

BUDGET STATEMENTS

1987-88

CIRCULATED BY THE
HONOURABLE P. J. KEATING, M.P.,
TREASURER OF THE COMMONWEALTH OF AUSTRALIA, AND
SENATOR THE HONOURABLE PETER WALSH
MINISTER FOR FINANCE
FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 1987-88

BUDGET PAPER No. 1

1987-88 BUDGET PAPERS

Budget Speech

- No. 1 **Budget Statements 1987-88**
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 1987-88**
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- No. 5 **Commonwealth Capital Works Program 1987-88**
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- No. 6 **Women's Budget Statement 1987-88**
An assessment of the impact on women of the 1987-88 Budget.
- No. 7 **Australian Capital Territory Budget 1987-88**
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- No. 8 **Portfolio Explanatory Notes**
18 Volumes — Containing explanation of outlays 1986-87 and estimated outlays 1987-88 for each portfolio.
- No. 9 **Skills Formation in Australia**
Outlines new directions and priorities for skills formation, employment and training in 1987-88
- Report of the Auditor-General**
A report on the Financial Statements prepared by the Minister for Finance for the year ended 30 June 1987.
(This document is released post-Budget).

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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 and outlays, the sign in front of the 'change' reflects the impact of the change on the aggregate concerned. In outlays tables, for example, this means that a reduction in a credit from one year to the next will be prefixed by a (+) sign while an increase in a credit will be prefixed by a (-) sign. This convention applies equally to both '\$m' and '%' change.
- (c) The following notations are used:
- | | |
|---------|---|
| NEC/nec | not elsewhere classified |
| — | nil |
| .. | not zero, but rounded to zero |
| n.a. | not applicable (unless otherwise defined) |
| \$m | \$ million |
| \$b | \$ billion |
| % | per cent |

Budget Statements 1987-88 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 NO. 1—SUMMARY OF THE 1987-88 BUDGET

The budget deficit for 1987-88 is estimated at \$27m, compared with \$2716m in 1986-87. Relative to GDP, the 1987-88 budget deficit will be the lowest for more than thirty years. In only one year has the deficit been lower in current dollar terms (\$10m in 1970-71).

The major budget aggregates for 1987-88, together with comparable figures for 1986-87, are summarised below:

	1986-87			1987-88		
	Actual	Change on 1985-86		Estimate	Change on 1986-87	
	\$m	\$m	%	\$m	\$m	%
Outlays	74 899	4 981	7.1	78 146	3 247	4.3
Revenue—						
Tax	65 685	7 286	12.5	71 243	5 558	8.5
Non-tax	6 498	705	12.2	6 876	378	5.8
Total	72 184	7 991	12.4	78 119	5 935	8.2
Deficit (a)	2 716	-3010		27	-2689	

(a) The domestic and overseas components of the deficit are detailed in Statement No. 6.

Total budget outlays in 1987-88 are estimated to increase by only 4.3% in nominal terms.

- Total outlays in real terms are expected to decline by 2.4% (on the basis of the forecast increase of about 7% in the price deflator for non-farm GDP), following a fall of 0.8% in 1986-87.
- This is the only case of two consecutive real declines in total outlays in the past thirty years, and the expected 1987-88 real decline is the largest on record over that period.

Details of the 1987-88 Budget outlays estimates are provided in Statement No. 3. An historical overview of outlays is included in Statement No. 6.

Total budget revenue is estimated to increase by 8.2% in 1987-88, somewhat slower than the rise in 1986-87, principally because of the effect of the 1 December 1986 and the 1 July 1987 income tax rate reductions.

Details of the 1987-88 budget revenue estimates are provided in Statement No. 4. An historical overview of revenue is included in Statement No. 6.

The following table presents the 1987-88 budget aggregates expressed as percentages of forecast (current price) GDP, along with comparable data for recent years.

	1984-85	1985-86	1986-87	1987-88
	(% of GDP)			
Outlays	29.7	29.1	28.3	26.8
Revenue—				
Tax	24.4	24.3	24.8	24.5
Total	26.5	26.7	27.3	26.8
Deficit	3.1	2.4	1.0	0.0

The current year is expected to be the first since 1978-79, and only the third during the last thirty years, in which total outlays, revenue and the deficit have all fallen relative to GDP.

A discussion of the financing of the budget deficit in 1986-87 is provided in Statement No. 5; a longer historical overview is contained in Statement No. 6. Forward looking information on financing for 1987-88 is contained in Part III of Statement No. 2.

STATEMENT No. 2—THE BUDGET AND THE ECONOMY

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PART I: THE PAST YEAR

The past year saw further adjustment of the Australian economy to the external account difficulties that have been a major concern since 1985. In the wake of continued deterioration in Australia's terms of trade, another major exchange rate depreciation occurred in mid-1986, followed quickly by further significant adjustments to economic policy settings. As a result of these developments, domestic demand weakened in 1986-87 as a whole. The effect on national production was cushioned by a substantial increase in net export volumes brought about in large part by Australia's improved international competitiveness. Much of that competitiveness had been maintained through wage restraint. This contributed to reasonably strong employment growth, relative to national production, and unemployment changed little. In sum, adjustment has been proceeding without major disruption.

The adjustment task remains on-going; given its magnitude it can only be approached sensibly and sustainably with a medium-term orientation. The current account deficit, although significantly reduced, remains unsustainably high. Our large overseas debt is continuing to grow, although at a slower rate. Appropriate macroeconomic policies remain central to the adjustment process, and there is a need to complement these with an enhanced effort on a range of microeconomic policies. This is desirable to speed the adjustment process and, more generally, to improve the flexibility and adaptability of the Australian economy so that it emerges from this period of external account difficulty with greater capacity to weather such storms in the future.

As a prelude to reviewing domestic developments and policies, this Statement first examines overseas economic developments.

INTERNATIONAL ECONOMIC CONDITIONS

The current expansion phase of the world economy has lasted longer than past expansions, but the pace has now slowed and looks likely to remain sluggish for some time. An initial phase of rapid recovery gave way in 1985 to a slowing of growth in world output and trade. A further slowing of growth in 1986 was contrary to widely held expectations of some modest pick-up in industrial countries. Some conditions conducive to a pick-up were present: oil and commodity prices generally had fallen; inflation rates had declined to their lowest levels since the early 1960s; and nominal interest rates had come down.

Among the factors contributing to the slowing in activity over the past 18 months or so has been a weakening of confidence under the influence of persistently large current account imbalances, together with related instability in foreign exchange and financial markets and the associated failure by the major economies to implement adequate policy adjustments. Improved terms of trade and real national income, therefore, did not give rise to as strong an increase in domestic demand as expected. On the other hand, the terms of trade loss experienced by countries exporting oil and other commodities led to a contraction of their imports from the industrialised countries; largely as a result, net exports detracted from growth in the OECD area in 1986.

There are no conclusive signs of an early reversal of the growth slow-down. Following an increase of 2.5 per cent in 1986, real gross national product (GNP) in the OECD area could grow by around 2 to 2½ per cent in 1987 and 1988 (Chart

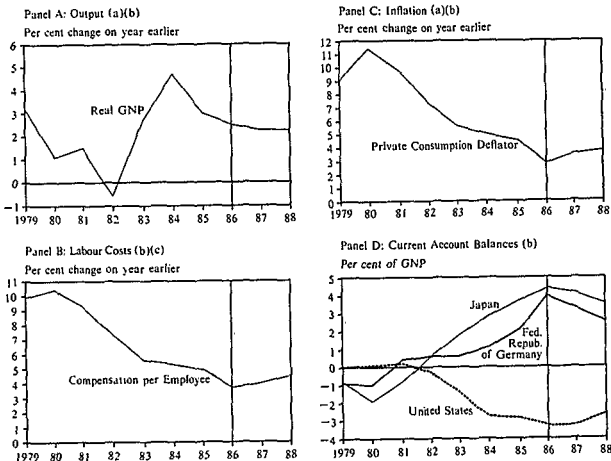
1, Panel A). Real growth in the developing countries is expected to moderate to about 3½ per cent in 1987 and to improve to a little over 4 per cent in 1988.

Employment growth in the OECD countries averaged around 1½ per cent per annum in 1985 and 1986. With the workforce growing at a similar pace, the unemployment rate has averaged around 8½ per cent and is expected to stay at that level.

Labour costs in the seven major OECD countries increased by less than 4 per cent in 1986, continuing the deceleration of the past few years (Chart 1, Panel B). Despite lower productivity growth, the increase in nominal unit labour costs slowed to 3 per cent, contributing to lower inflation.

In part as a result of the rebound in oil prices since late 1986, inflation has risen recently, particularly in the United States where an important additional factor has been the depreciation of the dollar over the past two years. The current inflation rate in the United States is around 4 per cent, whereas Japan and the Federal Republic of Germany are still experiencing virtual price stability. Inflationary expectations remain broadly in check in most OECD countries. Reflecting some pick-up in the United States, inflation for the OECD area is forecast to average about 4 per cent in 1987 and 1988 (Chart 1, Panel C).

Chart 1: Selected International Indicators



(a) Weighted average for OECD countries, based on 1982 GNP weights and exchange rates

(b) Actuals for 1979 to 1986, OECD forecasts for 1987 and 1988.

(c) Weighted average of seven major OECD countries, based on 1982 GNP weights and exchange rates.

As noted above, the large and persistent current account imbalances between the major industrialised countries constitute an important factor contributing to the present sluggishness in the world economy (Chart 1, Panel D). While those imbalances have continued to worsen in nominal terms, underlying trade volumes have been adjusting in response to the significant exchange rate realignments that have taken place ('J-curve' effects). The general expectation, however, is that under present policies the nominal imbalances will be corrected only gradually.

This situation, and the associated exchange rate instability, have focussed increased attention on economic policy coordination among the major industrialised countries over the past two years. At the 'Louvre' meeting in February 1987, the G5 countries and Canada agreed: to intensify efforts towards economic policy coordination; that exchange rate changes since the September 1985 'Plaza' meeting of the G5 had brought the major world currencies within ranges broadly consistent with underlying economic fundamentals; and that further depreciation of the US dollar could be counter-productive. (Between September 1985 and February 1987, the US dollar had declined by around 35 per cent against both the Yen and the Deutschmark.) While the US dollar has been somewhat more stable since the Louvre meeting, foreign exchange markets have remained unsettled. Over the period from the Louvre meeting to end-August 1987, the US dollar declined by a further 7 per cent against the Yen, but was virtually unchanged against the Deutschmark.

As large as the exchange rate changes have been, it is all too apparent that they need to be complemented by appropriate domestic economic policies in the major economies if the necessary adjustments are to be sufficiently prompt.

According to the OECD, the volume of world trade grew by 4 per cent in 1986. Imports of non-oil commodities by OECD countries increased by 4½ per cent, while their imports of manufactures increased by 8½ per cent. The volume of world trade is forecast to grow by around 4 per cent (annual rate) in the second half of 1987 and in 1988. OECD imports of manufactures are expected to grow at a slightly faster rate, but imports of non-oil commodities could grow by only around 2 per cent. Chart 2, Panel A contrasts the poor performance in the 1980s of trade in agricultural products and minerals relative to manufactures.

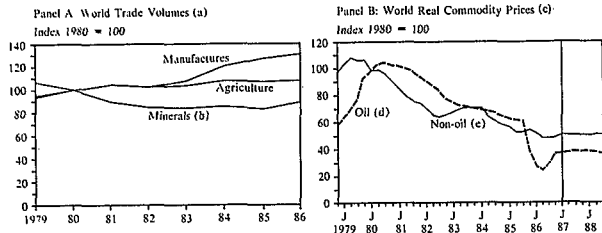
Trade tensions among the major industrialised countries have mounted over the past few years, prompting increased protectionist pressures and resort to restrictive bilateral trading arrangements. The major economies have done little to curb domestic protection of their agricultural sectors, while the United States has intensified its conflict with the European Community over agricultural export subsidies. Efforts by the major countries to pursue bilateral solutions to present trade tensions threaten both Australia's trading interests and the prospects for a return to a more open multilateral trading system.

International crude oil prices have recovered significantly from the low of around \$US10.80 per barrel in the third quarter of 1986. They averaged around \$US16.80 per barrel in the first half of 1987 and are estimated to have been around \$US17 to \$US17.50 at end-August 1987⁽¹⁾. Non-oil commodity prices on international markets (measured in US dollar terms) increased by about 10 per cent between late 1986 and mid-1987. In real terms, however, the International Monetary Fund's

(1) Average world oil prices are calculated in f.o.b. terms on a wide range of crudes. They reflect official, term and spot contract prices.

(IMF) non-oil commodity price index had reached a post-war low in late 1986 and has recovered only slightly since (Chart 2, Panel B).

Chart 2: World Trade and Commodity Prices



- (a) Data from the GATT Secretariat.
 (b) Includes fuels and non-ferrous metals.
 (c) Forecasts are based on IMF forecasts of non-oil commodity prices and an IMF working assumption that international oil prices will average \$US17.00 per barrel in 1987 and \$US17.60 per barrel in 1988. The assumption corresponds to constant real prices at the average level in the first half of 1987. This is the same technique used by the IMF in its World Economic Outlook exercises. (The OECD's working assumption for oil prices over this period is \$US18 per barrel.)
 (d) IMF index of average export prices in \$US for 12 major oil exporting countries relative to the OECD GNP deflator.
 (e) IMF index of world wholesale prices in \$US for selected primary commodities (excluding fuels and precious metals) relative to the OECD GNP deflator.

Continuing unused productive capacity and high stock levels for many commodities, combined with the prospects of slow world economic growth and active competition for export markets, remain dominant influences on the short-term outlook for commodity prices. While the prices of a number of industrial raw materials have picked up since the beginning of 1987, there must be some doubt about the general sustainability of these price increases given the amount of excess capacity which can be brought on stream.

A worrying feature of the current situation is the persistence of external debt problems. A number of developing countries, particularly in Latin America and sub-Saharan Africa, continue to face serious debt servicing difficulties, which are exacerbated by the slow growth of world trade and the market restrictions they face. The international economic environment and the unwillingness of commercial banks to increase their net lending to heavily-indebted middle-income countries have contributed to the disappointing progress so far achieved by the Baker Plan. The prescriptions of the Plan nevertheless remain valid: a combination of growth-oriented adjustment in the debtor countries supported by adequate flows of external financing, and sound policies in the industrial countries leading to sustained world economic expansion.

Policies and Prospects

The prospect of subdued growth in world output and trade, slow correction of external imbalances in the major industrial countries and the associated risk of bouts of general currency instability, suggest that the international economic environment is likely to remain unhelpful to Australia over the remainder of 1987 and 1988. Recent improvements in some commodity prices have not yet reached the point of heralding a sustained general upturn. The IMF's non-oil commodity price index is forecast to remain virtually flat in real terms over the next year (Chart 2, Panel B). It does appear, however, that the decline in Australia's terms of trade has at least halted.

The size of the United States' fiscal deficit remains an obstacle to balanced and improved world economic growth. Recent indications point to a lower than expected fiscal deficit in FY1987 (around 3½ per cent of GNP compared with last year's outcome of 5.3 per cent), but suggest only a modest further reduction, if any, in FY1988.

A basic prerequisite for faster correction of current account imbalances is greater adjustment of macroeconomic policy settings in the major industrialised countries, resulting in slower domestic demand growth in the United States, offset by quicker demand growth in the current account surplus countries, particularly Japan and the Federal Republic of Germany. The other key requirement is greater attention everywhere to overcoming domestic inefficiencies and impediments to freer world trade.

Some progress has been made by the major economies in implementing their general commitments in various international fora to improving world growth prospects and fostering adjustment. While monetary policy has generally been more accommodating, there has been some firming recently, particularly in the United States against a background of currency weakness and emerging inflationary pressures. Considerable reliance on monetary policy will persist in the absence of adequate adjustments to other macroeconomic policy settings.

Japan has announced a package of fiscal measures totalling 6 trillion yen which will begin to apply in FY1987 (equivalent to 1.8 per cent of Japan's GNP). The Federal Republic of Germany has increased the scale of tax cuts scheduled for 1988 and has indicated a preparedness to do more if serious risks to domestic demand growth emerge.

At the OECD Ministerial Council Meeting in May 1987, Ministers noted that, despite progress in recent years, OECD countries are still hampered by major market distortions and regulations that compound macroeconomic problems and retard growth. From Australia's perspective, an encouraging first step was taken at the Meeting in reaching agreement on principles for reform of member countries' agricultural policies. Also encouraging was the inclusion of trade in agriculture in the current General Agreement on Tariffs and Trade (GATT) negotiations.

It would be unwise, however, for Australia to count on any early relief from current external constraints to its trade performance and growth. Even with more enlightened policies on the part of the major players, the associated correction of trade imbalances and the protectionist sentiment they have fostered would be slow. Moreover, the increasing recognition of the costs of agricultural protection and

subsidisation policies and the attempts to negotiate them away in the current GATT round will, at best, result in only a gradual removal of agricultural trade barriers.

Of course, quite apart from the difficult world environment, there are good reasons to strive to improve the efficiency and productiveness of the Australian economy. Those external difficulties do suggest, however, that achieving a return to sustainable increases in living standards will be even more critically dependent on achieving lasting advances in efficiency and productivity.

DOMESTIC DEVELOPMENTS

Australia's terms of trade declined further in 1986-87, although to a smaller extent than over the previous eighteen months (Chart 3). After reaching a post-war low in the December quarter, there was a slight improvement during the second half of the year.

Chart 3: Australia's Terms of Trade (a)



(a) As measured by the ratio of the implicit price deflator for exports of goods and services to the implicit price deflator for imports of goods and services.

External exigencies have remained the major influence shaping the domestic economy and economic policy. In response, the policy approach has been directed primarily at:

- maintaining international cost competitiveness, by seeking to insulate the domestic wage structure from the inflationary effects of the depreciation of the Australian dollar and to improve productivity; and
- dampening domestic demand in the near term while moving steadily to correct the domestic saving-investment imbalance through a progressive reduction in the public sector's call on national savings.

The Policy Mix

Following the further depreciation of the Australian dollar in mid-1986, monetary policy was tightened until the adjustments in fiscal policy and wage determination, then in train, took hold. Prolonged reliance on monetary policy would have had adverse effects on investment, including in export and import-replacing activities.

The easing in monetary conditions envisaged at budget time last year took some time to emerge. Early in 1986-87, markets were uncertain that fiscal and wages policy adjustments would be adequate. There was also scepticism about the budget deficit estimate, concern at the extent of prospective State funding requirements and hence the size of the *public sector borrowing requirement* (PSBR), and unease at the future direction of wage determination. Moreover, largely reflecting seasonal influences, the current account deficit remained high in the first part of the year, although no more so than officially forecast.

As the year progressed, the effects of the shift in policy mix began to materialise. Developments in the economic indicators by and large confirmed that the desired adjustment was occurring. Wage fixation arrangements were clarified and the fiscal situation was reinforced by the announcement of a new round of fiscal tightening. The outcomes of this round were embodied in the May 1987 *Economic Statement* and the subsequent Premiers' Conference/Loan Council decisions. Moreover, the 1986-87 *Budget deficit outcome* was below the budget estimate and well below market expectations. Reflecting all those influences, interest rates declined as 1986-87 progressed.

The budget-time outlook had been for growth in *gross domestic product* (GDP) in 1986-87 of 2½ per cent, compared with 4.5 per cent in 1985-86, comprising a slowing in domestic demand (as measured by gross national expenditure) from 3.3 per cent to ½ per cent and an increase in the net exports contribution from 1.2 to 1½ percentage points. Such a shift in the pattern of growth occurred; indeed (as elaborated below), with a more marked slowing in domestic demand and a larger net exports contribution. Overall, domestic production grew by 2.0 per cent, marginally less than the forecast of 2½ per cent.

Private Sector Demand

Private final domestic demand (excluding stocks) declined by 0.2 per cent in 1986-87 (a decline of 1.6 per cent including private non-farm stocks) (Chart 4 and Table 1, which also show movements in the major components).

Growth in *private final consumption expenditure* of only 0.5 per cent⁽²⁾ in 1986-87 was a major factor in the weakness in private demand. In per capita terms, consumption fell by 1.0 per cent in 1986-87, the first such fall since 1961-62.

(2) This figure could be subject to some upward revision. The statistical discrepancy in the National Accounts contributed 0.4 of a percentage point to GDP growth in 1986-87. It particularly contributed to stronger growth in the final quarter. The Australian Bureau of Statistics (ABS) has advised that there is evidence to suggest that the 'expenditure-based' GDP estimates for recent years have been under-estimated. In particular, preliminary indications from the 1985-86 Retail Census suggest that certain components of private final consumption expenditure will be revised upwards when final Retail Census data become available later in 1987.

Chart 4: Contributions to Changes in Gross Domestic Product
Average 1979-80 prices, seasonally adjusted, percentage points

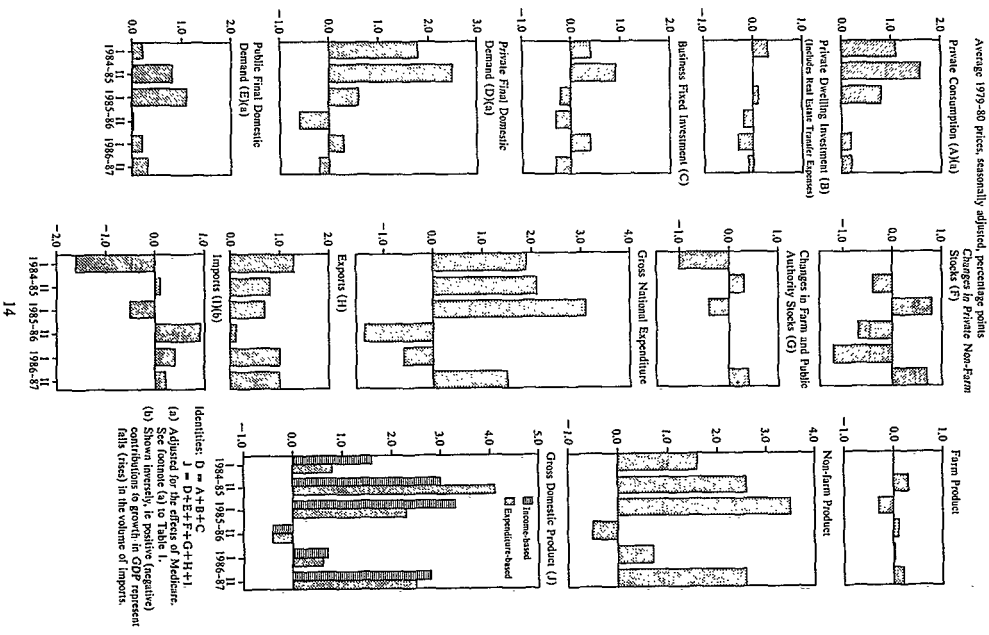


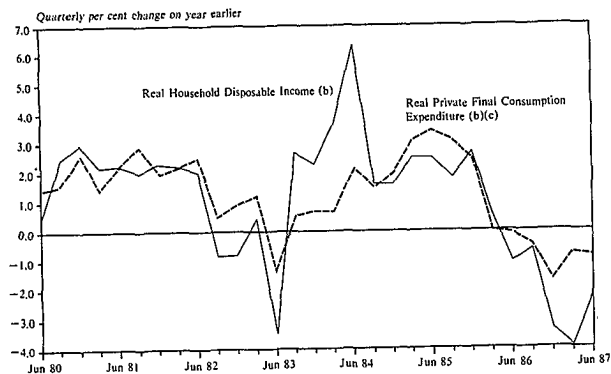
Table 1: Components of Gross Domestic Product (average 1979-80 prices)

	Final domestic demand											GDP adjusted for the terms of trade (d)	
	Private consumption (a)	Private investment in dwellings	Private business fixed investment (b)	Private final demand (c)	Private final demand including stocks (e) (c)	Public final demand (a)	Gross national expenditure	Exports of goods and services	Imports of goods and services	Farm product	Non-farm product		GDP
Average: 1977-78 to 1986-87 (e)	2.6	-0.5	3.1	2.4	2.2	2.8	2.5	4.7	2.8	2.0	2.9	2.9	2.4
(Per cent change on previous period)													
Year—													
1977-78	1.5	-7.9	2.2	0.8	-1.1	2.8	-0.3	2.1	-4.8	-1.9	1.1	0.9	-0.7
1978-79	3.3	2.4	13.6	4.6	5.0	2.1	5.2	6.7	7.6	18.7	4.1	5.0	5.2
1979-80	2.5	9.9	-3.4	2.2	3.1	1.3	0.5	7.4	0.1	-11.6	2.7	1.7	2.3
1980-81	3.5	12.0	16.6	5.8	5.2	2.3	5.5	-5.5	9.0	-10.1	3.8	2.9	2.8
1981-82	4.0	-1.8	12.2	4.5	4.5	2.6	3.9	1.3	11.2	15.8	1.4	2.1	1.8
1982-83	1.8	-22.2	-13.3	-2.4	-4.6	2.5	-2.7	0.9	-8.7	-19.9	0.2	-1.0	-1.3
1983-84	2.6	7.9	-4.8	2.2	3.7	2.9	5.0	7.4	5.8	37.7	3.6	5.2	5.9
1984-85	3.9	11.9	11.1	5.3	6.4	3.4	3.7	13.8	15.3	2.3	5.5	5.3	4.8
1985-86	2.2	-0.6	0.2	2.1	2.4	5.6	3.3	6.5	0.1	-1.5	4.9	4.5	2.6
1986-87	0.5	-10.6	0.9	-0.2	-1.6	1.3	-0.3	7.5	-4.8	2.8	1.9	2.0	0.9
(Percentage point contribution to growth) (f)													
Year—													
1983-84	1.6	0.3	-0.5	1.7	2.8	0.8	5.1	1.2	-1.1	1.8	3.4	5.1	5.1
1984-85	2.3	0.5	1.1	4.0	4.8	0.9	5.8	2.3	-2.8	0.1	5.1	5.1	5.1
1985-86	1.7	..	..	1.6	1.8	1.4	3.3	1.2	..	-0.1	4.6	4.6	4.6
1986-87	0.3	-0.5	0.1	-0.1	-1.2	0.3	-0.3	1.4	0.9	0.2	1.8	1.8	1.8

(a) The introduction of Medicare from 1 February 1984 had the effect of transferring certain expenditures on health care, formerly included as private final consumption expenditure, to public final consumption expenditure. Figures have been adjusted where necessary to allow for this effect.
 (b) Private business fixed investment comprises expenditure on non-dwelling construction and equipment.
 (c) Includes private non-farm stocks.
 (d) Gross Domestic Product (income-based estimate) with adjustment for the change in the terms of trade effect; see explanatory notes to 'Quarterly Estimates of National Income and Expenditure', March quarter 1986, ABS Cat. No. 5206.0.
 (e) Annual average change for the period.
 (f) See footnote (b) to Table 2 of the Round-up produced by the Treasury.

The weakness in private consumption was associated with a fall in *real household disposable income* of 1.2 per cent (Chart 5 and Table 2). This was the first fall in real household disposable income since 1957-58. The effects of the decline in average real wage and salary earnings and falling farm incomes outweighed the contributions from growth in employment and interest income, and the 1 December 1986 tax cuts. Certain revenue and cash benefit measures adopted in the 1986-87 Budget also had the effect of restraining real household disposable incomes.

Chart 5: Real Per Capita Income and Consumption (a)



- (a) Population figures used to derive the per capita values are, to the December quarter 1986, from ABS Cat. No 3101.0; thereafter, Treasury estimates.
 (b) Deflated by the implicit price deflator for private final consumption expenditure.
 (c) Adjusted for the effect of the introduction of Medicare; see footnote (a) to Table 1.

Consumers partly cushioned the impact on consumption of falling real disposable income by reducing their savings; as can be seen in Table 2, the *saving ratio* fell by 1.5 percentage points.

Consumption of durable goods fell by 8.9 per cent. Explanatory factors, beyond falling real incomes, included relatively high real interest rates, the subdued level of new dwelling completions, and relative price increases for durables. Sales of motor vehicles, in particular, fell sharply, with imported vehicles being more than proportionately affected. The main reason for the slump in sales of imported items was the increase in the price of goods⁽³⁾ bought from countries (such as Japan) against whose currencies the Australian dollar has fallen the most.

(3) For example, between the December quarter 1984 and June quarter 1987, the motor vehicle component of the CPI rose by 42.0 per cent compared with 23.0 per cent for the All Groups CPI.

Table 2: Real Household Income, Saving Ratio and Consumption (average 1979-80 prices)

	Real Household Disposable Income (a)	Real Private Final Consumption Expenditure	Saving Ratio (b)
	Percentage change on previous period	Percentage change on previous period	Per cent
Average: 1977-78 to 1986-87 (c)	2.2	2.6	10.6
Year—			
1977-78	0.8	1.5	11.9
1978-79	3.4	3.3	12.0
1979-80	0.6	2.5	10.4
1980-81	3.8	3.5	10.7
1981-82	4.2	4.0	10.8
1982-83	0.1	1.8	9.4
1983-84	4.7	2.6(d)	11.4
1984-85	3.2	3.9(d)	11.1
1985-86	2.4	2.8	10.8
1986-87	-1.2	0.5	9.3

- (a) Deflated by the implicit price deflator for private final consumption expenditure.
 (b) Ratio of household saving to household disposable income.
 (c) Annual average for the period, except for the saving ratio, which is the average level for the ten years to 1986-87.
 (d) Adjusted for the effect of the introduction of Medicare; see footnote (a) to Table 1.

Growth in non-durable goods consumption of 1.7 per cent was attributable significantly to growth in the housing rental component (which is dominated by the imputed rent for owner-occupied dwellings); consumption of food fell by 1.3 per cent in per capita terms.

Investment in dwellings fell by 10.6 per cent in 1986-87, consistent with a macroeconomic backdrop of relatively high real interest rates and a fall in real household income. In addition, investor demand for residential properties appears to have weakened because of lower returns relative to equities and other financial assets.

The April 1986 housing package included a commitment by the savings banks to approve \$6 billion in housing finance for owner-occupation during 1986-87. That target was surpassed by just over \$3 billion (after adjustment for the entry of new savings banks that were not party to the housing package).

Despite this increased lending by savings banks, but consistent with price—rather than availability—being the constraint on the demand for housing finance, the total number of finance approvals for owner-occupation increased by only 1.3 per cent in 1986-87. Within the total, the number of finance approvals rose by 5.3 per cent for established dwellings but fell by 10.3 per cent for new dwellings. The reasons for this divergence appear to include the following:

- the lending figures for established dwellings since April 1986 have been inflated by the inclusion of savings bank loans which have refinanced higher cost housing loans taken out with other institutions prior to savings bank mortgage interest rate deregulation; and
- the relative price of established to new housing had fallen from late 1985 to the June quarter 1987, making the former relatively more attractive.

Business fixed investment grew by 0.9 per cent (Chart 6, Panel A), above the budget-time estimate (1 per cent fall) and a marginal improvement on the 1985-86 growth of 0.2 per cent. Growth was confined to non-residential building and construction investment, which increased by 15.0 per cent from already buoyant levels in 1985-86. Investment in plant and equipment, however, declined by 3.9 per cent. Among the macroeconomic factors that contributed to that decline were:

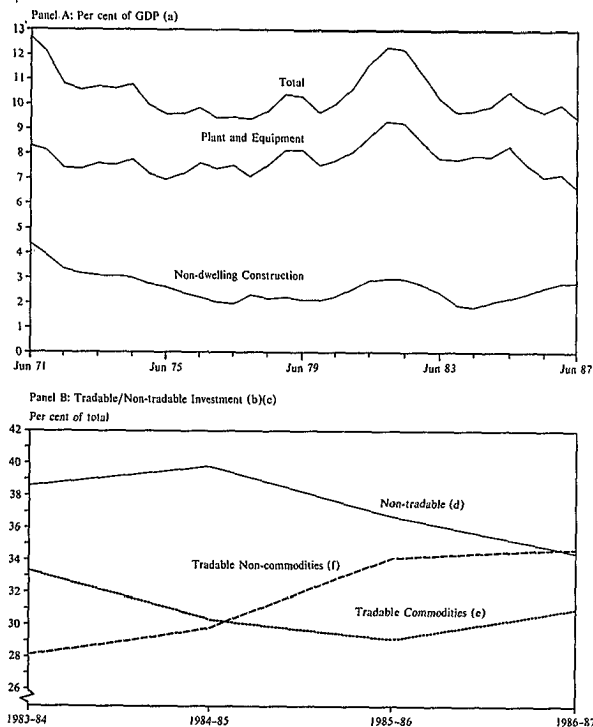
- continued high levels of real interest rates;
- uncertainty over Australia's ability to maintain its competitiveness gains over the medium term;
- the depreciation-induced increase in the real cost of imported investment goods, for example, commercial vehicles;
- under-utilised capacity in some sectors; and
- while the gross operating surplus share for the private non-farm corporate sector fell only slightly, increased interest payments continued to erode retained earnings.

A shift in investment towards the tradables sector is a necessary part of the external adjustment process. Chart 6, Panel B provides an indicative classification of private new capital expenditure since 1983-84 as between tradable and non-tradable industries. These indications must, however, be severely qualified by two main factors. First, expenditure undertaken by the largest sector (finance, property and business services) in the ABS investment survey from which the data are derived cannot be classified because leased plant is presently shown with the industry of ownership (that is, finance), rather than the industry of use (such as mining, manufacturing and transport). Second, the classification of the output of industries as either tradable or non-tradable is necessarily somewhat arbitrary. For example, hotel construction (which showed strong growth in 1986-87) is classified as 'non-tradable', even though a significant component of recent investment is aimed at the foreign tourist market.

Subject to those caveats, the Chart indicates some shift over the past two years in the composition of investment towards tradable industries, particularly non-commodity tradable industries. (Unlike the situation faced by most commodity tradable industries, the benefit of the depreciation of the Australian dollar to the non-commodity tradable industries has generally not been offset by a deterioration in the world price of their output.) A substantial expansion in investment in the tradable sector does not necessarily require an increase in total investment but can—in line with current relative price incentives—occur at the expense of investment in non-tradables.

While the real cost of new capital plant and equipment is estimated to have risen by an estimated 134 per cent over the last three years (importantly reflecting a high import content), real wages declined, indicating a large relative price shift. Accordingly, some increase in the use of labour relative to capital in the production process was to be expected. This substitution tendency implies a lesser constraint on output growth than the relatively subdued levels of investment to output might at first sight imply. It appears to have been an important reason for the resilience of employment growth in 1986-87, despite the slow-down in production (of which more below).

Chart 6: Private Business Fixed Investment



(a) Based on National Accounts constant price data (average 1979-80 prices).

(b) Source: ABS Cat. No. 5626.0 and unpublished data.

(c) Share of total real investment excluding investment in the finance, property and business services sector which includes leased capital used in other sectors.

(d) Other selected industries (electricity, gas and water, wholesale trade, retail trade, transport and storage, and other non-manufacturing).

(e) Mining sector and the manufacture of food, beverages and tobacco (the rural sector is excluded from the survey).

(f) Manufacturing sector excluding food, beverages and tobacco.

There was anecdotal evidence during 1986-87 of a number of older manufacturing facilities being brought back into production for import replacement and export activities, as might be expected given the relative price shift in favour of the tradables sector.

Taking account of the greater use of labour relative to capital, strong growth in building and construction, and some recommissioning of plant and equipment, it would seem that the historically subdued level of overall investment has not so far hampered the expansion of resource flows to the tradables sector, nor been a major constraint on overall growth in production.

Private non-farm stocks detracted a sizeable 1.1 percentage points from GDP growth in 1986-87 (Chart 4, Panel F), while *farm and public authority stocks* had a neutral effect. The *non-farm stocks-to-sales ratio* in the June quarter was the lowest recorded, reflecting the continuing effect of high real interest rates, the spread of more efficient stock management techniques, falling import demand and the continuing relative growth of (low stock-holding) service industries.

Public Sector Demand

The major objectives of fiscal policy in 1986-87 were to further restrain household incomes and domestic demand, and to reduce the *gross* and *net PSBR*. The budget deficit of \$2,715 million (1.0 per cent of GDP) was less than half the 1985-86 outcome of \$5,726 million (2.4 per cent of GDP) and \$788 million below the budget estimate. Initial expectations by many commentators were that there would be a significant overrun on the budget deficit, as well as a significant offset to the implied reduction in the Commonwealth's net borrowing requirement through higher State borrowings. As the year unfolded, it became apparent that the reduction in the Commonwealth's Budget deficit would be achieved. Furthermore, preliminary government finance data suggested that borrowings by the State and local government sector would be more restrained than initially expected.

Total *public sector outlays* increased by 0.7 per cent in real terms in 1986-87. Although Commonwealth Budget outlays fell by 0.8 per cent, total Commonwealth Government sector outlays fell by less (0.4 per cent), reflecting the public airlines' re-equipment programs. State and local government outlays, on the other hand, grew by 1.0 per cent.

An important factor contributing to the fall in domestic demand was a slowing in the growth of total *public sector final demand* (Chart 4, Panel E). It grew by only 1.3 per cent in 1986-87, the lowest rate since 1979-80. *Public final consumption expenditure* grew by 1.7 per cent, the lowest rate since 1981-82. *Public gross fixed capital expenditure* grew by only 0.4 per cent. Although increased public sector final demand contributed significantly to stronger domestic demand growth in the final quarter of 1986-87, this was brought about by a bunching of Commonwealth consumption expenditures in that quarter; for 1986-87 as a whole, Commonwealth consumption expenditures declined by 0.2 per cent.

The decline in the net PSBR—1.2 percentage points of GDP—was slightly smaller than the decline in the Commonwealth's Budget deficit because of a small increase of 0.1 percentage point in the net borrowing requirement of the State and local government sector. This represented some amelioration of the trend since

1984-85 of a declining Commonwealth borrowing requirement being partially offset by increased State and local government sector borrowings in net terms.

These trends are analysed in the new Budget Statement No. 7 which, for the first time, disaggregates the public sector into general government and public trading enterprises. Statement No. 7 also provides details on longer-run trends in public sector outlays and revenues. Details of the 1986-87 Budget outcome are provided in Budget Statement No. 5.

Total Domestic Demand, Net Exports and Gross Domestic Product

The weakening in domestic demand evident in the latter part of 1985-86 continued into 1986-87, with *gross national expenditure* (GNE) falling by 0.3 per cent.

As anticipated, a strong external performance cushioned production. Growth in *net exports* contributed 2.3 percentage points to GDP growth in 1986-87, compared with 1.2 percentage points in 1985-86. This partly reflected falling import demand related to weaker domestic demand and import replacement. More importantly, export volumes responded strongly to the significant real depreciation since 1985. In total, the net export contribution was double that in 1985-86. Output growth of 2.0 per cent was the result. The switch from domestic to net external demand in 1986-87 without a slide into recession was an encouraging aspect of the external adjustment process.

Labour Market

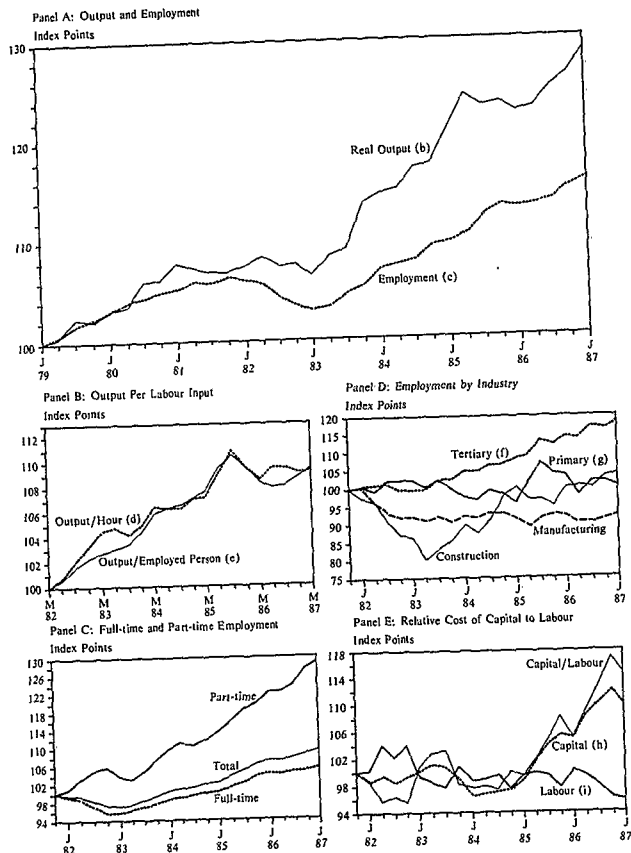
There has been general resilience in *employment* growth over the last two years (Chart 7, Panel A). Particularly during the period of weakness in output in 1985-86 and early 1986-87, the labour market was substantially more buoyant than the trend relationship between output and employment would suggest (Chart 7, Panel B⁽⁴⁾). In 1986-87 as a whole, employment growth of 2.3 per cent (Panel A of Charts 7 and 8, and Table 3) was somewhat above that of non-farm product (1.9 per cent).

A number of possible explanations of the good employment performance during the period of weakened output growth have been advanced. These include the increased share of part-time employment (so that employment growth measured on a per worker basis might overstate the actual increase in labour input in terms of aggregate hours worked); the possibility that activity was stronger than presently measured; changes in the output mix in favour of labour-intensive products; 'labour hoarding' during the output slow-down; and substitution of labour for capital in the production process in response to a decrease in the relative price of labour.

It is obviously very difficult to disentangle these possible causes. As ever, doubts must be attached to initial estimates of GDP and it is notoriously difficult to draw firm conclusions about the relationship between output and employment on the basis of aggregate data, particularly preliminary estimates. However, some points can be made. Although *part-time employment* has been growing faster than *full-*

(4) This Chart is based on *non-farm GDP* at market prices, a commonly used measure of output. A similar story, although less marked, emerges for non-farm GDP at factor cost, a measure which does not include indirect taxes and subsidies and therefore better reflects the value of production net of government effects. The value of indirect taxes less subsidies declined quite steeply between the June quarter 1985 and June quarter 1986, meaning GDP at market prices slowed more than GDP at factor cost over this period.

Chart 7: Labour Market Indicators (a)



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- (a) Seasonally adjusted except for Panels D and E. Base period for Panels B to E is the March quarter 1982, the pre-recession peak in total employment, while that for Panel A is the June quarter 1979.
 (b) Real non-farm product at market prices.
 (c) Non-farm employment.
 (d) Non-farm product per total hours worked (smoothed using a weighted, centred, three quarter moving average).
 (e) Non-farm product per non-farm employed person (smoothed using a weighted, centred, three quarter moving average).
 (f) Industries included: wholesale and retail trade; finance, property and business services; community services; transport and storage; recreational, personal and other services; electricity, gas and water; public administration and defence, and communications.
 (g) Industries included: mining; agriculture; forestry, fishing and hunting.
 (h) Real price of new plant and equipment (the deflator for investment in plant and equipment divided by the non-farm product deflator).
 (i) Average real labour cost index (wages and salaries, supplements, payroll tax, and fringe benefits tax per hour worked by wage and salary earners, deflated by the non-farm product deflator).

time employment (Chart 7, Panel C), average hours worked per employee have been stable (reflecting mainly an increase in average hours worked by part-time employees). Treasury estimates indicate that aggregate hours worked increased by about the same as employment in 1985-86, and only a little more than employment in 1986-87. Measured labour productivity has thus not been greatly different on an hours worked basis (Chart 7, Panel B). Changes in output mix—in particular, the relative growth of the service industries (which are generally more labour-intensive) (Chart 7, Panel D)—appear to have contributed in so far as the slow-down in service employment was less marked than in other areas of the workforce. The recent improvement in international competitiveness has had an early, large effect on tourism, for example. However, there is a question whether the growth of service industries above established trends has been substantial enough to account for the major part of the observed shift in the aggregate output/employment relationship.

As is usual in periods when activity slows temporarily, labour hoarding was no doubt present. The relative buoyancy of employment growth also seems to owe a good deal to factor substitution flowing from the now sustained fall in the relative cost of labour. Real labour costs per hour decreased by around 3.1 per cent from the June quarter 1984 to the June quarter 1987. The real cost of purchasing new plant and equipment increased by an estimated 13½ per cent over the same period (Chart 7, Panel E); real interest rates also rose over this period. It is this relative

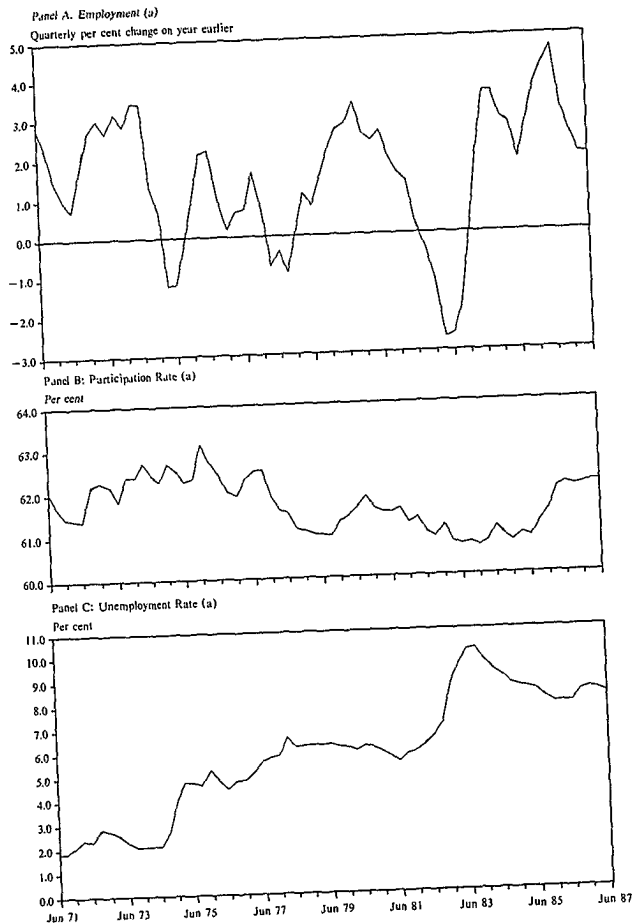
Table 3: Employment, Unemployment and the Labour Force

Year—	Employment		Labour Force		Unemployment (a)		Unemployment benefit recipients (c)	
	Part-time (a)	Full-time	Total (a)	Total (a)	Participation rate (a) (b)	Total unem-employment rate (a) (b)		Mean duration of unem-employment (c)
	(Per cent change on a year earlier)			(Per cent)		(Weeks) (Per cent)		
1982-83	4.2	-2.9	-1.7	1.3	60.9	8.9	32.9	87.0
1983-84	1.8	0.7	0.9	1.7	60.8	9.5	42.0	91.8
1984-85	5.2	2.2	2.8	1.6	60.9	8.5	46.0	94.8
1985-86	6.5	3.3	3.8	3.1	61.7	7.9	46.9	95.5
1986-87	5.4	1.6	2.3	2.8	62.0	8.3	47.1	90.6

- (a) In April 1986, the ABS extended the definition of employment to include unpaid family helpers in a farm or business who had worked 1 to 14 hours. The revised series is available from March 1985, at which point the Treasury has linked the old and new series.
 (b) The civilian labour force as a percentage of the civilian population aged 15 and over.
 (c) The number of unemployment benefit recipients as a percentage of the total number of unemployed persons. Note that the definition of 'unemployed persons' used in the ABS series differs from the eligibility requirements for unemployment benefits.

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Chart 8: Labour Market Aggregates



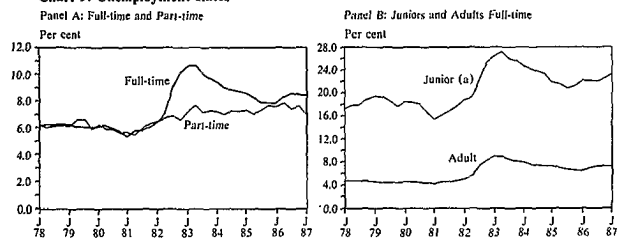
(a) New series linked to old series at March 1985. See footnote (a) to Table 3.

cost element which is most different from normal cyclical patterns. On the face of it, factor substitution seems to have been an important contributor to the resilience of employment.

With employment growth pausing in the September quarter 1986, the *unemployment rate* rose to 8.3 per cent (from 7.8 per cent in the June quarter 1986) (Chart 8, Panel C). Employment recovered sufficiently to stabilise the unemployment rate in the range 8.0 to 8.4 per cent throughout 1986-87. Earlier falls in unemployment (1983 to 1985) had been achieved against a recovery in the labour force *participation rate* which levelled out during 1986-87 at rates a little above the past decade (Chart 8, Panel B).

The increase in the *number of unemployed* of 48,000 between 1985-86 and 1986-87 was concentrated among adults seeking full-time work and young people (Chart 9). The *mean duration of unemployment* edged up slightly in 1986-87 from an historically high level (Table 3).

Chart 9: Unemployment Rates



(a) Juniors are defined as those aged 15-19 years.

The number of *unemployment benefit (UB) recipients* declined by 15,000 through the course of 1986-87. The ratio of recipients to total unemployed fell from 0.96 in the June quarter 1986 to 0.89 in the June quarter 1987 (Table 3), reflecting in large part the tightening of UB administrative arrangements introduced during the year.

Wages and Prices

Award wage increases during the year largely reflected the Conciliation and Arbitration Commission's decision of 26 June 1986 providing a national wage increase of 2.3 per cent, and the \$10 first-tier increase provided in the 10 March 1987 decision. Most second-tier payments will impact in 1987-88 and beyond.

The main sectional wage increases awarded by the wage tribunals during the year were for nurses and coal miners. While these had a large impact on labour costs in these sectors, they had little direct or flow-through effect on overall growth in award rates of pay of 4.7 per cent in 1986-87.

Average weekly earnings (AWE) and average weekly ordinary time earnings (AWOTE) for full-time adults grew by 6.3 and 7.2 per cent respectively in 1986-87, slightly higher in both cases than in 1985-86 (Table 4). The slower growth in AWE than AWOTE was largely due to the continued faster growth in part-time employment than in full-time employment.

The gap between AWOTE and awards widened in 1986-87. Continuing compositional change, some over-award wage increases and the 'cashing-out' of fringe benefits contributed to this gap. To the extent that 'cashing-out' occurred, the figures would overstate actual growth in earnings (and labour costs) as the fringe benefits themselves (which the cash payments replaced) had not been included in the series. Increases in earnings were largest in the mining, construction, finance, property and business services and utilities sectors.

Average earnings measured on a national accounts basis (Table 4) cover the majority of direct labour costs, including on-costs such as superannuation payments by employers and workers' compensation claims incurred, and provide a measure of earnings viewed as costs. This measure has been growing faster than AWE over the last three years reflecting relatively strong growth in superannuation and workers' compensation and, in 1986-87, a pay-day effect which boosted the national accounts estimate but not the survey-based estimate. Seasonally adjusted average earnings on a national accounts basis grew by 6.3 per cent in 1986-87. In each of the last two years both the survey and national accounts measures of earnings have increased by less than the private consumption deflator, indicating a fall in average real earnings. The cumulative decline in real average earnings on a national accounts basis has been 6.9 per cent since 1982-83.

Table 4: Award Rates of Pay and Earnings (a)

Year	Award rates of pay: Adult wage and salary earners		Average weekly earnings (survey basis)				Average earnings (national accounts basis)			
	Nominal	Real (b)	Full-time adults: ordinary time earnings		All persons: total earnings		Nominal (c)	Real income (d)	Real labour costs (d)	
			Nominal	Real (b)	Nominal	Real (b)				
(Per cent change on previous period)										
1981-82	12.3	2.5	13.4	3.6	13.7	3.7	14.4	4.4	2.6	
1982-83	11.1	-0.3	14.2	2.6	11.2	-0.1	12.8	1.3	1.6	
1983-84	5.3	-2.3	7.8	-0.1	8.5	0.6	5.0	-2.7	-2.5	
1984-85	3.4	-1.0	7.6	-1.1	6.9	0.4	7.3	0.8	0.8	
1985-86	4.6	-3.7	6.2	-2.3	5.9	-2.5	6.2	-2.2	-0.8	
1986-87	4.7	-4.6	7.2	-2.3	6.3	-3.1	6.6	-2.9	-1.0	
(Per cent change on a year earlier)										
1986 Mar.	6.6	-2.7	7.1	-2.4	7.1	-2.4	8.2	-1.3	0.6	
Jun.	3.8	-4.6	6.9	-1.8	6.5	-2.1	5.0	-3.4	-2.8	
Sep.	6.4	-2.7	8.0	-1.4	7.4	-1.9	8.0	-1.4	-0.2	
Dec.	2.5	-6.9	7.6	-2.2	7.0	-2.8	6.8	-3.0	-1.2	
1987 Mar.	2.5	-6.5	6.4	-3.1	4.9	-4.4	4.5	-4.8	-2.4	
Jun.	5.4	-3.7	6.7	-2.5	5.8	-3.3	6.3	-2.9	-0.7	

(a) For definitions see footnotes to Table 5 of the Round-up produced by the Treasury.

(b) Deflated by the implicit price deflator for private final consumption expenditure.

(c) The 1986-87 annual data are distorted by pay-day effects; on a seasonally adjusted basis the increases are 6.3 per cent (cf 6.6 unadjusted) in 1986-87 and 6.3 per cent (cf 6.2 unadjusted) in 1985-86.

(d) Non-farm wages, salaries and supplements, payroll tax and fringe benefits tax per non-farm wage and salary earner, deflated by the implicit price deflator for gross non-farm product.

Over the same period, average earnings have also increased more slowly than output prices, implying a fall in real labour costs, as shown in the final column of Table 4.

This restraint in real earnings represents a substantial achievement, reflecting widespread recognition of the need to maintain the improvement in Australia's competitiveness resulting from the depreciation, and to adjust incomes on account of the terms of trade decline. As a result, overall economic adjustment has taken place with continued employment growth, and without the social friction and adverse redistributive consequences associated with increases in unemployment.

Price inflation picked up during the first half of 1986-87 (Table 5), principally reflecting increased import prices from the significant exchange rate depreciation in mid-1986. Government taxes and charges are also estimated to have added about 1.1 percentage points directly to the Consumer Price Index (CPI) in 1986-87.

Table 5: Price Indicators

	Year				Half year (a)			
	1983-84	1984-85	1985-86	1986-87	1985-86		1986-87	
					I	II	I	II
(Per cent change on previous period)								
Consumer price index—								
All groups								
Implicit price deflators (c)—	7.9(b)	5.8(b)	8.4	9.3	9.1	8.6	10.1	8.6
Private final consumption expenditure	7.9	6.5	8.7	9.7	9.2	9.2	10.4	8.7
Exports of goods and services	5.7	7.1	4.7	4.1	5.0	-5.0	10.4	1.7
Imports of goods and services	2.0	10.0	16.2	9.7	18.6	7.0	14.8	2.3
Gross non-farm product	7.7	6.4	7.1	8.0	6.8	8.8	7.7	7.5

(a) Annual rates.

(b) Adjusted by the Treasury to remove the effect of the introduction of Medicare on the March and June quarters 1984.

(c) Half-yearly calculations are based on seasonally adjusted data.

The depreciation-induced effects on domestic prices waned over the course of 1986-87, though this was more apparent at the point of importation than at the retail level. Treasury estimates suggest that, by the June quarter 1987, about 90 per cent of the potential price effect of currency changes since the December quarter 1984 on endogenous goods imports had occurred. The flow-through to import prices after the mid-1986 fall of the Australian dollar appeared faster than for the early 1985 depreciation, suggesting that importers may have seen less scope to trim their profit margins following the later depreciation.

The appreciation of the Australian dollar since August 1986 was the dominant factor in stabilising prices at the point of importation in the second half of 1986-87. Taking into account the lag in price adjustment from the point of importation to retail transactions, the abatement in import price pressures began to show through only slowly in consumer prices as the second half of the financial year progressed.

The Australian Bureau of Statistics (ABS) estimates the contribution to the total movement in the CPI of price changes of goods which are 'wholly or predominantly' imported. This contribution amounted to 1.4 percentage points of

the 9.3 per cent CPI increase in 1986-87⁽⁵⁾. Treasury estimates suggest a total (direct and indirect) effect two to three times higher.

On the basis of present measures, in 1986-87 *real unit labour costs* in the private non-farm corporate sector were unchanged; they fell slightly in the total non-farm sector. Both measures remained at a level around the average of the late 1960s and early 1970s (Table 6). The 1986-87 non-farm sector outcome reflected a fall of 2.0 per cent in real labour costs per hour. Because of the strong growth in employment, this was partially offset by a fall in average labour productivity.

Table 6: Gross Operating Surplus Shares, Company Income and Profits and Real Unit Labour Costs (a)

	Gross operating surplus shares		Share of company income after tax (b)	Company profits (c)	Indices of real unit labour costs	
	Private non-farm corporate sector	Non-farm sector			Private non-farm corporate sector	Non-farm sector
	(Per cent)			(Sm, 1979-80 prices)	Index (d)	
Averages:						
1966-67 to 1972-73	32.2	17.0	n.a.	n.a.	100.0	100.0
1973-74 to 1982-83	27.9	13.0	8.9(e)	n.a.	106.5	106.6
Year—						
1982-83	25.4	10.9	3.9	n.a.	110.1	107.2
1983-84	30.6	12.7	9.2	6 336	102.5	102.0
1984-85	31.5	13.0	8.7	6 660	101.3	100.1
1985-86	31.9	13.1	8.0	6 260	100.7	98.4
1986-87	31.9	12.9	8.5	6 400	100.7	97.9
Quarter (f)—						
1986 Sep.	n.a.	11.7	n.a.	1 502	n.a.	100.8
Dec	n.a.	13.2	n.a.	1 748	n.a.	98.4
1987 Mar.	n.a.	13.3	n.a.	1 553	n.a.	96.9
Jun	n.a.	13.3	n.a.	1 518	n.a.	95.6

- (a) For definitions see footnotes to Chart 2 and Tables 4 and 29 of the *Round-up* produced by the Treasury.
 (b) Estimates of net interest payments used in the derivation of this measure have been adjusted by the Treasury to allow for the effects of inflation on monetary assets and liabilities. This brings the treatment of these items into line with the Statistician's treatment of fixed assets and stocks.
 (c) Company profits before income tax, survey measure ABS Cat. No. 5651.0, deflated by the gross-non farm product deflator at 1979-80 prices.
 (d) Base: average 1966-67 to 1972-73 = 100.0.
 (e) Average for 1974-75 to 1982-83. Data for periods prior to 1974-75 are not available.
 (f) Seasonally adjusted.

Table 7 compares growth in *compensation per employee* in Australia and our eight major OECD trading partners, weighted according to their shares of Australia's imports. This comparison is an important element in assessing the competitiveness of our import-competing and manufactured export sectors.

Although real wages and real unit labour costs in Australia have fallen substantially, Australian earnings have increased more rapidly than in the major OECD countries during the past three financial years. (As noted earlier, because of 'cashing-out' of fringe benefits in 1986-87, measured growth in earnings probably over-stated actual growth in Australia.) This divergence has moderated the effect of the exchange rate depreciation on Australia's international competitiveness. However,

(5) The ABS has emphasised that these estimates do not capture the precise or full effect of depreciation on the CPI. Importantly, they omit indirect effects which are transmitted through depreciation-induced increases in the cost of raw materials and other inputs and in prices of import-competing goods.

Table 7: International Comparison of Compensation Per Employee

Year—	Japan	United States	Federal Republic of Germany	United Kingdom	New Zealand	Major OECD trading partners	Australia
	(a)	(a)	(a)	(a)	(b)	(c)	(d)
	(Per cent change on previous year)						
1983-84	2.6	4.5	4.3	6.3	0.4	4.4	4.9
1984-85	3.7	4.9	3.0	6.3	4.5	4.7	7.5
1985-86	3.9	3.9	3.8	8.3	14.7	5.2	6.3
1986-87	2.7	2.6	3.6	7.4	17.9	4.4	6.3

- (a) Compensation per employee (ie total costs per worker to the employer) in the business sector. OECD figures, including some forecasts for 1986-87.
 (b) Compensation per employee. Estimates are for the New Zealand fiscal year which ends in March.
 (c) Calculated using weights based on the share of Australia's imports from Japan, USA, Federal Republic of Germany, United Kingdom, New Zealand, Italy, France and Canada in 1985-86. In 1985-86 these countries accounted for around 71 per cent of Australia's imports.
 (d) Australian average earnings data have been made as comparable as possible with OECD data by the inclusion of payroll tax and, in order to exclude distorting pay-day effects, seasonal adjustment (see Table 4).

the bulk of the substantial improvement in competitiveness stemming from exchange rate depreciation in 1985 and 1986 has been maintained (see Chart 13 below).

Available measures of *corporate profitability* (Table 6) indicate that the levels established in the previous three years continued to be broadly sustained in 1986-87⁽⁶⁾. The gross operating surplus share for the non-farm sector fell slightly in 1986-87, while the survey-based measure of company profits before tax (deflated by the non-farm product deflator) rose marginally. The survey of company profits also provides data for major industry groups. In 1986-87 company profits before tax (deflated by the non-farm product deflator) recovered in wholesale trade, fell in mining and retail trade and remained broadly steady in the manufacturing sector as a whole.

Monetary Policy and Conditions

The effects of financial deregulation and innovation continued to complicate the interpretation of financial conditions during 1986-87. While the *monetary aggregates* returned to more moderate growth rates, other forms of financing, including bill finance and off-balance-sheet transactions, continued to grow fairly quickly (Chart 10, Panel A).

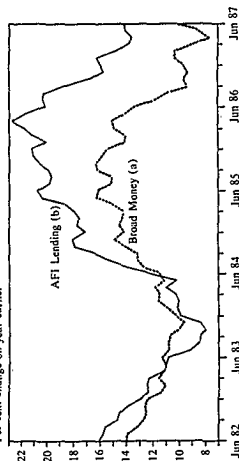
Assessment of the appropriateness of monetary policy during 1986-87 was again made by reference to a wide range of financial and economic indicators—the so-called 'check list' approach.

Monetary policy was directed towards dampening domestic demand to facilitate increased net exports and containing cost and price pressures so as to contribute to preserving international competitiveness. Monetary policy, together with Reserve Bank foreign currency transactions, was also used actively to steady surpluses in

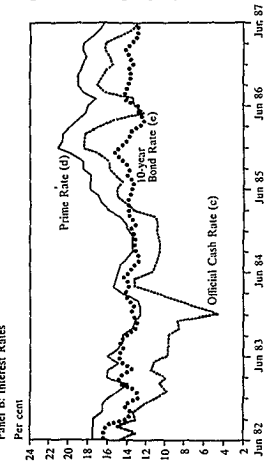
(6) The measure based on company income after tax has been significantly affected as to level by the changed treatment of depreciation introduced in the December quarter 1986 National Accounts. It should be noted that inflation adjustment in the National Accounts is confined only to physical assets (stocks and fixed capital). Accordingly, it is necessary to apply an inflation adjustment to net lending flows in order to measure real income flows correctly. A correction of this kind has been applied in deriving the estimates of company income after tax employed in Table 6.

Chart 10: Monetary Indicators

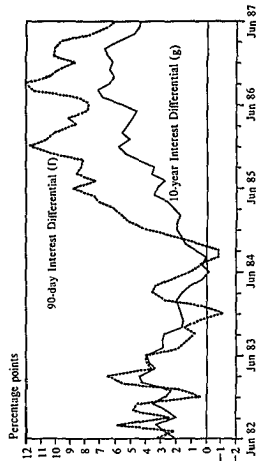
Panel A: Money and Credit Aggregates
Per cent change on year earlier



Panel B: Interest Rates



Panel C: Uncovered Interest Rate Differentials



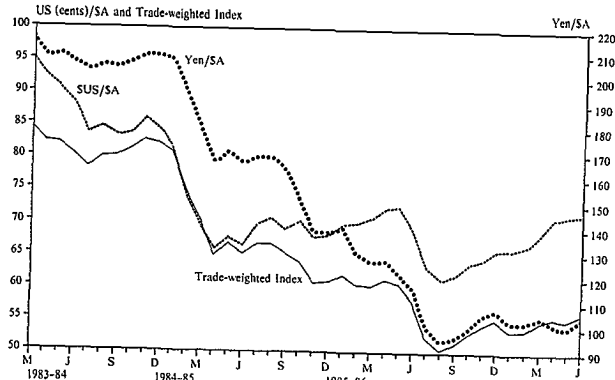
- (a) M3 plus borrowings from the private sector by most non-bank financial institutions (permanent building societies, credit cooperatives, finance companies, authorised money market dealers, pastoral finance companies, money market companies, general financiers and cash management trusts) less NBFIs (non-bank financial institutions) minus deposits of financial institutions (including banks and NBFIs, adjusted for double-counting (see footnote (b))).
- (b) Lending to the private sector by all financial institutions (AFIs), including banks and NBFIs, adjusted for double-counting (see footnote (b)).
- (c) Weighted average of rates paid by authorised money market dealers on all days of the four or five weeks ending on the last Wednesday of the month.
- (d) Prime rate indicator rate applying to loans of \$100,000 or more by major trading banks (at or near end of month).
- (e) Assessed secondary market yields on 10-year Treasury Bonds on the last business day of the month.
- (f) Yield on Australian 90-day bank bills (average of daily market yields for the week ending on the last Wednesday of the month as reported to the Reserve Bank) less the yield on three-month Euro-dollar deposits (monthly average of daily rande-marketed closing rates).
- (g) Government 10-year bonds (at end of month).

financial markets during the year. As previously discussed, monetary conditions were firmer during much of 1986-87 than was envisaged at budget-time.

The year began with the Australian dollar coming under renewed downward pressure, reaching new record daily-close lows of \$US0.5980, and 49.3 on a trade-weighted index (TWI) basis, on 31 July 1986 (Chart 11). The deterioration in market sentiment was attributed mainly to the outlook for commodity prices and the current account, concerns that fiscal and wages adjustments might not prove to be adequate, and fears of substantial disinvestment by overseas investors. In an attempt to establish a degree of stability in foreign exchange markets in the lead-up to the Budget, several measures (including large sales of foreign currency) were taken and monetary policy was tightened considerably. *Short-term professional interest rates* rose by around 3 percentage points in this period. *Long-term bond rates* and *prime rates* increased by just over one percentage point (Chart 10, Panel B). *Interest rate differentials* between 90-day bank bills and 90-day Euro-dollar deposits also increased sharply (Chart 10, Panel C).

