1014	2344	3213
Program Specific Parameters	440	1173	1223	1704
Slippage in Budget Decisions	84	46	97	94
Other Revisions to Estimates	-125	419	62	-240
TOTAL VARIATIONS	2065	3663	2907	542
1990-91 OUTCOME AND UPDATED FORWARD ESTIMATES	96041	101508	105705	109109
Real growth over preceding year (%)	5.1	2.6	1.1	0.2
Outlays as proportion of GDP (%)	25.3	25.7	24.9	24.2

(a) Figures differ from published 1990-91 Budget estimates due to the reclassification from revenue to outlays of the diesel fuel rebate and petroleum royalties (and payments in lieu of royalties) to States (see Statement 7 for details).

Table 4. Reconciliation of Forward and Budget Estimates 1991-92, by Function ($ million) (a)

	1990-91 Actuals	1991-92 Forward Estimates	1991-92 Budget Estimates	Difference between Budget and Forward Estimates	Parameter and Other Estimates Variations	Policy Decisions: Increases	Policy Decisions: Decreases	Policy Decisions: Net	1992-93 effect of Policy Decisions: Increases	1992-93 effect of Policy Decisions: Decreases	1992-93 effect of Policy Decisions: Net
1. Defence	9066	9725	9435	-290	-237	31	-84	-53	4	-177	-173
2. Education	7471	7968	8262	294	193	122	-22	101	191	-32	159
3. Health	12939	14022	13684	-339	-96	90	-332	-242	88	-605	-517
4. Social Security and Welfare	30560	31085	34408	3324	3226	259	-161	98	540	-346	194
5. Housing & Community Amenities	1084	1216	1189	-27	-37	22	-12	10	21	-3	18
6. Culture and Recreation	1194	1194	1237	42	-5	52	-5	47	50	-	50
7. Economic Services											
A. Transport and Communication	1791	1760	1440	-319	-43	63	-339	-276	149	-340	-191
B. Industry Assistance and Development	4001	3324	3632	308	503	270	-465	-195	173	-478	-305
C. Labour and Employment	1436	1575	1755	180	-30	219	-9	209	191	-8	183
D. Other Economic Services	269	281	290	8	7	1	-	1	1	-	1
Total Economic Services	7497	6940	7116	177	438	552	-814	-261	514	-826	-311
8. General Public Services											
A. Legislative Services	350	326	357	30	21	10	..	9	11	-	11
B. Law, Order and Public Safety	759	857	982	125	90	35	..	35	32	..	31
C. Foreign Affairs and O'seas Aid	1697	1778	1812	35	-11	47	-1	46	38	-7	31
D. General and Scientific Res	749	829	879	50	24	26	-	26	22	-	22
E. Administrative Services	2782	2677	3143	466	402	66	-1	65	66	-3	63
Total General Public Services	6337	6467	7173	706	525	184	-3	181	168	-9	158
9. Not Allocated to Function											
A. Assist to Other Governments	13983	13161	13352	191	-381	606	-35	571	595	-91	505
B. Public Debt Interest	6072	5263	6278	1014	1014	-	-	-	-	-	-
C. Contingency Reserve	-	895	-	-895	-895	-	-	-	-	-	-
D. Asset Sales	-162	-91	-625	-534	-34	-	-500	-500	-	-200	-200
Total not Allocated to Function	19894	19228	19004	-224	-295	606	-535	71	595	-291	305
TOTAL	96041	97846	101508	3663	3713	1917	-1967	-50	2171	-2288	-117

(a) Figures differ from published 1990-91 estimates due to the reclassification from revenue to outlays of the diesel fuel rebate and petroleum royalties (and payments in lieu of royalties) to States (see Statement 7).

Parameter Variations

Major components of the variations caused by changes in economic and program specific parameters (which totalled $3247m) include an increase of $2640m due to increases in numbers of unemployment beneficiaries, and a decrease of $1551m due to lower price and wage assumptions. The expected cost to the Commonwealth of public debt interest rose in 1991-92 by $1014m due to the impact of the falling budget surplus and expected deficit in 1991-92.

The major parameter changes between the 1991-92 forward estimates and budget estimates are as follows:

- the forecast CPI has decreased by 2.5 percentage points (to 3%) and the implicit price deflator for non-farm GDP by 2.5 percentage points (to 3%);
- forecast award wage rate increases have also decreased marginally;
- the average number of unemployment beneficiaries in 1991-92 is now estimated to be 770 000, an increase of 260 000 on the projection of a year ago;
- revisions to beneficiary numbers (apart from unemployment beneficiaries) and updated projections of the composition of beneficiary populations are expected to increase outlays by around $1173m compared with last Budget's forward estimates. Estimated 1991-92 outlays on sole parent pensioners have increased by $352m, aged pensions are now $242m higher than those of a year ago, and AUSTUDY has increased by $209m due to revised estimates of beneficiary numbers; and
- the exchange rate assumption of a Trade Weighted Index of 60 is 1 index point lower than that assumed a year ago.

The parameter estimates above were based on the June Quarter CPI and June Quarter National Accounts and were not available in time to be incorporated in the estimates for *individual programs. An allowance was made for their impact in 9. Contingency Reserve.* The estimates for the price parameters were all below those used in individual programs, the numbers of unemployment beneficiaries almost unchanged, and the Trade Weighted index assumed to be 2 index points higher.

Other Variations

The net effect of other variations totalled $419m (including the absorption of the $500m that had been included in the 1991-92 forward estimates to balance systematic conservative bias in the cost of existing policy). The largest contribution to this variation was the default on debt by Iraq to the Australian Wheat Board ($247m).

Table 5. Summary of Major Measures by Function

Function and Description of Measure	Effect on Outlays 1991-92 $m	Effect on Outlays 1992-93 $m
1. DEFENCE		
Reduction in real growth in Defence outlays to 0% in 1991-92 and subsequent years	-83.8	-176.9
Additional costs of Middle East deployment	23.6	3.9
2. EDUCATION		
Reversal of reduction in asset test threshold for AUSTUDY and AIC	28.2	29.8
Higher Education Growth - Capital Programs	20.0	37.2
3. HEALTH		
Restructuring of Pathology Benefits	-49.2	-106.3
Revised Medicare Arrangements	-163.9	-306.1
Continuation of Hospital Enhancement Program including funds for Magnetic Resonance Imaging	30.0	30.0
4. SOCIAL SECURITY AND WELFARE		
Introduction of Family Allowance asset test and introduction of hardship provisions for both FA and FAS asset tests	-5.4	-18.3
Families Package - Align FAS threshold with AUSTUDY	24.2	90.2
Families Package - FA/FAS rationalisation to a stepped system	-	49.6
5. HOUSING AND COMMUNITY AMENITIES		
Environment Protection Agency	8.5	8.9
7. ECONOMIC SERVICES		
7A. TRANSPORT AND COMMUNICATION		
Untying Local Road Funding - transfer to General Purpose Grants	-323.8	-323.8
Equity Investment in National Rail Corporation (NRC)	40.0	131.6
7B. INDUSTRY ASSISTANCE AND DEVELOPMENT		
Abolition of Wool Reserve Price Scheme - Wool tax reduced to 12%	-449.1	-466.4
Grains Council compensation claim	35.2	-
Rural Adjustment Scheme/counselling program	51.0	54.6
Payment to Victoria - gas price adjustment	60.0	-
7C. LABOUR AND EMPLOYMENT		
Additional pre-vocational TAFE places	40.2	-
Creation and expansion of Training and work experience program (JOBSKILLS)	43.6	44.8
Enhanced Training and Labour Market programs	35.0	39.7
Expansion of Labour Market Adjustment programs	23.6	34.3
8. GENERAL PUBLIC SERVICES		
8C. FOREIGN AFFAIRS AND OVERSEAS AID		
Aid Budget - including Environment Assistance Program	20.2	21.0
9. NOT ALLOCATED TO FUNCTION		
9A. ASSISTANCE TO OTHER GOVERNMENTS		
Transition of ACT to State-like levels of funding: general revenue assistance	-34.4	-90.3
Transfer of tied grants for local roads to general purpose assistance for local government	319.5	333.3
Transfer of tied grants for local roads to general revenue assistance to the States	39.9	41.6
Assistance for debt redemption to States - net present value basis	170.4	84.3
General Purpose Capital Assistance - building better cities	55.6	134.5
9D.ASSET SALES		
Airlines, AUSSAT, ANL and War Service Land Settlement Assets	-500.0	-200.0

3. THE FORWARD ESTIMATES

As noted in Section 2, the forward estimates record the minimum cost of on-going Government policy, as adjusted from time to time by the Department of Finance for the effects of parameter and other necessary variations. As such the estimates constitute a base for future Government decision-making, and they do not in any sense represent policy targets.

The formal linkage of the forward estimates and the Budget estimates has:

- provided a consistent and ongoing basis for budget deliberations;
- freed Ministers from the need to determine base program estimates and allowed them to concentrate on policy issues involving substantive changes to programs;
- contributed to the control of outlays growth by ensuring that the estimates reflect the minimum requirement necessary to maintain existing policy; and
- allowed Ministers to give greater consideration to the medium-term effects of budget measures.

All variations to the estimates for the Budget year which have been introduced since publication in the previous budget papers are summarised in the reconciliation of the published forward estimates and budget estimates included in this Statement each year (*see Table 4*). *This information establishes the extent to which the Government has* made discretionary changes to the estimates during a full budget cycle and facilitates public accountability.

Economic Parameter Assumptions

The economic parameters underlying the budget and forward estimates are set out in Statement 2 of this Budget Paper. However, because of the greater uncertainty associated with longer-term economic forecasts, parameters for the forward estimates are essentially illustrative.

The following key parameters have been used in calculating the estimates:

- **prices:** the CPI and non-farm GDP price deflators are assumed to increase by around 3% in 1991-92. The CPI and non-farm GDP deflator are projected to remain at 3% in the forward years;
- **wages:** public sector wages and salaries are assumed to grow in line with award wages, with productivity related increases being granted in the early part of the forward estimates period;
- ***unemployment:*** *the estimates assume beneficiary numbers of around 770 000 in* 1991-92 declining in the forward years;
- **interest rates:** monetary policy is assumed to remain relatively firm, with a medium term focus on sustained low inflation. In the forward years, interest rates are assumed to be a little lower in nominal terms, consistent with the assumption that the decline in inflation is sustained; and
- **exchange rates:** Australian dollar exchange rates are taken as unchanged over the forward years with the Trade Weighted Index (TWI) remaining at 60.

The estimates are also dependent on a wide range of parameters not of a general economic nature which relate to specific programs (eg program beneficiaries).

Parameter Sensitivity of the Budget and Forward Estimates

The following section provides an approximate guide to the sensitivity of the forward estimates of outlays to variations in key economic parameters. The analysis set out below examines the effects on outlays of independent and economy-wide changes in specific parameters.

Economic parameters are collected into five broad groups. The assumptions regarding the 1991-92 year economic parameters are:

- prices: an additional one percentage point increase in all price deflators in 1991-92 calculated by increasing each of the 1991-92 quarterly figures by 0.25 percentage points;
- wages: an additional 0.5 percentage point increase in all wage and salary rates in both the December and June quarters of 1991-92;
- *economic growth:* increased growth in GDP during 1991-92, so that the level of GDP is 1% higher by the end of 1991-92. This change is assumed to occur through higher output from the business sector of the economy;
- interest rates: an additional one percentage point increase in all interest rates affecting the estimates, occurring on 1 July 1991 and maintained throughout 1991-92 only; and
- exchange rates: an additional increase of one index point in the Trade Weighted Index in 1991-92 (this increase is assumed to occur uniformly against all currencies).

Economic parameters for the years 1992-93 to 1994-95 are assumed to remain unchanged. Outlays in these years vary only to reflect: impacts that the changed 1991-92 economic parameters have on changes in the level of prices and wages; and lagged effects of changes in the economic parameters for 1991-92.

The effect on outlays is sensitive to the assumed timing of these variations, especially in the first year. For example, an increase of 1% in prices occurring in the first quarter of 1991-92 would have a greater effect on 1991-92 estimates than a 1% increase spread evenly over the four quarters of 1991-92.

Table 6 sets out the results of the sensitivity analysis. The immediate impact of an increase in prices, wages or interest rates leads to an increase in estimated outlays, whereas an increase in the TWI or economic growth leads to a decrease in estimated outlays. Parameter changes in the opposite direction would lead to equivalent but opposite effects on budget outlays.

Table 6. Estimated Effect on Total Outlays of Variations in Key Parameters

	Estimated Effect on Total Outlays (rounded to nearest $25m)			
Parameter	1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Prices	175	525	650	650
Wages	100	200	225	225
Economic Growth	-50	-250	-325	-375
Interest Rates	125	150	125	125
Exchange Rates	-25	-	-	-

The estimated responses vary in some cases from those published in the 1990-91 Budget papers because of changes in the nominal value of the forward estimates, rounding effects and the state of the budget balance in 1991-92.

The changes shown are the direct effects only. Changes in exchange rates for example could be expected to lead to changes in other economic variables, which would in turn affect budget outlays. The sensitivity factors can, within limits, be used cumulatively to test the outlay sensitivity to an alternative economic scenario.

The effects of key parameter assumptions on program estimates are as follows:

- **prices:** approximately 75% of total outlays in 1991-92 are dependent on price movements. Three quarters of the effect on total outlays of the price parameter assumptions is accounted for by pensions and benefits and by general revenue assistance to other governments;
- **wages:** approximately 60% of the effect of changes in wages from 1991-92 onwards is accounted for in program expenditure linked to wage costs (notably education grants, public hospital funding grants and medical grants). The remainder is in direct wage and salary costs of public sector employees;
- **economic growth:** the only effect included is on employment and numbers of unemployment beneficiaries. In the forward years the fall in the number of unemployed is expected to be less than the increase in employment owing to increased participation which increases labour supply. The full-year impact of the 1% increase in activity takes place from 1992-93 onwards;
- **interest rates:** the principal component affected is public debt interest, which would be affected in 1991-92 and the forward years due to the higher coupon costs for Treasury Bonds issued in 1991-92. The effects of higher interest costs on Treasury Notes would be felt in 1991-92 and 1992-93 according to the redemption pattern of Notes issued in 1991-92. Other major programs affected are interest subsidies paid on Defence Service Home Loans and the concessional finance interest subsidy provided through AUSTRADE; and
- **exchange rates:** outlays affected are interest payments on Commonwealth debt denominated in foreign currencies, defence capital purchases, foreign aid payments and salaries and allowances of overseas staff such as those employed by AUSTRADE and the Department of Foreign Affairs and Trade.

4. OUTLAYS TRENDS

General Trends

In the period 1981-82 to 1990-91 outlays increased by 23.9% in real terms. In the four years to 1985-86 outlays increased by 26.9% in real terms. This trend was reversed between 1986-87 and 1989-90 when real outlays fell by 7.1%. With the economic downturn in 1990-91 real outlays rose strongly (by 5.1%) for the first time since 1985-86, and they are expected to increase in 1991-92 by a further 2.6%. This is largely the result of recession related increases in *4. Social Security and Welfare* and *2. Education* outlays. Growth in real outlays is expected to moderate in 1992-93 as the economy recovers and to begin falling again in 1994-95.

The ratio of budget outlays to GDP is an indicator of the share of national resources devoted to Commonwealth programs. However while being an indicator of the scale of Commonwealth activity, the measure also reflects variations to total economic growth.

After moving in a narrow band between 20.9% and 24.4% in the two decades to 1973-74 the ratio rose sharply in 1974-75. Subsequently the ratio fluctuated before peaking at 30% in 1984-85. The combination of measures taken by the Commonwealth to reduce outlays and the economic growth experienced until 1989-90 contributed to a decline for four consecutive years leading to an aggregate fall in the ratio to 23.6%. This trend was reversed in 1990-91 with the advent of the recession and the ratio is expected to rise slightly in 1991-92, before again falling as economic circumstances improve.

Chart 1 shows the ratio for the period since 1955-56 and for the forward estimates. Chart 2 illustrates annual real growth in outlays for the period since 1981-82.

Chart 1. Outlays as a Proportion of GDP and Cumulative Real Growth

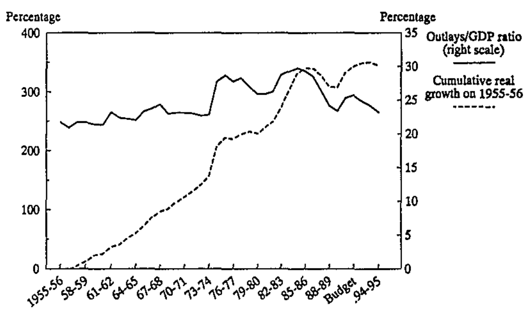
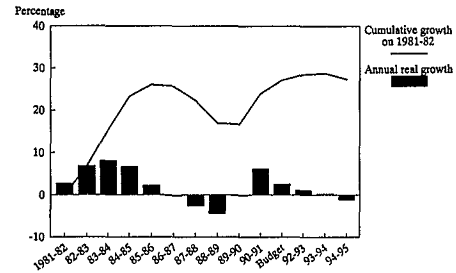


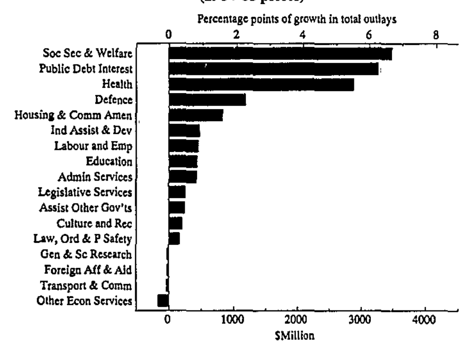
Chart 2. Real Growth in Outlays



Trends in Outlays by Function

Comparisons of outlays in particular functions between the historical period (1981-82 to 1990-91) and the budget and forward years are complicated by the treatment of prospective wage and salary increases. For the budget and forward years, estimates of wages and salaries are based on rates prevailing at budget time in that year. An allowance for wage and salary increases determined after the Budget each year is included in the *9C. Contingency Reserve*.

Chart 3. Contributions to Real Growth 1981-82 to 1986-87 (1984-85 prices)

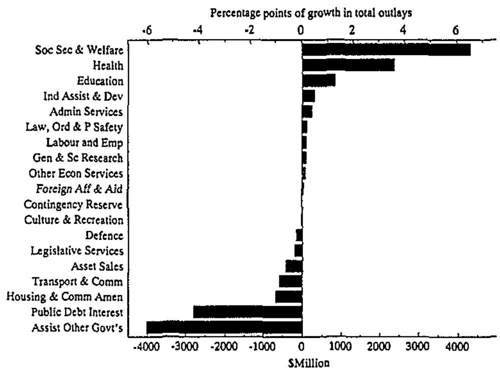


Charts 3 to 5 show the contributions to real growth by each function in the periods 1981-82 to 1986-87, 1986-87 to 1991-92 and 1991-92 to 1994-95 respectively. As Chart 3 suggests the first five years of the 1980s saw almost all areas of Commonwealth outlays grow in real terms. The largest contributions were made by *4. Social Security and Welfare, 9B. Public Debt Interest, 3. Health* and *1. Defence.*

During the second half of the 1980s sustained economic growth together with measures introduced by the Government resulted in significant real reductions in some functions (see Chart 4). These savings allowed the Government to redirect some funding to policy areas in pursuit of its social justice priorities while at the same time restricting total real outlays growth over the period to approximately zero.

Strong real growth occurred in *4. Social Security and Welfare* and *3. Health.* The functions which showed the largest reductions in the period 1986-87 to 1991-92 were *9A. Assistance to Other Governments,* and *9B. Public Debt Interest.*

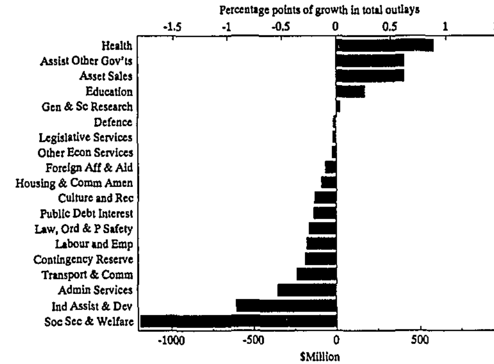
Chart 4. Contributions to Real Growth
1986-87 to 1991-92
(1984-85 prices)



Over the forward years real outlays are expected to remain relatively stable (see Chart 5.) (Note. Chart 5 is based on functional estimates that have not been updated with budget parameters). The moderate decrease towards the end of the forward years reflects the expected improvement in the economy in 1992-93 and beyond. Functions expected to contribute to this decline are *7B. Industry Assistance and Development* and *4. Social Security and Welfare.*

Significant real increases over the period are expected in *3. Health* and *9A. Assistance to Other Governments.*

Chart 5. Contributions to Real Growth
1991-92 to 1994-95
(1984-85 prices)



Outlays on *3. Health* have increased in real terms over the entire period from 1981-82 to 1991-92, and are expected to continue to increase in the period to 1994-95. These persistent increases can largely be attributed to the introduction of Medicare in 1984 and the subsequent increased coverage of Commonwealth funded medical benefits as well as increased outlays on pharmaceutical benefits. There has since been growth in Medicare service volumes (particularly an increase in utilisation per head) and a general drift towards more expensive services which together have largely constituted the trend in the second half of the decade.

5. OUTLAYS BY ECONOMIC TYPE

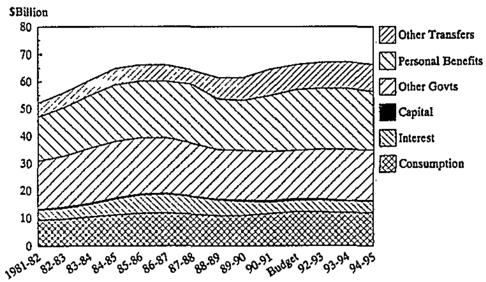
Chart 6 sets out real outlays, classified by broad economic type, over the 14 years from 1981-82 to 1994-95. Table 7 in the statistical appendix to this Statement sets out outlays by economic type.

Consumption, which comprises all current outlays on goods and services, has remained relatively stable, growing at an average real rate of 2.7% from 1981-82 to 1991-92 compared with real total outlays which grew at the slightly lower rate of 2.4% over the same period. It is anticipated that over the forward years consumption will decrease at an average real rate of 0.5%.

From 1981-82 to 1986-87 interest payments rose at an average real rate of 14.0%. From 1986-87 to 1991-92, they declined at an average real rate of 9.6% as improvements in the budget balance reduced the Commonwealth's borrowing requirements and allowed for repayments of past borrowings. The real rate of change in interest payments is expected to stabilise over the forward years, averaging negative 0.2% from 1991-92 to 1994-95.

Over the years from 1981-82 to 1991-92, personal benefit payments have grown at an average real rate of 3.3%. Real outlays in this category declined markedly between 1987-88 and 1988-89 when the Health Insurance Commission (part of the Commonwealth non-budget sector) took over payment of Medicare benefits (1988-89) and Pharmaceutical benefits (1989-90) from the then Department of Community Services and Health. These payments are now classified as grants to the non-budget sector. The real level of personal benefit payments is expected to grow by 8.8% in 1991-92 before stabilising over the forward years.

Chart 6. Real Outlays by Economic Type



The large majority of capital spending by Australian governments is undertaken by the States and Territories, with the financial support of the Commonwealth. Typically, less than 1.0% of the Commonwealth's own outlays is devoted to capital purposes.

The real level of assistance to other governments (States, Territories and local) has undergone no average real growth over the last ten years, reflecting the growing need for fiscal restraint in the public sector generally. The most substantial real reductions in this category occurred in 1987-88 and 1988-89. A fall of 1.9% is expected in 1991-92, before a small average real increase over the forward years.

Other transfers, which include current and capital grants and net advances to non-profit institutions, the Commonwealth non-budget sector, overseas and other sectors, have grown at an average real rate of 6.1% over the last ten years. This mainly reflects the inclusion of payments to the HIC for Medicare and Pharmaceutical Benefits Scheme benefits. A real fall of 5.1% in the budget year will be followed by small increases from 1992-93 to 1994-95.

6. THE 1990-91 BUDGET IN REVIEW

A detailed report on the outcome of the 1990-91 Budget was released by the Minister for Finance with the June *Statement of Commonwealth Financial Transactions* on 25 July 1991. Differences in outlay figures in that report to those published here are mainly due to the reclassification from offsets within revenue to outlays of payments to the States under petroleum royalty arrangements and payments under the Diesel Fuel Rebate Scheme. Reclassifications have added $1020m to the Budget estimate of outlays and $1027m to the recorded outcome (see Tables 3 and 4 of Statement 7 for detailed listings of the effects of reclassifications).

Tables 7 and 8 compare the outcome for the year with budget estimates and with 1989-90 and categorise the variations from budget estimates. Real growth in outlays in 1990-91 was 5.1%, well above the budget estimate of 0.7%. Measures contributing to the variation from the estimate were the reversal of the decision to sell the Moomba-Sydney gas pipeline ($700m), assistance to the Australian Wool Industry ($300m) and defence costs associated with the Gulf deployment ($69m). Major parameter changes were higher unemployment benefits and higher pension payments ($784m).

7. BUDGET FLEXIBILITY

In framing the Budget, the Government does not have complete freedom to determine levels of spending each year. In practice, a significant proportion of outlays included in the forward estimates is committed and cannot easily be altered in the short term. However, the degree of commitment will vary over time and only a small proportion of total outlays is ultimately non-discretionary.

Examples of unavoidable commitments which limit the Government's freedom to vary outlays plans are:

- formal contractual commitments such as the purchase of computers by instalments (around 7% of total outlays is likely to be formally committed before the start of the budget year); and
- interest due on past Commonwealth borrowings (public debt interest is anticipated to be 6.2% of total outlays in 1991-92).

Other elements of outlays, such as the conditional undertaking to maintain the real level of general assistance payments to the States, payments of benefits at rates set out in legislation and wages and salaries owing under implicit or explicit employment contracts, are difficult to vary in the short term, although the Budget can include decisions to vary payments to the States, the rate of benefits or the number of Commonwealth employees. Estimates of costs and savings have to take account of the lead times involved in such decisions.

The forward estimates assume the continuation of existing policies and programs, and this provides a basis for medium-term planning by departments and budget-dependent agencies and recipients of Commonwealth grants. In addition to the published forward estimates, Defence uses indicative plans covering five forward years to assess policy options and new and existing commitments. Although the forward estimates in themselves do not represent a commitment to provide a particular level of funding, there

Table 7. Reconciliation of 1990-91 Budget and Outcome ($ million)

	Budget Estimate	Parameter changes: economic	Parameter changes: non economic	Post budget decisions	Slippage of budget measures (a)	Other variations (b)	Total change	Outcome
OUTLAYS								
1. Defence	8970	94	0	73	-20	-51	96	9066
2. Education	7487	-58	112	6	0	-75	-15	7471
3. Health	12930	-35	21	3	30	-10	9	12939
4. Social Security and Welfare	29562	492	292	73	63	78	998	30560
5. Housing and Community Amenities nec	1233	-13	0	-124	0	-12	-149	1084
6. Culture and Recreation	1189	1	0	1	0	3	5	1194
7. Economic Services								
A. Transport and Communication	1904	1	0	29	-30	-112	-112	1791
B. Industry Assistance and Development	3552	-3	15	360	0	78	449	4001
C. Labour and Employment	1475	2	0	28	-1	-69	-39	1436
D. Other Economic Services	269	1	0	1	0	-2	0	269
Total Economic Services	7199	2	15	417	-31	-104	298	7497
8. General Public Services								
A. Legislative Services	354	1	0	0	0	-5	-4	350
B. Law, Order and Public Safety	799	2	0	4	0	-46	-40	759
C. Foreign Affairs and Overseas Aid	1693	6	0	3	0	-5	3	1696
D. General Scientific Research nec	763	6	0	-2	-4	-15	-14	749
E. Administrative Services	2741	-2	0	10	20	13	41	2782
Total General Public Services	6351	13	0	15	16	-59	-14	6337
9. Not Allocated to Function								
A. Assistance to Other Governments nec	13936	-77	0	2	0	122	47	13983
B. Public Debt Interest	5999	74	0	0	0	-1	73	6072
C. Contingency Reserve	121	5	0	0	0	-126	-121	0
D. Asset Sales	-1000	0	0	701	27	111	838	-162
Total Not Allocated to Function	19056	3	0	703	27	105	838	19894
TOTAL OUTLAYS	93976	497	440	1169	84	-125	2065	96041

(a) Includes delays and other changes in impact of Budget Measures.
(b) Includes changes in non-economic activity levels, carryover of running costs and net program underspends.

Table 8. Outlays by Function (1989-90 and 1990-91 comparison)

OUTLAYS	Outcome 1989-90 (a) $m	Budget estimate 1990-91 (a) $m	Outcome 1990-91 $m	Change in 1990-91 outcome: $m	Over 1990-91 Budget %	$m	Over 1989-90 outcome %
1. Defence	8476	8970	9066	96	1.1	589	7.0
2. Education	6576	7487	7471	-15	-0.2	895	13.6
3. Health	11905	12930	12939	9	0.1	1034	8.7
4. Social Security and Welfare	26347	29562	30560	998	3.4	4213	16.0
5. Housing and Community Amenities nec	1296	1233	1084	-149	-12.1	-212	-16.4
6. Culture and Recreation	1061	1189	1194	5	0.4	133	12.5
7. Economic Services							
A. Transport and Communication	1667	1904	1791	-112	-5.9	124	7.4
B. Industry Assistance and Development	3006	3552	4001	449	12.7	996	33.1
C. Labour and Employment	1272	1475	1436	-39	-2.7	163	12.8
D. Other Economic Services	155	269	269	0	-	113	72.9
Total Economic Services	6101	7199	7497	298	4.1	1396	22.9
8. General Public Services							
A. Legislative Services	392	354	350	-4	-1.2	-42	-10.8
B. Law, Order and Public Safety	788	799	759	-40	-5.0	-29	-3.7
C. Foreign Affairs and Overseas Aid	1576	1693	1696	3	0.2	121	7.7
D. General and Scientific Research nec	642	763	749	-14	-1.8	108	16.8
E. Administrative Services	2213	2741	2782	41	1.5	569	25.7
Total General Public Services	5610	6351	6337	-14	-0.2	726	12.9
9. Not Allocated to Function							
A. Assistance to Other Governments nec	14258	13936	13983	47	0.3	-275	-1.9
B. Public Debt Interest	7271	5999	6072	73	1.2	-1199	-16.5
C. Contingency Reserve (b)	-	121	-	-121	-100.0	-	-
D. Asset Sales	-1068	-1000	-162	838	-83.8	906	-84.9
Total Not Allocated to Function	20462	19056	19894	838	4.4	-568	-2.8
TOTAL OUTLAYS	87835	93976	96041	2065	2.2	8206	9.3

(a) The 1989-90 Outcome and the 1990-91 Budget estimate differ from those published in the 1990-91 Budget papers due to classification changes introduced in the 1991-92 Budget. (See Statement 7 for details.) Also, figures here differ from those published in the June CFT due to reclassification changes and correction of minor ledger mispostings. The latter has increased the previously published surplus from $1895m to $1896m.
(b) Actual requirements have been allocated to the relevant functions.

may be costs associated with reversing plans based on the assumption of continued funding. For example, there may be staff redundancy costs if a program is to be discontinued.

Table 9 shows the effect of Government decisions on the forward estimates for each year from 1982-83.

Table 9. Reconciliation of Forward Estimates and Budget Estimates, 1982-83 to 1991-92 ($ million) (a)

				Change accounted for by:				Change on Forward Estimates	
Year	Forward Estimates	Budget Estimates	Total Change	Parameter/ Estimates Variation	Policy Decisions Post Forward Estimates			Accounted for by Policy Decisions	Total
					Increase	Decrease	Net	%	%
1982-83	46112	47067	955	458	1153	-656	497	1.1	2.1
1983-84	54594	56703	2109	838	2485	-1214	1271	2.3	3.9
1984-85	64125	63948	-177	-759	1138	-556	582	0.9	-0.3
1985-86	69164	69067	-97	667	716	-1480	-764	-1.1	-0.1
1986-87	75702	74764	-938	1039	816	-2793	-1977	-2.6	-1.2
1987-88	80939	78146	-2793	694	638	-4125	-3487	-4.3	-3.5
1988-89	82309	82013	-296	297	973	-1566	-593	-0.7	-0.4
1989-90	84895	86753	1858	1636	1621	-1399	223	0.3	2.2
1990-91	93161	92956	-205	1098	2011	-3314	-1303	-1.4	-0.2
1991-92	97846	101508	3663	3713	1917	-1967	-50	0.1	3.7

Table 10 gives some examples of the limitations on the Government's ability to change the trend of outlays in the short term, as flexibility in some programs is progressively restricted. If certain programs cannot easily be varied, it would be necessary to make larger percentage reductions in the remaining programs to reduce total outlays by 1%.

Table 10. Action Necessary to Reduce Outlays by 1% in 1991-92

Programs excluded from the reduction	Proportion of total outlays (excluding asset sales) excluded from the reduction %	Reduction in remaining programs consistent with a 1% decline in total outlays %
Public Debt Interest	6.2	1.1
Public Debt Interest and Age Pensions	15.8	1.2
Public Debt Interest, Defence and all personal benefit payments	49.2	2.0
Public Debt Interest, Defence, all personal benefit payments and Financial Assistance Grants to the States and NT	62.4	2.7

8. RUNNING COSTS BUDGETS

Purpose

The purpose of the running costs system, introduced in 1987-88, is to provide an appropriate framework and set of incentives to improve public sector efficiency and effectiveness, enhance accountability and streamline budget formulation.

Nature of Running Cost Budgets

Running cost budgets cover the salary and administrative expenses (including minor capital) associated with the running of departments and agencies. Excluded from running costs, at this time, are spending on major capital items (items in excess of $250 000), the bulk of the employer's contribution to staff superannuation, property operating expenses and, in most cases, payments of a legal nature and on compensation (where the payments are not made by COMCARE).

The key elements of the policy include greater resource flexibility gained by consolidating appropriations; cash limited budgets; the discipline of thresholds where managers are required to absorb small variations to budgets; access to carryover and borrowing facilities between fiscal years; a focus on user charging and retention of receipts; the sharing of efficiency dividends; and the integration of staffing controls within a financial framework.

The running costs system is well established, understood and accepted. No major changes to the policy were introduced for the 1991-92 Budget. A review of the carryover limit (increased from 2% to 3% last year) will be undertaken in time for the 1992-93 Budget. Consistent with the policy of promoting interdepartmental charging for services, user charging was introduced in 1991-92 for translator and interpreter services provided by the Department of Immigration, Local Government and Ethnic Affairs and audit services provided by the Australian National Audit Office.

Trends in Running Costs

Assessing trends in running cost budgets requires account to be taken of changes in the administrative structures which underpin the budgets. Significant changes to Government administration have occurred since 1986-87. Examples include: the amalgamation of departments following the Machinery of Government changes announced in 1987; the commercialisation of units within the Department of Administrative Services; the creation of the ACT Government; the sale of the Defence Service Homes Corporation; the commercialisation of Defence factories; and the short life of the Bicentennial Authority. Access to carryover/borrowing facilities also have the potential to cloud between year comparisons. Additionally, as the running costs system has matured, the policy of promoting user charging for services provided by agencies and consumed within the budget sector has led to increased agency budgets, offset by equivalent receipts in the providing agency (some of which are outside of the running costs system, for example, the Department of Administrative Services Trust Account operations).

There is evidence of real growth in running costs over the period 1986-87 to 1990-91, a trend that is likely to continue in 1991-92, although a part of that growth reflects the cashing out of services noted above. Abstracting from the administrative changes noted above (but not the cashing out effect), the change in staffing (ASL) and financial resources under the running costs system are summarised in the following table:

Table 11. Real Change in Running Cost Budgets (% Over Preceding Year)

	1987-88	1988-89	1989-90	1990-91	1991-92
Running Costs	1.7	1.5	0.4	7.0	3.4
ASL	-2.2	-2.0	-4.6	2.7	2.8

Staff covered under running costs in 1990-91 (compared with 1986-87 on a basis broadly consistent with current arrangements) have decreased by almost 10 000 or 6.0%, at an average decline of 1.2% a year. Funding for the same period, however, has grown in real terms at an average rate of 2.1% a year, with the major increase recorded in 1990-91 (7.0%).

Real growth in running costs in 1990-91 can be attributed to a number of factors. The running cost budgets of a number of departments are determined, in part, by reference to staffing agreements that formally link staff numbers to the number and composition of client populations. The significant increases in the number of unemployed, unemployment beneficiaries and other social welfare pension and benefit recipients as a result of the recession has led, therefore, to an increase in the running costs, for example, in the Department of Social Security.

Further increases have occurred in compliance and fraud control areas, where increased staff costs are linked to program savings. For example, in the 1990-91 Budget large increases in running costs for the Australian Taxation Office were approved for the revised Child Support Agency (CSA) arrangements and the tax file number system and funds were provided for more intensive immigration compliance enforcement.

In the area of microeconomic reform, the Australian Securities Commission assumed responsibility for corporate and securities regulation from 1 January 1991, giving effect to the Government's commitment to implement a national scheme of companies, securities and futures regulation.

The Budget and Forward Estimates

Table 12 shows the running cost budgets and average staffing levels (ASL) for 1990-91, the budget estimate by portfolio and the real increases for 1990-91 and 1991-92 over the previous year.

Table 12. Running Cost Budgets by Portfolio (a)

	1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate	Real Growth year on year 90-91	Real Growth year on year 91-92
Running Costs							
	$m	$m	$m	$m	$m	%	%
Administrative Services	198.6	205.9	212.5	212.1	218.2	10.8	0.4
Arts, Sport, Environment, Tourism & Territories	376.3	407.9	403.2	385.7	396.6	1.9	5.0
Attorney-General's	566.7	638.6	635.2	619.3	637.3	20.8	9.2
Defence	1640.8	1711.1	1771.7	1759.4	1821.2	3.8	1.0
Employment, Education & Training	579.1	626.8	656.4	642.7	660.6	13.7	4.9
Finance	111.6	130.6	125.9	117.5	120.9	12.6	13.4
Foreign Affairs and Trade	371.7	371.6	395.8	386.3	394.4	6.4	-3.1
Health, Housing and Community Services	949.8	988.9	1022.5	1000.1	1027.0	5.0	0.9
Immigration, Local Govt & Ethnic Affairs	191.1	208.2	208.9	201.0	206.8	13.6	5.5
Industrial Relations	110.8	120.5	121.3	116.2	120.8	2.1	5.4
Industry, Technology & Commerce	956.0	1027.9	1039.5	1034.2	1065.0	3.2	4.2
Primary Industries and Energy	319.9	321.5	328.8	313.7	321.0	2.3	-2.6
Prime Minister and Cabinet	73.3	76.5	72.5	70.5	72.2	16.0	1.2
Social Security	762.2	866.7	859.5	823.0	830.2	10.5	10.2
Transport and Communications	801.1	782.2	780.2	820.6	846.6	-0.4	-5.4
Treasury	1061.4	1196.9	1079.6	1017.2	1041.2	12.6	9.3
Total Running Costs Budgets	*9070.2*	*9681.7*	*9713.7*	*9519.4*	*9780.0*	7.0	3.4
Staffing Levels							
	SY's	SY's	SY's	SY's	SY's	%	%
Administrative Services	2311	2341	2315	2281	2256	4.6	1.3
Arts, Sport, Environment, Tourism & Territories	4921	4994	4896	4778	4720	2.9	1.5
Attorney-General's	8615	9549	9577	9504	9418	13.3	10.8
Defence	24412	24248	23115	22250	21662	-0.3	-0.7
Employment, Education & Training	11633	13051	12865	12647	12445	3.8	12.2
Finance	2035	2134	2063	2015	1972	4.0	4.9
Foreign Affairs and Trade	4374	4524	4467	4461	4438	-6.2	3.4
Health, Housing and Community Services	18510	18506	18447	18164	17956	1.5	..
Immigration, Local Govt & Ethnic Affairs	3269	3339	3260	3134	3083	12.8	2.2
Industrial Relations	1798	1900	1843	1800	1780	2.5	5.7
Industry, Technology & Commerce	14580	14303	14238	14179	14072	2.4	-1.9
Primary Industries and Energy	4436	4465	4360	4224	4154	-5.4	0.7
Prime Minister and Cabinet	1030	1076	1016	994	977	11.0	4.5
Social Security	17325	19070	18200	17812	17099	6.0	10.1
Transport and Communications	9239	8587	8510	8456	8455	-4.9	-7.1
Treasury	23909	24633	22593	21420	20910	5.6	3.0
Total Staffing	152396	156720	151763	148118	145395	2.7	2.8

(a) The budget estimates for each agency incorporate an allowance for prospective price increases, (including the current wages round). Estimates for further wage and salary increases during 1991-92 are held in the *9C. Contingency Reserve*. The forward estimates have been adjusted to reflect forecast price and wage rates applying at the beginning of each year and allow for the extra payday in 1992-93. Estimates for salary increases during each of the forward years are held in *9C. Contingency Reserve.*

Running costs are expected to increase by 3.4% in real terms in 1991-92 (based on salary rates applying at the start of the year), while ASL is estimated to rise by 2.8%. The estimates for 1992-93 include funds for the extra public service payday that is charged in that year. This contributes approximately 4% to the growth in that year. In the 1991-92 Budget, departments and agencies paid an efficiency dividend totalling approximately $72m. This brings the total efficiency dividend realised since 1987-88 to over $240m. The estimates for 1991-92 include a carryover of funding from 1990-91 of around $64m.

The net effect of new policy and savings measures agreed in the 1991-92 Budget round (the period July-August 1991) added around $130m and about 1400 average staff years.

The bulk of new policy resources have been directed at compliance and fraud control, where it is expected that additional staffing and resources will lead to reduced outlays overall, measures addressing new program responsibilities such as the environment, and a response to the recession.

Increases directed at reducing fraud include matching of employment declaration forms with CSA records ($8.5m) the provision of funds to prevent overpayment of some pensions due to undervaluation of assets ($3.3m) and for immigration processing, compliance and control ($19.5m).

In response to the recession and consequent downturn in the labour market additional running costs have been provided to improve the quality and availability of training and labour market programs ($3.0m). Likewise, running costs for several departments have increased to allow for the administration of new or expanded welfare measures. Also additonal resources have been allocated to enable better targeting of child care fee relief (thus reducing the barriers preventing parents of young children from reentering the workforce) ($3.4m).

Funding for new program responsibilities in 1991-92 includes the establishment of an environmental protection agency ($5.4m) the introduction of a program to examine and minimise climate change effects ($1.4m) and amendments to regulations governing the use of agricultural and veterinary chemicals ($2.0m).

PART II: ANALYSIS BY FUNCTION

1. DEFENCE

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
1.1	Personnel Costs and Retirement	$m	3621.7	3928.0	4184.4	4179.2	4333.1
	Benefits	%	4.6	8.5	6.5	-0.1	3.7
1.2	Defence Equipment and Stores	$m	3354.0	3387.0	3600.9	3789.6	3839.6
		%	13.4	1.0	6.3	5.2	1.3
1.3	Defence Facilities	$m	324.0	326.8	345.0	352.1	416.2
		%	-9.3	0.8	5.6	2.1	18.2
1.4	Defence Housing	$m	184.1	203.6	212.1	255.9	276.7
		%	-5.0	10.6	4.2	20.7	8.1
1.5	Defence Industry	$m	176.7	172.9	153.7	126.1	112.8
		%	-31.5	-2.2	-11.1	-17.9	-10.6
1.6	Defence Science	$m	227.2	221.1	235.4	234.0	253.8
		%	0.9	-2.7	6.5	-0.6	8.4
1.7	Other Defence Outlays	$m	1177.9	1195.5	1208.7	1254.0	1362.2
		%	15.1	1.5	1.1	3.7	8.6
	TOTAL	$m	9065.8	9434.8	9940.3	10191.0	10594.3
		%	7.0	4.1	5.4	2.5	4.0

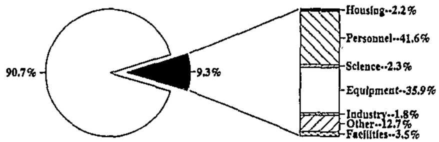
- **Total Defence outlays will increase by $369m or 4.1% in 1991-92 representing zero real growth (using defence deflators). Planning guidance for the forward years has been set by the Government at zero real growth a year.**

- **The decision to reduce Defence outlay guidance from 1% real growth a year to zero real growth saves $84m in 1991-92 and a further $825m over the forward years.**

- **Defence outlays are forecast to be 9.3% of total Commonwealth outlays (2.4% of GDP) in 1991-92, down from 9.4% in 1990-91.**

- **Approved off-budget borrowings for Defence companies and authorities total $48m in 1991-92.**

Chart 1. Defence
Proportion of Total Outlays and Function
1991-92



- Following a major Force Structure Review the Government has decided to:
  - — maximise combat capability by reducing the numbers of service personnel involved in support functions and increasing the use of civilian and commercial support;
  - — extend western basing for the Navy and northern basing for the Army and enhance the forward deployment capacity of the Air Force; and
  - — make greater use of reserves, including a new form of reserve service, the Ready Reserve, to supplement current reserve forces while maintaining overall force readiness.
- This will result in reductions in staffing levels (both service and civilian).
- The main variations in *1991-92* are due to:
  - — increased Personnel and Retirement Benefits costs ($306m), reflecting pay and allowance increases, indexation of retirement benefits and introduction of the Military Superannuation and Benefits Scheme (MSBS), particularly retention benefits, from 1 October 1991;
  - — increased payments for existing commitments (eg submarines and frigates) and planned new projects in Defence Equipment and Stores ($33m);

  - — increased general administration costs ($36m), including removal and travel costs associated with relocation of Naval elements to WA, increased Army and Air Force presence in the north of Australia and the transfer of the Defence Signals Directorate (DSD) from Melbourne to Canberra; and
  - — reductions in Defence Co-operation ($15m) and Defence Science ($6m), the former reflecting conclusion of the Pacific Patrol Boat project for the south west Pacific islands.

MEASURES TABLE

Description of measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Reduction in real growth in Defence outlays from 1% to 0% in 1991-92 and subsequent years	-83.8	-176.9	-270.4	-377.3
Increases				
Additional costs of Middle East deployment	23.6	3.9	0.0	0.0
Termination of trading agreement and lease with Cockatoo Dockyard Pty Ltd	5.7	0.0	0.0	0.0
Recognition of Aborigines' & Torres Strait Islanders' WW II service	1.4	0.0	0.0	0.0

PURPOSE

The Defence objective is to protect and promote the security of Australia and its people against armed attack or other military pressure. The Government aims to provide adequate, self-reliant defence of Australia and its interests within the framework of our alliances and regional associations. The White Paper, *The Defence of Australia*, released in March 1987, provides a comprehensive review of Australia's defence capabilities and priorities up to the end of the century. These priorities were recently re-examined in the *Force Structure Review 1991* tabled in Parliament in May and significant adjustments to the balance of capabilities are being made to better meet Australia's strategic priorities.

NATURE OF DEFENCE OUTLAYS

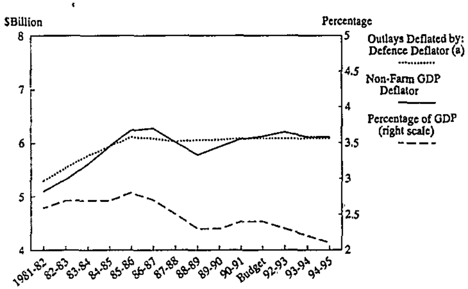
Salaries, fuel, ammunition and maintenance form the largest elements of Defence outlays. Although in recent years there have been increasing pressures from personnel and operating costs, in line with the Government's priorities the proportion of Defence resources devoted to the provision of new equipment and facilities has been maintained.

TRENDS IN DEFENCE OUTLAYS

From 1981-82 to 1987-88, Defence outlays were between 2.5% and 2.8% of GDP. The proportion declined to 2.3% in 1988-89, but has since increased to 2.4% in 1990-91.

The Defence share of total outlays has been fairly stable, varying between a peak of 9.8% in 1981-82 to a low point of 9.2% in 1984-85.

Chart 2. Defence Outlays
(1984-85 prices)



(a) Figures are necessarily approximate, derived from underlying real growth for Defence for past years.

Chart 2 illustrates trends in Defence outlays over the past ten years, together with forward estimates to 1994-95. The solid line on the chart shows defence outlays deflated by the non-farm GDP deflator, a measure of the real demands made by the function on Australian community resources. The dotted line on the chart, which is derived from information on price changes, exchange rates and timing movements used in defence

real growth guidance calculations, is a broad indicator of the underlying change in the level of Defence goods and services procured and parallels the basis on which defence financial guidance is provided. On that basis Defence outlays grew strongly between 1981-82 and 1985-86, averaging about 3.5% real growth a year, largely reflecting the replacement of capital equipment purchased in the 1960s. The period also saw the beginning of a gradual shift away from personnel costs to capital items, particularly equipment.

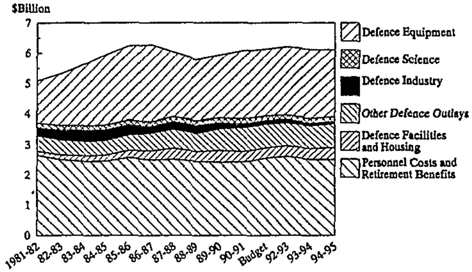
Growth slowed over the period 1986-87 to 1990-91 as global allocations were reduced in the context of general fiscal restraint. Even within the reduced allocation, payments on Defence equipment and facilities have been broadly maintained. A relatively high level of capital spending is expected to continue as progress is made on major White Paper initiatives such as provision of submarines, ANZAC frigates and the Jindalee Over-the-Horizon Radar (JORN).

These major initiatives, together with personnel costs and retirement benefits will continue to represent commitment of almost 80% of Defence outlays under current guidance at least for several years.

However, supplementary resources have been and continue to be provided outside financial guidance for some special projects such as the Geraldton communications facility, the new MSBS for service personnel and the Gulf Crisis ($68.9m in 1990-91, with a further $27.5m in later years). Defence spending capacity has been further augmented by arrangements under which Defence may retain, and offset against its outlays, an increasing share of the proceeds from the sale of surplus or under utilised properties. Off-budget Loan Council funding facilities are available to Defence companies and the Defence Housing Authority (DHA) (a total of $47.7m in 1991-92), thereby relieving Defence of funding responsibilities for some of these activities. Implementation of the Force Structure Review recommendations including the Ready Reserve concept and the Commercial Support Program, will generate significant savings for use in higher priority areas. This additional flexibility will assist in meeting pressure on the capital equipment program which has little capacity to absorb new proposals in the period to 1993-94. As savings from efficiency measures take effect and existing projects draw to a close in later years, there will be scope to replace obsolete equipment (such as DDGs, Fremantle class patrol boats and M113 tracked armoured fighting vehicles) as necessary and to acquire enhanced capabilities such as mine warfare vessels.

The major changes in the composition of Defence outlays over the last ten years and for the budget and forward years are illustrated in Chart 3.

Chart 3. Defence - Composition
(1984-85 prices)



MAJOR POLICY CHANGES

The period since 1981-82 has seen a number of significant changes including:

- the implementation of initiatives foreshadowed in the 1987 Defence White Paper, including in-flight refuelling for the F/A-18 aircraft; new Collins class submarines, ANZAC frigates, JORN, and enhancement of defence infrastructure in the west and north of Australia;
- significant restructuring of defence production, including:
  - — the sale of Williamstown Dockyard to the private sector;
  - — the incorporation of Aerospace Technologies of Australia (ASTA) embodying the former Government Aircraft Factories; and
  - — the creation of Australian Defence Industries (ADI), to operate former defence production establishments;
- the establishment of the DHA to improve service housing;
- the revised arrangements under which Defence has been given access to an increasing share of proceeds from the sale of surplus or under utilised property;
- a new superannuation scheme for service personnel;
- a major reorganisation of Defence logistics and warehousing arrangements; and
- the completion of a Force Structure Review to reassess priorities, leading to:
  - — the commencement of a Commercial Support Program designed to open support functions to competition;
  - — the introduction of a Ready Reserve; and
  - — changes in equipment and operational priorities.

1990-91 OUTCOME

The increase of $96m (or 1.1%) on the 1990-91 Budget allocation of $8970m is made up largely of price increases ($58m), exchange rate movements ($10m), supplementation for customs duty ($12m), one-time supplementation for the Gulf Crisis ($68.9m) and costs associated with the closure of Cockatoo Island dockyard ($4m). Defence outlays were also increased by non-achievement of planned offsetting revenue from sales of surplus land and buildings ($12m). Partly offsetting these increases were lower than expected outlays on compensation and legal expenditure ($14m) and Defence Force Retirement and Death Benefits (DFRDB) payments ($26m). Outlays were also reduced to compensate for non-achievement of property and equipment sales, estimated at $20m, from which the proceeds were to have been returned to the Budget.

SUBFUNCTION DETAIL

1.1 PERSONNEL COSTS AND RETIREMENT BENEFITS

The variation in personnel and retirement benefit costs in 1991-92 reflects the impact of the Force Structure Review reducing personnel numbers, offset by increases in salary

1.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Defence Force Personnel	$m	2455.0	2612.0	2732.7	2636.5	2752.6
	%	4.0	6.4	4.6	-3.5	4.4
Civilian Personnel	$m	581.2	604.6	622.6	589.4	609.5
	%	8.0	4.0	3.0	-5.3	3.4
Defence Forces Retirement	$m	585.5	661.3	824.2	883.3	896.0
Benefits	%	4.0	12.9	24.6	7.2	1.4
Provision for Contingent Salary	$m	-	50.0	5.0	70.0	75.0
and Related Increases	%	na	na	-90.0	na	7.1
TOTAL	$m	3621.7	3928.0	4184.4	4179.2	4333.1
	%	4.6	8.5	6.5	-0.1	3.7

and allowance rates, retention payments authorised under MSBS and increased net retirement payments under DFRDB and MSBS.

Defence Force Personnel

Details of ADF personnel numbers are:

Authorised Average Strength

		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Permanent Forces						
Naval		15786	15543	15436	15337	15269
	%	0.9	-1.5	-0.7	-0.6	-0.4
Army		30789	30314	29549	28301	27876
	%	-0.3	-1.5	-2.5	-4.2	-1.5
Air		22055	21807	21282	20491	19927
	%	-1.0	-1.1	-2.4	-3.7	-2.8
Total Permanent Forces		68630	67664	66267	64129	63072
	%	-0.3	-1.4	-2.1	-3.2	-1.6
Ready Reserve		-	698	1673	2504	3203
	%	-	n.a.	139.7	49.7	27.9
Reserve Forces (a)		3331	3193	3208	3220	3228
	%	0.9	-4.1	0.5	0.4	0.2
TOTAL		71961	71555	71148	69853	69503
	%	-0.2	-0.6	-0.6	-1.8	-0.5

(a) Staff year equivalent of training days.

A net reduction of 966 in ADF permanent forces is forecast in 1991-92. Army and RAAF numbers are forecast to fall by 723 due to the replacement of some permanent forces with Ready Reserves. Over the forward years the permanent force is expected to decline by 4592 as a result of the introduction of a Ready Reserve, other Force Structure Review initiatives and the implementation of the Commercial Support Program.

The Ready Reserve is designed to provide a higher level of operational capability than conventional reserves at a lower cost than permanent forces. It is planned to build up to a full strength of 4100 (3200 Army, 450 Navy and 450 RAAF) over a four to five year period. The Ready Reserve will be drawn from former members of the permanent forces and conventional reserves who are already trained and will serve part time for five years and from new enlistees who will be given an initial year of full time training followed by part time service for four years. Part time service will be for 50 days each year. The Army Ready Reserve will replace a permanent force brigade.

For the conventional Reserve Forces, the number of training days is expected to remain relatively constant in 1991-92 and over the forward years. The June 1992 target strengths for the active conventional reserve is 29 017. The actual strength at 30 June 1991 was 29 288.

Civilian Personnel

Civilians represent about 25% of total staffing. Civilian average staffing levels are planned to fall by 164 in 1991-92 to 24 248 largely due to Defence efficiency measures such as the regional support review and commencement of Force Structure Review initiatives. Over the forward years civilian staffing levels are projected to decline further, by more than 2500, as support activities currently undertaken by civilian staff are contracted out under commercial support arrangements.

The cost of some personnel categories discussed above are included in 1.5 Defence Industry, 1.6 Defence Science and 1.7 Defence Other.

Commercial Support Program

Following the Wrigley Report on *The Defence Force and the Community*, a substantial range of support activities currently undertaken within Defence is to be opened up to competition. These activities include catering, stores/transport, base support, training activities, and equipment maintenance. The first stage (targeted to have tenders called no later than end of 1992) involves approximately 2100 ADF and 1100 civilian positions. Other activities are to be identified and opened up for competition over the longer term.

Defence Forces Retirement Benefits

DFRDB and MSBS provide occupational contributory superannuation for members of the ADF.

The increased provision for DFRDB in 1991-92 reflects the indexation of pension rates in July 1991 and lower revenue for 1991-92 of $31.6m due to the transfer of contributors to the MSBS, partially offset by $12m lower DFRDB refunds to members as a high proportion of ADF personnel who are potentially eligible for a refund will transfer to the MSBS. Provision for DFRDB is expected to increase over the period as the number of beneficiaries remains broadly at the same level while the number of contributors decreases.

MSBS is the new superannuation scheme for Service personnel. Containing both retirement and retention benefits, it takes effect on 1 October 1991. All enlistments after 1 October 1991 will be required to join MSBS. Existing members of the DFRDB may opt to transfer to the new scheme.

MSBS, which meets the requirements of the *Occupational Superannuation Standards Act 1987*, provides a full range of options for retiring members. These include variable rates of member contribution and a selective retention benefit of one year's salary (fully taxable as income) payable to members who have completed 15 years of service in return for an undertaking to serve for a further five years.

Provision for MSBS is expected to increase rapidly (from $15.1m in 1991-92 to $77.2m in 1994-95) as the membership increases.

Provision for Contingent Salary and Related Increases

This allowance, like the general budget contingency reserve, is not appropriated at budget time but as necessary during the course of the year.

Trends

After declining as a proportion of total outlays in the early part of the decade, outlays are expected to increase over the forward years from 39.9% of Defence outlays in 1990-91 to 40.9% in 1994-95 largely due to an increase in net retirement benefits payments as MSBS outlays grow.

The new retention payments to Service personnel who have completed 15 years service and undertake to serve for a further five years also contribute significantly to growth. The retention benefit is anticipated to cost $99.9m in its first year of operation (1991-92) as a significant number of members transfer to the MSBS. However, the cost is then expected to fall to $43.3m in 1992-93 and remain at about this level through the forward years.

A planned reduction in civilian and Service personnel of 5.4% over the forward years from 96 373 in 1990-91 to 91 165 in 1994-95 is expected to result from the implementation of the Force Structure Review, the Commercial Support Program and the Ready Reserves. This partially offsets the increases.

1.2 DEFENCE EQUIPMENT AND STORES

Substantial progress continues to be made on major Defence White Paper equipment initiatives, including the Collins class submarines and the ANZAC frigates. The most significant equipment decisions taken in 1990-91 were to commence construction of two Over-the-Horizon Radars with an associated Coordination Centre and the purchase of new automatic test equipment for the F-111C.

Because of the long lead time for many equipment acquisitions, payments made during 1991-92 will largely reflect project approvals in earlier years. Larger payments in 1990-91 and provisions for 1991-92 on major projects already approved are:

	1990-91 $m	1991-92 $m
Collins class submarine	591	657
ANZAC frigates (net of NZ contribution)	282	337
Over-the-Horizon Radar	33	120
Australian and US built FFG guided missile frigates	211	124
F/A-18 tactical fighter	122	110
Raven HF VHF field communications (approved phases)	57	66
F-111 avionics update	63	65
Small arms	23	52
Perentie light field vehicles	43	35
Supply Systems Redevelopment Project (approved phases)	11	23
Discon secure communications	24	28
Basic trainer aircraft	30	24
Blackhawk utility helicopters	27	23
Seahawk helicopters	66	21
DDG Destroyer modifications	47	18
Laser airborne depth sounder	18	13
F-111 Automatic Test Equipment Replacement	-	13
P3C electronic support measures	-	11

An allocation of $116.8m has been made in 1991-92 for new equipment projects including additional RAVEN combat radios, wheeled armoured fighting vehicles, F-111C simulator upgrade, satellite based navigation system and further stages of the supply and financial systems redevelopment projects. Details of new initiatives will be announced in due course by the Minister for Defence.

Outlays on supporting equipment and maintenance for items delivered into Defence service decrease in 1991-92 by $42.4m to $1317.2m. The decrease is mainly attributable to the cessation of the Gulf conflict.

Trends

Outlays on Equipment and Stores declined slightly from the 1986-87 peak of 40.3% of Defence outlays to around 36% in 1991-92 (about the average for the past decade). They are expected to remain at much the same proportion in the forward years, when large outlays will be made on the Collins class submarines, ANZAC frigates and Over-the-Horizon Radars.

1.3 DEFENCE FACILITIES

This item covers the development of bases, airfields, communications, training and other facilities necessary to support the ADF and its operations. It also includes the provision of single living accommodation for service personnel and working accommodation for Defence.

Facilities outlays in 1991-92 relate mainly to continued progress on projects approved in previous years as well as repairs and maintenance jobs costing $250 000 or more (asset maintenance). Other repairs and maintenance outlays have been reclassified to 1.7 Other Defence Outlays - General Administration. An allowance of $21.4m in 1991-92 has been made for initial expenditure on major new projects, including additional facilities at HMAS Stirling, WA and RAAF Base Tindal, NT. Estimated 1991-92 outlays on major projects include:

	$m
Relocation of DSD from Melbourne to Russell Offices, ACT	50.3
2 Cavalry Regiment Development, Darwin, NT	34.0
HMAS Stirling, WA, Base Redevelopment Stage 2	24.7
RAAF Base Tindal, NT, Redevelopment Stage 2	8.0
Myambat, NSW, Redevelopment of Explosives Ordnance Storage	3.6
Puckapunyal, Vic, Redevelopment	6.0
RAAF Base Wagga, NSW, Base Redevelopment	5.3
Cabarlah, Qld, Joint Telecommunications School Redevelopment	5.8
HMAS Cerberus, Vic, Recruit School Development	4.5
Singleton, NSW, Infantry Centre Redevelopment	4.7

Outlays on asset maintenance are expected to increase by $6.0m in 1991-92 to $19.8m.

Trends

Facilities outlays have averaged about 3.3% of the Defence budget over the decade to 1990-91. The increase in Facilities outlays, particularly in 1994-95, reflects planned developments relating mainly to the support of northern and western operations outlined in the Force Structure Review and to the Defence Logistics Redevelopment Project.

1.4 DEFENCE HOUSING

1.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Capital Contributions to DHA	$m	71.2	80.3	69.4	90.2	75.6
	%	-19.2	12.9	-13.7	30.1	-16.2
Rent Payments to DHA	$m	177.8	187.9	209.5	233.2	271.5
	%	7.6	5.7	11.5	11.3	16.4
Rent Recoveries	$m	-64.9	-65.8	-69.7	-72.8	-75.7
	%	9.0	1.5	5.9	4.4	4.1
Other Housing Payments	$m	-	1.1	2.9	5.3	5.3
	%	na	na	158.7	82.4	-
TOTAL	$m	184.1	203.6	212.1	255.9	276.7
	%	-5.0	10.6	4.2	20.7	8.1

Subsidised housing is provided for eligible ADF personnel and their families. DHA administers the Defence housing stock of some 22 000 dwellings on a commercial basis and charges Defence commercial rents for the housing provided. DHA is responsible for recurring costs of this housing and for capital payments to improve the housing stock. The Authority also has flexibility to develop and trade in land and dwellings and to enter into joint ventures with private sector partners.

The terms of the Commonwealth State Housing Agreements (CSHA) (Service Personnel), under which housing was constructed by the States from Commonwealth advances and leased back to the Commonwealth, have been renegotiated with all States except South Australia. The new arrangements provide for DHA to gain equity in half of the CSHA(S) houses while returning the remainder to the States on an agreed timetable. DHA will assume a proportion of the outstanding Commonwealth advances owed by the States.

Capital Contributions to DHA

These capital contributions assist in meeting the Government's undertaking to invest $750m over ten years in Defence housing and are provided as loans at the long term bond rate. Until the $750m commitment is achieved, interest on budget loans is reinvested in the DHA. In addition, a $250m off-budget borrowing program over ten years has been agreed to enable replacement of returned CSHA(S) housing. New off-budget borrowings of $40.2m are approved for 1991-92.

Rent Payments to DHA and Rent Recoveries

Market rents charged by DHA are reviewed annually by recognised valuers to reflect market conditions for rented accommodation, the capital value of the property and any other relevant factors. Recoveries comprise rent receipts from ADF members based on their entitlements under the Group Rent Scheme.

Additional costs of $52m for Temporary Rental Allowance paid to ADF members who rent non-Defence housing and $27.7m for Temporary Accommodation Allowance paid to those obliged to occupy non-residential accommodation are included under 1.1 Personnel Costs and Retirement Benefits. The Fringe Benefits Tax liability for housing assistance and related benefits paid to service personnel, $74.9m in 1991-92, is included under 1.7 Defence Other.

Other Housing Payments

The Australian Defence Force Home Loans Assistance Scheme (ADFHLAS) became effective from 15 May 1991 and replaces the Defence Service Homes Scheme. Under the new Scheme eligible personnel are entitled to a maximum loan of $40 000 with an interest subsidy equal to 40% of the average interest charged over the life of the loan. The Scheme assists in meeting retention objectives because the subsidy depends on service beyond an initial six year period. The Scheme also encourages home ownership during service.

The Government has decided to waive the usual qualifying period for access to home loan assistance under the Defence Service Homes Scheme and the ADFHLAS for members who served in the Gulf Crisis. In addition, these personnel with ADFHLAS entitlements are eligible for 16 years of subsidy or the number of completed years of service, whichever is the greater.

Trends

Since the mid 1980s attention has been paid to improving the management and standard of Defence housing. As a result of re-phasing to accommodate resource pressures, the capital contribution to DHA (excluding re-invested interest) has been reduced in 1991-92 and the forward years, but will still achieve the Government's target of $750m over ten years. The unrecovered costs of Service housing provided by DHA has increased from about 40% in the early 1980s to 65% in 1991-92.

1.5 DEFENCE INDUSTRY

1.5		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Defence Production	$m	155.6	156.5	132.0	99.5	102.0
	%	19.3	0.6	-15.6	-24.6	2.5
Aerospace Technologies of	$m	6.8	1.4	-	-	-
Australia	%	-83.1	-79.4	-100.0	na	na
Australian Defence Industries	$m	14.3	15.0	21.7	26.6	10.8
	%	-83.6	4.6	44.7	22.7	-59.4
TOTAL	$m	176.7	172.9	153.7	126.1	112.8
	%	-31.5	-2.2	-11.1	-17.9	-10.6

The Government aims to foster an industrial base for the development, production and maintenance of stores, equipment and ammunition where timely and independent local supply is of prime importance to Australia's defence.

Defence Production

For 1991-92 this includes payments to support strategic industrial production capability in Shipbuilding ($5.8m), Aerospace ($1.6m) and Munitions ($16.2m). Provision is made for the establishment cost of work in defence industry ($31.1m) and industry development projects ($15.4m). Also included are costs of closing the Maribyrnong and Albion Explosives Factories in Victoria ($17.6m) and transferring capability from Albion to the ADI Mulwala Explosives Factory (NSW) ($12.5m). Some $26.7m has been provided to meet Cockatoo Island Dockyard closure costs (including $5.7m for the termination of the trading and lease agreement with Cockatoo Dockyard Pty Ltd) and $10.3m has been provided for the Nomad Support Program including tail plane rectification to be completed in 1991-92.

Payments to ASTA and ADI for goods and services supplied to the Department of Defence on a commercial basis are included under 1.2 Defence Equipment and Stores.

Aerospace Technologies of Australia Pty Ltd

ASTA sold a minority interest in its ASTA Aircraft Services subsidiary in 1990-91 to Hong Kong Aircraft Engineering Company and British Airways. The provision of $1.4m in 1991-92 is for redundancy payments. ASTA also has access to $7.5m new borrowings under Loan Council arrangements for restructuring its Avalon (Vic) operations.

Australian Defence Industries Ltd

The provision of $15m in 1991-92 is mainly for redundancy payments, the disposal of hazardous materials and for measures to comply with State health and safety standards. The Commonwealth is reviewing the company's capital structure following a consultant's report.

Trends

The forward estimates continue a downward trend established in the latter part of the decade due now, mainly to the establishment of ASTA and ADI.

1.6 DEFENCE SCIENCE

In 1991-92 the Defence Science and Technology Organisation (DSTO) activities will be directed towards improving its skills base with particular emphasis on supporting key defence capabilities confirmed in the Force Structure Review: intelligence and surveillance (including the Over-the-Horizon Radar); mine warfare; and command, control and communications.

The reduction in outlays in 1991-92 reflects transfer of responsibility for the Environmental Engineering Facility to the Army and the Range Measurement Branch to the Air Force ($4.2m) and the completion of a laboratory project at Pyrmont, NSW ($2.5m).

DSTO is increasingly undertaking a range of commercial activities. They include consultancy and training services, contract research, hire of specialist facilities, sale of intellectual property rights and collaboration with industry in product development. DSTO operates a trust account for such transactions and continues to participate in a number of joint venture companies such as Defence Technologies Australia Pty Ltd.

Trends

Following a small decline in 1991-92, this category is forecast to remain broadly constant at about 2.3% of Defence outlays.

1.7 OTHER DEFENCE OUTLAYS

1.7		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Defence Co-operation Program	$m	93.0	78.2	82.2	79.7	82.5
	%	25.4	-15.9	5.2	-3.1	3.6
General Administration	$m	1263.2	1299.0	1363.0	1412.1	1472.4
	%	10.0	2.8	4.9	3.6	4.3
Recoveries and Repayments	$m	-178.3	-181.7	-236.5	-237.7	-192.8
	%	-10.5	1.9	30.2	0.5	-18.9
TOTAL	$m	1177.9	1195.5	1208.7	1254.0	1362.2
	%	15.1	1.5	1.1	3.7	8.6

Defence Co-operation Program

The Program principally involves training, exercises, professional exchanges and equipment based projects (such as the provision of Pacific Patrol Boats to a number of south west Pacific island countries) to help promote a favourable strategic environment. The decrease in 1991-92 mainly relates to lower expenditure on the Pacific Patrol Boat project as it winds down.

General Administration

This category comprises of Fringe Benefits Tax (FBT), rent, movement and storage expenses, office requisites and expenses, postage and telephones, fuel (but not fuel for service operational activities), freight, security of premises, medical and dental services, computer services and consultants. It also includes outlays relating to the Natural Disasters Organisation. Repairs and maintenance outlays individually under $250 000 have been reclassified to this subfunction from 1.3 Defence Facilities.

The increase in 1991-92 is largely due to price increases for the broad range of general administrative items. It also reflects removal and travel costs associated with the relocation of Naval elements to WA, the increased Army and Air Force presence in northern Australia, and the relocation of DSD from Melbourne to Canberra. Partly offsetting these increases are reductions in the minor works program and an expected decrease in outlays on compensation claims.

Recoveries and Repayments

Included are charges made for meals and accommodation at Defence establishments ($47.3m), defence related recoveries from other governments ($22.5m), proceeds from the disposal of equipment, aircraft and other stores ($10.3m), and Defence Co-operation recoveries ($4.1m). The net reduction reflects lower receipts from settlements of advance payments made under the US Foreign Military Sales arrangements ($25.2m), partly offset by the increases from commercial vehicle sales and fuel sales to the USA in joint naval exercises ($12.4m).

The Defence share of proceeds from sale of surplus land and buildings is estimated at $14.4m in 1991-92. Such receipts are expected to increase significantly in the forward years reflecting the proceeds from the sale of properties released during the logistics redevelopment project. Major receipts from sales that are not attributable to the Defence function are shown under *8E. Administrative Services* and *9D. Assets Sales.*

Under current arrangements, Defence is entitled to retain net proceeds from asset sales up to the equivalent of 1% real growth in Defence outlays. For any property sales above this level Defence may retain 50% of net proceeds. These arrangements do not apply to *sales of properties which fall under previously agreed arrangements.*

Trends

Other Defence outlays are expected to decline as a proportion of total Defence outlays from 12.7% in 1991-92 to 12.3% in 1993-94 reflecting, in part, foreshadowed property sales revenues associated with the Logistics Redevelopment Project. The increased proportion of 12.9% in 1994-95 is due to the completion of major property sales.

2. EDUCATION

OVERVIEW

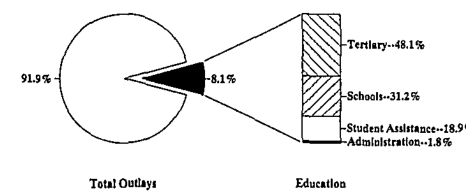
			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
2.1	Tertiary Education	\$m	3691.3	3973.7	4238.7	4458.4	4649.8
		%	12.9	7.7	6.7	5.2	4.3
2.2	Schools and Preschools	\$m	2334.9	2575.6	2694.8	2838.5	2991.5
		%	9.1	10.3	4.6	5.3	5.4
2.3	Student Assistance	\$m	1320.9	1564.9	1643.1	1728.9	1798.5
		%	24.4	18.5	5.0	5.2	4.0
2.4	General Administration	\$m	124.3	147.6	156.8	153.5	153.0
		%	18.5	18.7	6.2	-2.1	-0.3
	TOTAL	\$m	7471.4	8261.8	8733.4	9179.2	9592.8
		%	13.6	10.6	5.7	5.1	4.5

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision for that item is included in *9C. Contingency Reserve.*

- **Total outlays on Education are expected to increase by \$790.4m or 7.1% in real terms in 1991-92. Further real increases are planned over the forward years, amounting to 3.2% between 1991-92 and 1994-95.**

- **Education outlays account for 8.1% of total Commonwealth outlays in 1991-92, the same as in 1990-91 (see Chart 1). This proportion has increased steadily over recent years.**

Chart 1. Education
Proportion of Total Outlays and Function
1991-92



- The main sources of real growth in 1991-92 are:
  - further increases in higher education student places (4000 new places for 1992 were agreed in last year's Budget, and a further $5.5m, rising to $31.3m in 1994-95, has been added in this Budget to assist in easing growth pressures);
  - additional higher education capital funding of $20m;
  - the impact of increased salaries for academic staff arising from the recent award change agreed by the Industrial Relations Commission under the Structural Efficiency Principle (SEP);
  - maintenance of the Commonwealth share of funding for the national benchmark salary for teachers, and for the creation of Advanced Skills Teacher positions, in both government and non-government schools ($96m);
  - real increases in general recurrent per capita funding for schools ($19m); and
  - growth in AUSTUDY payments ($225.9m).
- Growth over the forward years largely reflects:
  - the flow-on effects of new higher education places, partly offset by increased collections under the Higher Education Contribution Scheme (HECS);
  - further growth in student assistance; and
  - the expansion of outlays on literacy and language teaching programs to be announced in the White Paper on the Australian Language and Literacy Policy.

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Schools				
Decreases				
Reduction in Good Schools Strategy	-0.3	-0.3	0.0	0.0
Change in supplementation arrangements for non-government schools	-1.9	-3.8	-2.3	-3.7
Deferment of part of 1992 Senior Secondary Support Program	-5.2	-1.0	6.6	0.0
Reduction in Projects of National Significance Program	-0.2	-0.1	-0.1	-0.1
Increases				
Indexation of Grants-in-Aid to educational and research organisations	0.2	0.1	0.1	0.1
Continuation of Students at Risk Program	2.5	2.5	0.0	0.0
Additional funds for Country Areas Program *	2.8	5.8	6.1	3.2
Good Schools Strategy *	3.5	3.5	3.5	0.0
Teachers' salary benchmark - Commonwealth contribution	15.9	16.0	20.0	21.0
National Framework for Open Learning	1.1	1.6	2.2	2.2
Child Literacy - early intervention strategies	1.0	1.5	1.6	1.7
Languages other than English (Schools) - priority languages incentive	3.0	6.3	7.5	9.1
Increased resources for English as a Second Language Program (Schools)	0.0	5.0	10.0	10.0
Restructuring of Ethnic Schools Program	2.2	2.2	2.3	2.4
Higher Education				
Decreases				
Increase student course contribution (HECS) to $2250 in 1992	-8.1	-14.7	-19.1	-23.0
Increases				
Higher Education Growth				
- Capital Programs	20.0	37.2	-13.1	-14.8
- Additional funding for Higher Education Institutions	5.5	15.7	24.1	31.3
- Pilot Cost-Sharing Project with Industry	2.1	6.2	9.9	10.4
- Advanced Engineering Centres	0.0	8.3	1.5	1.8
Higher Education Research Programs	0.3	0.3	0.4	0.4
Support for Aboriginal Participation	1.4	3.4	4.3	4.9
Student Assistance				
Decreases				
AUSTUDY/ABSTUDY - Minor modifications	-0.5	-2.9	-2.7	-3.0
Improved recovery of AUSTUDY overpayments	-4.6	-7.2	-9.4	-11.0
Application of family assets test to AUSTUDY	-1.0	-2.0	-2.0	-2.0
Increases				
Extension of eligibility to further privately provided TAFE-type courses	0.0	3.0	8.0	10.1
Increased Personal Income test threshold for AUSTUDY/ABSTUDY	1.0	2.0	2.0	2.0
Reversal of reduction in asset test threshold for AUSTUDY and AIC	28.2	29.8	31.2	32.7
AUSTUDY costs associated with TAFE pre-vocational places *	8.8	0.0	0.0	0.0
ESAS Computer Redevelopment Study	0.5	0.0	0.0	0.0
Other increases				
Cocos (Keeling) Islands - Achievement of Mainland Education Standards	0.1	0.1	0.1	0.0
Training and Labour Market Programs - TAFE	0.7	2.3	4.2	6.5
Aboriginal Education Strategic Initiatives	1.0	1.0	0.0	0.0
Aboriginal Language Initiatives - preservation of Aboriginal languages	0.8	2.1	2.2	2.3
Languages other than English - national projects for schools	1.0	1.0	1.1	1.1
Child Literacy - innovative national projects	0.0	0.4	0.5	0.6
Adult Literacy - innovative national projects	1.5	1.6	1.6	1.7
Adult Literacy - increased funding for courses	2.6	10.2	10.2	10.5
Workplace training in literacy *	0.6	1.1	1.7	0.0
Workplace literacy - additional funding	1.7	3.2	3.9	5.7
Increased resources for Adult Migrant Education Program	9.3	13.0	12.7	12.6
Asia in Australia Council	0.2	0.2	0.2	0.2
Asia Education Foundation	0.5	1.0	1.1	1.1

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Australian Language and Literacy Council	0.5	0.6	0.6	0.6
National Languages and Literacy Institute	1.5	2.1	2.2	2.3
Language and literacy: publicity and research	0.5	0.4	0.4	0.4

* Included in March 1991 Economic Development Statement.

- **Major new policy in this Budget includes a package of initiatives to improve the teaching of literacy, English as a Second Language (ESL) and languages other than English, to be announced by the Minister for Employment, Education and Training in a White Paper on the Australian Language and Literacy Policy. The package includes measures aimed at enhancing proficiency in child and adult literacy, child and adult ESL and languages other than English including Aboriginal languages. Funding will also be provided for innovative projects, curriculum development and new advisory and coordination bodies.**

- **Elements of the Australian Language and Literacy Policy appear in several of the subfunction sections of this chapter.**

PURPOSE

The Commonwealth's objectives in Education are to provide, in conjunction with both State and non-government authorities, an education system capable of:

- equitably satisfying the educational aspirations of individuals from all socio-economic backgrounds; and
- meeting industry and community requirements for a skilled and educated workforce.

NATURE OF EDUCATION OUTLAYS

Approximately 73% of Commonwealth outlays on Education take the form of specific purpose payments to or through the States and Territories. These grants meet most of the costs of higher education institutions and approximately 11% and 37% of the costs of government and non-government schools respectively.

Assistance is also provided to individuals in the form of means-tested income support for students (mainly through AUSTUDY and ABSTUDY) and postgraduate awards for higher degree students selected on the basis of academic merit.

Running costs associated with the Education function in the Department of Employment, Education and Training (DEET) are also included.

These outlays are offset by receipts from students and former students under HECS; receipts from the Overseas Student Charge (OSC) and the subsidy paid by the Australian International Development Assistance Bureau (AIDAB) in respect of students from developing countries; and recoveries from the States and Territories for the superannuation costs of staff belonging to State schemes.

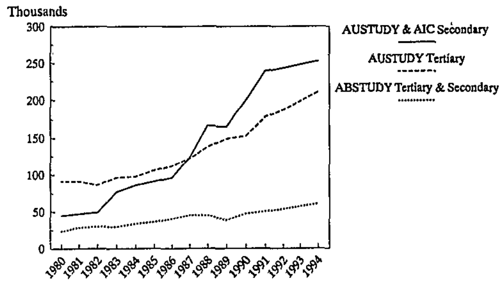
TRENDS IN EDUCATION OUTLAYS

Over the period 1981-82 to 1985-86, Commonwealth spending on education increased by an average of 2.8% a year in real terms. The major part of this early growth came from outlays on schools and student assistance, which grew by an average of 3.7% and 6.4% a year respectively. Growth levelled out between 1986-87 and 1989-90 but has resumed since and is expected to continue over the forward years. A major component of recent growth has been the expansion of higher education, which has led to increased outlays both on places and on student assistance.

Outlays on student assistance have been a major cause of growth in outlays for Education, with an average real rate of growth since 1981-82 of 9.5% a year.

The movement in student beneficiary numbers since 1980 is illustrated in Chart 2.

Chart 2. Student Assistance
(Student Beneficiary Numbers at 31 December)



The real growth in AUSTUDY and ABSTUDY outlays is primarily a consequence of increases in beneficiary numbers over the period. With regard to AUSTUDY for secondary students, the increased beneficiary numbers have resulted from rising Year 11 and 12 retention rates as well as demographic factors. Large increases in outlays since 1988 resulted from these increased retention rates as well as substantial increases in benefit rates for 16-17 year olds associated with the introduction of the common youth allowance structure. An upward trend in outlays on AUSTUDY for tertiary students also mainly reflects continuing growth in higher education places, with the rate of growth accelerating since 1988 as a result of the policy changes arising from the White Paper on Higher Education and significant over-enrolment by higher education institutions, particularly in 1991. The strong growth in beneficiary numbers is expected to continue in 1992, albeit at a slower rate than in 1991.

Funding for higher education institutions has also grown strongly. Higher education grants have been a major contributor to growth, reflecting the accelerated increase in the number of available places (almost 75 000 or 24% between 1988 and 1993) and the policy of funding new places at more than their marginal cost. The forward estimates for 1994 reflect the transfer of nurse education to the higher education sector. This is expected to cost around $96.8m in 1993-94 and $199.3m in 1994-95, with offsetting adjustments to general revenue assistance to the States and Territories. Future growth in spending is, however, expected to be moderated by increased collections under HECS ($214.4m in 1991-92 rising to $518.4m in 1994-95). Part of this growth reflects the increase in the HECS charge announced in the Budget.

Funding for schools has also increased in real terms over the period 1981-82 to 1990-91 reflecting increased per capita assistance and, to a lesser extent, increased retention rates. Although per capita grants for government schools have been increasing at a faster rate in real terms than those for non-government schools, there has been a steady trend in enrolments towards non-government schools (for which the Commonwealth provides a greater per capita contribution than for government schools), and this has led to an

increase in outlays. However, higher Year 12 retention rates are expected to have a greater impact on government school enrolments. As a result, growth in funding for government schools is higher than that for non-government schools. Until recently, these factors have been moderated by a small decline in the population of school age children. However, a small increase in the school age population is now expected and moderate real spending growth is projected for the forward years.

MAJOR POLICY CHANGES

The main policy measures affecting education outlays over the period 1981-82 to 1990-91 have been:

- an acceleration of the expansion in the number of higher education places;
- the introduction of student charges (the Higher Education Administration Charge, introduced in 1987, and its replacement, HECS, introduced in 1989);
- a commitment to substantial real increases in per capita general recurrent grants to both government and non-government schools over the period 1985 - 1992;
- restructuring of student assistance schemes in 1987 and 1988 to improve incentives for students to undertake post-compulsory secondary and tertiary studies; and
- the commencement of ACT self-government in May 1989, resulting in a reduction in direct Commonwealth outlays offset by an increase in General Revenue Grants.

1990-91 OUTCOME

Outlays for 1990-91 were $15.2m (0.2%) less than the budget estimate. The major factors contributing to this outcome were:

- delays in paying refunds of fees for English language courses to rejected visa applicants offset by failure to recover debts from institutions (a net reduction of $10.9m);
- lower than expected increases in prices and wages (a reduction of $108m); and
- delayed settlement of academic salary increases under SEP (a reduction of $31.5m).

These decreases were partially offset by higher AUSTUDY payments resulting from an increase in student numbers ($87.5m), a delay in receipts from the States and Territories for superannuation contributions ($14.5m) and an adjustment to the attribution of DEET expenditure on property between 2. Education and 7C. *Labour and Employment* ($12.3m).

SUBFUNCTION DETAIL

2.1 TERTIARY EDUCATION

2.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Higher Education						
Grants to the States and	$m	2864.9	3101.9	3366.2	3570.8	3755.3
Commonwealth Institutions	%	11.2	8.3	8.5	6.1	5.2
Payment to Higher Education	$m	478.5	468.9	461.0	435.6	411.0
Trust Fund	%	9.9	-2.0	-1.7	-5.5	-5.7
Other Higher Education	$m	14.0	14.1	15.0	15.2	15.7
	%	11.4	0.8	5.8	1.6	3.1
Post Graduate Awards	$m	2.4	1.4	1.5	1.5	1.5
	%	-30.9	-41.6	4.7	0.8	-
Sub-Total Higher Education	$m	3359.8	3586.4	3843.7	4023.1	4183.5
	%	11.0	6.7	7.2	4.7	4.0
Technical and Further Education	$m	375.1	388.0	416.8	442.6	469.8
	%	10.2	3.4	7.4	6.2	6.1
Overseas Student Charge	$m	-37.2	-24.5	-12.7	-4.7	-2.0
	%	-14.7	-34.1	-48.1	-63.3	-56.3
Contribution for Students from	$m	-34.7	-20.2	-5.7	-2.7	-1.4
Developing Countries (a)	%	-37.5	-41.6	-72.0	-51.9	-47.9
ELICOS	$m	28.2	44.0	-3.5	-	-
	%	na	56.2	-108.0	-100.0	na
TOTAL	$m	3691.3	3973.7	4238.7	4458.4	4649.8
	%	12.9	7.7	6.7	5.2	4.3

(a) See corresponding outlays shown in *8C. Foreign Affairs and Overseas Aid.*

The Commonwealth provides almost all the Government support for higher education and provides about 20% of funding for the State and Territories' Technical and Further Education (TAFE) systems.

Higher Education

Higher Education Programs - Calendar Year Basis (nominal prices)

Type of grant	1990 $m	1991 $m	1992 $m	% change on 1991	1993 $m	1994 $m
Operating	3153.6	3376.7	3721.2	10.2	4028.8	4483.9
Research (a)	160.3	223.4	260.7	16.7	291.8	305.0
Capital	168.8	216.7	259.4	19.7	249.9	147.7
TOTAL	3482.7	3816.8	4241.3	11.1	4570.5	4936.6
less						
HECS offsets	101.6	185.1	274.9.	48.5	379.7	499.7
Superannuation recoveries	28.6	18.9	43.1	128.0	35.0	38.0
TOTAL	3352.5	3612.8	3923.3	8.6	4155.8	4398.9

(a) The amounts shown against Research are attributed to function *8D. General and Scientific Research, nec.*

The increased operating and capital grants for higher education reflect the increases in student places approved in recent years. Between the Government's 1988 White Paper on Higher Education and 1993, nearly 75 000 new places will have been created for Australian students. This includes 4000 additional places approved in the 1989 Budget for 1992. Further funding has been approved in the 1991-92 Budget ($5.5m) to assist in easing growth pressures in 1992. In addition, a pilot project to create additional places in higher education partially funded by industry will commence in 1992. Initially it is expected that the project will run until 1997 with up to 600 places to be created in 1992 and up to 700 places in each of 1993 and 1994, with industry contributing 40% of recurrent funding. Further decisions concerning funding levels for the 1994 year of the higher education triennium will be announced after consideration of the Finn Report on Post-Compulsory Education and Training.

A total of $555.7m (in 1991-92 Budget prices) has been provided for the higher education capital program since 1989, compared to $433.4m in the preceding six years. This amount has almost entirely been devoted to new infrastructure to accommodate the increase in student numbers both current and planned. This demand for new buildings has resulted in the diversion of funds from refurbishment and restoration of existing infrastructure. To alleviate these problems and to accelerate the construction of new facilities, $57m (including $28m brought forward from the 1994 capital program) has been provided over 1991-92 and 1992-93.

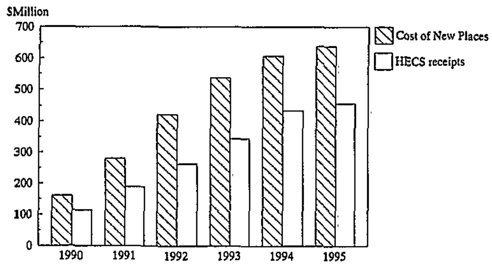
From 1991, funds previously available through the Aboriginal Education Strategic Initiatives Program (AESIP) were incorporated into the base allocations to institutions under the *Higher Education Funding Act 1988*. From 1991-92 additional funds will be provided to maintain support funds for all Aboriginal places close to 1990 levels. This will add $1.4m in 1991-92 rising to $4.9m in 1994-95.

The Government has stated its intention to increase the role of engineers in industry to encourage competitiveness through greater application of technology. To help improve engineering education in Australia, three engineering teaching and research centres will be established in 1992-93 at a total cost of $8.3m. These centres will be part of existing higher education engineering departments and it is expected that industry will contribute towards the establishment costs and subsequent operating costs.

Since the introduction of HECS in January 1989, a proportion of total operating grants for State and Commonwealth institutions has been paid through the Higher Education Trust Fund. Students are required to make payments either at the time of notification of liability (with a 15% discount) or as a delayed payment through the taxation system when the student's taxable income reaches a certain level ($27 098 for 1992). The difference between the total HECS liability for current students and receipts (from up-front payments and deferred payments through the tax system) is made up by the payment by the Commonwealth into the Trust Fund.

Until 1991 under HECS, students have made a contribution equivalent, on average, to 20% of tuition costs ($1993 in 1991). For 1992 the charge will be $2250 per full-time student, an increase of $144 over the expected amount (under the previous indexation arrangements) for 1992 of $2106. This will generate additional HECS receipts of $8.1m in 1991-92 rising to $23.0m in 1994-95. In 1990-91 outlays were offset by $128.1m through HECS receipts ($28.1m from receipts through the taxation system and $100.0m through up-front payments and voluntary repayments). In 1991-92 offsets to outlays of $214.4m are expected; by 1994-95, with the increased rates of repayment agreed in the 1990-91 Budget, HECS receipts are expected to be about $518.4m.

Chart 3. Cost of new places compared to HECS receipts (a)(b)
(July 1991 prices)



(a) Includes cost of continuing students from previous increases in the student intake.
(b) Cost of new places estimated at $9344 per equivalent full time student unit.

As illustrated in Chart 3, collections from students under HECS are making an increasing contribution to funding the expansion of the higher education system but remain less than the cost of new places since 1990.

Negotiations have been taking place over the past twelve months between the Commonwealth, higher education employers and unions to achieve SEP increases for academic staff. As a result of the decision handed down by the Industrial Relations Commission on 23 July 1991 academic staff in higher education institutions will receive salary increases averaging some 16% after the 12 month phasing period, and rising to about 20% over time. These figures include the community norm of 6.1% awarded earlier in the negotiations. The additional increases awarded on 23 July will add over $120m to outlays in 1991-92 and $900m over the next five years.

Other Higher Education

In 1991-92 funding of $9.9m is provided for the Australian Film, Television and Radio School which provides advanced and specialist training in the film, television and radio industry.

Funding of $2.8m is being allocated in 1991-92 for the National Institute of Dramatic Art which provides practical training in live theatre, television, film and radio with courses in acting, directing, stage management and design.

Technical and Further Education Grants to the States

In the 1991 calendar year, Commonwealth outlays account for about 9% of the recurrent funding for TAFE and about 68% of the capital funding.

Planned real growth in recurrent funding for TAFE has been increased from 4% to 5% a year in the Budget, in line with recommendations of the report of the Training Cost Review Committee (Deveson review), as part of Commonwealth support for expanded TAFE provision. This will provide additional funding of $0.7m in 1991-92 rising to $6.5m in 1994-95. The Commonwealth also funds TAFE via employment and training programs (see *7C. Labour and Employment*).

Overseas Students Charge

The outlays shown represent residual payments in respect of students receiving partial subsidies under the subsidised students program which was discontinued on 1 January 1990. Under the arrangements which have operated since then, the Government offers scholarships to students from developing countries through aid programs administered by AIDAB, on a full-fee basis. The new scheme provides scholarships both to students of exceptional academic merit and to disadvantaged students. Institutions can offer places to additional overseas students, who pay fees reflecting the full cost of their courses. Some administrative support for this export industry is provided by DEET.

For further details see the reference to the Equity and Merit Scholarship Scheme under Bilateral Aid in *8C. Foreign Affairs and Overseas Aid.*

English Language Intensive Courses for Overseas Students

In August 1989, the Government tightened the visa entry requirements for overseas students wishing to undertake short-term non-formal English language courses (ELICOS) and other short non-formal courses in Australia. In July 1990, the Government agreed to provide refunds to individuals who had prepaid fees to institutions, but were subsequently unable to come to Australia to undertake the course of study because of the change in visa requirements, and were unable to obtain a refund from the institution. Arrangements were also agreed to assist displaced on-shore students affected by institutional closure as a result of the August 1989 decision.

The Commonwealth is taking action to recover amounts owed by those institutions on whose behalf the Government is making direct refunds. However the level of recovery originally estimated ($30m over 1990-91 to 1992-93) has proved to be optimistic as a number of institutions have closed, and the estimates have been revised accordingly.

Altogether up to 15 000 visa applicants (11 000 from the People's Republic of China) are estimated to be eligible for refunds. A total of $29m was refunded to students in 1990-91 (representing a total of 4 000 payments) and a further $49m and $1.5m has been allocated in 1991-92 and 1992-93 respectively, to complete the remaining refunds. To limit the Commonwealth's liability and to expedite the completion of refunds, a deadline of 31 July 1991 was set for applications for refunds from the People's Republic of China.

2.2 SCHOOLS AND PRESCHOOLS

2.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Schools in the States/ACT						
Government	$m	1022.8	1150.6	1201.0	1253.6	1304.1
	%	9.7	12.5	4.4	4.4	4.0
Non Government	$m	1271.0	1368.8	1428.6	1514.2	1618.2
	%	8.5	7.7	4.4	6.0	6.9
Joint Programs	$m	42.6	56.9	65.6	70.9	69.3
	%	8.8	33.8	15.2	8.1	-2.3
Sub-Total	$m	2336.3	2576.3	2695.2	2838.7	2991.7
	%	9.0	10.3	4.6	5.3	5.4
Overseas Student Charge	$m	-0.6	-0.3	-0.1	-0.1	..
	%	-41.9	-53.4	-45.3	-54.5	-47.0
Contribution for Students from	$m	-0.9	-0.5	-0.3	-0.1	-0.1
Developing Countries (a)	%	-35.2	-39.4	-50.4	-47.3	-48.1
TOTAL	$m	2334.9	2575.6	2694.8	2838.5	2991.5
	%	9.1	10.3	4.6	5.3	5.4

(a) See corresponding outlays shown in 8C. *Foreign Affairs and Overseas Aid.*

The Commonwealth contributes to the general operating costs and capital expenditure of both government and non-government schools, and provides further funding for a range of specific purpose programs aimed at identified areas of need.

Payments for schools under the States Grants Schools Assistance Act 1988 - Calendar Year Basis (nominal prices)

	1990 $m	1991 $m	1992 $m	% change on 1991	1993 $m	1994 $m
Government						
General Recurrent	643.5	747.6	802.7	7.4	850.3	892.9
Capital	186.4	217.9	211.6	-2.9	218.6	215.4
Specific Purpose	136.4	148.4	153.6	3.5	160.8	168.0
Non-Government						
General Recurrent	1100.0	1199.3	1263.9	5.4	1344.4	1437.0
Capital	65.2	81.4	83.3	2.3	74.1	77.2
Specific Purpose	49.5	50.9	51.9	2.0	54.2	56.5
Joint Programs	40.8	46.6	59.9	28.6	71.3	68.2
TOTAL	2221.8	2492.1	2626.9	5.4	2773.7	2916.0

Government and Non-Government Schools

Commonwealth grants represent about 11% of total spending on government schools (with the balance being met by State and Territory governments) and about 37% of total support for non-government schools (with the balance being met by other governments (19%) and private sources (44%)). These funds are provided through general recurrent (per capita) grants, specific purpose recurrent payments and capital programs.

Since 1988, funding has been guided by a National Schools Strategy (NSS), the purpose of which is to provide a framework for Commonwealth-State collaboration on schools issues. Consistent with NSS, Commonwealth funding for government schools is tied to resource agreements with the States. These agreements set out agreed objectives for schools (such as improving retention rates and educational outcomes) and require the States to provide the Commonwealth with information on performance against these objectives. This information forms the basis of the annual *National Report on Schooling in Australia*, first published in early 1991.

Commonwealth support for individual non-government schools is based on need, with schools being categorised into one of twelve funding categories (category 1 receiving the least support and category 12 the most). Further details on the funding categories are provided in *Commonwealth Programs for Schools - Administrative Guidelines 1991.* Resource agreements, performing a similar role to those for government schools, are in place with non-government schools authorities and non-systemic schools and require similar reporting arrangements.

The real growth in grants to both government and non-government schools shown in the above table reflects real growth in per capita grants for most schools. Following annual real growth in per capita grants over a number of years, it is expected that all government schools, along with non-government schools in categories 1-7, will be resourced to a standard benchmark level by 1992. The Government has decided to maintain per capita funding levels to these schools in real terms beyond 1992, while providing further annual real per capita increases to non-government schools in categories 8-12.

The Commonwealth will also provide additional funds for its share of teacher salary increases in both government and non-government schools, following agreement between the States and the Commonwealth on a new national benchmark salary structure for teachers. The national benchmark for the top of the salary scale for four year trained teachers is $38 000 a year.

In 1991-92, the Commonwealth will provide funding to continue the Students at Risk program for a further calendar year, and additional resources will be provided for ESL teaching as part of the Australian Language and Literacy Policy, to assist children of non-English speaking backgrounds.

The Government has decided that half of the planned expenditure in 1992 on the government schools element of the Senior Secondary Support Program, which provides funding for capital facilities for schools to accommodate increased Year 12 retention rates, will be deferred to 1993.

Joint Programs

The Commonwealth provides funds for a number of programs which operate in both government and non-government schools, including several programs which assist schools facing particular disadvantages.

From 1991-92, the Government will fund a number of new programs and policy changes, including:

- the Good Schools Strategy to identify the qualities that make a good school;
- expansion of the Country Areas Program to focus on greater rural school retention; and

- the National Framework for Open Learning, a project to investigate the feasibility of setting up a national communications framework to deliver educational and training programs.

In addition, the Government will fund a number of new programs and policy changes for schools under the Australian Language and Literacy Policy, in the areas of child literacy and languages other than English.

2.3 STUDENT ASSISTANCE

2.3		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
AUSTUDY	Sm	1023.2	1249.1	1305.2	1372.4	1422.4
	%	24.3	22.1	4.5	5.2	3.6
ABSTUDY and Other Assistance	Sm	177.1	191.3	210.8	229.6	249.0
for Aboriginals	%	34.0	8.0	10.2	8.9	8.4
Migrant Education	Sm	99.9	102.2	105.1	104.9	105.1
	%	14.5	2.4	2.8	-0.2	0.2
Other	Sm	20.7	22.2	22.0	22.0	22.0
	%	7.5	7.6	-1.1	-0.1	0.1
TOTAL	Sm	1320.9	1564.9	1643.1	1728.9	1798.5
	%	24.4	18.5	5.0	5.2	4.0

The Commonwealth provides income and other assistance to improve educational participation by members of lower income and certain disadvantaged groups. The largest portion of assistance is provided through AUSTUDY. Special assistance is provided to Aboriginal and Torres Strait Islander students through ABSTUDY and to isolated children through the Assistance for Isolated Children Scheme (AIC), as well as to migrants and the children of migrants and veterans.

AUSTUDY

AUSTUDY is income support which is available to individuals undertaking full-time, approved courses of study in schools, TAFE colleges and higher education institutions and who achieve satisfactory academic progress. Within the maximum assistance levels identified below, the level of benefits for individuals is determined by income tests with income thresholds beyond which benefits are withdrawn at a S1 in S4 rate as parental income rises above a specific level and S1 in S2 on personal and spouse income above specific thresholds.

In 1991 the maximum benefit for 16-17 year old students 'at home' is S62.05 a week, which will increase to S64.15 a week in 1992 as a result of indexation in line with the CPI. The corresponding rates for 'away from home'/'independent' students are $102.40 and S105.90 a week. Rates of benefit are higher for over 18 year olds: S74.55 a week in 1991 and S77.10 a week in 1992 for 'at home' students and S113.25 and S117.10 a week for students in the 'away from home'/'independent' categories. For over 21 year olds there are special categories which receive higher maximum benefits. These categories are 'single at home', 'single away from home', 'single with dependants' and 'married', where maximum rates of benefit increase from S88.40, S134.30, S159.75 and S121.60 a week, respectively, in 1991 to S91.40, S138.85, S165.20 and S125.75 a week in 1992.

Real outlays on AUSTUDY are estimated to increase by 18.3% in 1991-92, reflecting the continuing effect of the strong growth in numbers of recipients in 1991 and further anticipated (although lower) growth in 1992, with the resulting increase in beneficiary numbers expected to be about 22%. The underlying causes of the increase in outlays are large increases in school retention rates, additional funded tertiary places and over-enrolments in the higher education system. AUSTUDY's coverage of potential students has also increased: in 1990, 40% of full time tertiary students and 33% of secondary students aged 16 and over were assisted under AUSTUDY, with these percentages increasing to 45% and 38% in 1991 and to an estimated 48% and 41% in 1992. AUSTUDY outlays were also increased by two decisions taken prior to the Budget: the reversal of the 1990-91 Budget decision to reduce the AUSTUDY assets test threshold to $200 000 (increasing outlays by $28.2m in 1991-92 rising to $32.7m in 1994-95); and the decision announced in the March 1991 Economic Statement to fund additional pre-vocational places at TAFE colleges ($8.8m in 1991-92).

Partly offsetting the trend of increasing outlays, recoveries of student assistance overpayments and debt are expected to increase from $46.5m in 1990-91 to $49.0m in 1992-93, reflecting increased administrative effort, improvements in benefit control measures and the continuation of a special clearance of debt initiative.

ABSTUDY and Other Assistance for Aboriginals

ABSTUDY assists Aboriginal and Torres Strait Islander students in secondary and tertiary education by providing income support and other assistance tailored to the needs of Aboriginal students. The basic rates of assistance are similar to AUSTUDY, with additional assistance available to part-time students, pensioners, those under 16 and over 21 and for tutorial assistance and school fees. ABSTUDY payments are not subject to assets tests.

ABSTUDY outlays are estimated to grow by 15.3% in 1991-92 to S98.5m, largely reflecting the continued effect of strong increases in beneficiary numbers in 1991 and additional expected increases in 1992.

The Commonwealth also provides non-income support assistance for Aboriginal students under a number of programs. The largest of these programs is AESIP, which provides supplementary funding assistance to the States and Territories, non-government school systems and independent Aboriginal education providers. AESIP also contributes to the funding of Aboriginal Education Consultative Groups who provide independent advice on Aboriginal education matters. AESIP funding is used to improve outcomes from, access to and participation in education for Aboriginals throughout Australia based on operational plans which include resource agreements for the 1990-92 triennium.

AESIP will provide $75.9m in 1991 and $67.4m in 1992, with funding under the next triennium estimated at $71.1m in 1993, $73.7m in 1994 and $76.4m in 1995. The reduction in funding in 1992 results from the transfer of a component of AESIP, the Aboriginal Student Support and Parent Awareness (ASSPA) scheme, to another item, Aboriginal Education Direct Assistance from 1 January 1992. ASSPA outlays are estimated at $11.3m in 1991-92 ($3.4m under the new item), $12.3m in 1992-93, $13.3m in 1993-94 and $14.4m in 1994-95.

Further assistance is provided through the Aboriginal Tutorial Assistance Scheme, which assists Aboriginal students with individual tutorial costs, and the Vocational and Educational Guidance for Aboriginals Scheme. Expenditure under these schemes is expected to be $12.0m in 1991-92, rising to $17.8m in 1994-95.

In 1991-92 the Government will establish an Aboriginal Languages Initiative Program under the Australian Language and Literacy Policy to support community based language maintenance, development and research.

Migrant Education

This subfunction is dominated by the Adult Migrant English Program (AMEP), which provides English language courses and initial settlement orientation and information for adult migrants and refugees. Expenditure on the AMEP is expected to be $15.3m higher in 1991-92 than the $87.2m spent in the previous year, rising to $123.1m by 1993-94, a real increase of 41% over 1990-91. This reflects the intention that a higher proportion of AMEP clients should achieve social proficiency levels in English by increasing the average number of hours of formal tuition per client from 370 to 510. Part of the increased funding ($6.0m in 1991-92 rising to $26.4m in 1994-95) is to be offset by the introduction of user charging from 1 January 1992.

The Living Allowance for English courses at TAFE institutions (a component of the Australian Language and Literacy Policy) provides an allowance equivalent to the adult rate of unemployment benefit for those undertaking an approved TAFE English language course. Outlays for this program are expected to increase only marginally from $4.1m in 1990-91 to $4.2m in 1991-92. Similar allowances for the AMEP are paid from the Newstart program.

Other

The AIC provides financial assistance for those students who, because of geographical isolation, undertake their secondary education at boarding school, by correspondence or from a second family home. AIC outlays are expected to increase in 1991-92 by $1.5m to $17.0m, mainly reflecting the full year effect of an increase in minimum, non-income tested, boarding allowances in January 1991 (from $989 to $1500 a year).

The Veterans' Children Education Scheme (VCES) provides income support assistance to students whose parents have died or are totally and permanently incapacitated as a result of war service. Outlays on VCES are expected to increase marginally in 1991-92 to $4.6m.

Measures

Amendments to the *Student Assistance Act 1973* to be introduced in the Budget Session of Parliament will make that Act the appropriating instrument for AUSTUDY, ABSTUDY and AIC from 1 January 1992. This is considered a more appropriate means of funding these calendar year, entitlement based and demand-driven programs than the current arrangements.

A range of minor modifications to AUSTUDY/ABSTUDY will also be implemented from 1 January 1992. These are expected to realise net savings of $0.5m in 1991-92 and an ongoing saving of about $3m in a full year. The measures include the modification of the sibling concession by the replacement of variable abatement rates with a flat

deduction from parental income; modification of progress rules to extend the minimum period for course completion; extension of eligibility to assist professional and overseas upgrading; and increasing the personal income test threshold from $4000 to $5000 a year. They also provide for dependent child deductions in the spouse income test; the application of the assets test to family assets; extension of the Educational Supplement to sole parent pensioners undertaking part-time study; and absorbing the Adult Secondary category into the General Secondary category.

Another modification to AUSTUDY/ABSTUDY will be implemented from January 1993. This will extend AUSTUDY/ABSTUDY eligibility to students undertaking TAFE-type courses provided by accredited private providers (beyond the limited eligibility for secretarial and computer courses approved for 1992) at an expected cost of $3.0m in 1992-93 growing to $10.1m in 1994-95.

2.4 GENERAL ADMINISTRATION

Covers the running costs, property operating expenses and support service activities relating to education programs administered by DEET and encompassing the administration of student assistance schemes and education policy advice. Continuing assistance under the former National Policy on Languages and several initiatives under the Australian Languages and Literacy Policy are also included in this category.

The total cost of activities under General Administration is estimated at $147.6m in 1991-92, an increase of $23.2m over 1990-91. This marked rise in costs results from the administrative workload associated with the increases in student assistance beneficiary numbers described earlier.

3. HEALTH

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
3.1	Medical Services and Benefits	$m	4744.9	4998.5	5315.0	5796.7	6342.1
		%	11.1	5.3	6.3	9.1	9.4
3.2	Hospital Services	$m	4425.6	4623.7	4890.9	5122.3	5412.5
		%	8.1	4.5	5.8	4.7	5.7
3.3	Pharmaceutical Services and Benefits	$m	1296.8	1327.0	1410.3	1560.5	1750.6
		%	-0.1	2.3	6.3	10.7	12.2
3.4	Nursing Home Subsidies and Domiciliary Care Services	$m	1931.8	2025.3	2100.3	2195.7	2295.2
		%	7.6	4.8	3.7	4.5	4.5
3.5	Other Health Services	$m	381.9	485.4	483.9	468.9	476.1
		%	22.1	27.1	-0.3	-3.1	1.6
3.6	General Administration	$m	158.0	223.8	161.6	128.7	130.6
		%	18.1	41.6	-27.8	-20.3	1.5
	TOTAL	$m	12939.1	13683.7	14362.0	15272.7	16407.2
		%	8.7	5.8	5.0	6.3	7.4

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision for these increases is included in 9C. *Contingency Reserve.*

- **Health outlays are estimated to increase by $744.6m or 5.8% (2.5% in real terms) in 1991-92 and by an average of 6.2% (2.1% real) over the forward years.**

- **The main sources of outlays growth in 1991-92 are:**

  — **indexation of the Hospital Funding Grants (HFGs) ($194.3m);**

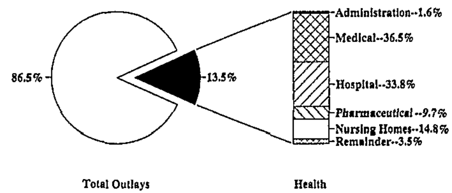
  — **fee increases for Medical Benefits ($72.4m);**

  — **increased medical benefits utilisation and the drift towards more expensive services offset in part by changes to medicare benefits resulting in a net increase of $124.1m;**

  — **increases in Aged Nursing Home costs ($71.5m) reflecting primarily increases in nursing home benefits and nursing home capital costs; and**

  — **increases in Other Health Services ($103.5m).**

Chart 1. Health
Proportion of Total Outlays and Function
1991-92



- ***Health outlays are estimated to remain at 13.5% of total outlays in 1991-92,the same level as 1990-91.***

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Restructuring of Radiology Benefits	-13.2	-22.7	-25.3	-28.4
Restructuring of Pathology Benefits	-49.2	-106.3	-120.1	-134.4
Refraction Testing by Opthalmologists	-3.8	-7.0	-8.0	-8.9
Longer Term Referrals to Specialists	-2.9	-5.6	-6.2	-7.0
Pharmaceuticals - Reduction in Wholesalers' Margins	-1.8	-3.6	-3.7	-3.8
Redefine Medical Practitioner for medical benefits purposes	-1.4	-2.8	-3.1	-3.5
Redefine Professional Service for medical benefits purposes	-5.5	-10.5	-11.7	-13.1
Amend Medical Services Committee of Inquiry Provisions	-4.5	-9.9	-11.0	-12.4
Diagnostic Imaging Counselling for GPs	-4.5	-19.9	-22.2	-24.9
Reorganise Medical Counsellor Functions	-4.7	-10.5	-11.2	-11.7
Organised approach to Cervical Cancer Screening	-16.8	-38.4	-57.7	-75.7
Nursing home capital upgrading	-1.0	-1.3	-1.4	-1.5
Revised HACC Indexation	-2.4	-4.8	-7.7	-11.4
Discount indexation of nursing and personal care (CAM) payments	-7.9	-7.0	-3.8	-3.7
Validation of nursing home payments	-5.2	-5.3	-5.5	-5.9
National Acoustic Laboratories - Fee for Service	-0.8	-2.1	-2.2	-2.3
AIDS Funding	-2.0	-2.1	-2.2	-2.3
Revised acquittal arrangements for nursing and personal care (CAM) payments	0.5	-8.7	0.1	0.1

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
National Better Health Program	-1.0	0.0	0.0	0.0
Veterans' Health Review Package - domiciliary nursing and nursing home savings	-1.5	-4.0	-4.2	-4.3
Changes to Ambulance Services for Veterans	-0.7	-0.7	-0.8	-0.8
Reduction in Running Costs of Repatriation Hospitals	-2.1	-1.1	-1.1	-1.2
New contracting arrangements with private hospitals for the care of Veterans	-1.7	-1.7	-1.1	-0.4
Pharmaceutical charge for Veterans	-3.6	-21.1	-22.8	-24.5
Lengthening payment times for direct billed Medicare Services	-19.1	0.0	0.0	0.0
Revised Medicare arrangements	-163.9	-306.1	-483.9	-696.5
Pharmaceutical benefits - impact of FA/FAS reform	-2.6	-9.6	-17.0	-20.0
Medical Benefits - National Medical Units offset	-1.1	-1.2	-1.3	-1.3
Increases				
Payment for establishment of a Magnetic Resonance Imaging unit in Tasmania	2.4	0.0	0.0	0.0
Continuation of Hospital Enhancement Program - including funds for Magnetic Resonance Imaging	30.0	30.0	0.0	0.0
Casemix funding systems for hospitals	0.3	0.3	0.3	0.4
Revised nursing and personal care (CAM) funding arrangements	2.8	11.2	12.9	12.9
Supplements to nursing home infrastructure (SAM) payments	0.6	3.0	2.8	2.3
Community Visitors Scheme Pilot for Nursing Homes	1.8	0.0	0.0	0.0
National Food Authority	1.8	2.0	2.1	2.2
Expansion of AIH role to include community services & welfare statistics	0.7	2.2	2.2	2.2
Extension of Repatriation Treatment Benefits to Australian Mariners of WW1 and WW2	1.5	3.0	3.5	3.9
Veterans' Frail Aged Accommodation	0.2	0.3	-1.0	-4.8
Pharmaceutical Benefits-Joint Commonwealth/State safety net	0.1	2.3	2.5	2.7
High cost drugs	36.1	34.9	46.4	61.9
Blood Transfusion Services - extra capital funding	5.0	2.5	2.5	0.0
Agricultural and Veterinary Chemicals	0.4	1.8	0.0	0.0
Magnetic Resonance Imaging	0.0	0.0	14.6	18.3
Extension of eligibility for repatriation benefits to spouses of service women	0.2	0.7	1.0	1.2
Aboriginal personal compensation for Atomic Tests	0.6	0.0	0.0	0.0
National Medical Specialty Centres	1.1	1.2	1.3	1.3
Increased spending for National Campaign Against Drug Abuse	2.0	1.0	0.0	0.0
Payment to Aboriginals and Torres Strait Islanders for WW II service	0.4	0.4	0.4	0.4

- ***The Government has taken a range of measures to contain outlays on Health.* These measures, which focus largely on restraining Medicare Benefits outlays, *are listed in the measures table above.***

- **The most important of the measures is a single package containing the following two major components relating to the introduction of further co-payments under Medicare and changes to general practitioner (GP) funding arrangements. Net savings are estimated at $163.9m in 1991-92 and $306.1m in 1992-93:**

  - **— major changes to the funding of general practitioner services to be discussed with the medical profession and further developed during 1991-92; and**

  - **— introduction of further price signals into Medicare with a reduction of the Medicare benefit for out of hospital GP services to non-cardholders in two stages ($3.50 rising to $5.00) with consequent increases in the amounts paid by patients, including a co-payment for non-cardholders using direct billed services. In order to protect families and the chronically ill a more generous family based safety net will be introduced from 1 January 1992 to supplement the current individual Medicare safety net.**

- **Other measures designed to restrain Medicare Benefits outlays include:**

  - **— restructuring of pathology benefits involving a licensing system to rationalise the number of specimen collection centres and other measures introduced in association with the profession which are expected to produce savings of $49.2m in 1991-92 and $106.3m in 1992-93; and**

  - **— restructuring of private radiology benefits with differential fees as between comprehensive and other radiology which is expected to save $13.2m in 1991-92 and $22.7m in 1992-93.**

- **The Government is introducing an organised approach to cervical cancer screening designed to target more effectively those groups most in need of screening and to discourage overservicing. The new approach will improve health outcomes and be more cost effective than the current arrangements giving estimated savings of $16.8m in 1991-92 and $38.4m in 1992-93.**

PURPOSE

Commonwealth activity in the health area is primarily directed towards ensuring that all Australians have access to necessary health services at reasonable cost. It also includes the setting and administering of standards for the safety and efficacy of therapeutic goods and services, support for health research and promotion of better health. Health services account for over 90% of Health function outlays.

NATURE OF HEALTH OUTLAYS

Commonwealth financial assistance for health services is provided for both individuals and institutions.