Market sentiment remained fragile in the immediate post-budget period. Most short-term interest rates and longer-term bond yields peaked in September. From end-September to early January 1987, the tone in financial markets improved. Most short-term professional interest rates fell by at least 2 percentage points during the December quarter and the TWI recovered to around 55 at end-December.

Chart 11: Australian Dollar Exchange Rates (a)(b)



- (a) Upward (downward) movements represent appreciation (depreciation) of the Australian dollar against other currencies.
- (b) Monthly rates calculated as averages of daily rates.

In mid-January, the Australian dollar weakened sharply around the time of the European Monetary System currency realignment. The Australian dollar reached lows of \$US0.6425 on 14 January and 51.8 on a TWI basis on 19 January. The Reserve Bank made large sales of foreign currency and monetary policy was again tightened. Short-term professional interest rates again reached 17 per cent and ten-year bond rates increased by over $\frac{1}{2}$ of a percentage point to 14 per cent. Although largely a temporary reaction to external developments, this period served as a reminder of Australia's vulnerability, so long as it has a continuing large external deficit.

The remainder of the financial year saw a progressive improvement in financial market sentiment. Contributing factors included an improving trend in monthly current account deficits, growing reluctance by Japanese investors to add to their \$US investments, and more recently the favourable assessment of the May fiscal package.

As in late 1986, this strengthening in the tone of financial markets left the authorities with a number of fine judgments to make. It was necessary to sift temporary influences from more lasting ones. While there was a preparedness to see the improved sentiment reflected in interest rate and exchange rate movements, limits were seen both on the speed of sustainable interest rate reductions and on the upward movement of the currency against the background of longer-term competitiveness requirements. Substantial net foreign exchange purchases consequently played an important role during this period.

Short-term interest rates moved down by some three to four percentage points over the period from February to end-June. Yields on long-term government bonds declined by around $\frac{1}{2}$ of a percentage point. By year's end these reductions in professional interest rate structures affected retail interest rates. The exchange rate had appreciated by over 9 per cent on a TWI basis from the low point in mid-January.

Net Lending and Borrowing by Sector

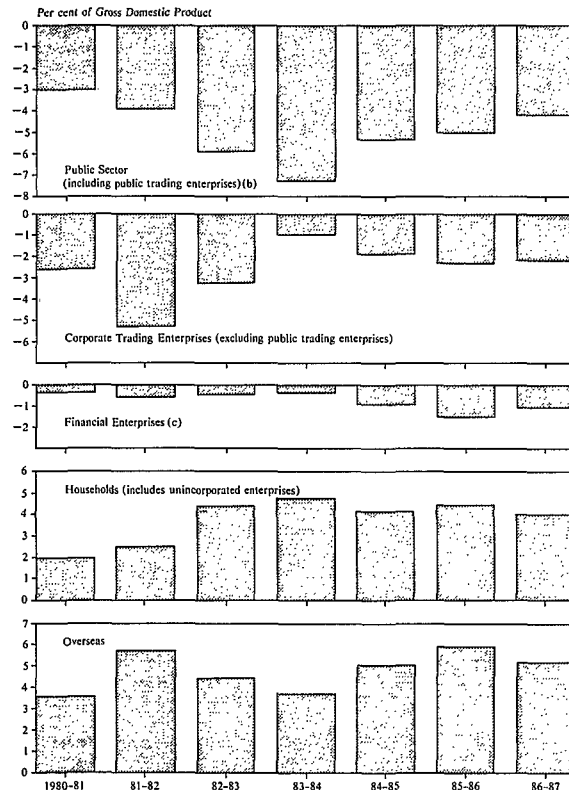
Chart 12 illustrates net lending/borrowing (as a proportion of GDP) by major economic sector.

Notwithstanding a sizeable reduction in its net borrowing over recent years, the *public sector* continues to be the dominant borrower on domestic capital markets. In contrast, the demand for funds by the *corporate sector* has been relatively moderate, reflecting a combination of subdued investment expenditure and improved profitability.

The relatively large increase in *financial enterprise* net borrowing since 1983-84 mainly reflects the activities of public financial enterprises (see Budget Statement No. 7).

Net lending by the *household sector* has been at relatively high levels since 1982-83. With the decline in the saving ratio, net lending by households fell slightly in 1986-87. While net lending from overseas fell in 1986-87 (the counterpart of the lower current account deficit), the *overseas sector* was again the major source of savings for the Australian economy.

Chart 12: Net Lending and Borrowing by Sector (a)



- (a) Based on National Accounts constant price data and Treasury estimates. Positive (upward) bars on these charts represent net lending while negative (downward) bars represent net borrowing. It should be noted that the pattern of inter-sectoral net lending has been affected by the change to current cost depreciation in the National Accounts; this affects the significance of the sectoral net lending data since 'inflation adjustment' of relevant aggregates is only partial (inventory changes and depreciation of fixed capital but not financial flows).
- (b) Analysis of PSBR trends is contained in the new Budget Statement No. 7 which introduces disaggregation of the public sector into general government and public trading enterprises.
- (c) The level of net borrowing by the financial enterprise sector is lower than in the corresponding chart of 1986-87. The principal reason is the change in National Accounts treatment of assets subject to a finance lease, now accounted for in the sector of use rather than of ownership.

External Accounts

The current account deficit for 1986-87, at \$13.6 billion or 5.1 per cent of GDP, compared with a 1985-86 outcome of \$14.5 billion and 6.0 per cent respectively. The 1986-87 outcome was lower than expected at budget time: the improvement in the volume of net exports was stronger, reflecting more export growth than expected; and, while substantial, the fall in the terms of trade was somewhat less than expected. There was a further, but smaller, increase in Australia's net external debt and debt servicing obligations. Details of the balance of payments in recent years are provided in Table 8.

Table 8: Balance of Payments Aggregates (\$ billion)

	Year				
	1982-83	1983-84	1984-85	1985-86	1986-87
Current account					
Exports	20.7	23.7	29.2	32.2	35.4
Imports	-21.7	-23.5	-30.1	-35.6	-37.3
Balance on merchandise trade	-1.0	0.2	-0.9	-3.4	-1.9
Service credits	4.0	4.3	4.9	5.9	7.2
Service debits	-6.8	-7.3	-8.9	-9.8	-10.1
Net services	-2.8	-2.9	-4.0	-3.9	-2.9
Balance on goods and services	-3.8	-2.8	-4.9	-7.3	-4.8
Income credits	1.4	1.8	1.9	2.3	2.5
Income debits	-4.2	-6.6	-8.5	-10.4	-12.6
Net income	-2.8	-4.8	-6.6	-8.0	-10.1
Net unrequited transfers	-0.1	0.2	0.4	0.8	1.3
Balance on current account	-6.8	-7.3	-11.1	-14.5	-13.6
Capital account					
Australian investment abroad—					
Official	-2.7	-2.3	1.3	1.9	-3.8
Non-official—					
Private sector lending	-0.2	-0.3	-0.9	-2.3	-3.2
Other	-1.3	-1.9	-4.0	-5.5	-5.8
Total non-official	-1.5	-2.2	-4.9	-7.9	-9.0
Foreign investment in Australia—					
Official	1.1	1.0	2.6	3.4	3.9
Non-official—					
Public sector borrowings	2.5	2.5	3.8	2.2	2.6
Private sector borrowings	5.4	4.7	7.3	11.4	13.2
Other	2.3	2.1	2.2	2.9	5.9
Total non-official	9.3	9.3	13.3	16.5	21.6
Balance on capital account	6.1	5.7	12.2	13.9	12.7
Balancing item	0.6	1.6	-1.1	0.6	0.8
Balance on current account as a percentage of GDP	-4.0	-3.8	-5.2	-6.0	-5.1

The growth of 7.5 per cent in the volume of exports of goods and services in 1986-87 was very encouraging. In addition to improved competitiveness, good seasonal conditions in grain-growing areas, continued high levels of cattle slaughtering and run-downs in wheat and wool stocks contributed to stronger rural export volumes. As discussed further below, the rise in non-rural export volumes resulted from significant increases in exports of manufactures and minerals and metals (Table 9).

The 4.8 per cent fall in the volume of imports of goods and services in 1986-87 reflected the continuation of relative price effects from depreciation of the

Table 9: Exports and Imports of Goods and Services

	Current Price Values (\$ billion)		Per Cent of Total		Per cent change on 1985-86	
	1985-86	1986-87	1985-87	Price	Volume	Value
Exports of Merchandise Goods						
Non-rural—						
Metal Ores & Minerals—						
Iron ore	1.9	1.8	5	2	-11	-9
Alumina	1.4	1.5	4	3	8	11
Other	1.7	1.7	5	-3	2	-2
Total	5.0	4.9	14	0	-1	-1
Metals & Metal Manufactures—						
Iron & Steel	0.6	0.6	2	11	-8	2
Aluminium	1.1	1.3	4	18	6	24
Other	1.1	1.2	3	15	0	15
Total	2.7	3.1	9	15	1	16
Mineral Fuels—						
Coking coal	3.4	3.4	10	-2	5	2
Steaming Coal	1.9	2.0	6	-3	11	7
Other mineral fuels (a)	2.3	1.5	4	-35	1	-34
Total	7.5	7.0	20	-12	5	-8
Other—						
Machinery & Transport	1.6	2.6	7	12	46	63
Gold	0.8	1.4	4	34	29	72
Other	2.3	3.2	9	8	30	40
Total	4.7	7.2	20	14	34	53
Total Non-rural Exports	20.0	22.3	63	1	10	12
of which—						
Manufactured exports (b)	3.3	4.4	12	13	19	34
Rural Exports—						
Meat	1.7	2.2	6	12	19	32
Cereals	3.9	2.8	8	-17	-14	-29
Sugar	0.6	0.7	2	12	-2	10
Wool	3.1	3.9	11	14	11	27
Other	3.0	3.5	10	9	9	19
Total Rural Exports	12.2	13.1	37	5	3	7
Total Exports	32.2	35.4	100	3	7	10
Imports of Merchandise Goods						
Endogenous Imports (c)—						
Consumption goods	8.1	8.3	22	13	-10	2
Capital goods	8.1	8.1	22	17	-15	0
Other goods	14.9	16.4	44	14	-3	10
Total Endogenous Imports	31.1	32.8	88	14	-8	6
Exogenous Imports (d)—						
Fuels	1.9	1.7	5	-33	36	-8
Other	2.6	2.8	7	8	-3	5
Total Exogenous Imports	4.5	4.5	12	-15	17	-1
Total Imports	35.6	37.3	100	10	-5	5
Service credits—						
Tourism	2.6	3.8	52	11	28	42
Other	3.2	3.5	48	8	0	8
Total Service credits	5.9	7.2	100	10	12	23
Service debits—						
Tourism	4.0	4.2	42	11	-5	6
Other	5.7	5.9	58	6	-4	3
Total Service debits	9.8	10.1	100	8	-4	4
Exchange Rates (e)—						
\$US/\$A	0.6999	0.6636				(f)
TWT	62.3	53.8				5.5

- (a) Includes exports of crude oil, refined petroleum products, LPG and natural gas.
 (b) Non-metal manufactured exports, excluding civil aircraft and wool tops.
 (c) Endogenous imports are those which are primarily affected by the level of economic activity and international competitiveness.
 (d) Exogenous imports include imports of fuels, certain large items of equipment by both the public and private sectors and certain other government imports.
 (e) Annual figures are calculated as the mean of average monthly levels.
 (f) Total potential price change from actual exchange rate movement.

Australian dollar and the weakness across all categories of domestic demand. Relative price effects were underpinned by another large rise in endogenous import prices (around 14 per cent following an 18 per cent increase in 1985-86). Although the Australian dollar appreciated by some 12.5 per cent in TWI terms between end-August 1986 and end-June 1987, accompanying import price falls have to date been marginal apparently because of a tendency on the part of importers and foreign producers to unwind their earlier absorption of depreciation price effects.

There was a fall of 4.9 per cent in the volume of imports of goods, notwithstanding a 17 per cent rise in *exogenous imports* (the main components of which are government, civil aircraft and petroleum). In 1986-87 civil aircraft import volumes increased sharply, as the major airlines undertook re-equipment programs. Petroleum import volumes increased by over 36 per cent, due to shortfalls in domestic liftings occasioned by industrial disputes and refinery breakdowns, together with marketers taking advantage of periods in which weak international prices were not reflected fully in domestic prices. The volume of *endogenous imports*, which fell by 8 per cent, is more indicative of underlying trends.

In 1986-87 there was also a strong improvement in *net services*, in both volume and value terms. Relative price movements were an important influence, curtailing overseas expenditure by Australian tourists and encouraging overseas visitors to Australia. Slower growth in freight payments associated with lower import volumes was also a factor.

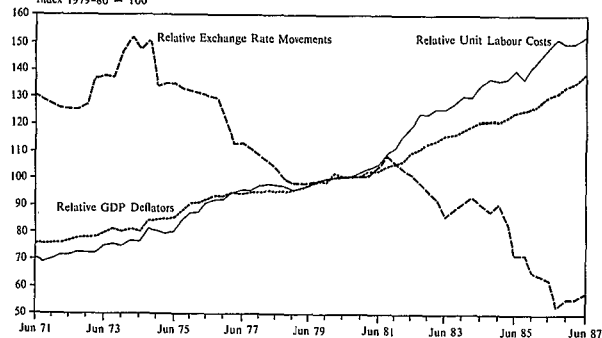
In real terms the trade surplus (net exports of goods and services at 1979-80 prices) is estimated at \$2.4 billion in 1986-87, a sharp turnaround from the \$1.0 billion deficit in 1985-86.

The positive effect of the depreciation of the Australian dollar on commodity export prices in Australian dollar terms broadly offset falling world prices, thereby underpinning the retention of resources in many commodity export industries. The combination of currency depreciation and domestic cost restraint has also raised the competitiveness of many Australian commodity producers relative to other world suppliers. (Measures of the international competitiveness of Australia's commodity exports were outlined in a Supplement to the June 1987 edition of *the Round-up*.) This net improvement in Australia's competitiveness has supported an expansion in the volume of exports of traditional bulk commodities, notwithstanding the highly competitive and somewhat distorted international trading environment. Relative price changes have also encouraged the movement of resources within commodity-producing sectors. Within the rural sector, land is being turned over from grain production to the more buoyant wool and livestock pursuits. Similarly, within mining, activity has shifted to such commodities as gold and mineral sands, where prices have performed relatively well, at the expense of such commodities as coal and iron ore, where the price outlook is weaker.

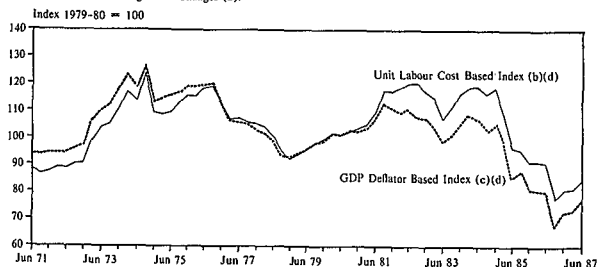
Chart 13 compares Australia's price, cost and exchange rate experience with that of our main import sources—the major industrialised countries. These measures provide a useful indication of the extent to which Australian industry has gained, and maintained, price and cost competitiveness in the production of *import substitutes and manufactured exports*. The gain in competitiveness of manufactures since 1985 is estimated to be somewhat larger than that of commodities.

Chart 13: Australia's International Competitiveness

Panel A: Components of Indices - Relative Unit Labour Costs, GDP Deflators and Exchange Rate Movements
Index 1979-80 = 100



Panel B: Indices of Unit Labour Costs and Prices in Australia Relative to Major Import Sources Adjusted for Exchange Rate Changes (a).
Index 1979-80 = 100

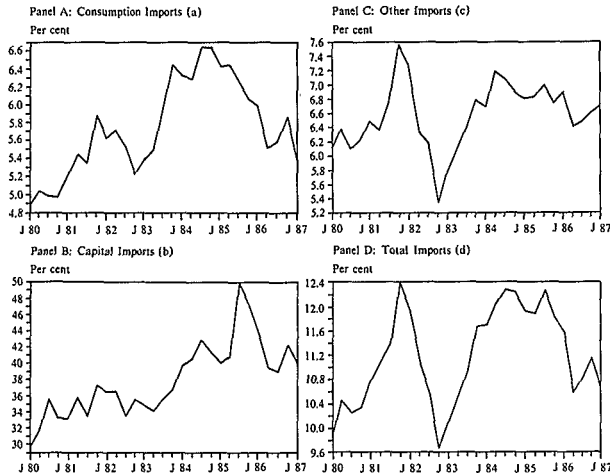


- (a) A rise (fall) in the indices implies a deterioration (improvement) in Australian costs and prices relative to our four major import sources after adjusting for exchange rate changes. Observations are quarterly averages.
- (b) The unit labour cost-based index is the ratio of unit labour costs in the non-farm sector of the Australian economy (calculated as the ratio of non-farm wages, salaries and supplements to gross non-farm product) to the weighted average of the exchange rate-adjusted unit labour cost indices estimated for the manufacturing sectors of Australia's four major import sources. It should be noted that the rate of growth of unit labour costs in the Australian manufacturing sector is, on average, around 1 per cent per annum lower than in the non-farm sector as a whole.
- (c) The GDP deflator-based index is the ratio of the GDP deflator for Australia to the weighted average of the exchange rate-adjusted GDP deflators of Australia's four major import sources.
- (d) The weights used are based on the average share of Australia's imports from the US, Japan, UK and the Federal Republic of Germany from 1980-81 to 1984-85. These four countries are the source of about 57 per cent of Australia's imports. Information on these four countries for unit labour costs and GDP deflators is available only to the March quarter 1987. Consequently, movements in the indices in the June quarter 1987 are based on average exchange rates and OECD estimates.

Influenced by the very large gain in competitiveness since the end of 1984, manufactured exports (excluding civil aircraft sales) contributed \$1.5 billion of the \$3.2 billion increase in total merchandise exports in 1986-87 (Table 9). This represents a significant diversification of the export base, with the share of manufactured goods in the total value of merchandise exports increasing from 18.5 per cent in 1985-86 to 21.5 per cent in 1986-87 (again abstracting from civil aircraft sales). Although manufactured export expansion was broadly based, there was particularly marked growth in products such as office machines and computer equipment, passenger motor vehicles and consumer durables.

As noted earlier, the fall in import volumes has reflected weaker domestic demand and relative price effects in favour of import replacement. These influences can be partly untangled by comparing import volumes with the relevant component of domestic demand; the *import penetration ratios* for endogenous imports are depicted in Chart 14. However, as a given change in domestic demand tends to lead initially to a disproportionately larger movement in import volumes, the penetration ratios are themselves influenced by domestic economic conditions. Empirical estimation can help to distinguish these separate influences. While the

Chart 14: Endogenous Import Penetration Ratios

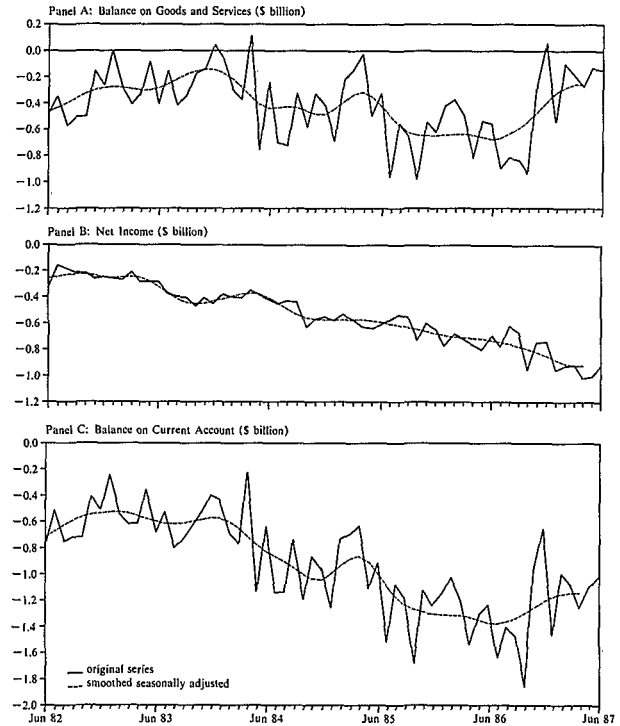


- (a) Endogenous consumption goods imports as a percentage of private consumption.
- (b) Endogenous capital goods imports as a percentage of private investment in plant and equipment.
- (c) Other endogenous imports as a percentage of gross non-farm product.
- (d) Total endogenous imports as a percentage of non-farm sales (defined as gross national expenditure plus exports less gross farm product less private non-farm stocks).

associated conclusions are not exact and can vary with the model used, such estimation within the Treasury suggests that the relative price effects and domestic demand effects are of roughly equal significance in explaining the declines in endogenous import volumes since the beginning of 1985.

In current price terms, the improvement in the *merchandise trade deficit* was substantial, although not as marked as the improvement in merchandise trade volumes because of the further fall in Australia's merchandise *terms of trade* of 6.6 per cent in year-average terms. Over the course of 1986-87, the deterioration in the merchandise terms of trade was more modest (a fall of 2.4 per cent), while the services terms of trade improved both in and over the year. Chart 15, Panel A

Chart 15: Major Components of the Current Account



illustrates the improvement in the *balance on goods and services* in current price terms over the course of 1986-87.

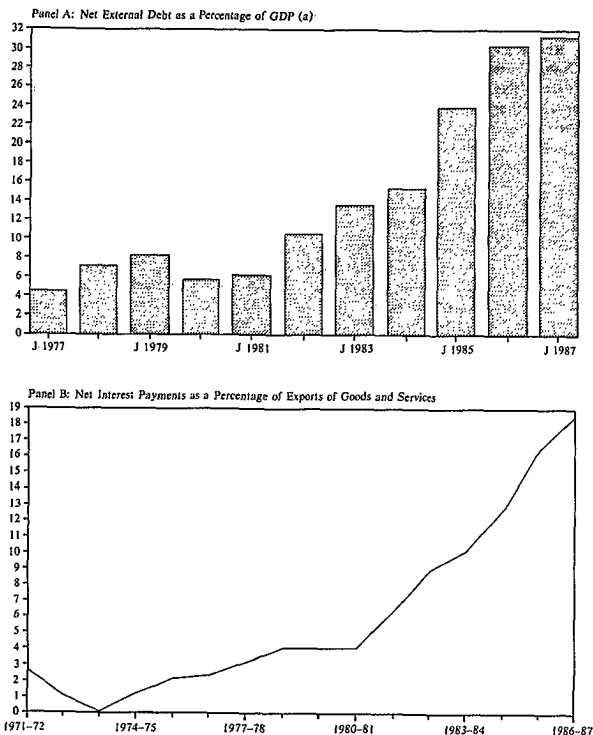
The *net income deficit* (Chart 15, Panel B) continued to widen in 1986-87, the major influence being the rapid growth in interest payments on Australia's external debt. Net interest payments (over three quarters of the net income deficit) have risen by around 80 per cent between 1984-85 and 1986-87, from \$4.3 billion to \$7.9 billion. The increase in debt levels was driven by the financing of the current account deficit and the overriding importance of debt in the composition of such financing. In contrast to 1985-86, valuation effects from exchange rate movements during 1986-87 marginally subtracted from total debt outstanding at end-June 1987. The *net unrequited transfers surplus* improved in 1986-87, with strong growth evident in business migrant transfers and withholding tax receipts.

Panel C of Chart 15 depicts the improvement in the current account deficit in 1986-87. The current account deficit in 1986-87 was essentially financed by \$13.5 billion in non-official capital inflow (including a \$0.8 billion balancing item). Net official capital inflow was relatively small. Although borrowings continued to be the predominant form of inflow (preliminary figures suggest around 77 per cent of all inflows in 1986-87), equity capital inflows were relatively more important than in recent years.

Australia's *net external debt* increased to around \$A82.9 billion by end-June 1987, or 31.4 per cent of GDP, compared with \$A73.0 billion at end-June 1986, or 30.4 per cent of GDP (Chart 16, Panel A). In similar terms, net interest payments expressed as a percentage of exports of goods and services rose from 16.5 per cent in 1985-86 to 18.6 per cent in 1986-87 (Chart 16, Panel B). *The Round-up*, Table 24, provides further details of the components of debt and debt servicing.

Australia's *official reserve assets* increased from \$A13.0 billion at end-June 1986 to \$A17.6 billion at end-June 1987, the highest end-of-month level since the float of the Australian dollar in December 1983. This increase reflected both transactions (which increased reserves by a net \$A3.4 billion) and valuation effects in relation to exchange rate and gold price changes (a net increase of \$A1.2 billion). Australia's official reserve assets when measured in \$US terms were \$US12.7 billion at end-June 1987, compared with \$US8.8 billion at end-June 1986; in SDR terms the increase was SDR 2.4 billion.

Chart 16: Australia's External Debt and Debt Servicing



(a) Net external debt is defined as total gross debt less official reserve assets and Australian lending overseas.

PART II: EXTERNAL ADJUSTMENT AND ECONOMIC POLICY STRATEGY

The Adjustment Task and Policy Framework

Australia's current account deficit increased markedly during the early 1980s (Chart 12), reflecting strong investment in resource activity accompanied by a high exchange rate and rapid wage inflation. The sharp recession of 1982-83 subdued import demand and the current account deficit eased from its 1981-82 high of nearly 6 per cent of GDP. However, it remained unusually large for that stage of the cycle. As domestic demand picked up and the net income deficit deteriorated—reflecting the build-up in foreign debt—the current account deficit widened again, to over 5 per cent of GDP in 1984-85. The very sharp fall in the terms of trade over the course of 1985-86, together with exchange rate valuation effects, overwhelmed a modest improvement in trade volumes and the current account deficit widened further to 6 per cent of GDP in 1985-86.

By 1986 Australia was thus confronted with external accounts which were unsustainable in all but the near term. External constraints had closed in on the economy, requiring adjustments in policies, expectations and economic behaviour if living standards were to be improved in the longer term.

The Government has been pursuing wide-ranging policy adjustments directed to a permanent lessening of the external constraints; this involves, essentially, improving Australia's international competitiveness in a fundamental way. Two major downward shifts in the exchange rate, coupled with wage restraint and firm macroeconomic policies, have taken aggregate measures of cost competitiveness to historically favourable levels. Fiscal and monetary policies have slowed domestic demand. The extent of public borrowing (dissaving) has been progressively wound back, particularly at the Commonwealth level.

The Prices and Incomes Accord between the Government and the ACTU has been central in preventing the domestic wages structure from reflecting depreciation-induced price increases, thereby ensuring that exchange rate changes have provided appropriate price incentives for restructuring of the economy. At the microeconomic level, deregulation of the financial system, reform of taxation, liberalisation of foreign investment policy and industry policy measures to lessen impediments to competitive forces have improved the capacity of the economy to adapt to changing international circumstances. The introduction of the two-tier wage fixation system has also provided a major opportunity to promote efficiency and allow greater flexibility.

Fundamental economic restructuring of the kind that Australia is now embarked upon is, inevitably, a lengthy process. The thrust of macroeconomic restraint in releasing resources for use in tradable activities must be maintained; so must the relative price attractiveness of tradable activities in the private sector consistent upon the real exchange rate depreciation. Microeconomic reform can usefully supplement these macroeconomic policy settings by removing impediments to the mobility of resources, and by fostering genuine efficiency, the real test of which is ability to compete internationally.

Macroeconomic Policy Framework

Because substantial changes in economic structure take time to eventuate, restraint in aggregate domestic demand has been an important intermediate objective of policy, directed to relieving pressure on the current account deficit and freeing resources for import-competing and export uses.

As part of this strategy, the basic objective for *fiscal policy* is to reduce the public sector's call on national savings. Reductions in the Commonwealth Budget deficit have been substantial. From 4.1 per cent of GDP in 1983-84, the total Commonwealth Budget deficit has been virtually eliminated in 1987-88; the *domestic* component has moved from a *deficit* of 2.9 per cent of GDP to a *surplus* of 1.3 per cent.

A policy mix with adequate weight on fiscal policy restraint lessens the need for restraint through *monetary policy*, thereby producing a climate more conducive to lower interest rates and to private investment.

In addition to restraining domestic demand and containing cost and price pressures, monetary policy has also been directed towards securing reasonable stability in financial markets. It was noted in Part I that for much of 1986-87 monetary policy had to deal with strong pressures in the foreign exchange market, in both directions. In the second half of 1986-87 the Reserve Bank's net foreign exchange transactions added substantially to official reserves and financial conditions eased. In these circumstances, policy needed to guard against financial conditions promoting domestic spending inconsistent with external adjustment requirements.

Looking ahead, the present policy strategy should see fiscal policy and, assuming more settled foreign exchange market conditions, the Reserve Bank's foreign exchange transactions having a smaller impact on the liquidity base. That should facilitate the task of controlling the money and credit aggregates.

Within the macroeconomic policy framework, *prices and incomes policy* has been directed at preserving international competitiveness. Real wages have, in consequence, declined. This is a concomitant of a large decline in the terms of trade, which has subtracted from Australia's real income. Wage restraint has contributed to the sustained buoyancy of employment so that the real income loss has been widely and equitably spread, and not concentrated on those who would otherwise have been unemployed.

The decision by the Conciliation and Arbitration Commission in the National Wage Case on 10 March 1987 marked an important change in wage determination in Australia. It reflected the agreement of the major parties that a system based on *prima facie* indexation was not sustainable in view of the imbalances in Australia's external accounts and the potential loss of commitment to the system through repeated partial indexation. The Commission's decision established a two-tier system, comprising a first-tier adjustment to apply uniformly to all award wages and salaries, plus a second-tier which provides scope for productivity-based increases to be negotiated on a sectional basis within an overall nominal ceiling. The new arrangements are intended to decentralise industrial negotiations, leading to greater flexibility in pay and conditions at the enterprise and industry level, within the framework of a centralised system providing overall wage restraint.

The decision introduced a new restructuring and efficiency principle which allows wage increases to be negotiated at the enterprise level in return for improvements in efficiency resulting from removal of restrictive work and management practices, improvements in training and retraining, multi-skilling and broadbanding. Under the decision, second-tier award adjustments over the period to May 1988 are limited to 4 per cent, and increases provided under the restructuring and efficiency principle must be accompanied by at least comparable reductions in costs. A comprehensive assessment is not yet possible, but second-tier negotiations appear so far to be yielding useful modifications in workplace practices; recent developments in the important metal industries have been encouraging. Such is the extent of inefficient practices which have accumulated in some sectors over the years that the successful mining of this lode of potential productivity gains would yield major rewards.

It is essential, in the period ahead, that growth in Australian nominal unit labour costs move closer to that of our trading partners. To the extent this is achieved by productivity enhancement, it would not imply further real wage reductions but would have the same beneficial effect in lowering Australia's relative inflation rate. Adherence to the two-tier wage system would contribute to this outcome and, in the process, take an important step towards a remuneration system that more closely relates reward to performance. The second-tier arrangements are, of course, inherently decentralised within the framework of the Commission's principles. This discussion now turns to other *microeconomic* dimensions of the adjustment process.

Microeconomic Policy Framework

Out of necessity, policy measures to date have been dominated by macroeconomic considerations. However, making the necessary changes in structure and in adaptability of the economy also requires changes at the microeconomic level. Indeed, success in the overall adjustment process will come increasingly to depend on the extent to which individuals and enterprises effectively compete in the international market-place. Policy has a role to play, especially in removing impediments which have grown up from policy interventions in a different era.

As noted above, *budgetary policy* has been in a tightly restraining mode in recent years. In these circumstances there has been a premium on the cost effectiveness of program outlays. Equally, the quest for a more productive and internationally competitive economy has placed a premium on the impact on *efficiency* of budgetary and non-budgetary interventions in the economy.

This thrust towards greater efficiency and effectiveness in the public sector has not been confined to the Commonwealth level of government in Australia, nor to Australia in the international scene; it has been an important orientation of policy in many countries in the 1980s (see, for example, OECD material on this subject excerpted in *the Round-up*, July 1987).

Efficiency, effectiveness and equity considerations were central to the Government's 1985 tax reform and to the measures announced in the 1986-87 Budget and

in the 1987 May Statement. Those latter two sets of budgetary decisions involve a substantial refocussing of a number of programs, guided by the following principles:

- better targetting of welfare programs to intended recipient groups; hence the repair and tightening of existing, as well as introduction of new, means tests;
- ensuring that income support and other welfare benefits are open only to those genuinely eligible for them, and that the welfare 'safety net' does not unnecessarily produce dependency traps;
- increasing participation in, and the provision of incentives for, education and training relative to unemployment;
- greater use of market signals, through the imposition of user charges in a range of activities;
- increasing cost recovery;
- improving the efficiency of the Commonwealth's own administration through major changes to departmental structure, plus an annual efficiency dividend and implementation of *Efficiency Scrutinies*; and
- improving the efficiency of use of the Commonwealth's assets.

This process has been continued in the 1987-88 Budget. Details of measures are contained in Statement No. 3.

The Government has announced a program of asset sales that is expected to realise \$1 billion in 1987-88. This program also reflects the efficiency and effectiveness considerations that were central in formulating both the 1986-87 and 1987-88 Budgets. An important component arose from a scrutiny of the Commonwealth's property holdings, leading to decisions to dispose of a number which were unutilised or otherwise providing little real return. Similarly, several defence enterprises were identified as having no overriding requirement for full public ownership and can be expected to generate a higher return when operated in the private sector. Where more efficient use of resources occurs, the proceeds of asset sales will reduce overall Commonwealth Government indebtedness by providing on-going budgetary savings (lower public debt interest payments that exceed the forgone return on the asset). Further information on proposed asset sales is provided in Statement No. 3.

The issue of public ownership of assets and enterprises deserves dispassionate analysis. Given their importance in overall economic performance, efficiency of resource use is a major consideration. One approach to greater efficiency, where public enterprises are retained in the public sector, is the introduction of improved performance criteria and greater exposure to competition and market forces. There may still be cases, however, where constraints necessarily associated with public ownership of a given enterprise may hamper its functioning and delivery of services. The Government's announced asset sales provide examples of prospective on-going benefits to the budget through the disposal of assets which are expected to yield higher national returns when they are run privately.

Improved functioning of the *labour market* is central to the external adjustment process and longer-term economic performance. Initial training should provide a thorough grounding in the basic skills and facilitate the adaptability of workers to changing job requirements and retraining. Responsiveness of the supply of skilled labour to the demands of expanding industries and the willingness of labour displaced by contracting industries to retrain and, where necessary, relocate are also vital elements. The budget measures that provide some scope for industry to fund

TAFE courses specific to its needs and for TAFEs to retain some fees obtained from courses, will improve matching of the demand for and supply of skills.

Notwithstanding subdued overall economic activity, some industries have reported shortages of certain types of skilled labour. While the diminished intake of apprentices during the 1982-83 recession has been a factor, outflows of qualified tradespeople have also been a long-term cause of concern, possibly reflecting the absence of career paths and/or the relative reward structures provided. Some aspects of the apprenticeship system appear unsuited to contemporary requirements, including the limited range of the training provided in some cases (which restricts the adaptability of the trainees), excessive minimum training periods and age limit restrictions on entry. Settling apprenticeship and trainee wage rates in line with the work productivity of trainees would help, especially in the initial training period. Another factor is the difficulty for individual employers to benefit from their own investment in training in the face of competition from employers who do not make such investments.

Looking at education more broadly, there seems to be a recognised need—gradually being acted upon—to shift the emphasis in secondary schools towards the provision of stronger basic literacy, numeracy and other skills intrinsic to a productive life. Greater efforts are also needed to relate the higher education system more closely to the changed economic environment.

A better matching of available skills with requirements could be achieved by addressing some of the restrictions on the flexible use of labour within businesses. Reform of the existing craft-based union structure could help improve efficiency by reducing demarcation disputes and removing craft-based manning restrictions. The two-tier wage system, which provides scope for negotiation on an industry or enterprise basis, should help by providing a stimulus for the removal of unproductive restrictive work and management practices and otherwise facilitating restructuring and changes in work methods. The progressive development of the two-tier system should also allow a greater degree of decentralisation in wage negotiation, thereby encouraging employee identification with the success of their firms and helping reduce inflexibility in the relative wage structure, while continuing to promote recognition of the need for overall restraint.

Competitive product markets are also of crucial importance for efficiency. In a country such as Australia, with relatively small domestic markets, the vigour of competition for tradable goods and services depends in large measure on the extent of exposure to overseas suppliers and the pressures on domestic producers to seek export markets. Over much of the post-war period, relatively high levels of protection in Australia fostered an inward-looking manufacturing sector, inadequately conditioned to respond flexibly to changes in the economic environment and new economic opportunities. This insulated environment not only diminished the need to seek a competitive edge in domestic markets but actively discouraged export industries (including potential exporters in the manufacturing sector).

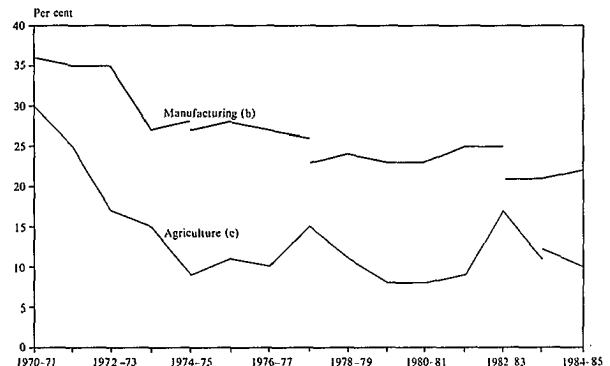
In the late 1970s and early 1980s these forces were compounded by the way in which the investment surge in resource-related projects impacted on the economy. At that time, policy was geared to making 'room' for such investment, by reducing public sector claims on resources and by expanding the current account deficit; these processes were associated with an appreciation of the Australian dollar until

August 1981. Wages also exploded and manufacturing competitiveness slumped to very low levels.

The legacies of a protected and uncompetitive manufacturing sector are now being addressed. Reductions in assistance had been gradual over most of the past decade. As shown in Chart 17 (which extends only to 1984-85), the reduction in the average effective rate of assistance for Australian manufacturing industries since the 25 per cent tariff cut in 1973 has resulted primarily from changes in the structure of industry (represented by the breaks in the graph); that is, more highly protected industries have declined in relative size and less protected industries have expanded. Between 1975 and 1983, discretionary changes to assistance contributed little to lower overall protection in the manufacturing sector, as reductions in some tariffs were offset by the extension of quota arrangements to high-cost industries.

Since 1983, rather more progress has been made. The adjustment in the exchange rate since the float in late 1983 has, on the one hand, reduced effective protection in those industries assisted by quota arrangements while, on the other, improved

Chart 17: Effective Rates of Assistance (a), 1970-71 to 1984-85



- (a) Source: Industries Assistance Commission, 'Assistance to Agricultural and Manufacturing Industries', AGPS 1987. The effective rate of assistance measures cover forms of assistance such as tariffs, quantitative import restrictions, production bounties, local content schemes, domestic pricing arrangements for agricultural commodities, marketing support arrangements and input subsidies but exclude some assistance measures which could be important to some industries, such as application of anti-dumping policy, pricing of infrastructure services and State and local government assistance.
- (b) Production patterns and material to output ratios observed in a base year have been applied to the assistance estimates for the years included in the series. The base years—1971-72, 1974-75, 1977-78 and 1983-84—were those for which the ABS released new data.
- (c) Estimates of assistance for 1970-71 to 1983-84 were derived using an average of the materials to output data for 1970-71 to 1980-81. Estimates for 1983-84 to 1984-85 have been derived using an average of materials to output data for 1979-80 to 1983-84.

the competitiveness of manufacturers generally. Most bounty rates have been reduced, while phased reductions in assistance have been announced for major industries, including chemicals and plastics; textiles, clothing and footwear; and motor vehicles. In some cases, industry plans will not operate to reduce assistance levels significantly until their later years and, in the case of textiles, clothing and footwear, there will initially be some increase in effective protection. The industry plans do not focus solely on protection, however, but seek more broadly to encourage desirable change by obtaining the cooperation of unions and employers in promoting adjustment, innovation and the development of a more outward-looking approach.

It is recognised that major efforts will be required to overcome the legacy of attitudes and practices based on past inward-looking policies. To this end measures have been introduced to stimulate research and development, export marketing and improvement in management practices.

Regulatory reform, including the removal of barriers to entry to a number of activities, offers considerable scope for improving the use of resources economy-wide and, through greater competition, lowering production costs. Particular opportunities for increased efficiency through regulatory reform are likely to be found in transport and handling, communications and related industries. For example, freeing of constraints in shipping and stevedoring areas would lower costs to users, thereby improving the competitiveness of export industries and reducing the insulation of other domestic industries. Greater competition in domestic aviation could stimulate tourist flows into and within Australia by encouraging the provision of aviation services more attuned to tourist needs. The Government has begun changes in many of these areas and has initiated a further process of active review.

The Pace of Adjustment

The Government has established an economic policy strategy that provides a framework within which the private sector can effect the necessary transfer of resources from the non-tradable to the tradable sector. In the public debate, there is little disagreement with the broad directions of that strategy. The key question concerns the adequacy of the pace of adjustment.

Table 10 shows how the main components of the current account deficit have been developing. (The forecasts for 1987-88 are discussed further in the next Part of this Statement.)

Table 10: Components of the Current Account of the Balance of Payments

	1984-85	1985-86	1986-87	1987-88 (forecast)
	Per cent of GDP			
Balance on goods and services	-2.3	-3.0	-1.8	-1
Net income	-3.1	-3.3	-3.8	-4
Net unrequited transfers	0.2	0.3	0.5	1
Balance on current account	-5.2	-6.0	-5.1	-4
Memorandum items:				
Balance on goods and services (\$b constant 1979-80 prices)	-2.6	-1.0	2.4	4
Contribution to GDP growth (percentage points)	-0.5	1.2	2.3	1

As can be seen, the volume balance on goods and services turned to surplus in 1986-87 and by 1987-88 is forecast to have improved by a total of over \$6 billion (in 1979-80 prices) from the 1984-85 level. The volume balance is, of course, only part of the current account story, but it is important to recognise the substantial turnaround in trading performance that is going on. Despite further adverse terms of trade movements, the overall current account deficit in nominal terms fell from 6 per cent of GDP in 1985-86 to about 5 per cent in 1986-87. It is projected to fall further to about 4 per cent of GDP in 1987-88.

Is this pace of improvement adequate and, in particular, could practical policies be implemented to achieve more rapid adjustment?

The more rapid the adjustment of policy instruments, the greater is the risk of disruptions in the labour market and in firms' investment plans, and of short-run real output and employment losses, which could undermine the sustainability of the policy strategy. On the other hand, the longer the adjustment period, the greater is the build-up in foreign debt and the greater the call on future income to service that debt. Prolonging the adjustment period also means greater vulnerability to further shocks that are adverse to Australia's external performance (for example, a further deterioration in the terms of trade or export demand), and involves a more searching test of the patience of foreign creditors.

Assessments of the adequacy of the pace of external adjustment involve difficult judgments. Moreover, judgments reached at one point in time must necessarily be revised in the light of unpredictable future events, just as policy needs to be reviewed and adjusted when necessary. The experience of the past eighteen months shows that the macroeconomic settings in this country can be altered quickly and significantly when required. The following paragraphs traverse some of the elements relevant to reaching a judgment about the adequacy of the pace of adjustment.

A nation can run large current account deficits—spend much more than it earns—only to the extent that finance from foreign investors is forthcoming on other than onerous terms. This perspective suggests that there will not be all that much room for manoeuvre. Financial markets will tend to force a faster pace of adjustment, through reductions in the exchange rate and/or increases in interest rates if, from their perspective, progress falls short of widely held expectations.

Financial markets are quite efficient processors of information and, taking one period with another, will generally get the exchange rate and the interest rate 'about right'. Nevertheless, these markets do have some characteristics which render their signals incomplete guides to policy. An example is the oft-remarked tendency for 'overshooting', a phenomenon whereby the prices in these markets get ahead of adjustment elsewhere in the economy (in, for example, product and labour markets) so that, when the adjustment starts to come through, financial asset prices unwind somewhat (correcting the 'overshooting'). 'Overshooting', if not adequately recognised, may give misleading signals to the private sector in the transfer of resources. This phenomenon fundamentally derives from differential speeds of price adjustment in different markets. Although other influences have no doubt been at work, recent Australian experience is not inconsistent with a 'correction of overshooting' interpretation; the exchange rate has come back over the twelve months since the sharp fall in mid-1986, as adjustments in the balance of payments and domestic economy have become apparent.

Conditions in the foreign exchange and financial markets over the past six months or so are suggestive of increased confidence in the economy's adjustment prospects. There can be little doubt that some of the 'uncertainty premium' has gone out of the Australian dollar and interest rates. That said, financial market sentiment can change, and change quickly if new information should lead to a reassessment of that 'uncertainty premium'. As discussed in Part I, and in the Annual Report of the Reserve Bank, there is a role for policy in testing and smoothing in these markets when prices are changing rapidly.

Other benchmarks which have been looked to in assessing the pace of adjustment are longer-term projections of the current account deficit and associated foreign debt ratios. Because such projections are necessarily taken several years into the future, they are heavily dependent on assumptions; generally the outcomes are examined for their sensitivity to different sets of assumptions. In this way a number of 'scenarios' are drawn up.

Scenario work of this kind generates plausible adjustment paths which result in a stabilisation of the ratio of Australia's net external debt to GDP under reasonable assumptions. Most such analyses point in the same overall, established, direction for policy. Beyond that, not too much weight can be placed on any particular scenario. Their principal utility is in drawing out the key factors determining the pace of adjustment by showing how variable the adjustment path is across scenarios. Their outcomes are very sensitive to the future behaviour of the terms of trade, the real exchange rate, domestic and external demand, key export and import price elasticities and the debt/equity mix of capital flows. The range of plausible outcomes is fairly wide.

Moreover, these scenarios generally employ an 'end-point' objective of stabilisation of net debt to GDP, usually characterised by some specified ratio by some specific date. The results obtained are sensitive to differing 'end-point' assumptions, and appeals to Australia's own history, or to international comparisons, provide no clear normative guide for such 'end-point' selections.

So far as an assessment of the sustainability of future current account balances and international debt is concerned, there would seem to be one overriding consideration, although it does not lend itself to ready quantification. Australia will, by definition, continue to attract capital from abroad during the adjustment process now under way, but there can be very important differences in how this occurs. The extent to which it does not require a falling exchange rate, high interest rates and a sluggish economy basically turns on the attractiveness of investment opportunities in Australia relative to other countries, and not only to foreign investors but to Australians. Such attractiveness has a number of dimensions which go far beyond the pace of correction in the current account, to include such factors as political and basic institutional stability. Fundamental, however, is the prospective profitability of investment in Australian activities. That, in turn, leads again to productivity, efficiency and genuine international competitiveness considerations. Microeconomic/structural reform, coupled with restraint in the domestic cost structure, has the potential to extend the menu of profitable investment opportunities. In other words, if Australia is succeeding in pursuing the current policy strategy for external adjustment, it will as part and parcel of that be a relatively attractive place to invest.

Recent experience indicates that expansion in the output of tradable goods and services can take place fairly promptly by more intensive use of existing production capacity and reactivation of unused capacity. However, decisions to expand capacity inevitably take longer. Investors need to be satisfied that the change in relative profitability is sustainable. Then there are the lags in identifying new profitable opportunities, planning and implementing projects, and penetrating new markets. Part I pointed to tentative evidence of these 'second-phase' effects beginning to get under way; the burst of investment activity in hotel construction and tourist projects is probably the strongest indication.

Continuation of the structural adjustment process at an appropriate rate will also hinge importantly on perceptions of the sustainability of macroeconomic policies. If firms and households believe that the Government's policy strategy is appropriate and will be maintained, they will adapt their activities more rapidly to the policy environment. On the other hand, the adoption of economic policies which are not considered sustainable will be seen as a false start, risking delay of the intended responses and heightening uncertainty.

In the Australian setting, specific national influence on wage determination is an explicit policy—unlike in some other countries with different labour market institutions. Such influence has been exerted to lower nominal wages growth and inflation but, more importantly, to lower real wages. These reductions have been large and sustained and obtained without major industrial disruption. They have therefore contributed to, rather than detracted from, the strategy of adjustment. To seek to press such restraining influence beyond some point, however, could well impede the adjustment process, if not undo the overall adjustment strategy. Similar constraints of community acceptance govern the pace of fiscal restraint.

There are therefore limits to what government on its own can achieve, although political leadership is, of course, important in building community acceptance. It is critical that the community understands the forces at work in the economy and the trade-offs that are possible, particularly trade-offs that involve current restraint and changes to past practices in return for reasonable expectations of improved circumstances in the future. There are many signs that this understanding is on the move in Australia.

It is notable that a marked slowing of growth in public sector demand has been effected without the short-run increase in unemployment that has often been expected. The backdrop of the stimulus to domestic activity from the currency depreciation and of substantial moderation in real wages has contributed importantly to this experience. It suggests that concerns about the short-run macroeconomic consequences of major restraints on public sector activity have been overstated, especially when combined with lower wage costs and improved competitiveness.

In summary, assessing the adequacy of the pace of adjustment is a complex matter. Difficult judgments have to be made about the future consequences of policy changes already made and about the speed limits of change. The costs of going too slowly can mount as quickly as those of going too fast. A good deal of the task remains ahead and virtually all assessments point to a long hard haul. All that said, there are some positive features—financial market sentiment has been broadly favourable for some time, no doubt reflecting perceptible adjustment in the

'real' economy, and the policy approach has received a wide measure of community support. The continued implementation of policies which consistently put runs on the board—particularly in terms of downward trends in inflation and in the current account deficit—without driving the economy through the floor, can be expected to produce an acceptable rate of adjustment.

PART III: THE ECONOMIC OUTLOOK

Given continued implementation of the policies described above, Australia's economic performance should continue to improve in 1987-88 and beyond.

The increase in domestic demand that emerged during the second half of 1986-87 is forecast to continue in 1987-88. Private consumption expenditure is likely to benefit from a turnaround in real household disposable income. Investment is expected to be somewhat stronger, reflecting a generally more settled and confident environment, the recent easing of interest rates and prospects for lower inflation. Under the influence of policy, public demand will decline. After last year's major contribution, net export volumes will make a smaller, but still substantial, contribution to growth in 1987-88, reflecting the continuing benefit of improved international competitiveness. Taken together, the aforementioned factors will result in a strengthening in GDP growth in 1987-88. The current account deficit should be further reduced, but net external indebtedness is expected to rise again in the year ahead.

The Forecasting Framework and Assumptions

The forecasts in this Statement are conditional on a set of assumptions covering largely exogenous factors, such as developments in the world economy. There is always a degree of uncertainty attaching to them, particularly regarding international economic conditions. In addition, the forecasts build upon the latest economic statistics, many of which are preliminary in nature and subject to significant revision. For these reasons, the focus of attention should be on the overall picture provided by the following assessment, and on broad trends rather than precise numbers. In particular, care should be taken in interpreting trends when using growth rates which key off specific quarters, such as the recent June quarter.

The 1987-88 Budget forms an important part of the background to the forecasts. The forecasts are also based on the following major assumptions:

- growth in real GNP of Australia's major OECD trading partners of around 2-2½ per cent in 1987-88 (following around 2½ per cent in 1986-87);
- inflation in OECD countries picking up from around 2½ per cent in 1986-87 to 3½-4 per cent in 1987-88;
- average nominal interest rates overseas remaining largely unchanged but edging upwards in the US in line with inflation;
- the usual technical assumption of no change through 1987-88, from recent levels, in the exchange rate for the Australian dollar. Specifically, bilateral exchange rates consistent with a TWI level of 56 have been used where required for budget estimates and parameters;
- average seasonal conditions for rural production for the remainder of 1987-88;
- continuation of existing wage determination principles, the key elements in 1987-88 being a further first-tier increase of 1.5 per cent; second-tier increases of up to 4 per cent flowing to the bulk of wage earners, but associated with negotiated productivity offsets; and superannuation benefits flowing to the majority of wage earners during 1987-88; and
- monetary policy remaining appropriately firm throughout 1987-88.

Monetary Policy and Financial Conditions

While monetary policy is expected to bear less of the overall burden of restraint in 1987-88, it will continue to play an important role in helping to curb domestic demand and containing cost and price pressures. If marked volatility in sentiment in the financial and foreign exchange markets emerges again, there will again be a case for the Reserve Bank's market operations to provide a steadying influence.

The authorities appreciate the desirability of providing financial markets with adequate information on the impact of official sector transactions on domestic money markets. To this end, the impact of the Government's deficit-financing transactions in 1987-88 on domestic money markets is discussed below. Detail on such transactions in 1986-87 is contained in Statement No. 5, with a longer historical overview in Statement No. 6. The Reserve Bank will continue to provide regular outlines of the expected pattern of Commonwealth net spending and borrowing during the year, as well as quarterly reports on its market operations.

As set out in Budget Statement No. 5, the lower than expected budget deficit resulted in overfunding of the Australian dollar component of the deficit in 1986-87. This was reflected in a build-up of around \$1 billion in the Commonwealth's cash balances with the Reserve Bank. Consistent with the objective of seeking to fully fund budget deficits over time, with the financing task not being used as an implicit instrument of monetary policy, it is envisaged that this build-up will be substantially unwound in 1987-88.

The foreign currency component of the 1987-88 overseas budget deficit is provisionally put at around \$2½ billion. As in 1986-87, this is expected to be met principally through purchases of foreign exchange in the market, with little net impact on the level of foreign exchange reserves.

The estimated Budget deficit and the proposed funding arrangements would be consistent with:

- some net retirement (around \$1 billion) of existing overseas debt in 1987-88, compared with net raisings of around \$0.75 billion in 1986-87. This would be the first net retirement since 1980-81;
- net redemptions (around \$1 billion) of Treasury Bonds, compared with net raisings of around \$0.6 billion in 1986-87. (About \$3.7 billion in bonds will mature in 1987-88.) It is envisaged that there will be some growth in the stock of Treasury Notes in non-official hands in line with anticipated further demand for these securities for liquidity management; a similar take-up of indexed bonds as in 1986-87; and small net sales of ASBs; and
- cash base growth provided by Reserve Bank market transactions.

The financing mix can only be set down provisionally at this stage; it may need to be adjusted in the light of developments as the year progresses. It is likely, however, that given the much reduced borrowing requirement there will be one less Treasury Bond tender this year.

The global limit for Commonwealth authorities and the reduced Commonwealth Budget deficit in 1987-88 are estimated to result in a fall in the Commonwealth sector's gross borrowing requirement of 1.2 per cent of GDP; overall the gross PSBR is estimated to decline by 1.8 per cent to 2.2 per cent of GDP. Details of movements in the PSBR by level of government over the past decade, including

separate estimates for general government and for public trading enterprises, are to be found in Budget Statement No. 7.

Overall, the significant tightening in fiscal policy associated with the virtual elimination of the Commonwealth Budget deficit will result in a substantially reduced public sector call on domestic capital markets in 1987-88. While other factors, such as financial market developments overseas and inflation and exchange rate expectations can also have an important bearing on domestic interest rates, reduced public sector demand for funds will contribute to sustaining the recent easing in financial conditions throughout 1987-88.

Demand and Output

The 1987-88 forecasts for demand and output are summarised in Table 11 and, for other selected measures, in Table 12. Forecasts are expressed in real terms unless otherwise indicated.

After the unusual fall in 1986-87, *real household disposable income* is expected to recover, reflecting the 1 July 1987 personal income tax reductions, the full-year effect of the 1 December 1986 reductions and continued employment growth. Continued real wage restraint is expected to provide a partial offset.

Against this background, and with the recent decline in interest rates and the outlook for lower inflation, growth in *private final consumption expenditure* is forecast to pick up to 1½ per cent in 1987-88 from the subdued 0.5 per cent in 1986-87. The forecast implies a lift in the *household saving ratio*, associated with a rebuilding of savings by consumers (following a decline in the saving ratio in

Table 11: Forecasts of Demand and Output (a)

	1985-86 Actual	1986-87 Actual	1987-88 Forecast
Private final domestic demand	2.1	-0.2	2½
Private final consumption expenditure	2.8	0.5	1½
Gross fixed capital expenditure—			
Dwellings	-0.6	-10.6	4
Business investment	0.2	0.9	5
Public final domestic demand	3.6	1.3	-1
Total final domestic demand	3.0	0.2	1½
Increase in stocks (b)—			
Private non-farm	0.2	-1.1	1
Farm and public authority	-0.3	0.2	0
Gross national expenditure	3.3	-0.3	1½
Exports of goods and services	6.5	7.5	5½
Imports of goods and services	0.1	-4.8	0
Net exports (b)	1.2	2.3	1
Gross domestic product	4.5	2.0	2½
Comprising—			
Non-farm	4.9	1.9	3
Farm	-1.5	2.8	-1

(a) Expenditure and product aggregates are at average 1979-80 prices. Unless otherwise stated, figures are percentage changes on the previous year.
(b) Percentage points contribution to growth.

Table 12: Forecasts of Other Selected Economic Measures (a)

	1985-86 Actual	1986-87 Actual	1987-88 Forecast
Average weekly award wages	4.6	4.7	5
Average weekly earnings (national accounts basis)	6.2	6.6	61
Consumer price index	8.4	9.3	7
Gross non-farm product deflator	7.1	8.0	7
Non-farm real unit labour costs (b)	-1.7	-0.5	-1
Employment (labour force survey basis)	3.8	2.3	21
Unemployment rate (labour force survey basis) (%)	7.9	8.3	84
Participation rate (%)	61.7	62.0	62
Real household disposable income	2.4	-1.2	2
Household saving ratio (%)	10.8	9.3	91
Terms of trade	-9.9	-5.1	2
Current account deficit (\$ billion)	14.5	13.6	111
percentage of GDP	6.0	5.1	4

(a) Unless otherwise indicated, figures are percentage changes on previous year.

(b) Ratio of non-farm wages, salaries and supplements, payroll tax and fringe benefits tax, deflated by the implicit price deflator for gross non-farm product, per hour worked by non-farm wage and salary earners to gross non-farm product at constant prices, per hour worked by all persons employed in the non-farm sector.

1986-87; see Table 12). Increased superannuation provisions account for part of the growth in household income and are not expected to reflect significantly in increased current consumption.

Private business fixed investment is forecast to increase by 5 per cent in 1987-88, reflecting the recent decline in interest rates, prospects for an easing of inflation, and a strengthening of domestic demand and confidence regarding the economic outlook. Supported by the stream of projects already in the pipeline, non-dwelling construction investment is expected to grow strongly. Plant and equipment investment is forecast to grow moderately in 1987-88. The published national accounts estimates of business investment for 1987-88 will include sales of fixed capital investment by the Commonwealth Government to the private sector. Abstracting from such sales, business investment could grow by 4 per cent, comprising 6 per cent growth in non-dwelling construction investment and 3 per cent growth in plant and equipment investment⁽⁷⁾.

Forward indicators of dwelling construction activity have begun to show some tentative signs of an upturn. The improved tone in the economy and easing of mortgage interest rates in recent months also support the prospect of some recovery. Growth in *private dwelling investment* is put at 4 per cent in 1987-88.

Cuts in Commonwealth outlays will lead to a sizeable real decline in Commonwealth sector consumption expenditure on a payments basis. However, there will be some bunching in deliveries of defence equipment in 1987-88 against payments made in previous years, resulting in real growth in Commonwealth consumption expenditure as recorded in the National Accounts, matched by a rise in government imports of defence equipment. Reflecting this bunching of deliveries, *public sector consumption expenditure* is expected to rise by around 21 per cent, compared with

(7) The effect of major Commonwealth sales of fixed capital investment in forthcoming National Accounts publications will be to raise the level of measured private business investment while lowering the level of measured public final demand with no direct effect on overall expenditure. Because such assets are held off-hand, their sale by the Commonwealth Government to the private sector will not directly affect private new capital expenditure (as recorded in the ABS publication, *Private New Capital Expenditure*, Cat. Nos. 5625.0 and 5626.0).

growth of 1.7 per cent in 1986-87. *Public sector capital expenditure* is expected to decline by around 7½ per cent, compared with growth of 0.4 per cent in 1986-87; this reflects a lull in aircraft purchases by the publicly-owned airlines and the effects of Commonwealth asset sales. On a published basis, *public final demand* is expected to decline by 1 per cent in 1987-88. Abstracting from major asset sales and the excess of defence deliveries over payments, public final demand could decline by 1 per cent, compared with growth of 1.3 per cent in 1986-87.

Reflecting the continuing spread of more efficient stock management techniques, the non-farm stocks-to-sales ratio is expected to decline in 1987-88, with *non-farm stocks* increasing slightly and making some contribution to growth in GDP. Assuming a similar decline as in 1986-87, *farm stocks* would have little year-on-year effect on growth in GDP.

Overall, *gross national expenditure* could increase by about 1½ per cent in 1987-88, compared with a decline of 0.3 per cent in 1986-87 and an average annual increase of 2.5 per cent over the decade to 1986-87. With a contribution to growth from net exports in 1987-88 of about 1 percentage point (of which more below), *gross domestic product* is forecast to grow by about 2½ per cent. Within this total, *non-farm product* is forecast to increase by 3 per cent. *Farm product* is expected to decline by 1 per cent, mainly reflecting a reduction in wheat production partly offset by increases in production of wool, other grains and livestock.

Balance of Payments

Following strong growth of 7.5 per cent in 1986-87, the volume of exports of goods and services is forecast to increase by 5½ per cent in 1987-88. Rural exports are forecast to be little changed. Non-rural exports are forecast to rise by 7½ per cent. Strong growth in exports of gold and manufactures and a continued high level of crude oil exports are expected to more than offset poor prospects for iron ore, coal and cereals. The volume of service exports is expected to continue to exhibit very strong growth, essentially reflecting improved tourism receipts.

The volume of imports of goods and services is forecast to remain flat in 1987-88, compared with the 4.8 per cent fall in 1986-87. The effect on endogenous import volumes of the forecast pick-up in domestic demand is expected to be broadly balanced by further import substitution in response to the on-going effects of recent improvements in international competitiveness. For exogenous imports, higher deliveries of defence equipment should be more than offset by a decline in civil aircraft imports. Following a 4.1 per cent fall in 1986-87, the volume of service imports is expected to rise by 1½ per cent in 1987-88.

During 1986-87 Australia's terms of trade declined by 5.1 per cent. While uncertainties abound, improvements in some export prices (notably wool, cotton, metals and service exports) are expected to offset decreases in grain, coal and iron ore prices and growth in import prices, resulting in a rise in the terms of trade in year-average terms of around 2 per cent.

Mainly because of continuing, albeit slowing, accumulation of net external debt, the deficit on net property income will increase substantially, thereby continuing to constrain the rate of reduction of the current account deficit.

These forecasts imply a *current account deficit* of around \$11½ billion, some 4 per cent of GDP, in 1987-88. Seasonal influences, as usual, are expected to be adverse in the first half of 1987-88. Australia's *net external debt* is likely to continue to rise faster than nominal GDP during 1987-88, and a further rise in the debt servicing ratio is expected.

The Labour Market

Employment is forecast to grow by about 2½ per cent in 1987-88, about the same as in 1986-87 notwithstanding the expected stronger product performance. This forecast implies a lift in measured *non-farm productivity* following the apparent decline in 1986-87. Some *slowing* in employment growth through the course of 1987-88 is expected. Assuming a relatively stable *participation rate*, the *unemployment rate* should be little changed on average from the 8.3 per cent in 1986-87.

Prices and Incomes

Based on the assumptions of wage and superannuation decisions outlined above, *average award rates of pay* could increase by about 5 per cent in 1987-88. *Average weekly earnings* (survey basis) are forecast to increase by 6 per cent; the flow of superannuation benefits to wage earners would imply *average earnings* (national accounts basis) growth above that (at 6½ per cent), about the same as in 1986-87.

The effect of past exchange rate depreciations on import prices now appears to have largely run its course and, given the assumption of an unchanged exchange rate, inflation should moderate, especially during the second half of the year. Inflation in the first half of the year is likely to be held up because of measures announced in the May Statement and increases in some State taxes and charges. The forecast rate of growth in the *Consumer Price Index* of 7 per cent in 1987-88 (6 per cent over the course of the year) implies a further reduction in real wages. With a modest improvement in the terms of trade in the year, the *implicit price deflators* for *gross non-farm product* and *total GDP* are forecast to grow by around 7 per cent, slightly more than the growth in the *gross national expenditure deflator*.

With real wages recording a further modest fall, and non-farm labour productivity picking up, *real unit labour costs* in the *non-farm sector* could fall by around 1 per cent in 1987-88, compared with a fall of 0.5 per cent in 1986-87. The share of *gross operating surplus of corporate trading enterprises* in non-farm product at factor cost is expected to remain about the same as in 1986-87.

Conclusion

Performance to date and the outlook for 1987-88 suggest that the intended adjustment process is under way. A further substantial contribution to growth from net exports and a further reduction in the current account deficit are in prospect. Cost and price inflation is forecast to ease, thereby assisting in maintaining Australia's cost competitiveness and reducing the possibility of disruptive exchange rate shifts. While there are always risks associated with economic forecasts, there are grounds for believing that the continued flexible application of the policy framework in place provides a sustainable solution to Australia's external difficulties.

STATEMENT NO 3—ESTIMATES OF OUTLAYS 1987-88

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STYLE CONVENTIONS

The following style conventions are employed in this Statement in addition to those noted on page 2 of this Budget Paper:

- Unless otherwise stated, amounts shown in text as provisions, allocations, estimated outlays or the like refer to the current (1987-88) financial year, and all references to change in such amounts deal with comparisons with the corresponding amounts in the preceding (1986-87) financial year.
- 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; "the six States" excludes the NT; "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 1984-85" comprises 1982-83, 1983-84 and 1984-85).
- Unless otherwise specified, references to the "May Statement" mean the statement delivered by the Treasurer on 13 May 1987 entitled "1987-88 Budget Initial Measures, May 1987".