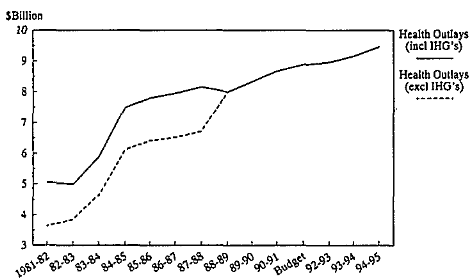
For individuals, benefits are paid for services rendered and goods supplied, in the main, by private professionals and organisations eg doctors, pharmacists and nursing home proprietors. Individuals can also receive assistance through tax expenditures, a rebate for the excess of unreimbursed health expenses over $1000 in the year of income, sales tax exemptions on a wide range of health related goods, and tax deductibility for gifts to eligible organisations.

For institutions, support is provided to State and Territory hospital systems through *specific purpose hospital funding grants. Health services are also provided directly* through the repatriation hospital system as well as through such organisations as the National Acoustic Laboratories (NAL).

TRENDS IN HEALTH OUTLAYS

Over the period 1981-82 to 1990-91 there were significant changes in the level of Commonwealth's involvement in the financing of health care. The level of Commonwealth involvement is reflected in Chart 2.

Chart 2. Health Outlays
With and Without Identified Health Grants (a)
(1984-85 prices)



(a) Identified Health Grants were classified to *9A. Assistance to Other Governments, nec* during the period 1981-82 to 1987-88.

Until 1980-81 real growth in outlays was relatively low, averaging 1.5% a year, reflecting restrictions of coverage of medical benefits paid by the Commonwealth and a reduction in the real level of pharmaceutical benefits for non-pensioners. In 1981-82, there was a sharp drop in direct outlays reflecting the cessation of the hospital cost-sharing agreements with most States. These were replaced by a combination of *Identified Health Grants (IHG) introduced under 9A. Assistance to Other Governments* and Medicare Compensation grants (from 1 February 1984). Including IHGs, total Health outlays declined, in real terms, between 1980-81 and 1982-83 at an average of 0.7% a year.

A sharp increase in total Health outlays in 1983-84 and 1984-85, averaging 22% real a year, was largely a result of the introduction of Medicare with a consequential increase in coverage and in the average real level of Commonwealth funding of medical benefits. These were previously financed by contributions to health insurance funds and out-of-pocket payments by patients. There was also a significant increase in payments to the States, including compensation payments for revenue forgone following the introduction of free public hospital care.

Aside from the initial Medicare years (1983-84 and 1984-85), from 1985-86 to 1990-91 real growth averaged 2.1% a year, although in both 1989-90 and 1990-91 real growth was 4.1%.

This growth reflected:

- higher utilisation of medical services and pharmaceutical benefits; and
- drift towards more expensive medical services and more expensive drugs.

In 1991-92 real growth in total Health outlays is expected to be 2.5%. This reflects modest real growth in medical benefits and services (2.1%), hospital services (1.2%) nursing home subsidies (1.6%) and expected negative real growth in pharmaceutical benefits and services (0.9%). Substantial real growth is expected in other health services (23.1%) and general administration (37.2%) due to re-phasing of expenditures and programmed real increases in budget allocations.

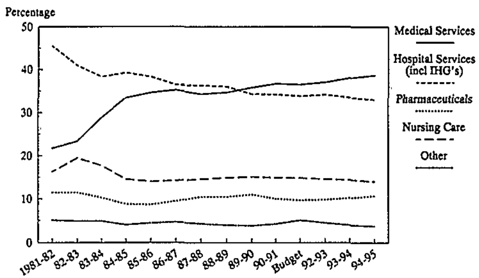
The forward estimates reflect further increases in outlays, with expected real increases in the range of 0.9% to 3.3% over the forward years. Although they have been moderated by the medical benefits measures in the budget (the co-payment and GP's package effectively reduced the average growth rate a year by 3%), these growth rates mainly reflect the increased cost of medical benefits and services (growth rates in the range of 2.2% to 5.2%) arising from:

- substantial volume growth in medical services;
- drift towards more expensive services; and
- continuation of the advances in medical technology.

Following real reductions in outlays in 1990-91 and 1991-92, resulting from the effect of introducing a pensioner co-payment and increasing the general co-payment, pharmaceutical benefits will grow at an average of 5.4% a year in real terms in the forward years reflecting continuing increases in numbers and average prices of prescriptions.

Major changes to health financing arrangements during the last ten years have significantly altered the composition of total health outlays (including IHGs) as shown in Chart 3.

Chart 3. Health
Composition - Including IHGs
Percentage of Total Health Outlays



With the introduction of Medicare, there was relatively stronger growth in expenditure on medical benefits and hospital services. Medical services and benefits increased from 23.3% of outlays in 1982-83 to 34.6% in 1985-86, largely reflecting the higher benefits paid under Medicare. From then until 1990-91 medical services and benefits increased further to 36.7% of outlays while hospital services decreased from 38.3% to 34.2%. Over the same period pharmaceutical benefits increased from 8.7% to 10.0% on total health outlays and outlays on nursing homes increased from 14.0% to 14.9%.

Over the forward years, medical benefits and services are expected to grow faster than all other components of this function except pharmaceutical benefits, so that by 1994-95 medical benefits and services will comprise 38.7% of outlays as compared to 36.5% in 1991-92. This occurs despite the introduction of increased co-payments and other reforms to Medicare.

MAJOR POLICY CHANGES

Over the period 1981-82 to 1990-91, there were significant changes in the level and nature of Commonwealth involvement in health financing and service delivery. The most significant change was the introduction of universal health insurance under Medicare in 1984. Medicare greatly extended the coverage and level of medical benefits, initially abolished private medical insurance (although in-hospital gap medical insurance became possible later) and substantially increased Commonwealth assistance for State hospitals. Real Commonwealth outlays on Health rose by 27.4% in 1984-85, reflecting the replacement of private payments for Medicare costs (both directly and through insurance) and the fact that public patients became eligible to receive free shared ward accommodation and free outpatient treatment in public hospitals.

1990-91 OUTCOME

The outcome for 1990-91 was $9.2m (or less than 0.1%) more than the budget estimate. The major factors contributing to this were lower than budgeted outlays on:

- medical services and benefits ($14.5m), reflecting smaller increases in service utilisation than were anticipated, especially for general practitioners, although there was greater than anticipated utilisation across all veterans medical services;
- general administration ($12.9m); and
- other health services ($9.7m).

However these underspends were more than offset by greater than budgeted outlays on:

- hospital services ($10.8m) reflecting increased utilisation by veterans partly offset by a decrease in Hospital Funding Grant indexation factors;
- pharmaceutical services and benefits ($14.8m) mainly due to a delay in the implementation of a reduction in pharmacists' remuneration, increased assistance for closures and amalgamations of pharmacies offset by lower utilisation of pharmaceuticals; and
- nursing homes and domiciliary care services ($20.5m) reflecting higher than estimated nursing salary increases and non achievement of targets relating to the average number of hours of care funded in nursing homes.

3.1 MEDICAL SERVICES AND BENEFITS

3.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Medical Benefits	Sm	4235.3	4431.8	4705.8	5135.7	5622.2
	%	11.2	4.6	6.2	9.1	9.5
Health Insurance Commission	Sm	153.4	161.8	159.3	165.1	170.7
Administrative Costs	%	9.3	5.4	-1.5	3.6	3.4
Veterans and Dependants	Sm	269.3	309.0	342.3	381.3	428.1
	%	9.8	14.8	10.8	11.4	12.3
Other Services	Sm	86.9	95.9	107.7	114.6	121.1
	%	11.4	10.4	12.3	6.4	5.7
TOTAL	Sm	4744.9	4998.5	5315.0	5796.7	6342.1
	%	11.1	5.3	6.3	9.1	9.4

These outlays are used to enable all Australian residents to obtain the appropriate medical services which are necessary for their health care, without excessive price barriers. This is done through payment of medical benefits or alternative financing arrangements. Included in this subfunction are medical benefits payments for consultations and services, treatment costs and allowances for eligible veterans and their dependants, Health Program Grants, and administrative costs of the HIC.

Medical Benefits

Under Medicare the following Commonwealth assistance is provided towards the costs of medical and optometrical services:

- for out-of-hospital medical services 85% of the Schedule fee (subject to the benefit not exceeding the fee actually charged) is met by the Commonwealth plus any further amount required to ensure that the gap (met by the patient) between the benefit and Schedule fee does not exceed $26 (indexed from 1 November 1991) for an individual item; and that no person has to make gap payments exceeding $246 a year. New arrangements are to apply to medical benefits for GP services from 1 November 1991 and a new family safety net will apply from 1 January 1992. Details of the changes are set out below;
- for medical services provided to in-hospital patients under private care, the Commonwealth meets 75% of the Schedule fee with no gap limit on individual benefit claims. Public patients are not charged for treatment; and
- practitioners may direct bill any patient and accept the medicare benefit as full payment. (New arrangements apply for GP services from 1 November 1991.)

Registered health insurers are required to offer gap insurance in their basic tables to cover the difference between 75% and 100% of the schedule fee for medical services rendered to private patients in hospitals (either public and private hospitals). With some exceptions (eg some overseas visitors and compensable cases), no other form of medical insurance cover, 'gap' or otherwise, is permitted. All health insurance offered must comply with the community rating principle whereby premiums are based only on family/single status and not on claims experience, age or sex.

Veterans and Dependants

The Commonwealth meets the costs for eligible veterans and their dependants of local medical officer, specialist, paramedical and dental services, the supply and maintenance of surgical aids, and travelling and other expenses incurred in obtaining medical treatment.

Health Insurance Commission - Administration of Medical Benefits

The HIC pays medical benefits for medical and optometrical services and undertakes measures to combat medical fraud and overservicing. It also provides services for processing of DVA's treatment accounts.

Other Services

This item includes Health Program Grants authorised under the *Health Insurance Act 1973* as the Commonwealth contribution to approved health related services such as the Yallourn Medical Society, and payments to NSW, Victoria, Queensland and Tasmania for the continued operation of the former Commonwealth Pathology Laboratories. It is intended that the arrangements with IMVS in SA, the ACT Pathology Service, the Victorian Cytology Service and WA Pathology Service will be renegotiated following the changes to the pathology schedule. Health Program Grants are intended to be a cost-effective alternative to funding through medical benefits.

Also included is funding for the Support for Training and Evaluation Program which includes the Family Medicine Program, the Rural Health Support, Education and Training Program and General Practitioner Evaluation Program. The Government, in recognising the need to support continuing improvement in the quality of primary medical care, introduced a vocational register for general practitioners in December

1989. Those practitioners who enrol on the vocational register and participate in continuing medical education receive increased remuneration through higher schedule fees.

Trends

Between 1981-82 and 1990-91 expenditure on medical benefits and services grew rapidly, at an average of 20.7% a year (12.5% real). Around 75% of that growth resulted from higher average utilisation of more expensive services. Total population growth represents about 20% of the growth in the volume of medical benefits.

Over the period 1985-86 to 1990-91, outlays on medical benefits and services increased by 10.5% a year (3.3% real) on average. For Medical Benefits, the major item in this subfunction, outlays increased by an average of 10.3% a year. This reflected:

- overall growth in the number of services averaging 5.7% a year, due to increases in the size and ageing of the population (1.6%) and higher utilisation per person (4.1%);
- increases in schedule fee levels averaging 5.2% a year; and
- an average increase of about 6% a year in the average benefit cost of services, of which about 1% a year reflects the drift to more expensive diagnostic services and procedures.

Some restraint on the overall growth rate has been achieved by:

- reviewing areas of the medical benefits schedule showing rapid growth and restructuring benefits. Measures were applied in the pathology area in 1986 and 1989 and in diagnostic imaging and a number of other areas in 1987-88; and
- medical benefits for in-hospital treatment of private patients were reduced from 85% to 75% from 1 August 1987.

During 1990-91 expenditure on medical benefits increased by 11.1% (nominal) on the previous year. An estimated 1.6% of the increased outlays was due to increases in and ageing of the population, 1.5% due to increased utilisation of services per person, 2.4% due to a trend towards higher cost services, 5.1% due to fee increases and 0.6% due to new items added to the schedule.

New items added include those for ECG and IVF which together cost about $12m in 1990-91.

The trend towards higher cost items (fee drift) continued in 1990-91, contributing 2.4% towards the increase in medical benefits outlays. About half of this factor was due to the continuing take-up by GPs of the opportunities provided by vocational registration. Higher benefits are paid for services provided by vocationally registered GPs as part of a package including extra training and quality improvement. The remaining increase is due to fee drift across many of the items in the schedule.

For 1991-92 outlays on medical benefits are expected to increase by 2.1% in real terms and then by an average of 4.1% a year over the forward years. Over the forward estimates period, increases in outlays on medical benefits and services are expected to be more restrained than in previous years due to the introduction of increased co-payments and other measures. Benefit growth is expected to change from an annual increase of 11.5% to about 8.3%. Within this, the growth in the number of services is expected to decline from an annual average of about 5% to about 2.2% (1.6% due to growth and ageing of the population and 0.6% due to increased utilisation per person).

The trend towards higher cost services is expected to continue and will account for about 1% of the increase in outlays while the introduction of new items to the schedule will further add to benefits expenditure. The general fee increases determined in line with broad economic indicators are expected to be 3.57% in 1991-92 (except for radiology and pathology) and an average of around 4% over the forward years.

Measures

In order to restrain the growth in Medical Benefits and Services, the Government has introduced a series of reforms in this Budget to address both demand and supply side issues and aimed at better targeting of Medicare outlays to encourage more cost effective and higher quality primary care and to reduce waste.

The more important measures include:

- further price signals are being introduced into Medicare with a reduction of Medicare benefits from 1 November 1991 by $3.50 for out of hospital GP services to non-cardholders. Following this reduction in medical benefits GPs will be permitted for the first time to charge non-cardholders a co-payment of up to $3.50 on direct billed services to which the benefit reduction applies. The reduction in the medical benefit and the consequential extra co-payment will also apply to patient billed services and will be in addition to the amounts these patients already pay for gap payments and above schedule charging. There will be a further reduction in benefits for out of hospital GP services to non-cardholders of $1.50 from 1 November 1992. The total $5.00 reduction in medical benefit will be indexed from 1 November 1993;
- in order to protect families and the chronically ill the Government is introducing a family based safety net, to expand the current individual Medicare safety net, from 1 January 1992 with a threshold of $246 (indexed). Gap payments on patient billed out of hospital services, as well as the further co-payments on GP services covered above will count towards the safety net; and
- changes in the funding of general practitioner services to be discussed with the medical profession and further developed during 1991-92. Changes to the funding arrangements to assist the profession in improving the quality of GP care might include practice grants to supplement benefits from fee for service and practice budgets on a trial basis for diagnostic services and pharmaceuticals, in conjunction with measures to address the oversupply and maldistribution of GPs.

The package is estimated to produce net savings of $163.9m in 1991-92 and $306.1m in 1992-93. It assumes a modest reduction in the volume of services demanded in response to the price signals, but with that demand effect partially offset by a supplier response, as suppliers try to maintain their incomes by providing more services in reaction to the expected fall in demand. Over time it is expected that the supplier response will be mitigated by the GP changes, so that as the problems of over-supply are addressed, there will be further net savings. (The assumptions underpinning the various elements of these estimates were derived following an examination of a background paper prepared for the National Health Strategy Review, *The Effects of Consumer Co-payments in Medical Care*).

For further information, see Budget Related Paper No 9, *Health Care in Australia*, which provides a detailed discussion of health funding issues, as well as trends in both the demand and supply of health services and canvasses the Commonwealth's responses to those patterns.

Recognising the role that factors relating to the suppliers of services play in the increasing demand for medical services and the cost to the Commonwealth of those services, the Government has made further decisions affecting the supply of medical services.

The major reforms relating to the supply side of medical services entail a restructuring of benefits for pathology and radiology services, both of which have been sources of substantial volume and outlays growth in recent years:

- the pathology restructuring involves the introduction of a licensing system to rationalise the number of specimen collection centres, establishment of a tripartite control body to implement measures aimed at further efficiency gains, a freeze on the 1 November 1991 pathology schedule fee increase, and a range of immediate pathology schedule reforms (including a differential episodic transaction fee). These measures are estimated to save $49.2m in 1991-92, $106.3m in 1992-93, $120.1m in 1993-94 and $134.4m in 1994-95; and
- the private radiology restructuring will involve differential schedule fees for 'comprehensive' and 'other' radiology practices to reflect the lower unit costs of other radiology practices, which generally specialise in simple X-rays and ultrasounds. Between 1984-85 and 1989-90 radiology services per capita increased by 33.3% and benefits per capita increased by 55.8%, with substantial growth in other radiology being a major factor behind this overall growth. The measures are estimated to save $13.2m in 1991-92 and a total of $76.4m in the forward years.

Other changes intended to improve the cost effectiveness of medical services and restrain the growth in medical benefits outlays (see the measures table in the overview section) include:

- eliminating the differential fee between ophthalmologists and optometrists for refraction testing as from 1 November 1991;
- amending the health insurance regulations as from 1 November 1991 to give the referring GP the option of determining the time period of referrals to specialists (currently 12 months maximum) or to make the referral valid for an indefinite period;
- amending the definition of medical practitioner in the *Health Insurance Act 1973* to limit access to Medicare benefits to medical practitioners in line with their State/Territory registration;
- amending the definition of a professional service in the *Health Insurance Act 1973* to require that it be 'clinically relevant' in order to attract Medicare benefit from 1 December 1991;
- amending the provisions in the *Health Insurance Act* relating to Medicare Services Committees of Inquiry to reconstitute these bodies, recover overpayments to doctors of medical benefits, and impose fines equivalent to the overpayments; and
- increasing the minimum and average payment period for all direct billed claims (other than pathology for which there are separate arrangements) by three days.

An organised approach to cervical cancer screening is being introduced: this is designed to improve health outcomes, discourage overservicing and better target those groups most in need of screening.

Estimated net savings as a result of these initiatives are $54.0m in 1991-92, $74.5m in 1992-93, $97.7m in 1993-94 and $120.6m in 1994-95.

The efforts of the HIC to identify inappropriate service patterns and counsel practitioners concerned will be increased by:

- a new counselling strategy (similar to that already in existence for pathology) for abnormally high orderers of diagnostic imaging services; and
- the reorganisation of existing medical adviser functions using sophisticated computer programs ('neural network' technology) for early detection and counselling of inappropriate GP service patterns.

The HIC initiatives are expected to save $9.2m in 1991-92 increasing to $36.6m in 1994-95.

For Veterans and Dependants, repatriation medical treatment benefits will be extended to Australian mariners of World War I and World War II at a net cost of $0.8m in 1991-92 increasing to $2.1m in 1994-95.

The various reforms to Medicare including the GP changes will have the effect of reducing the operating costs of the HIC because of resultant reductions in the volume of medical services. Resultant savings after allowing for set up costs for the GP changes are estimated to be $0.3m in 1991-92, $7.2m in 1992-93, $10m in 1993-94 and $13.5m in 1994-95 (these consequential savings, are included in the net savings for the GP changes set out above).

3.2 HOSPITAL SERVICES

3.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Public Hospitals	$m	3682.3	3855.1	4099.2	4355.3	4643.9
	%	7.6	4.7	6.3	6.2	6.6
Veterans and Dependants	$m	712.7	729.5	746.2	742.6	768.7
	%	10.6	2.4	2.3	-0.5	3.5
Other	$m	30.7	39.2	45.6	24.4	-
	%	12.3	27.8	16.4	-46.4	-100.0
TOTAL	$m	4425.6	4623.7	4890.9	5122.3	5412.5
	%	8.1	4.5	5.8	4.7	5.7

Outlays are designed to ensure efficient and effective delivery of free hospital care under Medicare which entitles all Australian residents to free shared ward accommodation and treatment and free outpatient treatment at public hospitals. Those electing to have 'doctor-of-choice' or private ward accommodation in a public hospital must bear the additional cost or take out appropriate hospital insurance cover. To support free hospital care under Medicare, the Commonwealth provides substantial financial assistance to the States.

Public Hospitals

Following the introduction of Medicare on 1 February 1984 funding was provided by way of specific purpose Medicare Compensation Grants and general purpose Identified Health Grants (IHGs). In 1988, these payments were combined as Hospital Funding Grants to run for five years commencing 1 July 1988. The grants will total $3825m in 1991-92 and are indexed for award wage and CPI increases and age/sex weighted population growth.

The grants also include a specific Commonwealth contribution ($35.5m in 1991-92) for the treatment of AIDS patients in public hospitals. This component is indexed to the actual growth in cases treated in recognition of the growing impact of AIDS on public hospital systems.

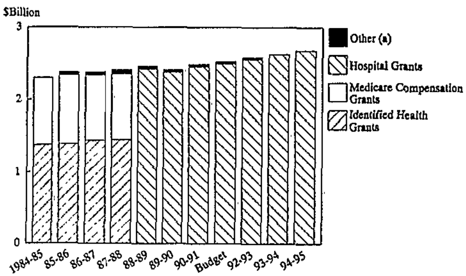
Incentive payments and penalty provisions under the grants are directed to ensuring appropriate levels of access for public patients. Incentive payments in 1991-92 aimed at promoting continued efficiency gains in public hospitals include:

- $31.1m for expansion of post-acute and palliative care services to promote continued reductions in hospital length of stay, thereby allowing more effective utilisation of inpatient resources;
- $12.4m for expansion of day only treatment as a substitute for overnight hospital stays and to allow for increased throughput with a view to reducing waiting times for longer stay procedures; and
- $7m, of which $5.4m will be available for the States, for the development of cost based casemix systems to allow more informed resource management in the hospital system and assist meaningful comparisons of hospital performance.

The offsetting penalty provisions involve reduced payments for those States where per capita in-hospital medical benefits exceed a prescribed maximum level and/or levels of public patient access are less than a prescribed minimum level. Actual penalties will be based on data available in June 1992. The Commonwealth also contributes to the upgrading of the infrastructure of State public hospitals through the Hospital Enhancement Program. The Commonwealth provided $50m in 1990-91, of which $25m was matched $ for $ by the States. The Hospital Enhancement Program is to continue until 1992-93 with the Commonwealth providing $30m in each of 1991-92 and 1992-93. Within this amount, the Commonwealth has agreed to provide net additional funding for a controlled expansion of Magnetic Resonance Imaging diagnostic services ($3.4m in 1991-92 and $10.7m in 1992-93).

Chart 4 shows total Commonwealth outlays at constant (1984-85) prices on public hospitals between 1984-85 and 1994-95. For comparative purposes, IHGs have been included for the years 1984-85 to 1987-88.

Chart 4. Outlays on Public Hospitals (1984-85 prices)



(a) Other comprises the Teaching Hospitals Capital Equipment Program (1985-86 to 1987-88), the Waiting Lists Program (1987-88 to 1988-89) and the Hospital Enhancement Program (1988-89 to 1992-93).

Veterans and Dependants Hospitals

Repatriation hospitals and clinics are maintained in each State for the treatment of eligible veterans and their dependants. Community patients are admitted to Repatriation hospitals free of charge if spare beds are available and the facilities are suitable. Conversely, veterans and their dependants may, where appropriate, be admitted to private or State public hospitals, generally at Commonwealth expense. Currently, 52% of bed days for veterans are provided outside Repatriation hospitals.

The Government has decided that Repatriation hospitals should be integrated with the State hospitals system by 1995 or earlier if the States wish to proceed more quickly. The Government is committed to ensuring the continued availability of high quality hospital care to veterans. Negotiations with the States on the transfers are currently under way.

Other

The Commonwealth is providing financial assistance over the period 1985 to 1993 to States and Territories for the transfer of nurse education from hospital-based facilities to the higher education sector.

The Commonwealth provides an indexed subsidy towards the additional recurrent costs incurred by States and Territories for each student nurse at a higher education institution. AUSTUDY is also available on the same basis as for other students. The States and Territories provide appropriate capital facilities.

Similar arrangements apply to the transfer of nurse education currently being provided in Repatriation hospitals.

Payments to the States and the Territories under these arrangements in 1990-91 were $30.3m, with an estimated $39.2m for 1991-92 reflecting increased take-up by the States and increasing costs in higher education.

Trends

Commonwealth recurrent expenditure on hospital services and benefits grew in real terms over the period 1981-82 to 1990-91 by 2.9% a year with the pattern of funding affected substantially by periodic changes in hospital funding arrangements and the associated shifts in the levels of average real benefits. For example, the introduction of Medicare resulted in a 30.2% rise in real Commonwealth expenditure in 1984-85, largely replacing private contributions to State hospital budgets through hospital charges. After the initial impact of Medicare, from 1985-86 growth declined until the introduction in the 1988-89 Budget of new and more generous funding arrangements for the States. The decline prior to that Budget mainly reflects the method of indexation of the Medicare Compensation Grants and the termination of private hospital subsidies. The specific purpose Hospital Funding Grants are indexed for cost increases and age/sex weighted population growth.

For 1991-92 outlays are estimated to increase by $198.1m (1.2% real), mainly due to the indexation of the Hospital Funding Grants.

The main features for the forward years are:

- real growth in the Hospital Funding Grants of 2.5% a year reflecting forecast age/sex weighted population growth; and
- an average real decline of about 2.2% a year on outlays for veterans mainly reflecting efficiency gains in the repatriation hospitals and the phasing of outlays on property operating expenses and capital works.

Measures

As noted, the Hospital Enhancement Program is to continue in 1991-92 and 1992-93. Funding of $30m in both years includes funding for the net costs of a controlled expansion of Magnetic Resonance Imaging diagnostic services.

The Government has decided to extend repatriation hospital treatment benefits to Australian mariners of World War I and World War II at a cost of $0.7m in 1991-92 and $1.8m by 1994-95.

3.3 PHARMACEUTICAL SERVICES AND BENEFITS

3.3		1990-91 Actual (a)	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Pharmaceutical Benefits Scheme	$m	na	318.4	375.7	423.6	474.8
- General (a)	%	na	na	18.0	12.7	12.1
Pharmaceutical Benefits Scheme	$m	na	728.3	797.0	886.0	992.3
- Concessional (a)	%	na	na	9.4	11.2	12.0
Sub-total Pharmaceutical Benefits	$m	1096.9	1046.7	1172.7	1309.6	1467.1
Scheme	%	-3.4	-4.6	12.0	11.7	12.0
Repatriation Pharmaceutical	$m	86.1	88.6	75.3	82.1	89.2
Benefits Scheme	%	2.2	2.9	-15.0	9.0	8.6
Alternative Arrangements	$m	60.1	106.7	112.3	131.9	156.4
	%	37.0	77.7	5.2	17.4	18.6
Pharmacy Restructuring	$m	13.5	46.5	15.0	2.0	2.0
	%	na	245.4	-67.8	-86.7	-
Health Insurance Commission	$m	40.3	38.4	35.0	34.9	35.9
Administrative Costs	%	16.4	-4.7	-9.0	-0.2	2.7
TOTAL	$m	1296.8	1327.0	1410.3	1560.5	1750.6
	%	-0.1	2.3	6.3	10.7	12.2

(a) For 1990-91 reliable data is not available on the classification of outlays between the general and concessional categories.

Through pharmaceutical benefits, the Commonwealth aims to ensure access by Australian residents to necessary cost effective medicines at the lowest cost to Government and consumers, consistent with reliable supply.

Pharmaceutical Benefits Scheme (PBS) and the Repatriation Pharmaceutical Benefits Scheme (RPBS)

Under the schemes pharmaceuticals are supplied to:

- the general public:
  - — at a maximum of $15.70 per prescription item until total purchases reach $300 in a year; then
  - — at $2.50 per prescription item until purchases reach a further $50 in a year; then
  - — at no cost thereafter in that year; and
- to patients entitled to the concessional payment: pensioners, Health Care cardholders (including the unemployed and low income families), Health Benefits cardholders (sickness beneficiaries), war widows and their dependants and from 1 January 1992 veterans (until that date veterans who receive pharmaceuticals under RPBS will not pay a charge):
  - — at $2.50 per prescription item until purchases reach $130 in a year; then
  - — at no cost thereafter in that year.

The charges and the safety nets are indexed. The safety nets of $300 general and $130 concessional apply to a family's or an individual's purchases and operate on a calendar year basis. Pensioners have been required to make the concessional payment from

1 November 1990 (the introduction of the payment was accompanied by a compensating pension increase). The safety net for pensioners for the 14 month period from *November 1990 to December 1991 is $150.*

The Pharmaceutical Benefits Advisory Committee (PBAC) makes recommendations on items to be added or removed from the PBS and the conditions under which they may be prescribed. Prices paid to manufacturers are recommended by the Pharmaceutical Benefits Pricing Authority (PBPA). The authority takes account of guidelines for granting special price increases to pharmaceutical manufacturers for increased research, development and exports (Factor F). Assistance for pharmaceutical manufacturers is now classified under *7B. Industry Assistance and Development.*

Alternative arrangements

In certain circumstances pharmaceuticals are not listed under the PBS and alternative arrangements are made. These arrangements apply to patients who receive medical treatment outside the hospital setting.

The most significant alternative arrangements are:

- human growth hormone ($46.0m) is supplied free of charge through doctors, mainly paediatricians; and
- *selected high cost drugs are supplied by the States and Territories through hospitals* and the Commonwealth funds its share of costs (relating to the use of the drugs in the community setting) through grants to the States and Territories ($36.1m).

Pharmacy restructuring

Major changes to pharmacists' remuneration and the operation of retail pharmacies were announced last year. To assist pharmacists, a restructuring package is provided by the Commonwealth mainly to facilitate closures and amalgamations of pharmacies. After the 1990-91 Budget, the Government agreed to provide assistance of $16m over the two years to 1992-93, being mainly grants for upgrading computer equipment in pharmacies.

Health Insurance Commission (HIC) - administration of the pharmaceutical benefits scheme

The HIC reimburses pharmacists for the difference between the retail price of pharmaceuticals and patient contributions. It also undertakes measures to ensure that benefits are supplied correctly and only to eligible people.

Trends

Outlays on pharmaceutical benefits increased at an average of 12.2% a year in nominal terms (4.6% real) from 1981-82 to 1990-91.

The key determinants of growth in pharmaceutical benefits have been the extent of patient contributions, shifts in the patterns of doctors' prescribing, changes to average usage of drugs, the composition of patient populations particularly the effects of ageing, the range of drugs on the pharmaceutical benefits schedule, the level of wholesale prices of drugs negotiated between the manufacturers and the PBPA, and pharmacists' remuneration.

With regard to these various factors:

- underlying volume growth in pensioners' scripts of around 5% a year until late 1990 has been a major cause of real growth because the pensioners are the dominant group by volume and there was no restraint on demand through a patient contribution;
- introduction of the concessional arrangements in 1983 resulted in a significant reduction in patient contributions for the unemployed and low income earners; and
- a substantial rise in the average dispensed price of prescriptions (12% a year) reflecting increased prescribing of expensive technologically advanced drugs.

Until 1987-88 restraint on outlays under the PBS came mainly from periodic increases in the general patient contribution and the containment of price increases of listed drugs. In the 1987-88 Budget cost-effectiveness criteria were included in PBAC considerations and in 1988 restrictions on the prescribing of some expensive drugs were introduced.

The 1990-91 Budget measures, including changes to pharmacists' remuneration and the introduction of a charge for pensioners, have resulted in a fall in real outlays. Drug consumption data since the introduction of the pensioner charge indicates a significant fall in the number of pharmaceuticals used by this group. Extension of the charge to veterans from 1 January 1992 is expected to have a similar result.

From 1991-92 to 1994-95 nominal growth is estimated to average 9.7% (5.4% real) a year. This growth mainly reflects continuing increases in drug prices, ageing of the population, and increasing utilisation of new and often very expensive drugs. The freeze on pharmacists' remuneration until June 1992 contributes to the lower growth in 1991-92 relative to the forward years.

Overall, pharmaceutical benefits are expected to increase from 9.7% of total health outlays in 1991-92 to 10.7% in 1994-95.

Measures

The Government has introduced the following measures:

- from 1 January 1992, charges and safety nets applying to concessional patients will be extended to veterans who are now receiving free prescriptions under the RPBS, and veterans who are not already receiving the compensating payment of pharmaceutical allowance with their pension will receive it from that time. This will save $3.6m in 1991-92, and a total of $68.4m in the forward years. The financial compensation for veterans is outlined under *4. Social Security and Welfare*;
- a joint Commonwealth/State safety net for pharmaceuticals is planned to come into operation from 1 January 1992. Drugs supplied either through PBS or through outpatient clinics of public hospitals will count towards the joint expenditure threshold. The measure will cost $0.1m in 1991-92, and a total of $7.4m in the forward years;
- from 1 December 1991 the wholesalers' margin for drugs costing more than $45 will be reduced from 13% to 10%, the level now applicable to cheaper drugs. It will provide savings of $1.8m in 1991-92 and a total of $11.1m in the forward years;

- grants will be paid to the States to cover the cost of supplying community patients with two expensive drugs: cyclosporin (an anti-rejection drug used by transplant patients) and erythropoietin (an anti-anaemia drug used by people on kidney dialysis). The payment will apply from 1 January 1991. The cost is estimated to be $36.1m in 1991-92 and a total of $143.2m in the forward years; and
- families receiving part family allowance supplement (FAS) will not be eligible for pharmaceutical benefits at the concessional rate from 1 January but the entitlement of existing FAS recipients will be preserved. The families affected will, however, be on average better off because of an increase in the rate of FAS. This measure will save $2.6m in 1991-92, $9.6m in 1992-93, $17.0m in 1993-94 and $20.0m in 1994-95. Changes to FAS are outlined under *4. Social Security and Welfare.*

3.4 NURSING HOME SUBSIDIES AND DOMICILIARY CARE SERVICES

3.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Nursing Home Subsidies	$m	1638.0	1716.5	1776.0	1849.3	1923.9
for the Aged	%	8.0	4.8	3.5	4.1	4.0
Nursing Care for Veterans	$m	*106.1*	*107.1*	*108.6*	*112.8*	*118.0*
and Dependants	%	0.7	0.9	1.4	3.9	4.6
Nursing Home Subsidies for	$m	75.4	75.2	76.2	79.2	82.5
People With Disabilities	%	3.1	-0.3	1.3	4.0	4.1
Domiciliary Nursing Care Benefits	$m	33.0	34.3	35.7	37.1	38.6
	%	3.9	4.0	3.9	3.9	3.9
Home Nursing Services	$m	79.2	92.2	104.0	117.3	132.3
	%	14.8	16.3	12.8	12.8	12.8
TOTAL	$m	1931.8	2025.3	2100.3	2195.7	2295.2
	%	7.6	4.8	3.7	4.5	4.5

Nursing home subsidies are provided to ensure that people who are assessed as requiring nursing home care have access to residential support and care which is appropriate to their needs. Domiciliary nursing care benefits and services are provided to assist frail aged and younger disabled people to remain in the community and so avoid inappropriate institutional care.

Nursing Home Subsidies for the Aged

New funding arrangements for nursing homes commenced on 1 July 1987 involving the phased introduction over the period to 1 July 1991 of standard daily resident fees and standard Commonwealth benefits. The first stage introduced a national standard funding component for infrastructure costs and the second stage from 1 July 1988 introduced nationally uniform nursing and personal care staffing arrangements. Under the uniform staffing arrangements five levels of resident service need were established at a standard number of hours and a standard rate of funding per hour. From 1 July 1991 no resident has been required to pay more than a weekly contribution to their care costs at a rate of 87.5% of the sum of the standard rate pension plus rent assistance. Entry to nursing homes is controlled and is based on care needs assessed by specialist teams funded jointly by the Commonwealth and the States.

A small proportion of nursing homes is exempt from the standard fee and benefit arrangements to allow them to provide for those residents who are prepared to pay for a higher standard of accommodation and service. Additional standard benefits are payable for respite care patients in recognition of additional costs incurred by nursing homes and to provide an incentive for the provision of this care.

Capital assistance for the construction, extension, purchase or upgrade of nursing homes is provided under the *Aged or Disabled Persons Home Act 1954* to eligible non-profit organisations ($34m in 1991-92).

Included in this classification is recurrent funding for day care centres which are attached to some nursing homes and which provide such approved services as physiotherapy and podiatry to non-nursing home residents.

Nursing Care for Veterans and Dependants

The Commonwealth provides nursing home assistance through the DVA, for those veterans with service-related disabilities and for certain categories of veterans and war widows with disabilities not related to service. Commonwealth financial support, entry to homes and resident contributions are made on the same basis to all residents including those funded through DVA.

Nursing Home Subsidies for People with Disabilities

Under the *Nursing Homes Assistance Act 1974* the Commonwealth meets the approved operating deficits of eligible non-profit nursing homes for people with disabilities. In addition, nursing home benefits are paid under the *National Health Act 1953* to a small number of nursing homes for people with disabilities.

In recent years 65 eligible non-profit nursing homes for people with disabilities have been encouraged to transfer from funding under those Acts to more flexible funding arrangements under the *Disability Services Act 1986*. A majority of homes have transferred already, and all transfers will be concluded by the end of 1991-92. After that time ongoing funding will not be available under the *Nursing Homes Assistance Act 1974*.

Commonwealth expenditure on nursing homes for the disabled under the *Disability Services Act 1986* is also included under this subfunction.

Domiciliary Nursing Care Benefits

The Commonwealth pays a benefit of $42 a fortnight to eligible persons (estimated at some 31 400 for 1991-92) who provide care for approved persons at home as an alternative to institutional care. Those covered must be aged 16 years or over and be otherwise eligible for admission to an approved nursing home.

Home Nursing Services

Under the cost-shared Home and Community Care (HACC) agreements with the States, the Commonwealth funds certain home nursing services to assist the frail aged and younger disabled people who are at risk of institutionalisation to continue to live in their own homes. Home Nursing Services are one aspect of a range of services which are also offered through HACC including respite care, home help and dementia specific projects (see *4. Social Security and Welfare*).

Trends

From 1981-82 to 1990-91 real outlays on Nursing Home Subsidies and Domiciliary Care Services grew by an average of 12.7% a year (5.1% real).

From 1981-82 to 1984-85 under previous financing arrangements real outlays grew at an average rate of 9.8% a year in real terms with demographic and cost factors contributing significantly to pressures on the program. However, growth has abated significantly since 1985-86 declining to an average of 3.4% a year real for the period to 1990-91. For the forward years, outlays are expected to steady in real terms (averaging only 0.2% real growth a year). A significant contributing factor to this abatement in growth is the Government's decision in 1986 to shift the emphasis in growth of residential care places for the aged away from nursing homes towards less costly hostels, within an overall planning target of 100 residential care places per 1000 aged population, combined with more effective funding arrangements for nursing homes. As explained below this target has now been changed to 95 per 1000 as part of a package of measures concerning the balance of care for aged people. Outlays on hostels are shown under *4. Social Security and Welfare*.

There were 73 190 approved nursing home beds at 30 June 1991. A further 1908 beds are expected to be approved over the four years to 1994-95.

Home Nursing Services together with other HACC outlays, see *4. Social Security and Welfare*, have more than doubled in real terms since 1984-85. Lower growth in HACC outlays in 1990-91 mainly reflects the effect of once only savings in 1990-91 from the alignment of the payment cycle for the unmatched component of HACC with the cycle for the matched component of HACC.

Measures

Revised arrangements for funding of care in nursing homes have been introduced including a new and improved resident classification instrument and revised arrangements for respite care residents, residents returning from hospital leave and new residents. Outlays are expected to increase by $2.8m in 1991-92 rising to $12.9m in 1994-95.

A range of options will be provided to assist nursing homes in their infrastructure costs including supplementary funding for homes in remote areas and funding for residents needing nasogastric feeding or continuous oxygen. The costs of these will be $0.6m in 1991-92, $3.0m in 1992-93, $2.8m in 1993-94 and $2.3m in 1994-95.

Revised indexation and acquittal arrangements for nursing home nursing and personal care funding (CAM funding) will yield savings of $7.4m in 1991-92 and $15.7m in 1992-93. Increased validation of nursing home payments will yield a further $5.2m in savings in 1991-92.

The Mid Term Aged Care Review will be extended into 1991-92.

A pilot community visitors scheme to improve the quality of life of nursing home residents will cost $1.8m in 1991-92. The range of options for home nursing services available to veterans and their dependants, will be enhanced to better tailor these services to veterans' home care needs and as an alternative to more traditional and costly institutional care at a saving of $1.5m in 1991-92.

The reduction in the nominal growth rate of the Home and Community Care (HACC) program from 15 to 12% in 1991-92 with real growth in the forward years maintained at approximately 8% (in line with reductions in inflation) will provide savings of $8.6m in 1991-92 and $40.6m in 1994-95 in total for both this function and for *4. Social Security and Welfare* (savings of $2.4m in 1991-92 rising to $11.4m in 1994-95 are expected under the Health function).

3.5 OTHER HEALTH SERVICES

3.5		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Health Research	$m	108.1	122.6	127.5	131.6	125.2
	%	17.9	13.3	4.0	3.2	-4.9
Health Promotion and Disease	$m	40.0	71.6	62.1	60.7	68.3
Prevention	%	9.0	79.0	-13.2	-2.4	12.6
AIDS Control	$m	46.5	51.7	54.0	56.2	58.4
	%	45.0	11.2	4.4	4.0	4.0
National Drug Programs	$m	31.9	38.7	40.7	41.5	43.1
	%	6.4	21.2	5.2	1.9	3.8
Health Support Services	$m	140.7	177.5	179.4	175.5	179.3
	%	36.6	26.1	1.0	-2.2	2.2
Other	$m	14.6	23.2	20.1	3.4	1.8
	%	-24.3	59.6	-13.3	-83.0	-47.6
TOTAL	$m	381.9	485.4	483.9	468.9	476.1
	%	22.1	27.1	-0.3	-3.1	1.6

The Commonwealth provides financial assistance to support health research, to promote better health by prevention of disease, and to provide health services supplementary to the mainstream health care system.

Health Research

Commonwealth support for health research activities includes funding for medical and public health research through the Medical Research Endowment Fund (MREF) and the Public Health Research and Development Committee (PHRDC) and to the Australian Institute of Health. Funding is also provided to supplement capital spending at Medical Research Institutes.

Disbursements from the MREF, received from both the Commonwealth and other sources such as gifts and bequests, is determined by the Minister for Health, Housing and Community Services on the advice of the National Health and Medical Research Council which acts, where necessary, in accordance with any conditions imposed by private benefactors. Assistance is provided from the MREF and the PHRDC to award project, program, institute and research unit grants and training awards.

Health Promotion and Disease Prevention

The Commonwealth provides financial assistance for a wide range of health promotion and disease prevention activities that emphasise prevention rather than the dominant curative approach.

The National Health Promotion Program ($1.7m in 1991-92) supports community based initiatives to promote better health and to prevent illness. It also supports the establishment of preventive health strategies throughout Australia including the development of those recommended by the Better Health Commission.

The National Better Health Program ($8.2m in 1991-92) funds projects with the States to encourage reductions in the incidence of hypertension, accident, injury, poor nutrition, skin cancer and preventable health problems in the elderly.

Under the National Community Health Program ($4m in 1991-92), the Commonwealth funds projects which foster community participation, self-help and multi-disciplinary approaches to health care (eg through support to voluntary associations operating at the national level).

Financial assistance ($13.9m in 1991-92) is provided to non-government Family Planning Associations for clinical services (part of which is paid in lieu of benefit for medical services provided in clinics) and for education and training.

The Public Health Program ($8.5m in 1991-92) provides assistance to tertiary education institutions for courses and programs in public health.

The National Program for the Early Detection of Breast Cancer ($18.7m in 1991-92) funds a national screening program running for five years. The initial $14m for the program is to be provided by the Commonwealth with the States cost sharing the program thereafter.

Funds are provided for a national bone marrow and organ donor register ($0.7m in 1991-92).

The National Women's Health Program funds the promotion of primary health care for women, information and education programs for women, continuing education for providers of health care for women and financial assistance to birthing services. Of the $9.5m provided from the 1991-92 Budget, $9.1m will go to the States and Territories, of which $7.2m will be for funding of $ for $ cost shared projects.

AIDS Control

Grants are provided for education and prevention, treatment and support services, the National Media Campaign and Research activities. Expenditure in 1991-92 for these activities is estimated to increase by some $5.2m to $51.7m. Although primary care and treatment of AIDS patients is a State responsibility, the Commonwealth has included a further $6.3m in 1991-92 for the hospital funding grants to the States based on the actual number of AIDS cases treated.

National Drug Programs

The National Campaign Against Drug Abuse activities include drug abuse treatment, rehabilitation and prevention programs, the 'Drug Offensive' public information campaign, the development of a national drug abuse data system together with research and evaluation. Of the $38.7m provided from the 1991-92 Budget, $25.3m will go to the States and Territories for funding of $ for $ cost-shared projects. Also included is an amount of $0.7m which will be available from the Confiscated Assets Trust Fund (under the control of the Attorney General) for drug rehabilitation programs.

Health Support Services

During 1990-91, the Commonwealth Serum Laboratories Commission (CSL) was incorporated as a public company as part of a restructuring program aimed at a more commercial orientation. In addition to its off budget activities, CSL is reimbursed by the Commonwealth for activities it performs in the public interest, including research projects and blood processing. The CSL also processes (on a commercial basis) blood products for other countries in the region, including New Zealand.

The annual operating costs of the Red Cross Society's Blood Transfusion Service (BTS) in the States are shared by the States (60%), the Society (the lower of 5% of operating costs and 10% of the previous year's income from donations) and the Commonwealth (the balance). Approved capital costs are shared between the Commonwealth and the States on a $ for $ basis. Blood collected by the BTS is processed by the CSL and blood products are supplied, free of charge (excluding freight), to hospitals and approved pathologists for use in medical treatment and analysis. In 1991-92 $38.2m is provided for BTS (recurrent and capital expenditure) and $42.4m for CSL.

The Commonwealth subsidises the Royal Flying Doctor Service to the extent of about 45% of annual operating costs (matched $ for $ with the States) and also provides a substantial contribution to capital costs. Total provision in 1991-92 is $13.6m.

The Commonwealth provides through the National Acoustic Laboratories (NAL) a range of hearing services to eligible pensioners and all people under the age of 21.

This item includes costs associated with NAL services including hearing tests, provision, fitting and maintenance of hearing aids and the supply of hearing aid batteries and associated NAL running costs. The laboratories also conduct a research and development program on hearing impairment, hearing aid technology, noise measurement and the effects of noise on people.

- From 1 July 1991 the operations of NAL are being funded from a trust account and it is expected that from 1 July 1992 NAL will be restructured as a Hearing Services Commission.

This item also provides funds to:

- the Australian Diabetes Foundation to distribute syringes and test aids with patient contributions meeting part of the costs; and
- colostomy and ileostomy associations for supply of stoma appliances.

Health Services for Aboriginals

With the advent of the Aboriginal and Torres Strait Islander Commission in 1989-90, all outlays for Aboriginal advancement programs administered by the Commission are now included under *4. Social Security and Welfare*. A table showing the historical information is included in Statement 7.

Other

This category includes outlays on environmental, social and other public health activities including human quarantine, and health advisory committees. Also included is provision for act of grace payments, to meet additional costs incurred in sending patients with life threatening diseases overseas for treatment unavailable in Australia; the Commonwealth's contribution to reciprocal health care agreements with other countries; and payments towards the operational costs of the Australian Medical Council

Also included is $20.8m for payment to the ACT Government as the Commonwealth's estimated share of costs in 1991-92 for a program of sealing and removal of asbestos insulation from residential dwellings.

Trends

Average annual growth over the period 1981-82 to 1990-91 was 16.4% a year (8.6% real) notwithstanding the sharp decrease in outlays under this item following the transfer of the Community Health Program to the States in 1981-82.

The main contributors to the substantial real growth over the period have been expenditures under the MREF reflecting the indexation arrangements that applied for most of the period, supplemented by periodic real increases in budget allocations; the development of the AIDS control program, and the NCADA; and growth in BTS operating costs and blood product prices.

Outlays in Other Health Services are estimated to increase by 27.1% (23.1% real) in 1991-92 to a total of $485.4m. The main factors contributing to the increase are:

	1991-92 $m
Medical Research Institutes Capital Funding	5
Indexation of Medical Research Funding	7
National Breast Cancer Program	18
Additional funds for AIDS control and NCADA	12
Womens Health Program and Cervical Cancer Screening	8
ACT Asbestos Removal	9
BTS Capital	5
NAL	19

Overall outlays for this group of programs are expected to decline in real terms over the forward years, reflecting the peaking of expenditure on some programs (NCADA, Medical Research Capital) and the expiry of authority for other programs (NBHP, ACT Asbestos Removal and Women's Health Program), offset by real increases in funding for AIDS and the National Breast Cancer Screening Program.

Measures

The Government has agreed to a reduction on the previously agreed funding of:

- $2m in 1991-92 and the forward years for AIDS control; and
- $1m in 1991-92 for the National Better Health Program.

The Government has also agreed to:

- an expanded role for the Australian Institute of Health to include housing and welfare statistics with negotiations on cost sharing of this expanded role to take place with State/Territory Governments;

- the provision of additional capital for the Blood Transfusion Service of $5.0m in 1991-92 and $2.5m in each of 1992-93 and 1993-94 to build new facilities in NSW and WA.
- From 1 November 1991, introduction of charges by NAL for the provision of replacement hearing aid batteries and maintenance of ear moulds and hearing aids, reducing outlays by $0.8m in 1991-92 and $2.1m in 1992-93.

3.6 GENERAL ADMINISTRATION

3.6		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Health, Housing and Community	$m	134.0	208.9	147.0	114.7	116.3
Services	%	26.9	55.9	-29.6	-22.0	1.4
Veterans' Affairs	$m	24.1	14.9	14.6	14.0	14.3
	%	-14.8	-38.2	-2.1	-4.0	2.5
TOTAL	$m	158.0	223.8	161.6	128.7	130.6
	%	18.1	41.6	-27.8	-20.3	1.5

Outlays under this subfunction comprise part of the general administrative and capital expenses of the Department of Health, Housing and Community Services (DHHCS) and DVA.

Health, Housing and Community Services

This item comprises a proportion of the operating costs of DHHCS, including the Australian Government Health Service (AGHS), Therapeutic Goods Administration (TGA), the Australian Radiation Laboratory and the National Food Authority (NFA). There is a provision of $208.9m for general administration, of which $58.4m is for salaries. The balance of the running costs of DHHCS are classified under *4. Social Security and Welfare*, and *5. Housing and Community Amenities.*

The TGA trust account, which began operating on 1 July 1990, is funded on a $ for $ basis by the therapeutic goods industry and the Commonwealth. Expenditure from the trust account is estimated at $32.5m for 1991-92. Outlays on the construction of the integrated laboratory complex for the TGA are estimated at $72.1m over five years with $20m in 1991-92.

The National Food Authority (NFA) which will be responsible for development of food standards and codes of practice for the industry commence operations early in 1991-92. It is expected to cost $4.1m in 1991-92.

From 1 July 1990 AGHS has been charging government departments and authorities for its services on a user pays basis.

The Government is constructing new blood fractionation facilities at Broadmeadows, Victoria. The project is expected to be completed in 1993. The 1991-92 capital allocation is $72.4m, an increase of $37.2m on 1990-91.

Veterans' Affairs

This item comprises the portion of the operating costs of DVA relating to the Health function, an amount of $35m.

Trends

Outlays in General Administration are estimated to increase by 41.6% (37.2% real) in 1991-92 and decrease by 27.8% (30.6% real) in 1992-93 reflecting peaking of capital expenditure on the blood fractionation facilities at Broadmeadows and the TGA laboratory at Symonston and completion of the projects by 1993-94 and 1992-93, respectively.

Measures

The Government is proceeding with a wide ranging review of health policy and financing strategies. The review will continue reporting until mid 1992. In 1990-91 $1m was provided and $1m will be provided in 1991-92.

A national registration scheme for agricultural and veterinary chemicals will be implemented from 1991-92. Additional running costs for DHHCS are $0.4m in 1991-92 and $1.8m in 1992-93

4. SOCIAL SECURITY AND WELFARE

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
4.1	Assistance to the Aged	$m	9721.7	10362.1	11007.5	11997.2	12161.1
		%	12.8	6.6	6.2	9.0	1.4
4.2	Assistance to Veterans	$m	3680.8	3759.0	3844.2	3899.1	3956.2
	and Dependants	%	8.3	2.1	2.3	1.4	1.5
4.3	Assistance to the Disabled	$m	3509.3	3831.2	3956.2	4261.7	4363.4
		%	16.1	9.2	3.3	7.7	2.4
4.4	Assistance to Families	$m	5516.6	6106.2	6649.1	7307.7	7632.7
	with Children	%	11.2	10.7	8.9	9.9	4.4
4.5	Assistance to the Unemployed	$m	5212.0	7273.1	6898.4	6078.8	5434.0
	and Sick	%	41.7	39.5	-5.2	-11.9	-10.6
4.6	Other Welfare Programs	$m	1126.8	1159.2	1158.0	1178.2	1153.8
		%	6.7	2.9	-0.1	1.7	-2.1
4.7	Aboriginal Advancement	$m	604.4	640.4	667.2	710.6	751.6
	Programs nec	%	14.1	5.9	4.2	6.5	5.8
4.8	General Administration	$m	1196.2	1297.8	1273.9	1224.7	1236.9
		%	10.2	8.5	-1.8	-3.9	1.0
4.9	Recoveries and Repayments	$m	-8.0	-20.5	-30.5	-30.5	-30.5
		%	33.6	156.2	48.9	-0.1	-
	TOTAL	$m	30559.8	34408.4	35424.0	36627.5	36659.2
		%	16.0	12.6	3.0	3.4	0.1

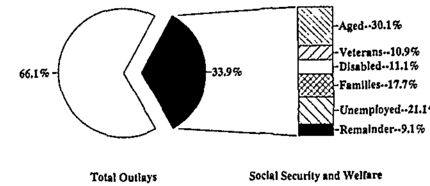
The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Total Social Security and Welfare outlays are expected to increase by $3848.6m or 12.6% (9.1% in real terms) in 1991-92. Existing policies imply a deceleration of growth over the forward years to a real average decrease of 1.8% a year to 1994-95.**

- **This decrease is caused by expected declines in outlays for assistance to the unemployed and sick and other welfare programs and a reduction in the level of expenditure on general administration.**

- **In 1991-92, Social Security and Welfare outlays are forecast to be 33.9% of total Commonwealth outlays, up from 31.8% in 1990-91 (see Chart 1).**

Chart 1. Social Security and Welfare
Proportion of Total Outlays and Function



Remainder' includes Other Welfare Programs; Aboriginal Advancement Programs; General Administration and Recoveries and Repayments.

- **The main areas of growth in outlays in 1991-92 are expected to be:**
  - **— assistance to the unemployed and sick, up $2061.1m (39.5%);**
  - **— assistance to families with children, up $589.6m (10.7%); and**
  - **— assistance to the aged, up $640.4m (6.6%).**

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Child Support				
Extend private maintenance arrangements under CSS	1.2	-2.2	-1.8	-2.9
CSA/Employment declaration form matching with DSS and CSA	-8.6	-17.7	-28.2	-30.5
Compliance				
SPP compliance measures	-2.4	-4.4	-4.7	-4.8
Continue to fund ten unemployment and three sickness mobile review teams	-1.9	-26.6	-23.3	-21.9
Assist overseas born age pensioners to claim overseas pensions	0.2	-14.6	-28.9	-32.3
Recruit staff in UK and Italy to conduct reviews of pensioners residing in those countries	0.5	-1.0	-3.6	-6.2
Administrative Reform				
Families administration reform	-7.2	-12.8	-13.5	-14.1
DSS admin savings - reduction in running costs	-7.8	-1.6	-0.5	-0.6

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Families Package				
Assets test on family assets	-1.6	-3.3	-3.5	-3.6
Assets test Family Allowance	-16.1	-40.2	-41.9	-43.6
FAS/APB - Apply Maintenance Income Test to FAS	0.0	-0.7	-8.1	-8.4
Not proceed with ECA	-18.4	-34.7	-34.6	-34.7
Child care				
Child care fee relief - rationalisation of indexation	-6.8	-7.9	-8.7	-9.8
Child care fee relief - assets test	-2.0	-5.8	-6.3	-7.0
Child care - Unified Fee Relief	-2.8	-8.5	-9.4	-11.4
Child care fee relief - increase in tapers	-0.8	-3.3	-3.8	-4.1
Other				
Review of real estate valuations for Pension Asset Tests	-7.6	-17.9	-17.8	-16.5
Limit spouse entitlement to half the married rate	-0.7	-11.1	-23.3	-32.1
Pilot cost sharing project with industry	-0.4	-1.1	-1.7	-1.3
Additional funding for Higher Education Institutions resulting in other program savings	-0.6	-1.7	-2.5	-3.1
Reciprocal Agreement with the United Kingdom	-1.5	-4.7	-7.7	-7.7
Reciprocal Agreement with the Netherlands	-7.0	-5.4	-5.5	-5.5
Replace Assurance of Support System with a bond scheme for migrants	-1.3	-6.9	-9.6	-11.4
Extension of Service/War Widow Pension to widowers - Age Pension offset	-1.9	-2.5	-2.8	-3.1
Compensation to chronically ill pensioners for pharmaceutical expenses	-0.9	0.0	0.0	0.0
Reverse flow-on of $2.50pw pharmaceutical supplement to FAS/APB rates	-13.0	-26.7	-28.7	-28.7
Unemployment Benefit offsets from increased funding of Labour Market programs	-43.8	-36.0	-21.0	-21.0
Age Pension offsets: Payment to Aboriginal and Torres Strait Islanders for WWII service	-0.1	-0.1	-0.1	-0.1
DVA Computer Acquisition	-1.8	-1.1	-1.2	-1.5
Residential Planning Ratios	-2.3	-29.4	-51.2	-59.5
HACC Indexation	-6.3	-12.2	-19.8	-29.2
Sale of CRS Property - Albury	-0.1	0.0	0.0	0.0
Sale of CRS Property - Merewether	-0.1	0.0	0.0	0.0
Sale of CRS Property - Ashfield	-0.2	0.0	0.0	0.0
CRS Hunter - withdrawal of funds	0.0	-0.3	-0.4	-0.4
Dementia grants phase out	0.0	-7.0	-12.5	-18.0
Increases				
Anti-poverty trap measures				
Education Entry Payment of $200	1.0	1.1	1.2	1.2
Index Pensioner Earnings Credit	0.0	1.1	1.9	2.8
Allow a more generous break of entitlement period when assessing beneficiaries' eligibility for rent assistance	3.0	11.3	10.1	8.9
Treat periodic compensation payments as ordinary income	0.2	0.8	5.7	6.0

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Youth				
Extend JSA/SA to certain State Wards not in receipt of State allowances	0.5	1.0	1.0	1.1
Amend the work requirement for independent JSA/SA by allowing CES registration as substitute	1.0	2.1	2.2	2.3
Extend rent assistance to independent JSA/SA	0.7	3.1	3.1	3.1
Undertake pilot programs to improve assistance for homeless youth	0.9	1.0	0.0	0.0
Extend Special Benefit to 16-20 year olds from low income families during Education Leaver Deferment Period	0.5	0.6	0.6	0.6
Extend JSA/SB to certain special beneficiaries under 16 years of age	0.1	0.2	0.2	0.2
Broaden Young Homeless Allowance criteria	0.1	0.1	0.1	0.1
Not to apply PIT and PAT to 16-17 year olds DSPs	0.2	1.2	1.2	1.2
Financial and Client Services				
FISP to explain Personal Loan Scheme and Home Equity Conversion	0.0	0.1	0.1	0.1
Expansion and modification of FISP	0.0	1.3	0.2	-0.6
Increase Social Work Service staff	1.0	1.7	0.0	0.0
Administrative Reform and Computer Upgrade				
Extend FA lodgement period to 3 months	1.0	2.0	2.1	2.2
AIFS computer upgrade	0.2	0.2	0.0	0.0
DSS computing network replacement	2.5	19.2	13.4	13.2
Families Package				
FAS/APB - Align through topping up	0.0	16.7	-6.9	-4.5
FAS/APB - Issue form and guarantee back payment	0.0	2.2	6.5	8.8
FAS/APB - Pay in all nonpayment periods	0.0	15.1	31.7	33.0
FAS/APB - Extend Guardian Allowance to FAS	0.0	8.6	18.6	19.7
Rationalise FA/FAS into a stepped system	0.0	49.6	120.7	125.6
Align FAS threshold with AUSTUDY	24.2	90.2	94.9	98.8
Pay FA to age 18	0.0	5.8	11.9	12.4
Abolish HCC for part-raters	0.1	0.1	0.1	0.1
Asset test FA hardship provisions	3.2	6.2	3.3	0.0
Asset test FAS hardship provisions	7.5	15.7	8.4	0.0
Publicity for implementation of families package	1.5	0.0	0.0	0.0
Complete reversal of Family Allowance assets test	56.9	60.1	63.3	63.3
Partial reversal of reduction in FA assets threshold limit raised from $300 000 to $500 000	25.0	26.4	27.7	27.7
Reverse reduction in threshold for FAS assets test	12.2	12.8	13.5	13.5
Child care & other child related measures				
Childcare Accreditation	1.0	0.0	0.0	0.0
Support for employer provided care	0.7	1.0	1.1	1.1
Extension of Supplementary Services Grants to commercial and employer sponsored child care	1.8	0.0	0.0	0.0
Child care fee relief - increase in income threshold	2.0	8.6	9.7	10.7
Restore CDA to 1987 real value	2.8	6.2	7.1	8.0
National Campaign for Child Protection	0.3	0.0	0.0	0.0
Establish National Child Protection Council	0.1	0.4	0.3	0.0
Child Support Scheme appeals system	0.1	0.3	0.6	1.1

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Reciprocal Arrangements				
Reciprocal Agreement with Ireland	0.5	1.4	1.8	2.0
Reciprocal Agreement with Portugal	0.2	0.8	1.4	1.5
Restriction to portability of Class B Widow's Pension	3.3	3.2	3.0	3.0
Other				
Reduction in the rental assistance waiting period from 26 to 18 weeks	2.7	10.1	9.5	9.8
Aboriginal Deaths in Custody	1.1	0.0	0.0	0.0
Cash out Telephone Rental Concession and replace with Telephone Allowance	0.3	1.5	1.7	1.7
Change in rate of Telephone Rental Concession for 1991 onwards	0.2	0.2	0.2	0.2
Remove anomalies in administration of bereavement measures	0.2	1.4	1.3	1.4
Hostel Recurrent subsidies	5.1	25.4	33.3	48.4
Hostel Training	1.0	0.8	0.5	0.0
Commonwealth/State Disabilities Transition Payment	5.0	20.0	30.0	40.0
House Affordability Benchmark	0.1	0.0	0.0	0.0
Veterans' Health Review Package- assistance for carers of veterans	1.8	3.7	3.8	4.0
Veterans' frail aged accomodation	0.2	0.7	1.2	1.5
Pharmaceutical Charge for Veterans - compensation	4.7	9.5	9.6	9.6
Emergency relief - people in crisis	3.0	3.0	0.0	0.0
Immigration - Resources for Settlement Programs	0.6	1.4	1.8	1.9
Additional funds for Migrant Access Projects Scheme	0.5	0.5	0.5	0.5
Emergency assistance - Applicants for refugee status	1.5	0.0	0.0	0.0
Increase Deeming threshold from $2000 to $4000 for couples - Age and Service Pensions	4.2	3.8	3.8	3.8
Extension of Service and War widow pension to widowers	3.5	4.7	5.4	6.2
Deeming rate decrease to 8% - Social Security and Veterans' Affairs pensions	38.9	40.4	42.7	42.7
Raised threshold & slippage for liquid assets test for unemployment and sickness benefits	3.3	2.1	0.9	0.9
National Aboriginal Health Strategy	7.2	5.5	6.1	6.4
ATSIC running costs	8.1	10.5	11.2	12.0
Community Development Employment Projects (CDEP)	2.9	16.7	33.0	45.6
Payment to Aboriginals and Torres Strait Islanders for WW II service	1.0	1.0	1.0	1.0
Commonwealth-State rationalisation of disabilities	1.4	0.7	0.0	0.0

- Major measures include:

— *Families package.* The Government will introduce a major assistance package for low to moderate income families costing $124m in 1992-93 and $186m in a full year. It will assist some 200 000 families. The main features are:

: the Family Allowance Supplement (FAS) threshold will be aligned with the AUSTUDY threshold ($19 300 in 1991) from 1 April 1992;

: child payments to pensioners, beneficiaries and low income working families will be integrated into a single payment to be known as FAS from 1 January 1993 with the aim of improving the visibility, simplicity and take-up of family payments; and

: Family Allowance (FA) will be better targeted with the introduction, from January 1992, of an assets test with a threshold of $600 000 of net assets excluding the family home. Special provisions will protect families with very low incomes in the calendar years 1992 and 1993. Some families with assets between the FAS and the FA asset limits will become entitled to FAS for the first time.

— *Aged Persons Hostels.* Provision of $3.8m in 1991-92 for measures including restructuring of hostel personal care subsidies and providing hostel type services to people in their own homes. In parallel, planning targets for hostels have been reduced from 60 to 55 beds for each 1000 people aged 70 years or more.

— *Home and Community Care (HACC).* Reduction in the growth of the HACC outlays from 15% to 12%, in line with a fall in the rate of inflation, saving $8.6m in 1991-92 ($6.3m in this function) and $17.0m in 1992-93 ($12.2m in this function). (See also 3. *Health*, '3.4 Nursing Home Subsidies and Domiciliary Care Services'.)

— *Compliance measures.* The Government has continued to reinforce measures designed to reduce fraud and abuse and to encourage overseas born pensioners to claim entitlements from their native countries. Such measures are expected to save $3.6m in 1991-92 and $46.6m in 1992-93.

- Measures taken during 1990-91:

— *Deeming changes.* Modifications to the assessment of income on pensioner/beneficiary accounts and deprived assets, including a deeming rate decrease from 10% to 8% in line with the fall in general interest rates (saving $43.1m in 1991-92; $44.2m in 1992-93).

— *Family payments.* **A 1990-91 Budget decision to introduce an assets test on FA of $300 000 (saving $81.9m in 1991-92) was amended to a threshold to $500 000. The assets test was subsequently rejected by the Senate. A related budget decision to reduce the FAS assets test threshold from $347 500 to $200 000 (saving $12.2m in 1991-92) was also reversed.**

— *Pharmaceutical supplements.* **Reversal of flow-on of the $2.50 a week pharmaceutical supplement to FAS/Additional Pension Benefit rates (saving $13m in 1991-92 and $26.7m in 1992-93).**

PURPOSE

The Australian social security system is designed to assist people in economic hardship by providing income support to those at risk because they are unemployed or are not expected to work because of age, invalidity, sole parenthood or similar factors. Lower and middle income families with children also receive support in recognition of the additional costs they incur. Veterans and their dependants can qualify for both income support and services under the repatriation system as compensation for war service.

Assistance under this function is intended to encourage self-help and financial independence and is targeted towards those most in need.

NATURE OF SOCIAL SECURITY AND WELFARE OUTLAYS

Most social security assistance is provided in the form of benefits paid directly to recipients and/or families who satisfy eligibility criteria. Most payments are indexed to movements in the CPI to maintain their real value.

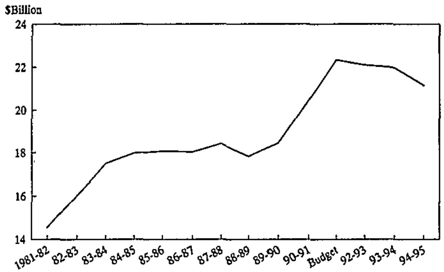
This function also includes funding for a wide range of welfare services for people with special needs. The services are provided directly or through State and local government authorities and voluntary agencies and include services to the aged and disabled, a variety of child care services and advancement programs for Aboriginals.

Not included is the welfare assistance provided indirectly through the personal income tax system (eg concessional income tax rebates which provide relief for pensioners and beneficiaries, dependent spouse and sole parent rebates which assist low to middle income families and deductions allowed for gifts to certain welfare bodies which extend indirect assistance to the organisations concerned).

TRENDS IN SOCIAL SECURITY AND WELFARE OUTLAYS

Outlays on Social Security and Welfare increased over the ten years between 1981-82 and 1990-91 by an average 3.9% a year in real terms. Charts 2 and 3 show that from 1984-85 to 1989-90 growth in outlays was low, with negative growth recorded in two of those years. However, large increases in the early 1980s and 1990s reflect the impact of domestic economic recessions in those periods. The Budget year shows a nominal increase in outlays of 12.6%, resulting from expected increases in assistance to the unemployed and to families with children.

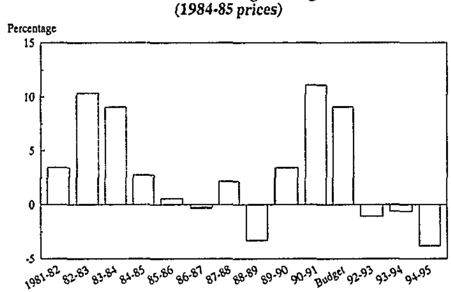
Chart 2. Social Security and Welfare
(1984-85 prices)



The major factors contributing to growth in outlays over the past decade have been:

- the indexation of pensions and benefits (ensuring that real outlays will be broadly constant for given eligibility conditions and number of recipients; this accounts for the largest component of nominal growth);
- changes in client numbers in demand driven programs (influenced by population growth, demographic changes and changes in economic and social conditions); and
- changes in outlays resulting from Government policy initiatives, including those which alter eligibility criteria and rates of payment.

Chart 3. Social Security and Welfare
Annual Percentage Change
(1984-85 prices)



Changes in the rate of pensions and benefits other than those arising from indexation increases will also affect the level of real outlays.

Rapid real growth in the early 1980s (23.7% from 1981-82 to 1984-85) reflected sharp increases in the number of unemployment beneficiaries, particularly in 1982-83. Other factors contributing to this growth included increased outlays on assistance to families (due to increased child allowances and larger numbers of sole parents) and to veterans (as more veterans reached the qualifying age for service pensions).

From 1984-85 to 1989-90 the rate of growth in real outlays for the function slowed substantially, increasing by only 2.4% over the five years. Large decreases in unemployment benefits (29.1% real reduction over the five years) as the labour market strengthened were offset by increased payments elsewhere, particularly for the disabled.

Government policies to improve targeting of assistance and to encourage increased self-help by those receiving income support also contributed to lower real growth in outlays. In particular, measures such as the introduction of the pensions assets test and the FA income test and the lowering of the maximum child qualifying age for Sole Parent Pension (SPP) to 15, significantly improved the targeting of payments. Measures intended to reduce fraud and abuse also contributed to curbing growth in outlays, as did the non-indexation of FA during most of the period. However, higher outlays on Invalid Pension contributed 2.2 percentage points to growth in total functional outlays during the period.

For some benefits, increases in the rates of payment above indexation have occurred. The basic rate of pensions and benefits was increased by more than the inflation rate in November 1984 and April 1990. Increases in the rate of single adult Unemployment and Sickness Benefit were also made. These pension rises, combined with indexation of pensions and benefits, increased pension levels relative to average weekly earnings from just under 23% in 1983 to over 25% in June 1990. Child payments to low income families and rent assistance were also substantially increased during this period.

Unemployment Benefit (UB) numbers declined sharply from 1986-87, reflecting the strengthening labour market and tighter targeting and administration, and culminated in negative real growth in outlays in 1988-89. Significant real growth in assistance to low income families was accommodated within this declining total. The major program of assistance for such families, FAS, was expanded both through substantial real increases in rates of payment (which also flowed on to additional pension and benefit for children) and real increases in income test limits. However, the contribution to real growth from FAS over the period as a whole was offset by a real decline in outlays on FA.

In 1989-90 real outlays rose by 3.5% (see Chart 3) as a result of significant increases in pension rates, rent assistance and child payments. In 1990-91 approximately half of the 11% increase in real outlays was due to increased payments to the unemployed, a result of the recession. The effect of the $2.50 a week pharmaceutical allowance is evident in the increased level of payments to the aged.

MAJOR POLICY CHANGES

Over recent years priorities within Social Security and Welfare have moved away from universal provision of benefits towards means-tested benefits targeted to those most in need.

At the same time, measures have been introduced to increase the adequacy of payments and to enhance opportunities for self help. Policy changes have sought to:

- *enhance the capacity of people to meet their own needs through strategies to maximise* private income, such as improved arrangements for the collection of child maintenance payments from non custodial parents;
- direct new spending initiatives towards areas of greatest need, for example the introduction of FAS, together with increased Rent Assistance for families with children;
- encourage sole parents and the unemployed to enter or re-enter the labour market, particularly through the provision of additional targeted child care places and the introduction of specific programs for the long-term unemployed (eg Newstart Allowance) and sole parents (eg Jobs, Education and Training (JET));
- introduce a more active approach to the assessment of invalid pensions, including rehabilitation programs and labour market measures to improve the work force potential of people with disabilities; and
- reduce fraud and overpayments, by introducing and expanding mobile review teams and greater use of computer matching and accelerated claimant matching.

The Government has encouraged self provision by age pensioners through changes to the tax system. This ensured that non-pension income up to the pension free area became totally tax free from July 1990 for full rate pensioners. The introduction of a notional interest rate on pensioner/beneficiary accounts and Financial Information Service for Pensioners (FISP) is aimed at encouraging pensioners to invest their funds more effectively and hence maximise their private income. From July 1991, the pension free area has been indexed to the CPI to maintain its real value. In addition, the pensioner tax threshold will be indexed to ensure that no maximum rate pensioner pays tax.

1990-91 OUTCOME

In 1990-91, outlays were $998.7m (3.4%) higher than the budget estimate. Over half of the difference was due to higher than expected UB payments ($524m, which was 11% greater than estimated). Assistance to families was $222m (4.2%) greater than the estimate. Assistance to the disabled and to the aged were each about $100m (3.2% and 1.0% respectively) in excess of their estimate.

The higher than expected level of outlays were caused by two main factors, namely the impact of the recession on social security and welfare payments (eg UB) and underestimates in certain client numbers, particularly age and sole parent pension recipients.

SUBFUNCTION DETAIL

4.1 ASSISTANCE TO THE AGED

4.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Age Pensions and Allowances	$m	9207.5	9735.1	10310.0	11216.4	11281.2
	%	12.5	5.7	5.9	8.8	0.6
Aged Persons' Hostels	$m	314.5	396.1	437.2	487.2	548.6
	%	18.5	25.9	10.4	11.4	12.6
Home and Community Care	$m	199.7	230.9	260.4	293.7	331.3
	%	15.4	15.6	12.8	12.8	12.8
TOTAL	$m	9721.7	10362.1	11007.5	11997.2	12161.1
	%	12.8	6.6	6.2	9.0	1.4

Outlays provide access to adequate levels of income for aged people and their dependants and ensure that pension payments are targeted to those with limited income of their own. Included are outlays on residential care for those aged people who are unable to live at home but who do not require nursing home care. Also included are outlays on cost effective community care alternatives for those frail aged and younger disabled people for whom long-term residential accommodation would be inappropriate

Age Pension and Allowances

Age Pensions are payable to women aged 60 years and over and to men aged 65 years and over, subject to residency requirements and income and assets tests.

Under the income test, the rate of pension is reduced by $1 a week for every $2 of non-pension income above the prescribed threshold (currently $42 a week for a single pensioner and $74 (combined) a week for couples). The assets tests limits for full pension entitlement (as at July 1991) range from $110 750 for a single homeowner to a maximum of $237 000 for a married non-homeowner.

To provide for movements in the cost of living, rates of pension are adjusted twice yearly in line with movements in the CPI. From July 1991, the income test threshold is being indexed annually in line with the CPI.

The single rate of pension is currently $150.80 a week and the married rate is $251.50 a week combined or $125.75 each. Pensioners (as well as beneficiaries and FAS recipients) may qualify also for rent assistance if they are renting privately and pay more than $25 a week in rent. Current maximum rates range from $31 a week without children to $41.35 a week for those with three or more children.

At 30 June 1991 there were 1 407 002 persons receiving the age pension (including wives and carers).

Aged Persons' Hostels

The Commonwealth pays the following recurrent subsidies to eligible organisations providing hostel type accommodation for aged or disabled people:

- hostel care subsidy for services such as meals, laundry, cleaning and social activities. (From 9 January 1991 this subsidy was restricted to residents classified as financially disadvantaged);
- personal care subsidy to assist organisations provide a higher level of care for more dependent residents including services such as assistance in bathing, toileting, eating and medication. (From May 1992 a new three tier subsidy arrangement will replace the existing Personal Care subsidy); and
- respite care subsidy, to encourage provision of respite care beds for aged and disabled persons who temporarily cannot care for themselves or whose carers need short-term relief. These subsidies are paid at one of two levels based on type of care required:
  — hostel care for respite residents who require hostel level care; or
  — the lowest rate of the personal care subsidy.
- grants are also made to religious, charitable and other approved organisations and local government bodies to defray costs of construction, extension, purchase or upgrade of hostel accommodation facilities for aged or disabled people.

Home and Community Care

The Commonwealth, in conjunction with the States and Territories, provides a range of services for frail aged and younger disabled people at risk of institutionalisation to enable them to continue to live in their own homes. Funding is cost-shared with the States and Territories based on respective levels of outlays in the previous year. The Commonwealth also previously provided unmatched funds to test innovative methods of delivering services, although from 1991-92 these funds are included in the base level of funds for Home and Community Care (HACC) and are matched by the States.

Home Nursing Services provided under HACC are included under *3. Health*, '3.4 Nursing Home Subsidies and Domiciliary Care Services'.

Trends

Outlays on Assistance to the Aged increased from $4591.5m in 1981-82 to $9721.7m in 1990-91, an average real increase of 1.3% a year.

Growth in outlays is dominated by movements in Age Pension outlays. The number of age pensioners grew in the early 1980s, peaking in 1982-83. Over the next four years, pension means test arrangements were tightened by the reintroduction in 1983 of the pension income test for those aged over 70 and the introduction in 1985 of the assets test to target assistance to those with only modest private means. These restrictions on eligibility more than offset the underlying growth in the aged population. A significant rise in the proportion of the aged population who were eligible for a service pension also reduced age pension numbers in this period (outlays on service pensions are classified under '4.2 Assistance to Veterans and Dependants'). Reflecting these developments, the number of persons receiving the Age Pension fell by 4.5% between 1982-83 and 1987-88. However, total outlays remained fairly stable over this period as increases in average benefit offset lower numbers.

Since 1987-88, outlays have grown because the number of people receiving the Age Pension has increased, as have average real benefits. The proportion of the aged

population in receipt of pensions has risen, principally due to increases in the pension free area.

The Government's aged care strategy involves provision of a more appropriate range of services to the growing aged population and provides for a shift in emphasis in residential care away from nursing homes to hostels. The growth in outlays over the early part of the 1980s was relatively modest. The aged care strategy has contributed to a significant increase in outlays during the later part of the period. Outlays on both hostel recurrent subsidies and capital grants have risen rapidly due to the growth in hostel bed numbers and increases in subsidy levels following the 1986-87 Budget decision to automatically index all hostel recurrent subsidies. The personal care subsidy which has been the most significant of the three hostel subsidies applying up to 1991 was also augmented following the decision to provide five annual real increases of $1.50 a day commencing in May 1988 over and above annual indexation. Outlays were also increased following the introduction of the respite care subsidy from January 1985. Outlays on HACC services for aged and younger disabled people grew modestly in the early 1980s. In 1985 the *Home and Community Care Act 1985* subsumed a number of previously related services. After an initial increase in 1986-87, outlays have grown rapidly reflecting increased base funding and significant program growth arrangements. By 1990-91, outlays on HACC had more than doubled in real terms since 1984-85.

The Commonwealth plans to spend $10 362.1m on Assistance to the Aged in 1991-92, an increase of $640.4m (3.3% real). Growth in outlays over the forward years reflects a projected significant increase in age pensioner numbers.

Measures

In response to a survey of overseas born pensioners which indicated that many were not claiming their pensions from their country of origin, measures have been introduced to assist them to do so. Savings in Age Pension outlays from this initiative are estimated at $1.8m in 1991-92 and $14.8m in 1992-93.

Better targeting and revised procedures for real estate valuation will also be introduced for certain pensioners with real estate holdings. This is estimated to save $7.7m in 1991-92 and $13.6m in 1992-93.

For pensions and benefits granted on or after 12 March 1992, the maximum entitlement of a married person living with a spouse who is not receiving a pension or benefit will be limited to the married rate of pension or half married rate of benefit, rather than the single rate as is currently the case. The resultant savings in Age Pension outlays are estimated at $0.4m in 1991-92 and $8.9m in 1992-93.

Additional resources will be provided from 1992-93 for the expansion and modification of the FISP. The revamped service will be renamed the Financial Information Service and will assist a wider range of clients within the social security system to maximise their private incomes.

The Government has decided to review in 1991-92 the pension income test treatment of different types of investments to simplify arrangements and improve equity.

The Budget provides funds for revised hostel personal care subsidy arrangements and for community based services to assist people in their own homes through hostel like services as an alternative to residential care, resulting in additional outlays of $5.1m in

1991-92, \$25.4m in 1992-93, rising to \$48.4m in 1994-95. Offsetting these increases will be savings in outlays (on both capital and recurrent funding) due to reductions in the target for residential services from 60 to 55 hostel beds per 1000 people aged 70 or more and a phase out of the current dementia grants program. The net outcome for outlays on hostels and hostel like community based services will be an initial increase of \$2.8m in 1991-92 and a reduction of \$10.9m in 1992-93, and \$29.1m in 1994-95.

Additional resources of \$1.0m in 1991-92, \$0.8m in 1992-93 and \$0.5m in 1993-94 are also being provided to develop and implement training programs for hostel staff similar to those already conducted for nursing home staff.

Reduction in the nominal growth rate of the HACC program from 15% to 12%, in line with falling inflation will reduce estimates by \$8.6m in 1991-92 (\$6.3m in this function, see also Home Nursing Services included under '3.4 Nursing Home Subsidies and Domiciliary Care Services'). Real growth in HACC will remain at approximately 8% in 1991-92 and forward years.

4.2 ASSISTANCE TO VETERANS AND DEPENDANTS

4.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Disability Pensions and Allowances	Sm	1348.4	1408.2	1457.7	1502.9	1543.7
	%	9.8	4.4	3.5	3.1	2.7
Service Pensions	Sm	2325.1	2343.3	2376.7	2385.7	2401.4
	%	7.4	0.8	1.4	0.4	0.7
Other	Sm	7.3	7.4	9.8	10.5	11.1
	%	39.8	2.1	31.4	6.9	6.1
TOTAL	Sm	3680.8	3759.0	3844.2	3899.1	3956.2
	%	8.3	2.1	2.3	1.4	1.5

Outlays provide income support and compensation, in the form of pensions, to veterans and their dependants for incapacity or death resulting from war or defence service. Veterans over the age of 55 (female) and 60 (male) and their dependants receive a pension equivalent to age pension.

Disability Pensions and Allowances

Disability pensions and allowances are paid to ex-service men and women for service related incapacities. Disability pensions are payable at varying rates according to the level of incapacity. Various allowances and adjustments are provided to supplement disability pensions for temporary incapacity, loss of earnings and extreme disablement.

Disability pensions and allowances are not subject to personal income tax or income or assets tests.

War or Defence Widow/er's Pension is payable to the widow/ers of veterans whose death was service related (and in certain other limited circumstances). Orphan's Pension is payable in respect of veterans' children.

Service Pensions

These are payable to veterans who have qualifying service and are of qualifying age or who are permanently incapacitated for work. Service Pensions are also available to

certain Commonwealth and allied veterans and mariners who satisfy residency requirements.

Service Pensions carry the same rates and range of additional payments as the Age Pension and are subject to the same indexation arrangements and income and assets tests, except that any disability pension and related allowances received are not regarded as income for the purposes of the Service Pension income test.

Other

This item includes grants to veterans' associations and to community groups providing non-institutional care for veterans. It also includes grants to veteran's organisations to assist in the development of sponsoring submissions for the provision of hostel accommodation for frail aged veterans.

Trends

Outlays on Assistance to Veterans and Dependants increased by an average 4.5% in real terms between 1981-82 and 1990-91. Increases in pensioner numbers were the most important influence on the growth in real outlays over the period, accounting for half the outlays growth to 1987-88.

In the case of Service Pensions, numbers increased rapidly to 1986-87, peaking at 406 000, as veterans of WWII reached retiring age. Over 1991-92 the number of service pensioners is expected to fall by 9500 (2.5%).

In the case of disability, war widows and dependants' pensions, total numbers have fallen from 423 000 at 30 June 1981 to 347 210 at 30 June 1991. (There has been an increase in the number of war widows but this has been more than offset by declining numbers of disability pensioners). This reflects in particular the termination in 1986 of grants to veterans' dependants. At the same time however, there was an increase in the proportion of recipients in those categories being paid higher rates of pension so that, overall, outlays have grown. The number of pensioners is expected to fall to 338 510 at 30 June 1992, a fall of 2.5%.

The net effect of the above changes, together with the pension increases due to indexation, is marginal real growth in outlays on veterans and their dependants in 1991-92 and forward years.

Measures

Significant decisions include:

- the extension of pension and other repatriation benefits to the spouses of service women (at an estimated cost of \$3.5m in 1991-92 and \$4.7m in 1992-93);
- the extension of pension and repatriation benefits to certain Aborigines and Torres Strait Islanders in recognition of their service in WWII (\$1.0m in both years); and
- extensions, from 1 January 1992, of charges and safety nets applying to concessional patients to veterans who are now receiving free prescriptions under the Repatriation Pharmaceutical Benefit Scheme (RPBS), and payment of compensation for those pensioners who are not already receiving the compensating payment of pharmaceutical allowance with their pension (at an estimated cost of \$4.7m in 1991-92 and \$9.5m in 1992-93). Savings arising from the introduction of changed

arrangements for pharmaceutical benefits are outlined under '3.3 Pharmaceutical Benefits and Services'.

Funding of $0.3m (including running costs) in 1991-92 will be provided to ex-service community organisations for assistance in the development of sponsoring submissions for the provision of hostel accommodation for frail aged veterans. Also, $1.8m will be provided in 1991-92 to assist carers of aged veterans to continue to provide at home care.

In addition, a number of other budget measures, in particular those which relate to age pensioners, flow on to this subfunction. These measures are described under '4.1 Assistance to the Aged'. Other measures which impact on veterans are also described under '3.1 Medical Services and Benefits' and '3.2 Hospital Services'.

4.3 ASSISTANCE TO THE DISABLED

4.3		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Invalid Pensions and Allowances	$m	3095.8	3425.3	3547.3	3810.9	3882.4
	%	15.5	10.6	3.6	7.4	1.9
Other Payments for the Disabled	$m	127.0	72.8	14.5	15.4	15.1
	%	21.2	-42.7	-80.1	6.0	-2.0
Disability and Rehabilitation	$m	286.5	333.0	394.4	435.4	465.9
Services	%	21.0	16.2	18.4	10.4	7.0
TOTAL	$m	3509.3	3831.2	3956.2	4261.7	4363.4
	%	16.1	9.2	3.3	7.7	2.4

Outlays provide income support to disabled people who have limited means and whose disability precludes full-time employment. Special services are also provided to increase the independence, employment opportunities and integration of people with disabilities into the community.

In the 1990-91 Budget the results of an extensive review of income support and other forms of assistance for the disabled were announced. Most of the new arrangements were to have been implemented from 1 October 1991 but this has now been delayed by six weeks to 12 November to allow time for passage of the legislation. The main features of the new system will be:

- the reform of income support arrangements to remove anomalies and encourage greater participation in the labour market; and
- the expansion of services for rehabilitation and training as well as increased benefits for transition to work.

Invalid Pensions and Allowances

From 12 November 1991 Invalid Pension will be renamed Disability Support Pension (DSP) and the notion of permanent incapacity for work will be removed. New eligibility criteria will require at least a 20% level of medical impairment and an inability to work full-time in open employment in the foreseeable future. Assessment of the labour market potential of those eligible for DSP will be undertaken with a requirement that, where appropriate, they undertake suitable training, rehabilitation or job search in order to remain eligible for DSP and to enhance their labour force potential. DSP rates will be

the same as for Age Pension, with the exception that there will be an age related level of payment for those under 21 years of age. Disability support pensioners, apart from the permanently blind who receive a means test free pension, will continue to be subject to the same income and assets test as age pensioners.

Other Payments for the Disabled

As part of the Disability Reform Package, Rehabilitation Allowance and Sheltered Employment Allowance will be absorbed within the DSP from 12 November 1991. A Mobility Allowance of $20 a week may also be paid to disabled people who are gainfully employed or undertaking vocational training and who cannot use public transport without substantial assistance.

Disability and Rehabilitation Services

The Disability Services Program funds services for people who have a disability that is permanent or likely to be permanent and which results in a substantially reduced capacity for communication, learning or mobility and a need for ongoing support services.

Approved services include accommodation support, advocacy, competitive employment and training, independent living training, information, recreation, respite care, and supported employment. In 1990-91, some 1800 services received funding under this program.

On 30 July 1991, the Commonwealth/State Disability Agreement (CSDA) was signed. Bilateral negotiations during 1991-92 with each State and Territory will seek to rationalise disability services, to reduce overlap and duplication and to place responsibility for the various aspects of disability services at the most appropriate level of government. It was agreed at the Special Premiers' Conference in July 1991 that the States and Territories would be responsible for accommodation support and the Commonwealth would be responsible for employment related activities. Under the new arrangements the net additional costs of the transferred services will be paid to the States. The final method of funding, that is, whether through Specific Purpose Payments or Financial Assistance Grants, will be decided at the Special Premiers' Conference in November 1991 in the context of decisions on vertical fiscal imbalance and tied grants.

Total funding for the Disability Services Program for 1991-92 is $310.4m, of which $68.6m is classified to '3.4 Nursing Home Subsidies and Domiciliary Care Services'.

The Handicapped Children's Benefit will continue to be paid to organisations for the provision of residential accommodation for children up to the age of 16. The rate of benefit continues at $5 a day for each child.

The Commonwealth Rehabilitation Service (CRS) provides treatment and training programs predominantly in the field of occupational rehabilitation to people with disabilities who are of working age and who are assessed as likely to be assisted by CRS programs in making substantial progress towards a place in the workforce, new levels of personal independence or participation in family and social life. The Service provides assistance without charge to clients who are not covered under compensation arrangements. Clients eligible for compensation payments are charged for costs incurred. Training allowance and living away from home allowance may be paid to clients of the CRS who are undertaking vocational courses or on the job training. Outlays by the CRS in 1991-92 are estimated to be $85.7m.

Trends

Outlays on Assistance to the Disabled increased between 1981-82 and 1990-91 by an average of 6.3% a year in real terms.

Outlays on Invalid Pension grew rapidly over the period from 1981-82 to 1990-91, principally on account of numbers of recipients increasing from 279 000 at 30 June 1981 to 433 718 at 30 June 1991 (including recipients of Wife's and Carer's Pension). While several factors have contributed to this growth it is partly related to the economic cycle, with periods of rapid growth coinciding with periods of high unemployment. When unemployment is high, people with disabilities face greater difficulties in finding and retaining employment. Subsequent to the rapid rise in unemployment in the early 1980s there was a relative decline in the importance attached to medical criteria and increased emphasis on socio-economic factors in assessing eligibility for invalid pension. There has also been a greater emphasis by appeal bodies on employment prospects in determining eligibility. In more recent years, steps to emphasise the need for substantial impairment before granting a pension, and to improve the administration of the Invalid Pension, have slightly moderated the rate of growth.

Outlays on assistance to the disabled are estimated at $3831.2m in 1991-92, rising to $4363.4m in 1994-95, an average real increase of 0.4% a year. This represents the net effect of CPI indexation of rates of payment and significantly higher outlays on rehabilitation and other servies for the disabled, offset by expected slower growth in numbers of disabled people reliant on income support.

The new package of assistance for the disabled will improve targeting and restrain growth in DSP outlays by improving work force potential and discouraging long-term dependence on income support.

Measures

As mentioned above, the Government has decided to delay the commencement of the Disability Reform Package from 1 October until 12 November 1991 to allow time for the passage of the necessary legislation.

From March 1992, income testing of periodic compensation payments received for injuries or illnesses occurring while a person is in receipt of a pension or benefit will be eased by treating these payments as normal income in the pension or benefit income test. This will ensure that social security recipients who take up part-time or low income work will not be disadvantaged if they are awarded compensation for a work related injury or illness.

In conjunction with the CSDA, additional funding of up to $5m in 1991-92 and increasing to $50m a year by 1995-96, is to be provided to the States and Territories to improve the overall quality of disability services.

4.4 ASSISTANCE TO FAMILIES WITH CHILDREN

4.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Family Allowance	$m	1894.0	1965.6	2051.8	2139.4	2219.3
	%	4.6	3.8	4.4	4.3	3.7
Family Allowance Supplement	$m	572.7	692.0	896.8	1052.6	1126.9
	%	11.6	20.8	29.6	17.4	7.1
Sole Parent Pension and	$m	2686.3	2924.6	3126.6	3502.1	3619.1
Allowances	%	15.1	8.9	6.9	12.0	3.3
Other Child Payments	$m	78.1	86.9	101.3	109.9	120.1
	%	22.6	11.3	16.6	8.4	9.3
Child Care	$m	245.7	375.3	411.0	445.5	488.4
	%	13.8	52.7	9.5	8.4	9.6
Other	$m	39.9	61.9	61.7	58.3	58.8
	%	57.7	55.4	-0.4	-5.4	0.9
TOTAL	$m	5516.6	6106.2	6649.1	7307.7	7632.7
	%	11.2	10.7	8.9	9.9	4.4

Outlays included under this subfunction are intended to ensure that those with care and control of dependent children receive appropriate financial assistance towards their support. This assistance is tailored to various circumstances, particularly, where the children are in low income families or where they are disabled or orphaned. Assistance is also provided to sole parents in recognition of the difficulties they face in gaining entry to the workforce, either because they have sole responsibility for dependent children or because of absence from the workforce while caring for younger children.

Family Allowance

FA is an income tested, non-taxable allowance paid to families caring for children under the age of 16 and older full-time dependent students not receiving prescribed education support payments. The entitlement is $20.00 a fortnight for each child up to and including the third and $26.70 for the fourth and each subsequent child. An income test introduced in November 1987 precludes payment to high income earners. Under the income test, entitlement for a calendar year is determined on the basis of the previous financial year's taxable income. The income threshold above which entitlement is reduced is indexed each January in line with the CPI (currently it is $62 057 for one child and an additional $3104 for each further child). Past measures to tighten the targeting of FA include yearly reviews of a sample of recipients and the requirement that recipients notify the Department of Social Security (DSS) of any increases in income that may affect their entitlement.

Family Allowance Supplement

FAS increases support for children in low income families to adequate and equitable levels. It is an income and asset tested, non taxable allowance paid in addition to FA. The maximum rate of FAS payable depends on the age of the eligible child - families currently receive $53.00 a fortnight per child aged under 13 and $77.30 a fortnight per child aged 13 to 15. FAS recipients who rent privately may also be eligible for rent assistance.

FAS is withdrawn at the rate of 50 cents for each dollar of income (generally the combined parental taxable income for the previous financial year) over the income test threshold ($18 000 a year for a one child family). The relevant threshold increases with the number of children in the family. Thresholds are indexed each January in line with the CPI movements. The threshold for the FAS assets test (currently $347 500) is also indexed each January.

Sole Parent Pension and Allowances

SPP and allowances are paid to persons who have substantially sole care and control of a child under 16 years of age. The SPP is payable at the same rate and is subject to the same income and assets test as the Age Pension. Currently a sole parent with two children under 13 living in rented accommodation may receive up to $253.90 a week. With the commencement of the Child Support Scheme in 1988, sole parents have been required to take reasonable steps to obtain maintenance and so ensure that non-custodial parents meet their responsibilities for child maintenance.

Other Child Payments

This item covers outlays on Child Disability Allowance (CDA) and Orphan's Pension. These payments are made fortnightly in conjunction with FA. CDA is currently $59.90 and Orphan's Pension $32.10 a fortnight. Neither payment is income or assets tested.

Child Care

The main forms of Commonwealth assistance for child care are:

- income tested fee relief to eligible families using approved services, including non-profit, commercial and employer sponsored services; and
- operational and capital subsidies to non-profit services under the Services for Families with Children Program (SFCP).

Fee relief is provided through service operators to enable reduced fees for low and middle income families. Maximum fee relief is currently $85 a week for a family with one child in long day care, presently payable when taxable family income is less than $399 a week. For higher income families fee relief is progressively reduced as income rises so that eligibility for fee relief cuts out at about $57 600 for families with one child. From 1 January 1992 these rates of fee relief will be extended (on a pro rata basis) to all those using approved long day care centres, family day care and occasional care for work-related purposes. For those using Outside School Hours Care (OSHC) and Vacation Care, maximum fee relief of $55 a week will apply (on a pro rata basis). Those using child care services for non-work-related purposes will also be eligible for this lower rate.

In addition to fee relief, the Government provides capital and per place operational subsidies under the SFCP for a wide range of child care services, including long day care services in centres (but not commercial or employer sponsored services). Subsidies are also provided for services in carers' homes (Family Day Care), outside school hours and vacation care and occasional care. Other services are provided for Aboriginal children, children of non-English speaking backgrounds, children with disabilities and children in remote areas. Child care is also provided for sole parents participating in the JET program.

The following tables show the growth in numbers of child care operational places since 1983 and projected growth to 1996 and estimates for child care programs by funding and care types.

Child Care - Operational Places by Care Type

30 June	Long Day Care SFCP	Long Day Care Family Day Care	Commercial/(a) Employer Sponsored	Outside School Hours Care	Occasional Care/Other
1983 (c)	20008	20100	na	9870	(b)
1988	35351	39417	na	29224	1576
1989	37555	39549	na	30448	3536
1990	39185	40424	na	36416	4648
1991	39567	42501	36500	44449	5059
1992	41912	45779	38100	51186	6704
1993	44347	47079	42400	58386	6704
1994	46347	48679	49100	65686	6704
1995	48247	50979	55300	72186	6704
1996	52347	53979	62000	80086	6704

(a) Commercial and employer sponsored places became eligible for fee relief on 1 January 1991.
(b) Included in centre based care.
(c) Approved places

Child Care - Outlays by Funding Type

	1990-91 Actual (c) Sm	1991-92 Budget Sm	1992-93 Estimate Sm	1993-94 Estimate Sm	1994-95 Estimate Sm
Fee Relief:					
Long Day Care					
- approved non-profit	*109.4*	*149.6*	*161.9*	*175.8*	*190.7*
- employer sponsored)					
- commercial)	28.2	58.9	61.6	73.1	86.9
Other (a)	5.4	14.6	22.7	26.9	31.0
Operational Subsidies	65.2	89.8	94.4	100.6	107.4
Capital Grants	5.7	10.2	10.7	7.1	7.0
Special Services	14.9	20.1	21.2	22.2	23.7
Supplementary Services	4.8	7.6	6.1	6.4	6.7
Program Support	5.7	6.6	7.2	7.6	8.6
JET - Sole Parents	2.0	5.0	8.0	8.0	8.0
Other (b)	4.3	12.9	17.0	17.8	18.4
TOTAL	245.7	375.3	411.0	445.5	488.4

(a) Occasional Care; Outside School Hours Care.
(b) Mainly Vacation Care grant to States, Family Resource Centres and Youth Activity Services.
(c) The 1990-91 outcome reflects a $70m adjustment to the payment cycle for the Services for Families with Children Program. This change affects the timing but not the amounts of child care outlays.

Child Care - Outlays by Care Type

	1990-91 Actual (b) $m	1991-92 Budget $m	1992-93 Estimate $m	1993-94 Estimate $m	1994-95 Estimate $m
Long Day Care					
- centre based	122.0	189.2	203.9	225.0	251.1
- family day care	69.2	100.3	108.6	116.5	126.1
Occasional Care	10.6	13.2	15.0	15.6	16.2
Outside School Hours Care	10.3	18.0	21.5	24.9	28.2
JET - Sole Parents	2.0	5.0	8.0	8.0	8.0
Other (a)	31.6	49.6	53.9	55.5	58.9
TOTAL	245.7	375.3	411.0	445.5	488.4

(a) Mainly Special and Supplementary Services, Program Support, Vacation Care, Family Resource Centres and Youth Activity Services.
(b) The 1990-91 outcome reflects a $70m adjustment to the payment cycle for the Services for Families with Children Program. This change affects the timing but not the amounts of child care outlays.

Other

This includes outlays for the Child Support Agency (CSA) in the Australian Taxation Office (ATO) ($42.2m in 1991-92); funds for the Australian Institute of Family Studies ($3.0m in 1991-92); and grants for Family Resource Centres ($2.8m in 1991-92).

Funding is also included for grants to approved marriage counselling and marriage education organisations. In the 1990-91 Budget the Commonwealth increased its support for marriage counselling and family mediation by $15m over the three years from 1990-91 as a contribution to reducing child abuse, domestic violence, alcohol and drug abuse and associated levels of family breakdown and youth homelessness. Flowing from this decision, $5.1m is provided in 1991-92 and $7.8m in 1992-93. As part of the Commonwealth's response to the Report of the National Committee on Violence an additional $0.3m will be provided in 1991-92 to enable additional pilot family skills training centres to be established. These centres' activities will focus on child abuse prevention programs.

Also included is funding of $0.8m over three years from 1991-92 for the establishment of a National Child Protection Council to develop strategies to reduce the incidence of violence against children for implementation at all levels of Government and in the community. This is a decision flowing from the International Women's Day Statement 1991.

Trends

Outlays on Assistance to Families with Children increased by an average of 3.5% a year in real terms between 1981-82 and 1990-91.

Substantial increases in real outlays in the early 1980s levelled out by the mid 1980s and in 1986-87 real outlays fell significantly as a result of Government decisions curtailing eligibility for income support payments, including:

- from November 1985 FA was withdrawn in respect of dependent students aged 18 and over;
- from 1 January 1986 FA was withdrawn in respect of dependent students receiving Commonwealth education assistance (education allowances were increased more than commensurately);

- from September 1987 the maximum child qualifying age for SPP was reduced to 15 years; and
- from November 1987 FA was subject to an income test.

The replacement of Family Income Supplement by FAS in December 1987 offset the effect of these decisions to some extent. Significantly higher outlays under FAS reflected the higher level of assistance provided and the increase in the number of recipients resulting from a higher income test threshold.

Substantial increases in the real level of payments for children (FA, FAS and additional pension and benefit payments) occurred between December 1987 and July 1989 in response to the Government's commitment to lift child payments to meet the 'child poverty' benchmarks. By July 1989 the combined value of FA and FAS had reached 15.3% (children under 13 years) and 20% (children 13-15 years) of the combined married rate of pension. Legislation ensures FAS rates are increased each January as required to maintain the benchmarks.

Complementary decisions to maintain adequacy, tighten targeting and encourage self help include:

- the indexing of FA payments from January 1990;
- the introduction of annual income reviews in January 1989;
- the introduction in January 1989 of an assets test on FAS and the revision of the 25% income reduction rule; and
- the introduction in March 1989 of the JET scheme for sole parents.

In the forward years the real level of outlays on assistance to families will increase moderately at a rate of 3.6% a year following the Government's decision in 1989 to index family payments and the increases in assistance to families announced in this Budget. Outlays on SPP should grow at a similar pace with increases due to higher numbers and indexation being partly offset by lower average rates arising from the reform of the collection of child maintenance. Under the first stage of the maintenance reforms, effective on 1 June 1988, the CSA was established within the ATO for the collection of maintenance payments from non-custodial parents. At the same time, amendments to the *Social Security Act 1947* introduced a separate income test for such payments and a requirement that custodial parents applying for a SPP take action to obtain maintenance orders. These measures have increased both the number of maintenance orders and the level of compliance with those orders. The second stage of the reforms commenced in October 1989 and involves the administrative rather than legal determination of maintenance obligations by use of a formula based on specified proportions of taxable income. This has contributed to a significant increase in the level of maintenance paid.

The SFCP has expanded strongly from its inception in 1972-73. Outlays have grown significantly since 1983-84, following the Government's decision to expand the number of child care places and to provide more generous income tested fee relief. In 1990, the Government announced a further 50 000 new child care places (10 000 centre-based places, 10 000 family day care places and 30 000 outside school hours care places) to be operational by 1995-96. New more generous fee relief arrangements were announced in 1990 and, on 1 January 1991, fee relief was extended to eligible users of approved employer-sponsored, non-profit non SFCP and commercial child care services.

Measures

In this Budget the Government has decided to introduce a major package to assist low and moderate income families with children. The major features are:

- from 1 April 1992 the FAS threshold will be brought into line with the AUSTUDY threshold (currently $19 300). (This will deliver increased assistance of up to $12.50 a week to 110 000 low income families at a cost of $90m in a full year); and
- from 1 January 1993 the administration of FA and FAS will be rationalised to improve take-up of FAS using tax file numbers to identify families currently not taking up their FAS entitlements. (This is estimated to assist some 35 000 families by an average of $56 a week at a cost of $49.6m in 1992-93 rising to $120.7m in 1993-94).

From 1 January 1993, a further 35 000 families will also be assisted by integration of child payments to pensioners, beneficiaries and low income working families into a single payment to be known as FAS. Integration will improve the visibility of family payments, simplify and provide continuity of payment for the client, direct all child payments to the primary carer (usually the mother) and improve take-up and workforce incentives. In particular:

- long term pensioners and beneficiaries leaving social security will be issued with a FAS claim form and backpayment will be guaranteed where they apply within six weeks;
- FAS will continue to be paid to pensioners and beneficiaries during all non-payment periods for their pension or benefit;
- the maintenance income test will be applied to the integrated family payment instead of pension or benefit; and
- Guardian's Allowance of $13.90 a week will be extended to sole parents receiving FAS.

Integration is estimated to cost $41.8m in 1992-93 and 1993-94 and $48.5m in 1994-95.

FA will also be better targeted with the introduction from January 1992 of an assets test with a threshold of $600 000 of net assets excluding the family home. Savings are estimated at $16.1m in 1991-92 rising to $40.2m in a full year. Special provisions will apply to families with very low incomes for the calendar years 1992 and 1993 only as follows:

- families may retain their FA even if their net assets are greater than $600 000, provided current year income is less than Job Search Allowance (JSA) for a married couple (currently $13 078 a year) plus $624 for each additional child, and their available funds are less than $10 000 (for a married couple), estimated to cost $3m in 1991-92 rising to $6m in 1992-93; and
- families with net assets below the FA limit of $600 000 but above the FAS threshold ($347 500) will become eligible for FAS provided they also meet the above conditions (estimated to cost $7.5m in 1991-92 and $15.7m in 1992-93).

Also from 1 January 1992 the assets test for family payments and AUSTUDY will be applied to total family rather than just parental assets at a saving of $5m in a full year. An assets test will also be applied to child care fee relief from that date.

Other measures included in the package are:

- payment of FA until dependent children complete secondary studies or until the end of the calendar year in which the child turns 18, costing $11.9m in a full year; and
- non-implementation of the Education Completion Allowance where secondary students are not entitled to AUSTUDY in years 11 and 12. This was to commence in January 1992. Savings will be $18.4m in 1991-92 and $34.7m a year thereafter.

Other measures affecting assistance to families in this Budget include:

- extending the date for backpayment of family payments where a claim is lodged after the birth of a child from the current four weeks to three months;
- increasing CDA by $2.15 a week from January 1992;
- extending private maintenance arrangements under the Child Support Scheme to allow pensioners to collect privately CSA assessed maintenance liabilities;
- computer matching of data between the CSA and the ATO to improve locating and auto-withholding of maintenance liabilities from non-custodial parents;
- indexation of the pensioner earnings credit;
- additional selective interviews of sole parent pensioners at 8 and 12 weeks after grant to better target ongoing review activity;
- establishment of review officers within the CSA to provide a level of appeal against child support assessments under Stage 2 of the scheme; and
- improvements in the targeting of family payments. The principal components of this administrative package include allowing all notifiable events to trigger a reassessment of entitlement and carrying over the effect of such a reassessment from the current year to the following year.

From 1 January 1992, a system of unified child care fee relief will be introduced. This will provide a standard rate of work-related fee relief across all child care services, with lower fee relief applying to non-work-related care, with the exception that users of OSHC will only be eligible for the less generous non-work-related rate of fee relief. This recognises that relative to parents of children under school age, such parents have greater opportunities to participate in the workforce because they are relieved of meeting any child care costs during school hours. The new system of OSHC will provide fee relief of up to $1.10 per hour for families with one dependent child and incomes of less than $399 per week. Assistance will be progressively withdrawn so that assistance cuts out at incomes of about $45 000 a year. (Presently, only FAS recipients receive OSHC fee relief.) Also from 1 January, applicants for child care fee relief will be subject to an assets test of $347 500 (excluding the family home), saving $2m in 1991-92 and $5.8m in 1992-93.

From 1 April 1992, the income threshold for maximum child care fee relief for one child in care will be increased from $399 a week to $424 a week in line with the increase in the FAS threshold to $19 300. Also from 1 April 1992, the rates at which fee relief is withdrawn will be marginally increased from 12 cents in the dollar to 12.4 cents in the dollar for one child in care and from 20 cents in the dollar to 20.6 cents in the dollar for two or more children in care, so that present income cut-offs are maintained.

Indexation arrangements for child care fee relief will be simplified so that all elements of the program are adjusted on 1 January each year, saving $6.8m in 1991-92, $7.9m in 1992-93 and rising to $9.8m in 1994-95.

The Government will also commence the following child care initiatives in 1991-92:

- the provision of direct support to employers in NSW, Victoria and Queensland to encourage the establishment of employer sponsored child care ($0.7m in 1991-92, rising to $1.1m in 1994-95);
- the extension of Supplementary Services grants, which are targeted at children with special needs, to commercial and employer sponsored services ($1.8m in 1991-92; the provision of funds in future years will be subject to the results of an evaluation of these grants);, and
- funding of $1m in 1991-92 to assist the establishment of an industry based accreditation system for the child care industry.

4.5 ASSISTANCE TO THE UNEMPLOYED AND SICK

4.5		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Unemployment Benefits	$m	4493.3	-	-	-	-
(Pre July 1991)	%	48.5	-100.0	na	na	na
Job Search Allowance	$m	68.1	-	-	-	-
(Pre July 1991)	%	61.4	-100.0	na	na	na
Newstart Allowance	$m	-	1768.0	2424.6	2330.9	1947.8
	%	na	na	37.1	-3.9	-16.4
Job Search Allowance	$m	-	5034.6	4014.6	3272.5	2976.6
	%	na	na	-20.3	-18.5	-9.0
Sickness Benefits	$m	650.6	137.7	-	-	-
(Pre November 1991)	%	6.5	-78.8	-100.0	na	na
Sickness Allowance	$m	-	332.9	459.3	475.4	509.6
	%	na	na	38.0	3.5	7.2
TOTAL	$m	5212.0	7273.1	6898.4	6078.8	5434.0
	%	41.7	39.5	-5.2	-11.9	-10.6

Income support is provided to persons who are unemployed, unable to work because of temporary incapacity and who have limited alternative means of support.

On 1 July 1991 JSA, previously paid to 16 and 17 year olds, and UB were replaced by a new JSA and Newstart Allowance (Newstart). From 12 November 1991 Sickness Benefit is to be replaced by Sickness Allowance (SA).

Unemployment and Sickness Allowances

JSA is available during the first 12 months of unemployment. Its purpose is to support (and require) active job search or involvement in appropriate training or other job preparation activities. Applicants are required to attend an intensive interview (either at or within three months of registration) to identify strategies to overcome their labour market disadvantage. After three months recipients are required to provide detailed information on their job search activities. After six months clients are referred to more

intensive labour market assistance. Young unemployed (16 or 17 years) receive JSA irrespective of their time on benefit.

Newstart is a new income support category for those who are unemployed for longer than 12 months. There is no automatic transition from JSA to Newstart. Newstart emphasises the obligation of the client to improve his or her employment prospects through a structured activity arrangement. It recognises the special problems facing the long term unemployed and the need for a different approach to client contact, assistance and reciprocal obligation. This includes attendance at an intensive interview involving both DSS and Commonwealth Employment Service (CES) officers, access to a broader range of labour market and related assistance and a number of measures to ease the costs associated with the transition back to work. These incentives include eligibility for the support currently available to long-term unemployment benefit recipients ($100 employment entry payment, continued access to fringe benefit entitlements for six months after returning to full-time employment and waiving of the JSA waiting period if a job falls through within three months) as well as assistance with commuting costs.

From 12 November 1991, SA payments will be limited to 12 months, except where the recipient shows that there are special circumstances justifying an extension for a further 12 months. At the same time procedures are to be put in place to ensure the timely referral of sickness allowees for appropriate treatment and for rehabilitation.

Payment Rates

Married recipients of unemployment payments and those with dependants generally receive the same basic rates of allowance as age pensioners, while recipients without dependants receive lower rates (currently $113.25 a week for those aged 18-20 and $138.85 a week for those 21 years and over). Allowances (like Age Pension) are indexed to movements in the CPI. Recipients may qualify for rent assistance.

Allowances are income tested and also subject to an assets test: for single recipients there is a free area of $30 a week, between $30 and $70 a week a 50% withdrawal applies and in excess of $70 a week a $ for $ taper applies. The same assets limit applies to allowances as to pensions but no taper applies. That is, a person exceeding the limit immediately loses the total entitlement.

Payments to young unemployed are aligned with AUSTUDY in order to reduce the financial incentive for young people to leave the education system.

Recipients 16 and 17 years old receive a maximum payment of $62.05 a week, subject to a personal and parental income test. The maximum and minimum rates of JSA are indexed in January each year in line with increases in the CPI. A higher rate of JSA (currently $102.40 a week) is paid to those deemed to be independent.

Young Homeless Allowance may be payable (at the same rates as the independent JSA rate) to young people aged 16 or 17 who are unable to live at home because of harsh domestic circumstances.

Trends

Outlays on Assistance to the Unemployed and Sick rose by 7.5% a year, in real terms, between 1981-82 and 1990-91, reaching $5212.0m in that year. The level of outlays rose to a peak of $3885.9m in 1987-88, reflecting the effect of the recession in the early 1980s and continuing high numbers of UB recipients, before falling in 1988-89 and 1989-90. Contributing to this fall were increased compliance activities of the Department of Social Security (DSS) and a strengthening job market. With the onset of the economic downturn in 1990 outlays rose sharply in 1990-91, by $1533m (35.7% in real terms).

A relatively small component within this subfunction is Sickness Benefit outlays. Unlike UB outlays, these payments grew steadily from $225.1m in 1981-82 to $650.6m in 1990-91. However, sickness beneficiary numbers fell in 1990-91, reflecting tighter administration by DSS and transfers to rehabilitation allowances in anticipation of the introduction of SA in November 1991.

Assistance to the unemployed and sick is projected to rise again in 1991-92 to $7273.1m but then to decline over the forward years to $5434.0m in 1994-95. The rise reflects projected high levels of unemployed persons over the period 1991-92 but as the economy strengthens and unemployment declines, so too will outlays.

A Comparative Analysis of the 1982-83 and 1990-91 Recessions

Over the course of 1982-83 the number of people receiving unemployment payments increased from 397 402 to 633 281, an increase of 59.4%. During 1990-91 the increase was from 436 444 to 679 222 (55.6%). During both years numbers rose continuously, contrary to the normal seasonal patterns in unemployment payments which tend to peak in February due to the impact of school leavers on the labour market.

In 1990-91, unemployment payments were 16.7% greater in real terms, reflecting the extension of rent assistance to the unemployed in 1986 and more generous payments to those with children.

The 1982-83 recession was characterised by job losses which centred on the building and manufacturing industries. In the current recession job losses have also been heavy in these sectors, while there has been a pronounced slowing of growth in the service sector (particularly in financial services).

In 1982-83, the operation of socio-economic factors in assessing Invalid Pension eligibility led to major flow-on increases in Invalid Pension recipients. This phenomenon is not expected to recur, due to the operation of the Disability Reform Package.

Recovery in unemployment benefit numbers after 1982-83 was slow. Numbers did not drop below their July 1982 level until May 1989, while the unemployment rate, as measured by the ABS, improved much more quickly. Even though the reduction in current unemployment is likely to be gradual, reduction in unemployment benefit numbers may follow falls in the unemployment rate more closely.

A reduction in the lag between labour market improvements and fall in beneficiary numbers can, to a significant degree, be related to tighter and more active compliance measures which have been in place since 1987. These are expected to reduce the numbers receiving unemployment payments for a lengthy period after economic

recovery. This contrasts sharply with the experience of the 1982-83 recession, when a large number of questionable claims for UB persisted into the second half of the decade.

One indicator of the success of these compliance measures is the large reduction in the discrepancy between numbers of unemployment beneficiaries recorded by DSS and Australian Bureau of Statistics (ABS) unemployment data compared with the 1980s. In November 1982 (after adjusting for statistical differences between the series) 16.5% of recipients could not be accounted for in ABS statistics. This difference has now dropped to less than 2%.

Sickness Benefit numbers have behaved differently in the two recessions, rising significantly in 1982-83 but falling in 1990-91. This is the result of tighter administration of Sickness Benefit.

Measures

Measures announced in this Budget include increased assistance to youth, continued compliance activity and assistance to private renters. These include:

- extending eligibility for JSA to State wards in foster care not being paid by State authorities;
- modifying the requirement that, to qualify for independent JSA or Special Benefit, an applicant had to have worked during the waiting period by allowing 13 weeks registration with the CES to satisfy this requirement;
- extending eligibility for JSA to certain special beneficiaries under 16 years of age;
- continued funding of ten UB and three Sickness Benefit review teams;
- increasing the break in the entitlement period for rent assistance for JSA and Newstart allowees under 60 years without children; and
- reducing the rent assistance waiting period from 26 weeks to 18 weeks and extending it to beneficiaries aged under 18 years.

4.6 OTHER WELFARE PROGRAMS

4.6		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Special Benefit	$m	261.7	292.6	312.2	325.3	344.5
	%	21.9	11.8	6.7	4.2	5.9
Other Assistance to Widows	$m	577.3	551.8	521.9	523.5	466.7
	%	4.2	-4.4	-5.4	0.3	-10.8
Accommodation Assistance	$m	167.5	179.0	181.4	182.9	187.5
	%	-4.7	6.9	1.4	0.8	2.5
Telephone, Rental and Postal	$m	58.9	64.0	68.0	70.5	73.9
Concessions	%	5.4	8.7	6.3	3.7	4.9
Migrants Settlement Support	$m	40.9	48.4	50.3	49.1	51.3
	%	11.9	18.4	3.9	-2.4	4.5
Other	$m	20.6	23.4	24.1	26.9	29.9
	%	3.2	14.1	2.8	11.5	11.2
TOTAL	$m	1126.8	1159.2	1158.0	1178.2	1153.8
	%	6.7	2.9	-0.1	1.7	-2.1

This subfunction comprises a number of related program elements with the following objectives:

- provision of income support to people in special circumstances;
- assistance for people facing certain additional costs by providing income supplements and/or concessions;
- increased access to accommodation for low income earners and the homeless through the provision of recurrent and capital funds in conjunction with the States and Territories; and
- emergency relief funds paid through charitable agencies for people who are in financial crisis and require assistance.

Special Benefit

This is paid to people who are unable to earn a sufficient livelihood for themselves and their dependants and who are ineligible for any other pension or benefit. It is payable, at rates equivalent to UB, at the discretion of the Secretary of DSS in cases of proven hardship.

Other Assistance to Widows

This item comprises the Class B Widow's Pension and the Widowed Person's Allowance. Class B Widow's Pension is payable to previously married women who do not have dependent children and who were aged 50 years or more, or were sole parent pensioners aged 45 years or more, at 1 July 1987. These pensions are payable at the same rate as age pensions and the same additional payments are available. They are also subject to the same income and assets test.

Widowed Person's Allowance replaced Class C Widow's Pension from March 1989. It is payable to recently widowed persons who do not have dependent children (those with children being entitled to SSP). The allowance is payable for up to 12 weeks after the death of the spouse (but not concurrently with another pension or benefit) under normal pension rates and conditions.

Accommodation Assistance

This item comprises a number of programs targeted at those in short-term housing crisis.

The Mortgage and Rent Relief Scheme (MRRS) assists low income home buyers experiencing extreme difficulty in meeting their mortgage repayments and low income private renters experiencing difficulty in meeting rent payments or in gaining access to private rental accommodation.

The Crisis Accommodation Program provides for the purchase, construction, renovation or leasing of dwellings to provide short-term emergency accommodation (eg for refuges).

Commonwealth funds for these two programs are provided to the States as subprograms under the Commonwealth State Housing Agreement (see *5. Housing and Community Amenities* for more details). States are required to match MRRS funds on a $ for $ basis.

Under the Supported Accommodation Assistance Program (SAAP) the Commonwealth, in conjunction with the States and Territories, makes available recurrent funds for

transitional support services to assist people who are homeless as a result of a crisis. The States and Territories match Commonwealth outlays on a $ for $ basis above an agreed funding base.

Under the three year funding arrangements for SAAP, commenced in 1989-90, the Commonwealth will provide $90.3m in 1991-92 to the States and Territories, including $4.9m in growth funds in addition to annual indexation.

In addition to SAAP funding and consistent with the Commonwealth's Youth Social Justice Strategy, $5.2m is provided in 1991-92 to the States and Territories on a matched basis for innovative service development projects focused on priorities for homeless youth.

The Emergency Relief Program provides grants to non-government community welfare agencies for distribution as short-term emergency assistance to people in financial crisis. Commonwealth funds supplement those of the non-government sector and State and Territory governments and are distributed through some 700 agencies with a total of about 1000 outlets Australia wide.

Telephone Rental and Postal Concessions

The Telephone Rental and Postal Concessions (TRC) is a payment equal to one third of the basic annual telephone rental fee. Eligible recipients include certain veterans and veterans' widows and health care card holders who rent a telephone. An exemption from the postal redirection charge applies for blind pensioners. From July 1992, the voucher system for delivery of the TRC will be replaced by direct payment of the concession to eligible pensioners and beneficiaries.

Migrant Settlement Support

Settlement support for migrants includes grants-in-aid, translator and interpreter services, funding for migrant resource centres, maintenance of unattached refugee children and assistance to voluntary agencies under the Community Refugee Settlement Scheme.

Other

Included under this heading is assistance ($3.5m in 1991-92) to the Australian National Railways Commission (see '7A.3.2 Rail Transport') as reimbursement for concessional passenger fares for eligible pensioners and beneficiaries.

Trends

Outlays on Other Welfare Programs increased in real terms by 2.8% a year between 1981-82 and 1990-91. In 1991-92, outlays are expected to decline by $32.4m and continue declining over the forward years.

Growth in outlays was influenced by movements in the two largest items, Special Benefit and Class B Widow's Pension.

Special Benefit outlays increased by 69.1% in real terms over the period 1981-82 to 1990-91, reflecting the deterioration in the labour market in the early part of the period. From the mid 1980s the Government introduced measures to improve targeting and enforcement of eligibility conditions of pensions and benefits. A number of the recipients affected by these measures have subsequently qualified for Special Benefit, resulting in continuing growth in real outlays.

Growth in outlays on Class B Widow's Pension in the four years to 1984-85 was largely a result of increasing numbers of persons eligible. Phasing out of Class B Widow's Pensions was commenced on 1 July 1987 (subject to a number of protection provisions for existing pensioners and certain other women). By the year 2002 there will be no new grants of this pension.

Increased outlays for the implementation of the Government's strategy for young people and increased outlays on mortgage relief have also contributed to the growth.

Over the forward years the phasing out of Class B Widow's Pension eligibility and the projected moderation in growth of Special Benefit outlays will result in a fall in real outlays.

Measures

The Government has decided to provide an additional $3m in 1991-92 and in 1992-93 under the Emergency Relief Program to assist charitable organisations helping people experiencing short-term financial difficulty.

Substantial savings ($6.9m in 1992-93) accrue under the Special Benefit item due to the decision to require certain migrants (mainly aged parents entering under the balance of family category) to pay a bond before entering the country. The bond is refundable after two years less any usage of special benefit or Newstart by relevant migrants. This partially replaces the existing Assurance of Support Scheme. Outlays on JSA and Newstart will also be marginally affected.

4.7 ABORIGINAL ADVANCEMENT PROGRAMS

In March 1990, the Aboriginal and Torres Strait Islander Commission (ATSIC) was established to assume the functions of the former Department of Aboriginal Affairs (DAA) and the Aboriginal Development Commission.

All the programs now administered by ATSIC, the Aboriginal and Torres Strait Islander Commercial Development Corporation (ATSICDC) and the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) are included here. Other outlays on Aboriginal programs (Aboriginal Education and Employment and Training) appear under *7C. Labour and Employment.*

The convention of using the term 'Aboriginals' to include persons of the Torres Strait Islands has been adopted in this Section.

Land and Economic Development

The objective of the Land and Economic Development Programs is to promote economic independence and self determination of people of Aboriginal descent. The main components are the Government's Aboriginal Employment Development Policy (AEDP) and the promotion of land rights and community living area excisions from pastoral land.

The broad objective of the AEDP is to improve income and employment outcomes for Aboriginals. AEDP assistance shown in this Section is provided through the Community Development Employment Projects (CDEP) Scheme, the Business Funding Scheme, Management Advisory Services and Aboriginal Organisation Training. AEDP assistance is also provided through Aboriginal employment programs under *7C. Labour and Employment.*

CDEP is the largest single program element within the AEDP, absorbing $194.1m in 1990-91 or 32% of all ATSIC outlays for that period. CDEP enables Aboriginal community councils to undertake community development activities through the creation of employment opportunities. Under the scheme, communities agree to forgo the individual employment benefit to which their members would be entitled in order to receive an equivalent consolidated amount plus payments for on-costs and support. As at July 1991, 18 100 CDEP workers were participating in the scheme, an increase of 31% over the previous year. In total, the scheme supports 28 400 Aboriginal people, including 10 100 children and dependent students.

The Government is currently considering ways of further improving CDEP, including expanding the scheme to meet the demand from Aboriginal communities for additional participation and assessing existing projects.

The Business Funding Scheme and Management Advisory Services components of AEDP seek to meet the objectives of self determination and self sufficiency by assisting Aboriginals to acquire or develop commercially viable businesses. The Business Funding Scheme provides loans, grants, a combination of both or guarantees to eligible Aboriginals to develop or acquire commercially successful businesses. The Aboriginal Enterprise Incentive Scheme provides small business loans to unemployed Aboriginals. In 1990-91 expenditure on Enterprise Programs was $21.3m.

Strategies to improve access to land include the provision of assistance and advice to Aboriginal people acquiring land, establishing communities on their lands, managing and utilising land and maximising the benefit from money received in connection with use of that land. In 1990-91 $10.6m was spent on such assistance.

Also included in this category are:

- outlays of the Aboriginal Benefits Trust Account (ABTA). These are expected to continue to increase due to amendments to the *Aboriginal Land Rights (Northern Territory) Act 1976* which increased the level of royalty payments into the trust account; and
- subventions through ATSIC to ATSICDC, which is primarily concerned with advancing the commercial and economic interests of Aboriginals by accumulating and using a substantial capital asset.

Social Advancement

The overall objective of the Social Advancement Program is to improve the health and social well being of Aboriginals to a standard commensurate with that of the general Australian community. Apart from specific health measures, the program covers housing assistance, community infrastructure and funding for recreation, sport and legal services.

The specific health programs focus on improving primary health care, domiciliary hygiene, identifying and restricting the harmful effects of substance abuse, preventive education programs and the promotion of Aboriginal participation and decision making in health care and delivery. In 1990-91 $48.6m was spent on these health programs.

Assistance for Aboriginal health is also made available through mainstream health programs referred to in *3. Health.*

National Aboriginal Health Strategy

In June 1990 the Commonwealth and all States and Territories agreed to establish the National Aboriginal Health Strategy (NAHS) to develop and target health services for Aboriginal people on a national basis. The maximum Commonwealth contribution will be $232m over five years, dependent on satisfactory agreements and contributions by the State and Territory governments. The major part of the funds will go to a comprehensive public health program to meet infrastructure needs in areas such as housing, water, sewerage, electricity and roads.

As an initial contribution to the strategy, the Commonwealth made available $9m in 1990-91 and $7m will be provided in 1991-92 for expansion of community controlled Aboriginal Medical Services.

Housing assistance includes:

- funds for Aboriginal Hostels Ltd which currently supplies 2975 resident beds in 152 hostels across Australia in support of other Government programs ($22.6m was provided in 1990-91); and
- *grants to Aboriginal Housing Associations ($51.8m in 1990-91).*

In addition to these housing funds, $91m will be provided in 1991-92 specifically for Aboriginal rental accommodation under the Commonwealth State Housing Agreement referred to under *5. Housing and Community Amenities.*

Funding is also provided through ATSIC for community infrastructure such as power and water supplies and sewerage disposal. Funding in 1990-91 on community infrastructure ($98.6m) remains high due to the high priority placed on improving environmental health (a major goal of the NAHS).

Heritage, Art and Culture

Funds are provided for a range of heritage protection and cultural maintenance activities to safeguard, and to increase awareness of and respect for, Aboriginal cultural identity and heritage. In 1990-91 spending on those activities falling within ATSIC's responsibilities was $5.6m.

Also included is funding for the AIATSIS, which aims to promote and to publish the results of relevant research on Aboriginal cultures. Funding for the AIATSIS in 1991-92 is $5.3m.

Trends

Outlays increased by 8.1% a year in real terms between 1981-82 and 1990-91.

By far the largest component of this growth over the ten year period has been CDEP outlays, but approximately 60% of the increase has been offset by reduced outlays on social security benefits.

Other significant sources of expenditure growth are health services and community infrastructure. In addition the level of payments by the ABTA has increased by 177% in

real terms over the period 1981-82 to 1990-91. These payments are dependent upon mining activity and the royalty rate set by the NT Government.

Measures

The Government has provided an additional $8.1m to ATSIC in 1991-92 largely to cover the operating costs of 60 elected Regional Councils.

In the Budget $7.2m has been allocated for implementation of the NAHS pending consideration of developed goals and targets for the strategy and negotiations with the States and Territories.

The Government has decided to provide an initial allocation across all portfolios of $2.7m in 1991-92 to assist with immediate responses to the Report of the Royal Commission into Aboriginal Deaths in Custody. While some part of these funds is for expenditure by ATSIC, the main part is for activities within the Attorney-General's portfolio. A total coordinated Government response is expected to be included in the 1992-93 Budget.

Further expansion of CDEP has been agreed and $2.9m provided to ATSIC in 1991-92 for this purpose.

4.8 GENERAL ADMINISTRATION

4.8		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Department of Social Security	$m	901.0	1025.4	1005.4	962.4	969.3
	%	13.4	13.8	-1.9	-4.3	0.7
Department of Veterans' Affairs	$m	141.9	149.1	149.1	146.7	150.2
	%	-3.4	5.1	..	-1.7	2.4
Department of Health, Housing	$m	153.3	123.3	119.4	115.6	117.4
and Community Services	%	6.6	-19.6	-3.2	-3.2	1.5
TOTAL	$m	1196.2	1297.8	1273.9	1224.7	1236.9
	%	10.2	8.5	-1.8	-3.9	1.0

Department of Social Security

The major component of general administration is salaries costs which are expected to be $606.9m in 1991-92 compared with $518.8m in 1990-91. Additional resources have been provided to:

- implement the initiatives announced in the Budget ($11.7m);
- meet the effects of salary increases under the Accord Mark VI Agreement and the final Structural Efficiency Principle arrangements ($15.1m); and
- cover the costs of the additional staff required to provide services to the anticipated higher numbers of social security pensioners and beneficiaries in 1991-92 ($19.8m).

Other components are administrative and capital expenses. In particular, outlays on computers in 1991-92 will be $15.7m (compared to $27.5m in 1990-91) and are expected to increase to approximately $30m in 1992-93, $24.7m in 1993-94 and $23.9m in 1994-95. A significant proportion of this spending is on non-mainframe computing network replacement.

Property operating expenses in 1991-92 are expected to increase by approximately $20m (to expand the delivery network to meet growing client numbers and the relocation of Central Office to Tuggeranong Office Park, ACT).

Declining outlays on general administration over the forward years reflect the expected decrease in client numbers as the economy improves.

Department of Veterans' Affairs

The major components of general administrative costs of the Department of Veterans' Affairs allocated to this function include $83.8m for salaries and allowances, $35.3m for administrative expenses and $26.6m for property operating expenses.

Savings of at least $6.5m will accrue over the next five years ($1.8m in 1991-92 and $1.0m in 1992-93) as a result of the decision to outsource the Department's central computing operations to the private sector.

The balance of the increase is due to wage increases, price adjustments and resources for new policy and savings initiatives.

Department of Health, Housing and Community Services

Outlays of $123.3m provide mainly for administrative costs of the Social Security and Welfare function of the Department of Health, Housing and Community Services, including $64.2m for salaries, $34.0m for administrative expenses and $1.4m for plant and equipment.

4.9 RECOVERIES AND REPAYMENTS

Receipts under this item were lower in 1990-91 than expected ($9.4m compared to $10.7m) owing to fewer New Zealanders resident in Australia receiving payments under the revised reciprocal Social Security Agreement between New Zealand and Australia. Under this arrangement Australia is reimbursed for the cost of Australian age, widow's and invalid pensions paid to certain New Zealanders. The estimated increase in receipts in 1991-92 to $18.1m reflects the revised agreement. The total also includes receipts from recovery measures introduced in previous budgets.

5. HOUSING AND COMMUNITY AMENITIES

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
	Housing						
5.1	Housing Assistance to Other	$m	767.1	911.0	908.1	917.8	927.5
	Governments	%	-14.3	18.8	-0.3	1.1	1.1
5.2	Assistance to First Home	$m	71.5	38.0	18.9	8.4	2.7
	Owners	%	-40.3	-46.8	-50.3	-55.6	-67.9
5.3	Defence Service Homes	$m	149.6	128.9	146.9	148.6	147.7
		%	-16.6	-13.8	14.0	1.2	-0.6
5.4	Housing Other	$m	8.6	14.1	12.0	11.7	11.2
		%	10.0	64.2	-14.9	-2.3	-4.8
5.5	General Administration	$m	28.8	26.5	26.0	25.2	25.6
		%	36.0	-7.9	-1.9	-3.1	1.9
	Sub-total Housing	$m	1025.5	1118.4	1111.9	1111.7	1114.7
		%	-16.1	9.1	-0.6	..	0.3
5.6	Regional Development and	$m	58.5	70.9	69.3	69.2	69.2
	Pollution Control	%	-20.0	21.3	-2.3	-0.1	..
	TOTAL	$m	1084.0	1189.3	1181.1	1180.9	1183.9
		%	-16.4	9.7	-0.7	..	0.3

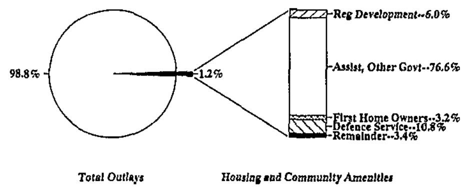
The above budget and forward estimates of outlays make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Total Housing and Community Amenities outlays are expected to increase by $105.3m or 9.7% (6.3% real) in 1991-92 with an overall real decline in outlays over the forward estimates (down 11.5% real).**

- **The significant increase in total outlays in 1991-92 is largely explained by a one off payment of debt by SA in 1990-91 of $124.6m, reducing outlays in that year. This amount relates to previous advances made under the *States (Works and Housing) Assistance Acts.* The change in total outlays in 1991-92 also reflects measures that have been taken in the 1991-92 Budget.**

- **Outlays on Housing and Community Amenities in 1991-92 represent 1.2% of Commonwealth outlays compared with 1.1% in 1990-91.**

Chart 1. *Housing and Community Amenities*
Proportion of Total Outlays and Function



- The forward estimates are dominated by:
  - — the fixed nominal base level funding under the Commonwealth State Housing Agreement (CSHA) ($957.7m under this function in 1991-92 and each of the forward years); and
  - — continued subsidies for Defence Service Home (DSH) loans ($129.5m in *1991-92 increasing to $152.3m in 1994-95).*

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Sale of surplus land at Albury-Wodonga	-2.0	-3.0	-5.0	-5.0
Reduction to Private Rental Subsidy	-10.0	0.0	0.0	0.0
Atomic test site rehabilitation	na	na	na	na
Increases				
Building better cities - running costs	1.5	1.6	1.6	1.7
Housing Industry Development	3.4	5.3	4.9	4.0
Research into private sector rental housing	0.8	0.0	0.0	0.0
Control of Mimosa pigra in the NT	2.0	0.0	0.0	0.0
Great Barrier Reef World Heritage Area	0.1	0.0	0.0	0.0
Local Government Development Program	2.7	2.7	2.7	2.7
Refurbishing of Migrant Accommodation Centre - Sydney	0.3	0.0	0.0	0.0
AID budget for 1991-92	0.2	0.1	0.1	0.1
Environment Protection Agency	8.5	8.9	9.0	9.4

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Staffing to implement Resource Security legislation	0.2	0.2	0.2	0.2
Agricultural and Veterinary Chemicals	0.0	0.2	0.0	0.0
Private sector financing for social housing	1.8	0.0	0.0	0.0
Community flood risk management	1.0	1.0	1.0	0.0
Elimination of sex discrimination under Defence Service Homes Act	0.1	0.1	0.1	0.1

PURPOSE

Commonwealth outlays for housing primarily aim to improve access to adequate, appropriate and affordable housing for those whose needs are not met through the private rental market or who have difficulty achieving home ownership. Direct cash assistance is also provided under *4. Social Security and Welfare* to pensioners and beneficiaries and other low income earners for private rental housing. Certain tax expenditures also assist owner occupiers and suppliers of private rental accommodation (eg by exemption from capital gains tax and negative gearing provisions, respectively).

Outlays under *Community Amenities* include assistance to the States, local government and statutory bodies to enhance urban and regional planning and development and for the preservation and protection of the environment.

NATURE OF HOUSING AND COMMUNITY AMENITIES OUTLAYS

Outlays under this function are dominated by assistance for housing. Assistance is provided to State governments to provide subsidised rents to public housing tenants and funds to construct, purchase and maintain the public stock of rental housing. Funding through the CSHA is provided as grants for specific purposes. Commonwealth and State guidelines ensure that the assistance is targeted to low income people and groups disadvantaged in finding suitable accommodation. Home ownership assistance is provided through the CSHA Home Purchase Assistance (HPA) arrangements.

Subsidised low interest loans are also available through Westpac to eligible former and serving members of the Defence Force who enlisted prior to May 1985. The housing assistance scheme for service personnel who enlisted after May 1985 is classified under *1. Defence*. Outlays also reflect Commonwealth funding of programs to encourage better urban and regional planning and development and to promote national environmental objectives. This includes funding for State and local governments and the operations of the Environment Protection Agency (EPA).

Over the five years to 1995-96, funding in the form of general purpose capital grants will also be provided to the States and Territories in recognition of their needs to improve the efficiency of cities and quality of urban life (see *9A. Assistance to Other Governments, nec*)

TRENDS IN HOUSING AND COMMUNITY AMENITIES OUTLAYS

Outlays on Housing and Community Amenities increased in real terms at an average rate of 2.0% over the period 1981-82 to 1990-91. Two distinct trends underlie this increase; very strong growth in real outlays between 1981-82 and 1984-85 and a marked decline between 1986-87 and 1988-89.

These trends essentially reflect the changing emphasis successive Governments have given to the objectives of home ownership and the provision of affordable public rental housing through the First Home Owners Scheme (FHOS) and the CSHA respectively. Over the years CSHA outlays have mainly reflected Government responses to the demand for public housing and the degree of targeting within the program. Outlays on FHOS (and its precursor programs) were largely demand driven and subject to a number of changes in targeting.

Between 1991-92 and 1994-95 outlays on the Housing subfunction decline in real terms, mainly reflecting the abolition of FHOS in the 1990-91 Budget and the constancy of CSHA funding in nominal terms over this period.

Outlays on Local Government and Regional Development generally reflect the Commonwealth's involvement in regional development initiatives such as NSW growth centres. The substantial changes in outlays over recent years are largely due to the repayment of loans made to the States for these initiatives. Outlays under pollution control have risen substantially over the period 1981-82 to 1991-92. Outlays on the subfunction are expected to increase significantly in real terms in 1991-92 (mainly due to the establishment of the EPA) and then to stabilise over the forward years to 1994-95.

1990-91 OUTCOME

Actual outlays in 1990-91 in this function were $148.8m or 12.1% lower than the budget estimate. This is mainly due to the one off payment of debt by SA in 1990-91 of $124.6m and lower than expected outlays on subsidies for DSH loans (down $18.1m).

SUBFUNCTION DETAIL

5.1 HOUSING ASSISTANCE TO OTHER GOVERNMENTS

5.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Nominated Loan Funds -	$m	-145.9	-18.8	-19.6	-20.5	-21.4
Repayment of Principal	%	na	-87.1	4.5	4.5	4.4
Grants To States Under CSHA	$m	957.6	957.6	957.6	957.6	957.6
	%	-	-	-	-	-
CSHA Loans - Repayment	$m	-56.7	-59.0	-61.3	-63.8	-66.2
of Principal	%	4.0	4.0	4.0	4.1	3.7
Subsidy for Provision of	$m	-	3.0	26.0	39.0	52.0
Private Rental Housing Stock	%	na	na	na	50.0	33.3
Deposit Assistance	$m	6.6	22.6	-	-	-
	%	na	242.4	-100.0	na	na
Other Grants for Housing	$m	5.5	5.5	5.5	5.5	5.5
	%	-	-	-	-	-
TOTAL	$m	767.1	911.0	908.1	917.8	927.5
	%	-14.3	18.8	-0.3	1.1	1.1

The Commonwealth assists the States in providing publicly funded rental housing, subsidised rents to low income public housing tenants and helping low income earners purchase a home.

Also included are loan repayments previously provided under Loan Council arrangements for housing, grants to the States under the CSHA, repayments by the States of housing assistance loans and other funding for deposit assistance and to encourage the provision of private rental stock at the lower end of the market.

Nominated Loan Funds - Repayment of Principal

In May 1989, the Commonwealth agreed to replace the 1989-90 $310.5m pool of nominated loan funds under the Loan Council borrowing arrangements with grants under the CSHA. Advances previously nominated by the States for public housing are repayable over 53 years at an interest rate of 4.5% a year.

Grants to the States Under the CSHA

The current CSHA specifies grant funding of $1028.3m in 1991-92 and the forward years. Only $957.7m is classified to this function. Features of the current agreement are:

- planning processes between the Commonwealth and States are strengthened;
- funding is redistributed to the States on the basis of CSHA relativities (essentially per capita) rather than the Loan Council 'historical' basis;
- the States do not have to service any new Commonwealth debt but are required to match Commonwealth untied funding on a $ for $ basis (subject to phase in provisions). At least half the State matching effort must be in the form of grant funding, with the balance to be met from CSHA home loan repayments;
- Commonwealth and State matching grants are paid into the rental capital account and used primarily to acquire public rental housing. States can also draw on this account to repay State debt to the Commonwealth for past funding and to cover various State recurrent and capital outlays up to 25% of these funds (excluding State administration costs); and
- targeting of public housing assistance has been enhanced by requiring tenants who are able to meet the full cost of providing the accommodation they occupy to do so.

The formula used to set maximum rents includes the true interest cost on State borrowings (rather than incorporating the subsidised interest cost of moneys provided on concessional terms). This is expected to result in a cost based rent approximating to market rent levels in most States for those tenants not eligible for rent rebates. States that wish to charge maximum (non-rebated) rents in excess of these new cost based rents are free to do so, thereby increasing the incentive for higher income tenants to move into the private market. These changes are expected to free up more public rental dwellings for low income tenants.

Base level funds to the ACT of $17.8m will be preserved at their 1989-90 level until 1993-94 when the per capita relativities will have been phased in for all other parties to the Agreement. From 1993-94 all parties, including the ACT, will be allocated untied funds on a per capita basis with the smaller States receiving guaranteed minimum shares.

The subprograms within the CSHA include:

- *Untied Assistance*, the major component (77% of CSHA outlays). This funds the construction and maintenance of public rental housing, rental subsidies for low income earners and repayments of Commonwealth principal and interest and covers various State recurrent and capital outputs. HPA is financed from revolving funds (ie loan repayments) and supplemented by private sector raisings. This is likely to have resulted in a substantial increase in the number of home loans available for low and moderate income earners;
- *Pensioner Housing Assistance*, assists pensioners and beneficiaries to gain access to accommodation which best suits their needs and capacity to pay;

- *Aboriginal Housing Assistance*, provides grants for the construction, purchase or lease of rental dwellings for Aboriginals in need of housing assistance;
- *Local Government and Community Housing Assistance* enables local government, community and welfare organisations to purchase, construct, lease or upgrade dwellings for low cost rental housing and is intended to attract additional land and capital resources and allow tenants a greater role in the management of dwellings;
- *Mortgage and Rent Relief Scheme (MRRS)* provides short-term assistance to low income home buyers or private renters experiencing extreme difficulty in meeting their repayments or rent and is often used to provide short term bridging assistance until alternative public housing becomes available; and
- *Crisis Accommodation* funding is available for the purchase, construction, renovation or leasing of dwellings to provide short-term emergency accommodation such as refuges.

The States are required to match Untied Assistance and MRRS funds on a $ for $ basis. No matching is required for the other specific purpose programs.

The table below shows the various components of the CSHA, including those allocated to other functions.

Components of the Commonwealth State Housing Agreement

Program	*1991-92* Budget $m	% Allocation
Untied Assistance - Rental	792.9	77.1
Pensioner Housing	49.3	4.8
Aboriginal Housing	91.0	8.8
Local Government and Community Housing	24.4	2.4
Research and Consultancy (a)	0.1	-
Subtotal - Allocated to *5. Housing and Community Amenities*	957.7	93.1
Mortgage and Rent Relief (b)	30.9	3.0
Crisis Accommodation (b)	39.7	3.9
TOTAL	1028.3	100.0

(a) This program is classified to '5.5 Housing Other'.
(b) Payments under these programs are classified to '4.6 Other Welfare Programs'.

The main recipients of assistance under the CSHA are pensioners, beneficiaries and Family Allowance Supplement (FAS) recipients who currently occupy about 70% of the public housing stock. This percentage is increasing as proportionately more new allocations are made to this group. Changes incorporated in the 1989 Agreement have reinforced this trend.

Details of the allocation of CSHA funds between States are shown in Budget Paper No.4 *Commonwealth Financial Relations With Other Levels of Government 1991-92.*

Commonwealth State Housing Agreement Loans - Repayment of Principal

In addition to the nominating arrangements, prior to 1984-85 a proportion of the assistance provided under the CSHA was by way of loans, repayable in equal annual instalments over 53 years at a concessional interest rate of 4.5% a year. In 1990-91 SA made a one off payment of $124.6m to the Commonwealth, equivalent to the present value of amounts outstanding on advances to South Australia during 1982-83, 1983-84 and 1984-85 for housing under the *States (Works and Housing) Assistance Acts.*

Repayments of loan assistance are estimated to be $59.0m in 1991-92.

Subsidy for Private Rental Housing

In 1989 the Commonwealth offered financial assistance to the States over five years to fund additions to the private rental housing stock for use by low and moderate income earners. To date no scheme has been implemented. Consequently, the Government has decided to reduce outlays under this item by $10m for 1991-92 only. Of this amount some $1.8m has been redirected to subfunction '5.5 General Administration' for the development of an off-budget funding and delivery mechanism to increase the supply of private sector social housing. Payments for private rental subsidy are expected to rise to $26m in 1992-93 provided appropriate funding vehicles can be developed.

Deposit Assistance

An additional $22.6m in 1991-92 is to be paid to the States for deposit assistance. This amount may be supplemented by up to $7.4m drawn from existing MRRS funds paid to the States under the CSHA (which will continue to be matched). MRRS is classified to '4.6 Other Welfare Programs', in *4. Social Security and Welfare.* Funds are used for deposit gap assistance and are tightly targeted to those in greatest need of home ownership assistance. Deposit assistance under this program will be linked to home purchase assistance and shared home ownership schemes provided by the States under the CSHA.

Other Grants to the States for Housing

The *States Grants (Housing) Act 1971* provided for annual housing grants to the six States for 30 years. The payments are in lieu of an interest concession on State funding for public housing in 1971-72 and 1972-73. In 1991-92, $5.5m will again be provided for this purpose.

Trends

Prior to 1980-81 all untied CSHA assistance to the States was provided as loans. CSHA funding quadrupled in real terms between 1981-82 and 1984-85 as governments responded to housing related poverty. In addition, by 1984-85 100% of CSHA funds were provided as grants. The proportion of funds spent on providing rental accommodation (rather than home purchase assistance) increased from 77% in 1981-82 to 91% in 1984-85.

In 1984 the Commonwealth entered into a new CSHA with greater emphasis on targeting assistance toward specific groups with particular housing needs. One new specific purpose program was introduced (the Local Government and Community Housing Program) and two existing programs formerly outside the CSHA were incorporated into CSHA assistance (the Crisis Accommodation Program and MRRS, classified under *4. Social Security and Welfare*).

Improved targeting enabled increasing numbers of pensioners and beneficiaries and other low income groups to be assisted without significant further increases in Commonwealth outlays. The proportion of public housing tenants receiving rent rebates

(ie rent subsidies) rose from 52% in 1981-82 to 72% in 1987-88 This trend is expected to continue in 1991-92 and over the forward years. The CSHA was renegotiated during 1989-90 with the base level of funding being maintained in nominal terms.

5.2 ASSISTANCE TO FIRST HOME OWNERS

FHOS was abolished in the 1990-91 Budget. However, subsidies already committed continue to be paid to previously approved applicants. Additional funds of $22.6m, for deposit assistance for those with low incomes have been provided in the 1991-92 Budget, to be paid to the States. These funds are to be distributed with other home purchase assistance provided under the CSHA. The States are also permitted to reallocate up to a further $7.4m of funds under the MRRS for deposit assistance.

Trends

Assistance to home purchasers has followed a similar pattern to total outlays on Housing and Community Amenities. Before 1981-82, assistance was provided through the Home Savings Grant program. In 1982-83 this was replaced by the Home Deposit Assistance Grants scheme and further tax rebate schemes were introduced.

These schemes themselves were replaced in 1983-84 by FHOS, which provided for better targeting to low income earners, particularly those with children. FHOS provided deposit assistance and an ongoing subsidy payment to help meet the costs of mortgage repayments in the early years.

FHOS outlays grew rapidly until eligibility was tightened in 1984-85 by revising the income limits and reducing the maximum benefit. Further tightening of eligibility and a reduction in payments were announced in May 1988. In 1989-90 the Government introduced a 12 month residency requirement before assistance could be paid. FHOS was terminated in the 1990-91 Budget.

Outlays on FHOS are expected to decline from $71.5m in 1990-91 to $38m in 1991-92 and to continue to decline progressively over the forward years as existing commitments are fulfilled.

5.3 DEFENCE SERVICE HOMES

5.3		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Home Acquisition Assistance	$m	145.5	129.5	148.5	152.1	152.3
	%	-16.2	-11.0	14.7	2.4	0.1
DSH Insurance	$m	4.0	-0.6	-1.6	-3.5	-4.6
	%	-28.4	-115.1	163.1	116.2	32.4
TOTAL	$m	149.6	128.9	146.9	148.6	147.7
	%	-16.6	-13.8	14.0	1.2	-0.6

The DSH Scheme provides home ownership assistance to eligible former and serving members of the Defence Forces who enlisted prior to May 1985, or with certain qualifying service, in the form of subsidised low interest loans. Housing assistance for service personnel who enlisted after May 1985 is classified in *1. Defence.*

Included are the administrative costs of assessing eligibility for DSH loans and monitoring delivery of the Scheme, payment of the current interest subsidy to Westpac and the DSH insurance business.

Home Acquisition Assistance

During 1987-88, the Government decided to sell the mortgage portfolio administered by the Defence Service Homes Corporation and the right to make new loans under the Scheme. In this context, a number of changes were introduced including: a cut in the maximum length of the loan from 32 years to 25 years; loans became portable for those who applied after 8 December 1987; and the waiting period of ten months was eliminated. The 'three-tiered' concessional interest rate was also replaced by a single 'blended' interest rate of 6.85% a year. New borrowers and eligible borrowers who require more than the maximum subsidised loan of $25 000 have access to 'top up' loans from Westpac at first mortgage housing interest rates.

A subsidy is paid to Westpac to bridge the difference between the concessional interest rate paid by DSH borrowers and an agreed 'benchmark' mortgage rate based on the standard bank interest rates for new owner-occupied housing.

Outlays are lower in 1991-92, primarily due to the reduction in the benchmark interest rate.

In January 1991, the Government extended the benefits under the *Defence Service Homes Act 1918* to the male counterparts of widows and widowed mothers.

Defence Service Homes Insurance

The DSH Insurance Scheme remains a self-funding Commonwealth insurance scheme. Total outlays under this classification are the net difference between cash receipts (other than receipts of interest on investments - see Statement 4. *Revenue*) and payments from the Insurance Trust Account. Net outlays are expected to decrease in 1991-92. In 1990-91 there was a higher than expected number of insurance payouts for hailstorm and flood damage. From 1 July 1991, the DSH made contents insurance available on an agency basis, with a private sector insurer carrying the risk.

Trends

DSH assistance has varied significantly over the ten years to 1990-91. In 1980-81, the DSH loan was increased from $15 000 to $25 000. Subsequently, the average number of new loans approved rose to 5500 in 1987-88. Outlays have fallen steadily since 1983-84, mainly as increasing repayments from borrowers have reduced the need for capital injections from the Budget. Loan approvals rose sharply in 1989-90 to 9100 following the agreement with Westpac. This higher level was maintained in 1990-91.

Outlays on DSH assistance are expected to decrease in 1991-92 by $20.7m or 13.8%. This reflects the reduced rate of interest subsidy.

Outlays peaked in 1989-90 reflecting the full year impact of the interest subsidy payable to Westpac following the sale of the mortgage portfolio in 1988-89. The slight increase in outlays over the forward years is primarily due to the projected increase in the number of loans held by Westpac. This is partly offset as the interest rate determining the subsidy is also assumed to decline marginally.

5.4 HOUSING OTHER

The Government has decided to introduce a Housing Industry Development Strategy which extends and subsumes the former Housing Costs Reduction Program. The strategy is directed at regulatory reform, improved urban form and land use, and increasing industry efficiency. Additional funding of $3.4m is provided in 1991-92 and $5.3m in 1992-93, declining to about $4m a year in later years.

Also included under this subfunction are payments to assist migrants with accommodation and a number of smaller programs.

While highly variable, outlays peaked in 1986-87.

5.5 GENERAL ADMINISTRATION

Outlays of $27.1m provide mainly for administrative costs of the housing function of the Department of Health, Housing and Community Services, including $13.9m for salaries, $7.4m for administrative expenses and $6.2m for computer equipment and property operating expenses.

An amount of $1m will be provided in both 1991-92 and 1992-93 for the National Housing Strategy. In addition, $0.8m has been allocated for research aimed at improving the targeting of rent assistance paid to private tenants. A further $1.8m has been provided for the development of an off-budget funding and delivery mechanism to increase the supply of private sector social housing.

An amount of $1.5m from 1991-92 has also been provided for the running costs associated with the Building Better Cities initiative.

5.6 REGIONAL DEVELOPMENT AND POLLUTION CONTROL

5.6		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Local Government and	$m	24.6	24.7	29.5	27.9	27.4
Regional Development	%	-42.5	0.1	19.5	-5.3	-1.7
Pollution Abatement and Control	$m	33.8	46.2	39.8	41.3	41.8
	%	11.8	36.6	-13.9	3.7	1.2
TOTAL	$m	58.5	70.9	69.3	69.2	69.2
	%	-20.0	21.3	-2.3	-0.1	..

The Commonwealth provides financial assistance to the States and local government and has established a number of statutory bodies to encourage better urban and regional planning and development, to promote greater recognition of national environmental *objectives and to fund programs to preserve and protect the environment.*

Local Government and Regional Development

As well as repayments of the principal component of loans for regional development initiatives, outlays for 1991-92 include financial assistance to the States and Territories through the Federal Water Resources Assistance Program (FWRAP) ($18.5m), the operating costs ($3.8m) of the National Capital Planning Authority (NCPA), and a continuation of the Local Government Development Program ($2.7m), incorporating the former Local Enterprise Program. Under FWRAP, $1m is provided in each of the next three years to demonstrate the effectiveness of community-based approaches to reducing the impact of drainage flooding in residential areas of western Sydney. Revenue will include funds from sales of land excess to the requirements of the Albury-Wondonga Development Corporation.

Following a review of the NCPA's operations, the Government agreed to continue the planned level of Government funding to the Authority in 1991-92 and the forward years. The NCPA will be adopting a more commercial approach to its operations and raising revenue, including through fees for some services, to finance any additional resources needed.

Pollution Abatement and Control

Environment Protection Agency

The Government has allocated $8.5m from 1991-92 to establish a Commonwealth Environment Protection Agency (EPA). The role of the EPA will be to develop a consistent national approach to environment protection, including the facilitation of national environment quality standards in cooperation with the States and Territories.

Pollution Control Programs

The Commonwealth funds a number of programs which monitor and control the impact of pollution on the environment. These include the Office of the Supervising Scientist (OSS), which monitors and undertakes research into the effects of uranium mining on the environment of the Alligator Rivers Region of Kakadu National Park, the operations of the Resource Assessment Commission, financial assistance to the States and Territories to support rainforest and other environment programs and to various international and national bodies concerned with environment and conservation issues, and rehabilitation of abandoned uranium mine sites.

Outlays are to increase in 1991-92 due to the establishment of a Mimosa pigra control program in the NT ($2m) and feral animal eradication in the Monte Bello Islands and the establishment of a marine park ($0.3m). Other minor items under this classification include the move to a national registration system for agricultural and veterinary chemicals (see also '7B.1.8 General Administration'), and assistance for participation in the 1992 UN Conference on Environment and Development.

Trends

Outlays for regional development have decreased over the last decade while there has been a concurrent increase in expenditure on pollution control. Outlays are expected to increase by around 21% in 1991-92 due largely to expenditure on the EPA and control of *Mimosa pigra*.

The increase of 19.5% under Local Government and Regional Development in 1992-93 is due largely to the completion of State Government repayments in 1991-92. Outlays therefore appear to rise as receipts, in the form of offsets to outlays, diminish. Total subfunction outlays are expected to fall by 2.3% in 1992-93 mainly due to cessation of the Mimosa pigra and rainforests conservation programs and cessation of payments for land acquisition in Kakadu National Park and for abandoned mine site rehabilitation. Subfunction outlays then stabilise to 1994-95.

6. CULTURE AND RECREATION

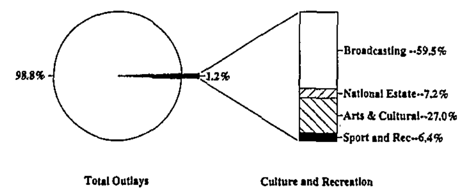
OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
6.1	Broadcasting	$m	723.3	735.2	735.3	770.1	806.3
		%	8.9	1.6	..	4.7	4.7
6.2	Arts and Cultural Heritage	$m	330.0	334.2	283.6	248.5	245.8
		%	16.1	1.2	-15.1	-12.4	-1.1
6.3	Sport and Recreation	$m	70.8	78.6	82.2	46.7	37.7
		%	34.4	11.0	4.6	-43.2	-19.3
6.4	National Estate and Parks	$m	69.7	88.6	85.2	73.3	73.2
		%	15.5	27.1	-3.9	-14.0	..
	TOTAL	$m	1193.9	1236.6	1186.4	1138.6	1163.0
		%	12.5	3.6	-4.1	-4.0	2.1

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in 9C. *Contingency Reserve.*

- **Outlays on Culture and Recreation are expected to increase by $42.7m or 3.6% in 1991-92 (0.4% in real terms) but to decline by 16.4% real over the forward years.**
- **Culture and Recreation outlays are estimated to be 1.2% of total outlays, slightly lower than in 1990-91 (see Chart 1).**

Chart 1. Culture and Recreation
Proportion of Total Outlays and Function
1991-92



- The increase in 1991-92 reflects:
  - — an increase of $20.2m for National Transmitting Facilities for the operation and maintenance of facilities commissioned since 1988 and additional funding for the Equalisation Program, Radio Australia and Special Broadcasting Service (SBS) transmission extensions;
  - — an increase of $18.9m for National Estate and Parks for the capital funding program of the Queensland Wet Tropics World Heritage Area, expansion of the Endangered Species Program, a structural adjustment package for Fraser Island and management of the Great Barrier Reef;
- This is partially offset by:
  - — a fall of $11.8m in funding for the Australian Broadcasting Corporation (ABC), the net effect of repayment of borrowing in 1990-91 to fund redundancies, overfunding in 1990-91 from a lower than expected inflation outcome and further borrowings for redundancies in 1991-92; and
  - — a fall of $8.9m in funding for National Collections due mainly to the completion and opening of the Australian National Maritime Museum (NMM).
- The decline in the forward estimates mainly reflects the wind down in current Arts and Cultural Heritage and Sport and Recreation programs.
- While no funds have been included in the Budget, the Government has provided a commitment ($150m) towards the 2000 Olympic Games should Sydney be selected as host.

MEASURES TABLE

Description of measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Australian Film Finance Corporation	-5.0	0.0	0.0	0.0
National Library of Australia	-0.1	-0.1	-0.1	-0.1
Increases				
Construct Archives Repos - Melbourne	1.9	4.0	4.2	0.8
National Museum of Australia - Preparation of Strategic Plan	1.0	0.0	0.0	0.0
Endangered Species	3.0	2.1	2.2	2.3
Great Barrier Reef World Heritage Area	2.2	0.8	0.9	0.9
Ocean Rescue 2000	1.8	0.5	0.5	0.6
Tasmania Wilderness World Heritage Area	0.5	0.5	0.5	0.5
ABC and SBS - Exemption of efficiency dividend	6.7	13.9	19.4	30.2
ABC and SBS - Repayment of 1990-91 overfunding	6.0	-6.0	0.0	0.0
National Broadcasting Service - Additional Funding	4.3	8.2	9.7	10.1
Structural Adjustment Assistance - Fraser Island	7.0	7.0	2.5	0.0
Community Recreation and Sporting Facilities	8.0	12.0	10.0	0.0
World Council of Churches broadcast by ABC	1.0	0.0	0.0	0.0
TV equalisation - waiver of site sharing fees	0.9	0.9	0.9	0.9
Continuation of the Film Australia National Interest Program	6.8	5.9	6.7	0.0
Assistance to women in sport	0.1	0.1	0.1	0.0
Assistance for Endeavour Replica	1.0	0.5	0.0	0.0
Staffing to implement Resource Security legislation	0.8	0.8	0.8	0.9

PURPOSE

The Commonwealth supports activities to promote increased community awareness of and participation in cultural, recreational and conservation-related issues.

NATURE OF CULTURE AND RECREATION OUTLAYS

Outlays are mainly by way of direct expenditures by Commonwealth agencies. Other avenues of support include payments to the States and Territories (shown in Budget Paper No. 4) and taxation expenditures such as concessions on investments in new films under Division 10BA.

Funding for broadcasting represents about 60% of total outlays for 1991-92 and is primarily directed towards meeting the operating and capital costs of the ABC and SBS.

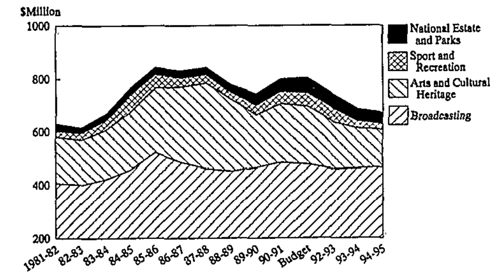
Other activities include:

- *managing Australia's cultural heritage through national collection agencies;*
- direct financial assistance for the arts and other cultural activities including the film industry;
- assistance to sport and recreation activities;
- the operations of a number of statutory authorities to manage and protect the world heritage areas of Uluru and Kakadu National Parks and the Great Barrier Reef; and
- joint management and funding arrangements for other world heritage areas in Tasmania and Queensland.

TRENDS IN CULTURE AND RECREATION OUTLAYS

Over the ten years from 1981-82 the movement in outlays was influenced by a number of major capital projects and special events. Outlays peaked in 1985-86 after an expansion of capital facilities for broadcasting, in 1987-88 with the construction of the NMM, the Bicentennial celebrations and the build-up to Expo '88, and rose again in 1990-91 with additional funding for the ABC, broadcasting facilities and sport (see Chart 2).

Chart 2. Culture and Recreation Trends
(1984-85 prices)



In 1991-92 outlays are expected to increase slightly, mainly in the areas of the National Estate and Parks and National Transmitting Facilities, offset in part by a reduction to the ABC. Outlays are projected to decline in the forward years mainly in the National Collections, Film, Sport and National Estate and Parks categories.

1990-91 OUTCOME

Outlays in 1990-91 were $4.9m (0.4%) higher than the budget estimate of $1189m. The outcome reflects an increase of $9.5m for the Australian Archives following more accurate costing of property operating expenses. This was partly offset by a $1m repayment by the Stockman's Hall of Fame in Longreach, Queensland.

SUBFUNCTION DETAIL

6.1 BROADCASTING

6.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Australian Broadcasting	$m	513.5	501.7	508.3	545.4	567.1
Corporation	%	8.4	-2.3	1.3	7.3	4.0
Special Broadcasting Service	$m	60.6	60.2	62.6	68.0	70.7
	%	4.6	-0.7	4.0	8.5	4.0
National Transmitting Facilities	$m	127.4	147.6	142.2	136.3	147.3
	%	13.5	15.9	-3.7	-4.1	8.1
Planning and Regulation	$m	21.8	25.7	22.3	20.5	21.3
	%	7.7	18.0	-13.4	-7.9	3.8
TOTAL	$m	723.3	735.2	735.3	770.1	806.3
	%	8.9	1.6	..	4.7	4.7

Broadcasting is the principal component of the function and includes the ABC and SBS. Outlays are intended to provide an independent, cost effective and distinctive alternative to other broadcasters.

Australian Broadcasting Corporation

The ABC's activities include four domestic radio networks, a national television network, an overseas radio service (Radio Australia) and six orchestras. It also markets books, recordings and other merchandise through ABC shops and franchise outlets.

The Government is to provide the ABC with three years of guaranteed real funding from 1991-92 and has agreed to exempt the ABC from the efficiency dividend ($5.9m) generally applied to budget funded agencies.

The Government has also agreed to allow the ABC to spread repayment of overfunding provided in 1990-91 over two years. This is worth $5.3m to the ABC in 1991-92.

The nominal decrease in 1991-92 of $11.8m is the net result of: the ABC's repayment of the borrowing in 1990-91 to fund redundancies; overfunding in 1990-91 resulting from lower than forecast inflation; and further borrowings for redundancies in 1991-92.

In addition to budget funding the ABC expects commercial activities to provide $68.1m. Together with the $2.6m opening cash balance this implies a total level of ABC resources (excluding borrowings and asset sales) of $572.4m, a nominal decrease of 1.4% over the resources available to the ABC in 1990-91. The fall is primarily due to the repayment of the overfunding which occurred in 1990-91 due to the lower than expected inflation outcome.

Special Broadcasting Service

The SBS operates multilingual radio stations and a multicultural television service.

The Government is to provide the SBS with three years of guaranteed funding from 1991-92, and has agreed to exempt the SBS from the efficiency dividend ($0.7m) generally applied to budget funded agencies. In addition, from 1991-92, the SBS will be able to raise revenue through sponsorship and advertising.

The Government has also agreed to allow the SBS to spread repayment of overfunding provided in 1990-91 over two years. This is worth $0.6m to the SBS in 1991-92.

The nominal decrease in 1991-92 of $0.4m is due to overfunding in 1990-91 resulting from lower than forecast inflation.

Commonwealth funding will be augmented by receipts estimated at $5.3m, including revenue from sponsorship and an opening cash balance of $1.4m. This represents a nominal increase of 2.7% over the resources available to the SBS in 1990-91.

National Transmitting Facilities

The Commonwealth provides, operates and maintains the transmitting facilities used for radio and television services by the ABC and SBS. This work is carried out by Telecom on contract to the Commonwealth.

In 1991-92, $76.8m has been provided for operating and maintenance costs, $4.3m of which is for transmitting facilities commissioned since 1988. Receipts ($3.2m) from commercial broadcasters and other users who share some of the transmitting station sites partially offset these costs. $74.0m has also been provided for capital expenditure.

Planning and Regulation

The Australian Broadcasting Tribunal ($9.5m in 1991-92) is responsible for regulating commercial and public radio and commercial television in Australia, including the granting and renewal of radio and television broadcasting licences and formulating appropriate standards for programs and advertisements. Broadcasting system planning and the development of policies for equitable access to radio and television services are administered by the Department of Transport and Communications.

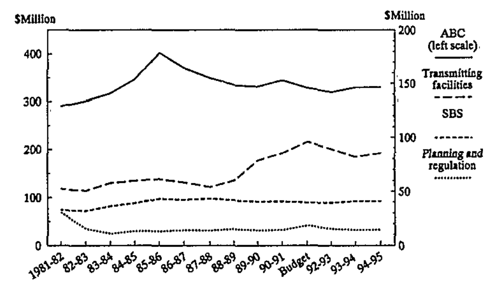
The Public Broadcasting Foundation will receive $2.2m for distribution to public broadcasting stations, including Radio for the Print Handicapped ($0.1m), and to help meet its own administrative expenses.

The nationally networked ethnic radio news and current affairs service ($1.5m) operates mainly through public radio stations.

Trends

Broadcasting outlays grew steadily during the 1980s, but as the levels of capital investment began to fall in the late 1980s, real outlays also declined (see Chart 3). This trend was reversed in 1988-89 when the Government's three year funding guarantee for the ABC and SBS was put into place. The second triennial funding guarantee for the ABC and SBS will see continued real growth for the forward years after a small decline in 1991-92 and 1992-93.

Chart 3. Broadcasting
(1984-85 prices)



6.2 ARTS AND CULTURAL HERITAGE

6.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
National Collections	$m	132.4	123.5	116.4	113.1	113.2
	%	24.6	-6.7	-5.7	-2.8	..
Assistance to the Film	$m	87.7	91.3	50.8	16.8	10.5
Industry	%	14.2	4.2	-44.4	-66.8	-37.7
Arts and Heritage	$m	82.8	85.6	86.4	89.1	92.4
	%	9.1	3.4	0.9	3.2	3.7
Administration	$m	27.2	33.8	30.1	29.4	29.7
	%	7.1	24.2	-10.9	-2.3	1.0
TOTAL	$m	330.0	334.2	283.6	248.5	245.8
	%	16.1	1.2	-15.1	-12.4	-1.1

National Collections

Outlays include the operating and capital costs of collecting institutions such as the National Library of Australia, the Australian National Gallery (ANG), the National Film and Sound Archive (NFSA), the NMM, the National Museum of Australia, the Australian War Memorial (AWM) and the Australian Archives. Institutions are also encouraged to raise revenue from non-government sources.

Additional funds will be provided to the Department of Administrative Services ($1.9m in 1991-92) for the construction of an archival repository in Victoria for the Australian Archives.

Outlays for the collecting institutions are expected to decrease overall by $8.9m, or 6.7%, in 1991-92 to $123.5m, due mainly to the completion of the NMM in 1990-91 and its opening in 1991-92.

However, $4m ($2.5m in 1991-92 and $1.5m in 1992-93) is to be provided to the ANG for the construction of a purpose-built warehouse to meet its immediate and long-term storage requirements, resulting in an increase in outlays to the Gallery of 10.5% to $24.2m in 1991-92.

Assistance to the Film Industry

Financial assistance is provided through a number of Commonwealth agencies: the Australian Film Finance Corporation (FFC); the Australian Film Commission (AFC); and Film Australia Pty Ltd (FAPL). Division 10BA tax concessions are also provided for investment in new films.

In 1991-92, $68m is to be provided to the FFC to assist Australian film and television production, reflecting a budget decision to reduce the estimate by $5m to be offset by returns on past FFC investments.

Outlays for FAPL ($6.8m in 1991-92) reflect a decision, following a review last year, that FAPL continue as a fully commercial entity and that there be another three year contract with the Commonwealth to produce national interest programs.

Arts and Heritage

Outlays are dominated by funding to the Australia Council ($60.1m in 1991-92) for its grants and running costs which, together with funding for the Australian Opera ($6.9m), is to be maintained in real terms.

Trends

Outlays fell sharply in 1988-89, following the completion of Expo '88, the Bicentennial celebrations and the main building work for the NMM. They increased again in 1990-91 largely as a result of assistance to the film industry being partially transferred to the outlays side of the budget. Outlays for the forward years are expected to fall due to the expiry of current arrangements for the FFC, AFC, FAPL and National Film and Sound Archive (NFSA) and completion of capital programs for the ANG, AWM and NMM.

6.3 SPORT AND RECREATION

The Commonwealth provides financial assistance to encourage community interest and participation in sport and recreational activities. The Australian Sports Commission (ASC) facilitates the pursuit of excellence in sport and sports development.

The Government has decided to provide an additional $30m over three years to continue the Community Recreation and Sporting Facilities Program ($10.6m, including a carryover of $2.6m, in 1991-92).

To assist Sydney's bid to host the 2000 Olympic Games, the Government has agreed to a grant of $150m to NSW for capital works at Homebush Bay if Sydney's bid is successful. Pending the decision (in September 1993) of the International Olympic Committee, funds have not been included in the forward estimates. In addition, the Government is supporting additional Loan Council borrowings for NSW of up to $300m over the next three years.

Trends

Over the last decade, outlays have increased in real terms by about 109% following a number of Government initiatives to provide increased funding for sports development and community recreation and sporting facilities.

Outlays in 1991-92 will increase by $7.8m to $78.6m, a real increase of about 8%. The forward years then show a decline as current programs wind down, particularly the four year package of additional funds for the ASC which expires in 1992-93.

6.4 NATIONAL ESTATE AND PARKS

The Commonwealth plays an active role in the identification and protection of Australia's natural environment through arrangements such as the Register of National Estate, management of national parks and world heritage listing. Several statutory authorities have been established to assist in this task. Arrangements have also been developed with the States and Territories to assist with management.

Strong real growth (23% on 1990-91) is to peak in 1991-92 mainly reflecting:

- additional funding ($3.0m) for the Endangered Species program;

- additional funding ($2.2m) for research and day-to-day management of the Great Barrier Reef world heritage area;
- funding for the Ocean Rescue 2000 program ($1.8m) to develop a policy framework and long-term program to conserve Australia's marine environment and to establish a national representative system of marine and estuarine protected areas;
- additional funding ($0.5m) to provide financial assistance for the management of the Tasmania Wilderness Heritage Area - Stage 3;
- the commencement of a capital funding program for the Queensland Wet Tropics ($4m); and
- a grant ($7m) to assist Queensland's structural adjustment efforts to mitigate the impact of the prospective world heritage nomination of Fraser Island.

Offsetting these increases is a reduction in the capital funding program for Australian *National Parks and Wildlife Service ($3.5m), reflecting the expiration of the current* Kakadu and Uluru National Park Management Plans.

Trends

Over the last decade, outlays have more than doubled in real terms, reflecting the Commonwealth's responsibility for managing Kakadu and Uluru National Parks and greater resources allocated for the management of the Great Barrier Reef. Following the 1991-92 peak, outlays are expected to decline in real terms for the remainder of the forward years with lower levels of recurrent funding for park management authorities, a wind down of capital programs in Kakadu National Park and the Queensland Wet Tropics and completion of contributions to the purchase of land for the Shark Bay world heritage area.

7. ECONOMIC SERVICES

This grouping covers a range of economic services including transport and communication, industry assistance and development, labour and employment and other economic services.

7A. TRANSPORT AND COMMUNICATION

OVERVIEW

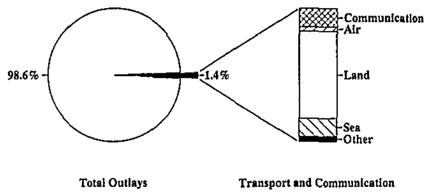
			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
7A.1	Communication	$m	-261.5	-282.2	-292.0	-293.8	-292.5
		%	19.1	7.9	3.5	0.6	-0.5
7A.2	Air Transport	$m	175.3	63.5	121.2	106.2	90.3
		%	-35.4	-63.7	90.8	-12.4	-15.0
7A.3	Land Transport	$m	1676.5	1304.2	1460.6	1228.1	1207.0
		%	19.3	-22.2	12.0	-15.9	-1.7
7A.4	Sea Transport	$m	131.7	273.5	127.9	112.4	118.3
		%	11.0	107.6	-53.2	-12.1	5.2
7A.5	Other Transport and Communication	$m	69.3	80.8	80.0	79.6	79.5
		%	-24.4	16.7	-1.1	-0.5	-0.1
	TOTAL	$m	1791.3	1440.0	1497.7	1232.5	1202.6
		%	7.4	-19.6	4.0	-17.7	-2.4

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Outlays on Transport and Communication are expected to decrease by $351.3m or 22% in real terms in 1991-92. Over the budget and forward years, a 42% decline in real outlays is expected.**
- ***Major factors contributing* to the expected net decrease of $351.3m in *1991-92* include:**
  - **the decision to untie local road funding and thereby transfer funding to general purpose grants ($323.8m) - (see *9A. Assistance to Other Governments, nec*); and**
  - **the decision by the Civil Aviation Authority (CAA) to repay a major portion of its Commonwealth loans ($115m).**

- These decreases are partially offset by a slower than expected rate of negotiation of the enterprise based agreements on the waterfront resulting in a carry forward of $66.8m from 1990-91 to 1991-92 and the Commonwealth's cash equity contribution for the establishment of the National Rail Corporation (NRC) ($40m in 1991-92).

Chart 1. Transport and Communication (a)
Proportion of Total Outlays and Function
1991-92



(a) The pie-bar illustration is derived from absolute data (Communication outlays are negative).

- Transport and Communication outlays are expected to be 1.4% of total outlays in 1991-92 (see Chart 1) compared with 2.0% in 1990-91. The proportion is estimated to decline to 1.0% by 1994-95.

- Annual real declines in the forward estimates mainly reflect:

  — completion of the Provincial Cities and Rural Highways and Blackspots road programs;

  — the expected completion of major elements of the waterfront and shipping reforms in 1992-93;

  — the withdrawal of Commonwealth involvement in civil aerodromes other than those operated by the Federal Airports Corporation (FAC); and

  — the phasing in of full cost recovery for the safety and regulatory services (excluding search and rescue) provided by the CAA and the Australian *Maritime Safety Authority* (AMSA).

MEASURES TABLE

Description of measure	Effect on Outlays			
	1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Untying Local Road Funding - transfer to General Purpose Grants	-323.8	-323.8	-323.8	-323.8
Rationalisation of airport security responsibility	-15.9	-15.9	-15.9	-15.9
Increases				
Equity Investment in National Rail Corporation (NRC)	40.0	131.6	58.7	37.1
Contribution to National Road Transport Commission	1.0	0.5	0.5	0.5
Payment of subsidy to Civil Aviation Authority	11.5	12.2	16.1	0.0
Remote Air Services Subsidy - additional supplementation	0.1	0.1	0.1	0.1
Implementation of new telecommunications carrier arrangements	5.9	4.4	3.3	3.6
Process for sale of second telecommunications network license	4.7	0.0	0.0	0.0

PURPOSE

The Commonwealth provides certain infrastructure and the regulatory framework to facilitate cost effective and efficient transport and communication services. Government policies to improve efficiency and promote restructuring in this sector are important for economic growth. Typically the Commonwealth cooperates with the States and Territories to achieve these goals.

NATURE OF TRANSPORT AND COMMUNICATION OUTLAYS

Direct grants and specific purpose payments to State and Territory governments for the construction and maintenance of roads are the largest component of this function. The Commonwealth has also supported other types of transport infrastructure projects, such as mainline railway upgrading.

Other major outlays support operational and infrastructure programs such as waterfront and shipping industry reforms; payments of revenue supplements to Australian National Railways (AN) to support its operations; the provision of assistance to shippers of certain goods between Tasmania and the mainland; taxable grants to acquire certain ships; the acquisition of land for the second Sydney airport; and providing maintenance funding for certain airports.

Outlays are also provided for regulatory functions, such as telecommunications regulation and transport safety, performed by the Department of Transport and Communications (DTC) and other organisations, including the Australian Telecommunications Authority (AUSTEL), the CAA and AMSA.

Loans from the Commonwealth to its transport and communications Government Business Enterprises (GBEs) operating outside the budget sector (eg Telecom, the CAA and AN) are also part of this function. Loans and advances can vary markedly from one year to another. In 1991-92, the Commonwealth will contribute significant equity to the NRC, a company to be established with NSW, Victoria and WA as joint equity partners.

TRENDS IN TRANSPORT AND COMMUNICATION OUTLAYS

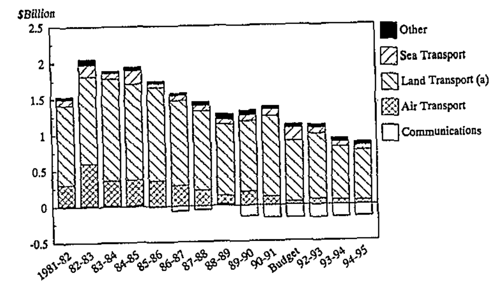
After rapid increases in the early 1980s, dominated by the introduction of the Australian Bicentennial Roads Development Program, the trend in outlays since 1984-85 has been one of steady decline, apart from the 2.9% real increase in 1990-91 (see Chart 2). The downward trend is expected to continue over the forward years. The decline is largely attributable to the untying of local road funding; the continuing repayments by Telecom of its Commonwealth loans; a reduction in air transport outlays with the creation of the CAA and the Federal Airports Corporation (FAC); the withdrawal from the Aerodrome Local Ownership Plan (ALOP); and the transfer of certain Commonwealth airports to local ownership.

Communication outlays grew slightly in the early 1980s but this growth is being offset by repayments from 1989-90 of Commonwealth loans by Telecom. This should continue as Telecom repays around $2.6 billion of outstanding loans from the Commonwealth over the next eight years.

Air transport outlays have declined steadily since the early 1980s. This trend reflects the Government's policy of putting its involvement in aviation operations on a commercial basis through the establishment of the FAC and the CAA. The significant decrease in 1991-92 mainly reflects the repayment of $115m of the CAA's outstanding

Commonwealth debt. Further declines in the underlying figures over the forward years (ie excluding the effect of the CAA loan repayment) are expected as the budget subsidy provided to the CAA for safety and regulatory services with the exception of search and rescue is phased out and the withdrawal of Commonwealth involvement in civil airports (other than those operated by the FAC) is completed.

Chart 2. Transport and Communication (1984-85 Prices)



(a) From 1991-92 amounts equivalent to local road funding ($323.8m in 1990-91) are being provided via General Revenue Assistance for Local Government and General Revenue Assistance to the States (see *9A. Assistance to Other Governments, nec*).

Land and Sea transport outlays increased over the ten years to 30 June 1991 by 1.4% in real terms. Increases in outlays for roads were offset by decreases in outlays on rail transport (primarily for subsidies and loans). Sea transport outlays have fluctuated over the decade, due largely to the capital contribution made to the Australian Shipping Commission, now ANL Limited, and the introduction of the shipping and waterfront reform packages in 1989-90.

The outlays trends for the forward estimates reflect the establishment of the National Rail Corporation (NRC), with equity contributions by the Commonwealth of $295.8m, including $40m in 1991-92 and $131.6m in 1992-93. Also included are the three year funded programs for Urban Public Transport, Blackspots and Provincial Cities and Rural Highways with a payment of $180.8m in 1991-92 and a final payment of $158.4m in 1992-93.

Additional outlays associated with the post NRC rationalisation of AN are also likely in the forward years. However, after significant increases in 1990-91 and 1991-92, corresponding to the implementation of the Government's current road programs and waterfront and shipping industry reforms, Land and Sea transport outlays are expected to gradually decline.

1990-91 OUTCOME

In 1990-91 Transport and Communication outlays were $112.0m (5.9%) less than expected. This was due in part to:

- lower than expected payments for redundancies under the maritime reform packages ($81.5m);
- delays in design works and acquisition of land for the second Sydney airport at Badgerys Creek ($18.6m); and
- lower than expected outlays for ship purchase grants to eligible Australian ship owners ($17.2m).

These decreases were partially offset by the purchase of Telecom's shares in AUSSAT Pty Ltd ($25m).

SUBFUNCTION DETAIL

7A.1 COMMUNICATION

7A.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Planning and Regulation	$m	39.9	44.2	34.4	32.6	34.0
	%	25.5	10.8	-22.3	-5.3	4.2
National Communications	$m	25.0	-	-	-	-
Satellite	%	-66.7	-100.0	na	na	na
Repayment of Advances	$m	-326.4	-326.4	-326.4	-326.4	-326.4
	%	-	-	-	-	-
TOTAL	$m	-261.5	-282.2	-292.0	-293.8	-292.5
	%	19.1	7.9	3.5	0.6	-0.5

Commonwealth activity in the communication area is directed towards:

- ensuring consumers have equitable access to a comprehensive range of broadcasting services by developing appropriate broadcasting policies and programs;
- ensuring efficient and equitable access to transmission media through planning and regulation of the electromagnetic spectrum and other means of information transmission;
- obtaining international agreement to frequency allocations, geostationary satellite parking positions and technical standards which meet Australia's requirements;
- enhancing the use of the electromagnetic spectrum as a resource; and
- establishing and managing Commonwealth transmitting facilities for broadcasting and radio communication services in a manner which provides the maximum cost-effective use.

Planning and Regulation

The Department of Transport and Communications plans and monitors the use of the radio frequency spectrum for private, commercial and public radio communications purposes. The increase in 1991-92 outlays largely reflects one off expenditure on the implementation of the Government's telecommunications reforms. Outlays on radio

frequency management have largely remained constant over the past decade with minor variations reflecting the increasing usage of the spectrum and the effects of the variation in the $A on both overseas equipment purchases and Australia's contributions to the International Telecommunications Union and the Asia Pacific Telecommunity.

AUSTEL was established in June 1989 as an independent industry regulator as part of the reform of the telecommunications industry. Its role covers customer services, technical compatibility and interoperability, fair and efficient competition and consumer protection. Part of the increase in outlays reflects funding for increased resources required by AUSTEL to carry out additional functions under the Government's new telecommunications carrier arrangements, which called for the merger of Telecom and OTC and the introduction of a second carrier. AUSTEL recovers part of its costs through application and licence fees.

National Communications Satellite

The Government decided in October 1990 that as part of the new telecommunications arrangements, AUSSAT would be sold to form the basis of the second carrier. A task force costing $4.7m in 1991-92 has been established to oversight the selection and sale process. AUSSAT is to be sold debt free and without accumulated tax losses. It is expected that the sale will be completed by the end of 1991 (see *9D. Asset Sales*).

Repayment of Advances

This item reflects the progressive repayment by Telecom (that commenced in 1989-90) of about $3.3 billion of Commonwealth loans which are to be replaced with private sector borrowings. This debt repayment will be a significant offset within Communication outlays during the forward years.

7A.2 AIR TRANSPORT

7A.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Airport Administration	$m	58.0	53.9	16.0	15.4	11.1
and Aviation Policy	%	-63.7	-7.0	-70.3	-3.8	-28.1
Aerodrome Local Ownership Plan	$m	17.3	22.0	9.5	3.4	-
	%	63.3	26.9	-57.1	-63.6	-100.0
Air Safety and Search and Rescue	$m	82.3	84.8	74.3	64.3	54.2
	%	2.1	3.0	-12.5	-13.4	-15.7
Avgas Excise Paid To CAA	$m	24.9	25.2	25.2	25.2	25.2
	%	-9.5	1.1	-	-	-
Recoveries and Repayments	$m	-7.3	-122.4	-3.7	-2.1	-0.2
	%	-2.6	na	-97.0	-41.9	-90.2
TOTAL	$m	175.3	63.5	121.2	106.2	90.3
	%	-35.4	-63.7	90.8	-12.4	-15.0

Commonwealth policies are designed to promote the operation of safe, efficient and competitive air services within, to and from Australia. Much of the Commonwealth's role in promoting these policies is exercised through its business enterprises, the FAC and the CAA. These GBEs are required to provide cost effective services to the aviation industry while being subject to the discipline of earning reasonable returns on the

Government's investment of taxpayers' funds. The Government has announced that it is to sell its entire interest in Australian Airlines Ltd and up to 49% of its shareholding in Qantas Airways Ltd (see *9D. Asset Sales*).

Airport Administration and Aviation Policy

In 1991-92 these outlays comprise running costs and other operating costs ($18.9m), remote air service subsidies ($1.1m) and payments for site acquisitions and associated works for the second Sydney airport at Badgerys Creek ($33.8m).

The Government's decision in the 1990-91 Budget to invite local communities to take over management and operation of civil airports, ie non FAC airports, in their own areas is expected to result in net running cost savings for DTC of $4.9m in 1991-92 and $9.0m over the forward years. Information concerning this program is provided below.

Of the funding for site acquisitions and associated works for Badgerys Creek, $31.6m is earmarked for the acquisition of the final parcels of land and road upgrading , and $2.3m is for fees for design work on the new airport. The significant reduction in the 1992-93 outlays reflects the completion of the land acquisitions (at a total cost of $129.4m), road upgrading and design work in 1991-92.

Aerodrome Local Ownership Plan

Consistent with the policy objective that airports serving local needs should be fully owned and operated by the communities they serve, the Government announced in the 1990-91 Budget its intention to transfer remaining Commonwealth civil airports to local owners. The Government announced, in addition, that local authorities would be encouraged to take over full financial responsibility for airports which were previously jointly funded by the Commonwealth under the ALOP.

To facilitate the program of transfers and withdrawals, the Commonwealth is providing grants of $10.9m in 1991-92 and $4.1m over the forward years, to bring airports to good condition. In addition, to assist remote communities with relatively small populations to assume full financial responsibility for their airports, the Commonwealth is providing one off capitalised grants totalling $5.8m in 1991-92 and $4.2m over the forward years, at the time that new arrangements are formally put in place. The size of the capitalised grant to each of these airports is determined by a set of criteria to assess the relevant community's disadvantage.

In 1990-91, grants totalling $8.0m and subsidies of $2.9m were provided to secure the transfer of four civil airports to local owners and the withdrawal of 44 airports from the ALOP. In addition, the Commonwealth ceased providing maintenance grants to 35 pastoral station aerodromes.

The Commonwealth's pre-existing commitment to contribute towards the costs of maintenance works at ALOP airports is $5.3m in 1991-92 and $4.6m over the forward years.

Air Safety and Search and Rescue

The 1991-92 provision of $84.8m consists of $6.5m for the operations of the Bureau of Air Safety Investigation and a $78.3m payment to the CAA for administering aviation safety and search and rescue services.

The payment to the CAA provides for the development of, and monitoring compliance with, safety standards; the shortfall in cost recovery of the implementation of safety standards (including the publication and distribution of safety literature); undertaking search and rescue; and membership of the International Civil Aviation Organization and the Commonwealth Air Transport Council.

In the 1990-91 Budget, the Government announced its intention to phase in full cost recovery for these activities (with the exception of search and rescue) from 1 November 1991. The Government has now decided to delay the phase in of cost recovery to commence from 1 July 1992, resulting in payments to the CAA being higher than expected in the 1990-91 Budget ($11.5m in 1991-92 and $15.5m in 1992-93). The phased introduction of cost recovery is expected to result in budget savings of $24.9m in 1992-93, $50.5m in 1993-94 and $76.4m in 1994-95. *The full extent of these savings is* not reflected in an equivalent reduction in outlays because cost recovery will be largely effected through taxation measures. An amount equivalent to the increased revenue is to be paid to the CAA.

Avgas Excise Paid to Civil Aviation Authority

Although direct user charges apply to air transport movements at major airports, the cost of recording general aviation aircraft movements at minor airports is high. Accordingly, as an alternative to direct charging, excise is collected on aviation gasoline (Avgas) to help meet certain airport and airways infrastructure costs. As the CAA is responsible for the airways system, an amount equal to approximately 90% of Avgas excise is paid to the CAA.

Recoveries and Repayments

Recoveries comprise receipts from landing charges, airport business concessions and rentals and recoveries for minor works and services. In 1991-92 they are expected to total $7.4m. The reduction over the forward years mainly reflects the Government's decision to transfer full responsibility for civil airports, including revenue collection, to local communities. In 1991-92 the CAA is repaying $115m of its $150m loans from the Commonwealth.

7A.3 LAND TRANSPORT

7A.3			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
7A.3.1	Road Transport (a)	$m	1594.1	1293.5	1293.7	1134.8	1135.2
		%	16.7	-18.9	..	-12.3	..
7A.3.2	Rail Transport	$m	105.6	83.6	184.5	111.0	89.4
		%	67.2	-20.8	120.6	-39.8	-19.4
7A.3.3	The Pipeline Authority	$m	-23.2	-72.9	-17.6	-17.6	-17.6
		%	-3.6	213.8	-75.8	-	-
	TOTAL	$m	1676.5	1304.2	1460.6	1228.1	1207.0
		%	19.3	-22.2	12.0	-15.9	-1.7

(a) From 1991-92 amounts equivalent to local road funding ($323.8m in 1990-91) are being provided via General Revenue Assistance for Local Government and General Revenue Assistance to the States (see *9A. Assistance to Other Governments, nec*).

Outlays by the Commonwealth on land transport aim to develop the sector in ways consistent with national economic and social priorities, including securing safe and efficient operations, and the adoption of practices responsive to user requirements.

7A.3.1 Road transport

7A.3.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Road Grants (a)	$m	1469.0	1149.8	1171.6	1101.6	1101.6
	%	10.0	-21.7	1.9	-6.0	-
Interstate Road Transport Charge	$m	14.6	15.6	17.1	17.1	17.1
	%	-14.6	6.4	9.6	-	-
Road Safety and Land	$m	59.2	46.6	35.9	7.5	7.5
Transport Research	%	na	-21.2	-22.9	-79.0	-
Other	$m	51.3	81.5	69.1	8.6	9.0
	%	na	58.9	-15.1	-87.6	5.5
TOTAL	$m	1594.1	1293.5	1293.7	1134.8	1135.2
	%	16.7	-18.9	..	-12.3	..

(a) From 1991-92 local road funding ($323.8m in 1990-91) are being provided via General Purpose Assistance for Local Government and General Revenue Assistance to the States (see *9A, Assistance to Other Governments, nec*).

Outlays for road transport are mainly grants to the States and Territories for road construction and maintenance, including engineering improvements at locations with a poor safety record, and for urban public transport projects. Outlays of a minor nature include payments for road safety and land transport research, and the payment to the States and Territories of registration fees for interstate (commercial) vehicles.

Significant reform of the road transport industry was agreed to between the Commonwealth, States and Territories at the Special Premiers' Conference in July 1991. An integrated package of reforms was designed to overcome a number of serious problems in this sector including varying regulations across Australia and charges which do not reflect costs. To address these issues, a National Road Transport Commission is to be established.

The Conference also agreed that the Commonwealth's road funding responsibilities should be more clearly defined with the result that some current specific purpose payments will be untied. This is in addition to the decision to untie local road funding in 1991-92. Further details on these proposals are contained below.

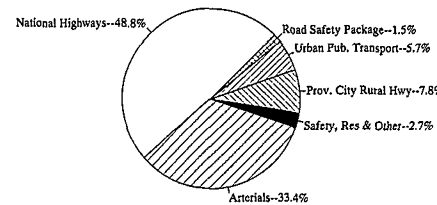
Road Grants

In 1990-91 the Australian Centennial Roads Development (ACRD) Program was renamed the Australian Land Transport Development (ALTD) Program and the relevant legislation amended to include the new three year Provincial Cities and Rural Highways (PCRH) Program. This program provides a fixed amount of $100m a year over the three years, commencing in 1990-91, for roads of major economic significance outside capital cities, and for priority mainline rail projects which yield high economic returns.

It was agreed by the Special Premiers' Conference in July 1991 that the Commonwealth's responsibilities should be concentrated on national highways and other roads of national significance. The precise delineation of the Commonwealth's involvement is to be settled in the preparation for the November 1991 Special Premiers' Conference. It is anticipated that this will result in a minimum increase of $350m in the

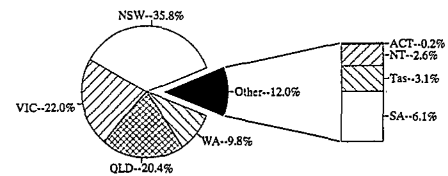
level of untied grants to the States with a corresponding reduction in specific purpose payments.

Chart 3. Road Grants 1991-92



Charts 3 and 4 show the distribution of grants in 1991-92 by State and category respectively.

Chart 4. Road Grants by category (a) 1991-92



(a) Excludes Provincial Cities and Rural Highways Program and the Urban Public Transport Program.

Interstate Road Transport Charge

Under the current system the Commonwealth pays to the States and Territories the amount it receives for the registration of vehicles and licensing of operators engaged in interstate trade and commerce. Charges under the legislation (classified as 'Revenue - Other Taxes, Fees and Fines' in Statement 4) are collected by State and Territory vehicle registration authorities and paid into a trust fund prior to distribution to the States and Territories for expenditure on roads.

As part of the reform of the road transport industry the current system is to be replaced by a national approach to road user charging for heavy vehicles as announced at the Special Premiers' Conference in July 1991. This approach is designed to improve the efficiency with which resources involved in transportation are allocated by introducing charges for heavy vehicles that much more closely resemble the costs imposed by them on the road network. The new charges will be introduced progressively from 1 January 1993.

Road Safety and Land Transport Research

The 'Blackspots' Program introduced last year provides $110m over the period 1990-91 to 1992-93 as a separately identifiable element within the ALTD Program. Based on the agreement to implement a series of uniform safety measures, grants are provided to the States and Territories to enable engineering and other improvements at locations noted for a high incidence of accidents involving death or serious injury. Grants will also be provided to implement specific safety measures that have proven road safety value. An additional $10m will be allocated over the same period to the Federal Office of Road Safety for research and public education.

The Australian Road Research Board will continue to receive funding from the Commonwealth, States and Territories to undertake research into road design and construction, traffic engineering and traffic management.

Other Assistance For Urban Public Transport

A separate three year Urban Public Transport (UPT) Program was established last year, bringing together existing UPT funding under the State Arterial category of ALTD and incorporating additional funding. Under the new program, $72.5m will be available for UPT in 1991-92 ($42.2m in 1990-91).

Policy and Administration

As agreed at the July 1991 Special Premiers' Conference, a National Road Transport Commission (NRTC) is to be established to regulate heavy vehicles on a nationally uniform basis and develop a heavy vehicle charging scheme. An interim Commission will be established by September 1991 to assist in developing legislation and begin work on regulation, registration and charging arrangements, which are to be implemented from 1 January 1993. The NRTC will be jointly funded by the Commonwealth, the States (excluding the NT) and the ACT.

The costs incurred by DTC in administering its road transport responsibilities are also included under this heading.

7A.3.2 Rail transport

7A.3.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
National Rail Corporation	$m	-	40.0	131.6	58.7	37.1
	%	na	na	229.0	-55.4	-36.8
Australian National Railways	$m	70.6	40.3	59.0	59.0	59.0
Commission	%	3.3	-42.9	46.4	-	-
Other Rail Development	$m	35.1	3.3	-6.1	-6.7	-6.7
	%	na	-90.5	na	9.6	-0.3
TOTAL	$m	105.6	83.6	184.5	111.0	89.4
	%	67.2	-20.8	120.6	-39.8	-19.4

National Rail Corporation

The Commonwealth, in conjunction with the States, has agreed to establish the NRC during 1991-92 to take responsibility for the operation of the interstate rail freight network linking mainland State capitals and Alice Springs. The Commonwealth, NSW, Victoria and WA will be the initial equity partners. The Corporation will initially purchase line haul and other services from the existing rail systems after it commences operations in the second half of 1991-92. Over a three year period it will progressively take control of all aspects of interstate rail freight operations, including network infrastructure where it is the predominant user. Establishment of the NRC is expected to lead to a significant improvement in the efficiency of rail freight services in Australia and is an important element in microeconomic reform at both the State and national level. The Corporation will operate as a fully commercial entity in line with best practice overseas.

The upgrading of service and productivity standards will require a significant capital investment program. As the largest shareholder in the NRC, the Commonwealth has agreed to a schedule of cash equity contributions totalling $295.8m over the six years to 1996-97, including $40m to be provided in 1991-92 as the start-up capital for the Corporation. The other shareholders are committed to total capital injections of $118.7m commencing in 1993-94.

Australian National Railways Commission (AN)

The mainland operations of AN will be largely absorbed within the NRC over the next three years. The establishment of the NRC is expected to have little financial impact on AN in 1991-92. The revenue supplement of $59m (down from $70.6m in 1990-91) is based on underlying performance targets for mainland passenger services and Tasrail (freight only) that reflect an expectation of continuing efficiency gains. AN is absorbing significant short term losses on its commercial freight operations associated with the downturn in economic activity. A workshop upgrading advance from the Commonwealth of $18.7m is scheduled for repayment by AN in 1991-92.

The Government will be considering during 1991-92 arrangements for the management and financing of AN functions not being transferred to the NRC.

AN is reimbursed ($3.5m in 1991-92) under *4. Social Security and Welfare* for concessional passenger rail travel by eligible pensioners and other beneficiaries.

Other Rail Development

This item includes repayable advances from the Commonwealth for State mainline railway upgrading and standardisation, and funds allocated under the Roads Programs for specific rail projects, including a special commitment of $40.4m in 1990-91 associated with the establishment of the NRC.

7A.3.3 The Pipeline Authority

The Pipeline Authority is engaged in the transport of natural gas by pipeline from Moomba (SA) to Sydney, other cities in NSW and Canberra. The negative outlays represent repayment of previous loans. An early repayment of $53.1m of principal is included in the estimates for 1991-92, a result of refinancing a portion of the authority's debt from the private sector. This will have the effect of reducing repayments to the Commonwealth in future years.

7A.4 SEA TRANSPORT

7A.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Tasmanian Freight Equalisation	Sm	32.8	34.5	34.9	35.2	35.6
Scheme	%	-10.1	5.1	1.2	0.9	1.1
Maritime Services	Sm	65.6	70.9	70.5	68.5	68.7
	%	17.9	7.9	-0.6	-2.8	0.3
Waterfront Industry Reform	Sm	18.4	126.3	4.9	-	-
	%	96.9	na	-96.1	-100.0	na
Shipping Industry Reform	Sm	14.9	41.9	17.6	8.7	14.0
	%	-13.1	180.3	-57.9	-50.6	60.9
TOTAL	Sm	131.7	273.5	127.9	112.4	118.3
	%	11.0	107.6	-53.2	-12.1	5.2

Commonwealth activity in the sea transport area is directed towards:

- enhancing the competitiveness of the maritime sector including the efficiency and reliability of the waterfront;
- encouraging the development of a more efficient and innovative Australian shipping industry;
- furthering Australia's interests in international maritime arrangements; and
- providing efficient services to the maritime industry based on the user pays principle.

Tasmanian Freight Equalisation Scheme

This scheme provides assistance to shippers of certain goods between Tasmania and the mainland to help alleviate the freight cost disadvantage they incur in comparison with mainland States and Territories.

Maritime Services

From 1 January 1991, the AMSA assumed responsibility for certain functions previously performed by DTC. These functions included provision and maintenance of marine navigational aids; maintenance of the maritime communication services; oil pollution control measures; marine search and rescue; and marine survey. Amounts equal to certain levies and penalties collected by the Commonwealth are paid to AMSA. In

addition, AMSA receives a separate payment from the Commonwealth for the performance of search and rescue activities and, until 1992-93, for the safety/regulatory function which is to be fully cost recovered from 1993-94.

Waterfront Industry and Shipping Industry Reforms

On 1 June 1989, the Government announced initiatives aimed at reforming the shipping and waterfront industries and established independent authorities to oversee the detailed development and implementation of the reform packages. Further initiatives aimed at reforming the towage industry were announced on 7 December 1989.

The Government is pursuing reforms in three broad areas of the waterfront industry: fundamental changes to employment arrangements; improved efficiency of port authorities; and measures to create a more commercial and competitive environment.

In October 1989 an in-principle agreement was reached between the Government, the Australian Council of Trade Unions, stevedoring unions and employers on elements of a reform package for the waterfront and to their implementation under the auspices of the Waterfront Industry Reform Authority. On the basis of this agreement the Government has committed up to $154m over three years, on a $ for $ basis with employers towards the cost of redundancy payments, training, retraining, skills audits and job redesign projects. Release of the Commonwealth's contribution towards training, early retirement and redundancy packages is dependent on suitable enterprise based agreements being completed. Progress on these agreements has been slower than expected but they are expected to be completed in 1991-92.

For the shipping industry, the Government is supporting a program to reduce crewing levels to international standards by contributing up to $24m for a voluntary early retirement scheme. In addition, half the cost of retraining seafarers will be met by the Government.

To further assist in the progress to a more efficient shipping industry the Commonwealth provides a taxable grant of 7% of the purchase price of eligible new trading ships. Outlays under the scheme are expected to be $18m in 1991-92 (decreasing to $14m in 1994-95). The grants are designed to encourage modernisation of the Australian fleet and are conditional on specified lower crewing levels being achieved. The scheme is to continue until 1997 as part of the Government's shipping reform initiatives.

Also included under this heading are the initiatives for reform of the towage industry, including funding for a voluntary early retirement package ($6.3m in 1991-92) and training ($2.2m in 1991-92).

7A.5 OTHER TRANSPORT AND COMMUNICATION

Administration and Other Services

This item includes running costs for DTC not functionally allocated elsewhere, and receipts related to various transport services, including recoveries associated with the charter of Departmental vessels.

7B. INDUSTRY ASSISTANCE AND DEVELOPMENT

OVERVIEW

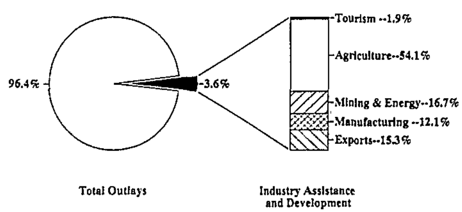
			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
7B.1	Agricultural, Forestry	$m	2406.4	1964.8	1799.1	1681.8	1668.1
	and Fishing Industries	%	44.1	-18.4	-8.4	-6.5	-0.8
7B.2	Mining and Energy	$m	566.6	606.5	575.9	627.0	700.0
	Industries	%	13.2	7.0	-5.0	8.9	11.6
7B.3	Manufacturing Industry	$m	418.1	438.6	408.6	342.4	250.8
		%	-9.8	4.9	-6.9	-16.2	-26.7
7B.4	Tourism Industry	$m	65.3	67.7	71.0	72.1	74.8
		%	-8.3	3.6	4.9	1.5	3.8
7B.5	Assistance to Exporters	$m	545.0	554.3	348.9	336.3	343.8
		%	81.2	1.7	-37.1	-3.6	2.2
	TOTAL	$m	4001.3	3631.9	3203.5	3059.5	3037.5
		%	33.1	-9.2	-11.8	-4.5	-0.7

The above budget and forward estimates of outlays make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in 9C. *Contingency Reserve.*

- *Outlays on Industry Assistance and Development are expected to decline by* **$369.4m in 1991-92 or 9.2% (12% in real terms) and to decline in real terms by 26% over the forward years.**

- **Outlays on Industry Assistance and Development are expected to account for 3.6% of total outlays in 1991-92. This is less than the 1990-91 outlay of 4.2%, mainly due to the reduction in assistance to the wool industry in 1991-92.**

Chart 1. *Industry Assistance and Development* Proportion of Total Outlays and Function 1991-92



- **The major factor contributing to the expected real decrease in 1991-92 is a reduction in wool industry outlays of $680.5m due to reduced industry contributions and the effect of the one off Supplementary Payment Scheme in 1990-91.**

- **The decrease in outlays for 1991-92 will be partially offset by:**

  — **an increase in outlays ($80.0m) under the Diesel Fuel Rebate Scheme (DFRS);**

  — **payments of $60m to Victoria in 1991-92 to ameliorate gas price increases arising from the application of the Resource Rent Tax to Bass Strait production of oil and gas;**

  — **provision of an additional $23m in 1991-92 and in each of the forward years for tourism promotion, marketing and research; and**

  — **a dairy underwriting payment of $22.5m.**

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Agricultural, Forestry and Fishing Industries				
Wet Tropics of Qld Structural Adjustment Package	-3.4	0.0	0.0	0.0
Abolition of Wool Reserve Price Scheme - Wool tax reduced to 12%	-449.1	-466.4	-432.1	-72.8
Superannuation for Victorian Meat Inspectors - Loan repayment	-0.1	-0.1	-0.1	-0.1
Assistance to Exporters				
AUSTRADE remittances of National Interest premiums	-5.5	-0.6	-1.5	0.0
Manufacturing Industries				
Changes in Textile, Clothing and Footwear Bounty Arrangements	-6.7	-11.2	-16.7	-29.0
Increases				
Agricultural, Forestry and Fishing Industries				
Disposal of War Service Land Settlement assets	0.0	0.2	0.2	0.2
Environment Assistance Program	0.1	0.1	0.1	0.1
Establishment of National Registration Scheme for Agricultural & Veterinary chemicals	1.2	3.8	0.0	0.0
Animal Health Laboratory	0.0	0.2	0.1	0.2
ABARE/NFF Rural Downturn Impact Research	0.5	0.0	0.0	0.0
Support for Farm and District Planning	0.5	0.5	0.5	0.0
Business Advisers for Rural Areas Program	1.8	1.8	1.8	0.0
Rural Industries Business Extension Service	0.0	2.0	2.0	0.0
Fishing industry adjustment	1.6	1.6	1.6	0.0
Establishment of Wool Policy Council	0.3	0.3	0.3	0.4
South east forests package	4.0	na	na	na
Assistance for citrus marketing	1.0	0.5	0.5	0.0

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Rural Adjustment Scheme/counselling program	51.0	54.6	28.9	12.2
Establishment of the Rural Access Program	1.6	1.6	1.6	0.0
Grains Council compensation claim	35.2	0.0	0.0	0.0
Grant to the Australian Wool Realisation Commission	22.5	22.5	0.0	0.0
Assistance to Exporters				
Subsidy on loans provided by AUSTRADE	1.2	1.3	1.2	0.0
Fellowships for graduates and business managers in Asia *	4.1	3.5	3.6	0.0
McKinsey review of AUSTRADE - retrenchment payments *	3.0	0.0	0.0	0.0
Export Finance and Insurance Corporation *	0.8	3.3	3.3	3.3
AUSTRADE - Agricultural Marketing Innovation Fund	5.0	5.0	5.0	5.0
Manufacturing Industries				
Assistance for Small Business	3.9	4.9	4.9	0.0
Multi-function polis	4.4	4.0	3.5	0.0
Assistance to the pharmaceutical industry	5.0	8.0	19.0	8.0
Subsidy for the production of Citric Acid *	1.1	1.7	2.2	1.9
Reform of anti-dumping/countervailing arrangements *	0.3	0.3	0.3	0.3
Machine tools and robots bounty *	9.4	8.1	6.8	5.4
Advanced Manufacturing Technology Development Program *	2.4	3.7	4.7	5.2
TCF Industry Development Strategy *	6.7	5.2	5.2	5.2
International performance benchmarking for business input services *	0.5	0.5	0.2	0.2
Vendor Qualification Scheme/information industries strategy *	2.1	2.1	2.1	0.0
Extension of the Automotive Industry Authority *	0.0	0.5	1.1	1.1
Capital Grant to Tasmania	6.0	0.0	0.0	0.0
Mining and Energy Industries				
DPIE Building Design for Bureau Accommodation	3.2	0.0	0.0	0.0
Payments to Victoria - gas price adjustment	60.0	0.0	0.0	0.0
Initiatives to reduce energy demand and greenhouse gas emissions	5.4	5.4	0.0	0.0
Valuation of Snowy Mountains Hydro-electric Scheme	0.1	0.0	0.0	0.0
Tourism Industry				
Additional funding for Tourism Promotion and Research	24.0	24.9	25.9	27.0

* Included in March 1991 Economic Development Statement

PURPOSE

The Commonwealth's industry policies seek to encourage the development of internationally competitive industries, both directly by promoting structural change and indirectly by facilitating export and research and development activity.

In the March 1991 Economic Development Statement the Government announced further reductions in the level of assistance and lower protection for the manufacturing sector.

NATURE OF INDUSTRY ASSISTANCE AND DEVELOPMENT OUTLAYS

Assistance to industry includes: bounties and subsidies; price support and adjustment schemes; contributions to research and promotion and the cost of services to industry provided by some departments and organisations either free of charge or at charges which do not fully recover the costs involved.

Agricultural, forestry and fishing industries account for approximately half of outlays in 1991-92 (see Chart 1). A large proportion (41%) of these outlays are offset by industry contributions through levies, taxes and charges collected by the Commonwealth on industry's behalf.

These are classified as revenue (See Statement 4, *Revenue, Part 3 Outcomes and Estimates*) under 'Other Taxes, Fees and Fines'. Approximately 22% of outlays under the whole function are matched by revenue from primary industries.

Outlays included in other functions also assist industry. Examples are airports and airway services, roads and shipping subsidies, outlays to maintain or improve the defence capacity of industry, certain outlays by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and some disaster relief assistance under the Natural Disaster Relief Arrangements.

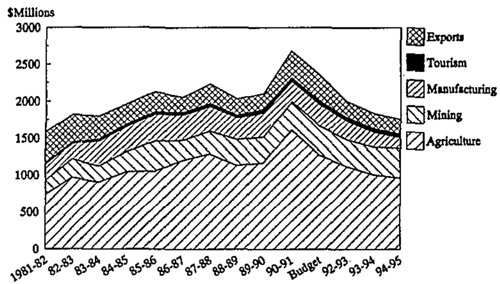
Indirect assistance is also provided to industry through special provisions in the taxation system. Some are of wide application, eg the 150% tax concession for research and development, while others are industry specific, eg the averaging provisions for income from primary production and the Income Equalisation Deposits Scheme.

TRENDS IN INDUSTRY ASSISTANCE AND DEVELOPMENT OUTLAYS

Outlays increased in real terms during the 1980s. Between 1981-82 and 1990-91 outlays increased by 69.3% in real terms due mainly to the increase in outlays for the wool industry. Over the forward years outlays are expected to decrease in real terms to levels comparable to 1983-84 budgetary outlays.

As Chart 2 shows, total outlays are expected to decrease in line with Government policy to phase down protection, reduce disparities in assistance between different industries, and encourage structural change and the flow of resources to those industries with the best international commercial prospects.

Chart 2. Industry Assistance and Development Composition: Trends and Real Outlays (1984-1985 prices)



Major influences between 1981-82 and 1990-91 include:

- a real increase of 119.5% in outlays to the agricultural, forestry and fishing sectors mainly due to:
  - — increased outlays for the wool industry, particularly in 1990-91;
  - — increased outlays on industry-specific research and marketing in most rural industries;
  - — increased Commonwealth responsibility for quarantine and inspection;
  - — steady expansion in outlays under Natural Resources Development and Management; and
  - — increased payments to primary producers under the DFRS.

  However, much of the increase in agricultural, forestry and fishing outlays has been matched by increases in revenue derived from higher levies and charges paid by producers.
- increased payments to operators in the mining sector under the DFRS;
- a real increase of 27.3% in the manufacturing sector resulting from assistance as part of sectoral plans in the Passenger Motor Vehicle, the Textile, Clothing and Footwear (TCF) and the Steel Industries; and
- a real increase of 296% in the tourism sector.

One factor partially offsetting these increases was a real decline of 14.3% to the export assistance sector due to the winding down of the Export Expansion Grants Scheme.

Outlays are estimated to decline steadily over the budget and forward years. Major influences are:

- payments of $60m in 1991-92 to ameliorate adverse effects on gas prices from the application of the Resource Rent Tax to Bass Strait production of oil and gas;
- the expiry of legislation for dairy market support (June 1992), the end of the eradication phase of the Bovine Brucellosis and Tuberculosis Eradication Campaign (December 1992), the phasing out of forestry packages and a reduction in assistance under the Rural Adjustment Scheme (RAS) in 1993-94;
- falling wool industry outlays due to a forecast decline in the volume of wool production, partly offset by an expected increase in wool prices; and
- reductions for most bounties and in assistance under sectoral plans (heavy engineering and automotive) and a reduction of assistance for the pharmaceutical industry.

1990-91 OUTCOME

Budget outlays for 1990-91 were $4001.3m; $449.3m (12.6%) higher than the budget estimate. Major factors leading to this outcome include:

- payments of $255.8m for the Wool Supplementary Payments Scheme;
- payments in respect of Iraq debts of $231m;
- a decision to bring forward $31m of budget funding for the Export Management Development Grant (EMDG) Scheme; and
- an increase of $41m in payments for claims and capitalisation under the textile yarn bounty.

SUBFUNCTION DETAILS

7B.1 AGRICULTURAL, FORESTRY AND FISHING INDUSTRIES

7B.1			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
7B.1.1	Wool Industry	Sm	1148.1	467.6	341.4	311.5	298.5
		%	131.6	-59.3	-27.0	-8.8	-4.2
7B.1.2	Wheat Industry	Sm	73.1	82.2	53.2	52.8	50.3
		%	-24.8	12.4	-35.3	-0.7	-4.8
7B.1.3	Dairy Industry	Sm	141.6	166.6	56.8	27.4	30.3
		%	-7.6	17.7	-65.9	-51.7	10.3
7B.1.4	Cattle, Sheep and Pig Industries	Sm	172.3	174.3	169.3	154.4	158.7
		%	29.0	1.1	-2.9	-8.8	2.8
7B.1.5	Fishing, Horticultural and Other Agricultural Industries	Sm	86.1	94.7	81.1	81.9	82.3
		%	33.6	10.0	-14.3	1.0	0.6
	Sub-Total Specific Industries	Sm	1621.2	985.4	701.8	628.0	620.1
		%	71.7	-39.2	-28.8	-10.5	-1.3
7B.1.6	General Assistance not Allocated *to Specific Industries*	Sm	608.5	799.1	917.9	880.5	887.5
		%	*10.5*	31.3	*14.9*	*-4.1*	0.8
7B.1.7	Natural Resources Development and Management	Sm	73.5	70.8	71.4	71.4	56.6
		%	-16.0	-3.7	0.9	..	-20.8
7B.1.8	General Administration	Sm	103.2	109.5	108.0	101.8	103.9
		%	17.9	6.2	-1.4	-5.7	2.0
	TOTAL	Sm	2406.4	1964.8	1799.1	1681.8	1668.1
		%	44.1	-18.4	-8.4	-6.5	-0.8

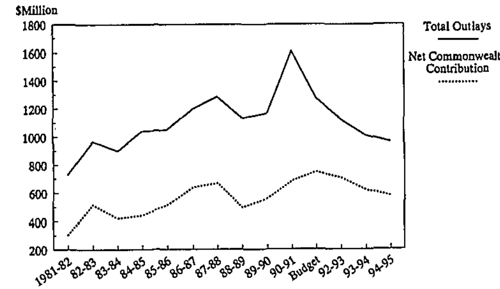
Memo:						
Total revenue (industry *contribution) from Agricultural* Forestry and Fishing Industries	Sm	1331.3	812.6	670.5	649.7	667.5
Payout of trust account balances	Sm	53.3	9.2	-	-	-
Net Commonwealth contribution	Sm	1021.8	1143.0	1128.6	1032.1	1000.6

Assistance to the agricultural, forestry and fishing industries aims to foster more efficient, innovative, adaptable and sustainable primary industries, remove constraints on export performance and improve international competitiveness. Outlays on natural resources management aim to promote the equitable and efficient use of water, soil and forest resources at sustainable levels.

Assistance is provided primarily through rural adjustment and disease eradication schemes, natural resources development, contributions to research and promotion and market support for specific commodities.

Outlays are largely offset (41%) by industry contributions collected by the Commonwealth, on behalf of industry, through levies and charges (and classified as revenue).

Chart 3. Agricultural, Forestry and Fishing Industries Outlays (a) (1984-85 prices)



(a) The difference between the total outlays and net Commonwealth contributions represents outlays funded by industry through levies and charges.

Trends

Chart 3 shows total outlays over 1981-82 to 1994-95 for the agricultural, forestry and fishing industries and the net Commonwealth contribution. Peaks in outlays were associated with drought relief assistance (1982-83); wheat underwriting payments (1987-88); and wool industry payments (1990-91). Outlays have also increased due to growth in research, promotion and marketing in rural industries; increased Commonwealth involvement in quarantine and inspection; and growth in assistance for development and management of natural resources.

Industry contributions for rural research are matched $ for $ by the Commonwealth up to 0.5% of the gross value of production. Research funding for rural industries increased from $64.7m in 1985-86 to an estimated $161.0m in 1991-92, a real increase of 72.7%.

Estimated outlays for 1991-92 ($1964.8m) represent a real decrease of around 21% on the 1990-91 outcome ($2406.4m). This decrease is due to a reduction in wool industry outlays ($1148.1m in 1990-91 to $467.6m in 1991-92) mainly reflecting reduced industry contributions and the effect of the one off Supplementary Payments Scheme. This decrease is partially offset by:

- an increase of some $100m in new funding for RAS;
- an increase of $90.0m under the DFRS (primary production);
- compensation for the wheat and other grain industries for trade sanctions against Iraq ($35.2m);
- a grant of $22.5m to the Australian Wool Realisation Commission (AWRC);
- a dairy underwriting payment of $22.5m; and

- an increase of $15.0m in payments to the Meat Research Corporation largely reflecting increases in levy rates and in matching Commonwealth contributions.

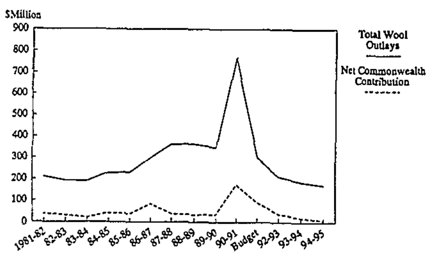
Over the forward years, outlays are expected to show a real reduction of 24.6%. This reflects:

- the expiry of legislation for dairy market support on 30 June 1992;
- falling wool industry outlays due to a forecast decline in the volume of wool production, partly offset by an expected increase in wool prices;
- the end of the eradication phase of the Bovine Brucellosis and Tuberculosis Eradication Campaign in December 1992;
- the phasing out of forestry assistance packages; and
- reduction in assistance under the RAS in 1993-94 and 1994-95.

7B.1.1 Wool Industry

Memo:		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Total outlays	$m	1148.1	467.6	341.4	311.5	298.5
Proceeds of industry levies	$m	*886.7*	*326.4*	*279.9*	*277.6*	*284.3*
Net Commonwealth contribution	$m	261.4	141.2	61.5	33.9	14.2

Chart 4. Wool Industry Outlays (a)
(1984-85 prices)



(a) The difference between the total outlays and net Commonwealth contributions represents outlays funded by industry through levies and charges.

In 1990-91, a rapid increase in the Australian Wool Corporation's (AWC) wool stockpile and debt led to a sharp rise in Government and grower contributions to wool industry outlays (see Chart 4). Total wool outlays in 1990-91 were more than double the level (in real terms) of 1989-90 and some four times as great as wool outlays in the early 1980s. *Total outlays in 1990-91 were $1148.1m but are estimated to decline to $467.6m in* 1991-92 and to decrease further in the forward years as the stockpile and debt are reduced.

The levy on wool growers was increased in October 1990, on the recommendation of the Wool Council of Australia, from 18% to 25% of the gross value of proceeds from shorn wool. After suspension of the Reserve Price Scheme in February 1991, the Government introduced the Supplementary Payments Scheme to help offset an expected reduction in prices achieved by growers selling their wool in the remainder of the 1990-91 season. The Commonwealth's contribution to the Scheme in 1990-91 was $255.8m, with a further $44.2m to be paid in 1991-92.

Under legislation that commenced on 1 July 1991, the Reserve Price Scheme was abolished and the AWC replaced by three new restructured bodies: the AWRC, responsible for managing and paying out the industry's debt in accordance with a maximum seven year debt reduction schedule determined by the Government; a new AWC, responsible for wool promotion and marketing; and a Wool Research and Development Corporation (WRDC).

For 1991-92, the wool levy has been set at *12%, of which 9 percentage points (estimated* at $244.8m) will go to the AWRC's stockpile fund; 2.5 percentage points ($68m) to the AWC; and 0.5 percentage points ($13.6m) to the WRDC. The Commonwealth will provide a grant of $22.5m to the AWRC in each of 1991-92 and 1992-93; $30m to the AWC in 1991-92 for wool promotion by the International Wool Secretariat; and $13.6m to the WRDC.

7B.1.2 Wheat Industry

Memo:		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Total outlays	$m	73.1	82.2	53.2	52.8	50.3
Proceeds of industry levies	$m	30.7	30.2	38.6	38.6	38.6
Payout of trust account balance	$m	27.6	-	-	-	-
Net Commonwealth contribution	$m	14.8	52.0	14.6	14.2	11.7

Industry arrangements provide for collection of a levy on the net sales value of wheat. Part of the levy ($20m in 1991-92) is paid to the Wheat Industry Fund and the remainder funds research activity ($10.1m). The Commonwealth matches industry contributions to research on a $ for $ basis.

In 1991-92 the Commonwealth will make a compensation payment of up to $31.2m to the wheat industry for trade sanctions against Iraq. Also, the balance of the Commonwealth's underwriting liability in respect of the 1986-87 wheat pool ($6m) is expected to be paid in 1991-92.

7B.1.3 Dairy Industry

Memo:		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Total outlays	$m	141.6	166.6	56.8	27.4	30.3
Proceeds of industry levies	$m	137.9	140.1	30.8	23.0	25.2
Net Commonwealth contribution	$m	3.7	26.5	26.0	4.4	5.1

Export sales of a wide range of dairy products *are assisted by a market support* scheme (ending 30 June 1992) funded through a levy on milk production paid to the Australian Dairy Corporation (ADC).

The Commonwealth also underwrites average export returns for certain dairy products at 85% of the long term price trend. This underwriting provision has been triggered for the 1990-91 season resulting in a Commonwealth outlay of $22.5m in 1991-92. Underwriting is expected to be triggered again for the 1991-92 season.

Outlays for dairy promotion and ADC administrative costs ($15.8m) and research ($5.0m) are primarily financed through a levy on the milkfat content of all whole-milk and whole-milk products. The industry contribution to research is matched $ for $ by the Commonwealth ($5m).

7B.1.4 Cattle, Sheep and Pig Industries

7B.1.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Eradication of Livestock	$m	38.5	31.7	18.2	-0.2	-0.2
Diseases and Compensation	%	32.5	-17.6	-42.6	-101.0	-5.0
Research, Promotion, Marketing	$m	133.9	142.6	151.1	154.6	158.9
Assistance and Other Payments	%	28.1	6.5	6.0	2.3	2.8
TOTAL	$m	172.3	174.3	169.3	154.4	158.7
	%	29.0	1.1	-2.9	-8.8	2.8

Memo:						
Proceeds of industry levies	$m	135.4	141.3	139.2	130.4	134.7
Payout of trust account balance	$m	3.0	-	-	-	-
Net Commonwealth contribution	$m	33.9	33.0	30.1	24.0	24.0

Eradication of Livestock Diseases

The costs of the Bovine Brucellosis and Tuberculosis Eradication Campaign are funded on the basis of 20% Commonwealth, 30% State/Territory and 50% Industry contributions. Australia was declared brucellosis free in 1989, and is expected to be declared impending free of tuberculosis by December 1992.

Payments of $0.2m for other animal pest and disease control programs are also included under this classification.

Research, Promotion, Marketing Assistance and Other Payments

Meat Research Corporation

Payments to the Meat Research Corporation are estimated at $43.8m in 1991-92, a real increase of 47% on 1990-91, largely reflecting increases in the research components of the cattle transaction and the beef production levy rates. This follows the industry's decision to raise its funding of research to 0.5% of the gross value of production. Similar levies on pigs ($2.7m) are paid, together with a matching Commonwealth contribution, to the Pig Research and Development Corporation.

The Commonwealth will also make payments of some $93.4m, fully funded by industry levies, to the Australian Pork Corporation and to the Australian Meat and Livestock Corporation for promotion, administrative and operational expenses.

7B.1.5 Fishing, Horticulture and Other Agricultural Industries

7B.1.5		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Fishing Industry	$m	10.5	32.9	20.0	18.5	15.7
	%	-13.8	211.9	-39.2	-7.7	-15.0
Horticultural Industries	$m	26.8	23.4	22.8	23.6	26.2
	%	19.1	-12.8	-2.5	3.6	11.0
Other Agricultural Industries	$m	48.7	38.4	38.3	39.8	40.4
	%	64.1	-21.2	-0.2	3.8	1.6
TOTAL	$m	86.1	94.7	81.1	81.9	82.3
	%	33.6	10.0	-14.3	1.0	0.6

Memo:						
Proceeds of industry levies	$m	42.3	39.4	42.5	45.1	49.5
Payout of trust account balances	$m	22.7	9.2	-	-	-
Net Commonwealth contribution	$m	21.1	46.1	38.6	36.8	32.8

Fishing Industry

Major outlays relate to research and reducing activity in fisheries by helping some participants leave the industry. The estimates allow for the implementation of new research arrangements arising from the Government's policy statement, *New Directions for Commonwealth Fisheries Management in the 1990s*, including a one off increase of up to $8m reflecting payment of the balance of the Fishing Industry Research and Development Trust Fund to the new Fisheries Research and Development Corporation (FRDC). The increase in outlays is also attributable to adjustment in the northern prawn fishery and the funding arrangements for the FRDC.

Horticultural Industries

Industry levies fully pay for the activities of the Australian Wine and Brandy Corporation ($1.1m). The Australian Horticultural Corporation (AHC) is funded both by industry ($6.9m) and the Commonwealth ($2.3m). In 1990-91, in response to the downturn in the citrus industry the Government decided to provide the AHC with additional citrus marketing funds of $2m over three years, including $1m in 1991-92.

From 1991-92, the Export and Domestic Price Equalisation Scheme for dried vine fruits will cease, thus reducing outlays by $12.8m. Industry outlays on research ($3.9m) are matched $ for $ by the Commonwealth.

Other Agricultural Industries

Outlays are mainly for research in respect of barley, cotton, grain legumes, oilseeds, poultry, sugar, tobacco and other smaller industries. In 1991-92, up to $4.0m will be paid to the smaller grain industries (including rice) as compensation for trade sanctions against Iraq.

7B.1.6 General Assistance not Allocated to Specific Industries

7B.1.6		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Rural Adjustment	$m	41.7	140.9	196.2	92.6	18.6
	%	18.7	238.1	39.3	-52.8	-79.9
Quarantine and Inspection	$m	176.0	175.4	177.9	168.0	172.0
Services	%	5.3	-0.4	1.4	-5.6	2.4
Diesel Fuel Rebate Scheme	$m	386.9	476.9	539.2	615.2	695.1
	%	11.7	23.3	13.1	14.1	13.0
Other	$m	3.9	5.9	4.6	4.7	1.8
	%	106.2	53.4	-21.6	2.0	-62.6
TOTAL	$m	608.5	799.1	917.9	880.5	887.5
	%	10.5	31.3	14.9	-4.1	0.8

Memo:						
Proceeds of export inspection and other charges	$m	95.5	131.9	131.9	131.9	131.9
Net Commonwealth contribution	$m	513.0	667.2	786.0	748.6	755.6

Rural Adjustment

The Commonwealth provides assistance in the form of interest subsidies, loans and/or grants under RAS to farmers experiencing financial difficulties arising from circumstances beyond their control. RAS assists farmers to improve performance by changing the size of their farms, improving managerial and financial skills, or adopting better practices and technology. After all other options have been considered, RAS helps eligible farmers without prospects to leave the industry.

The rural assistance package, announced in April 1991, provided for funding under RAS to be increased from $62.5m in 1990-91 up to $160m in 1991-92 (partially offset by existing loan repayments). The package provided increases in funding for all forms of RAS assistance and introduced a new category of assistance: debt reconstruction with an interest subsidy.

Quarantine and Inspection Service

The Australian Quarantine and Inspection Service conducts inspection and certification services for exports of animals, animal products, plants and plant products, and supervises the importing of these items and the quarantine surveillance of arriving vessels, persons and goods. It also provides an inspection service for certain primary industry products produced in Australia for domestic consumption. The States and Territories administer, at Commonwealth cost, certain animal and plant quarantine and export inspection functions. Inspection and quarantine services that can be attributed to industry users are 100% cost recovered.

Diesel Fuel Rebate Scheme - Primary Production

Outlays will increase during the forward years due to expected increases in fuel consumption and excise rates which are indexed in line with inflation by the CPI. The current rebate rate for primary producers is 25.8 cents per litre, which is equal to the excise rate.

Other

Includes outlays for the Primary Industry Marketing Skills Program; improved access to education and training in rural areas; and improved information available to rural Australians on Commonwealth programs. The Commonwealth meets up to half the costs of rural counsellors employed by appropriate non profit organisations.

The April 1991 rural assistance package provided funding of $2.6m a year over the next three years for the Rural Counselling Program and $1.5m a year for the Rural Access Program. Net receipts of $0.2m are included under this heading in 1991-92 for the War Service Land Settlement Scheme. The Government has decided to dispose of its interests in the scheme in subsequent years.

7B.1.7 Natural Resources Development and Management

This classification covers water, forestry and soil related programs including the Federal Water Resources Assistance Program (FWRAP); the National Soil Conservation Program (NSCP); the National Afforestation Program (NAP); a range of assistance packages for forestry development; and the activities of the Land and Water Research and Development Corporation.

FWRAP outlays include payments to the States for a range of non-urban projects, and to the Murray-Darling Basin Commission, including funding for a natural resources management strategy. Other components of FWRAP are discussed under '5.6 Regional Development and Pollution Control'.

The NSCP covers a range of projects to assist in overcoming soil degradation. Additional funds have been provided to encourage incorporation of risks such as drought in farm and district plans.