STATEMENT NO. 3—ESTIMATES OF OUTLAYS 1987-88

This Statement presents an overview and analysis of outlays and staffing in the 1987-88 Budget, with a brief summary of the processes and the fiscal and related economic developments which have occurred during the period of its preparation.

PART I—OVERVIEW OF BUDGET OUTLAYS

I. OUTLAYS AGGREGATES

Total budget outlays in 1987-88 are estimated at \$78 146m, an increase of \$3 247m or 4.3% over the 1986-87 outcome. This represents a decline in real terms of 2.4%. The ratio of outlays to GDP in 1987-88 is expected to be 26.8% compared with an estimated 28.3% in 1986-87 and 29.1% in 1985-86.

The estimates for 1987-88 include an allowance for proceeds from the sale of major assets of \$1 000m. If this allowance is excluded from the estimates, outlays of \$79 146m would increase by 5.7% over the 1986-87 outcome. This represents a decline in real terms of 1.2% and a ratio of outlays to GDP of 27.2%.

2. RECONCILIATION OF FORWARD AND BUDGET ESTIMATES

The forward estimates in previous years have presented an initial view of the outlays prospects for the following Budget, based on the future costs of existing policies. The Budget estimates were based on separate "bids" submitted by Ministers in the months preceding the Budget, without regard to the forward estimates.

In developing the 1987-88 Budget the role of the forward estimates has been significantly enhanced. The forward estimates are now taken as the baseline for budget deliberations, and are progressively updated throughout the Budget process to reflect policy decisions by the Government, movements in the economic parameters underlying the estimates, and a range of other revisions including progress in implementation of programs and variations in demand or changes in beneficiary numbers. By providing a consistent and continuing basis for Budget deliberations, and minimising unproductive contention over base line estimates, these new procedures have improved outlays control and enhanced the Government's capacity to focus on substantive issues.

Forward estimates of budget outlays for the period 1987-88 to 1989-90 were prepared in September and October 1986, based on outyear estimates developed during the 1986-87 Budget, and published in December 1986.

The forward estimates reflected all Government decisions taken before preparation of the Report. For the most part this corresponds to the policies presented in the 1986-87 Budget. As such, the estimates included the cost of all Government activities having continuing authority. For 1987-88 this cost was estimated at \$80 479m, based on the then current assumptions as to economic growth, inflation and other economic parameters.

In a number of cases formal Government authority for programs lapsed during the forward estimates period. Where extension of these programs at some level of funding was considered probable, continuation at the same real level was assumed for illustrative purposes in order to avoid underestimating outlays totals. Some \$460m was included on this basis, the main amounts being for food aid, Commonwealth State housing assistance and civil works.

Reconciliation of Forward Estimates and Budget Estimates of 1987-88 Commonwealth Budget Outlays, by Function (S million) (a)

FUNCTION	1987-88		1987-88		Difference		1988-89 Effect of Policy Decisions				
	Published	Actuals	1987-88	1987-88	Between Budget	Parameter and Other	Policy Decisions		Policy Decisions		
	Estimates		Estimates	Estimates	Forward	Variations	Increase	Decrease	Net	Decrease	Net
1. Education	7,109	8,095	7,404	7,404	-694	-345	350	-350	-	-350	-661
2. Health	5,216	5,695	5,685	5,685	-9	48	42	90	-97	387	97
3. Housing	7,499	8,070	8,213	8,213	443	352	43	254	66	335	269
4. Social Security	20,533	22,417	22,599	22,599	182	456	300	574	-274	572	887
5. Housing Assistance	1,673	1,210	1,376	1,376	166	316	35	184	-150	77	199
6. Culture and Recreation	949	1,023	1,032	1,032	10	26	4	20	-16	17	9
7. Economic Services—											
A. Transport and Communication	1,669	1,895	1,662	1,662	-234	22	30	286	-257	235	230
B. Health, Science and Development	1,180	1,275	1,224	1,224	-50	-29	38	59	-21	32	24
C. Labour and Employment	1,031	1,169	1,040	1,040	-129	-20	43	152	-108	74	260
D. Other Economic Services	387	230	248	248	18	-5	1	3	-2	8	4
Total Economic Services	4,147	4,569	4,174	4,174	-395	-5	112	500	-388	348	549
8. General Public Services—											
A. Legislative Services	474	516	574	574	57	49	9	1	8	1	-1
B. Law, Order and Public Safety	520	545	579	579	34	17	18	17	17	10	11
C. Fire, Police and Ambulance	1,902	1,392	1,392	1,392	-	16	7	23	10	2	30
D. General and Scientific	531	548	525	525	-23	-33	3	10	-7	4	16
E. Administrative Services	2,496	3,070	2,723	2,723	-347	-261	63	148	-85	115	199(9)
Total General Public Services	5,314	6,072	5,793	5,793	-278	-195	100	183	-93	142	177
9. Not Allocated to Function—											
A. Accused to Other											
B. Government, nec.	14,437	15,834	14,869	14,869	-965	-71	-	894	-894	-	880
C. Public Debt Interest	7,923	7,833	7,851	7,851	18	25	-	57	-57	133	133
D. Contingency Reserve	na.	na.	150	150	30	-	-	9	-9	23	23
Total Not Allocated to Function	22,360	23,787	22,870	22,870	-917	43	-	960	-960	-	1,036
TOTAL OUTLAYS	74,899	80,939	79,146	79,146	-1,793	696	638	3,125	-4,488	1,334	3,440
EXCLUDING ASSET SALES											
D. Asset Sales (c)	-	-	-1,000	-1,000	-1,000	-	-	1,000	-1,000	-	-1,000
TOTAL OUTLAYS	74,899	80,939	78,146	78,146	-2,793	696	638	4,125	-3,488	1,334	4,940

(a) A reconciliation of the May Statement Outlays financing and 1987-88 Budget Outlays is provided on the page opposite.
 (b) Forward estimates of Government owned assets and liabilities are classified as an offset within outlays.
 (c) Proceeds accruing to the Budget from sale of Government owned assets and properties are classified as an offset within outlays.

SUMMARY OF ESTIMATES VARIATIONS BETWEEN PUBLISHED FORWARD ESTIMATES, MAY STATEMENT AND BUDGET ESTIMATES

Published forward estimates	531
Parameter and other variations	80 939
Policy decisions	1 146
—Increase	105
—Decrease	-3 745
May Statement Estimates	-3 745
Parameter and other variations	78 445
Policy decisions (a)	-450
—Increase—Family assistance	-
—Other	249
—Decrease	284
Budget estimates	~ 380
	78,146

(a) Includes recastings of May Statement decisions.

The major contribution to the net reduction between the published forward estimates and the Budget has come from policy decisions by the Government, which have had the effect of reducing estimated outlays by \$3 488m. In the period leading up to the budget, savings of \$380m were made which more than funded the \$249m for the family package. Other new policy was agreed to the value of \$284m. A summary of the more important new policy and savings decisions by function is provided in the next section.

The total published forward estimates for 1987-88 thus amounted to \$80 939m. Following publication the forward estimates were updated as described above by the Department of Finance in consultation with other departments and agencies.

The first major update of the forward estimates to reflect revised economic parameters was carried out in January and February. After considering the results of this update, the Government decided to approach the development of the Budget in two stages, concentrating first on reviews of major programs to identify ways of reducing outlays. The resulting reductions in outlays announced by the Treasurer in the May Statement form the basis of a continuing tight fiscal policy in 1987-88.

In the second phase of Budget outlays development, the Government finalised the details of initiatives announced during the election campaign, reviewed other more minor new policy requirements and concluded its examination of the scope for savings in areas not addressed in the May Statement. During this period the estimates were again updated progressively to reflect parameter movements and other variations as well as policy decisions.

The table, Reconciliation of Forward Estimates and Budget Estimates of 1987-88 Commonwealth Budget Outlays, by Function, provides a complete reconciliation by function between the published forward estimates and the budget estimates, categorising variations as being due to either parameter movements and other estimates variations or specific policy decisions to increase or decrease funding. This reconciliation extends a similar table provided in conjunction with the May Statement to cover the period from May to the Budget. A summary of the reconciliation from forward estimates to the May Statement and from then to the Budget is provided below.

Parameter and other revisions to the estimates resulted in a net increase over the forward estimates of \$696m. Revisions up to the May Statement resulted in an increase of \$1 146m or 1.4%, which was offset by subsequent decreases of \$450m or 0.6%.

These movements reflect both the sensitivity of the estimates to parameter movements and the extent of revisions during the year. The sensitivity of the estimates has been analysed in detail in recent Forward Estimates Reports, especially at pages 22-29 of the 1986 Report. The assumptions underlying the published forward estimates were described in detail at page 21 of that Report, while the economic forecasts on which the Budget estimates are based are explained in Part III of Budget Statement No. 2.

Major Parameter Changes

The concurrent effect of a number of variables makes it impossible to determine the precise impact of changes in individual parameters. However, the major identified parameter changes between the forward and Budget estimates are described below:

- The *exchange rate* assumption in the Budget of 56 on a Trade Weighted Index basis is some 4 points higher than that assumed in the forward estimates. This appreciation is estimated to have led to a direct reduction in outlays since the forward estimates of \$280m, mainly in defence capital purchases and interest on Commonwealth debt denominated in foreign currencies.
- *Domestic wage and price indices* forecasts have also changed since the forward estimates. Higher forecasts for the CPI and implicit price deflator for non-farm GDP than in the forward estimates have increased outlays by around \$600m, mainly in the areas of indexed pensions and benefits and assistance to other governments. Average weekly earnings are now expected to be rather less than forecast at the time of the forward estimates. This has reduced expected outlays by some \$140m, mainly in the areas of salaries and Education and Health programs dependent on wages.

The relative dependence of outlays on price and wage movements is detailed in Table 9 (pages 28-29) of the 1986 Forward Estimates Report.

- The average number of unemployment beneficiaries is now estimated to be 550 000, a net reduction of 20 000 on the assumptions incorporated in the forward estimates, which has reduced estimated outlays by \$223m. Some 18 000 of this reduction is due to policy decisions announced in the May Statement to tighten eligibility conditions and improve administration of unemployment benefit and related programs. It also reflects the continuing effect of administrative changes implemented since the 1986-87 Budget. Sickness and special beneficiary numbers have increased by 5 000 (net of policy measures) relative to the forward estimates, increasing outlays by \$17m.
- Significant *other program-specific parameter movements* have been:
 - A higher than expected use of Treasury Notes in 1986-87, which has increased the estimate of public debt interest in 1987-88 by around \$100m.

- A higher than expected increase in the average prescription price for pharmaceuticals and greater than anticipated entitlement under the 'safety net' has increased estimated outlays by \$110m.
- Excluding the effects of policy measures, underlying growth in service volumes in medical benefits has increased estimated outlays by \$15m.

Other Variations

A number of other large variations in the estimates have occurred since the forward estimates. These include deferral of the introduction of the Australia Card, and a revision to fertiliser subsidy payments.

The 1987-88 estimates are also affected by movements in the 1986-87 base figures, although the precise effects vary greatly for different programs. There is, for example, a direct linkage to previous years' outlays in programs subject to real growth guidance such as the *1. Defence* function. In other cases, such as capital works, acceleration or deferral can significantly affect outstanding commitments on projects, while in programs such as grants-in-aid there is no linkage at all.

3. OUTLAYS MEASURES

As outlined in the section above, the Government in framing the Budget made policy decisions both increasing and decreasing the forward estimates.

Initiatives adopted by the Government included the family package, adding \$249m to outlays, assistance to the States to reduce public hospital waiting lists (\$25m) and increased funding for the Aboriginal Employment Development Policy (\$15m net). In total \$638m was added to outlays in 1987-88, with a full year cost of \$1 334m.

Savings measures included decisions on general purpose payments to the States (\$1 000m), defence planning guidance (\$350m), medical benefit schedule fees (\$128m), levels of road grants (\$180m), social security benefit eligibility and administration (\$433m), and asset sales (\$1 000m). Taken together with other decisions, but abstracting from asset sales, these measures will result in a reduction in outlays of \$3 125m in 1987-88, and \$3 840m in 1988-89.

Apart from asset sales, total policy decisions by the Government in developing the Budget thus reduced the forward estimates by a net \$2 488m in 1987-88 and \$2 507m in 1988-89. Allowance for asset sales increases net savings in 1987-88 to \$3 488m and in 1988-89 to \$3 507m. In the absence of policy decisions, it is estimated that outlays would have increased by 2.0% in real terms in 1987-88.

The following table summarises the main measures which affect estimated outlays in 1987-88 and which have been adopted by the Government since the publication of the forward estimates.

SIGNIFICANT OUTLAYS MEASURES SINCE THE PUBLICATION OF THE FORWARD ESTIMATES

* Indicates measures announced in whole or in part in the May Statement.
Indicates further measures announced before the 1987-88 Budget.

Function and description of measure	Estimated Effect on Outlays	
	1987-88	1988-89
	\$m	\$m
1. DEFENCE		
Decrease		
• Reduce real growth to -1% in 1987-88 and 1% in 1988-89*	-350.0	-496.0
Increase		
• Revise funding guideline from 1% to 1.5% real growth in 1988-89	—	35.0
2. EDUCATION		
Decreases		
• Increase in the level of the Overseas Students Charge*	(a)	(a)
• Reduction in general recurrent grants for higher education*	-12.0	-24.0
• Reduction in general recurrent grants for TAFE*	-30.0	-45.0
• Reduce TAFE Fees Reimbursement Grant	-1.0	-1.0
• Reduction in general recurrent grants for ACT TAFE*	-1.5	-2.5
• Changed rates and conditions of education component of Common Allowance Structure*	-27.6	-59.2
• Reduce outlays on Special Assistance for Students Program	-2.0	-2.2
• Rationalisation of Assistance for Special Groups	-10.4	-24.7
• Contribution from States for higher education Superannuation	-11.0	-23.0
Increase		
• Establish a National Language Policy for students#	15.1	28.0
• Index Postgraduate Awards	1.0	2.6
• Increase higher education intakes by 3500-4000	20.3	48.6
• Aboriginal Employment Development Program—education programs	2.5	4.5
• Adult Migrant Education Program#	1.3	2.0
3. HEALTH		
Decreases		
• Medical Benefits—Restructuring of schedule fees and amendments to benefit conditions*		
- Diagnostic imaging	-39.8	-54.1
- After-hours consultations	-23.1	-31.4
- Optometry	-11.6	-15.8
- Ophthalmology	-11.3	-11.3
- Consultant physicians	-14.1	-19.2
- Other Schedule Items	-28.1	-28.7
- Reduction in benefit arrangements for private in-hospital medical services	-80.0	-119.0
• Pharmaceutical Benefits Scheme		
- Improvements in Pharmaceutical Benefits processing*	-1.0	-2.8
- Amendments to procedures for listing of drugs and setting prescribing rules	-5.0	-11.4
- Reduction in wholesaler's margin in the price of listed drugs	-1.0	-7.0
- Introduction of a maximum generic price differential for listed drugs	-1.0	-13.0
• Modifications to Repatriation Pharmaceutical Benefits Scheme supplementary list and prescribing rules	-1.0	-2.0
• Health Insurance Commission—termination of Medicare agency arrangements	-0.4	-1.5
• Minor reductions in administration and programs	-5.6	-2.7
• Program of Aids for Disabled People—change in administrative arrangements*	-16.3	-1.6
• Revised funding arrangements for residential care for the aged*	—	12.9
• Adjustment to approval scheduling for nursing home beds	—	-3.0
• Require patient contribution for nursing home care from veterans	-2.2	-4.3
• Increase the capacity of Repatriation Hospitals to treat veterans, thereby saving on payments for the treatment of veterans in non-departmental hospitals	-2.8	-2.6
• Review of veterans' beneficiary transport arrangements	-1.2	-2.5

Function and description of measure	Estimated Effect on Outlays	
	1987-88	1988-89
	\$m	\$m
Increase		
• Increased funding for AIDS treatment and education*	3.0	—
• Expansion of activities under the AIDS Program	9.0	12.9
• Provide assistance to the States to reduce Public Hospital waiting lists	25.0	25.0
• Women's Health Screening Program	1.1	2.0
• Extend treatment benefits to Returned Australian Servicewomen of World War II	0.7	1.4
• Changes to Pharmaceutical Benefits Pricing Bureau price setting guidelines to assist local manufacturing	1.0	19.0
4. SOCIAL SECURITY AND WELFARE		
Decreases		
• Unemployment Benefits and other entitlements		
- Assets test on Unemployment Sickness and Special Benefits*	-12.5	-24.0
- Alignment of rates of Sickness Benefit with Unemployment Benefits*	—	-12.0
- Postponement of benefits for voluntary job leavers*	-3.0	-3.0
• Increase to 14% the withholding rate for recovery of overpayment of pensions/benefits	-6.9	-9.5
• More rigorous scrutiny of the work intentions of unemployment-benefit recipients	-22.8	-47.3
• Sole Parents		
- Commencement of Child Support Scheme	-26.9	-144.5
- Reduction in child qualifying age for Supporting Parents Benefit and Widows Pension*	-7.5	-17.0
- Income testing of in-kind maintenance payments for Supporting Parent Benefit and Widows Pension*	-5.0	-9.0
• Income test on Family Allowance*	-63.0	-95.0
• Review of eligibility and administration of income support payments		
- Eligibility changes for various benefits*	-65.3	-85.3
- Administrative changes*	-65.9	-117.4
- Reviews of eligibility status for various benefits*	-53.8	-117.9
• Indirect effects on Unemployment Benefits from May Statement measures	-30.0	-30.0
• Increase detection of non-declared income	-7.8	-9.7
• Youth		
- Job Search Allowance to replace Unemployment Benefits for 16 and 17 year olds*	-14.5	-33.6
- Waiting period for Job Search Allowance and intermediate rates of Unemployment Benefits*	-40.0	-45.0
- Freeze current rates of junior and intermediate Unemployment Benefits*	-16.5	-32.2
• Increased salaries and administrative costs for Social Security to implement May Statement measures*	16.5	9.7
• Reduce matched funding to States under Home and Community Care Program to reflect likely State funding*	-6.9	-8.2
• Revised funding arrangements for residential care for the aged*	-9.2	-0.3
• Disability Services—defer increase in salary subsidy to funded organisations*	-9.0	-4.9
• Increase Rehabilitation Centre charges to compensable clients to effect full cost recovery*	-0.5	-3.0
• Children's Services—changes in fee relief arrangements and implementation of the 20,000 new places strategy*	-33.4	10.6
• Recoveries of overpayments of service pensions*	-4.1	—
• Alter timing of payments to the States for the Supported Accommodation Assistance Program	-12.8	—
• Deferred income assessment measures	-2.0	-13.5
• Staff savings from computer re-equipment program (STRATPLAN)	—	-5.3

Function and description of measure	Estimated Effect on Outlays	
	1987-88	1988-89
	\$m	\$m
Increases		
• Extend funding for disability services demonstration projects*	10.0	—
• Cost supplementation of children's services grants for cost increases within year*	6.9	11.5
• Provide additional resources to administer the Child Support Scheme	3.0	—
• Continue regionalisation of rehabilitation services*	4.9	—
• Upgrade Homeless Persons Assistance Program	1.5	2.5
• Provide attendant care services for some severely physically disabled residents currently in nursing homes to be cared for in the community	3.5	6.0
• Reintroduce pension and education allowance entitlement to Sole Parents	1.1	0.4
• Pensions and benefits to recipients of child-maintenance	2.7	5.5
• Permit pensioners to aggregate unused free area entitlements	3.5	4.7
• Family Assistance	239.9	489.8
• Additional resources to implement Family Assistance	8.6	8.0
• Aboriginal Employment Development Policy		
- Expand Community Development Employment Program (CDEP) and introduce a CDEP Support Program	8.2	14.9
- Community Economic Advancement Projects and Small Business projects	3.7	5.0
5. HOUSING AND COMMUNITY AMENITIES NEC		
Decreases		
• Restrictions on Commonwealth State Housing Agreement funding*	-40.9	-77.9
• Defer outlays under the National Rainforest Conservation Program	-6.1	6.1
• Defence Service Homes—altered loan/grant arrangements	-14.3	NA
• Operational savings arising from closure/disposal of migrant centres and flats	-1.5	-2.6
• Migrant centres—changed management practices	-0.5	-1.2
Increases		
• Increase income limits for First Home Owners Scheme*	27.5	35.5
• Local Government Development Program	2.0	—
• Commission of Inquiry into Lemonthyme and Southern Forests#	1.5	—
6. CULTURE AND RECREATION		
Decreases		
• Reduced funding for the ABC and SBS	-2.0	—
• Reduce funding for operation and maintenance of ABC transmissions	-2.0	—
• Restructure of Film Australia's operations*	-1.3	-1.3
• Defer expansion of National Broadcasting Service*	-6.7	—
• Defer outlays on the National Sports Facilities Program	-2.8	2.8
• Reduce Australia Council Grants*	-1.0	-1.0
Increases		
• Construction of ABC/SBS Radio and Concert Building#	4.7	6.1
• Funding of World Expo '88*	1.7	1.1
• Construction of archives repository at Tuggeranong, ACT	0.7	1.9
• Construction of Garden of Remembrance—Rookwood NSW	—	2.5

Function and description of measure	Estimated Effect on Outlays	
	1987-88	1988-89
	\$m	\$m
7. ECONOMIC SERVICES		
7A. TRANSPORT AND COMMUNICATION		
Decreases		
• Repayment of advances made to Telecom*	-81.0	—
• Repayment of advances made to Australia Post*	-9.0	—
• Provide same nominal level of funding for major road grant programs in 1987-88*	-180.3	-192.5
• Defer some works on taxiways at Kingsford-Smith Airport	-1.6	1.6
• Reduce budget advances to the Pipeline Authority	-2.3	-1.7
• Reduce Airways Technical Capital Works	-3.0	-3.0
• Revise the operating subsidy to Australian National Railways	—	-6.0
Increases		
• Replace Australian Bicentennial Road Development Program following expiry in 1988*	—	220.3
• Provision for land acquisition for second Sydney Airport	8.8	6.8
• Advance the Australian National Railways Commission funds for capital works	3.9	5.4
• Extend Air Traffic Control radar coverage	—	2.0
• Resheet Perth Airport main runway	2.0	—
• Resheet Alice Springs Airport runway	4.5	—
• Replace the Aviation Central Training College	2.6	1.5
• Replace VHF Band Distance measuring equipment	—	2.6
• Upgrade the Communications Laboratory facilities	1.2	4.2
• Grants for the purchase of new generation ships*	4.1	11.8
• Upgrade Department of Transport and Communications housing in WA	1.8	0.3
7B. INDUSTRY ASSISTANCE AND DEVELOPMENT		
Decreases		
• Slower implementation of heavy engineering assistance*	-7.0	—
• Reduction in contribution to wool research*	-5.0	—
• Funding cap on wool promotion	-9.4	-7.8
• Terminate tractor bounty	-1.0	-3.8
• Increase the consumer paid margin of the Petroleum Products Freight Subsidy Scheme by 4¢/litre	-8.3	-8.8
• Capital repayment and reduced funding for AUSTRADE	-4.0	-2.0
• Reduce sugar industry adjustment assistance	-3.0	-3.0
• Increased quarantine cost recovery	-2.7	-5.8
• Dispose of Commonwealth owned stock of phosphate rock	-5.0	NA
• Reduce funding for the Federal Water Resources Assistance Program	-4.0	-2.0
Increases		
• Provide development and adjustment assistance to the textile, clothing and footwear industries*	6.2	10.0
• National Afforestation Program	2.5	5.0
• Increase funding for the Australian Tourist Commission and abolish the Tourist Overseas Promotion Scheme	3.8	1.1
• Completion of Steel Regions Assistance Program—tourism	2.0	-2.0
• Information industries strategy	4.6	6.4
• Increased management and development of Australian fisheries (\$3.5m in 1987-88)—offset by increase in fisheries levies	—	—
• Construction of Brisbane and Spotswood quarantine facilities	1.9	0.5
• Increase funding relating to chemical residues in meat	2.8	1.0
• Rural research funding	4.2	—
• Investment Promotion	2.0	2.0
• High Technology Procurement Strategy	3.5	7.0

Function and description of measure	Estimated Effect on Outlays	
	1987-88	1988-89
	\$m	\$m
7C. LABOUR AND EMPLOYMENT		
Decreases		
• Slower implementation of heavy engineering assistance*	-4.0	—
• Abolition of Commonwealth Work Experience Program and reduction of JOBSTART wage subsidy scheme funding*	-38.0	-29.2
• Abolish Community Employment Program*	-100.0	-200.0
• Reduce funding of National Occupational Health and Safety Commission*	-7.0	-4.3
• Reduce funding of Trade Training Program	-2.5	-4.4
• Reduce funding of Community Youth Support Scheme	-1.0	-1.0
• Reduce Formal Training Allowance	-2.6	-6.4
Increases		
• Increased funding for training programs*		
- Adult training	7.5	14.9
- Youth training	15.5	32.0
- Skills training	4.5	8.7
- Community Training Program	3.4	4.5
- Job Search	1.6	2.8
• Provide development and adjustment assistance to the textile, clothing and footwear industries*	1.0	—
• Provide funding for labour adjustment for retrenched coal mining industry workers in NSW and Queensland	2.6	—
• New Enterprise Incentive Scheme	3.8	6.0
• Aboriginal Employment Development Policy—Training for Aboriginals Program	3.0	4.2
7D. OTHER ECONOMIC SERVICES		
Decreases		
• Reduction in Industry Assistance Commission staffing*	-1.2	-2.4
Increases		
• Accelerated re-equipment of the Bureau of Meteorology	1.3	1.8
8. GENERAL PUBLIC SERVICES		
8A. LEGISLATIVE SERVICES		
Increases		
• Restoration of landscaping for new Parliament House*	5.0	—
• Provide first stage of Ministerial communications network, including secure voice communications, in the new Parliament House	2.8	—
8B. LAW, ORDER AND PUBLIC SAFETY		
Increases		
• Extension of telecommunications interception powers to State law enforcement agencies and National Crime Authority*	1.2	1.0
• Law Courts accommodation program	3.0	4.3
• Provide additional resources for Attorney-General's to recover and protect revenue	4.1	5.8
• Anti-crime measures	5.3	5.8
• Establish the Australian Securities Commission	1.1	—
• Royal Commission into Aboriginal deaths in custody#	1.8	—
• Increased Attorney General's Department resources to implement the Child Support Scheme	0.9	2.8
8C. FOREIGN AFFAIRS AND OVERSEAS AID		
Decreases		
• Reduction in overseas aid*	-20.0	-20.0
Increases		
• Contribute to UNCTAD Common Fund for Commodities	1.6	1.1
• Overseas Property Services	2.8	1.2
8D. GENERAL AND SCIENTIFIC RESEARCH NEC		
Decreases		
• Increased cost recovery by CSIRO*	-10.0	-15.0
Increases		
• Provide for essential works for Antarctic Rebuilding Program	1.3	3.6
• SYNROC demonstration Phase 11	1.9	2.3

Function and description of measure	Estimated Effect on Outlays	
	1987-88	1988-89
	\$m	\$m
8E. ADMINISTRATIVE SERVICES		
Decreases		
• Introduction of processing charge on applications for refunds of customs duty*	-1.0	-1.0
• Cancellation of civil works at Commonwealth Centre Melbourne following decision to dispose of site*	-9.8	-6.5
• Sale of surplus land, buildings and other minor assets*	-82.2	-10.0
• Charge for survey, guarding and construction design services to client departments (net)	-2.7	-4.9
• Revised timing of acquisition of ADP systems for the Australian Audit Office	-5.2	1.3
• Terminate the superannuation subsidy to Australian Airlines	-4.9	-4.9
• Introduce comprehensive charges for statistical services—Australian Bureau of Statistics	-2.7	-4.9
Increases		
• Increase Australian Taxation Office resources to implement the Child Support Scheme	8.7	10.7
• Increased funding for Australian Taxation Office to assist audit and debt collection activities	5.0	2.6
• Accommodation for Government operations		
- Civil works		
- construction of Commonwealth offices in Sydney and Melbourne	2.4	22.0
- other	9.2	13.4
- new leases	7.5	16.7
- fit-out of leased premises	25.0	10.5
9. NOT ALLOCATED TO FUNCTION		
9A. ASSISTANCE TO OTHER GOVERNMENTS NEC		
Decreases		
• Reduction in general purpose payments to the States*	-1 000.0(b)	-1 000.0(b)
• Recoupment of overpayments to Northern Territory	-14.4	—
9B. PUBLIC DEBT INTEREST		
Decreases		
• Quarterly payments to local government—savings in interest*	-27.0	-27.0
• Processing of accounts—reductions in Public Debt Interest from improved cash management*	-6.5	-11.0
• Reduced interest payments on State debt flowing from reduced capital assistance as a result of decisions at the May 1987 Loan Council Meeting#	-23.0	-95.0
9D. ASSET SALES		
• Sale of major assets	-1 000.0	-1 000.0
- part of Embassy site in Tokyo*		
- assets of National Materials Handling Bureau*		
- former Ambassadorial residence in Paris*		
- Defence enterprises and major assets*		
- Commonwealth Government centres in Sydney and Melbourne*		
- Shareholding in Primary Industry Bank of Australia*		
- Commonwealth Accommodation and Catering Service		
- Sale of Defence Service Homes Corporation		
CROSS FUNCTIONAL MEASURES		
• Service wide efficiency scrutinies		
- Streamlining of Public Service travel arrangements*	-8.9	-23.4
- Processing of accounts administration*	-9.1	-18.7
• Application of a further efficiency dividend on Public Service running costs*	-14.0	-28.0
• Payment of customs duty and sales tax by Commonwealth Government enterprises—supplementation for budget funded agencies*	7.0	7.0
• Administrative savings flowing from changes in structure of Commonwealth departments#	-47.6	-107.1

(a) The increased receipts from the Overseas Student Charges (\$6.8m in 1987-88 and \$10.8m in 1988-89) will result in a corresponding reduction in the contribution from the global aid vote towards the education of subsidised overseas students from developing countries.

(b) This figure represents the total savings identified in the May 1987 Premiers' Conference/Loan Council. The distribution of these savings is determined by the proportion of advances which can be nominated by the States for housing purposes. As a result, included in the \$1 000m is a saving of \$120.4m for both years in the 5. Housing and Community Amenities, nec function.

4. SUMMARY OF BUDGET OUTLAYS

The 1987-88 Budget outlays are summarised below:

- by function, identifying the primary purpose of particular activities independently of the way they are administered or of their underlying economic nature;
- by economic type, indicating the underlying economic nature of each item;
- by economic type by function, showing the relationship between these two classifications; and
- by portfolio.

BUDGET OUTLAYS BY FUNCTION

The 1987-88 Budget provides for negative real growth in outlays as a whole, while enhancing programs in areas identified as priorities by the Government.

The proportion of outlays (excluding asset sales) allocated to the 2. *Education*, 3. *Health* and 4. *Social Security and Welfare* functions will increase from 44.4% in 1986-87 to 46.2% in 1987-88. Outlays will increase by an average 2.7% in real terms in these three functions. The increase is due to the introduction of the family allowance supplement, increased utilisation of health services, funding for additional tertiary places and the indexation of pensions and benefits. These increases have been partly offset by reduced outlays on medical benefits due to changes to fee schedules, and reductions in social security pensions and benefits arising from improved administration and changed eligibility conditions.

Major areas of decline in real terms include 1. *Defence*, as a result of the Government's decision to provide for a real decrease in 1987-88 of 1.0%, and 9A. *Assistance to Other Governments, nec* reflecting a reduction of \$380m in general purpose payments to the States (net of the \$120m contribution, shown under 5. *Housing and Community Amenities, nec*, to the \$1 000m savings determined in the May 1987 Premier's Conference/Loan Council).

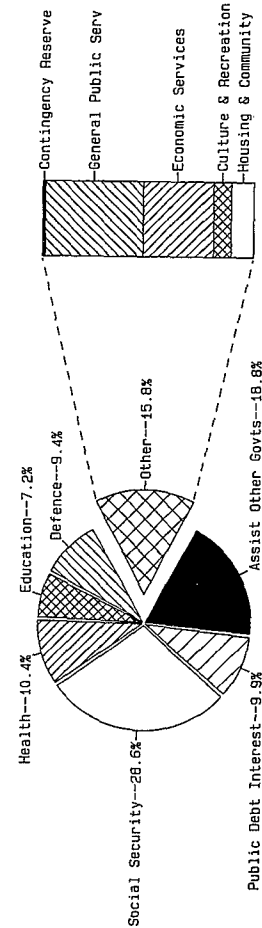
Outlays on 9B. *Public Debt Interest* are expected to decline in money terms due to the reduced deficit in 1986-87 and a further estimated reduction in 1987-88, and a decline in average interest rates compared with 1986-87.

The decision to hold outlays on the Commonwealth State Housing Agreement constant in money terms in 1987-88 and a reduction in Loan Council Program Borrowings nominated by the States for public housing, together with the termination of the savings bank subsidy at the end of 1986-87, contribute to a substantial nominal decline in outlays in the 5. *Housing and Community Amenities, nec* function.

The real decline in the 7A. *Transport and Communication* function mainly reflects the Government's decision to hold outlays on road grants constant in nominal terms in 1987-88, while the reduction in 7C. *Labour and Employment* is primarily due to termination of the Community Employment Program partly offset by additional funding for trade training.

Outlays increase in real terms and as a proportion of total outlays in the 8E. *Administrative Services* function, reflecting rising superannuation payments, rising payments under the instalment purchase and office construction program (in both areas reflecting the deferred cost of liabilities incurred in previous years), and increased resources for the Australian Taxation Office associated with the Child Support Scheme; and in the 8A. *Legislative Services* function due to the 1987 election and the costs of completing and occupying the new Parliament House.

CHART 1. OUTLAYS BY FUNCTION
1987-88



(a) Excludes Asset Sales (\$1 Billion)

BUDGET OUTLAYS BY FUNCTION

	1986-87	Estimate	1987-88		Proportion of Total Outlays (a)	
	Actual		Change	%	%	
	\$m	\$m	\$m	%	%	
1. Defence	7 208.8	7 404.0	195.2	2.7	9.4	
2. Education	5 215.7	5 685.2	469.6	9.0	7.2	
3. Health	7 499.3	8 212.9	713.6	9.5	10.4	
4. Social Security and Welfare	20 533.5	22 599.0	2 065.5	10.1	28.6	
5. Housing and Community Amenities	1 672.9	1 376.0	-296.9	-17.7	1.7	
6. Culture and Recreation	948.6	1 032.5	83.9	8.8	1.3	
7. Economic Services						
A. Transport and Communication	1 669.3	1 661.6	-7.7	-0.5	2.1	
B. Industry Assistance and Development	1 180.3	1 224.4	44.1	3.7	1.5	
C. Labour and Employment	1 030.6	1 040.2	9.6	0.9	1.3	
D. Other Economic Services	266.6	247.5	-19.1	-7.2	0.3	
Total Economic Services	4 146.8	4 173.7	26.9	0.6	5.3	
8. General Public Services						
A. Legislative Services	474.3	573.8	99.5	21.0	0.7	
B. Law, Order and Public Safety	520.0	579.3	59.3	11.4	0.7	
C. Foreign Affairs and Overseas Aid	1 301.8	1 391.9	90.1	6.9	1.8	
D. General and Scientific Research	521.3	525.2	3.9	0.8	0.7	
E. Administrative Services	2 496.1	2 723.0	226.8	9.1	3.4	
Total General Public Services	5 313.6	5 793.2	479.6	9.0	7.3	
9. Not Allocated to Function						
A. Assistance to Other Governments	14 436.8	14 868.8	432.1	3.0	18.8	
B. Public Debt Interest	7 923.3	7 850.9	-72.4	-0.9	9.9	
C. Contingency Reserve	—	150.0	150.0	n.a.	0.2	
D. Asset Sales	—	-1 000.0	-1 000.0	n.a.	n.a.	
Total Not Allocated to Function	22 360.1	21 869.8	-490.3	-2.2	28.9	
TOTAL OUTLAYS	74 899.2	78 146.2	3 247.0	4.3	n.a.	

(a) Excluding 9D Asset Sales

BUDGET OUTLAYS BY ECONOMIC TYPE

Growth in *Current Outlays* on the Commonwealth's own behalf is expected to contract slightly in real terms:

- The low growth in *Defence Salaries* and the decline in *Defence Non-Salary Outlays* reflects the 1.0% real reduction in defence functional outlays in 1987-88.
- *Non-Defence Salaries* decline slightly in real terms due to the effect of administrative arrangements savings and the effect of the 1.25% efficiency dividend on salary costs, offset by increased staff numbers in a number of areas. More details are provided on staffing in Section 5 below.
- *Non-Defence Non-Salary Outlays* increase substantially, principally as a result of increased superannuation and domestic and overseas property services outlays, the costs of the 1987 election, and occupancy costs of the new Parliament House.

Current Transfer Payments make up more than 75% of outlays. The main components are interest payments, expected to decrease slightly in money terms, personal benefit payments which will again increase in real terms, and grants to other governments which will grow only slightly in real terms as a result of the Government decision to reduce general revenue payments to the States.

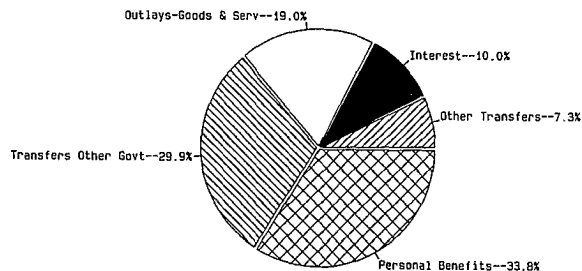
- The rapid growth in recent years in the *Grants to Non-Profit Institutions* component has been reversed as a result of the decision to phase in a standard Commonwealth nursing home benefit payable to individuals to replace cost reimbursement payments to nursing home operators.

Total *Capital Outlays* by the Commonwealth are expected to decline by almost 20% in real terms, largely as a result of reductions in the States' Loan Council Program (affecting *Grants to Other Governments* and *Net Advances*) and the decision to hold road grants to the States constant in nominal terms.

- *Capital Payments* on the Commonwealth's own account are expected to grow rapidly due to progress on the Beijing Embassy complex and increased capital payments under the office construction instalment purchase program. The wind up of the British Phosphate Commission, the sale of rehabilitation centres, and a payment to the Commonwealth by the South Australian Oil and Gas Corporation in respect of the purchase of petroleum interests in the Cooper Basin were all offset against payments in 1986-87.

Major *Asset Sales* have been identified separately in the table Budget Outlays by Economic Type. If these had been classified to *Defence Non-Salary Outlays* and *Capital Payments* as in the past the estimated proceeds would have dominated the estimates of ongoing activities in these categories.

CHART 2. OUTLAYS BY ECONOMIC TYPE (a)
1987-88



(a) Excludes Asset Sales (\$1 Billion)

BUDGET OUTLAYS BY ECONOMIC TYPE

	1986-87		1987-88		Change	%
	Actual	Estimate	Actual	Estimate		
CURRENT OUTLAYS—						
Current Outlays on Goods and Services—						
Defence	2 699.7	2 732.5	1 228.8	1 228.8	4.7	
Salaries	4 544.2	4 442.5	-101.8	-101.8	-2.2	
Non-Defence	3 651.0	3 812.6	161.6	161.6	4.4	
Salaries	2 801.1	3 399.9	499.8	499.8	17.2	
Non-Salary Outlays						
Total Current Outlays on Goods and Services	13 705.0	14 387.5	682.5	682.5	5.0	
Current Transfer Payments—						
Interest	7 978.3	7 903.2	-75.1	-75.1	-0.9	
Subsidies	1 060.9	993.1	-67.8	-67.8	-6.4	
Personal Benefit Payments	24 083.2	26 784.5	2 699.3	2 699.3	11.2	
Grants to Non-Profit Institutions	1 029.2	887.0	-142.2	-142.2	-13.8	
Transfers to the Commonwealth Non-Budget Sector	1 888.8	2 168.5	279.7	279.7	14.8	
Grants to Other Governments	19 311.3	20 755.3	1 423.9	1 423.9	7.4	
Transfers Overseas	783.3	817.5	34.2	34.2	4.4	
Other	..	10.2	10.2	10.2	n.a.	
Total Current Transfer Payments	56 157.0	60 309.3	4 152.3	4 152.3	7.4	
TOTAL CURRENT OUTLAYS	69 862.8	74 696.3	4 833.5	4 833.5	6.9	
CAPITAL OUTLAYS—						
Capital Payments on Commonwealth own account	385.7	632.7	247.0	247.0	64.1	
Capital Transfer Payments—						
Transfers to the Commonwealth Non-Budget Sector	580.4	558.4	-12.0	-12.0	-2.1	
Grants to Other Governments	3 248.7	2 972.8	-275.9	-275.9	-8.5	
Grants to Other Sectors	208.3	345.3	137.0	137.0	65.3	
Total Capital Transfer Payments	4 127.4	3 886.5	-240.9	-240.9	-5.8	
Advances paid to health Non-Budget Sector	-121.7	-104.2	17.5	17.5	14.4	
Other Governments	546.3	-40.1	-586.4	-586.4	-106.1	
Other Sectors	1067.1	744.4	-322.7	-322.7	-30.1	
Total Net Advances	525.4	-69.8	-595.2	-595.2	-11.7	
TOTAL CAPITAL OUTLAYS	5 038.4	4 449.3	-589.1	-589.1	-11.7	
Asset sales	-1000.0	-1000.0	n.a.	n.a.	n.a.	
TOTAL OUTLAYS	74 892.2	78 146.2	3 254.0	3 254.0	4.3	

BUDGET OUTLAYS BY FUNCTION AND ECONOMIC TYPE

Estimate 1987-88 (heavy type) compared with Actuals 1986-87 (light type)

	Defence	Education	Health	Social Security and Welfare	Economic Services	General Public Services	Assistance to other Governments	Public Debt Interest	Other (a)	Total (b)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Current Outlays—On Goods and Services	7 175	47	1 117	849	1 092	3 752	—	—	354	14 388
Interest	7 154	34	1 046	788	1 064	3 433	—	—	184	13 705
Personal Benefits Payments	—	—	—	—	—	52	—	7 851	—	7 903
Capital Payments	—	—	—	—	—	55	—	7 923	—	7 978
Transfers to Other Governments	—	734	5 257	20 700	65	18	—	—	11	26 784
Transfers Others	—	604	4 521	18 886	48	16	—	—	11	24 085
TOTAL (b)	7 404	5 685	8 213	22 599	4 174	5 793	14 869	7 851	2 558	79 146
	7 209	5 216	7 499	20 534	4 147	5 314	14 437	7 923	2 622	74 899

(a) Includes 5. Housing and Community Amenities, nec, 6. Culture and Recreation and 9C. Contingency Reserve
 (b) Excludes 9D. Asset Sales

BUDGET OUTLAYS BY PORTFOLIO

Estimates of outlays by portfolio and program are presented in detail in Budget Paper No 3 Portfolio Program Estimates 1987-88. That paper provides details of outlays by appropriation item or head of receipt for each sub-program, and also indicates the broad functional classification of outlays. Information on staffing by sub-program is also included.

The table below provides a summary of outlays by portfolio.

	1986-87	1987-88		
	Actual	Estimate	Change	
	\$m	\$m	\$m	%
Parliament	65.3	89.0	23.7	36.2
Administrative Services	1 529.9	1 758.4	228.5	14.9
Arts, Sport, the Environment, Tourism and Territories	1 018.0	1 135.9	117.9	11.6
Attorney-General's	490.1	515.7	25.5	5.2
Community Services and Health	12 116.2	13 435.9	1 319.8	10.9
of which				
Veterans' Affairs	3 709.4	4 197.0	487.5	13.1
Aboriginal Affairs	330.1	384.3	54.3	16.4
Defence	7 179.5	7 413.4	233.9	3.3
Employment, Education and Training	5 826.3	6 258.1	431.8	7.4
Finance	62.1	719.6	366.5	15.5
Foreign Affairs and Trade	1 259.5	1 304.7	45.2	3.6
Immigration, Local Government and Ethnic Affairs	173.7	194.0	20.3	11.7
Industrial Relations	122.9	125.1	2.3	1.8
Industry, Technology and Commerce	1 307.1	1 358.2	51.1	3.9
Primary Industries and Energy	571.3	531.9	-39.5	-6.9
Prime Minister and Cabinet	137.9	186.9	49.0	35.5
Social Security	16 693.7	18 173.6	1 480.0	8.9
Transport and Communications	2 070.2	2 106.5	36.3	1.8
Treasury	23 714.6	23 689.2	-25.4	-0.1
Not allocated to portfolio				
Contingency Reserve	—	150.0	150.0	n.a.
Asset Sales	—	-1 000.0	-1 000.0	n.a.
TOTAL OUTLAYS	74 899.2	78 146.2	3 247.0	4.3

Reasons for major movements between 1986-87 and 1987-88 are provided below:

Parliament

The substantial real growth in outlays is due to the initial occupancy costs of the new Parliament House.

Administrative Services

The increase reflects the costs of the 1987 election, and increased domestic and overseas property costs in part reflecting instalment purchase payments related to property development in recent years, offset partly by reduced outlays on common services due to the introduction of interdepartmental charges.

Arts, Sport, the Environment, Tourism and Territories

Growth is mainly due to increased funding for schools in the ACT, and an increased property refurbishment and construction program. It is also affected by one-off receipts in 1986-87 of the proceeds from the wind-up of the British Phosphate Commission.

Attorney-General's

Slightly reduced real funding for most programs, partly offset by increased resources in the Government Solicitor's Office and law enforcement agencies account for the small real decline.

Community Services and Health

The strong growth reflects increases for a range of programs, including medical and pharmaceutical benefits, home and residential care services, children's services, veterans' health care and service and disability pensions.

Defence

The low nominal growth in this portfolio reflects the government's decision to restrict growth to -1% in real terms for the Defence function, together with favourable exchange rate movements.

Employment, Education and Training

The modest real increase in outlays is mainly due to increased funding for training programs, the National Languages Policy, and additional tertiary places, offset by the abolition of the Community Employment Program.

Finance

The growth in outlays is due to increased superannuation payments, principally reflecting emerging costs of liabilities incurred in previous years under the Commonwealth Superannuation Scheme.

Foreign Affairs and Trade

The appreciation of the \$A and the decision to reduce aid payments have contributed to the slight real decrease in funding.

Immigration, Local Government and Ethnic Affairs

An enhanced migration program accounts for the increase.

Industrial Relations

The real reduction in funding reflects savings in the operations of the Trade Union Training Authority and the National Occupational Health and Safety Commission.

Industry, Technology and Commerce

Reduced funding has been provided for the CSIRO and the Petroleum Products Freight Subsidy Scheme, leading to the real reduction in the portfolio as a whole.

Primary Industries and Energy

Reduced estimates of fertiliser subsidies and the completion in 1987-88 of assistance for the construction of a gas-fired power station in the NT contribute to reduced outlays.

Prime Minister and Cabinet

The increase reflects the peaking of outlays by the Bicentennial Authority.

Social Security

The growth in outlays is due to indexation arrangements for a range of pensions and benefits and the cost of the family assistance package, offset by reduced funding for family allowances and the effects of other policy decisions on eligibility and administration.

Transport and Communications

The real reduction in funding primarily reflects the decision to hold road funding constant in nominal terms.

Treasury

Outlays have grown only slightly in nominal terms as a result of a reduction in general purpose payments to the States and lower estimates for public debt interest.

5. SUMMARY OF STAFFING AND ADMINISTRATIVE COSTS

The 1986-87 Budget Paper No. 1 provided a summary of staffing estimates only. This section now includes all the costs of administration (running costs) for Budget dependent agencies, covering administrative and operational expenses as well as staffing estimates.

The Government announced in 1986-87 its intention to institute an efficiency dividend requirement, averaging 1 per cent per annum over the following 3 years, in conjunction with steps to increase the flexibility with which departments could use their running cost funding:

- the Salaries, Administrative Expenses and Operational Expenses appropriations have been consolidated into one single Running Costs appropriation;
- the consolidated appropriation is largely cash limited and additional appropriations are available within each year to provide only for national wage case and other major determinations; and
- departments and agencies have been allowed to carry over into the following year unspent Administrative Expenses and cash-limited Operational Expenses (up to a maximum of 4% of these items) and will be allowed to transfer funds between administrative and salaries notional items.

General savings of 0.5% in salaries and average staffing levels in 1986-87 and 1% in administrative and operational expenses were applied, providing a firm base for these arrangements.

As announced in the May Statement, the Government decided to increase the dividend requirement to 1.25% on average over the three years. Efficiency gains from major ADP and other investments will continue to be brought to separate account. As also announced in the May Statement it is expected that associated with any second tier wage increases there will be further future gains in efficiency and offsets in costs.

Adjustments to the planning limits for the non-salaries/wages component of running costs budgets will be limited to the effects of economic parameter adjustments and authorised changes to activity levels. Outlays associated with policy changes will continue to be considered separately. For the salaries and wages planning limit, adjustments will be confined to appropriate National Wage Case and other significant remuneration determinations.

Most, but not all, departments and agencies subject to the running costs system are also subject to more specific staff budgeting controls. Agencies exempt from staff budgeting controls are generally statutory authorities whose staff are not employed under the *Public Service Act* and who are independent of government in their day to day operations such as the Australian Broadcasting Corporation and the Health Insurance Commission.

Consistent with the above financial management and budget structure reforms, the Government has further simplified the direct controls it exercises over departmental staffing levels to give managers greater scope to manage staff resources within the new, broader running costs funding limits. For 1987-88, it has made the long-established direct control on staff numbers subordinate to the running costs funding limits by giving agencies the scope to vary their annual average staffing levels from the Budget levels within an upper limit of an additional half of one per cent, provided that any associated costs not borne by the agency (eg superannuation, accommodation) are offset and do not accrue to the Commonwealth as net additional costs. These direct staffing level controls can also be withdrawn where a Budget sector agency or departmentally operated trust account funded activities has a commercial and competitive orientation, or where there are other compelling policy reasons. In this context, it has been decided to remove the direct control in 1987-88 from the ACT Administration and from the Transport and Storage functions of the Department of Administrative Services.

The table below shows overall staffing and running costs information by portfolio covering all agencies subject to staff budgeting controls.

STAFFING AND RUNNING COSTS 1986-87 to 1987-88

PORTFOLIO	1986-87		1987-88		Change	
	Staffing (Staff Years)	Running Costs (\$m)	Staffing (Staff Years)	Running Costs (\$m)	Staffing %	Running Costs %
Administrative Services	16 404	587.8	15 964	618.2	-2.7	5.2
Arts, Sport, the Environment, Tourism and Territories	3 250	211.7	3 261	238.7	0.3	12.8
Attorney-General's	7 852	324.8	7 982	343.2	1.7	5.7
Community Services and Health of which	21 474	725.9	21 556	794.2	0.4	9.4
— Veterans' Affairs	13 150	416.8	13 496	476.0	2.6	14.2
— Aboriginal Affairs	1 107	48.1	1 149	52.4	4.0	9.2
Defence (a)	38 975	1 419.9	38 369	1 570.1	-1.6	10.6
Employment, Education and Training	10 123	339.1	10 206	351.7	0.8	3.7
Finance	2 107	76.9	2 102	79.9	-0.3	3.8
Foreign Affairs and Trade	5 321	282.0	5 363	296.6	0.8	5.2
Immigration, Local Government and Ethnic Affairs	2 335	91.3	2 397	102.6	2.7	12.4
Industrial Relations	1 388	65.2	1 367	70.7	0.6	8.4
Industry, Technology and Commerce	14 684	675.7	14 545	694.3	-0.9	2.8
Primary Industries and Energy	4 837	208.3	4 899	226.2	1.3	8.6
Prime Minister and Cabinet	1 715	70.0	1 536	70.0	-10.4	..
Social Security	16 806	529.3	17 601	574.8	4.7	8.6
Transport and Communications	12 912	588.9	12 685	624.3	-1.8	6.0
Treasury	23 131	692.4	22 662	702.5	-2.0	1.5
SUB-TOTAL	183 283	6 888.8	182 493	7 357.7	-0.4	6.8
Aust Youth Trainee Scheme	-335	..	-507	..	..	..
1986 Population Census	-935	..	..	..	..	..
Adjustments for transfer in/out of cover . . . . .	..	..	..	..	-177	..
Travel Scrutiny Savings . . . . .	..	..	..	..	-100	..
Redeployment Allowance(b) . . . . .	..	..	..	..	160	..
TOTAL	182 013	6 888.8	181 869	7 357.7	-0.1	6.8

(a) Running costs include amounts associated with Defence service personnel.
(b) Resulting from changes in machinery of Government.

The 1987-88 Budget estimates of staffing show little change in aggregate levels over the 1986-87 outcome, but represent a reduction in staffing levels of 0.9% on the 1986-87 budget figures, and a 0.6% reduction on 1985-86 levels. These results are

consistent with the Government objective of halting the growth and reversing the trend in Public Service staffing and with the objective of achieving a more efficient government administration. The 1986-87 outcome also reflected achievement of the Government's commitment to reduce the numbers of staff in June 1987 by 2 000 over the number employed at the end of June 1986. The running costs figure for 1987-88 shows an overall growth of 6.8% on the 1986-87 outcome. Increases in non-salary costs reflect increased domestic and overseas property services outlays, occupancy cost of the new Parliament House and the cost of the 1987 election. Salary estimates exclude contingency provisions not allocated to portfolio.

While more details about approved staffing and running costs budget are provided in Budget Paper No. 3, measures having the greatest impact on staffing levels in 1987-88 are:

DECREASES

- *Changes in Machinery of Government*

The Prime Minister announced a target of savings of 3 000 staff years flowing from the restructuring of Commonwealth Government departments. Total staff year savings of 3 137 (\$107.1m) have been agreed, of which 1335 staff years (\$47.6m) will be realised in 1987-88, with the remainder coming in 1988-89. Major full year savings by portfolio are Administrative Services (750), Arts, Sport etc (156), Community Services and Health (425), Employment, Education and Training (300), Foreign Affairs and Trade (165), Industry, Technology and Commerce (371), Primary, Industry and Energy (170), Prime Minister and Cabinet (restructure of Public Service Board: 350) and Transport and Communication (350).

- *Efficiency Dividend*

Application of the efficiency dividend of 1.25% in 1987-88 has led to estimated aggregate savings of 1 600 staff years for agencies under staff budget control.

- *Efficiency Scrutiny*

Significant staff savings over and above the efficiency dividend will also result in 1987-88 from the implementation of efficiency scrutinies on the processing of accounts, public service travel arrangements, the processing of First Home Owner Scheme claims and pharmaceutical payments. Savings of 550 staff years are estimated for 1987-88, rising to 1200 in 1988-89.

INCREASES

The above reductions have been offset to some extent by staffing growth to provide for new or increased activity in priority areas of public service. Portfolios affected include:

- *Attorney-General's*

Increases are associated with the Australian Government Solicitor's Office requirements for tax appeals and recovery work, with the Family Court requirements as a result of the establishment of the Child Support Agency (155) and with the Australian Federal Police (108).

- *Community Services and Health*

Staffing growth in this portfolio is due to the provision of additional resources for the Repatriation Hospitals of the Department of Veterans' Affairs (337), and workload on service pensions (41).

- *Employment, Education and Training*

Increases in this portfolio are associated with the number of student beneficiaries (112), workload increases in the Commonwealth Employment Service (177) and new policy initiatives (124).

- *Immigration, Local Government and Ethnic Affairs*

An increase of 100 staff years has been provided to deal with a backlog of appeals on migration applications.

- *Prime Minister and Cabinet*

Increases of about 110 staff years have been provided mainly for Bicentennial activities.

- *Social Security*

Increases of about 1 000 reflect the Government's priorities for the better targeting of assistance and new initiatives, including increases for Family Assistance, means testing of family allowances, and the Child Support Scheme.

- *Treasury*

The Australian Taxation Office increased resources requirements (641) are largely due to increased workload, the further implementation of taxation reform measures and the setting up of the Child Support Agency.

- *Other*

An increase of 172 staff years has been provided for the employment of trainees under the Australian Youth Trainee Scheme (AYTS).

PART II—ANALYSIS OF BUDGET OUTLAYS BY FUNCTION

1. DEFENCE

A comprehensive review of Australia's defence capabilities and requirements has been completed by the Government. A Policy Information Paper, entitled *The Defence of Australia*, which sets guidelines for the development of Australia's defence up to the year 2000, was released in March 1987.

Defence planning is a long term process, as defence projects such as new weapons systems, training programs and base development generally take years to complete. As a consequence, current budget outlays reflect the impact of earlier decisions to a large extent. For example, although the then Government decided in 1981 to acquire F/A-18 fighter aircraft, the last of them is not expected to be delivered until 1990, and payments are likely to extend even further. Similarly, the last of the new submarines to be built in Australia, the decision on which was announced in June 1987, is planned for delivery in 1999.

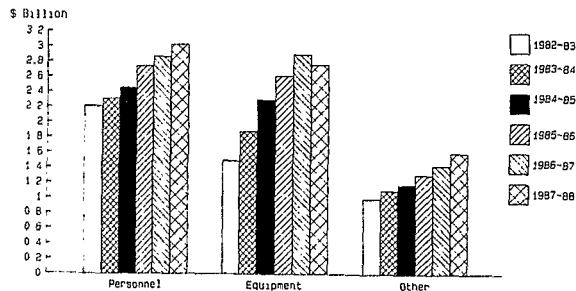
Forward planning is also influenced by budgetary constraints. Successive governments have provided Defence planners with financial guidance for a five year period—the Five Year Defence Program—to permit the examination of policy options and new and existing commitments in the light of assumptions about future resource availability.

The Treasurer announced on 13 May 1987, as part of the May Statement, that Defence planning guidance was to be reduced from the previous level of 3% real growth per annum. A real reduction of 1% in Defence outlays was required for 1987-88 to be followed by real growth of 1% in 1988-89 and 2% in 1989-90. Since then, the Government has determined that planning guidance for 1988-89 should be increased to 1.5% real growth, with guidance for the remaining years of the Five Year Defence Program 1988-93 being set at 2.0% real growth per annum. The Government believes that this commitment of resources will enable the strategy outlined in the Defence Policy Information Paper to be pursued. It should be noted that forward guidance is provided for planning purposes and not as a commitment: the actual amount allocated to Defence is determined each year as part of the Budget consideration.

The provision for Defence in this Budget is \$7404m, an increase of 2.7% from \$7209m in 1986-87. As foreshadowed by the Treasurer in the May Statement, after allowing for the impact of price and exchange rate variations, this represents a real reduction of 1% on 1986-87 in terms of what can be procured with these funds. Outlays in 1986-87 were about 0.4% lower in real terms than in 1985-86.

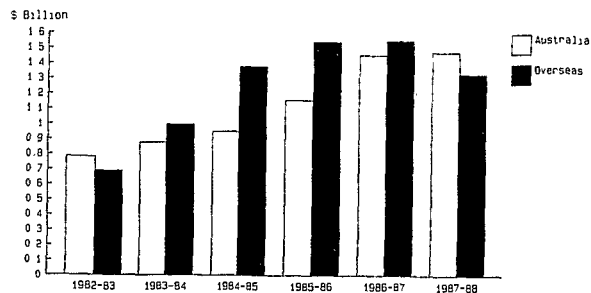
Chart 1 on the following page shows the growth in the components of defence outlays over the six years to 1987-88. Perhaps the most noticeable feature among the overall increases over those years is the fall in outlays on equipment and stores in 1987-88 and particularly on overseas purchases (see Chart 2).

CHART 1. DEFENCE OUTLAYS
BY MAJOR CATEGORY



Since much of the technology required to construct modern, sophisticated defence equipment is not available locally, a high proportion of equipment must be obtained from overseas. The relative levels of payments in Australia and overseas on equipment and stores for the total Defence function are shown in chart 2 below.

CHART 2. DEFENCE CAPITAL EQUIPMENT
PAYMENTS IN AUSTRALIA AND OVERSEAS



Overseas payments on equipment grew rapidly to 1985-86, reflecting the combined effects of the rising payments for the F/A-18 program and the depreciation of the \$A. Since then, overseas outlays have reduced, reflecting a wind-down of F/A-18 payments and new projects with a higher level of Australian content.

The extent of future commitment implicit in decisions taken in the 1987-88 Budget context and earlier is indicated by the estimate of outstanding obligations. Outstanding obligations to be met in 1988-89 and later years are estimated at \$9907m (April/May 1987 prices).

This compares with \$7623m (April/May 1986 prices) estimated to be carried into 1987-88 at Budget time last year which increased during the year to \$10 389m largely due to commitment of the new submarine (\$2717m) and additional helicopters (\$163m) and price adjustments. The currently projected reduction in the level of obligations during 1987-88 mainly reflects expected payments on major projects, but is, of course, subject to later Government consideration of individual projects involving new obligations.

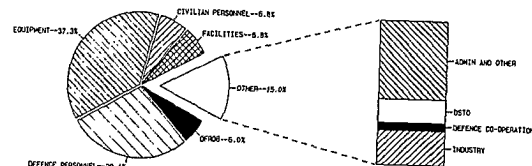
The following table summarises the Defence outlay estimates. The estimates are basically in April/May 1987 prices but have been adjusted to reflect the general Budget assumptions for exchange rates. Provision has also been made for prospective cost escalation included in certain overseas major equipment contracts, major facilities and administration expenditures, and for contingent increases in personnel costs.

SUMMARY OF DEFENCE OUTLAYS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
1.1 Defence Force Personnel . . .	\$m 1947.7	\$m 2077.5	\$m 2077.5	\$m 70.0	3.5
1.2 Civilian Personnel	456.9	477.9	504.6	26.7	5.6
1.3 Defence Forces Retirement and Death Benefits (DFRDB) . . .	339.8	385.8	447.7	61.9	16.1
1.4 Defence Equipment and Stores . . .	2619.9	2903.3	2764.8	-138.5	-4.8
1.5 Defence Facilities	304.2	392.7	396.4	3.7	0.9
1.6 Defence Housing	65.1	83.8	104.7	21.0	25.0
1.7 Defence Industrial Capacity . . .	340.0	233.9	270.8	36.9	15.8
1.8 Defence Science and Technology Establishments (DSTO) (net) . . .	166.2	184.2	183.1	-1.1	-0.6
1.9 Defence Co-operation Program . . .	50.1	54.6	58.3	3.7	6.7
1.10 Defence Other	382.5	485.1	596.0	110.9	22.9
TOTAL	6672.5	7208.8	7404.0	195.2	2.7

Chart 3 below illustrates the broad distribution of Defence outlays by category:

CHART 3. DEFENCE OUTLAYS BY MAJOR CATEGORY
1987-88



1.1 DEFENCE FORCE PERSONNEL

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Naval	\$m 435.5	\$m 443.8	\$m 466.1	\$m 22.3	5.0
Military	882.9	916.5	941.8	25.3	2.8
Air	629.2	647.2	669.6	22.4	3.5
Total	1947.7	2007.6	2077.5	70.0	3.5

The increase in service personnel costs reflects full year effects of the March 1987 National Wage Case decision, and the part year cost of higher Service Allowance payable from 23 July 1987. Provision for possible future wage rate and allowance increases is included under '1.10 Defence Other'.

Details of Defence Force personnel numbers are:

	Actual	Estimated	Variation	Actual	Estimated	Variation
	Terminal Staff Level 1986-87	Terminal Staff Level 1987-88		Average Staff Level 1986-87	Average Staff Level 1987-88	
Permanent Forces--						
Naval	15 803	15 672	-131	15 361	15 657	+296
Military	32 311	31 581	-730	31 784	31 746	-38
Air	23 647	22 590	-1 057	22 558	22 612	+54
Reserve Forces	29 055	30 817	+1 762	2 930	3 067	+137
Total	99 816	100 660	+844	72 633	73 082	+449

NOTE: Average figures are expressed as staff years and therefore do not relate to terminal numbers, particularly for Reserves. Terminal numbers are as at 30 June.

The estimated average staffing levels for 1987-88 given in the table above for the Permanent Forces reflect the introduction of a new Defence personnel resources strategy announced in the Defence Policy Information Paper which includes a training force supplement to be varied with rises and falls in separation rates. The training force supplement for 1987-88 is 500.

The target strength for the Army Reserve at 30 June 1988 has been set at 26 000, compared with the terminal strength at 30 June 1987 of 24 632. Navy and Airforce reserves target strengths are 1308 and 1400 compared with terminal strengths of 1219 and 1361 respectively at 30 June 1987. The target strength for 30 June 1988 of other reserves has been set at 2109.

1.2 CIVILIAN PERSONNEL

The increase in payments under this category reflects salary rates increases, partly offset by lower civilian staffing. Civilian personnel are employed in direct support of the three Services (15 601 average staffing level in 1987-88), in the factories and dockyards (11 824), in the Defence Science and Technology Organisation (4150), and in other elements of the Department in Central and Regional Offices (6794). The approved average staffing level of 38 369 for 1987-88 is 607 fewer than the 1986-87 level of 38 976. This saving is largely attributable to a rationalisation of the workforce at the Government Aircraft Factories and Aircraft Engineering Workshop (-404), and other Office of Defence Production facilities (-422), to align the workforce more closely to the likely workload. These and other reductions will be partly offset by the redeployment of 493 positions to higher priority tasks within Defence. The costs of some personnel discussed above are included under sub-functions '1.7 Defence Industrial Capacity', '1.8 Defence Science and Technology Establishments' and '1.10 Defence Other'.

1.3 DEFENCE FORCES RETIREMENT AND DEATH BENEFITS (DFRDB)

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate	Estimate	
	\$m	\$m	\$m	\$m	%
Payments	431.3	482.5	546.9	64.4	13.4
Contributions by Members	91.5Cr	96.8Cr	99.2Cr	-2.5	-2.6
Total	339.8	385.8	447.7	61.9	16.1

The main factors leading to increased provision for DFRDB and DFRB are:

- update of pension rates in July 1987 to reflect the 9.4% Consumer Price Index increase in the year to March 1987;
- an extra (27th) payday in 1987-88;
- increased commutation payments due to the National Wage and Service Allowance decisions; and
- a projected pensioner population net increase of 1 999 to 36 854 in 1987-88.