NAP funds are used to develop broadacre hardwood plantations and rehabilitate degraded lands. Funds for assistance packages relate to:

- components of compensation to Tasmania and to businesses in north east Queensland, following Government decisions in relation to World Heritage listings for forests;
- assistance to Tasmania for a forest industry strategy;
- measures to be undertaken in conjunction with Victoria to foster conservation and efficient forest use in east Gippsland; and
- expenditure for the development of a forestry strategy for the south-east forests of NSW, including an extra $4m in 1991-92.

The drop in outlays at the end of the forward estimates period reflects the phasing out of these assistance packages.

7B.1.8 General Administration

This includes running costs for those parts of the Department of Primary Industries and Energy (DPIE) involved with agriculture, forestry and fishing. Also included are the costs of the Australian Plague Locust Commission, analytical testing and payments by the DPIE to CSIRO to meet half the operating and capital costs of the Australian Animal Health Laboratory.

An additional $1.2m is included in 1991-92 for DPIE's share of the costs of establishing a National Registration Scheme for agricultural and veterinary chemicals. The Government has decided to move over a period of four years to 100% cost recovery for the registration of agricultural and veterinary chemicals. Registration charges are classified as revenue.

The estimates allow for the new fisheries management and administration arrangements, including the establishment of the Australian Fisheries Management Authority arising from the Government's policy statement, *New Directions for Commonwealth Fisheries Management in the 1990s,* at an estimated cost of up to $3.1m.

7B.2 MINING AND ENERGY INDUSTRIES

7B.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Specific Industries						
Minerals	$m	0.6	0.6	0.6	0.3	0.3
	%	-96.4	-8.8	-6.0	-43.3	3.9
Coal	$m	16.8	18.1	2.6	2.7	2.8
	%	-40.6	7.3	-85.7	4.0	4.0
Petroleum and Gas	$m	3.5	63.1	2.8	2.8	2.8
	%	13.6	na	-95.6	1.8	-
Electricity	$m	18.5	8.0	-2.5	-13.1	-13.1
	%	na	-56.7	-131.5	na	-
Sub-total Specific Industries	$m	39.4	89.8	3.4	-7.2	-7.1
	%	8.9	127.8	-96.2	na	-1.7
General Assistance						
Diesel Fuel Rebate Scheme	$m	434.6	424.6	480.1	547.7	619.0
	%	13.0	-2.3	13.1	14.1	13.0
Energy Research and	$m	20.6	17.7	17.8	12.6	12.4
Conservation	%	59.8	-14.1	0.7	-29.4	-1.1
Other General Assistance	$m	72.0	74.4	74.7	73.9	75.7
	%	7.4	3.3	0.4	-1.1	2.5
Sub-total General Assistance	$m	527.2	516.7	572.5	634.2	707.1
	%	13.5	-2.0	10.8	10.8	11.5
TOTAL	$m	566.6	606.5	575.9	627.0	700.0
	%	13.2	7.0	-5.0	8.9	11.6

The Commonwealth provides assistance for the development of mining and energy industries through grants and subsidies, direct project involvement and the supply of services. Assistance is aimed at improving efficiency and competitiveness.

Minerals

Outlays relate principally to the Commonwealth's membership of international mineral commodity organisations.

Coal

The Commonwealth provides ongoing funding for scientific, technical and economic research in connection with coal or its derivatives through contributions from the Coal Research Trust Account (CRTA). Funds for CRTA are raised through an excise on coal

produced from private mines and by voluntary contributions for State owned coal mines. Contributions to the CRTA in 1991-92 are estimated at $4.0m ($8.2m in 1990-91) reflecting an anticipated reduction in expenditure from the CRTA.

Petroleum and Gas

Payments totalling $60m will be made to Victoria in 1991-92 to ameliorate gas price increases associated with the application of the Resource Rent Tax to Bass Strait oil and gas production. Other outlays reflect payments to the States in respect of fees and other charges levied on offshore petroleum production.

Electricity

Outlays in 1991-92 mainly reflect payment of a $20m subsidy to the NT for electricity generation. A final payment of $10m is scheduled for 1992-93.

Also included are repayments of principal advanced for construction of power generating facilities, notably Gladstone power station and the Snowy Mountains Scheme. (Interest receipts on these advances are classified as revenue and are included in Statement 4 as non-tax revenue).

The Commonwealth also subsidises the cost of electricity generation in Tasmania under the Gordon-below-Franklin compensation agreement (see *9A. Assistance to Other Governments, nec*).

Diesel Fuel Rebate Scheme - Mining

Commencing this year, rebates under the DFRS have been classified as outlays rather than offsets to revenue. The Scheme provides for an excise rebate on diesel fuel used off-road in mining operations. The excise on diesel fuel is currently 25.8 cents per litre of which mining operators receive a rebate of 23.4 cents per litre.

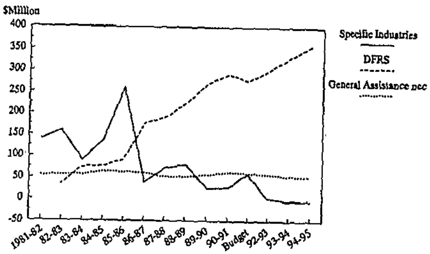
Energy Research and Conservation

Outlays comprise Commonwealth contributions to the Energy Research and Development Corporation ($11.8m in 1991-92) and funding of the Commonwealth Energy Management Program (CEMP) which promote the development and use of efficient energy sources, technologies and practices. The CEMP forms part of the Commonwealth's response to the greenhouse effect and operates through information, energy audit and demonstration programs. Additional funding of $5.4m has been provided for this purpose in each of 1991-92 and 1992-93.

Other General Assistance

Outlays under this heading relate principally to the staffing and operating costs of the Bureau of Mineral Resources, Geology and Geophysics and other parts of DPIE which provide research, advice and administrative support for programs and activities relating to the mining and energy sector.

Chart 5. Mining and Energy Industries
(1984-85 prices)



Trends

This subfunction is dominated by payments to operators in the mining and energy sector under the DFRS which has operated since 1982-83 (see Chart 5). The upward trend reflects the combined effect of growth in mining sector activity, broadening of the eligibility base and increases in excise rates applying to diesel fuel.

Assistance to specific industries was volatile in the early 1980s but has declined since 1985-86. This reflects the Commonwealth's purchase and sale of a number of mining and petroleum interests during the early to mid 1980s; the operation and subsequent winding up of the Bass Strait Freight Adjustment Scheme; a special payment of $124.8m in 1985-86 to oil refiners to compensate for financial losses associated with the import parity pricing regime; and Commonwealth contributions under the NSW Coal Freight Rate Efficiency Scheme.

The forward estimates for specific industry assistance are expected to resume a downward trend after a one off increase in 1991-92 associated with payments of $60m to Victoria to ameliorate gas price increases in that State arising from the application of the Resource Rent Tax to Bass Strait production of oil and gas.

7B.3 MANUFACTURING INDUSTRY

7B.3		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Sector Specific Assistance						
Textiles, Clothing and Footwear	$m	116.0	76.8	70.3	57.3	45.3
	%	-27.5	-33.8	-8.5	-18.5	-21.0
Shipbuilding	$m	37.4	31.5	30.3	20.7	19.0
	%	-17.6	-15.9	-3.7	-31.8	-8.3
Printing and Photographic	$m	36.2	36.7	32.5	14.5	7.5
Film	%	20.5	1.2	-11.4	-55.5	-48.0
Aerospace and Information	$m	58.1	61.7	58.0	59.2	50.2
Technology	%	12.6	6.3	-6.0	2.1	-15.2
Engineering and Machinery	$m	24.0	25.1	13.2	11.3	10.4
	%	-18.6	4.6	-47.2	-14.5	-7.9
Automotive	$m	5.6	3.9	2.1	1.1	1.1
	%	-38.4	-30.8	-46.3	-48.1	2.9
Pharmaceutical and Food	$m	16.7	47.1	63.8	53.8	9.9
	%	29.3	182.4	35.5	-15.6	-81.7
Sub-Total Sector Specific	$m	294.0	282.8	270.2	217.9	143.4
Assistance	%	-13.2	-3.8	-4.4	-19.4	-34.2
General Assistance						
Industrial Research and	$m	29.6	32.2	31.9	31.5	27.6
Development	%	-8.4	8.7	-1.1	-1.3	-12.4
Industry Services	$m	25.9	46.4	34.2	28.7	18.7
	%	8.9	79.1	-26.2	-16.2	-34.9
Other Assistance to	$m	68.6	77.3	72.3	64.3	61.2
Manufacturing	%	..	12.7	-6.5	-11.0	-4.9
Sub-Total General Assistance	$m	124.1	155.8	138.3	124.5	107.4
	%	-0.5	25.6	-11.2	-10.0	-13.7
TOTAL	$m	418.1	438.6	408.6	342.4	250.8
	%	-9.8	4.9	-6.9	-16.2	-26.7

Assistance to manufacturing industries aims to foster international competitiveness, export orientation and structural adjustment including the promotion of managerial efficiency and industry research and development.

Assistance comprises bounties, subsidies and other assistance targeted to specific sectors, as well as general programs such as the Grants for Industry Research and Development Scheme (GIRD) and the National Industry Extension Service (NIES).

The March 1991 Economic Development Statement announced major changes to industry assistance programs which will result in significant reductions in the level of assistance over the forward years.

Sector Specific Assistance

Textiles, Clothing and Footwear

The TCF industry receives assistance through a range of measures including tariffs, quotas and bounties. The assistance is provided under the auspices of the TCF Plan which is administered by the TCF Development Authority.

The March 1991 Economic Development Statement announced that the TCF Plan would be extended from 1995 to the year 2000. During this period, the rate of reduction in the level of assistance to TCF industry will be accelerated and, to encourage export orientation in the industry, an import credit scheme has been introduced. The Industry Development Strategy, part of the Plan, has been restructured at an additional cost of $5m a year, bringing the total cost to $16.4m in 1991-92 and $15m a year for the forward years.

To accelerate restructuring in the industry, producers eligible for the textile yarn bounty are permitted to capitalise bounty receipts. Bounty capitalisations cost $28m in 1990-91, and will be offset by savings of $32m in the forward years.

In addition to outlays under this subfunction, the Plan contains a package of labour adjustment measures to assist workers to be re-employed outside the TCF industries (see *7C. Labour and Employment*).

Shipbuilding

Assistance is provided through the shipbuilding bounty for the domestic construction of vessels exceeding 150 tonnes under the *Bounty (Ships) Act 1989*. Outlays for 1991-92 are estimated at $31m. Falling outlays over the forward years reflect reductions in bounty rates: 15% of value added to June 1991, 10% to June 1993 and 5% to June 1995. The bounty expires in June 1995.

Printing and Photographic Film

Assistance to the printing industry is provided through the book bounty which expires in December 1993. Outlays for 1991-92 are estimated at $25m.

Bounty assistance, introduced in 1989-90, is provided for the production of sensitised photographic film. Outlays will be $12m in 1991-92, falling to $6m in 1992-93, when the bounty expires.

Aerospace and Information Technology

It was announced in the March 1991 Economic Development Statement that offsets arrangements ceased to apply to domestic use civil aircraft delivered after 31 October 1990. The continued application of offsets arrangements to Qantas will be reviewed in due course. This announcement has no outlay implications.

Bounty assistance to the information technology industry is provided through the computers bounty. The March 1991 Economic Development Statement widened the bounty to include printed circuit boards but with a reduced rate that phases down from 14% in July 1991 to 8% in July 1994. Outlays for 1991-92 are estimated at $49m. The bounty expires in December 1995.

The March 1991 Economic Development Statement included an extension of the Vendor Qualification Scheme (VQS) to 1993-94 under the auspices of the Information Industries Strategy. The VQS assists firms in the information industry to gain international standards accreditation to enable them to become globally competitive. Outlays for the VQS in 1990-91 were $1.3m and this level of funding will be maintained in 1991-92 and the forward years.

Engineering and Machinery

The Heavy Engineering Adjustment and Development Program ended on 30 June 1989. However, outlays for the interest subsidy component relating to loans provided by the Australian Industry Development Corporation were $3.7m in 1990-91 and will continue in 1991-92 ($3.1m) as some loans drawn before 30 June 1989 receive interest subsidy payments until 30 June 1992.

Assistance to the engineering industry is also provided through the Metals Based Engineering Program to encourage export enhancement, research and development and diffusion of new technology. Outlays are estimated at $5.7m in 1991-92.

The March 1991 Economic Development Statement extended the bounty assistance for the local production of machine tools and robots to June 1996, with rates phased down from 24% to 5%. Outlays are estimated at $14m in 1991-92.

The March 1991 Economic Development Statement also introduced a new Advanced Manufacturing Technology Development Program at a cost of $20m over seven years ($2.3m in 1991-92) to encourage firms to develop indigenous products and systems.

Automotive

The March 1991 Economic Development Statement announced an extension of the Automotive Industry Plan to the year 2000. The Plan aims to improve the efficiency and international competitiveness of the industry primarily through the lowering of protection for the industry to bring it more in line with that available to the general manufacturing industry.

Budgetary assistance is provided through the Motor Vehicles and Components Development Grants Scheme which provides funding for Australian research and design of components and vehicles. Outlays are estimated at $2.8m in 1991-92. The Scheme terminates in December 1992.

Pharmaceutical and Food

Assistance is provided to the pharmaceutical industry to increase the level of domestic activities in production, research and development, and exports. The assistance, known as the Factor F Program, is provided in the form of a price premium paid by the Government for certain pharmaceutical products. Outlays are estimated at $46m in 1991-92. The Program ceased receiving applications for new entrants in May 1991 but payments of price premiums will continue to 1994-95.

In the March 1991 Economic Development Statement, the Government announced its decision to pay a subsidy for the local production of citric acid using biotechnology processes. Payments will commence in 1991-92 ($1.1m) with a total of $7.2m over five years.

General Assistance

Industrial Research and Development

Industrial research and development (R&D) is encouraged by the GIRD Scheme and the tax concession on R&D expenditure (see Statement 4).

GIRD falls under two categories: discretionary grants for firms unable to take advantage of the R&D tax concession; and generic technology grants for particular technologies which are considered to have potential to maintain or improve competitiveness across a range of industries. The GIRD Scheme is administered by the Industry Research and Development Board and will continue to June 1994. It will be reviewed in 1993. Outlays are estimated at $32m in 1991-92.

In the March 1991 Economic Development Statement, the R&D tax concession was made a permanent feature of the *Income Tax Assessment Act 1936*. The current rate of 150%, however, will be reduced to 125% from July 1993.

Industry Services

The NIES is a joint Commonwealth/State venture offering advisory and referral services and subsidy assistance to small and medium sized firms in manufacturing industry to improve business efficiency and international competitiveness. An estimated $5.5m will be outlaid by the Commonwealth under NIES in 1991-92 and a further $11m will be paid to the States and Territories. NIES will run until June 1995.

The Government will introduce two new schemes to facilitate rural and regional development: a Business Advisers for Rural Areas Program (BARA) and a Rural Industries Business Extension Service (RIBES). Outlays for BARA are estimated at $1.8m a year to 1993-94. After an initial pilot period in 1991-92, outlays of $2m a year are estimated for RIBES in 1992-93 and 1993-94.

The National Procurement Development Program (NPDP) supports the demonstration, testing and research of high technology Australian products by government agencies. Outlays are estimated at $9.3m in 1991-92. The Industry Commission has been asked to evaluate NPDP before its expiration in June 1992.

The Technology Development Program supports the development of innovation, especially for medium and small scale enterprises. Outlays are estimated at $3.1m in 1991-92. The Program expires in June 1992.

Outlays also include the Multi-Function Polis (MFP) and the Malaria Joint Venture (MJV). The Government has decided to continue its support for the MFP, and has agreed to provide program funds of $2.4m in 1991-92, with a further $3.2m over the next two years.

In 1985, the Commonwealth agreed to provide a loan guarantee under the National Interest Provisions of the *Australian Industry Development Corporation Act (1970)* to the MJV, a joint venture involved in anti-malaria vaccine research. The principal ($9.2m) is to be repaid in 1991-92 and the balance of the interest and management costs on settlement is estimated at $0.1m.

To assist small and medium businesses, the Government is introducing the Small and Medium Enterprise Development Program from 1991-92, with program funding of $3.4m in the first year and $4.4m in each of the next two years.

Other Assistance to Manufacturing

This consists mainly of the administrative costs of the Department of Industry, Technology and Commerce which are estimated to decrease by 25% in real terms over the forward years. This reduction mainly reflects operating efficiencies and the termination in 1992-93 of administrative outlays under the Investment Promotion Program.

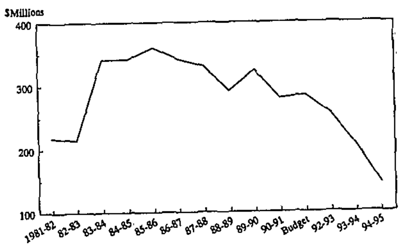
In 1991-92, capital assistance of $6m provided to Tasmania for industrial development is a one off item under this heading.

Trends

Outlays in 1990-91 to the manufacturing industry were 27.3% higher in real terms compared with 1981-82 (see Chart 6). The outlays peaked in 1985-86, mainly due to the introduction of budgetary assistance for specific industries:

- the shipbuilding and textile yarns bounties in 1981-82;
- the steel mill products bounty in 1984-85; and
- the computer bounty and the Motor Vehicles and Components Development Grants Scheme in 1985-86.

Chart 6. Assistance to Manufacturing (1984-85 prices)



After 1985-86, there was a real decline in outlays due to reductions in general industry assistance. 1989-90 was an exception to this trend, mainly as a result of a sharp increase in assistance to the TCF industry in that year through the textile yarns bounty.

For 1991-92, outlays are estimated at $439m, a real increase of 1.6% on the 1990-91 outcome. The considerable reduction for the TCF industry is largely offset by increased outlays for the Factor F Program and the loan repayment of the MJV.

Over the forward years, outlays for total manufacturing industry assistance are expected to decline by 49% in real terms. Assistance to specific sectors will generally decrease over the forward years mainly reflecting reductions in outlays for most bounties, which follow the general decline in tariffs. The decrease is also due to the termination of the engineering and pharmaceutical sectoral plans.

Assistance to the TCF industry is expected to decrease in real terms by 48%; the shipbuilding industry by 46%; the printing and photographic film industry by 82%; the engineering and machinery industry by 63% and the pharmaceutical and food industry by 81%.

Assistance for general programs will also decrease over the forward years, mainly reflecting the termination of the Investment Promotion Program in 1992-93 and a reduction in outlays for NPDP and GIRD.

7B.4 TOURISM INDUSTRY

Tourism assistance aims to optimise the contribution of overseas and domestic tourism to the economy while taking account of broader social and environmental policy objectives.

About 94% of budgetary assistance to the industry is provided to the Australian Tourist Commission (ATC) to promote overseas awareness of Australia as a tourist destination. The ATC has offices in major overseas tourist markets to coordinate marketing and interact with local travel operators, and works closely with the travel industry in Australia, State governments and major overseas tourist operators.

Increased funding of $23m a year from 1990-91 is to be offset by a doubling of the departure tax to $20 from 1 August 1991.

In 1991-92, the ATC expects to receive 29% of its total revenue from industry, largely through joint marketing and promotional ventures (21% was received in 1990-91). This figure is expected to increase in future years.

Trends

Commonwealth funding for the tourism industry has increased over the last decade from $8.8m in 1981-82 to $65.3m in 1990-91, a real increase of about 296%. The present level of funding is expected to be maintained in real terms over the forward years.

7B.5 ASSISTANCE TO EXPORTERS

7B.5		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Export Development Schemes	$m	180.9	165.0	179.2	200.3	190.0
	%	6.4	-8.8	8.6	11.7	-5.1
Export and Trade Promotion	$m	129.8	131.2	132.5	132.2	135.6
	%	1.2	1.1	1.0	-0.2	2.5
Export Finance Facility	$m	7.8	14.7	14.5	14.4	14.2
	%	-60.2	88.2	-1.9	-0.3	-1.2
National Interest Export Business	$m	226.5	243.4	22.7	-10.6	4.0
	%	na	7.5	-90.7	-146.9	-137.1
TOTAL	$m	545.0	554.3	348.9	336.3	343.8
	%	81.2	1.7	-37.1	-3.6	2.2

The purpose of Commonwealth assistance to exporters is to promote a greater level of export orientation for Australian industry by: providing direct financial assistance in developing export markets; providing information and promotional assistance; developing trade policy; and providing finance and insurance services including concessional export finance.

Most outlays related to general export strategies are shown under this subfunction. Outlays related to improving the export performance of specific industries are included under subfunctions which cover those industries.

Export Development Schemes

The EMDG Scheme is the Government's principal export market development scheme and is administered by the Australian Trade Commission (Austrade). EMDG aims to encourage small to medium sized Australian exporters to develop overseas markets for goods, certain services, industrial property rights and Australian expertise.

The revised EMDG Scheme, which has operated since 1 July 1990, targets new exporters demonstrating substantial commitment to export development. Payments under the revised scheme commence in 1991-92 when grants in respect of 1990-91 expenditure are paid ($134m). Other grants for export enhancement ($31.0m in 1991-92) are provided under the International Trade Enhancement Scheme, the Innovative Agricultural Marketing Program and the Asia-Pacific Fellowships Scheme.

Export and Trade Promotion

This comprises the running and operational costs of Austrade and the development of trade policy and oversight of trade issues by the Department of Foreign Affairs and Trade.

Austrade provides assistance to Australian companies through export incentives, trade missions, market intelligence, and funding feasibility plans. Austrade also has responsibility for raising the export profile of Australian industry through increasing local awareness of export opportunities.

A reorganisation of Austrade's overseas operations has followed initiatives announced in the March 1991 Economic Development Statement. Resources are to be re-allocated with greater priority given to North and South East Asia. Domestic operations are being refocused towards firms with potential to make a substantial contribution to exports.

Export Finance Facility

Austrade's finance and insurance operation, the Export Finance and Insurance Corporation (EFIC), provides loans and insurance to support Australian produced exports. Austrade-EFIC borrows on the commercial market and lends to eligible participants, often at subsidised rates of interest, in accordance with the Organisation for Economic Cooperation and Development Guidelines for Officially Supported Export Credits. Any shortfall between Austrade-EFIC's borrowing rates and the concessional lending rates is met by a subsidy payment from the Commonwealth to Austrade. The 1990-91 Approved Lending Program to finance eligible exports is expected to increase interest subsidies by $1.2m in 1991-92.

During 1990-91, Austrade's new lending commitments amounted to $299m. Of this, projects involving loans worth $93m were also supported by aid grants under the

Development Import Finance Facility administered by the Australian International Development Assistance Bureau (see *8C. Foreign Affairs and Overseas Aid*).

EFIC will become an independent statutory authority in 1991-92. The Government will make provision for $200m in callable capital to supplement existing reserves and has decided to establish a $50m facility to cover bonding requirements for firms with a proven record of performance.

National Interest Export Business

Some export finance proposals considered by the Government to be in the national interest are administered by Austrade-EFIC on behalf of the Commonwealth. Premiums and fees for National Interest business are remitted to the Commonwealth which bears liability for payouts on insurance claims and defaults by borrowers. Increases in remittances to the Commonwealth of $5.5m in 1991-92 are expected as a result of the additional National Interest Business approved in 1990-91 involving the financing of resource projects in Papua New Guinea, trade credit for the USSR and the Australian Wheat Board's annual credit sales program.

The bulk (over 90%) of outlays on National Interest business in 1990-91 related to insurance payouts in respect of credit sales to Iraq by the Australian Wheat Board.

In 1991-92, there are expected to be substantial payouts in respect of Iraqi debt (likely to be in excess of $250m). The 1991-92 and forward years also include an interest rate reduction arising from the Paris Club write down of Egyptian debt ($9m in 1991-92). The affected National Interest wheat debt (more than $280m) will be reduced by 50% in net present value terms by charging concessional rates of interest over 25 years.

Remittances of National Interest premiums and fees to the Commonwealth are estimated at $20.9m in 1991-92.

Trends

Between 1981-82 and 1990-91, outlays declined by around 14.3% in real terms, mainly due to the decline in outlays for Export Development Schemes.

Outlays declined from 1981-82 to 1984-85 largely due to the winding down of the *Export Expansion Grants Scheme*. Funding of the related *EMDG Scheme* peaked in 1985-86 and then declined due to improved targeting.

The fall in outlays shown for 1986-87 reflects a decision to allow the level of unpaid EMDG claims carried forward to increase. The resulting backlog has since been progressively reduced.

The increase in outlays for Export and Trade Promotion from 1986-87 onwards resulted from the creation of Austrade as a separate trade promotion agency.

7C. LABOUR AND EMPLOYMENT

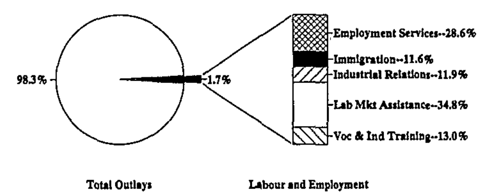
OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
7C.1	*Vocational And Industry Training*	$m	178.0	228.6	236.3	232.8	232.3
		%	-7.2	28.4	3.4	-1.5	-0.2
7C.2	Labour Market Assistance to	$m	400.4	610.6	650.4	620.3	597.4
	Jobseekers and Industry	%	14.7	52.5	6.5	-4.6	-3.7
7C.3	Industrial Relations	$m	201.1	208.9	205.7	138.2	142.3
		%	17.8	3.9	-1.5	-32.8	3.0
7C.4	*Immigration*	$m	183.4	204.1	201.0	192.8	191.5
		%	15.4	11.3	-1.5	-4.1	-0.7
7C.5	Employment Services	$m	472.9	502.3	511.4	492.3	501.3
		%	17.7	6.2	1.8	-3.7	1.8
	TOTAL	$m	1435.7	1754.6	1804.9	1676.5	1664.8
		%	12.8	22.2	2.9	-7.1	-0.7

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Outlays on Labour and Employment are expected to increase by $318.9m or 22.2% (18.4% in real terms) in 1991-92:**
  - **— a modest real decline in outlays of 1.1% is expected for 1992-93, followed by declines over the remainder of the forward years (10.7% in 1993-94 and 4.5% in 1994-95).**
- **As illustrated in Chart 1, outlays on Labour and Employment are forecast to account for 1.7% of total outlays in 1991-92, an increase of 0.1% from 1990-91.**

Chart 1. Labour and Employment Proportion of Total Outlays and Function 1991-92



- *The main sources of growth in 1991-92 are:*
  - — an estimated increase of $50.6m (24.4% real growth) for Vocational and Industry Training;
  - — a substantial increase in Labour Market Assistance to Jobseekers and Industry under various labour market programs of $210.2m (47.7% real growth);
  - — an increase in funding of $27.5m for processing on-shore refugee applicants, holding unauthorised boat arrivals and undertaking enhanced compliance action; and
  - — additional funding of $14.9m in 1991-92 for programs designed to improve workplace reform and promote a new workplace culture.
- The expected decline in real outlays over the forward years is primarily due to anticipated reductions in Labour Market Assistance to Jobseekers and Industry as employment prospects improve and the cessation of several Industrial Relations programs.

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Wet Tropics of Qld Structural Adjustment Package	-1.1	0.0	0.0	0.0
Increased charges for Citizenship Certificates	-0.4	-0.6	-0.6	-0.6
Cessation of former Business Migration Program	-1.9	-2.0	-2.1	-2.1
Skills Training Subsidies	-3.0	-3.0	-3.0	-3.0
Delay of Disabilities reform	-1.0	0.0	0.0	0.0
Adjustment for computer equipment acquisitions	-1.7	-2.0	-2.1	0.1
Increases				
Amendments to the Industrial Relations Act	0.4	0.4	0.4	0.5
Awards Management	0.5	0.5	0.5	0.5
International Labour Organisation Conventions	0.1	0.1	0.1	0.1
Restructuring of AIRC	0.1	0.1	0.1	0.1
Expansion of JOBSKILLS	5.3	5.4	2.8	0.0
Expansion of Special Intervention Services	2.1	2.2	2.3	2.4
Enhancement to Newstart/Disability Reform Implementation	2.4	2.5	3.8	3.9
Holding Facilities for Unauthorised Refugee Arrivals	7.0	4.6	4.8	5.0
Additional Compliance Funding	6.9	8.0	8.0	8.1
Increased Funding for On-shore Processing of Refugee and Humanitarian Claims	13.6	11.5	8.4	6.1
Establishment of National Registration Scheme for Agricultural and Veterinary Chemicals	0.1	0.4	0.0	0.0
Community Development Employment Projects - Training	0.8	1.8	2.2	0.6

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Aboriginals - Commonwealth infrastructure training program	2.8	4.9	6.1	6.4
Public Service Aboriginals recruitment and career development	0.9	0.9	0.9	1.0
Local government Aboriginals recruitment	1.1	2.1	2.2	2.3
Youth Social Justice Strategy	1.7	2.5	2.4	1.8
Colocation of YACS	0.3	0.4	-0.3	-0.3
Support for *AUSMUSIC*	*0.6*	*0.0*	*0.0*	*0.0*
Implementation of Training Guarantee by National Training Board	0.1	0.1	0.1	0.1
New Deputy President for the Industrial Relations Commission	0.4	0.3	0.3	0.4
Concessions for illegal immigrants and on-shore residence processing backlog	3.1	0.0	0.0	0.0
Permanent residence on spouse/de facto grounds	1.2	0.7	1.2	1.2
Passenger motor vehicles - labour adjustment package *	4.4	4.7	4.8	5.0
Out-of-Trade training centres *	7.2	0.0	0.0	0.0
Assistance to unemployed apprentices for theoretical training *	1.2	1.2	0.0	0.0
Continuation of New Enterprise Incentive Scheme - Self Employment Assistance	9.8	14.4	15.1	15.7
Expand OLMA activities in depressed labour markets *	2.8	2.8	3.0	3.1
Wage subsidy to retain vulnerable apprentices *	1.6	0.0	0.0	0.0
Additional pre-vocational TAFE places *	40.2	0.0	0.0	0.0
Enhancements to Special Intervention Program *	*6.8*	*6.8*	*7.1*	*7.3*
Enhancements to JOBSTART *	0.4	0.5	0.0	0.0
Training and work experience program (JOBSKILLS) *	38.3	39.4	0.0	0.0
Increase CRAFT (apprenticeship training) re-establishment grant *	1.7	0.0	0.0	0.0
Jobseeker placements relating to skills upgrading (OLMA) *	0.2	0.2	0.0	0.0
Expand SKILLSHARE program provisions *	15.9	15.8	7.1	0.0
Provision of training for potential retrenchees *	16.2	26.6	27.7	0.0
Management Skill Formation Strategy *	2.4	2.5	2.6	0.0
Best practice demonstration program - new workplace culture *	10.0	15.0	0.0	0.0
Reform of industrial relations system *	6.4	6.9	0.0	0.0
Gleeson Committee Review AIRC member remunerations	0.5	0.5	0.0	0.0
East European Loan Fund and Special Assistance Category	1.7	4.1	1.6	-4.1

*Included in March 1991 Economic Development Statement

PURPOSE

The Commonwealth's involvement in the Labour and Employment function complements broader macro economic policy. It aims to improve the efficiency of the labour force by enhancing skill levels, assisting people to find jobs, assisting the disadvantaged to compete for job opportunities and by setting an industrial relations framework.

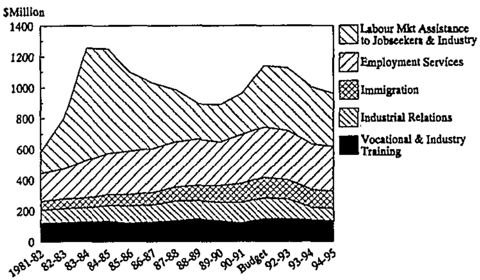
NATURE OF LABOUR AND EMPLOYMENT OUTLAYS

Outlays on Labour and Employment are used mainly for training and employment assistance (including assistance to recent migrants), facilitation of skilled migration and coordination of general industrial relations matters. They include subsidies to employers of apprentices and trainees and to disadvantaged jobseekers, payments to suppliers of formal training, income support for people undertaking full-time training and assistance to people affected by industry restructuring. The operational costs of the Federal Industrial Relations system, and the relevant parts of the Departments of Industrial Relations (DIR), Employment, Education and Training (DEET) including the Commonwealth Employment Service (CES) and Immigration, Local Government and Ethnic Affairs (DILGEA) are also included in this function.

TRENDS IN LABOUR AND EMPLOYMENT OUTLAYS

Chart 2 illustrates trends in Labour and Employment outlays from 1981-82 to 1990-91, together with the budget and forward estimates to 1994-95.

Chart 2. Labour and Employment Outlays Composition (1984-85 prices)



The dominant component in the changing expenditure pattern over the whole period is Labour Market Assistance to Jobseekers and Industry. This component increased markedly from 1981-82 to 1983-84 in conjunction with a sharp increase in the level of

unemployment but declined significantly in real terms to 1988-89. The subsequent increase initially reflected the introduction of more active support for the unemployed and more recently the deterioration in employment prospects.

The other major component is Employment Services which grew steadily in real terms over the whole period. This component covers the administrative costs of the CES and some elements of DEET. Administrative costs of the CES have grown primarily in response to increasing economic growth, increased servicing of industry and unemployed jobseekers in the workforce. The Immigration subfunction has also grown steadily over the whole period with increases in the size of the annual migration program (until 1990-91), as well as in the numbers of visitors, refugee applicants and illegal immigrants. Outlays on Vocational and Industry Training have remained relatively constant in real terms over the period, while outlays on Industrial Relations have increased slightly.

Total outlays on Labour and Employment are expected to be 96% higher in real terms in 1991-92 than in 1981-82, but 9.3% less than the 1983-84 peak. Real outlays on all subfunctions are expected to decline over the forward years.

MAJOR POLICY CHANGES

Major changes have occurred in the ways the Commonwealth assists the unemployed to obtain work. In recent years training programs have been the priority, whereas in the early 1980s labour market programs emphasised job creation.

In response to rising unemployment in 1982-83 the Wage Pause Program (WPP) was introduced but was subsequently replaced in 1983-84 by the larger Community Employment Program (CEP) (CEP and WPP represented 66.3% of outlays on Labour Market Assistance to Jobseekers and Industry in 1983-84). In the mid 1980s CEP was phased out. JOBSTART was introduced in 1985-86 to generate employment for the long-term unemployed through the provision of temporary wage subsidies. JOBSKILLS, a new program announced in the March 1991 Economic Development Statement, combines work experience and formal off-the-job training in sponsored community sector jobs. Together JOBSTART and JOBSKILLS account for 22.8% of estimated outlays on Labour Market Assistance to Jobseekers and Industry in 1991-92, a significantly smaller proportion than provided for CEP and WPP in 1983-84.

Offsetting this movement, real outlays have risen significantly on training programs for the unemployed over the period 1981-82 to 1990-91. Even though unemployment generally declined throughout the 1980s, outlays on training have increased through the creation of, and high participation rate in, programs such as JOBTRAIN and the expansion of community based training programs. In 1988-89 a number of community based programs were combined to create Skillshare. Training programs available in 1991-92 constitute 68.8% of Assistance to Jobseekers and Industry.

The implementation of the Australian Traineeship System (ATS) in 1985-86 represented a major Vocational and Industry Training initiative. This program, combined with the Commonwealth Rebate for Apprenticeship Full-time Training Scheme (implemented in 1977), are the major programs currently delivering support for entry level training.

The New Enterprise Incentive Scheme (NEIS) was implemented in 1987-88 after a two year pilot program. NEIS provides on-going employment opportunities for the unemployed by providing training and income support (together with State and Territory

Governments) for the establishment of small business ventures. NEIS together with the Self Start program for the unemployed who already have business skills, is now under the umbrella of Self Employment Assistance.

The major policy change in immigration over the past ten years has been the increase in migrant intakes, from 70 000 in 1984-85 to a peak of 145 000 in 1988-89. This increase has mainly been in skilled migration. The intake will decline to 111 000 in 1991-92, largely in response to declining demand from prospective immigrants.

In addition to persons included in the formal migration program total, there are also large numbers of people granted four year Temporary Entry Permits (TEP) on refugee/humanitarian grounds. Fourteen thousand new TEP holders are expected in 1991-92, in addition to an existing group of approximately 16 500.

Industrial Relations policy over the past ten years has seen a greater emphasis on occupational health and safety and workplace reform including award restructuring and union amalgamation.

1990-91 OUTCOME

Outlays for 1990-91 were $39.1m or 2.7% lower than originally estimated, due to:

- a lower than anticipated intake of apprentices ($7.7m);
- lower than anticipated placement of trainees under ATS ($10.9m);
- reduced demand for Mobility Assistance ($2.6m);
- fewer than anticipated placements for JOBSTART ($31.2m); and
- lower than anticipated expenditure on Skills Training due to delays in commencing projects ($13.9m).

These reductions were partially offset by increased expenditure on:

- JOBTRAIN due to greater demand brought on by the economic down turn ($11.3m);
- JOBTRAIN Formal Training Assistance as increased numbers undertook JOBTRAIN courses ($10.6m);
- Industry Labour Adjustment Assistance under the existing industry packages for the Textile, Clothing and Footwear (TCF) and Passenger Motor Vehicles Industries ($1.5m);
- Special Industry Services, because collections under the Stevedoring Industry Levy (distributed to the Stevedoring Industry Council) were greater than estimated ($5 2m); and
- additional funding provided to address backlogs in processing of applications for Grant of Residence Status (GORS) and Determination of Refugee Status (DORS) ($9.8m)

SUBFUNCTION DETAIL

7C.1 VOCATIONAL AND INDUSTRY TRAINING

7C.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Trade Training	$m	107.1	145.1	126.3	126.4	126.4
	%	-12.7	35.5	-12.9	..	..
Australian Traineeship System	$m	39.8	37.1	61.7	61.7	61.7
	%	-7.7	-6.8	66.4	-	-
Skills Training	$m	31.2	46.5	48.3	44.7	44.2
	%	19.5	49.1	3.9	-7.4	-1.1
TOTAL	$m	178.0	228.6	236.3	232.8	232.3
	%	-7.2	28.4	3.4	-1.5	-0.2

Outlays cover support for training in skills relevant to current and anticipated labour market requirements and are designed to improve the productivity and competiveness of Australian industry.

Trade Training

Trade training programs seek to ensure an adequate supply of skilled labour to meet the needs of industry and to improve the responsiveness of the trade training system to changes in demand for skilled labour. Programs also improve access to the labour market for particularly disadvantaged groups.

There are two trade training programs:

- Commonwealth Rebate for Apprentice Full-time Training (CRAFT) which pays subsidies to employers to meet a significant part of the cost of training apprentices; and
- the complementary Special Entry-Level Training (SELT) Scheme which supports innovative approaches to entry-level training. This reduces wastage rates, assists young people to take up apprenticeships and allows small business to participate in apprentice on-the-job training through group training arrangements. The scheme also provides special assistance for disabled apprentices.

A number of measures to respond to the effects of the economic downturn were announced in the March 1991 Economic Development Statement. These measures resulted in a $12.9m addition to estimates in 1990-91. Despite these measures, the economic downturn led to a decline of approximately 35% in apprentices employed with a consequential underspend of $7.7m on revised estimates.

The main measures announced in March 1991 include assistance to unemployed apprentices for theoretical training ($1.2m in 1991-92 and 1992-93), out-of-trade training centres ($7.2m in 1991-92), an increase in the CRAFT re-establishment grant ($1.7m in 1991-92), a wage subsidy to retain vulnerable apprentices ($1.6m in 1991-92) and funding for additional prevocational TAFE places ($40.2m in 1991-92). It is estimated that $145.1m will be spent on Trade Training in 1991-92, representing real growth of 31.2% over 1990-91.

Australian Traineeship System

The objective of ATS is to improve the national skill base through structured entry level vocational training. Traineeships combine work experience with off-the-job training, usually provided through the TAFE system, and provides quality vocational training for young people who do not go on to higher education or formal technical or trade training. It is expected that reduced demand for trainees will result in outlays of $37.1m in 1991-92, a decline in real terms of 9.7%.

Skills Training

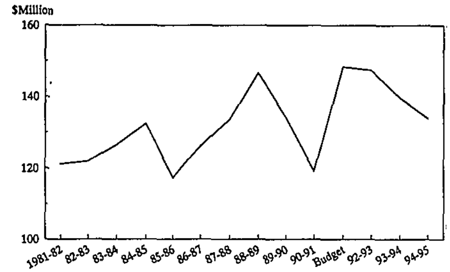
Assistance is provided to industry for Innovative Training Projects related to award restructuring. Recent emphasis has been on developing competency-based training models and skills training in rural areas. In conjunction with industry, TAFE and State/Territory Governments, the Commonwealth also provides assistance to industry to upgrade workforce skills and to assist with the development and expansion of industry skill centres to deliver industry and enterprise based training.

Under the Industry Training Services program, the Government funds the national network of tripartite industry training committees, foundations and industry organisations to develop improved training arrangements. As a response to the need to achieve a nationally coordinated and consistent approach to training, the Commonwealth contributes to the operation of the National Training Board. Total outlays on Skills Training are expected to increase to $46.5m in 1991-92 (a real increase of 44.3%).

Trends

Real outlays on Vocational and Industry Training (see Chart 3) increased to 1984-85 and declined from 1984-85 to 1985-86 during recovery from the effects of the 1982-83 recession. From 1985-86 until 1988-89 there was an increase in outlays reflecting the implementation of ATS, which commenced in 1985, and growth in the numbers of apprentices. The sharp decline in outlays in 1989-90 reflected the revised payments structure of the trade training program, rather than reduced numbers of people assisted. In 1990-91 this decline was compounded by lower numbers of apprentices and trainees due to the economic downturn. The increase in outlays in the budget is mainly due to the increased funding for pre-vocational training places to offset the decline in apprentice and trainee intakes. The pattern of spending is expected to stabilise after 1992-93.

Chart 3. Outlays on Vocational and Industry Training (1984-85 prices)



7C.2 LABOUR MARKET ASSISTANCE TO JOBSEEKERS AND INDUSTRY

7C.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Assistance to Jobseekers and	$m	315.3	514.1	545.9	509.8	483.5
Industry	%	16.6	63.1	6.2	-6.6	-5.2
Aboriginal Employment Assistance	$m	85.1	96.5	104.5	110.5	113.9
	%	8.3	13.4	8.3	5.7	3.1
TOTAL	$m	400.4	610.6	650.4	620.3	597.4
	%	14.7	52.5	6.5	-4.6	-3.7

The Government funds a range of activities to improve the employment prospects of unemployed persons and those in industries facing significant economic adjustment.

Assistance to Jobseekers and Industry

This item consists of a number of components designed to assist the unemployed, particularly the long-term unemployed, to obtain and sustain employment. To maximise the effectiveness of assistance, a range of programs accommodates the needs of individual jobseekers. These include:

- training programs which are designed to increase opportunities for participants to obtain and to upgrade skills relevant to current and future labour market requirements. These programs include:
  - JOBTRAIN, which assists disadvantaged jobseekers to obtain employment or proceed to further eduction or training by providing short-term vocational training closely linked to individual needs and the local labour market;

- — Skillshare, which provides grants to nonprofit community groups for structured skills training aimed at long-term unemployed and particularly disadvantaged jobseekers. As announced in March 1991, Skillshare will be expanded, costing an additional $15.9m in 1991-92 and $15.8m in 1992-93;
- — the Special Intervention program which commenced on 1 January 1991 and provides assessment of and remedial training for individuals facing specific employment barriers such as English literacy, language and other learning difficulties (an additional $8.9m has been provided in 1991-92 to expand the program); and
- — Job Search Training, which consists of Job Clubs and Job Search Training Courses. Job Clubs provide intensive training courses on job seeking skills while Job Search Training Courses involve formal course work with a TAFE or community group;

- wage subsidies to assist the long-term unemployed and other disadvantaged groups to obtain employment. These subsidies include:
  - — JOBSTART, which facilitates the entry of long-term unemployed to employment by the provision of temporary wage subsidies to private sector employers; and
  - — JOBSKILLS, a new initiative which commenced on 1 July 1991 and combines work experience in the community sector and training for people unemployed for 12 months. Decisions in both the March 1991 Economic Development Statement and the Budget allocated a total of $43.6m to JOBSKILLS in 1991-92, $44.8m in 1992-93 and $2.8m in 1993-94;
- assistance to unemployed persons with the costs of obtaining and maintaining a job:
  - — the Mobility Assistance Scheme provides fares and relocation support to allow jobseekers access to training and job opportunities which are not locally available; and
- income support and training to assist unemployed people to set up small business ventures:
  - — Self Employment Assistance, which consists of the NEIS and Self Start.

This component also includes a range of labour market measures through the Office of Labour Market Adjustment (OLMA). OLMA monitors structural change and, if required, provides packages of assistance (wage subsidies, training and relocation assistance) for workers displaced from designated industries and regions.

The sum of $30.7m has been made available in 1991-92 for Labour Market Adjustment Training Arrangements and the residual of a number of specific labour adjustment packages including Heavy Engineering and Coal. In addition, $3.9m is included in 1991-92 for the Queensland Wet Tropics Labour Market Adjustment Package which is administered through the Department of the Arts, Sport, the Environment, Tourism and Territories.

Significant measures announced in the March 1991 Economic Development Statement include:

- $2.8m in 1991-92 for expansion of Labour Market Adjustment Activity into depressed labour markets, that will provide assistance to retrenchees from particular industries and regions;
- the introduction of the Training And Skills Program (TASK) for potential retrenchees of companies who have formally notified an intention to undertake large scale retrenchments, or sought expressions of interest for voluntary redundancy ($16.2m in 1991-92, rising to $26.6m in 1992-93);
- $4.4m for the Passenger Motor Vehicles Labour Adjustment Package in 1991-92 to assist workers whose employment has been affected by passenger motor vehicle industry restructuring; and
- $0.2m in 1991-92 and 1992-93 for a pilot Jobseeker Upgrade Program to assist companies overcome skill shortages by upgrading the skills of existing employees.

Employment and training assistance to disadvantaged young people under the Youth Social Justice Strategy is included in this subfunction. Additional funds of $1.7m have been provided in 1991-92 for this initiative.

Participants in any formal labour market program may receive income support in the form of Job Search Allowance or NEWSTART allowance under the provisions of Formal Training Assistance (FTA) as well as assistance with other costs such as books, equipment and living away from home in order to undertake training. Sole parent pensioners and participants 21 years and over may receive an additional training component of $30 a week. The costs of FTA are included within the estimates for the relevant programs.

Components of Assistance to Jobseekers and Industry

Program		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
JOBTRAIN	$m	142.8	137.5	150.1	155.8	161.8
JOBSTART	$m	40.8	93.8	99.5	104.9	104.9
JOBSKILLS	$m	0.0	45.5	48.3	2.7	0.0
Jobsearch Training	$m	10.3	10.1	12.4	12.9	13.4
Access Assistance	$m	0.8	30.6	32.8	34.2	35.6
Self Employment Assistance	$m	12.2	22.3	21.6	22.5	23.4
Skillshare	$m	90.2	119.7	122.7	117.8	115.1
Mobility Assistance	$m	4.5	9.2	9.5	9.8	10.1
Industry Labour Adjustment	$m	10.9	34.6	41.1	42.0	14.7
Youth Affairs Grants	$m	3.0	5.1	5.1	4.9	4.6
Training & Management Skills	$m	0.0	2.2	2.2	2.3	0.0
Industry Training	$m	0.0	3.4	0.5	0.0	0.0
TOTAL	$m	315.3	514.1	545.9	509.8	483.5

Recent growth is largely due to the implementation of the Active Employment Strategy on 1 July 1991. Long-term unemployed (those unemployed for more than 12 months) are now required to enter into agreements with the CES to undertake job search and training activity. Increased program expenditure to provide assistance to this group is reflected in these estimates.

Outlays on Assistance to Jobseekers and Industry will increase by $198.8m (a real increase of 57.9%) in 1991-92 with a further increase of $31.8m (a real increase of 2.1%) expected in 1992-93.

Aboriginal Employment Assistance

Employment and training assistance provided to Aboriginals is a key feature of the Aboriginal Employment Development Policy (AEDP). The AEDP aims to improve income and employment outcomes for Aboriginal and Torres Strait Islander people through wage subsidies for public sector training and on-the-job private sector training, formal training through vocationally oriented courses, special projects for job skills development within communities and subsidised work experience.

Over the period 1981-82 to 1990-91, outlays rose steadily each year, reflecting both the unusually disadvantaged position Aboriginal and Torres Strait Islanders have in the labour market and increasing Government emphasis on programs designed to improve employment outcomes.

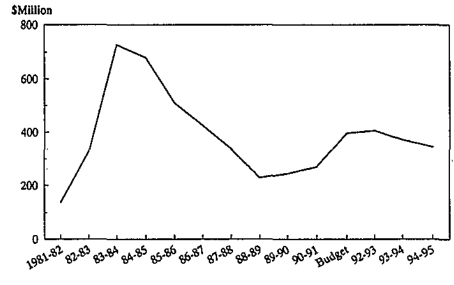
Outlays are expected to grow by 9.8% in real terms in 1991-92, reflecting an increase in the number of training places from 13 623 in 1990-91 to an expected target of between 14 000 and 15 000 in 1991-92. Specific training will be provided at a cost of $5.4m over the next four years to accompany the expansion of the Community Development Employment Projects Scheme (referred to in *4. Social Security and Welfare*).

In addition the Government has allocated $2.8m in 1991-92, rising to $4.9m in 1992-93 and $6.1m in 1993-94, for employment assistance and training to encourage greater Aboriginal involvement in the construction and maintenance of projects developed under the National Aboriginal Health Strategy. Increased resources have been provided to enhance Aboriginal career opportunities in the Australian Public Service ($0.9m per year) and local Government ($1.1m in 1991-92, $2.1m in 1992-93, $2.2m in 1993-94 and $2.3m in 1994-95). Other outlays on Aboriginal programs are recorded under Aboriginal Advancement programs within *4. Social Security and Welfare* and *2. Education*.

Trends

Chart 4 shows variations in outlays on Labour Market Assistance to Jobseekers and Industry since 1981-82 and illustrates the changes in this subfunction in response to changing unemployment levels discussed earlier under Major Policy Changes.

Chart 4. Outlays on Labour Market Assistance to Jobseekers and Industry
(1984-85 prices)



7C.3 INDUSTRIAL RELATIONS

7C.3		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Industrial Relations Development	Sm	61.0	76.1	75.0	47.8	50.2
and Advice	%	12.0	24.8	-1.5	-36.2	4.8
Industrial Relations Conciliation	Sm	35.4	38.2	38.8	37.8	38.6
and Arbitration	%	9.6	8.0	1.7	-2.7	2.2
Special Industry Services	Sm	77.4	66.4	62.4	23.4	23.4
	%	39.3	-14.2	-6.0	-62.5	.
Trade Union Training	Sm	9.5	9.7	10.1	10.4	10.9
	%	5.8	2.1	4.8	2.8	4.9
Occupational Health and Safety	Sm	17.9	18.5	19.4	18.8	19.2
	%	-8.0	3.6	4.8	-3.2	2.3
TOTAL	Sm	201.1	208.9	205.7	138.2	142.3
	%	17.8	3.9	-1.5	-32.8	3.0

This subfunction covers outlays on programs in the Industrial Relations portfolio.

Industrial Relations Development and Advice

Costs associated with the provision of advice by DIR to the Minister, Commonwealth authorities, industry and unions on industrial relations matters, including advice to the Government as employer in the public sector, are covered under this item. Also included is the Affirmative Action Agency ($1.6m in 1991-92), established in 1986 to improve the employment status of women.

To promote workplace reform in the private and public sectors the Workplace Reform Program was increased in the March 1991 Economic Development Statement by $4.9m in 1991-92 and $6.9m in 1992-93, bringing the total allocation for each year to $10.0m. The Statement also provided funding of $10m in 1991-92 and $15m in 1992-93 for the

Best Practice Demonstration Program, which is designed to promote a new workplace culture in Australia, and an additional $1.5m for financial assistance to promote union rationalisation. The sum of $0.5m has been included in the 1991-92 budget to provide ongoing funding for the Awards Management Program which commenced in 1990-91. The program is designed to assist award restructuring and compliance. In addition, $0.1m has been provided to assist with the ratification of the ILO convention. Other program activities include remuneration tribunals training, research, publications and industry seminars.

Industrial Relations Conciliation and Arbitration

Under this item are outlays for the operation of the Australian Industrial Relations Commission ($38.2m in 1991-92). This includes outlays for implementing the recommendations of the Gleeson Committee review and the initiatives directed towards facilitating union rationalisation.

Special Industry Services

This item involves the administration of legislation for the financing of employee entitlements in the coal mining industry and on the waterfront. Costs are offset by levies on black coal production and waterfront employers under the relevant legislation.

Trade Union Training

The Trade Union Training Authority ($9.7m in 1991-92) plans and undertakes trade union training through State based training centres and a residential training college at Albury-Wodonga.

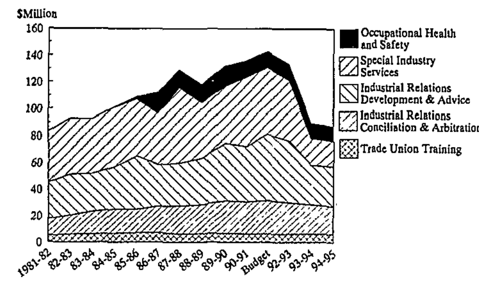
Occupational Health and Safety

The objective of the National Occupational Health and Safety Commission ($18.5m in 1991-92) is to provide a national forum for consultation between employers, unions and State and Commonwealth Governments, and to develop policies, strategies and standards on occupational health and safety.

Trends

Outlays have increased since 1984-85 in response to an increased emphasis by Government on workplace reform, such as the Workplace Reform Program and the Best Practice Demonstration Program, and industrial relations reform, such as the establishment of the Industrial Relations Commission and union rationalisation. Cessation of funding for several of these programs is reflected in the fall in the forward estimates beyond 1992-93.

Chart 5. Industrial Relations Outlays by Composition



7C.4 IMMIGRATION

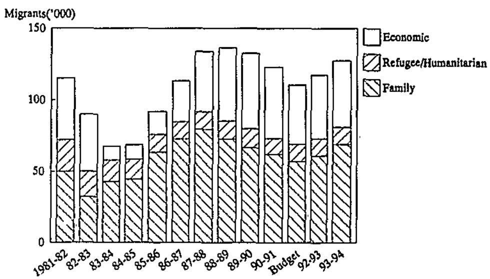
		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Permanent and Temporary Residents	$m	51.8	53.6	53.4	52.6	52.7
	%		3.5	-0.4	-1.5	0.2
Students, Visitors & Entry	$m	27.7	28.4	28.2	27.3	27.4
	%		2.5	-0.7	-3.2	0.4
Refugees, Humanitarian & Special	$m	8.7	18.9	16.9	13.9	11.9
Assistance	%		117.2	-10.6	-17.8	-14.4
Review	$m	8.7	8.2	8.0	7.2	7.3
	%		-5.7	-2.4	-10.0	1.4
Compliance	$m	22.2	29.9	29.7	28.8	29.0
	%		34.7	-0.7	-3.0	0.7
Citizenship	$m	5.1	4.8	4.6	3.8	3.9
	%		-5.9	-4.2	-17.4	2.6
General Administration	$m	59.2	60.3	60.1	59.2	59.3
	%		1.9	-0.3	-1.5	0.2
TOTAL	$m	183.4	204.1	201.0	192.8	191.5
	%		11.3	-1.5	-4.1	-0.7

Outlays on this subfunction cover those activities of the Department of Immigration, Local Government and Ethnic Affairs (DILGEA) concerned with management of the migration program, visa issue and entry facilitation. Other DILGEA outlays associated with migrant settlement are covered under 2. *Education* and '4.6 Other Welfare Programs' of 4. *Social Security and Welfare.* DILGEA local government outlays are under 5. *Housing and Community Amenities.*

Permanent and Temporary Residents

The annual migration program for permanent entry has been set at 111 000 for 1991-92, a fall of 12% from 1990-91. Selection of persons for migration to Australia is made on the basis of family reunion, contribution to the economic development of Australia or humanitarian grounds (see Chart 6).

Chart 6. Migration Program - Overview



For the 1991-92 migration program, cessation of the Business Migration Program (BMP) will save $8.1m over four years. Additional funding of $3.3m over the next four years has been provided for other changes to the administration of the program including financial assistance to skilled independent migrants from Eastern Europe and the establishment of a new humanitarian "special assistance category". A further $1.2m in 1991-92 and $3.1m in the forward years has been made available for administration of stricter criteria for processing applications for permanent residence on spouse/de facto grounds.

Temporary resident entry policy seeks to facilitate the entry, for a maximum stay of four years, of people who can contribute to the economic and cultural development of Australia. This allows for the entry of, amongst others, skilled persons, sports men and women, entertainers and working holiday-makers. During 1990-91, 106 000 temporary resident visas were granted.

Refugees, Humanitarian & Special Assistance

As a signatory of the United Nations Convention on Refugees, Australia is obliged to consider all applications for refugee status and to respond to humanitarian and special needs. Eleven thousand places have been reserved in the 1991-92 migration program for persons selected *off-shore* on a refugee or humanitarian basis. Successful *on-shore* applicants (not included in migration program numbers) are issued a special four year

Temporary Entry Permit granting them access to a variety of services including Special Benefit, Family Allowance, Family Allowance Supplement, Medicare, labour market programs, English language training and education.

In 1990-91 there was a dramatic increase in the number of on-shore refugee applications. Over 17 000 applications are currently on hand (over 60% from nationals of the People's Republic of China). A high rate of application is expected to continue for at least the next two years, accounting for the increase in outlays under this category. New procedures for the Determination of Refugee Status (DORS) process were implemented in December 1990 including the creation of the Refugee Status Review Committee.

Review

Review of migration decisions is carried out by the Migration Internal Review Office and the independent Immigration Review Tribunal. The review subprogram provides independent review of visa and entry permit decisions and enhances the lawfulness, equity and consistency of decision making.

Compliance

Funding is provided for investigations of immigration fraud and the apprehension, prosecution and deportation of persons in breach of immigration legislation (eg illegal migrants, those breaking conditions of entry). In 1990-91 the Government introduced enhanced compliance and control arrangements, with additional funding of $9.5m ($37.7m over four years). Location of illegal entrants increased from 2896 in 1989-90 to 9253 in 1990-91. A further increase of $6.9m in 1991-92 and $8.0m in the forward years has been provided. In addition the sum of $7.0m in 1991-92 and $4.6m in 1992-93 has been provided for a holding centre for unauthorised arrivals.

Trends

Over the period 1981-82 to 1990-91, outlays on immigration grew significantly in real terms (115%). These outlays have been offset by rising levels of cost recovery from fees charged for processing immigration applications. In 1991-92, 41% of outlays under this subfunction will be recovered by such fees. The fees are classified as revenue and appear in Statement 4 of this document.

The outlook for the next few years is for a return to higher levels of migration following a reduction in 1990-91 and 1991-92. Outlays on immigration in the forward years will continue to be sensitive to the number of on-shore asylum claimants and the need for increased compliance activity.

7C.5 EMPLOYMENT SERVICES

Outlays in this category relate to the Labour and Employment component of running costs of the Employment, Education and Training Portfolio of which the Commonwealth Employment Service (CES) is the major component.

The key measures are:

- an increase in outlays on administration of measures which were announced in the March 1991 Economic Development Statement ($6.3m in 1991-92 and $10.0m over the forward years);

- an increase of $2.4m in 1991-92 (rising to $3.8m in 1993-94) for the implementation of the Active Employment Strategy/Disability Reform Package; and
- further increases in outlays for administration of budget measures ($1.6m in 1991-92 and $4.7m over the forward years).

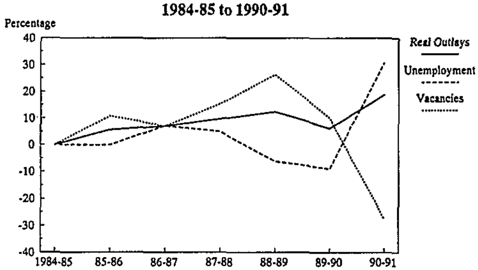
Overall, outlays are estimated to be $502.3m (a real increase of 2.9% over 1990-91). This is primarily due to the commencement of the Active Employment Strategy and additional measures shown above designed to assist people during the downturn. Increases are also due to the National Wage Case, further anticipated increases in unemployment levels in 1991-92, particularly of the longer term unemployed and increased property operating expenses. Total receipts from employer charging in the network are estimated to offset CES outlays in 1991-92 by $2.4m ($2.2m in 1990-91).

Trends

Outlays on Employment Services grew steadily (averaging 6.3% a year in real terms) over the period from 1980-81 to 1990-91. Initially, this growth reflected expansion of the CES following the Norgard Review and rapid growth in unemployment in the early 1980s.

Chart 7 compares total real outlays on Employment Services to numbers of unemployed and vacancies. It illustrates the steady rise in outlays until 1988-89 during a period of generally falling unemployment rates and increasing vacancy levels associated with a buoyant labour market. In 1989-90 falling vacancies were the major contributor to the 6.2% reduction in growth. Outlays again increased in 1990-91 reflecting growth in unemployment and increased provision of services to jobseekers. Outlays will increase further in 1991-92, mainly reflecting the commencement of the Active Employment Strategy and the administrative costs associated with measures announced in the March 1991 Economic Development Statement.

Chart 7. Employment Services Comparison of Outlays to Unemployment and Vacancies Cumulative Real Growth 1984-85 to 1990-91



Staffing of the CES network is based on a formula constituted around forecasts of selected workload indicators, including vacancies notified by employers and the number of jobseekers registering for work. A review of the formula undertaken in 1990-91 resulted in a number of revisions to improve the matching of workload requirements and CES resourcing. The modifications will make CES operations more consistent with running costs guidelines and will provide incentives for improved resource efficiency.

7D. OTHER ECONOMIC SERVICES

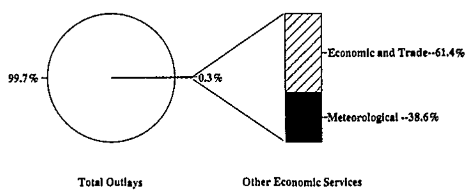
OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
7D.1	Economic and Trade Regulation	$m	164.7	177.8	194.8	172.0	173.3
		%	171.4	7.9	9.6	-11.7	0.8
7D.2	Meteorological Services	$m	104.0	111.9	112.4	109.4	112.4
		%	9.8	7.6	0.5	-2.7	2.8
	TOTAL	$m	268.7	289.7	307.3	281.3	285.7
		%	72.9	7.8	6.1	-8.4	1.5

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C: Contingency Reserve.*

- **Outlays on Other Economic Services are expected to increase by $21.0m or 7.8% (an increase of 4.4% in real terms) in 1991-92 mainly reflecting:**
  - **— full year funding for the Australian Securities Commission (ASC);**
  - **— revised administrative arrangements for the treatment of superannuation recoveries by the Patents, Trademarks and Designs Offices; and**
  - **— increased expenditure by the Bureau of Meteorology (BOM), related to relocation of its Sydney and Perth Offices and increased charges for space occupied at airports.**

Chart 1. Other Economic Services
Proportion of Total Outlays and Function
1991-92



- **Outlays on Other Economic Services account for 0.3% of total Commonwealth outlays, the same level as 1990-91.**

- **Existing policies imply an overall real decrease of 12.4% over the forward years mainly due to the phasing out of establishment costs associated with the ASC.**
- **Measures have added a total of $1.6m to outlays in 1991-92 and $3.4m over the forward years.**

MEASURES TABLE

	Effect on Outlays			
	1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Increases				
Bureau of Meteorology Capital Funding Program	0.9	0.8	0.5	0.7
Contribution to IMPACT Project for computer model research	0.2	0.0	0.0	0.0
Research funding for economy wide modelling at Monash University	0.2	0.2	0.2	0.0
Environment Protection Agency - Resources for Trade Practices Commission	0.3	0.3	0.3	0.3

PURPOSE

This function covers outlays on economic services which are not included in other functional classifications. These include: patents and trademarks administration; industry analysis and review; the regulation of monopolies and restrictive trade practices; price control and justification; regulation of companies and securities; other forms of business regulation; meteorological services and other technical services not allocable to a specific industry.

NATURE OF OTHER ECONOMIC SERVICES OUTLAYS

Outlays mainly comprise the operational costs of the supplying agencies.

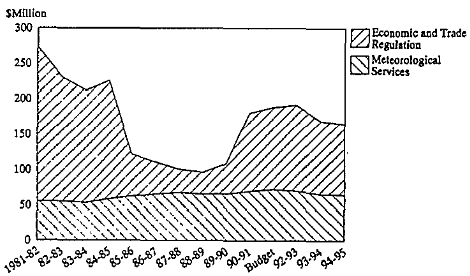
TRENDS IN OTHER ECONOMIC SERVICES OUTLAYS

Variations in outlays for this function over the last ten years were largely driven by policy changes affecting the Economic and Trade Regulation subfunction (see Chart 2 below). Between 1981-82 and 1990-91 outlays declined by 34.3% in real terms mainly due to a large reduction in payments made under the Petroleum Products Freight Subsidy Scheme to subsidise the transport of eligible petroleum products to remote locations ($147.5m in 1981-82 down to $3.2m in 1990-91). This reduction was partially offset by the establishment of the Australian Securities Commission (ASC) in 1990-91.

Outlays on meteorological services over the period 1981-82 to 1990-91 increased steadily in real terms, at an average rate of about 2.7% a year, reflecting essentially the expanding operation of BOM and the attribution of costs not previously borne by BOM.

Outlays in 1991-92 are expected to increase in real terms from the 1990-91 level. Subsequently, outlays are expected to decrease as the establishment costs of the ASC are fully met.

Chart 2. Other Economic Services (1984-85 prices)



1990-91 OUTCOME

The 1990-91 outcome was consistent with the budget estimate of $268.7m. No item varied significantly from budget forecasts.

SUBFUNCTION DETAIL

7D.1 ECONOMIC AND TRADE REGULATION

7D.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Patent, Trade Marks and	$m	-5.0	-0.2	-0.2	-0.3	-0.3
Designs Offices	%	-23.7	-96.3	29.9	15.1	-1.8
Industry Commission	$m	15.5	16.7	16.9	16.6	16.8
	%	9.1	7.8	0.8	-1.7	1.3
Trade Practices and Consumer	$m	22.6	22.7	21.9	21.3	21.9
Affairs	%	2.8	0.1	-3.4	-2.7	2.7
Regulation of Companies	$m	109.0	118.9	139.1	117.8	120.9
and Securities	%	na	9.1	17.0	-15.3	2.6
Other	$m	22.6	19.7	17.2	16.5	14.0
	%	59.2	-12.8	-12.6	-3.9	-15.6
TOTAL	$m	164.7	177.8	194.8	172.0	173.3
	%	171.4	7.9	9.6	-11.7	0.8

Outlays covered mainly relate to the operational costs of agencies involved in various forms of business regulation.

Patent, Trade Marks and Designs Office

The Patent, Trade Marks and Designs Offices administer the national industrial property system. The Offices' primary functions are to examine patent, trade mark and design applications and to grant property rights to successful applicants. The full cost of providing the Offices' industrial property services are recovered through fees and charges.

The rise in outlays mainly reflects revised administrative arrangements for the treatment of superannuation recoveries which will now be paid directly to the Retirement Benefits Office.

Industry Commission

The Industry Commission (IC) is the Government's major review and inquiry body regarding industry matters. Funding for the IC has been increased since the 1990-91 Budget to accommodate its expanded workload flowing from its establishment on 9 March 1990. The IC incorporates the functions of the Industries Assistance Commission, the Inter-State Commission and the Business Regulation Review Unit.

Contributions totalling $0.4m will be made to universities in 1991-92 for the development of econometric models which will have application to policy issues.

Trade Practices and Consumer Affairs

This item provides for the running costs of the Trade Practices Commission (TPC), the Trade Practices Tribunal, the Prices Surveillance Authority, the Federal Bureau of Consumer Affairs and the National Consumer Affairs Advisory Council. Measures provide additional resources for the TPC related to the establishment of the Environment Protection Agency (*$0.3m in 1991-92 and in each of the forward years*). The TPC will monitor industry claims that products are environmentally friendly.

Regulation of Companies and Securities

This item mainly provides for the operating costs of the ASC. From 1 January 1991 a national scheme of companies, securities and futures regulation was implemented, replacing functions previously undertaken by the National Companies and Securities Commission and State Corporate Affairs Commissions. The ASC is responsible for the day-to-day administration of the legislation associated with the scheme. These outlays encompass the provision of information and registry services, as well as the enforcement of scheme laws. It is estimated that the ASC will allocate some $71m in 1991-92 to enforcement activities.

Funding for the ASC for 1991-92 is estimated at $129.4m (the figures in the table are net of receipts from certain service charges). This reflects a full year's funding for operations and some establishment costs.

Other

This item covers the National Standards Commission, the Petroleum Products Freight Subsidy Scheme, the Commonwealth's contribution to Standards Australia and to the National Association of Testing Authorities and the operations of the Australian Government Analytical Laboratories trust account. The reduction in outlays in 1991-92 mainly reflects one off costs in 1990-91 in respect of fitting out new leased premises in Melbourne.

7D.2 METEOROLOGICAL SERVICES

This category covers the running costs of BOM and the Ionospheric Prediction Service, *net of recoveries for their activities*. BOM provides a range of climate data, monitoring, information and advisory services for the general public and specialist users such as the aviation industry. It also undertakes research into the nature and mechanisms of Australian and southern hemisphere climate, including research into the greenhouse effect. The Ionospheric Prediction Service predicts the state of the ionosphere for users of radio communications systems, including the Defence services and telecommunications authorities.

Outlays in 1991-92 show a real increase from the 1990-91 level mainly due to increased funding associated with the Bureau's capital funding program as well as increased expenditure related to relocation of BOM's Sydney and Perth offices and increased charges for space occupied at airports. Outlays are relatively stable, in nominal terms, over the forward years.

8. GENERAL PUBLIC SERVICES

This grouping covers a range of general public services and activities relating to the organisation and operation of the Commonwealth Government including legislative and administrative services, administration of the courts and law enforcement, general and scientific research, and foreign affairs and overseas aid.

8A. LEGISLATIVE SERVICES

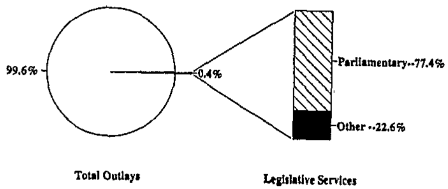
OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 *Estimate*	1993-94 *Estimate*	1994-95 *Estimate*
8A.1	New Parliament House	$m	-4.6		-	-	-
	Construction	%	-118.5	-100.0	na	na	na
8A.2	Parliamentary Outlays	$m	263.9	276.1	278.8	283.9	290.3
		%	9.1	4.6	1.0	1.8	2.3
8A.3	Other Legislative Services	$m	90.6	80.7	153.1	76.0	85.7
		%	-28.0	-10.9	89.6	-50.3	12.7
	TOTAL	$m	349.9	356.8	431.9	359.9	376.0
		%	-10.8	2.0	21.1	-16.7	4.5

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Total Legislative Services outlays are expected to increase by $6.9m or 2% in 1991-92 (1.3% reduction in real terms) and decrease by an average 2.1% a year in real terms over the forward estimates.**
- **The real reduction in 1991-92 reflects outlays ($11m) on the electoral roll review undertaken in 1990-91.**
- **The sharp rise in outlays in 1992-93 is due to the inclusion of funding for the Federal election scheduled for early 1993.**

Chart 1. Legislative Services
Proportion of Total Outlays and Function
1991-92



MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Increases				
Parliamentary Catering Service - costs of contracting out (excluding superannuation)	1.4	0.0	0.0	0.0
Parliamentary Catering Service - operating subsidy	2.0	1.3	1.0	0.6
Increased printing costs of Parliament	1.4	0.7	0.7	0.7
1993 Inter-Parliamentary Union Conference	0.0	0.0	1.3	0.0
Conservation and Redevelopment of Government House	0.4	0.4	0.4	0.4
Supplementation for Industrial Elections	0.4	0.4	0.4	0.4
Extension of Aboriginal and Islander Electoral Information Service	0.2	0.2	0.2	0.2
Referendum on ACT Electoral System	0.1	0.0	0.0	0.0
Cost sharing of ACT Election	0.4	0.1	0.0	0.0
Extend parliamentary communication network to electorate offices	1.5	2.4	3.1	3.8
Contribution to Constitutional Foundation	0.2	0.0	0.0	0.0
Parliamentary library training	0.1	0.1	0.1	0.1
Funding for Parliamentary Information Systems Office and Sound & Vision Office	0.1	-0.1	-0.1	-0.1
Parliament House Management and Maintenance System - additional ongoing funding	0.2	0.2	0.2	0.2
Continuation of the Citizenship Visits Program	0.6	0.6	0.6	0.6
Spot audit of political parties' funding	0.2	0.2	0.2	0.2
Funding of federal election campaigns	0.0	4.5	0.0	0.0

PURPOSE

The Legislative Services function funds parliamentary and electoral administration, infrastructure and support services.

NATURE OF LEGISLATIVE SERVICES OUTLAYS

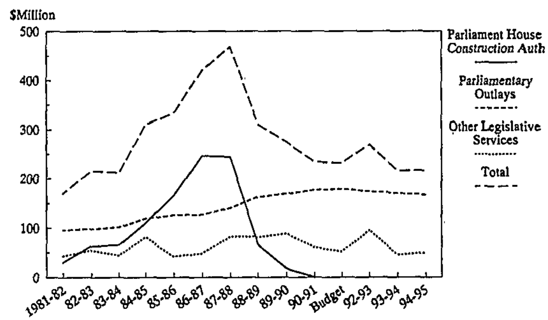
Outlays cover services provided by the Parliamentary Departments (the Senate, House of Representatives, Parliamentary Library, Parliamentary Reporting Staff and Joint House), the Parliament House Construction Authority (PHCA), the Australian Electoral Commission (AEC), and the Department of Administrative Services (DAS) for parliamentary and ministerial staff and services.

TRENDS IN LEGISLATIVE SERVICES OUTLAYS

Total outlays over recent years are distorted by outlays on the construction of the new Parliament House, which peaked in 1986-87. Outlays are also affected by the cost of federal elections, referenda and the biennial review of the electoral rolls.

Ongoing outlays, excluding the cost of constructing the new Parliament House, increased by 58% in real terms over the period 1981-82 to 1990-91 (see Chart 2). The major contributing factor was the occupation of the new Parliament House and the associated provision of services in the new building. The size, complexity and configuration of the building require a higher level of support infrastructure than the old Parliament House.

Chart 2. Legislative Services
(1984-85 prices)



1990-91 OUTCOME

The outcome for 1990-91 was $4m (1%) less than the original estimate, reflecting lower than expected outstanding accounts from the March 1990 Federal Election, and repayment to Consolidated Revenue Fund (CRF) of the unrequired balance of the PHCA's bank accounts.

SUBFUNCTION DETAIL

8A.1 NEW PARLIAMENT HOUSE CONSTRUCTION

Outlays in 1990-91 reflected repayment of the unrequired balance of the bank account following completion of the PHCA's remaining administrative and statutory tasks.

8A.2 PARLIAMENTARY OUTLAYS

Parliamentary outlays cover services by the Parliamentary Departments and DAS to parliamentarians. Support services include: Hansard; advisory, procedural, research and administrative support; library; communications support; building and facilities management; and travel within Australia and overseas.

The Presiding Officers of the Parliament have decided to contract out catering services in Parliament House, costing $1.4m in 1991-92 (chiefly redundancy costs) but saving ongoing operating costs of up to $1.6m a year by 1994-95.

The Government has agreed to the installation of a computer link between the electorate offices of Members and Senators and the Parliament House computer network. This initiative will enhance the operations of the electorate offices and add $1.5m to outlays in 1991-92, rising to $3.8m by 1994-95.

The Government will continue the Citizenship Visits Program at a cost of $0.6m a year. The program, which has been trialled since early 1990, provides financial assistance to school groups from remote locations to visit the Federal Parliament.

The Remuneration Tribunal recently approved an increase in postage entitlements for parliamentarians, backdated to 1 July 1990. This will add $6m to outlays in 1991-92 and $3m a year thereafter.

The Parliament will be provided $1.3m in 1993-94 to host the 1993 Conference of the Inter-Parliamentary Union.

8A.3 OTHER LEGISLATIVE SERVICES

Other Legislative Services covers the AEC; support services for the Governor-General and former Governors-General; maintenance of the Prime Minister's official residences at the Lodge and Kirribilli House and the Governor-General's residences at Government House and Admiralty House; and drafting of Bills by the Office of Parliamentary Counsel.

The ongoing level of outlays has been stable since 1981-82. However, total outlays are affected from year to year by provision for elections, referenda and the biennial habitation review of the electoral rolls.

The Government has provided an additional $0.2m a year from 1991-92 to the AEC to enhance the Aboriginal and Islander Electoral Information Service. An additional $1.2m will be provided in 1991-92 to the AEC to undertake the redistribution of the electoral boundaries. This exercise commenced in 1990-91 and is expected to cost $3.5m.

Additional funding of $0.6m a year has been provided to the Office of the Governor-General for conservation and development of Government House property. This will be partially offset by a $0.2m a year reduction in running costs.

The Constitutional Conference held in April 1991 recommended the establishment of a Constitutional Foundation to further the public process of education, development and review of the Australian Constitutional System. In 1991-92 $0.2m has been provided as the Commonwealth's contribution to the establishment of the Foundation.

Provision has been made in 1992-93 for a Federal election scheduled by early 1993. This includes an additional $4.5m for the public funding of election campaigns for Senate candidates following the Government's decision to increase assistance to the same level as for House of Representatives candidates.

8B. LAW, ORDER AND PUBLIC SAFETY

OVERVIEW

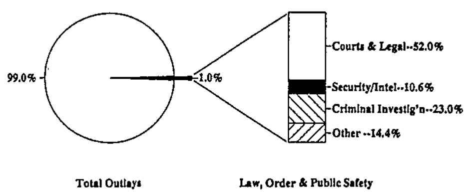
			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
8B.1	Courts and Legal Services	$m	368.2	510.4	464.2	422.5	377.6
		%	9.6	38.6	-9.0	-9.0	-10.6
8B.2	Security and Intelligence	$m	99.2	104.6	101.7	98.6	100.8
	Services	%	-2.6	5.4	-2.7	-3.1	2.2
8B.3	Criminal Investigation	$m	186.3	225.5	226.3	219.4	226.7
		%	-22.8	21.1	0.4	-3.1	3.4
8B.4	Other Law, Order and	$m	105.2	141.5	116.2	115.3	116.7
	Public Safety	%	-3.4	34.5	-17.9	-0.8	1.2
	TOTAL	$m	758.9	982.0	908.5	855.8	821.8
		%	-3.7	29.4	-7.5	-5.8	-4.0

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Outlays are expected to increase by $223.0m or 29.4% (a rise of 25.4% in real terms) in 1991-92. A decrease of 25.6% in real terms is currently projected over the forward years.**

- **Outlays for Law, Order and Public Safety in 1991-92 account for 1.0% of total Commonwealth outlays, up from 0.9% in 1990-91.**

Chart 1. Law, Order & Public Safety
Proportion of Total Outlays and Function
1991-92



- **In addition to measures, the main sources of growth in 1991-92 are:**
  - **— the Commonwealth Courts Construction Program ($65.5m);**

- — **carry forward of unspent funds and further one-off increases for the Legal Office Information System (LOIS)($19.4m) and carryover of unspent funds for prosecutions under war crimes legislation ($12.9m);**
- — **declining receipts due to reduced workload and payment of redundancies for Australian Protective Services (APS) ($15.9m); and**
- — **carry forward of 1990-91 Budget measures and other unspent moneys and increases in administration costs and legal expenses for the Australian Federal Police (AFP) ($11.6m).**

- **The expected decline in outlays over the forward years is largely due to:**
  - — **the projected completion of current projects under the Courts Construction Program; and**
  - — **completion of the installation of LOIS.**

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
AG's Departmental Running Costs	-0.2	-0.2	-0.2	-0.2
Increases				
Augment Cash Transaction Reports Agency computer network to monitor international telegraphic transactions	4.3	8.8	4.0	4.5
Computing facilities - Australian Bureau of Criminal Intelligence	0.8	0.4	0.5	0.6
Design study for Melbourne court building	5.0	0.0	0.0	0.0
Legal Aid Commissions - Real increase in funding	3.0	2.8	2.9	0.0
Conduct of corporate prosecutions - Director of Public Prosecutions	4.1	0.0	0.0	0.0
Funding for Central/South Pacific Legal Assistance Projects	0.2	0.2	0.2	0.2
Increase in funding for Community Legal Centres	2.4	2.9	3.6	3.7
Replacement Furniture for Federal Court, Melbourne	0.5	0.0	0.0	0.0
Management Improvement Program (including establishment of regional management structure) - Family Court	1.1	0.9	0.9	0.9
Office of Inspector General Intelligence and Security running costs	0.1	0.1	0.1	0.1
Increased funding for On-shore processing of Refugee and Humanitarian Claims	1.8	0.7	0.6	0.5
Aboriginal Deaths in Custody	1.4	0.9	0.7	0.3
Child Support Appeals System	0.0	0.1	0.1	0.1
Increased funding for Sydney Family Law Court building	0.0	10.0	5.6	0.0
Increased funding for Perth Law Courts	6.7	1.2	0.0	0.0
Legal resources for airline sales	0.3	0.2	0.0	0.0

PURPOSE

Commonwealth activity for Law, Order and Public Safety aims to ensure that all Australians have access to appropriate legal services and protection under the law. Outlays primarily relate to the administration and maintenance of law and justice, human rights, civil liberties, and legal services. The function also covers the collection and assessment of information of security and intelligence interest to Australia.

NATURE OF LAW, ORDER AND PUBLIC SAFETY OUTLAYS

These outlays cover courts administration and related legal services, legal aid, law enforcement, other police and criminology support activities, security and intelligence services and a range of public safety activities.

TRENDS IN LAW, ORDER AND PUBLIC SAFETY OUTLAYS

Chart 2. Law, Order and Public Safety (1984-85 prices)

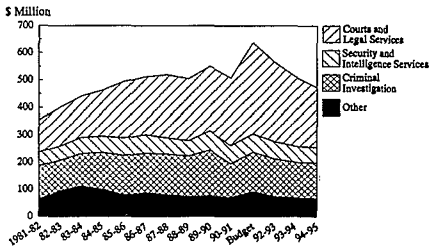


Chart 2 shows that total outlays grew by 43.2% in real terms over the period from 1981-82 to 1990-91 but are projected to fall by 25.6% in real terms over the budget and forward years.

The increase in outlays was due to increased resources for legal aid; expanded facilities and higher administrative costs of Commonwealth courts and tribunals; expansion and higher administrative costs of the AFP; and the establishment, in the mid 1980s, of various budget dependent agencies such as the National Crime Authority (NCA), the Director of Public Prosecutions (DPP), the Human Rights and Equal Opportunity Commission (HREOC) and, more recently, the Cash Transaction Reports Agency (CTRA). Increases were partly offset by the transfer of the ACT policing component of the AFP to the ACT Government in 1990-91. Stabilisation of outlays between 1986-87 and 1988-89 reflects, in part, the introduction of user charging by APS whose costs are consequently reflected against other functions.

The peak in outlays in 1991-92 is due largely to the commencement of work on the Brisbane law courts and to progress on the construction of Sydney and Perth courts, slippage in previous budget measures (installation of LOIS and war crimes prosecutions) and measures announced in the 1991-92 Budget.

The decline over the forward years is mainly due to winding down of current projects under the Courts Construction Program and reduced costs associated with LOIS following installation.

1990-91 OUTCOME

Outlays in 1990-91 were lower than budget forecasts by $40.4m (5.3%), reflecting underexpenditure on war crimes prosecutions ($12.9m); delays in information technology acquisitions ($10.4m); lower than estimated reimbursements to the States for family law services ($6.2m); delays in implementing 1990-91 Budget measures by the AFP ($3.3m); and delays in the regional expansion program of the NCA ($1.7m).

SUBFUNCTION DETAIL

8B.1 COURTS AND LEGAL SERVICES

8B.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
High Court	$m	8.3	9.5	8.4	8.3	8.6
	%	14.7	15.4	-12.2	-0.9	3.3
Other Commonwealth Courts	$m	150.5	241.6	204.2	159.3	127.1
	%	18.8	60.5	-15.5	-22.0	-20.2
Legal Services	$m	76.6	119.0	107.6	106.5	96.8
	%	1.7	55.4	-9.6	-1.0	-9.2
Legal Aid	$m	114.7	128.2	133.0	137.5	134.0
	%	7.9	11.8	3.7	3.4	-2.5
Protection Of Human Rights	$m	18.1	12.1	11.1	10.9	11.2
	%	-10.8	-33.5	-8.1	-1.4	2.6
TOTAL	$m	368.2	510.4	464.2	422.5	377.6
	%	9.6	38.6	-9.0	-9.0	-10.6

These outlays support legal and law related services to the community to protect human rights and facilitate equal access to justice. This is achieved through the funding of legal aid, the facilities and operations of the Federal judiciary and related legal services. The interests of the Commonwealth are also advanced and protected through the provision of legal advice.

High Court

The High Court of Australia is the ultimate appellate court in Australia and is charged with interpreting and upholding the Australian Constitution.

Other Commonwealth Courts

This item covers the running costs of the Family Court of Australia, the Federal Court of Australia, the Supreme Court of the ACT, and operating expenses of the Commonwealth Reporting Service (CRS). The CRS commenced operations on a commercial basis on 1 July 1991 under the trading name AUSCRIPT. Also included is funding for construction of Commonwealth courts.

Measures include: $1.1m for a management improvement program for the Family Court, which is directed towards implementing a regional management structure for the Court as well as the establishment of a Management Information Unit to help improve management within the court and external accountability; $5m for a design study for a new Melbourne court facility; increased funding of $6.7m for the construction of the Perth law courts; and $0.5m for replacement furniture for the Federal Court in Melbourne.

Legal Services

Legal Services encompass the administration of bankruptcies, the running costs of the Australian Government Solicitor (AGS) and the DPP and the operational expenses of the Australian Law Reform Commission.

Measures include an increase in funding of $4.1m in 1991-92 for the DPP to conduct *corporate prosecutions.*

Legal Aid

Commonwealth funding is provided to State and Territory Legal Aid Commissions for provision of legal aid services. The level of contributions have been agreed in legal aid agreements between the Commonwealth and the States and Territories.

In recognition of increased demand for legal services by the disadvantaged, measures include real increases in funding for Legal Aid Commissions of $3m in 1991-92, $2.8m in 1992-93 and $2.9m in 1993-94. Of this, $1m is provided in 1991-92 for significant criminal cases under Commonwealth law. Measures also include funding of $2.4m in 1991-92 rising to $3.6m in 1993-94 onwards for Community Legal Centres.

Protection of Human Rights

This heading encompasses HREOC and the residual funding of the Royal Commission into Aboriginal Deaths in Custody.

Trends

Courts and Legal Services outlays grew by 110.1% in real terms over the period from 1981-82 to 1990-91 (an average of 8.6% a year). Components of growth include:

- the establishment of HREOC in 1981-82 and the DPP in 1983-84;
- funding for the Courts Construction Program over the period 1987-88 to 1990-91; and
- average real funding growth of 7.3% a year for legal aid, declining from a real increase in 1982-83 of 38.8% (largely due to increases in private practitioners costs) to 3.3% in 1990-91.

The sharp rise in funding in 1991-92 results largely from progress on law courts construction, the installation of LOIS and the carry forward of funds for war crimes prosecutions. These increases are partly offset by reductions due to the cessation of the Royal Commission into Aboriginal Deaths in Custody ($7.5m) and the transfer of responsibility for the ACT component of the DPP ($2.1m) to the ACT Government (see 1990-91 Budget Paper No. 1, 9A. *Assistance to Other Governments, nec).*

Outlays are expected to decline over the forward years, mainly reflecting the winding down of current projects under the Courts Construction Program, which includes provision for design work on a Melbourne court building, and completion of the installation of LOIS in 1991-92.

8B.2 SECURITY AND INTELLIGENCE

The primary role of the intelligence agencies covered under this heading (the Australian Security Intelligence Organisation (ASIO), the Australian Secret Intelligence Service and the Office of National Assessments) is to collect and assess information relevant to guard against possible threats to Australia's national interests. Other matters include physical and technical security at overseas posts; counter-terrorist training and equipment; and the operations of the Office of the Inspector-General of Intelligence and Security which is responsible for ensuring that security and intelligence agencies adhere to legal requirements and ministerial directions and guidelines.

Trends

Security and Intelligence outlays grew by about one-third in real terms over the period 1981-82 to 1990-91. This is largely due to increased protective physical and communications security at overseas diplomatic missions and new office automation equipment for ASIO.

Over the budget and forward years, outlays are expected to decline by 14.4% in real terms largely due to completion of new computer system installations.

8B.3 CRIMINAL INVESTIGATION

8B.3		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Australian Federal Police	$m	150.4	171.7	168.3	165.1	170.4
	%	-28.2	14.1	-2.0	-1.9	3.2
Other Criminal Investigation	$m	35.8	53.8	58.0	54.3	56.3
	%	12.9	50.2	7.8	-6.4	3.7
TOTAL	$m	186.3	225.5	226.3	219.4	226.7
	%	-22.8	21.1	0.4	-3.1	3.4

This is a new subfunction including, in addition to the AFP, several organisations previously classified under 8B.4 Other Law Order and Public Safety.

A Confiscated Assets Trust Fund will commence in 1991-92. The bulk of the proceeds from sale of forfeited assets, drug trafficking and other crimes ($1.4m) will be paid into the Fund and expended equally for law enforcement purposes and programs for drug rehabilitation and drug education (see also *3. Health*).

Australian Federal Police

The AFP aims to provide effective law enforcement in the areas of drug trafficking, organised crime, fraud against the Commonwealth and counter terrorism.

Other Criminal Investigation

This element covers police and criminology support activities such as the Australian Bureau of Criminal Intelligence (ABCI), the Australian Institute of Criminology, the NCA and the CTRA.

Measures include $4.3m in 1991-92 and $17.3m over the forward years to augment computer facilities for the CTRA to enable it to monitor international telegraphic transactions and $0.8m for separate computing facilities for the ABCI.

Trends

Outlays in this subfunction increased by 36.8% in real terms over the period 1981-82 to 1989-90 but declined in 1990-91 due to the transfer of funding responsibility for ACT policing to the ACT Government (see 1990-91 Budget Paper No. 1, 9A. *Assistance to Other Governments, nec*). Strongest growth occurred from 1984-85 to 1989-90, partly reflecting the upgrading of the AFP's computer capacity and the recruitment of more than 400 additional police under the Force Development Program at an additional annual cost of $14.5m. The extra capacity is used mainly to bolster the AFP's activities in combating drug-related and organised crime. In addition, industrial award decisions handed down in 1988-89 aimed at increasing the efficiency of the AFP by restructuring the workforce, cost $15.4m in 1990-91 rising to $20.1m from 1991-92 onwards. Real growth in the period also increased as a result of the creation of the NCA (July 1984) and the CTRA (February 1989).

The rise in funding in 1991-92 is mainly due to funding for the CTRA's computer network for monitoring international telegraphic transactions ($4.3m); carry forward of and further increases in funding for the AFP for investigation of matters under the new corporate regulation scheme, capacity for interception of cellular mobile telephones and video and audio recording of interviews ($6.7m); and for the regional expansion of the NCA ($6.3m).

The underlying trend over the forward years shows a reduction of 10.7% in real terms mainly reflecting a reduction in AFP outlays, following one off expenditure in 1991-92 on measures carried forward from 1990-91, and the decline in funding for the computer network of the CTRA following its installation.

8B.4 OTHER LAW, ORDER AND PUBLIC SAFETY

8B.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
General Administration	$m	76.3	87.4	77.8	77.2	77.7
	%	3.2	14.6	-11.0	-0.8	0.7
Coastwatch	$m	16.6	23.8	25.0	25.9	26.9
	%	-1.4	43.1	5.1	3.4	4.1
Other	$m	12.3	30.2	13.3	12.2	12.0
	%	-32.1	145.8	-55.9	-8.3	-1.5
TOTAL	$m	105.2	141.5	116.2	115.3	116.7
	%	-3.4	34.5	-17.9	-0.8	1.2

Outlays cover the administration of the Attorney-General's Department, coastal surveillance and protective and custodial services. Agencies involved in police and criminology support activities previously included under this subfunction, are now shown under 8B.3 Criminal Investigation.

General Administration

This element includes the general administration costs of the Attorney-General's Department other than for 8B.1 Courts and Legal Services and the administration of grants and payments falling under the responsibility of the Attorney-General.

Coastwatch

The Coastwatch unit of the Australian Customs Service is responsible for the aerial surveillance of Australian Coastal and Fishing Zone areas. The program aims to provide early detection of possible smuggling, illegal entry into Australia, unauthorised fishing in Australian territory, quarantine breaches and any other activities contravening Australian law.

Other

Outlays shown under this component relate mainly to APS operations which are substantially cost recovered.

Trends

Over the last decade growth pressure has been concentrated in General Administration and Other (an increase of 10.5% in real terms over the period 1981-82 to 1990-91) with offsetting reductions in outlays in 1987-88 and 1988-89 reflecting the introduction of charging by the APS for those services with costs being shown against other functions.

The increase in outlays in 1991-92 relates mainly to payment of redundancies and a decrease in receipts from services as a result of reduced workloads for the APS, and new aerial surveillance contracts let by Coastwatch.

Over the forward years, outlays decline by 26.7% in real terms largely reflecting a return to more normal expenditures by the APS.

8C. FOREIGN AFFAIRS AND OVERSEAS AID

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
8C.1.1	Bilateral Aid	$m	865.3	913.4	928.6	919.1	929.8
		%	-4.1	5.6	1.7	-1.0	1.2
8C.1.2	Multilateral Aid	$m	338.6	340.7	376.5	437.2	477.6
		%	67.3	0.6	10.5	16.1	9.3
8C.1.3	Aid Administration	$m	41.3	42.4	43.9	43.7	45.1
		%	0.6	2.8	3.5	-0.4	3.3
8C.1	Sub-Total Aid	$m	1245.1	1296.5	1349.0	1399.9	1452.6
		%	8.7	4.1	4.0	3.8	3.8
8C.2	Foreign Affairs Non-aid	$m	451.3	515.8	490.2	476.7	473.5
		%	4.9	14.3	-5.0	-2.8	-0.7
	TOTAL	$m	1696.5	1812.3	1839.2	1876.6	1926.1
		%	7.7	6.8	1.5	2.0	2.6

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

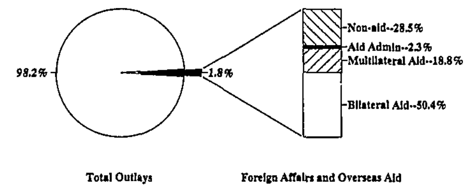
8C.1 Sub-Total Aid includes development assistance to central and eastern European countries in transition. While these payments meet the concessionality and qualitative standards in the definition of official development assistance (ODA) set by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) they are not included in the DAC's statistics of ODA flows to traditional recipients.

- **Total outlays on Foreign Affairs and Overseas Aid are expected to increase by $115.9m or 6.8% in 1991-92 (an increase of 3.5% in real terms over 1990-91).**

- **Within the function, real changes in outlays in 1991-92 compared with 1990-91 are expected as follows:**
  - **— bilateral aid up by 2.2%;**
  - **— multilateral aid down by 2.5%;**
  - **— aid administration down by 0.5%;**
  - **— total outlays under the Overseas Aid subfunction up by 0.8%; and**
  - **— total outlays under the Foreign Affairs Non Aid subfunction up by 10.7%.**

- **Outlays on Foreign Affairs and Overseas Aid will be 1.8% of total Commonwealth outlays in 1991-92, unchanged compared with 1990-91.**

Chart 1. Foreign Affairs and Overseas Aid
Proportion of Total Outlays and Function
1991-92



- **At the time of determining the Budget, Commonwealth and State aid outlays in 1991-92 were expected to represent 0.35% of GNP, the same ratio as in 1990-91. Australia's ratio of official development assistance (ODA) to GNP, as reported by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) for international comparison purposes, is expected to be 0.37% in 1991.**

- ***Measures on Overseas Aid add $24.5m to the estimates in 1991-92 ($24.2m* under this function). Of this amount, $14.9m ($14.6m under this function) is for environment assistance.**

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Rationalisation of protective services for Diplomatic and Consular Missions in Australia	-1.2	-2.0	-2.0	-2.0
Withdrawal from Common Fund for Commodities	0.0	-4.5	0.0	0.0
Increases				
Construction of Embassy and Residence in Suva	0.3	0.7	0.7	0.7
Overseas Feasibility Studies and Design Works in Bangkok and Port Moresby	0.5	0.0	0.0	0.0
Onshore processing arrangements for refugee and humanitarian claims	0.8	1.0	0.8	0.7
UN guard force in Iraq	0.7	0.0	0.0	0.0
Program of training for the USSR (APTSU)	0.5	2.0	2.0	0.0

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Contribution to United Nations Industrial Development Organisation	2.2	1.8	1.8	1.8
Aid Budget - including the Environment Assistance Program	*20.2*	*21.0*	*21.8*	*22.7*
Assistance for Development of Economic Planning Capacity in South Africa	1.3	1.0	0.0	0.0
New Posts in Phnom Penh and the Gulf	0.8	0.0	0.1	0.5
Establishment of the Australia/Korea Foundation	0.2	0.8	1.0	1.0
Establishment of the Australia/India Council	0.1	0.8	1.0	1.0
Beijing property - capital works	4.0	0.0	0.0	0.0
New Posts in Prague and Berlin	0.5	0.5	0.5	0.5
New Manila Embassy lease	0.2	0.0	0.0	0.0
Construction of a new Jakarta Embassy	3.8	1.5	0.0	0.0
Secure staff housing in Port Moresby	10.6	6.8	-1.4	-4.8

PURPOSE

Outlays support policies to further Australia's external relations, including its strategic and trade interests and social and cultural relations. The major component is the Australian aid program (71.5% of total outlays on the function in 1991-92) which has as its objective the promotion of the economic and social advancement of the peoples of developing countries, reflecting Australia's humanitarian concerns as well as foreign policy and commercial interests.

NATURE OF FOREIGN AFFAIRS AND OVERSEAS AID OUTLAYS

The bulk of Overseas Aid outlays are payments reportable as ODA, as defined by the DAC. To qualify as ODA, a payment must have as its objective the promotion of the economic development and welfare of developing countries, be concessional in character and contain a grant element of at least 25%.

The function also includes running costs of the Department of Foreign Affairs and Trade (DFAT), grants and contributions to international organisations and outlays on official overseas property services provided by the Department of Administrative Services (DAS).

TRENDS IN FOREIGN AFFAIRS AND OVERSEAS AID OUTLAYS

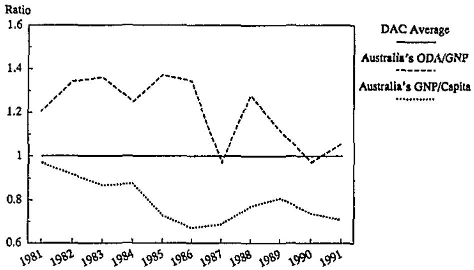
Total outlays for Foreign Affairs and Overseas Aid decreased by 2.4% in real terms over the period 1981-82 to 1990-91 and are projected to decrease by 5.6% in real terms over the forward years, largely due to requirements in the non-aid area that are one-off or are not expected to continue.

The trend to 1990-91 mainly reflects reduced aid outlays in the period 1985-86 to 1987-88 following an increase in the early 1980s.

Overseas Aid outlays are expected to increase by 0.8% in real terms in 1991-92, reflecting the decision to increase the ongoing aid budget by $20.5m ($20.2m under this function) and to fund other specific, non-recurring activities ($4m). The projected outlays for the forward years provide for the ongoing aid budget to be maintained in real terms.

Australia's aid per capita has declined over the last decade. Given, however, that our economic position has also declined compared with that of other DAC donors, Australian aid provision remains relatively high. Chart 2 shows that our GNP per capita has been significantly below the DAC average since the mid-1980s while the proportion of our GNP paid as ODA still approximates the DAC average.

Chart 2. Australian ODA/GNP and GNP/Capita as Ratios of DAC Weighted Average ODA/GNP and GNP/Capita



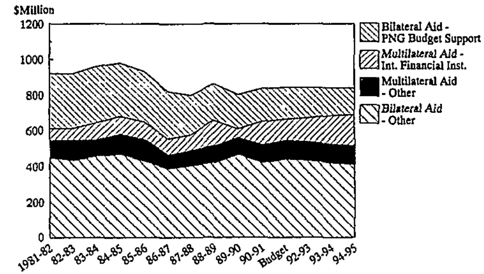
DAC statistical conventions provide that donor contributions to multilateral agencies measure the total contribution at the point of deposit of an encashable note rather than at the point(s) of encashment or outlay. Because deposits are made irregularly while encashment usually extends over a number of years deposit-based statistics are more volatile than encashment-based statistics. DAC statistics are recorded by calendar years.

The 1990 and 1991 points are estimates. The decline in Australia's GNP/Capita relative to the DAC average reflects a lower *rate of growth in Australian GNP/Capita than in OECD countries as a whole.*

Chart 3 shows the changing focus of Australia's aid. Papua New Guinea (PNG) budget support represents a decreasing share of our aid (as the amount of support declines under treaty arrangements). Over the period *1981-82* to *1990-91* all aid (bilateral and multilateral) other than for PNG budget support increased by 6.5% in real terms. Over the forward years all aid other than for PNG budget support is projected to increase by 3.8% in real terms.

Within multilateral aid, the balance has shifted from payments to United Nations (UN) organisations (included as part of Other Multilateral Aid in Chart 3) towards aid through international development financial institutions (IFIs), mainly the Asian Development Bank (ADB) and the International Bank for Reconstruction and Development (the World Bank). The trend is maintained through the forward years.

Chart 3. Overseas Aid Proportion of Subfunction Outlays (1984-85 prices)



Outlays for Foreign Affairs Non Aid increased by 24.5% in real terms over the period *1981-82 to 1990-91. This is partly explained by the increased costs since the mid-1980s* of servicing international commitments (stemming from the generally lower $A compared with other currencies) and the start of construction of the Beijing and Riyadh *Chanceries in 1984-85.*

Non-aid outlays are projected to decrease by 18.4% in real terms over the forward years, mainly due to the completion of activity associated with Australian participation at Expo 92 in Seville and an anticipated decline in required contributions to UN peace-keeping activities.

1990-91 OUTCOME

Outlays in 1990-91 exceeded budget estimates by $3.2m (or 0.2%), mainly due to increases in emergency aid payments for Bangladesh and the Gulf Crisis.

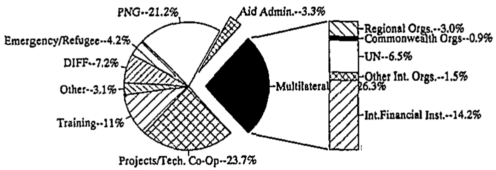
SUBFUNCTION DETAIL

8C.1 OVERSEAS AID

Outlays in 1991-92 include $11m in payments to central and eastern European countries (not included in DAC's statistics of ODA to traditional recipients). Including these payments, Commonwealth aid outlays in 1991-92 are estimated at $1321.7m, of which $1296.5m comes under this subfunction.

Chart 4 shows the planned composition of aid payments in 1991-92.

Chart 4. Overseas Aid by Category
1991-92



8C.1.1 Bilateral Aid

8C.1.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Papua New Guinea -Budget	Sm	275.0	275.0	275.0	260.0	260.0
Support	%	-	-	-	-5.5	-
Projects, Technical Cooperation	Sm	288.2	307.9	324.3	330.4	332.1
and Related Activities	%	-12.9	6.8	5.3	1.9	0.5
Training	Sm	125.8	142.4	133.6	125.3	126.1
	%	6.4	13.2	-6.2	-6.2	0.6
Emergency Aid	Sm	15.1	10.0	10.4	10.8	11.2
	%	58.5	-33.6	4.0	3.8	3.7
Refugee Relief	Sm	40.6	44.3	46.1	47.9	49.8
	%	1.7	9.1	4.1	3.9	4.0
Non-government Organisations	Sm	14.9	17.2	17.8	18.5	19.3
	%	2.5	15.4	3.7	3.9	4.3
Development Import Finance	Sm	83.8	93.0	96.7	100.6	104.6
Facility	%	-10.2	11.0	4.0	4.0	4.0
Australian Centre for International	Sm	17.8	18.9	19.7	20.4	21.3
Agricultural Research	%	7.6	6.0	4.2	3.6	4.4
International Trade Development	Sm	4.1	4.8	5.0	5.2	5.4
	%	1.5	16.9	4.8	4.0	3.8
TOTAL	Sm	865.3	913.4	928.6	919.1	929.8
	%	-4.1	5.6	1.7	-1.0	1.2

Papua New Guinea Budget Support

A five year Development Cooperation Treaty signed with PNG in 1989 provides minimum aid funding, including direct budget support at the rate of $275m a year in both 1991-92 and 1992-93 and $260m in 1993-94. The declining rate is in accordance

with the aim of both the PNG and Australian governments to shift progressively from budget support to aid for particular programs and projects. The next review of the treaty is due in September 1992.

Projects, Technical Cooperation and Related Activities

Outlays in 1991-92 will increase by 3.5% in real terms and include:

- $5.2m for a number of initiatives under the Environment Assistance Program (EAP), notably $3.4m for forestry projects in PNG, the South Pacific and South East Asia and $1m towards the establishment of an Environment Protection Agency in Indonesia;
- $1.3m for the first year of a program for improving the economic planning capacity of South Africa in preparation for a post-apartheid society; and
- $0.5m (and $2m in each of 1992-93 and 1993-94) to fund business management training for USSR economic administrators through the Australian Program of Training for the Soviet Union (APTSU).

Training

Outlays reflect the transition between the old student subsidy and the new Equity and Merit Scholarship Scheme (EMSS) and a one-off program for the 1992 academic year, the Australian Development Cooperation Scholarship Scheme (ADCSS). In 1991-92 $54.4m will be paid under EMSS and ADCSS and $20.8m under the student subsidy. EMSS is intended to provide a more equitable and development oriented approach than the universal subsidy arrangements which it replaces.

Other

Outlays include:

- $93m for the Development Import Finance Facility, an increase of 7.5% in real terms compared with 1990-91;
- $54.3m for emergency, refugee and relief expenditure, a real decrease of 5.5%; and
- $18.9m for the Australian Centre for International Agricultural Research, an increase of 2.7% in real terms.

Trends

Outlays on bilateral aid fell 21.4% in real terms between 1981-82 and 1990-91 due to:

- expenditure constraints affecting all Commonwealth outlays;
- particularly since 1986-87, increasing commitments to other areas of the aid program, mainly IFIs (IFIs provide relatively greater support to the poorest developing countries); and
- particularly since 1984-85, a real reduction in budget support to PNG.

Outlays for bilateral aid are projected to decrease by 9.5% in real terms over the forward years, reflecting the continuing decline in PNG budget support and the conclusion of three year programs for India, Pakistan and Southern Africa.

Within bilateral aid, however, expenditure in some areas (for example, the Philippines and the South Pacific) has been maintained at about the same real level over the last few years and is expected to continue in this way over the forward years.

8C.1.2 Multilateral Aid

8C.1.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
International Development	$m	197.7	184.7	215.0	268.5	302.2
Financial Institutions	%	169.9	-6.6	16.4	24.9	12.6
UN Organisations	$m	78.7	84.7	87.6	91.0	94.6
	%	5.0	7.6	3.4	3.9	4.0
Commonwealth Organisations	$m	11.3	12.2	12.7	13.2	13.7
	%	-4.7	8.0	4.1	3.9	3.8
Other International Organisations	$m	11.5	19.6	20.2	21.9	22.6
	%	-6.3	70.6	3.1	8.4	3.2
Regional Organisations	$m	39.4	39.5	41.0	42.6	44.5
	%	31.0	0.4	3.8	3.9	4.5
TOTAL	$m	338.6	340.7	376.5	437.2	477.6
	%	67.3	0.6	10.5	16.1	9.3

International Development Financial Institutions

The bulk of outlays comprises contributions for capital and concessional lending through the World Bank and the ADB. The expected decrease in outlays (from $197.7m in 1990-91 to $184.7m in 1991-92 or 9.5% in real terms) reflects variations in the pattern of ADB drawdowns against Australian Government promissory notes.

Australia will contribute $9m in capital subscriptions to the European Bank for Reconstruction and Development (EBRD) in 1991-92, the second of five equal instalments to assist the restructuring of the economies of central and eastern Europe.

United Nations Organisations

Australia decided in 1987 to leave the UN Industrial Development Organisation (UNIDO) but will now rejoin. Membership of UNIDO reinforces Australia's commitment to multilateralism and international cooperation for development. The forward estimates include funding for Australia's renewed membership ($2.2m in 1991-92 and $1.8m a year in the forward years).

Other

As part of the package of environment assistance measures under the EAP, Australia will provide in 1991-92:

- $4m to the Global Environment Facility (GEF) to be administered by the World Bank and the UN Development and Environment Programs to fund projects addressing global warming, biodiversity protection and water pollution;
- $2.5m under the Montreal Protocol on ozone reduction (these funds will be administered under arrangements similar to the GEF); and
- $1m for agroclimatology training for Commonwealth countries.

Trends

Outlays for multilateral aid increased by 43.5% in real terms over the period 1981-82 to 1990-91 due to:

- increases in Australia's share of replenishments of the Asian Development Fund and the IFIs' rate of drawdown on promissory notes;
- increased contributions to regional organisations; and
- a lower $A relative to the $US (contributions to international organisations are assessed in $US).

Contributions to IFIs rose by 97% in real terms between 1981-82 and 1990-91 and are expected to increase by 45.4% over the forward years (see Chart 3). The estimates provide for Australia's participation in future IFI replenishments and, largely for that reason, projected outlays for multilateral aid as a whole will increase by 24.6% in real terms over the forward years.

8C.1.3 Aid Administration

This category provides for the administrative costs of the Australian International Development Assistance Bureau (AIDAB), which are expected to decrease by 0.5% in real terms in 1991-92.

8C.2 FOREIGN AFFAIRS NON AID

8C.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Membership of International	$m	43.1	58.3	50.0	54.6	54.6
Organisations	%	-13.2	35.3	-14.3	9.3	-
Other Activities	$m	25.7	40.9	15.2	12.5	12.8
	%	31.9	59.2	-62.9	-17.4	2.4
General Administration	$m	382.6	416.6	425.1	409.5	406.0
	%	5.9	8.9	2.0	-3.7	-0.9
TOTAL	$m	451.3	515.8	490.2	476.7	473.5
	%	4.9	14.3	-5.0	-2.8	-0.7

These outlays promote Australia's interests through diplomatic relations with other countries, both bilaterally and through our participation in and contributions to international organisations and forums.

Membership of International Organisations

Outlays contribute to the administrative expenses and, in some cases, the functional activities of international organisations. Recipients in 1991-92 include the UN ($19m contribution to its regular budget), the OECD ($4.8m), the International Labour Organisation ($3.9m) and the Commonwealth Secretariat ($1.8m).

Outlays in 1991-92 are expected to increase by 31% in real terms, mainly due to the one-off effect of contributions to the UN Food and Agriculture and Economic, Social and Cultural Organisations ($6.7m and $5.2m respectively) deferred from 1990-91 and a one-off increase in the World Health Organisation contribution to $10.3m.

Australia is to withdraw from the Common Fund for Commodities, achieving a saving of $4.5m in 1992-93.

Other Activities

Outlays include:

- $17.5m towards Australian participation in Expo 92 in Seville, including $12.9m to construct a pavilion;
- $3.7m as a contribution to the UN Mission to the Western Sahara;
- $3.1m in 1991-92 and $3m in each of the forward years for the UN Interim Force in Lebanon;
- $2.7m for the UN Angola Verification Mission;
- $2m for the UN Iraq-Kuwait Observer Mission;
- $0.7m to provide an Australian contribution to the UN Guard Force in Northern Iraq;
- $0.2m in 1991-92, $0.8m in 1992-93 and $1m in each of 1993-94 and 1994-95 for the new Australia-Korea Foundation; and
- $0.1m in 1991-92, $0.8m in 1992-93 and $1m in each of 1993-94 and 1994-95 for the new Australia-India Council.

Protective services to diplomatic and consular missions in Australia are to be rationalised, saving $1.2m in 1991-92 and $2m a year over the period 1992-93 to 1994-95.

These initiatives have contributed to a one-off real increase for this item of 54.1% in 1991-92. Over the forward years a real decrease of 72.1% is projected.

General Administration

Outlays include the major part of DFAT administration costs (other than a small proportion of the department's costs which relate to functions *7B. Industry Assistance and Development* and *8B. Law, Order and Public Safety*) and DAS overseas property services (residential and staff accommodation for Australian embassy staff overseas).

Outlays increase by 5.5% in real terms in 1991-92, primarily because overseas property outlays grow by $32.3m to $115m (34.6% real growth). The main components of the increase are:

- major works activities ($15.4m), primarily the Beijing and Jakarta Chanceries and a secure housing complex in Port Moresby;
- increased rents world-wide ($5.4m); and
- large office fitouts in Manila, Hong Kong and Shanghai ($5.8m).

Outlays in 1991-92 include DFAT and overseas property costs for:

- opening a new post in the Persian Gulf to promote Australia's commercial interests and participate in efforts towards stability in the area; and
- establishing an Australian presence in Phnom Penh by opening a new post following recent developments in the peace process.

8D. GENERAL AND SCIENTIFIC RESEARCH NEC

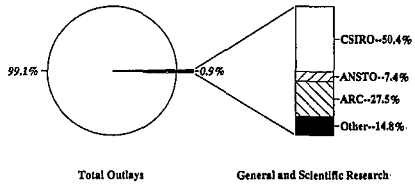
OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
8D.1	Commonwealth Scientific and	$m	415.8	442.6	451.2	448.1	457.1
	Industrial Research Organisation	%	10.7	6.5	1.9	-0.7	2.0
8D.2	Australian Nuclear Science and	$m	62.6	64.9	63.9	65.9	68.2
	Technology Organisation	%	8.8	3.7	-1.5	3.1	3.5
8D.3	Australian Research Council	$m	172.9	241.6	276.1	298.9	296.9
		%	37.8	39.7	14.3	8.2	-0.7
8D.4	Other General and Scientific	$m	97.9	129.9	155.9	186.6	205.9
	Research	%	18.1	32.6	20.0	19.7	10.3
	TOTAL	$m	749.2	879.0	947.2	999.6	1028.1
		%	16.8	17.3	7.8	5.5	2.9

The above budget and forward estimates make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Outlays are estimated to increase by $129.8m or 17.3% in 1991-92 (an increase of 13.7% in real terms); and by 3.9% in real terms over the forward years.**
- **Main impacts on outlays in 1991-92 are:**
  - **— funding of stages 1 and 2 of the Cooperative Research Centres (CRC) program ($19.5m);**
  - **— funding for research infrastructure in higher education institutions ($44.0m); and**
  - **— the transfer of funds from higher education operating grants to the Australian Research Council (ARC) grants program ($72.0m).**
- **Outlays under this function have increased from 0.8% of total outlays in 1990-91 to 0.9% in 1991-92.**

Chart 1. General and Scientific Research nec Proportion of Total Outlays and Function 1991-92



- Substantial elements of Commonwealth support for science and technology in particular fields, such as defence technology, industry, health and education are included in other functions in this Statement. The Commonwealth also provides considerable support for industry research and development through tax concessions; the current scheme was extended in the March 1991 Economic Development Statement as a permanent feature of the tax scheme to provide a 125% tax deduction for research and development expenditure from 1993-94 onwards.
- Major factors contributing to growth over the forward years are:
  - funding under ARC special research activities programs, in particular reallocated operating grants, rising from $75.8m in 1992-93 to $83.0m in 1994-95;
  - additional ARC research infrastructure funding rising from $52.5m in 1992 to $57.6m in 1994; and
  - increasing funding for CRCs ($53.7m in 1992-93 rising to $116.1m in 1994-95) with the progressive establishment of up to 50 Centres by 1994-95.

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Increases				
Australian Research Council funded HEFA *	3.8	10.0	13.6	14.8
Climate Change Program	4.4	0.0	0.0	0.0
National Science and Technology Centre	0.3	0.3	0.3	0.3
Australian Animal Health Laboratories	0.0	0.2	0.1	0.3
Higher Education - Research Programs	1.6	8.7	14.4	28.2
AIMS reef monitoring program	0.4	0.5	0.5	0.5
CSIRO,ANSTO,AIMS infrastructure	12.0	0.0	0.0	0.0
CSIRO North Ryde Loan	3.0	2.1	5.3	0.0

* Included in March 1991 Economic Development Statement

PURPOSE

Outlays under this function support the provision of advice, long term and strategic research activities, and efforts to improve linkages needed for scientific and technological innovation in Australian industry.

Commonwealth support for science and technology ranges across a number of portfolios and functional classifications. Budget related paper No. 7, *Science and Technology Budget Statement 1991-92*, provides details including historical trends.