1.4 DEFENCE EQUIPMENT AND STORES

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate	Estimate	
	\$m	\$m	\$m	\$m	%
Major Projects	1616.9	1797.5	1615.5	-182.0	-10.1
Other New Equipment and Stores	147.0	162.3	157.7	-4.5	-2.8
Supporting Equipment and Stores	632.3	684.7	720.6	35.9	5.2
Repair and Overhaul	223.7	258.8	271.0	12.2	4.7
Total	2619.9	2903.3	2764.8	-138.5	-4.8

Outlays on defence equipment and stores are for acquisition of equipment (ships, aircraft, weapon systems, vehicles, etc) and provision of operating, training and infrastructure support based on the need to develop a force structure with capabilities to defend Australia in lower level contingencies and provide a basis for future expansion if required.

Payments for new capital equipment initiatives in 1987-88 have been reduced in line with Government policy on restraint of outlays generally. Overall, payments largely reflect projects approved for commencement in earlier years, along with recently announced decisions to proceed with the construction of 6 new submarines in Australia and to acquire 25 additional Blackhawk helicopters to complete a company group-lift capability. Provisions for payments in 1987-88 on contractual obligations for the more significant of these items are:

New tactical fighter	\$m
New submarine	585
Australian and US built FFG guided missile frigates	175
Seahawk helicopters	161
Blackhawk utility helicopters	141
Basic trainer aircraft	94
Raven HF and VHF field communications	88
Harpoon missiles	45
Army medium trucks	34
Discon secure communication	31
Perentie light field vehicles	27
New tactical fighter air-to-air missile	22
Standard missile	21
Small arms	17
105mm field gun	17
Jindalee over-the-horizon radar	16
Navy helicopter simulator	16
Minehunter catamarans	15
Electronic warfare systems	12
	11

Budget figuring also contains some \$20m for a range of new projects which were accorded high priority in the Defence Policy Information Paper to improve maritime defence, communications and the technological capability of the Australian Defence Force. These include introduction of a minesweeping capability, surface and submarine towed acoustic arrays, enhancement of over-the-horizon radar, development of a field trunk communications system and automatic avionics test equipment for the F111. Details of these initiatives will be announced by the Minister for Defence in due course.

Payments on particular items of capital equipment during the year may vary from the Budget estimate to reflect variations in progress on individual projects, cost escalation and requirements for payment to the United States Government under Foreign Military Sales (FMS) arrangements.

Australian industry continues to participate in development of defence capabilities through production of equipment such as the FFG Guided Missile Frigates, Army trucks and light field vehicles, 105mm field guns, the new family of small arms weapons, the Discon secure communications system, over-the-horizon radar, VHF and HF portable field radios, assembly of F/A-18 aircraft and new helicopters and through the new submarine project.

Provision of \$991.6m is also made for supporting equipment and stores for Defence Force training and exercises and for repairs and maintenance of ships, aircraft, vehicles, weapons and other equipment. The increased payments on these activities includes \$9.4m resulting from the rescheduling of FMS payments from 1986-87, the transfer of technical publications from '1.10 Defence Other' (\$6.0m), additional publications needed for the F/A-18 (\$4.5m) and an increase of \$8.5m in fuel supplied by the RAN to other Governments (recoveries for this item are shown under '1.10 Defence Other'). A further \$6.3m results from increased charges by the munitions factories based on revised Defence Munitions Manhour Rates.

1.5 DEFENCE FACILITIES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Buildings, Works, Furniture and Fittings	183.9	261.6	246.3	-15.3	-5.9
Acquisition of Sites and Buildings	15.8	5.0	7.2	2.2	44.4
Repairs and Maintenance	104.6	126.2	143.0	16.8	13.3
Total	304.2	392.7	396.4	3.7	0.9

This item covers provision and maintenance of facilities, including working and single living accommodation, for the Defence Force and the Department of Defence. Housing, formerly included here, is now covered separately (see '1.6 Defence Housing').

\$17.3m is included for new major works proposed to commence in 1987-88, including a redevelopment for Navy of HMAS Albatross, Nowra, NSW; a satellite communications facility at Geraldton, WA; upgrading of living-in accommodation at various Army bases in all States; a RAAF Cargo Hangar, Richmond, NSW; additional facilities for the new RAAF helicopters at Oakey and Townsville, QLD; base facilities at East Sale, VIC; and redevelopment of HMAS Coonawarra for the Navy, Darwin, NT.

Major works currently under construction (and expected 1987-88 payments) include the Training Facility for the Army at Swanbourne, WA (\$14.0m); new utility helicopter facilities for RAAF Townsville, QLD (\$14.0m); RAAF Base Tindal development, NT (\$54.7m); redevelopment of RAAF Williamtown for the F/A-18 (\$4.5m); a wharf and seamanship school at HMAS Cerberus, VIC (\$7.0m); and storage facilities for the Army at Guildford, WA (\$7.5m).

Payments for repairs and maintenance of defence facilities (excluding housing) in 1987-88 are estimated at \$143.0m, up \$16.8m. The increase reflects higher costs and provision to reduce further a backlog of essential repairs and maintenance tasks.

1.6 DEFENCE HOUSING

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Advances to the States for Service Housing	4.3	2.4	2.0	-0.4	-18.2
Payments	107.6	130.1	155.3	25.2	19.4
Rent Recoveries	46.7Cr	48.8Cr	52.6Cr	-3.8	-7.8
Total	65.1	83.8	104.7	21.0	25.0

The Government expects to introduce legislation in the Budget session of Parliament to create a Defence Housing Authority to administer the Defence Housing stock on a commercial basis. Existing Defence housing will be transferred to the Authority. The Authority will, when established, charge Defence commercial rents and assume responsibility for maintenance, rental payments on leased properties, and for capital payments to improve the housing stock.

The estimates allow for a total of \$75m for new and refurbished housing—\$65.0 for projects commenced in earlier years, \$7.5m for new projects to improve the present housing stock and to commit to construction or acquisition some 377 new or replacement houses, and \$2.0m under Commonwealth-State Housing Agreement arrangements for construction and improvement of housing. A further \$15.1m is provided to maintain existing housing and \$65.2m is allocated for rental payments to other housing authorities. Expenditure on existing housing commitments and the new 1987-88 housing program is expected to amount to \$231m over about 3 years.

In 1986-87, 514 houses, constructed over many years under various Commonwealth-State Housing Agreements, were returned to the States for allocation to applicants on their waiting lists for public housing. These houses were no longer required due to the acquisition of replacement houses for the Defence Force.

Rent recovered from Defence Force personnel under the Defence Group Rental Scheme are estimated at \$52.6m and were last reviewed on 2 April 1987.

The table above excludes \$34.4m for Temporary Rental Allowance for some 6000 personnel renting non-Defence housing and \$21.6m for Temporary Accommodation Allowance for hotel type accommodation payable to service personnel, which amounts are included under '1.1 Defence Force Personnel'. The Fringe Benefits Tax liability of \$94.2m shown under '1.10 Defence Other' includes \$55.5m for housing rental assistance to service personnel.

1.7 DEFENCE INDUSTRIAL CAPACITY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Running Costs and Operational Expenditures	17.0	18.9	36.5	17.6	93.5
Facilities	61.5	65.8	62.3	-3.5	-5.3
Machinery and Plant	33.8	32.0	45.6	-6.5	-12.4
Defence Production Costs	235.2	136.9	109.5	-27.4	-20.0
Government Factory Operations	1.0	3.6Cr	20.5	24.1	n.a.
Aerospace Technologies of Australia Pty Ltd	—	1.0	11.6	10.6	n.a.
Australian Industry Assistance	22.1	17.3	26.6	9.3	53.6
Repayments	30.7Cr	54.5Cr	41.9Cr	12.6	23.1
Total	340.0	233.9	270.8	36.9	15.8

Expenditure under this category covers the operations of the Office of Defence Production (responsible for Government defence factories and dockyards) and direct assistance to defence industry.

As mentioned under the civilian personnel costs heading, a number of initiatives have been taken to increase efficiency and align personnel levels with continuing workload needs, resulting in wage and salary savings. The sub-function also provides \$29.7m to meet redundancy payments to departing employees. The workforce at Government Aircraft Factories, VIC will be reduced prior to transfer to Aerospace Technologies of Australia Pty Ltd (ATA). This company has been established to operate the factories on a commercial basis and to remove progressively the need for government subsidies. The increase in running costs and operational expenditures is largely the result of the transfer of compensation and legal expenses (\$18.7m), formerly included under the Government factory operations sub-function.

In the May Statement, the Treasurer announced the Government's intention to sell a substantial proportion of its interests in ATA and also to sell Williamstown Dockyard. These items are dealt with under the heading *Asset Sales*.

Outlays on defence industrial capacity also provide \$39.5m for buildings and works for the Defence Production establishments, including \$13.3m for the modernisation program at Garden Island, NSW; \$6m for completion of improvements at Williamstown Dockyard, VIC; and \$2.4m for pyrotechnic facilities at the Munitions Filling Factory, St Mary's, NSW. In addition \$19.9m is provided for repairs and maintenance.

Payments for machinery and plant in 1987-88 are to be \$45.6m, the largest project being the upgrading of small arms ammunition production at the Ammunition Factory, Footscray, VIC.

Defence Production Costs include the excess of production costs over receipts from customer orders for public and some private sector dockyard, munitions and aerospace establishments. Outlays in 1987-88 include \$43.1m for aerospace public and private sector establishments, \$46.1m for the public sector munitions group of establishments and \$20.4m for the Government dockyards. The fall in estimated payments largely reflects the transfer of compensation payments to the running costs and operational expenditures sub-function and recoveries to be made through revised charging rates for the munitions factories, which are now being set on an individual factory basis rather than the previous average Defence Munitions Man-hour Rate. Further increases in rates are planned for 1988-89 to put all establishments on to a broadly commercial charging basis.

The increase in estimated outlays under Government Factory Operations is a result of expenditure during 1987-88 of trust account balances built up during 1986-87. The increased balances arise from several advance payments, including \$6.4m from the Australian Army for Steyr rifles, and accelerated payments for deliveries expected early in 1987-88 (\$15.0m).

An amount of \$11.6m has been provided towards establishment of ATA as a going concern. Additional funds may be required for this purpose during the year, which would be found by re-allocation within the total Defence function.

The Australian Industry Assistance Program is designed to facilitate the development of local industry capabilities, mainly in support of approved defence projects. Excluding amounts forming part of major equipment projects, payments are estimated at \$15.1m. Current projects include the 105mm field gun (HAMEL), the Barra Sonobuoy, the Small Arms Replacement Program and the Jindalee over-the-horizon radar.

The major items in the Repayments estimate for 1987-88 are insurance, interest and depreciation charges associated with Trust Account operations at Williamstown Dockyard (\$13.1m) and Garden Island Dockyard (\$19.9m), and sales of surplus reserve stock holdings of defence materiel (\$2.6m).

1.8 DEFENCE SCIENCE AND TECHNOLOGY ESTABLISHMENTS (NET)

The Defence Science and Technology Organisation (DSTO) provides scientific and technical advice on matters relating to defence policy, supports the Services in the selection of defence materiel, develops selected prototype military equipment, assists in the transfer of technology to defence-related industries and develops its technology base to meet future needs. A program of technical co-operation is maintained with the United States, United Kingdom, Canada and New Zealand.

The DSTO provision covers salaries and other administrative and operational expenses for its establishments and laboratories and \$5.2m for research work contracted out to industry and the universities. An increase of \$6.6m in building and works is offset by a one-off purchase in 1986-87 of \$6.9m of additional computer equipment. In 1987-88 there will be increased emphasis on commercialisation of DSTO innovations and its specialised expertise, where priorities allow.

Principal activities to be undertaken during 1987-88 include research and development work on electronic warfare measures and counter measures, underwater detection aids for surface ships and submarines, command and control systems, over-the-horizon radar, naval mines and countermeasures, and research on technologies in fields such as lasers, infra-red optics for night operations, fuzes, combat systems and new materials to extend the operational life of defence equipment.

1.9 DEFENCE CO-OPERATION PROGRAM

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Papua New Guinea	19.1	22.9	23.1	0.2	0.8
South Pacific	8.0	13.1	15.9	2.7	20.8
ASEAN	22.3	17.9	18.7	0.8	4.2
Other Regional Activities	0.5	0.4	0.3	-0.2	-43.5
Training Equipment and Facilities	0.3	0.2	0.4	0.2	81.4
Total	50.1	54.6	58.3	3.7	6.7

Australia supports Defence Co-operation activities with regional countries as part of its bilateral relationships with governments which share similar strategic interests. The program is seen as reinforcing Australia's long-term security prospects by helping to strengthen the strategic integrity of neighbouring regions through a range of bilateral international defence activities.

Papua New Guinea (PNG) is allocated \$23.1m for Australian Defence Force (ADF) personnel on loan to the PNG Defence Force (PNGDF), specialist personnel assisting the PNGDF and other PNG Government agencies, as well as training, equipment based projects (including the Pacific Patrol Boat) and combined exercises.

South Pacific countries will receive \$15.9m for assistance to support national efforts to develop defence capabilities relevant to the maintenance of national sovereignty. Activities include equipment based projects (such as the Pacific Patrol Boat), training, and the provision of specialist ADF advisory personnel. Defence Co-operation activities with Fiji were suspended following the coup in May 1987.

The Pacific Patrol Boat project involves the provision of multi-purpose patrol craft to PNG and a number of South Pacific countries, to assist in the development of their Exclusive Economic Zone surveillance capabilities and to conduct search and rescue operations. The first two boats have been handed over to PNG and Vanuatu and present planning is for the delivery of a further three boats to PNG, and boats to Western Samoa, the Solomon Islands and the Cook Islands.

An allocation of \$18.7m has been made for training, professional exchanges, consultancy assistance, together with combined exercises and equipment based projects in ASEAN countries.

1.10 DEFENCE OTHER

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Fringe Benefits Tax	—	54.9	94.2	39.3	71.5
Other General Administration	506.7	554.2	618.9	64.7	11.7
Natural Disasters and Civil Defence	6.6	6.5	6.9	0.4	6.6
Recoveries and Repayments	130.8Cr	130.5Cr	149.0Cr	—18.5	—14.1
Provision for Contingent Salary and related increases	—	—	25.0	25.0	na
Total	382.5	485.1	596.0	110.9	22.9

The provision of \$94.2m for Fringe Benefits Tax payments relates principally to tax liabilities for health and dental, housing and other accommodation benefits provided to Defence Force personnel. This compares with the part-year figure of \$54.9m in 1986-87.

Other general administration comprises rent, movement expenses (including storage and transport services provided for the Department of Defence by the Department of Administrative Services), office requisites, postage and telephones, fuel (but not fuel for services operational activities), light, power and water, freight, compensation payments, training at other than Defence establishments, medical and dental services and computer services. Increases relate largely to price variations, but also include \$12m resulting from the introduction of full cost recovery for car hire, transport, storage, survey and guarding services provided by the Department of Administrative Services, an additional \$6m in expenses associated with equipment procurement, and an increase of \$4m in consultants' fees for major facilities projects and to assist in the sale of assets.

The Natural Disasters Organisation co-ordinates Commonwealth assistance in response to disasters such as bushfires, flooding and storm damage in the States, Territories and overseas countries in the South-West Pacific, as well as providing assistance in counter-disaster preparedness.

Recoveries and repayments include charges made for meals and accommodation provided at Defence establishments (\$35.8m), Defence Co-operation recoveries (\$22.6m), proceeds from disposals of obsolete defence equipment and stores (\$16.3m) and defence-related recoveries from other governments (\$31.8m). Receipts from sale of Defence land and buildings are shown under the *Administrative Services* function; those sale proceeds are not attributed to Defence outlays.

The budget estimates include a provision of \$25m to meet contingent salary and related increases other than second-tier increases which are dealt with in the general Budget contingency allowance. This allowance, like the general contingency allowance, is not appropriated as a specific amount at budget time; instead, additional appropriations as necessary are effected during the course of the financial year.

2. EDUCATION

Total direct Commonwealth outlays on education are estimated to be \$5685.2m in 1987-88, an increase of 9.0% on actual 1986-87 outlays. The following table summarises the Commonwealth's outlays on education over the period 1985-86 to 1987-88.

SUMMARY OF EDUCATION OUTLAYS

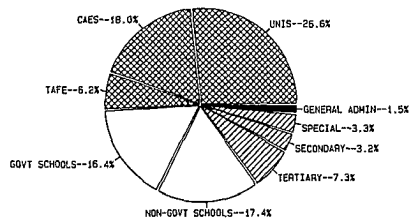
	1985-86		1986-87		1987-88		Change
	Actual	Actual	Estimate	Estimate	Actual	Estimate	
	\$m		\$m		\$m		%
2.1 Tertiary	2 514.3	2 655.9	2 823.9	168.0	6.3		
2.2 Schools and Pre-schools	1 767.1	1 828.6	1 980.0	151.3	8.3		
2.3 Student Assistance Schemes	421.8	497.8	612.5	114.8	23.1		
2.4 Special Groups	157.7	170.5	194.5	24.0	14.1		
2.5 General Administration etc.	57.6	67.4	78.2	10.9	16.1		
2.6 Recoveries nec	3.8Cr	4.5Cr	3.9Cr	0.5	11.8		
TOTAL	4 914.7	5 215.7	5 685.2	469.6	9.0		

Approximately 80% of the Commonwealth's payments on education are in the form of grants to the States. Further details are provided in Chapters IV and V of Budget Paper No. 4, *Commonwealth Financial Relations with other Levels of Government, 1987-88*.

Assistance for education is also given through income tax deductions for some gifts to educational institutions. The cost of revenue so forgone is not included in the figures shown above.

The components of the Commonwealth's outlays on Education are illustrated in the following chart.

CHART 1. COMPONENTS OF EDUCATION OUTLAYS 1987-88
(EXCLUDING OVERSEAS STUDENTS)



Hatched area -- Tertiary
Striped area -- Student Assistance
Unshaded area -- Schools

A number of changes affecting the *Education* function were announced in the *May Statement*, including:

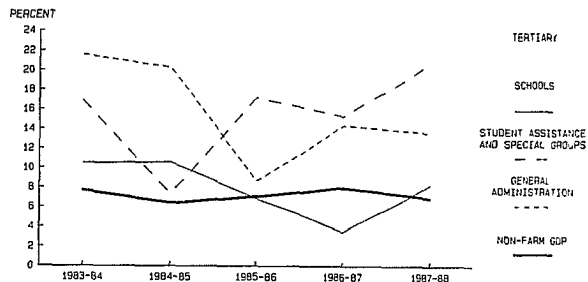
- a reduction of \$43.5m in recurrent grants for tertiary education institutions reflecting increased efficiency similar to the efficiency dividend applying in the Australian Public Service;
- a rationalisation of rates and eligibility conditions for student allowances, involving the equality of secondary and tertiary allowances for students of the same age, and alignment of relevant student assistance rates and single unemployment benefit rates; and
- an increase in the level of the Overseas Students Charge from 45% to 55% of full average cost to the Commonwealth. The increased receipts will be offset by a reduction in the contribution from the global aid vote towards the education of subsidised students.

Further changes between 1986-87 and 1987-88 include:

- funding for an additional 3 500-4 000 places for young school leavers in higher education (universities and colleges of advanced education);
- discontinuation of the Participation and Equity Program and the Basic Learning in Primary Schools Program from the end of 1987;
- further measures to rationalise student assistance, particularly for Aborigines.

The changes in each financial year for the components of the function over the period 1983-84 to 1987-88 are displayed in the following chart.

CHART 2. CHANGE OVER PREVIOUS FINANCIAL YEAR



As this illustrates, the main feature has been the continued substantial increase in payments on student assistance schemes as a result both of reforms to the various schemes and increases in take up levels. Factors contributing to the growth in take up levels have been the increase in final year school retention rates and demographic trends, which are also reflected in the rise in enrolments in tertiary education institutions. In more detail:

- outlays on tertiary education have increased by an average 0.7% in real terms each financial year since 1983-84, driven mainly by an average annual increase in higher education student load of 2.9% and an enrolment growth factor for technical and further education (TAFE) of 4%. In 1987, outlays for tertiary education have been partly offset by the Higher Education Administration Charge, which will be indexed in 1988;
- schools outlays have grown by an average 0.2% in real terms in each financial year since 1983-84, reflecting continuing increases in general recurrent (per capita) schools funding, offset by reductions in 1986-87 and 1987-88 to schools capital and specific purpose programs. Considered separately, between 1983 and 1987 general recurrent (per capita) schools funding increased by 22% in real terms while student numbers decreased by 0.3%;
- student assistance outlays and outlays on assistance to special groups have grown by an average 7.5% in real terms in each financial year over the period. The increase in outlays has been a result of increased allowance levels and student take up levels. Over the period the numbers of students assisted has grown by 31.7% for tertiary schemes, 70.5% for secondary schemes and 75% for Aboriginal assistance.

2.1 TERTIARY EDUCATION

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Universities—					
Grants to the States	1 227.0	1 272.1	1 323.9	51.9	4.1
Australian National University	148.4	154.6	159.9	5.3	3.4
Cost Supplementation of Grants (a)	—	—	63.5	63.5	na
Sub-total	1 375.4	1 426.7	1 547.3	120.6	8.5
Advanced Education—					
Grants to the States	871.5	916.3	958.8	42.5	4.6
Commonwealth Institutions	36.6	37.5	39.1	1.5	4.1
Cost Supplementation of Grants (a)	—	—	36.2	36.2	na
Other Advanced Education	11.6	19.9	27.7	7.8	39.1
Sub-total	919.8	973.7	1 061.7	88.0	9.0
Technical and Further Education—					
Grants to the States	309.2	334.1	306.8	-27.3	-8.2
Cost Supplementation of Grants (a)	—	—	8.7	8.7	na
Further Education in the ACT	43.2	46.1	47.2	1.1	2.4
Other Technical and Further Education	1.4	3.8	0.4	-3.4	-89.0
Sub-total	353.8	383.9	363.1	-20.9	-5.4
Tertiary Education Commission	6.1	6.3	6.3	0.2	2.9
Overseas Students Charge	42.7Cr	49.2Cr	63.7Cr	-14.5	29.5
Contribution for Students from Developing Countries (b)	98.0Cr	85.6Cr	82.8Cr	2.7	-3.2
Contribution from States for Superannuation Costs of Higher Education	—	—	11.0Cr	-11.0	na
ARC Research Centres	—	—	2.9	2.9	na
Total	2 514.3	2 655.9	2 823.9	168.0	6.3

(a) Distribution of cost supplementation between sectors is notional.

(b) See corresponding outlays item in 8C Foreign Affairs and Overseas Aid.

The Commonwealth has the major funding responsibility for higher education—universities, colleges of advanced education (CAEs) and institutes of tertiary education (ITEs)—and provides about one quarter of the funds for the State TAFE systems.

The Government's programs have a calendar year, rather than a financial year basis and decisions taken in the budget context on programs for future calendar years are announced in constant prices. Budget estimates comprise components of the relevant calendar year programs—the 1987-88 estimates include the July-December portion of 1987 grants and the January-June portion of 1988 grants. Approved grants are supplemented retrospectively for all cost increases up to the beginning of a program year and for further wage and salary increases during the program year. An amount of \$100.1m for cost supplementation of grants to the States beyond the amounts authorised in the States Grants (Tertiary Education Assistance) Act has been included in the 1987-88 Budget and has been nationally distributed between the sectors. The estimates also include a notional even distribution of inter-sectoral grants for higher education. In summary, the changes from 1986-87 to 1987-88 are as follows:

- **HIGHER EDUCATION**—a net increase of \$200.5m or 8.4%, reflecting savings of \$12.0m announced in the May Statement, an additional \$20.3m to fund 3 500-4 000 new student places, including capital and equipment, and flow-on effects of increases in intakes in previous years, and \$11m contribution from five States for the costs of superannuation under State emerging cost schemes.
- **TAFE**—a decrease of \$20.9m or 5.4% mainly reflecting the reduction of \$31.5m announced in the May Statement. (This decrease has been offset by increases in funds for various labour market training programs—see 7C *Labour and Employment*).

Because payments are not spread evenly throughout the year, the calendar year programs cannot be readily related to the financial year estimates. Details of tertiary education outlays are given in the following table in estimated December 1986 prices.

Tertiary Education Programs—Calendar Year Basis

	1986	1987	1988
	\$m	\$m	\$m
Universities, CAEs and ITEs—			
Recurrent	2231.3	2204.4	2231.3
Equipment	122.2	123.6	126.6
Capital	81.8	86.3	97.5
Total	2 443.9	2 414.3	2 455.4
TAFE—			
Recurrent			
—General	99.7	103.7	100.0
—Designated Purpose	41.9	41.9	6.2
Participation and Equity Program	19.8	19.8	—
Equipment	20.5	20.5	—
Capital	146.0	149.7	170.9
Total	327.9	335.6	277.1
Evaluations and Investigations			
ARC Research Centres	0.9	0.9	0.9
Non-government business colleges	5.7	5.7	5.7
Total	2 778.4	2 756.5	2 744.1

Universities, CAEs and ITEs

The Government has decided not to proceed with a new triennium funding arrangement from 1988, but to set funding levels for 1988 only, pending more detailed consideration of future funding directions, taking account of, inter alia, the Commonwealth Tertiary Education Commission's (CTEC) 1986 report, *Review of Efficiency and Effectiveness in Higher Education*.

The Government has approved an additional intake of 5 800 young school leavers in 1988. Additional funding will be provided for 3 500-4 000 of these places, with the balance to be found by adjustment of intakes in favour of young school leavers. The total increase in places between 1983 and 1988 (including flow-on effects of previous intake increases) will be around 54 200, of which 38 700 are funded by CTEC.

Additional funding for the 3 500-4 000 new places will involve recurrent outlays of around \$13.6m, and \$6.7m for equipment and capital outlays in 1987-88.

The table below shows student load funded by CTEC over the past five years and estimates for 1988:

Student Load in Universities and Advanced Education, 1983 to 1988 (a)

	Universities		Advanced Education		Total		Change on previous year
	'000	%	'000	%	'000	%	%
1983	131.6	124.9	256.5	2.9	256.5	2.9	
1984	134.4	129.4	263.8	2.9	263.8	2.9	
1985	136.4	135.1	271.5	2.9	271.5	2.9	
1986	140.2	141.7	281.9	3.8	281.9	3.8	
1987(b)	143.4	145.6	289.0	2.6	289.0	2.6	
1988(c)	147.8	147.3	295.1	2.1	295.1	2.1	

- (a) Expressed as 'equivalent full-time student units' as defined by the CTEC.
- (b) Preliminary.
- (c) Projected.

Source: CTEC.

The reduction in calendar year funding since 1987 reflects the introduction of the Higher Education Administration Charge. Funding for institutions was reduced by 90% of the estimated receipts from the Charge allowing institutions to retain the additional 10% revenue for their own purposes. Under the legislated indexation arrangements, the Charge will increase from \$250 to \$263 in 1988. Following a review of the effects of the Charge, the Government has agreed to extend exemptions to certain low income students, including part-time students in families receiving the Family Allowance Supplement. Total receipts from the Charge in 1987 were \$105.4m and are estimated to be \$111.1m in 1988.

A new Australian Research Council (ARC) is to be established within the Employment, Education and Training portfolio (see 8D *General and Scientific Research nec*). An amount of \$5.0m in 1988 has been transferred from general recurrent funding for universities to fund new Special Research Centres and Key Centres of Teaching and Research, and research programs in technological institutions on the advice of the new ARC, in consultation with CTEC.

From 1988, relevant States will be required to contribute to the cost of higher education superannuation payments under State emerging cost schemes. The Commonwealth will share superannuation costs with the States in a way which recognises the respective responsibilities of the Commonwealth and State governments that prevailed when the liability was incurred. The Commonwealth will:

- share with the States costs accrued prior to 1974, when the Commonwealth took over full funding responsibility for higher education;
- meet all costs accrued between 1974 and 1981 inclusive; and
- meet costs accrued after 1981, when the Superannuation Scheme for Australian Universities was introduced, to a limit of 14% of annual higher education salaries.

The contribution, which involves five States, is estimated at \$11.0m in 1987-88 and \$23.0m in 1988-89.

Other Advanced Education

The Australian Film, Television and Radio School provides advanced education and specialist training for students and creative workers in the film, radio and television industry. The Budget provides \$7.9m for the operational expenses of the School and \$15.1m to meet construction and fitout costs for the School's permanent building in the grounds of Macquarie University in Sydney. The building is due to be completed this year (estimated total cost of construction is \$18.7m).

The National Institute of Dramatic Art (NIDA) provides practical training in the professions of live theatre, television, film and radio with courses in acting, directing, stage management and design. The Budget provides \$2.2m for NIDA's operating expenses.

TAFE

Commonwealth funding for TAFE in the States will decrease by \$18.6m in 1987-88, mainly reflecting the \$30m reduction in the Fees Reimbursement Grant announced in the May Statement. The reduction principally reflects the capacity of TAFE institutions to raise revenue by means such as charging full cost fees for Stream 6 (hobby) and other special courses. However, Commonwealth funding for employment training programs, including funds to TAFE for training courses, has simultaneously been substantially increased (see 7C Labour and Employment).

Current TAFE programs are to be restructured from 1988 to target Commonwealth grants better to priority national objectives. Full details of the new arrangements may be found in Budget Related Paper No. 9, *Skills Formation in Australia*.

Further Education in the Australian Capital Territory (ACT)

Funds are provided by the Commonwealth through the ACT Budget for the running of further education in the ACT. In the recent Administrative Arrangements Order, the Government altered the administrative structure of ACT further education, with responsibility for ACT further education transferring from the former Department of Education to the ACT Administration within the Department of the Arts, Sport, the Environment, Tourism and Territories. In addition, the Government has decided to consolidate the existing ACT further education institutions by the creation in 1988 of the ACT Institute of Arts (to be formed from the Canberra School of Music and the Canberra School of Art) and the ACT Institute of TAFE (to be formed from Canberra, Woden and Bruce TAFE Colleges).

The estimates for ACT further education were reduced by \$1.5m in 1987-88 and \$2.5m in 1988-89 in the May Statement. These reductions reflected, amongst other things, the capacity of colleges to charge full cost recovery fees for Stream 6 (hobby) courses, and changes to encourage entrepreneurial activity by the colleges, such as funding of courses by industry.

The 1987-88 estimates provide \$47.1m in total for the institutions including \$42.9m for recurrent and \$4.2m for capital outlays compared with \$41.7m and \$4.4m respectively in 1986-87. Construction will commence in 1987-88 on a new School of Plumbing and Sheetmetal Workshop (total \$4.5m), and extensions to the School of Hospitality (total \$7.7m).

Commonwealth Tertiary Education Commission

Administrative outlays of the Commission are expected to total \$6.5m.

Overseas Students Charge

Overseas students attending Australian educational institutions are required to contribute to the costs of their tuition through the Overseas Students Charge (OSC). This charge is in addition to the Higher Education Administration Charge for those in higher education institutions.

For overseas students commencing study in higher education and TAFE institutions, the total charge will be increased in 1988 to 55% of full average cost to the Commonwealth. The OSC for continuing students in higher education and TAFE courses will remain at the 1987 recovery rates (45% or 32% of the full average cost to the Commonwealth depending on the year in which tertiary studies were commenced). The OSC for secondary students will increase to \$328 per annum in line with movements in the CPI, and will be indexed thereafter. The proposed charges are shown in the following table.

Overseas Students Charge

Students Studying in	1987		1988		
	Existing Students (a)	Commencing Students (b)	Existing Students (a)	Existing Students (b)	Commencing Students (c)
Universities and CAEs		\$pa	\$pa	\$pa	\$pa
High Cost Courses	3 850	5 506	4 193(d)	\$ 736(d)	6 890(d)
Lower Cost Courses	3 056	4 666	3 400(d)	4 896(d)	6 050(d)
TAFEs	530	740	593	833	1 018
Secondary Schools	300	300	328	328	328

- (a) Higher education students who were studying in approved courses prior to 1986 or TAFE students studying prior to 1987.
- (b) Higher education students who commenced study in Australia after 1 January 1986 or TAFE students who commenced study after 1 January 1987, but before 1988.
- (c) Higher education and TAFE students who commenced study in Australia after 1 January 1988.
- (d) Overseas students in higher education are, like all other students, also liable for the Higher Education Administration Charge. The OSC shown for these students has been reduced by the amount of the Charge (\$250 in 1987, \$263 in 1988).

The Government is to continue to pay the charges for subsidised private students from Papua New Guinea and South Pacific island countries, for some students from China and for students sponsored by the Australian International Development Assistance Bureau (AIDAB), at a total cost of about \$8.8m in 1987-88. These funds are to be appropriated through AIDAB and form part of Australia's overseas aid program. Further funds continue to be appropriated through AIDAB to reflect the fact that charges paid by overseas students (or on their behalf) do not cover full costs—see explanation below under 'Contribution towards the Education of Students from Developing Countries'. As a result of the increased receipts from the OSC, there will be a corresponding reduction in the contribution paid through the aid vote for the education in Australia of students from developing countries.

An annual intake quota limits the total number of subsidised overseas students in all categories permitted to study in Australia. In 1988 the entry quota for new subsidised overseas student places will be 3 500.

In 1988, there will be approximately 3400 subsidised places for overseas secondary students and 13 300 subsidised places for overseas tertiary students, including 800 TAFE students. Excluding those students whose liability is met from Australia's aid program (some 1000 sponsored students and some 1700 subsidised students from Papua New Guinea, China and South Pacific island countries), the estimated number of students liable for the OSC in 1987-88 will be approximately 14 500.

The receipts are estimated at \$63.7m in 1987-88 (tertiary students) and \$1.1m (secondary students). The total of \$64.8m is an increase of \$15m over the 1986-87 level.

Institutions may also offer full fee courses for overseas students outside the quota arrangements. Revenue retention arrangements have been designed to encourage institutions to increase this 'export business' while providing some return in future years on the Commonwealth's capital investment.

Contribution towards the Education of Students from Developing Countries

The OSC paid by, or on behalf of, overseas students in Australian institutions is estimated to cover between 32% and 55% of the Commonwealth contribution towards the cost of providing places for those students. For students from developing countries, the balance of the cost to the Commonwealth is identified as a contribution to the education budget by AIDAB. Some 95% of overseas students are from developing countries, which in general derive substantial economic and other benefits from the education of their citizens in Australia.

AIDAB payments to the education budget in 1987-88 are estimated at \$82.8m for tertiary students and \$2.3m for secondary students, a fall of \$2.8m primarily as a result of the increased direct revenue from increases in the OSC for these students. See also *8C.1 Bilateral Aid and Budget Related Paper No. 4, Australia's Overseas Aid Program 1987-88*.

2.2 SCHOOLS AND PRE SCHOOLS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Schools in the States—					
Government	690.1	702.6	736.0	33.3	4.7
Non-Government	817.9	874.3	924.9	50.6	5.8
Joint Programs	45.5	40.2	35.6	-4.6	-11.5
Cost Supplementation of Grants	—	—	54.4	54.4	n.a.
Sub-total	1 553.5	1 617.2	1 750.9	133.7	8.3
Pre-schools in the States	16.5	—	—	—	n.a.
Schools and Pre-schools in the ACT—					
Government	149.9	162.1	177.0	14.8	9.2
Non-Government	34.2	36.9	39.9	3.0	8.0
Other	1.8	0.7	0.7	..	3.3
Cost Supplementation of Grants	—	—	0.9	0.9	n.a.
School Transport	5.3	6.2	6.8	0.6	10.0
Sub-total	191.2	205.9	225.2	19.3	9.4
Schools Commission	8.7	8.5	7.3	-1.2	-14.3
Overseas Student Charge (Secondary)	—	0.6Cr	1.1Cr	-0.5	-81.8
Contribution for Students from Developing Countries (a)	2.9Cr	2.4Cr	2.3Cr	..	1.8
Total	1 767.1	1 828.6	1 980.0	151.3	8.3

(a) See corresponding expenditure item under in *8C Foreign Affairs and Overseas Aid* and explanation under 'Contribution towards the Education of Students from Developing Countries'

Schools in the States

The Commonwealth provides grants for recurrent and capital purposes to the States for both government and non-government schools. Commonwealth assistance is also provided to both government and non-government schools under joint programs such as projects for children in country areas.

Like the Commonwealth's Tertiary Education program, the Schools program is based on calendar years and is adjusted for cost increases. The 1987-88 financial year estimate therefore consists of parts of the respective calendar year programs and includes an allowance of \$55.3m for estimated cost supplementation which has been notionally allocated over the program.

Commonwealth grants represent about 11% of spending on government schools (the balance being met by State governments) and about 36% of spending on non-government schools. Of the total cost of running non-government schools about 18% is met by other governments and the remaining 46% from private sources.

Details of the Commonwealth's 1987 and 1988 calendar year programs for schools are shown below (these figures include funding for ACT schools under national programs which are discussed further under headings below).

Commonwealth Schools Programs for Calendar 1987 and 1988

	1988 (a)		Real Change	
	1987 (a)	(estimated)	1988 on 1987	%
	\$m	\$m	\$m	%
Government				
Recurrent (b)	532.6	560.1	27.5	5.2
Capital	161.6	161.6	—	—
Non-Government (b)				
Recurrent	854.1	891.3	37.3	4.4
Capital	58.5	58.5	—	—
Joint Programs	32.4	32.1	-0.3	-1.1
Participation and Equity Program	26.0	—	-26.0	-100.0
Total	1665.2	1703.7	38.5	2.3

(a) Estimated December 1986 prices.

(b) Based on 1987 and 1988 enrolment projections respectively. Final payments are dependent on actual enrolments for 1987 and 1988, the distribution of increased enrolments among the funding categories, and the outcome of appeals by schools against their funding categories.

The estimates for 1987-88 and calendar year 1988 reflect real growth in general recurrent (per capita) grants, offset by reductions mainly in the level of funding for certain specific purpose programs.

General recurrent (per capita) grants for both government and non-government schools will continue to rise in 1987-88 and in the 1988 calendar year, in line with the annual increase in per student grants payable to the States and non-government authorities under the *States Grants (Schools Assistance) Act 1984* and under Resource Agreements with the States and non-government authorities. The real per capita increases in 1988 will be some 4 per cent in most cases for government and non-government primary schools, about 3 per cent for non-government secondary schools, and about 11 per cent for government secondary schools.

In 1987-88 general recurrent grants (per capita) to the States will rise by \$50.7m for government schools and by \$76.7m for non-government schools. This reflects the continuing trend of declining government school enrolments, increasing non-government school enrolments (see Table below) and the higher per capita payments for non-government schools.

While general recurrent grants will increase in real terms, payments under specific purpose grants are estimated to decline. This reflects the Government's decision not to renew the Basic Learning in Primary Schools Program and the Participation and Equity Program when they terminate at the end of 1987, with estimated reductions in outlays of \$18.0m in 1987-88 and \$35.0m in a full year.

In line with Government policy to make Government bodies more financially self-supporting, the Curriculum Development Centre will be required to increase its revenue by \$0.2m in 1987-88 (and by \$0.5m in each of 1988-89 and 1989-90), by pursuing a more aggressive marketing policy. These revenue targets will be accompanied by commensurate reductions in the Centre's annual outlays.

The allocation to the Curriculum Development Centre in 1987-88 includes \$0.3m (rising to \$0.7m in 1988-89) for the establishment of an Education of Girls in Maths and Science Curriculum Development Project. The funding arrangements for the Project require a complementary funding commitment by the school systems or organisations. The objective of this proposal is to increase the number of girls taking mathematics and science subjects at the senior secondary level.

The 1987-88 estimates reflect administrative savings of \$0.6m in 1987-88 (\$1.2m in a full year) to be achieved by streamlining the operations of the Commonwealth Schools Commission by absorbing certain functions into the Department of Employment, Education and Training. This measure was announced in the May Statement.

As part of the Government's National Language Policy, the Government has extended the period for intensive English instruction under the New Arrivals element of the English as a Second Language Program at an estimated cost of \$5.3m in 1987-88.

The following tables show recent trends in school enrolments and retention rates:

Total School Enrolments (as at first week of July of each year)

	Primary '000	Secondary '000	Total '000	Change on Previous Year %
Government				
1984	1 358.9	901.6	2 260.6	-0.9
1985	1 317.9	913.0	2 230.8	-1.3
1986	1 297.1	910.7	2 207.8	-1.0
1987 (a)	1 281.0	910.0	2 191.0	-0.8
Non-Government				
1984	403.0	354.2	757.2	3.0
1985	406.5	368.9	775.3	2.4
1986	411.1	382.5	793.6	2.4
1987 (a)	416.8	397.8	814.6	2.6
All Schools				
1984	1 761.9	1 255.8	3 017.7	0.1
1985	1 724.3	1 281.8	3 006.2	-0.4
1986	1 708.8	1 293.2	3 004.4	-0.2
1987 (a)	1 697.8	1 307.8	3 005.7	0.1

(a) projected

Source: Department of Employment, Education and Training

Student Retention Rates to Final Year of Secondary School (a)

	Male		Female		Total %
	%	%	%	%	
1983	37.5	43.9	43.9	40.6	
1984	42.1	48.0	48.0	45.0	
1985	43.5	49.5	49.5	46.4	
1986	45.6	52.1	52.1	48.7	

(a) The ratio of final year students in any one year to the number in the cohort with which they commenced secondary school.

Source: Department of Employment, Education and Training

SCHOOLS AND PRE-SCHOOLS IN THE ACT

Government Schools and Pre-schools in the ACT

Government schools and pre-schools in the ACT are funded through the ACT Schools Authority (responsible for administration of the schools and pre-schools, including the conduct of certain Commonwealth schools programs), the ACT Administration (responsible for cleaning, repairs, building works and maintenance) and the National Capital Development Commission (responsible for capital works). Between these three authorities an estimated \$177.0m will be spent in 1987-88 compared with \$162.1m in 1986-87, an increase of 9%. This includes an increase of 3% in recurrent outlays.

Outlays on construction of new schools in 1987-88 are estimated to be \$28.0m, an increase of \$10.2m on 1986-87, reflecting mainly progress with construction of Calwell High School and Tuggeranong College, commenced in 1986-87. In addition, in 1987-88 work will commence on new primary schools at Florey (\$4.45m) and Calwell (\$4.87m), and extensions to Cranleigh Special School (\$1.0m).

Full-time Student Enrolments in ACT (as at third week of July of each year)

	Primary (a)	Secondary (a)	Total (a) (b)	Change on previous year
	'000	'000	'000	%
1984	22.5	17.2	39.7	-0.3
1985	22.3	17.5	39.8	0.3
1986	22.1	17.6	39.8	0.0
1987	22.2	18.1	40.4	1.5
1988 (c)	22.4	17.9	40.3	-0.5

(a) includes special schools

(b) totals may not add due to rounding

(c) projections

Source: ACT Schools Authority

Non-Government Schools in the ACT

The Commonwealth, through the Department of Employment, Education and Training and the ACT Administration, provides recurrent funds under a number of non-government school schemes in the ACT, the most significant of which are recurrent per capita grants. These grants are provided on a similar basis to those paid by the Commonwealth and by the States to schools in the States and are estimated at \$35.7m in 1987-88 compared with \$32.8m in 1986-87.

Capital grants are provided to non-government schools in the ACT under arrangements similar to those applying nationally under the Commonwealth's schools capital grants program. Capital assistance in 1987-88 is estimated at \$1.34m compared with \$1.3m in 1986-87. To further assist the schools building programs of non-government schools in the ACT, eligible projects may receive financial assistance under the ACT Administration's Interest Subsidy Scheme, which provides for an interest subsidy of up to 10%, depending on the interest payable on the loan. Outlays under this program are estimated at \$1.9m in 1987-88 compared with \$1.35m in 1986-87.

\$18 410 has also been provided in 1987-88 as part of a one-off \$9.1m (in 1987 prices) capital grant to fund the construction of a new Catholic high school for years 7 to 10 in Tuggeranong. The Government has agreed to fund, over 10 years, both the capital and interest costs associated with the school's construction.

Enrolments in ACT Non-Government Schools (as at first week of July of each year)

	Primary	Secondary	Total	Change on previous year
	'000	'000	'000	%
1984	10.3	8.8	19.0	3.6
1985	10.5	9.3	19.8	4.0
1986	10.4	9.8	20.2	2.0
1987 (a)	10.4	10.2	20.6	2.0

(a) projected

Source: Department of Employment, Education and Training

School Transport in the ACT

In line with State Government practices, the ACT Administration subsidises transport costs for school children travelling to and from schools in the ACT. This subsidy is estimated to cost \$6.8m in 1987-88, of which about 65% is expected to be directed to services for non-government schools. The allocation includes provision for the full-year effect of new services introduced for the 1987 school year and represents an increase of about 10% over 1986-87 outlays.

2.3 STUDENT ASSISTANCE

Details of estimated outlays on student assistance, including for special groups (see further below), are shown in the following summary table.

	1985-86	1986-87	1987-88	Change	%
	Actual	Actual	Estimate		
	\$m	\$m	\$m	\$m	%
2.3 Student Assistance Schemes—					
Tertiary education assistance	298.2	357.4	403.7	46.3	13.0
Postgraduate awards	20.0	21.7	22.5	0.9	4.0
Other tertiary	0.3	0.3	0.7	0.4	121.1
Total Tertiary	318.5	379.4	426.9	47.5	12.5
Adult secondary allowances	9.2	11.3	14.4	3.1	27.9
Secondary allowances	94.1	107.1	171.2	64.1	59.9
Total Secondary	103.3	118.4	185.6	67.2	56.8
Total Student Assistance Schemes	421.8	497.8	612.5	114.8	23.1
2.4 Assistance Provided under Programs for Special Groups—					
Aboriginals					
Secondary assistance	32.2	32.9	32.5	-0.5	-1.5
Study assistance	32.1	39.2	47.5	8.4	21.3
Other	16.3	16.6	17.2	0.6	3.4
Migrants	49.4	53.1	62.3	9.2	17.3
Veterans' children	3.8	4.6	5.9	1.3	27.8
Isolated children	23.9	24.0	29.1	5.1	21.2
Total Special Groups	157.7	170.5	194.5	24.0	14.1
Total Assistance for Students	579.5	668.2	807.0	138.8	20.8

In 1987, AUSTUDY replaced the Tertiary Education Assistance Scheme, Adult Secondary Education Assistance Scheme and the Secondary Allowances Scheme, as the main scheme for community-wide student assistance. Outlays on the scheme are estimated to increase by \$113.5m to \$589.3m in 1987-88 (23.9%) due to increases in recipient numbers and in the rates of allowance. AUSTUDY is an integral part of the Government's decision to rationalise education allowance schemes and to introduce an age-related common allowance structure to reinforce the Government's training and education policies. By 1988, the common allowance structure will provide equality of basic benefits between secondary and tertiary students of the same age, and between the relevant student assistance rates and single unemployment benefit rates up to age 21.

Subject to eligibility criteria, AUSTUDY provides support for:

- secondary students 16 years of age and older;
- adults studying full-time in secondary courses;
- full-time students 16 years of age and older undertaking TAFE courses;
- students 16 years of age and older engaged in full-time undergraduate courses;
- some postgraduate students at universities and CAEs other than higher degree students, who are eligible for Postgraduate Awards.

The estimated number of students receiving AUSTUDY and Postgraduate Awards are shown in the following table:

Student Assistance Schemes: Estimated Numbers of Recipients

Scheme	Estimated Number of Students		Change on Previous Year (%)
	1987	1988	
AUSTUDY			
Tertiary	124 400	127 710	2.7
Secondary	99 200	108 640	9.5
Adult Secondary	4 350	3 800	-12.6
Total	227 950	240 150	5.4
Postgraduate awards	2 450	2 450	—

The May Statement included the following specific reforms to the common allowance structure to be implemented from 1 January 1988:

For 16 and 17 year olds:

- the at-home secondary rate will rise from \$40 to \$50 a week to align with the tertiary rate and the maximum Job Search Allowance (this allowance is to be introduced from January 1988, replacing unemployment benefits for 16-17 year olds); and
- the independent (including the Young Homeless Allowance) and the tertiary living-away-from-home rates will be increased from \$73.28 to \$76 a week.

For those aged over 18 years:

- the rate for independent students (including Young Homeless Allowance recipients) and for tertiary students living away from home will increase from \$80 to \$91.20 a week to align with intermediate unemployment benefits; and
- the at-home rate will increase to \$60 per week from \$55 for tertiary and from \$45 for secondary students.

These rates will apply across the range of allowance schemes in the common allowance structure. Maximum rates of assistance are summarised in the following table.

Comparison of Maximum Youth Assistance Rates 1987 and 1988

	1987 Rate	1988 Rate	Increase	
	\$ a week	\$ a week	\$ a week	%
16-17 Year Olds				
• AUSTUDY				
- secondary at-home	40.00	50.00	10.00	25.0
- tertiary at-home	50.00	50.00	—	—
- away-from-home or independent (a)	73.28	76.00	2.72	3.7
• Unemployed/Sick				
- at-home	50.00	50.00(b)	—	—
- young homeless	73.28	76.00	2.72	3.7
18-20 Year Olds				
• AUSTUDY (c)				
- secondary at-home	45.00	60.00	15.00	33.3
- tertiary at-home	55.00	60.00	5.00	9.1
- away-from-home or independent	80.00	91.20	11.20	14.0
• Unemployed/Sick	91.20	91.20	—	—

(a) Away-from-home rates are not available for secondary students under the age of 19.

(b) Maximum Job Search Allowance rate. The basic rate will be \$25 a week, with a parentally income-tested supplement of up to \$25.

(c) AUSTUDY rates for 18-20 year olds also apply to those 21 and over.

The May Statement reduced the forward estimates for student assistance by \$27.6m in 1987-88 and \$59.2m in a full year. As announced in the 1985-86 Budget, Additional Pension and Benefit payments in respect of student assistance recipients are being absorbed into the higher rates of allowance, with protection for existing recipients. For student allowance recipients, Additional Pension and Benefit payments will reduce to \$5 a week in 1988 and end from 1989.

AUSTUDY living allowance is subject to income testing and is taxable. In general, allowances are paid to students, but parents may elect to receive the payment for secondary students under 18 years. Students are classified as either dependent or independent:

- the entitlement of dependent students is assessed on their family income, the maximum allowances being reduced if that income exceeds certain levels in a year;
- dependent tertiary and adult secondary students may qualify for a higher rate of assistance if they are required to live away from home to undertake study;
- independent students are not income tested on the family income but may have a test applied to their spouse's income, if applicable; and
- all students face a test on personal income.

From 1988, the parental and spouse income tests will be based on taxable income plus maintenance payments. The parental income test is modified by a sibling concession which will be extended in 1988 to cover all elements of AUSTUDY. Deductions from parental income are permitted for other dependent children and these have been increased from \$450 for each other child in 1987 to \$1200 for the first child other than the applicant and to \$2500 for further dependent children. These increases are designed to limit the overlap between the AUSTUDY parental income test and the income test under the new Family Allowance Supplement. The cost of these measures is being offset by less than full indexation of the basic income test threshold which will increase from \$15 745 a year to \$16 000.

Students may qualify for independent status on the basis of age (over 25 years), marriage or through participation in the workforce. From 1988, as announced in the May Statement, the work requirement for independent status will require an applicant to have regularly worked a 35 hour week (or full-time award hours) for three out of the last four years.

The Postgraduate Award Scheme provides approximately 2500 awards to selected higher degree students undertaking Masters and PhD programs at Australian universities and CAEs. Postgraduate awards are awarded on academic merit. They are taxable and, although not income-tested, are not available if a certain level of income is received from other awards. The basic living allowance will be increased in 1988 (from \$8126 to \$8882 per annum).

In view of the Higher Education Administration Charge, a special supplementary payment is made to all higher education students in receipt of AUSTUDY allowances, ABSTUDY payments and Postgraduate Awards. The supplement fully offsets the Charge for these students. Pensioners and beneficiaries engaged in full-time study are entitled to an education allowance payment of \$15 per week and to exemption from the Charge.

2.4 SPECIAL GROUPS

The Budget estimates provide \$194.5m for the education of special groups in 1987-88, an increase of \$24m (14%). Details are in the table under the heading 2.3 Student Assistance. The estimated number of students assisted under the various schemes is shown in the following table.

Assistance for Special Groups: Estimated Number of Recipients

Scheme	Estimated Number of Students		Change on Previous Year (%)
	1987	1988	
Aboriginals			
-ABSEC	26 569	27 898	5.0
-ABSTUDY	25 072	30 086	20.0
Total	51 641	57 984	12.3
Migrants			
-AMEP	120 000	120 000	—
Veterans' Children	2 533	2 600	2.6
Isolated Children	21 500	19 000	-11.6

Building on the May Statement in the area of youth income support, decisions have been taken to rationalise further the Aboriginal assistance schemes, and those for isolated children and the children of veterans. The rationalisation aims, over time, to link assistance more closely to AUSTUDY (for those over 16) and to the Family Allowance Supplement (FAS) (for those under 16), with special conditions or allowances related to the particular disadvantages of Aboriginal and isolated children and children of disabled or deceased veterans. In particular, there will be supplementary payments to FAS for those under 16 and to AUSTUDY for Aboriginal students over 21, and certain payments will remain income-test-free.

The isolated and veterans' children schemes moved to an age-related structure in 1987 and the Aboriginal schemes will follow in 1988, with basic support based on AUSTUDY rates. As a consequence, a number of the existing separate allowances will be combined into a single living allowance with at-home, independent and away-from-home rates of allowance. Most recipients will receive increased assistance in 1988. From 1988 the following major conditions will apply:

- Aboriginal students, isolated correspondence students and new entrants to the veterans' schemes living at home and under 16 years of age will receive an allowance of \$10 a week (as well as family allowances and FAS);
- students under 16 years and boarding away from home will receive support of \$50 a week with rates for students receiving higher allowance rates in 1987 preserved at the same level (again, as well as family allowances and FAS);
- students in the 16-17 age group will receive allowances equivalent to the AUSTUDY rates of \$50 a week at-home and \$76 a week away-from-home. Secondary boarders will be eligible for the tertiary away-from-home rate of \$76 a week;
- independent Aboriginal students and those living away from home in the 18-20 age group will receive AUSTUDY rates of \$91.20 a week. At-home Aboriginal tertiary students over 18 will receive \$75 a week in 1988, and the relevant AUSTUDY rate in 1989; and
- students 21 years and over will receive the equivalent AUSTUDY rates of \$60 a week at-home and \$91.20 a week away-from-home, with Aboriginal students in this group studying in courses leading to awards or having direct employment outcomes also receiving a supplement of \$30 a week.

From 1989, further steps will be taken to rationalise the Aboriginal schemes. New Aboriginal applicants aged 16 and over will only be eligible for AUSTUDY (with the \$30 a week supplement for those over 21 in relevant courses) according to the standard AUSTUDY income test arrangements. Aboriginal students under 16 at home will receive the \$10 a week supplement via the FAS according to the standard FAS income test arrangements. Students under 16 living away from home will continue to receive boarding allowances income-test-free, but these will not be indexed. There will be various provisions to limit losses for existing recipients.

A summary of the new rates of assistance being phased in is shown in the following table.

Maximum Weekly Rates of Student Assistance for Aboriginals and Isolated Children^(a)

	1987	1988	1989
	\$pw	\$pw	\$pw
Aboriginal Students			
Under 16			
-at-home	19 ^(b)	10 ^(b)	10 ^(b)
-away-from-home	53 ^(b)	50 ^(b)	50 ^(b)
16-17			
-at-home			
secondary	25	50	50*
tertiary	75	50	50*
-away from home			
secondary	56	76	76*
tertiary	75	76	76*
18-20			
-at-home			
secondary	25	60	60*
tertiary	88	75	60*
-away-from-home or independent			
secondary	56	91.20	91.20*
tertiary	88	91.20	91.20*
21+			
-at-home			
• accredited courses	88	90	90**
• other courses	88	75	60*
-away-from-home or independent			
• accredited courses	88	121.20	121.20**
• other courses	88	91.20	91.20
Isolated Children			
Under 16			
-at-home	19.20 ^(b)	10 ^{(b)(c)}	10 ^(c)
-away-from-home	50 ^(b)	50 ^(b)	50 ^(b)
16-17			
-at-home	50	50	50*
-away-from-home	73.28	76	76*
18+			
-at-home	50	60	60*
-away-from-home	80	91.20	91.20*
* Indexed with AUSTUDY			
** Basic AUSTUDY component indexed.			

- (a) For new entrants only. Protection arrangements for existing recipients are not shown.
 (b) For students under 16 other family assistance would also be available. In 1988, for example, family allowances (between \$5.25 and \$10.50 a week) would generally be payable, and the income-tested Family Allowance Supplement (up to \$28 a week for a 13-15 year old and \$22 a week for younger children) could also be payable.
 (c) Those isolated children living in second homes established to provide daily access to school will receive up to \$21 a week subject to existing income test arrangements.

Using 1988 rates as an illustration, once the new arrangements are phased in, the normal progression of total assistance for full-time Aboriginal students from low income families would be as follows:

- \$37 to \$42 a week up to age 12 (including family allowances and FAS);
- \$43 to \$48 a week up to age 15 (including family allowances and FAS);
- \$50 a week up to age 17;
- \$60 a week thereafter (\$91.20 if living away from home or independent); and
- \$121.20 a week for Aboriginal students over 20 in accredited courses if living away from home or independent.

The various measures being taken to rationalise these schemes will save \$10.4m in 1987-88 and \$24.7m in 1988-89. Nonetheless, the increases in most rates of assistance and in numbers of recipients will still lead to an estimated 14% increase in outlays in 1987-88.

Aboriginals

The Aboriginal Secondary Assistance (ABSEC) and Aboriginal Study Assistance (ABSTUDY) schemes, which will be largely subsumed into the above arrangements, currently provide living allowances and other forms of supplementary assistance to Aboriginal students attending approved secondary schools or classes or undertaking approved full-time or part-time courses of education and training at universities, CAEs, TAFE colleges and other institutions.

The ABSTUDY scheme also includes \$7.8m to assist with the provision of special courses for Aboriginal students. This figure includes an addition of \$1.5m provided in this year's response to the Miller Report on Aboriginal Employment and Training Programs. The remainder of the package relates to schools, with \$0.7m available under the Remote Area Program for Aboriginals. Funding is also provided for curriculum programs for Aboriginal students, particularly those in remote areas, and for a scheme designed to improve the quality of teachers working in schools with significant Aboriginal enrolments.

Other educational assistance to Aboriginal people under this heading includes the cost (\$0.6m) of the National Aboriginal Education Committee, the Minister's advisory body for the educational needs of Aboriginal people. In addition, \$16.5m is provided in grants through the Department of Aboriginal Affairs for programs that address the special educational disadvantages of Aboriginals. This includes direct grants to Aboriginal organisations and specific purpose grants to State and Territory Departments of Education for special programs for Aboriginal pre-school, primary, secondary, adult and tertiary education. Funds are also provided for curriculum development in Aboriginal studies, including the development of bilingual programs for Aboriginal schools.

Migrant Education

\$58.8m is included for the Adult Migrant Education Program (AMEP), which provides initial settlement orientation and English language courses for adult migrants and refugees, and income-tested living allowances for students attending full-time courses and some part-time courses. The increase of 17.2% reflects the additional cost of tuition provided by the State adult migrant education services and TAFEs and implementation of key recommendations of the Campbell Report which reviewed the AMEP.

\$1.2m has also been provided for expected student enrolment growth arising from an increased immigration intake in 1987-88.

Living allowances are also paid to migrants undertaking full-time special purpose English courses funded through the Commonwealth Tertiary Education Commission, at a cost of \$2.6m (up 24.2%).

Veterans' Children Education

The Veterans' Children Education Scheme (VCES) provides living allowances and other benefits for the schooling, tertiary education and training of children of veterans who died as a result of war service or who are either blind or totally and permanently incapacitated. The VCES is being rationalised in accordance with changes to general student assistance. Rates in 1988 will in some cases, however, continue to be higher than corresponding AUSTUDY rates. Assistance continues to be available to eligible students under 16 years of age. Provisions for special assistance at the discretion of the Repatriation Commission and extra tuition through the VCES Education Boards will be retained for both secondary and tertiary students.

Assistance for Isolated Children

The Assistance for Isolated Children scheme assists families whose homes are remote from normal daily access to government schools. It provides boarding allowances for eligible students who are living away from home to attend school, and allowances where students are studying by correspondence or where a second home is maintained. The scheme also covers children regarded as isolated due to medical disability. Only part of these allowances is subject to income-testing.

\$0.6m is also provided in 1987-88 for the loan video program which lends educational video facilities to students in isolated areas lacking regular television services. The program also assists States in developing related audio-visual programs.

2.5 GENERAL ADMINISTRATION AND OTHER OUTLAYS

General administration outlays for the *Education* function are estimated to increase by \$10.9m or 16.1% in 1987-88, including the cost of an additional 115 staff-years (an increase of 6.5%) resulting mainly from increased numbers of student assistance recipients, partly offset by reductions in equipment outlays. Also included under this heading is the new funding of \$9.8m for the National Policy on Languages programs, other funding for which is shown under *Schools and Pre-Schools*.

3. HEALTH

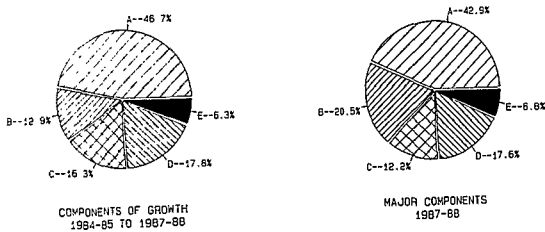
Commonwealth activity in the Health area is primarily directed toward ensuring that all Australians have access to necessary health services; it also includes the setting and administering of standards for the safety and efficacy of therapeutic goods and services, support for health research and promotion of better health. In terms of Commonwealth outlays the first category is by far the most significant, accounting for more than 90% of *Health* outlays.

Commonwealth financial assistance for health services is provided at both the individual and institutional level. At the individual level, benefits are paid in respect of services rendered and goods supplied, in the main, by private professionals and organisations, eg doctors, nursing home proprietors and pharmacists. As well, individuals can receive assistance through tax expenditures—a rebate for the excess of unreimbursed medical 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.

At the institutional level, support is provided to States' hospital systems both through block financial assistance (Medicare Grants) and general revenue grants (Identified Health Grants) in lieu of previous *specific purpose* payments. Health services are also provided directly through the repatriation hospital system as well as through such organisations as Commonwealth Pathology Laboratories, the National Acoustic Laboratories and the ACT Health Authority.

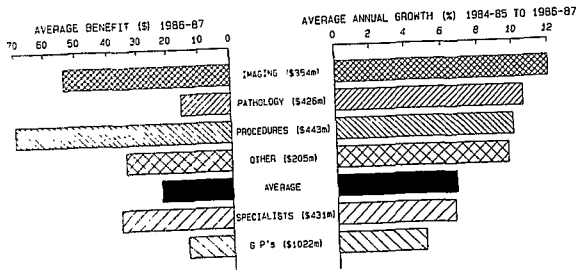
Over the past five years, *Health* outlays have increased as a proportion of total budget outlays from 7.0% in 1982-83 to 10.5% in 1987-88 (see Table 5 at the end of *Statement No 6* in this Budget Paper). Most of this rise occurred between 1982-83 and 1984-85, reflecting the changes in funding arrangements for health services associated with the introduction of Medicare in February 1984 and involving a substantial shift from private funding of health services and tax rebates to financing through Budget outlays. Because of these changes and the data comparability problems they present, the examination of trends in *Health* outlays in the section below is limited to the period since 1984-85, during which time health financing arrangements have remained broadly unchanged. Over the period 1984-85 to 1987-88 *Health* outlays have grown at an average annual rate of 10.3% or 3.0% in real terms. Within *Health* outlays the major contributions to growth over the period 1984-85 to 1987-88 and the components budgeted for 1987-88, by sub-function, are shown in Chart 1 and can be summarised as follows:

CHART 1. HEALTH OUTLAYS



A Medical Services
 B Hospital Services
 C Pharmaceutical Services
 D Nursing Care
 E Includes ACT Health, General Administration and Other Health Services

CHART 2. MEDICAL BENEFITS MAJOR COMPONENTS

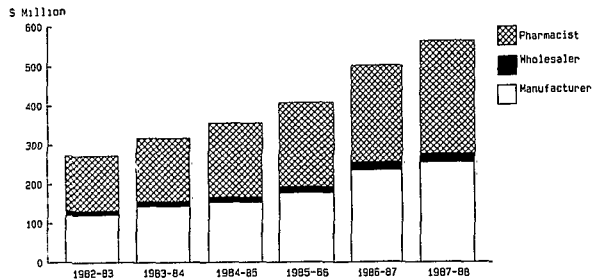


Notes for Chart 2:
 • Bracketed figures are the value of HIC processed claims in 1986-87.
 • Imaging—includes radiology, radiography, CAT, nuclear medicine and ultrasound.
 • Procedures—includes operations, assistance at operations, and anaesthetics.
 • Other—includes dental, optometry, obstetrics and miscellaneous. To avoid data distortions, the blood collection item (deleted in 1986) is excluded.
 • Specialist and G.P. services—includes consultation items only.

- 'medical services and benefits' (about 90% of which is Medicare medical benefit) comprises about 43% of total *Health* outlays and accounts for a proportionately larger share of the growth in the function between 1984-85 and 1987-88. Outlays in 1987-88 would have been some \$300m higher had it not been for the savings measures in this area effected over the past two years (see below). Underlying this increase in outlays has been strong growth in the volume of services, averaging about 6½% pa in the past two years. To some extent this would reflect increased use of services by those who were uninsured prior to the introduction of Medicare. Growth of 5½% pa or a little over 4% per capita is assumed for 1987-88 which is broadly in line with long term trend growth in private medical services. Chart 2 shows that growth has been most rapid in the diagnostic area (pathology and imaging) which accounts for about 27% of outlays and in procedures which account for about 15% of outlays. General Practitioner (GP) services, which make up over a third of outlays, have grown less quickly. This distribution of volume growth has in itself compounded outlays growth as, broadly speaking, the high growth areas, notably imaging and procedures, have higher than average fees while GP consultations have lower than average fees (see Chart 2). Thus the past two years have seen an increase in the average benefit cost of services beyond that implied by Schedule fee and benefit adjustments of about 24% pa. This is expected to continue, at a slightly lower rate, in 1987-88;
- 'hospital services and benefits' accounts for 20% of *Health* outlays but only 13% of the increase in *Health* outlays. The relatively slow growth over the two years principally reflects abolition of the private hospital subsidy program from October 1986 and the escalation of the major part of Medicare grants for hospitals (the largest component of the sub-function) by a formula heavily weighted with award wages, in a period of relatively subdued award wage growth;
- 'pharmaceutical services and benefits' is estimated to grow at an average annual rate of 15% between 1984-85 and 1987-88. It is therefore the fastest growing component in the *Health* function over the period, notwithstanding the major changes to the Pharmaceutical Benefits Scheme (PBS) implemented in November 1986 which are expected to save about \$100m in 1987-88. Chart 3 shows, over a somewhat longer period, outlays on the pensioner component of the PBS, apportioned between the retail, wholesale and manufacturer recipients of the benefit payment. Chart 4 shows the volume of pensioner prescriptions and Chart 5 the average retail price. (The pensioner component accounts for most PBS outlays and time series of pensioner data are less affected by changes in the scheme, notably those introduced in November 1986.) Volume growth of around 6% pa in pensioner prescriptions has traditionally been the major cause of growth in this program. While the chart

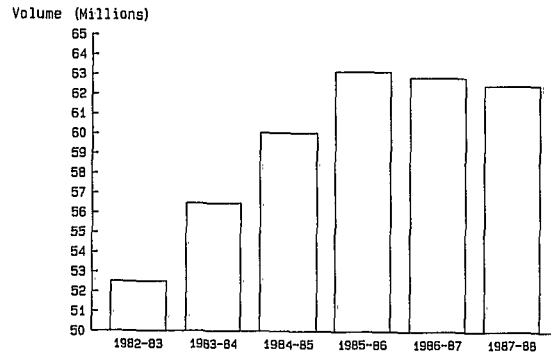
shows a slight reduction in volume in 1986-87 and 1987-88, reflecting the effect of the delisting of a range of over-the-counter drugs in November 1986, 6% volume growth is assumed to be continuing. The recent acceleration in PBS outlays growth is mainly attributable to substantial rises in the average price of prescriptions. In 1986-87 alone, the average dispensed price in the pensioner component rose by 21%, and 13% growth is projected for 1987-88. This rapid growth largely reflects the increased prescribing of expensive drugs including some that have been newly listed or for which prescribing restrictions have been lifted. The devaluation of the Australian dollar has also contributed to price growth. The largest single share of PBS outlays are taken by pharmacists although the share going to manufacturers has risen in recent years because of the growth in drug prices to manufacturers to which pharmacists' remuneration is only partly linked;

CHART 3. PENSIONER PBS : SHARES OF PAYMENTS
1982-83 TO 1987-88



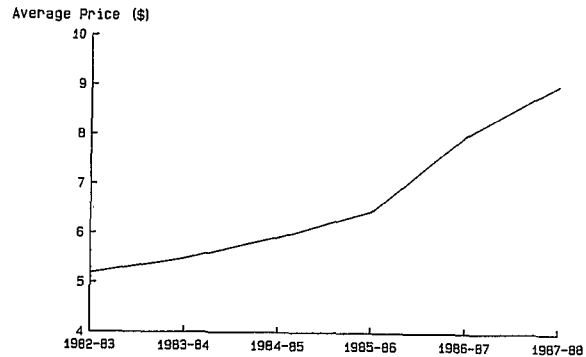
Note: The pharmacists' share includes wholesaler discounts.

CHART 4. PENSIONER PBS - ANNUAL SCRIPT VOLUME
1982-83 TO 1987-88



Note: Underlying volume growth in the pensioner part of the scheme is about 6% p.a. The slight decline in volume in 1986-87 and 1987-88 is attributable to the delisting of over-the-counter items in November 1986.

CHART 5. PENSIONER PBS - AVERAGE SCRIPT PRICES
1982-83 TO 1987-88



- 'nursing home subsidies and domiciliary care services', which accounts for 18% of *Health* outlays, is estimated to increase at an average annual rate of 10% over the three years to 1987-88, contributing 18% of the overall growth. Outlays growth in this area has been influenced by modest growth in the number of nursing home beds, with cost increases accounting for some \$109m or 75% of the estimated increase of \$145m on 1986-87;
- the remaining sub-functions comprise 7% of the total and account for a somewhat smaller proportion of total growth; and
- *Health* outlays on veterans are distributed amongst the sub-functions. In combination they are estimated to be \$954m in 1987-88, an average annual increase of 14% since 1984-85.

Measures to restrain growth in *Health* outlays have played an important part in the Government's budget strategy over the past two years. For medical benefits, measures have concentrated on areas of the Schedule showing rapid growth, including pathology in 1986 and diagnostic imaging and a number of other areas this year; economies have been achieved through a combination of fee cuts, amended benefit conditions and through tightening of regulations on providers. Benefits for medical treatment of private in-patients in hospitals and day surgeries have been reduced. In pharmaceuticals, contributions required of general and concessional patients were substantially increased in 1986 for general patients but with safety net arrangements introduced for heavy users. In this Budget, amendments are made to the procedures for listing of drugs on the PBS in response to the rapid increase in the prescribing of expensive drugs.

In the nursing home and domiciliary care area, the Government's strategy, announced in the 1986-87 Budget in the context of the Nursing Home and Hostels Review, is to stabilize by 1990-91 the number of nursing home beds at 100 per 1000 people aged 70 years or more; and to reduce reliance on nursing homes by encouraging more appropriate levels of care through assessment of need for care and expansion of hostel accommodation and home and community care.

SUMMARY OF HEALTH OUTLAYS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
3.1 Medical Services and Benefits	2 939.1	3 241.6	3 527.0	285.4	8.8
3.2 Hospital Services and Benefits	1 548.6	1 561.4	1 685.5	124.2	8.0
3.3 Pharmaceutical Services and Benefits	729.3	870.8	999.4	128.6	14.8
3.4 Nursing Home Subsidies and Domiciliary Care Services	1 167.3	1 298.3	1 442.8	144.4	11.1
3.5 Health Services in the ACT, nec	140.5	153.5	173.0	19.5	12.7
3.6 Other Health Services	273.7	305.5	314.3	8.8	2.9
3.7 General Administration	71.8	68.3	70.8	2.6	3.8
TOTAL	6 870.3	7 499.3	8 212.9	713.6	9.5

The following sections briefly describe the nature of the various sub-functions and associated levels of outlays in 1987-88, including the effect of decisions. Reference should also be made to the sections on Identified Health Grants in Function 9A Not Allocated to Function—Assistance to the States.

Fuller detail of health programs is included in relevant Annual Reports, particularly those of the Departments of Community Services and Health, Veterans' Affairs and Aboriginal Affairs, the Health Insurance Commission (HIC) and the Commonwealth Serum Laboratories Commission (CSL).

3.1 MEDICAL SERVICES AND BENEFITS

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate	Estimate	
Medical Benefits	\$m	\$m	\$m	\$m	%
Health Insurance Commission	2 589.3	2 863.3	3 106.0	242.7	8.5
Costs					
Administrative	119.1	124.8	137.4	12.6	10.1
Diagnosis Services	47.0	49.2	51.7	2.6	5.2
Veterans and Dependents	183.6	204.3	231.9	27.5	13.5
Total	2 939.1	3 241.6	3 527.0	285.4	8.8

Medical Benefits

Commonwealth assistance under Medicare towards the costs of medical and optometrical services is currently provided on the following basis:

- the Commonwealth contributes to the cost of out-of-hospital medical services for all Australian residents on the basis of its meeting 85% of the Schedule fee (subject to the benefit not exceeding the fee actually charged) plus any further amount required to ensure that the gap (met by the patient) between the benefit and Schedule fee does not exceed \$20 for an individual item and that no person has to make gap payments exceeding \$150 per annum;
- for medical services provided to hospital in-patients and day surgery 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. (These benefit arrangements were introduced on 1 August 1987—see below);
- practitioners may direct bill in respect of any patient where benefit is accepted in full payment;
- no charges are made for Commonwealth Medical Officer consultations or for the services provided by Commonwealth Pathology Laboratories;
- registered health organisations 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. With some exceptions, mainly in the compensation area, no other form of medical insurance cover, 'gap' or otherwise, is permitted; and
- all health insurance offered must comply with the community rating principle. Risk rated insurance is not permitted except under policies existing prior to the introduction of Medicare on 1 February 1984 under which guaranteed renewal rights exist.

A number of major changes to medical benefit arrangements were announced in the May Statement and introduced on 1 August 1987.

The following measures in *Diagnostic Imaging* confer savings of \$39.8m in 1987-88:

- the *Medical Benefits Schedule* fee for referred ultrasound was reduced by about 20%;
- computerised axial tomography items in the Schedule were restructured, achieving a reduction in benefits of about 22%;
- other radiology fees (Part 8 of the Schedule) were cut by 5%. The net effect, after application of the general fee rise, was an increase in fees in Part 8 of around 1%; and
- fees for imaging services provided by non-specialist radiologists were reduced to a uniform 75% of the relevant specialist fee.

The *after hours loading on GP consultations* was abolished. Normal hours fees are now expected to apply at all hours except for emergency visits away from the normal consulting rooms for which a new item has been created. Schedule fees for certain in-hours consultation items were increased (in addition to the general 6.1% average fee rise). Net savings in 1987-88 are \$23.1m.

In *optometry*, the Schedule fee for the prescription and fitting of lenses was halved. A loophole in the benefit conditions which allowed lenses to be obtained under Medicare for sporting or cosmetic reasons was closed. These and other minor measures relating to optometry will yield savings of \$11.6m in 1987-88.

There was also a parallel tightening in the benefit conditions in the *ophthalmology* part of the Schedule for the fitting and prescription of contact lenses. Also in ophthalmology, the fees for cataract removal and lens replacement were reduced with savings of \$11.3m in 1987-88.

For *consultant physicians* (excluding psychiatrists), fees for the fourth and subsequent consultations were reduced to the level applicable to follow up attendances by specialists. Savings are \$14.1m in 1987-88.

A number of other changes have also been made in the medical benefits area with total savings of \$28.1m in 1987-88. These include:

- items for multiphasic health screening and for the removal of warts and keratoses were deleted from the Schedule. (Procedures for removal of warts and keratoses are now charged as consultation items);
- the item for intravenous drip insertion was deleted from the Schedule. A component for intravenous drips was included in fees for anaesthetic services and in a new comprehensive obstetrics item; and
- Schedule fees for *gastroscopy* and *electro-cardiography* were reduced.

Changes have been made for medical services provided to *private patients receiving hospital in-patient or day surgery care*, saving \$80.0m in 1987-88. The benefit rate was reduced to 75% and the \$20 limit on an individual gap payment removed. Gap payments for private medical services to hospital in-patients or day surgery patients are covered in the basic table of private health funds. Public patients will continue to be treated at no charge. Benefits for out-of-hospital services will continue to be paid at 85% of the Schedule fee with a maximum patient contribution of \$20 per service and a continuation of the \$150 limit on total annual gap payments.

Simultaneously with the introduction of revised Medicare rebates for private patients in hospitals and restructured Schedule fees, Schedule fees were increased from 1 August 1987 by, on average, 6.1% in line with practice cost and award wage movements over the preceding year.

Outlays on medical benefits in 1987-88 are estimated at \$3 106m, 8.5% higher than in 1986-87. The main factors are:

	\$m
Remaining full year effect of Schedule fee increase of 1 November 1986	56.2
Underlying real growth of 7.5% attributable to increased utilisation and benefit drift in 1987-88	218.3
Fee increase from 1 August 1987 averaging 6.1% overall	157.5
Net adjustment for variations in claiming and processing lags	16.3
less	
Savings from restructuring of Schedule fees and benefit conditions	128.0
Savings from reduced benefit levels for private medical services provided in hospitals	80.0

Health Insurance Commission (HIC)—Administration of Medical Benefits

The HIC administers medical benefits and is also responsible for measures to combat medical fraud and overservicing.

Funding in 1987-88 includes \$8.4m to provide additional computing capacity.

Medicare agency arrangements with private health funds are to be discontinued. Savings in 1987-88 are estimated at \$0.4m and \$1.5m in a full year.

Laboratory and Diagnostic Services

This item relates to the running costs of laboratories operated by the Department of Community Services and Health. These include the National Acoustic Laboratories, the National Biological Standards Laboratory, the Australian Radiation Laboratory and Commonwealth Pathology Laboratories.

Also included is \$1.9m in recurrent grants for the Launceston and Port Pirie pathology laboratories which have been transferred to the Tasmanian and South Australian Governments.

As an initiative for 1987-88 the Government has decided to provide grants to the States to undertake cost-shared selected trials of cervical cancer screening and to assess the feasibility of mammography screening for breast cancer. Pilot projects will be monitored and evaluated for their effectiveness in reducing morbidity and mortality from breast and cervical cancer. \$1.1m will be provided in 1987-88.

Treatment and Allowances for Veterans and Dependants

The Commonwealth meets the costs for eligible veterans and their dependants of specialist, local medical officer, paramedical and dental services, the provision and maintenance of surgical aids, and travelling and other expenses incurred in obtaining medical treatment. The estimated increase of \$27.5m reflects increased fees for professional services, and increased demand for services relating partly to the ageing of veterans and war widows.

Savings of \$1.2m are expected in 1987-88 from the Government's decision to review the administration of the provision of transport for beneficiaries travelling to and from medical treatment.

The Commonwealth will contribute \$85 000 in 1987-88 to NSW towards the expansion of the building containing the Repatriation Artificial Limbs and Appliance Sub-centre at Albury.

A further \$0.7m is expected to be spent in 1987-88 on medical treatment for returned Australian servicewomen of World War II following the Government's decision to extend treatment benefits to this group of veterans.

3.2 HOSPITAL SERVICES AND BENEFITS

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate		
	\$m	\$m	\$m	\$m	%
Public Hospitals	1 045.3	1 067.0	1 157.6	90.6	8.5
Private Hospitals	139.2	50.5	0.5	-50.0	-99.0
Transfer of Nurse Education	—	7.2	9.4	2.1	29.3
Health Benefits Reinsurance Trust Fund	5.0	1.0	1.0	—	—
Veterans and Dependents	358.4	429.9	505.9	76.0	17.7
Launceston General Hospital	0.8	5.7	11.2	5.5	96.3
Total	1 548.6	1 561.4	1 685.5	124.2	8.0

Public Hospitals

Under Medicare, all Australian residents are entitled to free shared ward accommodation and treatment and free out-patient treatment at public hospitals. Those electing to have 'doctor of choice' or private ward accommodation in a public hospital must bear the charges made or take out appropriate hospital insurance cover.

As part of its Medicare program the Commonwealth makes Medicare Compensation Grants to the States. These were originally designed to compensate for the States for:

- revenue losses associated with the abolition both of accommodation charges for public patients in public hospitals and of charges for public hospital in-patient and out-patient care and a reduction of \$50 per day in accommodation fees for private patients in public hospitals; and
- additional costs associated with the introduction of Medicare.

From 1 February 1984 to 30 June 1985 the compensation provided was based on a formula comparing actual hospital utilisation during the period with utilisation in 1982-83. Payments from 1 July 1985 are by way of block grants based on the 1984-85 grants indexed to take account of wage and price increases. At the 1985 Premiers' Conference it was agreed that the Medicare Compensation agreements would continue until 30 June 1988. The agreements will be reviewed in consultation with the States during 1987-88.

The Medicare Compensation Grants also include a component designed to restore in real terms the Commonwealth's contribution to community health funding to the 1975-76 level (\$21.4m in 1987-88); capital assistance for diagnostic and other high technology equipment (\$4.6m in 1987-88) expected to result in reduced medical benefits payments in future years; and a special payment to NSW of \$26.4m in 1987-88 reflecting the continuing effect of the 1985 increases in hourly rates of payment to Visiting Medical Officers in NSW public hospitals.

As part of the negotiated package for settlement of the NSW doctors' dispute, the Government agreed to provide capital grants of \$150m over three years, commencing in 1985-86, to the States and Department of Veterans' Affairs for purchase of new capital equipment for teaching hospitals. These grants are provided on the basis that the States maintain their existing levels of expenditure on equipment so that a real increase in resources is available for new equipment for the hospitals. The 1987-88 allocation of capital grants for teaching hospitals in the States and Territories is \$50m.

Commencing in 1987-88 the Commonwealth is to provide assistance for a limited period of two years to the States for programs aimed at reducing hospital waiting lists. The Commonwealth will contribute up to \$25m in 1987-88 and up to \$25m in 1988-89 on a \$ for \$ matching basis with the States.

Transfer of Nurse Education

In 1984 the Commonwealth announced that financial assistance would be available to States and Territories transferring nurse education from hospital-based facilities to the tertiary education sector over the period 1985 to 1993.

An indexed subsidy is payable at a rate of \$1500 (December 1983 prices) per student nurse commencing at a tertiary institution, towards the current costs incurred by States and Territories through the transfer. The States and Territories will be required to provide appropriate capital facilities for tertiary institutions.

Nursing students at these institutions are eligible for payments under AUSTUDY on the same basis as other students. Where the number of student nurses commencing training at a tertiary institution exceeds the transfer program agreed with the Commonwealth, the assistance payable is reduced by the additional costs incurred by the Commonwealth in providing AUSTUDY.

The proposed arrangements also provide for the transfer of nurse education currently taking place in repatriation hospitals. The Commonwealth contribution in respect of repatriation hospitals includes the difference between the recurrent cost of nurse education in tertiary institutions and the standard Commonwealth contribution (ie the net 'State' cost of educating nurses in tertiary institutions). This component is estimated to cost \$2.0m in 1987-88.

The payment to the ACT is included in 'Health Services in the ACT, nec'.

Private Hospitals

A small provision is made in 1987-88 for delayed claims for the private hospital bed day subsidy which was abolished in October 1986.

Health Benefits Reinsurance Trust Fund

Under the provisions of the *National Health Act 1953*, the Commonwealth subsidises health insurance funds by making a contribution towards deficits that arise in reinsurance accounts required to be maintained by registered health insurance organisations. The deficits arise from paying benefits to long-term hospitalised members.

Veterans and Dependants Hospitals

Repatriation hospitals and clinics are maintained in each State for the treatment of eligible veterans and their dependants. Members of the public may be admitted to a repatriation hospital if spare beds are available and the facilities are suitable for the required treatment. Conversely, veterans and their dependants may, where appropriate, be admitted to private or State public hospitals.

Following a review of human resources in the Repatriation Hospital System, the Government has decided to increase staffing levels in the hospitals by some 335 staff years in 1987-88. The increased staffing and operating costs (\$12.1m in 1987-88) are offset by lower outlays on treatment of veterans in non-departmental institutions (\$14.9m in 1987-88).

The increased outlays on veterans and their dependants in 1987-88 reflect increased hospital staffing, higher wages and salaries and other costs associated with the operation of repatriation hospitals, increased funds for specialised equipment and greater demand for hospital services stemming from the ageing of veterans and war widows.

It is anticipated that an additional \$0.2m will be spent in 1987-88 on non-departmental hospital treatment for returned Australian servicewomen of World War II following the Government's decision to extend treatment benefits to this group of veterans.

Launceston General Hospital

Under an agreement with Tasmania the Commonwealth has met 50% of the approved costs of Stage 1 of the redevelopment of Launceston General Hospital. In addition, the Commonwealth is to fund 50% of the approved cost over the construction period of Stage 2 of the hospital and a centralised laundry facility at an indicative total cost to the Commonwealth of \$31.9m.

3.3 PHARMACEUTICAL SERVICES AND BENEFITS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
General	157.6	164.3	119.5	-44.8	-27.3
Concessional	50.2	59.7	49.8	-9.9	-16.6
Safety Net	—	11.2	133.4	122.2	na
Pensioner	408.0	503.1	565.6	62.5	12.4
Administration	27.4	37.8	31.6	-6.2	-16.3
Veterans and Dependants	86.1	94.7	99.5	4.8	5.1
Total	729.3	870.8	999.4	128.6	14.8

General, Concessional, Safety Net and Pensioners

Under current arrangements for the Pharmaceutical Benefits Scheme (PBS), items on the PBS list are supplied to:

- the general public at a maximum of \$10 per prescription item;

- Health Care cardholders, including the unemployed and low income families, and those Social Security pensioners and Veterans' Affairs service pensioners who do not hold a Pensioner Health Benefits card and their dependants at a concessional rate of \$2.50 per prescription item;
- general and concessional users, individuals or families, who have purchased more than 25 PBS prescription items since 1 November 1986, at no cost (after the first 25) under the safety net arrangements during the remainder of this calendar year. The safety net will operate, on a calendar year basis, from 1 January 1988; and
- PHB and Health Benefits (sickness beneficiaries) cardholders and their dependants at no cost.

Items available under the PBS and the rules under which they may be prescribed are determined by the Minister for Community Services and Health on the recommendation of the Pharmaceutical Benefits Advisory Committee (PBAC). Prices paid to manufacturers are determined by the Pharmaceutical Benefits Pricing Bureau. Pharmacist remuneration is determined by the Pharmaceutical Benefits Remuneration Tribunal.

To assist the local pharmaceutical manufacturing industry, the Government has decided on the following measures:

- the Pricing Bureau is to be replaced on 1 January 1988 by a more independent non-statutory pricing authority;
- the guidelines for price setting for the PBS will be supplemented to take into account Australian activity by pharmaceutical manufacturers; and
- more liberal arrangements will be introduced for extending patent terms for pharmaceutical inventions to 20 years.

Offsetting the cost of these changes, the Government has determined that:

- a maximum 20 cent price differential is to apply between alternative brands listed for the PBS; and
- the wholesaler margin on drugs listed for the PBS is to be reduced from 15% to 10% of the price to the pharmacist, in which there is to be a corresponding reduction.

The full impact of these measures on outlays will not be felt for some years. The net effect in 1987-88 is estimated to be savings of \$1m.

The Government has decided on a number of changes to the arrangements for the listing of drugs for the PBS. In particular, the *National Health Act 1953* will be amended to require the PBAC and the Minister to take cost effectiveness into account in listing drugs and in applying restrictions on prescribing and to affirm the Minister's powers to remove drugs from the PBS list.

These measures are estimated to save \$5m in PBS outlays in 1987-88.

In addition the secretariat servicing the PBAC is to be upgraded and provided with additional resources of \$0.5m in 1987-88.

The major factors contributing to changes in PBS outlays in 1987-88 are:

- an increase of 13% in the average price of prescriptions in the general (\$39m), concessional (\$11m), and pensioner (\$67m) categories, largely due to increased prescribing of expensive drugs;
- the remaining full year savings from the November 1986 increase in patient contributions in the general (-\$82m) and concessional (-\$2m) categories;
- underlying growth in volume of 5% in general prescriptions (\$5m). The remaining full year effect of the delisting of a range of over-the-counter items in November 1986 is expected to offset underlying growth in prescription volumes in 1987-88 for the concessional and pensioner categories;
- an increase in safety net outlays (\$122m) reflecting a full year of operation. By contrast, in 1986-87, there were very few outlays under the safety net as eligibility depended on prescriptions accumulated over the 14 months to December 1987. Outlays in 1987-88 are partly attributable to the transfer of patients from the general (\$14m) and concessional (\$16m) parts of the scheme, as individuals or families reach the 25 prescription threshold;
- payments to pharmacists for issuing safety net entitlement cards (previously classified as administration in this sub-function), and as incentives to submit computer-readable claims and participate in sample processing (\$3.5m);
- the continued transfer of service pensioners and war widows from the Repatriation Pharmaceutical Benefits Scheme (\$8m); and
- savings from changed listing procedures and pricing arrangements (-\$6m).

Administration

Arising from the recommendations of an Efficiency Scrutiny, a number of changes are being made to pharmaceutical benefits processing which will confer savings of \$1m in 1987-88 and \$2.8m in 1988-89. The administrative component of these savings reduces this item by \$2.2m in 1987-88. Administrative costs have also been reduced because of the decrease in prescription volumes resulting from the 1 November 1986 changes to the scheme.

Veterans and Dependants

The Commonwealth meets the full costs of pharmaceuticals supplied on prescription for eligible veterans. These comprise all items on the PBS list as well as those on the Repatriation Pharmaceutical Supplementary List. The latter is intended to provide medication for veterans for war-caused disabilities. Some restrictions on prescribing will result in savings of \$1.0m in 1987-88.

The estimated increase in 1987-88 reflects an expected increase in the average price of prescriptions. Increased demand for pharmaceuticals, due largely to demographic factors, is offset by the transfer of service pensioners and war widows to the PBS.

3.4 NURSING HOME SUBSIDIES AND DOMICILIARY CARE SERVICES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Nursing Home Recurrent Subsidies	703.4	773.3	1 151.2	377.8	48.9
Nursing Home Capital Subsidies	14.0	14.6	14.1	-0.5	-3.6
Nursing Homes Assistance Subsidies	306.6	354.0	71.0	-283.0	-79.9
Domiciliary Nursing Care Benefits	25.4	27.3	29.0	1.6	6.0
Nursing Care for Veterans and Dependants	87.0	98.0	116.1	18.0	18.4
Home Nursing Service	30.8	31.0	61.5	30.5	98.4
Total	1 167.3	1 298.3	1 442.8	144.4	11.1

New Nursing Home Funding Arrangements

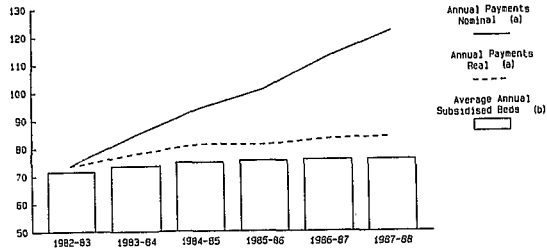
New funding arrangements for nursing homes commenced on 1 July 1987. These involve the phased introduction, over the period 1 July 1987 to 1 July 1991, of standard daily resident fees and standard Commonwealth benefits to replace the cost reimbursement arrangements that previously operated under the *National Health Act 1953* and the *Nursing Homes Assistance Act 1974*.

The proposed standard daily resident fee incorporates two components—one to cover the cost of nursing and personal care staff, and the other to cover all the other costs of operating a nursing home, called infrastructure costs. By July 1991 the infrastructure cost component will be a standard amount per occupied bed/day for all nursing homes. In relation to the nursing and personal care component, a Commonwealth/State Working Party is developing uniform national staffing standards for nursing homes. Until these new standards are introduced, current approved staffing levels will continue and will be reflected in fees on a cost reimbursement basis.

Nursing Home Subsidies

Chart 6 illustrates growth in nursing home beds subject to subsidy by the Commonwealth, under both the *National Health Act 1953* and the *Nursing Homes Assistance Act 1974*, since 1982-83, together with the total recurrent subsidy provided. (The recurrent subsidy indicated is underestimated by the amount of outlays on approved nursing home beds funded through the Department of Veterans' Affairs which—although the beds are included in the total number of approved beds recorded—is unknown.) Over the period shown, the average subsidy per bed increased by 57%, or an average of 9.5% pa. One of the objectives of the new nursing homes funding arrangements is to achieve a more stable pattern of growth in recurrent nursing home costs.

CHART 6. NURSING HOME SUBSIDIES



(a) Ten Thousands
(b) Thousands

Nursing Home Recurrent Subsidies

Under the *National Health Act 1953* the Commonwealth pays a recurrent benefit to approved nursing homes in each State and Territory for each resident. Current maximum benefit rates for non-government homes, which have applied since 1 July 1987, are:

Recurrent subsidy levels—National Health Act 1953

	Ordinary Care Patients \$ per day	Extensive Care Patients \$ per day
NSW and ACT	46.55	52.55
Victoria	59.75	65.75
Queensland	40.35	46.35
SA and NT	42.20	48.20
WA	51.05	57.05
Tasmania	38.55	44.55

These maximum rates of benefit will continue to be reviewed annually, and if necessary adjusted with effect from 1 July each year, so that overall, together with the statutory minimum patient contribution (currently \$15.85 a day), they cover fees charged to 70% of patients in approved non-government nursing homes in each State at the time of the annual review. (SA, NT and VIC are set at lower coverage levels, due to higher cost structures in those States.) The minimum patient contribution is set at 87.5% of the sum of the single age pension plus supplementary assistance.

The major reason for the uneven levels of benefit between the States and the Territories is the imposition of differing staffing and regulatory standards by the States. As nursing homes move toward a standard fee, this divergence will decrease

and by July 1991 (for beds not exempt from fees control) the standard fee will comprise a standard benefit and the minimum patient contribution, achieving 100% coverage.

The Government has agreed to the exemption, from 1 April 1988, of a proportion of nursing home beds from standard fee control. Those residents who are willing to pay more for additional services and better accommodation will be able to elect to do so under this arrangement, and the level of Commonwealth benefit paid will be reduced in proportion to the extent to which the fee charged exceeds the fee otherwise payable.

As part of the new nursing home funding arrangements, former deficit-financed nursing homes for the aged have been transferred from coverage under the *Nursing Homes Assistance Act 1974* to coverage under the *National Health Act 1953*. The deficit-financed arrangements ceased on 1 July 1987. However, the Commonwealth has undertaken that residents of deficit-financed homes at the introduction of the new funding arrangements will not have to pay any more than previously. The homes are, however, also required to move toward the standard fee by 1991.

The average number of beds in homes approved under the *National Health Act 1953*, together with the former deficit-financed homes for the aged, in 1986-87 was 73 413. This is expected to increase to 73 449 in 1987-88 reflecting an increase of 760 subsidised beds offset by a withdrawal of 724 underutilised government nursing home beds.

The increased outlays in 1987-88 on recurrent nursing home benefits under the *National Health Act 1953* reflect:

- transfer of former deficit-financed nursing homes for the aged (\$281.3m);
- the full and part year effects of an increase in the numbers of subsidised nursing home beds (\$12.8m);
- the full year effect of the November 1986 and 1 July 1987 increases in benefits and cost increases in respect of transferred deficit-financed homes (\$83.9m);
- movement toward a standard infrastructure cost under the new funding arrangements (\$3.3m); and
- savings announced in the May Statement—introduction of exempt beds, and withdrawal of underutilised government nursing home beds (−\$3.5m).

The Government has also decided to adjust the approval scheduling of nursing home beds in 1987-88. This will result in savings of \$3.0m in 1988-89.

Nursing Home Capital Subsidies

Capital assistance for the construction of nursing homes, provided under the *Aged and Disabled Persons Homes Act 1954*, is estimated at \$14.1m for 1987-88. This outlay has previously been classified under *Social Security and Welfare*.

Nursing Homes Assistance Subsidies

Under the *Nursing Homes Assistance Act 1974*, the Commonwealth continues to meet the approved operating deficits of eligible non-profit nursing homes for disabled residents that participate in arrangements authorised by the Act and for certain approved services. As part of new initiatives announced in the 1986-87 Budget to provide more appropriate accommodation for non-aged disabled people, 69 special purpose nursing homes were gazetted to facilitate their transfer from the

Aged Persons Residential Program to the Disability Services Program on 1 July 1988. This will allow accommodation services for younger disabled people to be planned in an integrated fashion. The average number of beds for the non-aged disabled subsidised under the deficit financing arrangements in 1986-87 was 2 410 and this is expected to increase to 2 490 in 1987-88.

Domiciliary Nursing Care Benefits

The Commonwealth pays a benefit of \$42 per fortnight to eligible persons who provide care for approved patients at home as an alternative to institutional care. Patients must be aged 16 years or over, be in need of professional nursing care, and otherwise meet the criteria for admission to an approved nursing home.

The average number of beneficiaries is expected to increase by 6% to about 26 500 in 1987-88.

Home Nursing Services

The Commonwealth provides funding under the cost-shared Home and Community Care Agreements with the States for the provision of home nursing services to assist frail or at risk aged and young disabled people to continue to live in their own homes. (This funding was previously provided under the Home Nursing Subsidy Act 1956, which ceased to apply on 1 July 1987.) The increase in outlays reflects the full year effect of growth in 1986-87 and award increases, together with provision for further growth in 1987-88.

Nursing Care for Veterans and Dependents

The Commonwealth previously met the full costs of nursing home accommodation required for veterans with service-related disabilities. From 1 January 1988 the responsibility for payment of the standard contribution will transfer from the Repatriation Commission to the patient as applies for other nursing home patients in the community, saving approximately \$2.2m in 1987-88. For certain categories of veterans and war widows, the Commonwealth also meets the cost of nursing home care for disabilities not related to service, subject to payment of the patient contribution.

From 1 December 1987 home help services for veterans will be provided as for the rest of the community under the Home and Community Care Program. Additional funds will be provided on an unmatched basis for the Program in recognition of the additional care load.

3.5 HEALTH SERVICES IN THE ACT, NEC

The ACT Health Authority (ACTHA) provides health services to residents of the ACT and its surrounding region. The ACTHA budget, both its recurrent and capital components, are funded by hospital and other charges, by State-type revenue measures levied in the ACT and by Commonwealth subventions. The Authority's operations include the Woden Valley and Royal Canberra Hospitals, health centres, hostels for the intellectually handicapped, nursing homes and grants to organisations engaged in health activities, including the operating cost of Calvary Hospital which

is estimated to be \$10.0m in 1987-88 (\$10.1m in 1986-87). The increased provision of \$21.8m reflects the full year effect of salary, wage and other cost increases and funding to provide for population growth in the ACT. The rise also includes \$16.3m resulting from the Conciliation and Arbitration decision on nursing remuneration and structure.

The ACT Budget receives payments under the Medicare Compensation Grants. The grant is estimated at \$18.8m (\$17.8m in 1986-87). Payment to the ACT under the Teaching Hospitals Capital Program will be \$1.0m. Subject to the provision of matching funds, up to \$0.3m may be available to the ACT for programs aimed at reducing hospital waiting lists as part of the \$25m program outlined in the Public Hospitals Section.

Capital works outlays in 1987-88 through the National Capital Development Commission are estimated at \$5.6m. This includes provision for a start on the construction of the Tuggeranong Health Centre (total estimated cost \$6.0m).

3.6 OTHER HEALTH SERVICES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Medical Research Grants	51.3	58.8	64.4	5.5	9.4
Walter and Eliza Hall Institute	2.6	1.6	—	-1.6	-100.0
Commonwealth Serum Laboratories	12.8	15.8	18.0	2.2	13.8
Australian Institute of Health	6.8	7.0	4.7	-2.3	-32.5
Aids and Appliances	34.7	39.2	31.7	-7.4	-19.0
Blood Transfusion Services and Products	28.3	30.5	34.0	3.5	11.5
Isolated Patients Travel and Accommodation Assistance Scheme	17.2	14.3	1.0	-13.3	-93.0
National Drug Programs	22.5	23.7	26.5	2.8	11.7
Family Planning	5.6	8.0	9.2	1.2	14.9
National Health Promotion Program	1.3	2.5	2.6	0.1	3.9
National Diseases Control Program	0.7	0.6	0.5	-0.2	-25.7
Royal Flying Doctor Service	6.4	9.5	10.0	0.5	5.4
AIDS control	7.5	11.5	20.3	8.8	77.0
Health Program Grants	2.9	4.2	4.6	0.4	8.8
Public Health Program	—	2.2	7.0	4.8	na
Community Health Facilities and Services	11.6	12.3	12.8	0.4	3.5
Health Services for Aboriginals	37.9	38.2	41.3	3.1	8.1
Other	23.5	25.7	25.9	0.2	0.9
Total	273.7	305.5	314.3	8.8	2.9

Medical Research Grants

The Commonwealth provides financial assistance for medical research through the Medical Research Endowment Fund. Payments of available moneys, both from the Commonwealth and from other sources such as gifts and bequests, are determined by the Minister for Community Services and Health on the advice of the National Health and Medical Research Council and acting, where necessary, in accordance with any conditions imposed by private benefactors. Assistance is provided to universities and other institutions such as the Howard Florey Institute of Experimental Physiology and Medicine, the Walter and Eliza Hall Institute of Medical Research and the Baker Medical Research Institute and to individual research workers or trainees. Assistance may also be provided to Commonwealth and State Government departments.

Commonwealth Serum Laboratories Commission

The Commonwealth Serum Laboratories Commission (CSL) produces and distributes pharmaceutical products. It also carries out functions determined by the Minister for Community Services and Health. These include research projects, maintenance of reserve stocks and the installation and maintenance of essential capital equipment. The Commonwealth reimburses CSL for the cost of carrying out these functions in accordance with section 38 of the *Commonwealth Serum Laboratories Act 1961*.

Of the amount provided for 1987-88, \$9.6m is to continue work commenced in 1983-84 to upgrade blood fractionation facilities, \$3.9m for other plant and equipment costs, \$2.5m for research and reference centres and \$1.5m for maintenance of reserve stock.

Australian Institute of Health (AIH)

The AIH was established as an independent statutory body in July 1987. It is the health research and statistics arm of the Community Services and Health portfolio and also provides research and statistical support to the States and Territories through the Australian Health Ministers' Advisory Council.

Aids and Appliances

The Commonwealth provides through the National Acoustic Laboratories, at no cost to users, a range of hearing services to eligible pensioners, children and supporting parent beneficiaries. Services include hearing tests, provision, fitting and maintenance of hearing aids and the supply of hearing aid batteries. The laboratories also conduct a research and development program on hearing impairment, hearing aid technology and assistance to hearing impaired people, noise measurement and the effects of noise on people.

In September 1987 a program to subsidise the cost of syringes and other materials to diabetics commenced operation. Under the program, the Australian Diabetes Foundation distributes syringes and test aids with Commonwealth and patient contributions meeting material and operational costs.

The Commonwealth meets the full costs of stoma appliances distributed free of charge by stoma associations to persons who require them and artificial limbs provided under the Free Limbs Scheme by the Department of Veterans' Affairs to eligible persons.

In 1986-87 \$10.7m was provided to the States and the Territories for the Program of Aids for Disabled People under which aids (eg wheel chairs, walking aids, splints and home modifications) were provided to disabled people not eligible to receive them under other government programs. As announced in the May Statement, funding for this program was transferred to the States which assumed responsibility for provision of aids for the disabled from 1 July 1987. \$10.5m has been included in general revenue assistance in 1987-88 for this purpose.

Blood Transfusion Services and Products

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 Commonwealth Serum Laboratories Commission (CSL) and blood products are supplied, free of charge (excluding freight), to hospitals and approved pathologists for use in medical treatment and analysis. The Commonwealth reimburses CSL for the cost of processing the blood. Of the \$34.0m provided in 1987-88, \$17.4m is for BTS and \$16.6m for CSL blood processing.

Isolated Patients Travel and Accommodation Assistance Scheme

This scheme was abolished in January 1987. The 1987-88 estimate provides funding for the outstanding claims.

National Drug Programs

The Commonwealth will continue to fund at the same real level as in 1986-87 the National Campaign Against Drug Abuse and the National Drug Education Program. The programs include drug abuse treatment, rehabilitation and prevention programs, the 'Drug Offensive' public information campaign, the development of national drug abuse data together with research and evaluation. Of the total provided in 1987-88, \$15.7m is for the States, including cost-shared funds for projects approved by the Ministerial Council on Drug Strategy.

Family Planning

Commonwealth assistance in 1987-88 to non-government family planning associations includes \$9.2m for clinical services (part of which is paid in lieu of benefit for medical services provided in clinics). Additional assistance, classified under *Social Security and Welfare*, is provided for education and training (\$1.1m) and for national family planning secretariats (\$0.3m).

National Health Promotion Program

This item provides for projects which are directed towards supporting community based initiatives to promote better health and prevent illness as well as the establishment of preventative health strategies throughout Australia including the development of those recommended by the Better Health Commission.

National Diseases Control Program

This program is to be phased out in 1987-88 with savings of \$0.2m and \$0.7m in a full year.

Royal Flying Doctor Service (RFDS)

The Commonwealth is currently subsidising the RFDS to the extent of 45% of annual operating costs (matched \$ for \$ with the States) and, in addition, provides a substantial contribution to capital costs.

Acquired Immune Deficiency Syndrome (AIDS)

The Commonwealth is to expand substantially its efforts in this area. Of the \$20.3m to be provided in 1987-88, \$9.3m has been allocated for cost-shared programs with the States, including \$2.1m for blood donation screening, \$1m for a pilot evaluation program for the treatment drug AZT, and \$6.2m for education, prevention, counselling, screening and domiciliary services. AIDS research is assigned \$3.0m, and the national education campaign run by the National Advisory Committee on AIDS (NACAIDS) \$4.0m. Other community grants, education workshops and AIDS information exchange programs are provided \$3.4m.

Health Program Grants

Health Program Grants, authorised under the *Health Insurance Act 1973*, are payable to eligible organisations to meet the cost, or such proportion of the cost as the Minister for Community Services and Health may determine, of approved health related services.

Public Health Program

This program was introduced in the 1986 Budget following the Government's consideration of the Kerr-White report on public health education and research. Of the total \$7.0m provided in 1987-88, tertiary education institutions will receive \$5.7m to fund courses and programs in public health. The remaining \$1.3m will be provided for public health research activities administered by the National Health and Medical Research Council.

Community Health Facilities and Services

Under the National Community Health Program the Commonwealth promotes the broad concepts of community health such as community participation, self-help and multi-disciplinary approaches to health care (eg through support to voluntary associations operating at the national level).

Most of the funding is for the Family Medicine Program (\$8.2m was provided in 1986-87)—a vocational training program organised by the Royal Australian College of General Practitioners for medical graduates wishing to enter general practice.

The balance comprises grants to various non-government organisations which are national in character.

The Commonwealth will also provide a further \$21.4m to the States under the Medicare arrangements for new or expanded community health services (see 'Hospital Services and Benefits' above).

Health Services for Aboriginals

The Government is committed to raising Aboriginal health standards to the level enjoyed by other Australians. Strategies directed at improving Aboriginal health emphasise improvement of environmental conditions, domiciliary hygiene and preventative education programs coupled with the promotion of Aboriginal participation and decision-making in health care delivery.

Of the amount provided for Aboriginal health programs in 1987-88, \$23.6m (\$19.6m in 1986-87) is expected to be applied to the operating costs of 55 Aboriginal Health Services, including 4 established or first funded during 1986-87. These services cater for a variety of needs including general medical services, dentists, nurses, referrals, social work, nutrition and health education. Some \$4.6m will be allocated for programs to combat problems caused by alcohol, illicit drugs and the sniffing of volatile substances such as petrol and glue. In addition, \$0.1m (\$0.1m in 1986-87) is provided for national consultations and co-ordination in respect of national Aboriginal health policy.

Aboriginal people are also encouraged to make better use of the health services available to the general community. The balance of the funds provided under this heading, \$13.0m (\$13.4m in 1986-87), is expected to be provided as specific purpose grants to the States to supplement State government provisions for the health needs of Aboriginals and for improving Aboriginal access to State public health services.

Other

This category includes outlays on environmental, social and other public health activities including human quarantine, health advisory committees and outlays under the *Therapeutic Goods Act 1966*. 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 establishment and operational costs of a national centre for liver transplantation on a cost-shared basis with NSW; reciprocal health care agreements; and payments towards the operational costs of the Australian Medical Council.

3.7 GENERAL ADMINISTRATION

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
General Administration	49.3	52.2	56.2	4.0	7.7
Veterans' Affairs	6.6	0.6	0.2	-0.4	-62.1
Community Services and Health	11.9	13.9	15.2	1.3	9.7
Building and Works	8.3	7.2	3.7	-3.5	-48.4
Recoveries	4.4Cr	5.7Cr	4.5Cr	1.1	20.0
Total	71.8	68.3	70.8	2.6	3.8

Outlays under this heading comprise the general administrative and capital expenses of the Community Services and Health portfolio relating to the Health phannation. Major exclusions are the administrative expenses of laboratories and pharmaceutical benefits processing costs—included in the relevant sub-function above.

4. SOCIAL SECURITY AND WELFARE

The Australian social security system protects people from economic hardship resulting from the loss of earnings through age, disability, sickness, unemployment or the death, desertion or long-term separation of a supporting spouse. It also compensates veterans for service-related disabilities and the dependants of those whose deaths are service-related and assists parents with the expenses of raising children. Much of this assistance is provided as cash benefits.

In addition, a wide range of welfare services for people with special needs is provided either directly or through State and local government authorities and voluntary agencies. Assistance is provided in a variety of forms for the advancement of Aboriginal people. Details of specific programs and entitlements are provided in Annual Reports of relevant departments or authorities.

Assistance is also provided indirectly through the personal income tax system. For example, concessional income tax rebates provide relief for pensioners and beneficiaries, the dependent spouse and sole parent rebates assist single income families and the deductions allowed for gifts to certain welfare bodies provide indirect assistance to the organisations concerned.

SUMMARY OF SOCIAL SECURITY AND WELFARE OUTLAYS

	1985-86		1986-87		1987-88		Change
	Actual	Estimate	Actual	Estimate	Actual	Estimate	
	\$m	\$m	\$m	\$m	\$m	%	
4.1 Assistance to the Aged . . .	6 063.4	6 479.1	7 254.8	775.7	12.0		
4.2 Assistance to Veterans and their Dependents	2 574.3	2 753.8	3 127.0	373.2	13.6		
4.3 Assistance to the Handicapped	1 946.0	2 218.0	2 506.2	288.2	13.0		
4.4 Assistance to Widows and Sole Parents	2 162.5	2 319.4	2 521.3	201.9	8.7		
4.5 Assistance to Families	1 748.9	1 634.3	1 797.5	163.2	10.0		
4.6 Assistance to the Unemployed and Sick	3 622.1	4 007.8	4 156.2	148.4	3.7		
4.7 Other Welfare Programs	171.9	180.7	194.9	14.2	7.9		
4.8 Aboriginal Advancement Programs nec	133.6	149.5	198.5	49.0	32.8		
4.9 General Administration	728.6	794.2	847.7	53.5	6.7		
4.10 Recoveries and Repayments	7.7Cr	3.2Cr	5.0Cr	-1.8	-55.4		
TOTAL	19 143.7	20 533.5	22 599.0	2 065.5	10.1		

Total direct outlays on social security and welfare are estimated to be \$22 599.0m in 1987-88 which is 28.9% of total budget outlays. The increase over 1986-87 is \$2065.5m or 10.1%.

Outlays on social security and welfare have remained a fairly constant proportion of Commonwealth outlays in recent years. In 1983-84 social security and welfare spending represented some 31.4% of Commonwealth outlays net of debt service charges. In 1987-88 it is expected to be some 32.1%.

Over the five years from 1983-84 to 1987-88, total outlays on social security and welfare are estimated to increase by \$6227.2m or 38%. The forecast increase in the CPI over the same period is 32.3%.

The following charts show total outlays on social security and welfare as a proportion of total Commonwealth outlays and the movement in major components of the functional outlays between 1983-84 and 1987-88.

CHART 1. SOCIAL SECURITY AND WELFARE
PROPORTION OF TOTAL OUTLAYS AND OF FUNCTION
1987-88

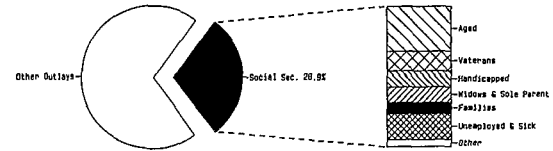


CHART 2. SOCIAL SECURITY AND WELFARE OUTLAYS
BY SUB-FUNCTION
1983-84 TO 1987-88

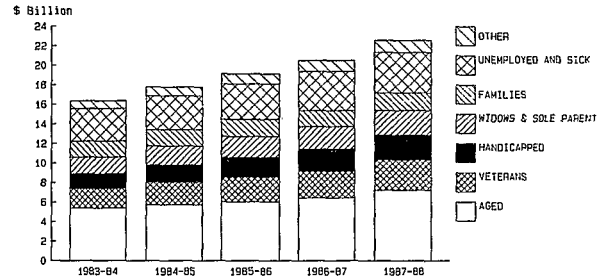
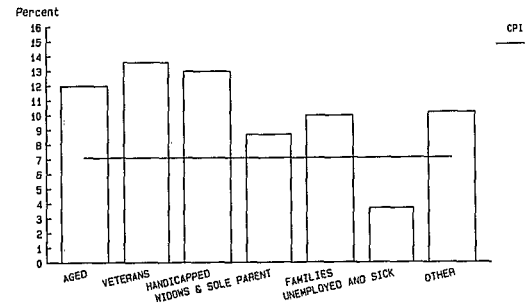


CHART 3. SOCIAL SECURITY AND WELFARE OUTLAYS
PERCENTAGE CHANGE BY SUB-FUNCTION
1986-87 TO 1987-88



Changes made over the life of this Government have signalled a significant reordering of priorities in the social security and welfare area. This has involved mainly a redistribution from those with the capacity to look after themselves and has not been at the expense of those most in need.

Decisions have been taken to:

- improve the targeting of assistance (eg assets test, over 70s income testing);
- combat fraud and abuse and curtail unintended use (eg tightening of unemployment and sole parent pension and benefit administration, increase general review activity, improve debt recovery procedures and computer matching of data); and
- more efficient administration at no cost to recipients (eg direct credits).

These measures have contributed to the capacity to increase assistance to those in greatest need including:

- considerable increases in unemployment benefit rates;
- increased assistance for children in low income families and those renting privately;
- a change in the focus of health/welfare services for the aged from an undue reliance on institutional care (primarily in nursing homes) to home and community care; and
- a commitment to the provision of an additional 20 000 child care places through the Children's Services Program and better targeting of the child care subsidy arrangements.

These efforts to increase the quality of social security and welfare expenditure have been continued in this budget. Further measures have been taken to tighten the administration of income support payments to ensure that benefits are directed to those most in need and to encourage recipients to find employment.

These measures, some of which were announced in the May Statement, have enabled the Government to significantly enhance assistance for low income families.

As part of its 1987 election policy speech the Government announced its intention to restructure income support for families with children and phase in a new program of income tested assistance for families. This program of assistance will be progressively introduced from December 1987. It will initially comprise:

- an increase in the rates of additional pension/benefit from \$17 to \$22 per week for dependent children aged 12 years or less and from \$17 to \$28 per week for children aged 13, 14 and 15 years;
- replacement of family income supplement by the new family allowance supplement to be paid at the higher rates equivalent to additional pension/benefit;
- an increase in the income test threshold for family allowance supplement payments to non pensioner/beneficiary recipients from \$257 to \$300 a week for one child (with an additional \$12 a week disregard for each additional child);
- the direction of child payments to the parent primarily responsible for the care of children (usually the mother);
- the extension of rent assistance of up to \$15 a week to family allowance supplement recipients and the extension of rent assistance to all beneficiaries with dependent children payable without the need for a six month waiting period;

- replacement of the two tiered handicapped child's allowance with a child disability allowance at a higher rate of \$112 a month, free of income test, for all severely, and marginally less than severely, disabled children; and
- replacement of eligibility for the dependant's allowance under AUSTUDY, ABSEC and ABSTUDY with eligibility for the family allowance supplement. (This measure is expected to increase family allowance supplement outlays by \$3.8m in 1987-88 and \$12.5m in 1988-89 with similar offsetting savings to education outlays).

This package of initiatives is expected to increase outlays across a range of pensions and benefits by \$239.9m in 1987-88 and \$489.8m in 1988-89. Further information on these initiatives can be found under relevant sections below.

In the May Statement the Government announced a large number of changes to improve administration, strengthen eligibility criteria and counter fraud and abuse in the payment of Commonwealth income support payments.

Some of these measures are specific to particular client groups and are described in relevant parts of the sections below. Those that have general application include:

- the strengthening of residency requirements for eligibility of temporary entrants and prohibited non-citizens to benefits;
- the preclusion of child payments where the child has not yet been brought to Australia;
- the imposition of an administration charge on overpayments not repaid within three months;
- an increase in debt recovery powers;
- an increase by 1% (to 11%) in the withholding rate applied to recover overpayments from continuing income support payments;
- a higher level of recovery activity by the deployment of specialist staff;
- the introduction of provisions requiring ex-clients and third parties to provide greater information in respect of the financial circumstances of ex-clients with outstanding debts;
- the greater use of the records of the Australian Taxation Office and the education records of the Department of Employment, Education and Training to identify overpayments and fraudulent behaviour;
- the introduction of a computer assisted decision making package to ensure consistency and improve initial determination of eligibility;
- the introduction of provisions to allow access on request to external (non-government) records pertaining to a client's financial circumstances; and
- the standardisation across benefits of arrears entitlements following delayed application for assistance or a successful appeal.

May Statement initiatives affecting assistance other than income support payments are described in relevant parts of the section below.

In this Budget the Government is announcing a number of additional measures to complement and strengthen the above May Statement measures. Again, some of these measures are specific to particular client groups and are described in relevant sections below. Those that apply to a number of income support payments include:

- a tightening of the definition of income to ensure that where an investment produces a deferred income type return, the income from such investments purchased after 1 January 1988 is accrued on a regular basis throughout the life of the investment;

- a tightening of the disposal of property provisions in the assets test and the introduction of a formal deeming schedule into the assets test hardship provisions; and

- a further 3% increase in the withholding rate (to 14%) to be applied to recover overpayments from continuing income support payments (initially increased from 10% to 11% in the May Statement—see above).

The Government has also decided to provide additional assistance to a range of income support recipients through the introduction of the following measures:

- from 1 November 1987 a system of earnings credits will be introduced to allow age, service, invalid, wife and widow pensioners and supporting parent beneficiaries to earn a limited amount over a short period without having their pension reduced or losing their fringe benefit entitlement. A maximum credit of \$1000 will apply. This initiative is expected to increase outlays on a range of pensions and benefits (including service pensions) by \$3.4m in 1987-88 and \$4.6m in 1988-89;
- from 1 January 1988 pensioner health benefit cardholders will be permitted to retain their fringe benefits for a period of three months if their private income rises by no more than 25% above the current income limits—expected to increase outlays across a range of departments and programs by \$0.3m in 1987-88 and \$0.6m in 1988-89;
- from 1 February 1988 beneficiary couples who are separated indefinitely by ill health will be paid at the higher single rate of benefit on a similar basis to that currently available to pensioners—expected to increase outlays on a range of benefits by \$0.2m in 1987-88 and \$0.4m in 1988-89; and
- from 1 February 1988 carer's pension will be extended to persons who are not close relatives of, but who are providing constant care and attention to, severely physically or mentally disabled age or invalid pensioners living in the same home—expected to increase outlays by \$0.1m in 1987-88 and \$0.2m in 1988-89.

On 1 March 1988 a new child maintenance scheme will commence. A key objective of the Government in implementing this scheme is to ensure parents continue to provide financial support for their children following the breakdown of marriage.

The initial stage of the scheme involves the establishment of a Child Support Agency (CSA) under the control of the Commissioner of Taxation to collect child maintenance orders, the level of which will continue to be determined by the Family Court. New legislative guidelines on maintenance will be included in the *Family Law Act* to encourage the Courts to increase the general level of maintenance support awarded. (In the subsequent stage of the scheme the level of child support will be calculated using a legislative formula with right of appeal to the Family Court.)

- The scheme will provide for the collection of maintenance for children of marriages that dissolve after the introduction of the scheme as well as for the children of sole parent pensioners and beneficiaries who separated prior to the scheme and who have an existing maintenance order which would effect pension entitlement through the imposition of the income test.
- The Child Support Agency will be responsible for the collection of maintenance payments from non-custodial parents with PAYE taxpayers having

contributions deducted from their wages. The self employed will make monthly payments to the agency.

- Maintenance payments will be distributed to custodial parents by the Department of Social Security. Where the custodial parent is in receipt of Commonwealth income support, pension entitlement will be subject to a separate income test. The test will, after a free area of \$15 a week for the first child and an additional \$5 for each subsequent child, reduce pension entitlement by 60 cents for each dollar of maintenance received. The income test is expected to reduce outlays on widow's pension and supporting parent's benefits by \$27m in 1987-88 and \$145m in 1988-89.

To ensure that existing maintenance recipients are not disadvantaged by these initiatives the Government has decided to protect custodial parents receiving maintenance before 15 September 1987 from an undue decline in income via the introduction of the separate income test on maintenance payments. This protection provision is expected to reduce the above savings on sole parent pension outlays by \$3m in 1987-88 and \$6m in 1988-89.

4.1 ASSISTANCE TO THE AGED

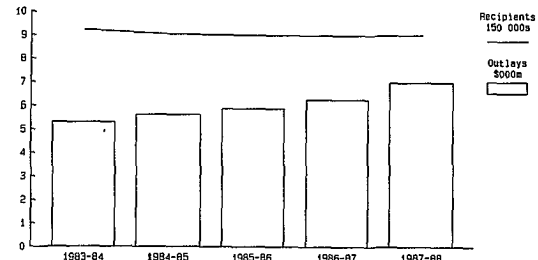
	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Age Pensions and Allowances	5 897.2	6 257.1	6 980.5	723.3	11.6
Aged Persons' Homes and Hostels	36.8	49.9	65.3	15.4	30.9
Home and Community Care	70.3	104.8	116.2	11.4	10.8
Hostel Care Subsidies	59.0	67.0	92.8	25.8	38.5
Other	0.2	0.2	—	-0.2	-100.0
Total	6 063.4	6 479.1	7 254.8	775.7	12.0

Age Pensions and Allowances

Outlays on age pensions and allowances represent 30.9% of total social security and welfare outlays and 35% of the total functional increase.

The following chart shows the movement in outlays on age pensions between 1983-84 and 1987-88 together with the movement in age pensioner numbers over the same period.

CHART 4. AGE PENSIONS
NUMBER OF RECIPIENTS (AT 30 JUNE) AND OUTLAYS
1983-84 TO 1987-88



While outlays on age pensions accounts for 30.9% of social security and welfare outlays they account for only 26.8% of total growth over the five years. The major factor influencing growth in outlays over the five year period has been twice yearly automatic indexation. The number of people expected to be on age pensions at 30 June 1988 is less than at 30 June 1983, partly because of the tightening of pension means test arrangements—the introduction of the over 70s income test from November 1983 and the assets testing of pensioners from March 1985—and the eligibility of many for service pension in lieu of age pension. Another factor contributing to the relatively slow growth in age pension outlays over the five year period has been the increasing relative means of those reaching age pension age.

The number of age pensioners is expected to rise from 1 347 000 at 30 June 1987 to 1 350 000 at 30 June 1988, an increase of 0.2%.

Age pensions are payable to women aged 60 years and over and to men aged 65 years and over. Claimants must satisfy residency requirements and the pension is subject to income and assets tests.

From July 1987, the amount of income a pensioner is able to earn before the pension begins to be reduced under the income test was increased from \$30 to \$40 per week for single persons, from \$50 to \$70 per week for married couples with the addition for each child increased from \$6 to \$12 per week. Under the assets test, for single homeowners the principal residence and the first \$83 250 of other assets is exempt. For single non-homeowners, the first \$143 250 is exempt. The corresponding figures for pensioner couples are \$118 500 and \$178 500 respectively. The maximum rate of pension is reduced at the rate of \$20 per week for each additional \$10 000 of assets above these amounts. These assets test limits are increased in June each year in line with the movements in the Consumer Price Index between the preceding December quarters.

The following payments may be made in association with the age pension:

- *Wife's pension*, payable to the wife of an age (or invalid or service) pensioner who does not receive another pension in her own right;
- *Carer's pension*, payable to a person caring at home on a long term basis for a severely handicapped age (or invalid) pensioner spouse or near relative (from 1 February 1988 carer's pension will be available to non relatives providing constant care);
- *Additional pension for children*, available to pensioners with children under 16 and at a reduced rate, dependent full-time students aged 16 to 24;
- *Mother's/guardian's allowance*, payable to single pensioners with children or dependent full time students aged 16 to 24;
- *Rent assistance*, available to pensioners who pay rent or board and lodging to landlords other than State housing authorities; and
- *Remote area allowance*, payable to pensioners living in Income Tax Zone A.

Most of these payments are also made in association with service, invalid and widow's pensions, supporting parent's benefits, unemployment, sickness and special benefits, sheltered employment allowance and rehabilitation allowance.

The current maximum weekly rates of pension and additional payments are set out below. Those rates apply to age, service, invalid and widow's pensions, supporting parent's benefits and sheltered employment and rehabilitation allowances.

Pensions and Additional Payments	Current Maximum Rate
	\$ per week
Pensions	
Single rate of pension	112.15
Married rate of pension (each person)	93.50
Additional Payments	
Additional pension for each child (a) (b)	17.00
Mother's/guardian's allowance	12.00
Rent assistance	15.00

- (a) To be increased in line with the family allowance supplement from 24 December 1987 (see below for new rates for under 16 year olds).
- (b) For student children 16 years and over receiving AUSTUDY \$14 per week is payable until January 1988 and \$5 thereafter. For student children 16 years and over not receiving AUSTUDY the \$17 per week rate will be maintained throughout 1987-88.

To provide for movements in the cost of living the basic rates of pension will be adjusted in December 1987 by the percentage increase in the CPI for the six months to June 1987, and in June 1988 by the percentage increase in the CPI for the six months to December 1987.

As part of the families package (see above) additional pension for children under 16 years of age will be increased in line with the new family allowance supplement from 24 December 1987. The rate will rise by \$5 per week for each child with a further increase of \$6 per week payable for each child aged 13 to 15 years. These increases are estimated to increase age pension outlays by \$1.2m in 1987-88 and \$2.9m in 1988-89.

In the May Statement the Government announced improved assessment procedures for both the Departments of Social Security and Veterans' Affairs in relation to complex investment products. These measures will improve the integrity of the income test and are expected to result in savings in age pension outlays of \$10.4m in 1987-88 and \$17.6m in 1988-89. Additional savings of \$2.8m in 1987-88 and \$5.4m in 1988-89 will accrue to other pension and benefit outlays, including service pension outlays.

The Government also announced from late June 1987 the abolition of a savings clause whereby some tenants renting through State housing authorities could still receive rent assistance and thus receive a larger subsidy than those pensioners and beneficiaries in the private rental market. This measure is expected to result in savings on age pension outlays of \$5.7m in 1987-88 and \$4.4m in 1988-89. Additional savings of \$4.7m in 1987-88 and \$3.7m in 1988-89 will accrue to other pension and benefit outlays, including service pension outlays.

In addition, the Government announced that from October 1987 carer's pension will not, in future, be payable overseas except where such eligibility is provided for under a formal reciprocal agreement. (Those in receipt at May 1987 will have their entitlement preserved until 13 May 1988.)

Aged Persons' Homes and Hostels

Under the *Aged or Disabled Persons Homes Act 1954*, the Commonwealth assists in the provision of accommodation for aged or disabled people aged 16 years or over. Generally grants are made on a \$2 for \$1 basis up to certain maximum limits to religious, charitable and other approved organisations and local government

bodies to meet the cost of erection, extension or purchase of facilities. The maximum subsidies are reviewed periodically and, for approved projects commencing after 19 August 1986, the subsidy limits are \$20 200 for single and \$23 450 for double accommodation units, with a maximum subsidy of \$1920 per unit for land costs.

To continue implementation of the *Nursing Homes and Hostels Review* recommendations the Government has further increased capital funding for residential care to expand hostel accommodation for the aged. This expansion will be further assisted by the Government's decision, announced in May, to amend the capital funding arrangements under the Act to encourage new accommodation and approaches to funding, including provision for residents to contribute more to the capital costs of hostels. Expenditure under the Act is estimated at \$64.7m in 1987-88—an increase of \$11.2m on 1986-87. Of this amount, \$14.1m is for nursing home accommodation and appears under the function 3. *Health (3.A Nursing Home Subsidies and Domiciliary Care Services)*. To overcome the difficulties faced by financially disadvantaged groups in complying with matching arrangements provision has been made for up to 100% capital funding for these groups.

\$0.8m will be spent on aged accommodation projects approved under the *Aged or Disabled Persons Hostels Act 1972* which is a terminating program, with no new approvals.

Total outlays on the purchase or construction of aged persons' accommodation is expected to be \$65.5m, an increase of \$9.7m or 18.1%.

Grants for pensioner accommodation under housing arrangements with the States are included under the function 5. *Housing and Community Amenities, nec.*

As part of its strategy to implement the *Nursing Homes and Hostels Review* recommendations the Government is expanding geriatric assessment services. An expanded network of 63 assessment teams will assist in better targeting the use of nursing homes and hostels and ensure that clients are aware of the full range of available residential and community care services. Estimated outlays on geriatric assessment in 1987-88 is \$7.3m, an increase of \$1.1m, which includes provision for up to 9 new assessment teams and expansion of some of the 54 existing teams.

As part of its *Nursing Homes and Hostels Review* implementation strategy, the Government has decided to increase funding for services to respond to the residential needs of special groups. \$6.4m has been allocated for 1987-88, an increase of \$3.9m or 156% on 1986-87 outlays of \$2.5m. This includes \$4.6m for supplementary services, including care for dementia sufferers, and \$1.5m for special needs groups such as Aborigines and the ethnic aged.

Home and Community Care

Under the *Home and Community Care Act 1985* the Commonwealth, in conjunction with the States, provides a comprehensive range of integrated home and community care (HACC) services for frail or at risk aged people and younger disabled people to help them to continue to live in their own homes.

The Act subsumes services previously provided under the *Delivered Meals Subsidy Act 1970*, *States Grants (Paramedical Services) Act 1969*, *States Grants (Home Care) Act 1969* and the *Home Nursing Subsidy Act 1956*. Outlays under this last Act and outlays on home nursing services under HACC are included in the function 3. *Health*.

Funding in 1987-88 will be cost-shared with the States based upon levels of expenditure in 1986-87. The Commonwealth is providing \$176.9m, an increase of \$41.5m reflecting anticipated levels of State expenditure in 1987-88. This amount also includes \$16.2m for the agreed roll over of unspent \$2 for \$1 moneys available in 1986-87 and \$5m in new unmatched funds to test new and innovative methods of delivering services (to be particularly targeted at those people most at risk of institutionalisation). Of the \$176.9m to be provided in 1987-88 under HACC, \$61.5m appears under the function 3. *Health (3.A Nursing Home Subsidies and Domiciliary Care Services)*.