NATURE OF GENERAL AND SCIENTIFIC RESEARCH OUTLAYS

The research agencies, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO) and the Australian Institute of Marine Science (AIMS), are funded largely for recurrent purposes. They receive additional research funding from private industry and a variety of Commonwealth assisted grant schemes. The Commonwealth also maintains several Antarctic research stations and supports associated research through the Antarctic Division of the Department of Arts, Sports, Environment, Tourism and Territories.

Commonwealth grants provide funds for research through the ARC for higher education research grants and fellowships; through the CRC program to match contributions provided by CRC partner organisations; and for some environmental research initiatives.

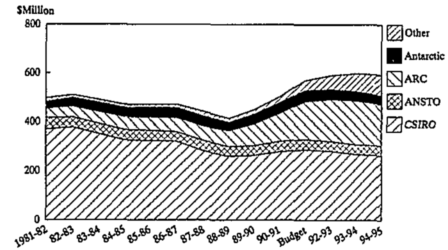
Science policy advice and coordination activities are undertaken by the Australian Science and Technology Council (ASTEC) and the Prime Minister's Science Council (PMSC), assisted by the Coordination Committee on Science and Technology (CCST).

TRENDS IN GENERAL AND SCIENTIFIC RESEARCH OUTLAYS

Total outlays were 0.9% higher in real terms in 1990-91 than in 1981-82. In addition, total recurrent funds available to the research agencies, CSIRO, ANSTO and AIMS, have been supplemented by external funding which has increased 129.2% in real terms over the ten years to 1990-91. The 1991-92 budget estimate implies a real increase of 13.7% compared with 1990-91. Growth over the forward years is estimated at 3.9% in real terms.

Chart 2 illustrates the changing composition of outlays on scientific research over the last decade. CSIRO accounts for a much smaller proportion of outlays now (50.4% in 1991-92) than in earlier years (74.2% in 1981-82). This shift reflects completion of major capital projects by CSIRO and, more recently, a move towards funding through grant schemes. The May 1989 Science and Technology Statement resulted in a significant increase in funding from 1990-91 onwards providing additional resources for CSIRO, the ARC and other science related programs.

Chart 2. General and Scientific Research nec (1984-85 prices)



Substantial real increases for the ARC and to a lesser extent the Antarctic Division and other programs have offset declining direct outlays to CSIRO. Increases in ARC grants and fellowships, the transfer of some higher education operating grants to ARC in 1988-89 and additional research infrastructure funding have resulted in a real increase of 199.5% in ARC funds between 1981-82 and 1990-91.

The CRC program will contribute a real increase in this function's outlays over the forward years of 9.5%. These increases are partially offset by a real decline of 20.7% over the forward years in funding for the Antarctic program reflecting the completion of the rebuilding program.

MAJOR POLICY CHANGES

Since the early 1980s efforts have been directed at improving the links between researchers and users, increasing the relevance of research to national priorities, and promoting technology transfer. Increased reliance has been placed on competitive funding mechanisms to increase the flexibility and relevance of research. Where possible, responsibility for detailed decisions on research priorities has been devolved to researchers and users, within the broad strategic guidelines set by the Government.

CSIRO, ANSTO and AIMS have been required to seek increased external funding and their operations have been restructured and reoriented to link research more closely to user needs. The external funding targets set are to be viewed flexibly to allow the quality and relevance of research output and community benefit to be considered. Commonwealth funding is now on a triennial basis with guaranteed real levels of funding to 1993-94.

During 1988 the ARC was established as an advisory council to the National Board of Employment, Education and Training, with responsibility for advising government on national research priorities. Funds allocated by the ARC have been expanded by a transfer of a proportion of higher education institution operating grants.

1990-91 OUTCOME

The 1990-91 outcome was $14.1m below the budget estimate. This underspend is attributable to delays in the establishment of the new CRCs ($4m), slippage in ARC outlays ($16.4m) and delays in the implementation of the Cape York Land Use Study ($1.2m). These were partially offset by supplementation for salary rises ($6.4m).

SUBFUNCTION DETAIL

8D.1 COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION

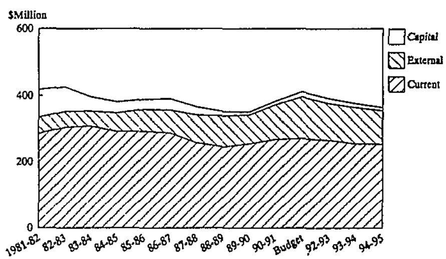
CSIRO, an independent statutory authority, is Australia's largest and most diverse scientific research organisation. Its role is essentially to undertake long term strategic research, together with the applied research necessary to transfer research results to users, for the benefit of the nation. Its activities do not encompass research in the defence, nuclear science and clinical medicine fields.

Recently, CSIRO has undertaken a major exercise to determine its internal priorities in line with national goals and needs. This exercise, combined with guaranteed funding arrangements, should enhance CSIRO's ability to target its research effort more effectively to national priorities.

To encourage CSIRO to improve its links with industry, the Government has set an external earnings target (ie funds other than direct budget appropriations) of 30% of total funding. In 1990-91 the level achieved was 27.4%. External earnings include support from other budget appropriations (eg the rural industry research funds) and contributions from industry and other levels of government.

Trends

Chart 3. CSIRO - Total Funding Base (a)
(1984-85 prices)



(a) From 1989-90 minor capital has been transferred to recurrent funding.

Chart 3 demonstrates a real increase in recurrent resources available to CSIRO from appropriations and external sources over the 1980s. Excluding capital, funds available in 1990-91 were 11.2% higher in real terms than in 1981-82. Total direct budget appropriations fell by about 24.7% in real terms from 1981-82 to 1990-91 (after adjusting for changes in funding arrangements for capital and repairs and maintenance effected during the early 1980s). This decrease reflected a decline (87.5% real) in capital expenditure from the high level of activity in the early to mid 1980s.

Increases in external funding over recent years, both from industry and from Commonwealth grant schemes (such as the National Energy Research, Development and Demonstration Council and the rural industry research funds), have largely offset the real decline in recurrent appropriations. External funding has increased from $39.0m in 1981-82 to $156.7m in 1990-91 (11.7% compared to 27.4% of total expenditure) a real increase of 114.3%. This change in the source of funding has resulted in some redirection of CSIRO's research activities from longer term strategic research towards the short term applied research generally funded by external bodies.

It is estimated that CSIRO will have $634.9m available for its activities in 1991-92, comprising:

- direct budget appropriations of $440.7m (recurrent $416.5m, capital $24.1m);
- funds from industry contributions and other forms of private and Government support for specific projects $154.2m, including part of the $1.9m for Kraft Pulp Mill research managed by CSIRO;
- a contribution of $5.5m from the Department of Primary Industries and Energy to meet half the operating costs of Australian Animal Health Laboratory; and
- receipts from other sources such as sales of assets and publications $34.5m.

The allocation of resources amongst CSIRO's activities in 1990-91 and estimates for 1991-92 are shown below:

	1990-91 Actual $m	1991-92 Budget(b) $m	Change $m	Change %
Animal Production and Processing	56.6	64.2	7.6	13.4
Australian Animal Health Laboratory	10.8	11.1	0.3	2.8
Industrial Technologies	60.1	63.8	3.7	6.2
Information Science and Engineering	25.6	33.8	8.2	32.0
Australia Telescope	9.1	8.9	-0.2	-2.2
Minerals, Energy and Construction	60.7	67.0	6.3	10.4
Natural Resources and Environment	52.7	57.4	4.7	8.9
Oceanographic Research Vessel	3.9	4.0	0.1	2.6
Plant Production and Processing	81.0	87.4	6.4	7.9
Research Support	37.3	41.1	3.8	10.2
Specific Project Contributions(a)	142.3	154.2	11.9	8.4
Capital and Repairs and Maintenance	31.0	42.0	11.0	35.5
Total outlays	571.1	634.9	63.8	11.2
of which:				
Appropriations - $m	414.4	440.7	26.3	6.3
External Sources - $m	156.7	194.2	37.5	23.9
(% of total)	(27.4%)	(30.6%)		

(a) Industry contributions and other forms of private and government support.
(b) These figures are estimates as supplied by CSIRO.

Direct budget estimates for CSIRO in 1991-92 and the forward years are affected by the recent decisions to provide guaranteed real funding in the new triennium and additional funding in 1991-92 for restoration of science infrastructure ($10.7m), plus a loan of $10m over three years to assist in the redevelopment of the North Ryde site. These infrastructure initiatives have led to a real increase of 3.0% in CSIRO's direct budget allocations for 1991-92.

8D.2 AUSTRALIAN NUCLEAR SCIENCE AND TECHNOLOGY ORGANISATION

ANSTO is Australia's major centre of competence and expertise in nuclear science and associated technologies. It carries out research and development in medicine, industry, agriculture, science and other fields and produces a range of radioisotopes for use in industry and medicine throughout Australia. ANSTO has a range of strategies to encourage industry to make greater use of nuclear technology and processes. ANSTO's research and development program aims to achieve 70% applications oriented research and 30% long-term strategic projects targeting potential new commercial applications.

Trends

Funding of ANSTO in 1990-91 from direct budget appropriations was significantly lower in real terms (by 11.8%) than in 1981-82 when the Organisation was known as the Australian Atomic Energy Commission. The real decline in ANSTO's funding over the period largely reflects the transfer during 1981-82 and 1982-83 of some elements of its non-nuclear research to CSIRO.

ANSTO will be appropriated $64.9m in 1991-92, including $0.6m allocated for capital infrastructure. The 1991-92 estimate represents an increase of 0.5% in real terms from the 1990-91 outcome. Significant capital works activities in 1991-92 will be:

- completion of the National Medical Cyclotron facility at the Royal Prince Alfred Hospital, Sydney. The completed project (estimated cost $18.8m) is scheduled for dedication and commissioning in February 1992; and
- purchase of a supercomputer and the establishment of the Australian Supercomputing Technology within the Lucas Heights Technology Park.

In addition to its direct budget appropriation, ANSTO expects to receive $15.9m in external revenue in 1991-92 comprising a commercial revenue target, including industry support, of $9.0m and a target of $6.9m from sales of medical and industrial radioisotopes.

Direct budget funding (in real terms) is expected to decline by 6.5% over the forward years. Under the guaranteed funding arrangement, ANSTO has been set an external revenue target of 30% of budget appropriations by 1993-94.

8D.3 AUSTRALIAN RESEARCH COUNCIL

The ARC makes recommendations on allocations of research funds to higher education institutions and other bodies. It advises on national research priorities, coordination of research policy, the development and implementation of programs for selective concentration of research activity, and measures to improve the training of research personnel. The Special Research Assistance (SRA) program includes Research Grants,

Post Graduate (Research) Awards, Key Centres for Teaching and Research and Special Research Centres. ARC grants are provided on a competitive basis involving selection by an independent panel which assesses the merits of individual proposals.

Trends

Appropriations to the ARC (and its predecessors the Australian Research Grants Scheme and the Marine Sciences and Technologies Grant Scheme) increased by 199.5% in real terms over the decade to 1990-91 with growth occurring in both the SRA program and the fellowships offered by the ARC.

The ARC funding (through the *Higher Education Funding Act 1988*) of $238.5m in 1991-92 is an increase of 41.5% (37.0% in real terms) over 1990-91. The substantial increase primarily reflects increased funding for research infrastructure for higher education institutions ($44.0m) and the transfer of $72.0m from higher education operating grants for competitive allocation by the ARC.

In the March 1991 Economic Development Statement the Government announced further increases in the number of Australian Post-graduate Research Awards (from 1100 to 1300) and the number of Overseas Post-graduate Research Scholarships (from 150 to 300 awards a year), starting in the 1992 academic year. The total cost is $3.8m in 1991-92 rising to $14.8m in 1994-95.

In addition, funding for ARC grants has been increased by $1.9m ($0.3m in 2. *Education*) in 1991-92 rising to $14.8m ($0.4m in 2. *Education*) in 1993-94.

8D.4 OTHER GENERAL AND SCIENTIFIC RESEARCH

8D.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Policy, Coordination	$m	4.5	6.1	5.7	5.6	5.8
and Promotion	%	na	36.9	-6.0	-1.9	3.7
Co-operative Research Centres	$m	-	19.5	53.7	94.9	116.1
	%	na	na	175.5	76.9	22.3
Antarctic Division	$m	62.8	68.2	66.7	63.7	60.9
	%	8.9	8.5	-2.2	-4.5	-4.4
International and Other Research	$m	30.6	36.1	29.8	22.4	23.0
	%	25.0	17.9	-17.4	-25.0	2.9
TOTAL	$m	97.9	129.9	155.9	186.6	205.9
	%	18.1	32.6	20.0	19.7	10.3

Policy, Coordination and Promotion

ASTEC provides broad policy advice to the Government and undertakes ad hoc reviews on issues relating to science policy and funding in Australia. The Council has been appropriated $1.7m in 1991-92, broadly maintaining the real level of resources available over the last decade.

The PMSC and CCST are major forums for the consideration of science and technology issues. The Council, chaired by the Prime Minister, comprises representatives of government, industry and the scientific community. It met twice in 1990-91. The Coordination Committee brings together relevant Commonwealth departments and agencies to promote coherency and consistency in the implementation of the Government's science and technology policy.

Some $1.5m is available in 1991-92 to cover the costs of Council meetings and maintain the office of the Chief Scientist within the Department of the Prime Minister and Cabinet.

The National Science and Technology Centre will have funding of $2.9m in 1991-92. In 1990-91 the Centre achieved 64% cost recovery compared with the budgeted level of 65%. In 1991-92 it is anticipated that cost recovery will fall to around 50% due mainly to declining revenue. A review of the Centre's operations and funding arrangements is to be undertaken during 1991-92.

Cooperative Research Centres

CRCs are an innovative approach towards enhancing higher education in Australia. The centres will facilitate active involvement of research scientists from other institutions and industry, in educational programs. Students will gain experience through participation in research of direct relevance and application to industry.

The first 15 CRCs were selected in 1990-91. However, owing to technical difficulties in finalising the contractual arrangements program funds ($4m) were not allocated in 1990-91. As a result the proposed program allocation for 1991-92 has been increased from $15.8m to $19.5m. Up to 50 centres will be established over the next four years.

Antarctic Division

The Antarctic Division carries out scientific research and maintains an Australian presence at three stations on the Antarctic continent and one on Macquarie Island.

An extensive rebuilding program has been in progress since 1980-81, the final stage of which is to commence in 1991-92. This includes construction of the Mawson and Davis Operations Buildings, the Davis Balloon Building and the Casey Transmitter Building at an estimated cost in 1991-92 of $3.3m. These projects are expected to be completed in 1994-95 at a total cost of $11.4m.

The Division's appropriation in 1991-92 will increase by $5.4m to $68.2m, which represents a real increase of 5.1% on the 1990-91 outcome (and a 54.6% real increase over the decade due mainly to the rebuilding program). Over the forward years outlays show a real decrease of 20.7% due to the completion of the rebuilding program.

International and Other Research

AIMS' research is directed towards understanding the marine environment in the coastal and continental shelf regions of Australia and to assist the development, conservation and management of marine resources, particularly in the Great Barrier Reef Marine Park. The Institute has also developed links with industry in areas such as mariculture and provides a research base and expertise for commercial developments.

Direct budget funding of AIMS has shown a 27.1% increase in real terms since 1981-82. In 1991-92 AIMS will complete construction of a technical engineering facility, costing $2.5m over two years. Completion of this facility will be reflected in a real decrease of 13.7% over the forward years. Additional funding of $0.6m in 1991-92 for infrastructure and $0.4m ongoing for reef monitoring has been allocated to AIMS.

Funding of $5.9m has been allocated in both 1991-92 and 1992-93 for research into the greenhouse effect (administered by the National Greenhouse Advisory Committee). Funding has not been provided beyond 1992-93 pending further Government consideration. In addition $5.7m is being provided in 1991-92 for national and international activities addressing climate change of which $1.0m relates to an International Conference on Climate Change deferred from 1990-91. In 1990-91, $5.7m was spent on greenhouse research and $4.2m on climate change functions.

The International Science and Technology Cooperation program will receive funding of $5.2m in 1991-92. This program facilitates access by Australian scientists and research groups to their overseas counterparts.

Subject to matching funds being made available by the Queensland Government, the Commonwealth is providing $2.3m in 1991-92 ($1.9m in 1992-93) towards the joint Cape York Peninsula Land Use Study, Planning Strategy and Geographic Information System. These amounts include $1.2m carried over from 1990-91 due to delays in the planning stage of the study. Only $0.3m of the budgeted $1.5m was spent in 1990-91 on the Land Use study.

Trends

This subfunction includes many recent initiatives relating to coordination and cooperation such as the CRC program and the creation of the PMSC and the CCST. In addition, the growing concern about the greenhouse effect and climate change problems has lead to specific funding of research in these fields. Funding has increased by 32.6% since 1990-91 and will continue to grow over the forward years with the establishment of the CRCs.

8E. ADMINISTRATIVE SERVICES

OVERVIEW

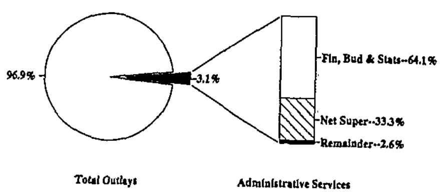
			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
8E.1	Financial, Budgetary, Statistical & Administrative	$m	1812.1	2125.6	1973.4	1735.8	1749.0
		%	12.4	17.3	-7.2	-12.0	0.8
8E.2	Estate Management	$m	142.7	-38.6	-128.0	-157.0	-160.8
		%	na	-127.1	231.1	22.7	2.4
8E.3	*Net Superannuation Payments*	$m	927.9	1104.6	1282.5	1319.5	1477.2
		%	21.7	19.0	16.1	2.9	12.0
8E.4	Net Commonwealth Employees' Compensation	$m	34.7	60.3	55.6	62.2	70.6
		%	na	73.6	-7.8	11.9	13.4
8E.5	Common Service Businesses	$m	34.9	78.2	1.6	3.0	1.0
		%	na	124.0	-97.9	82.5	-67.5
8E.6	Taxes Paid by Budget Agencies	$m	-170.2	-186.8	-194.0	-201.8	-209.9
		%	-1.3	9.8	3.9	4.0	4.0
	TOTAL	$m	2782.2	3143.3	2991.1	2761.6	2927.0
		%	25.7	13.0	-4.8	-7.7	6.0

The above budget and forward estimates of outlays make no allowance for Commonwealth sector wage and salary increases which occur within each year. Provision is included in *9C. Contingency Reserve.*

- **Total outlays on Administrative Services are estimated to increase by $361.1m or 13% in 1991-92 (9.5% in real terms). Outlays are expected to decline in real terms to 1993-94 by an average 9.9% a year and to rise by 1.9% in 1994-95.**

- **Outlays on Administrative Services are estimated to account for 3.1% of total Commonwealth outlays in 1991-92 compared with 2.9% in 1990-91 (see Chart 1).**

**Chart 1. Administrative Services
Proportion of Total Outlays and Function
1991-92**



- **The main sources of growth in 1991-92 are:**
  - — **Net Superannuation Payments, due to increased numbers of beneficiaries, the bringing forward of expenditure as a result of lump sum payments under the new Public Sector Superannuation (PSS) scheme, and continuing high levels of retrenchments;**
  - — **redevelopment and modernisation of the Australian Taxation Office (ATO) computer systems ($304.8m in 1991-92);**
  - — **the Census of Population and Housing ($68m in 1991-92);**
  - — **upgraded computer systems for the Australian Customs Service (Customs) ($27.1m in 1991-92), and the commencement of operations in the new international terminal buildings at Sydney and Darwin airports ($6.6m in 1991-92);**
  - — **computer acquisitions and redundancy payments by some common service businesses in the Department of Administrative Services (DAS); and**
  - — **computer acquisition by the Commission for the Safety, Rehabilitation and Compensation of Commonwealth Employees (Comcare) ($12.1m in 1991-92).**

- **These increases in 1991-92 are partially offset by:**
  - — **reduced expenditure on office construction as current projects approach completion; and**
  - — **increased net rent generated on the Commonwealth estate due to the introduction of rental charges on certain Commonwealth owned special purpose properties and the effect of rent reviews and occupancy of new premises.**

- **The fall in outlays in 1992-93 and 1993-94 is mainly attributable to:**
  - — **the completion of office construction projects;**
  - — **the winding down or completion of computer systems installations for the ATO, Customs, Comcare, Australian Construction Services (ACS) Projects and ACS Assets;**
  - — **the completion of the 1991 Census of Population and Housing; and**
  - — **slower growth in Net Superannuation Payments in 1993-94 as staff retrenchments return to a lower, more normal, level.**

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Public Service Commission (PSC) - Structural Efficency Principle	-0.8	-0.8	0.0	0.0
Australian Bureau of Statistics (ABS) - increase in receipts returned to CRF	-0.7	-1.6	-1.6	-1.7
Savings resulting from increased monitoring of international telegraphic transactions	0.0	-0.2	-0.2	-0.2
Sale of Westbridge Migrant Hostel, Stage 3	0.0	na	0.0	0.0
Sale of property used by Australian Archives (Brighton, Victoria)	0.0	0.0	0.0	na
Increases				
Additional resources for the Department of Treasury	0.9	0.7	0.7	0.7
Employment Declaration Form Matching to reduce overpayments to welfare beneficiaries	7.0	8.7	5.4	5.6
Superannuation Guarantee levy	5.0	11.8	15.2	15.8
Additional resources for Insurance and Superannuation Commission (ISC) for increased protection of life & general insurance policy holders	0.8	0.4	0.5	0.5
Additional resources for ISC for superannuation supervision	2.6	3.9	3.9	4.0
Costs associated with new asset sales	8.3	6.0	0.0	0.0
PSC - SES Development Program	0.8	0.8	0.0	0.0
Council for non-English speaking background women & women's environment statement	0.2	0.2	0.2	0.0
Community Education Program - violence against women	0.0	0.2	0.2	0.2
Community Education Program - women workers with families	0.1	0.0	0.0	0.0
Aboriginal Deaths in Custody - additional resources for Aboriginal Reconciliation Unit	0.1	0.0	0.0	0.0
Cocos (Keeling) Islands - achievement of mainland standards in public infrastructure	0.4	1.0	0.6	0.1
Australian Made Campaign *	2.0	0.0	0.0	0.0
DAS training and guidance to departments on recent government purchasing reforms *	3.1	2.6	2.1	2.1
Information Exchange Steering Committee *	0.1	0.1	0.1	0.0
Additional running cost resources for the Department of Prime Minister & Cabinet	0.4	0.2	0.2	0.0
Reform of anti-dumping/countervailing arrangements *	1.3	1.3	1.3	1.3
Commonwealth Office Refurbishment (design fees) - Hobart	0.7	0.5	0.0	0.0
Commonwealth Office Refurbishment (design fees) - Perth	0.8	0.5	0.0	0.0
Commonwealth Office Refurbishment - Juliana House ACT	0.5	6.2	1.6	0.0
Heritage Property Works - repair of Townsville Customs House	0.3	0.3	0.0	0.0
Heritage Property Works - repair of Newcastle Customs House	1.3	2.5	0.0	0.0
Additional funds for Edmund Barton building refurbishment	4.0	0.0	0.0	0.0
Contracting out Parliamentary Catering Service - Superannuation payout	1.0	0.0	0.0	0.0
Comcare computer acquisition	12.1	1.7	1.8	1.9
Implement Occupational Health & Safety Act	1.2	1.2	1.2	1.3
AUSLIG - development of Australian Geographic Database	0.7	0.7	0.7	0.7
DAS Common Service Reform *	9.0	15.0	22.0	5.0

* Included in March 1991 Economic Development Statement.

PURPOSE

This function relates to administrative machinery, infrastructure and support services of government which are not covered under other functions.

NATURE OF ADMINISTRATIVE SERVICES OUTLAYS

The administrative processes of government include identifiable tasks such as the collection of taxes, the collection of statistics, raising and managing public debt, oversighting disbursements of public funds, auditing of Commonwealth entities, and providing economic, financial and other co-ordinated policy advice to government. They also include the provision of centralised support services (such as property, transport and personnel services) to government departments and agencies.

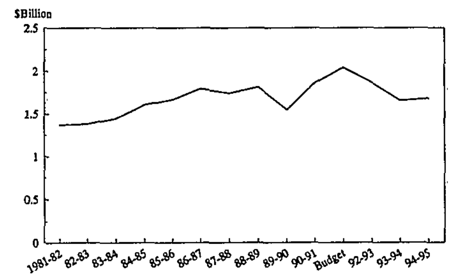
The function includes:

- the running costs and other outlays of relevant departments and agencies;
- costs of developing and managing the Commonwealth's real property estate (primarily office accommodation), less the return (net rent) received on the estate and the proceeds of disposals;
- net superannuation to certain former Commonwealth employees and former Members of Parliament and associated administrative costs;
- net compensation payments to Commonwealth employees;
- net outlays of DAS common service businesses; and
- tax and levy receipts paid by departments and budget sector agencies (treated as an offset within outlays in this function).

TRENDS IN ADMINISTRATIVE SERVICES OUTLAYS

Chart 2 shows that outlays increased at a steady rate, averaging 5.5% real a year over the period 1981-82 to 1986-87. Real outlays fluctuated in the period 1987-88 to 1989-90, increased by 20.4% in 1990-91, and are expected to increase by 9.5% in 1991-92, to decline by 9.9% a year over 1992-93 and 1993-94 and to rise by 1.9% in 1994-95.

Chart 2. Administrative Services (1984-85 prices)



Significant influences on outlays on the function are:

- the Financial, Budgetary, Statistical, and Administrative subfunction (particularly ATO, Customs, and the ABS) due to its dominant weight in the function. This weight has fallen over the period due to a number of developments outlined under the subfunction;
- steady, strong growth in the Net Superannuation Payments subfunction which has increased its share of total function outlays (excluding 8E.6 Taxes paid by Budget Agencies) from 20% in 1981-82 to 47% in 1994-95;
- the phased introduction, commencing in the late 1980s, of a number of taxes, rents and fees-for-services payable by departments and agencies (which are an offset within outlays in this function but outlays neutral overall); and
- a peak in construction of Commonwealth offices in 1989-90 and 1990-91.

MAJOR POLICY CHANGES

Significant policy changes in the period to 1990-91 were:

- a strengthening of the ATO resource base, introduction of the Tax File Number System and modernisation of ATO systems to enhance efficiency and provide greater equity in taxation administration;
- the introduction of a new superannuation scheme for Commonwealth employees from 1990-91;
- the progressive introduction of fee-for-service and other commercialisation reforms, from 1987-88, to the common services of DAS;
- the introduction of revised arrangements for funding Commonwealth employees' compensation, including full premium funding from 1989-90;
- the phased introduction, from 1989-90, of rent payable on the Commonwealth estate; and
- the introduction, from 1 January 1987, of fringe benefits tax (FBT) and, in 1990-91, of customs duty both payable by departments and budget sector agencies.

1990-91 OUTCOME

In 1990-91, outlays were $42.7m or 1.6% higher than estimated mainly due to:

- taxes paid by budget agencies (receipts were $112.2m lower, largely in customs duty receipts); and
- a lower return of rent on the Commonwealth estate to Consolidated Revenue Fund (CRF). Part of the 1990-91 return will be paid in 1991-92.

These increases were partially offset by:

- lower expenditure on construction of Commonwealth office blocks reflecting slower progress with construction; and
- lower Net Superannuation Payments due to a smaller number of new beneficiaries and effects of the introduction of the new PSS scheme (see 8E.3 Net Superannuation Payments).

SUBFUNCTION DETAILS

8E.1 FINANCIAL, BUDGETARY, STATISTICAL AND ADMINISTRATIVE

8E.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Department of the Treasury	$m	34.7	39.0	33.2	32.9	34.0
	%	19.4	12.4	-14.9	-0.8	3.4
Australian Taxation Office	$m	1103.4	1240.4	1189.5	1017.4	991.6
	%	18.9	12.4	-4.1	-14.5	-2.5
Australian Bureau of Statistics	$m	187.3	248.8	189.4	179.4	207.9
	%	16.6	32.9	-23.9	-5.3	15.9
Department of Finance	$m	55.5	76.0	70.8	61.2	62.1
	%	7.3	36.9	-6.8	-13.7	1.6
Australian National Audit Office	$m	27.2	28.5	15.4	11.7	10.8
	%	-0.2	4.7	-46.1	-23.9	-7.7
Australian Customs Service	$m	252.0	294.4	278.9	259.6	265.1
	%	13.2	16.9	-5.3	-6.9	2.1
Prime Minister and Cabinet	$m	63.8	72.3	69.3	54.4	55.2
	%	30.6	13.3	-4.2	-21.5	1.4
Arts, Sport, the Environment,	$m	18.5	17.9	26.1	25.4	24.3
Tourism and Territories	%	-47.2	-3.4	45.7	-2.7	-4.3
Dept of Administrative Services	$m	46.4	77.8	72.4	65.4	68.7
	%	-47.2	67.8	-7.0	-9.6	4.9
Other	$m	23.3	30.5	28.4	28.5	29.3
	%	8.6	31.0	-6.9	0.5	2.7
TOTAL	$m	1812.1	2125.6	1973.4	1735.8	1749.0
	%	12.4	17.3	-7.2	-12.0	0.8

This subfunction mainly covers the running costs and other outlays of departments concerned with policy development and co-ordination; financial, budgetary, and statistical programs; and administrative activities. Operational expenses of agencies not elsewhere classified are also included.

Trends

Real outlays increased substantially between 1981-82 and 1986-87 (an average 5.9% a year), fluctuated and declined by 17.2% over the three years to 1989-90, increased by 9.2% in 1990-91, and are estimated to increase by 13.6% in 1991-92 and to decline over the forward years by an average 9.9% a year.

Real outlays of the ATO grew substantially from 1981-82 to 1990-91. This reflects the increase in the taxpayer population and the need to implement measures to address tax avoidance and to bring greater efficiency and equity to taxation administration. Further substantial real growth is expected in 1991-92, due largely to the modernisation of ATO's systems, which was approved in 1989-90, estimated to cost in excess of $1 billion over 12 years and to result in annual savings of 3000 staff by 1998-99. The estimated cost in 1991-92 of ATO systems modernisation is $304.8m, an increase of approximately $113.1m on 1990-91. Outlays are expected to decline over the forward years reflecting, in part, lower outlays on modernisation and the generation of savings from the project.

Real outlays of Customs grew substantially during the first half of the 1980s, mainly due to a reconstitution of its functions in 1982-83. In 1990-91 and 1991-92 real outlays show substantial increases and then decline in 1992-93 and 1993-94. This reflects mainly the development of a new computer system which cost $3.8m in 1990-91, and is expected to cost a further $21.7m in 1991-92, $14.7m in 1992-93, and $2m in 1993-94. In order to improve Customs control and enforcement at the waterfront the Government will be giving further consideration to enhanced waterfront surveillance measures over the forward estimates years.

Fluctuations in outlays of the ABS reflect its cyclical program of data collections. The Census of Population and Housing generated peaks in outlays in census processing years 1981-82 and 1986-87. A further peak occurs in 1991-92 as a result of the 1991 Census.

The decline in subfunction outlays between 1987-88 and 1989-90 was mainly due to:

- a reduction in loan flotation expenses and the curtailing of overseas borrowings as a result of budgetary surpluses in 1987-88 and subsequent years;
- cessation of Commonwealth outlays on administration (nec) of the ACT following self government in May 1989;
- abolition of the Public Service Board and the formation of the Public Service Commission in 1987; and
- a reduction in DAS running costs in 1989-90 and 1990-91, due to a number of common service units moving to commercial trust account operations and their outlays then being classified under 8E.5 Common Service Businesses.

From 1991-92 interest incurred and fees charged on bank accounts operated on behalf of the Commonwealth by the Department of Finance will be treated as outlays, rather than being deducted from revenue, adding $7.1m to outlays in that year. This change is being made for technical reasons and will not affect the financing requirement of the budget as the increase in outlays is fully offset by an increase in revenue.

Charging by the Australian National Audit Office for all financial statement audits will commence in 1991-92. The fees are recorded as an offset within outlays so that outlays under this function will be reduced as a result. Departments and budget dependent agencies will be supplemented for these charges; hence the measure will add to outlays under other functions but not add to outlays overall.

A loan facility of $20m will be provided to DAS for use by common services businesses operating within the Business Services Trust Account to meet short term cash requirements. The initiative is not expected to add to outlays in 1991-92.

Measures

Running cost resources of the Department of the Treasury will be supplemented to cover increased workloads. These increases will be partially offset by savings from efficiency gains in the Royal Australian Mint.

Additional funds will be provided to the ATO for the processing of employment declaration forms to enable matching against client records of the Department of Social Security, so as to reduce overpayments to welfare beneficiaries and to improve enforcement of maintenance arrangements under the Child Support Scheme.

From 1 July 1992 a superannuation guarantee levy is to apply to employers not providing the prescribed level of superannuation support. Additional resources will be provided to the ATO for the establishment and administration of collection of the levy and the conduct of an education/awareness campaign.

Funds will be provided to the Insurance and Superannuation Commission for enhanced superannuation supervision and for increased protection of life and general insurance policy holders.

Running cost resources of the Department of Finance will be supplemented for the Task Force on Asset Sales to process the sale of equity in Qantas and Australian Airlines.

The Public Service Commission will undertake career development initiatives for the Senior Executive Service. Additional costs will be offset by savings made on the Commission's Structural Efficiency Principle training program.

Additional funds will be provided to the Office of the Status of Women, in the Department of the Prime Minister and Cabinet, to pursue initiatives relating to the Council for Non-English Speaking Background Women and for a statement about women and the environment, as announced in the International Women's Day statement. Also, additional funds are being provided for community education programs relating to violence against women and to women workers with family responsibilities.

Additional resources will be provided to the Aboriginal Reconciliation Unit in the Department of the Prime Minister and Cabinet as one of the initiatives arising from the Royal Commission into Aboriginal Deaths in Custody.

Works and services on Cocos (Keeling) Islands are to be upgraded to mainland standards. The introduction of mainland taxes and charges will result in increased revenue for the Commonwealth.

Funds will be provided to the Department of the Arts, Sport, the Environment, Tourism and Territories to promote the purchase of Australian made products.

Additional funds will be provided to DAS for coordination and training services to departments and agencies relating to the major reforms in government purchasing policies and procedures.

8E.2 ESTATE MANAGEMENT

This subfunction covers the activities of the Australian Estate Manager (AEM) which manages the Commonwealth's investment in real property. The AEM is required to achieve an economic return on the Commonwealth's investment in property and to minimise the Commonwealth's accommodation costs.

Trends

Since the mid 1980s outlays have fluctuated widely, reflecting changes in the mix of large capital items such as construction and disposal of property. The main factors contributing were:

- a government initiative to rationalise Commonwealth real property holdings by disposing of surplus or uneconomic properties. This increased 1986-87 property sales to six times the previous year's level. While subsequently fluctuating from year to year, disposals have generally remained at a high level since 1986-87. (Major sales of Commonwealth office blocks in Sydney and Melbourne are shown under *9D. Asset Sales*);

- the decision taken in 1983-84 to purchase ten new office blocks, including seven in regional centres, by annual instalments. Payments began in 1987-88;
- a commitment in 1988-89 to construct new Commonwealth offices in Melbourne (Casselden Place, $202.5m over four years) and Sydney (Haymarket, $174.7m over four years). In addition, initiatives were approved in the 1989-90 Budget to erect office buildings in Townsville, Hobart, Alice Springs and Logan City (total cost $85.7m). Outlays on the six projects peaked in 1990-91;
- effects of government reforms on the provision of property services, including:
  - charging, by the newly commercialised agencies of DAS, from 1988-89 and 1989-90, for services (including design and construction supervision) required by the AEM. (The effect was to increase outlays under this subfunction and to reduce outlays under 8E.5 Common Service Businesses); and
  - the introduction in 1989-90 of rents, set at market levels, on the Commonwealth office estate and from 1990-91 on industrial properties. Budget dependent agencies were supplemented to meet these costs. The effect on this subfunction was to reduce outlays by the amount of the return on the office estate (rent less outgoings costs, which was $109.7m in 1989-90 and $96.1m in 1990-91).

Outlays were relatively high in 1990-91 ($142.7m) and are expected to be negative ($38.6m) in 1991-92. This results predominantly from:

- reduced outlays on office construction as approved projects approach completion;
- increased net rent on the office and industrial estate expected in 1991-92 as payments are remitted to CRF from the Australian Property Group (APG) Trust Account in respect of 1990-91 rental payments, and the effect of rent reviews and occupancy of new premises (total estimated net rent receipts are $198.7m); and
- the introduction in 1991-92 of rents payable to the AEM on certain Commonwealth-owned special purpose property. The effect is to reduce outlays by $24.6m within the subfunction. This is offset by increased outlays in other functions.

Outlays in the forward years reflect declining outlays on construction as buildings are completed.

Measures

Measures include design work on refurbishment of Commonwealth office buildings in Hobart and St Georges Terrace, Perth; refurbishment of Juliana House in the ACT; additional funds for refurbishment of the Edmund Barton building in the ACT; repair of the Newcastle and Townsville Customs Houses (both heritage buildings); and sale of the Westbridge Migrant Hostel, Stage 3, and Australian Archives' repository at Brighton, Victoria.

8E.3 NET SUPERANNUATION PAYMENTS

This subfunction comprises outlays associated with the provision by the Commonwealth of occupational superannuation schemes for its employees and for Members of

Parliament. Also included are reimbursements to SA and Tas of the cost of superannuation benefits of former State railway employees who remained members of State superannuation schemes when rail services in these States were taken over by the Commonwealth.

Superannuation benefits for members of the defence forces and for former employees of agencies which are classified by the ABS as Public Trading Enterprises (PTEs) are not included. In line with ABS standards the net superannuation transactions of PTEs are classified as financing transactions and are not included in the calculation of the budget balance. Statement 7 shows the effect of PTE superannuation transactions on the financing requirement of the budget sector. Estimates relating to the defence forces are included in *1. Defence*.

The amounts of employer contributions by Commonwealth authorities, amounts paid from the Superannuation Fund and contributions by Members of Parliament to their superannuation scheme are incorporated as offsets to outlays.

Trends

Outlays increased by 17.6% a year (9.7% in real terms) over the period 1981-82 to 1990-91. This growth reflects increases in rates of pension benefits as well as in numbers of beneficiaries. Beneficiary numbers have been affected by staff retrenchment programs. Lump sum retrenchment payments are mainly an early realisation of forward commitments and the effect does not carry into future years. Employer superannuation contributions received from Commonwealth authorities over the period have also increased and offset, to some extent, the rate of growth in outlays.

Real outlays are expected to increase substantially in 1991-92 and 1992-93 (13.4% a year) with increasing numbers of beneficiaries, continuing high levels of retrenchments, and continued bringing forward of outlays as a result of a larger group of members of the new PSS scheme, introduced on 1 July 1990, becoming entitled to lump sum benefits each year during the five year phase-in period for this type of benefit.

A decrease in real outlays of 1.1% is expected in 1993-94 as retrenchments return to more normal levels. Real increases in outlays are expected to resume thereafter because of increased beneficiary numbers and rates of benefit.

8E.4 COMMONWEALTH EMPLOYEES' COMPENSATION

Comcare administers compensation arrangements for most Commonwealth employees. Current arrangements were introduced in 1988-89 with increased emphasis on better workplace safety, rehabilitation and improved claims management. The arrangements aim to prevent injuries and to assist incapacitated employees to return to productive work as soon as practicable.

Since 1 July 1989, agencies have been required to pay premiums which reflect their accruing compensation liabilities. While retaining the Commonwealth's practice of self-insurance, the arrangements provide incentives for agencies to improve their occupational health and safety and rehabilitation performance by enabling savings/costs on future premiums to be retained/absorbed. Premiums are paid to CRF.

Trends

The Government's compensation reforms, introduced during 1988-89, were designed to arrest the previous long term upward trend in compensation outlays (there was a real increase of 169% over the ten year period to 1987-88). The incidence of claims lasting more than 28 days dropped from 28.5% under the old scheme to 13.5% in the 12 months ended November 1990. In addition, premium rates have fallen from 2.6 cents per wage and salary dollar in 1989-90, to 1.7 cents in 1991-92.

Compensation payments for agencies are continuing to increase. This reflects transitional arrangements as the costs of the previous scheme, which are not covered by premiums, decrease slowly while the costs of the new scheme, which are covered in full by premiums, steadily build up to the expected ongoing level. In the longer term compensation payments and receipts from premiums are expected to balance.

Measures

From 1991-92, about $1.2m a year is being provided to Comcare for the implementation of the *Occupational Health and Safety (Government Employees) Act 1989* to cover advice, investigations and enforcement activities. Comcare will also fund the operation of the Act via user charges (approximately $1.2m in 1991-92).

Additional funds of $12.1m (including $8.5m as a repayable loan) will be provided to Comcare for computer acquisition, in 1991-92.

8E.5 COMMON SERVICE BUSINESSES

8E.5		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Australian Valuation Office	$m	-5.4	-2.5	-2.6	-2.7	-2.8
	%	-10.6	-54.0	2.9	4.0	4.0
Supply and Distribution	$m	15.7	-5.9	-3.0	-8.4	-8.9
	%	-234.0	-137.4	-48.4	177.0	5.4
Australian Survey and Land	$m	32.8	23.7	19.5	22.2	23.1
Information Group	%	50.9	-27.8	-17.9	14.2	3.8
Fleet	$m	11.4	-7.8	-29.4	-33.8	-13.5
	%	118.5	-168.0	na	15.0	-60.2
Comcar	$m	-	6.2	8.6	9.6	10.8
	%	na	na	38.8	11.9	11.7
ACS Projects	$m	22.7	96.2	-6.5	-6.8	-6.5
	%	-33.7	na	-106.8	3.4	-4.1
ACS Assets	$m	-6.5	-57.9	-3.0	-3.0	-3.0
	%	-78.0	na	-94.8	-	-
Australian Property Group	$m	-35.8	26.1	-5.9	-2.2	-3.3
	%	na	-173.0	-122.5	-62.3	47.1
Contingency for Businesses	$m	-	-	24.0	28.0	5.0
	%	na	na	na	16.7	-82.1
TOTAL	$m	34.9	78.2	1.6	3.0	1.0
	%	na	124.0	-97.9	82.5	-67.5

The contingency in the forward years includes amounts for future staff redundancies. The actual level of funding to be provided in those years will be determined following the consideration of proposals by the businesses.
Outlays for ACS Projects in 1991-92 are increased because they include payment to CRF of the balance of the former ACS Trust Account. This balance was repaid to the Business Services Trust Account with part of it being allocated to ACS Projects and the other part being allocated to ACS Assets.
Outlays for Fleet in the period to 1993-94 include transactions of the Transport and Storage Group Property Rationalisation Trust Account.

This subfunction covers most of the business units in DAS providing common services to Commonwealth departments and agencies.

When first put onto commercial operations (in most cases in 1989-90 or 1990-91) the DAS common service businesses operated on the Commonwealth Public Account through separate trust accounts. From 1991-92 all of the units are to operate through a single Business Services Trust Account thus providing increased financial and administrative flexibility to DAS. All operational costs of the businesses, including accrued costs, are a charge to the Trust Account. All fees income received from clients is credited to the Trust Account.

The services provided by the business units included in this subfunction are:

- valuation of real property and equipment by the Australian Valuation Office;
- distribution, warehousing, removals, publishing, printing, purchasing and sales by Supply and Distribution;
- survey, mapping, geodesy, remote sensing and land information services by the Australian Survey and Land Information Group (AUSLIG);
- leasing of self-drive vehicles to clients by Fleet Services;
- car-with-driver services by Comcar;
- planning, design, and construction supervision services by ACS Projects (including ACS Interiors);
- repairs and maintenance and minor capital works by ACS Assets; and
- real estate and property management services by the APG.

The other two common service businesses, the Australian Government Analytical Laboratories and Australian Protective Services, are classified under *7D. Other Economic Services* and *8B. Law, Order and Public Safety* respectively.

Trends

Real outlays fluctuated over the period from 1981-82 to 1986-87, increasing by an average of 4.2% a year. After a peak in 1986-87, real outlays decreased substantially (by 76.9%) to 1990-91. The change in trend reflects the commercialisation reforms, in particular the introduction of user charging. (These changes were introduced progressively from July 1987 with the most significant changes being introduced in 1989-90.) Supplementation was provided to user departments and agencies for the charges. The cost of providing these services has, consequently, been transferred to other subfunctions in this function and to other functions.

The commercialisation reforms have resulted in reductions in operating costs of more than $200m a year. Staff numbers fell by some 3800 (26%) between July 1987 and June 1991. Both the Budget and departments' running costs have benefited from these reductions. The Budget has, however, had to meet some large up-front costs to assist DAS rationalisation covering, over the past two years, staff redundancies ($44m), capital injections, including working capital ($209m), and transitional operating subsidies ($46m). Most of the capital injections moneys remain in the Business Services Trust Account. Hence the addition to budget outlays is less than the amounts appropriated.

There have been some significant reductions in activity levels in parts of DAS (eg survey, construction design and supervision) but these have not yet been large overall. More significant reductions in activity are expected in the years ahead as the impact is felt of the opening of remaining parts of DAS to competition, and of the recession in the construction industry. Construction supervision and design services and accommodation services outside the ACT are untied from July 1991, general printing is to be untied from July 1992, and car fleet and repairs and maintenance services from July 1993.

The strong growth in outlays in 1991-92 and the marked decrease in 1992-93 reflects mainly:

- rent on the Commonwealth estate to be remitted in 1991-92 from the APG Trust Account to Consolidated Revenue Fund in respect of 1990-91 payments. (This is offset by receipts in subfunction 8E.2 Estate Management.) In 1992-93 the remittance of rent payments to CRF will return to a more regular pattern;
- outlays by ACS Projects and ACS Assets in 1991-92 on computer acquisitions and approved redundancy payments.

As part of the rationalisation of property occupied by the common service businesses, rent subsidies are being provided to a number of businesses in 1991-92 ($11.4m) and 1992-93 ($9.9m) in respect of inappropriate and surplus properties, including Commonwealth owned, which were occupied prior to the commercialisation of operations. (These subsidies are transfers within the Commonwealth Public Account and will therefore not impact on outlays.)

In 1993-94 repayments to CRF are expected from the Transport and Storage Group Property Rationalisation Trust Account. This transaction will not affect outlays.

Measures

Measures include the development of the Australian Geographic Database by AUSLIG and further staff redundancies in several common service businesses. Cost estimates of these measures are included in the Measures Table. The estimates exclude superannuation payouts to redundant staff; these are included under 8E.3 Net Superannuation Payments.

8E.6 TAXES PAID BY BUDGET AGENCIES

8E.6		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Fringe Benefits Tax	$m	-159.9	-170.0	-176.8	-183.9	-191.3
	%	-7.2	6.3	4.0	4.0	4.0
Customs Duty	$m	-10.3	-16.8	-17.2	-17.9	-18.6
	%	na	63.6	2.5	4.0	4.0
TOTAL	*$m*	*-170.2*	*-186.8*	*-194.0*	*-201.8*	*-209.9*
	%	-1.3	9.8	3.9	4.0	4.0

Taxes and levies received from payments by budget sector agencies, and classified as an offset within outlays, are reported under this subfunction whereas the payments are reported under the functions to which the paying departments and agencies are classified.

Fringe Benefits Tax

FBT was introduced for departments and budget sector agencies on 1 January 1987 (departments and agencies were fully supplemented at that time). A substantial increase in payments made in 1989-90 reflected in part the additional liability associated with the provision of privately plated vehicles to Senior Executive Service officers and the changed Defence housing benefits.

Customs Duty

Since 1 October 1990, Commonwealth departments and budget sector agencies have been required to pay customs duty. The increase in receipts expected in 1991-92 reflects the full year effect of payment of the duty. Departments and agencies will receive full supplementation for customs duties until 1993-94 when an adjustment will be made to their running cost bases.

9. NOT ALLOCATED TO FUNCTION

This category covers outlays to the States, Territories and for local government that are not classified elsewhere in *Statement 3*; outlays on public debt interest; those included in the Contingency Reserve; and the proceeds from asset sales. The Contingency Reserve is an allowance, included in aggregate outlays figuring, to reflect anticipated events which cannot be assigned to individual programs at budget time.

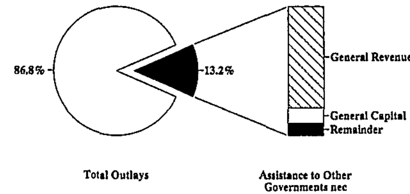
9A. ASSISTANCE TO OTHER GOVERNMENTS, NEC

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
9A.1	General Revenue Assistance to the	Sm	13601.4	13799.9	14324.6	14897.6	15508.4
	States and Territories	%	2.4	1.5	3.8	4.0	4.1
9A.2	General Capital Assistance to the	Sm	-1246.5	-2141.8	-1672.5	-503.8	-1323.9
	States and Territories	%	na	71.8	-21.9	-69.9	162.8
9A.3	Debt Assistance to the States	Sm	54.1	258.0	160.2	96.9	144.2
	and Northern Territory	%	8.3	na	-37.9	-39.5	48.9
9A.4	*Assistance for Local Government -*	*Sm*	*711.4*	*1046.4*	*1091.7*	*1135.4*	*1181.9*
	States and Territories	%	3.2	47.1	4.3	4.0	4.1
9A.5	Compensation for Revenue Lost	Sm	68.0	118.3	120.3	125.1	130.1
	from Companies and	%	na	73.9	1.7	4.0	4.0
	Securities Regulation						
9A.6	Natural Disaster Relief and	Sm	794.9	270.8	126.9	101.0	88.4
	Other Assistance	%	na	-65.9	-53.1	-20.4	-12.5
	TOTAL	Sm	13983.4	13351.7	14151.3	15852.2	15729.2
		%	-1.9	-4.5	6.0	12.0	-0.8

- **Total outlays under this function are estimated to decrease by $631.7m or 4.5% in 1991-92 (7.5% in real terms). Outlays increase progressively and substantially in real terms in 1992-93 and 1993-94 (by 1.9% and 7.7% respectively) then decline in 1994-95 by 4.6%:**
  - **— these fluctuations largely mirror changes in accelerated sinking fund receipts from the States, resulting from transfer to the States during 1990-91 of responsibility for refinancing maturing debt previously raised on their behalf by the Commonwealth.**
- **Assistance to Other Governments, nec is estimated to account for 13.2% of total Commonwealth outlays in 1991-92.**
- **General revenue assistance to the States and Territories dominates the function.**

Chart 1. Assistance to Other Governments, nec (a)
Proportion of Total Outlays and Function
1991-92



(a) The bar illustration is derived from absolute data (general purpose capital assistance is negative).

- **The main sources of decline in 1991-92 are:**
  - **— accelerated sinking fund receipts from the States, which are an offset within general purpose capital assistance, increase from $965.6m in 1990-91 to $2339.4m in 1991-92; and**
  - **— lower general revenue assistance to the ACT ($17.0m) reflecting the continued transition of the ACT to State-like levels of funding.**
- **The substantial real increase in 1991-92 of compensation to the States for permanent loss of revenue arising from the creation of a national system of companies, securities and futures regulation reflects the first full year of payments.**
- **New policies have increased outlays by $606.2m in 1991-92. As a result of the transfer of funding from '7A.3 Land Transport', however, the net increase is $282.4m.**

MEASURES TABLE

Description of Measure	Effect on Outlays 1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Decreases				
Transition of ACT to State-like levels of funding:				
-general revenue assistance	-34.4	-90.3	-93.9	-97.3
-assistance for local government functions	-0.2	-0.2	-0.2	-0.2
Increases				
General purpose capital assistance - building better cities	55.6	134.5	225.0	235.8
Road saturation disaster assistance	4.0	0.0	0.0	0.0
Compensation to Tas for revenue losses from bank merger	14.0	0.0	0.0	0.0
Assistance for debt redemption to States - net present value basis	170.4	84.3	9.8	66.5
Grant to Qld for infrastructure restoration	2.0	0.0	0.0	0.0
Local government financial assistance grants	0.8	1.5	2.3	3.0
Transfer of tied grants for local roads to - general revenue assistance to the States	39.9	41.6	43.2	45.0
Transfer of tied grants for local roads to - general purpose assistance for local government	319.5	333.3	346.6	360.8

PURPOSE

The Commonwealth aims to offset vertical and horizontal fiscal imbalance between levels of government, consistent with its overall macroeconomic policy objectives.

NATURE OF ASSISTANCE TO OTHER GOVERNMENTS, NEC

Outlays under this function include:

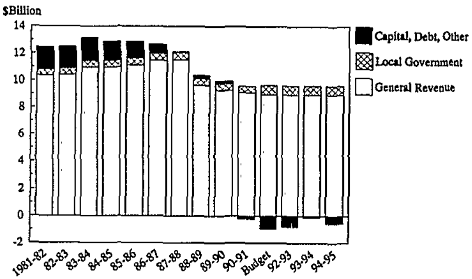
- general revenue grants and general purpose capital assistance to the States and Territories and assistance to the States for servicing and redeeming their debt;
- general purpose grants, including funding in lieu of grants for local roads, paid through the States and Territories to local government;
- compensation to the States for permanent loss of revenue resulting from the creation of a national system of companies, securities and futures regulation during 1990-91;
- natural disaster relief and restoration;
- other assistance to governments, including assistance to Tasmania related to the termination of the Gordon-below-Franklin hydro-electric scheme and assistance to the ACT to fund Canberra's role as the national capital; and
- payments to Victoria and Western Australia of their respective shares of off-shore petroleum royalties which, before 1991-92, were classified as an offset within revenue.

General purpose assistance to the States and Territories and for local government is determined annually at Premiers' Conference and Loan Council meetings. These grants represent 'untied' assistance which other governments can spend according to their own budgetary priorities. Because local government is the constitutional responsibility of State and Territory governments, general purpose assistance for local government is classified by the Commonwealth as (tied) assistance paid through State and Territory governments. Most specific purpose assistance to the States and Territories is classified elsewhere in Statement 3 under the relevant functional headings. Detailed information is provided in Budget Paper No. 4, *Commonwealth Financial Relations with Other Levels of Government 1991-92.*

TRENDS IN ASSISTANCE TO OTHER GOVERNMENTS, NEC

Real growth fluctuated significantly over the period from 1981-82 (see Chart 2). This reflected a number of discrete changes in the classification of particular payments and the growing need for fiscal restraint, both at State and local government levels.

Chart 2. Assistance to Other Governments, nec (a)
(1984-85 prices)



(a) The ACT is included from 1988-89. Excludes one off ACT Trust Account transactions in 1988-89.

Real outlays peaked in 1983-84 and, over the four years to 1987-88, fell by 2% a year on average. Most of the slowing over this period resulted from significant real falls in general purpose capital assistance to the States (see Chart 2). This reflected cuts in the size of the State Governments' Loan Council Program and the conversion of general purpose advances into subsidised loans for public housing.

The sharp decline in outlays in 1988-89 reflects both the first significant real cut in financial assistance grants to the States and, more importantly, the conversion of identified health grants into (tied) hospital funding grants (see *3. Health*). Identified health grants comprised approximately one eighth of general revenue assistance from 1981-82 to 1987-88. Additional cuts in general revenue assistance are reflected in the continuing decline in outlays in real terms in 1989-90 and 1990-91. The major cause of the fall in 1990-91, however, was the reduction in capital assistance arising from the changed arrangements for redeeming State debt.

Even after the inclusion of the ACT from 1988-89, and both assistance in lieu of local road grants and capital grants under the Building Better Cities Program from 1991-92, functional outlays comprise only 13.1% of total Commonwealth outlays in 1991-92, down from 23.9% in 1981-82. Projected real growth over the two years to 1993-94 and the decline in 1994-95 largely reflect fluctuations in the forward estimates of accelerated sinking fund receipts.

MAJOR POLICY CHANGES

Over the past decade, policy changes and budget measures have significantly affected these outlays. Until 1984-85, the bulk of general revenue assistance was delivered as tax sharing grants, with guarantee arrangements placing a 'floor' under the annual level of each State's grant. Outlays were reduced by the subsequent shift from tax sharing to financial assistance grants together with the changes in health and public housing funding. These reductions were offset partially by increases arising from self-government in the NT (from 1979-80) and the ACT (from 1988-89), the transfer of tied grants for local roads to general purpose assistance, and increases in capital grants under the Building Better Cities Program (from 1991-92).

Decisions of the 1988, 1989 and 1990 Premiers' Conferences to cut financial assistance grants to the States in real terms were based on strong growth in State own-source revenue in 1988 and 1989 and the need to constrain aggregate demand. Also, effective from 1 January 1991, the Commonwealth transferred the Debits Tax base to the States and Territories. Associated reductions in general revenue assistance in 1990-91 totalled $163.5m ($386.4m in a full year).

The June 1990 Loan Council meeting agreed to transfer to the States the responsibility for redeeming, as it matures, debt raised by the Commonwealth on their behalf under the State Governments' Loan Council Program and the related borrowing program for the NT. This decision will have a substantial effect on outlays until 2005-06. Under the new arrangements, accelerated sinking fund receipts from the States amounted to $965.6m in 1990-91 and are estimated at $2339.4m in 1991-92. The Commonwealth compensates the States for the additional costs they face under the new arrangements. These do not alter the financial position of the public sector as a whole.

A national system of regulating companies, securities and futures began on 1 January 1991. The Commonwealth compensates the States for stamp duty revenue lost because of the establishment of the new scheme. Payments in the second half of 1990-91 totalled $68.0m while estimated payments in 1991-92 are $118.3m.

Commencing 1991-92, general purpose capital grants to the States and Territories have been increased progressively until 1994-95, in recognition of their needs to fund major works to enable Australia's cities to function more efficiently and ultimately to enhance the quality of urban life. Also from 1991-92, funding in lieu of local road grants is included in general revenue assistance to the States and general purpose assistance for local government (see 'Measures Table').

1990-91 OUTCOME

Outlays under Assistance to Other Governments, nec exceeded the budget estimate by $47.2m (0.3%) because:

- outlays on Natural Disaster Relief and Restoration were $83.1m higher than the budget estimate largely as a result of the severe flooding in Queensland; and
- additional compensation of $13.0m was paid to the States for lost revenue following the establishment of the national scheme of companies, securities and futures regulation. This adjustment was required because the revenue forgone by the States was higher in the second half of the financial year.

The decision to provide capital assistance to Queensland of $2m for infrastructure restoration was made after the additional estimates for 1990-91 were finalised.

These overruns were partially offset by lower than expected payments of general revenue grants to the States and Territories, because the negative indexation adjustment ($75.2m) outweighed the lower than budgeted reduction for the transfer of the Debits Tax base ($29.5m).

SUBFUNCTION DETAIL

9A.1 GENERAL REVENUE ASSISTANCE TO THE STATES AND TERRITORIES

9A.1			*1990-91 Actual*	*1991-92 Budget*	*1992-93 Estimate*	*1993-94 Estimate*	*1994-95 Estimate*
1.1	States and NT	$m	13167.0	13382.5	13944.5	14502.3	15096.9
		%	2.0	1.6	4.2	4.0	4.1
1.2	ACT	$m	434.4	417.4	380.1	395.3	411.5
		%	16.4	-3.9	-8.9	4.0	4.1
	TOTAL	*$m*	*13601.4*	*13799.9*	*14324.6*	*14897.6*	*15508.4*
		%	*2.4*	*1.5*	*3.8*	*4.0*	*4.1*

General revenue assistance to the States and Territories in 1991-92 is estimated to increase by 1.5% (a reduction of 1.7% in real terms).

9A.1.1 General Revenue Assistance to the States

9A.1.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Financial Assistance Grants	$m	13117.0	13303.3	13903.5	14459.6	15052.5
	%	2.0	1.4	4.5	4.0	4.1
Identified Local Road Grants	$m	-	39.4	41.0	42.7	44.4
	%	na	na	4.2	4.0	4.1
Special Adjustment Assistance	$m	49.9	39.8	-	-	-
	%	9.9	-20.4	-100.0	na	na
TOTAL	$m	13167.0	13382.5	13944.5	14502.3	15096.9
	%	2.0	1.6	4.2	4.0	4.1

At the June 1990 Premiers' Conference, the Commonwealth undertook to maintain the level of general revenue grants to the States in real terms for 1991-92 to 1993-94, subject to the condition that Australia did not experience any major economic deterioration. Despite the 1990-91 downturn, the Commonwealth, States and Territories agreed at the May 1991 Premiers' Conference that the real terms guarantee should be honoured for 1991-92. In return, to consolidate the gains made in reducing inflation, the States agreed to consider increases in taxes and non-routine increases in charges only as a last resort.

Commonwealth general revenue assistance to the States comprises, in 1991-92, financial assistance grants, grants in lieu of tied funding for local roads ('Identified Local Road Grants') and special adjustment assistance. Actual payments of each component in 1991-92 will vary from the budget estimate if the movement in the average CPI in the year ending March 1992 is different from that forecast.

Financial Assistance Grants

The 1991-92 estimate of $13.3 billion reflects:

- the full year effect of the transfer of the Debits Tax base to the States during 1990-91($386.4m); and
- the decisions of the May 1991 Premiers' Conference to maintain the level of grants in real terms based on the forecast movement in the average CPI in the year ending March 1992 and to transfer $40m from the pool of financial assistance grants to the NT (see also 'Special Adjustment Assistance' - below).

The distribution of financial assistance grants between the States in 1991-92 is based on the per capita relativities determined by the Commonwealth Grants Commission (CGC) in its April 1991 update report.

The forward estimates assume:

- the special assistance to the NT in 1991-92 is added back to the pool of financial assistance grants for 1992-93 and beyond; and
- the pool is maintained in real terms based on forecast movement in the average CPI for each year ending March.

Identified Local Road Grants to the States

Heads of Government agreed at the October 1990 Special Premiers' Conference that Commonwealth funds for local roads be untied and paid at the same real level (see '7A.3 Land Transport' and '9A.4 General Purpose Assistance for Local Government through the States and Territories'). Interim arrangements, decided in April 1991, provide for a portion of these funds to be paid to the States from 1991-92 as grants in lieu of funding for local roads under their direct control (eg those in national parks and unincorporated areas). The distributional principles which applied previously will be continued in 1991-92. The States can spend these grants according to their own budgetary priorities.

Special Adjustment Assistance

The NT has received special revenue assistance each year from 1988-89 when the Territory was included in the States' pool of financial assistance grants. Without special revenue assistance in 1991-92, general revenue assistance to the NT would have fallen by around 3% in real terms. Accordingly, it was agreed at the May 1991 Premiers' Conference that $40m in special revenue assistance, drawn from within the pool of financial assistance grants, would be provided to the NT for 1991-92. This is consistent with the Commonwealth's policy of gradually adjusting funding to the NT to a financial basis fully comparable to that of the six States. The budget estimate of special revenue assistance ($39.8m) incorporates the effect of the actual increase in the CPI in the June quarter of 1991 being lower than that forecast.

9A.1.2 General Revenue Assistance to the Australian Capital Territory

9A.1.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
General Revenue Grant	$m	434.4	364.8	380.1	395.3	411.5
	%	16.4	-16.0	4.2	4.0	4.1
Transitional Assistance	$m	-	52.7	-	-	-
	%	na	na	-100.0	na	na
TOTAL	$m	434.4	417.4	380.1	395.3	411.5
	%	16.4	-3.9	-8.9	4.0	4.1

General revenue assistance to the ACT in 1991-92 is 6.9% lower in real terms than in 1990-91. The level of the general revenue grant in 1991-92 is based on the per capita relativity assessed by the CGC its *Fourth Report 1991 on Financing the ACT* and subsequently amended to incorporate the capacity to meet costs of employer superannuation for community policing. The revised relativity is 1.719. In deciding on the level of funding in 1992-93, the Commission will update this per capita relativity in conjunction with its annual update of relativities for the States. Prior to 1991-92, the ACT general revenue grant was not determined on the basis of a State-like relativity.

In anticipation of the sharp drop in funding to the ACT from 1991-92, the Commonwealth appropriated funds to the ACT Transitional Funding Trust Account during 1989-90 and 1990-91. It was agreed at the May 1991 Premiers' Conference to pay the accumulated balance in this account, estimated at $52.7m, to the ACT in 1991-92 to augment the much lower general revenue grant.

The forward estimates of the ACT general revenue grant assume that payments are maintained at the same real level as in 1991-92 based on forecast movement in the average CPI for each year ending March. These also assume that the ACT will be included in the States' pool of financial assistance grants from 1993-94. The question of additional transitional assistance to the ACT for 1992-93 will be decided at the 1992 Financial Premiers' Conference in the light of the ACT's adjustment efforts through 1991-92 and fiscal policy developments more generally.

9A.2 GENERAL PURPOSE CAPITAL ASSISTANCE TO THE STATES AND TERRITORIES

9A.2			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
2.1	States and NT	$m	-1279.9	-2169.8	-1696.0	-537.2	-1344.3
		%	na	69.5	-21.8	-68.3	150.3
2.2	ACT	$m	33.4	28.0	23.5	33.4	20.4
		%	-38.6	-16.3	-15.9	42.1	-38.8
	TOTAL	$m	-1246.5	-2141.8	-1672.5	-503.8	-1323.9
		%	na	71.8	-21.9	-69.9	162.8

The Commonwealth provides grants to the six States under the State Governments' Loan Council Program and to the Territories under similar arrangements, to reduce their need to borrow to finance capital works.

9A.2.1 General Purpose Capital Assistance to the States

9A.2.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Capital Grants	$m	296.8	352.4	431.3	521.8	532.6
	%	-4.4	18.7	22.4	21.0	2.1
Sinking Fund Receipts	$m	-611.1	-182.7	-154.1	-129.6	-118.0
	%	99.1	-70.1	-15.7	-15.9	-9.0
Accelerated State Repayments	$m	-965.6	-2339.4	-1973.2	-929.3	-1758.9
to NDSF	%	na	142.3	-15.7	-52.9	89.3
TOTAL	$m	-1279.9	-2169.8	-1696.0	-537.2	-1344.3
	%	na	69.5	-21.8	-68.3	150.3

Loan Council decided at its May 1991 meeting to maintain the level of capital grants to the States in 1991-92 at $296.8m, the same nominal level as in 1990-91. Additional general purpose capital grants of $55.6m, however, will be provided to the States and Territories following agreement between Heads of Government at the Special Premiers' Conference in July 1991 to cooperate in the Building Better Cities strategy. Administrative costs and other payments made under the five year Building Better Cities Program are included in *5. Housing and Community Amenities*. The inter-state distribution of these grants for 1991-92 has yet to be determined. It will be based on assessments of relative State needs informed by discussions between the Commonwealth and individual States, including having regard to the achievement of agreed outcomes. As part of this process, the Commonwealth will enter agreements with States and Territories on the objectives and outcomes for the Building Better Cities strategy.

Accordingly, this strategy represents a move away from the provision of tied funding for specific policy initiatives. While outcome agreements relating to specific programs will be made with the States, the funding provided will be unconditional and available to States and Territories to use according to their own budgetary priorities.

The *Financial Agreement of 1927* between the Commonwealth and the six States limited the borrowing powers of State governments and provided for the Commonwealth to borrow on their behalf. The Commonwealth has not borrowed on behalf of the six States (or the NT) since 1986-87. The States are still required to make sinking fund payments for past borrowings. Under arrangements agreed at the June 1990 Loan Council meeting, the six States will make additional payments until 2005-06 to the National Debt Sinking Fund (NDSF) for the progressive redemption of maturing debt previously issued by the Commonwealth on their behalf. Similar arrangements apply for the NT.

Because of the higher level of maturities in 1991-92 of Commonwealth Government securities issued on the States' behalf, the 1991-92 estimate of accelerated sinking fund receipts is $2339.4m, more than double 1990-91 receipts. The forward estimates of accelerated sinking fund receipts also reflect the changing level of maturities from year to year.

During 1990-91, the Victorian Government received $413m from the Commonwealth in respect of the sale of the State Bank of Victoria (see '9A.6.2 Other Assistance, nec'). Under the terms of the sale, this amount was paid to the NDSF and applied to the redemption of Treasury Bonds with an equivalent market value, previously issued on behalf of the Victorian Government. SA also made an optional payment of $1.3m to the NDSF in 1990-91 which was applied to the redemption of sterling stock previously issued on its behalf.

9A.2.2 General Purpose Capital Assistance to the Australian Capital Territory

9A.2.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Capital Grant	$m	33.4	33.4	33.4	33.4	33.4
	%	4.5	[illegible]	-	-	-
Repayment of ACT Loans	$m	-	-5.4	-9.9	-	-13.0
	%	na	na	81.8	-100.0	na
TOTAL	$m	33.4	28.0	23.5	33.4	20.4
	%	-38.6	-16.3	-15.9	42.1	-38.8

At its May 1991 meeting, the Loan Council agreed to maintain the ACT's general purpose capital grant in 1991-92 at $33.4m, the same nominal level as in 1990-91. The ACT, however, may also apply for a share of the States' special addition from 1991-92 to 1995-96 under the Building Better Cities Strategy (see '9A.2.1 General Purpose Capital Assistance to the States').

The first repayments of principal in respect of general purpose advances to the ACT, made only in 1988-89 and 1989-90, are required in 1991-92 and 1992-93. No sinking fund arrangements apply for this debt. Redemption arrangements, which parallel those for the States, will be negotiated with the ACT during 1991-92.

9A.3 DEBT ASSISTANCE TO THE STATES

9A.3		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Commonwealth Sinking Fund	$m	49.4	45.0	37.9	32.0	29.0
Contributions	%	-1.2	-8.8	-15.7	-15.7	-9.3
Assistance for Debt Redemption	$m	4.7	213.0	122.3	64.9	115.2
	%	na	na	-42.6	-46.9	77.5
TOTAL	$m	54.1	258.0	160.2	96.9	144.2
	%	8.3	na	-37.9	-39.5	48.9

The Commonwealth makes contributions to the NDSF to assist the six States to redeem maturing debt issued by the Commonwealth on their behalf. Similar assistance is provided in respect of NT debt. Under the *Financial Agreement Act 1976* the Commonwealth makes a standard contribution for the six States, equivalent to 0.28% of each State's net debt as at 30 June of the preceding year. Since 1985-86 the Commonwealth has also made a similar annual contribution into the NT Debt Sinking Fund. For 1991-92, the Commonwealth's contributions are estimated at $45.0m (11.7% lower in real terms than in 1990-91).

Under revised debt redemption arrangements, implementing a June 1990 Loan Council decision, the States now make additional sinking fund contributions to enable redemption at maturity of all Commonwealth debt raised on their behalf (see '9A.2.1 General Purpose Capital Assistance to the States'). A new program of assistance for debt

redemption commenced in 1990-91 to compensate the States for the additional interest costs of replacing maturing Commonwealth debt with borrowings in their own names, or through their authorities, rather than by the Commonwealth borrowing on their behalf. Assistance of $4.7m was provided in 1990-91 based on the interest rate margins between Commonwealth and State debt applying at and prior to the decision.

The Commonwealth and the States agreed during 1990-91 to change the method used to calculate the compensation for these additional interest costs from 'emerging cost' to the 'net present value' of additional interest costs over a period of 50 years. Moreover, in addition to compensation for interest costs, assistance for debt redemption from 1991-92 compensates the States for the lower Commonwealth sinking fund contributions which have resulted from the new arrangements.

9A.4 GENERAL PURPOSE ASSISTANCE FOR LOCAL GOVERNMENT THROUGH THE STATES AND TERRITORIES

9A.4		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Financial Assistance Grants	$m	711.4	730.8	762.8	793.4	825.9
	%	3.2	2.7	4.4	4.0	4.1
Identified Local Road Grants	$m	-	315.6	328.9	342.0	356.1
	%	na	na	4.2	4.0	4.1
TOTAL	$m	711.4	1046.4	1091.7	1135.4	1181.9
	%	3.2	47.1	4.3	4.0	4.1

The *Local Government (Financial Assistance) Act 1986* provides for financial assistance grants for local government to be paid through the States and distributed according to criteria developed by the States' Local Government Grants Commissions and approved by the Commonwealth Minister for Local Government. The ACT receives assistance for its municipal budget under comparable funding arrangements.

The budget and forward estimates reflect the April 1991 decision to amend the above Act to provide for the level of local government grants from 1991-92 to be linked to the underlying movement in general revenue assistance to the six States and the NT, defined as financial assistance grants and special revenue assistance (see 'Measures Table'). Accordingly, the level of grants in 1991-92 abstracts from the transfer of the Debits Tax base to State and Territory governments effective from 1 January 1991. Financial assistance grants for local government through the States and Territories in 1991-92 are estimated at $730.8m. This estimate incorporates an indexation adjustment for 1990-91 payments of $1.2m reflecting lower inflation which, because of legislative delays, could not be effected prior to 1 July 1991.

Since 1989-90, financial assistance grants for local government have been distributed between the States on an equal per capita basis. It was agreed at the May 1991 Premiers' Conference that the ACT's grant would be funded on the same basis from 1991-92.

General purpose assistance for local government from 1991-92 includes funding in lieu of tied grants for local roads ('Identified Local Road Grants'), transferred from the Australian Land Transport Development Program (see '7A.3 Land Transport' and '9A.1 General Revenue Assistance to the States & Territories'). Under interim arrangements decided in April 1991:

- the distribution principles which applied previously will be continued in 1991-92 pending finalisation of the conversion of this funding into financial assistance grants;
- the States will combine payments of identified local road grants with those of financial assistance grants to local councils, though each category of funding will be identified; and
- each council has the discretion to spend its combined grant for 1991-92 according to its own priorities.

9A.5 COMPANIES AND SECURITIES REGULATION - COMPENSATION FOR LOSS OF REVENUE

Because of the loss of a State revenue base following the establishment from 1 January 1991 of a national scheme of companies, securities and futures regulation administered by the Australian Securities Commission (ASC), the Commonwealth reimburses the States through a specific purpose payment.

The Commonwealth and the States agreed that, for 1990-91, revenue would be shared 50.50. However, as more revenue accrued to the Commonwealth in the second half of the financial year, additional compensation of $13.0m was paid to the States in 1990-91.

The estimate of compensation to the States for 1991-92 of $118.3m reflects the first full year of payments and incorporates an additional $2.5m for 1990-91 to finalise the 50:50 revenue sharing agreement.

These payments are excluded from the CGC's assessments of general revenue grant relativities. Further information on the establishment of the ASC is provided in '7D.1 Economic and Trade Regulation'.

9A.6 NATURAL DISASTER RELIEF AND OTHER ASSISTANCE, NEC

9A.6		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Natural Disaster Relief	$m	138.5	64.9	33.8	40.0	39.9
	%	na	-53.2	-48.0	18.6	-0.3
Other Assistance nec	$m	656.4	206.0	93.2	61.0	48.5
	%	na	-68.6	-54.8	-34.5	-20.5
TOTAL	$m	794.9	270.8	126.9	101.0	88.4
	%	na	-65.9	-53.1	-20.4	-12.5

9A.6.1 Natural Disaster Relief

9A.6.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Payments	$m	163.1	88.0	50.0	50.0	50.0
	%	na	-46.0	-43.2	-	-
Repayments	$m	-24.6	-23.1	-16.2	-10.0	-10.1
	%	na	-6.0	-29.8	-38.5	1.3
TOTAL	$m	138.5	64.9	33.8	40.0	39.9
	%	na	-53.2	-48.0	18.6	-0.3

Under the Natural Disaster Relief Arrangements (NDRA) the Commonwealth assists the States and Territories with the costs of providing relief and restoration after natural disasters. Disasters eligible for Commonwealth NDRA assistance are bushfires, cyclones, earthquakes, floods and storms.

The Commonwealth reimburses at least 50% of a State's costs on measures to relieve the personal hardship and distress of individuals and families through grants, concessional loans or a mix of both. Concessional interest loans are also available to voluntary non-profit bodies, farmers and small businesses in need. The bulk of assistance provided, however, is generally used to restore or replace essential State and local government assets. States meet an initial level of expenditure and the Commonwealth reimburses an increasing share of relief and restoration costs as a State's expenditure in a year increases. Commonwealth payments to a State are made as grants and concessional loans in the same proportions as the grants and loans (to individuals and organisations) paid by the State.

Commonwealth payments of $163.1m in 1990-91 were the highest ever under the NDRA because of the number and severity of recent major disasters. This included payments to NSW of $104.8m and $57.8m to Queensland.

The Commonwealth reimbursed slightly over 50% of NSW's 1990-91 costs for natural disasters. This assistance comprised:

- $82.8m for damage largely attributable to the floods during 1990 in the Nyngan and central regions, and from the Sydney hailstorms of January 1991; and
- $22.0m for the December 1989 Newcastle earthquake ($10.8m in 1989-90) under the special $ for $ cost sharing arrangements for this disaster agreed between the Commonwealth and NSW.

Payments to Queensland in 1990-91 were largely attributable to the flooding of April 1990 in the Charleville region and the flooding and damage in northern Queensland in the aftermath of Cyclone Joy. The Commonwealth met almost 60% of Queensland's 1990-91 costs for natural disasters.

The budget estimate of payments under the NDRA is based on the expected cost to the States of recent disasters with an allowance for further disasters occurring in 1991-92. Moreover, as agreed by the Commonwealth, the estimate includes $4m for the costs of damage to road bases from continual rain (saturation damage) which directly relates to eligible natural disasters. This measure is to be backdated to 1 July 1990.

The forward estimates of payments are based on the average of Commonwealth past payments. The decline in repayments stems from lower levels of loans in recent years.

9A.6.2 Other Assistance, nec

Assistance to Victoria, nec

As part of the 1990-91 agreement between the Commonwealth and the Victorian Government for the Commonwealth Bank of Australia to purchase the State Bank of Victoria (SBV), a payment of $413m was provided to Victoria as compensation under the *Commonwealth Banks Restructuring Act 1990* for redemption of debt raised by the Commonwealth on its behalf (see '9A.2.1 General Purpose Capital Assistance to the States'). This assistance comprised compensation for:

- payments that Victoria formerly received from SBV in lieu of Commonwealth company income tax; and
- Victoria not accessing Tricontinental's tax losses.

The Commonwealth is also compensating Victoria for shortfalls in revenue associated with application of the Resource Rent Tax (RRT) on Bass Strait petroleum production. Because of delays in enacting the RRT legislation for Bass Strait, royalty collections for 1990-91 continued to be made under the *Petroleum (Submerged Lands) Act 1967*, resulting in no revenue shortfall to Victoria in that year. Payments to Victoria in lieu of petroleum royalties in 1991-92 are estimated at $108.0m and $9.8m in 1992-93.

The *Petroleum (Submerged Lands) Act 1967* applied to petroleum production from Bass Strait before 1991-92. Payments to Victoria of off-shore petroleum royalties in 1990-91 amounted to $176.7m. These payments, together with those to WA outlined below, were reclassified during 1990-91 as outlays, having previously been included in Statement 4. *Revenue* as an offset within 'Dividends and Other Revenue'.

Assistance to Western Australia, nec

The *Petroleum (Submerged Lands) Act 1967* continues to apply, however, in respect of petroleum production at Barrow Island. Accordingly, WA receives a share of off-shore petroleum royalties under this legislation. Payments to WA totalled $14.1m in 1990-91 and are estimated to rise to $27.6m in 1991-92. The forward estimates are $26.5m for 1992-93, $37.7m for 1993-94 and $25.2m for 1994-95.

Assistance to Queensland, nec

In 1990-91 the Commonwealth provided a capital grant to Queensland of $2m for infrastructure restoration. Additional assistance of $2m is provided in 1991-92 only.

Assistance to Tasmania, nec

Since 1983-84 the Commonwealth has provided financial assistance to Tasmania to offset the effects on employment and electricity prices of the cessation of Stage II of the Gordon River Power Development. The electricity subsidy, payable until 1992-93 in ten indexed annual instalments is estimated at $33.6m in 1991-92 (compared with $32.7m in 1990-91). The 1992-93 estimate is $35.1m.

From 1 September 1991, the Tasmania Bank will merge with the Savings Bank of Tasmania to form the Trust Bank. The Commonwealth has agreed to compensate Tasmania for the tax revenue advantage it currently derives from Tasmania Bank's exemption from company tax, which will be lost because of the merger. Compensation of $14m, based on the formula applied in the case of the sale of SBV, will be paid in 1991-92.

Assistance to the ACT, nec

The ACT receives compensation for municipal cost and revenue disabilities (as identified by the CGC) arising from Canberra's status as the national capital. The budget estimate of assistance for national capital influences is $18.0m for 1991-92 and the forward estimates are $19.1m for 1992-93, $19.8m for 1993-94 and $20.6m for 1994-95.

The *ACT Self-Government (Consequential Provisions) Act 1988* requires the ACT to pay the Commonwealth a reasonable amount as reimbursement of past costs of developing land. The ACT reimbursed the Commonwealth $76.0m in 1989-90 (of which $59.6m was offset within outlays under this function), and $9.9m in 1990-91. Of the 1990-91 reimbursement, $6.7m was offset within outlays; the balance represented accrued interest and was categorised as revenue (see Statement 4. *Revenue*).

In 1990-91 the Commonwealth provided a capital grant of $3m to the ACT for establishing a library for the ACT Legislative Assembly and installing a computer system in the ACT Treasury.

Grant to the NT in Lieu of Uranium Royalties

While the Commonwealth does not own and control uranium in the six States, it retains ownership and control of uranium in the NT. Since this additional Commonwealth power in the NT does not permit the Territory Government to levy royalties on uranium mining, the Commonwealth provides a grant in lieu, at the royalty rate of 1.25% of gross proceeds of sales (less minor deductions).

An estimated $2.7m will be paid to the NT in 1991-92 and in each of the forward years. Payments in 1990-91 totalled $3.4m.

SUMMARY OF COMMONWEALTH OUTLAYS TO OTHER GOVERNMENTS

Heads of Government agreed at the October 1990 Special Premiers' Conference to review functional responsibilities between the three levels of government. This review is considering means of enhancing the budgetary flexibility available to State and local governments through a reduction in tied grants. To assist the review process, during 1990-91, the former category of specific purpose payments to the States and Territories was disaggregated into 'to' and 'through' payments:

- payments 'to' are those made for joint Commonwealth-State/Territory programs and where the States and Territories are responsible for program delivery; while
- payments 'through' are those where the States and Territories have little discretion in the way the monies are spent and are essentially passing on monies to other bodies and individuals.

The table below provides an overview of total Commonwealth assistance to and through the States and Territories in 1990-91, 1991-92, and the forward years.

SUMMARY TABLE OF ASSISTANCE TO OTHER GOVERNMENTS

	1990-91 Actual $m	1991-92 Budget $m	1992-93 Estimate $m	1993-94 Estimate $m	1994-95 Estimate $m
To States and Territories:					
General revenue grants	13601.4	13760.5	14283.6	14854.9	15464.0
Identified local road grants	0	39.4	41.0	42.7	44.4
General capital grants	330.2	385.8	464.7	555.2	566.0
Total general purpose assistance	13931.6	14185.7	14789.3	15452.8	16074.4
Hospitals	3680.3	3855.0	4106.6	4365.5	4656.7
Education	1472.6	1599.2	1692.7	1776.0	1848.1
Roads programs	1575.7	1272.9	1273.7	1118.7	1118.7
Housing	969.7	988.7	989.1	1002.1	1015.1
Home & Community Care	277.4	322.6	363.9	410.6	463.2
Rural Adjustment	62.4	146.0	202.0	99.6	31.6
Debt Assistance	54.1	258.0	160.2	96.9	144.2
Compensation - companies regulation	68.0	118.3	120.3	125.1	130.1
Other	1540.2	1183.6	942.9	859.5	842.2
Total specific purpose payments	9700.6	9744.3	9851.5	9854.0	10249.9
Total 'to' payments	23632.1	23930.1	24640.8	25306.7	26324.2
Through States and Territories:					
Higher education	2644.6	2900.4	3147.5	3343.8	3520.1
Non-government schools	1271.0	1368.8	1428.6	1514.2	1618.2
Local government financial assistance	711.4	730.8	762.8	793.4	825.9
Identified local road grants	0	315.6	328.9	342.0	356.1
Australian Research Council	168.6	238.5	273.3	296.0	294.0
Long service leave - coal industry	23.4	23.4	23.4	23.4	23.4
Total 'through' payments	4818.9	5577.5	5964.6	6312.7	6637.7
Payments direct to local government	109.6	157.0	157.9	165.4	178.4
Total payments	28560.7	29664.5	30763.3	31784.8	33140.3
Repayments:					
Accelerated sinking fund receipts	-965.6	-2339.4	-1973.2	-929.3	-1758.9
Other	-912.0	-360.5	-312.3	-274.2	-280.4
Total repayments	-1877.6	-2699.9	-2285.5	-1203.5	-2039.3
Total outlays to/through other governments	26683.1	26964.6	28477.8	30581.3	31101.0

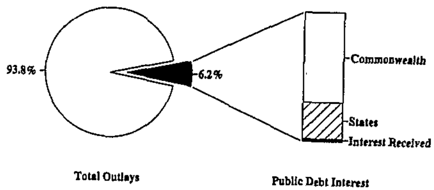
9B. PUBLIC DEBT INTEREST

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
9B.1	Gross Interest Payments- On the Commonwealth's Behalf	$m	4219.3	4573.0	5366.7	5588.5	5777.1
		%	-20.2	8.4	17.4	4.1	3.4
	On Behalf of the States and Territories	$m	2032.3	1851.6	1581.6	1306.6	1180.6
		%	-4.3	-8.9	-14.6	-17.4	-9.6
	Sub-Total Gross Interest Payments	$m	6251.6	6424.6	6948.3	6895.1	6957.7
		%	-15.7	2.8	8.2	-0.8	0.9
9B.2	Interest Received	$m	-179.6	-147.0	-143.0	-141.0	-125.0
		%	27.5	-18.1	-2.7	-1.4	-11.3
	TOTAL	$m	6071.9	6277.6	6805.2	6754.1	6832.7
		%	-16.5	3.4	8.4	-0.8	1.2

- **Outlays on Public Debt Interest (PDI) are expected to increase by $205.7m or 3.4% in 1991-92 (an increase of 0.1% in real terms). Over the forward years, PDI is expected to decline slightly in real terms:**
  - **— interest on behalf of the Commonwealth, which currently accounts for about 73% of PDI outlays, is expected to increase significantly as the Commonwealth issues new debt; and**
  - **— interest paid on State debt is continuing to decline, however, as the States are now responsible for refinancing maturing debt previously raised on their behalf by the Commonwealth.**
- **PDI outlays are expected to account for 6.2% of total Commonwealth outlays in 1991-92 (compared with 6.3% in 1990-91).**

Chart 1. Public Debt Interest
Proportion of Total Outlays and Function (a)
1991-92



(a) The bar illustration is derived from absolute data (interest received is negative).

PURPOSE

Outlays on PDI service borrowings incurred by the Commonwealth on its own behalf and also on behalf of the States (under the State Governments' Loan Council Program) and the Territories.

NATURE OF PUBLIC DEBT INTEREST OUTLAYS

PDI outlays are mainly associated with longer term borrowings from the private sector necessitated by previous budget deficits. The instruments used for these borrowings comprise Treasury Bonds, Australian Savings Bonds, Treasury Indexed Bonds and overseas borrowings. PDI outlays cover the fixed (at the time of issue) rates of interest and net premiums and discounts on the issue and repurchase of these instruments.

The Commonwealth also issues short term securities (three or six month Treasury Notes) for seasonal liquidity management purposes. No periodic interest payments are made on these securities - the discounts at which the Notes are issued represent their entire interest cost (incurred at the time the Notes mature).

Payments of interest on the debt of the State and Territory governments, raised on their behalf by the Commonwealth, are treated as Commonwealth outlays. Reimbursement by the relevant governments of these interest payments, together with interest reimbursements by the ACT on capital advances paid to it in 1988-89 and 1989-90, are recorded as revenue under the heading 'Non-Taxation Revenue' in accordance with international classification conventions (see Statement 4).

Nevertheless, because PDI outlays on debt issued for the States and Territories are effectively recovered, the following analysis concentrates on PDI outlays in respect of the Commonwealth's own debt.

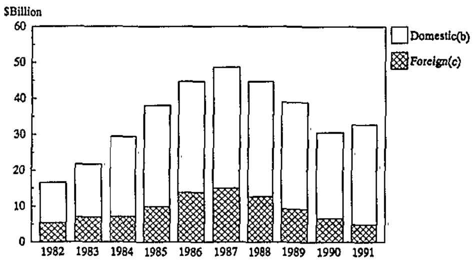
The value of foreign currency debt reflects both changes in the volume of debt and movement of $A exchange rates.

The main source of interest received is the Loan Consolidation and Investment Reserve (LCIR). The LCIR, a Commonwealth trust account, receives interest on its investments in Commonwealth securities.

TRENDS IN PUBLIC DEBT INTEREST OUTLAYS

Chart 2 shows the levels of the Commonwealth's public debt as at 30 June, for the ten years to 1991, in aggregate, together with the domestic and foreign components.

Chart 2. Composition of Commonwealth Debt at 30 June (a)



(a) Excludes debt issued on behalf of the State and Territory Governments
(b) Excludes internal Treasury Bills and LCIR holdings of Treasury Bonds
(c) The $A equivalent (using the corresponding 30 June exchange rates) of foreign debt after adjustment for swaps; excludes LCIR holdings of Dutch guilder securities

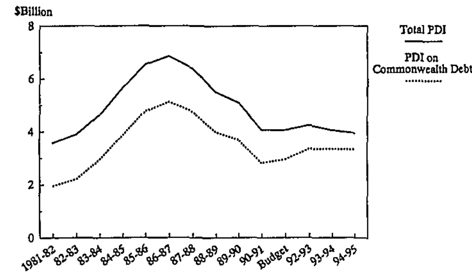
A number of factors contribute to variations in the level of PDI payable in respect of the Commonwealth's own debt, including changes in:

- the volume of debt;
- the mix of debt instruments;
- the term structure of the debt;
- interest rates payable on that debt; and
- the exchange rate (affecting the $A amount required to pay interest on foreign currency denominated debt).

Payments in respect of State debt largely reflect the volume of debt issued by the Commonwealth on the States' behalf and the interest rates payable on that debt.

Chart 3 indicates changes in the real level of PDI since 1981-82.

Chart 3. Public Debt Interest (1984-85 Prices)



The sharp rise in the budget deficit in 1982-83 and 1983-84 led to a substantial rise in the volume of Commonwealth debt on issue and hence to the growth in PDI. Higher average interest rates and depreciation of the $A also increased PDI outlays over this period.

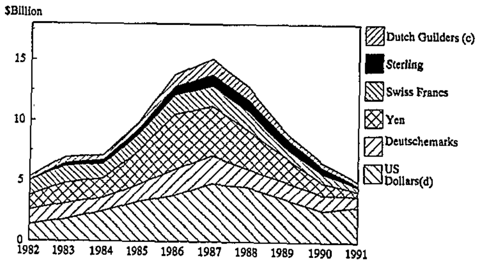
Between 1983-84 and 1986-87, the budget deficit declined in nominal terms and the pace of expansion of the volume of debt slowed. However, the total stock of debt, as a percentage of GDP, continued to expand until the end of 1985-86. Growth in PDI outlays also began to slow in 1985-86, but higher interest rates, the depreciation of the $A and an increase in the issue of Treasury Notes in 1985-86 and 1986-87 contributed substantially to continued absolute growth in PDI over this period.

The movement of the Budget into surplus in 1987-88 and the associated reduction in the volume of debt triggered a decline in PDI that year. Other contributory factors included lower yields on Treasury Notes and lower interest payments on overseas loans because of the appreciation of the $A.

Since 1987-88 the Commonwealth has been progressively repaying foreign currency debt (see Chart 2). Because of this, fluctuations in the value of the $A will in future have less influence on PDI. Over the period since 1988, the Commonwealth has also sought to manage its foreign currency exposure by entering into currency and interest rate swap arrangements.

The shifts in the composition of the foreign debt in recent years reflect maturing loans, the redemption of loans prior to maturity, and the effects of repurchases and swaps. The Commonwealth has acted to reduce its exposure to Swiss francs, deutschemarks, guilders, sterling and yen and has reweighted its portfolio towards $US (see Chart 4).

Chart 4. Commonwealth Foreign Debt - by Currency at 30 June (a) (b)



(a) The $A equivalent (using the corresponding 30 June exchange rates) of foreign debt after adjustment for swaps
(b) Excludes debt issued on behalf of the State and Territory Governments
(c) Excludes LCIR holdings of Dutch guilder securities
(d) Includes a relatively small (less than A$100m) Canadian dollar debt raised in 1990-91

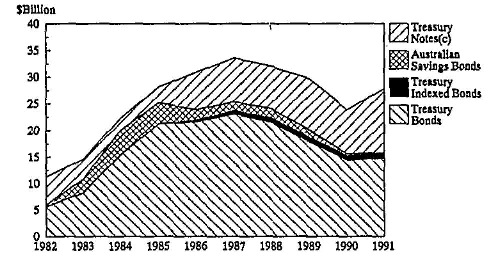
Although Treasury Note yields increased in 1988, the decline in PDI continued in 1988-89 and 1989-90 because the substantial budget surpluses permitted a reduction in the stock of both domestic and foreign currency debt (see also Chart 2).

Notwithstanding the small budget surplus in 1990-91, the deterioration in the Commonwealth's budgetary position resulted in an increase in debt on issue for the Commonwealth, reflecting additional short-term liabilities which more than offset the reduction in long-term liabilities. The Commonwealth re-entered the bond market with tenders in April and May 1991 for $2 billion in total, but, despite this, the stock of Treasury Bonds on issue declined compared with 1989-90. The weighted average yields received at tender ranged between 10.6% and 11.0% for stock in shorter maturities, the lowest yields since 1982 when tenders were introduced.

The expected deterioration of the budget balance in 1991-92 and financing transactions associated with payment of Commonwealth government business enterprise superannuation will result in a net issue of long-term debt (for the first time since 1986-87), which is, in turn, reflected in the substantial growth in the Commonwealth component of PDI in 1991-92 and the forward years.

The components of the domestic debt, both short and long term are shown in Chart 5.

Chart 5. Commonwealth Domestic Debt at 30 June (a) (b)



(a) Excludes debt issued on behalf of the State and Territory Governments
(b) Excludes internal Treasury Bills and LCIR holdings of Treasury Bonds
(c) *Includes, in each year, relatively small (less than $200m) amounts of debt raised through other instruments.*

The State component of PDI will decline following the agreement at the June 1990 Loan Council meeting that the States are to accept responsibility for refinancing maturing debt previously raised on their behalf by the Commonwealth. The last of this debt matures in 2005-06.

Some indication of the relationship between the budget outcome and PDI outlays is provided in Chart 6.

Chart 6. Public Debt Interest and Budget Balance as a percentage of GDP

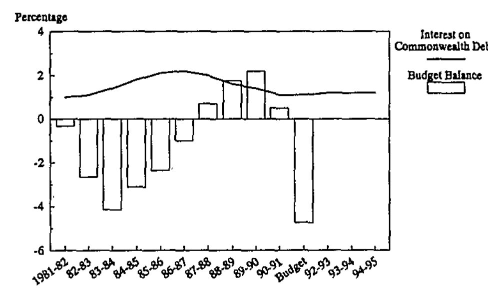
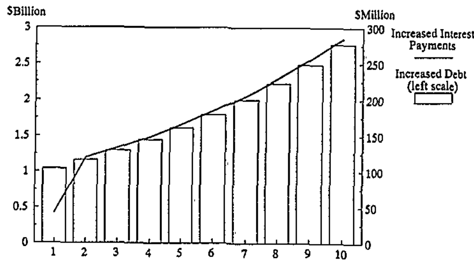


Chart 7 illustrates the manner in which one year's budget deficit impacts on future budgets. For example, consider a $1 billion once only addition to the budget deficit funded by borrowings at recent bond yields of around 11%. If the budgetary position remains such that annual interest costs are effectively met by borrowings, in about seven years the original debt doubles and annual interest costs increase proportionately.

Chart 7. Effect of Deficit Financing on PDI: An Illustrative Example



This compounding effect of budget deficits (or equally budget surpluses) through time can cause a rapid turnaround in the level of PDI outlays. This is illustrated by the recent revisions to the forward estimates of PDI in the light of the shift from budget surplus to deficit. The forward estimate of 'Gross Interest Payments on the Commonwealth's Behalf' for 1993-94 has increased by over 140% from $2.3 billion to $5.6 billion since the previous budget.

MAJOR POLICY CHANGES

Over the period since 1981 there has been a number of important changes which have helped the Commonwealth to reduce PDI outlays. These include measures which are aimed at minimising the within-year financing task (and hence PDI costs) by better matching payments and receipts, and by better managing the debt portfolio:

- making more frequent payments to the States under the general revenue assistance grants arrangements and other programs;
- the introduction of quarterly provisional income tax arrangements, revised company tax arrangements to bring most tax payments to the beginning of the financial year and the requirement that larger companies make PAYE payments to the Commonwealth on a fortnightly basis;
- the adoption of a tender system whereby the Commonwealth allows the market to set the price for securities;

- better targeting of the financial markets when issuing the Commonwealth's debt by focusing on only two key instruments Treasury Bonds and Treasury Notes;
- the takeover of maturing debt by the States;
- reducing the lag between announcement and holding of Treasury Note tenders by two days, facilitating better cash management; and
- reducing the Ministerially agreed target range for cash balances from $500-800m to $0-300m, facilitating a reduction in Treasury Note issue.

1990-91 OUTCOME

In 1990-91 PDI outlays were in net terms $73m (1.2%) higher than the budget estimate. This reflected, inter alia:

- lower than expected debt redemptions and higher than expected debt issuance arising from the reduction in the budget surplus from $8.1b (estimated) to $1.9 billion;
- adverse exchange rate movements in most currencies involving PDI payments;
- changes to the pattern of Treasury Note issue assumed at budget time; and
- the reduction in yields on Treasury Notes over the course of the year (from around 14.5% in July 1990 to 10.1% in June 1991), which partially offset these factors.

9B.1 GROSS INTEREST PAYMENTS

9B.1		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
For Commonwealth-						
Domestic and Overseas	$m	4174.5	4551.0	5349.0	5576.0	5780.0
Borrowings (a)	%	-20.1	9.0	17.5	4.2	3.7
Income Equalisation	$m	5.5	6.0	6.0	6.0	6.0
Deposits	%	123.6	9.5	-	-	-
Other	$m	39.3	16.0	11.7	6.5	-8.9
	%	-35.3	-59.3	-27.0	-44.2	-236.9
Sub-Total	$m	4219.3	4573.0	5366.7	5588.5	5777.1
	%	-20.2	8.4	17.4	4.1	3.4
For States and Territories-						
Borrowings for States (a)	$m	1974.1	1792.0	1526.0	1257.0	1134.0
	%	-4.2	-9.2	-14.8	-17.6	-9.8
Savings Bank Agreements	$m	57.5	52.0	49.0	44.0	41.0
	%	-8.9	-9.5	-5.8	-10.2	-6.8
Interest on Behalf of	$m	-	7.0	6.0	5.0	5.0
the ACT	%	na	na	-14.3	-16.7	-
Other	$m	0.7	0.6	0.6	0.6	0.6
	%	-3.1	-3.3	-3.5	-2.0	-2.0
Sub-Total	$m	2032.3	1851.6	1581.6	1306.6	1180.6
	%	-4.3	-8.9	-14.6	-17.4	-9.6
TOTAL	$m	6251.6	6424.6	6948.3	6895.1	6957.7
	%	-15.7	2.8	8.2	-0.8	0.9

(a) Paid under the *Commonwealth Inscribed Stock Act 1911* and the *Loans Securities Act 1919*.

The 1991-92 estimate of $6424.6m is $173m above the 1990-91 outcome (0.5% down in real terms), reflecting the deterioration in the Commonwealth's budget balance.

9B.2 INTEREST RECEIVED

9B.2		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Received on LCIR Holdings	$m	-179.6	-147.0	-143.0	-141.0	-125.0
	%	27.6	-18.2	-2.7	-1.4	-11.3
Other	$m	..		..	..	..
	%	-97.4	na	-	-	-
TOTAL	$m	-179.6	-147.0	-143.0	-141.0	-125.0
	%	27.5	-18.1	-2.7	-1.4	-11.3

Interest received is expected to fall because of changes in the composition of the LCIR's portfolio.

9C. CONTINGENCY RESERVE

OVERVIEW

			1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
9C	Contingency Reserve	$m	-		190.0	-40.0	-330.0
		%	na	na	na	-121.1	na

- **The budget and forward estimates include a Contingency Reserve which allows for uncertainties in the estimates relating to:**
  - **— non-defence wage and salary awards within a year;**
  - **— minor and medium works projects and other accommodation costs;**
  - **— the established tendency for budget year estimates of spending on existing government policy in the forward estimates to be revised upward in the light of experience;**
  - **— a provision for expected running cost carryover from 1991-92 into 1992-93; and**
  - **— the effect of parameter revisions for the Budget and forward estimates received too late to be factored into program estimates.**
- **In the 1991-92 Contingency Reserve the aggregated allowance for these uncertainties is estimated to be zero, with the positive and negative allowances balancing.**

PURPOSE

The Contingency Reserve is an allowance, included in aggregate outlays figuring, to reflect anticipated events which cannot be assigned to individual programs at budget time. The Reserve is an estimating device used to ensure that the budget and forward estimates are based on the best information available. While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it has no legal status and is not appropriated in the Budget. It is generally 'drawn down' as moneys are spent through the approval of Parliament with respect to the items for which it is provided.

NATURE OF CONTINGENCY RESERVE OUTLAYS

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

- expected changes in non-defence wage and salary awards during the course of 1991-92 and the forward years for departments and budget-funded agencies. For each year the estimated salaries based on the estimated level of wages at the start of the year is contained in the base estimates for the department or agency and an allowance is contained in the Contingency Reserve for the expected changes in awards in the course of the year. A separate allowance is made in *1. Defence* for expected changes in defence wage and salary awards;
- the established tendency for forward estimates, particularly for demand driven appropriations, to be conservatively estimated. Experience suggests that revision of the forward estimates amounts to around 0.5% of total outlays in the first year, with a further cumulative 0.5% in each following year;
- revisions to property expenses, medium and minor works, new leases, fitout and rent which relate to the delivery of existing programs but which have not yet received formal approval by the Government;
- a limited number of possible net additions to outlays reflecting extensions of existing programs and which could be determined during the course of 1991-92;
- parameter revisions, affecting the budget and forward estimates, available too late to be incorporated into the detailed estimates for publication in this Statement. The fall in inflation in late 1990-91 led to a significant downward revision to price parameters for the budget and forward years. This necessitated a negative allowance for the late parameter revision; and
- provision for expected running costs carryovers from 1991-92 to 1992-93. Evidence from recent years indicates that there is an aggregate tendency for departments and agencies to use the flexibility of the running costs system to carry forward funds from the budget year to the following year. A negative allowance of around 1% of the running cost budget has been provided for 1991-92.

9D. ASSET SALES

OVERVIEW

9D		1990-91 Actual	1991-92 Budget	1992-93 Estimate	1993-94 Estimate	1994-95 Estimate
Asset Sales	*$m*	-161.7	-625.0	-200.0	-150.0	-
	%	-84.9	na	-68.0	-25.0	-100.0

- **Proceeds from major asset sales in 1991-92 and 1992-93 are expected to exceed those received in 1990-91 reflecting, in particular, the proposed sales of:**
  - **the entire Commonwealth interest in Australian Airlines Limited and 49% of its interest in Qantas Airways Limited;**
  - **the entire Commonwealth interest in AUSSAT as the basis for introducing a second telecommunications carrier into Australia;**
  - **a substantial part of ANL Limited;**
  - **the on-going business of the Housing Loans Insurance Corporation (HLIC) and the associated vesting of the residual assets of the Corporation in the Commonwealth; and**
  - **the Commonwealth uranium stockpile.**
- ***Asset sales programs for subsequent years have yet to be determined.***

PURPOSE

This function incorporates the sale of major assets whose retention by the Commonwealth can no longer be justified in the public interest. The proceeds have contributed significantly to the Government's ability to retire public debt, thereby reducing its on-going interest commitments.

The amounts shown above are additional to the proceeds derived from the normal on-going Property Disposal Programs of the Departments of Defence and Administrative Services (DAS), see *1. Defence* and *8E. Administrative Services*.

The Government has established a small Commonwealth Task Force on Asset Sales within the Department of Finance to handle major asset sales which are 'out of the ordinary'. The Task Force has responsibility for conducting most of the current major asset sales, except for AUSSAT (whose sale is being managed by a team located within the Department of Transport and Communications) and certain major property assets (being managed by DAS or Defence).

TRENDS IN MAJOR ASSET SALES

The Government's program of major asset sales began in 1987. Proceeds vary from year to year, reflecting the nature of the sales in train at the time. The table below provides details of the net proceeds received in each year.

	1987-88 $m	1988-89 $m	1989-90 $m	1990-91 $m
Tokyo Embassy Sale/Re-development Project	606.8	-	60.0	-
Lease on Chifley Square, Sydney	306.0	-	-	-
Williamstown Dockyard	66.9	1.2	-	-
Commonwealth Phosphate Rock Stockpile	25.2	20.0	-	-
Commonwealth Government Centre, Melbourne	20.0	15.0	-	-
Paris Head of Mission Residence	15.5	-	-	-
Commonwealth Accommodation and Catering Services Ltd (CACS)	14.8	3.2Dr	0.4	0.1Dr
Defence Service Homes Scheme	-	500.1	1015.7	-
Australia House, Sydney	-	-	27.6	-
Avalon Airfield	-	-	50.0Dr	70.0
Australian Defence Force Home Loans Assistance Scheme	-	-	-	42.0
Housing Loan Assistance Schemes in the ACT	-	-	1.9	49.6
Other	1.0	4.9Dr	12.3	0.2
TOTAL	1056.2	528.2	1067.9	161.7

Net proceeds totalling around $2.8 billion have been received since the program began in 1987.

In the 1989-90 Budget, the Government announced a further program of major asset sales including: the Moomba-Sydney gas pipeline system; the business of the HLIC; the franchise for the new Australian Defence Force Home Loans Assistance Scheme; the assets associated with several housing loan assistance schemes in the ACT; and the Commonwealth uranium stockpile. Net proceeds of around $1 billion were expected to

be received from these sales in 1990-91. However, actual proceeds in that year totalled only $161.7m.

The major reason for this shortfall was the Government's decision to withdraw the Moomba-Sydney gas pipeline system from sale after the Senate rejected legislation to put the operations of the pipeline system onto a proper commercial basis prior to its disposal. As a consequence, asset sales proceeds were reduced by around $700m in 1990-91 and potentially by further significant amounts in later years. Proceeds from the HLIC sale have also been delayed and the sale of the uranium stockpile is now expected to commence in 1991-92 (see below for details).

Major asset sales completed during 1990-91 included:

- Avalon Airfield in Victoria, which was sold to Aerospace Technologies of Australia Pty Ltd (ASTA) in July 1990. ASTA has purchased a 99 year lease over the airfield for $70m, financed partly through a repayable loan to ASTA by the Commonwealth of $20m and an additional equity injection of $30m;
- the franchise to operate the new Australian Defence Force Home Loans Assistance Scheme. This franchise was purchased by National Australia Bank and the initial proceeds from the sale ($42m) were received in May 1991, when the new scheme came into operation. Thereafter, annual commission payments will be made to the Commonwealth by National Australia Bank related to the number of participants in the scheme; and
- the assets associated with several ACT housing loan assistance schemes, which were no longer operative. The outstanding loans ($4.2m) provided to certain financial institutions in the ACT under one scheme were repaid in full during the latter part of 1989-90 and early 1990-91. The outstanding portfolio of residential mortgages associated with two other schemes was sold to the ANZ Bank for an amount of $47.3m in January 1991. This sale was arranged so as not to affect the existing rights of the mortgagors concerned.

CURRENT MAJOR ASSET SALES PROGRAM

Details of the major asset sales scheduled for completion in 1991-92 or 1992-93 are set out below.

Housing Loans Insurance Corporation

The HLIC is Australia's largest mortgage insurer, with over half of the residential mortgage insurance market. The CIC Insurance Group was identified as the preferred purchaser of the on-going business of the HLIC in October 1990. A sale agreement with CIC was executed in April 1991. This sale has not yet been finalised because the buyer is in the process of obtaining necessary licence approvals from State governments. However, it is expected to be completed early in 1991-92.

Under the agreed sale arrangements, CIC will purchase HLIC's goodwill and new business rights as well as most of its physical assets. CIC will also employ most of t.·e existing HLIC staff on terms and conditions no less favourable than they previously enjoyed. The remaining assets and liabilities of the HLIC will be vested in the Commonwealth when the HLIC is eventually abolished.

In return for a management fee, CIC will also administer, on the Commonwealth's behalf, all of the HLIC's existing pre-sale insurance contracts for a period of around five years, after which CIC will acquire the residual liability relating to them. The Commonwealth guarantee attaching to such contracts will continue to apply until maturity.

Net proceeds in excess of $100m are expected to be received in 1991-92 from the sale and associated vesting of the residual assets of the HLIC in the Commonwealth.

Airlines

The broad framework for the proposed sales of the entire Commonwealth equity interest in Australian Airlines Limited and 49% of its equity interest in Qantas Airways Limited was announced in November 1990. This required a detailed 'scoping study' to be undertaken to assist the Government in determining the most appropriate methods of sale and their timing.

Following the completion of this study, the Government decided that:

- the Government itself would be responsible for handling both sales but with the boards of each airline consulted on all aspects;
- the sales of both airlines should commence concurrently; and
- the sales strategy adopted would see initial 'trade sales' to major investors in either or both airlines followed by subsequent public floats, if necessary, subject to the likely impact on total sale proceeds.

Other decisions taken concern the way in which the Government would protect the retained 51% Commonwealth equity interest in Qantas; the removal of virtually all Government shareholder constraints and controls on Qantas; a prohibition on Qantas investing directly in Australian Airlines at this stage; and restrictions on Ansett Transport Industries or its owners or subsidiaries (and other domestic airlines) investing in Qantas during the present sales process.

Initial responses to an early sales brochure covering both airlines were sought by 10 July 1991 and are now being examined. Selected respondents will be sent copies of a detailed Information Memorandum being prepared for each airline. Responses to these latter documents will enable the Government to establish a short list of prospective purchasers, who will then be invited to undertake their own 'due diligence' investigations of the airlines before submitting final binding offers, etc.

At the same time as the 'trade sales' are progressing, initial preparations are being made for possible public floats of the equity in each airline, if any, not sold during this phase of the sales process.

AUSSAT

As part of the Government's reforms of the telecommunications sector announced in November 1990, the national domestic satellite operator, AUSSAT, is to be sold as the basis of introducing a second telecommunications carrier into Australia. The necessary legislation to implement the reforms and to establish a regulatory framework for the industry was passed in June 1991.

Telecom and OTC are to be merged in 1992. The resulting duopoly will operate until 1997 when the sector is to become fully competitive.

AUSSAT is to be sold free of debt and without its accumulated tax losses.

Preliminary proposals have been received from prospective purchasers and negotiations with short listed bidders are to start soon. The buyer 'due diligence' process to be carried out prior to the submission of final bids is in progress. This sale is expected to be completed by the end of 1991, with the successful bidder commencing operations shortly thereafter.

ANL Limited

The Government has decided to sell a substantial part of ANL, the operations of which encompass both domestic and international shipping and, through a majority owned subsidiary, stevedoring activities in major ports around Australia.

The quantum of ANL to be sold and the timing and method of sale are to be determined following further study of these issues.

Uranium Stockpile

The Commonwealth currently owns a stockpile (2,262 short tons) of uranium oxide which was accumulated originally from mining operations at Rum Jungle in the 1960s. Much of the stockpile has since been replaced by uranium produced from the Ranger and Nabarlek mines in the NT.

Consistent with the Government's decision, announced in the 1989-90 Budget, to dispose of the stockpile, informal discussions have begun as a prelude to the disposal of some, or all, of this material in 1991-92.

War Service Land Settlement Scheme Assets

The Government has decided to dispose of its interests in the War Service Land Settlement Scheme. These comprise the future rental stream, plus any proceeds from freehold conversions, flowing from some 2100 perpetual leasehold properties located in SA, WA and Tasmania. This sale will be arranged in such a way as not to adversely affect the rights of existing lessees.

Surplus Land at Brisbane Airport

A substantial area of land was handed back to the Commonwealth by the Federal Airports Corporation on 1 June 1989, after the new domestic airport terminal at Brisbane had been opened. This property is being sold in stages, with the next major release scheduled for 1992-93.

Kensington and Bankstown Properties

The proposed sales of Defence buildings at Bankstown Airport and surplus land at South Kensington Army Barracks, which were identified in the 1988-89 Budget, have been slower than expected. Proceeds from the Bankstown sale will be received in 1991-92, while negotiations for the sale of the South Kensington Army Barracks are still continuing.

Other Sales

No proceeds from the proposed sales of certain other major Defence Assets - Cockatoo Island, Anzac Rifle Range and Newington Armament Depot - are expected to be received before 1993-94.

STATEMENT 3 - STATISTICAL APPENDIX

INTRODUCTION

Fifteen tables are presented in this appendix covering outlay transactions of the Commonwealth budget sector. The statistical appendix to Statement 7 covers the transactions of all Commonwealth entities.

Statement 7 provides a definition of the Commonwealth Budget sector and terminology employed to describe transactions in these tables, in particular, definitions of the terms outlays and revenue and explanation of the functional and economic type classifications.