Hostel Care Subsidies

Under the *Aged or Disabled Persons Homes Act 1954*, the Commonwealth pays personal, hostel and respite care subsidies to eligible organisations providing hostel type accommodation for aged or disabled people. These subsidies are automatically indexed in October/November each year.

The Hostel Care Subsidy is paid to residents of eligible hostels to assist organisations to provide hostel services such as meals, laundry, cleaning and social activities. The current subsidy rate of \$1.95 per day will be increased in October 1987.

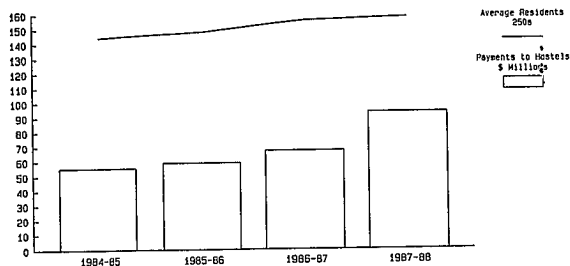
The personal care subsidy is provided to assist organisations to provide a higher level of care for more dependent residents. The current subsidy of \$11 per day will also be increased in October 1987. To further assist hostels to accommodate frail aged people who would otherwise be in more expensive nursing homes, the Government has decided that the personal care subsidy will be increased—in addition to normal indexation—by five annual real increases of \$1.50 per day, commencing in May 1988.

The respite care bed subsidy is provided to organisations to encourage provision of respite care beds in hostels for aged and disabled persons who temporarily cannot care for themselves or whose carers need short term relief. The current subsidy of \$7.50 per day will be increased in October 1987 to maintain its real value.

Outlays on all hostel care subsidies are estimated to total \$92.8m in 1987-88. This represents an increase of \$25.8m or 38.5% on 1986-87 outlays, and provides for an average of 38 320 subsidies in 1987-88, comprising 19 625 hostel care subsidies, 18 115 personal care subsidies and 580 respite care subsidies.

The following chart illustrates the movement in the average number of hostel subsidies paid and associated aggregate outlays over the period 1984-85 to 1987-88. The significant growth in expenditure since 1986 reflects the Government's decision in the 1986-87 Budget to provide automatic indexation of hostel subsidy levels, as well as a one-off increase in personal care subsidies of \$2.60 a day (to \$11.00 a day) from 6 May 1987.

CHART 5. HOSTELS BY RESIDENT AND AMOUNT



4.2 ASSISTANCE TO VETERANS AND THEIR DEPENDANTS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Disability Pensions and Allowances	957.3	1 007.8	1 119.0	111.3	11.0
Service Pensions	1 617.0	1 745.9	2 007.9	262.0	15.0
Other	0.1	0.1	0.1	..	-38.0
Total	2 574.3	2 753.8	3 127.0	373.2	13.6

Disability Pensions and Allowances

Outlays under this classification have risen from \$729m in 1983-84 to an estimated \$1119.0m in 1987-88. In that time numbers of beneficiaries of disability, dependant's and war widow's pensions will have fallen by 45 300 from 410 500 to an estimated 365 200 at 30 June 1988. The growth in outlays, despite this trend, has largely resulted from increased numbers of recipients in those categories being paid higher rates of pension—notably special rate (T and PI) pensioners and war widows. Indexation of benefits has also played a major role in the increase in outlays.

Of the estimated increase between 1986-87 and 1987-88 of \$111m or 11%, \$22m results from indexation increases in December 1987 and June 1988 and \$65.9m results from the full year effect of indexation during 1986-87. Other significant variations reflect increased numbers of war and defence widows (\$15.4m) partly offset by expected reductions in arrears payments (\$8m). In addition, there are 27 pension paydays during 1987-88 which will increase outlays by an estimated \$38.1m.

Disability pensions may be paid to eligible veterans with qualifying service who are suffering incapacity from an injury or disease which has been accepted as war caused, and to widows and dependants of veterans whose death was war caused.

The three main categories of disability pension can be described as follows:

- when the incapacity does not prevent employment the amount payable varies according to the assessed degree of incapacity from 10% to 100% of the maximum *General Rate*;

- the *Intermediate Rate* is payable to a veteran who can work only part time or intermittently and consequently suffers a loss of income; and
- the *Special Rate* is payable where a veteran is so incapacitated as to be unable to work for more than 8 hours per week.

Disability pension is not subject to personal income tax or an income or assets test.

A war or defence widow's pension is payable to the widow of a veteran whose death was war caused or who was eligible to receive a pension at the *Special Rate*. An orphan's pension is payable in respect of the veteran's children.

Various allowances provided to supplement the disability pension include:

- Temporary Totally Incapacitated (TTI) pension, available to a veteran who has been so classified;
- Temporary Incapacity Allowance, payable to veterans while undergoing hospitalisation and convalescence or treatment; and
- Loss of Earnings Allowance, paid to veterans who suffer loss of earnings during the investigation of a claim or while receiving medical treatment.

The current rates of pensions are shown in the following table:

DISABILITY PENSIONS	CURRENT RATE
	\$ per week
Special Rate	209.00
Intermediate Rate	143.90
General Rate (100%)	78.80
War and Defence Widow	124.15

At 30 June 1987 there were 375 112 veterans and veterans' dependants in receipt of pensions because of veterans' disabilities or war caused deaths. By June 1988 the number is estimated to fall to around 365 200. The following table shows numbers of recipients by category at 30 June 1987 and estimated numbers at 30 June 1988.

	At 30 June 1987	At 30 June 1988	Change
			%
Incapacitated veterans—			
Special rate	23 010	22 500	-2.2
Intermediate rate	916	890	-2.8
General rate—			
100%	22 468	23 200	3.3
10%-95%	122 863	121 200	-1.4
Dependants of incapacitated veterans	132 971	121 770	-8.4
War Widows (a)	72 884	75 650	3.8

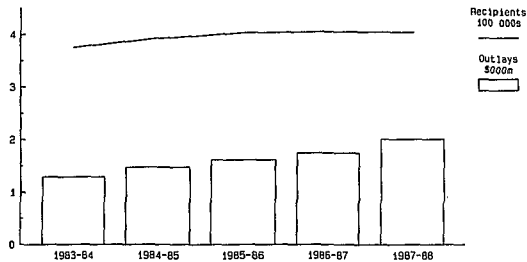
(a) Includes dependants of war widows.

Service Pensions

Between 1983-84 and 1987-88 service pension outlays are expected to increase by \$714m (55%) from \$1294m to \$2008m. This increase reflects automatic indexation of benefits and the increase in the eligible population as veterans of the Second World War reach retiring age. Numbers of recipients are expected to increase from 341 148 at 30 June 1983 to 400 000 at 30 June 1988. The number of pensioners peaked in 1986-87 (404 794 pensioners at June 1987). The decline is expected to continue so that by 30 June 1991 pensioner numbers are estimated to be 372 000.

The following chart shows the movement in outlays on service pensions between 1983-84 and 1987-88 together with the movement in service pensioner numbers over the same period.

CHART 6. SERVICE PENSIONS
NUMBER OF RECIPIENTS (AT 30 JUNE) AND OUTLAYS
1983-84 TO 1987-88



Of the increase in 1987-88 over 1986-87 of \$262m, \$45.3m results from indexation increases in December 1987 and June 1988 and \$140.1 results from the full year effect of indexation during 1986-87 offset by \$12.5m reflecting decreases in pensioner numbers and \$4.1m from the May Statement measure to increase activity to recover overpayments. In addition, there will be 27 pension paydays during 1987-88 which will increase outlays by an estimated \$67.2m.

Service pensions are payable to veterans who served in a theatre of war and have reached the age of 55 years (female) or 60 years (male) 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 age pensions, and are similarly indexed in line with movements in the CPI.

Service pensions are subject to the same income and assets test arrangements as social security pensions, except that any disability pension received is not regarded as income for service pension income test purposes.

Other

This amount consists of grants to veterans' associations.

4.3 ASSISTANCE TO THE HANDICAPPED

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Invalid Pensions and Allowances	1 673.5	1 912.2	2 154.2	242.1	12.7
Sheltered Employment Allowance	38.6	53.9	74.4	10.5	16.4
Mobility Allowance	6.0	6.9	7.6	0.7	10.3
Rehabilitation Allowance	25.9	25.4	27.4	2.0	7.8
Handicapped Child's Allowances (a)	31.2	29.1	43.3	14.2	48.9
Disability Services Program	110.2	127.1	150.9	23.8	18.7
Rehabilitation Services	40.6	53.5	48.4	-5.1	-9.5
Total	1 946.0	2 218.0	2 506.2	288.2	13.0

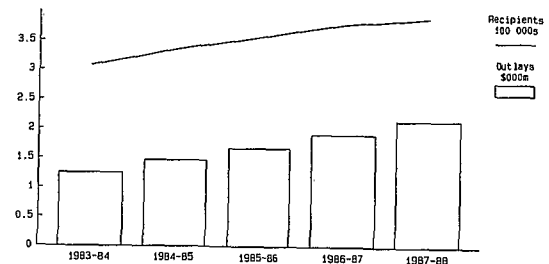
(a) To be replaced by the child disability allowance from 24 December 1987.

Invalid Pensions and Allowances

Outlays on invalid pensions and allowances represent 9.5% of total social security and welfare outlays and 11.7% of the total functional increase.

The following chart shows the movement in outlays on invalid pensions between 1983-84 and 1987-88 together with the movement in invalid pensioner numbers over the same period.

CHART 7. INVALID PENSIONS
NUMBER OF RECIPIENTS (AT 30 JUNE) AND OUTLAYS
1983-84 TO 1987-88



While outlays on invalid pensions are only 9.5% of social security and welfare outlays, they account for some 14.5% of the growth over the five years. Major factors influencing the growth in outlays over the five year period have been a relatively rapid rise in the number of pensioners and twice yearly automatic indexation.

There has been a number of factors contributing to the rapid growth in invalid pensioner numbers over recent years. One of the most significant has been the increasing recognition given to socio-economic factors, following on from decisions by the Administrative Appeals Tribunal and other appeal bodies. Accordingly, a number of claims have been determined with particular weight being given to socio-

economic factors which make it likely that the person would be unable to attract employment rather than whether the applicant's incapacity for work is primarily the result of a substantial mental or physical impairment.

Conscious of the rapid growth in numbers and of the need to ensure that invalid pensions are paid only to those genuinely incapacitated for work, the Government announced measures in the May Statement to restrict the acceptance of non-medical grounds (see further below).

The number of invalid pensioners is expected to remain fairly constant over the year. There were 379 000 invalid pension recipients at 30 June 1987.

Invalid pensions are payable to people aged 16 years or more who are assessed as permanently incapacitated for work (to the extent of not less than 85%) or are permanently blind. Invalid pensions are subject to the same income and assets tests as age pensions but these tests are not applied in the case of the permanently blind.

Invalid pension entitlements are the same as for age pensions. In addition, invalid pensioners undertaking training in approved activity therapy centres and adult training centres may receive an incentive allowance paid in lieu of and at the same rate as rent assistance.

In the May Statement the Government announced that restrictions would be placed on the acceptance of non medical grounds in determining eligibility for invalid pensions. From July 1987, grants of invalid pension will be made only where medical impairment constitutes the major part of the invalid pensioner's incapacity for work. This measure is expected to reduce the average number on invalid pension by 12 500 in 1987-88. However, of these some 10 000 are expected to become entitled to unemployment, sickness or special benefits (see below). This measure is expected to reduce invalid pension outlays by \$76.6m in 1987-88 and \$198.2m in 1988-89 (offset by increases in unemployment, sickness and special benefit outlays of \$55m in 1987-88 and \$155m in 1988-89).

In addition, from October 1987, selected invalid pensioners who have been in receipt of pension for 12 months will be personally interviewed at home. This additional review activity is intended to identify pensioners who through changed financial and domestic circumstances may no longer be eligible for pension and is expected to reduce invalid pension outlays by \$2.5m in 1987-88 and \$11m in 1988-89.

As part of the families package (already discussed) additional pension for children under 16 years of age will be increased in line with the new family allowance supplement from 24 December 1987. The rate will rise by \$5 a week for each child with a further \$6 a week payable for each child aged 13, 14 or 15 years. This increase is estimated to increase invalid pension outlays by \$12.3m in 1987-88 and \$27.1m in 1988-89.

Sheltered Employment Allowance

Sheltered employment allowance is payable to disabled people aged 16 years and over and below age pension age engaged in approved sheltered employment who would otherwise be qualified to receive an invalid pension. The rates of payment and associated allowances are the same as for invalid pensions and are subject to the same income and assets tests. A non-taxable incentive allowance is paid to recipients of sheltered employment allowance at the same rate of \$15 per week and in lieu of rent assistance.

Mobility Allowance

Severely disabled people aged 16 years to age pension age who are gainfully employed or undertaking vocational training and who, because of their disabilities, cannot use public transport without substantial assistance may be eligible for an allowance of \$11 a week.

Rehabilitation Allowance

Persons undertaking a rehabilitation program with the Commonwealth Rehabilitation Service and otherwise eligible for a social security pension or benefit can receive a non-taxable rehabilitation allowance equivalent to the invalid pension, subject to the same income and assets tests conditions. The allowance is paid during treatment or training and for up to six months thereafter.

Handicapped Child's Allowances

A non-taxable handicapped child's allowance of \$92 a month is payable to the parents or guardians of a severely handicapped child under the age of 16 years who needs and is receiving constant care and attention at home. The allowance is also payable to dependent full-time students aged 16-24 years who are not in receipt of certain other social security payments. Payments of up to a maximum of \$92 a month may be made for children who need marginally less care than severely handicapped children where the parents are in financial hardship.

As part of the families package (see above), the Government has decided that from December 1987 the handicapped child's allowance will be replaced by a uniform child disability allowance of \$112 a month. The new allowance will be free of income test and tax and will be paid in respect of all severely, or marginally less than severely, disabled children. This measure is expected to increase outlays on handicapped child's allowance/child disability allowance by \$11.7m in 1987-88 and \$20m in 1988-89.

Disability Services Program

On 5 June 1987 the new *Disability Services Act 1986* was proclaimed. The Act provides the legislative basis for funding provisions for people with disabilities. In this respect, it replaces the core funding provisions of the *Handicapped Persons Assistance Act 1974* which have been repealed. It also replaces certain sections of the *Social Security Act 1947* insofar as those sections related to the Rehabilitation Services Program.

The purpose of the Act is to enable people with disabilities to achieve their maximum potential. Principles and Objectives which elaborate on these objects have been gazetted by the Minister. The following classes of services have so far been approved under the Act: accommodation support, advocacy, competitive employment training and placement, independent living training, information, print disability, recreation, respite care and supported employment services. Additional service types can be approved if required.

The focus of funding and administration under the Act is towards the achievement of positive outcomes for people with disabilities. To qualify for assistance services must be predominantly for persons who have a disability that is permanent or likely to be permanent and results in a substantially reduced capacity for communication, learning or mobility and the need for ongoing support services.

A five year transition period has been set out for services to become eligible services under the Act. In the meantime, organisations are being funded to maintain existing services. In addition, from 1 January 1988, funds are available to upgrade services in line with the Principles and Objectives. \$6m has been provided for this purpose in 1987-88.

Some 1130 services were funded under the *Handicapped Persons Assistance Act 1974* in 1986-87. The total number of people receiving services in September 1986 was approximately 29 000.

A total of 84 new services have been approved for funding at a cost of \$6.5m in 1987-88. In addition, 30 projects have been approved for upgrading 'prescribed services' at a cost of \$3.2m in 1987-88. Recurrent funding of other 'prescribed services' is estimated at \$108m in 1987-88.

Revised funding arrangements for the Disability Services Program are at present being developed by the Department of Community Services and Health and are expected to be introduced as from 1 July 1988. Arrangements for financial assistance in 1987-88 are therefore of an interim nature only.

\$4m will be provided in 1987-88 under the Attendant Care segment of the Disability Services Program to assist around 180 severely physically disabled people to move from nursing homes to the community.

The Handicapped Children's Benefit will continue to be paid to organisations approved for such payment under the *Handicapped Persons Assistance Act 1974* for the provision of residential accommodation for children up to the age of 16 years of age. The rate of benefit continues at \$5 per day per child.

\$10m has been provided to continue demonstration projects commenced in earlier years through 1987-88. During the year a full evaluation of each project will take place.

Total outlays under the Disability Services Program are estimated to be \$150.9m in 1987-88, an increase of \$23.8m or 18.7% over 1986-87.

Rehabilitation Services

The Government's rehabilitation services provide treatment and training programs to certain people with disabilities who are assessed as likely to make substantial progress towards independence or employment.

The regionalisation of rehabilitation services has proceeded in 1986-87 with the sale of the seven large metropolitan centres. Revenue from the sales of \$39.2m in 1986-87 and \$4.0m in 1987-88 appears in *8E Administrative Services*. In their place some 32 additional services opened in regional locations across Australia. At 30 June 1987 there were 64 established units, and this is expected to grow to 77 by 30 June 1988.

In addition, the Commonwealth operates seven Work Preparation Programs in five State capitals to assist mildly intellectually disabled young people to obtain employment, which are being aligned with the regional network.

The operations of the rehabilitation service were transferred to a separate Trust Account with effect from 1 July 1987. Among other things this arrangement will provide incentives to improve cost recovery procedures by returning revenue directly to the account. The rehabilitation service is expected to meet \$6.1m of its operating costs from revenue in 1987-88 (\$3.7m in 1986-87). An amount of \$45.5m is provided for payment to the Rehabilitation Trust Account in 1987-88 (compared with outlays

of \$45.9m in 1986-87). This comprises running costs of \$35.9m and 967 staff (\$36.9m and 982 staff in 1986-87) and \$9.6m for other costs (\$9.1m in 1986-87). In addition, \$2.4m and 82 staff is provided for Departmental administration of the rehabilitation program (\$2.6m and 101 staff in 1986-87). The payment to the Trust Account includes \$3.7m for the payment of training and living away from home allowances to eligible persons undergoing rehabilitation in 1987-88—these allowances previously appeared under the heading 'Rehabilitation Allowance' above.

The Government has reviewed the arrangements for recovering costs from compensable rehabilitation clients. These clients have in the past been charged at a rate less than the actual costs involved in their treatment. The Government has decided to move to a full cost recovery basis for these clients. At the same time the service will maintain a commitment to provide assistance to pensioners and beneficiaries and other people who cannot pay.

Because of the major structural changes to the Rehabilitation Service over the last year there was a significant reduction in the number of completions of client services from 8300 in 1985-86 to 6300 in 1986-87, at an average service period of ten months. This situation is expected to be reversed during 1987-88 with 8400 expected completions with an expected reduction in average duration.

Provision has been made for the Commonwealth to continue to share operating costs of facilities in Newcastle, Bathurst and Darwin, in conjunction with facilities operated by the State and Territory Health Authorities. The Commonwealth contribution toward the cost of the Douglas Parker Rehabilitation Centre in Hobart (\$1.8m) has been incorporated into the Medicare grant to Tasmania from 1 July 1987 (see 3.2 Health—Hospital Services and Benefits).

4.4 ASSISTANCE TO WIDOWS AND SOLE PARENTS

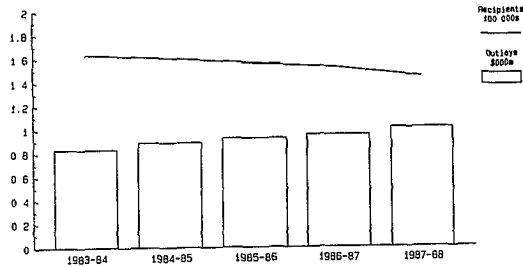
	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Widow's Pensions and Allowances	924.5	952.7	1 011.5	58.9	6.2
Supporting Parent's Benefits and Allowances	1 238.0	1 366.7	1 509.8	143.0	10.5
Total	2 162.5	2 319.4	2 521.3	201.9	8.7

Widow's Pensions and Allowances

Outlays on widow's pensions and allowances represent 4.5% of total social security and welfare outlays and 2.9% of the total functional increase.

The following chart shows the movement in outlays on widow's pensions between 1983-84 and 1987-88 together with the movement in widow pensioner numbers over the same period.

CHART 8. WIDOW'S PENSIONS
NUMBER OF RECIPIENTS (AT 30 JUNE) AND OUTLAYS
1983-84 TO 1987-88



The three classes of widows who receive pension are:

- Class A widow—a widow with at least one qualifying child in her care;
- Class B widow—a widow without a qualifying child and who is at least 50 years of age (or at least 45 years of age if her Class A pension ceased after she reached that age because she no longer had a qualifying child in her care); and
- Class C widow—a widow under 50 years of age without a qualifying child who is in necessitous circumstances within 26 weeks of her husband's death.

In all cases, the term 'widow' includes a woman who was the de facto wife of a man for at least three years immediately before his death. For Class A and B, it also includes a wife who has been deserted for at least six months, a divorced woman or a woman whose husband has been imprisoned for six months or more.

Widow's pensions are payable at the same rate as age pensions and the same additional payments are available. Widow's pensions are payable subject to the same income and assets tests as age pensions. If widowhood occurs outside Australia, a residency qualification applies.

While outlays on widow's pensions account for 4.5% of social security and welfare outlays they account for only 2.9% of the growth over the five years. The major factor influencing the growth in outlays over the five year period has been twice yearly automatic indexation. This has, however, been partly offset by an overall decline in the number of recipients. In particular, while the number of Class B/C widow pensioners has been relatively static over the period, the number on Class A widow's pensions has fallen each year. However, this fall in Class A recipients has been more than offset by an increase in the number of supporting parent beneficiaries (see further below).

At 30 June 1987 there were 70 000 Class A widows and 82 000 Class B and Class C widows in receipt of pensions. It is estimated that the number of Class A widow pensioners will fall by 14 000 to 56 000 during 1987-88 and the number of Class B and Class C widow pensioners will rise by 6 000 to 88 000.

In the May Statement the Government announced that from 1 July 1987 Class B widow's pension would be progressively phased out. Existing recipients at 1 July 1987 are to be fully protected. In addition, protection will be given to:

- women who on 1 July 1987 were aged 45 or over and who subsequently receive Class A widow's pension or supporting parent's benefit; and
- women 50 and over at 1 July 1987 who become widows.

These protection provisions mean that in 15 years time there will be no new grants of Class B widow's pension. This decision is estimated to reduce outlays on widow's pension by \$0.3m in 1987-88 and \$1.6m in 1988-89.

As part of the families package additional pension for children will be increased in line with the new family allowance supplement from December 1987. The rate will rise by \$5 a week for each child with an additional \$6 a week payable for each child aged 13, 14 or 15 years. This increase is estimated to increase widow pension outlays by \$18.3m in 1987-88 and \$37.2m in 1988-89.

A number of additional changes to widow pension eligibility were announced in the May Statement but these are described below.

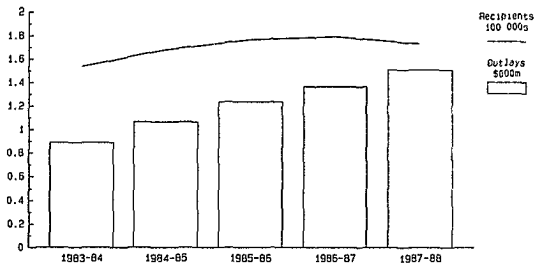
Supporting Parent's Benefits and Allowances

Supporting parent's benefits are paid to sole parents who care for at least one child under 16 years of age. The benefit may also be paid to a married person with dependent children whose spouse is away from home indefinitely through ill health. The benefit and associated allowances are payable at the same rate as age pensions and allowances and are subject to the same income and assets tests as age pension. There is also a residency qualification.

Outlays on supporting parent's benefits and allowances represent 6.7% of total social security and welfare outlays and 6.9% of the total functional increase.

The following chart shows the growth in outlays on supporting parent's benefit between 1983-84 and 1987-88 together with the growth in supporting parent beneficiary numbers over the same period.

CHART 9. SUPPORTING PARENT BENEFICIARIES
NUMBER OF RECIPIENTS (AT 30 JUNE) AND OUTLAYS
1983-84 TO 1987-88



While expenditure on supporting parent's benefits accounts for only 6.7% of social security and welfare outlays it accounts for 10% of the growth over the five years. Major factors influencing the growth in outlays over the five year period have been a relatively rapid growth in the number of beneficiaries and twice yearly automatic indexation. As mentioned above, part of the growth in numbers of beneficiaries can be attributed to a fall in the numbers of Class A widow pensioners.

Conscious of the rapid growth in numbers, the need to encourage transition to the labour force and the need to ensure that sole parent pensions are only paid to those in genuine need the Government introduced measures in the 1986-87 Budget to improve the administration of sole parent benefits through more regular reporting, interviews and counselling.

In the May Statement the Government decided that from September 1987 the age at which a child ceases to qualify his or her sole parent for income support would be reduced to 16 years. Previously the definition of a qualifying child also included dependent full-time students aged 16 to 24 years inclusive who were not in receipt of another pension or benefit. The Government's decision reflects the view that children 16 years and over do not present a serious impediment to their parent's employment. It is also consistent with the Government's achievements in increasing and rationalising assistance to students aged 16 or more. This change will mean that many sole parents who do not have the responsibility of caring for school aged children will be eligible for unemployment benefits (see further below) and if they take up this option will be expected to meet the "work test" and actively seek work. (To assist these and other sole parents to re-enter the workforce, additional training places and child care assistance will be provided.) This measure is expected to reduce outlays on widow's pensions and supporting parent's benefits by \$7.5m in 1987-88 and \$17m in 1988-89.

In this Budget the Government has decided to refine this measure by:

- protecting existing pension and education allowance entitlements of sole parent pensioners in approved full-time education at 1 September 1987 for the duration of their current courses—expected to reduce the above mentioned savings on widow's pensions and supporting parent's benefits by \$0.1m in 1987-88; and
- protecting, until December 1988, pensioner fringe benefit entitlements of sole parents losing eligibility for sole parent pension between 1 September and 31 December 1987 as a result of the measure—expected to reduce the above mentioned savings on widow's pensions and supporting parent's benefits by \$1m in 1987-88 and \$0.4m in 1988-89.

In addition, in the May Statement the Government decided to take a number of measures designed to strengthen eligibility criteria, improve administration and counter abuse of sole parent pension provisions. These include the following measures for each of which the expected resultant reductions in widow's pensions and supporting parent's benefit outlays in 1987-88 and 1988-89 respectively are shown:

- the deployment of six regional review teams specifically to review eligibility of high risk categories of sole parent pensioners (to be deployed from September 1987)—\$7.9m; \$16.9m;
- strengthening the income test provisions so that regular payments of child maintenance which previously fell outside the definition of income, including indirect and in-kind payments, are taken into account (from March 1988)—\$5m; \$9m;

- providing for the cessation of pension where the pensioner continues to co-reside with a former partner after 6 months (12 months where it would otherwise compromise action to retain the matrimonial home) (from July 1987)—\$1.7m; \$3m; and
- requiring proof of separation on application for a sole parent pension (from October 1987)—\$1.5m; \$6.5m.

As part of the families package additional benefit for children will be increased in line with the new family allowance supplement from December 1987. The rate will rise by \$5 a week for each child with a further \$6 a week payable for each child aged 13, 14 or 15 years. This increase is estimated to increase supporting parent benefit outlays by \$51.9m in 1987-88 and \$98.2m in 1988-89.

The number of supporting parent beneficiaries is expected to fall from 179 000 at 30 June 1987 to 173 000 at 30 June 1988, a decrease of 3.4%.

4.5 ASSISTANCE TO FAMILIES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Family Allowances	1 537.6	1 381.0	1 353.6	-27.4	-2.0
Family Income Supplement (a)	49.4	60.6	187.7	127.2	210.9
Children's Services	150.1	181.3	244.2	63.0	34.7
Orphan's Pension	3.9	3.1	2.9	-0.2	-5.6
Other	7.9	8.4	9.0	0.6	7.2
Total	1 748.9	1 634.3	1 797.5	163.2	10.0

(a) To be subsumed into the new family allowance supplement from 24 December 1987.

Family Allowances

Outlays on family allowances represent 6% of total social security and welfare outlays.

The following chart shows the movement in outlays on family allowances between 1983-84 and 1987-88 together with the movement in family allowance numbers over the same period.

CHART 10. FAMILY ALLOWANCES
NUMBER OF CHILDREN (AT 30 JUNE) AND OUTLAYS
1983-84 TO 1987-88



Expenditure on family allowances as a proportion of social security and welfare outlays has decreased from 9.2% to 6% over the five years. The decrease in outlays arises from declining numbers of eligible children due to a number of factors including:

- demographic trends;
- the decision that from November 1985 family allowances would not be paid in respect of dependent students aged 18 and over (except in cases of specific need);
- the decision that from 1 January 1986 family allowances would generally not be paid in respect of dependent students receiving Commonwealth education assistance (education allowances were increased more than commensurately); and
- the decision that from December 1986, family allowances would be subject to an income test for other 16 and 17 year old students. (This will be subsumed into the more general income test announced in the May Statement—see below.)

The number of children for whom family allowance is paid is expected to decline from 4 125 000 at 30 June 1987 to 3 800 000 at 30 June 1988, a fall of 7.9%.

The monthly rates of family allowance are:

FAMILY ALLOWANCE RATES	\$ per month
First child	22.80
Second child (additional)	32.55
Third child (additional)	39.00
Fourth child (additional)	39.00
Fifth and later children (additional)	45.55
Child in an institution	39.00

In the May Statement the Government announced that family allowances will be subject to a general income test. The test, which will affect payments after November 1987, will be applied to joint parental income with a threshold set at \$50 000 a year (plus \$2500 a year for the second and each subsequent eligible child including student children under 18 years of age). Families with incomes above the threshold will have family allowances withdrawn at the rate of 25 cents in the dollar for each dollar by which income exceeds the applicable threshold. A family with two eligible children will receive no payment once the joint income of the parents exceeds \$55 156 a year. The test will be usually applied to the joint taxable income in the previous financial year. The threshold will be increased annually from January 1989 in accordance with the movement in the CPI between the two immediately preceding June quarters. The separate income test on family allowances for 16 and 17 year olds introduced in the last Budget will be discontinued and replaced by this new test. This initiative was expected to reduce outlays on family allowances by \$71m in 1987-88 and \$95m in 1988-89 but due to a delay in the start date the 1987-88 savings are now expected to be reduced by \$8m to \$63m.

Family Income Supplement

The family income supplement (FIS) currently provides assistance to low income families in the form of income-tested, non-taxable payments of up to \$17 a week for each child. FIS is payable subject to residency requirements and where eligibility for family allowance exists. Parents or guardians receiving any Commonwealth pension, benefit or allowance that provides for additional payments for children are generally not eligible for FIS. To be eligible a child must be under the age of 16 or, if a student under the age of 25, not be in receipt of AUSTUDY or other income tested education allowances.

As part of the families package the Government decided that from December 1987 the family income supplement would be replaced by the new family allowance supplement (FAS). The rate of FAS will be \$22 a week in respect of children aged 12 years or less and \$28 a week in respect of children aged 13, 14 or 15 years. (Dependent full time students 16 years or over not in receipt of AUSTUDY will continue to qualify for a rate of \$17 a week.) The Government also decided that the income test threshold for the family allowance supplement would increase from \$257 to \$300 a week for one child (with an additional \$12 a week disregard for each additional child). In addition, the Government decided to extend rent assistance of up to \$15 a week to FAS recipients subject to the existing rent test with the rent assistance being withdrawn as part of the FAS entitlement under the FAS income test. Payments of FAS will be directed to the parent primarily responsible for the care of the children (usually the mother). These initiatives are expected to increase outlays on FIS/FAS by \$99.4m in 1987-88 and \$224m in 1988-89.

At 30 June 1987 there were 32 800 families (with 93 000 children) in receipt of FIS. The number of families in receipt of FAS is estimated to grow to 200 000 in 1987-88 with a commensurate increase in the number of children (up 347 000 to 440 000). The expected increase in the number of recipients reflects the higher FAS threshold and higher take up resulting from the use of the family allowance income test questionnaire to invite low income families to apply for family income supplement. The questionnaire was mailed to all family allowance recipients from July 1987 and is expected to increase the number of children for whom FIS/FAS is paid by 77 000. The expected effect of this mail out will be to increase outlays on FIS/FAS by \$17.2m in 1987-88 and \$25m in 1988-89. The balance of the above increase is due to the increase in the numbers becoming eligible under the enhanced rates of payment and thresholds.

Children's Services

The Commonwealth provides capital and recurrent assistance for a wide range of services for children and their families. These include early childhood services such as day care centres, family day care and occasional care. Services for school aged children include before and after school care and vacation care. Other assistance provided includes special services for Aboriginal and migrant children, children with disabilities and children in remote areas.

Services providing day care for pre-school aged children are, as a condition of funding, required to implement an income test and fee scale within approved guidelines so that eligibility for a fee rebate funded by the Commonwealth can be determined.

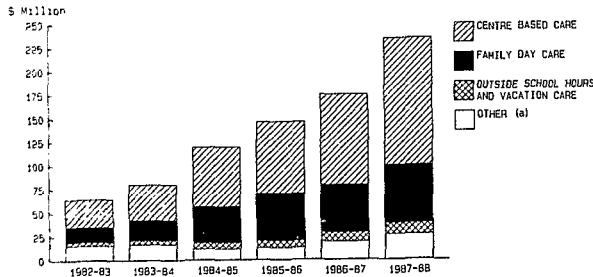
As announced by the Government in the May Statement:

- the minimum fee for long day care fee relief recipients was increased by \$1 a week from 1 July 1987 and will be indexed annually thereafter, and the fee relief withdrawal rates were increased to 17 cents per dollar for families with one child in care and 23 cents per dollar for families with two or more children in care;
- as part of its commitment to establish an additional 20 000 child care places the Government has decided to change the mix of places from that originally anticipated. 600 Commonwealth/State centre based places and 600 occasional care places will be exchanged for 1200 family day care places; and
- in addition, some \$18 million of the expenditure on establishment of 20 000 new places will be deferred to 1988-89. (However, by 30 June 1988 all of the proposed 20 000 new child care places will have been approved and will either be operational or under construction.)

Outlays on children's services in 1986-87 were \$181.3m. Outlays on approved services reflecting these decisions are estimated to rise to \$244.2m. This includes \$55.8m for continued expansion towards the establishment of 20 000 additional child care places by the end of 1988 (\$20.5m in 1986-87), provision for the full year effect of expansion in 1986-87 (\$9.5m) and indexation for cost increases (\$17.1m).

Of the 20 000 commitment, there were 2158 approved child care centre places, 3410 approved family day care places and 190 approved occasional care places at 30 June 1987. By December 1988, the number of operational places in each of these categories will have been increased to 10 950, 5650 and 2400 respectively, summing to 19 000 places. (The cash equivalent of 1000 of the 20 000 place commitment has been applied to the provision of special services for Aboriginals, the ethnic community and children with disabilities and services for school age children.) The following chart shows the growth in expenditure by care type since 1982-83.

CHART 11. CHILDREN'S SERVICES
OUTLAYS BY TYPES OF CARE
1982-83 TO 1987-88



(a) Other mainly includes special services for Aboriginals, migrants and children with disabilities and funds to improve the management of child care services.

The Family Support Program (FSP) established on 1 January 1987 provides funding for community-based services providing assistance for families on a cost-shared basis with the States and Territories. There are currently 358 approved FSP services.

The program assists families with young children and is a response to a perceived need for greater parenting support and coping skills for families in stressful circumstances.

The agreement with the States and Territories includes the indexation of existing services from 1 January 1987 and expansion of the program by up to 25% in 1987 and 20% in 1988.

\$9.7m will be provided in 1987-88 for approved FSP services, an increase of \$3.7m or 62% on 1986-87 expenditure. Part of this increase (\$1.3m) is the full year effect of family support like services transferred from the Children's Services Program in 1986-87.

Double Orphan's Pension

A pension is payable, free of income test, to the guardian of a double orphan who is aged under 16 or who is a dependent full-time student aged 16 to 24. It is paid in respect of a child who has lost both parents (through death of both parents or in certain other restricted circumstances). Currently double orphan's pension is paid at the rate of \$60 a month.

In the Budget the Government decided that from 1 February 1988 eligibility for double orphan's pension would be extended to include a child when one of the parents is dead and the other indefinitely residing in a nursing home or similar institution. This will overcome an anomaly which currently allows payment of a pension when the only surviving parent is in a specific range of institutions but not in others. This measure is expected to increase the number of orphans on pensions by about 100 in 1987-88.

At 30 June 1988 payments are expected to cover 4100 orphans (4500 at 30 June 1987).

Other

The provision for the operations of the Institute of Family Studies is \$2.3m, which includes funds for research and grants to encourage family studies. \$5.4m is allocated for grants to approved marriage counselling and marriage education organisations.

4.6 ASSISTANCE TO THE UNEMPLOYED AND SICK

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate		
	\$m	\$m	\$m	\$m	%
Unemployment Benefits	3 122.1	3 453.8	3 483.7	29.9	0.9
Job Search Allowance (a)	na	na	45.6	45.6	na
Sickness Benefits	391.8	429.4	476.2	46.9	10.9
Special Benefits	108.1	124.6	150.6	26.0	20.9
Total	3 622.1	4 007.8	4 156.2	148.4	3.7

(a) Job search allowance will be introduced from 1 January 1988.

For married unemployment, sickness or special beneficiaries, or those with dependants, the basic rates of benefit are generally the same as for age and invalid pensions.

The table below shows those rates of benefits which are not equivalent to age pension entitlements.

BASIC RATES AND ADDITIONAL PAYMENTS	CURRENT MAXIMUM RATE
	\$ per week
Basic Rates	
Single under 18 years without dependants (a)	50.00
Young homeless allowance	23.28
Unemployment and special beneficiaries 18-20 years without dependants	91.20
Unemployment and special beneficiaries 21 years and older without dependants	104.75
Additional Payments	
Rent assistance—(Unemployment and special beneficiaries) (b)	10.00

(a) Junior unemployment benefit at the rate of \$50 a week is payable until 1 January 1988 when it will be replaced by the parentally income tested job search allowance (see below).

(b) Maximum rent assistance for beneficiaries with dependent children will increase in December to \$15 as part of the families package.

The indexation of the basic rate of pension noted under age pensions applies to benefits payable to those 21 years and over and those with dependent children (see below). Unemployment, sickness and special beneficiaries may also qualify for remote area allowance, additional benefit for children, mother's/guardian's allowance and rent assistance.

Certain beneficiaries are eligible for special tax rebates to ensure that those in receipt of benefits during the whole of the financial year are not liable to pay personal income tax. Details are included in *Statement No 4*.

The average numbers of beneficiaries in 1986-87 and those expected in 1987-88 are set out in the following table:

RECIPIENTS	1986-87 (Actual)	1987-88 (Estimate)
Unemployment beneficiaries	574 400	550 000 (a)
Sickness beneficiaries	67 700	70 500 (b)
Special beneficiaries	19 200	21 700 (c)

(a) Net of the effect of initiatives announced in the May Statement and in the 1987-88 Budget, including indirect savings that are expected to achieve a reduction in the average number of unemployment beneficiaries of the order of 20 000. Includes job search allowance.

(b) Including the net effect of initiatives noted below that are expected to result in an addition to the number of sickness beneficiaries of the order of 500.

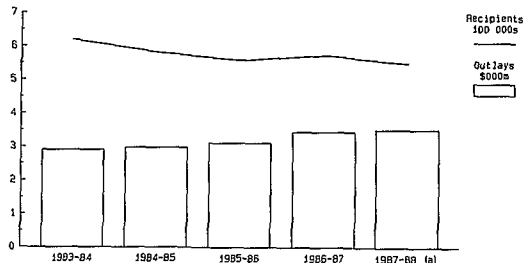
(c) Including the net effect of initiatives noted below that are expected to result in an addition to the number of special beneficiaries of the order of 2700.

Unemployment Benefits

Outlays on unemployment benefits represent 15.4% of total social security and welfare outlays and 1.4% of the total functional increase.

The following chart shows the movement in outlays on unemployment benefits between 1983-84 and 1987-88 together with the movement in unemployment beneficiary numbers over the same period.

CHART 12. UNEMPLOYMENT BENEFITS
AVERAGE NUMBER OF RECIPIENTS AND OUTLAYS
1983-84 TO 1987-88



While outlays on unemployment benefits account for some 15.4% of social security and welfare outlays they account for 9.2% of the growth over the five years. Major factors influencing the growth in outlays have been the movement in the number of beneficiaries over the five year period and twice yearly automatic indexation for the majority of beneficiaries. Ad-hoc increases to rates also occurred in the period. Unemployment beneficiary numbers are volatile reflecting general economic activity. The average number on benefit has fallen from 620 000 in 1983-84 to 574 400 in 1986-87. This latter figure reflects the success of the 1986-87 Budget initiatives to improve the administration of unemployment benefit, in particular, the requirement for personal lodgement of income statements and mandatory CES registration. The selective regional reviews announced in last year's budget have also been successful in 1986-87 in disqualifying some 5300 persons who did not meet the eligibility criteria for receipt of benefit. The success of the regional reviews is expected to be sustained into 1987-88 and beyond. The projected fall in numbers for 1987-88 reflects the expected direct effect of new initiatives announced by the Government in the May Statement and in the Budget, and continuing indirect savings from initiatives implemented since the 1986-87 Budget.

Unemployment benefit is available to those who are unemployed and willing and able to undertake suitable work and who are aged between 16 and 59 years inclusive (females) or 16 and 64 years inclusive (males). The minimum ages will be increased to 18 years for most categories from January 1988 (see below). Benefits are income-tested and the basic rate is subject to tax (although additional payments are not).

In the May Statement the Government announced a number of major reforms to unemployment benefit eligibility criteria and administration.

The Government decided to cancel the increase in the junior and intermediate unemployment benefit rates planned for 1 January 1988. This will ensure that the junior rate (job search allowance—see below) will be aligned with the 16-17 year AUSTUDY allowance and that the intermediate rate is aligned with the increased AUSTUDY allowance for students aged 18 and over who are independent or living away from home. Outlays on unemployment benefits and the new job search allowance are expected to decline by \$16.5m in 1987-88 and \$32.2m in 1988-89 as a result of this measure.

Unemployment beneficiaries under 21 years of age (including recipients of job search allowance) who have no dependants will, from September 1987, have to wait 13 weeks before being eligible for benefits on leaving school. (Those leaving education aged 21 or over or who have a dependant must wait 6 weeks.) In addition, 18 to 20 year olds will be reviewed after 12 months on benefit and be subject to an activity/vocational training test. These changes are expected to reduce outlays on unemployment benefits (and the new job search allowance) by \$44m in 1987-88 and \$49.5m in 1988-89.

Following on from the successful changes introduced in the 1986-87 Budget the Government announced, in May, a number of further measures and refinements to improve the integrity of unemployment benefit and to streamline administration.

From December 1987, an assets test will apply to unemployment, sickness and special benefit recipients aged 25 years and over. Recipients with assets above the pension assets test free areas will no longer be eligible for benefit. There will be no tapered reduction of entitlement under the benefit assets test. This measure will ensure that those with the capacity to draw on assets to support themselves will be required to do so before placing a call on Government assistance. It will also help ensure that unemployment benefit is not used as a supplement for early retirement. Savings on unemployment benefit outlays are estimated to be \$12.5m in 1987-88 and \$24.5m in 1988-89.

From July 1987 applicants who leave a job voluntarily without good reason, are dismissed for misconduct or fail the work test are required to serve an extended waiting period. The length of the waiting period increases by two weeks for each repeated occurrence (up to 12 weeks for six occurrences over any three year period). This measure will help ensure that people do not leave their jobs without good reason. Savings on unemployment benefit outlays are expected to be \$3m in 1987-88 and 1988-89.

A number of additional measures have also been taken including:

- the requirement that the unemployment benefit waiting period is served after the date of CES registration rather than the date on which employment ceased (from July 1987)—expected to result in savings on unemployment benefit outlays of \$35m in 1987-88 although these savings will be partly offset by increased outlays on special benefits (see further below);
- requiring applicants to provide a certificate from their previous employer stating the date and reason for job loss (from September 1987)—expected to result in savings on unemployment benefit outlays of \$10.1m in 1987-88 and \$12.1m in 1988-89;

- the deployment of 4 additional unemployment benefit regional review teams to take the total to 19—one for each Social Security management area (from September 1987)—expected to result in savings on unemployment benefit outlays of \$9.3m in 1987-88 and \$25.2m in 1988-89;
- an increase in the number of general field officers to expand entitlement reviews of high risk cases (from July 1987)—expected to result in savings on unemployment benefit outlays of \$9.3m in 1987-88 and \$18.7m in 1988-89 (additional savings in outlays on other pensions and benefits are expected to amount to \$2.6m in 1987-88 and \$5.1m in 1988-89);
- the introduction of a work intention questionnaire for selective use to ensure that applicants are genuinely seeking work (from July 1987)—this measure was expected to result in savings on unemployment benefit outlays of \$9.2m in 1987-88 and \$18.6m in 1988-89 but following the initial success of the measure it was decided in the Budget to enhance the questionnaire and increase the number of applicants required to complete the form—this is expected to result in further savings on unemployment benefit outlays of \$13.6m in 1987-88 and \$28.7m in 1988-89; and
- the application of the benefit income test on a fortnightly rather than a weekly basis to ensure more uniform assessment of income from casual, alternate week employment (from December 1987)—expected to result in savings on unemployment benefit outlays of \$4.7m in 1987-88 and \$8m in 1988-89.

In addition, a number of May Statement initiatives that restrict eligibility for other pensions and benefits will result in a number of those affected shifting to unemployment benefit. In particular:

- the restrictions to be placed on the acceptance of non impairment grounds in determining eligibility for invalid pension is expected to increase the average number on unemployment benefit by 8000 in 1987-88 and 1988-89;
- the limitation of access to Class B widow's pension is expected to increase average numbers by 600 in 1987-88 and 2800 in 1988-89; and
- the reduction in the child qualifying age for widow's pension and supporting parent's benefit is expected to increase average numbers by 3000 in 1987-88 and 2500 in 1988-89.

In the Budget the Government also decided to expand the Community Development Employment Program and the Enterprise Employment Assistance scheme to provide additional assistance for Aboriginals. These measures are expected to be substantially offset by reductions in unemployment benefit outlays of \$5m in 1987-88 and \$18m in 1988-89. More information on these programs can be found below under 4.8. *Aboriginal Advancement Programs nec* and under the function 7C. *Labour and Employment*.

As part of the families package additional benefit for children will be increased in line with a new family allowance supplement from December 1987. The rate will rise by \$5 a week for each child with a further \$6 a week payable for each child aged 13, 14 or 15 years. In addition, the Government has decided that the maximum rate of rent assistance payable to beneficiaries with children will be increased by \$5 to \$15 from 24 December 1987. These measures are estimated to increase outlays on unemployment benefit by \$43.4m in 1987-88 and \$76.8m in 1988-89.

Job Search Allowance

From January 1988 unemployment benefits for 16 and 17 year olds are to be replaced by a job search allowance to reduce the financial incentive for young people to leave the education system. New applicants will have to wait 13 weeks after leaving school before they can receive financial assistance. All 16 and 17 year olds who meet the eligibility criteria will receive a minimum payment of \$25 per week with an additional \$25 per week available subject to a parental income test. As a condition of eligibility recipients will not only be required to seek employment but will be further assisted in this regard and will after 6 months be required to accept a suitable job or undertake further vocational training if offered. Young people who have been continuously in receipt of the junior rate of unemployment benefit since May 1987 will continue to receive assistance at existing rates of benefit but will be subject to the activity tests applying to new recipients of job search allowance.

This change represents a significant realignment of the Government's approach to youth unemployment. It will provide young people with a further incentive and practical assistance to find work and undertake training. In addition, the parental income test and the increased waiting period will provide a positive inducement for young people to stay in the education system until they complete their course or find a job.

The introduction of a parentally income tested job search allowance is expected to reduce unemployment benefit/job search allowance outlays by \$14.5m in 1987-88 and \$33.6m in 1988-89. It is estimated that some 53 000 persons will be in receipt of job search allowance in 1987-88. (This number has been included in the above estimate of the number of unemployment benefit recipients).

Sickness Benefits

Outlays on sickness benefits represent 2.1% of total security and welfare outlays and 2.3% of the total functional increase.

Sickness benefit is payable to people temporarily incapacitated for work on a similar basis to unemployment benefit.

Since 1983-84 the average number on sickness benefit has increased by about 7300 or 12%. At February 1987 some 31% of beneficiaries had been on benefit for more than one year.

In the May Statement the Government announced that the rate of sickness benefit would not be indexed in June 1987. From December 1987 the rate of sickness benefit for new grants will be the same as the equivalent rates for unemployment benefits and entitlement for rent assistance will also be the same as for unemployment benefits. Entitlements for people in receipt of sickness benefit in June 1987 will be protected. Measures to bring sickness benefit into line with the unemployment benefit rates are expected to reduce outlays on sickness benefits by \$8m in 1987-88 and \$12m in 1988-89.

In addition, the Government announced the introduction of regular medical and entitlement reviews to ensure the continuing eligibility of sickness beneficiaries. From October 1987 all recipients will be reviewed after 3 and 24 months on benefit. The new procedures will include medical reviews of all existing long-term recipients (greater than 12 months) and selective entitlement reviews of those on benefits for more than six months. These reviews are intended to combat fraud and abuse and

are expected to reduce sickness benefit outlays by \$4.4m in 1987-88 and \$11.6m in 1988-89.

Special Benefits

Outlays on special benefits represent 0.7% of total social security and welfare outlays and 1.3% of the total functional increase.

Movement in the number of special beneficiaries has been erratic, reflecting in part the nature of the benefit. However, over the last five year period there has been a general upward movement in the number on benefit.

Special benefit is paid to those unable to earn a sufficient livelihood for themselves and their dependants and who are ineligible for any other pension or benefit. Special benefit is paid at the discretion of the Secretary of the Department of Social Security and, unlike other pensions and benefits, there are few formal eligibility requirements.

The increase in the number of those on special benefit (see preceding table above) is due, in part, to a number of May Statement initiatives that restrict eligibility for other pensions and benefits. In some cases it is expected that a number of those affected will transfer to special benefit. In particular, the requirement that the unemployment benefit waiting period be served after CES registration is expected to increase outlays on special benefits by \$6.2m in 1987-88 and \$5m in 1988-89. A number of the other May Statement measures mentioned above are expected to increase special benefit outlays by a further \$11.3m in 1987-88 and \$14.4m in 1988-89.

4.7 OTHER WELFARE PROGRAMS

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate		
	\$m	\$m	\$m	\$m	%
Funeral Benefits	14	14	14	..	0.5
Telephone Rental and Postal Concessions	45.2	42.4	53.4	11.0	26.0
Mortgage and Rent Relief	22.7	24.1	25.0	0.9	3.7
Supported Accommodation Assistance	47.8	55.9	53.0	-2.9	-5.1
Crisis Accommodation	13.4	14.2	15.7	1.5	10.6
Assistance for Migrants	23.4	25.7	27.5	1.8	7.1
Welfare Programs in the ACT	10.4	11.1	15.6	4.5	40.6
Other	7.5	6.0	3.3	-2.7	-44.6
Total	171.9	180.7	194.9	14.2	7.9

Funeral Benefits

A benefit of up to \$20 is payable to a person liable for the funeral costs of an eligible age or invalid pensioner or recipient of sheltered employment, rehabilitation or tuberculosis allowance. Up to \$40 is payable to eligible pensioners or beneficiaries who are liable for the funeral costs of a spouse, a child or another eligible pensioner.

Telephone Rental and Postal Concessions

A reduction of about one-third of the basic annual telephone rental fee and exemption from the full postal redirection charge is provided to eligible pensioners and beneficiaries. Additional postal concessions are also provided to blind persons.

Outlays on these concessions totalled \$42.4m in 1986-87. From 1 January 1988 the cost of the postal redirection concession is to be met by the Australian Postal Commission at an estimated cost to it of \$0.3m in 1987-88. Outlays on the remaining

concessions are estimated to increase to \$53.4m, reflecting an increase in the number of recipients, higher telephone rental and postage rates, and a delay in billing from Telecom for reimbursement of concessions provided in 1986-87.

Mortgage and Rent Relief

\$25m will be provided to the States for assistance under the Mortgage and Rent Relief Scheme which 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. Commonwealth funds are provided to the States as a sub-program under the 1984 Commonwealth State Housing Agreement on a \$ for \$ matching basis. (Comparable arrangements operate in the ACT—see further information below.)

Supported Accommodation Assistance

Under the *Supported Accommodation Assistance Act 1985* the Commonwealth, in conjunction with the States and Territories, provides recurrent and non-housing capital funds for supported accommodation and related support services to assist people who are permanently homeless or temporarily homeless as a result of crisis. The States and Territories match Commonwealth expenditure on a \$10 for \$9 basis above an agreed unmatched funding base.

In previous years, funds have been appropriated for the Supported Accommodation Assistance Program (SAAP) in respect of the period October to September. The Government has decided to bring SAAP funding to a financial year basis and this year is appropriating funds for the period October to June, with funds for July to September 1988 to be included in the 1988-89 appropriations. The \$41.1m allocated for SAAP in 1987-88 includes an additional \$5m for new and upgraded services, and \$2.6m for indexation of recurrent funding to approved SAAP services in respect of the 9 months to June 1988. Also included here is \$6.7m for the emergency relief program (\$6.3m in 1986-87).

Some services for homeless people in New South Wales will continue to be funded in 1987-88 under the *Homeless Persons' Assistance Act 1974* pending their inclusion in SAAP. Negotiations are continuing with the New South Wales Government on the inclusion of these services in SAAP. Estimated ongoing outlays on the Homeless Persons Assistance Program services are \$1.7m, and the Government has allocated a further \$1.5m in 1987-88 (including \$1m capital) to upgrade these services to enable their inclusion in SAAP. A further \$2.5m (including \$1m capital) is to be provided in 1988-89.

Crisis Accommodation

\$15.5m in capital assistance (\$14m in 1986-87) will be provided to the States under the Crisis Accommodation Program. This sub-program of the 1984 Commonwealth State Housing Agreement provides funds for dwellings for short term supported accommodation (such as refuges). A further \$0.2m will be provided to Aboriginal Hostels Ltd. Provision for support services (eg salaries of refuge workers) is made under SAAP. Comparable arrangements operate in the ACT (see further information below).

Assistance for Migrants

\$27.5m is provided for grants-in-aid, translator and interpreter services (under Commonwealth/State cost-sharing arrangements), migrant resource centres, maintenance of unattached refugee children and assistance to voluntary agencies under the Community Refugee Resettlement Scheme. The outlays also reflect provision of \$0.7m for additional settlement services arising from a larger intake in the 1987-88 migration program.

Welfare Programs in the ACT

The ACT Administration provides welfare benefits and subsidies on a similar basis to those provided by State governments (for example, bus subsidies and rate remissions for pensioners, care of foster children and grants to community organisations). The ACT Housing Trust also provides assistance under the Mortgage and Rent Relief Scheme and the Crisis Accommodation Program. The increase of \$4.5m reflects a greater level of demand for existing services, the ongoing operational costs of recently completed facilities such as the Belconnen Community Centre, the Charnwood Neighbourhood Centre and regional youth centres and the commencement of construction of the Tuggeranong Community Centre and the Rivett Crisis Convalescence Centre.

Other

The Commonwealth will provide the Australian National Railways Commission (ANRC) with an estimated \$3.3m, to reimburse ANRC for loss of revenue resulting from the carriage of passengers and freight either free or at concessional rates. Over 99% of the funds relate to concessional passenger fares for eligible pensioners and other beneficiaries.

Also included in this item are various grants-in-aid for national representative community welfare organisations (\$1.0m in 1987-88, including \$0.2m which previously was classified under 4.1. *Assistance to the Aged-Other*), and \$1.2m for evaluation and support services for community welfare programs.

Following the 1986-87 Budget decision to abolish the Australian Institute of Multicultural Affairs, no provision has been made in 1987-88.

4.8 ABORIGINAL ADVANCEMENT PROGRAMS NEC

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Aboriginal Development Commission	74.1	83.3	99.7	16.4	19.7
Community Development Employment Program	27.2	39.3	68.7	29.4	74.9
Aboriginal Land Mining Royalties, Grants to the States for Aboriginal Advancement	21.5	18.2	20.0	1.8	9.8
Other	2.1	1.9	1.2	-0.7	-37.7
	8.7	6.9	8.9	2.0	29.6
Total	133.6	149.5	198.5	49.0	32.8

This section includes certain programs administered by the Department of Aboriginal Affairs. Other programs administered by the Department of Aboriginal Affairs are classified under the 2. *Education*, 3. *Health*, 5. *Housing and Community*

Amenities nec, 6. Culture and Recreation, 7C. Labour and Employment and 8B. Law, Order and Public Safety functions. Also included in this section is the provision for the Aboriginal Development Commission (ADC).

In the 1986-87 Budget the Government approved certain initiatives arising out of the Committee of Review of Aboriginal Employment and Training Programs (Miller) Report. The Miller Report led to the development of a new Aboriginal Employment Development Policy (AEDP). This aims to improve substantially education, training and employment outcomes for Aboriginals through a comprehensive range of programs that build on existing resource levels supplemented as necessary by new initiatives where gaps exist in the ongoing programs. The improvement in outcomes for Aboriginals will not be immediate but the Government is committed to maintaining the direction of AEDP over the longer term in order to provide Aboriginals with the opportunity to move out of welfare dependency to full economic independence.

In this Budget the Government has continued this redirection of policy by allocating a further \$26.3m for AEDP initiatives of which \$18.0m is included under this heading. Individual program allocations are identified under the following sub-headings.

Aboriginal Development Commission

The ADC provides assistance to Aboriginal communities and groups to acquire land and to engage in business enterprises. It also provides housing loans at concessional interest rates and direct grants to Aboriginal housing associations. Expenditure by the ADC is expected to increase by \$14.9m to \$117.6m. This amount is offset by \$17.9m in cash balances and revenue from loan repayments and capital fund investments. The balance (\$99.7m) will be appropriated to the Commission in 1987-88. Included in the allocation is \$3m for expansion of the Small Business Funding Scheme and \$0.7m for expansion of the Community Economic Advancement Projects under the AEDP initiatives mentioned above.

ADC outlays comprise \$27.6m for enterprise grants and loans, \$26.0m for housing grants and loans and \$42.0m in grants for housing and community amenities. In addition, \$2.7m is provided for social advancement and \$19.3m for the administrative and other costs of the Commission. Average staffing increased by 21.5 staff years in 1986-87 and provision has been made for a further 39 staff years in 1987-88.

Community Development Employment Program

The Community Development Employment Program (CDEP) provides grants to Aboriginal communities to undertake various community development projects aimed at generating employment opportunities in communities in rural and remote areas. The CDEP grants comprise the equivalent of total unemployment benefit payments that would otherwise be paid to eligible individuals within the community together with an oncost allowance to assist with the cost of establishing CDEP projects. The program currently involves 61 communities and some 5774 participants.

As part of the 1987-88 AEDP initiatives the Government has decided to approve the creation of 1600 new jobs per year over the next two years (a total of 3200 jobs) under the CDEP program at an estimated gross cost of \$4.0m in 1987-88 (\$3.4m offset by reduced unemployment benefit outlays) and \$19.0m in 1988-89.

The Government has also decided to substantially increase the level of support for CDEP projects to improve the viability of existing projects and ensure adequate support for the establishment of new projects. Expenditure on the new CDEP Support Program is estimated to be \$10.2m in 1987-88 and \$12.7m in 1988-89. Total expenditure in 1987-88 on CDEP is estimated to be \$68.7m, a 75% rise over 1986-87.

Aboriginal Land Mining Royalties

\$20.0m is provided for payments under section 63 of the *Aboriginal Land Rights (Northern Territory) Act 1976* in respect of royalty payments from mining on Aboriginal land. Payments are made to the Aboriginals Benefit Trust Account for the benefit of Aboriginals in the Northern Territory. These payments are offset in part (\$14.6m) by royalties received by the Commonwealth from uranium mining on Aboriginal land in the Northern Territory (see *Non-Tax Revenue—'Rent Dividends etc'* in Statement No 4).

Grants to the States for Aboriginal Advancement

Under the *States Grants (Aboriginal Assistance) Act 1976* the Commonwealth provides funds to the States to improve Aboriginal access to health services, education, employment and training, welfare services and basic community amenities such as water, sewerage and power generation (see other functions). Outlays for social support in 1987-88 are estimated to be \$1.2m.

Other

\$4.8m is provided for social support grants to Aboriginal communities and organisations. \$0.3m is provided for the operation of the Torres Strait Islander Air Service, \$0.4m for expenses associated with land claims and \$0.9m for departmental conferences with various Aboriginal organisations.

4.9 GENERAL ADMINISTRATION

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Department of Social Security	539.3	594.8	625.9	31.0	5.2
Department of Veterans' Affairs	118.3	115.3	123.9	8.5	7.4
Department of Aboriginal Affairs	26.8	29.6	35.1	5.5	18.5
Department of Community Services and Health: — Community Services component	44.1	54.4	62.8	8.5	15.6
Total	728.6	794.2	847.7	53.5	6.7

Department of Social Security

The major outlays component under the Department of Social Security relates to staffing costs. Expenditure on staffing is expected to be \$407.4m compared with \$384.9m in 1986-87. This reflects an overall increase of 795 in average staff numbers mainly to implement new initiatives announced in the May Statement (450 staff and \$10.5m) and the Government's families package (350 staff and \$7.4m). 63 staff and \$1.7m have also been provided for the new child maintenance scheme. Increases as a result of these initiatives have been offset to some extent by budgeted staff savings as a result of implementation of the Department's STRATPLAN computer re-equipment program. There will be savings of 150 in average staff numbers as a

result of STRATPLAN in 1987-88, and year on year savings in average staff numbers from this source will total 2000 by the end of 1991-92. This will achieve savings against the forward estimates of \$5.3m in 1988-89.

The balance of the Department of Social Security's expenditure relates to general administrative and capital expenses. The increase (from \$210.0m to \$218.5m) mainly reflects increased costs and charges, the carry forward of certain outlays from 1986-87 and the administrative expenses of the May Statement initiatives (\$6.1m), the child maintenance scheme (\$1.3m) and the families package (\$1.2m).

Department of Veterans' Affairs

The provision for the Department of Veterans' Affairs includes \$3.4m for Holders of Public Office, \$75.0m for expenditure on staffing and \$45.4m for administrative and capital equipment expenditure. The comparable figures for 1986-87 are \$3.4m, \$77.9m and \$34.0m respectively.

Department of Aboriginal Affairs

Running costs of \$30.4m are provided for the Department of Aboriginal Affairs comprising \$21.9m for salaries and allowances in respect of an average staff level of 738.2 (\$21.5m and 724.2 respectively in 1986-87) and \$8.5m for general administrative outlays. \$0.5m is provided for capital equipment and \$3.5m is provided for staff housing.

Department of Community Services and Health

The provision for the Community Services component of the Department of Community Services and Health consists of \$33.8m for salaries and allowances in respect of a staffing level of 1163, down from \$35.5m and 1203 respectively. This adjustment reflects minor savings in a number of areas, offset in part by increased staffing for the full year effect of expansions in 1986-87. The provision for administrative expenses is \$19.4m, an increase of \$1.9m, including \$3.5m for implementation of a new ADP strategy, and provision for cost increases, offset by savings in ongoing administrative expenses and transfers. Also included is \$6.5m for computer equipment (\$0.7m in 1986-87), \$1.0m for grants to community welfare organisations and \$1.2m for program evaluation and support purposes.

4.10 RECOVERIES AND REPAYMENTS

The total of \$5.0m includes \$2.6m (compared to \$1.4m in 1986-87) for miscellaneous receipts under the Department of Social Security. The increase largely reflects the receipt of payments outstanding from 1986-87 for the hire by other agencies of the Department's computer facilities.

The total also includes \$2.1m for miscellaneous receipts under the Department of Veterans' Affairs and payments of the sum of pension payments held in trust while an entitled veteran was in a psychiatric or other such facility.

5. HOUSING AND COMMUNITY AMENITIES, NEC

The Commonwealth has a range of programs to assist people to obtain housing. In addition to the outlays included here, assistance for housing is given through outlays classified under other functions, eg rent assistance for pensioners and certain social security beneficiaries, assistance towards accommodation for the aged and disabled, crisis accommodation assistance, assistance to low income persons experiencing extreme difficulty in meeting mortgage and rental payments and certain housing activities of the Aboriginal Development Commission (see 4. Social Security and Welfare).

This functional heading also includes outlays relating to urban and regional development, environmental protection activities and urban development in the ACT.

SUMMARY OF HOUSING AND COMMUNITY AMENITIES OUTLAYS

	1985-86		1986-87		1987-88		Change	
	Actual	Actual	Estimate	Actual	Estimate	Change	%	
	\$m	\$m	\$m	\$m	\$m			
5.1 Housing Assistance to Other Governments	1 033.2	1 191.3	990.9	-200.4	-16.8			
5.2 Assistance to First Home Owners	241.6	201.7	222.2	20.5	10.2			
5.3 Defence Service Homes	34.5	32.8	16.1	-16.8	-51.1			
5.4 Housing in the ACT	4.8	4.9	2.7	-2.2	-45.4			
5.5 Housing Other	89.7	114.3	27.3	-87.1	-76.2			
5.6 General Administration (Housing)	12.3	13.2	14.7	1.5	11.0			
Total Housing	1 416.1	1 558.3	1 273.7	-284.5	-18.3			
5.7 Urban and Regional Development nec	1.7C	47.3	25.9	-21.4	-45.2			
5.8 Protection of the Environment	14.8	14.8	28.2	13.4	90.9			
5.9 Other Urban Administration	45.2	52.5	48.1	-4.4	-8.3			
Total Urban and Regional Development etc.	58.3	114.6	102.2	-12.4	-10.8			
TOTAL	1 474.3	1 672.9	1 376.0	-296.9	-17.7			

Total outlays on Housing and Community Amenities nec are estimated to be \$1 376.0m in 1987-88, or 1.8% of total budget outlays. Outlays for the function over the 5 years to 1987-88 are estimated to increase by \$276.5m or 25.1% from a base of \$1 099.5m, a real decline of 4.9%. Strong real growth in outlays occurred between 1983-84 and 1984-85 mainly due to increased payments to the States for housing and for home purchase assistance schemes. Thereafter outlays growth slowed, and in 1987-88 outlays are estimated to fall considerably in both nominal and real terms (17.7% and 23.0% respectively). This is due largely to a drop in the level of housing payments to the States and the cessation of the Savings Banks Deposit Interest Subsidy Scheme.