A list of tables in this appendix is provided below:

Table I – Commonwealth Budget Outlays by Function ($m)

	1981–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
OUTLAYS														
1.Defence	4054	4701	5298	5938	6673	7209	7422	7780	8476	9066	9435	9940	10191	10594
2.Education	3261	3702	4071	4504	4902	5203	5685	6024	6576	7471	8262	8733	9179	9593
3.Health	2889	3399	4381	6107	6858	7486	8280	10767	11905	12939	13684	14362	15273	16407
4.Social Security and Welfare	*11571*	*14179*	*16531*	*17975*	*19340*	*20730*	*22725*	*23977*	*26347*	*30560*	*34408*	*35424*	*36628*	*36659*
5.Housing and Community Amenities nec	482	793	1084	1357	1444	1646	1364	1219	1296	1084	1189	1181	1181	1184
6.Culture and Recreation	502	542	631	768	904	955	1041	1046	1061	1194	1237	1186	1139	1163
7.Economic Services														
A.Transport and Communication	1225	1815	1789	1948	1851	1728	1723	1721	1667	1791	1440	1498	1232	1203
B.Industry Assistance and Developme	1260	1603	1697	1960	2276	2363	2753	2733	3006	4001	3632	3203	3060	3037
C.Labour and Employment	462	705	1186	1250	1174	1184	1213	1201	1272	1436	1755	1805	1676	1665
D.Other Economic Services	218	204	200	225	130	127	124	130	155	269	290	307	281	286
Total Economic Services	3165	4327	4872	5383	5431	5403	5814	5785	6101	7497	7116	6813	6250	6191
8.General Public Services														
A.Legislative Services	136	191	200	310	357	485	578	419	392	350	357	432	360	376
B.Law Order and Public Safety	283	355	418	463	529	590	641	681	788	759	982	908	856	822
C.Foreign Affairs and Overseas Aid	927	1041	1156	1290	1340	1312	1370	1542	1576	1696	1812	1839	1877	1926
D.General Scientific Research nec	393	446	463	470	505	542	545	557	642	749	879	947	1000	1028
E.Administrative Services	1093	1221	1367	1610	1783	2064	2149	2442	2213	2782	3143	2991	2762	2927
Total General Public Services	2831	3254	3603	4143	4514	4992	5283	5640	5610	6337	7173	7118	6854	7079
9.Not Allocated to Function														
A.Assistance to Other Governments ne	9908	11049	12427	12856	13794	14588	14978	13704	14258	13983	13352	14151	15852	15729
B.Public Debt Interest	2852	3444	4389	5644	7003	7885	7867	7406	7271	6072	6278	6805	6754	6833
C.Contingency Reserve	0	0	0	0	0	0	0	0	0	0	0	190	−40	−330
D.Asset Sales	0	0	0	0	0	0	−1056	−528	−1068	−162	−625	−200	−150	0
Total Not Allocated to Function	12760	14492	16816	18501	20796	22473	21790	20581	20462	19894	19004	20947	22416	22232
TOTAL OUTLAYS	41515	49390	57287	64675	70860	76097	79405	82820	87835	96041	101508	105705	109110	111102

Table II – Commonwealth Budget Outlays by Function–Annual Percentage Change

	1981–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
OUTLAYS														
1.Defence	16.2	16.0	12.7	12.1	12.4	8.0	3.0	4.8	8.9	7.0	4.1	5.4	2.5	4.0
2.Education	13.8	13.5	9.9	10.6	8.8	6.2	9.3	6.0	9.2	13.6	10.6	5.7	5.1	4.5
3.Health	*−20.3*	*17.7*	*28.9*	*39.4*	*12.3*	*9.2*	*10.6*	*30.0*	*10.6*	*8.7*	*5.8*	5.0	*6.3*	7.4
4.Social Security and Welfare	15.2	22.5	16.6	8.7	7.6	7.2	9.6	5.5	9.9	16.0	12.6	3.0	3.4	0.1
5.Housing and Community Amenities nec	38.0	64.4	36.7	25.2	6.4	14.0	−17.1	−10.6	6.3	−16.4	9.7	−0.7	..	0.3
6.Culture and Recreation	20.0	8.1	16.4	21.6	17.7	5.6	9.1	0.4	1.5	12.5	3.6	−4.1	−4.0	2.1
7.Economic Services														
A.Transport and Communication	22.2	48.2	−1.4	8.9	−5.0	−6.7	−0.3	−0.1	−3.1	7.4	−19.6	4.0	−17.7	−2.4
B.Industry Assistance and Developme	19.0	27.3	5.9	15.4	16.1	3.9	16.5	−0.7	10.0	33.1	−9.2	−11.8	−4.5	−0.7
C.Labour and Employment	23.0	52.4	68.2	5.5	−6.1	0.9	2.4	−1.0	5.9	12.8	22.2	2.9	−7.1	−0.7
D.Other Economic Services	18.4	−6.5	−1.9	12.8	−42.2	−2.2	−2.6	4.7	19.7	72.9	7.8	6.1	−8.4	1.5
Total Economic Services	20.7	36.7	12.6	10.5	0.9	−0.5	7.6	−0.5	5.5	22.9	−5.1	−4.3	−8.3	−0.9
8.General Public Services														
A.Legislative Services	19.4	40.9	4.9	54.6	15.1	35.9	19.2	−27.5	−6.4	−10.8	2.0	21.1	−16.7	4.5
B.Law Order and Public Safety	17.4	25.5	17.7	10.9	14.4	11.4	8.7	6.2	15.8	−3.7	29.4	−7.5	−5.8	−4.0
C.Foreign Affairs and Overseas Aid	15.5	12.3	11.1	11.6	3.9	−2.1	4.5	12.5	2.2	7.7	6.8	1.5	2.0	2.6
D.General Scientific Research nec	23.2	13.4	3.8	1.7	7.3	7.4	0.7	2.1	15.3	16.8	17.3	7.8	5.5	2.9
E.Administrative Services	16.0	11.8	11.9	17.8	10.8	15.8	4.1	13.6	−9.4	25.7	13.0	−4.8	−7.7	6.0
Total General Public Services	17.1	14.9	10.7	15.0	9.0	10.6	5.8	6.8	−0.5	12.9	13.2	−0.8	−3.7	3.3
9.Not Allocated to Function														
A.Assistance to Other Governments ne	24.3	11.5	12.5	3.5	7.3	5.8	2.7	−8.5	4.0	−1.9	−4.5	6.0	12.0	−0.8
B.Public Debt Interest	14.0	20.8	27.4	28.6	24.1	12.6	−0.2	−5.9	−1.8	−16.5	3.4	8.4	−0.8	1.2
C.Contingency Reserve	na	na	na	na	na	na	na	na	na	na	na	na	−121.1	na
D.Asset Sales	na	na	na	na	na	na	na	−50.0	102.2	−84.9	na	−68.0	−25.0	−100.0
Total Not Allocated to Function	21.8	13.6	16.0	10.0	12.4	8.1	−3.0	−5.5	−0.6	−2.8	−4.5	10.2	7.0	−0.8
TOTAL OUTLAYS	14.4	19.0	16.0	12.9	9.6	7.4	4.3	4.3	6.1	9.3	5.7	4.1	3.2	1.8

Table III – Commonwealth Budget Outlays by Function (1984–85 Prices($m))(a)

	1981–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
OUTLAYS														
1.Defence	5093	5318	5607	5938	6236	6269	6015	5780	5927	6072	6123	6201	6113	6110
2.Education	4097	4188	4308	4504	4581	4525	4607	4476	4599	5004	5361	5448	5506	5532
3.Health	3629	3845	4636	6107	6409	6510	6710	7999	8325	8666	8880	8959	9162	9462
4.Social Security and Welfare	14536	16039	17493	17975	18075	18026	18416	17813	18425	20469	22329	22099	21972	21141
5.Housing and Community Amenities nec	606	897	1147	1357	1349	1432	1106	906	906	726	772	737	708	683
6.Culture and Recreation	630	613	668	768	844	830	844	777	742	800	802	740	683	671
7.Economic Services														
A.Transport and Communication	1539	2054	1893	1948	1730	1503	1396	1279	1166	1200	934	934	739	694
B.Industry Assistance and Developme	1583	1814	1796	1960	2127	2055	2231	2030	2102	2680	2357	1998	1835	1752
C.Labour and Employment	581	797	1255	1250	1097	1030	983	893	890	962	1139	1126	1006	960
D.Other Economic Services	274	230	211	225	122	111	101	96	109	180	188	192	169	165
Total Economic Services	3977	4895	5156	5383	5075	4699	4711	4298	4266	5021	4618	4250	3749	3570
8.General Public Services														
A.Legislative Services	170	216	212	310	333	422	468	311	274	234	232	269	216	217
B.Law Order and Public Safety	355	401	442	463	495	513	519	506	551	508	637	567	513	474
C.Foreign Affairs and Overseas Aid	1164	1177	1223	1290	1252	1141	1111	1146	1102	1136	1176	1147	1126	1111
D.General Scientific Research nec	494	504	490	470	472	471	442	414	449	502	570	591	600	593
E.Administrative Services	1373	1382	1446	1610	1667	1795	1741	1814	1547	1863	2040	1866	1657	1688
Total General Public Services	3557	3681	3813	4143	4219	4341	4282	4190	3923	4244	4655	4440	4111	4082
9.Not Allocated to Function														
A.Assistance to Other Governments ne	12447	12499	13150	12856	12891	12685	12138	10181	9971	9366	8664	8828	9509	9071
B.Public Debt Interest	3583	3895	4644	5644	6544	6856	6376	5502	5085	4067	4074	4245	4052	3940
C.Contingency Reserve	–	–	–	–	–	–	–	–	–	–	–	119	–24	–190
D.Asset Sales	–	–	–	–	–	–	–856	–392	–747	–108	–406	–125	–90	–
Total Not Allocated to Function	16030	16394	17794	18501	19436	19541	17658	15291	14309	13325	12332	13067	13447	12821
TOTAL OUTLAYS	52155	55871	60621	64675	66162	66114	64348	61530	61466	64631	66302	67029	67186	66409

(a) The Non-farm GDP (NFGDP) deflator is used as a general measure of price change.
(b) The sum of the functions do not equal total outlays as the final NFGDP deflator is applied to total outlays while the previous estimate of the deflator is applied to functions. An adjustment for all final parameters has been included in the Contingency Reserve.

Table IV – Commonwealth Budget Outlays by Function–Annual Percentage Change (1984–85 Prices) (a)

	1981–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
OUTLAYS														
1.Defence	45.9	4.4	5.4	5.9	5.0	0.5	–4.1	–3.9	2.5	2.4	0.8	1.3	–1.4	–0.1
2.Education	43.0	2.2	2.8	4.6	1.7	–1.2	1.8	–2.9	2.8	8.8	7.1	1.6	1.1	0.5
3.Health	0.2	6.0	20.6	31.7	4.9	1.6	3.1	19.2	4.1	4.1	2.5	0.9	2.3	3.3
4.Social Security and Welfare	44.7	10.3	9.1	2.8	0.6	–0.3	2.2	–3.3	3.4	11.1	9.1	–1.0	–0.6	–3.8
5.Housing and Community Amenities nec	73.4	48.1	27.8	18.3	–0.6	6.1	–22.8	–18.1	..	–19.9	6.3	–4.5	–3.9	–3.6
6.Culture and Recreation	50.8	–2.7	8.9	14.9	10.0	–1.7	1.6	–7.9	–4.5	7.7	0.4	–7.8	–7.7	–1.8
7.Economic Services														
A.Transport and Communication	53.5	33.4	–7.8	2.9	–11.2	–13.1	–7.1	–8.4	–8.8	2.9	–22.1	..	–20.9	–6.2
B.Industry Assistance and Developme	49.5	14.6	–1.0	9.1	8.5	–3.4	8.6	–9.0	3.5	27.5	–12.1	–15.2	–8.2	–4.6
C.Labour and Employment	54.5	37.2	57.4	–0.3	–12.3	–6.1	–4.5	–9.2	–0.3	8.1	18.4	–1.1	–10.7	–4.5
D.Other Economic Services	48.8	–15.8	–8.2	6.6	–46.0	–9.0	–9.3	–4.0	12.6	65.6	4.4	2.0	–12.0	–2.4
Total Economic Services	51.7	23.1	5.3	4.4	–5.7	–7.4	0.3	–8.8	–0.7	17.7	–8.0	–8.0	–11.8	–4.8
8.General Public Services														
A.Legislative Services	50.0	26.9	–1.9	46.1	7.6	26.5	11.1	–33.5	–11.9	–14.6	–1.2	16.4	–19.9	0.4
B.Law Order and Public Safety	47.5	13.0	10.1	4.8	6.9	3.7	1.3	–2.7	9.0	–7.8	25.4	–11.1	–9.4	–7.7
C.Foreign Affairs and Overseas Aid	45.1	1.1	3.9	5.5	–2.9	–8.9	–2.6	3.1	–3.8	3.1	3.5	–2.4	–1.9	–1.3
D.General Scientific Research nec	54.8	2.2	–2.9	–3.9	0.3	–0.1	–6.2	–6.4	8.5	11.8	13.7	3.6	1.5	–1.1
E.Administrative Services	45.7	0.6	4.7	11.3	3.5	7.7	–3.0	4.2	–14.7	20.4	9.5	–8.5	–11.2	1.9
Total General Public Services	47.1	3.5	3.6	8.6	1.8	2.9	–1.4	–2.1	–6.4	8.2	9.7	–4.6	–7.4	–0.7
9.Not Allocated to Function														
A.Assistance to Other Governments ne	56.2	0.4	5.2	–2.2	0.3	–1.6	–4.3	–16.1	–2.1	–6.1	–7.5	1.9	7.7	–4.6
B.Public Debt Interest	43.2	8.7	19.2	21.5	15.9	4.8	–7.0	–13.7	–7.6	–20.0	0.2	4.2	–4.6	–2.7
C.Contingency Reserve	na	na	na	na	na	na	na	na	na	na	na	na	–120.2	na
D.Asset Sales	na	na	na	na	na	na	na	–54.2	90.3	–85.5	na	–69.2	–27.9	–100.0
Total Not Allocated to Function	53.1	2.3	8.5	4.0	5.1	0.5	–9.6	–13.4	–6.4	–6.9	–7.4	6.0	2.9	–4.7
TOTAL OUTLAYS	43.7	7.1	8.5	6.7	2.3	–0.1	–2.7	–4.4	–0.1	5.1	2.6	1.1	0.2	–1.2

(a) The Non-farm GDP (NFGDP) deflator is used as a general measure of price change

Table V – Commonwealth Budget Outlays by Function As a Proportion of Total Budget Outlays (per cent)

	1981–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
OUTLAYS														
1.Defence	9.8	9.5	9.2	9.2	9.4	9.5	9.3	9.4	9.7	9.4	9.3	9.4	9.3	9.5
2.Education	7.9	7.5	7.1	7.0	6.9	6.8	7.2	7.3	7.5	7.8	8.1	8.3	8.4	8.6
3.Health	7.0	6.9	7.6	9.4	9.7	9.8	10.4	13.0	13.6	13.5	13.5	13.6	14.0	14.8
4.Social Security and Welfare	27.9	28.7	28.9	27.8	27.3	27.2	28.6	29.0	30.0	31.8	33.9	33.5	33.6	33.0
5.Housing and Community Amenities nec	1.2	1.6	1.9	2.1	2.0	2.2	1.7	1.5	1.5	1.1	1.2	1.1	1.1	1.1
6.Culture and Recreation	1.2	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.1	1.0	1.0
7.Economic Services														
A.Transport and Communication	3.0	3.7	3.1	3.0	2.6	2.3	2.2	2.1	1.9	1.9	1.4	1.4	1.1	1.1
B.Industry Assistance and Developme	3.0	3.2	3.0	3.0	3.2	3.1	3.5	3.3	3.4	4.2	3.6	3.0	2.8	2.7
C.Labour and Employment	1.1	1.4	2.1	1.9	1.7	1.6	1.5	1.5	1.4	1.5	1.7	1.7	1.5	1.5
D.Other Economic Services	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Total Economic Services	7.6	8.8	8.5	8.3	7.7	7.1	7.3	7.0	6.9	7.8	7.0	6.4	5.7	5.6
8.General Public Services														
A.Legislative Services	0.3	0.4	0.3	0.5	0.5	0.6	0.7	0.5	0.4	0.4	0.4	0.4	0.3	0.3
B.Law Order and Public Safety	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.8	1.0	0.9	0.8	0.7
C.Foreign Affairs and Overseas Aid	2.2	2.1	2.0	2.0	1.9	1.7	1.7	1.9	1.8	1.8	1.8	1.7	1.7	1.7
D.General Scientific Research nec	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.9	0.9	0.9	0.9
E.Administrative Services	2.6	2.5	2.4	2.5	2.5	2.7	2.7	2.9	2.5	2.9	3.1	2.8	2.5	2.6
Total General Public Services	6.8	6.6	6.3	6.4	6.4	6.6	6.7	6.8	6.4	6.6	7.1	6.7	6.3	6.4
9.Not Allocated to Function														
A.Assistance to Other Governments ne	23.9	22.4	21.7	19.9	19.5	19.2	18.9	16.5	16.2	14.6	13.2	13.4	14.5	14.2
B.Public Debt Interest	6.9	7.0	7.7	8.7	9.9	10.4	9.9	8.9	8.3	6.3	6.2	6.4	6.2	6.1
C.Contingency Reserve	–	–	–	–	–	–	–	–	–	–	–	0.2	..	–0.3
D.Asset Sales	–	–	–	–	–	–	–1.3	–0.6	–1.2	–0.2	–0.6	–0.2	–0.1	–
Total Not Allocated to Function	30.7	29.3	29.4	28.6	29.3	29.5	27.4	24.9	23.3	20.7	18.7	19.8	20.5	20.0
TOTAL OUTLAYS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table VI – Commonwealth Budget Outlays by Function and Sub-function ($m)

	1981–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
Defence														
Personnel Costs and Retirement Benefits	2115	2213	2311	2457	2744	2871	3102	3290	3461	3622	3928	4184	4179	4333
Defence Equipment and Stores	1096	1493	1882	2304	2620	2903	2614	2708	2957	3354	3387	3601	3790	3840
Defence Facilities	145	114	134	148	193	265	295	295	357	324	327	345	352	416
Defence Housing	–32	33	33	43	65	84	157	141	194	184	204	212	256	277
Defence Industry	199	281	331	336	338	234	296	336	258	177	173	154	126	113
Defence Science	126	139	147	158	166	183	187	210	225	227	221	235	234	254
Defence Other	405	428	460	493	547	668	771	801	1024	1178	1195	1209	1254	1362
Total Defence	4054	4701	5298	5938	6673	7209	7422	7780	8476	9066	9435	9940	10191	10594
Education														
Tertiary Education	1764	1928	2083	2315	2505	2646	2812	2879	3269	3691	3974	4239	4458	4650
Schools and Preschools	1130	1347	1487	1643	1760	1822	1950	2120	2141	2335	2576	2695	2838	2992
Student Assistance	326	381	444	477	562	649	829	935	1062	1321	1565	1643	1729	1798
General Administration	40	46	57	69	75	86	94	91	105	124	148	157	153	153
Total Education	3261	3702	4071	4504	4902	5203	5685	6024	6576	7471	8262	8733	9179	9593
Health														
Medical Services and Benefits	874	1031	1592	2501	2885	3218	3455	3732	4272	4745	4999	5315	5797	6342
Hospital Services	691	788	958	1556	1711	1678	1873	3879	4093	4426	4624	4891	5122	5413
Pharmaceutical Services and Benefits	461	508	574	659	725	866	1059	1134	1298	1297	1327	1410	1560	1751
Nursing Home *Subsidies and Domiciliary*	657	857	983	1093	1171	1296	1464	1609	1796	1932	2025	2100	2196	2295
Other Health Services	97	114	140	165	213	241	252	265	313	382	485	484	469	476
General Administration	107	101	134	133	153	185	177	148	134	158	224	162	129	131
Total Health	2889	3399	4381	6107	6858	7486	8280	10767	11905	12939	13684	14362	15273	16407

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Table VI – Commonwealth Budget Outlays by Function and Sub-function ($m) (continued)

	1981-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
Social Security and Welfare														
Assistance to the Aged	4592	4969	5418	5762	6034	6458	7233	7854	8621	9722	10362	11008	11997	12161
Assistance to Veterans and Dependants	1322	1709	2023	2322	2584	2762	3128	3187	3398	3681	3759	3844	3899	3956
Assistance to the Disabled	1073	1190	1402	1648	1879	2153	2478	2736	3021	3509	3831	3956	4262	4363
Assistance to Families with Children	2156	2649	3028	3281	3537	3550	3853	4129	4963	5517	6106	6649	7308	7633
Assistance to the Unemployed and Sick	1449	2520	3248	3348	3514	3883	3886	3689	3679	5212	7273	6898	6079	5434
Other Welfare Programs	470	517	583	661	721	775	878	968	1056	1127	1159	1158	1178	1154
Aboriginal Advancement Programs nec	159	186	231	269	280	316	386	464	530	604	640	667	711	752
General Administration	352	443	602	690	799	836	888	961	1086	1196	1298	1274	1225	1237
Recoveries and Repayments	-3	-4	-5	-6	-8	-3	-5	-11	-6	-8	-20	-30	-30	-30
Total Social Security and Welfare	11571	14179	16531	17975	19340	20730	22725	23977	26347	30560	34408	35424	36628	36659
Housing and Community Amenities														
Housing Assistance – Other Governments	231	443	689	952	1032	1190	1016	920	895	767	911	908	918	928
Assistance to First Home Owners	115	150	242	306	242	202	222	176	120	71	38	19	8	3
Defence Service Homes	87	82	36	35	35	33	11	52	179	150	129	147	149	148
Housing Other	9	16	14	10	54	82	26	23	8	9	14	12	12	11
General Administration	-4	-1	-2	-1	2	3	7	6	21	29	26	26	25	26
Regional Development and Pollution Contr	44	102	106	55	80	137	82	42	73	58	71	69	69	69
Total Housing and Community Amenities	482	793	1084	1357	1444	1646	1364	1219	1296	1084	1189	1181	1181	1184
Culture and Recreation														
Broadcasting	324	354	399	458	557	558	568	607	664	723	735	735	770	806
Arts and Cultural Heritage	139	148	176	219	263	328	399	364	284	330	334	284	249	246
Sport and Recreation	18	23	34	67	55	40	40	34	53	71	79	82	47	38
National Estate and Parks	21	17	22	24	28	29	34	40	60	70	89	85	73	73
Total Culture and Recreation	502	542	631	768	904	955	1041	1046	1061	1194	1237	1186	1139	1163

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Table VI – Commonwealth Budget Outlays by Function and Sub-function ($m) (continued)

	1981-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
Economic Services														
Transport and Communication														
Communication	11	12	14	14	-17	-81	-66	21	-220	-261	-282	-292	-294	-292
Air Transport	232	521	327	357	379	327	269	163	271	175	64	121	106	90
Land Transport	882	1072	1345	1337	1390	1362	1363	1338	1406	1676	1304	1461	1228	1207
Sea Transport	68	145	74	186	63	81	93	92	119	132	274	128	112	118
Other Transport and Communication	32	65	29	53	37	39	64	107	92	69	81	80	80	79
Total Transport and Communication	1225	1815	1789	1948	1851	1728	1723	1721	1667	1791	1440	1498	1232	1203
Industry Assistance and Development														
Agricultural, Forestry and Fishing Industri	584	855	850	1038	1123	1378	1588	1524	1670	2406	1965	1799	1682	1668
Mining and Energy Industries	153	219	206	275	442	314	385	475	501	567	606	576	627	700
Manufacturing Industry	175	190	323	342	385	393	409	393	463	418	439	409	342	251
Tourism Industry	9	11	21	29	32	37	46	42	71	65	68	71	72	75
Assistance to Exporters	339	328	297	275	294	241	326	299	301	545	554	349	336	344
Total Industry Assistance and Developmen	1260	1603	1697	1960	2276	2363	2753	2733	3006	4001	3632	3203	3060	3037
Labour and Employment														
Vocational and Industry Training	96	108	120	132	126	145	165	197	192	178	229	236	233	232
Labour Market Assistance to Jobseekers and Industry	108	288	688	679	546	490	416	307	349	400	611	650	620	597
Industrial Relations	67	82	87	103	122	130	160	159	171	201	209	206	138	142
Immigration	45	56	62	71	79	93	112	134	159	183	204	201	193	192
Employment Services	146	171	229	265	300	327	360	404	402	473	502	511	492	501
Total Labour and Employment	462	705	1186	1250	1174	1184	1213	1201	1272	1436	1755	1805	1676	1665

Table VI – Commonwealth Budget Outlays by Function and Sub-function ($m) (continued)

	1981-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
Other Economic Services														
Economic Trade and Regulation	174	155	149	167	63	52	40	42	61	165	178	195	172	173
Meteorological Services	44	49	50	59	67	75	84	88	95	104	112	112	109	112
Total Other Economic Services	218	204	200	225	130	127	124	130	155	269	290	307	281	286
Total Economic Services	3165	4327	4872	5383	5431	5403	5814	5785	6101	7497	7116	6813	6250	6191
General Public Services														
Legislative Services														
New Parliment House Construction	25	55	63	109	177	284	301	90	25	-5	–	–	–	–
Parliamentary Outlays	77	87	96	119	135	146	174	219	242	264	276	279	284	290
Other Legislative Services	34	49	42	82	45	56	102	110	126	91	81	153	76	86
Total Legislative Services	136	191	200	310	357	485	578	419	392	350	357	432	360	376
Law, Order and Public Safety														
Courts and Legal Services	93	125	142	167	219	242	283	303	336	368	510	464	423	378
Security and Intelligence Services	40	46	55	59	69	78	74	76	102	99	105	102	99	101
Criminal Investigation	98	100	114	138	157	170	186	203	241	186	226	226	219	227
Other Law, Order and Public Safety	51	84	106	100	84	100	99	99	109	105	141	116	115	117
Total Law, Order and Public Safety	283	355	418	463	529	590	641	681	788	759	982	908	856	822
Foreign Affairs and Overseas Aid														
Bilateral Aid	587	642	714	746	739	728	743	809	902	865	913	929	919	930
Multilateral Aid	126	155	175	213	234	191	212	317	202	339	341	376	437	478
Aid Administration	21	15	18	21	25	24	31	35	41	41	42	44	44	45
Foreign Affairs – Non Aid	193	229	249	310	343	369	384	381	430	451	516	490	477	473
Total Foreign Affairs and Overseas Aid	927	1041	1156	1290	1340	1312	1370	1542	1576	1696	1812	1839	1877	1926
General and Scientific Research														
CSIRO	291	328	332	325	344	368	348	348	376	416	443	451	448	457
ANSTO	38	36	39	42	45	45	51	54	58	63	65	64	66	68
Australian Research Council	31	40	46	53	58	66	73	86	126	173	242	276	299	297
Other General and Scientific Research ne	34	42	46	51	57	63	73	68	83	98	130	156	187	206
Total General and Scientific Research	393	446	463	470	505	542	545	557	642	749	879	947	1000	1028

Table VI – Commonwealth Budget Outlays by Function and Sub-function ($m) (continued)

	1981-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
Administrative Services														
Financial, Budgetary, Statistical and Admi	810	876	996	1192	1292	1555	1533	1738	1613	1812	2126	1973	1736	1749
Estate Management	7	2	1	8	4	-49	-32	16	8	143	-39	-128	-157	-161
Net Superannuation Payments	215	270	310	323	403	521	671	771	762	928	1105	1283	1319	1477
Net Commonwealth Employees' Compens	–	–	–	–	–	–	–	102	-7	35	60	56	62	71
Common Service Businesses	62	73	59	87	85	106	81	-53	9	35	78	2	3	1
Taxes Paid by Budget Agencies	–	–	–	–	–	-68	-104	-132	-172	-170	-187	-194	-202	-210
Total Administrative Services	1093	1221	1367	1610	1783	2064	2149	2442	2213	2782	3143	2991	2762	2927
Total General Public Services	2831	3254	3603	4143	4514	4992	5283	5640	5610	6337	7173	7118	6854	7079
Not Allocated to Function														
Payments to Other Governments														
General Revenue Assistance – States & Te	8246	9215	10354	10970	11915	13223	14248	12973	13278	13601	13800	14325	14898	15508
General Capital Assistance – States & Terr	1209	1124	1138	1055	1053	540	-130	94	58	-1246	-2142	-1672	-504	-1324
Debt Assistance – States & Territories	79	90	110	121	50	51	52	51	50	54	258	160	97	144
Assistance for Local Government – States & Territories	353	427	462	489	539	586	642	664	689	711	1046	1092	1135	1182
Compensation for Revenue Lost from Companies and Securities Regulation	–	–	–	–	–	–	–	–	–	68	118	120	125	130
Natural Disaster Relief and Other Assistan	22	193	363	221	236	188	167	-78	183	795	271	127	101	88
Total Payments to Other Governments	9908	11049	12427	12856	13794	14588	14978	13704	14258	13983	13352	14151	15852	15729
Public Debt Interest														
Gross Interest Payments –														
On the Commonwealth's Behalf	1555	1957	2787	3871	5101	5887	5850	5369	5288	4219	4573	5367	5589	5777
On Behalf of the States and Territories	1422	1591	1687	1856	1991	2074	2108	2082	2124	2032	1852	1582	1307	1181
Interest Received	-125	-104	-86	-83	-89	-76	-90	-45	-141	-180	-147	-143	-141	-125
Total Public Debt Interest	2852	3444	4389	5644	7003	7885	7867	7406	7271	6072	6278	6805	6754	6833
Contingency Reserve														
Contingency Reserve	–	–	–	–	–	–	–	–	–	–	–	190	-40	-330
Asset Sales														
Asset Sales	–	–	–	–	–	–	-1056	-528	-1068	-162	-625	-200	-150	–
Total Not Allocated to Function	12760	14492	16816	18501	20796	22473	21790	20581	20462	19894	19004	20947	22416	22232
TOTAL OUTLAYS	41515	49390	57287	64675	70860	76097	79405	82820	87835	96041	101508	105705	109110	111102

Table VII–Commonwealth Budget Sector Outlays by Economic Type ($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
CURRENT OUTLAYS														
Current Outlays on Goods and Services														
Defence Salaries	2194	2327	2392	2493	2760	2946	3054	3139	3033	3177	3406	3504	3430	3571
Non–Salaries	1817	2321	2856	3394	3860	4211	4188	4443	5195	5698	5853	6312	6605	6843
Non–Defence Salaries	2155	2428	2732	3059	3419	3674	3764	3723	3743	4147	4481	4441	4310	4389
Non–Salaries	*1249*	*1431*	*1872*	*2174*	*2471*	*2721*	*3013*	*3431*	*3556*	*4221*	*4871*	*4865*	*4906*	*5228*
Total Current Outlays on Goods and Services	7415	8507	9852	11120	12509	13552	14018	14736	15526	17243	18611	19122	19250	20031
Current Transfer Payments														
Interest	2852	3444	4393	5653	7037	7940	7913	7483	7344	6158	6362	6888	6834	6911
Subsidies(a)	1202	1375	1625	1823	1754	1816	1903	1870	2059	2843	2506	2383	2403	2497
Personal Benefit Payments	12850	15652	18376	20652	22339	24082	26819	25014	26325	30570	34261	35279	36507	36457
Grants to Non–Profit Institutions	462	609	723	879	967	1120	957	1101	1161	1152	1459	1640	1740	1866
Grants to Non–Budget Sector(a)	1184	1341	1468	1678	2052	2063	2435	6182	7980	8776	9016	9421	9965	10662
Grants To State Governments	9652	11238	13022	14350	15361	15964	17071	17628	18662	20012	20670	21354	22104	23116
Grants Through State Governments (b)	1750	1962	2120	2276	2519	3425	3718	3859	4163	4537	5259	5622	6046	6460
Grants Direct To Local Governments	19	38	47	79	94	88	90	81	97	97	139	145	155	169
Grants Overseas	658	717	758	840	840	810	843	916	1070	1036	1093	1108	1114	1134
Other Transfers	–	–	–	–	–	3	4	5	7	5	29	40	40	11
Total Current Transfer Payments	30629	36376	42531	48228	52963	57310	61752	64140	68869	75186	80795	83880	86910	89283
TOTAL CURRENT OUTLAYS	38044	44883	52383	59348	65472	70862	75770	78876	84395	92429	99406	103002	106160	109314
CAPITAL OUTLAYS														
Capital Outlays on Goods(c)	306	447	441	573	611	560	626	534	687	971	1154	792	501	458
Capital Outlays on Land	–28	–31	–52	–100	–111	–87	–378	–121	24	–65	–10	–81	–212	–9
Capital Transfer Payments														
Grants to Non–Budget Sector	206	261	262	387	516	679	665	322	104	100	115	80	70	65
Grants To State Governments	1634	2069	2613	2976	3027	2994	2731	2799	3305	3601	3251	3290	3214	3229
Grants Through State Governments (b)	136	142	159	171	203	242	291	228	187	282	319	343	266	177
Grants Direct To Local Governments	7	18	19	17	17	14	16	35	13	13	18	13	10	10
Grants to Other Sectors	204	239	327	387	328	303	348	352	316	250	279	207	195	211
Total Capital Transfer Payments	2186	2729	3380	3938	4092	4232	4051	3736	3926	4245	3981	3932	3756	3691
Net Advances														
To Non–Budget Sector	19	226	–18	4	–99	–123	–46	29	–136	–260	147	–151	–201	–237
To Other Governments	866	1056	1002	799	777	546	–46	–124	–485	–1858	–2691	–2278	–1196	–2032
To Other Sectors	122	80	151	114	119	106	–573	–110	–575	578	–489	477	707	711
Total Net Advances	1008	1362	1136	918	796	530	–665	–205	–1197	–1540	–3032	–1952	–690	–1558
TOTAL CAPITAL OUTLAYS	3471	4508	4904	5328	5388	5235	3635	3943	3440	3612	2092	2692	3356	2582
Contingency Reserve (d)	–	–	–	–	–	–	–	–	–	–	10	12	–406	–794
TOTAL OUTLAYS	41515	49390	57287	64675	70860	76097	79405	82820	87835	96041	101508	105705	109110	111102

(a)Current grants to PTE's are classified as subsidies and are not included in Grants to the Non–budget sector.
(b)The separation of payments through the States is explained in the Classifications Issues section of Statement 7.
(c)Capital outlays on Goods covers the purchase of new fixed assets,purchases less sales of secondhand fixed assets and stocks.
(d)An allowance for parameter revisions affecting the Budget and forward estimates which could not be included in detailed estimates. The bulk of the Contingency Reserve is allocated to specific economic type categories.

Table VIII – Commonwealth Budget Sector Outlays by Economic Type as a Proportion of Total Budget Outlays (percent)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94	94–95
CURRENT OUTLAYS														
Current Outlays on Goods and Services														
Defence Salaries	5.3	4.7	4.2	3.9	3.9	3.9	3.8	3.8	3.5	3.3	3.4	3.3	3.1	3.2
Non–Salaries	4.4	4.7	5.0	5.2	5.4	5.5	5.3	5.4	5.9	5.9	5.8	6.0	6.1	6.2
Non–Defence Salaries	5.2	4.9	4.8	4.7	4.8	4.8	4.7	4.5	4.3	4.3	4.4	4.2	4.0	4.0
Non–Salaries	3.0	2.9	3.3	3.4	3.5	3.6	3.8	4.1	4.0	4.4	4.8	4.6	4.5	4.7
Total Current Outlays on Goods and Services	17.9	17.2	17.2	17.2	17.7	17.8	17.7	17.8	17.7	18.0	18.3	18.1	17.6	18.0
Current Transfer Payments														
Interest	6.9	7.0	7.7	8.7	9.9	10.4	10.0	9.0	8.4	6.4	6.3	6.5	6.3	6.2
Subsidies	2.9	2.8	2.8	2.8	2.5	2.4	2.4	2.3	2.3	3.0	2.5	2.3	2.2	2.2
Personal Benefit Payments	31.0	31.7	32.1	31.9	31.5	31.6	33.8	30.2	30.0	31.8	33.8	33.4	33.5	32.8
Grants to Non–Profit Institutions	1.1	1.2	1.3	1.4	1.4	1.5	1.2	1.3	1.3	1.2	1.4	1.6	1.6	1.7
Grants to Non–Budget Sector	2.9	2.7	2.6	2.6	2.9	2.7	3.1	7.5	9.1	9.1	8.9	8.9	9.1	9.6
Grants To State Governments	23.2	22.8	22.7	22.2	21.7	21.0	21.5	21.3	21.2	20.8	20.4	20.2	20.3	20.8
Grants Through State Governments	4.2	4.0	3.7	3.5	3.6	4.5	4.7	4.7	4.7	4.7	5.2	5.3	5.5	5.8
Grants Direct To Local Governments	..	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Grants Overseas	1.6	1.5	1.3	1.3	1.2	1.1	1.1	1.1	1.2	1.1	1.1	1.0	1.0	1.0
Other Transfers	–	–	–	–	–	..	..	..	..	..	..	..	..	..
Total Current Transfer Payments	73.8	73.7	74.2	74.6	74.7	75.3	77.8	77.4	78.4	78.3	79.6	79.4	79.7	80.4
TOTAL CURRENT OUTLAYS	91.6	90.9	91.4	91.8	92.4	93.1	95.4	95.2	96.1	96.2	97.9	97.4	97.3	98.4
CAPITAL OUTLAYS														
Capital Outlays on Goods	0.7	0.9	0.8	0.9	0.9	0.7	0.8	0.6	0.8	1.0	1.1	0.7	0.5	0.4
Capital Outlays on Land	–0.1	–0.1	–0.1	–0.2	–0.2	–0.1	–0.5	–0.1	..	–0.1	..	–0.1	–0.2	..
Capital Transfer Payments														
Grants to Non–Budget Sector	0.5	0.5	0.5	0.6	0.7	0.9	0.8	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Grants To State Governments	3.9	4.2	4.6	4.6	4.3	3.9	3.4	3.4	3.8	3.7	3.2	3.1	2.9	2.9
Grants Through State Governments	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.4*	*0.3*	*0.2*	*0.3*	*0.3*	*0.3*	*0.2*	*0.2*
Grants Direct To Local Governments	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Grants to Other Sectors	0.5	0.5	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.2
Total Capital Transfer Payments	5.3	5.5	5.9	6.1	5.8	5.6	5.1	4.5	4.5	4.4	3.9	3.7	3.4	3.3
Net Advances														
To Non–Budget Sector	..	0.5	..	..	–0.1	–0.2	–0.1	..	–0.2	–0.3	0.1	–0.1	–0.2	–0.2
To Other Governments	2.1	2.1	1.7	1.2	1.1	0.7	–0.1	–0.1	–0.6	–1.9	–2.7	–2.2	–1.1	–1.8
To Other Sectors	0.3	0.2	0.3	0.2	0.2	0.1	–0.7	–0.1	–0.7	0.6	–0.5	0.5	0.6	0.6
Total Net Advances	2.4	2.8	2.0	1.4	1.1	0.7	–0.8	–0.2	–1.4	–1.6	–3.0	–1.8	–0.6	–1.4
TOTAL CAPITAL OUTLAYS	8.4	9.1	8.6	8.2	7.6	6.9	4.6	4.8	3.9	3.8	2.1	2.5	3.1	2.3
Contingency Reserve	–	–	–	–	–	–	–	–	–	–	..	..	–0.4	–0.7
TOTAL OUTLAYS	100	100	100	100	100	100	100	100	100	100	100	100	100	100

TABLE IX – Commonwealth Budget Sector Domestic Outlays by Economic Type($m)

	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92
CURRENT OUTLAYS											
Current Outlays on Goods and Services											
Defence Salaries	2188	2321	2386	2487	2753	2938	3044	3137	3032	3177	3406
Non-Salaries	1386	1554	1796	1965	2267	2608	3079	3406	4211	4708	4619
Non-Defence Salaries	2128	2399	2700	3024	3378	3627	3714	3670	3693	4095	4426
Non-Salaries	*1163*	*1341*	*1772*	*2044*	*2317*	*2591*	*2912*	*3289*	*3398*	*3815*	*4458*
Total Current Outlays on Goods and Service	6865	7615	8654	9520	10714	11764	12748	13502	14333	15795	16909
Current Transfer Payments											
Interest	2513	2986	3867	4999	6102	6642	6602	6506	6510	5558	5971
Subsidies	1202	1375	1625	1823	1754	1816	1903	1870	2059	2843	2506
Personal Benefit Payments	12787	15582	18293	20560	22214	23952	26679	24862	26149	30367	34043
Grants to Non-Profit Institutions	462	609	723	879	967	1120	957	1101	1161	1152	1459
Grants to Non-Budget Sector	1184	1341	1468	1678	2052	2063	2435	6182	7980	8776	9016
Grants to/through Other Governments	11421	13238	15189	16705	17974	19477	20879	21568	22922	24646	26068
Grants Overseas	273	292	334	333	330	293	333	410	521	507	584
Other Transfers	–	–	–	–	–	3	4	5	7	5	29
Total Current Transfer Payments	29842	35423	41498	46975	51393	55365	59791	62505	67310	73854	79677
TOTAL CURRENT OUTLAYS	36707	43038	50152	56495	62107	67129	72539	76007	81643	89649	96586
CAPITAL OUTLAYS											
Capital Outlays on Goods and Land	270	407	376	460	470	451	280	381	676	883	1122
Total Capital Transfer Payments	2186	2729	3380	3938	4092	4232	4051	3736	3926	4245	3981
Total Net Advances	949	1308	1041	828	688	422	–228	–400	–1210	–1745	–3258
TOTAL CAPITAL OUTLAYS	3404	4445	4796	5225	5250	5105	4104	3716	3392	3384	1844
Contingency Reserve	–	–	–	–	–	–	–	–	–	–	10
TOTAL OUTLAYS	40111	47482	54948	61719	67357	72234	76643	79724	85035	93033	98440

TABLE X – Commonwealth Budget Sector Overseas Outlays by Economic Type($m)

	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92
CURRENT OUTLAYS											
Current Outlays on Goods and Services											
Defence Salaries (c)	6	6	6	6	7	8	10	2	1	..	
Non-Salaries	431	767	1060	1429	1593	1603	1109	1037	984	990	1234
Non-Defence Salaries	27	29	32	35	41	47	50	53	50	52	55
Non-Salaries	86	90	100	130	154	130	101	142	158	406	413
Total Current Outlays on Goods and Services	550	892	1198	1600	1795	1788	1270	1234	1193	1448	1702
Current Transfer Payments											
Interest	339	458	526	654	935	1298	1311	977	834	600	391
Personal Benefit Payments	63	70	83	92	125	130	140	152	176	203	218
Grants Overseas	385	425	424	507	510	517	510	506	549	529	509
Total Current Transfer Payments	787	953	1033	1253	1570	1945	1961	1635	1559	1332	1118
TOTAL CURRENT OUTLAYS	1337	1845	2231	2853	3365	3733	3231	2869	2752	2780	2820
CAPITAL OUTLAYS											
Capital Outlays on Goods and Land(d)	8	9	13	13	30	22	–32	32	35	23	22
Net Advances(e)	59	54	95	90	108	108	–437	195	13	205	226
TOTAL CAPITAL OUTLAYS	67	63	108	103	138	130	–469	227	48	228	248
TOTAL OVERSEAS OUTLAYS (f)	1404	1908	2339	2956	3503	3863	2762	3096	2800	3008	3068

(a) Salaries of all Australian based staff overseas are included in domestic outlays for the purpose of this table. Salaries of locally engaged staff are recorded here.
(b)Overseas outlays by the Commonwealth do not add directly to domestic income or the demand for locally produced goods and services, while government revenue from overseas sources increase total revenue without withdrawing purchasing power from the domestic sector.
(c)The fall in Defence salary payments in 1988-89 is due to the running down of operations in Butterworth Malaysia.
(d)Includes proceeds from sale of Tokyo embassy buildings of *$61m 87/88 Paris Head of Mission residence* of $16m 87/88.
(e)Includes proceeds from sale of Tokyo embassy land of $546m 87/88 and $60m 89/90 in line with ABS treatment.
(f)Overseas outlays are the major contributor to the oversea budget deficit (OBD):

	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92
overseas outlays	1404	1908	2339	2956	3503	3863	2762	3096	2800	3008	3068
plus salaries of Australians based overseas	89	94	98	104	125	138	121	91	117	123	119
less overseas revenue	40	29	28	32	34	47	38	40	50	56	61
OBD	1453	1975	2408	3029	3595	3956	2847	3147	2865	3075	3125

Table XI – Commonwealth Budget Portfolio Outlays by Major Function

PORTFOLIO	Defence	Education	Health	Social Security & Welfare	Housing & Community Amenities	Culture & Recreation	Economic Services	General Public Services	Not Allocated to Function	TOTAL
Contingency Reserve	–	–	–	–	–	–	–	–	–	–
Parliament	–	–	–	–	–	–	–	140	–	140
Administrative Services	–13	..	–	–	–	27	13	447	..	475
Arts, Sport, the Environment, Tourism and Territories	–	16	21	–	49	440	183	145	18	872
Attorney General's	–	–	1	*18*	–	1	138	905	118	1181
Defence	9450	–	–	–	–	2	–	–	–	9452
Employment, Education and Training	–	8143	–	638	–	1	1327	243	–	10352
Finance	–2	–	–	..	–9	–	–2	1182	–1106	64
Foreign Affairs and Trade	–	–	–	–	–	–	21	1689	–	1710
Health, Housing and Community Services										
–Health, Housing and Community *Service*	–	–	12403	1633	1060	–	–	11	–	15107
–Veterans' Affairs	–	5	1258	3918	129	22	..	–	–	5331
Immigration, Local Government and Ethnic *Affairs*	–	98	–	48	2	1	204	1	–	355
Industrial Relations	–	–	–	–	–	–	209	60	..	269
Industry, Technology and Commerce	–	–	–	17	..	–	*1875*	829	–	2721
Primary Industry and Energy	–	..	1	1	20	–	1583	5	144	1754
Prime Minister and Cabinet	–	–	–	4	7	6	–	117	–	134
Social Security	–	–	–	*28087*	–	–	–	–	–	28087
Transport and Communications	–	–	–	4	–	735	1513	–	689	2941
Treasury	–	–	–	42	–69	–	52	1398	19140	20564
TOTAL OUTLAYS	9435	8262	13684	34408	1189	1237	7116	7173	19004	101508

Table XII – Commonwealth Budget Portfolio Outlays by Major Economic Type, 1991–92

PORTFOLIO	*Current* Outlays on Goods and Services	Interest	Personal Benefit Payments	*Capital* Outlays on Goods and Land	*Transfers &* Advances to Other Govts	Other *Transfers*	Contingency *Reserve nec*	TOTAL
Contingency Reserve	–10	–	–	–	–	–	10	–
Parliament	136	–	–	4	–	–	–	140
Administrative Services	135	14	–	324	–	1	–	475
Arts, Sport, the Environment, Tourism and Territories	269	–	4	64	74	461	–	872
Attorney General's	618	–	–	167	239	157	–	1181
Defence	9276	–	1	–	..	175	–	9452
Employment, Education and Training	612	–	*1550*	14	8113	2062	–	10352
Finance	1207	1	..	–17	63	–1190	–	64
Foreign Affairs and Trade	459	..	2	16	–	1233	–	1710
Health, Housing and Community Services								
–Health, Housing and Community Servi	505	–	1717	109	5784	6993	–	15107
–Veterans' Affairs	1298	–	3898	26	4	105	–	5331
Immigration, Local Government and Ethnic Affairs	317	–	5	15	–7	25	–	355
Industrial Relations	113	..	–	7	23	125	–	269
Industry, Technology and Commerce	597	–	–	54	15	2055	–	2721
Primary Industries and Energy	435	6	1	21	424	867	–	1754
Prime Minister and Cabinet	111	–	–	3	–	20	–	134
Social Security	962	–	27074	42	–	9	–	28087
Transport and Communications	381	..	4	104	1297	1155	–	2941
Treasury	1189	6342	6	189	12935	–97	–	20564
TOTAL OUTLAYS	18611	6362	34261	1143	26965	14156	10	101508

Table XIII Running Costs Budgets and Staffing – Summary

Portfolio		Staff (numbers and cost) 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	*Administrative* 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Total Running Costs Budget 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Administrative Services	$m	130.7	134.1	139.3	136.8	140.0	67.9	71.7	73.2	75.3	78.3	198.6	205.9	212.5	212.1	218.2
	ASL	*2311*	*2341*	*2315*	*2281*	*2256*										
Arts, Sport, the Environment, Tourism and Territories	$m	192.0	202.6	208.1	199.0	205.3	184.3	205.3	195.1	186.7	191.3	376.3	407.9	403.2	385.7	396.6
	ASL	*4921*	*4994*	*4896*	*4778*	*4720*										
Attorney-General's	$m	342.1	405.3	420.0	407.8	420.7	224.6	233.3	215.2	211.4	216.6	566.7	638.6	635.2	619.3	637.3
	ASL	*8615*	*9549*	*9577*	*9504*	*9418*										
Defence	$m	735.3	755.8	776.9	732.7	752.7	905.5	955.3	994.8	1026.6	1068.5	1640.8	1711.1	1771.7	1759.4	1821.2
	ASL	*24412*	*24248*	*23115*	*22250*	*21662*										
Employment, Education and Training	$m	386.4	437.9	458.8	442.1	456.6	192.7	188.8	197.6	200.5	204.0	579.1	626.8	656.4	642.7	660.6
	ASL	*11633*	*13051*	*12865*	*12647*	*12445*										
Finance	$m	76.0	85.2	85.1	81.5	83.8	35.6	45.4	40.8	36.0	37.0	111.6	130.6	125.9	117.5	120.9
	ASL	*2035*	*2134*	*2063*	*2015*	*1972*										
Foreign Affairs and Trade	$m	201.8	207.5	220.4	211.4	217.2	169.8	164.1	175.4	174.9	177.2	371.7	371.6	395.8	386.3	394.4
	ASL	*4374*	*4524*	*4467*	*4461*	*4438*										
Health, Housing and Community Services	$m	664.9	688.5	721.7	695.4	715.5	284.9	300.4	300.8	304.7	311.5	949.8	988.9	1022.5	1000.1	1027.0
	ASL	*18510*	*18506*	*18447*	*18164*	*17956*										
Immigration, Local Government and Ethnic Affairs	$m	111.6	120.0	124.0	116.2	119.7	79.4	88.1	85.0	84.8	87.1	191.1	208.2	208.9	201.0	206.8
	ASL	*3269*	*3339*	*3260*	*3134*	*3083*										
Industrial Relations	$m	72.6	76.8	78.7	73.6	76.1	38.2	43.7	42.7	42.6	44.7	110.8	120.5	121.3	116.2	120.8
	ASL	*1798*	*1900*	*1843*	*1800*	*1780*										
Industry, Technology and Commerce	$m	595.3	612.1	640.9	617.5	633.6	360.7	415.8	398.7	416.8	431.4	956.0	1027.9	1039.5	1034.2	1065.0
	ASL	*14580*	*14303*	*14238*	*14179*	*14072*										
Primary Industries and Energy	$m	175.1	170.5	175.9	164.3	168.1	144.8	150.9	152.9	149.4	152.9	319.9	321.5	328.8	313.7	321.0
	ASL	*4436*	*4465*	*4360*	*4224*	*4154*										
Prime Minister and Cabinet	$m	43.2	46.9	44.7	42.1	42.9	30.1	29.6	27.8	28.4	29.3	73.3	76.5	72.5	70.5	72.2
	ASL	*1030*	*1076*	*1016*	*994*	*977*										
Social Security	$m	520.6	608.7	605.6	565.7	568.2	241.6	257.9	253.9	257.3	262.0	762.2	866.7	859.5	823.0	830.2
	ASL	*17325*	*19070*	*18200*	*17812*	*17099*										
Transport and Communications	$m	411.1	399.6	395.5	406.7	419.2	390.0	382.6	384.8	413.9	427.4	801.1	782.2	780.2	820.6	846.6
	ASL	*9239*	*8587*	*8510*	*8456*	*8455*										
Treasury	$m	753.4	802.8	786.6	724.3	735.3	308.0	394.1	293.1	292.9	305.9	1061.4	1196.9	1079.6	1017.2	1041.2
	ASL	*23909*	*24633*	*22593*	*21420*	*20910*										
Total	$m	5412.1	5754.6	5882.1	5617.2	5754.9	3658.1	3927.1	3831.6	3902.2	4025.1	9070.2	9681.7	9713.7	9519.4	9780.0
	ASL	*152396*	*156720*	*151763*	*148118*	*145395*										

Table XIV Running Costs Budgets and Staffing – by Agency

		Staff (numbers and cost) 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Administrative 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Total Running Costs Budget 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Administrative Services																
Department	$m	56.6	60.6	62.3	59.7	62.5	43.4	50.1	50.8	52.0	54.1	100.0	110.7	113.1	111.6	116.6
	ASL	*1482*	*1548*	*1532*	*1508*	*1492*										
Australian Electoral Commission	$m	25.7	27.8	28.3	27.2	28.1	6.2	6.0	6.1	6.2	6.4	31.9	33.7	34.4	33.4	34.5
	ASL	*771*	*793*	*783*	*773*	*764*										
Parliamentary and Ministerial Staff and Services	$m	46.4	45.7	48.6	49.9	49.4	14.9	15.6	16.4	17.1	17.8	61.3	61.3	65.0	67.0	67.2
	ASL	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*										
Royal Commissions and Inquiries	$m	2.0	–	–	–	–	3.4	0.1	–	–	–	5.4	0.1	–	–	–
	ASL	*58*	–	–	–	–										
Total	$m	130.7	134.1	139.3	136.8	140.0	67.9	71.7	73.2	75.3	78.3	198.6	205.9	212.5	212.1	218.2
	ASL	*2311*	*2341*	*2315*	*2281*	*2256*										
Arts, Sport, the Environment, Tourism and Territories																
Department	$m	21.0	26.0	25.1	22.5	22.9	10.3	12.7	12.7	12.7	12.9	31.3	38.7	37.8	35.2	35.8
	ASL	*534*	*642*	*595*	*554*	*541*										
Antarctic Division	$m	12.6	12.9	13.7	13.3	13.9	20.5	21.4	22.4	22.8	23.3	33.0	34.3	36.1	36.2	37.2
	ASL	*277*	*281*	*281*	*281*	*281*										
Australia Council	$m	5.1	5.2	5.4	5.4	5.5	3.5	3.4	3.4	3.5	3.6	8.6	8.6	8.8	8.9	9.1
	ASL	*115*	*114*	*113*	*111*	*110*										
Australian Film Commission	$m	2.6	2.7	2.4	2.4	2.4	2.4	2.2	2.3	2.4	2.5	5.0	5.0	4.7	4.8	4.9
	ASL	*47*	*46*	*46*	*45*	*45*										
Australian Film, Television and Radio School	$m	5.3	5.4	5.8	5.7	5.9	5.5	5.8	5.9	6.1	6.3	10.7	11.2	11.7	11.8	12.2
	ASL	*125*	*127*	*125*	*123*	*122*										
Australian Heritage Commission	$m	1.9	2.3	2.5	2.5	2.6	3.0	4.1	4.2	4.1	4.1	4.9	6.4	6.7	6.5	6.7
	ASL	*49*	*55*	*55*	*54*	*54*										
Australian National Gallery	$m	9.6	9.6	9.2	9.1	9.4	8.1	9.2	8.9	8.8	9.3	17.7	18.8	18.1	17.9	18.7
	ASL	*243*	*222*	*241*	*238*	*235*										
Australian National Maritime Museum	$m	2.8	3.0	3.2	3.2	3.2	8.0	10.2	4.0	4.1	4.2	10.8	13.1	7.2	7.2	7.4
	ASL	*75*	*73*	*72*	*71*	*70*										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost)					Administrative					Total Running Costs Budget				
		90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Arts, Sport, the Environment, Tourism and Territories (cont'd)																
Australian National Parks and Wildlife Service	$m	10.6	11.4	11.5	11.1	11.4	7.4	7.4	4.2	4.3	4.4	18.0	18.8	15.7	15.4	15.8
	ASL	*287*	*309*	*291*	*283*	*279*										
Australian Sports Commission	$m	7.9	9.0	9.7	8.9	9.1	24.1	24.7	25.6	14.1	14.5	32.0	33.7	35.3	23.0	23.6
	ASL	*197*	*227*	*224*	*207*	*204*										
Australian Sports Drug Agency	$m	0.2	0.7	0.9	0.9	0.9	0.5	1.7	1.7	1.8	1.8	0.7	2.4	2.6	2.6	2.7
	ASL	*11*	*17*	*19*	*19*	*19*										
Australian Tourist Commission	$m	6.7	7.1	7.8	7.7	7.9	4.1	3.1	5.6	5.7	5.9	10.7	10.2	13.4	13.4	13.8
	ASL	*134*	*132*	*130*	*129*	*127*										
Commonwealth Bureau of Meteorology	$m	65.6	66.1	69.4	66.3	68.5	38.0	42.8	43.2	44.8	46.0	103.5	108.9	112.6	111.1	114.5
	ASL	*1647*	*1590*	*1590*	*1585*	*1565*										
Territories	$m	5.0	5.1	5.5	5.3	5.5	17.4	18.0	19.1	19.2	19.2	22.4	23.2	24.6	24.5	24.7
	ASL	*138*	*138*	*138*	*138*	*138*										
Great Barrier Reef Marine Park Authority	$m	3.0	3.3	3.2	3.1	3.3	4.8	7.5	5.0	4.6	5.0	7.9	10.8	8.2	7.8	8.3
	ASL	*82*	*90*	*77*	*76*	*76*										
National Capital Planning Authority	$m	1.6	2.0	2.1	2.0	2.1	1.7	1.4	1.1	1.1	1.2	3.3	3.3	3.2	3.1	3.2
	ASL	*35*	*40*	*39*	*39*	*38*										
National Film and Sound Archive	$m	4.7	4.1	3.5	2.6	2.7	2.4	2.0	2.0	2.2	2.3	7.0	6.1	5.5	4.9	5.0
	ASL	*153*	*128*	*100*	*73*	*72*										
National Library of Australia	$m	19.2	19.2	19.9	19.7	20.2	13.2	16.8	14.3	14.7	15.1	32.4	36.0	34.2	34.3	35.3
	ASL	*599*	*580*	*585*	*578*	*571*										
National Museum of Australia	$m	1.5	1.8	1.7	1.7	1.7	2.7	3.7	1.9	2.0	2.0	4.3	5.5	3.6	3.7	3.8
	ASL	*41*	*49*	*43*	*42*	*41*										
National Science and Technology Centre	$m	2.2	2.3	2.4	2.4	2.7	3.0	3.1	3.7	3.8	3.8	5.2	5.4	6.1	6.2	6.5
	ASL	*62*	*62*	*61*	*60*	*60*										
Supervising Scientist for the Alligator Rivers Region Research Institute	$m	3.0	3.2	3.3	3.2	3.4	3.8	4.2	4.0	4.0	4.1	6.7	7.4	7.3	7.2	7.4
	ASL	*71*	*72*	*72*	*72*	*72*										
Total	$m	192.0	202.6	208.1	199.0	205.3	184.3	205.3	195.1	186.7	191.3	376.3	407.9	403.2	385.7	396.6
	ASL	*4921*	*4994*	*4896*	*4778*	*4720*										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost)					Administrative					Total Running Costs Budget				
		90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Attorney-General's																
Department	$m	82.2	85.7	84.9	79.7	82.1	34.4	39.5	34.2	34.3	35.1	116.6	125.2	119.1	114.0	117.2
	ASL	*2278*	*2318*	*2284*	*2200*	*2173*										
Administrative Appeals Tribunal	$m	7.0	7.9	8.2	8.0	8.3	3.9	3.4	3.4	3.5	3.6	10.9	11.3	11.7	11.5	11.9
	ASL	*145*	*153*	*151*	*149*	*148*										
Supreme Court of the Australian Capital Territory	$m	1.6	1.6	1.7	1.6	1.7	1.0	1.0	1.1	1.1	1.1	2.6	2.6	2.7	2.7	2.8
	ASL	*35*	*36*	*35*	*35*	*34*										
Australian Bureau of Criminal Intelligence	$m	1.2	1.4	1.3	1.2	1.3	2.1	2.7	2.6	2.7	2.8	3.3	4.1	3.9	4.0	4.1
	ASL	*31*	*35*	*33*	*33*	*32*										
Australian Federal Police	$m	131.6	142.2	147.8	146.2	152.3	46.5	60.1	56.8	57.9	59.5	178.0	202.4	204.6	204.1	211.8
	ASL	*3100*	*3066*	*3057*	*3050*	*3043*										
Australian Institute of Criminology	$m	2.2	2.1	2.2	2.1	2.2	1.9	2.0	1.9	1.9	2.0	4.1	4.1	4.1	4.1	4.2
	ASL	*44*	*45*	*44*	*44*	*43*										
Australian Securities Commission	$m	27.5	60.1	67.9	65.4	67.6	78.8	54.8	49.0	41.9	43.0	106.3	114.9	116.9	107.3	110.6
	ASL	*817*	*1537*	*1631*	*1659*	*1638*										
Cash Transaction Reports Agency	$m	1.1	1.4	1.6	1.6	1.6	3.7	4.1	5.1	5.6	6.0	4.7	5.5	6.7	7.1	7.7
	ASL	*28*	*38*	*43*	*42*	*42*										
Companies and Securities Advisory Committee	$m	..	0.1	0.1	0.1	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
	ASL	*1*	*2*	*2*	*2*	*2*										
Family Court of Australia	$m	28.6	30.5	32.0	30.8	31.9	14.3	14.4	14.8	15.2	15.6	42.9	44.9	46.8	46.0	47.5
	ASL	*719*	*726*	*718*	*709*	*700*										
Federal Court of Australia	$m	10.3	13.6	13.1	12.7	13.1	5.4	7.6	6.7	6.9	7.1	15.7	21.2	19.8	19.5	20.2
	ASL	*233*	*264*	*248*	*245*	*242*										
High Court of Australia	$m	4.4	4.6	4.9	4.7	4.8	3.5	6.1	3.8	3.9	4.0	8.0	10.7	8.7	8.6	8.9
	ASL	*92*	*91*	*90*	*89*	*88*										
Human Rights and Equal Opportunity Commission	$m	3.9	4.8	4.8	4.5	4.7	3.7	4.1	4.0	4.2	4.3	7.7	8.9	8.9	8.7	9.0
	ASL	*93*	*114*	*109*	*105*	*104*										
Law Reform Commission	$m	1.8	1.8	1.9	1.8	1.9	1.5	2.6	1.8	1.9	1.9	3.3	4.4	3.7	3.7	3.8
	ASL	*33*	*34*	*34*	*34*	*33*										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost) 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Administrative 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Total Running Costs Budget 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Attorney-General's (cont'd)																
National Crime Authority	$m	12.2	14.9	14.8	15.3	16.0	12.6	16.7	15.9	16.8	17.5	24.8	31.6	30.7	32.1	33.5
	ASL	302	333	330	349	345										
Office of Parliamentary Counsel	$m	2.4	2.5	2.6	2.5	2.6	0.6	0.7	0.7	0.7	0.8	2.9	3.2	3.3	3.2	3.3
	ASL	49	50	49	48	48										
Office of The Director of Public Prosecutions	$m	16.9	22.2	22.3	22.1	20.7	7.3	10.0	10.4	10.0	9.2	24.2	32.2	32.7	32.0	29.9
	ASL	433	512	536	529	523										
Trade Practices Commission	$m	7.2	7.8	7.8	7.5	7.7	3.0	2.9	2.6	2.7	2.8	10.3	10.8	10.4	10.1	10.5
	ASL	183	195	184	182	180										
Total	$m	342.1	405.3	420.0	407.8	420.7	224.6	233.3	215.2	211.4	216.6	566.7	638.6	635.2	619.3	637.3
	ASL	8615	9549	9577	9504	9418										
Defence																
Civil Personnel	$m	721.7	744.4	765.8	723.0	743.4	905.5	955.3	994.8	1026.6	1068.5	1627.2	1699.8	1760.6	1749.7	1811.9
	ASL	24018	23913	22812	21978	21414										
Munitions Trust Account	$m	7.6	5.3	4.7	3.8	3.2	–	–	–	–	–	7.6	5.3	4.7	3.8	3.2
	ASL	200	139	111	87	67										
Woomera Trust Account	$m	6.0	6.1	6.3	5.9	6.1	–	–	–	–	–	6.0	6.1	6.3	5.9	6.1
	ASL	194	196	192	185	181										
Total	$m	735.3	755.8	776.9	732.7	752.7	905.5	955.3	994.8	1026.6	1068.5	1640.8	1711.1	1771.7	1759.4	1821.2
	ASL	24412	24248	23115	22250	21662										
Employment, Education and Training																
Department	$m	333.0	381.6	400.5	382.3	392.6	151.3	149.3	154.8	156.3	159.6	484.3	530.9	555.3	538.6	552.2
	ASL	10326	11809	11620	11418	11232										
National Board of Employment, Education and Training	$m	1.9	2.5	2.3	2.2	2.3	2.4	2.1	2.3	2.4	2.5	4.3	4.6	4.6	4.6	4.7
	ASL	44	44	43	43	42										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost) 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Administrative 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Total Running Costs Budget 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Employment, Education and Training (cont'd)																
ATSIC	$m	44.9	46.7	48.8	50.3	53.7	36.7	34.9	37.8	39.1	39.1	81.6	81.6	86.6	89.4	92.8
	ASL	1098	1035	1040	1027	1014										
Aboriginal Hostels	$m	4.4	4.6	4.8	4.9	5.3	1.6	1.9	2.0	2.0	2.1	6.1	6.5	6.8	6.9	7.4
	ASL	109	108	106	105	104										
Australian Institute of Aboriginal Studies	$m	2.2	2.4	2.4	2.5	2.7	0.7	0.7	0.7	0.7	0.8	2.9	3.1	3.1	3.2	3.4
	ASL	56	56	55	54	53										
Total	$m	386.4	437.9	458.8	442.1	456.6	192.7	188.8	197.6	200.5	204.0	579.1	626.8	656.4	642.7	660.6
	ASL	11633	13051	12865	12647	12445										
Finance																
Department	$m	34.4	38.1	38.2	35.4	36.3	18.7	29.4	26.7	21.6	22.2	53.0	67.5	64.9	57.1	58.5
	ASL	910	936	916	883	861										
Australian National Audit Office	$m	25.5	29.1	29.5	29.5	30.4	9.5	8.8	8.6	8.7	9.1	35.0	37.9	38.1	38.2	39.5
	ASL	627	668	662	654	638										
Retirement Benefits Office	$m	16.1	18.0	17.4	16.6	17.2	7.4	7.3	5.5	5.6	5.8	23.5	25.3	22.9	22.2	22.9
	ASL	498	530	485	479	473										
Total	$m	76.0	85.2	85.1	81.5	83.8	35.6	45.4	40.8	36.0	37.0	111.6	130.6	125.9	117.5	120.9
	ASL	2035	2134	2063	2015	1972										
Foreign Affairs and Trade																
Department	$m	178.0	182.5	194.5	186.6	191.6	161.8	155.1	166.0	165.3	167.4	339.7	337.6	360.6	351.9	359.0
	ASL	3820	3970	3927	3928	3913										
Australia–Japan Foundation	$m	0.3	0.4	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.5	0.5	0.6	0.6	0.6
	ASL	4	4	4	4	4										
Australian Centre for International Agricultural Research	$m	1.3	1.4	1.5	1.4	1.4	2.1	2.0	2.1	2.2	2.3	3.4	3.4	3.6	3.6	3.7
	ASL	31	31	30	30	29										
Australian International Development Assistance Bureau	$m	22.2	23.2	24.1	23.1	23.8	5.8	6.7	7.0	7.2	7.4	28.0	30.0	31.0	30.2	31.2
	ASL	519	519	506	499	492										
Total	$m	201.8	207.5	220.4	211.4	217.2	169.8	164.1	175.4	174.9	177.2	371.7	371.6	395.8	386.3	394.4
	ASL	4374	4524	4467	4461	4438										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost) 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Administrative 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Total Running Costs Budget 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Health, Housing and Community Services																
Department of Health, Housing and Community Services	$m	129.3	142.3	146.4	140.4	142.5	77.4	76.0	69.0	67.6	68.5	206.7	218.3	215.4	208.0	211.0
	ASL	*3542*	*3579*	*3498*	*3426*	*3340*										
Australian Institute of Health	$m	2.4	2.7	3.5	3.6	3.8	1.8	2.3	3.1	3.0	3.1	4.2	4.9	6.7	6.6	6.8
	ASL	*54*	*59*	*75*	*80*	*79*										
National Acoustic Laboratories	$m	15.9	15.5	16.0	16.3	16.9	4.3	11.8	11.3	11.0	11.3	20.2	27.3	27.2	27.4	28.2
	ASL	*478*	*463*	*445*	*434*	*431*										
National Food Authority	$m	0.5	1.6	1.8	1.7	1.8	0.2	2.1	2.1	2.1	2.2	0.7	3.6	3.9	3.8	3.9
	ASL	*11*	*36*	*40*	*39*	*38*										
Rehabilitation Services Trust Account	$m	38.9	41.2	48.8	47.4	48.9	10.9	18.8	20.3	20.6	21.1	49.8	59.9	69.1	67.9	70.1
	ASL	*1037*	*1161*	*1375*	*1336*	*1380*										
Therapeutic Goods Administration Trust Account	$m	13.9	15.1	15.8	16.4	17.0	12.3	12.9	13.6	13.6	13.4	26.2	28.0	29.4	30.0	30.5
	ASL	*365*	*367*	*362*	*358*	*353*										
Department of Veterans' Affairs	$m	115.0	117.8	120.2	115.1	118.7	48.0	50.8	50.3	51.9	53.1	163.0	168.6	170.5	167.0	171.8
	ASL	*3642*	*3583*	*3495*	*3449*	*3405*										
Australian War Memorial	$m	7.3	7.4	7.7	7.4	7.7	5.5	5.3	5.1	5.2	5.3	12.8	12.8	12.8	12.6	13.0
	ASL	*220*	*216*	*214*	*211*	*208*										
Defence Service Homes Insurance Trust Account	$m	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	3.2	3.2	3.3	3.3	3.3
	ASL	*47*	*45*	*45*	*45*	*45*										
Repatriation General Hospitals Trust Account	$m	340.0	343.6	359.9	345.4	356.6	123.0	118.7	124.3	128.0	131.7	463.0	462.3	484.2	473.4	488.3
	ASL	*9114*	*8998*	*8898*	*8787*	*8677*										
Total	$m	664.9	688.5	721.7	695.4	715.5	284.9	300.4	300.8	304.7	311.5	949.8	988.9	1022.5	1000.1	1027.0
	ASL	*18510*	*18506*	*18447*	*18164*	*17956*										
Immigration, Local Government and Ethnic Affairs																
Department	$m	108.0	115.9	119.2	112.4	115.8	73.7	80.0	76.2	77.4	79.5	181.6	195.8	195.4	189.8	195.3
	ASL	*3140*	*3217*	*3121*	*3021*	*2971*										
National Language Services Bureau	$m	3.7	4.2	4.8	3.8	4.0	5.8	8.2	8.7	7.3	7.6	9.5	12.3	13.5	11.2	11.5
	ASL	*129*	*122*	*139*	*113*	*112*										
Total	$m	111.6	120.0	124.0	116.2	119.7	79.4	88.1	85.0	84.8	87.1	191.1	208.2	208.9	201.0	206.8
	ASL	*3269*	*3339*	*3260*	*3134*	*3083*										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost) 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Administrative 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Total Running Costs Budget 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Industrial Relations																
Department	$m	31.0	31.3	31.4	28.7	29.6	11.2	11.1	10.9	10.6	11.9	42.3	42.4	42.3	39.2	41.5
	ASL	*719*	*770*	*722*	*701*	*692*										
Affirmative Action Agency	$m	0.9	0.9	0.9	0.9	0.9	0.6	0.5	0.6	0.6	0.6	1.5	1.4	1.5	1.4	1.5
	ASL	*24*	*22*	*22*	*21*	*21*										
Australian Industrial Registry	$m	13.8	15.4	15.6	14.7	15.2	12.1	13.2	13.5	13.6	13.9	26.0	28.6	29.1	28.3	29.1
	ASL	*306*	*322*	*318*	*314*	*310*										
Australian Trade Union Training Authority	$m	4.9	5.0	5.3	5.1	5.4	3.9	4.8	5.0	5.0	5.1	8.9	9.8	10.3	10.1	10.5
	ASL	*113*	*112*	*112*	*112*	*112*										
COMCARE	$m	12.8	15.1	15.8	15.1	15.6	5.2	8.7	7.0	7.2	7.4	17.9	23.8	22.8	22.3	23.0
	ASL	*404*	*443*	*437*	*430*	*425*										
National Occupational Health and Safety Commission	$m	8.8	8.7	9.4	8.7	9.0	4.5	5.2	5.4	5.4	5.6	13.4	13.9	14.8	14.2	14.6
	ASL	*222*	*222*	*223*	*213*	*211*										
Remuneration Tribunal	$m	0.3	0.3	0.3	0.3	0.3	0.6	0.3	0.3	0.3	0.3	0.9	0.6	0.6	0.6	0.6
	ASL	*9*	*9*	*9*	*9*	*9*										
Total	$m	72.6	76.8	78.7	73.6	76.1	38.2	43.7	42.7	42.6	44.7	110.8	120.5	121.3	116.2	120.8
	ASL	*1798*	*1900*	*1843*	*1800*	*1780*										
Industry, Technology and Commerce																
Department	$m	33.7	34.5	35.2	33.6	33.5	22.5	24.3	25.3	19.3	16.4	56.3	58.8	60.4	52.9	50.0
	ASL	*838*	*835*	*821*	*807*	*784*										
Anti-Dumping Authority	$m	0.7	0.9	0.9	0.9	0.9	0.2	0.3	0.3	0.3	0.3	0.9	1.2	1.2	1.2	1.2
	ASL	*15*	*19*	*19*	*19*	*19*										
Australian Customs Service	$m	183.1	180.5	191.8	183.8	187.5	70.1	89.9	80.2	83.5	88.1	253.2	270.3	272.0	267.3	275.6
	ASL	*5156*	*4942*	*4887*	*4823*	*4763*										
Australian Institute of Marine Science	$m	5.2	6.1	6.3	6.0	6.2	7.6	8.2	7.9	8.2	8.6	12.8	14.2	14.2	14.2	14.8
	ASL	*114*	*121*	*121*	*121*	*121*										
Australian Manufacturing Council Secretariat	$m	1.0	1.1	1.1	1.1	1.1	1.8	1.8	1.9	1.9	2.0	2.8	2.9	3.0	3.0	3.1
	ASL	*26*	*25*	*24*	*24*	*24*										
Australian Nuclear Science and Technology Organisation	$m	37.6	39.4	41.4	39.7	41.0	25.0	24.7	29.5	34.5	38.9	62.6	64.2	70.9	74.2	79.9
	ASL	*862*	*862*	*862*	*862*	*862*										
AUSTRADE	$m	53.3	57.8	56.9	55.9	57.4	68.5	68.5	70.1	71.5	72.9	121.8	126.3	127.0	127.4	130.2
	ASL	*1309*	*1221*	*1207*	*1194*	*1181*										
Automotive Industry Authority	$m	0.6	0.6	0.6	0.6	0.6	0.4	0.5	0.5	0.5	0.6	1.0	1.1	1.1	1.1	1.1
	ASL	*11*	*14*	*13*	*13*	*13*										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost)					Administrative					Total Running Costs Budget				
		90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Industry, Technology and Commerce (cont'd)																
CSIRO	$m	254.0	263.7	276.9	265.8	274.3	154.3	186 6	169.9	182.7	188.9	408.3	450.3	446.8	448.5	463.2
	ASL	*5480*	*5487*	*5487*	*5487*	*5487*										
National Standards Commission	$m	1.3	1.4	1.4	1.4	1.4	0.6	0.6	0.6	0.7	0.7	1.9	2.0	2.1	2.0	2.1
	ASL	*29*	*29*	*28*	*28*	*28*										
Patent, Trade Marks and Designs Office	$m	24.3	25.2	27.4	27.9	28.8	9.1	9.9	11.9	13.1	13.5	33.4	35.1	39.4	41.0	42.3
	ASL	*724*	*728*	*749*	*783*	*773*										
Textiles, Clothing and Footwear Development Authority	$m	0.7	0.9	0.9	0.8	0.8	0.6	0.6	0.6	0.6	0.6	1.2	1.5	1.5	1.4	1.5
	ASL	*17*	*20*	*20*	*18*	*18*										
Total	$m	595.3	612.1	640.9	617.5	633.6	360.7	415.8	398.7	416.8	431.4	956.0	1027.9	1039.5	1034.2	1065.0
	ASL	*14580*	*14303*	*14238*	*14179*	*14072*										
Primary Industries and Energy																
Department	$m	45.4	45.5	47.3	44.2	45.2	37.7	43.2	42.5	40.4	41.0	83.1	88.7	89.7	84.6	86.2
	ASL	*1142*	*1131*	*1117*	*1058*	*1037*										
Australian Bureau of Agricultural and Resource Economics	$m	11.0	11.2	11.1	10.6	10.9	5.7	6.1	6.3	6.5	6.7	16.7	17.3	17.4	17.1	17.7
	ASL	*287*	*281*	*275*	*272*	*268*										
Australian Quarantine and Inspection Service	$m	94.0	93.1	94.1	86.6	88.4	74.8	75.9	77.2	74.8	77.0	168.8	168.9	171.3	161.4	165.4
	ASL	*2467*	*2543*	*2458*	*2384*	*2339*										
Bureau of Mineral Resources, Geology and Geophysics	$m	24.7	20.8	23.5	22.8	23.6	26.6	25.8	26.9	27.7	28.2	51.2	46.6	50.4	50.5	51.8
	ASL	*540*	*510*	*510*	*510*	*510*										
Total	$m	175.1	170.5	175.9	164.3	168.1	144.8	150.9	152.9	149.4	152.9	319.9	321.5	328.8	313.7	321.0
	ASL	*4436*	*4465*	*4360*	*4224*	*4154*										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost)					Administrative					Total Running Costs Budget				
		90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Prime Minister and Cabinet																
Department	$m	19.5	21.5	20.4	19.4	19.6	9.7	9.1	8.0	8.2	8.4	29.2	30.6	28.4	27.6	27.9
	ASL	*485*	*503*	*471*	*461*	*450*										
Australian Science and Technology Council	$m	1.0	1.1	1.1	1.1	1.1	0.6	0.6	0.6	0.6	0.6	1.6	1.7	1.8	1.7	1.8
	ASL	*20*	*20*	*20*	*19*	*19*										
Commonwealth Ombudsman	$m	3.0	3.2	3.3	3.2	3.3	1.0	1.1	1.1	1.1	1.2	4.0	4.3	4.4	4.3	4.4
	ASL	*72*	*70*	*69*	*68*	*67*										
Economic Planning Advisory Council	$m	1.0	1.0	1.0	1.0	1.0	0.9	0.7	0.8	0.8	0.8	1.9	1.8	1.8	1.8	1.8
	ASL	*20*	*20*	*19*	*19*	*19*										
Governor-General's Office and Establishments	$m	2.6	2.6	2.6	2.5	2.6	3.6	3.3	3.3	3.4	3.5	6.2	5.9	5.9	5.9	6.1
	ASL	*80*	*79*	*76*	*75*	*74*										
Merit Protection and Review Agency	$m	2.6	3.1	2.6	2.5	2.3	0.6	0.5	0.5	0.6	0.6	3.2	3.6	3.1	3.0	2.9
	ASL	*50*	*54*	*54*	*53*	*52*										
Office of Inspector-General of Intelligence and Security	$m	0.2	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.4	0.4	0.4
	ASL	*4*	*5*	*5*	*5*	*5*										
Office of National Assessments	$m	3.5	3.6	3.6	3.5	3.6	2.0	1.6	1.2	1.2	1.2	5.5	5.2	4.8	4.7	4.8
	ASL	*80*	*80*	*78*	*77*	*76*										
Official Establishments	$m	0.5	0.5	0.5	0.5	0.5	3.1	3.4	3.4	3.5	3.5	3.6	3.9	3.9	4.0	4.1
	ASL	*14*	*14*	*14*	*14*	*13*										
Public Service Commission	$m	6.8	7.5	6.6	5.8	6.0	5.3	5.7	5.3	5.3	5.6	12.1	13.2	11.9	11.1	11.6
	ASL	*155*	*177*	*157*	*150*	*148*										
Resource Assessment Commission	$m	2.5	2.5	2.6	2.5	2.5	3.2	3.4	3.6	3.7	3.8	5.6	6.0	6.1	6.1	6.3
	ASL	*49*	*55*	*54*	*54*	*53*										
Total	$m	43.2	46.9	44.7	42.1	42.9	30.1	29.6	27.8	28.4	29.3	73.3	76.5	72.5	70.5	72.2
	ASL	*1030*	*1076*	*1016*	*994*	*977*										
Social Security																
Department	$m	518.8	606.9	603.7	563.7	566.2	240.7	256.8	252.7	256.3	260.9	759.5	863.7	856.4	820.0	827.1
	ASL	*17290*	*19036*	*18166*	*17778*	*17065*										
Australian Institute of Family Studies	$m	1.8	1.9	1.9	2.0	2.0	0.9	1.1	1.2	1.0	1.1	2.7	3.0	3.1	3.0	3.1
	ASL	*35*	*35*	*34*	*34*	*34*										
Total	$m	520.6	608.7	605.6	565.7	568.2	241.6	257.9	253.9	257.3	262.0	762.2	866.7	859.5	823.0	830.2
	ASL	*17325*	*19070*	*18200*	*17812*	*17099*										

Table XIV Running Costs Budgets and Staffing – by Agency (cont'd)

		Staff (numbers and cost) 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Administrative 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est	Total Running Costs Budget 90–91 Act	91–92 Bud	92–93 Est	93–94 Est	94–95 Est
Transport and Communications																
Department	$m	83.6	71.7	70.9	67.5	66.5	64.8	54.0	47.0	47.9	46.8	148.4	125.8	117.9	115.4	113.3
	ASL	2229	1775	1713	1674	1673										
Austel	$m	4.4	7.4	7.6	6.9	7.1	7.5	5.7	5.2	4.9	5.0	11.9	13.1	12.8	11.8	12.1
	ASL	90	141	137	129	129										
Australian Broadcasting Corporation	$m	295.5	289.6	285.6	300.6	312.7	269.1	274.6	285.1	309.5	321.9	564.6	564.2	570.7	610.1	634.6
	ASL	6201	5919	5919	5919	5919										
Australian Broadcasting Tribunal	$m	5.1	5.6	5.7	5.5	5.6	4.5	4.5	4.4	4.5	4.6	9.6	10.0	10.1	10.0	10.3
	ASL	127	127	127	127	127										
Shipping Industry Reform Authority	$m	0.2	0.2	–	–	–	0.2	0.2	–	–	–	0.4	0.5	–	–	–
	ASL	4	4	–	–	–										
Waterfront Industry Reform Authority	$m	0.5	0.8	0.5	–	–	0.6	1.0	0.4	–	–	1.1	1.8	0.9	–	–
	ASL	9	14	7	–	–										
Special Broadcasting Service	$m	21.8	24.3	25.2	26.2	27.3	43.3	42.5	42.6	47.1	49.0	65.1	66.8	67.8	73.3	76.3
	ASL	578	607	607	607	607										
Total	$m	411.1	399.6	395.5	406.7	419.2	390.0	382.6	384.8	413.9	427.4	801.1	782.2	780.2	820.6	846.6
	ASL	9239	8587	8510	8456	8455										
Treasury																
Department	$m	18.5	20.0	20.3	19.5	20.1	7.1	6.4	6.9	7.1	7.3	25.6	26.4	27.3	26.6	27.4
	ASL	430	471	460	454	449										
Australian Bureau of Statistics	$m	113.7	132.0	122.1	113.3	119.8	51.2	85.0	44.1	47.1	62.0	164.9	217.0	166.3	160.5	181.8
	ASL	3489	4146	3525	3352	3303										
Australian Taxation Office	$m	595.5	623.7	615.1	562.8	565.4	234.8	286.4	226.3	223.0	220.7	830.3	910.1	841.5	785.7	786.1
	ASL	19291	19304	17867	16870	16420										
Industry Commission	$m	9.6	10.1	10.2	9.8	10.2	4.0	4.6	4.3	4.5	4.6	13.6	14.6	14.6	14.3	14.7
	ASL	231	237	233	231	228										
Insurance and Superannuation Commission	$m	7.3	8.4	10.1	10.0	10.4	2.7	4.7	4.3	4.2	4.2	10.0	13.1	14.4	14.3	14.7
	ASL	191	222	254	261	259										
Prices Surveillance Authority	$m	1.8	2.0	2.1	2.0	2.0	0.9	0.6	0.7	0.7	0.7	2.7	2.6	2.7	2.7	2.7
	ASL	44	49	48	47	47										
Royal Australian Mint	$m	7.0	6.7	6.6	6.8	7.4	7.3	6.4	6.4	6.4	6.4	14.3	13.0	12.9	13.2	13.7
	ASL	233	205	205	205	205										
Total	$m	753.4	802.8	786.6	724.3	735.3	308.0	394.1	293.1	292.9	305.9	1061.4	1196.9	1079.6	1017.2	1041.2
	ASL	23909	24633	22593	21420	20910										

TABLE XV - OUTLAYS ON APPROVED CAPITAL WORKS OF DEPARTMENTS AND BUDGET-DEPENDENT AGENCIES (1) ($m)

Portfolio / Details	Actual 90–91	Budget 1–92 (2)	Estimate 92–93	Estimate 93–94	Estimate 94–95
Parliament	2.8	4.0	2.3	2.3	2.3
Administrative Services					
Overseas property services (3)	23.2	40.9	27.6	10.7	10.7
Commonwealth offices – construction, fitout and refurbishment (4)	231.1	184.3	37.4	1.6	0.0
Commonwealth offices – instalment purchases (5)	33.0	19.3	15.0	16.9	19.0
Other	9.7	4.4	4.0	4.2	0.8
Arts, Sport, the Environment, Tourism & Territories					
Antarctic Division	9.6	12.2	6.6	4.8	0.6
Australian National Parks & Wildlife Service	6.8	8.2	5.0	5.0	5.0
Aust Pavilion at Expo 92	12.8	13.0	0.7	0.0	0.0
Territories Program	4.3	8.5	0.8	0.0	0.0
Bureau of Meteorology	6.1	4.3	3.8	3.7	3.7
Other	14.6	16.2	1.9	0.1	0.0
Attorney-General's					
Department (6)	44.6	83.5	78.2	35.4	0.0
Australian Securities Commission	28.8	2.6	0.0	0.0	0.0
Other Agencies	12.4	9.8	0.9	0.0	0.0
Community Services and Health (CSH)					
Blood fractionating facility	35.2	78.7	27.9	0.2	0.0
Department of Veterans' Affairs & Repatriation Hospitals	12.8	8.5	1.1	0.0	0.0
National Biological Standards Laboratory	32.0	20.0	5.9	0.0	0.0
Department of CSH and Agencies	4.6	7.0	1.7	0.7	0.7
Defence – Defence Facilities (7)	358.2	313.9	326.8	325.3	384.7
Employment, Education & Training – Department & Agencies	18.8	16.1	3.9	1.1	0.2
Finance – Department & Agencies	1.3	1.3	2.0	0.0	0.0
Foreign Affairs and Trade – Department & Agencies	2 3	1 2	0 3	0 3	0.3
Immigration, Local Government & Ethnic Affairs Department and Agencies	5.2	8.8	5.2	7 2	7 2
Industrial Relations	3.3	1.9	0.2	0.0	0.0
Industry, Technology and Commerce					
Australian Nuclear Science & Technology Organisation	15.9	16.5	1.5	1.5	1.5
Commonwealth Scientific & Industrial Research Organisation	12.9	20.1	21.4	17.8	11.5
Australian Customs Service	2.5	14.7	11.6	0.0	0.0
Other	2.5	3.4	5.5	8.7	0.9
Primary Industries and Energy – Department & Agencies	6.2	8.0	5 1	3.4	3.3
Prime Minister and Cabinet – Department & Agencies	2.7	1.9	0.9	0.9	0.9
Social Security – Department & Agencies	13.5	32.6	14.4	12.0	12.0
Transport and Communications					
Department	3.1	3.8	0.0	0.0	0.0
Second Sydney airport	2.6	2.3	0.0	0.0	0.0
Australian Broadcasting Corporation	16.1	8.2	8.2	8.2	8.2
Special Broadcating Service & AUSTEL	1.1	0.3	0.0	0.0	0.0
Works for National Broadcasting	60.1	73.5	61.7	48.8	53.7
Treasury					
Australian Tax Office	34.0	62.8	79.6	12.5	1.8
Other	2.5	5.7	0.9	0.0	0.0
TOTAL (8)	1089.6	1122.6	770.1	533.5	529.2

(1) Capital Works cover buildings and engineering works, and facilities associated with and forming an integral part of those works. They include instalment purchase projects and occupants' fitout of premises leased from the private sector, as well as expenditure on design work. Excluded are: outright purchases of land and completed buildings, repairs and maintenance, expenditures on staff housing, computers, plant and equipment and fittings normally provided for specialised functions to be carried out within buildings and facilities. Capital works funded by specific purpose payments to States/Territories are excluded.
(2) Monies for 1991-92 are appropriated under the portfolios shown in Bill 2 (Major and medium works and fitouts, Commonwealth offices under construction and instalment purchase) and under Property Operating Expenses in Bill 1 (tenant fitout, mainly in leased premises, and minor works).
(3) Details are contained in subfunction 8C.2
(4) Details are contained in subfunction 8E.2
(5) These payments differ from other items shown in this table in that the instalments commence after construction is completed. Details are contained in subfunction 8E.2
(6) Details are contained in subfunction 8B.1
(7) Details are contained in subfunction 1.3
(8) The reduction in estimated outlays in the forward years reflects completion of approved projects. New Projects are likely to be approved in the forward years for commencement in those years.

STATEMENT 4—REVENUE

CONTENTS

4

STATEMENT 4—REVENUE

PART I: OVERVIEW

Total budget revenue in 1991–92 is estimated at $96776m, a decrease of 1.2 per cent from 1990–91. This represents 24.5 per cent of estimated GDP which is more than three percentage points below the historical peak of 27.8 per cent in 1986–87. The estimates and outcomes in this Statement reflect a reclassification of diesel fuel rebates and petroleum royalty transfers to the States as outlays instead of offsets to revenue [1].

Revenue collections in 1990–91 were $97937m, $4146m or 4.1 per cent lower than the budget estimate. Net PAYE, sales tax, customs duty, other individuals' income tax, petroleum excise and prescribed payments system collections were the major contributors to the shortfall, which can be attributed primarily to weaker than expected economic conditions. Collections from companies, superannuation funds and crude oil and LPG excise were significantly above the budget estimates.

Total revenue for 1991–92 has been reduced by a net $1550m as a result of measures announced since the 1990–91 Budget. This includes the additional personal income tax cuts announced in November 1990, as well as measures announced in the March 1991 Statements and in this Budget.

Revenue measures announced in the 1991–92 Budget are set out in Part II of this Statement. The estimates for individual revenue items in 1991–92, together with 1990–91 outcomes and budget estimates, are in Part III. Longer-term trends in revenue are discussed in Part IV. Appendix A summarises measures announced since the 1990–91 Budget, including in the March 1991 Statements, and Appendix B tabulates revenue information on a longer-run basis.

(1) The reported history in this Statement is consistent with the reclassification.

PART II: MEASURES

Table 1 sets out the estimated revenue impact in 1991–92 and 1992–93 of:

(i) measures announced in the March 1991 Statements;

(ii) other measures announced since the 1990–91 Budget; and

(iii) measures announced in the 1991–92 Budget.

Details of (i) and (ii) are described in Appendix A; the measures in (iii) are described in this part. The costings of measures announced since the 1990–91 Budget may differ from those provided at the time of announcement because of revisions to base and parameter estimates.

Table 1: Revenue Measures

Measure	Estimated Change in Revenue 1991-92	Estimated Change in Revenue 1992-93
	$m	$m
(i) Measures Announced in the March 1991 Statement		
Income Tax -		
Depreciation simplification	-	-100
Environmental impact studies	-1	-3
Research and development concession	-	-
Wholesale Sales Tax -		
Sales tax exemption for business inputs	-200	-375
Sales tax on luxury motor vehicles	-45	-45
Customs Duty -		
General tariff reductions	-	-
Automotive industry tariffs	-30	-70
Textiles, clothing and footwear	-40	-110
Import duties on capital equipment	-2	-2
Tariff on printed circuit boards	-7	-7
Sugar tariff	..	..
(ii) Other Measures Announced Since the 1990-91 Budget		
Income Tax -		
Deductibility of gifts: extensions	*	*
Personal income tax rates scale	-1100	-1070
Non-mutual life assurance companies	-10	-25
Capital gains tax - asset transfer	*	*
Taxation of foreign employment income	-3	-3
Deductibility of petroleum resource rent tax instalments (a)	-10	-
Australian Defence Force personnel -		
. Iraq-Kuwait conflict	-	-
. Kurdish relief force	..	-
. UN peacekeeping force (b)	..	-
Company tax collection system	*	*
Securities lending	*	*
Foreign source income	*	*
Medicare levy exemption	(c)	(c)
Medical expenses rebate	1	2
Living away from home allowance in the offshore oil and gas industry	..	..
Customs and Excise Duty -		
Accession to the Florence Agreement	-28	-30
Shale oil excise exemption	-	-
Avgas excise	..	..
Crude oil excise	(c)	(c)
Other Measures -		
Departure tax	35	38
Wool tax	-449	-466
Airport security cost recovery	-16	-16
Interest on Victorian superannuation loan	..	..
Royal Australian Mint - efficiency measure	1	2
Television equalisation - licence fees rebate	-3	-6
Telecommunication regulations	-	*
Northern Prawn Fishery	-2	-2
(iii) Measures Announced in the 1991-92 Budget		
Superannuation Guarantee Levy	-	(d)
Income Tax -		
Interests in foreign investment funds (e)	-	-
Capital gains tax - cost base	-	*
Dividend imputation measures -		
. Registered organisations	*	*
. Timing of franking credits	*	*
Mining exploration expenditure	-	*
Insurance Policy Holders' Protection Levy (f)	*	*
Tax deductions for personal superannuation contributions	*	*
Prescribed lottery arrangements	*	*
Provisional tax exemption for pensioners	-8	-
Medicare levy low income threshold	-	-10
Tax collection and compliance arrangements -		
. Returns lodged by tax agents	300	-
. Employment declaration forms	50	145
. Self-assessment arrangements	-	-
Fringe Benefits Tax -		
Rate aligned with top personal rate plus Medicare levy	-	35
Wholesale Sales Tax -		
Motor vehicles for people with disabilities	-3	-4
Other Measures -		
Federal Court, Family Court and Administrative Appeals Tribunal fee increase	6	7
Commercial radio licence fees	-8	-9
Agricultural and veterinary chemical fees	..	4
Immigration fees	19	25
Business migration program - accredited agents scheme	-2	-2
Migrant health services levy	3	10
Civil Aviation Authority safety and regulatory functions cost recovery	-	14

.. Less than $0.5m.
* The nature of the measure is such that a reliable estimate cannot be provided.
\- Nil.
(a) The impact of this measure on revenues from Bass Strait had been accounted for in the costing of the package of petroleum taxation measures announced in last year's Budget. The estimates therefore do not reflect the impact of the measure on PRRT payments from Bass Strait.
(b) Refers to Australia's contribution to a UN force (MINURSO) in the Western Sahara.
(c) The measure avoids an additional unintended cost to revenue.
(d) There will be an indirect cost to revenue because of the accompanying reduction in the proportion of remuneration taken as wages and salaries. This is estimated to be around $600m in 1992-93.
(e) This measure will first produce revenue in 1993-94, estimated at $150m for that year.
(f) The amount collected under this levy, up to $65m, will be partially offset by the tax deduction available to life offices in respect of levy payments. Collection will be dependent on the judicial management of Occidental Life and Regal Life.

MEASURES ANNOUNCED IN THE BUDGET

Superannuation Guarantee Levy

The Government will introduce a Superannuation Guarantee Levy commencing on 1 July 1992, to progress further its retirement incomes policy objectives. Retirement incomes policy is directed at ensuring that all Australians have an adequate and secure income in retirement. As a key component of this policy people are encouraged to save for their retirement by way of superannuation. Increased self-provision for retirement will allow a higher standard of living than would be possible by reliance on the age pension alone and will reduce the budgetary cost of the pension system as the proportion of the population in retirement increases in later decades.

The Superannuation Guarantee Levy will underpin the Government's retirement incomes policy objectives by providing:

- a major extension of superannuation coverage to employees not currently covered by award superannuation;
- an efficient method of encouraging employers to comply with their obligation to provide superannuation to employees; and
- an orderly mechanism by which the level of employer superannuation support can be increased over time, consistent with retirement incomes policy objectives and the economy's capacity to pay.

The levy will apply prospectively from 1 July 1992. The Government will legislate a prescribed level of superannuation support, which employers should provide for each of their employees. It is expected that employers will be required to self-assess compliance with this standard annually, with self-assessment subject to audit by the Australian Taxation Office (ATO). Employers failing to comply with the prescribed standard will be subject to a Superannuation Guarantee Levy, equivalent to the shortfall in their superannuation contributions plus an additional amount as a proxy for superannuation fund earnings. These amounts will not be deductible for income tax purposes. Employers providing superannuation support at or above the prescribed level will not be subject to the levy.

Employer superannuation support for these purposes will be expressed in terms of a percentage of an employee's ordinary time earnings (or an equivalent measure in the case of defined benefit schemes) and will be measured on an individual employee basis. In order to ensure widespread superannuation coverage, exemptions from the levy will be very limited.

To meet the prescribed standard, the prescribed level of employer superannuation support will be required to vest immediately and will be fully preserved. Employers will be able to provide such support through any complying superannuation scheme.

Subject to a threshold that excludes small payments and very short-term employment, the prescribed level of employer superannuation support to apply from 1 July 1992 will be:

- 5.0 per cent of ordinary time earnings for employees of employers who have annual payrolls larger than $500000; and
- 3.0 per cent of ordinary time earnings for other employees.

The $500000 payroll threshold is designed to moderate the immediate labour cost impact of the measure on small business. Small businesses currently paying 3 per cent award superannuation will not face any increase in labour costs as a result of this measure in 1992–93.

The Government will increase gradually the prescribed level of superannuation support having regard to the following schedule.

	Prescribed Standard (per cent)	
	Payroll of $500000 or less	Payroll in excess of $500000
1992–93	3	5
1993–94	4	5
1994–95	5	6
1995–96	6	6
1996–97	7	7
1997–98	7	7
1998–99	8	8
1999–00	8	8
2000–01	9	9

Consideration will later be given to ways, using employee contributions and tax cuts, of increasing the minimum level of superannuation support to 12 per cent by the year 2000.

These arrangements complement rather than replace award superannuation; existing award superannuation obligations will remain in force and award superannuation contributions provided by employers will count toward the prescribed level of superannuation support. Employers and employees will remain free to negotiate higher levels of superannuation cover in the context of overall wage arrangements and the inclusion of either the prescribed standard or higher levels into relevant awards should they so wish. Improvements in superannuation will be taken into account in future Accord negotiations.

The proceeds of any levy collections will be redistributed to those employees in respect of whom they were paid. Redistribution will be by way of contributions to complying superannuation funds, provided they are fully preserved.

The structure of the present taxation arrangements for personal superannuation contributions will be reviewed in the light of these changes. Any changes to these arrangements resulting from the review will be announced prior to 1 July 1992.

In finalising the detailed design of the measures the Government will be consulting with major employer groups, the ACTU and superannuation industry representatives.

Income Tax

Taxation of Interests in Foreign Investment Funds (FIFs)

The Government has determined the broad design features of new measures to tax the income in respect of interests in FIFs held by Australian residents. The FIF measures will complement the foreign source income rules contained in the *Taxation Laws Amendment (Foreign Income) Act 1990* that tax on a current basis most non-active income sheltered offshore by Australian resident owners of controlled foreign companies and certain trusts.

The measures will apply to investments in entities principally engaged in activities earning passive income which are not subject to the foreign source income measures. They will not apply to Australian residents with modest offshore investments (that is, not more than $20000), or where they hold shares directly in a foreign company engaged principally in active business activities. In those cases, current tax arrangements will continue to apply.

The FIF measures will levy tax in Australia on an annual basis, generally on the change in the market value of an Australian resident's interests in offshore entities. Where investors do not have information on the market value of their overseas interests, a deemed rate of return will apply.

The FIF measures are necessary to prevent the avoidance of Australian taxation through investment vehicles which facilitate the accumulation of passive income offshore without the concurrent imposition of Australian tax. These measures will commence from the 1992–93 income year. Legislation will be introduced into the Parliament in the 1992 Autumn Sittings.

Capital Gains Tax (CGT)—Inclusion of Current Expenses in Cost Base

The Government has decided to provide for the inclusion of current expenses, such as interest, in the CGT cost base on a restricted basis. The amendment will address concerns that certain taxpayers who become liable for CGT on non-income producing assets, such as land acquired to build a principal residence, are not able to offset costs incurred in generating the assessable capital gain.

Current expenses will not be indexed, nor accounted for in calculating losses, and will not be included in the cost base if they are deductible under other provisions of the law. The amendment will not apply in respect of current expenses relating to personal use assets; that is, assets other than land which are used or kept primarily for the personal use or enjoyment of the taxpayer and/or associates.

The measure will apply to all assets, other than personal use assets, acquired on or after 21 August 1991.

Dividend Imputation Arrangements

(a) Registered Organisations

Under present law, Australian income tax paid by registered organisations, including friendly societies, may be used to accumulate franking credits even though they have no shareholders to whom dividends can be paid. However, these franking credits could be used inappropriately in the event that registered organisations issue share capital.

To overcome this shortcoming, from 3.00 pm on 20 August 1991, registered organisations will not be permitted to maintain a dividend franking account and any existing franking account balances they may have will be cancelled. The treatment of registered organisations for dividend imputation purposes will be the same as that applying currently to mutual life assurance companies.

(b) Timing of Franking Credits

The Government has decided to amend the dividend imputation arrangements so that a franking credit is generated only by the payment of company tax.

Companies self-assess their tax liabilities. For most companies, tax is paid by means of an initial payment made shortly after the end of the year of income and a final payment made when the return is lodged. The Commissioner of Taxation is deemed to have made an assessment of the company's liability on the day the final payment is due or, if the return is not lodged by that day, on the day the return is lodged.

Companies receive franking credits when they make an initial or subsequent payment of tax and when the tax assessment is deemed to have been made. However, a company that lodges its tax return but fails to make the final payment of tax on the due date receives a franking credit for the tax self-assessed. Companies also receive franking credits when assessments and amended assessments are made by the Commissioner.

Companies use the franking credits to pay franked dividends to shareholders. If the tax owing is never paid, as can happen in the case of an insolvent company, and the franking credits are used to pay franked dividends, there is a cost to revenue.

Under the new arrangements, franking credits will arise when company tax due under an assessment or amended assessment is paid and not when the assessment or amended assessment is made. Similarly, when a company's tax liability is increased because the franking deficit offset or foreign tax credit allowable has been reduced, the franking credit will not arise until the increased company tax due has been paid.

These new arrangements will apply to assessments, amended assessments and other notices of increased tax liability that are made or issued on or after 21 August 1991.

Mining Exploration Expenditure

The Government has decided to amend section 122J(1) of the *Income Tax Assessment Act 1936* to remove the requirement that exploration expenditure must be incurred by a mining or exploration company in relation to a specific mining tenement in order to obtain tax deductibility. This will enable expenditures on surveys, or other exploration or prospecting activities over broad areas of the Australian continent, to be deductible where incurred before rights are acquired over a mining tenement.

The Government considers that section 122J(1), in applying only to exploration or prospecting expenditure incurred 'on any mining tenement', has not kept pace with new exploration technology which often requires preliminary exploration over broad areas before exploration on specific tenements. The amendment will also place the taxation treatment of general mining exploration on a comparable basis with that accorded petroleum exploration and is consistent with a recommendation in the Industry Commission report of March 1991 on the Mining and Minerals Processing Industry in Australia to the effect that the 'on tenement' requirement be repealed. These new arrangements will apply to expenditures incurred on or after 1 July 1991.

Insurance Policy Holders' Protection Levy

The Government has introduced legislation, as a one-off arrangement, to enable the imposition of one or more levies on registered life insurance companies to raise an amount not exceeding $65m. The timing and amount of the levies, which will provide a measure of financial protection to policy holders of Occidental Life Insurance Company of Australia Limited and Regal Life Insurance Limited, will be dependent on the judicial management of those companies.

The levies collected will be paid into a Protection Fund and are to be tax deductible to life offices, relating exclusively to non-fund assessable income. Grants paid to Occidental Life and Regal Life will be exempt from income tax and will be used to meet up to 90 per cent of liabilities under life policies issued by Occidental Life and Regal Life. Certain payments to life offices representing surplus monies from the Protection Fund will be treated as non-fund assessable income. These arrangements are being imposed because of the special and unusual circumstances involving the unauthorised dealing in statutory fund monies of the two companies. The measure will operate from the date of Royal Assent.

Tax Deductions for Personal Superannuation Contributions

To remove an anomaly in the law, people who are substantially self employed, but receive only small amounts of employer superannuation support through an industrial award agreement, will be able to receive tax deductions for personal superannuation contributions as if they had no employer superannuation support. For these purposes, persons will be considered substantially self employed if they derive less than 10 per cent of their assessable income from employment providing industrial award superannuation and they receive no other employer superannuation support. This measure will apply to superannuation contributions made on or after 1 July 1991.

Under this new arrangement, substantially self-employed people will be allowed to make deductible superannuation contributions subject to:

- 25 per cent of the excess contributions to funds over $3000 per annum not being deductible; and

- the total deductible contributions not exceeding the amount necessary to fund benefits at the reasonable benefit limit for the individual concerned.

These are the arrangements currently applying to the self employed and employees without any employer superannuation support.

Under the previous arrangements, substantially self-employed people with small amounts of award superannuation were limited to making deductible superannuation contributions to a maximum of $3000 per annum.

This measure will ensure that substantially self-employed people are not penalised for undertaking small amounts of part-time employment for employers who are required to provide them with industrial award superannuation.

The Government has also announced that it will be separately reviewing the taxation arrangements applying to personal superannuation contributions having regard to implementation of the Superannuation Guarantee Levy.

Prescribed Lottery Arrangements

The Government has decided to impose income tax on winnings (that is, prizes) received from 'prescribed lottery arrangements'. A 'prescribed lottery arrangement' is an arrangement where a right to a chance to win a prize in a lottery (that is, a non-convertible lottery ticket) is received in lieu of income.

The definition of 'prescribed lottery arrangements' does not include ordinary lottery arrangements of the traditional kind and so the amendment will not apply to such arrangements.

The measure will take effect in respect of winnings received from the date of Royal Assent of the enabling legislation.

Provisional Tax Exemption for Pensioners

Pensioners who qualify for a full or part pensioner rebate in 1990–91 will be exempt from 1991–92 provisional tax.

More specifically, no pensioner will be liable for 1991–92 provisional tax where:

- for a single pensioner—his or her 1990–91 taxable income is less than $16995; and

- for a pensioner couple—the combined taxable income for 1990–91 of a couple receiving the married-rate pension is less than $27174, or is less than $32626 for a couple receiving the separated-rate pension (living apart as a result of illness or infirmity).

Medicare Levy Low-Income Threshold

The low income threshold for Medicare levy purposes will be $11745 for individual taxpayers and $19674 for married couples and sole parents in 1991–92. The additional threshold for children will be $2100.

Tax Collection and Compliance Arrangements

(a) *Payment Arrangements for Tax Returns Lodged by Tax Agents*

Under current arrangements, the Commissioner of Taxation allows registered tax agents to lodge the tax returns of their clients in accordance with a lodgment program. The program allows the workload, both of agents and the ATO, to be spread over a year to mutual benefit.

Although all returns are required to be lodged within the financial year, tax is not payable until an assessment is made and a further period of time elapses. As a result, some tax collections are deferred to the early months of the following financial year.

To increase the proportion of tax collected within the current year, the Commissioner of Taxation is to modify existing administrative measures in this area during 1991–92. Details of these measures will be made available as soon as is practicable.

(b) *Audit of Employment Declaration Forms*

As part of ongoing ATO initiatives to improve taxpayer compliance, the Government has endorsed administrative measures with respect to processing employment declaration forms which will commence on 1 December 1991.

These will involve greater utilisation of the information already supplied on employment declaration forms to ensure proper compliance with their PAYE obligations by both employers and employees, as well as provide an additional information source on taxpayers misusing Tax File Numbers (TFN) to evade tax.

The processing of employment declaration forms will also provide benefits to the Child Support Agency and the Department of Social Security. The Child Support Agency will use information on employment declaration forms to initiate employer deduction of child support liabilities for a greater proportion of liable parents. Employer deduction is the most effective and efficient collection method available to the Agency. The Department of Social Security will use employment declaration information to improve detection of their clients' undeclared earnings.

(c) *Self-assessment Arrangements*

Following extensive consultation on proposals announced in the Tax Simplification Statement of 13 December 1990, the Government has finalised the broad features of measures to improve existing self-assessment arrangements. These measures will make the taxation system fairer, and more certain, by addressing concerns about penalties and interest and the need for greater certainty under the law.

An information paper is being released to provide the basis for ongoing consultation on the technical details.

Fringe Benefits Tax (FBT)

Rate Change

The FBT rate will be aligned with the top personal marginal income tax rate plus the Medicare levy, thereby increasing the rate from 47 per cent to 48.25 per cent, to take effect from 1 April 1992. The new rate will be reflected in 1992–93 instalments of tax.

Wholesale Sales Tax (WST)

Treatment of Motor Vehicles for People with Disabilities

The WST exemption provision which presently applies to goods used in the modification of motor vehicles for drivers with physical disabilities will be extended to apply to goods used in modifications to transport passengers with physical disabilities.

The present open-ended exemptions for purchases of new motor vehicles, used by designated classes of veterans and other persons with certain physical disabilities, will be modified. The exemptions will be subject to a cap, or maximum sales tax benefit, equivalent to the sales tax payable on a motor vehicle priced at the luxury motor vehicle threshold (that is, the threshold above which tax is currently payable at 30 per cent). In 1991–92, this cap is $6101, which is the tax payable on a motor vehicle with a retail price of $45462. For motor vehicles with a retail price higher than $45462, the applicable sales tax payable on the vehicles will be reduced by the cap of $6101. The value of the cap in future years will be automatically adjusted to correspond to the indexation of the luxury motor vehicle threshold.

These measures will improve the equity of the assistance provided to people with disabilities through sales tax exemptions. The new measures will apply to purchases made after 3.00pm on 20 August 1991.

The requirements of people with disabilities for labour market entry will continue to be examined by the Disability Task Force.

Other Measures

Fee Increases for Federal Court, Family Court and Administrative Appeals Tribunal

The Government will introduce a new fee structure in federal courts and the Administrative Appeals Tribunal, from September 1991, with the aim of achieving a more equitable fee structure. The major change will be the introduction of a setting down fee of $500 in all jurisdictions—that is, a fee payable when a matter is ready to be listed for hearing.

Commercial Radio Licence Fees

A 50 per cent reduction in radio licence fees levied under the *Radio Licence Fee Act 1964* is to become effective on 1 January 1992.

Agricultural and Veterinary Chemical Fees

In agreeing to establish a National Registration Scheme for agricultural and veterinary chemicals, the Government has decided to increase the level of cost recovery for the clearance and registration of these chemicals from 50 per cent to 100 per cent with a four year phase-in period.

Immigration Fees

Processing fees for certain services are to be increased to achieve a higher level of cost recovery in this area. Fees are being increased for applications for migration, extension of temporary entry permits, grant of citizenship, and review of decisions on resident and visitor status. In addition, an application fee is to be introduced for persons applying to visit Australia for family reasons.

Business Migration Program—Accredited Agents Scheme

With the abolition of the accredited agents scheme, fees associated with accreditation will no longer be collected.

Migrant Health Services Levy

A levy of $822 per person is to be introduced to recover some medical, hospital and pharmaceutical costs incurred by the Commonwealth on behalf of migrants covered by an assurance of support and bond during their first two years of residence. The new assurance of support and bond arrangements are detailed in Statement 3.

Civil Aviation Authority (CAA) Safety and Regulatory Functions—Cost Recovery

In the previous Budget, the Government announced its intention to introduce full cost recovery for the safety and regulatory functions of the CAA, except for search and rescue functions.

Implementation of cost recovery is to be phased in from 1 July 1992 with part of the cost recovery to be achieved through taxation. The revenue estimates reflect the expected proportion of safety and regulatory functions which will be recovered through taxation rather than direct charges.

PART III: OUTCOMES AND ESTIMATES

The following table shows the 1990–91 Budget revenue estimates and outcomes, as well as the estimates for 1991–92 based on the new classification mentioned in Part I.

Table 2: Revenue Estimates

	1990-91			1991-92		
			Change on		Change on	
	Estimate	Actual	1989-90	Estimate	1990-91	
	$m	$m	%	$m	$m	%
Taxation Revenue -						
Income Tax -						
Individuals -						
Gross PAYE (a)	44480	41704	0.9	42460	756	1.8
Refunds (a)	3480	4007	23.9	4790	783	19.5
Net PAYE (a)	41000	37697	-1.0	37670	-27	-0.1
Other (a) (b)	8969	8633	12.8	8295	-338	-3.9
Medicare Levy (c)	2735	2480	-2.6	2580	100	4.0
Prescribed Payments System (d)	1680	1358	-21.7	1350	-8	-0.6
Total Individuals (b)	54384	50168	0.3	49895	-273	-0.5
Companies (b)	12100	14166	9.6	13475	-691	-4.9
Superannuation Funds	820	1053	180.1	990	-63	-6.0
Withholding Tax	1041	901	-1.6	1100	199	22.1
Petroleum Resource Rent Tax	225	293	596.6	735	442	151.2
Fringe Benefits Tax	1280	1262	8.0	1325	63	5.0
Total Income Tax	69850	67843	3.7	67520	-323	-0.5
Sales Tax	10668	9365	-7.6	9237	-128	-1.4
Excise Duty -						
Crude Oil & LPG (e)	1240	1354	9.9	---	---	---
Petroleum Products	6950	6601	3.7	7075	474	7.2
Other	2390	2364	5.6	2485	121	5.1
Customs Duty -						
Imports	3700	3319	-16.0	3125	-194	-5.9
Coal Exports	49	47	-17.3	49	2	4.3
Debits Tax (f)	192	229	-39.5	---	---	---
Other Taxes, Fees and Fines	2102	1956	36.0	1672	-284	-14.5
Total Taxation Revenue	97141	93078	2.0	91163	-1915	-2.1
Non-Tax Revenue -						
Interest	3329	3302	-4.9	3034	-267	-8.1
Dividends and Other	1613	1557	34.6	2579	1022	65.6
Total Non-Tax Revenue	4943	4859	5.0	5613	754	15.5
TOTAL REVENUE	102083	97937	2.2	96776	-1161	-1.2

(a) Excludes an estimated amount for the Medicare levy listed separately.
(b) Includes tax on realised capital gains.
(c) The outcome for 1990-91 is an estimate only as the Medicare levy is not separately identified at the point of collection.
(d) Includes in 1990-91 an estimated $115m collected from companies under the Prescribed Payments System.
(e) Replaced by the PRRT in 1990-91 although continued to be collected that year until PRRT legislation became effective from 1 July 1991.
(f) Transferred to the States in January 1991.

TAXATION REVENUE

Total taxation revenue in 1990–91 increased by 2.0 per cent and is forecast to decline by 2.1 per cent in 1991–92. The ratio of tax revenue to GDP remained constant in 1989–90 and 1990–91 at 24.5 per cent but is expected to decline to 23.1 per cent in 1991–92.

Individuals Income Tax

Revenue collected from all individual taxpayers in 1991–92, as a proportion of total revenue, is expected to increase slightly. There is expected to be a small decrease in this component in nominal terms but the contributions from a number of other taxes are expected to fall by a greater proportion.

PAYE Instalment Deductions

Wage and salary earners, and some other individuals, pay income tax on a 'pay as you earn' basis through deductions made by their employers from wages or salaries. For large employers, these deductions are remitted on a bi-monthly basis to the ATO.

Gross PAYE collections (net of the Medicare levy) in 1990–91 were $41704m, 6.2 per cent below the budget estimate. The major factors contributing to this outcome were lower than expected average weekly earnings and employment. Average weekly earnings (National Accounts basis) grew by 6 per cent compared with the budget estimate of around 7 per cent. Some of the growth in measured average weekly earnings in 1990–91 is likely to have been driven by compositional changes in the labour market as firms retrenched lower paid workers before higher paid workers—the average earnings of those remaining in employment therefore increased. As a consequence, growth in taxable income was slower than implied by the average weekly earnings figure. The number of wage and salary earners' employed declined by 1 per cent compared with the budget estimate of $^3/_4$ per cent growth. Additional tax cuts announced in November 1990, which became effective from 1 January 1991, reduced revenue by an estimated $430m.

Gross PAYE collections (net of the Medicare levy) in 1991–92 are estimated at $42460m, an increase of 1.8 per cent on 1990–91. Underlying this estimate is:

- expected growth in average weekly earnings (National Accounts basis) of $4^1/_2$ per cent; and
- increased revenue from audit of employment declaration forms.

mitigated by:

- an expected decline in the average number of wage and salary earners employed of around $1^1/_2$ per cent; and
- the full year impact of tax cuts, announced in February and November 1990, applying from 1 January 1991 and estimated to be around $$2^3/_4$ billion for PAYE taxpayers.

PAYE Refunds

A final assessment of tax liability of PAYE taxpayers is made on the basis of returns lodged after the end of the financial year. Refunds are made where PAYE deductions exceed the final assessment. Where PAYE deductions are insufficient to meet the tax liability, taxpayers make an additional payment.

PAYE refunds (net of the Medicare levy) of $4007m in 1990–91 were 15.1 per cent above the budget estimate. This outcome reflected higher average refunds per taxpayer than expected at budget time, largely resulting from increased claims for self-employed superannuation contributions and work related expenses. Information available on entitlements provided by the wide dissemination of the ATO's Tax Pack was probably a factor in the increase in those claims.

PAYE refunds (net of the Medicare levy) in 1991–92 are estimated at $4790m, an increase of 19.5 per cent. The estimate reflects:

- increased unemployment in 1990–91, resulting in greater refunds in 1991–92 to taxpayers who did not earn a full year of income; and
- increased tax concessions for personal superannuation contributions.

This will be mitigated by:

- the effect of the introduction of the tax file number (TFN) legislation which is expected to increase declared interest income; and
- closer scrutiny of claims for superannuation expenses.

Other Individuals

Individuals generally pay provisional tax if they have received income of $1000 or more from sources other than wages and salaries or capital gains in the previous financial year. Payments are made either once a year (mainly between March and May) or, if the previous year's provisional tax liability is over $8000, in quarterly instalments (due in September, December, March and June). In addition, from 1990–91, taxpayers are required to pay provisional tax where there has been a shortfall in the tax instalment deductions made from wages and salaries of $3000 or more. Other revenue under this category includes amounts received from debit assessments for non-provisional taxpayers.

Current year provisional tax liability is determined by increasing the previous year's assessed income by the provisional tax uplift factor—at present, this is 10 per cent. In previous years, this uplift factor was determined annually by Parliament. From 1990–91 onwards, this factor will remain unchanged unless Parliament specifies otherwise. The provisional tax liability is combined with any balance on assessment of the previous year's tax liability to determine current year payments.

Net collections from other individuals (net of the Medicare levy) totalled $8633m in 1990–91, a shortfall of 3.8 per cent on the budget estimate. The major factors underlying this shortfall were:

- weaker than expected income growth in 1990–91 resulting in larger provisional tax variations;
- a smaller than expected increase in taxable income for the 1989–90 income year, reducing tax raised in 1990–91;
- an unexpected decline in capital gains tax collections; and
- a larger than forecast decline in dividend income.

Partially offsetting the shortfall was a larger than expected increase in interest income, possibly as a consequence of the introduction of the TFN legislation.

Other individuals collections in 1991–92 are estimated to be $8295m, a decline of 3.9 per cent on 1990–91. The main factors underlying this decline are:

- higher collections in 1990–91 resulting from the deferral of more than $400m of provisional tax from 1989–90;
- the decline in income growth experienced by many provisional taxpayers during 1990–91, reducing tax raised in 1991–92;
- the tax rate cuts effective from 1 January 1991 and 1 July 1991 which will reduce tax raised during 1991–92; and
- the relative overstatement of provisional tax raised in 1990–91, resulting from the application of pre-January 1991 tax rates in the provisional tax calculation, which translates into additional provisional tax credit for 1991–92.

Offsetting these factors will be increased collections resulting from the introduction of new payment arrangements for tax returns lodged by tax agents.

Medicare Levy

Individuals with incomes above specified thresholds pay the Medicare levy at a rate of 1.25 per cent of their taxable income.

Collections from the Medicare levy in 1990–91 were $2480m, 9.3 per cent lower than forecast at budget time. This comprised $2055m from PAYE taxpayers ($2275m gross PAYE less $220m refunds) and $425m from other individuals.

Collections in 1991–92 are estimated at $2580m, $2125m from PAYE taxpayers ($2385m gross PAYE less $260m refunds) and $455m from other individuals. This represents an increase of 4.0 per cent over 1990–91 collections.

Prescribed Payments System (PPS)

PPS collections arise from withholding, at source, taxation on payments for prescribed labour and services in certain industries—in particular, the building and transport industries. Contractors are required to make a deduction at source if their expenditure on a particular project exceeds $10000. The amount deducted is based on a standard rate—currently 20 per cent of the expenditure—and is paid to the ATO in the month following the expenditure. These payments are offset against final assessment of tax liability for that year (calculated using the prescribed rate scales) on the basis of returns lodged after the end of the financial year. Refunds are made when payments exceed the tax liability. Otherwise, where payments are insufficient to meet the tax liability, taxpayers are required to make an additional payment.

Collections from PPS were $1358m in 1990–91, 19.1 per cent below the budget estimate, reflecting:

- a lower level of economic activity, particularly in the construction and transport sectors, than was forecast at budget time; and
- larger than expected refunds resulting in part from increased superannuation claims.

In 1991–92, PPS collections are estimated to be $1350m, a decrease of 0.6 per cent on 1990–91. This reflects a fall in non-dwelling construction and higher average refunds arising, in part, from more depressed activity levels in 1990–91, partly offset by an expected increase in the value of dwelling activity.

Other Income Tax

Companies Income Tax

A company's tax liability is assessed as a fixed percentage of its taxable income. The statutory tax rate has been 39 per cent since the 1988–89 income year. In broad terms, taxable income is the total income of a company less allowable deductions such as wages paid to employees, purchases of goods and services as inputs, sales tax payments and allowances for depreciation. The tax liability of companies, unlike individuals, is payable in the financial year—or substituted accounting period—following the year in which the income is earned.

Company tax collections amounted to $14166m in 1990–91, 17.1 per cent above the budget estimate. The principal reason for the substantial budget overrun was the greater than expected increase in income from private companies. Private company income from trust distributions increased by over $1500m or 65 per cent, while interest income increased by more than $1300m or 50 per cent.

Company tax revenue is forecast at $13475m in 1991–92, a decline of 4.9 per cent on 1990–91, resulting from a fall in underlying company income in 1990–91. This fall will be partly offset by the payment, for the first time, of income tax by certain government business enterprises (GBEs) (namely, Telecom, Australia Post and the Federal Airports Corporation), as well as the removal of the tax exemption for gold mining. It also reflects an increased gain in 1991–92 from the withdrawal of the 5/3 accelerated depreciation provisions.

Capital Gains Tax (CGT)

As part of the income tax system, CGT applies to assets acquired after 19 September 1985 and, with some exceptions, covers real gains on realisation of such assets. Collections from the tax are included in the other individuals, companies and superannuation funds revenue heads.

Collections from CGT were $631m in 1990–91, 8.4 per cent higher than in 1989–90.

- $240m was collected from individuals;
- $275m was collected from companies, with 62 per cent coming from companies with taxable income over $2m; and
- $116m was collected from superannuation funds, with 93 per cent coming from funds with taxable incomes over $1m.

The bulk of the liability related to sales of shares and real estate.

Summary details are set out in Table 3.

Table 3: Capital Gains Tax

	1989-90 (Income Year 1988-89)			1990-91 (Income Year 1989-90)		
Asset type	No. of Taxpayers	Capital Gain	Tax Paid	No. of Taxpayers	Capital Gain	Tax Paid
		$m	$m		$m	$m
Individuals						
Shares	71101	353	118	88352	437	108
Real Estate	27339	362	125	24985	264	81
Partnerships and Trusts	29029	158	50	33348	128	37
Others (a)	6596	43	13	8045	46	14
Sub Total	134065	916	306	154730	874	240
Companies (b)	5052	607	237	5208	705	275
Superannuation funds (b	3417	262	39	4337	776	116
TOTAL	142534	1785	582	164275	2355	631

(a) This includes personal use assets and other property.
(b) A detailed break-up of the components was not available for 1990-91 at the time of publication.

Collections from CGT are estimated at $705m in 1991–92, $280m relating to collections from individuals, $290m from companies and $135m from superannuation funds.

Superannuation Funds

Superannuation funds are taxed at the concessional rate of 15 per cent with payments made according to the arrangements for company tax. Tax liability applies to investment income of, and certain contributions to, complying superannuation funds. These include Federal, State and local public funds, private funds and approved deposit funds. It also

applies to the superannuation business of life insurance companies, friendly societies and other registered organisations and, in these cases, the tax is collected under the companies head of revenue.

By investing in companies paying franked dividends, superannuation funds are able to use dividend credits under the imputation system as an offset to their tax liability but, as is the case with individuals, excess credits are not refunded or carried forward to future years.

Revenue from this source totalled $1053m in 1990–91, 28.5 per cent higher than the budget estimate. Reasons for this strong growth were:

- 1990–91 being the first full year of collections for early balancing funds;
- the late lodgment of returns which resulted in the collection in 1990–91 of $177m of revenue which was due in 1989–90;
- greater than expected revenue from capital gains;
- the growth in interest earnings on investment funds;
- the continued growth in contributions; and
- a reduction in the amount of imputation credit.

Collections from superannuation funds are estimated at $990m in 1991–92, a decrease of 6.0 per cent on 1990–91. The decrease in expected collections reflects the unwinding of the effect of late lodgment of returns which boosted 1990–91 collections and more than offsets continued growth in the tax base.

Withholding Tax

Revenue from withholding tax was $901m in 1990–91, 13.4 per cent below the budget estimate. The estimate for 1991–92 is $1100m, an increase of 22.1 per cent on 1990–91.

(a) Interest Withholding Tax

Until 1991–92, interest withholding tax, imposed at a flat rate of 10 per cent on gross interest paid to non-residents from Australian sources, has been the sole source of revenue under this head. The major exemptions from that tax allowed under Australian legislation include interest on borrowings by Commonwealth and State Governments, and by some Commonwealth and State authorities, as well as interest on certain public or widely spread debentures issued overseas by private Australian borrowers.

Interest withholding tax was $790m in 1990–91, 14.1 per cent lower than the budget estimate. The shortfall on the budget estimate was caused mainly by lower interest rates.

In 1991–92, interest withholding tax collections are estimated to be $828m, an increase of 4.8 per cent on 1990–91. The large increase in this estimate reflects the inclusion under this head of resident withholding tax, estimated to be $150m in 1991–92. The new

TFN provisions, effective from 1 July 1991, require banks and certain other investment bodies to withhold tax on interest bearing accounts where TFNs have not been declared. Interest from these accounts is withheld at the top marginal tax rate for individuals.

(b) Dividend Withholding Tax

Dividend withholding tax is imposed at a rate of 30 per cent (generally reducing to 15 per cent for residents of countries which have double taxation agreements with Australia) on unfranked dividends paid to non-residents by Australian companies.

In 1990–91, collections of dividend withholding tax were $109m, 9.1 per cent lower than the budget estimate.

Collections of dividend withholding tax are estimated to be $120m in 1991–92, an increase of 10.0 per cent on 1990–91. This reflects:

- the sustained rate of dividends paid out of 1990–91 company profits during the first half of 1991–92; and
- an expected fall in the proportion of franked dividends.

(c) Mining Withholding Tax

Mining withholding tax amounted to $2m in 1990–91 and represents the amount withheld from payments to Aboriginal groups for the use of Aboriginal land for mineral exploration and mining. In 1991–92, collections are estimated to be unchanged at $2m.

Petroleum Resource Rent Tax (PRRT), Crude Oil and LPG Excise

PRRT applies to offshore areas under the Commonwealth's *Petroleum (Submerged Lands) Act 1967*, other than the North West Shelf production licence areas and associated exploration permit areas, which are subject to excise and royalty arrangements. PRRT is levied at the rate of 40 per cent of taxable profit from a petroleum project.

Taxable profit is the excess of taxable receipts over deductible expenditure. Receipts include income from the recovery of all petroleum including crude oil, condensate, natural gas, LPG and ethane. Deductible exploration expenditure, incurred after 1 July 1990, in PRRT liable areas is transferable between projects held by the same entity. Deductible expenditure includes an allowance for the carry-forward of general and exploration expenditures incurred before a project becomes taxable.

From 1990–91, PRRT was extended to Bass Strait production. As a transitional arrangement, Bass Strait producers were liable for excise and royalties until the amending legislation became effective on 1 July 1991. Under these arrangements, a reconciliation between the tax liabilities under the two regimes occurred in early 1991–92, when the 1990–91 final assessment was made and refunds were paid to the companies involved.

Total revenue collections from PRRT, crude oil and LPG excise in 1990–91 were $1647m, comprising $1354m from crude oil and LPG excise and $293m from PRRT. This outcome was 12.4 per cent above the budget estimate as a result of the delay in the

introduction of the amendments to the PRRT legislation that, in turn, prevented an earlier termination of excise collections. The average crude oil price in 1990–91 was $A31 per barrel—the same as the budget estimate.

Revenue from PRRT in 1991–92 is estimated at $735m, 55.4 per cent below total PRRT, crude oil and LPG excise collections in 1990–91. This expected decline reflects:

- the transition from the excise and royalties regime to the PRRT arrangements in Bass Strait which reduces revenue by approximately $435m as a consequence of only three quarterly instalments within the year and a refund in respect of overpayment in 1990–91;
- an expected average oil price of $A26 in 1991–92 compared with $A31 in 1990–91;
- average production of 291 thousand barrels per day (kbd) in 1991–92 compared with 387 kbd in 1990–91; and
- the extension to Bass Strait of deductibility of exploration expenditures for PRRT purposes from a project to a company-wide basis from 1 July 1990.

Fringe Benefits Tax (FBT)

FBT applies to a range of benefits provided by employers to their employees. The FBT rate was reduced from 49 per cent to 47 per cent for the FBT year commencing 1 April 1990, affecting 1990–91 collections. From 1 April 1992, the rate will increase to 48.25 per cent to include the Medicare levy, but this will not affect 1991–92 collections.

Collections in 1990–91 were $1262m, 1.4 per cent below the budget estimate. Table 4 disaggregates collections by type of benefit, showing the taxable amount.

Revenue in 1991–92 is estimated at $1325m, 5.0 per cent above 1990–91 collections owing to:

- an increase in the level of fringe benefits granted to taxpayers;

mitigated by:

- a decrease in the proportion of fringe benefits taken in the form of motor vehicles; and
- a decrease in the taxable value of low interest loans reflecting a reduction in the statutory interest rate.

Table 4: *1990-91 Fringe Benefits Tax by Type of Benefit*

Type of Benefit	1989-90 Taxable Amount	1989-90 Tax Collected	1990-91 Taxable Amount	1990-91 Tax Collected	1990-91 Change on 1989-90	1990-91 Per cent of Total
	$m	$m	$m	$m	%	%
Motor Vehicles -						
Statutory Formula Method	1059	519	1122	527	1.5	41.8
Log Book Method	43	21	46	22	4.8	1.7
Low Interest Loans	334	164	399	187	14.0	14.8
Expense Payments	338	165	433	203	23.0	16.1
Housing	162	79	167	79	0.0	6.3
Other (a)	286	140	319	150	7.1	11.9
Not allocated (b)	163	80	200	94	17.5	7.4
TOTAL	2385	1168	2686	1262	8.0	100.0

(a) Includes board, living-away-from-home allowances, airline transport, property (goods), debt waiver, entertainment, and other benefits.
(b) Includes those returns where information by type of benefit was not provided and cases where annual return data have not yet been processed.

Indirect Tax

Sales Tax

Sales tax is imposed on a range of domestic and imported goods; and is levied at the last wholesale or import point on the wholesale sales value of taxable goods. Except for special arrangements which applied to luxury motor vehicles for most of the 1990–91 financial year (see Appendix A), taxable goods are subject to tax rates of either 10 per cent, 20 per cent or 30 per cent.

In 1990–91, sales tax revenue amounted to $9365m, 12.2 per cent lower than the budget estimate. Reasons for the lower than expected sales tax collections included:

- the lower value of sales than expected at budget time;
- a shift in sales away from items taxable at 30 per cent to items taxable at lower rates;
- a greater than expected growth in refunds of sales tax; and
- the luxury motor vehicle variable rate tax not yielding as much revenue as expected.

The forecast for collections in 1991–92 is $9237m, 1.4 per cent lower than in 1990–91. Growth in collections from sales of goods subject to sales tax is expected to be more than offset by measures which include the exemption from sales tax of inputs to production of goods announced in the March 1991 Statements.

Estimated collections of sales tax on goods falling within specified rate classes for 1990–91 and 1991–92 are provided in Table 5.

Table 5: *Sales Tax by Rate Class*

Rate Class	1990-91 Actual	1991-92 Estimate	Change on 1990-91	
	$m	$m	$m	%
10%	1069	1055	-14	-1.3
20%	7195	7075	-120	-1.7
30% to 50% (a)	612	627	15	2.5
Not allocated by rate (b)	489	480	-9	-1.8
TOTAL	9365	9237	-128	-1.4

(a) The variable rate structure between 30% and 50% applied to luxury motor vehicles from 9 May 1990 but was terminated on 12 March 1991.
(b) These collections cannot be allocated readily to a particular rate class. They include collections of sales tax on imports at point of entry as well as amounts in respect of audit activity.

Excise Duty

Total collections of excise duty on the new classification basis in 1990–91 were $8965m, 4.0 per cent below the budget estimate. In 1991–92, collections are estimated at $9560m, 6.6 per cent above 1990–91 collections. The main components for the two years are shown in Table 6.

Table 6: Excise Duty

	1990-91 Estimate	1990-91 Actual	1990-91 Change on 1989-90	1991-92 Estimate	1991-92 Change on 1990-91	
	$m	$m	%	$m	$m	%
Crude Oil and LPG (a)	1240	1354	9.9	---	---	---
Petroleum Products (b)	6950	6601	3.7	7075	474	7.2
Total Petroleum	8190	7955	4.7	7075	-880	-11.1
Other Excise (c) -						
Beer	857	866	8.2	912	46	5.3
Potable Spirits	173	169	0.5	178	9	5.4
Tobacco Products	1358	1322	4.3	1382	60	4.5
Other (d)	2	7	129.6	13	6	90.6
Total Other Excise	2390	2364	5.6	2485	121	5.1
TOTAL	10580	10319	4.9	9560	-759	-7.4

(a) Crude oil excise was replaced by PRRT in 1990-91.
(b) Includes motor spirit, diesel fuel, aviation gasoline, fuel oil, heating oil and kerosene. The figures are net of refunds/drawbacks.
(c) The decomposition of other excise into beer, potable spirits and tobacco products is an estimate only.
(d) Includes the coal excise duty and refunds/drawbacks relating to other excise items.

Crude Oil and LPG Excise

The 1990–91 outcome for crude oil and LPG excise is discussed under PRRT.

With the replacement of the crude oil and LPG excise regime by the PRRT in Bass Strait, only a small amount of crude oil and LPG excise revenue is expected to be collected in 1991–92. This revenue will be recorded under petroleum excise.

Excise Indexation

The rates of duty for the main excisable commodities (with the exception of crude oil, LPG and coal) are adjusted each August and February in line with half-yearly CPI movements; rates applying from 18 February 1991 and 8 August 1991 are shown in Table 7.

There was no change in the excise rate effective from August 1991 as a consequence of the 0.1 per cent decline in the CPI for the six months to June. This negative CPI outcome will be offset against the CPI increase for the six months to December to determine the excise rate to apply from February 1992.

Table 7: Excise Rates

	Rates applying from -	
	18 February 1991 $	8 August 1991 $
Petroleum Products (per litre)		
Motor Spirit	0.25767	0.25767
Diesel (gross) (a)	0.25767	0.25767
Aviation Gasoline	0.27395	0.27074
Fuel Oil	0.05345	0.05345
Heating Oil	0.05345	0.05345
Kerosenes	0.05345	0.05345
Beer (per litre of alcohol over 1.15 per cent)	14.00	14.00
Potable Spirits (per litre of alcohol)		
Brandy	27.85	27.85
General Rate for Other Spirits	32.62	32.62
Spirits nec and other Liqueurs nec	33.49	33.49
Tobacco Products (per kg of tobacco)	51.72	51.72
Coal Excise (per tonne)	0.25	0.25

(a) The refund rates applying to different users of diesel products under the Diesel Fuel Rebate Scheme can be found in Statement 3.

Petroleum Products Excise

Excise from refined petroleum products was $6601m in 1990–91, 5.0 per cent below the budget estimate. The main factor underlying the shortfall was the lower than expected clearance levels for motor spirit and diesel.

Collections in 1991–92 are expected to be $7075m, 7.2 per cent higher than in 1990–91. This reflects an expected modest growth in clearances of motor spirits and diesel fuel as well as the CPI indexation of excise rates.

Other Excise

Other excise revenue is derived from beer, potable spirits, tobacco products and coal.

Revenue from these excises in total amounted to $2364m in 1990–91, 1.1 per cent lower than the budget estimate.

In 1991–92, revenue is estimated to be $2485m, an increase of 5.1 per cent on the 1990–91 outcome. This reflects CPI indexation of excise rates and assumes a continuation of the weak long-term growth in sales.

Customs Duty on Imports

Ad valorem tariffs are applied to many categories of imports. Import customs duty revenue is affected by the $A value of imports (and, hence, the exchange rate); tariff rates applied to imports; and the composition of imports between high and low tariff rates.

The tariff reforms announced in the May 1988 Economic Statement have contributed to a decline in the average rate of duty in recent years. With the reforms announced in the March 1991 Statements, this trend will continue in 1991–92 and subsequent years. These reforms are gradually reducing the number and level of the multitude of tariff rates. In particular, tariffs in excess of 15 per cent will have been phased down by 1992 to 15 per cent—and tariffs between 10 per cent and 15 per cent will have been phased down to 10 per cent. Further phased reductions to a general tariff ceiling of 5 per cent by 1996 will follow. Separate arrangements have been implemented for the textiles, clothing and footwear and passenger motor vehicle industries.

Import customs duty collections in 1990–91 amounted to $3319m, 10.3 per cent lower than the budget estimate. The shortfall on the budget estimate largely reflected a change in the composition of imports which lowered the average rate of duty.

Revenue from import customs duty in 1991–92 is estimated at $3125m, 5.9 per cent below the 1990–91 outcome. Dutiable imports are expected to decrease in nominal terms in 1991–92, while the underlying year-average implied rate of duty is expected to be lower than in 1990–91.

Coal Exports Duty

Exports of high quality Australian coking coal are taxed at $3.50 per tonne. Coal exports duty amounted to $47m in 1990–91 and is forecast to be $49m for 1991–92.

Debits Tax

Collections in 1990–91 were $229m, 19.2 per cent above the budget estimate. This reflected the delay in the transfer of the debits tax from the Commonwealth to the States, which was expected to occur on 1 December 1990 but took place on 1 January 1991. Commonwealth revenue forgone from the transfer of the debits tax will be recouped by reducing the financial assistance grants paid to the States and Territories. Details of this transfer appear in Budget Paper No 4 *Commonwealth Financial Relations With Other Levels of Government, 1991–92* .

Other Taxes, Fees and Fines

In 1990–91, revenue from other taxes, fees and fines was $1956m, 6.9 per cent lower than the budget estimate. In 1991–92, collections are estimated at $1672m, a decrease of 14.5 per cent on 1990–91. The outcome for 1990–91 and the estimates for 1991–92 are shown in Table 8.

Table 8: Other Taxes Fees and Fines

	1990-91 Actual	1991-92 Estimate	Change on 1990-91	
	$m	$m	$m	%
Primary Industry Levies	1233	678	-555	-45.0
Primary Industry Charges	80	108	28	34.4
Broadcasting and Television Station Licence Fees	124	144	21	16.7
Radiocommunications Licence Fees	68	77	9	12.9
Stevedoring Industry Collections	51	43	-8	-15.1
Departure Tax	38	82	44	115.2
Passport Fees	66	74	8	12.2
Immigration Fees and Charges	56	75	18	32.7
Court Fees and Fines	18	26	8	41.7
Light Dues and Navigation Charges	44	43	-1	-1.5
Australian Securities Commission	95	197	102	108.2
Other	84	126	42	50.5
TOTAL	1956	1672	-284	-14.5

The major components of this category are primary industry levies, primary industry charges, departure tax and 'other' items. Comments on those items with significant variations in 1991–92 compared with 1990–91 follow.

Primary Industry Levies

Primary industry levies are collected by the Commonwealth. The proceeds are passed to statutory marketing authorities, research corporations or to industry trust accounts to fund their market support, product promotion, research, disease control and eradication activities.

Total revenue from these sources for 1991–92 is estimated at $678m, 45.0 per cent below the 1990–91 outcome. This mainly flows from reduced wool tax collections, down by $560m, reflecting the reduction in the wool tax rate to 12 per cent, an expected lower wool production level and lower average wool prices.

Primary Industry Charges

These charges are levied to recover costs of export inspection, domestic meat inspection and livestock health export certification (undertaken by the Australian Quarantine and

Inspection Service (AQIS) and the States on behalf of AQIS), and monitoring of the chemical residue levels in agricultural and pastoral products. From 1 January 1991, AQIS moved to full cost recovery for the provision of inspection services.

Total revenue from these sources in 1991–92 is estimated at $108m, an increase of 34.4 per cent above 1990–91, mainly reflecting the full-year effect of the full cost recovery policy.

Broadcasting and Television Station Licence Fees

Licence fees are levied by the Commonwealth on a progressive basis on the annual gross earnings of commercial radio and television stations.

Total revenue from these sources in 1991–92 is estimated at $144m, 16.7 per cent above the 1990–91 outcome. This increase results largely from slippage in the receipt of some television licence fees from 1990–91 to 1991–92, and from delays in the conversion of AM radio stations to FM under the National Metropolitan Radio Plan which more than offset the expected cost of reductions in radio fees.

Departure Tax

Collections are estimated at $82m, an increase of 115.2 per cent over 1990–91, mainly reflecting the decision to raise the tax from $10 to $20 per passenger, effective from 1 August 1991.

Australian Securities Commission

From 1 January 1991, responsibility for companies and securities legislation was transferred to the Commonwealth from the States and the NT. With these new responsibilities, the Commonwealth acquired an additional source of revenue. The *Corporations (Fees) Act 1989* includes a fee schedule that covers a wide range of Australian Securities Commission activities. A payment is made to the States and the Northern Territory in compensation for the transfer.

Collections for 1991–92 are expected to be $197m, an increase of 108.2 per cent above the 1990–91 outcome. This increase reflects the first full year of collections.

NON-TAXATION REVENUE

Non-taxation revenue comprises interest paid to the Commonwealth Government from sources outside the budget sector, dividends and miscellaneous revenue from Government owned enterprises. The outcome for 1990–91 and the estimates for 1991–92 are shown in Table 9.

In 1990–91, non-tax revenue totalled $4859m, 1.7 per cent below the budget estimate. In 1991–92, collections are estimated at $5613m, 15.5 per cent higher than 1990–91.

Table 9: Non-Taxation Revenue

	1990-91 Actual	1991-92 Estimate	Change on 1990-91	
Interest -	$m	$m	$m	%
States, NT and ACT	2466	2269	-197	-8.0
Non-Budget Authorities:				
Australian Telecommunications and Postal Corporations	413	355	-58	-14.1
Australian National Railways Commission	8	8	0	1.4
Civil Aviation Authority	18	4	-13	-75.0
Federal Airports Corporation	49	49	0	0.8
Pipeline Authority	23	14	-9	-38.5
Snowy Mountains Hydro-Electric Authority	76	75	-0	-0.4
Commonwealth Cash Balances with RBA	153	166	13	8.2
Other	96	92	-3	-3.3
Total Interest	3302	3034	-267	-8.1
Dividends and Other -				
Transport and Communications Business Enterprises (a)	447	459	13	2.8
Commonwealth Bank of Australia	0	450	450	na
Australian Industry Development Corporation	8	9	1	16.5
Reserve Bank of Australia	675	1503	828	122.8
Royal Australian Mint	23	39	16	70.4
Petroleum Royalties	337	76	-261	-77.5
Other	69	43	-26	-37.1
Total Dividends and Other	1557	2579	1022	65.6
TOTAL	4859	5613	754	15.5

(a) Includes AUSSAT Pty Ltd, Australian Airlines Ltd, Australian Postal Corporation, Australian Shipping Commission, Australian Telecommunications Corporation, Civil Aviation Authority, Federal Airports Corporation, Overseas Telecommunications Commission and Qantas Airways Limited.

Interest Revenue

Interest Revenue from the States, Northern Territory and ACT

The Commonwealth receives interest payments from the States on advances made under the State Governments' Loan Council Program, and from the Northern Territory on advances made under similar general purpose capital assistance arrangements. Payments relating to these advances are made in turn by the Commonwealth to bondholders. The Commonwealth also receives interest from the ACT on debts assumed upon self-government.

Receipts from the States and Territories are estimated at $2269m in 1991–92, a decrease of 8.0 per cent on 1990–91. This decline reflects the June 1990 Loan Council decision that each year the States would make additional payments to the National Debt Sinking Fund sufficient to permit the redemption of all maturing Commonwealth securities issued on their behalf. Similar arrangements apply to the Northern Territory and are to be negotiated between the Commonwealth and ACT in 1991–92. The reduction in interest receipts is matched by a fall in public debt interest outlays. Further details of the transfer

of borrowing are provided in Statement 6 of this paper and in Budget Paper No 4 *Commonwealth Financial Relations With Other Levels of Government 1991–92*.

Arrangements will be settled with the ACT to make interest payments of $11m which have accrued since 1988–89.

Australian Telecommunications Corporation (Telecom)

Interest received from Telecom in 1990–91 was $413m, the same as the budget estimate. Receipts from Telecom are estimated at $355m in 1991–92, 14.0 per cent below the 1990–91 outcome. This reflects the continued repayment of Telecom's Commonwealth debt and its replacement with private sector borrowings. Telecom's remaining Commonwealth loans are due to be repaid over the next eight years.

Dividends and Other

Transport and Communications Government Business Enterprises

Dividends from the transport and communications GBEs in 1990–91 were $447m, 4.7 per cent above the budget estimate. This outcome reflects higher than expected dividends from Telecom, the Overseas Telecommunications Corporation (OTC) and Australia Post.

Consistent with dividend determination arrangements established under the 1988 reform packages for transport and communications GBEs, the global estimate for 1991–92 is without prejudice to the eventual dividend to be settled with each of the enterprises after the finalisation of their accounts for the 1990–91 financial year.

Global dividends in 1991–92 are estimated at $459m, 2.8 per cent higher than in 1990–91. The increase in 1991–92 mainly reflects increased dividends expected from Telecom, Australia Post, the Civil Aviation Authority and the Federal Airports Corporation.

The Commonwealth Bank of Australia

The Commonwealth Bank of Australia's 1990–91 dividend payment of $160m in respect of 1989–90 profits was deferred to boost the Bank's capital base in the light of the acquisition of the State Bank of Victoria.

The 1991–92 dividend estimate of $450m is accounted for by the deferred payment; a once-off dividend of $177m in respect of surplus funds transferred from the Commonwealth Bank Officers Superannuation Corporation to the Bank; and a dividend on 1990–91 profits, assumed for Budget purposes to be $113m.

The Reserve Bank of Australia (RBA)

The *Reserve Bank Act 1959* requires the RBA to pay its net earnings to the Commonwealth after provisions for contingencies and appropriations to reserves.

Payments by the RBA to the Commonwealth totalled $675m in 1990–91, consisting of a final payment of $275m from the RBA's earnings for 1989–90 and an interim payment of

$400m in respect of the RBA's 1990–91 earnings. This outcome is consistent with the budget estimate.

Total payments from the RBA to the Commonwealth in 1991–92 are estimated at $1503m, 122.8 per cent more than in 1990–91. This estimate represents a final payment of $1103m from earnings of the RBA in 1990–91; and a projected interim payment by the RBA in June 1992 of $400m in respect of its 1991–92 earnings.

Royal Australian Mint

Revenue from the Royal Australian Mint relates to seignorage on circulating coin production and profits from the sale of numismatic coins.

The revenue of $23m for 1990–91 reflects lower than expected sales of the $2 and other circulating coins.

Revenue is estimated at $39m in 1991–92. Funds have been retained to cover repurchases of 1¢ and 2¢ coins from the banking system.

Petroleum Royalties

Petroleum royalties include the Commonwealth's share of income from the resource rent royalty paid in respect of oil production from Barrow Island, royalties from the offshore areas of Bass Strait and the North West Shelf, and the Commonwealth's share of royalties from a number of projects in Western Australia, including the Saladin and Harriet developments. This item has been affected by classification changes, as outlined in Statement 7.

Royalty payments for petroleum recovered in 1990–91 from Bass Strait have been credited against the producers' PRRT liability for the corresponding period.

On the revised classification basis, revenues collected amounted to $337m in 1990–91, 37.4 per cent above the budget estimate of $245m. The increase reflects:

- the delay in the introduction of the PRRT legislation resulting in royalties being collected for the full year from Bass Strait; and
- higher production levels for certain Western Australian developments during the Gulf conflict.

The forecast fall in petroleum royalty collections in 1991–92 to $76m reflects the withdrawal of Bass Strait production from the scope of this category of collections—and lower oil prices following the resolution of the Gulf conflict.

PART IV: LONGER-TERM TRENDS

This Part discusses trends in revenue collections over the past decade. In doing so, the analysis seeks to identify broader economic measures of the historical and likely tax base. For most revenues, this can be undertaken by reference to national accounts concepts.

Chart 1 shows trends in the major categories of revenue expressed as a proportion of GDP and includes the 1991–92 estimates. In the discussion below, references to GDP are to nominal GDP unless otherwise stated. The tables in Appendix B present other information on revenue over the same period.

Total revenue peaked as a share of GDP at 27.8 per cent in 1986–87. The subsequent decline reflects slower real growth in tax revenue and a significant fall in non-tax revenue.

Income Tax Revenue

Income tax is the Commonwealth's main source of revenue. Its share of GDP has increased from 16.0 per cent in 1980–81 to 17.9 per cent in 1990 91.

During the 1980s, net PAYE income tax revenue fluctuated between 10 and $11^1/_4$ per cent of GDP. Over the same period, the ratio to GDP of wages, salaries and supplements also fluctuated as shown in Chart 2. This suggests that the average tax rate in 1990–91 is close to that in 1980–81.

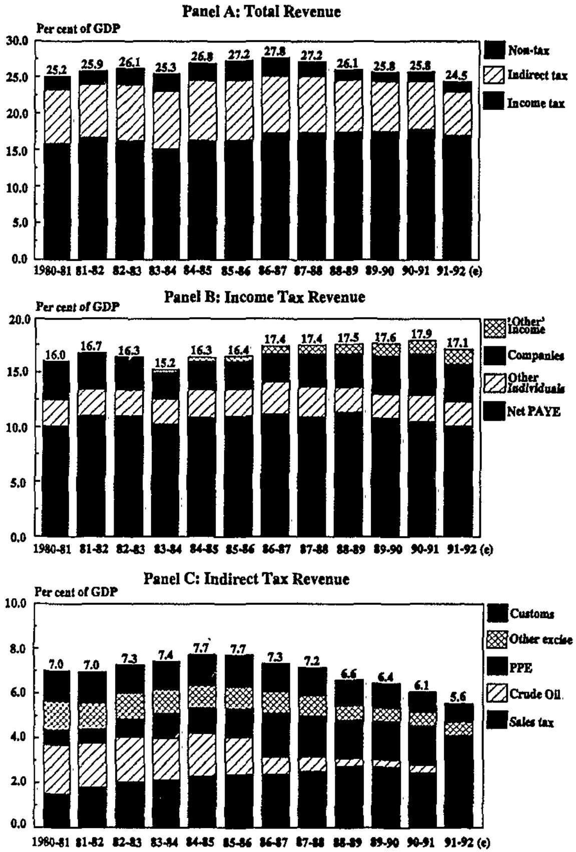
After an expected fall to 10.1 per cent in 1991–92, net PAYE as a percentage of GDP is likely to recover somewhat in subsequent years as the economy returns to stronger growth—but not to deviate much from the historical average.

Company tax revenue during the 1980s has been less stable as a source of revenue than net PAYE revenue. This reflects the influence, at various stages, of movements in the profit share and of company tax measures. The profit share is calculated as gross operating surplus of private corporate trading and financial enterprises less historic cost depreciation and net interest payments. Chart 3 shows a measure of the profit share based on national accounts concepts lagged one year to reflect the timing of company tax payments.

The chart shows that, in the mid-1980s, movements in this tax base were not mirrored in company tax as a share of GDP. Dominant influences at this time seem to have been the introduction of a range of measures which, in net terms, narrowed the tax base. Such measures included the introduction of accelerated depreciation provisions, 150 per cent deduction for research and development and the transfer of company group losses.

In the second half of the decade, company tax as a proportion of GDP increased. This resulted from an increased corporate profit share consequent upon real wage restraint and increased incorporation. While measures such as capital gains tax, removal of the investment allowance and the subsequent withdrawal of accelerated depreciation provisions would have increased company tax, these have been partly offset by the

CHART 1: REVENUE AS A PER CENT OF GDP 1980-81 TO 1991-92



reduction in the company tax rate. The net effect of these factors has been to restore company tax as a share of GDP. Further base broadening measures will take effect from 1991–92 including the removal of income tax exemptions for certain GBEs and the gold mining industry.

After an expected fall in 1991–92, company tax as a proportion of GDP should recover slightly. To the extent that incorporation continues to be an attractive option for businesses, the company tax share may even drift up slightly but this effect could be more than offset by the reduced revenue from other individuals.

Other individual taxpayers comprise a diverse range of groups including unincorporated businesses, primary producers and taxpayers who earn significant income from investment in property or financial assets. As such, it is not possible to match reliably any national accounts income concepts with the tax base for other individuals. Chart 1 shows that other individuals tax as a share of GDP has fallen in the past few years. At least some of this fall is attributable to incorporation and introduction of the prescribed payments system.

Both dividend imputation (effective from the 1987–88 income year) and the reduction in *the corporate tax rate from 49 per cent to 39 per cent (effective from the 1988–89 income* year), including relative to the top personal and FBT rate, increased the attractiveness of incorporation. This has been reflected in a relative shift from other individuals tax to company tax. As can be seen in Chart 4, company tax grew strongly after 1986–87 while other individuals tax fell significantly through most of that period.

A key factor in the upward trend in income tax revenue has been the introduction of measures broadening the income tax base. The capital gains tax, first collected in 1986–87, is included in individuals, companies and superannuation fund tax collections and has contributed to their growth.

Other measures which introduced taxes on prescribed payments, fringe benefits, and superannuation fund contributions and earnings also broadened the tax base. In addition, larger capital inflows seem to have increased the withholding tax base since 1983–84. Overall, these taxes contributed only 0.2 per cent of GDP in 1980–81 but represented 1.2 per cent in 1990–91. The newly introduced PRRT further broadens the direct tax base but at the expense of indirect taxes on crude oil and LPG; this transition was discussed in Part III.

Following the introduction of these new measures in the 1980s, there is now less scope for broadening the income tax base.

Indirect Taxation Revenue

Sales tax revenue as a proportion of GDP increased steadily over the decade from 1.5 per cent in 1980–81, peaking at 2.8 per cent in 1988–89, before falling to 2.5 per cent in 1990–91. The increase has been mainly attributable to rate changes in the early 1980s, supplemented by base broadening measures such as the imposition of sales tax on beer and wine and the extension of sales tax to GBEs. Base broadening will be partly offset by recent changes which will exempt certain business inputs from the tax base.

CHART 2: NET PAYE AND WAGES SALARIES AND SUPPLEMENTS (WSS)

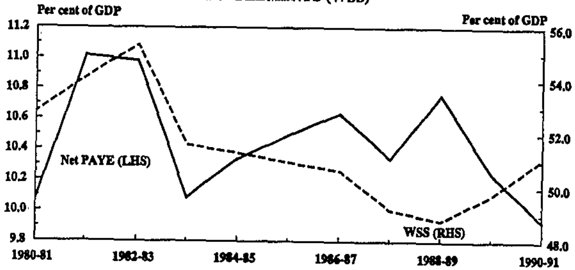


CHART 3: COMPANY TAX AND COMPANY INCOME (a)

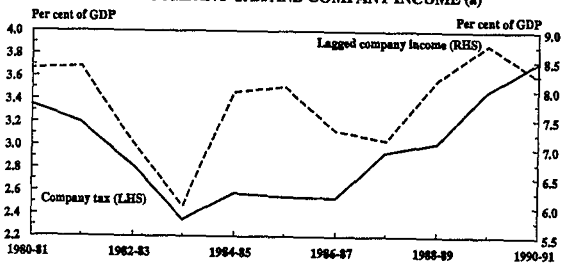
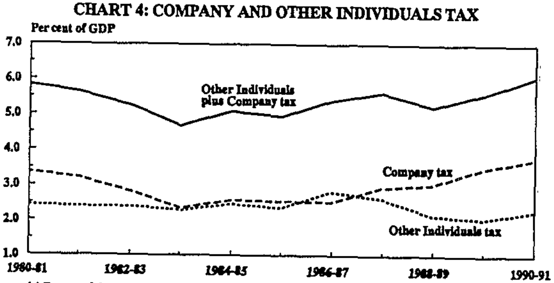


CHART 4: COMPANY AND OTHER INDIVIDUALS TAX



(a) Data used for company income is derived from the Australian National Accounts, National Income and Expenditure Accounts 1989-90 Annual.

Given the nature of the sales tax base, it is difficult to assess likely trends in future collections: the tax is levied at the last point on wholesale sales, for which there is no broad proxy, and there is a wide range of exemptions.

Crude oil and LPG excise as a share of GDP has been on a downward trend since the oil shock in 1979 partly reflecting declining oil prices (see Chart 5A). Also significant is the trend decline in the average tax rate as a result of depleting production from older fields which were subject to higher excise rates. While the introduction of the PRRT is initially expected to hasten the decline in revenue from this source, revenue in the medium term is likely to be higher than it would otherwise have been under the previous excise arrangements. As already discussed, this transition involves a one-off switch in classification from indirect to direct taxation.

Petroleum products excise revenue trended upward as a proportion of nominal GDP until 1986–87 despite a fall in domestic use of petroleum relative to real GDP (see Chart 5B). Since then, domestic use has stabilised relative to real GDP and excise revenue to nominal GDP has been steady.

There has been a decline in consumption of beer, spirits and tobacco relative to real GDP, as shown in Charts 5C and 5D. Trends away from smoking and toward lower alcohol beer mean this pattern is likely to continue.

Customs duty has fallen from 1.3 per cent of GDP in 1980–81 to 0.9 per cent in 1990–91. This mainly reflects declining average import duty rates, as a consequence of measures to reduce industry protection. Chart 6 shows the average tariff rate has declined from 11.6 per cent in 1980–81 to 7.7 per cent in 1990–91, despite growth in the endogenous imports base relative to GDP over this period as a whole. As discussed in Part III and Appendix A, further reductions in the rate of protection are scheduled during the 1990s.

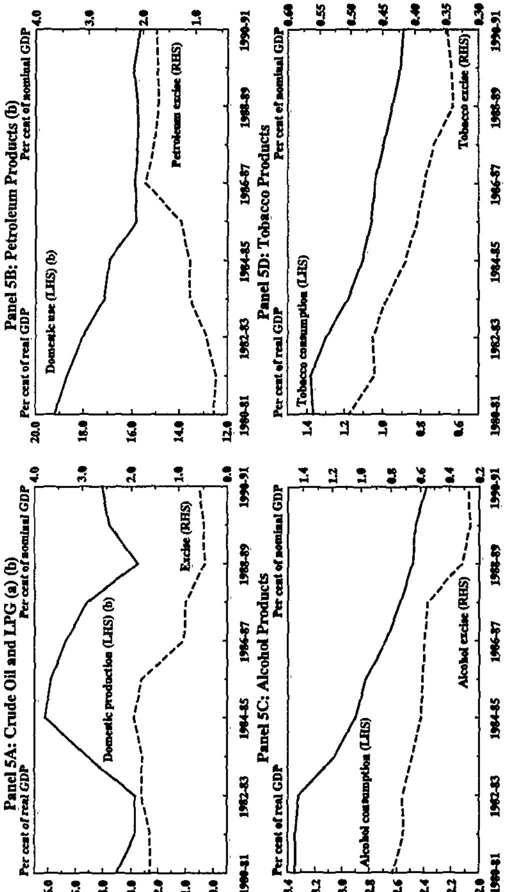
The decline in crude oil and LPG excise, other excises and customs duty have more than offset the increase in revenue from sales tax and petroleum products, resulting in a decline in total indirect taxes from 7.4 per cent of GDP in 1980–81 to 6.6 per cent in 1990–91. In the absence of policy changes, the declines in customs duty and excise from tobacco and alcohol are likely to continue in the foreseeable future.

Non-Tax Revenue

Non-tax revenue collections have been steadily declining since 1985–86 from 2.7 per cent of GDP to 1.3 per cent in 1990–91. This trend would be expected to continue as a consequence of lower interest payments received, as the States assume greater responsibility for the refinancing of their own debt. Of course, this is matched by a corresponding reduction in outlays.

RBA profits tend to fluctuate markedly from year to year and this has been a dominant influence on short-term fluctuations in non-tax revenue, as shown in Chart 7. These fluctuations have tended to mask the longer-term trend, especially in the mid-1980s when their profits were high.

CHART 5: EXCISABLE COMMODITIES



(a) Excise collected in 1989-90 and 1990-91 from crude oil and LPG includes collections made under the petroleum resource rent tax.
(b) Data is from ABARE Commodity Statistical Bulletin 1990 and ABARE Agriculture and Resources Quarterly 3(2), June 1991.

CHART 6: REVENUE RELATIVE TO GDP FROM CUSTOMS DUTY ON IMPORTS AND THE AVERAGE RATE OF DUTY

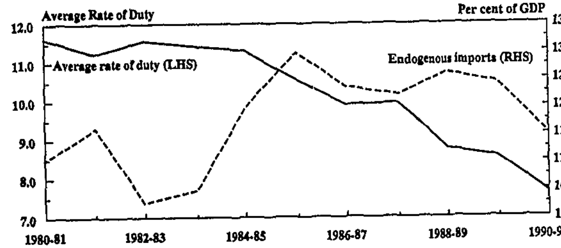
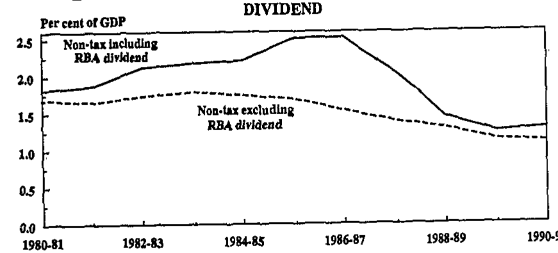


CHART 7: NON-TAX REVENUE INCLUDING AND EXCLUDING THE RESERVE BANK OF AUSTRALIA (RBA) DIVIDEND



APPENDIX A: REVENUE MEASURES ANNOUNCED SINCE THE 1990–91 BUDGET

MEASURES ANNOUNCED IN THE GOVERNMENT'S ECONOMIC STATEMENTS 'BUILDING A COMPETITIVE AUSTRALIA'—12 MARCH 1991

Income Tax

Depreciation Simplification

From 1 July 1991, taxpayers are able to self-assess depreciation rates, in conjunction with a new definition of effective life which will be embodied in the tax law. The changes also provide for a broad-banding of the existing eighteen rates into seven classes, and allow immediate expensing of items of plant with lives less than three years or costing less than $300. Further, taxpayers will be able to pool assets (with similar effective lives) for depreciation purposes.

Environmental Impact Studies

As part of a review by Treasury of the taxation treatment of environment-related capital expenditure, the Government announced that expenditure by a taxpayer on environmental impact studies incurred on or after 12 March 1991 may be deducted for tax purposes over the lesser of ten years or the life of the project.

Research and Development (R&D)

The R&D tax concession, which currently provides a taxation deduction of up to 150 per cent of eligible expenditure, will be retained as a permanent concession at the rate of 125 per cent after it phases down to this level in 1993. Previously, the concession was scheduled to be reduced to 125 per cent in 1993 and to 100 per cent in 1995.

Wholesale Sales Tax (WST)

WST Exemption for Inputs to Goods Production

The Government announced an extension of the WST exemptions available for business inputs used by manufacturers, miners and primary producers (that is, goods producers). The extensions also apply to sub-contractors to goods producers, and certain facilities at seaports and airports. This announcement represents the first part of the simplification review of the WST system that was announced in the 1990–91 Budget.

WST on Luxury Motor Vehicles

The rate of WST applying to motor vehicles above the luxury threshold has been reduced from a maximum of 50 per cent to 30 per cent, effective after 12 March 1991. This brings the arrangements back to the treatment that applied before May 1990.

Customs and Excise Duty

General Tariff Reductions

The present program of protection reduction, which will result in tariff ceilings for most manufactured and agricultural goods of 15 per cent or 10 per cent, is to be extended from 1 July 1993 by further phased reductions to a general tariff ceiling of 5 per cent by 1 July 1996.

Automotive Industry Tariffs

Tariffs on passenger motor vehicles (PMV) and original equipment PMV components will be reduced from 35 per cent on 1 January 1992 to 15 per cent by 1 January 2000. They will be reduced on non-derivative light commercial and 4WD vehicles (including original and replacement components) from 15 per cent in 1992 to 5 per cent by 1 July 1996. Tariffs on replacement PMV components will be maintained at 15 per cent until 31 December 2000. In addition, a modified export facilitation scheme came into effect from 1 January 1991.

Textiles, Clothing and Footwear Tariffs

Reductions in protection for the textiles, clothing and footwear industries have been accelerated. Quotas will be phased out by 1 March 1993 and tariffs will be reduced to a maximum of 25 per cent by the year 2000. In addition, an import credits scheme commenced from 1 July 1991.

Import Duties on Capital Equipment

Import duties on certain mineral processing capital equipment not made in Australia were removed on 12 March 1991.

Tariff on Printed Circuit Boards

The coverage of the computer bounty scheme was widened from 1 July 1991 to include printed circuit boards. Accordingly, the tariff on these items has been removed.

Sugar Tariff

The tariff on sugar has been adjusted from the scheduled $95 per tonne to $76 per tonne at 1 July 1991 and from $70 per tonne to $55 per tonne at 1 July 1992.

OTHER MEASURES ANNOUNCED SINCE THE 1990–91 BUDGET

Income Tax

Deductibility of Gifts: Extensions

The Treasurer announced that gifts of $2 or more to the following bodies would qualify as deductible donations where made on or after the date of announcement, unless otherwise indicated.

- Announced on 20 September 1990:
  - — The Friends of the Duke of Edinburgh's Award in Australia Incorporated.
- Announced on 9 January 1991:
  - — SFI Overseas Aid Fund.
- Announced on 22 January 1991:
  - — Fiji Orthopaedic Training Program Fund.

In addition, on 24 March 1991, the Treasurer and Minister for the Arts, Sport and Territories announced the introduction of a Register of Cultural Organisations eligible to receive tax deductible donations. Cultural organisations that can qualify for tax deductibility status will be entered in the Register following approval by the Treasurer and the Minister with portfolio responsibility for the Arts.

Personal Income Tax Rates Scale

As announced in November 1990, the personal income tax rates scale was amended by reducing the bottom marginal tax rate from 21 to 20 cents in the dollar to take effect, along with the changes announced in February 1990, from 1 January 1991. The new rates scale, set out in Table 10 below, will apply for the 1991–92 income year.

Table 10: Personal Income Tax Rates Scale For 1991–92

Income Range (dollars per annum)	Marginal Tax Rate (cents per dollar)
0–5400	0
5401–20700	20
20701–36000	38
36001–50000	46
over 50000	47

Dividend Income and Non-Mutual Life Assurance Companies

On 6 December 1990, the Treasurer announced changes to the 1990–91 Budget measures relating to the dividend imputation arrangements applying to life assurance companies. Under the new rules, 20 per cent of the franking credits arising from franked dividends received by non-mutual life assurance companies may be applied for the benefit of shareholders.

Capital Gains Tax (CGT)—Asset transfer

Effective from 7 December 1990, amendments were made to the CGT affecting the transfer of assets within company groups. These essentially technical amendments were designed to facilitate better company group reorganisations while maintaining the Government's anti-avoidance objectives.

Taxation of Foreign Employment Income

The Treasurer announced, on 13 December 1990, changes to simplify the taxation arrangements applying to foreign employment income derived by Australian residents. These changes relate to the determination of exempt income for Australian tax purposes and how such income is applied in determining the tax liability on other assessable Australian income. The changes benefit, in particular, Australians working on foreign aid projects. The new arrangements apply to income derived on or after 1 July 1990.

Deductibility of Petroleum Resource Rent Tax (PRRT) Instalments

On 9 May 1991, the Government announced that instalments of PRRT would be deductible for income tax purposes in the income tax year in which they are paid. The change will apply to payments of instalments on or after 1 July 1991. Under the previous provisions, PRRT was deductible for income tax purposes only after the final assessment was made.

Australian Defence Force (ADF) Personnel

(a) Iraq-Kuwait Conflict

ADF personnel who remained in the redefined operational area, in the Middle East, after 9 June 1991 will be eligible to receive the tax rebate provided under section 79B of the *Income Tax Assessment Act 1936*.

(b) Kurdish Relief Force

The Australian contingent involved in Kurdish relief operations resulting from the Iraq-Kuwait conflict will be eligible to receive the tax rebate provided under section 79B of the *Income Tax Assessment Act 1936*.

(c) UN Peacekeeping Force.

The Minister for Foreign Affairs and Trade and the Minister for Defence announced, on 10 July 1991, the Australian Army's participation in a UN peacekeeping force (MINURSO) in the Western Sahara. Members of the Australian contingent will be eligible to receive the tax rebate provided under Section 79B of the *Income Tax Assessment Act 1936.*

Company Tax Collection System

The due date for initial company tax payments by certain companies, complying superannuation funds, complying approved deposit funds and pooled superannuation trusts was extended by the Government on 13 June 1991. Companies with a notional or estimated tax liability of $1000 or more, but less than $400000, were allowed an extension of the initial payment date, from 28 days following the end of the month in which the company balances, to the 15th day of the third month following balance date. The revised arrangements only apply to payments due after the date of announcement in respect of the 1990–91 income year or substituted accounting period. No changes were made to the due dates of the final payment of tax.

Securities Lending

Amendments were made to the provisions of the *Income Tax Assessment Act 1936* dealing with securities lending to extend income tax relief when distributions are made or rights or options are issued or exercised during the term of a loan. The allowable borrowing period was also extended to less than twelve months. The amendments apply to arrangements entered into on or after 27 June 1991. Changes were also made to ensure that inter-corporate dividend rebates and franking rebates are claimed by the correct taxpayer. These provisions apply where franked dividends are paid in respect of shares that are on loan or have been sold but not registered in the name of the purchaser. The changes apply to dividends for which the book's closing time occurs on or after 1 August 1991.

Foreign Source Income

The Treasurer announced modifications to the measures for taxing foreign source income on 28 June 1991. The changes, which will generally have effect from the 1990–91 income year, remove the potential for taxpayers involved in genuine business activities to be disadvantaged under existing provisions in certain circumstances while preventing taxpayers from gaining unintended advantages in other circumstances.

Medicare Levy Exemption

The Treasurer and the Minister for Social Security announced, on 9 July 1991, that the *Income Tax Assessment Act 1936* would be amended to restrict the Medicare levy exemption provided under paragraph 251U(1)(c) to blind pensioners and sickness beneficiaries, for whom the exemption was originally intended.

Medical Expenses Rebate

From 1991–92, the income tax rebate for net medical expenses will be 20 per cent of the excess of net medical expenses over $1000. This is in line with the reduction in the bottom marginal tax rate in the personal income tax rate scale.

Living Away From Home Allowances in the Offshore Oil and Gas Industry

The Government announced, on 2 August 1991, that it will amend the *Fringe Benefits Tax Assessment Act 1986* to ensure that a Living Away From Home Allowance (LAFHA) paid to offshore oil and gas rig workers is taxed as a fringe benefit. The change will take effect from the date of introduction of the amending legislation.

Customs and Excise Duty

Accession to the Florence Agreement

Australia's decision to accede to the Florence Agreement will result in goods of an educational, scientific or cultural nature, and goods used by disabled persons, entering duty free from 1 July 1991.

Shale Oil Excise Exemption

On 7 June 1991, the Government announced that the exemption from excise for petrol produced from shale oil would continue until the end of 2005 but only for approved shale oil projects up to a maximum of 600000 barrels of petrol per year per plant. The decision will apply to the Stuart Shale Oil Project.

Avgas Excise

Avgas excise was reduced by 0.321 cents per litre in association with the removal of Rescue and Firefighting Services from capital city secondary airports from 1 July 1991.

Crude Oil Excise

Late in 1990, legislation was enacted to amend the *Excise Tariff Act 1921* to remove a technical anomaly which had been identified by the Government and industry in the 'new' oil excise arrangements. The amendments sought to ensure that the relevant oil fields continued to be treated as 'old' oil. The provisions were 'declaratory' in nature, in that they put into law past decisions on 'new' oil applications.

Other Measures

Departure Tax

The departure tax was raised from $10 to $20 per person with effect from 1 August 1991.

Wool Tax

The operative wool tax was raised from 18 per cent to 25 per cent on 4 October 1990. It was lowered to 12 per cent from 1 July 1991 as part of the Government's package to revitalise the wool industry, including the abolition of the Reserve Price Scheme and the elimination of the debt of the former Australian Wool Corporation according to a seven year annual debt reduction program.

Airports Security Cost Recovery

In the previous Budget, the Government decided that full cost recovery for the counter terrorist function at airports would be introduced from 1 July 1991. In order to improve co-ordination and facilitation of airport security measures and their cost recovery, the Government has decided that responsibility for the implementation of airport security measures and for their direct funding and cost recovery, including the counter-terrorist presence and associated costs, should be taken by airport operators. As a result, the Commonwealth will cease providing these services and will not be recovering equivalent amounts from the airport operators.

Interest on Victorian Superannuation Loan

Payment of interest on a loan advanced in 1990–91, to fund certain superannuation payments to former Victorian meat inspectors, will be received from 1991–92.

Royal Australian Mint—Efficiency Measures

The Royal Australian Mint is progressively restructuring itself to increase efficiency; there are expected to be gains to revenue of $1m in 1991–92 and $1.5m in subsequent years.

Television Equalisation—Licence Fees Rebate

Additional rebates on licence fees are payable by regional television licencees participating in the equalisation program. Licence fee rebates will be allowed for 100 per cent of the fee payable to a maximum of $1.6m per licence per annum, over 6 years.

Telecommunication Regulations

Three Telecommunications Bills relating to application fees, numbering fees and carrier licence fees have been passed subject to amendment. The carrier licence fees are calculated each year based on the previous year's telecommunications traffic. As a consequence, revenue collections in 1991–92 will not be affected by the new Bills.

Northern Prawn Fishery

The Government agreed to the restructuring of the Northern Prawn Fishery by purchases of fishing capacity. The purchases are funded by loans repaid from increased adjustment levies collected from the Northern Prawn Fishery.

Appendix B: Revenue Statistics – 1980–81 to 1991–92

Table B.I: Commonwealth Government Budget Revenue ($m)

	1980–81	1981–82	1982–83	1983–84	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92 (a)
TAXATION REVENUE												
Income Tax												
Individuals												
Gross PAYE	15291	18836	20812	22024	24403	27575	30657	33359	39106	41322	41704	42460
Less Refunds	1170	1418	1971	2402	2072	2385	2520	2402	2550	3234	4007	4790
Net PAYE	14121	17417	18840	19621	22331	25189	28136	30957	36556	38088	37697	37670
Other	3411	3787	4101	4454	5322	5673	7444	7880	7352	7652	8633	8295
Medicare Levy	-	-	-	365	1223	1335	1715	2080	2320	2545	2480	2580
Prescribed Payments System	-	-	-	251	412	515	765	958	1308	1734	1358	1350
Total Income Tax on Individuals	17532	21204	22942	24691	29287	32713	38061	41875	47536	50019	50168	49895
Companies	4695	5053	4829	4563	5564	6111	6714	8801	10265	12926	14166	13475
Superannuation	11	20	25	21	14	22	13	11	7	376	1053	990
Withholding Tax	161	205	259	305	404	562	639	667	737	915	901	1100
Petroleum Resource Rent Tax	-	-	-	-	-	-	-	-	-	42	293	735
Fringe Benefits Tax	-	-	-	-	-	-	535	881	990	1168	1262	1325
Total Income Tax	22399	26482	28054	29580	35270	39408	45962	52234	59535	65446	67843	67520
Sales Tax	2102	2854	3490	4165	4966	5728	6348	7547	9402	10132	9365	9237
Excise Duty												
Crude Oil and LPG	3108	3163	3486	3650	4202	4019	2062	2056	1188	1232	1354	-
Petroleum Products	925	970	1364	2137	2387	3044	5142	5350	5780	6367	6601	7075
Other Excise Duty	1799	1860	2028	2110	2145	2373	2557	2778	2252	2239	2364	2485
Total Excise Duty	5832	5993	6878	7897	8734	9436	9761	10185	9220	9839	10319	9560
Customs Duty												
Imports	1802	2060	2036	2329	2927	3282	3237	3632	3752	3954	3319	3125
Coal Exports	85	97	66	66	60	57	52	50	50	57	47	49
Total Customs Duty	1887	2156	2102	2395	2987	3339	3288	3683	3802	4011	3366	3174
Debits Tax	-	-	30	183	189	202	261	330	358	378	229	-
Other Taxes, Fees and Fines												
Primary Industry Charges	20	20	25	25	59	51	55	59	63	67	80	108
Primary Industry Levies	353	314	369	421	531	512	577	691	778	789	1233	678
Broadcasting and Television Licence Fees	21	31	40	48	59	69	77	86	110	175	124	144
Other Taxes, Fees and Fines nec	93	135	164	250	294	316	296	331	331	407	519	742
ACT Taxes and Charges	62	71	88	100	120	143	177	239	233	-	-	-
Total Other Taxes, Fees and Fines	549	572	686	844	1062	1092	1182	1405	1515	1438	1956	1672
TOTAL TAXATION REVENUE	32769	38058	41239	45064	53208	59205	66803	75383	83833	91244	93078	91163

Table B.I: Commonwealth Government Budget Revenue ($m) – continued

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92 (a)
NON-TAX REVENUE												
Interest Received												
From Other Governments												
On General Purpose Advances	1270	1441	1619	1736	1904	1991	2073	2107	2082	2124	2032	1851
On Housing Agreements	183	189	197	212	228	245	265	289	303	308	304	302
On Other Specific	119	113	124	137	98	97	91	85	141	86	127	117
ACT Loan Council	-	-	-	-	-	-	-	-	-	16	3	-
Total Interest from Other Governments	1572	1744	1940	2085	2230	2333	2429	2481	2527	2534	2466	2269
From Non-Budget Authorities												
Australian National Railways	16	18	15	12	14	7	8	8	8	4	8	8
Snowy Mountains Hydro-Electric Authority	49	55	57	57	61	66	72	73	75	76	76	75
Pipeline Authority	29	31	33	35	34	34	33	30	28	26	23	14
Telecom and Postal Corporations	331	397	484	610	665	705	667	654	638	483	413	355
Civil Aviation Authority	-	-	-	-	-	-	-	-	16	17	18	4
Federal Airports Corporation	-	-	-	-	-	-	-	22	47	48	49	49
Other Non-Budget Authorities	11	8	8	6	6	4	-	-	-	14	23	36
Total Interest from Non-Budget Authorities	436	509	598	720	780	816	779	787	812	668	609	543
Defence Service Homes	49	52	60	66	69	71	75	76	56	-	-	-
ACT Housing	25	25	28	28	29	27	28	27	22	9	4	-
Public Financial Enterprises	12	15	16	7	6	5	4	1	1	1	1	0
Commonwealth Cash Balances – Reserve Bank	28	15	14	24	21	128	187	184	231	163	153	166
Other Interest Received	35	71	62	51	66	82	73	65	107	95	68	56
Total Interest Received	2157	2430	2719	2982	3200	3463	3575	3621	3755	3470	3302	3034
Dividends and Other												
Public Trading Enterprises	28	23	12	32	8	75	60	94	70	279	452	464
Public Financial Enterprises												
Reserve Bank of Australia	198	345	663	746	1014	1985	2601	1959	503	440	675	1503
Commonwealth Bank of Australia	42	39	34	46	39	23	100	68	123	110	-	450
Australian Industry Development Corporation	-	-	-	-	8	8	9	11	-	11	8	9
Other Financial Enterprises	-	2	0	4	2	7	12	1	4	3	4	0
Petroleum Royalties	55	52	126	259	296	375	254	266	159	251	337	76
Royal Australian Mint	47	33	52	133	175	37	7	26	234	23	23	39
Other (including revenue nec)	23	26	35	35	32	46	44	37	31	40	59	39
Total Dividends and Other	391	520	921	1254	1571	2556	3088	2461	1125	1157	1557	2579
TOTAL NON-TAX REVENUE	2548	2951	3640	4236	4771	6019	6663	6083	4880	4627	4859	5613
TOTAL REVENUE	35317	41008	44879	49300	57979	65224	73466	81465	88713	95871	97937	96776

(a) Forecast.

Table B.II: Real Rate of Change in Commonwealth Government Budget Revenue Items (%) (a)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92 (b)
TAXATION REVENUE												
Income Tax												
Individuals												
Gross PAYE	4.0	10.6	-0.5	-1.0	4.7	5.5	3.5	1.5	7.5	-0.5	-2.9	-1.2
Less Refunds	-6.2	8.9	25.1	14.0	-18.5	7.5	-1.7	-11.1	-2.7	19.4	19.1	16.1
Net PAYE	4.9	10.8	-2.6	-2.6	7.6	5.3	3.9	2.6	8.3	-1.9	-4.8	-3.0
Other	7.3	-0.3	-2.5	1.6	12.9	-0.5	22.1	-1.3	-14.5	-2.0	8.5	-6.7
Medicare Levy	na	na	na	na	216.6	1.9	19.5	13.1	2.3	3.3	-6.3	1.0
Prescribed Payments System	na	na	na	na	55.3	16.8	38.3	16.7	25.2	24.9	-24.7	-3.5
Total Income Tax on Individuals	5.4	8.6	-2.6	0.7	12.1	4.3	8.3	2.6	4.1	-0.9	-3.5	-3.4
Companies	24.5	-3.3	-13.9	-11.6	15.2	2.5	2.2	22.3	6.9	18.6	5.4	-7.6
Superannuation	32.0	59.9	14.5	-21.4	-36.6	44.5	-44.4	-23.8	-36.3	na	169.4	-8.8
Withholding Tax	3.0	14.5	13.7	10.2	25.1	29.9	5.8	-2.7	1.3	17.1	-5.3	18.5
Petroleum Resource Rent Tax	na	na	na	na	na	na	na	na	na	na	na	143.9
Fringe Benefits Tax	na	na	na	na	na	na	na	53.5	3.0	11.2	3.8	2.0
Total Income Tax	8.9	6.2	-4.6	-1.4	12.7	4.3	8.5	6.0	4.5	3.5	-0.3	-3.4
Sales Tax	1.9	22.0	10.1	11.6	12.7	7.7	3.1	10.9	14.2	1.5	-11.1	-4.2
Excise Duty												
Crude Oil and LPG	23.7	-8.6	-0.8	-2.0	8.8	-10.7	-52.3	-7.0	-47.0	-2.4	5.7	na
Petroleum Products	-7.6	-5.8	26.6	46.5	5.6	19.1	57.2	-3.0	-1.0	3.8	-0.3	4.1
Other Excise Duty	-9.1	-7.1	-1.8	-2.7	-3.9	3.3	0.2	1.4	-25.7	-6.3	1.5	2.1
Total Excise Duty	6.2	-7.7	3.3	7.4	4.5	0.9	-3.7	-2.7	-17.0	0.5	0.9	-10.1
Customs Duty												
Imports	5.7	2.7	-11.0	7.0	18.7	4.7	-8.2	4.7	-5.3	-0.8	-19.3	-8.6
Coal Exports	-15.5	2.4	-38.3	-6.6	-14.4	-10.6	-16.4	-8.7	-9.5	7.5	-20.5	1.3
Total Customs Duty	4.5	2.7	-12.2	6.6	17.8	4.4	-8.4	4.5	-5.3	-0.6	-19.3	-8.5
Debits Tax	na	na	na	477.6	-2.0	-0.4	20.1	17.9	-0.4	-0.5	-41.8	na
Other Taxes, Fees and Fines												
Primary Industry Charges	-8.2	-10.1	8.9	-6.5	125.3	-19.2	0.9	-0.9	-2.0	0.3	15.1	30.5
Primary Industry Levies	14.5	-20.0	5.6	6.9	19.0	-9.9	4.9	11.6	3.3	-4.5	50.3	-46.6
Broadcasting and Television Licence Fees	7.1	29.3	17.6	12.0	14.8	9.4	3.8	4.3	17.7	49.7	-32.1	13.3
Other Taxes, Fees and Fines nec	-30.6	30.9	8.9	43.0	10.9	0.6	-13.0	4.2	-8.2	15.7	22.8	38.8
ACT Taxes and Charges	2.5	3.1	12.1	5.8	13.4	11.9	14.8	25.9	-10.6	na	na	na
Total Other Taxes, Fees and Fines	0.9	-6.5	7.9	15.2	18.8	-4.0	0.8	10.8	-1.1	-10.6	30.8	-17.0
TOTAL TAXATION REVENUE	7.5	4.3	-2.4	2.2	11.6	3.9	5.0	5.3	2.0	2.5	-1.9	-4.9

Table B.II: Real Rate of Change in Commonwealth Government Budget Revenue Items (%) – continued

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92 (b)
NON-TAX REVENUE												
Interest Received												
From Other Governments												
On General Purpose Advances	5.2	1.9	1.1	0.3	3.6	-2.4	-3.1	-5.2	-9.4	-4.0	-8.0	-11.5
On Housing Agreements	-6.2	-7.2	-5.9	0.4	1.4	0.7	0.5	1.7	-4.0	-4.2	-4.9	-3.7
On Other Specific	-3.3	-14.1	-1.2	2.9	-32.1	-8.1	-12.0	-13.2	52.3	-42.7	42.4	-11.2
ACT Loan Council	na	na	na	na	na	na	na	na	na	na	-84.0	na
Total Interest from Other Governments	3.1	-0.3	0.2	0.5	1.1	-2.3	-3.1	-4.7	-6.6	-5.5	-6.4	-10.7
From Non-Budget Authorities												
Australian National Railways	-20.5	2.0	-22.8	-26.9	8.7	-52.3	4.5	-10.9	-9.5	-43.9	62.4	-1.5
Snowy Mountains Hydro-Electric Authority	-5.3	0.4	-6.7	-6.5	0.1	1.9	0.8	-5.7	-5.3	-4.7	-4.1	-3.3
Pipeline Authority	-3.6	-5.4	-2.7	-1.6	-8.2	-6.5	-9.4	-14.1	-14.5	-14.0	-14.6	-40.3
Telecom and Postal Corporations	-9.0	8.0	9.8	17.8	3.0	-1.0	-12.0	-8.4	-10.6	-28.7	-17.7	-16.6
Civil Aviation Authority	na	na	na	na	na	na	na	na	na	-2.0	-0.5	-75.8
Federal Airports Corporation	na	na	na	na	na	na	na	na	96.5	-4.3	-0.9	-2.2
Other Non-Budget Authorities	-42.3	-35.9	-7.4	-29.2	2.5	-41.1	na	na	na	na	55.9	53.1
Total Interest from Non-Budget Authorities	-10.0	4.9	5.8	12.7	2.4	-2.3	-11.2	-5.8	-5.3	-22.5	-12.3	-13.5
Defence Service Homes	-250.2	-5.9	4.1	3.1	-1.7	-3.2	-2.0	-4.9	-33.3	na	na	na
ACT Housing	2.1	-9.3	2.6	-6.5	-4.3	-11.1	-5.3	-9.6	-24.9	-62.3	-56.2	na
Public Financial Enterprises	-15.9	11.5	-7.0	-56.5	-19.7	-27.5	-27.1	-75.7	-27.7	-5.8	-3.8	-68.0
Commonwealth Cash Balances – Reserve Bank	-25.0	-52.0	-12.6	57.7	-18.8	474.0	35.9	-8.5	15.1	-33.4	-9.7	5.0
Other Interest Received	-21.7	81.3	-20.9	-22.4	21.1	16.8	-17.7	-16.8	50.2	-16.1	-31.3	-20.0
Total Interest Received	2.9	1.2	0.7	2.6	1.4	1.0	-3.9	-5.5	-4.9	-13.0	-8.5	-10.8
Dividends and Other												
Public Trading Enterprises	-5.3	-25.9	-53.1	149.4	-77.6	836.1	-25.5	45.2	-31.1	272.8	55.9	-0.5
Public Financial Enterprises												
Reserve Bank of Australia	-21.1	56.7	73.1	5.2	28.4	82.9	21.9	-29.7	-76.4	-17.7	47.5	116.3
Commonwealth Bank of Australia	5.0	-15.6	-22.8	27.5	-19.3	-45.8	312.5	-36.6	64.7	-15.6	na	na
Australian Industry Development Corporation	na	na	na	na	na	-3.5	2.5	15.0	na	na	-33.9	13.1
Other Financial Enterprises	na	na	-96.7	na	-60.8	310.1	70.3	-93.3	307.7	-21.4	22.2	na
Petroleum Royalties	13.8	-13.9	116.3	92.7	7.9	18.6	-37.1	-2.4	-45.2	48.7	29.2	-78.1
Royal Australian Mint	374.0	-36.4	40.3	138.7	24.7	-80.2	-81.8	236.2	724.0	-90.8	-3.8	65.5
Other (incl revenue nec)	23.6	4.1	18.4	-5.3	-15.0	34.9	-10.0	-21.9	-23.1	21.5	41.5	-36.4
Total Dividends and Other	-1.1	19.4	59.3	27.4	18.5	51.9	12.4	-25.7	-58.1	-3.1	29.4	60.8
TOTAL NON-TAX REVENUE	2.2	4.0	11.1	8.9	6.4	17.8	3.0	-14.9	-26.5	-10.7	1.0	12.2
TOTAL REVENUE	7.1	4.3	-1.5	2.8	11.1	5.0	4.8	3.4	-0.2	1.8	-1.8	-4.1

(a) Nominal increase deflated by movements in the non-farm GDP deflator.
(b) Forecast.

Table B.III: Major Categories of Revenue as Proportions of Gross Domestic Product (per cent)

	Taxation Revenue															Non-Taxation Revenue		
	Income Tax							Other Taxation Revenue										
	Individuals							Excises (c)										
	Net PAYE	Other Individuals	PPS	Total (a)	Companies	FBT	Total (b)	Crude Oil and LPG	Petroleum Products	Other (c)	Total Excises	Sales Tax	Customs Duty on Imports	Total Other Tax (d)	Interest	Dividends and Other	Total Non-Tax Revenue
1980-81	10.1	2.4	0.0	12.5	3.3	0.0	16.0	2.2	0.7	1.3	4.2	1.5	1.3	7.4	1.5	0.3	1.8
1981-82	11.0	2.4	0.0	13.4	3.2	0.0	16.7	2.0	0.6	1.2	3.8	1.8	1.4	7.3	1.5	0.3	1.9
1982-83	11.0	2.4	0.0	13.4	2.8	0.0	16.3	2.0	0.8	1.2	4.0	2.0	1.2	7.7	1.7	0.5	2.3
1983-84	10.2	2.3	0.1	12.7	2.3	0.0	15.2	1.9	1.1	1.1	4.1	2.1	1.2	8.0	1.7	0.6	2.4
1984-85	10.8	2.5	0.2	13.6	2.6	0.0	16.3	1.9	1.1	1.0	4.0	2.3	1.4	8.3	1.6	0.7	2.4
1985-86	11.0	2.4	0.2	13.6	2.5	0.0	16.4	1.7	1.3	1.0	3.9	2.4	1.4	8.2	1.6	1.1	2.7
1986-87	11.2	2.9	0.3	14.4	2.5	0.2	17.4	0.8	1.9	1.0	3.7	2.4	1.2	7.9	1.4	1.2	2.5
1987-88	10.9	2.8	0.3	14.0	2.9	0.3	17.4	0.7	1.8	0.9	3.4	2.5	1.2	7.7	1.2	0.8	2.0
1988-89	11.3	2.3	0.4	14.0	3.0	0.3	17.5	0.3	1.7	0.7	2.7	2.8	1.1	7.1	1.1	0.3	1.4
1989-90	10.8	2.2	0.5	13.4	3.5	0.3	17.6	0.3	1.7	0.6	2.6	2.7	1.1	6.9	0.9	0.3	1.2
1990-91	10.5	2.4	0.4	13.2	3.7	0.3	17.9	0.4	1.7	0.6	2.7	2.5	0.9	6.6	0.9	0.4	1.3
1991-92 (e)	10.1	2.2	0.3	12.6	3.4	0.3	17.1	0.0	1.8	0.6	2.4	2.3	0.8	6.0	0.8	0.7	1.4

(a) The total for the individuals category includes Medicare levy collections (from 1983-84) and PAYE refunds.
(b) The total for the income tax category also includes PAYE refunds, Medicare levy collections, collections from superannuation funds, PRRT and withholding tax.
(c) The 'other' category includes excise from beer, potable spirits and tobacco. A more detailed decomposition – for 1990-91 and 1991-92 – is shown in Table 6 of this Statement.
(d) As well as excises, sales tax and customs duty, 'other taxation revenue' includes other taxes, fees and fines (including estate, gift and stamp duties); ACT taxes and charges (1980-81 to 1988-89); and debits tax (from 1982-83 to 1990-91).
(e) Forecast.

Table B.IV: Major Categories of Revenue as Proportions of Total Revenue

	Taxation Revenue															Non-Taxation Revenue		
	Income Tax							Other Taxation Revenue										
	Individuals							Excises (c)										
	Net PAYE	Other Individuals	PPS	Total (a)	Companies	FBT	Total (b)	Crude Oil and LPG	Petroleum Products	Other (c)	Total Excises	Sales Tax	Customs Duty on Imports	Total Other Tax (d)	Interest	Dividends and Other	Total Non-Tax Revenue
1980-81	40.0	9.7	0.0	49.6	13.3	0.0	63.4	8.8	2.6	5.1	16.5	6.0	5.1	29.4	6.1	1.1	7.2
1981-82	42.5	9.2	0.0	51.7	12.3	0.0	64.6	7.7	2.4	4.5	14.6	7.0	5.0	28.2	5.9	1.3	7.2
1982-83	42.0	9.1	0.0	51.1	10.8	0.0	62.5	7.8	3.0	4.5	15.3	7.8	4.5	29.4	6.1	2.1	8.1
1983-84	40.4	9.1	0.5	50.1	9.3	0.0	60.0	7.4	4.3	4.3	16.0	8.4	4.7	31.4	6.0	2.5	8.6
1984-85	40.4	9.4	0.7	50.5	9.6	0.0	60.8	7.2	4.1	3.7	15.1	8.6	5.0	30.9	5.5	2.7	8.2
1985-86	40.4	9.0	0.8	50.2	9.4	0.0	60.4	6.2	4.7	3.6	14.5	8.8	5.0	30.4	5.3	3.9	9.2
1986-87	40.2	10.6	1.0	51.8	9.1	0.7	62.6	2.8	7.0	3.5	13.3	8.6	4.4	28.4	4.9	4.2	9.1
1987-88	40.1	10.1	1.2	51.4	10.8	1.1	64.1	2.5	6.6	3.4	12.5	9.3	4.5	28.4	4.4	3.0	7.5
1988-89	43.4	8.7	1.5	53.6	11.6	1.1	67.1	1.3	6.5	2.5	10.4	10.6	4.2	27.4	4.2	1.3	5.5
1989-90	41.9	8.4	1.8	52.2	13.5	1.2	68.3	1.3	6.6	2.3	10.3	10.6	4.1	26.9	3.6	1.2	4.8
1990-91	40.6	9.2	1.4	51.2	14.5	1.3	69.3	1.4	6.7	2.4	10.5	9.6	3.4	25.8	3.4	1.6	5.0
1991-92 (e)	41.1	9.0	1.4	51.6	13.9	1.4	69.8	0.0	7.3	2.6	9.9	9.5	3.2	24.4	3.1	2.7	5.8

(a) The total for the individuals category includes Medicare levy collections (from 1983-84) and PAYE refunds.

(b) The total for the income tax category also includes PAYE refunds, Medicare levy collections, collections from superannuation funds, PRRT and withholding tax.

(c) The 'other' category includes excise from beer, potable spirits and tobacco. A more detailed decomposition – for 1990-91 and 1991-92 – is shown in Table 6 of this Statement.

(d) As well as excises, sales tax and customs duty, 'other taxation revenue' includes other taxes, fees and fines (including estate, gift and stamp duties); ACT taxes and charges (1980-81 to 1988-89); and debits tax (from 1982-83 to 1990-91).

(e) Forecast.

STATEMENT 5—THE BUDGET BALANCE AND ITS FINANCING

CONTENTS

STATEMENT 5—THE BUDGET BALANCE AND ITS FINANCING

This Statement places recent budget outcomes into a longer term perspective and provides an overview of the budget balance and its within-year patterns. Details of the Commonwealth's recent and prospective financing transactions and debt management activities are provided in the latter half of the Statement. Historical data on budget aggregates and outcomes are provided in the Appendices.

BALANCE

The impact of the budget on the economy depends significantly on the level and composition of outlays and revenue. However, the overall size of the Commonwealth budget balance—that is, surplus or deficit—and prospective movements in the balance can also be important indicators of the stance of fiscal policy and of the impact of the budget on financial markets. Statement 6 includes a discussion of the relationship between the budget balance and the level of economic activity.

The main budget aggregates for each year since 1981–82 and averages for the past three decades, expressed in absolute terms and as a percentage of GDP, are shown in Table 1. Budget outcomes since 1953–54 are provided in Table I of Appendix I.

Table 1: Commonwealth Budget Aggregates

	Outlays		Revenue		Balance (a)	
	$m	% of GDP	$m	% of GDP	$m	% of GDP
Averages:						
1961-62 to 1970-71	5502	23.1	5162	21.7	-341	-1.4
1971-72 to 1980-81	21965	26.4	20022	24.0	-1943	-2.3
1981-82 to 1990-91	70593	26.8	69584	26.4	-1008	-0.4
1981-82	41515	26.3	41008	25.9	-507	-0.3
1982-83	49390	28.8	44879	26.1	-4512	-2.6
1983-84	57287	29.4	49300	25.3	-7987	-4.1
1984-85	64675	29.9	57979	26.8	-6696	-3.1
1985-86	70860	29.5	65224	27.2	-5636	-2.3
1986-87	76097	28.8	73466	27.8	-2631	-1.0
1987-88	79405	26.5	81465	27.2	2061	0.7
1988-89	82820	24.4	88713	26.1	5893	1.7
1989-90	87835	23.6	95871	25.8	8036	2.2
1990-91	96041	25.3	97937	25.8	1896	0.5
1991-92	101508	25.7	96776	24.5	-4732	-1.2

(a) Negative sign indicates a deficit; positive sign indicates a surplus.

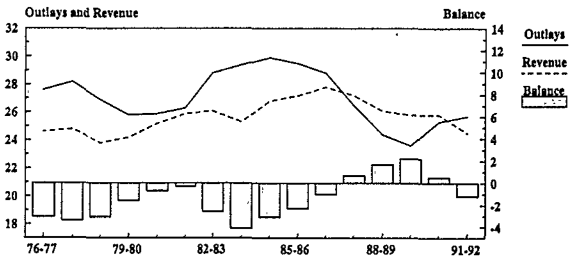
Table 2: Commonwealth Budget Outcome

	1989-90	1990-91		Change in 1990-91 Actual		
				Over 1989-90 Actual	Over 1990-91 Estimate	
	Actual	Estimate	Actual			
	$m	$m	$m	%	$m	%
Outlays	87835	93976	96041	9.3	2065	2.2
Revenue	95871	102083	97937	2.2	-4146	-4.1
Balance	8036	8107	1896		-6211	

The 1990–91 Budget surplus of $1896m (0.5 per cent of GDP) represents a fall of $6140m from the surplus of $8036m in 1989–90 (see Table 2). The surplus was $6211m lower than the budgeted surplus of $8107m with outlays being $2065m higher and revenues being $4146m lower than estimated at budget time. The higher level of outlays reflected the rejection by the Senate of the sale of the Moomba-Sydney pipeline and the introduction of an assets test on the Family Allowance; costs associated with the Gulf deployment; supplementary payments to wool growers following the suspension of the wool reserve price scheme; and increases in unemployment benefits associated with a greater than expected decline in the labour market. The weaker outcome in revenue reflects the lower than expected levels of economic activity and of prices and wages that impacted on income tax, sales tax, petroleum excise and prescribed payments system collections. Also significant were higher than expected growth in PAYE refunds and the additional income tax cuts applying from 1 January 1991. Higher than expected company tax and superannuation fund collections partly offset these effects.

A comparison of budget estimates and outcomes since 1981–82 is provided in Table I of Appendix II; and the annual aggregates from 1976–77 are depicted as a proportion of GDP in Chart 1.

CHART 1. BUDGET AGGREGATES
Percentage of GDP



The estimated 1991–92 deficit of $4732m or 1.2 per cent of GDP is the first deficit since 1986–87. After four consecutive surpluses, the swing into deficit arises primarily from the slowdown in economic activity that has increased budget outlays—especially outlays on unemployment benefits—and reduced revenue. Budget outlays are estimated to increase by 2.6 per cent in real terms. Unemployment benefits are estimated to be $2241m higher than in 1990–91 and account for 2.1 percentage points of real growth in outlays. Outlays are estimated to represent 25.7 per cent of GDP in 1991–92, which is somewhat higher than in the past three years but is considerably below the levels prevailing in the second half of the 1970s and most of the 1980s.

Budget revenues are estimated to decrease in 1991–92 by 4.1 per cent in real terms reflecting the continuing impact of the economic downturn on taxation collections. Revenue is estimated to represent 24.5 per cent of GDP in 1991–92, well down on the average level of revenue collections of 26.4 per cent recorded in the past decade.

Within-Year Balance Pattern

The quarterly patterns of outlays, revenue and the budget balance for 1990–91 and for the preceding four years are presented in Charts 2, 3 and 4. The within-year pattern of the budget balance affects both the Commonwealth's within-year financing needs and the liquidity management task over the year as a whole.

As the budget balance improved between 1986–87 and 1989–90, there was a considerable reduction in the deficits recorded in the early part of the financial year. The surpluses recorded in the June quarter also increased. In 1989–90 and 1990–91, the largest deficits occurred in the December quarter.

CHART 2. QUARTERLY OUTLAYS PATTERN

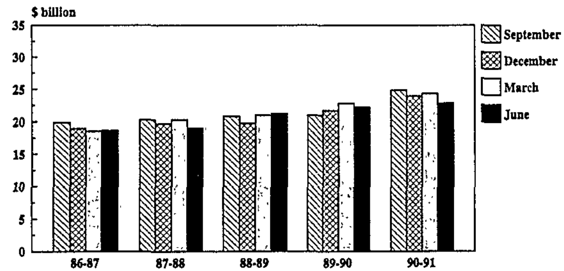


CHART 3. QUARTERLY REVENUE PATTERN

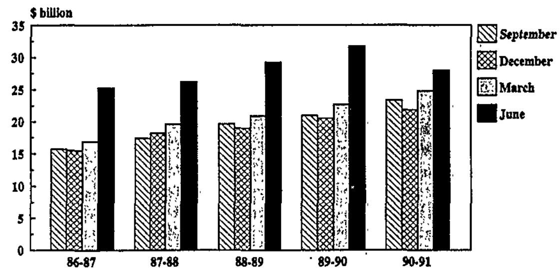
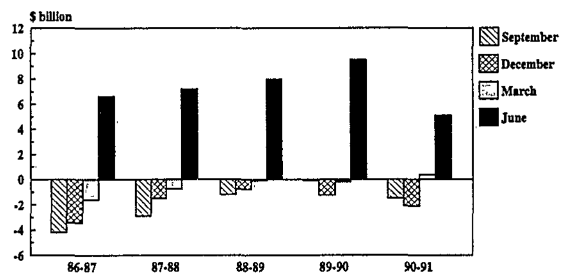


CHART 4. QUARTERLY BALANCE PATTERN



This changed pattern reflected measures introduced in recent years. These included more frequent payments for major programs on the outlays side and the introduction of quarterly provisional tax collections that has tended to smooth the quarterly revenue profile. Also, changes to payment arrangements for company tax, announced in the 1989–90 Budget, have increased revenue collections earlier in the financial year and, accordingly, in 1990–91 reduced the June quarter peak.

Estimates of the within-year pattern of the budget balance for 1991–92 are subject to uncertainty, reflecting forecasts not only of the levels of revenue and outlays but also assumptions about their timing. The likely pattern for 1991–92 is deficits in the first two quarters, the March quarter in approximate balance and a surplus in the final quarter. In 1991–92 and beyond, the trend toward the largest deficit occurring in the December quarter is likely to become more marked.

FINANCING TRANSACTIONS

The focus of the Commonwealth's financing transactions and debt management activities changed during the course of 1990–91 in response to changes in the expected budget outcome. In 1991–92 the Commonwealth will be, for the first time since 1986–87, a substantial gross and net issuer of debt. This section summarises 1990–91 financing transactions and outlines the approach to be adopted in 1991–92.

Financing Transactions in 1990–91

Financing transactions associated with the 1990–91 Budget surplus of $1896m resulted in a small increase in net Commonwealth debt on issue. This increase occurred because Commonwealth commitments in the form of maturing debt and government business enterprise superannuation payments exceeded the size of the surplus. The stock of foreign currency debt fell, while there was an increase in the stock of domestic debt. This followed three consecutive years of decline in both domestic and foreign currency debt. The ratio of total debt to GDP was little changed at an estimated 12.8 per cent in 1990–91 following four years of decline.

Table 3: Commonwealth Budget Sector: Total Debt to GDP Ratios (a)

	Domestic	Overseas	Total
	%	%	%
Average: 1982-1991	16.8	3.7	20.5
As at 30 June			
1982	16.3	3.4	19.6
1983	17.6	4.0	21.6
1984	19.7	3.6	23.4
1985	20.7	4.5	25.2
1986	20.5	5.8	26.3
1987	19.7	5.7	25.4
1988	16.7	4.2	21.0
1989	14.0	2.7	16.7
1990	11.2	1.8	13.0
1991	11.6	1.3	12.8
1992 (est)	12 1/2	1 1/2	13 3/4

(a) Excludes Internal Treasury Bills and holdings by the LCIR of Treasury Bonds and Netherlands Guilders which do not constitute a net liability of the Commonwealth Overseas CGS on issue based on exchange rates as at 30 June each year.

The main features of the financing program in 1990–91 were:

- a net reduction of $1028m in Treasury Bonds and Treasury Indexed Bonds following a net reduction of $2786m the previous year;
- the repayment of $2076m of foreign currency debt, compared with repayments of $2668m in 1989–90;
- the redemption of $337m of Australian Savings Bonds, compared with redemptions of $1871m in 1989–90;

- an increase in the stock of Treasury Notes on issue by $3689m compared with a decline of $1326m in 1989–90;
- an increase of $1409m in cash balances; and
- the financing of $925m relating to Commonwealth business enterprises' superannuation payments.

Financing transactions for the past ten years are shown in Table 4. Details of the outstanding stock of Commonwealth Government Securities (CGS) at the end of 1990–91, and for earlier years, can be found in Budget Related Paper No 1, *Government Securities on Issue at 30 June 1991.*

Domestic Debt Issue and Redemption

A net total of $2315m in domestic debt was issued in 1990–91.

Non-official holdings of domestically issued CGS rose by an estimated $1786m, primarily reflecting an increase of $3972m in the stock of Treasury Notes partially offset by declines of $1841m in Treasury Bonds (including Treasury Indexed Bonds) and $337m in Australian Savings Bonds. These changes reflected the net effects of Treasury Note and Bond issue to the public, maturities, early redemptions and market operations by the Reserve Bank. The Bank's holdings of Treasury Bonds and Treasury Indexed Bonds increased by $813m over the year and holdings of Treasury Notes fell by $283m.

Two Treasury Bond tenders were held last financial year—in April and May 1991. These were the first such tenders since July 1989 and involved a total issue of $2000m of stock to the public. The decline in interest rates over the course of the year meant that stock issued at the two tenders was sold at the lowest yields paid by the Commonwealth since the commencement of bond tenders in 1982.

In July 1990 and January 1991, a total of $2762m of liquid stocks was issued to the Reserve Bank in conversion loans in exchange for an equivalent value of less actively traded stocks. In addition, some $890m of liquid bonds held by the Commonwealth in the Loan Consolidation and Investment Reserve (LCIR) was swapped for illiquid bonds from the Reserve Bank's portfolio and a further $510m of liquid lines sold to the Bank. These operations helped improve the liquidity of the Reserve Bank's CGS portfolio and, in turn, the liquidity of the Commonwealth bond market.

In 1990–91, some $390m of Treasury Bonds issued on behalf of Victoria were cancelled in a transaction related to the sale of the State Bank of Victoria to the Commonwealth Bank. The cancellation was in compensation for Victoria not accessing Tricontinental's loan losses and for taxation revenue from the former State Bank which will now accrue to the Commonwealth. This arrangement was consistent with the guidelines under which the Commonwealth had offered to compensate any State for revenue forgone as a result of the privatisation (sale) of State enterprises. Cancellation of the bonds was undertaken through the National Debt Sinking Fund.

Table 4: Trends in Domestic and Overseas Financing 1981–82 to 1990–91 ($m)

	1981–82	1982–83	1983–84	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90	1990–91
Domestic Financing: (a)										
Treasury Bonds (b)	1194	3455	7743	6094	2361	1827	–1880	–3409	–2785	–1028
Treasury Indexed Bonds	–	–	–	–	331	303	202	–1	–1	..
ASBs and Special Bonds	–721	2391	1943	–676	–2005	–511	36	–750	–1871	–337
Treasury Notes	153	–44	–1563	822	3959	1287	–291	1684	–1326	3689
Treasury Bills	–500	–1400	–	–	–	–	–	–	–	–
Use of Cash Balances (c)	116	–301	–225	–360	–317	–1201	1444	305	467	–1409
Other Domestic Financing (d)	–99	–170	–269	–84	41	195	15	–535	147	–755
Domestic Financing (Net)	143	3931	7629	5796	4370	1900	–474	–2706	–5369	160
Overseas Financing: (e)										
Gross Raisings	919	1149	1174	1805	2868	3081	–	–	–	–
less Repayments (f)(g)	555	570	816	904	1604	2351	1587	3186	2668	2056
Overseas Financing (Net)	364	580	357	900	1265	731	–1587	–3186	–2668	–2056
Total Financing Transactions	507	4512	7987	6696	5636	2631	–2061	–5893	–8036	–1896

(a) Movements in securities shown at face value.
(b) Excludes changes in LCIR holdings.
(c) Cash balances held at Reserve Bank: positive sign denotes decrease in cash balances.
(d) Includes State Domestic Raisings, Income Equalisation Deposits, difference between face value of securities and proceeds, payments relating to government business enterprises superannuation and other financing transactions not elsewhere identified.
(e) $A equivalents.
(f) Includes Netherlands Guilder liabilities purchased as part of the Commonwealth's market repurchase program. Because the loan agreements under which the Commonwealth undertook public loans in the Guilder market expressly exclude prepayment, it is unable to cancel this debt as done with other foreign currency liabilities repurchased. Instead the Netherlands Guilder liabilities are to be held by the LCIR.
(g) Includes the proceeds of unwinding of swap transactions in 1990-91.

Overseas Debt Repayment

The $2076m reduction in foreign currency debt during 1990–91 reflected scheduled maturities of $962m, early calls and optional sinking fund payments of $415m and repurchases prior to maturity of $699m.

Stock repurchased prior to maturity included three on-market repurchase offers made by the Commonwealth for its foreign currency denominated debt: in the Sterling and Eurosterling markets (August 1990), which resulted in the early redemption of $A276m (face value) in debt; in the $US domestic market (September 1990), redeeming $A213m debt (face value); and in the Eurodollar market (November 1990), which resulted in the early redemption of $A133m debt (face value).

Cash Balances

Cash balances were $1409m higher at 30 June 1991 than a year earlier. Daily cash balances fluctuate widely and are difficult to predict. However, consistent with the improved cash management techniques adopted during 1989–90, average balances for the year as a whole were again reduced, resulting in public debt interest savings.

Financing Transactions in 1991–92

The Commonwealth will need to undertake a substantial gross debt issue program during 1991–92. In addition to the Budget deficit, funds will be required to meet:

- scheduled Treasury Bond maturities of $4.6 billion;
- redemptions of Australian Savings Bonds estimated to be around $200m;
- maturing foreign currency debt estimated at around $400m; and
- around $1 billion in net payments associated with the Commonwealth business enterprises' superannuation. These payments are classified as financing transactions.

These requirements establish a total funding task of $11 billion in 1991–92. This task needs to be considered in the context of the Commonwealth's portfolio of accumulated debt (just under $50 billion at end-June 1991). Consistent with practice in recent years, the currency composition and maturity profile of the portfolio will be managed to balance risk and cost. In 1991–92, this is expected to involve broad maintenance of the share of the foreign currency component of the portfolio.

Maintenance of the foreign currency share would imply a net increase of around $A1 billion in that component and a gross increase of over $A1½ billion after allowance for maturities. An increase in foreign currency exposure does not necessarily imply borrowings in overseas markets. The desired foreign currency exposure could be achieved through:

- issuing directly in overseas national or Eurobond markets; or
- issuing in those markets and swapping into other currencies; or
- issuing in the Australian market and swapping into the desired foreign currencies.

The choice among these options will be based on cost considerations, allowing for the small additional risk involved in swaps, and taking account of the flexibility of alternative markets in the issue and repurchase of debt.

In present market conditions, issuing in the Australian domestic market on the terms available to the Commonwealth and swapping appears likely to be the best means of meeting desired foreign currency exposures. However, the options will be kept under review over the course of the year.

In addition, in order to maintain flexibility, the Commonwealth's shelf registration statement with the Securities Exchange Commission (SEC) in the United States will be reinstated. This will allow the Commonwealth to issue in the United States at short notice if market conditions warrant.

Domestically, it is intended to rely primarily on Treasury Bond issues to fund the program. The stock of Treasury Notes on issue is expected to remain broadly unchanged in 1991–92 subject to the usual within-year fluctuations. This would imply a decline in the proportion of Treasury Notes in the overall portfolio from the historically high level of 24.4 per cent at end-June 1991. As noted above, daily cash balances are difficult to predict and changes in balances are assumed not to contribute to the financing task over the year.

Accordingly, the size of the gross domestic bond issue program for 1991–92 is presently expected to be similar to the total funding task—that is, around $11 billion. The existing set of benchmark stocks will be expanded through the issue of new stocks. The domestic issue program will generally aim to maintain high liquidity in stocks, as well as taking account of cost and maturity considerations.

The timing of the bond issues in 1991–92 will depend on market conditions. However, it is expected that rather more than half the total estimated program will be completed in the first half of the year with a further three or four bond tenders in that period. This will be in addition to the tender already held in July at which bonds with a face value of $1.5 billion were issued.

APPENDIX I

BUDGET AGGREGATES OVER THE PERIOD 1953–54 TO 1991–92

This Appendix describes the budget aggregates data for the period 1953–54 to 1991–92 in Table I.

The use of this series for comparative purposes is affected by the following:

- classification of transactions—for example, whether items are treated as revenue or as offsets to outlays;
- the coverage of the Commonwealth budget sector;
- financial arrangements between the Commonwealth budget sector and other sectors; and
- the nature of transfer payments—that is, whether such payments are provided as tax deductions and rebates or as outlays.

Classification of Transactions

Data for the period since 1972–73 are classified on a consistent basis. That is, outlays for the entire period since 1972–73 are classified according to the same criteria used in the 1991–92 Budget Statements. For example, the diesel fuel rebate and petroleum royalties payments to the States are classified as outlays from 1982–83 (first year of payments) in Table I. This classification has been introduced in the 1991–92 Budget; from 1982–83 to 1990–91 these payments were classified as offsets within revenues.

Another example is the reclassification of primary industry charges and levy receipts from an outlays offset to revenue in the 1988–89 Budget in line with the treatment by the Australian Bureau of Statistics (ABS). Payments of charges and levies to statutory authorities and corporations continued to be recorded as outlays. As a result, both outlays and revenue from 1972–73 are that much higher compared with the period prior to 1972–73.

Data for the period from 1953–54 to 1971–72 are derived from budget documents published between 1966 and 1976. Hence they reflect both the classification and coverage existing in the year in which the estimates were originally published. Unlike data after 1972–73, no adjustment has been made to reflect current classification treatment.

Further details of changes to outlays and revenue classification for the 1991–92 Budget are included in Statement 7.

Coverage of the Commonwealth Budget Sector

The Commonwealth budget sector consists of those departments and authorities whose day to day transactions are recorded in the Commonwealth Public Account (CPA).

The data in Table I reflect the departments and authorities whose transactions are recorded as part of the CPA in any one particular year. The transfer of an agency from the Commonwealth budget sector to the non-budget sector or to the State/local sector would be reflected in a commensurate adjustment in the budget aggregates. This necessarily affects comparability of the budget aggregates over the years. For example, transactions of the Federal Airports Corporation and Civil Aviation Authority are only included in the budget aggregate series prior to their becoming statutory authorities in 1988. Similarly, the establishment of self government for the Australian Capital Territory in May 1989 shifted a number of agencies to the State/local sector.

Financial Arrangements between the Commonwealth Budget Sector and Other Sectors

Changes in the financial arrangements between the Commonwealth budget sector and other sectors—namely, the non-budget sector, the State and local government sector and the private sector—will also influence the level of budget aggregates.

In respect of transactions with agencies in the non-budget sector, any borrowing is treated as a financing transaction and payments to the non-budget sector are treated as budget outlays. The repayment of advances is treated as an offset to outlays. The volume of transactions with the non-budget sector has declined significantly since the series on budget aggregates commenced in 1953–54, as non-budget sector agencies have progressively been given greater autonomy to borrow in their own right.

In respect of transactions with the State and local government sector, loans from the Commonwealth under the Financial Agreement were the major source of funds available to this sector until the early 1970s. The importance of such loans declined from the early 1970s as the State/local sector increasingly utilised borrowings by their own authorities to finance capital works. From 1987–88, no new loans under the Financial Agreement and related arrangements were advanced to the States, although outstanding debt under the arrangements continued to be re-financed by Commonwealth borrowings until 1990–91. In that year and as agreed at the 1990 Premiers' Conference and Loan Council meetings, the States began to assume responsibility for refinancing debt raised on their behalf by the Commonwealth. This involves States repaying advances from the Commonwealth as they fall due; such repayments are treated as offsets to outlays in the Commonwealth's accounts.

As with transactions with the non-budget sector, any borrowings by the Commonwealth budget sector are classified as financing transactions while payments to the State/local sector are classified as outlays. Hence, the initial effect of advances to this sector is to increase budget outlays and add to the deficit. Consistent with ABS government accounting guidelines, repayment of advances is treated as an offset to outlays, reversing this effect.

The Commonwealth and the States and Territories have also on occasion agreed to transfer taxing powers with offsetting adjustments to the level of general revenue assistance to the States and Territories. For example, the Debits Tax base was transferred to the States and Territories with effect from 1 January 1991. This transfer reduced both aggregate outlays and revenue for the Commonwealth budget sector, with no net effect on the overall budget balance.

Consistent with ABS government accounting guidelines, asset sales to the private sector are treated as an offset to outlays. Since the asset sales program commenced in 1987–88, this has served to reduce the level of outlays and improve the budget balance.

Transfer Payments

Changes in the way in which transfer payments are effected also affect the comparability of budget aggregates. For example, since 1976 there has been a marked change in arrangements for the provision of assistance to families with children, with tax rebates being replaced by increased payments through the social security system. This has had the effect of increasing both revenue and outlays compared to earlier periods.

Summary

The activities of the Commonwealth as recorded in the Commonwealth budget sector have changed significantly over the period 1953–54 to 1991–92. In the medium term, approximate adjustments can be made to identify trends in budget aggregates on a generally consistent basis. The further back this analysis is taken, the less manageable that task becomes. This qualification is particularly important in respect of aggregate budget data collected prior to 1972–73.

Further details of the classification treatment and coverage of the budget sector are set out in Statement 7; major classification issues are discussed in Statement 7 to assist in the statistical analysis of trends in budget aggregates.

Table I: Commonwealth Budget Outlays, Revenue and Balance (a)
1953-54 to 1991-92

	Outlays			Revenue		Balance	
	$m	% Real Growth	% of GDP	$m	% of GDP	$m	% of GDP
1953-54	2081		22.2	1940	20.7	-141	-1.5
1954-55	2149	3.0	21.5	2039	20.4	-110	-1.1
1955-56	2349	5.0	21.7	2190	20.2	-159	-1.5
1956-57	2461	-2.7	20.9	2415	20.5	-46	-0.4
1957-58	2619	6.9	21.7	2573	21.3	-46	-0.4
1958-59	2817	7.3	21.7	2546	19.7	-271	-2.1
1959-60	3061	9.5	21.4	2827	19.8	-234	-1.6
1960-61	3237	2.1	21.3	3204	21.1	-32	-0.2
1961-62	3620	9.3	23.2	3262	20.9	-358	-2.3
1962-63	3770	3.0	22.4	3356	19.9	-415	-2.5
1963-64	4145	7.5	22.2	3725	19.9	-419	-2.2
1964-65	4532	5.3	22.0	4349	21.1	-183	-0.9
1965-66	5029	7.6	23.3	4774	22.1	-255	-1.2
1966-67	5640	8.3	23.7	5088	21.3	-552	-2.3
1967-68	6225	5.7	24.4	5583	21.9	-643	-2.5
1968-69	6613	2.4	23.0	6228	21.7	-386	-1.3
1969-70	7348	5.8	23.1	7157	22.5	-191	-0.6
1970-71	8102	4.0	23.1	8093	23.0	-10	0.0
1971-72	9047	4.4	23.0	8913	22.7	-134	-0.3
1972-73	10166	4.8	22.7	9471	21.1	-696	-1.6
1973-74	12239	5.7	22.8	11977	22.3	-263	-0.5
1974-75	17912	19.8	27.7	15430	23.9	-2483	-3.8
1975-76	21943	5.0	28.6	18364	24.0	-3579	-4.7
1976-77	24230	-0.7	27.6	21545	24.6	-2685	-3.1
1977-78	26860	2.6	28.2	23600	24.8	-3260	-3.4
1978-79	29199	1.3	26.9	25812	23.8	-3387	-3.1
1979-80	31748	-1.0	25.8	29791	24.2	-1957	-1.6
1980-81	36304	3.3	25.9	35317	25.2	-987	-0.7
1981-82	41515	2.7	26.3	41008	25.9	-507	-0.3
1982-83	49390	7.1	28.8	44879	26.1	-4512	-2.6
1983-84	57287	8.5	29.4	49300	25.3	-7987	-4.1
1984-85	64675	6.7	29.9	57979	26.8	-6696	-3.1
1985-86	70860	2.3	29.5	65224	27.2	-5636	-2.3
1986-87	76097	-0.1	28.8	73466	27.8	-2631	-1.0
1987-88	79405	-2.7	26.5	81465	27.2	2061	0.7
1988-89	82820	-4.4	24.4	88713	26.1	5893	1.7
1989-90	87835	-0.1	23.6	95871	25.8	8036	2.2
1990-91	96041	5.1	25.3	97937	25.8	1896	0.5
1991-92	101508	2.6	25.7	96776	24.5	-4732	-1.2

(a) While some inter-year comparisons before 1972-73 may be affected by classification differences and revisions, the data from that year are on a basis consistent with current classification treatment.

APPENDIX II

Table I: Comparison of Estimates and Outcomes From 1981-82 to 1990-91 (a)

	Estimate	Outcome	Change	
	$m	$m	$m	%
OUTLAYS				
1981-82	40877	41339	462	1.1
1982-83	47067	48982	1915	4.1
1983-84	56590	56570	-20	..
1984-85	63843	63739	-104	-0.2
1985-86	69048	69917	869	1.3
1986-87	74765	74899	134	0.2
1987-88	78944	78764	-180	-0.2
1988-89	82043	82128	85	0.1
1989-90	86714	87835	1121	1.3
1990-91	93976	96041	2065	2.2
REVENUE				
1981-82	40780	40790	10	..
1982-83	45393	44509	-884	-1.9
1983-84	48229	48610	381	0.8
1984-85	57098	56993	-104	-0.2
1985-86	64149	64191	43	0.1
1986-87	71262	72184	922	1.3
1987-88	78767	80806	2038	2.6
1988-89	87496	88027	531	0.6
1989-90	95836	95871	36	0.0
1990-91	102083	97937	-4146	-4.1
BALANCE				
1981-82	-96	-549	-453	
1982-83	-1674	-4473	-2799	
1983-84	-8361	-7961	400	
1984-85	-6746	-6746	..	
1985-86	-4900	-5726	-826	
1986-87	-3503	-2716	787	
1987-88	-177	2042	2219	
1988-89	5453	5899	446	
1989-90	9122	8036	-1086	
1990-91	8107	1896	-6211	

(a) As the estimates and outcomes shown for each year reflect the classification treatment adopted for the following year's Budget, they may differ slightly from the figures elsewhere in this Budget Paper which reflect the definitions and classifications now in effect.

STATEMENT 6—THE PUBLIC SECTOR

CONTENTS

6

STATEMENT 6—THE PUBLIC SECTOR

This Statement reviews developments in public sector finances and provides a framework for analysing the combined impact of transactions by all levels of government on the Australian economy. The focus is on developments over the past decade.

The public sector in Australia is defined as all entities majority-owned and/or controlled by Commonwealth, State or local governments. Included are government departments and associated bodies, which deliver traditional public services, and government-owned businesses.

Data on the public sector as a whole can be presented in a number of ways. This Statement classifies public sector entities by both institutional sector and level of government. Classification within a particular institutional sector allows entities to be grouped irrespective of their level of government. The broadest institutional sectors distinguish between the general government and public trading enterprise (PTE) sectors and this Statement concentrates on that distinction. The activities of public financial enterprises are not discussed.(1)

The first section focuses on the outlays, revenue and net public sector borrowing requirement (PSBR) for the public sector as a whole. This examines some of the factors that contributed to the substantial decline in the net PSBR during the 1980s, trends in public sector investment and the cyclical influences on the public sector. The two subsequent sections analyse the general government and public trading enterprise sectors.

THE PUBLIC SECTOR AS A WHOLE

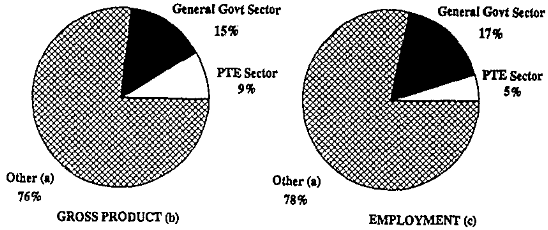
Measures of Size

There is no single correct measure of the size of the public sector; the most appropriate measure will depend on the purpose of the analysis. Commonly-used indicators are public sector employment as a proportion of total employment and the public sector's production of goods and services relative to total production. The most recently available estimates of employment and gross product are depicted in Chart 1 below. These indicate that the sector broadly accounts for less than one-quarter of employment and gross product.

The ratio of public sector outlays to GDP provides another measure of the public sector's role in the economy. Primarily because of transfers to other sectors, this ratio is higher

(1) This discussion follows ABS Government Finance Statistics, which do not include outlays, revenue and borrowings of public financial enterprises (PFEs). The reasoning behind this treatment is that PFEs act principally as financial intermediaries and are therefore treated as being akin to private financial enterprises in the national accounts. However, where PFEs borrow on behalf of the general government or PTE sectors, that borrowing is included in the relevant sector's net borrowing requirement. PFE data also reflect the treatment of realised profits in the Reserve Bank's foreign exchange transactions. The Notes on the Estimates in Budget Paper No 10 *National Income and Expenditure 1985–86* provide further discussion of PFE data.
Unless otherwise stated, data in this Statement are sourced from ABS Government Finance Statistics and Australian National Accounts.

CHART 1: GROSS PRODUCT AND EMPLOYMENT BY INSTITUTIONAL SECTOR 1989-90



(a) Other comprises the PFE and Private Sectors. The PFE Sector contributes around 0.6% to GDP and around 1% to total employment.
(b) Australian National Accounts (ABS 5204.0).
(c) ABS 6203.0 and ABS 6248.0.

than the above estimates, averaging around 40 per cent during the 1980s. Two aspects of this measure should be noted. First, for the general government sector, the proportion of national income that only flows through general government—including transfer payments to individuals and other levels of government—does not form part of the sector's contribution to GDP. These transfer payments (and, on the other side of the government accounts, taxes and charges) redistribute income within the economy but their final disposition (or impact on the nation's economic resources) is determined by the recipients, not the government.

Second, for the PTE sector, outlays include only capital expenditure and transfers—operating expenditure is not classified as an outlay.

GDP grew strongly in the late 1980s so that, even though the size of the public sector declined as a proportion of GDP, it still expanded in absolute terms.

Finally, the distinction between the public and private sectors is not as clear now as it was twenty years ago, as the private sector has become more involved in what have traditionally been 'public' areas—examples are expanded provision of health and education services and elements of infrastructure. Hence, comparisons over the years should take account of not only the level of public sector resources applied to particular activities but also the level of private sector involvement in those activities.

Trends in Public Sector Transactions

Outlays, Revenue and Net PSBR

Table 1 shows that, while total public sector revenues (as a ratio of GDP) have grown in every five year period since the first half of the 1970s, total public sector outlays as a

Table 1: Public Sector Outlays, Revenue and Net Public Sector Borrowing Requirement (PSBR) by Institutional Sector as a Percentage of GDP

	Outlays			Revenue			Net PSBR (a)		
	General Government	PTEs	Total	General Government	PTEs (b)	Total	General Government	PTEs	Total
Averages:									
1971-72 to 1975-76	29.9	5.7	33.0	27.8	3.8	28.9	1.9	0.9	2.8
1976-77 to 1980-81	32.8	5.5	36.9	30.3	2.8	31.6	2.4	1.7	4.1
1981-82 to 1985-86	35.5	7.1	41.3	32.7	3.4	34.7	2.7	2.4	5.2
1986-87 to 1990-91	33.9	6.3	39.0	34.1	3.7	36.6	-0.2	1.1	1.0
1980-81	32.0	5.3	36.2	30.9	2.6	32.4	1.0	1.6	2.6
1981-82	32.5	6.9	38.4	31.9	2.7	33.6	0.5	3.1	3.6
1982-83	35.4	7.3	41.2	32.6	3.1	34.2	2.8	2.9	5.7
1983-84	35.9	7.6	41.9	31.7	3.4	33.4	4.1	2.7	7.0
1984-85	36.9	6.8	42.2	33.3	3.8	35.6	3.5	1.7	5.1
1985-86	36.8	7.1	42.5	33.9	3.9	36.4	2.8	1.8	4.7
1986-87	36.6	6.9	42.0	34.6	3.7	36.8	1.9	1.7	3.6
1987-88	34.1	6.1	38.8	34.4	4.1	37.2	-0.3	0.5	0.1
1988-89	32.1	5.6	36.6	33.7	4.0	36.6	-1.6	0.0	-1.6
1989-90	32.2	6.8	38.0	33.6	3.5	36.0	-1.4	1.9	0.5
1990-91	34.6	6.3	39.8	34.0	3.2	36.2	0.7	1.5	2.2
1991-92 (c)	na	na	na	na	na	na	2.9	1.3	4.3

(a) Negative signifies a surplus.
(b) Includes net advances from general government. In ABS Government Finance Statistics net advances are not classified as revenue but as financing transactions of the recipient.
(c) Preliminary Treasury estimates.

ratio peaked in the five year period to 1985–86 and fell in the most recent five year period. However, they are still above the levels prior to the 1980s. These trends were influenced by the strong cyclical and asset price effects in the second half of the 1980s, which raised revenues and reduced outlays. The net PSBR fell sharply in the most recent five year period to levels below those recorded during the 1970s reflecting revenue growth and restraint in outlays. However, over the course of the 1980s, the major contribution to the decline in the net PSBR has been from revenue growth.

Table 2 shows comparable data disaggregated by the level of government. As proportions of GDP, outlays in both Commonwealth and State/local sectors fell in the most recent five year period. These developments reflect restraint in Commonwealth outlays including, importantly, assistance provided to the States. The States, in turn, have also reduced their outlays.

Commonwealth revenue increased in the most recent five year period while State/local revenue has declined. For the State/local sector, this primarily reflects the decline in transfers from the Commonwealth, which more than offset the strong growth in own

Table 2: Public Sector Outlays, Revenue and Net Public Sector Borrowing Requirement (PSBR) by Level of Government as a Percentage of GDP (a)

	Outlays			Revenue					Net PSBR (b)		
					State/local						
	Com'wealth	State/local	Total	Com'wealth	Own Rev (c)	Transfers (d)	Total	Total (c)(e)	Com'wealth	State/local	Total
Averages:											
1971-72 to 1975-76	25.5	17.6	33.0	22.9	7.4	8.8	16.2	28.9	2.1	0.7	2.8
1976-77 to 1980-81	27.9	19.9	36.9	24.7	8.1	9.8	17.9	31.6	2.7	1.4	4.1
1981-82 to 1985-86	30.2	21.5	41.3	26.8	9.0	9.4	18.3	34.7	2.9	2.3	5.2
1986-87 to 1990-91	27.5	19.9	39.0	27.3	10.1	7.6	17.7	36.6	-0.3	1.3	1.0
1980-81	26.7	19.8	36.2	25.5	8.0	9.2	17.2	32.4	0.6	2.0	2.6
1981-82	27.9	20.5	38.4	26.4	8.3	8.9	17.2	33.6	1.0	2.6	3.6
1982-83	29.7	22.3	41.2	26.4	9.0	9.6	18.6	34.2	2.8	2.9	5.7
1983-84	31.1	21.7	41.9	25.7	8.8	9.7	18.5	33.4	4.8	2.2	7.0
1984-85	31.3	21.5	42.2	27.5	9.1	9.6	18.7	35.6	3.3	1.9	5.1
1985-86	31.2	21.5	42.5	27.9	9.5	9.2	18.7	36.4	2.8	1.9	4.7
1986-87	30.3	21.4	42.0	28.1	9.7	8.8	18.5	36.8	1.5	2.1	3.6
1987-88	27.9	19.8	38.8	28.2	9.8	8.0	17.8	37.2	-1.0	1.1	0.1
1988-89	25.8	18.7	36.6	27.2	10.1	7.1	17.2	36.6	-2.0	0.4	-1.6
1989-90	26.3	19.3	38.0	26.5	10.2	7.0	17.2	36.0	-0.7	1.2	0.5
1990-91	27.3	20.2	39.8	26.2	10.6	7.1	17.7	36.2	0.6	1.6	2.2
1991-92 (f)	na	na	na	na	na	na	na	na	2.1	2.1	4.3

(a) The Northern Territory has been treated as part of the State/local sector from 1978-79 and the ACT from 1989-90.
(b) Negative signifies a surplus.
(c) Comprises taxes, fees and fines, PTEs' net operating surpluses, and property income and other revenue.
(d) Comprises grants and net advances from the Commonwealth. In ABS Government Finance Statistics, net advances are not classified as revenue but as financing transactions of the recipient.
(e) Net of transactions, including interest payments, between the Commonwealth and State/local sectors.
(f) Preliminary Treasury estimates.

revenues in the late 1980s owing to the cyclical influences in the economy including the asset price boom.

Overall, the net borrowing requirement for both levels of government has fallen in the past five years although the fall has been greater in the Commonwealth sector.