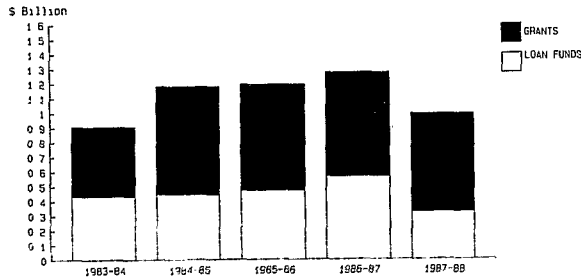
5.1 HOUSING ASSISTANCE TO OTHER GOVERNMENTS

The following table identifies the components of housing assistance to the States provided under the Loan Council nominating arrangements and the Commonwealth State Housing Agreement (CSHA).

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Nominated Funds—					
Loans	439.4	584.7	385.6	-199.1	-34.1
Repayment of Principal	3.9Cr	6.3Cr	9.4Cr	-3.1	-49.6
Net Loans	455.6	578.4	376.2	-202.2	-35.0
CSHA—					
Grants—					
Pensioner Housing	36.6	37.0	37.5	0.5	1.4
Aboriginal Housing	54.3	58.0	60.0	2.0	3.4
Local Government and Community Housing	10.0	11.0	12.0	1.0	9.1
Other Grants	517.6	549.6	550.0	0.4	0.1
Total Grants	618.5	655.6	659.5	3.9	0.6
Loans—					
Repayment of Principal	46.5Cr	48.4Cr	50.3Cr	-1.9	-4.0
Other Grants to the States for Housing	3.6	5.6	5.5	0.1	-1.8
Total	1 033.2	1 191.3	990.9	-200.4	-16.8

The variations in outlays in this area in real terms since 1983-84 are shown in Chart 1 below.

CHART 1. ASSISTANCE TO OTHER GOVERNMENTS FOR HOUSING 1983-84 TO 1987-88 (1987-88 PRICES)



Nominated Funds

Under arrangements agreed at the June 1982 Loan Council meeting the six States have been able to nominate amounts for public housing from within their advances from the State Government Loan Council Borrowing Program provided that they first meet the matching requirements under the CSHA for payments for public housing from their own resources. Such nominated amounts have been repayable over 53 years at an interest rate of 4.5% p.a. (Further details on the arrangements can be found under function 9A. Assistance to Other Governments, nec.)

The six States are able to nominate up to 100% of their loan moneys in 1987-88 and it has been assumed that they will nominate the maximum permitted of \$357.2m. This compares with actual nominations of \$533.8m in 1986-87.

The NT has also been able to nominate part, or all, of its general purpose capital advances for public housing. In 1986-87 the NT nominated \$50.9m for public housing and it is expected to nominate \$28.4m in 1987-88. The same terms and conditions apply to these amounts as to advances made under the CSHA.

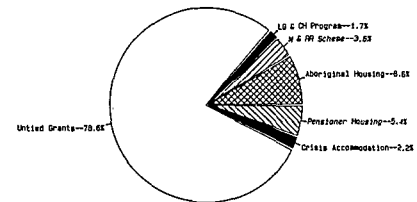
Repayments by the States of Loan Council funds nominated for housing in previous years are estimated at \$9.4m in 1987-88, compared with \$6.3m in 1986-87.

Grants to the States for Housing Under the CSHA

In 1984 the CSHA was renegotiated and a new Agreement was signed, to operate from 1 July 1984 for a 10 year period. During 1986-87 the Agreement was reviewed and some revised funding and administrative arrangements have been agreed to operate from 1 July 1987. Total payments to the States for public housing purposes under the CSHA in 1987-88 are estimated at \$700m, of which \$40.5m is classified under 4. Social Security and Welfare as detailed below. This represents a reduction of \$40.9m on the forward estimates for this program. Repayments of assistance provided as loans in previous years are estimated at \$50.3m. All assistance to the States under the CSHA in 1987-88 will be provided as grants as in 1986-87.

Chart 2 below shows the proportions of CSHA funding to be allocated to its various components in 1987-88.

CHART 2. COMMONWEALTH STATE HOUSING AGREEMENT ALLOCATION OF FUNDS BETWEEN PROGRAMS 1987-88



The main provisions are:

- \$550m (virtually unchanged from 1986-87) as untied grants, to be matched on a \$ for \$ basis by the States;
- \$37.5m (up 1.4%) as specific grants for pensioner housing;
- \$60m (up 3.4%) as specific grants for Aborigines in need of rental housing assistance;
- \$12m (up 9.1%) to the States for the Local Government and Community Housing Program, which assists local governments and community groups to provide and administer low cost rental accommodation.

These outlays total \$659.5m; in addition:

- \$25m will be provided for assistance under the Mortgage and Rent Relief Scheme, an increase of 3.7% (see 4. *Social Security and Welfare*); and
- \$15.7m will be provided for the Crisis Accommodation Program, an increase of 10.7% (see 4. *Social Security and Welfare*).

Details of the allocation between the States of Commonwealth assistance under the CSHA are shown in Budget Paper No 4, *Commonwealth Financial Relations with other levels of Government, 1987-88*.

Other Grants to the States for Housing

The *States Grants (Housing) Act 1971* provides for annual grants to the six States for 30 years in respect of their housing operations in 1971-72 and 1972-73. The payments are in lieu of an interest concession on State funding for public housing in those years. \$5.5m is provided for this purpose in 1987-88. In addition, payments to the States in the previous two years for projects relating to the International Year of Shelter for the Homeless are included here.

5.2 ASSISTANCE TO FIRST HOME OWNERS

First Home Owners Scheme

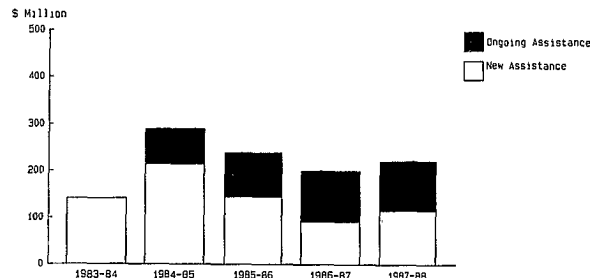
The First Home Owners Scheme (FHOS) was introduced on 1 October 1983. It assists first home buyers with low to moderate incomes.

As part of the housing package announced in March 1987, income limits for FHOS were increased including, for the first time, higher income limits for applicants with dependent children. This measure is estimated to increase outlays under the Scheme by \$27.5m in 1987-88.

\$222m is provided for the Scheme this year. As assistance includes monthly payments for 5 years, outlays in 1987-88 will reflect ongoing payments to those qualifying since 1983 as well as current year applicants.

Chart 3 below provides information on outlays under FHOS in each year since 1983-84.

CHART 3. FIRST HOME OWNERS SCHEME
TOTAL OUTLAYS 1983-84 TO 1987-88



In 1986-87 the average level of benefit granted to successful applicants was \$3807. The average price of houses purchased with assistance under FHOS was \$55 000, and some 81% of dwellings purchased were already established. Of the 1986-87 approvals, 57.8% involved applicants with dependants.

Home Deposit Assistance Scheme

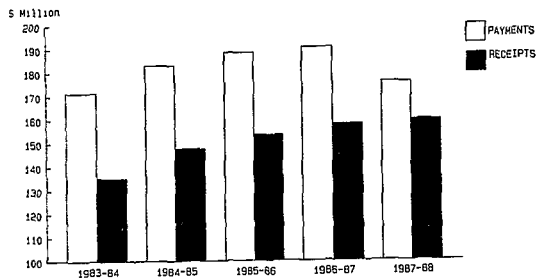
The Home Deposit Assistance Scheme (HDAS) was replaced by FHOS in October 1983, but eligible persons could lodge applications up to 1 January 1987; \$0.2m has been allocated for 1987-88.

5.3 DEFENCE SERVICE HOMES

	1985-86	1986-87	1987-88		Change	
	Actual	Actual	Estimate		\$m	%
	\$m	\$m	\$m		\$m	%
Home Acquisition Assistance	33.9	29.6	15.6		-14.0	-47.3
Insurance	0.6	3.2	0.4		-2.8	-86.4
Total	34.5	32.8	16.1		-16.8	-51.1

Chart 4 below shows the level of receipt and payment components of DSH outlays over the past 5 years.

CHART 4. DEFENCE SERVICE HOMES CORPORATION
PAYMENTS AND RECEIPTS



Home Acquisition Assistance

The Defence Service Homes (DSH) Scheme has until now assisted home ownership by former and serving members of the Defence Forces who enlisted prior to May 1985, and certain other eligible persons, by providing low interest loans. The Government has recently reconsidered its May 1985 decision that the Scheme be transferred to the private sector and has decided that future assistance will be provided in the form of a non-repayable, non-taxable cash grant of \$10 000 for home acquisition; savings are estimated at \$14.3m in 1987-88. (\$10 000 represents the net present value of the implicit interest subsidy paid by the Government.) Persons currently waiting for a DSH loan will have the option of accepting the cash grant instead of a loan. New applicants after 15 September 1987 will be offered the cash grant only. All grant applications received before the end of 1987-88 will be settled in July 1988. Following that, there will be no formal waiting period for DSH benefits.

The present portfolio of DSH mortgages is to be sold. The terms of sale are yet to be finalised but will be such that the effect of the current concessional interest rate paid by borrowers will be maintained. The date of sale is expected to be in 1988-89.

The Government is currently reviewing, in consultation with interested parties, other aspects of the Scheme.

The largest components of outlays on home acquisition assistance are loans and grants to borrowers (\$123.5m in 1986-87, estimated at \$109m in 1987-88), net administration (\$13.8m in both 1986-87 and 1987-88) and the access by borrowers to their excess repayments (\$16.3m in 1986-87, \$16.7m in 1987-88). These amounts are partially offset by principal repayments (\$106.8m in 1986-87, \$107.4m in 1987-88) and additional excess repayments (\$16.5m in both 1986-87 and 1987-88). Other receipts of \$0.7m relating to land sales in 1986-87 make up the difference between the sum of the above and the figures shown in the table.

Insurance

The Defence Service Homes Act has also provided for a self funded insurance scheme for borrowers and ex-borrowers provided they retain the property originally mortgaged under the Scheme. In line with the decision to sell the existing mortgage portfolio, the Government has also decided to sell the insurance business.

Total outlays under this sub-function is the excess of cash receipts (other than receipts of interest on investments—see Statement No. 4 Estimates of Revenue, 1987-88) over payments from the Insurance Trust Account. The higher than expected outlays in 1986-87 arose largely from increased claims arising out of a series of storms in Sydney in August and October 1986. Premium rates are reviewed annually in the light of the estimated costs of administration for the ensuing year, the expected cost of claims, reinsurance, fire brigade charges and the need to ensure an adequate level of reserves. Following a review, the rating structure was increased as from 1 July 1987. The increase in premium receipts reflects not only the rate increase but also the increasing value of homes insured.

5.4 HOUSING IN THE AUSTRALIAN CAPITAL TERRITORY

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate	Estimate	
	\$m	\$m	\$m	\$m	%
Dwellings Built for Rental	36.9	34.2	33.7	-0.6	-1.6
Gross Advances	7.7	13.6	14.2	0.6	4.7
Repayment of Principal	24.9Cr	24.7Cr	23.5Cr	1.3	5.2
Rent from Government Dwellings	23.0Cr	27.4Cr	31.2Cr	-3.8	-14.0
Maintenance of Rental Dwellings	8.0	9.2	9.4	0.2	2.7
Total	4.8	4.9	2.7	-2.2	-45.4

From 1 July 1987, ACT public housing operations have been aligned with the CSHA, together with revised administrative arrangements, including a new *Housing Assistance Ordinance 1987* and a new trust account. As a result the ACT Housing Trust will assume full responsibility for, and control over, the management of public housing assistance programs in the ACT.

Outlays are estimated to fall by \$2.2m mainly reflecting increased rental receipts from public housing tenants. A 20% increase in rents took effect from 9 July 1987 and represents a further step in the implementation of full cost rents (which are a CSHA requirement). The stock of rentable dwellings will also increase during 1987-88 with the substantial completion of the 1986-87 construction program. The estimate is net of rental rebates which are allowed to ensure that no tenant pays more than 20% of income in rent. The increased rental receipts are partly offset by reduced principal repayments by mortgagors (down \$1.3m).

5.5 HOUSING OTHER

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Accommodation for Migrants	14.0	9.9	9.6	-0.3	-3.1
Accommodation for Aboriginals, nec	17.4	17.0	17.1	0.2	1.1
Savings Banks Deposit Interest Subsidy	58.1	86.9	—	-86.9	-100.0
Housing Costs Reduction Program	—	0.2	0.2	0.1	33.7
International Year of Shelter for the Homeless	0.3	0.4	0.3	-0.1	-23.7
Total	89.7	114.3	27.3	-87.1	-76.2

Accommodation for Migrants

Provision is made under this heading for the operations, works, plant and equipment, and services at migrant centres and flats used for transitory accommodation for eligible migrants and refugees on arrival in Australia.

The reduction in outlays follows completion of building works on migrant centres and flats commenced in previous years and the further rationalisation of the national migrant accommodation network. Closure of migrant centres at Graylands (WA) and Wacol (QLD) is to proceed and others not currently in use are to be offered for sale. Operating savings, estimated at \$1.5m in 1987-88 (\$2.6m in a full year) and further savings of \$0.5m (\$1.2m in a full year) arising out of changed management practices are to be partially offset by additional funding for migrant flats modernisation.

Accommodation for Aboriginals, nec

Aboriginal Hostels Limited was established in 1973 to provide hostel accommodation for Aboriginals. \$16.9m will be provided in 1987-88 to fund 59 company hostels (1714 beds) and 105 independently owned hostels (1954 beds).

The Aboriginal Development Commission (ADC) provides housing loans to Aboriginals and grants to Aboriginal Housing Associations. Payments to the ADC, which is expected to spend some \$68.0m on these activities, appear under the functional heading 4. *Social Security and Welfare* (Aboriginal Advancement Programs, nec).

Savings Banks Deposit Interest Subsidy Scheme

As part of the housing package announced on 2 April 1986, the Government decided to provide subsidies to the savings banks to enable them to compete more effectively for deposits. Their cost was \$86.9m in 1986-87. The subsidy arrangements were discontinued in April 1987.

International Year of Shelter for the Homeless

Funds totalling \$0.3m are provided for the International Year of Shelter for the Homeless program. These funds are to be allocated to projects which examine housing needs, document successful ways of solving housing problems, provide information on housing and homelessness issues and develop priorities in housing policy.

5.6 GENERAL ADMINISTRATION (HOUSING)

Outlays of \$14.7m provide mainly for administrative costs of the housing function of the Department of Community Services and Health. The increase of \$1.5m reflects mainly increased resources (consultants and computing equipment) to streamline administration of the First Home Owners Scheme.

5.7 URBAN AND REGIONAL DEVELOPMENT NEC

Outlays on urban and regional development which are not classified to other functions are dealt with under this heading, and summarised in the following table:

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Local Government	\$m	\$m	\$m	\$m	%
Growth Centres	5.5	2.7	2.7	—	1.5
Decentralisation Assistance	6.4	0.3	1.1Cr	-1.5	n.a.
Urban Rehabilitation	3.0Cr	3.7Cr	2.6Cr	1.1	29.8
Land Commissions/Urban Land Councils	3.7	2.7	0.4Cr	-3.2	n.a.
Australian Capital Territory	10.0Cr	4.7Cr	1.5Cr	3.2	68.1
Aboriginal Community Services and Amenities	45.1Cr	4.9Cr	21.4Cr	-16.4	n.a.
Sewerage and Sanitation	34.7	49.2	45.1	-4.0	-8.2
Other Regional Development	1.4Cr	1.5Cr	1.9Cr	-0.5	-31.5
Total	7.5	7.2	7.1	-0.2	-2.1
Total	1.7Cr	47.3	25.9	-21.4	-45.2

Local Government

This item covers operating expenses of the Office of Local Government in the Department of Immigration, Local Government and Ethnic Affairs, assistance to local government through the Local Government Development Program (LGDP) and scholarships for local government officers to attend management courses at the Canberra College of Advanced Education. The objective is to provide support services for local government designed to improve its efficiency and performance, strengthen local economies and infrastructure, and facilitate provision of community services. \$2.0m is provided for the LGDP the same amount as in 1986-87.

Growth Centres

Outlays attributed to this function concern Commonwealth involvement in the Albury-Wodonga, Bathurst-Orange and Macarthur Growth Centres.

The estimates include a \$1.5m repayment installment of capital advanced to NSW for Macarthur partially offset by a \$0.5m contribution to administrative expenses of the Albury-Wodonga Development Corporation.

Interest of \$3.8m on the money advanced for Macarthur is shown against 'Other Interest Revenue' in Statement No 4.

Decentralisation Assistance

The Regional Development Program, begun in 1977 and ended in 1981, provided assistance to various projects outside metropolitan centres. Repayments of loans under the program will continue for some years. Estimated repayments are \$2.6m. (Interest estimated at \$1.1m is recorded with 'Other Interest Revenue' in Statement No 4.)

Urban Rehabilitation

Outlays relate to the Commonwealth's involvement in the rehabilitation of urban areas in Sydney and Melbourne. In 1986-87 the Commonwealth made the final payment associated with the transfer of ownership of the Glebe Estate to NSW. \$0.2m is repaid annually against a 1974 advance of \$3.5m to Victoria to acquire the Emerald Hill Estate for rehabilitation.

Land Commissions/Urban Land Councils

Under a program operating from 1973-74 to 1977-78, assistance was provided to several States for land acquisition and servicing, and urban renewal and redevelopment. The States involved agreed to make lump sum repayments to the Commonwealth in settlement of loans so provided. Estimated repayments are \$1.5m, representing the final repayment from WA.

Australian Capital Territory

Outlays are estimated to decrease by \$16.4m mainly due to reduced payments on residential land development (\$22.3m) reflecting lower estimated demand for residential land in the ACT and the intention that the private sector take on funding of a greater proportion of land development than in previous years. This is offset to some extent by reduced receipts from lease sales (\$3.2m).

Aboriginal Community Services and Amenities

\$45.1m is expected to be provided through the Department of Aboriginal Affairs to provide and maintain Aboriginal community services and infrastructure (\$49.2m in 1986-87). This amount comprises direct payments to or in respect of Aboriginal communities of \$36.5m (\$38.7m in 1986-87) and payments to the States of \$8.4m (\$10.4m in 1986-87). These payments include:

- \$33.8m to provide and maintain essential facilities and services for Aboriginal communities. Of this, \$7.9m is to go to the provision of public health works such as safe and adequate water supplies, sewerage systems and associated power generation to alleviate ill health arising from sub-standard living conditions;
- \$0.3m towards the establishment costs (primarily for fencing and cattle grids) of living area excisions for Aboriginals on pastoral leases in WA and the NT (\$0.3m in 1986-87);
- \$10m for WA for the second year of the \$100m five year program, cost shared with the WA Government on a dollar for dollar basis, providing housing, water, sewerage and power and other amenities to remote communities which lack such facilities at present; and
- \$0.8m for services to Aboriginal communities with a traditional interest in sites on the former Maralinga Prohibited Area directly affected by the British nuclear test program.

Sewerage and Sanitation

Repayments of capital are covered here. Advances totalling \$240m were made between 1974 and 1977 under the *Urban and Regional Development (Financial Assistance) Act 1974* and the *Sewerage Agreement Acts 1973 and 1974* to enable the States to eliminate a backlog of sewerage works in principal urban areas. (Interest of \$20.7m is recorded with 'Other Interest Revenue' in Statement No 4.)

Other Regional Development

Outlays here include the operating costs of the Regional Development Branch of the Department of Immigration, Local Government and Ethnic Affairs (\$0.3m) and payments under the Federal Water Resources Assistance Program (FWRAP) specifically relating to urban flood mitigation. \$5.0m is to be allocated for the latter purpose, following payments of \$5.3m in 1986-87. Other components of the FWRAP are dealt with under the function *7B Industry Assistance and Development* for 'water resources development and management' and *7D Other Economic Services* for 'urban water supply'.

\$0.5m is provided to fund studies of regional centres to identify opportunities for growth and development. This is a continuation for a further year of a program commenced in 1986-87 as part of the Government's Economic and Rural package.

5.8 PROTECTION OF THE ENVIRONMENT

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Supervising Scientist and Alligator River Region	\$m	\$m	\$m	\$m	%
Research Institute	5.5	6.1	6.1	..	-0.6
Rum Jungle Rehabilitation	4.4	0.5	0.2	-0.2	-51.9
Other Protection of the Environment	4.8	8.1	21.8	13.7	168.5
Total	14.8	14.8	28.2	13.4	90.9

Office of the Supervising Scientist and the Alligator Rivers Region Research Institute (OSS)

The provision of \$6.1m reflects further staffing reductions for uranium related work in 1987-88 and the completion in 1986-87 of stage two of the Temporary Laboratory up-grading program, offset by additional funding, including five staff, associated with mineral exploration in the recently declared Stage 3 of Kakadu National Park.

Levies under the *Customs Tariff (Uranium Concentrate Export Duty) Act 1980* have been increased to recover 75%—previously 50%—of the costs of the OSS activities associated with uranium mining. These revenues are recorded under 'Other Taxes, Fees and Fines' in Statement No 4.

Rum Jungle Rehabilitation

Rehabilitation of the former uranium mine site at Rum Jungle, undertaken by the NT Government on behalf of the Commonwealth, was substantially completed in 1985-86. \$0.2m is provided for minor outstanding payments and a program of environmental monitoring.

Other Protection of the Environment

The Commonwealth agreed to provide \$22.2m for a Rainforest Conservation Program of which \$1.1m was spent in 1986-87, \$15.0m is to be paid in 1987-88, and \$6.1m in 1988-89. The program is to include surveys to identify rainforest areas of high conservation significance, assistance to States to acquire privately owned rainforest for inclusion in national parks and reserves and to acquire or lease land for plantation establishment, and research to support conservation of rainforests. Payments under the program will include some costs associated with the Commonwealth move to World Heritage nomination of the Wet Tropics of North-East Queensland. This move follows the failure of negotiations with Queensland on the conservation of the area. An increase of 3 staff years has been agreed to enable research and consultation towards World Heritage nomination.

The provision also includes \$1.9m and 11 staff years associated with the Commission of Inquiry into the Lemnathyme and Southern Forests. The Inquiry was established to determine the world heritage value of the area and whether there are environmentally and economically feasible alternatives to forestry in areas found to have such values.

Following consideration of the Interim Report of the Technical Assessment Group established to advise on options for clean-up of former British atomic test sites in Australia, the Government has proceeded with certain studies to determine the nature, extent and cost of the clean-up work necessary at Maralinga. \$0.5m is provided for these studies, which are expected to be completed in 1987-88.

5.9 OTHER URBAN ADMINISTRATION

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Australian Capital Territory	\$m	\$m	\$m	\$m	%
Other	43.4	50.7	46.7	-4.1	-8.0
	1.7	1.8	1.5	-0.3	-18.0
Total	45.2	52.5	48.1	-4.4	-8.3

Australian Capital Territory

Main outlays under this heading are \$19.8m for the administrative expenses of the National Capital Development Commission (NCDC) (\$18.9m in 1986-87), and \$22m for consulting and professional fees payable by the Commission for investigation, design and construction purposes (\$26.2m in 1986-87). The balance is for lighting and cleaning services provided by the ACT Administration. The decrease mainly reflects a lower level of work to be carried out by the NCDC.

Other

Payments under this heading relates to administrative costs of the Department of Arts, Sport, the Environment, Tourism and Territories separately identifiable as relating to the environment.

6. CULTURE AND RECREATION

SUMMARY OF CULTURE AND RECREATION OUTLAYS

	1985-86		1986-87		1987-88	
	Actual	Actual	Estimate	Estimate	Change	
	\$m	\$m	\$m	\$m	\$m	%
6.1 Broadcasting and Television . . .	557.4	557.8	570.8	13.0	2.3	
6.2 National Collections	89.2	102.0	110.1	8.1	7.9	
6.3 Arts and Culture	163.5	209.1	275.3	66.2	31.7	
6.4 Youth, Sport and Recreation . . .	63.8	46.4	38.0	-18.4	-18.1	
6.5 National Estate and Parks	31.0	33.2	38.2	5.0	15.0	
TOTAL	904.9	948.6	1,032.5	83.9	8.8	

The Commonwealth provides support for a variety of cultural, recreational, sporting and conservation-related activities. From 1982-83 to 1987-88, total outlays on Culture and Recreation are estimated to have increased by \$502m (95%); in 1987-88 prices, the estimated increase will have been \$281m (37%) since 1982-83.

Broadcasting and Television comprises 55% of the function for 1987-88. During the 1980s this sub-function experienced significant growth increasing by \$217m (61%), or 18% in real terms, since 1982-83. The Government has adopted a number of broadcasting initiatives in recent years which aim to provide greater access to both public and private radio and television services. Many of these initiatives have been designed specifically to expand the availability of multicultural television and to benefit people living in regional and remote areas, the most significant of these being works related to the introduction of the domestic satellite system.

The outlays peak in real terms in 1985-86 (see Chart 1) reflected several earlier Government decisions including the introduction of the Homestead and Community Broadcast Satellite Service (HACBSS) as well as improvements in accommodation for the Australian Broadcasting Corporation (ABC) and the extension of the television network of the Special Broadcasting Service (SBS) to all State capitals. Capital expenditure on broadcasting and television has increased from \$25m in 1982-83 to \$65m in 1987-88.

Chart 2 shows that significant real growth over the last five years has also occurred in areas of the National Collections and Arts and Culture sub-functions.

CHART 1. OUTLAYS ON BROADCASTING AND TELEVISION
1977-78 TO 1987-88
(1987-88 DOLLARS)

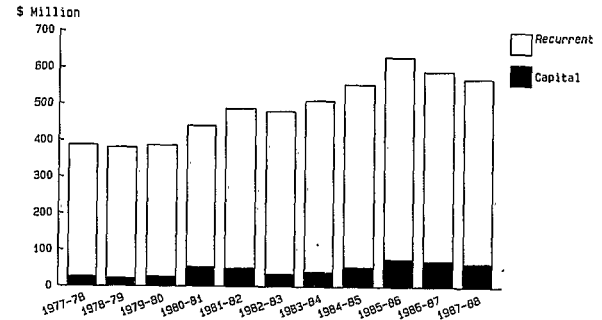
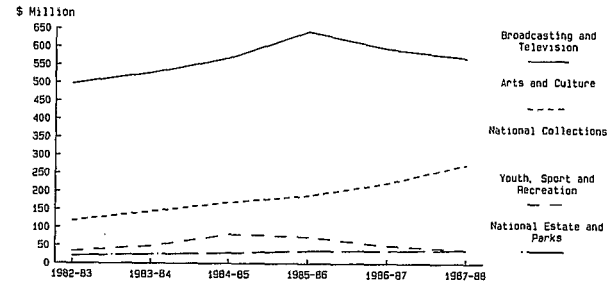


CHART 2. CULTURE AND RECREATION OUTLAYS
1982-83 TO 1987-88
(1987-88 DOLLARS)



The increase in National Collections is largely due to outlays on museums and related facilities. Nominal outlays on museums has increased from \$0.6m in 1982-83 to a peak of \$23.5m in 1986-87 and will be \$22.5m in 1987-88. This increase is largely the result of the Government's commitment to the development of an Australian National Maritime Museum. In 1986-87, concern at the number and scope of museums and related proposals prompted a review of the efficiency and effectiveness of existing Commonwealth museums (including the Australian National Gallery) and of the future Commonwealth involvement in the development of museums and related facilities. The recent federal election and revised administrative arrangements have delayed completion of the review and consideration by Ministers, which is now expected to occur later in 1987.

The increase in Arts and Culture over the last 5 years reflects increasing outlays associated with the bicentennial celebrations, including the National Program and Commonwealth participation in Expo '88. Outlays are expected to decline significantly in future years.

Since 1985-86, when outlays associated with the defence of the America's Cup peaked, the Youth, Sport and Recreation sub-function has experienced a reduction to an estimated \$38.0m in 1987-88. Construction of facilities at the Australian Institute of Sport (carried out over a period of five years) was completed in 1986-87.

Outlays on National Estate and Parks have increased significantly since 1982-83; in real terms the estimated increase will have been \$16m (75%). The major components are the Australian National Parks and Wildlife Service, and the Great Barrier Reef Marine Park Authority.

Total expenditure on the ABC is estimated at \$479.1m after adding receipts of \$40.0m from its orchestral and sales activities (down \$3.6m) and an \$8.7m opening cash balance to the ABC's appropriation of \$430.4m.

The ABC proposes to allocate \$419.5m of its 1987-88 budget allocation to domestic radio, television and orchestral activities; \$374.9m for operational outlays and \$44.6m for capital outlays. The capital allocation includes \$4.7m for planning and other costs associated with new studios and office accommodation for radio and orchestral activities at Ultimo in Sydney, at a total cost of some \$110m. The balance of the appropriation (\$10.9m) has been allocated to Radio Australia.

Special Broadcasting Service

As stated above, the Government will not proceed with the amalgamation of the SBS and the ABC, but the SBS will realise savings of \$1m from the co-operative rationalisation of its operations in 1987-88.

The SBS operates multilingual radio stations 2EA in Sydney and 3EA in Melbourne and a multicultural television service in the six State capitals, Canberra and some regional centres.

Of the \$52.9m provided for the SBS (\$48.7m in 1986-87), \$49.6m will be for operational outlays and \$3.3m for capital outlays. These amounts will be augmented by estimated receipts of \$0.7m and an opening cash balance of \$1.6m, mainly from deferral of payments for the relocation of radio station 2EA.

The 1987-88 figures include \$4.7m for the relocation of radio stations 2EA and 3EA to more suitable premises and to upgrade studio equipment.

Operation and Maintenance of National Transmitting Stations

The Commonwealth provides, operates and maintains the transmitting stations used for radio and television services by the ABC. This work is carried out by Telecom as an agent for the Commonwealth. There has been a small real reduction in outlays for this program reflecting increased efficiency.

The SBS provides for the operation and maintenance of its radio and television transmitters, either by Telecom or by private contractors, from within its appropriation.

Some national transmitting station sites are shared with commercial broadcasters or other users, who contribute towards the costs of services provided to them. Receipts from this source are estimated to be \$3m in 1987-88 (\$2.3m in 1986-87), largely reflecting an increase in rents for use of shared sites.

Provision and Installation of National Transmitting Stations

New transmitters and associated services required by the ABC and SBS are provided and installed by Telecom under contract to the Commonwealth.

As announced in the May Statement, the Government has decided to slow down the expansion of these services, providing savings of some \$6.7m against the Forward Estimates.

The 1987-88 estimate of \$17m is nevertheless a 17.6% increase on 1986-87 outlays of \$14.5m. The significant 1986-87 under-expenditure against the \$18m appropriated reflects a rescheduling of activity under the Equalisation program and

6.1 BROADCASTING AND TELEVISION

	1985-86		1986-87		1987-88	
	Actual	Actual	Estimate	Change	%	
	\$m	\$m	\$m	\$m		
Australian Broadcasting Corporation	430.0	425.6	430.4	4.8	1.1	
Special Broadcasting Service	46.4	48.7	52.9	4.2	8.6	
Operation and Maintenance of National Transmitting Stations	49.6	52.6	53.7	1.1	2.0	
Provision and Installation of National Transmitting Stations	16.2	14.5	17.0	2.5	17.6	
Regulation of the Broadcasting Industry	6.9	7.3	7.8	0.5	7.0	
Planning of Broadcasting and Other Related Outlays	8.3	9.1	9.0	-0.1	-0.8	
Total	557.4	557.8	570.8	13.0	2.3	

Australian Broadcasting Corporation

The Prime Minister announced on 26 April 1987 that the Government would not be proceeding with the proposed amalgamation of the ABC and the SBS, but he stated that cost savings would still be made within the publicly funded broadcasting sector. In 1987-88, savings of \$1m will be made for each of the ABC and SBS.

The ABC's operations include four domestic radio networks, a national television network and an overseas radio service, Radio Australia. It also maintains a symphony orchestra in each of the six State capitals and operates a number of ABC shops.

associated works on the ABC's Second Regional Radio Network and Band II clearance following the Government's decision to introduce four aggregated markets rather than the proposed six under the Equalisation plan.

Some \$7.4m has been allocated for works associated with the Government's Equalisation initiative which aims to provide three commercial television services to regional areas of Australia by the mid-1990s. The balance, \$9.6m, is to provide new facilities, principally for the ABC, including those for the Remote and Underserved Communities Scheme and the introduction of new television transmission services in NSW, Victoria and Queensland.

Regulation of the Broadcasting Industry

The Australian Broadcasting Tribunal (ABT) is responsible under the *Broadcasting Act 1942* for overall control of commercial and public radio services and commercial television services in Australia, including the granting and renewal of radio and television broadcasting licences and determining appropriate program and advertising standards.

The budget outlay of \$7.8m will enable the ABT to maintain its ongoing level of outlays. Some completed non-recurring activity including the Perth television licence inquiry and the ABT's relocation to new premises in Sydney is offset by the provision of some additional staffing and computing resources.

Planning of Broadcasting and Other Related Expenditure

The Department of Transport and Communications advises the Minister for Transport and Communications on overall planning of the broadcasting system in Australia and the development of policies for equitable access to radio and television services.

The provision of \$9.0m will allow the Department to plan the introduction of additional commercial television and radio services to regional areas; additional public radio services in regional and metropolitan areas; changes in some television frequencies to make way for additional FM radio services (Band II clearance) and introduction of a Second Regional Radio Network for the ABC and the Remote and Underserved Communities Scheme which aims to provide improved radio and television services in poorly serviced areas. Other costs arising in 1987-88 from these initiatives are noted under the heading Provision and Installation of National Transmitting Stations.

The Public Broadcasting Foundation (PBF) will be provided with \$1.3m for distribution to public broadcasting stations throughout Australia, and to help meet the administrative expenses of the PBF and the Public Broadcasting Association of Australia.

6.2 NATIONAL COLLECTIONS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Libraries	35.3	29.5	28.7	-0.8	-2.6
Australian National Gallery	15.4	15.5	16.0	0.6	3.6
War Memorial	10.2	11.9	17.8	5.9	49.4
Museums	7.9	23.5	22.5	-1.0	-4.1
Archives	17.0	17.5	20.6	3.1	18.0
National Film and Sound Archive	3.5	4.1	4.4	0.2	5.4
Total	89.2	102.0	110.1	8.1	7.9

Libraries

The provision for libraries includes \$26.2m for the operating expenses of the National Library of Australia, of which \$5.2m is for acquisitions.

Australian National Gallery

An allocation of \$15.7m has been made for the operating costs of the Australian National Gallery. This includes \$3.3m for Government funded acquisitions of works of art. The Gallery expects to receive a further \$2.5m in receipts to help finance its operations.

War Memorial

\$10.4m (\$9.4m in 1986-87) is provided for expenditure by the Australian War Memorial, comprising salary and operational costs of \$9.6m and \$0.8m for capital works and services. An additional \$7.4m is provided to continue construction of the administrative building (total cost \$9.7m) for the Memorial.

Museums

The allocation for the National Museum of Australia (\$2.5m) allows for the continuation of 1986-87 activity levels pending Government consideration of the Review of Commonwealth Involvement in the Development of Museums and Similar Collecting and Exhibition Institutions.

Construction activity on the Australian National Maritime Museum is expected to finish towards the end of 1987-88, when the balance of the Commonwealth payment for construction, namely \$10m, will be made (\$18m in 1986-87). Current plans are for the full museum display to be opened to the public in October 1988. \$10.0m is allocated for salary and operational expenses (including plant and equipment) together with 60 staff years in 1987-88.

Archives

The increase largely reflects the start of construction of a new repository in Tuggeranong (ACT) at an estimated total cost of \$2.6m (\$0.7m in 1987-88), minor new works (\$0.3m), and increased administrative expenses (\$1.1m).

6.3 ARTS AND CULTURE

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Film Industry Development	20.4	21.4	19.8	-1.6	-7.4
Assistance to the Arts	49.3	50.4	53.6	3.3	6.5
Assistance to Authors	1.8	2.1	2.4	0.4	17.7
War Graves	3.7	7.5	5.9	-1.6	-21.3
Australian Bicentennial Celebrations	31.6	69.8	118.0	48.2	68.9
Aboriginal Heritage, Culture and Recreation	8.1	10.9	12.5	1.6	14.4
Other Cultural Organisations	11.2	4.4	20.9	16.5	377.0
Culture and Recreation in the ACT	36.2	41.6	41.0	-0.6	-1.5
Arts and Culture—Administration	1.0	1.1	1.2	0.1	12.0
Total	163.5	209.1	275.3	66.2	31.7

Film Industry Development

The reduction in outlays for 1987-88 mainly reflects the Government's decision to restructure the operations of Film Australia, the film production arm of the Australian Film Commission (AFC), as a wholly owned Government company. Film Australia staff have been reduced by 27 to 106, with full year savings of \$1.3m expected to be achieved. Redundancy payments of \$1.1m were made in 1986-87. A provision of \$6.3m has been made for Film Australia in 1987-88. A recently formulated revenue sharing arrangement for the General Activities Branch of the AFC by which any increase in revenue is shared between the AFC and the Commonwealth also contributes to the reduction. This arrangement provides an incentive for the AFC to generate revenue.

Assistance to the Arts

It was recently agreed to rationalise funding for the Arts through the Australia Council. The Australia Council's appropriation of \$51.8m and 122 staff years includes savings of 5 staff years, \$0.2m, with a further 5 staff years reduction in 1988-89. A reduction of \$1m in grants in aid provided through the Australia Council was announced in the May Statement.

War Graves

The Office of Australian War Graves is responsible for arranging the individual commemoration of those men and women who died during, or as a result of, their war service. The decrease in estimated expenditure in 1987-88 mainly reflects the completion or near completion of the construction of Gardens of Remembrance in South Australia and Queensland and a reduction of \$1.1m in payments to the Commonwealth War Graves Commission.

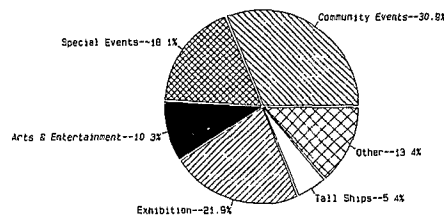
The Government has decided to extend the Garden of Remembrance at Rookwood in Sydney and to refurbish a number of existing plaques of commemoration. The cost is expected to be \$2.5m in 1988-89 and \$0.3m in 1989-90. The Government has also decided that commemoration from 1 July 1988 will be by way of plaque only—saving \$0.9m per annum.

Australian Bicentennial Celebrations

The total cost of the bicentennial program (at average 1987-88 prices) is estimated to be \$202m. The program comprises a National Program element of \$136m and a Commemorative Program element of \$66m. The National Program, administered by the Australian Bicentennial Authority (ABA), is designed to fund a variety of community activities and special events to celebrate Australia's bicentenary in 1988. (Chart 3 outlines how the total Program is to be allocated by type of activity.) Payments under the Commonwealth-State Bicentennial Commemorative Program made through the Department of the Prime Minister and Cabinet are paid directly to the States and are for capital projects of a lasting nature.

In addition to these program costs, an amount of \$15.5m is included in 1987-88 to meet the operating expenses of the ABA and \$0.7m for administrative expenses of the Department of the Prime Minister and Cabinet related to the bicentennial program.

CHART 3. NATIONAL BICENTENNIAL PROGRAM



Note: Total Program amounts to \$150.1m of which the Commonwealth is providing \$136.1m.

Aboriginal Heritage, Culture and Recreation

This item includes \$12.5m for grants to Aboriginal communities and groups for cultural, recreational and sporting activities (\$10.9m in 1986-87), including \$1.2m for Aboriginal broadcasting and communications activities (\$1.2m in 1986-87). Also included in this item is \$7.5m for expenditure by the Department of Aboriginal Affairs on dedicated projects for Aboriginal women and the promotion of Aboriginal art, heritage, culture and recreation in both the Aboriginal and general Australian communities (\$6.1m in 1986-87) and \$3.8m for the Australian Institute of Aboriginal Studies (\$3.6m in 1986-87). The Institute was established in 1964 to promote, encourage and assist research in relation to the Aboriginal people.

Other Cultural Organisations

The substantial increase in outlays in 1987-88 reflects the funding requirements of Commonwealth participation in Expo 88 in Brisbane and the establishment of the Office of Multicultural Affairs.

Culture and Recreation in the ACT

The estimates provide for the maintenance of existing services at about the same level as in 1986-87, offset by the completion of capital works that were commenced in 1986-87 and previous years.

6.4 YOUTH, SPORT AND RECREATION

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Australian Institute of Sport—Expenses	\$m	\$m	\$m	\$m	%
Australian Sports Commission	19.9	14.1	13.4	-0.6	-4.6
National Sports Facilities Program	8.7	9.2	10.2	1.0	10.7
Youth Affairs	7.0	7.0	5.2	-1.8	-25.7
"Young Endeavour" Program for Youth	8.6	6.5	3.8	-2.7	-41.7
Other Youth, Sport and Recreation	—	—	2.0	2.0	n.a
Total	19.6	9.6	3.4	-6.2	-64.3
Total	63.8	46.4	38.0	-8.4	-18.1

Australian Institute of Sport

A reduction in the Australian Institute of Sport's dependence on Commonwealth assistance through the establishment of off-budget revenue targets and the completion of construction activity are the main factors contributing to the reduction in outlays.

Australian Sports Commission

The increased level of support for the Australian Sports Commission is due mainly to an increase in the Commonwealth's contribution to the Australian Olympic Federation for participation in the 1988 Seoul Olympic Games.

National Sports Facilities Program

The reduction in outlays reflects the Government's decision to defer the balance of expenditure (\$2.8m) under the program to 1988-89.

Youth Affairs

The Budget provides \$3.8m for programs related to youth (apart from those included under 2. Education, such as student assistance, and 7C. Labour and Employment, such as the Community Youth Support Scheme, the Australian Traineeship System and Youth and Community Centres). Of this, \$1.1m is for the consultation, information and youth media programs which provides information and consultation with young people on Commonwealth provisions and entitlements. An amount of \$0.7m will also be provided for grants to non-Government sector youth organisations. Other youth-oriented provisions in 1987-88 are for international youth exchanges, research and policy development, youth services development and for the establishment of an Australian Contemporary Music Development Company. In addition, the salary and administrative costs of the youth affairs programs is \$1.2m. The 1987-88 youth affairs figure is down \$2.7m largely as a result of the completion in 1986-87 of the pilot Community Service Volunteers Scheme and the bulk of the pilot youth services development program.

"Young Endeavour" Program for Youth

The sail training ship "Young Endeavour" is the bicentennial gift to Australia from Great Britain, and from February 1988 will be operated by the Royal Australian Navy to provide adventure under sail cruises for young Australians. Costs of the program will be partly offset by the receipt of donations and fares, the level of which is yet to be determined.

Other Youth, Sport and Recreation

The reduction in estimated outlays in 1987-88 (down \$6.2m on 1986-87) largely reflects the completion of Commonwealth assistance associated with the Defence of the America's Cup in 1987.

6.5 NATIONAL ESTATE AND PARKS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Australian National Parks and Wildlife Service	\$m	\$m	\$m	\$m	%
Great Barrier Reef Marine Park Authority	14.0	15.3	17.2	1.9	12.6
National Estate	6.4	6.7	8.8	2.2	32.5
Australian Heritage Commission	6.1	5.8	6.1	0.3	5.7
Other	1.6	1.8	2.2	0.5	26.0
Total	3.0	3.6	3.7	0.1	2.5
Total	31.0	33.2	38.2	5.0	15.0

Australian National Parks and Wildlife

The increase largely reflects the recent decision to declare Stage 3 of Kakadu National Park. An additional \$0.5m and 8 staff years is to enable the Australian National Parks and Wildlife Service to provide facilities and to manage the area and to assist in monitoring exploration activities in the Conservation Zone. In addition \$0.4m and 2 staff years have been provided in 1987-88 for the establishment and operation of Aboriginal Contract Employment in the Nature Conservation Program.

Great Barrier Reef Marine Park Authority

The increase reflects changed funding arrangements for coastal surveillance (up \$0.6m on 1986-87) and day-to-day management of the Great Barrier Reef Marine Park (up \$0.6m on 1986-87), the costs of which are shared with the Queensland Government.

7A. TRANSPORT AND COMMUNICATION

The following table shows that Commonwealth outlays for transport and communication purposes are expected to continue their decline of recent years, with an estimated fall of \$7.7m or 0.5% in 1987-88. This largely reflects an increase in the repayment of loans by Australia Post, increases in aviation charges, completion of major airport works at Perth, Brisbane and Townsville and a smaller supplement for the Australian National Railways Commission. These decreases are partly offset by increased aviation service costs (mainly associated with the new Brisbane Airport) and a lower repayment of advances by Telecom. Road grants to the States, which account for almost three-quarters of Commonwealth outlays on transport and communication, are about the same as in 1986-87.

SUMMARY OF TRANSPORT AND COMMUNICATION OUTLAYS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
7A.1 Communication	20.0Cr	86.3Cr	75.5Cr	10.8	12.5
7A.2 Air Transport	336.9	283.2	266.7	-16.5	-5.8
7A.3 Road Transport	1 306.8	1 308.3	1 314.1	5.9	0.4
7A.4 Rail Transport	78.8	61.5	48.5	-13.0	-21.1
7A.5 Sea Transport	36.3	34.0	58.4	4.4	8.1
7A.6 Pipelines	10.4Cr	22.9Cr	17.4Cr	5.4	23.8
7A.7 Other	66.3	71.4	66.6	-4.7	-6.6
TOTAL	1 794.8	1 669.3	1 661.6	-7.7	-0.5

7A.1 COMMUNICATION

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
National Communications Satellite System	2.2	..	..	..	-1.7
Radio Frequency Management	12.8	14.3	14.6	0.3	2.2
Sub-total	15.0	14.2	14.5	0.3	2.2
Authorities Providing Communications Services—					
Australian Telecommunications Commission					
Interest-bearing advances	—	103.0	—	-103.0	-100.0
Repayment of interest-bearing advances	35.0Cr	201.0Cr	81.0Cr	120.0	59.7
Australian Postal Commission					
Repayment of Capital	—	2.5Cr	9.0Cr	-6.5	-260.0
Total	20.0Cr	86.3Cr	75.5Cr	10.8	-12.5

National Communications Satellite System

AUSSAT Pty Ltd, owned 75% by the Commonwealth and 25% by Telecom, was established in 1981 to own and operate Australia's domestic satellite system. The third and final satellite of the first generation of AUSSAT satellites is due for launch in September 1987 and planning for the replacement second generation of satellites (due for launch in 1990-91) is well advanced. There will be no calls on the Budget by AUSSAT in 1987-88 and the company is expected to commence dividend payments in 1988-89.

Radio Frequency Management

Some \$14.6m is provided to enable the Department of Transport and Communications to oversee use of the radio frequency spectrum for private, commercial and public radiocommunications purposes.

AUTHORITIES PROVIDING COMMUNICATIONS SERVICES

Communications services are mainly provided by the Australian Telecommunications Commission, the Australian Postal Commission, the Overseas Telecommunications Commission (Australia) and AUSSAT Pty Ltd, all of which operate outside the budget sector.

Australian Telecommunications Commission (Telecom)

Telecom operates on a commercial basis with a statutory objective of financing all its operating costs plus at least half of its capital expenditures each year from internal sources. Commencing in 1987-88, Telecom is required to pay sales tax and customs duty (see Statement 4) although it otherwise enjoys a tax-exempt status. Telecom's capital expenditure program for 1987-88 (net of the effects of the new sales tax and customs duty) is estimated at \$2580m, an increase on 1986-87 of about 7% in real terms. Telecom has been authorised by the Loan Council to undertake new borrowings of \$745m in 1987-88 to partly finance this program, with the balance of funds coming from internal sources. No interest-bearing advances to Telecom from the Budget are envisaged in 1987-88.

In 1986-87, Telecom was required to repay \$98m of its outstanding budget loans, following a repayment of \$35m in 1985-86. The \$98m repayment coincided with the rollover in February 1987 of a \$201m loan, the difference being the Commonwealth advance of \$103m in the above table. As announced in the May Statement, Telecom will be required to repay a further \$81m of its outstanding debt to the Commonwealth.

Telecom is also repaying, at the rate of \$64m a year over 8 years, the employer superannuation contributions which it retained in the 6 years to 1983-84 to finance its capital program. (For further details, refer to Statement No. 3 in the 1985-86 Budget Paper No 1).

The total interest payable to the Commonwealth by Telecom in 1987-88 is estimated at \$653m compared with \$661m in 1986-87. The \$8m decrease reflects the debt repayments by Telecom offset by increased rates of interest on the debt which has been rolled over. (For further details, see Statement No. 4).

Australian Postal Commission (Australia Post)

Australia Post is also required to operate on a commercial basis with, like Telecom, a statutory objective of financing all its operating costs plus at least half its capital expenditure each year from internal sources. It too is now subject to sales tax and customs duty but otherwise enjoys a tax-exempt status. Australia Post's capital expenditure program for 1987-88 is estimated at \$110m, compared with \$88m in 1986-87. No new money borrowing program has been approved for Australia Post in 1987-88.

In 1986-87, Australia Post repaid \$2.5m of the original capital of \$105.2m vested in it in 1975 and in 1987-88 will be required to repay a further \$9.0m, reducing the balance of its vesting-day capital to \$28.4m. The interest payable to the Commonwealth on this capital is estimated at \$5.3m in 1987-88, a decrease of about \$0.2m (see Statement No. 4), reflecting the \$2.5m debt repayment in 1986-87.

7A.2 AIR TRANSPORT

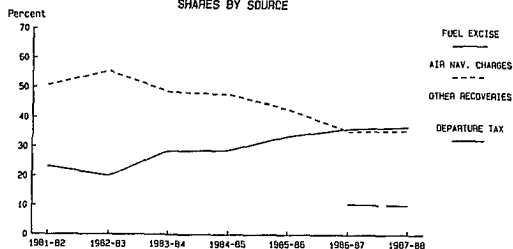
	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Services to Air Transport Industry—					
Administration	387.1	396.9	425.1	28.2	7.1
Plant and Equipment for Airport and Airways					
Facilities	45.8	37.3	58.7	21.4	57.5
Sites, Buildings and Works	143.0	124.1	88.7	-35.4	-28.5
Recoveries—					
Air Navigation Charges	143.7Cr	186.7Cr	213.2Cr	-26.5	-14.2
Airport Rentals and Business Concessions	61.9Cr	76.9Cr	85.7Cr	-8.8	-11.4
Other Recoveries in Outlays	19.4Cr	23.6Cr	22.4Cr	1.2	5.1
Sub-total	350.7	271.1	251.3	-19.9	-7.3
Qantas Airways Limited—					
Repayment of Advances	24.7Cr	—	—	—	—
Australian National Airlines Commission—					
Repayment of Advances	6.7Cr	—	—	—	—
Assistance to Operators and Aviation Bodies—					
Air Service Subsidies	0.5	0.7	0.8	0.1	6.8
Grants to Aviation Organisations	1.0	1.1	1.2	0.1	7.3
Aerodrome Local Ownership Plan	16.1	10.3	13.5	3.2	31.2
Total	336.9	283.2	266.7	-16.5	-5.8

Government services to the air transport industry are currently supplied by the Department of Transport and Communications, which operates 57 airports and provides civil aviation services at all government-owned airports including those under the control of the Department of Defence. The Budget estimates for 1987-88 reflect these arrangements, although seventeen major airports are to be taken over by the Federal Airports Corporation, thus taking off-budget significant new and replacement infrastructure costs and airport earnings, at a date to be determined.

The Department is also responsible for formulating and enforcing air safety and operational regulations, administration of the Two Airlines Agreement, and providing policy advice on international and domestic aviation issues, including oversight of Qantas and Australian Airlines.

The costs of the services supplied to the industry by the Department are recovered partly through direct charges which are offset within outlays, viz air navigation charges (\$213.2m in 1987-88), airport rental and business concession fees and other user charges (\$104.1m). General revenue from aviation fuel excise (\$214m) and the international departure tax (\$59.5m) is also treated as a contribution by the industry to meet the cost of services.

CHART 1. ATTRIBUTABLE RECOVERIES:
SHARES BY SOURCE



Preliminary calculations indicate that, after years of significant under recoveries, a 106% cost recovery rate was achieved in 1986-87 and 102% is forecast for 1987-88. The main reasons for the marked increase in cost recovery are increased aviation fuel excise rates intended to offset general revenue (and price) reductions due to Import Parity Pricing arrangements, the decision to attribute departure tax revenue from 1986-87, and increased air navigation charges. Chart 1 indicates the trend towards increasing reliance on fuel excise revenues as a cost recovery instrument; arrangements for the measurement and recovery of costs are to be reviewed before the 1988-89 Budget.

SERVICES TO AIR TRANSPORT INDUSTRY

Administration

Agency administration costs for air transport, excluding corporate services, are estimated to rise by \$28.2m or 7.1% to \$425.1m. The estimate allows for full year effects of National Wage Case decisions (\$4.3m), general price increases (\$7.6m), carry-over of 1986-87 allocation (\$5.5m), operating costs of new Brisbane Airport (\$5.2m), removal of asbestos at Sydney International Airport Terminal (\$2.0m) and introduction of inter-agency charging (\$2.6m), partly offset by the 1.25% efficiency dividend (\$5.1m).

Plant and Equipment for Airports and Airways Facilities

Purchases of navigational, communications and other plant and equipment are estimated at \$58.7m (up \$21.4m) reflecting the commencement of a major upgrade of the airways system which will involve significant future outlays. Integration and modernisation of the airways system will reduce air transport infrastructure operating costs.

Sites, Buildings and Works

The \$35.4m reduction mainly reflects completion of Perth Airport development in 1986-87 and the scheduled completion of Brisbane and Townsville Airport development projects in 1987-88, partly offset by additional outlays on upgrading the international terminal building and taxiways at Sydney (Kingsford-Smith) Airport and runway resheeting works at Perth and Alice Springs airports (\$6.5m). Land acquisition for a second Sydney airport at Badgers Creek will be limited to \$15m in 1987-88 (\$9.8m in 1986-87) and funding for the next three years will be maintained at \$15m in real terms. Provision has also been made for the transfer of land and buildings of Watson High School (ACT) to the Department of Transport and Communications for use as an Aviation Training College and for the construction of a building to house air traffic control simulators.

RECOVERIES

Air Navigation Charges

Recoveries from this source will rise by \$26.5m due to maintenance of charges at the same real level and industry growth. The Government has replaced the system of fixed annual air navigation charges for General Aviation users with a 3.9 cents per litre surcharge on Avgas fuel excise (which is a taxation revenue, see Statement 4) from 1 July 1987. Prepaid charges, in respect of the period following 1 July 1987, are being refunded. The rebate for commuter airlines will continue in 1987-88 at a reduced rate of 25%, costing \$1.2m.

Airport Rentals and Business Concessions

Recoveries from airport rentals are estimated to increase by \$0.4m or 2% to \$20.0m. Recoveries from business concessions at airports are expected to rise by \$8.4m to \$65.7m, mainly due to contract renewals on commercial terms.

Other Recoveries in Outlays

The reduction is mainly due to lower recoveries for services (mainly on-sale of electricity) to other departments and organisations. Such recoveries are estimated to fall by \$1.1m to \$15.7m.

ASSISTANCE TO OPERATORS AND AVIATION BODIES

Air Service Subsidies

The Government has allocated \$0.8m for continuation of subsidies to seven operators of air services in remote areas to ensure a designated level of service to the isolated communities concerned.

Grants to Aviation Organisations

Provision has been made for contributions of \$790 000 to the International Civil Aviation Organization and \$38 000 to the Commonwealth Air Transport Council. Nine domestic aviation bodies will receive grants totalling \$0.3m.

Aerodrome Local Ownership Plan

Under the Plan, the Commonwealth finances the up-grading of aerodromes servicing local demands to a mutually agreed standard at the time of transfer from Commonwealth to local ownership, and thereafter provides grants to help local bodies fund the maintenance and further development of the aerodromes. The Plan will cost the Commonwealth \$13.5m (up \$3.2m) in 1987-88.

7A.3 ROAD TRANSPORT

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Road Grants to the States—					
Australian Land Transport Program	805.1	805.4	763.8	-41.6	-5.2
Australian Bicentennial Road Development Program	440.0	439.6	480.2	40.6	9.2
Interstate Road Transport	—	1.4	5.0	3.6	258.1
Other	5.8	1.0	—	-1.0	-100.0
Sub-total	1250.9	1247.5	1249.0	1.5	0.1
Road and Related Works in the ACT	35.7	37.8	29.2	-8.6	-22.8
Public Transport and Equipment in the ACT	18.3	21.0	33.5	12.5	59.7
Transport Research and Investigations	2.0	2.0	2.4	0.4	20.5
Total	1306.8	1308.3	1314.1	5.9	0.4

ROAD GRANTS TO THE STATES

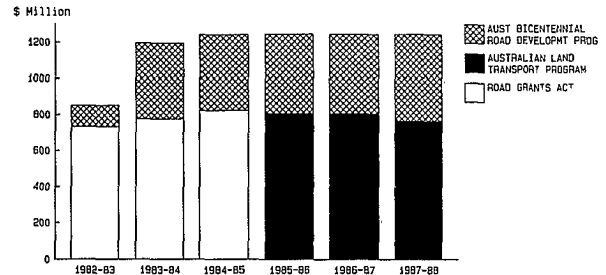
Road grants under this heading are provided mainly under the Australian Land Transport Program (ALTP) and the Australian Bicentennial Road Development (ABRD) program. The Budget provides for outlays of \$1244m on roads under these schemes in 1987-88. This is similar to the level of outlays in 1985-86 and 1986-87 (see Chart 2 below).

The Government has announced that the existing 2 cents per litre excise surcharge on motor spirit and distillate, currently used to fund the ABRD program, will be continued for a further five years after 1988 and that revenue raised from the surcharge will continue to be dedicated to roads.

Australian Land Transport Program

The Australian Land Transport (Financial Assistance) Act 1985 (the 'ALTP Act') commenced on 1 July 1985 and provides for a five-year financing program. The program is funded from a share of the excise on motor spirit and diesel fuel, which (after allowing for rebates) is paid into the Australian Land Transport Trust Fund.

CHART 2. ROAD GRANTS TO THE STATES

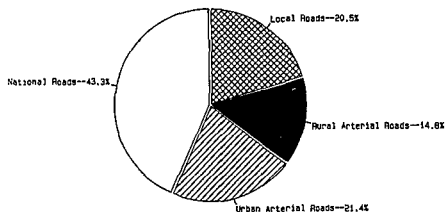


In general, the share of the fuel excise dedicated to the ALTP is indexed to the CPI in the same way as general excise rates. However, the Government announced in the May Statement that outlays under the ALTP and the ABRD program would be held to \$1250m in 1987-88. The rate of excise allocated to the ALTP will be adjusted to achieve this.

Moneys in the Trust Fund, including interest on unexpended amounts, can be used only for purposes designated under the *ALTP Act*. Of the \$769.8m available in 1987-88, \$763.8m will be provided to the States for road construction and maintenance. A further \$6.0m of ALTP funds will be used for other purposes and is therefore included under other relevant functional headings. These funds (which are not distributed among the States) will be made available for funding land transport research and road safety, and ALTP administration costs (\$1.0m in 1987-88) incurred by the Commonwealth Department of Transport and Communications. The program also provides scope for re-allocating funding to railway improvement programs.

Funds for arterial and local roads will be allocated between the States in 1987-88 in accordance with the provisions in the legislation. The Commonwealth Government has accepted the recommendations of the Independent Inquiry into the Distribution of Federal Road Grants (the Cameron Inquiry) for the distribution of the previously unallocated 10% of ALTP arterial and local road funds. This will slightly increase the share of ALTP funding to NSW, Victoria and South Australia as well as providing a larger share for urban and rural arterial roads. The combined allocation of ALTP and ABRD road grants to the States by road category is illustrated in Chart 3.

CHART 3. ROAD GRANT TO THE STATES
BY CATEGORY OF ROAD 1987-88



Australian Bicentennial Road Development Program

The ABRD program provides funds to the States for road works and urban public transport projects, with the aim of upgrading sections of Australia's road system to a high standard by the bicentennial year. It is financed from the previously mentioned surcharge of 2 cents per litre on the excise on motor spirit and distillate, and is to terminate on 31 December 1988. As with the ALTP, excise receipts (net of rebates) and interest on unexpended amounts are paid into a Trust Fund and can be used only for ABRD projects. The Budget provides for payments to the States under the program of \$480.2m in 1987-88. The ABRD Trust Fund is expected to have a balance of \$19.4m at 30 June 1988.

Interstate Road Transport Charge

Commonwealth assistance to the States under the *Interstate Road Transport Act 1985* and the *Interstate Road Transport Charge Act 1985* commenced on 1 January 1987. This legislation provides for the registration of vehicles and licensing of operators engaged in interstate trade and commerce. The registration charge is designed to ensure that such vehicle owners contribute to the repair and maintenance costs associated with the roads they use. Charges under the legislation are collected by State and Territory vehicle registration authorities and paid into a trust fund prior to distribution to the States and Territories for outlays on the roads. Collections to be passed on to the States are estimated at \$5.0m for 1987-88, the first full year of operation.

Other

The \$1.0m provided in 1986-87 for outlays on roads projects in Australia's steel regions, as part of a package of assistance to these regions which began in 1983-84, was the final payment. The Commonwealth, through special grants to Tasmania, funded the total cost of the second Hobart bridge, opened in 1984. The payment of \$0.1m in 1986-87 was also a final payment.

TRANSPORT IN THE ACT

Road and Related Works in the ACT

Outlays in 1987-88 on the construction, improvement and maintenance of roads, highways and bridges in the ACT include \$16.7m for new roads and improvements to existing roads and \$12.5m for road maintenance.

The reduction in outlays reflects the completion of roadworks commenced in 1986-87 and previous years, particularly those associated with access to the new Parliament House. Offsetting this to some extent, work is to commence in 1987-88 on stage 1 of the Eastern Parkway.

Public Transport and Equipment in the ACT

This provision has increased by \$12.5m; it includes the operating subsidy for the ACTION bus service (\$19.2m, up \$1.8m) and the purchase of additional and replacement buses and associated plant and equipment (\$17.9m, up \$11.1m). The increase results from undertaking capital outlays on-budget, and extending operating subsidy payments, so that Canberra's local public transport service can expand in line with new suburban development and employment growth in the civic centre.

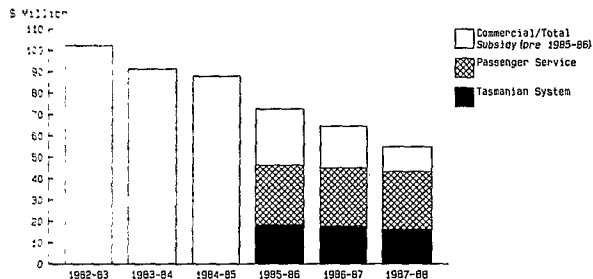
TRANSPORT RESEARCH AND INVESTIGATIONS

As in the past three years, part of the ALTP program fund will be devoted to land transport research. \$2.4m (up \$0.4m on 1986-87) is to be provided. The Australian Road Research Board, which the States also fund, undertakes research into road design and construction, traffic engineering and traffic management.

7A.4 RAIL TRANSPORT

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Australian National Railways Commission--					
Revenue Supplement	72.5	64.5	54.9	-9.6	-14.9
Mainline Upgrading Grant	0.6	—	0.5	-0.1	-19.6
Workshops Upgrading	—	—	3.9	3.9	na
Payment of Interest-bearing Advance	23.5	5.2	1.6	-3.6	-69.2
Repayment of Interest-bearing Advance	21.1Cr	2.2Cr	5.1Cr	-2.9	-133.6
Assistance to States					
Railway Upgrading	9.7	—	—	—	-100.0
Repayment of Advances	6.4Cr	6.6Cr	7.2Cr	-0.6	-9.3
Rail Research	0.6	—	—	—	—
Total	78.8	61.5	48.5	-13.0	-21.1

CHART 4. AUSTRALIAN NATIONAL RAILWAYS COMMISSION
REVENUE SUPPLEMENT



AUSTRALIAN NATIONAL RAILWAYS COMMISSION (ANRC)

Revenue Supplement

There has been a steady decline in ANRC's call on the Budget in recent years; its revenue supplement has fallen 24.3% since 1985-86 (see Chart 4). The major factor behind ANRC's improved performance has been increased productivity from its work force (see Chart 5 below). ANRC's 1987-88 revenue supplement of \$54.9m is the Commonwealth's contribution to cover ANRC's estimated operating losses. It has three components: \$11.7m for mainland commercial and other (non-passenger) operations; \$27.0m for mainland passenger services; and \$16.2m for the Tasmanian system.

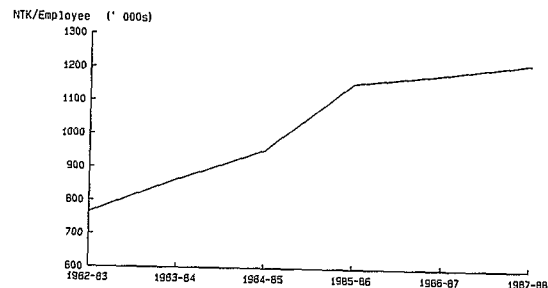
For 1988-89 and 1989-90, the Government has set revenue supplement targets of \$45.0m and \$40.0m respectively. The actual supplements will be determined closer to the event in accordance with ANRC's legislation.