Analysis by Government Purpose Classification

Table 3 disaggregates the major components of public sector outlays according to purpose. The latest year for which data are available on this basis is 1989–90. While falling in more recent years, overall public sector outlays have risen as a proportion of GDP compared with twenty years ago. There has been considerable variation between growth rates for the various purposes over this longer timespan. Areas with above average rates of growth include Health, Social Security and Welfare, and the public debt interest component of Other. Areas which have fallen as a proportion of GDP include

Table 3: Outlays by Government Purpose Classification as a Percentage of GDP

	Defence	Education	Health	Social Security and Welfare	Housing and Community Amenities	Fuel and Energy	Transport and Communications	Other	Total
Averages									
1970-71 to 1974-75	2.6	4.6	3.5	4.7	2.0	1.0	4.3	8.8	31.7
1975-76 to 1979-80	2.3	5.8	4.7	7.5	1.9	1.1	4.0	9.4	36.9
1980-81 to 1984-85	2.5	5.5	4.6	8.3	1.6	1.8	4.3	11.4	40.0
1985-86 to 1989-90	2.3	5.0	5.2	8.0	1.5	1.2	3.9	12.5	39.6
1980-81	2.4	5.4	4.3	7.5	1.4	1.5	4.0	9.8	36.2
1981-82	2.5	5.4	4.4	7.7	1.5	2.0	4.1	10.8	38.4
1982-83	2.6	5.6	4.5	8.6	1.7	2.3	4.5	11.4	41.2
1983-84	2.6	5.5	4.7	8.9	1.6	1.8	4.6	12.2	41.9
1984-85	2.6	5.4	5.3	8.7	1.8	1.5	4.3	12.6	42.2
1985-86	2.6	5.4	5.2	8.5	1.7	1.4	4.7	13.0	42.5
1986-87	2.6	5.3	5.3	8.3	1.7	1.4	4.4	13.1	42.0
1987-88	2.3	4.9	5.1	8.1	1.4	1.1	3.6	12.4	38.8
1988-89	2.1	4.7	5.1	7.5	1.2	1.0	3.3	11.8	36.6
1989-90	2.1	4.8	5.0	7.5	1.5	1.1	3.8	12.3	38.0

Defence (partly reflecting the impact of the Vietnam war in the late 1960s and early 1970s), Housing and Community Amenities, and Transport and Communications.

The following identifies the more recent developments from 1983–84 to 1989–90. For context, total public sector outlays declined by 3.9 per cent of GDP over this period.

- Health expenditure has risen as a proportion of GDP. This is a direct consequence of the introduction of Medicare and largely represents a substitution of public for private expenditure. Overall expenditure on health (public and private) has been stable.

- The only area to undergo substantial growth since 1983–84, despite declining since 1986–87, was public debt interest.Total interest payments rose from 4.3 per cent of GDP in 1983–84 to 5.3 per cent in 1989–90. Of this outlays increase, however, some two-thirds was offset by an increase in interest received (a revenue item).

- Defence expenditure fell from 2.6 per cent of GDP in 1983–84 to 2.1 per cent in 1989–90.

- Education expenditure fell from 5.5 per cent of GDP in 1983–84 to 4.8 per cent in 1989–90. Factors influencing this development have included an ageing population which has restrained growth in school enrolments despite higher retention rates; and a relative increase in demand for non-government school places since the mid 1970s involving lower levels of public funding.

- Social Security and Welfare expenditure fell from 8.9 per cent of GDP in 1983–84 to 7.5 per cent in 1989–90, the level of the late 1970s and early 1980s. Although one factor in the decline over this period was the reduction in unemployment benefit recipients as the economy strengthened, the major influence was sustained government efforts to target outlays more effectively to those most in need by such measures as more effective means testing—including income and assets—of entitlements.

- Expenditure on Fuels and Energy, which mainly reflects capital expenditure on electricity generation capacity, has fallen considerably to 1.1 per cent of GDP in 1989–90 from 2.3 per cent in 1982–83—the peak of 'resource boom' related capital expenditure in the early 1980s.

- Transport and Communications expenditure has fallen from 4.6 per cent of GDP in 1983–84 to 3.8 per cent in 1989–90. One-half of this reduction has occurred on the capital side reflecting relative restraint on spending in the road and rail areas, partly offset by growth in the air and communications areas.

Tax Expenditures

A further means by which government can direct resources to a particular purpose is through tax expenditures. Tax expenditures are provisions of the tax law which tax certain classes of taxpayers or particular types of activity differently from the chosen benchmark structure. Tax expenditures are difficult both to quantify and to target.

Detailed information on tax expenditures is only available for the Commonwealth general government sector.

There has been a notable decline in revenue forgone from Commonwealth tax expenditures as a proportion of GDP over the 1980s from 4 per cent in 1981–82 to 2.5 per cent in 1989–90. This has reinforced the outlays restraint exercised by the Commonwealth. Most of the decline has occurred for tax expenditures in the Social Security and Welfare area—reflecting the trend towards better targeting of beneficiaries and reform of the taxation of retirement benefits. There has also been some decline in tax expenditures for Industry Assistance and Development, reflecting, *inter alia*, the termination of the investment allowance for plant ordered after 30 June 1985.[2]

Public Sector Borrowing

The net PSBR provides a guide to the aggregate impact on capital markets of public sector calls on resources. Equivalent to the ABS concept of the net financing requirement, the net PSBR measures the public sector's direct call on financial markets. It is defined as total outlays less total revenues, less increases in provisions (including depreciation and superannuation) and, in the case of the PTE and State/local sectors, excludes net advances received from general government and from the Commonwealth,

(2) For further detail, see the Treasury, *Tax Expenditures Statement*, December 1990.

respectively. The term 'net borrowing requirement' is used in this Statement to represent the same concept at the institutional sector level of general government or PTEs.[3]

Through its measurement of the impact of the public sector on national savings the PSBR has been a focus of public policy. As such, it is integral to analysis of the relationship between the nation's call on domestic savings and, to the extent there is a shortfall between those savings and domestic investment, on overseas savings. That, in turn, is reflected in the nation's current account.

The PSBR provides the benchmark for the Loan Council global borrowing limits which constitute the policy instrument used to influence the overall level of public spending and borrowing in the economy. That has two elements. First, constraints on borrowing levels will constrain spending levels in general government and assist in moderating public sector calls on resources. Second and related to that, PTEs are generally subject to less financial and other market pressures than private sector bodies—this can lead to higher than optimal levels of investment.

Increasing emphasis on microeconomic reform has also involved greater efforts to achieve a more commercial PTE sector. As a response to that process and with the greater availability of government financial statistics by institutional sector, there is now more reason to place some emphasis in broad economic policy assessment on the net borrowing requirement of the general government sector rather than focus only upon the net PSBR for the public sector as a whole. This distinction allows better framing of fiscal policy towards the more traditional role of government—and, at the same time, provides scope for more commercial PTEs to operate without being unduly hindered by the broader requirements of macroeconomic policies.[4]

Recognising these developments, the Loan Council Meeting in May 1991 agreed to provide scope for PTEs which satisfy strict commerciality criteria to be exempted from global borrowing limits. Only a very small number of PTEs would currently qualify for exemption but this change will provide further incentives to operate in a more commercial manner.

Chart 2 shows the net PSBR and the net borrowing requirement for each sector including forecasts for 1991–92.

(3) At the total public sector level, there is no difference between the net PSBR and the public sector deficit. At the State/local sector and the PTE sector level, the relationship between the net borrowing requirement concept and the deficit concept can be simply written as:

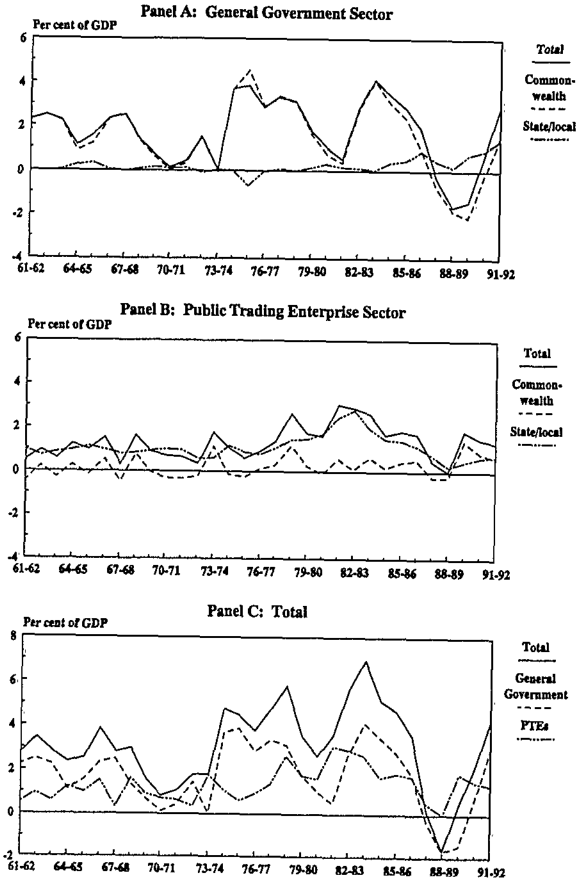
net borrowing requirement = deficit – net advances received.

Further details in Budget Paper No 1, 1989–90, pp 6.19–6.20.

(4) Another measure of borrowing is the gross PSBR. The main conceptual difference between the gross and the net PSBR is that the net PSBR includes an adjustment for changes in holdings of financial assets. The gross PSBR comprises the Commonwealth Budget deficit plus total new money borrowings by Commonwealth and State semi-government and local authorities reported to, or approved by, Loan Council under the Global Approach plus borrowings by Statutory Marketing Authorities. Further details can be found in Budget Paper No 4 *Commonwealth Financial Relations with Other Levels of Government 1991–92*. When the gross PSBR for any year is higher (lower) than the net PSBR, it implies that authorities have undertaken more (less) new borrowings than were required to finance their deficits, thereby adding to (subtracting from) their holdings of financial assets. The net PSBR provides the better guide to public sector demands on financial resources.

Other factors may affect the measured differences between the net and gross PSBR. These include some significant differences in definition, coverage and timing between ABS and Loan Council data and possible errors and omissions in the estimates.

CHART 2: NET PSBR BY COMPONENT



- The small Commonwealth general government surplus in 1990–91 was offset by net borrowings at the State/local level. This resulted in an overall general government deficit equivalent to about 0.7 per cent of GDP, following three years of surplus (Panel A). This turnaround reflected, in large part, the sharp downturn in economic activity in 1990–91 which increased general government outlays and reduced revenue growth.

- When combined with the continuing and normal deficit for the PTE sector, the general government sector deficit meant that the public sector as a whole moved further into deficit in 1990–91. This deficit is forecast to deteriorate further in 1991–92 as the cyclical effects of the recession have a further and lagged impact on general government outlays and revenue.

Explaining Movements in the Net PSBR

The net PSBR swung from 7.0 per cent of GDP in 1983–84 to a surplus of 1.6 per cent in 1988–89 and then back into deficit in 1989–90. In 1990–91, the deficit was 2.2 per cent and is forecast to be 4.3 per cent of GDP in 1991–92. For the public sector as a whole, 1988–89 was the only year for which a surplus on the net PSBR was achieved since at least 1961–62.

The direct and indirect effects of strong cyclical factors in the economy contributed to that surplus. Outlays restraint was helped by relatively low unemployment while revenue growth was aided by high asset prices, strong employment and strong economic growth (see discussion below of cyclical influences).

Of the overall decline in the net PSBR between 1983–84 and 1990–91 (4.8 per cent of GDP), nearly half reflects restraint on outlays. This restraint can be further examined by disaggregating outlays into current and capital components.

Chart 3 shows the trends in current and capital outlays shares relative to GDP since 1961–62.

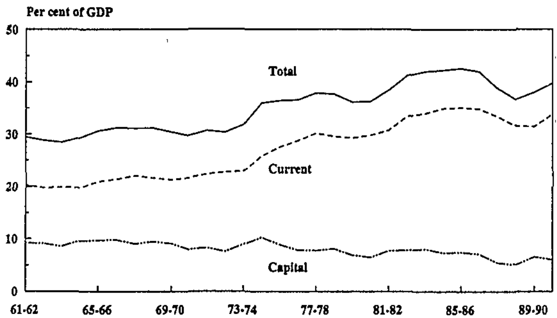
- Total public sector current outlays increased progressively as a proportion of GDP until the mid 1980s before returning to the levels of the early 1980s. Following the substantial cyclical increase in transfer payments in 1990–91, the small reduction in current outlays since 1983–84 (0.2 per cent of GDP) has made only a minor contribution to total outlays restraint over this period.

- The decline in total public sector capital outlays has been occurring (with one notable interruption in the early 1970s) since the late 1960s; and continued slowly through much of the 1980s, accounting for virtually all of the decline in public sector outlays since 1983–84.

The increase in public sector revenues accounted for over half of the decline in the net PSBR between 1983–84 and 1990–91.

- Most revenue growth has come from direct taxes, fees and fines, which have risen from 15.8 per cent of GDP in 1983–84 to 18.5 per cent in 1990–91. This revenue category

CHART 3: PUBLIC SECTOR OUTLAYS



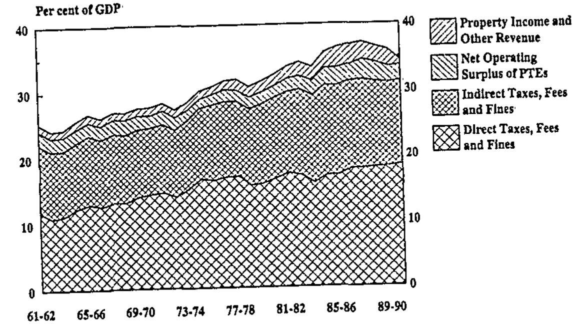
is dominated by Commonwealth taxes on incomes, which account for around half of all public sector revenues. A large part of this increase reflected the strong growth in employment and profitability through to 1989–90, and the repair of the income tax base through such measures as the fringe benefits tax, the capital gains tax and the prescribed payments system.

- The contribution of indirect taxes, fees and fines has fallen, from 13.3 per cent of GDP in 1983–84 to 12.8 per cent in 1990–91. This reduction masks a substantial structural fall in Commonwealth indirect taxes, fees and fines which has been offset by growth in the State sector. This revenue boost to States largely resulted from cyclical influences, which are discussed further below.

- The net operating surplus of PTEs has also contributed to higher public sector revenues, rising from 2.2 per cent of GDP in 1983–84 to 2.3 per cent of GDP in 1990–91 despite falling subsidies over this period. Both the Commonwealth and the States have been striving to improve the efficiency and commercial focus of PTEs, a development which is discussed more fully below.

The major components of public sector revenues are shown in Chart 4 for the period 1961–62 to 1990–91.

CHART 4: TOTAL PUBLIC SECTOR REVENUE



Adequacy of Public Infrastructure

The decline in public sector capital outlays as a proportion of GDP during the 1970s and 1980s invites the question as to whether those investment levels are adequate. This issue has been debated actively during the past year both here and, as part of a broader debate concerning the role of infrastructure, in a number of developed nations. As those debates have shown, there is no straightforward answer.

A prime consideration in the debate is the evidence that infrastructure in the past may not have been efficiently used. For example, educational institutions are now being used more intensively and scope for better use of electricity generation capacity has recently been identified by the Industry Commission and is being acted upon following the July 1991 Special Premiers' Conference.

A further consideration is that the prices charged by many PTEs, which in total account for about three-fifths of total public gross capital expenditure, are still not appropriately aligned with economic costs. Those prices do not fully reflect costs or are based on input costs that, in turn, reflect an array of public sector subsidies or inefficiencies. The result is that demand for the PTEs' services may have been—and may continue to be—bloated, leading to undue pressure on available infrastructure. One example is the inefficient development and use of infrastructure in our major urban areas.

In these circumstances, it is difficult to reach sound judgments about the adequacy of public infrastructure and public capital expenditure. From a policy viewpoint, therefore, an important first step in assessing the adequacy of existing infrastructure is to establish a price structure that provides a commercially-related return on the public investment in economic infrastructure.[5] This is an important element of microeconomic reform in the

(5) For further examination of these issues, see Treasury Economic Paper No 14, *Financial Monitoring of Government Business Enterprises and Economic Framework*, 1990.

PTE sector that is under way at both the Commonwealth and State level. A good example is the establishment of the National Rail Corporation which will seek to make better use of existing infrastructure by applying more appropriate pricing and which will make investment decisions on a commercial basis.

The issue also cannot be divorced from developments—or potential developments—elsewhere in the economy.

- The process of microeconomic reform more generally could be expected to increase the flow of goods and services from existing infrastructure as a result of productivity improvements in product and labour markets throughout the economy.

- Moreover, changing technology and the growth in the service sector in the economy as a whole may allow the public infrastructure expenditure/GDP ratio to decline without cause for concern.

- If the private sector is providing—or can provide—services more efficiently the need for public capital expenditure is that much less.

- The growth in infrastructure is understated by focusing solely on public sector data as, over the past two decades, the mix in the provision of infrastructure has begun to change—for example, road transport (which has a significant private sector component) plays a central role in shifting freight, undertaking work previously done by the public rail system. This road/rail mix is likely to change again over the coming years as a result of the decisions at the July 1991 Special Premiers' Conference to introduce appropriate charging for the use of roads by heavy vehicles and to establish a National Rail Corporation. This will mean that investment decisions taken in the rail industry will be made on a more commercial basis and that competitive prices faced by the road transport industry will be a better reflection of cost.

Against that background, examination of the Australian data suggests:

- The decline in overall public sector capital outlays as a proportion of GDP over the latter part of the 1980s was in part associated with the decline in the size of the public sector as a whole.

- The recent decline in public sector capital expenditure has been most noticeable in fuel and energy (mainly electricity generation where there has been recognised oversupply) which accounts for some three-quarters of the 1.6 percentage points of GDP decline in public sector gross fixed capital expenditure between 1982–83 and 1989–90. This development was related to the rapid expansion following the short-lived 'resources boom' in the early 1980s and average expenditure in the five years to 1989–90 is broadly in line with average expenditure ratios in the 1970s.

- Education capital expenditure ratios in the 1980s have been approximately half that of the 1970s influenced by an ageing population which has substantially restrained school enrolments despite rising retention rates, the relative increase in demand for non-government school places and the completion in the 1970s of a number of new tertiary institutions.

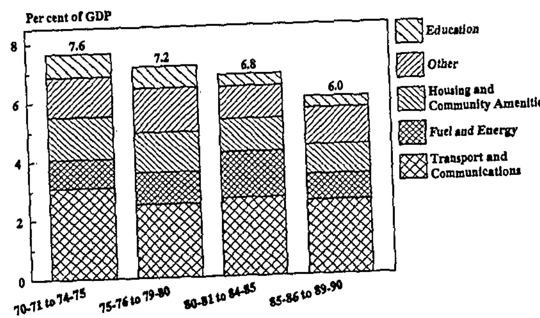
- In transport, storage and communications, some two-thirds of the 0.6 percentage points reduction in public gross fixed capital expenditure since the first half of the 1970s has been offset by a 0.4 percentage point increase in the private sector.

- In health, capital expenditures have been increasing over the period from 1982–83 to 1987–88 as a proportion of GDP in both the public and private sectors; but the increase has been much higher in the private sector.

- Sales of underutilised public assets accelerated during the second half of the 1980s, lowering capital outlays by around 0.5 per cent of GDP per year since 1987–88.

Chart 5 presents average expenditure on public sector capital on a functional basis.

CHART 5: PUBLIC SECTOR GROSS FIXED CAPITAL EXPENDITURE BY GOVERNMENT PURPOSE CLASSIFICATION



Public Sector Indebtedness

Table 4 shows public sector gross indebtedness, financial assets and net debt at 30 June 1988, as a proportion of GDP, by level of government and institutional sector. Indicative estimates of net debt by level of government at 30 June 1989 and 1990 are also shown.

At 30 June 1990, net debt of the public sector was an estimated $104.6 billion or 28.1 per cent of GDP, compared with a level of 40.6 per cent of GDP at 30 June 1987. The major reduction occurred at the Commonwealth level, reflecting the significant budget surpluses from 1987–88 to 1989–90, but there was also a significant reduction at the

Table 4: Indebtedness of the Public Sector by Level of Government and by Institutional Sector as a Percentage of GDP

	Commonwealth			State	C'wealth and State			Local	Total
	General Govern-ment	PTEs	Total		General Govern-ment	PTEs	Total		
Net Debt as at 30 June 1987	11.1	4.9	16.1	23.1	18.8	20.3	39.2	1.5	40.6
Gross Indebtedness as at 30 June 1988	21.2	5.6	24.7	26.4	26.4	22.2	42.1	2.5	44.4
-of which:									
Advances received	0.0	2.1	0.0	8.7	0.0	5.8	0.0	0.1	0.0
Borrowing	21.0	3.5	24.5	17.2	25.8	16.2	41.5	2.4	43.7
Deposits held	0.1	0.0	0.1	0.5	0.7	0.2	0.7	0.0	0.7
Financial Assets	12.0	1.4	11.4	4.8	10.1	3.6	7.3	1.2	8.2
-of which:									
Advances paid	11.3	0.1	9.4	1.5	7.0	1.0	2.3	0.1	2.3
Investments	0.3	1.2	1.5	2.7	2.5	2.0	3.9	0.8	4.6
Currency and deposits	0.4	0.1	0.5	0.6	0.6	0.6	1.1	0.3	1.3
Net Debt as at 30 June 1988	9.1	4.2	13.3	21.6	16.3	18.5	34.9	1.3	36.2
-of which indebtedness to non-residents	7.4	1.5	8.9	6.0	10.7	4.1	14.9	na	na
Net Debt as at 30 June 1989 (a)			9.8	19.3				1.2	30.2
as at 30 June 1990 (a)			8.5	18.4				1.2	28.1

(a) Indicative estimates.

State level. These estimates show a significant decline in public sector net debt over the three years to June 1990.

The Reserve Bank's reserve assets of some $22 billion at 30 June 1990 are excluded from this survey. These reserve assets offset to a significant degree the indebtedness of the Commonwealth general government sector shown in these figures.

The debt and financial assets of all public financial enterprises are not included in this table.

Cyclical Influences on the Public Sector

Accompanying the downturn in the economy over the past twelve months or so has been a significant increase in the net borrowing requirements for both the Commonwealth and State/local sectors.

For more than a decade, various techniques have been tried internationally to separate the fiscal position of the public sector into so-called structural and cyclical components. The aim has been to identify that element of the public sector's fiscal position

determined by the level of economic activity—that is, the cyclical component—from the underlying or structural fiscal position. Much of this analysis has been based on seeking to establish a benchmark of a normal or average level of economic activity in any period. The difficulties in determining an acceptable and practical benchmark have underlain most of the criticism of the structural and cyclical analysis.

There has also been an even more fundamental criticism as to whether there are 'normal' or 'average' levels of economic activity—or whether the economy's longer-term path is better seen as a series of fluctuations in response to irregular external shocks or internal policy changes with no tendency to return to or move around a 'normal' level.

In the face of these difficulties, a recent approach developed in work undertaken for the OECD does not seek to establish a normal, or average, level of activity in any given period. Rather, the approach takes a more narrow perspective decomposing the movements in the fiscal position from one year to the next into a component that seeks to reflect changes in the underlying economic situation and a residual or discretionary component reflecting policy or other decisions made by the authorities.[(6)] Such decisions may have been made in the current financial year or earlier but continue to affect the current financial year. However, as this discretionary component is obtained residually, it is not necessary under this approach to estimate the effects of the myriad of decisions on the year in question.

This approach is more practical than the other techniques but, on the other hand, says nothing about the level of the structural and cyclical components.

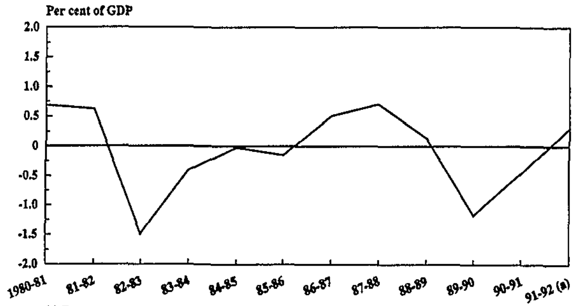
Moreover, the identification of the discretionary component in this residual manner allows for no distinction between policy-determined and other influences that detract from the underlying structure of the budget. Decisions to, say, decrease tax rates or increase spending have the same effect as, say, a long-term decline in a particular revenue base. In Australia's case, the slowing in crude oil production has detracted from the structural position of the budget and, under this approach, is therefore deemed to be a discretionary change.

Equally, the analysis does not distinguish between discretionary adjustments on the basis of their impact on other policy areas. For example, reductions in tariffs detract from the structural position of the Budget but, clearly, will have salutary effects on industry efficiency in the years to come. By contrast, tariff increases would improve the structural position of the Budget but have an adverse impact on industry efficiency and performance.

Those sort of considerations militate against firm conclusions being drawn from this type of analysis. Nonetheless, the methodology has been applied to the Commonwealth Budget to analyse movements in the budget balance over the 1980s and past couple of years. Treasury estimates of the resulting movements in the discretionary component of the budget balance are shown in Chart 6.

(6) O. Blanchard, *Suggestions for a New Set of Fiscal Indicators*, OECD Working Paper, 1990: this methodology was discussed at OECD Meetings during 1990.

CHART 6: DISCRETIONARY CHANGES IN THE BUDGET BALANCE



(a) Forecast.

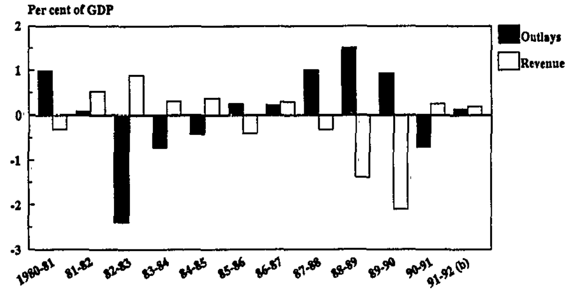
In broad terms and on a year to year basis, the so-called discretionary component of the budget balance appears to have detracted from the overall outcome in some years during the early 1980s. A period of consolidation followed when this discretionary component appeared to enhance the budget outcome. This was succeeded by a couple of years when the discretionary component detracted from the overall budget balance with the estimates for 1991–92 suggesting that the impact of decisions on the budget balance is broadly neutral.

Using this technique, the effect of the slowing in economic activity on the Commonwealth budget balance in 1990–91 and 1991–92 is clear. Over these two years, the budget balance is estimated to have deteriorated by a total of about $13 billion with the aggregated discre·'onary effect being only a small element.

The significant reduction in the Commonwealth budget balance owing to the discretionary component in the last few years of the 1980s reflected in very large part the personal income tax cuts arising from wage/tax trade-offs that were an important factor in contributing to continued wage restraint (despite very high activity levels at times, particularly in 1988–89). The relative contributions of outlays and revenue to the discretionary component over the 1980s are shown in Chart 7.

The State/local sector has not been subject to the same analysis as the Commonwealth budget sector. Nonetheless, the economic slowdown of the past few years has clearly had a significant impact on State budgetary positions. The sharp increase in asset prices from early 1987 to early 1989 resulted in a significant boost to State stamp duty collections and, to a lesser extent, land tax receipts. Strong growth in employment over the past few years had a similar effect on payroll tax receipts. These developments were particularly

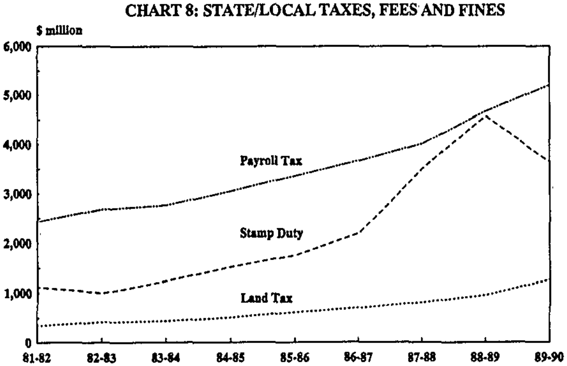
CHART 7: ESTIMATES OF DISCRETIONARY MOVEMENTS IN BUDGET OUTLAYS AND REVENUE (a)



(a) Positive number indicates structural improvement.
(b) Forecast.

marked in the more populous States, such as Victoria and NSW, notwithstanding a generally declining revenue effort by these States through this period. Chart 8 shows the increase in collections of these three taxes in recent years. In addition, the boom in asset prices, particularly for commercial property, boosted the proceeds from asset sales by the State/local sector.

CHART 8: STATE/LOCAL TAXES, FEES AND FINES



There has been a sharp turnaround in these developments since 1989–90 with the slowdown in economic activity. State/local revenue growth has slowed noticeably, particularly in the areas identified above. And there have been fewer opportunities for asset sales.

The improvement in the State/local sector's revenue growth in the late 1980s, and the subsequent slowing, is a clear manifestation of the impact of cyclical influences on the fiscal position of the State/local sector. Further discussion of this issue can be found in Budget Paper No 4 *Commonwealth Financial Relations with Other Levels of Government 1991–92.*

When the public sector is taken as a whole, the effect of the slowing in economic activity would seem to account for a major part of the estimated deterioration in the net PSBR over 1990–91 and 1991–92. As noted above, precise estimates for the State/local sector are not possible but the cyclical deterioration in the Commonwealth's net borrowing requirement alone over these two years would seem to account for about three-quarters of the overall deterioration in the net PSBR.

THE GENERAL GOVERNMENT SECTOR

The general government sector can be seen as encompassing the traditional public sector role. At the broadest level, the principal functions can be described as: the establishment and maintenance of the legal and other essential institutional frameworks for the community; the provision of a range of non-market (or public) goods and services and such goods and services that governments are not prepared to leave entirely to the private sector to provide; and the administration of the income transfer system. This sector is essentially tax financed and the allocation of resources is determined by the Commonwealth Government and State and local Governments.

The transactions of the general government sector reflect more clearly the fiscal policy decisions of government. Movement in the general government net borrowing requirement from year to year provides one guide to the overall stance of fiscal policy. In that regard, the stance of Commonwealth fiscal policy is crucial: this policy is implemented through adjustments to the revenues and outlays of the Commonwealth Budget including adjustments in payments to the States. Adjustments in assistance to the States influence—directly and indirectly—the outlays, revenues and financing needs of the State general government sector.

A significant feature of the general government sector is that the Commonwealth raises around three-quarters of all general government revenues but it only undertakes half of general government outlays. This is characterised as 'vertical fiscal imbalance'. In Australia's case, the imbalance flows from the uniform income tax arrangements agreed with the States during the Second World War and gives rise to a requirement for significant transfers to the State/local sector. As a consequence, the Commonwealth Government has much greater influence over total public sector spending and taxation. This issue is currently under active consideration in the Special Premiers' Conference process.

Trends in General Government Transactions

Chart 9 shows the outlays, revenue and net borrowing requirement of the general government sector. Broadly, these aggregates have moved in line with those of the public sector as a whole. Revenues have increased in each five year period since the first half of the 1970s but outlays peaked in the first half of the 1980s. The general government's net borrowing requirement also peaked in the early 1980s.

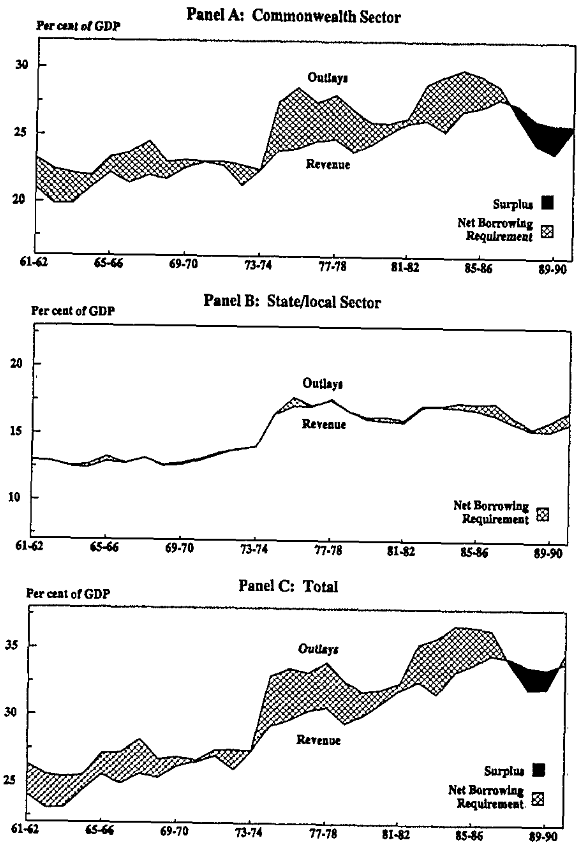
More recently, outlays fell markedly in 1987–88 and again in 1988–89 leading to general government surpluses. Since 1988–89, outlays have increased somewhat and particularly so in 1990–91. This led to a reduction in the general government surplus in 1989–90, and to a small general government deficit in 1990–91.

A disaggregation into Commonwealth and State/local sectors reveals sectoral differences. Both Commonwealth and State/local outlays have declined since peaks in the first half of the 1980s but Commonwealth outlays have fallen more significantly. The reduction in Commonwealth transfers to the States more than offset rising State/local own revenues. As reductions in State/local expenditures lagged these developments to 1988–89, and outlays growth has exceeded revenue growth since then, the net borrowing requirement for this sector grew. This increase, however, also reflected changes in financial arrangements which served to mask somewhat the subsequent decline in the underlying State/local sector deficit during the five years to 1990–91.

Until 1983–84, the State/local general government sector's deficits were largely funded by net advances from the Commonwealth. The Financial Agreement allowed State Governments only limited borrowing powers but there was provision for the Commonwealth to undertake borrowings on their behalf. In part reflecting the growing pressures flowing from increased financing requirements consequent upon the expansion in State infrastructure programs in the early 1980s, State Central Borrowing Authorities were established by each State in the mid 1980s. Treated under the Loan Council Global Approach as State authorities, they were allowed to borrow in their own right—this essentially meant that State general governments had direct access to funds borrowed from the private sector. The introduction at that time of the global borrowing limits on total public sector borrowing was designed to and has constrained this borrowing capacity.

There was a further important change at the June 1990 meeting of Loan Council. From 1990–91, it was agreed that States would make additional payments to the National Debt Sinking Fund to provide for the progressive redemption of maturing Commonwealth Securities issued under the *Financial Agreement on their* behalf. At the same time, the States would be able to undertake additional domestic borrowings to refinance this maturing debt. The resulting increase in the State/local general government sector's net borrowing requirement is offset with an equivalent reduction in the net borrowing requirement of the Commonwealth general government sector. The change constitutes a structural reform to Federal financial relations and, over time, will direct greater attention to the fiscal and debt management strategies of individual States. Further details of this

CHART 9: GENERAL GOVERNMENT OUTLAYS, REVENUE AND NET BORROWING REQUIREMENT



reform can be found in Budget Paper No 4 *Commonwealth Financial Relations with Other Levels of Government 1991–92.*

Outlays

A further way of examining general government outlays is to distinguish between net expenditure on goods and services (the direct and final demands of governments on real resources), and transfers and advances (to either the private sector or between levels of government).

Table 5 shows that the general government sector's net expenditure on goods and services peaked in the mid 1980s. Over the most recent five year period, net expenditure on goods and services has fallen, on average, by 1.3 per cent of GDP. Some two-thirds of this reduction is attributable to reduced consumption outlays and one-third to reduced capital outlays.

General government transfers and advances also peaked in the mid 1980s following a period of steadily increasing personal benefit payments and debt servicing costs. Since then, transfers and advances have on average fallen marginally owing mainly to reduced Commonwealth subsidies to enterprises.

By level of government, the main changes since the mid 1980s have been:

- *reduced Commonwealth consumption outlays, transfers to other governments and debt servicing costs; and*

- reduced State/local capital outlays and increased State/local debt servicing costs.

As of 1990–91, Commonwealth transfers and advances (mainly transfer payments associated with the Commonwealth's social welfare responsibilities and transfers to the State/local sector) accounted for three-quarters of Commonwealth outlays. By comparison, transfers and advances accounted for one-quarter of State/local general government outlays.

Revenue

For the general government sector as a whole, the major revenue category is taxes, fees and fines, which accounted for over 90 per cent of total general government revenues through the 1970s and 1980s. The other revenue sources include income from PTEs and public financial enterprises as well as interest received from PTEs and other sectors.

Taxes, fees and fines are even more important for the Commonwealth general government sector—ranging from a low of 91 per cent of revenues in 1985–86 and 1986–87 to a high of 95 per cent in 1989–90 and 1990–91. The major revenue category for the State/local general government sector is grants received from the Commonwealth, accounting for 47 per cent of revenues in 1990–91, down from 53 per cent at the start of the 1980s. Over the same period, taxes, fees and fines have risen from 34 per cent to 43 per cent of State/local general government revenues. The transfer of the Bank Account

Table 5: General Government Sector Outlays by Main Economic Type as a Percentage of GDP

	Net Expenditure on Goods and Services			Transfers and Advances					Total
	Consumption	Capital (a)	Total	Personal Benefit Payments	Interest	Transfers to other G'ments (b)	Other (c)	Total	
				Commonwealth					
Averages.									
1971-72 to 1975-76	5.3	0.6	6.0	6.3	1.4	8.8	2.6	19.1	25.0
1976-77 to 1980-81	5.3	0.4	5.7	8.2	1.8	9.8	1.5	21.3	27.0
1981-82 to 1985-86	5.8	0.4	6.2	9.1	2.3	9.4	1.8	22.7	28.9
1986-87 to 1990-91	5.4	0.3	5.7	8.9	2.3	7.6	1.3	20.0	25.8
1980-81	5.2	0.2	5.4	7.9	1.8	9.2	1.6	20.6	26.0
1981-82	5.4	0.3	5.7	8.1	1.8	8.9	1.7	20.6	26.3
1982-83	5.8	0.4	6.2	9.1	2.0	9.6	1.9	22.7	28.8
1983-84	5.9	0.3	6.2	9.4	2.2	9.7	1.9	23.3	29.5
1984-85	6.0	0.4	6.3	9.6	2.6	9.6	1.9	23.7	30.0
1985-86	6.0	0.4	6.4	9.3	2.9	9.2	1.7	23.1	29.6
1986-87	6.0	0.4	6.4	9.1	3.0	8.8	1.5	22.5	28.9
1987-88	5.5	0.3	5.8	9.0	2.6	8.0	1.2	20.8	26.5
1988-89	5.1	0.3	5.4	8.4	2.2	7.1	1.3	18.9	24.3
1989-90	5.0	0.4	5.3	8.4	2.0	7.0	1.0	18.4	23.7
1990-91	5.4	0.4	5.7	9.5	1.6	7.1	1.5	19.7	25.4
				State/local					
Averages:									
1971-72 to 1975-76	7.9	3.4	11.3	0.4	1.5	..	1.8	3.7	15.0
1976-77 to 1980-81	10.1	2.9	13.0	0.3	1.4	..	2.1	3.8	16.8
1981-82 to 1985-86	10.6	2.4	13.0	0.3	1.5	..	2.3	4.1	17.1
1986-87 to 1990-91	10.1	2.1	12.2	0.3	1.9	..	2.1	4.3	16.5
1980-81	10.3	2.5	12.7	0.3	1.4	..	1.9	3.6	16.3
1981-82	10.3	2.3	12.7	0.3	1.4	..	1.8	3.5	16.2
1982-83	10.8	2.4	13.1	0.3	1.5	..	2.3	4.2	17.3
1983-84	10.6	2.4	13.0	0.3	1.5	..	2.4	4.2	17.2
1984-85	10.6	2.5	13.1	0.3	1.6	..	2.5	4.3	17.4
1985-86	10.5	2.6	13.1	0.3	1.6	..	2.4	4.3	17.4
1986-87	10.5	2.5	13.0	0.3	1.6	..	2.6	4.5	17.5
1987-88	10.1	2.1	12.2	0.3	1.7	..	2.2	4.2	16.4
1988-89	9.6	1.8	11.5	0.3	1.9	..	2.0	4.2	15.6
1989-90	9.8	2.0	11.8	0.3	2.1	..	2.0	4.4	16.2
1990-91	10.5	2.1	12.6	0.3	2.3	..	1.7	4.3	16.9
				Total					
Averages:									
1971-72 to 1975-76	13.3	4.0	17.3	6.6	1.6	..	4.4	12.6	29.9
1976-77 to 1980-81	15.4	3.3	18.7	8.5	2.0	..	3.5	14.1	32.8
1981-82 to 1985-86	16.4	2.8	19.2	9.4	2.8	..	4.1	16.3	35.5
1986-87 to 1990-91	15.5	2.4	17.9	9.2	3.4	..	3.4	16.0	33.9
1980-81	15.5	2.6	18.1	8.2	2.1	..	3.5	13.8	32.0
1981-82	15.8	2.6	18.4	8.4	2.2	..	3.5	14.1	32.5
1982-83	16.6	2.7	19.3	9.5	2.3	..	4.3	16.1	35.4
1983-84	16.5	2.7	19.2	9.8	2.6	..	4.3	16.7	35.9
1984-85	16.6	2.9	19.5	9.9	3.2	..	4.4	17.4	36.9
1985-86	16.6	3.0	19.5	9.6	3.6	..	4.1	17.3	36.8
1986-87	16.5	2.9	19.4	9.4	3.7	..	4.1	17.2	36.6
1987-88	15.6	2.3	17.9	9.3	3.4	..	3.4	16.1	34.1
1988-89	14.8	2.1	16.9	8.7	3.3	..	3.3	15.3	32.1
1989-90	14.8	2.3	17.1	8.7	3.4	..	3.0	15.1	32.2
1990-91	15.9	2.5	18.4	9.8	3.3	..	3.1	16.2	34.6

(a) Comprises gross fixed capital expenditure, changes in stocks, and net expenditure on land and intangible assets
(b) Comprises grants and net advances to the State/local sector
(c) Comprises subsidies to enterprises, other current and capital grants and other net advances.

Debit Tax to the States in 1990–91 reinforced this trend to reduced reliance on Commonwealth grants.

Net Borrowing Requirement

As depicted in Panel C of Chart 9, the general government sector net borrowing requirement peaked at 4.1 per cent of GDP in 1983–84 before turning to a surplus of 1.6 per cent in 1988–89. This swing has subsequently been partially reversed, with a net borrowing requirement of 0.7 per cent in 1990–91.

THE PUBLIC TRADING ENTERPRISE SECTOR

Government ownership/control is the decisive factor in the inclusion of PTEs within the broad definition of the public sector. While market forces generally play a greater role in determining resource allocation in the PTE sector than in the general government sector, this can vary greatly from one organisation to another. For the more commercial PTEs—and especially for those operating in competitive markets, the bulk of decisions relating to provision of services, prices, operating costs and borrowing may be formulated in a fashion similar to that for private sector business even though the government may retain some control over broad approaches and even over some specific decisions. In other cases, only limited consideration may be given to seeking appropriate returns on the community's asset or to principles of efficient pricing. Decision making is more akin, in many respects, to that in the general government sector.

Some fully self-supporting PTEs—such as Qantas and Australian Airlines—do operate in competitive markets and usually pay dividends on their government equity. Some government business enterprises—such as Telecom, Australia Post and the State electricity authoritiesTare largely financially self-supporting but are dominant in their market either reflecting restrictions on competition or natural monopoly characteristics. Most Commonwealth business enterprises are now subject to the full range of government taxes and charges, whereas some received tax concessions in previous years. Other government business enterprises—such as most State metropolitan public transport undertakings and non-metropolitan railways—do not recover all their costs (indeed, some only recover a small proportion of costs) and require large ongoing subsidies from general government.

The Commonwealth Government and some State Governments have been moving to place the operations of their PTEs on a more commercial footing.(7) In some cases, this has involved, or may in the near future involve, partial or full privatisation of some enterprises. PTEs operating in a more commercial environment are less likely to be constrained by governments for policy purposes. Their investment, pricing and net borrowing decisions are more likely to reflect commercial criteria rather than government policy.

(7) For a discussion on Commonwealth reforms, see *Reshaping the Transport and Communications Government Business Enterprises*, A Statement by the Minister for Transport and Communications of 25 May 1988. Since that Statement almost all of the Commonwealth enterprises have had reform packages implemented along the lines of the reforms announced.

As noted above, the PTE sector accounted for about 9 per cent of gross product and 5 per cent of total employment in 1989–90.

Trends in PTE Transactions

Outlays

Under ABS Government Finance Statistics definitions, the major components of PTE outlays are interest and dividend payments and net capital expenditure on goods and services, with operating expenses excluded.

Table 6 shows PTE outlays by main economic type.

Table 6: Public Trading Enterprise Sector Outlays by Main Economic Type as a Percentage of GDP

	Net Expenditure on Goods and Services (a)			Transfers and Advances (b)			Total		
	Common-wealth	State/local	Total	Common-wealth	State/local	Total	Common-wealth	State/local	Total
Averages:									
1971-72 to 1975-76	1.4	2.6	4.0	0.6	1.2	1.7	2.0	3.8	5.7
1976-77 to 1980-81	0.8	2.8	3.7	0.6	1.3	1.8	1.4	4.1	5.5
1981-82 to 1985-86	1.1	3.3	4.4	0.7	2.0	2.7	1.8	5.4	7.1
1986-87 to 1990-91	1.2	2.1	3.4	0.8	2.2	2.9	2.0	4.3	6.3
1980-81	0.5	3.0	3.5	0.6	1.3	1.8	1.1	4.3	5.3
1981-82	1.2	3.5	4.7	0.7	1.5	2.2	1.9	5.0	6.9
1982-83	0.7	3.9	4.6	0.6	2.0	2.6	1.3	5.9	7.3
1983-84	1.3	3.5	4.8	0.7	2.1	2.8	2.0	5.6	7.6
1984-85	1.0	3.0	3.9	0.7	2.2	2.9	1.7	5.2	6.8
1985-86	1.2	2.8	4.0	0.8	2.4	3.2	2.0	5.1	7.1
1986-87	1.0	2.7	3.8	0.7	2.4	3.1	1.7	5.1	6.9
1987-88	0.8	2.2	3.0	0.8	2.2	3.0	1.6	4.4	6.1
1988-89	1.0	1.7	2.7	0.7	2.2	2.9	1.7	3.9	5.6
1989-90	2.1	2.0	4.1	0.8	2.0	2.8	2.8	4.0	6.8
1990-91	1.3	2.0	3.3	0.9	2.1	3.0	2.2	4.1	6.3

(a) Comprises gross fixed capital expenditure, changes in stocks, and net expenditure on land and intangible assets.
(b) Comprises interest and dividends and other minor transfers.

PTE net capital expenditure has fluctuated over the range 3 per cent to 5 per cent of GDP during the 1980s and early 1990s. Underlying this have been the volatile swings in Commonwealth PTE net expenditure associated with the peaks and troughs of investment cycles, particularly by the two government-owned airlines. The significant jump from 1989–90 reflects the large accumulation of stocks by the Australian Wool Corporation in the face of weakening wool prices. State/local net expenditure on goods and services was high in the early 1980s as State electricity authorities invested in

expanded electricity generating capacity. With the gradual completion of these large projects, State/local net expenditure on goods and services has declined from a peak in 1982–83 of 3.9 per cent of GDP to 2 per cent of GDP in 1990–91.

Transfers and advances have remained fairly steady for the Commonwealth sector over the past decade but, for the State/local sector, they have increased from 1.3 per cent of GDP in 1980–81 to 2.1 per cent of GDP in 1990–91. Higher interest payments associated with growing levels of debt and higher interest rates over much of the decade underpinned that trend. There were also increased dividend payments to State Governments reflecting growing reassessment of the role of State/local PTEs in the face of heightened State budgetary pressures.

Revenue

PTE revenue rose steadily through the 1980s, before turning down in 1989–90 and 1990–91, under the influence of falling revenue of Commonwealth PTEs. The State/local PTE sector maintained its improved revenue performance, despite steady reductions in subsidies from the early 1980s and the recent economic downturn.

Table 7 provides further details.

Table 7: Public Trading Enterprise Sector Revenue as a Percentage of GDP

	Commonwealth		State/local				Total			
	Subsidies	*Total* (a)	*Subsidies*	Own Rev (b)	Trans-fers (c)	Total	*Subsidies*	Own Rev (b)	Trans-fers (c)	Total
Averages:										
1971-72 to 1975-76	0.1	0.5	0.4	1.5	0.8	2.2	0.5	2.0	1.7	3.8
1976-77 to 1980-81	0.1	0.6	0.7	1.6	0.6	2.2	0.8	2.2	0.6	2.8
1981-82 to 1985-86	0.2	0.9	0.8	2.0	0.5	2.5	1.0	2.9	0.5	3.4
1986-87 to 1990-91	0.1	1.0	0.7	2.4	0.4	2.8	0.8	3.3	0.4	3.7
1980-81	0.1	0.7	0.7	1.6	0.4	2.0	0.9	2.3	0.4	2.6
1981-82	0.1	0.8	0.8	1.7	0.2	1.9	0.9	2.5	0.2	2.7
1982-83	0.2	0.6	0.9	2.0	0.4	2.4	1.1	2.6	0.6	3.1
1983-84	0.2	0.8	0.9	2.0	0.7	2.7	1.0	2.7	0.7	3.4
1984-85	0.2	1.1	0.9	2.1	0.6	2.7	1.1	3.2	0.6	3.8
1985-86	0.2	1.1	0.9	2.3	0.5	2.8	1.0	3.5	0.4	3.9
1986-87	0.1	0.7	0.9	2.5	0.6	3.1	1.0	3.1	0.6	3.7
1987-88	0.2	1.3	0.8	2.4	0.4	2.9	1.0	3.7	0.4	4.1
1988-89	0.0	1.3	0.8	2.3	0.3	2.7	0.8	3.6	0.3	4.0
1989-90	0.1	0.9	0.6	2.3	0.3	2.7	0.6	3.2	0.2	3.5
1990-91	0.1	0.7	0.6	2.3	0.2	2.6	0.7	3.0	0.2	3.2

(a) Comprises own revenue and transfers as defined in footnotes (b) and (c)
(b) Comprises PTEs net operating surpluses (subsidies plus other operating revenue less operating expenditure) and other revenue (interest, other property income and other revenue).
(c) Comprises grants and net advances from general government.

Net Borrowing Requirement

The net borrowing requirement of the PTE sector peaked in the early 1980s. Borrowing by Commonwealth PTEs was fairly low and stable during that period and the increase mainly reflected the rapid expansion of State infrastructure projects. With the completion of these projects, the net borrowing requirement for the PTE sector as a whole fell steadily until 1988–89. It increased sharply during 1989–90 before falling in 1990–91, but remained at a high level. The major factors driving these changes included the disruption in the wool industry—leading to a rapid increase in Australian Wool Corporation purchases—and, to a lesser degree, an increase in aircraft purchases by Qantas and Australian Airlines. Chart 10 illustrates developments.

Performance of PTEs

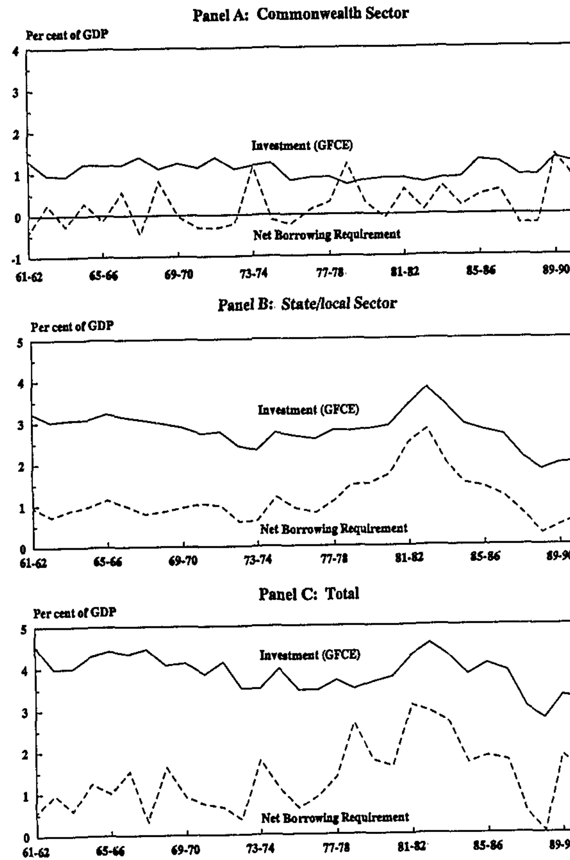
The last decade has seen an overall improvement in the performance of most PTEs under the influence of owner Governments striving to create a more commercial approach to service delivery. Table 8 shows a number of indicators of performance. For the Commonwealth sector, the main features of the data are strong improvements up until 1988–89 before a significant downturn in the past two years. The major factor in that downturn has been the weaker operating results of the the Australian Wool Corporation, which lowered the aggregate Commonwealth PTE operating results for 1989–90 and 1990–91 by around $2 billion. Furthermore, a number of Commonwealth business undertakings have experienced poorer trading results including the communications and air transport sectors. The air transport sector has been particularly affected in the past two

Table 8: Operating Results and Cost Recovery Ratios of Public Trading Enterprises

	Net Operating Surplus (a)		Operating Results (b)		Cost Recovery Ratios (excl net interest paid) (c)		Cost Recovery Ratios (incl net interest paid) (d)	
	Common-wealth $m	State/ local $m	Common-wealth $m	State/ local $m	Common-wealth %	State/ local %	Common-wealth %	State/ local %
1983-84	1329	3027	-79	-1701	109.4	108.1	99.3	91.4
1984-85	2034	3620	395	-1830	113.3	109.7	103.0	91.6
1985-86	2322	4215	608	-1959	115.2	110.3	104.3	92.0
1986-87	1453	5022	-123	-1968	108.4	111.9	99.2	92.5
1987-88	3294	5744	1074	-1639	118.7	114.1	106.4	94.2
1988-89	3711	6096	2055	-1711	121.6	113.8	111.5	94.4
1989-90	2574	6413	649	-799	112.3	115.5	103.1	97.6
1990-91	1866	6848	-915	-882	106.9	115.2	96.0	97.5

(a) Subsidies and other operating revenue less operating expenditure.
(b) PTE net operating surplus (ie operating revenue less operating expenditure) less subsidies received plus interest received less interest paid
(c) PTE operating revenue (excluding subsidies received) as a percentage of operating expenditure.
(d) PTE operating revenue (excluding subsidies received) as a percentage of operating expenditure plus interest payments less interest received.

CHART 10: PTE NET BORROWING REQUIREMENT AND INVESTMENT



years by a succession of factors including the pilot's dispute, falling international tourism in the wake of the Gulf War and domestic airline industry deregulation.

On the other hand, State/local PTEs have largely preserved their improving performance of recent years although operating results continue to be negative. Debt servicing is a significant factor affecting financial performance of State/local PTEs. If interest is excluded, the results suggest that the State/local PTEs as a whole are covering operating costs; as yet, however, they do not derive enough revenue from their operations to cover the servicing costs of borrowed capital.

The negative operating results of State/local PTEs are sustained in part by deliberate government decisions to subsidise certain PTEs. The justification for this rests on the claim that wider community benefits can flow from the provision of certain PTE services—urban transport is a well established case but there are others more open to analysis. However, results suggest that many of the authorities are not operating efficiently and that subsidies are also underwriting inefficient management and work practices. Whatever the situation in individual cases, the negative operating results of many State/local PTEs have involved a significant drain on State/local finances. Further analysis of the performance of State/local sector PTEs can be found in Budget Paper No 4 *Commonwealth Financial Relations with Other Levels of Government 1991–92.*

Another measure of enterprise performance is total factor productivity. EPAC has conducted evaluations of PTEs on this basis in three industries—electricity, gas and water; transport and storage; and communications.(8) Over 80 per cent of PTE activity is concentrated in these industries. EPAC found that all three groups increased their productivity in the second half of the 1980s. Electricity, gas and water productivity doubled in the second half of the decade while growth in productivity in the transport and storage sector has not been as dramatic. The rail transport PTEs have embarked on substantial labour shedding programs (shedding nearly 30 per cent of staff between 1981 and 1990) resulting in improved productivity in recent years. The National Rail Corporation will seek to further improve operating efficiency in the freight sector. PTEs involved in communications have achieved very high levels of productivity growth associated with rapid technological progress in the field. The OECD estimated that Australian electricity, gas and water utilities were about half as productive as similar utilities overseas for the period 1979–85.(9) More recent data are not available to assess whether the productivity increases reported by EPAC have assisted in narrowing that gap.

The Industry Commission has examined rates of return on capital for several PTEs (focussing on Commonwealth transport and communications PTEs and the Australian water industry).(10) It found that, after allowing for specified community service obligations, PTEs generally performed poorly compared with rates of return in the private sector.

Overall, greater attention is now being paid to the operating efficiency of PTEs at both the Commonwealth and State level, partly reflecting increased pressure on available funding. A range of evidence suggests performance has improved over recent years. Most studies suggest scope remains for further substantial microeconomic reform in the PTE sector, particularly at the State/local level.

With that in mind, the July 1991 Special Premiers' Conference agreed to establish a framework for national performance monitoring of PTEs. This system will initially concentrate on a core of larger and more significant enterprises. A range of performance indicators will be used, although the initial focus will be on accounting and non-financial measures of performance.

(8) EPAC Council Paper No 44, *The Size and Efficiency of the Public Sector,* 1990.
(9) OECD Survey, Australia 1989–90, p.50.
(10) Industry Commission, *Measuring the Performance of Selected Government Business Enterprises,* 1990

STATEMENT 7 — COVERAGE AND CLASSIFICATION OF INFORMATION IN THE BUDGET STATEMENTS

CONTENTS

STATEMENT 7 — COVERAGE AND CLASSIFICATION OF INFORMATION IN THE BUDGET STATEMENTS

COVERAGE

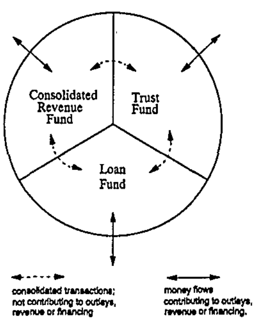
THE COMMONWEALTH BUDGET SECTOR

Most of the information in the Budget Statements relates to transactions between the Commonwealth budget sector and other sectors of the economy, including transactions with off-budget Commonwealth entities. The Commonwealth budget sector consists of those departments and authorities whose day to day transactions are recorded in the Commonwealth Public Account (CPA), whether via the Consolidated Revenue Fund (CRF), Trust Fund or Loan Fund. Many Commonwealth government authorities, such as CSIRO and Telecom, operate outside the Public Account through bank accounts. Even though in some cases they may be budget dependent, that is, depend upon appropriations from the Commonwealth Budget, they are classified as part of the non-budget sector and budget payments to them are classed as transfers to the non-budget sector. (The ABS refers to this budget/non-budget distinction as the Administrative Sector classification.)

Transactions of the Commonwealth budget, non-budget and total sectors (excluding financial enterprises) are covered in Tables I-III contained in the statistical appendix to this Statement.

Transactions between budget sector agencies such as payments of fringe benefits tax (FBT), customs duty and interdepartmental charges, are identified but net out when calculating total budget outlays or revenue (as highlighted in the following diagram).

COMMONWEALTH PUBLIC ACCOUNT



GENERAL GOVERNMENT ENTERPRISES AND PUBLIC TRADING ENTERPRISES

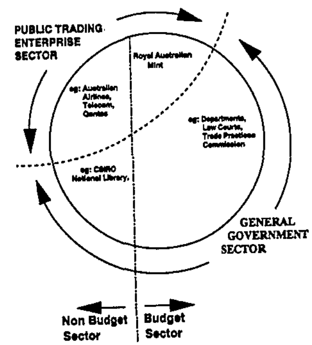
Statement 6, *The Public Sector*, is based on a classification of the public sector which distinguishes between general government enterprises (GGEs) and public trading enterprises (PTEs). GGEs are those units which supply non-market services, and PTEs deliver the commercially oriented activities of government. In recent years the general government sector has increased its use of user charging and external funding of activities, for example, private sector funding of CSIRO research and development. (The Australian Bureau of Statistics (ABS) refers to this PTE/GGE distinction as the Institutional Sector Classification.)

Transactions of the Commonwealth general government budget, general government non-budget and general government sectors are covered in Tables IV-VI contained in the statistical appendix to this Statement.

Government Business Enterprises include PTEs and those GGEs that predominantly supply goods and services to other units within the general government sector and apply user charges. For instance, the Business Services Trust Account comprises GGEs that operate within the CPA charging fees for services such as planning, design and construction supervision, real estate services and vehicle services.

The following diagram illustrates the relationship between the sectors of the Commonwealth government outlined above and provides some examples of the government agencies found within each sector.

COMMONWEALTH PUBLIC SECTOR



CLASSIFICATION OF BUDGET INFORMATION

GOVERNMENT ACCOUNTING CONVENTIONS

In presenting budget statistics the Government adopts the standards established by the ABS in its *Classification Manual for Government Financial Statistics Australia* (ABS 1217.0). These standards integrate the 1968 United Nations (UN) publication *A System of National Accounts* (currently being revised) and the 1986 International Monetary Fund (IMF) publication *A Manual on Government Finance Statistics,* drawing on features of both.

PAYMENTS AND RECEIPTS

In the Budget Statements, the terms payment and receipt indicate money flows out of and into the CPA. These are essentially accounting concepts used to present the Appropriation Bills and tax and non-tax monies paid to the Budget (see Budget Paper No. 2, *The Commonwealth Public Account*).

OUTLAY, REVENUE AND FINANCING TRANSACTIONS

Budget sector transactions can also be viewed from an economic perspective and categorised into outlay, revenue and financing transactions. Financing transactions are undertaken to finance the deficit or invest the surplus and consist of borrowings and changes in holdings of financial assets such as cash or investments (excluding advances). Outlays less revenue determine the level of the deficit or surplus and are therefore referred to as above-the-line transactions. Financing transactions are consequently referred to as below-the-line transactions.

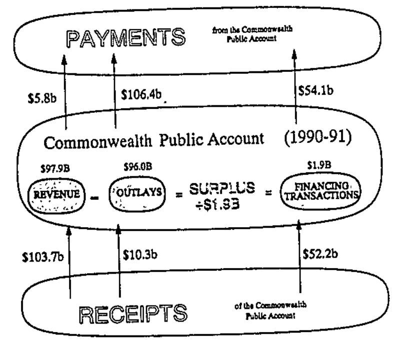
Outlays are a measure of the cost of providing non-marketable goods and services (commonly referred to as public goods and services) that are distributed using collective political choice rather than through the operation of the market. Therefore user charges are offset against relevant payments in calculating outlays. Where the government operates like a business and sells goods and services in the market, any profit or loss it makes reduces or adds to the need for revenue. Classifying the receipts from such sales as revenue would increase both outlays and revenue and artificially inflate the reported cost of providing public goods and services.

Two other categories of receipts are offset against payments in the calculation of outlays. Advances (including loans to government enterprises and to the States, provision of equity to enterprises and the purchase of Commonwealth equity in enterprises by the private sector) are classified as outlays to reflect their public policy importance. This treatment is consistent with the IMF view adopted by the ABS. However, some countries, for example Canada, follow the UN treatment and classify such transactions as financing transactions on the grounds that advances are no different from any other financial investment.

Consistent with the UN treatment adopted by the ABS, receipts from the sales of physical assets are recorded as offsets within outlays to assist in the measurement of the net stock of capital assets in the economy. Under the IMF treatment such receipts would be classified as capital revenue.

Transactions under the asset sales program, covering equity and physical assets, are separately identified by function in the Budget Papers to enable analysts to make specific allowance for them. Those undertaken in the normal course of government activity remain classified to appropriate functional categories. All asset sales remain classified to specific economic types.

Revenue consists of the remainder of above-the-line transactions. It comprises tax receipts (net of refunds) and non-tax receipts (interest, dividends etc) but excludes receipts from user charging, sale of assets and repayments of advances (loans and equity) classified as outlays. The relationship between accounting and economic concepts is shown in the following diagram.



RECEIPTS CLASSIFIED AS OUTLAYS

Table 1 shows the level of CRF receipts and payments classified as outlays over the last ten years. Table 2 disaggregates the 1991-92 estimates by function to provide a more detailed identification of the CRF receipts and payments classed as outlays. The tables present CRF outlays rather than total outlays to reduce the effect of transfers between funds in the CPA. However, caution still needs to be exercised in the interpretation of the level of CRF receipts classified as outlays as they are affected by significant CRF transactions between budget agencies, such as user charging, that net out in the recording of aggregate outlays.

Table 1. CRF Payments and Receipts Classified as Outlays 1981-82 to 1991-92

	CRF Payments $m (a)	CRF Receipts $m	CRF Receipt as a % of CRF Payment
1981-82	41750.2	-980.5	2.3
1982-83	47259.7	-1167.6	2.5
1983-84	53906.6	-1269.8	2.4
1984-85	61240.3	-1622.3	2.6
1985-86	67890.5	-1609.9	2.4
1986-87	73705.6	-2212.8	3.0
1987-88	82047.2	-3323.1	4.1
1988-89	85778.6	-2857.3	3.3
1989-90	92405.9	-4014.4	4.3
1990-91	98784.5	-2793.3	2.8
1991-92	108485.7	-4453.6	4.1

(a) Includes amounts anticipated to be charged to the Loan Fund in 1991-92.

Table 2. CRF Payments and Receipts Classified as Outlays 1991-92, by Function

	CRF Payments $m	CRF Receipts $m	CRF Receipt as a % of CRF Payment
Defence (a)	9819.7	-384.9	3.9
Education	8374.7	-112.9	1.3
Health	13704.4	-28.9	0.2
Social Security & Welfare	34440.4	-43.3	0.1
Housing & Community Amenities	1284.1	-25.4	2.0
Culture & Recreation	1244.2	-7.6	0.6
Transport & Communication	1994.1	-554.1	27.8
Industry Assistance & Development	3678.7	-77.9	2.1
Labour & Employment	1779.6	-22.1	1.2
Other Economic Services	370.7	-81.7	22.0
Legislative Services	364.2	-7.4	2.0
Law, Order & Public Safety	1050.1	-79.5	7.6
Foreign Affairs & Overseas Aid	1858.7	-46.6	2.5
General & Scientific Research	882.7	-3.7	0.4
Administrative Services	4717.7	-1608.2	34.1
Assistance To Other Govts nec	15852.4	-28.6	0.2
Public Debt Interest	6353.6	na	na
Contingency Reserve	na	na	na
Asset Sales	715.8	-1340.8	na
Total	108485.7	-4453.6	4.1

(a) Payments includes amounts anticipated to be charged to the Loan Fund.

Receipts items having most effect on the measurement of CRF outlays in 1991-92 are:

- rent, sales of property, materials and equipment and Defence Force Retirement Benefit contributions in the *Defence* function;
- the overseas student charge and Higher Education Contribution Scheme repayment of advance in the *Education* function;
- repayment of advances from government enterprises in the *Transport and Communications* function;
- patent office fees in the *Other Economic Services* function;
- sales of property and assets undertaken in the normal course of government activity and payments of Fringe Benefit Tax (FBT) and Customs Duty by on-budget agencies in the *Administrative Services* function;
- employer superannuation contributions and compensation premiums paid by GGEs in the *Administrative Services* function;
- proceeds from the assets sale program; and
- user charging including that between on-budget agencies and departments.

A reconciliation between the appropriations of the CRF and total outlays is set out in tabular format in the introduction to Budget Paper No. 2, *The Commonwealth Public Account.*

REPORTING CLASSIFICATIONS FOR BUDGET TRANSACTIONS

Budget information in the Statements accompanying the Budget Speech is classified in three ways.

- The *functional* classification brings together outlays directed towards like objectives or purposes. It thus facilitates presentation of information on the basic purposes of Government activities and on the total resources devoted by the Commonwealth to those purposes. Statement 3 is presented on this basis.
- The *economic* type classification is designed to facilitate the study of the macroeconomic effect of Commonwealth transactions and to provide the means of grouping transactions for inclusion in the Australian National Accounts. This classification scheme defines the previously mentioned concepts of outlays, revenue, financing items and the budget balance (deficit/surplus). Outlays are further divided into current and capital classifications. The statistical appendix to Statement 3 contains tables on outlays by economic type.
- The *portfolio* classification refers to the aggregation of outlays according to the Minister who has prime administrative responsibility. Budget Paper 3, *Portfolio Program Estimates* is presented on this basis and the statistical appendix to Statement 3 contains tables on 1991-92 outlays by portfolio.

REASONS FOR CHANGES IN CLASSIFICATION

Although the basic aim of a functional classification is to categorise budget outlays according to the broad purposes for which they are undertaken, such a classification cannot always be applied without some ambiguity. Particular outlays can often serve two or more distinct functions. In this situation an outlay is classified to the function which is considered to be its primary purpose.

From time to time it is necessary to amend the functional classification to reflect shifts in the purpose of programs or changes in the organisation, coverage and nature of government activities. Furthermore, additional information sometimes becomes available which provides grounds for a reclassification or allows items that had previously been classified to a single function to be split between functions.

Changes in the classification of transactions by economic type generally arise from ongoing reconciliation of ABS and budget statistics on the Commonwealth budget sector. In addition, information sometimes becomes available which justifies reclassification or allows items that had previously been classified to a single economic type to be disaggregated and more appropriately classified.

Changes in the classification of transactions by portfolio mainly arise from any reorganisation of departments and budget agencies following machinery of government changes.

CLASSIFICATION CHANGES FOR 1991-92 BUDGET

All changes to the application of the functional and economic type classifications since the last Budget are outlined in the following tables. A list of changes is provided in the footnotes and explanations of significant changes are provided in the accompanying text.

Table 3. Effects of Reclassifications of Transactions for 1991-92 Budget ($m)

Functional Category	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91
Education (a)	2.2	2.8	3.7	4.6	5.9	6.9	8.3	9.2	10.7	12.3
Health (b)(c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–1.3	–18.7	–16.7
Social Security and Welfare (c)(d)	0.0	1.3	2.9	3.2	4.1	8.4	10.6	9.1	19.2	15.3
Housing and Community Amenities (e)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Culture and Recreation (f)	–0.6	–1.2	–1.3	–2.5	–7.4	–5.3	–2.2	–2.1	–2.4	–3.0
Industry Assistance and Development (b)(e)(g)	0.0	69.6	160.6	176.6	226.7	468.4	506.6	609.4	743.7	835.9
Labour and Employment (a)(h)(f)(i)	–2.4	–2.4	–3.2	–2.9	0.5	–2.7	1.5	1.0	1.6	1.0
Other Economic Services (n)	0.0	0.0	0.0	0.0	0.0	–0.4	–0.6	–0.9	–0.8	–0.5
Legislative Services (j)(k)	0.4	0.6	0.4	0.3	0.5	0.0	0.7	0.9	1.4	1.1
Law, Order & Public Safety (j)(k)	–0.4	–0.6	–0.4	–0.3	–0.5	0.0	–0.7	–0.9	–1.4	–1.1
Foreign Affairs and Overseas Aid (i)(l)	0.0	0.0	0.0	0.0	0.0	–0.9	–9.3	–9.6	–12.0	–12.3
Administrative Services (h)	0.8	0.8	0.8	0.8	1.0	1.1	1.4	1.5	1.5	2.0
Assistance to Other Governments nec (m)	0.0	57.5	173.7	198.4	206.4	151.1	146.7	98.1	141.4	190.6
Revenue (d)(g)(l)(m)(n)	0.0	128.3	337.2	378.2	437.2	626.6	664.9	714.4	884.4	1027.2
Effect on Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(a) Property operating expenses reclassified from Labour and Employment to Education.
(b) Assistance to pharmaceutical industry and Factor 'F' payments reclassified from Health to Industry Assistance and Development, ($1.3m 88/89, $12.9m 89/90, $16.7m 90/91).
(c) *Payments for Home and Community Care reclassified from* Health to Social Security ($5.8m in 1989-90).
(d) Diesel Fuel Rebate Scheme (welfare) reclassified from Revenue to Social Security and Welfare, (see Table 5).
(e) Salaries, administration and property operating expenses reclassified from Industry Assistance to Housing ($2.3m 90/91).
(f) Youth Affairs grants reclassified from Culture and Recreation to Labour and Employment.
(g) Diesel Fuel Rebate Scheme (agriculture and mining) reclassified from Revenue to Industry Assistance and Development (see Table 5).
(h) Women's Affairs reclassified from Labour and Employment to Administrative Services.
(i) Payments for DILGEA locally engaged staff reclassified from Foreign Affairs and Overseas Aid to Labour and Employment ($9.0m 87/88, $9.6m 88/89, $11.6m 89/90, $12.3m 90/91).
(j) Payments for the printing of draft bills by the Office of Parliamentary Council reclassified from Law, Order and Public Safety to Legislative Services.
(k) Murphy Commission administration reclassified from Legislative Services to Law, Order and Public Safety, (–$0.5m in 86/7).
(l) Receipts from Australian Centre for International Agricultural Research reclassified from Revenue to Foreign Affairs and Overseas Aid (–$0.9m 86/87, –$0.3m 87/88, –$0.4m 89/90).
(m) *Payments of and in lieu of offshore petroleum and mineral royalties* reclassified from Revenue to Assistance to Other Governments nec (see Table 6).
(n) Payments under the fee sharing arrangements for companies and securities regulation reclassified from Other Economic Services to Revenue.

Table 4. Effects of Reclassifications of Transactions for 1991-92 Budget ($m)

Economic Type Category	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91
Current Outlays on Goods and Services -										
Defence Nonsalary (a)	2.0	1.9	2.1	2.6	2.7	3.1	3.2	3.3	3.5	3.7
Nondefence Salary (b)	1.1	0.4	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.5
Nondefence Nonsalary (b)(c)(d)(e)(f)(u)	-1.1	-0.4	-0.5	-4.1	-4.5	-5.7	-9.6	-139.8	-179.9	-201.7
Subsidies (f)(g)(h)(i)	0.0	69.6	160.6	176.6	226.7	464.4	423.7	594.2	708.7	836.0
Personal Benefit Payments (g)(j)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3338.8	-5040.7	-5435.0
Current Grants -										
to Non-profit Institutions (k)(l)	0.0	1.3	2.9	3.2	4.1	8.4	10.6	9.1	12.1	10.6
to the Cwlth Nonbudget Sector (c)(d)(h)(j)	0.0	0.0	0.0	3.6	4.0	4.4	87.3	3492.8	5243.8	5620.7
to State Governments (a)(l)(m)(n)(o)	-1752.0	-1906.0	-1948.1	-2079.8	-2315.3	-3276.9	-3572.4	-3763.7	-4023.3	-4344.3
through State Governments (m)	1750.0	1961.6	2119.7	2275.6	2519.0	3425.3	3718.2	3859.4	4163.3	4536.6
Capital Outlays -										
on Goods (e)(p)(q)(r)	0.0	0.0	0.0	-0.3	0.0	0.0	4.8	0.0	-0.2	59.0
on Land (q)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-70.0
Capital Grants -										
to the Cwlth Nonbudget Sector (f)(r)(s)	0.0	0.0	0.0	0.3	0.0	0.0	0.1	0.0	0.2	6.9
to State Governments (p)(s)(t)	-135.7	-141.6	-158.6	-171.0	-203.0	-241.7	-291.0	-228.3	-187.3	-277.4
through State Governments (t)	135.7	141.6	158.6	171.0	203.0	241.7	291.0	228.3	187.3	281.5
Tax Revenue (i)(k)(o)	0.0	70.8	163.5	179.8	230.8	476.4	516.6	616.3	743.4	836.3
Non-Tax Revenue (n)(u)	0.0	57.5	173.7	198.4	206.4	150.2	148.4	98.1	141.0	190.8
Effect on Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(a) Natural Disasters Organisation payments reclassified from current grants to States to Defence non-salary.
(b) Payments for Human Quarantine services reclassified from nondefence nonsalary to nondefence salary.
(c) Health Insurance Commission administrative costs of Medicare and PBS reclassified from nondefence nonsalary to current grants to the non-budget sector (see Table 7).
(d) Australian Animal Health Laboratory reclassified from nondefence nonsalary to current grants to the non-Budget sector (from $3.6m 84/85 to $5.3m 90/91).
(e) Overseas rent reclassified from capital outlays on goods to nondefence nonsalary (-$4.9m 87/88).
(f) Assistance to TCF Industries reclassified from nondefence nonsalary to subsidies (approximately $5m each year from 88/89 to 90/91).
(g) Assistance to the pharmaceutical Industry and Factor 'F' payments reclassified from personal benefit payments to subsidies, ($1.3m 88/89, $12.9m 89/90, $16.7m 90/91).
(h) Payment of an advance to Aerospace Technologies of Australia reclassified from subsidies to current grants to Commonwealth non-Budget sector ($82.9m 87/88, $21.2m 88/89, $40.1m 89/90, $6.8m 90/91).
(i) Diesel Fuel Rebate Scheme (agriculture and mining) reclassified from revenue to subsidies (see Table 5).
(j) Medical and Pharmaceutical Benefits reclassified from personal benefits payments to current grants to the Commonwealth non-Budget sector (see Table 7).
(k) Diesel Fuel Rebate Scheme - welfare, reclassified from Tax revenue to current grants to non-profit Institutions (see Table 5).
(l) Women's Health Program reclassified from current grants to non-profit institutions to current grants to State Governments ($1.3m 89/90, $4.7m 90/91).
(m) See Table 9 for items reclassified from current grants to State governments to current grants through State Governments.
(n) Payments of and in lieu of offshore petroleum royalties reclassified from non-tax revenue to current grants to State Governments (see Table 6).
(o) Companies and Securities Regulations Fee Sharing reclassified from current grants to State Governments to tax-revenue (-$0.4m 86/87, -$0.6m 87/88, -$0.9m 88/89, -$0.8m 89/90, -$0.5m 90/91).
(p) Road upgrading (Badgery's Creek) reclassified from capital outlays on goods to capital grants to State Governments ($11m 90/91).
(q) Sale of Avalon Airfield to ASTA reclassified from capital outlays on goods to capital outlays on land.
(r) Payments for the Australian Animal Health Laboratory reclassified from capital outlays on goods to capital grants to the Commonwealth non-budget sector (84/85, 87/88, 89/90 only).
(s) Australian National Rail reclassified from capital grants to the States to grants to the Commonwealth non-budget sector. ($6.9m in 90/91).
(t) See Table 9 for items reclassified from capital grants to State Governments to capital grants through State Governments.
(u) Receipts from Australian Centre for International Agricultural Research reclassified from non-tax revenue to nondefence nonsalary (-$0.9m 86/87, -$0.3m 87/88, -$0.4m 89/90).

Diesel Fuel Rebate Scheme (DFRS) Payments to Consumers

Previously, payments under the scheme were classified as refunds of tax (excise revenue). In consultation with the ABS, this treatment was reviewed during 1990-91 and DFRS payments have been reclassified from offsets within revenue to outlays.

DFRS payments are made for public policy reasons to farmers, the mining industry and to welfare organisations who consume diesel fuel and not to producers who pay the tax. There are also differing rates of rebate to different types of consumers. Consequently the payments are more properly classified as outlays rather than offsets within revenue as had been the case previously. The effect on outlay aggregates up to 1991-92 is shown below.

Table 5. Reclassification of Diesel Fuel Rebate Scheme 1982-83 to 1991-92

	Agriculture, Forestry & Fishing $m (a)	Mining $m (a)	Welfare $m (b)	Total $m (c)
1982-83	39.6	30.0	1.3	70.8
1983-84	91.4	69.2	2.9	163.5
1984-85	100.5	76.1	3.2	179.8
1985-86	129.0	97.7	4.1	230.8
1986-87	266.5	201.9	8.4	476.8
1987-88	273.4	233.2	10.6	517.2
1988-89	308.2	299.9	9.1	617.2
1989-90	346.3	384.5	13.4	744.2
1990-91	386.9	434.6	15.3	836.8
1991-92	476.9	424.6	16.8	918.4

(a) Reclassified from offsets within revenue to Industry Assistance and Development function and Subsidies economic type outlays
(b) Reclassified from offsets within revenue to Social Security and Welfare function and Grants to Non-profit Institutions economic type outlays
(c) Both outlays and revenue have been increased by the amount shown

Petroleum Royalty (PR) Payments to the States

PR payments and payments to the States under arrangements relating to the collection of offshore petroleum royalties have been reclassified from offsets within revenue to outlays. These amounts were previously offset within revenue as it was perceived that part of the money collected was State revenue. An investigation revealed that this is not the case and in conjunction with the ABS the treatment of the payments was changed. With the replacement of petroleum royalties with resource rent tax on Bass Strait fields, Victoria will be paid amounts in lieu of petroleum royalties in 1991-92. These payments are also recorded as outlays. The effect of the reclassifications on outlay aggregates up to 1991-92 is shown below.

Table 6. Reclassification of Petroleum Royalties 1982-83 to 1991-92

	$m (a)
1982-83	57.5
1983-84	173.7
1984-85	198.4
1985-86	206.4
1986-87	151.1
1987-88	148.7
1988-89	98.1
1989-90	141.4
1990-91	190.8
1991-92	135.6

(a) Reclassified from offsets within revenue to Assistance to Other Governments nec function and Current grants to State Governments economic type outlays. Both outlays and revenue have been increased by the amounts shown.

Pharmaceutical Benefit Scheme (PBS) and Medicare Payments

PBS and Medicare payments have been reclassified in the economic type classification from personal benefits payments to grants to the non-budget sector from 1989-90 and 1988-89 respectively. The reclassification reflects the fact that the Health Insurance Commission (HIC) makes the payment of benefits from budget appropriations. Funds are appropriated from the Budget sector to the Non-budget sector where the payments are made. The change in treatment aligns budget statistics with those published by the ABS. The following table highlights the effect on economic type aggregates up to 1991-92.

Table 7. Reclassification of PBS and Medicare Payments 1988-89 to 1991-92

	Medicare $m (a)	$m (b)	PBS $m (a)	$m (b)	Total $m (a)	$m (b)	Total$m
1988-89	3337.5	130.4	na	na	3337.5	130.4	3467.9
1989-90	3808.0	140.4	1219.7	30.2	5027.8	170.5	5198.4
1990-91	4235.3	150.8	1183.0	39.5	5418.3	190.3	5608.6
1991-92	4431.8	158.8	1151.5	37.7	5583.4	196.5	5779.9

(a) Reclassified from personal benefit payments to current grants to non-budget sector economic type outlays
(b) Reclassified from current outlays on goods and services to current grants to non-budget sector economic type outlays

Reclassification of Australian Centre for International Agricultural Research (ACIAR) Trust Account

There are a number of trust accounts that receive both Commonwealth money and funding from other sectors. Conceptually, these funds should be separately identified, but in practice this is difficult. In order to avoid any distortions in the recording of Commonwealth outlays, such accounts are progressively being reviewed. In cases where the private sector provides the bulk of funds, accounts are treated as private funds with budget appropriations recorded as the outlay in any financial year. However, in the case of the ACIAR, only minor funding is received from private bodies and therefore all trust account transactions have been reclassified as outlays.

Reclassification of Commonwealth State Companies Fee Sharing Payments

Payments to the States under Commonwealth State Companies Fee Sharing Arrangements prior to the establishment of the ASC, have been reclassified from outlays to offset within revenue. The transactions involved the on-passing of State revenue collected by the Commonwealth and did not involve the redistribution of Commonwealth revenue to the States.

CLASSIFICATION ISSUES FOR 1991-92 BUDGET

REPAYMENT OF STATE DEBT

The Commonwealth has in the past raised borrowings on the States' behalf under the terms of the Financial Agreement. At the 1990 Premiers' Conference and Loan Council meeting, the States accepted the proposal to take over responsibility for their own debt progressively as outstanding debt matures. This has major implications for the presentation of Budgets from 1990-91 until 2005-06.

In line with IMF government accounting conventions, Commonwealth borrowings on behalf of the States under the Loan Council arrangements are treated as outlays when they are advanced to the States; similarly State repayments of that debt to the Commonwealth are treated as an offset within outlays. The original loan raisings from the public and the ultimate repayment of those loans to the public are financing transactions and have no effect on outlays or the surplus. In the ordinary course of events, the States could have been expected to roll over Loan Council debt. The rollover itself would have been neutral in its effect on outlays.

Under the new arrangements, this debt is instead being redeemed by the States who in turn borrow any replacement debt on their own account. (Compensation to the States for the higher costs of borrowing is being made by the Commonwealth.) The net effect of changed arrangements is a substantial reduction in outlays from 1990-91. Because of the higher level of maturities in 1991-92 of Commonwealth Government securities issued on the States' behalf, the 1991-92 estimate of accelerated debt repayments is more than double 1990-91 receipts (see 9A. *Assistance to Other Governments nec*). There is no change in the public sector Net Financing Requirement (NFR), commonly referred to as the Public Sector Borrowing Requirement, because the change in the Budget balance has effectively been achieved at the expense of an increase in the State component of the NFR.

LOCAL GOVERNMENT ROADS

The Special Premiers' Conference of October 1990 agreed that local government road funding should be delivered by means of general revenue assistance (separately identified from Financial Assistance Grants in 1991-92), rather than as grants for road programs. There will be no conditions attached to the way the funds are used.

The change in funding arrangements has therefore resulted in a functional reclassification of the funds from *Transport and Communications* to *Assistance to Other Governments nec* and an economic type reclassification from Capital to Current Grants to/through Other Governments (road outlays are classified as capital).

To gauge the relative importance of past payments, a time series on local government road funding is provided below. The change in funding and classifications is only effective from 1991-92.

Table 8. Local Government Road Funding Grants 1981-82 to 1990-91

	$m
1981-82	162
1982-83	181
1983-84	243
1984-85	243
1985-86	253
1986-87	252
1987-88	253
1988-89	273
1989-90	303
1990-91	324

PUBLIC TRADING ENTERPRISE SUPERANNUATION AND THE EFFECT ON THE FINANCING REQUIREMENT

In past years there was a reasonably close relationship between the recorded deficit or surplus and the borrowing requirement of the Budget sector, however, this has not been the case since 1990-91. Approximately $900m of the surplus in 1990-91 was not available to redeem debt because of net payments associated with PTE superannuation. Substantial payments arose because of the establishment of separate schemes for some enterprises, a bunching of retirements due to the new schemes and a number of retrenchment programs. There has also been a reduction in receipts of employer contributions by PTEs as Commonwealth Superannuation Scheme members transferred to the PTE schemes.

In line with ABS standards, net receipts by general government of PTE employer contributions, comprising the major component of provisions, are classified as financing transactions and are not included in the calculation of the Budget Balance. Table 4 in the statistical appendix to this Statement shows the effect of provisions on the financing requirement of the general government Budget sector. In previous years, PTEs have contributed more than was necessary to fund payments to their former employees, reducing the Budget sector financing requirement. From 1990-91 there is a net call on CRF, adding to the Budget sector financing requirement.

CLASSIFICATION OF TIED GRANTS IN BUDGET STATEMENTS

Following concerns expressed by the States at the 1990 Premiers' Conference, the *Special Premiers' Conference process* was established to review functional responsibilities and funding arrangements between the three levels of Government. One of the outcomes has been the decision to introduce a distinction between Commonwealth payments 'To' and payments 'Through' the States. The distinction is based on the degree of discretion that States have in the way monies are spent. Payments 'To' are those made for joint Commonwealth-State programs and where the States have responsibility for program delivery. Payments 'Through' are those where the States have little discretion in the way the monies are spent and are essentially onpassing monies to other bodies and individuals. This distinction is reflected in the economic type classification. The effects of the changes are shown in Table 4 of this Statement.

Grants that have been classified to the 'Through' category for reporting purposes in the 1991-92 Budget are higher education, non-government schools, general purpose assistance for local government, Australian Research Council grants and coal mining industry long service leave payments (see Table 9).

All other tied grants have been classified to the 'To' category.

Table 9. Grants Made Through the States 1981-82 to 1994-95

	Higher Education		Non-government Schools		Local Govt Assistance	ARC Grants	Coal Mining LSL	Total	Total	Total
	Current $m	Capital $m	Current $m	Capital $m	Current $m (a)	Current $m	Current $m	Current $m	Capital $m	$m
1981-82	1388	87	0	49	353	2	8	1750	136	1886
1982-83	1515	92	0	50	427	6	14	1962	142	2103
1983-84	1632	113	2	46	462	6	18	2120	159	2278
1984-85	1757	122	5	49	489	6	19	2276	171	2447
1985-86	1949	144	8	59	539	6	18	2519	203	2722
1986-87	1991	190	823	52	586	6	20	3425	242	3667
1987-88	2137	233	887	58	642	9	43	3718	291	4009
1988-89	2147	161	1008	68	664	12	29	3859	228	4088
1989-90	2261	128	1112	59	689	77	24	4163	187	4351
1990-91	2436	208	1198	73	711	169	23	4537	282	4819
1991-92	2665	235	1285	83	1046	238	23	5259	319	5578
1992-93	2884	263	1350	79	1092	273	23	5622	343	5965
1993-94	3153	191	1439	75	1135	296	23	6046	266	6313
1994-95	3421	99	1540	79	1182	294	23	6460	177	6638

(a) From 1991-92 includes funds previously paid as tied local government road grants to the States ($316m 91-92, $329m 92-93, $342m 93-94 and $356m 94-95).

FUTURE PRESENTATION OF GOVERNMENT FINANCIAL STATISTICS

At the 1990 Premiers' Conference, State and Commonwealth Governments agreed to improve performance and accountability by providing more appropriate financial information for decision making. A working group was formed to review the presentation of government financial statistics and its report is publicly available. At the 1991 Premiers' Conference respective governments agreed to publish in their budget documents from 1992-93 comparable data for the whole of their public sub-sector. Currently, this statement does not include separate tables on PTE activities. It is intended that separate tables will be included from the 1992-93 Budget.

STATEMENT 7 - STATISTICAL APPENDIX

INTRODUCTION

The Commonwealth Budget accounts for approximately 90% of total Commonwealth outlays. There are however, significant enterprises that conduct their activities through their own bank accounts and their transactions are not recorded in Budget sector statistics (see the section on Coverage in this Statement). This Appendix provides details on these transactions. Six tables are presented below. Tables I to III cover the transactions of all Commonwealth entities and Tables IV to VI cover Commonwealth general government activities. Tables in the statistical appendix to Statement 3 cover the outlays transactions of the Commonwealth budget sector.

Table I	Commonwealth Budget Sector Transactions by Economic Type
Table II	Commonwealth Non-budget Sector Transactions by Economic Type
Table III	Commonwealth Government Sector Transactions by Economic Type
Table IV	Commonwealth General Government Budget Sector Transactions by Economic Type
Table V	Commonwealth General Government Non-Budget Sector Transactions by Economic Type
Table VI	Commonwealth General Government Transactions by Economic Type

BACKGROUND TO THE TABLES ON THE COMMONWEALTH ADMINISTRATIVE AND GENERAL GOVERNMENT SECTORS

The Commonwealth Non-Financial Public Sector (ie excluding public financial enterprises to avoid the consolidation of significant financing transactions) can be viewed from the administrative or institutional sector perspective as outlined in the coverage section of this Statement.

Statistics on administrative sectors are published in budget documentation, with data for the non-budget sector based on information supplied by the ABS (up to the year just completed).

As part of a continuing process undertaken by Commonwealth, State and Territory Governments to improve the coverage and content of budget documentation (in particular to publish economic type statistics comparable with definitions and concepts used by the ABS), statistical tables on the general government budget, general government non-budget and total general government Commonwealth sectors up to and including the budget year have been included in this Statement since the 1989-90 Budget.

Terminology and layout of the six Tables are consistent with those used by the ABS in Government Finance Statistics (5501.0). The Net Financing Requirement aggregate, commonly referred to as the Net Public Sector Borrowing Requirement, has been introduced to provide a measure of a sector's demand for financing from the rest of the economy and overseas.

Provisions by PTEs for depreciation, superannuation etc are regarded as self-financing and are excluded from the measurement of the net financing requirement (provisions include superannuation and workers compensation reserves transferred into the Public Account). Where applicable, advances received from the budget sector are also excluded from the measure of the net financing requirement.

Current year estimates for the Commonwealth non-budget sector, which cover such large PTEs as Telecom, are not available from the ABS until some six months after the end of the previous financial year. Therefore Administrative Sector tables extend only to the previous year.

Commonwealth budget sector outlay tables, by economic type, for the budget and the three forward years are provided in the statistical appendix to *Statement 3*. Commonwealth General Government Budget sector data is derived from that table. Current year estimates for final consumption and gross capital formation of the Commonwealth General Government non-budget sector are derived from budget statistics on grants to the non-budget sector. Various indicators are used to project forward ABS figures for the previous year, thereby allowing statistics for the Commonwealth General Government sector to extend to the budget year.

ALIGNMENT OF BUDGET AND ABS STATISTICS

A major reconciliation of budget and ABS statistics during 1987-88 and documented in Statement 8 of the 1988-89 Budget Paper 1, resulted in a closer alignment of these sets of statistics. A major component of the alignment was the reclassification in budget statistics of primary industry charges and levies as revenue (budget and ABS statistics had been out of alignment in the treatment of these transactions since 1975-76). A regular review process has been established to achieve closer ongoing alignment of the statistics.

However there are some remaining differences:

- In the 1988-89 Budget, discounts and premiums on Treasury Bonds were brought above-the-line as outlays, and discounts on Treasury Notes were recorded at redemption rather than at issue. The ABS has since revised its advice on the appropriate treatment of security repurchase and premium transactions, holding that premiums should also be recorded at redemption and repurchase gains and losses net of accrued interest be recorded as financing transactions. As an interim measure, the ABS have adopted the revised treatment introduced in Budget statistics (but only from 1988-89);
- The revised treatment of PTEs' superannuation transactions as financing transactions, which increases outlays (final consumption expenditure) and provisions has not as yet been incorporated in ABS statistics for years prior to 1988-89; and
- The ACT became self-governing on 11 May 1989 and therefore in Budget statistics payments to the ACT from that date are recorded as grants or advances to/through other governments. However, the ABS treated the ACT as part of the Commonwealth until 30 June 1989.

A common comparison is that between ABS Commonwealth general government and Budget statistics. There are however, significant conceptual differences between the two.

The ABS series includes both budget and non-budget enterprises, the latter accounting for approximately 4% of general government outlays. Secondly, the consolidation of transactions of the general government sector results in the elimination of payments and receipts between budget and non-budget general government enterprises. Thirdly, there remains some differences in the classification of Budget sector transactions. Finally, in order to record transactions in the appropriate sector, the ABS imputes some transactions, for example the imputing of transactions to record the refund of the wool tax under the now defunct Reserve Price Scheme.

NOTES ON TABLES

TABLE I - Commonwealth Budget Sector

The Commonwealth budget sector consists of units that operate within the Public Account. Budget statistics are used in this table. The ABS no longer publishes statistics on the budget sector, however such data are the major contributor to the ABS's published general government statistics.

The ABS imputes the refund of the Wool Tax under the Reserve Price Scheme to the Budget Sector. Therefore this table has in some years a lower 'subsidies paid and taxes received' series than the equivalent table in the Appendix to Statement 3.

Budget and ABS budget sector Net Financing Requirements (NFRs) are comparable for 1988-89 and beyond as from that time the ABS has directly loaded Budget statistics into their processing system. However, there are differences in the comparability of individual series.

TABLE II - Commonwealth Non-budget Sector

The Commonwealth non-budget sector consists of units that operate outside the Public Account. This includes both GGEs, which largely depend upon budget funding (eg ABC) and provide public goods and services, and PTEs, which are largely self-financing and provide marketable goods and services.

ABS statistics are used in this table after adjustment for differences in ABS and Budget statistics on grants paid to the Non-budget sector. Apart from the effect of ACT self-government, these differences are minor from 1988-89.

TABLE III - Commonwealth Government Sector

The Commonwealth Government sector is derived by adding budget and non-budget data after excluding intra-sector transactions. The NFRs of the component sectors are additive.

TABLE IV - Commonwealth General Government Budget Sector

The Commonwealth General Government budget sector is derived by excluding transactions of budget PTEs (those recognised by the ABS) from Table I data. Only three such units are recognised in 1988-89 : ACT bus service and Forestry operations and the Royal Australian Mint (RAM). As a result of ACT self-government in May 1989, the ACT units no longer operate within the Public Account. In recent years the PTE transactions of RAM have not been significant. Therefore no PTE adjustments have been made to Table I figures from 1989-90.

TABLE V - Commonwealth General Government Non-budget Sector

ABS statistics are used in this table adjusted for differences in ABS and Budget statistics on grants paid to the Non-budget sector.

TABLE VI - Commonwealth General Government Sector

The Commonwealth General Government sector is derived from data in Table IV and V after excluding minor intra-sector transactions. The NFRs of the component sectors are additive.

Table I–Commonwealth Budget Sector Transactions by Economic Type ($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91
CURRENT OUTLAYS										
Final Consumption Expenditure										
Defence	4011	4648	5248	5887	6620	7157	7242	7582	8228	8875
Non-Defence	3404	3859	4604	5233	5890	6395	6777	7154	7299	8368
Total Final Consumption Expenditure	7415	8507	9852	11120	12509	13552	14018	14736	15526	17243
Current Transfer Payments										
Interest	2852	3444	4393	5653	7037	7940	7913	7483	7344	6158
Subsidies(a) (d)	1202	1331	1574	1823	1702	1684	1825	1704	1850	2843
Personal Benefit Payments	12850	15652	18376	20652	22339	24082	26819	25014	26325	30570
Grants to Non-Profit Institutions	462	609	723	879	967	1120	957	1101	1161	1152
Grants to Non-Budget Sector(a)	1184	1341	1468	1678	2052	2063	2435	6182	7980	8776
Grants To Other Governments	11421	13238	15189	16705	17974	19477	20879	21568	22922	24646
Grants Overseas	658	717	758	840	840	810	843	916	1070	1036
Other Transfers	–	–	–	–	–	3	4	5	7	5
Total Current Transfer Payments	30629	36376	42531	48228	52963	57310	61752	64140	68869	75186
TOTAL CURRENT OUTLAYS	38044	44883	52383	59348	65472	70862	75770	78876	84395	92429
CAPITAL OUTLAYS										
Gross Capital Formation (b)	306	447	441	573	611	560	626	534	687	971
Net Land and Intangible Assets	-28	-31	-52	-100	-111	-87	-378	-121	24	-65
Capital Transfer Payments										
Grants to Non-Budget Sector	206	261	262	387	516	679	665	322	104	100
Grants To Other Governments	1777	2229	2791	3164	3247	3250	3038	3062	3505	3896
Grants to Other Sectors	204	239	327	387	328	303	348	352	316	250
Total Capital Transfer Payments	2186	2729	3380	3938	4092	4232	4051	3736	3926	4245

Table I–Commonwealth Budget Sector Transactions by Economic Type ($m) (Continued)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91
Net Advances										
To Non-Budget Sector	19	226	–18	4	–99	–123	–46	29	–136	–260
To Other Governments	866	1056	1002	799	777	546	–46	–124	–485	–1858
To Other Sectors	122	80	151	114	119	106	–573	–110	–575	578
Total Net Advances	1008	1362	1136	918	796	530	–665	–205	–1197	–1540
TOTAL CAPITAL OUTLAYS	3471	4508	4904	5328	5388	5235	3635	3943	3440	3612
Contingency Reserve	–	–	–	–	–	–	–	–	–	–
TOTAL OUTLAYS	41515	49390	57287	64675	70860	76097	79405	82820	87835	96041
Tax Revenue (d)	38058	41195	45013	53208	59153	66671	75305	83667	91035	93078
Non–Tax Revenue	2951	3640	4236	4771	6019	6663	6083	4880	4627	4859
TOTAL REVENUE	41008	44879	49300	57979	65224	73466	81465	88713	95871	97937
FINANCING TRANSACTIONS	507	4512	7987	6696	5636	2631	–2061	–5893	–8036	–1896
Increase in Provisions (e)	29	37	20	115	172	273	–51	–179	–94	–914
NET FINANCING REQUIREMENT	478	4475	7967	6581	5464	2358	–2009	–5714	–7943	–982

(a) Current grants to PTE's are classified as subsidies and are not included in Grants to the Non–budget sector.
(b) Gross Capital Formation covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and stocks.
(c) Budget statistics are used to compile this table which can differ from equivalent ABS statistics (see notes on tables).
(d) In line with ABS treatment wool tax refunds are imputed to the Budget Sector reducing subsidies and tax revenue.
(e) Large negative provisions from 1990–91 are mainly due to the effects of PTEs establishing their own superannuation schemes, redundancy programs and lower PTE employer contributions. In line with ABS standards net receipts by general government of PTE employer contributions are classified as financing transaction. Provisions are deducted to determine the financing requirement because they are regarded as internally generated reserves.

Table II–Commonwealth Non–Budget Sector Transactions by Economic Type ($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91
Final Consumption Expenditure	1078	1205	1384	1554	1719	1952	2280	2297	3033	3331
Current Transfer Payments										
Interest	1056	1032	1280	1448	1772	1797	2377	2366	2730	3303
Subsidies	–21	22	17	16	162	126	256	204	160	176
Personal Benefit Payments	2	3	4	4	4	5	5	3400	4928	5418
Grants to Non–Profit Institutions	7	7	7	11	18	9	69	79	26	104
Other Transfers	23	33	31	31	52	53	93	112	133	132
Total Current Transfer Payments	1067	1097	1339	1510	2008	1990	2800	6161	7977	9133
TOTAL CURRENT OUTLAYS	2145	2302	2723	3064	3727	3942	5080	8458	11010	12464
CAPITAL OUTLAYS										
Gross Capital Formation (a)	2136	1496	2879	2479	3338	3394	3065	3890	8265	5481
Net Land and Intangible Assets	14	–7	10	4	50	38	40	221	133	86
Capital Transfer Payments	28	32	39	50	53	51	54	64	61	78
Net Advances	–4	41	54	27	148	32	31	26	7	–
TOTAL CAPITAL OUTLAYS	2174	1562	2982	2560	3589	3515	3190	4201	8466	5645
TOTAL OUTLAYS	4319	3864	5705	5624	7316	7457	8270	12659	19476	18109
REVENUE										
Grants from the Budget sector	1390	1602	1730	2065	2568	2742	3100	6504	8084	8876
Indirect taxes	–79	–59	–27	–62	–101	8	90	387	362	453
Interest, Rent, Dividends etc	227	207	171	279	406	452	680	915	942	929
PTE Net Operating Surplus (b)	1063	783	1319	2028	2316	1443	3281	3711	2574	1866
TOTAL REVENUE	2601	2533	3193	4310	5189	4645	7151	11517	11962	12124
FINANCING TRANSACTIONS	1718	1331	2512	1314	2127	2812	1119	1142	7514	5985
Increase in PTE Depreciation Provisions	604	708	944	855	1051	1198	1669	2062	2053	2317
Increase in Other Provisions	165	204	264	26	91	221	230	200	308	305
Net advances from Budget sector	19	226	–18	4	–99	–123	–46	29	–136	–260
NET FINANCING REQUIREMENT	930	193	1322	429	1084	1516	–734	–1149	5289	3623

(a) Gross Capital Formation covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and increase in stocks.
(b) Current grants to PTEs are classified as subsidies and included in net operating surplus of PTEs.
(c) ABS statistics are used to compile this table. Consumption, Gross Capital formation and grants and advances received are adjusted for Budget data(see notes to tables)

TABLE III–Commonwealth Government Sector Transactions by Economic Type ($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91
CURRENT OUTLAYS										
Final Consumption Expenditure	8493	9712	11236	12674	14228	15504	16298	17033	18559	20574
Current Transfer Payments										
Interest	3368	3855	4912	6299	7894	8868	9391	8864	9095	8389
Subsidies	1181	1353	1591	1839	1864	1810	2081	1908	2010	3019
Personal Benefit Payments	12852	15655	18380	20656	22343	24087	26824	28414	31253	35988
Grants to Non-Profit Institutions	469	616	730	890	985	1129	1026	1180	1187	1256
Grants to Other Governments	11421	13238	15189	16705	17974	19477	20879	21568	22922	24646
Grants Overseas	658	717	758	840	840	810	843	916	1070	1036
Other Transfers	–	–	–	–	–	3	4	2	7	5
Total Current Transfer Payments	29949	35434	41560	47229	51900	56184	61048	62852	67544	74339
TOTAL CURRENT OUTLAYS	*38442*	*45146*	*52796*	*59903*	*66128*	*71688*	*77346*	*79885*	*86103*	*94913*
CAPITAL OUTLAYS										
Gross Capital Formation (a)	2442	1943	3320	3052	3949	3954	3691	4424	8952	6452
Net Land and Intangible Assets	–14	–38	–42	–96	–61	–49	–338	100	157	21
Capital Transfer Payments										
Grants to Other Governments	1777	2229	2791	3164	3247	3250	3038	3062	3505	3896
Grants to Other Sectors	232	271	366	437	381	354	402	416	377	328
Total Capital Transfer Payments	2009	2500	3157	3601	3628	3604	3440	3478	3882	4224
Net Advances										
To Other Governments	866	1056	1002	799	777	546	–46	–124	–485	–1858
To Other Sectors	118	121	205	141	267	138	–542	–84	–568	578
Total Net Advances	984	1177	1207	940	1044	684	–588	–208	–1053	–1280
TOTAL CAPITAL OUTLAYS	5421	5582	7642	7497	8560	8193	6205	7794	11938	9417
Contingency Reserve	–	–	–	–	–	–	–	–	–	–
TOTAL OUTLAYS	43863	50728	60438	67400	74688	79881	83551	87679	98041	104330
REVENUE										
Taxation Revenue	37960	41107	44959	53119	*59006*	*66632*	*75307*	*83942*	*91264*	*93399*
Interest, Rent, Dividends etc	2634	3223	3642	4242	5506	6240	5860	4806	4590	4717
PTE Net Operating Surplus	1063	783	1319	2028	2316	1443	3281	3711	2574	1866
TOTAL REVENUE	41657	45113	49920	59389	66828	74315	84448	92459	98428	99982
FINANCING TRANSACTIONS	2206	5615	10518	8011	7860	5566	–897	–4780	–387	4348
Increase in Provisions	*798*	*949*	*1228*	*996*	*1314*	*1692*	*1848*	*2083*	*2267*	1708
NET FINANCING REQUIREMENT	1408	4666	9290	7015	6546	3874	–2745	–6863	–2654	2640

(a) Gross Capital Formation covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and increase in stocks.
(b) This table is derived by adding Tables I and II after deducting intra-sector transactions.

TABLE IV–Commonwealth General Government Budget Sector Transactions by Economic Type ($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92
CURRENT OUTLAYS											
Final Consumption Expenditure(c)	7418	8508	9855	11122	12511	13556	14020	14716	15526	17243	18611
Current Transfer Payments											
Interest	*2852*	*3444*	*4393*	*5653*	*7037*	*7940*	*7913*	*7483*	*7344*	*6158*	*6362*
Subsidies	1202	1331	1574	1823	1702	1684	1825	1704	1850	2843	2506
Personal Benefit Payments	12850	15652	18376	20652	22339	24082	26819	25014	26325	30570	34261
Grants to Non-Profit Institutions	462	609	723	879	967	1120	957	1101	1161	1152	1459
Grants to Non-Budget Sector	1184	1341	1468	1678	2052	2063	2435	6182	7980	8776	9016
Grants to Other Governments	11421	13238	15189	16705	17974	19477	20879	21568	22922	24646	26068
Grants Overseas	658	717	758	840	840	810	843	916	1070	1036	1093
Other Transfers	–	–	–	–	–	3	4	5	7	5	29
Total Current Transfer Payments	30629	36332	42481	48230	52911	57179	61675	63973	68869	75186	80795
TOTAL CURRENT OUTLAYS	38047	44840	52336	59352	65422	70735	75695	78689	84395	92429	99406
CAPITAL OUTLAYS											
Gross Capital Formation(c)	*301*	*446*	*435*	*568*	*603*	*548*	*606*	*532*	*687*	*971*	*1154*
Net Land and Intangible Assets	–28	–31	–52	–100	–111	–87	–378	–121	24	–65	–10
Capital Transfer Payments											
Grants to Non-Budget Sector	206	261	262	387	516	679	665	322	104	100	115
Grants to Other Governments	1777	2229	2791	3164	3247	3250	3038	3062	3505	3896	3588
Grants to Other Sectors	204	239	327	387	328	303	348	352	316	250	279
Total Capital Transfer Payments	2187	2729	3380	3938	4091	4232	4051	3736	3926	4245	3981

TABLE IV–Commonwealth General Government Budget Sector Transactions by Economic Type ($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92
Net Advances											
To Non-Budget Sector	19	226	–18	4	–99	–123	–46	29	–136	–260	147
To Other Governments	866	1056	1002	799	777	546	–46	–124	–485	–1858	–2691
To Other Sectors	122	80	151	114	119	106	–573	–110	–575	578	–489
Total Net Advances	1007	1362	1135	917	797	529	–665	–205	–1197	–1540	–3032
TOTAL CAPITAL OUTLAYS	3467	4506	4898	5323	5380	5222	3614	3942	3440	3612	2092
Contingency Reserve (d)	–	–	–	–	–	–	–	–	–	–	10
TOTAL OUTLAYS	41514	49346	57234	64675	70802	75957	79309	82631	87835	96041	101508
REVENUE											
Taxation Revenue	38058	41195	45013	53208	59153	66671	75305	83667	91035	93078	91163
Non-Tax Revenue	2972	3640	4234	4769	6014	6666	6079	4887	4627	4859	5613
TOTAL REVENUE	41030	44835	49247	57977	65167	73337	81384	88554	95871	97937	96776
FINANCING TRANSACTIONS	484	4511	7987	6698	5635	2620	–2075	–5923	–8036	–1896	4732
Increase in Provisions (e)	29	37	20	115	172	273	–51	–179	–94	–914	–1147
NET FINANCING REQUIREMENT	455	4474	7967	6583	5463	2347	–2024	–5744	–7943	–982	5879

(a) Budget sector PTE transactions, recognised by the ABS but not in Budget statistics, are deducted from Table 1 (Budget sector) to produce this table.
(b) Up to 1988–89 adjustments were made for ACT Buses and Forestry and the Mint. From 1989–90 adjustments are only necessary for the Mint following ACT self government on 11 May 1989. Since Mint PTE transactions are only minor in recent years no adjustments have been made to Table I figures from 1989–90.
(c) Budget sector Final Consumption and Gross Capital Formation are affected by PTE adjustments.
(d) An allowance for parameter revisions affecting the Budget and forward estimates which could not be included in detailed estimates. The bulk of the Contingency Reserve is allocated to specific economic type categories.
(e) Large negative provisions from 1990–91 are mainly due to the effects of PTEs establishing their own superannuation schemes,redundancy programs and lower PTE employer contributions. In line with ABS standards net receipts by general government of PTE employer contributions are classified as financing transactions. Provisions are deducted to determine the financing requirement because they are regarded as internally generated reserves.

TABLE V–Commonwealth General Government Non-Budget Sector Transactions by Economic Type($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92
CURRENT OUTLAYS											
Final Consumption Expenditure	1078	1205	1384	1554	1719	1952	2280	2297	3033	3331	3442
Current Transfer Payments											
Interest	1	1	1	4	6	7	5	108	54	30	45
Subsidies (c)	–21	22	17	16	162	126	256	204	160	176	194
Personal Benefit Payments	2	3	4	4	4	5	5	3400	4928	5418	5583
Grants to Non-Profit Institutions	7	7	7	11	18	9	69	79	26	104	115
Other Transfers	4	2	4	5	5	6	3	–7	–	–	–
Total Current Transfer Payments	–7	35	33	40	195	153	338	3784	5168	5728	5937
TOTAL CURRENT OUTLAYS	1071	1240	1417	1594	1914	2105	2618	6081	8201	9059	9378
CAPITAL OUTLAYS											
Gross Capital Formation	211	302	298	400	553	709	740	550	575	615	650
Net Land and Intangible Assets	3	–1	5	5	21	5	3	43	50	50	10
Capital Transfer Payments	28	32	39	50	53	51	54	64	61	78	90
Net Advances	8	13	10	13	19	25	31	26	7	–	7
TOTAL CAPITAL OUTLAYS	250	346	352	468	646	790	828	683	693	743	757
TOTAL OUTLAYS	1321	1586	1769	2062	2560	2895	3446	6764	8894	9802	10135
REVENUE											
Grants from the Budget sector	1390	1602	1730	2062	2568	2741	3099	6483	8075	8867	9122
Indirect taxes (c)	–79	–59	–27	–62	–101	8	90	387	362	453	504
Interest, Rent, Dividends etc	14	19	24	37	45	80	150	198	229	260	320
TOTAL REVENUE	1325	1562	1727	2037	2512	2829	3339	7068	8666	9580	9946
FINANCING TRANSACTIONS	–4	24	42	25	48	66	107	–304	228	222	189
Net Advances received	–	–	–	–	–	–	74	37	138	71	80
Increase in Provisions	–4	4	17	5	24	19	7	9	4	0	7
NET FINANCING REQUIREMENT (d)	–	20	25	20	24	47	26	–350	86	151	102

(a) Non-budget sector PTE transactions are deducted from Table II (Non-budget sector) to produce this table.
(b) Non-budget sector interest, other current transfers, capital transfers, gross capital formation, land, advances paid and indirect taxes are affected by PTE adjustments.
(c) Previously the ABS classified refunds of the wool levy as negative indirect taxes and subsidies in this sector. The ABS now imputes refunds to the Budget sector where they are received as negative subsidies and paid as negative revenue with no affect on the Budget balance (see table I).
(d) The previous treatment of wool support payments to the Australian Wool Corporation resulted in the receipt of the wool levy reducing the financing requirement of the general government sector while any buildup in stocks added to the financing requirement of the PTE sector. A new treatment has been introduced by the ABS whereby the receipt of wool support payments are recorded in the PTE sector.

TABLE VI–Commonwealth General Government Sector Transactions by Economic Type ($m)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92
CURRENT OUTLAYS											
Final Consumption Expenditure	8496	9713	11239	12676	14230	15508	16300	17013	18559	20574	22053
Current Transfer Payments											
Interest	2852	3444	4393	5653	7037	7940	7913	7483	7344	6158	6362
Subsidies	1181	1353	1591	1839	1864	1810	2081	1908	2010	3019	2700
Personal Benefit Payments	12852	15655	18380	20656	22343	24087	26824	28414	31253	35988	39844
Grants to Non-Profit Institutions	469	616	730	890	985	1129	1026	1180	1187	1256	1574
Grants to Other Governments	11421	13238	15189	16705	17974	19477	20879	21568	22922	24646	26068
Grants Overseas	658	717	758	840	840	810	843	916	1070	1036	1093
Other Transfers	–	–	–	–	–	3	4	5	7	5	29
Total Current Transfer Payments	29433	35023	41041	46583	51043	55256	59570	61474	65793	72108	77670
TOTAL CURRENT OUTLAYS	37929	44736	52280	59259	65273	70764	75870	78487	84352	92682	99722
CAPITAL OUTLAYS											
Gross Capital Formation	512	748	733	968	1156	1257	1346	1082	1262	1586	1804
Net Land and Intangible Assets	–25	–32	–47	–95	–90	–82	–375	–78	74	–15	0
Capital Transfer Payments											
Grants to Public Trading Enterprise	–	–	–	3	–	1	1	21	9	9	9
Grants to Other Governments	1777	2229	2791	3164	3247	3250	3038	3062	3505	3896	3588
Grants to Other Sectors	232	271	366	437	381	354	402	416	377	328	369
Total Capital Transfer Payments	2009	2500	3157	3604	3628	3605	3441	3499	3891	4233	3966

TABLE VI–Commonwealth General Government Sector Transactions by Economic Type ($ (Continued)

	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92
Net Advances											
To PTE Sector	19	226	–18	4	–99	–123	–120	–8	–274	–331	67
To Other Governments	866	1056	1002	799	777	546	–46	–124	–485	–1858	–2691
To Other Sectors	130	93	161	127	138	131	–542	–84	–568	578	–482
Total Net Advances	1015	1375	1145	930	816	554	–708	–216	–1327	–1611	–3106
TOTAL CAPITAL OUTLAYS	3511	4591	4988	5407	5510	5334	3704	4287	3900	4193	2664
Contingency Reserve (b)	–	–	–	–	–	–	–	–	–	–	10
TOTAL OUTLAYS	41440	49327	57268	64666	70783	76098	79574	82774	88252	96875	102396
REVENUE											
Taxation Revenue	37975	41134	44982	53141	59047	66673	75392	84061	91397	93531	91667
Non-Tax Revenue	2985	3658	4257	4802	6053	6739	6224	4977	4802	5089	5888
TOTAL REVENUE	40960	44792	49239	57943	65100	73412	81616	89038	96199	98620	97555
FINANCING TRANSACTIONS	480	4535	8029	6723	5683	2686	–2042	–6264	–7947	–1745	4841
Increase in Provisions (c)	25	41	37	120	196	292	–44	–170	–90	–914	–1140
NET FINANCING REQUIREMENT (d)	455	4494	7992	6603	5487	2394	–1998	–6094	–7857	–831	5981

(a) This table is derived by adding Tables IV and V after deducting intra-sector transactions.
(b) An allowance for parameter revisions affecting the Budget and forward estimates which could not be included in detailed estimates. The bulk of the Contingency Reserve is allocated to specific economic type categories.
(c) Large negative provisions from 1990-91 are mainly due to the effects of PTEs establishing their own superannuation schemes,redundancy programs and lower PTE employer contributions. In line with ABS standards net receipts by general government of PTE employer contributions are classified as financing transactions. Provisions are deducted to determine the financing requirement because they are regarded as internally generated reserves.
(d) The Net Financing Requirement may differ to that used in Statement 6 due to conceptual differences between ABS and Budget statistics

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