Workshops Upgrading

Following review of the performance of ANRC's railway workshops, the Government has decided to provide a series of non-interest bearing repayable advances commencing with \$3.9m in 1987-88 for the purpose of revitalising the Islington workshops in South Australia. The advances are to be repaid by the end of 1991-92. The project involves a substantial upgrading of workshop machinery and the introduction of employee multi-skilling.

Capital outlays on the workshops will be undertaken over four years and involve a total cost of \$20.5m. Productivity improvements flowing from the project are forecast to provide on-going savings of \$8.4m per annum on its completion.

CHART 5. AUSTRALIAN NATIONAL RAILWAYS COMMISSION
NET TONNE KILOMETRES PER FREIGHT EMPLOYEE



Mainline Upgrading Grant

A further \$0.5m will be provided from the ALTP Trust Fund to upgrade ANRC's mainline operations.

Other Capital Outlays

ANRC has received Loan Council approval to borrow \$30.1m for new capital outlays. This encompasses \$21.8m towards payments on 12 new locomotives and \$8.3m to enable replacement of the existing Trans-Australia Railway pole line with an optic fibre cable. This cable will be laid in conjunction with the Telecom optical fibre cable project, resulting in cost savings of nearly half that of independent construction. ANRC will also seek to raise up to \$25.0m in the domestic capital market in 1987-88 to refinance maturing long-term domestic borrowings.

ANRC has approval for Budget loans totalling \$1.6m in 1987-88 to fund the program for rehabilitation of the Tasmanian railways. This program commenced in 1977-78 and will have involved Budget loans of \$24.6m to 30 June 1988. Loan Council has approved ANRC's refinancing \$5.1m of these loans from private sources to reduce interest costs.

ASSISTANCE TO THE STATES

Repayment of Advances

Repayments of past advances from the Commonwealth for State rail projects are estimated at \$7.2m. The main components relate to standardisation of the railway line between Kalgoorlie, Kwinana and Koolyanobbing under the *Railway Agreement (Western Australia) Act 1961*, and mainline railway upgrading under the *National Railway Network (Financial Assistance) Act, 1979*.

The balance of loans owing to the Commonwealth at 30 June 1988 is expected to be \$94.5m.

7A.5 SEA TRANSPORT

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Australian Shipping Commission—					
Repayment of Advances	19.9Cr	—	—	—	—
Assistance to Ship Owners, Shippers and State Governments—					
Tasmanian Freight Equalisation Scheme	27.5	27.5	27.4	-0.1	-0.4
Ship Purchase Grants	—	—	4.1	4.1	na
Australian Shippers' Council	0.2	0.2	0.2	..	0.1
Repayments of Past Advances for Harbour Projects	0.2Cr	0.2Cr	0.2Cr	..	3.8
Provision of Services—					
Buildings and Works	1.1	0.6	0.7	0.1	12.3
Maritime Services	21.9	16.2	17.1	0.8	5.2
Payment for Maritime Communications	5.6	9.6	9.1	-0.5	-5.3
Total	36.3	54.0	58.4	4.4	8.1

AUSTRALIAN SHIPPING COMMISSION (ANL)

Repayment of Advances

The repayment of \$19.9m in 1985-86 related to an outstanding overseas loan of \$US14m which was raised by the Commonwealth on ANL's behalf.

ANL has been set a financial target for 1987-88 consistent with the Government's policy that the Line operate as a profitable commercial enterprise, and it is expected to pay a dividend during the year from its 1986-87 profit (see Budget Statement No. 4).

ASSISTANCE TO SHIP OWNERS, SHIPPERS AND STATE GOVERNMENTS

Tasmanian Freight Equalisation Scheme

This scheme provides assistance to shippers of certain non-bulk goods between Tasmania and the mainland to help alleviate the freight cost disadvantage they suffer in comparison with mainland States. The estimate assumes continuation of present volumes of cargo moving across Bass Strait and no change to the present rates of assistance.

Ship Purchase Grants

Commencing in 1987-88, the Commonwealth is to provide a taxable grant of 7% of the purchase price of new or secondhand trading ships or 7% of the cost of modification of existing ships. The scheme is estimated to cost the Commonwealth \$4.1m in 1987-88. The grants are designed to encourage modernisation of the Australian fleet and are contingent on specified lower crewing levels being achieved.

Australian Shippers' Council

The Commonwealth is to provide up to \$240 000 to the Australian Shippers' Council, with the amount to be provided tied to the level of funding raised through members' subscriptions. The Council is designated under the *Trade Practices Act 1974* to negotiate arrangements for the carriage of goods in Australia's outward liner trades. Its current members comprise 25 exporter bodies covering Australia's most important liner exports.

Repayments of Past Advances for Harbour Projects

Repayments of past Commonwealth advances for State harbour projects are estimated to remain at \$0.2m.

PROVISION OF SERVICES

Buildings and Works

\$0.7m is provided for construction, replacement and improvement of marine navigational aids.

Maritime Services

The Department of Transport and Communications is to be allocated \$17.1m for a range of maritime services to shippers and government agencies; \$14.1m is for operating costs and \$2.9m for plant and equipment for marine navigational aids.

Where the Department assigns its vessels to tasks for other Commonwealth agencies, associated costs are recovered from those agencies. Other costs associated with maritime services, including the capital costs of plant and equipment, are largely recovered from the maritime industry through levies and charges (eg Light Dues, Navigation Act charges and the Oil Pollution Levy). Estimates are reported under the heading 'Other Recoveries'.

Payment for Maritime Communications

\$9.1m is provided for payment to the Overseas Telecommunications Commission for maritime safety communications services associated with the Australian Ship Reporting Service, and Australia's obligations under the International Convention for Safety of Life at Sea.

The decrease reflects significant back-payments paid in 1986-87, partly offset by higher rates applicable in 1987-88.

7A.6 PIPELINES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Pipeline Authority—					
Payment of Interest-bearing Advances	10.9	—	4.5	4.5	na
Repayment of Advances	21.3Cr	22.9Cr	22.0Cr	0.9	4.1
Total	10.4Cr	22.9Cr	17.4Cr	5.4	23.8

The Pipeline Authority is to receive interest bearing loans of \$4.5m in 1987-88 to meet the estimated shortfall between the Authority's receipts and its expenditure (including repayments of previous Commonwealth loans). Receipts derive primarily from the transport of natural gas from Moomba to Sydney, other cities in NSW and Canberra. Expenditure include operational, maintenance and administrative expenses (\$15.1m), interest payments and loan repayments on private sector borrowings, and loan repayments (\$22.1m) to the Commonwealth, and interest payments (\$30.6m) to the Commonwealth (covered in Budget Statement No. 4).

The increase in advances to the Authority mainly reflects an adjustment made in 1986-87 in respect of the funding for construction of a Bathurst-Orange-Lithgow Lateral and a new compressor station (Bulla Park) on the Moomba to Sydney pipeline. \$5m in receipts was retained by the Authority in 1985-86 for payments on these projects, and the charging of these outlays to private sector borrowings in 1986-87 freed funds to reduce the call which the Authority would otherwise have had in 1986-87 for Commonwealth advances.

Outlays from the Authority's private sector borrowing program of \$34.5m for 1987-88 are a further \$9.0m on the Bathurst-Orange-Lithgow Lateral, \$9.5m for a new compressor station and \$16.0m refinancing of maturing private sector loans.

7A.7 OTHER

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Inter-State Commission	1.3	1.1	1.2	..	3.4
General Administration	74.3	79.2	80.8	1.6	2.0
Other Payments	39.7	40.4	39.5	-1.0	-2.4
Other Recoveries	49.0Cr	49.5Cr	54.8Cr	-5.3	-10.8
Total	66.3	71.4	66.6	-4.7	-6.6

Inter-State Commission

The Inter-State Commission is to be provided with \$1.2m in 1987-88. The Commission, under the *Inter-State Commission Act 1975*, investigates issues affecting interstate transport upon reference by the Minister for Transport and Communications.

General Administration

This item largely represents corporate support and resource management activities of the Department of Transport and Communications. General administration outlays are expected to be \$80.8m in 1987-88, up \$1.6m on the 1986-87 outlays incurred separately by the former Departments of Transport, Aviation and Communications and the Bureau of Transport Economics. The relatively small increase largely reflects the rationalisation in this area following the amalgamation of the three Departments, although additional funding of some \$1.25m has been provided in 1987-88 towards upgrading the Communications laboratory facilities at a total cost of \$10.4m over three years.

Other Payments

Includes the consolidation of general running costs of the former Department of Transport and the Bureau of Transport Economics, excluding general administration. Running costs relating to communications and air transport, other than general administration, are included in the Communication and Air Transport sections of this document.

Salaries are the main type of outlays under this heading and are expected to be \$36.2m, a decrease of \$0.4m, which reflects efficiency gains. Other components include administrative expenses (\$1.7m), maritime search and rescue (\$1.1m) and various other Departmental running costs.

Other Recoveries

This heading covers payments received by the Commonwealth for its provision of various transport services. The largest single item is light dues, which are paid by commercial shipping for services provided by marine navigational aids. Light due receipts are expected to be \$37.2m, up \$0.8m.

Recoveries associated with the charter of Department of Transport and Communications' vessels are estimated to be \$9.8m. The Department's vessels are chartered by the Division of National Mapping within the Department of Administrative Services for mapping tasks and by the Australian International Development Assistance Bureau for hydrographic projects.

Other recoveries include charges (estimated at \$4.0m) for services provided by the Commonwealth under the *Navigation Act 1912*, such as ship safety surveys, cargo inspections and various other safety inspections. Charges for these services are expected to reach full cost recovery by 1990-91.

7B. INDUSTRY ASSISTANCE AND DEVELOPMENT

The Commonwealth assists industry through a variety of measures including direct financial assistance, taxation concessions, guaranteed domestic price and other marketing arrangements, financial guarantees, a degree of selective preference for local industries in Commonwealth-sector purchasing policy, the customs tariff, and import quota restrictions.

Direct financial assistance from the Budget is provided in several forms: bounties and other subsidies, price support and adjustment schemes, development projects primarily in support of industry, disease eradication schemes, contributions to research and promotion, and other outlays to or for the benefit of industry. It includes outlays of some departments and organisations which service industry (eg the Departments of Industry, Technology and Commerce, Primary Industries and Energy, and the Australian Tourist Commission). Such departments and organisations provide many services either free of charge or for charges which do not recover fully the costs involved.

Outlays recorded under some other functional headings also assist industry. Examples are the provision of airports and airway services, roads and shipping subsidies, outlays to maintain or improve the defence capacity of industry, certain outlays by the CSIRO and disaster relief assistance provided through the Natural Disaster Relief Arrangements.

Apart from these direct outlays from the Budget, considerable assistance is also provided to industry through special provisions in the taxation system which, as they result in a reduction of Government revenues, are as much a call on the Budget as are direct outlays. Some such provisions (eg the 150% tax concession for research and development) are of wide application; others affect only particular industries (eg the averaging provisions for income arising from primary production) or specific activities of particular industries (eg the accelerated or immediate write-offs available to primary producers for certain capital outlays). Detailed estimates are not available but the revenue foregone under such provisions could be of the same order of magnitude as direct outlays for industry assistance and development.

Commonwealth outlays on industry assistance and development are expected to increase by \$44.1m or 3.7% in 1987-88.

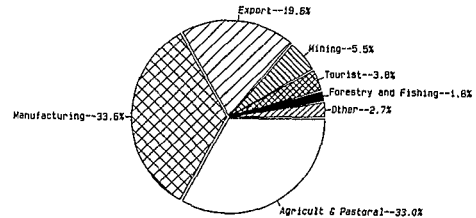
The major factors contributing to the expected increase in outlays for this sub-function include increases in assistance to the heavy industries (steel, heavy engineering and machinery) and the light industries (textiles, clothing and footwear). Outlays on assistance to mining are expected to increase by \$56.4m. Offsetting these increases is a reduction in net assistance to the wool industry of \$49.4m.

SUMMARY OF INDUSTRY ASSISTANCE AND DEVELOPMENT OUTLAYS

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate	Estimate	
	\$m	\$m	\$m	\$m	%
7B.1 Forestry and Fishing Industries	6.5	21.2	22.4	1.1	5.4
7B.2 Agricultural and Pastoral Industries	426.7	460.0	403.6	-56.4	-12.3
7B.3 Mining Industry	132.8	11.3	67.7	56.4	na
7B.4 Manufacturing Industry	479.3	371.1	411.8	40.7	11.0
7B.5 Tourist Industry	31.9	38.3	46.0	7.6	19.9
7B.6 Assistance to Export Industries	294.7	241.9	240.5	-1.4	-0.6
7B.7 Other Assistance to Industry	52.8	36.5	32.6	-3.9	-10.8
TOTAL	1424.6	1180.3	1224.4	44.1	3.7

Detailed information on each of these industry categories is set out in Chart 1 below

CHART 1. INDUSTRY ASSISTANCE AND DEVELOPMENT
COMPOSITION OF OUTLAYS 1987-88



7B.1 FORESTRY AND FISHING INDUSTRIES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Forestry Development	\$m 12.1Cr	\$m 1.6Cr	\$m 0.9	\$m 2.5	na
Fisheries	18.6	22.8	21.5	-1.3	-5.9
Total	6.5	21.2	22.4	1.1	5.4

Forestry Development

Included under this heading are repayments by the States of loans under the *Softwood Forestry Agreements Acts*. The estimates also cover plant and equipment for the ACT forestry operation and transactions of the ACT Forestry Trust Account. ACT forestry operations are broadly self-financing.

In 1987-88, \$2.5m is to be provided for a national afforestation program (with emphasis on native hardwoods). The program involves total outlays of \$15m over three years.

Fisheries Research, Promotion, Management and Development

The net provision of \$21.5m includes \$6.8m for payment into the Fishing Industry Research Trust Account (\$1.7m higher than in 1986-87 due mainly to the requirement to match "catch-up" contributions from Victoria for research); \$5.6m to reimburse the States for fisheries administration, monitoring and enforcement activities on behalf of the Commonwealth; \$5.3m for salaries and administrative expenses of the Australian Fisheries Service; \$3m for a Commonwealth contribution to the National Fisheries Adjustment Program Trust Account, to fund a buy-back scheme to reduce activity in the industry; and \$3.1m for the purchase by Queensland of initial capital items for management of fisheries in the Torres Strait Protected Zone. Expenditures are partially offset by fisheries levies estimated at \$9.0m in 1987-88 (up \$5.7m on 1986-87), of which \$4.9m is the industry's contribution to the National Fisheries Adjustment Program Trust Account.

The above figures include \$3.5m for a range of new initiatives to improve the management and development of Australia's fisheries resources. The cost of these programs is to be fully offset by additional receipts from fisheries levies.

7B.2 AGRICULTURAL AND PASTORAL INDUSTRIES

Commonwealth outlays on agricultural and pastoral industries are estimated at \$403.6m, a decrease of \$56.4m. These outlays are the net result of direct Commonwealth financial assistance, industry contributions collected by the Commonwealth on the industry's behalf and interest earned on industry contributions held in trust funds. The decrease largely reflects the transfer of the assets and liabilities of the Wool Research Trust Account to the Australian Wool Corporation (AWC).

SUMMARY OF AGRICULTURAL AND PASTORAL INDUSTRIES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
7B.2.1 Wool Industry	\$m 39.5	\$m 96.9	\$m 47.5	\$m -49.4	-51.0
7B.2.2 Wheat Industry	112.4	19.2	11.6	-7.6	-39.5
7B.2.3 Sugar Industry	1.7	23.5	13.8	9.7	-41.3
7B.2.4 Dairy Industry	1.5	3.2Cr	0.3	3.4	na
7B.2.5 Fruit Industry	1.8	4.7	0.1Cr	-4.8	na
7B.2.6 Poultry Industry	0.5	0.4	1.4	1.0	225.7
7B.2.7 Cattle, Sheep and Pig Industries	26.0	27.5	26.4	-1.0	-3.7
7B.2.8 Other Agricultural and Pastoral Industries	8.2	11.1	16.8	5.7	51.5
7B.2.9 Charges and Repayments nec	5.8Cr	5.8Cr	6.5Cr	-0.6	-10.9
Total Specific Industries	185.8	174.3	111.4	-63.0	-36.1
7B.2.10 General Assistance not Allocated to Specific Agricultural and Pastoral Industries	144.7	183.9	179.7	-4.2	-2.3
7B.2.11 Water Resources Development and Management	44.5	45.8	46.7	0.9	2.0
7B.2.12 Land Development Projects	2.4	3.2	3.9	0.7	21.6
7B.2.13 General Administration	52.8	56.3	65.6	9.3	16.4
7B.2.14 Recoveries	3.4Cr	3.5Cr	3.7Cr	-0.1	-3.6
Total	426.7	460.0	403.6	-56.4	-12.3

7B.2.1. WOOL INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Wool Marketing Assistance	\$m 128.2	\$m 124.7	\$m 155.1	\$m 30.4	24.3
Wool Tax	129.4Cr	122.9Cr	155.1Cr	-32.1	-26.1
Total Wool Marketing	1.1Cr	1.8	—	-1.8	-100.0
Research, Promotion and Other Payments	118.3	218.0	191.3	-26.7	-12.2
Wool Tax	77.7Cr	122.9Cr	143.8Cr	-20.9	-17.0
Total	39.5	96.9	47.5	-49.4	-51.0

Wool Marketing Assistance

The AWC operates a floor price scheme for wool at auctions to reduce wool price instability. In accordance with the *Wool Marketing Act 1987*, which replaced the *Wool Industry Act 1972* and came into operation on 1 July 1987, the Corporation, in consultation with the Wool Council of Australia (WCA), has decided to maintain a floor price for 1987-88 of 645 cents per kg clean, Market Indicator basis, an increase of 137 cents per kg over 1986-87. This is an average price for representative types of wool; actual floor prices differ between categories of wool. The increase of 21.2%, a substantial increase in real terms, reflects the strong present and projected demand for wool.

Wool Tax

The Wool Tax (8% of the gross value of proceeds from shorn wool) is estimated to yield \$298.9m, up from \$245.9m in 1986-87. This tax includes a levy of 4.15% (4% in 1986-87) of gross returns which is paid to the AWC's Market Support Fund to finance the floor price scheme. It is estimated that the levy will raise \$155.1m, up from \$122.9m, reflecting the expected favourable outlook for the industry and a decision by the WCA to re-allocate 0.15% of the levy from research to market support.

Research, Promotion and Other Payments

The remaining 3.85% of the Wool Tax (4% in 1986-87) finances wool promotion and market administration (3.5%) and research (0.35%). The levy is estimated to raise \$143.8m compared with \$122.9m in 1986-87.

The 1987-88 estimates for wool research provide for a Commonwealth contribution of \$12.1m to match \$ for \$ industry contributions. These contributions are paid direct to the AWC.

Under a five-year program, which commenced in 1984-85, the Commonwealth has been providing the AWC with funds for wool promotion equivalent to 1.2% of the gross value of proceeds from shorn wool, subject to the industry contributing through the Wool Tax at least 2.5% of the gross value of proceeds from shorn wool. In view of the buoyant conditions in the wool industry, the Commonwealth has decided to maintain the 1987-88 contribution at the same money amount as was provided in 1986-87 (\$35.4m).

The reduction in outlays under this heading mainly reflects a one-off payment to the AWC in 1986-87 arising from the transfer to the AWC of the assets and liabilities of the Wool Research Trust Account (\$47.6m).

7B.2.2 WHEAT INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Wheat Finance Fund	\$m	\$m	\$m	\$m	%
Research and Other Payments	104.6	—	—	—	—
Charges and Repayments	15.7	27.7	19.9	-7.8	-28.2
	8.0Cr	8.5Cr	8.3Cr	0.2	2.7
Total	112.4	19.2	11.6	-7.6	-39.5

Under the current Wheat Marketing Plan for the five years commencing 1 October 1984, the Commonwealth guarantees a minimum return for Australian Standard White (ASW) wheat equal to 95% of the average of estimated net returns for the current season and the lowest two of the preceding three seasons. Underwritten prices for other categories of wheat are based on expected market returns for those wheats relative to ASW. Growers receive an interim first advance payment on delivery, with a final advance payment following determination of the final guaranteed minimum prices. A substantial underwriting payment, currently estimated to total some \$220m, will be required in respect of the 1986-87 wheat season. However, this payment is not expected to be made until 1989-90 when average pool returns for the 1986-87 season should be known. A further, but smaller, underwriting payment may be required in respect of the 1987-88 wheat season (payable in 1990-91).

Wheat growers pay a Research Tax of 40 cents per tonne (which is expected to increase to 45 cents per tonne from 1 October 1987) on wheat delivered to the Australian Wheat Board (AWB), to fund research on behalf of the industry. Total Wheat Tax receipts are estimated at \$8.3m, with \$6.2m allocated to research and the remaining \$2.1m to be paid to the AWB for wheat marketing. Industry funds spent on wheat research are matched \$ for \$ by the Commonwealth. It is estimated that \$15.6m will be spent on research compared with \$12.0m in 1986-87.

The estimate also provides \$1.3m for the construction of a grain terminal at Port Kembla (total cost \$18.7m). The project was approved in 1984-85 as part of the Government's program of assistance to generate employment in the steel regions (\$14.2m was expended in 1986-87).

\$1.6m (\$0.8m in 1986-87) has been provided for the Royal Commission into Grain Storage, Handling and Transport.

7B.2.3 SUGAR INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Sugar Industry Assistance	\$m	\$m	\$m	\$m	%
Research	1.7	23.5	15.0	-8.5	-36.2
Charges and Repayments	—	—	0.1	0.1	na
	—	—	1.2Cr	-1.2	na
Total	1.7	23.5	13.8	-9.7	-41.3

Sugar Industry Assistance

Following agreement with Queensland and NSW, the Commonwealth is providing assistance to the sugar industry of up to \$100.0m over the three years ending 1988-89. This is part of a package of assistance measures being funded by the Commonwealth and these two States on a \$2:\$1 cost-sharing basis. Up to \$54.0m is being provided to support No 1 Sugar Pool returns up to a maximum of \$230 per tonne for the 1985-86 season, \$225 per tonne for the 1986-87 season and \$220 per tonne for the 1987-88 season. Each season's price support is paid in the financial year following closure of the relevant Pool. Some \$14.6m in price support assistance (\$6.72 per tonne on actual returns for the 1985-86 season of \$223.28 per tonne) was provided in 1986-87. Given the upturn in sugar prices, it is not expected that it will be necessary to provide funds for this purpose in 1987-88. In addition, up to \$46.0m is being allocated over the three years for grower and sugar mill adjustment assistance on the basis of area or regional adjustment plans. Estimated payments for adjustment assistance in 1987-88 are \$15.0m (\$8.8m in 1986-87).

A sugar industry rural research fund was established in June 1987. Payments from the fund will commence in 1988-89 with the aim of increasing commercial returns to the sugar industry through improvements in the production, processing, storage, transport and marketing of sugar. The Commonwealth will match payments of industry funds on a \$ for \$ basis.

7B.2.4 DAIRY INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Market Support and Other Payments	185.0	202.3	152.1	-50.2	-24.8
Research, Promotion and Other Payments	14.6	15.8	15.5	-0.3	-2.2
Charges and Repayments	198.1Cr	221.3Cr	167.3Cr	54.0	24.4
Total	1.5	3.2Cr	0.3	3.4	na

Market Support and Other Payments

Under marketing arrangements introduced on 1 July 1986, export sales of a wide range of dairy products are assisted by the provision of market support and supplementary market support payments. Before 1 July 1986, domestic prices for manufactured dairy products were underpinned by a stabilisation levy system on domestic sales with the levy receipts being distributed over all sales (domestic and export).

The funds for market support payments (\$107.4m compared with \$83.5m in 1986-87) are derived from a levy on all milk produced while funds for supplementary market support payments (\$43.8m compared with \$30.2m in 1986-87) are raised by levies on domestic sales of butter/butteroil and cheddar type cheeses.

The reduction in payments in 1987-88 reflects changed market support arrangements with 1986-87 being a mixture of the phasing-out of the previous stabilisation arrangements and the introduction of the new market support arrangements. Stabilisation levy collections and payments to manufacturers for products manufactured before 1 July 1986 are estimated at \$1.0m (\$88.6m in 1986-87).

The 28.5% increase in market support payments reflects an increase in the rate of levy from 35 cents to 40 cents per kilogram milkfat produced, effective from 1 July 1987, and a carry-over into 1987-88 of about \$6.0m in levies payable on 1986-87 production. The 44.8% increase in supplementary market support payments primarily reflects a high level (around 40%) of domestic sales of dairy products in 1986-87, produced before 1 July 1986 and thus not leviable under the new arrangements.

The arrangements also provide for the Commonwealth to underwrite average export returns for certain dairy products at 85% of the long-term price trend. No underwriting payments have been made in the past two years and on current estimates it is not expected that a Commonwealth underwriting payment will be required in 1987-88, in respect of the 1986-87 season.

Research, Promotion and Other Payments

Dairy promotion and research outlays and the Australian Dairy Corporation's administrative costs are financed primarily through a levy on the milkfat content of all whole-milk and whole milk products produced in Australia. Receipts from the levy are estimated at \$14.5m in 1987-88, compared with \$14.7m in 1986-87. The 1986-87 receipts were supplemented by \$1.8m from levies on 1985-86 production under the former arrangements. Industry funds spent on dairying research are matched \$ for \$ by the Commonwealth. It is estimated that \$2.2m will be spent on research compared with \$1.6m in 1986-87.

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7B.2.5 FRUIT INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Stabilisation, Research, Promotion and Other Payments	23.9	25.7	16.0	-9.7	-37.8
Charges and Repayments	22.2Cr	21.0Cr	16.1Cr	4.9	23.5
Total	1.8	4.7	0.1Cr	-4.8	na

Stabilisation, Research, Promotion and Other Payments

Revised underwriting arrangements for apples and pears were introduced for the export seasons 1986 to 1990 inclusive. Underwriting applies separately to apples and pears and to returns from forward sales and 'at risk' exports at 85% of the unweighted average of the annual returns in the highest three of the preceding four seasons. No underwriting payment was required in 1986-87 and it is unlikely that a payment will be necessary in 1987-88.

Under marketing arrangements for the dried vine fruits industry, \$12.1m will be provided to the Australian Dried Fruits Corporation (\$17.2m in 1986-87), for equalisation of domestic and export market returns. This payment is fully funded by industry levies which are shown under Charges and Repayments.

Following consideration of an Industries Assistance Commission's report on the dried vine fruits industry, the Government decided that, from the commencement of the 1986 season, equalisation assistance to the industry is to be reduced each season at a uniform rate so that equalised returns (at the ex-packer level) in the 1990 season are no more than 15% above average export returns.

\$3.9m, raised largely through industry levies, is provided to finance the operations of various fruit marketing authorities, promotional activities and research. The Commonwealth contributes \$ for \$ towards expenditure on research (\$0.6m).

In 1986-87, \$1.4m and \$3.5m was provided for adjustment assistance for the dried vine fruits and wine grape industries, respectively. Minor payments in 1987-88 represent commitments entered into prior to cessation of this assistance on 30 June 1987.

7B.2.6 POULTRY INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Stabilisation and Research	13.0	7.5	2.9	-4.6	-61.3
Charges and Repayments	12.5Cr	7.0Cr	1.4Cr	5.6	79.4
Total	0.5	0.4	1.4	1.0	225.7

The Commonwealth Government announced in August 1984 its intention to withdraw substantially from its involvement in egg marketing arrangements. Amendments to the *Poultry Industry Levy Act 1965* provided for the cessation of this levy from 1 July 1987. However, levy collection provisions are to remain for a time to facilitate recovery of outstanding debts accrued under the Act. The poultry (egg) industry equalisation scheme financed by this levy in accordance with the provisions of the *Poultry Industry Assistance Act 1965* will continue until levy collections cease. Payments under the equalisation scheme are forecast to fall from \$6.3m in 1986-87 to \$1.5m in 1987-88, reflecting a similar fall in levy collections.

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Industry funds spent on egg industry and chicken meat research are matched \$ for \$ by the Commonwealth. It is estimated that payments in 1987-88 will be \$0.6m for the egg industry and \$0.8m for chicken meat.

7B.2.7 CATTLE, SHEEP AND PIG INDUSTRIES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Eradication of Cattle Diseases and Compensation	13.3	18.1	15.1	-3.0	-16.4
Research, Promotion, Marketing Assistance and Other Payments	46.7	53.1	58.8	5.7	10.6
Charges and Repayments	34.0Cr	43.7Cr	47.4Cr	-3.7	-8.5
Total	26.0	27.5	26.4	-1.0	-3.7

Eradication of Cattle Diseases and Compensation

An estimated \$34.1m (\$39.7m in 1986-87) will be paid to the States under the Bovine Brucellosis and Tuberculosis Eradication Campaign. This includes \$19.2m funded by an industry levy collected by the Commonwealth to meet part of operational expenditures and a Commonwealth contribution of \$3.3m, to be matched on a \$ for \$ basis by the States, towards assistance measures for property owners, including re-stocking freight rebates and concessional loans for capital improvements essential for eradication purposes. These measures are designed to ameliorate the campaign's adverse financial impact on property owners in northern Australia. The estimates also include \$11.6m for grants to compensate owners for cattle slaughtered under the eradication program. Compensation payments are shared \$3:\$1 between the Commonwealth and the States.

Recoveries from the disease eradication component of the Livestock Slaughter Levy and the Livestock Export Charge are estimated at \$19.2m (\$21.9m in 1986-87). The industry levy is designed to cover 70% of operational costs, with the balance being met by the States.

Outlays to end June 1987 under the campaign have totalled \$493.8m, of which the cattle industry, the States and the Commonwealth have contributed \$217.3m, \$144.2m and \$132.3m respectively. The target date for eradication of bovine brucellosis and for the achievement of a status where there are no known cases of herds infected with tuberculosis is 1992. The current estimate of the total cost of the campaign is of the order of \$655m.

Research, Promotion, Marketing Assistance and Other Payments

The Commonwealth matches industry expenditure (funded by levies) on approved research programs for the meat and pig industries. Estimated payments for meat and pig industry research, including the industry contribution, are \$15.3m and \$2.6m respectively, compared with \$16.1m and \$1.5m in 1986-87. Meat research is administered by the Australian Meat and Livestock Research and Development Corporation (AMLRDC), while industry funds are raised by the Livestock Export Charge and Livestock Slaughter Levy.

The Commonwealth will also make payments, fully funded from industry levies, to the Australian Pork Corporation (APC) (\$5.1m) and to the Australian Meat and Livestock Corporation (AMLC) (\$33.3m) for their administrative and operational expenses, including promotion.

The Commonwealth has agreed to provide \$0.5m to the AMLC to assist with the cost of re-testing for chemical residues of product in-transit to the United States prior to the Australian Quarantine and Inspection Service moving on 25 May 1987 to intensified testing procedures at export registered abattoirs. Funds for this measure are to be offset by the cessation of proposed assistance towards implementing a beef cattle carcass classification scheme and by a reduction of \$0.157m in the \$7m four-year program of assistance to the AMLC for marketing innovation. \$2.0m will be provided for marketing innovation in 1987-88 (\$1.9m in 1986-87).

Charges and Repayments

The \$47.4m (\$43.7m in 1986-87) comprises industry levies in respect of the AMLC, the APC, the AMLRDC for pig research. The increase primarily reflects the new rates for the Livestock Slaughter Levy and the Livestock Export Charge introduced in December 1986 and the Pig Slaughter Levy introduced in March 1987.

7B.2.8 OTHER AGRICULTURAL AND PASTORAL INDUSTRIES

This heading covers outlays totalling \$16.8m in 1987-88, mainly for promotion and research in respect of the honey, oilseeds, tobacco, wine, barley, cotton, sugarcane and horticultural industries. Industry contributions towards these activities are included in Charges and Repayments nec. The increase in outlays (\$5.7m) includes increased contributions towards agricultural research funded through the Australian Special Rural Research Trust Fund (\$3.0m compared with \$1.5m in 1986-87), and \$1.1m for the establishment of the proposed Australian Horticultural Corporation and the Horticultural Research and Development Corporation. Funding of up to \$1m is also provided in 1987-88 to assist the States on a matching basis with the destruction of recalled organochlorine products. This assistance is part of the Commonwealth's response to chemical residue problems facing our agricultural and pastoral industries.

7B.2.10 GENERAL ASSISTANCE NOT ALLOCATED TO SPECIFIC AGRICULTURAL AND PASTORAL INDUSTRIES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Rural Adjustment	16.8	33.9	42.0	8.1	24.0
Drought Relief	0.1	0.1Cr	-	0.1	100.0
Fertiliser Subsidies	69.1	91.7	68.7	-23.0	-25.1
Quarantine and Inspection Services	74.0	77.2	83.9	6.7	8.7
Other	1.0	1.2	2.1	0.8	67.4
Recoveries and Repayments	16.3Cr	20.0Cr	16.9Cr	3.1	15.3
Total	144.7	183.9	179.7	-4.2	-2.3

Rural Adjustment

The Commonwealth provides funds to the States under the Rural Adjustment Scheme to assist farmers with sound prospects of long term commercial viability, but who are unable to obtain commercial finance on reasonable terms, to adjust to structural change, and to assist non-viable farmers to adjust out of farming.

Under revised financial arrangements introduced on 1 July 1985, assistance for debt reconstruction, farm build-up and farm improvement is provided by the Commonwealth as an interest subsidy of 50% on borrowings by farmers for a maximum of seven years. Similarly, carry-on assistance to overcome short term cash flow problems is provided as a 50% interest subsidy on borrowings for a maximum of seven years, but with the cost shared equally between the Commonwealth and the States. The Commonwealth funds all household support and rehabilitation assistance provided under the Scheme. It also contributes annually to the administrative costs incurred by the States on the basis of 1% of the balance of outstanding loans and 2% of assistance provided for household support and rehabilitation.

Under the Scheme, \$42.0m will be provided in 1987-88 (\$33.9m in 1986-87). After allowance is made for the Commonwealth's contribution to administration costs, it is estimated that the increased amount available for interest subsidy, \$6.7m, will support new borrowings of about \$77.0m in 1987-88.

Fertiliser Subsidies

Continuation of the consumption subsidies provided under the *Fertilisers Subsidy Act 1986* on locally produced phosphatic and nitrogenous fertilisers will require \$50.2m in 1987-88. Payment in 1986-87 was \$49.1m. The subsidies extend for a three year period terminating in 1988-89.

In addition to the consumption subsidies, grants are made to the States for the purpose of offsetting the cost to farmers of dumping duties on imported fertilisers. Payments are made to importers and equivalent payments are also made to local manufacturers of those fertilisers and competing fertilisers, agras and double superphosphate. The substantially lower 1987-88 provision (\$18.5m compared with \$42.6m in 1986-87) reflects reduced estimated dumping margins. The decline in dumping margins reflects estimates of significant increases in world prices of fertilisers subject to dumping duties in 1987-88.

Quarantine and Inspection Services

This heading covers outlays shown previously under Animal and Plant Health and Quarantine Services, Inspection Services nec, the Inspection Services component of Cattle, Sheep and Pig Industries under this function, and Quarantine Services under the function 3. *Health*.

Payments are estimated at \$142.1m (\$133.0m in 1986-87) and include funds for the activities of the Australian Quarantine and Inspection Service. The Service provides export inspection services in respect of meat and livestock, wool, grains, fruits, dairy products, fish and other exports requiring certification; domestic meat inspection services; supervises livestock health export certification; and enforces plant and animal quarantine measures. By arrangement, the States administer, at Commonwealth cost (\$21.1m in 1986-87), certain animal and plant quarantine operations. Other quarantine functions, including coastal surveillance and port waste disposal, are administered directly by the Commonwealth. \$4.9m is provided for 1987-88 costs of the proposed transfer to the Commonwealth of the Victorian domestic meat inspection service. This transfer, delayed from 1986-87, will complete the establishment of a national inspection service, the objective of which is to eliminate duplication and thereby reduce the cost of meat inspection services. Offset against these payments is an estimated \$58.2m from charges on exporters for inspections and for domestic meat inspection services, including \$2.4m for the cost of monitoring chemical residue levels in agricultural and pastoral products.

The Government's current policy is to recover 50% of attributable export inspection and domestic meat inspection costs, except for salary overtime costs which are fully recovered, and 100% of the direct operating costs of recoverable animal and plant quarantine services. However, from 1 March 1988, 60% of attributable costs of quarantine services will be recovered on a similar basis to export inspection services. Attributable costs for inspection include operating costs and non-cash costs (eg superannuation and long service leave liability), but exclude costs related to surplus staff, research and development and other Government activity over and above normal operational activities. While recoveries of inspection costs are offset under this function, quarantine charges are classified as receipts; details of which appear in Statement No. 4 under Other Taxes, Fees and Fines.

Other

This item covers research projects sponsored by the Australian Agricultural Council (\$0.2m), grants for the upgrading of storage facilities to assist State plant genetic resources programs (\$0.2m), and grants for rural counselling services (\$0.9m). The Commonwealth meets up to half the costs of rural financial and adjustment counsellors employed by appropriate non-profit organisations. \$0.6m has been provided to develop and trial improved arrangements for providing information on Commonwealth programs to rural Australians.

Recoveries and Repayments

The estimate (\$16.9m) comprises repayments by the States of past advances for rural reconstruction/adjustment assistance.

7B.2.11 WATER RESOURCES DEVELOPMENT AND MANAGEMENT

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Irrigation and Other Rural Projects	41.3	41.3	42.6	1.3	3.1
Safety Mitigation and Drainage Works and Studies	6.4	7.6	7.0	-0.5	-7.1
Recoveries and Repayments	3.3Cr	3.2Cr	3.0Cr	0.2	5.1
Total	44.5	45.8	46.7	0.9	2.0

Outlays under this heading incorporate the major component of the Federal Water Resources Assistance Program (FWRAP). Details on other components of the FWRAP are provided under the functions 5. *Housing and Community Amenities nec*, for Urban Flood Mitigation and 7D. *Other Economic Services*, for Urban Water Supply. The total allocation for FWRAP including running costs, is \$67.4m, which represents a saving of \$4m on the forward estimates. Outlays in 1986-87 were \$69.8m.

\$49.9m (up \$0.7m) is to be allocated, mainly to the States, for the development and management of water resources. Major items include \$29m to Queensland for construction of the Burdekin Dam (down \$1m); \$7m to the States for salinity mitigation and drainage works and studies; \$4m to Queensland for the Bundaberg irrigation project; \$6.2m for water research (up \$2.9m); and \$1.7m towards the capital works program and administrative expenses of the River Murray Commission.

Repayments by the States of past loans are estimated at \$3.0m.

7B.2.12 LAND DEVELOPMENT PROJECTS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Soil Conservation	5.0	5.8	6.4	0.6	11.0
War Service Land Settlement	1.7	1.3	1.4	0.1	9.9
Repayments	4.4Cr	3.8Cr	3.9Cr	-0.1	-1.7
Total	2.4	3.2	3.9	0.7	21.6

Soil Conservation

\$6.0m (up \$0.6m) is provided for the National Soil Conservation program, which provides financial assistance primarily to the States for soil conservation and related research and extension activities.

War Service Land Settlement

The provision of \$1.4m mainly relates to the operation and maintenance of the Loxton irrigation project in South Australia.

Repayments

The repayments of \$3.9m mainly relate to War Service Land Settlement (\$2.4m), the Queensland Brigalow Lands Agreement (\$0.7m), defence re-establishment loans (\$0.4m) and Small Business Loans (\$0.4m).

7B.2.13 GENERAL ADMINISTRATION

This item includes \$60.9m (\$51.9m in 1986-87) for the salaries and administrative costs and capital outlays (including buildings and works) of those parts of the Department of Primary Industries and Energy involved with agriculture and pastoral industries not elsewhere classified. Included is \$1.8m for the Commonwealth's contribution to the Australian Plague Locust Commission and \$10.8m for the Bureau of Agricultural Economics (BAE). Also included is provision for commencement of a quarantine inspection facility at Brisbane International Airport (project cost of \$1.9m), a live bird quarantine facility at Spotswood in Victoria (project cost \$0.5m) and provision for an upgraded computer facility to monitor chemical residue levels in agricultural and pastoral products (project cost \$1.0m).

This heading also covers \$4.7m for payment by the Department of Primary Industries and Energy to the CSIRO, to be put towards the operating and capital equipment costs of the Australian Animal Health Laboratory. These costs are shared equally by the CSIRO and the Department. The CSIRO contribution appears under 8D *General and Scientific Research nec.*

7B.2.14 RECOVERIES

This item includes miscellaneous agricultural and pastoral industries recoveries by the Department of Primary Industries and Energy, State contributions to the Australian Plague Locust Commission and recoveries of costs associated with the administration of rural trust accounts and of certain research outlays by the BAE.

7B.3 MINING INDUSTRY

In addition to the direct forms of assistance outlined below, the Commonwealth assists the development of the mining industry through the taxation system by way of various special provisions applying to certain mining companies or to their shareholders. Further details of assistance provided through the taxation system are included in the Appendices to Statement No 4.

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Bureau of Mineral Resources	34.6	36.7	39.4	2.7	7.4
Transfer of Cooper Basin Interests	0.3Cr	9.2Cr	3.6	12.8	na
Sale of phosphate rock from stockpile	—	—	5.0Cr	-5.0	na
Other Mining	98.6	16.1Cr	29.7	45.8	na
Total	132.8	11.3	67.7	56.4	na.

Bureau of Mineral Resources

Increases in average salaries and in costs associated with administration and the Continental Margins program have been partly offset by reductions in staff numbers producing a net increase in the provision for the Bureau of \$2.7m or 7.4%.

Transfer of Cooper Basin Interests

In 1975 the Commonwealth, through the former Petroleum and Minerals Authority, purchased certain oil and gas interests in the Cooper Basin. Payment of part of the purchase price was deferred. These interests were sold in 1977 on terms similar to those applying to the remaining payments then owing by the Commonwealth. In 1986-87, the Commonwealth received an advanced settlement of amounts outstanding in respect of its sale of these interests. The Commonwealth will continue its payments in respect of the original purchase of the oil and gas interests.

Sale of Phosphate Rock From Stockpile

The Government has decided to negotiate the gradual sale of the Commonwealth owned phosphate rock stockpile over a number of years. This is estimated to raise \$5.0m in 1987-88.

Other Mining

Under the Bass Strait Freight Adjustment Scheme, introduced in April 1984, a levy is imposed on all crude oil produced from Bass Strait. An amount equal to the receipts raised by the levy is appropriated and paid into a trust fund. Payments are made to refiners from the trust account to reduce disparities in the freight costs between different refiners. As part of the introduction of a free market for crude oil, the scheme will cease operating from 1 January 1988. The effect of this is a reduction of \$16.6m to \$25.6m in outlays under the scheme; this outlay is the main element under this heading in 1987-88.

\$1.4m (\$4.5m in 1986-87) is provided to cover the 1987-88 estimated operating loss of the Phosphate Mining Corporation of Christmas Island.

Outlays for this sub-function in 1986-87 included receipts from the resale of uranium to Queensland Mines Ltd for export (receipts \$47.0m, offset partly by payment (\$6.2m) for the last shipment purchased by the Commonwealth.)

The Commonwealth collects fees and other charges under the *Petroleum (Submerged Lands) Act 1967* and passes these on in full to the relevant State. The amount collected and subsequently paid to the States is expected to decrease from \$1.5m to \$1.0m. (Receipts from this item are classified under Other Taxes, Fees and Fines—Other in Statement No. 4.)

In 1986-87 the Commonwealth received \$27.4m as its share of the proceeds from the winding up of the British Phosphate Commissioners. A further \$0.2m in receipts is expected to be received in 1987-88.

7B.4 MANUFACTURING INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Heavy Industries—					
Steel	21.1	33.2	45.0	11.8	35.4
Heavy Engineering and Machinery	0.3	1.6	14.8	13.2	na
Ship Building	39.8	42.2	48.3	6.1	14.5
Metal Working Machines and Robots	14.0	10.7	13.0	2.3	21.0
Automotive Industry—					
Motor Vehicles and Components Development Grants Scheme	20.6	22.9	22.0	-0.9	-3.8
Commercial Motor Vehicles	4.4	2.0	2.4	0.3	15.5
Agricultural Machinery	7.3	12.8	13.0	0.2	1.3
Other	1.5	0.3	0.3	..	4.2
Total Heavy Industries	109.1	125.8	158.8	33.0	26.2
Light Industries—					
Textiles, Clothing and Footwear	86.5	83.6	98.6	15.0	17.9
Paper and Printing	20.3	19.1	18.7	-0.4	-2.2
Information, Electronics and Aerospace	16.5	24.8	26.1	1.3	3.2
Other	1.0	0.1	—	-0.1	-100.0
Total Light Industries	124.3	127.6	143.4	15.8	12.4
Technology Development—					
Industrial Research and Development	63.4	49.2	40.3	-8.9	-18.0
Industry Services	8.7	14.7	14.5	-0.3	-1.8
Other	0.3	0.4	4.2	3.8	na
Total Technology Development	72.4	64.3	59.0	-5.3	-8.3
Other Assistance to Manufacturing Industry	173.5	53.3	50.5	-2.7	-5.1
Total	479.3	371.1	411.8	40.7	11.0

Outlays on assistance to manufacturing industries are expected to increase by \$40.7m, or 11.0%. This is consistent with the underlying trend of recent years and is partly a reflection of an increased use of bounties as an assistance measure. Bounty payments to manufacturing industry are expected to increase by \$31.6m or 14.1% in 1987-88 and will account for approximately 61% of total assistance through budgetary outlays to manufacturing industry. Significant increases are expected in bounty payments to the steel and textile industries. In addition to bounties the Government provides assistance to certain industry sectors under Industry Plans. Industries assisted in this manner include Passenger Motor Vehicles, Heavy Engineering and Textiles, Clothing and Footwear. Assistance is also provided through generally available programs of assistance such as Grants for Industrial Research and Development and the National Industry Extension Service. The following charts illustrate the composition of assistance from budget outlays to the manufacturing industries for 1983-84 to 1987-88.

CHART 2. ASSISTANCE TO MANUFACTURING INDUSTRY
1983-84 TO 1987-88 (1987-88 PRICES)
BY ASSISTANCE TYPE



HEAVY INDUSTRIES

Steel Industry

Under the Steel Industry Plan, assistance is provided by means of sliding scale bounties available for five years from 1 January 1984 on the following products produced and sold in the domestic market: high alloy bar products and stainless steel flat products; quenched and tempered steel plate; cold-rolled steel sheet; and welded steel pipe and tube.

CHART 3. ASSISTANCE TO MANUFACTURING INDUSTRY
1983-84 TO 1987-88 (1987-88 PRICES)
BY INDUSTRY SECTOR



Bounty payments for eligible steel products are made under the *Bounty (Steel Mill Products) Act 1983* and the *Bounty (High Alloy Steel Products) Act 1983*.

Steel bounty payments are estimated to be \$45.0m (\$33.2m in 1986-87) as higher rates of bounty are expected to prevail in 1987-88 under the Plan.

Heavy Engineering Industry

The Government's program of assistance for the heavy engineering industry is designed to encourage the industry to improve its efficiency and competitiveness. The program comprises:

- a heavy engineering adjustment and development program consisting of labour adjustment assistance (*see 7c Labour and Employment*) and measures to improve the efficiency of industry management in areas such as product development and quality control; and
- an interest subsidy on loans for new investment provided by the Australian Industry Development Corporation (AIDC) to firms in the industry.

Due to the slower than expected response to the available assistance and the lead times associated with the development of applications for assistance, outlays in 1986-87 were significantly lower than anticipated. In the *May Statement* the Government announced that the package of assistance would be implemented more slowly with a saving of \$10.0m in 1987-88 (including \$6.0m under this function). The Government has now decided to increase this saving to \$11.0m in 1987-88. Nevertheless, outlays are expected to be \$14.8m (\$1.6m in 1986-87).

Ship Building Assistance

In October 1986, the Government announced the introduction of bounty assistance for the ship repair industry. The bounty is designed to increase the industry's competitiveness. Under the *Bounty (Ship Repair) Act 1986*, bounty will be payable to registered firms undertaking eligible repairs of international trading vessels of at least 6000 deadweight tonnes. The continuation of the bounty is contingent upon the maintenance of satisfactory industrial relations practices by the relevant unions. Outlays will be limited to \$6.0m over the life of the bounty with expected outlays in 1987-88 of \$3.3m (\$0.2m in 1986-87).

Under the *Bounty (Ships) Act 1980*, bounty is assessed as a percentage of the cost of construction of vessels. The current bounty rate is 20%. This rate will reduce to 15% for certain classes of vessels from 1 January 1988. Bounty to be paid on ships constructed under the current three year plan will be a maximum of \$144.0m. Outlays in 1987-88 will be limited to \$45.0m.

Metal Working Machines and Robots Assistance

Under the *Bounty (Metal-working Machines and Robots) Act 1985*, a bounty of 28% of in-house value added is payable on local production of certain advanced machine tools, robots and laser and gas operated machinery.

A bounty at the rate of 20% of value added is also payable on the manufacture of standard machine tools.

Automotive Industry

In May 1984, the Government announced a new policy for the motor vehicle industry aimed at improving the efficiency and competitiveness of the industry, holding down the price of cars and providing long term job stability. The policy comprises a number of measures including the gradual lowering of restrictions against imports, amendments to the export facilitation scheme and provision of up to \$150.0m over five years to assist Australian design of components and vehicles.

Assistance to the automotive industry is estimated at \$24.4m consisting of:

- \$22.0m under the Motor Vehicles and Components Development Grants Scheme to provide assistance to the industry for design and research (\$22.9m in 1986-87); and
- \$2.4m in bounty assistance for the local production of heavy commercial vehicles, parts and accessories under the *Bounty (Commercial Motor Vehicles) Act 1978* (\$2.0m in 1986-87).

Agricultural Machinery

The Government continues to provide bounty assistance for the production of certain agricultural machinery, although bounties on agricultural tractors will cease from Budget night. Notwithstanding this decision, outlays on bounty assistance to the agricultural machinery sector will still be marginally higher in 1987-88 because of increases in outlays on bounty assistance for cultivation machines. Under the *Subsidy (Cultivation Machines and Equipment) Act 1986*, certain soil preparation and cultivation machinery is eligible for bounty of 10% of the ex-factory selling price. Outlays are estimated at \$8.2m (\$5.3m in 1986-87). Outlays on the *Subsidy (Grain Harvesters and Equipment) Act 1985* are estimated at \$3.8m (\$4.4m in 1986-87).

Other Heavy Industries

Under the *Bounty (Injection Moulding Equipment) Act 1979*, bounty is payable on eligible equipment at a rate of 8% of value added until October 1988.

LIGHT INDUSTRIES

Textiles, Clothing and Footwear (TCF) Industries

The TCF industries receive tariff, quota and bounty assistance and are among the most highly assisted in Australia, with some products receiving effective assistance of over 200%. The increase in outlays under this heading reflects higher bounty payments under the *Bounty (Textile Yarns) Act 1981*, (\$91.3m) the *Bounty (Printed Fabrics) Act 1981*, (\$1.7m) and the *Bounty (Bed Sheetting) Act 1977* (\$0.6m), because of higher production levels, and outlays associated with the first year's operation of the TCF Industry Development Strategy (IDS).

The IDS, which is part of the Government's TCF Plan, has the aim of encouraging TCF firms to become more innovative, outward looking and to make better use of their resources and skill base. The Strategy will include the following programs: Raw Materials Processing; Industries Efficiency; Industries Infrastructure; and Export Enhancement. \$5.0m will be provided for the IDS in 1987-88, including \$2.5m for investment by the AIDC in raw materials processing.

Paper and Printing Industries

Assistance arrangements under the *Bounty (Paper) Act 1979* expired on 5 February 1987. No provision has been made for bounty payments in 1987-88 pending the Government's consideration of the Industries Assistance Commission's report on future assistance to the pulp, paper products and printing industries.

Assistance arrangements for books—currently in force until 30 June 1989—will also be reconsidered in light of this review. Outlays on book bounties are estimated at \$18.7m (\$18.4m in 1986-87)

Information, Electronics and Aerospace Industries

Under the *Bounty (Computers) Act 1984* assistance is provided for local manufacture of various computer hardware and software components. On 9 March 1987 the product coverage of the Act was extended to include programmable controllers. Outlays are estimated to be \$20.9m (\$19.4m in 1986-87).

A total of \$4.6m will be provided in 1987-88 for a new strategy to assist the information industries to boost their exports and industrial competitiveness. Of the total, some \$2.0m will be provided under the Grants for Industrial Research and Development (GIRD) Scheme (see Technology Development) and will allow the declaration of 'communications' as a technology eligible for GIRD generic grants. The balance will cover a range of activities including development of export strategies.

Under the National Space Program, the Government will provide \$3.0m (\$5.0m in 1986-87) for projects using space technologies. These projects include the Endeavour/Lyman space telescope—which is a joint venture between Australia, the European Space Agency (ESA) and the National Aeronautics and Space Administration (NASA)—and the ESA's remote sensing satellite (ERS-1) project.

TECHNOLOGY DEVELOPMENT

Industrial Research and Development

Support for industrial research and development (R&D) is provided through the 150% tax concession for R&D outlays which was introduced from 1 July 1985, and through the GIRD scheme which commenced on 1 July 1986. Three types of direct grants are available through GIRD: Discretionary Grants—aimed at firms which would not otherwise benefit from the tax concession; Generic Technology Grants—aimed at particular technologies which are considered to have potential to maintain or improve competitiveness across a range of industries; and grants for National Interest projects (likely to provide important social benefits but which would not be undertaken without Government involvement). The GIRD scheme is administered by the Industrial Research and Development Board which sets grant rates for and assesses eligibility of applicants' projects.

Outlays under GIRD are estimated at \$25.6m for 1987-88 (up 137% on 1986-87, the first year of the scheme). A further \$14.7m is to be appropriated to meet commitments under the Australian Industrial Research and Development Incentives Scheme (AIRDIS) which predated GIRD and under which no new grants have been awarded since 30 June 1986 (\$38.4m in 1986-87). The cost of the tax concession was \$105.0m in 1986-87 and is estimated to rise to over \$150.0m in 1987-88.

Industry Services

Commonwealth contributions to the National Industry Extension Service (NIES), a joint Commonwealth/State venture to help enterprises to improve levels of business efficiency and international competitiveness, will total \$13.1m. This will be made up of \$7.4m in direct grants to the States, \$4.2m to cover Commonwealth extension service programs and \$1.5m to support 'Multiplier Agencies' such as the Technology Transfer Council and the Australian Productivity Council. Commonwealth contributions to NIES in 1986-87, its first year of operation, totalled \$13.5m.

A further \$1.3m will be expended in 1987-88 on non-NIES industry extension services provided through technology development programs administered by the Department of Industry, Technology and Commerce. An amount of \$4.3m is to be provided for the Standards Association of Australia and the National Association of Testing Authorities (see 7D *Other Economic Services*).

Other Technology Development

\$3.5m is being provided for a range of initiatives in response to the Inglis report on high technology procurement by Commonwealth agencies.

The Government will continue to provide assistance under the national interest provisions of the *Australian Industry Development Corporation Act 1970* to a project developing a malaria vaccine. The Commonwealth is providing indemnity for loans to the project and is meeting the costs of interest forgone and of management by the AIDC. Outlays are estimated at \$1.0m.

Other Assistance to Manufacturing Industry

\$2.0m has been allocated for new initiatives to promote investment in Australia and \$0.35m is being provided to assist in a joint feasibility study (with the Western Australian Government) into the mass-production of the orbital engine.

The remaining outlays consist mainly of administrative and related costs of the Department of Industry, Technology and Commerce. The reduction in outlays under this heading mainly reflects a once-only payment in 1986-87 related to the Portland aluminium smelter and net savings in administrative and related costs associated with the amalgamation of portfolios.

7B.5 TOURIST INDUSTRY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Australian Tourist Commission	26.1	28.9	33.6	4.7	16.2
Tourism Overseas Promotion Scheme	1.7	5.0	6.0	1.0	20.0
Other Assistance to the Tourist Industry	4.1	4.4	6.3	2.0	44.3
Total	31.9	38.3	46.0	7.6	19.9

The substantial increase in tourism outlays in 1987-88 reflects the Government's commitment to redirect resources into promotional and other market oriented activities. Under these new arrangements the recently restructured Australian Tourist Commission (ATC) will receive increases of \$4.7m (16.2%) in 1987-88 and up to \$3.7m in 1988-89 for promotional and industry co-operative activities. Resources have also been provided to enable the establishment of a Bureau of Tourism Research. The Tourism Overseas Promotion Scheme (TOPS) is to be wound up in 1987-88 when currently approved claims, estimated at \$6m, are paid out.

Budget outlays for Other Assistance to the Tourist Industry include the administrative outlays of the Department of the Arts, Sport, the Environment, Tourism and Territories related to the tourism function, and operational expenses of the ACT Tourist Bureau. Assistance to the NSW Steel Regions for the development of tourism infrastructure is being increased from \$2.0m in 1986-87 to \$4.0m in 1987-88 to allow the program to be concluded.

7B.6 ASSISTANCE TO EXPORT INDUSTRIES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Export Expansion Grants Scheme	2.0	0.4	0.1	-0.3	-74.4
Export Market Development Schemes	197.0	92.0	110.0	18.0	19.6
Export and Trade Promotion	74.2	121.3	112.3	-9.0	-7.4
Interest Subsidy for Financing					
Eligible Export Transactions	25.2	20.0	22.0	2.0	9.9
National Interest Claims	—	2.1	5.0	2.9	134.8
Premiums and Repayments	13.5Cr	9.1Cr	8.9Cr	0.2	2.2
General Administration	9.8	15.2	—	-15.2	-100.0
Total	294.7	241.9	240.5	-1.4	-0.6

Export Expansion Grants Scheme

The budget provision is expected to cover the final payments under the Scheme following expiry of enabling legislation on 30 June 1983.

Export Market Development Schemes

The Export Market Development Grants (EMDG) Scheme is intended to encourage exporters and prospective exporters to seek out and develop overseas markets. The EMDG Scheme provides taxable grants equal to up to 70% of eligible market development expenditures. The total provision (\$110m) for these schemes (\$92m in 1986-87) also includes \$1m for special export assistance to producers of high technology products.

Export and Trade Promotion

Outlays on export and trade promotion are predominantly (\$106.1m) the operational expenses of the Australian Trade Commission (Austrade). The National Export Drive and the Agricultural Marketing Innovation Fund will receive the same funding as in 1986-87 (\$2m and \$5m respectively). In 1987-88 Austrade will return \$2m of the \$8m capital contributed by the Commonwealth to the former Export Finance and Insurance Corporation (EFIC).

The reduced funding in 1987-88 under this heading reflects the transfer to the Department of Foreign Affairs and Trade of some functions of the former Department of Trade; funding for these functions is now included in sub-function 8C. 4- Foreign Affairs and Overseas Aid.

Interest Subsidy for Financing Eligible Export Transactions

Austrade's concessional export finance facility is funded by loans from financial institutions at commercial rates of interest. The Commission lends these funds to support eligible export transactions at concessional interest rates consistent with the minimum credit terms specified under the Organisation for Economic Co-operation and Development's "Arrangement on Guidelines for Officially Supported Export Credits". The difference between the commercial interest rates at which Austrade borrows and the interest rates at which it lends is met from the budget by way of a subsidy payment to Austrade each year. The item also includes financing fees associated with providing this facility.

The subsidy payment for both general business and the Ok Tedi project (including borrowing fees) was \$20.0m in 1986-87 and is estimated to increase to \$22.2m in 1987-88. The cost of subsidy payments for Ok Tedi is expected to be \$6.6m in 1987-88 (\$7.4m in 1986-87). Direct interest subsidies for general business under the facility are expected to cost \$14.8m.

National Interest Claims

Under the national interest provisions of the Australian Trade Commission Act 1985 the Commonwealth is called upon to cover defaults or delayed payments by buyers of exports supported under these provisions. (Premiums received are shown under the next heading.) In 1986-87, \$2.1m was appropriated to cover Cuban payment shortfalls. Following rescheduling of Iraqi debt covered by the national interest provisions and in the face of prospective rescheduling by Egypt, Austrade was given authority to borrow to meet such payments with the Commonwealth paying any interest differential or other related fees from the budget. The 1987-88 estimate for all payments on the national interest account is \$5.0m.

Premiums and Repayments

This heading covers the Commonwealth's share of premium income on export business supported under the national interest provisions of the *Australian Trade Commission Act 1985*. This is expected to total \$8.9m compared with \$9.1m in 1986-87. Most of this relates to wheat exports. The total reflects the expectation that the amount of national interest business underwritten by the Commonwealth will not change significantly in 1987-88.

General Administration

Included under this heading were the administrative costs of the former Department of Trade; since the changes in the Administrative Arrangements Order announced in July 1987, these trade-related activities are now conducted by the Departments of Foreign Affairs and Trade, Primary Industries and Energy, and Industry, Technology and Commerce, and are included in sub-functions 8C.4, 7B.2, and 7B.4 respectively.

7B.8 OTHER ASSISTANCE TO INDUSTRY

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Petroleum Products Freight Subsidy	21.0	16.3	7.8	-8.5	-52.2
Energy Research and Conservation	14.3	13.7	17.4	3.8	27.7
Australian Industry Development Corporation	12.5	—	—	—	—
General Administration	5.1	6.5	7.3	0.8	12.3
Total	52.8	36.5	32.6	-3.9	-10.8

Petroleum Products Freight Subsidy Scheme

The scheme subsidises the transport of eligible petroleum products to remote locations. The subsidy is equal to the difference between the determined freight cost and a maximum consumer-paid contribution.

The Government has decided to increase the consumer-paid contribution by 4 cents per litre to 10.2 cents per litre from 22 September 1987. This will achieve significant savings (\$8.3m in 1987-88) in subsidy payments while maintaining a high level of benefits to consumers in very remote locations.

Energy Research and Conservation

Grants for energy research projects are approved by the Minister for Primary Industries and Energy on advice from the National Energy Research, Development and Demonstration Council. Funds for grants are provided through the Energy Research Trust Account (ERTA) and the Coal Research Trust Account (CRTA). Funds for the CRTA are raised through an excise, set at five cents per tonne of black coal produced from non-State Government operated coal mines, supplemented by contributions from the States in respect of State Government brown and black coal mines. The ERTA is funded by a budget appropriation.

The Government has agreed that new energy research projects costing up to \$8.5m over 4 years may be approved in 1987-88 from the ERTA. Payments for new and existing projects from the ERTA in 1987-88 are estimated at \$11.7m (\$13.3m in 1986-87). Estimated payments from the CRTA are \$9.6m (\$4.8m in 1986-87).

7C. LABOUR AND EMPLOYMENT

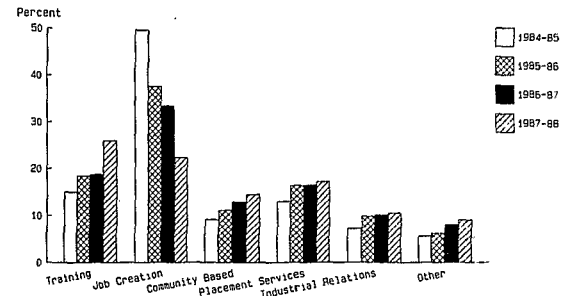
The Commonwealth supports a range of activities aimed at improving employment prospects by attempting to bring rises in income into line with improvements in productivity, improving efficiency in the labour market and enhancing the level of skills in the workplace. Labour market programs are also aimed at reducing inequities in the labour market by assisting the disadvantaged to compete on even terms for work. To these ends, the activities covered by this function include training and employment assistance programs and the coordination and oversight of industrial relations matters generally.

The following table sets out details of funds provided for the *Labour and Employment* function.

SUMMARY OF LABOUR AND EMPLOYMENT OUTLAYS

	1985-86	1986-87	1987-88		Change	
	Actual	Actual	Estimate	Estimate	\$m	%
	\$m	\$m	\$m	\$m	\$m	%
7C.1 Training	192.5	193.3	276.1	76.8	39.7	
7C.2 Job Creation and Employment Assistance	391.7	343.9	233.2	-110.7	-32.2	
7C.3 Community Based and Aboriginals	116.6	133.9	152.2	18.2	13.6	
7C.4 Placement/Information Services	171.8	170.7	180.0	9.3	5.5	
7C.5 Industrial Relations	102.6	105.5	110.3	4.8	4.5	
7C.6 Economic and Labour Market Advising	10.5	11.1	12.4	1.3	12.2	
7C.7 General Administration	55.3	72.3	82.0	9.7	13.4	
TOTAL	1 041.0	1 030.6	1 040.2	9.6	0.9	

CHART 1. LABOUR AND EMPLOYMENT OUTLAYS
1984-85 TO 1987-88



A significant feature is the increasing priority being accorded to training programs and decreased emphasis on direct job creation and work experience programs. While total outlays on *Labour and Employment* in 1987-88 will fall in real terms, outlays on training programs are to increase by over 30% in real terms. The shift in emphasis towards training started in 1985-86 as illustrated in Chart 1 on the preceding page.

The increased emphasis on training is seen as being of substantial long-term benefit to participants in the labour market. It is intended to lead to a more skilled and adaptive labour force and a better match between the demand for and supply of labour, and to assist in the restructuring of the industry base, thus improving Australia's international competitiveness.

7C.1 TRAINING

Training programs supported by the Commonwealth are designed to provide increased opportunities for people to obtain and upgrade skills relevant to current and future labour market requirements. The main growth of outlays on training is in the youth area, through the new Youth Training Program and continued growth in the Australian Traineeship System, but the estimates also provide for real increases in all other elements of the training sub-function. These increases reflect in part the additional \$32.5m for training programs announced in the May Statement. The following table sets out details of training outlays.

TRAINING

	1986-87	1987-88	Change	
	Actual	Estimate	\$m	%
Adult Training	\$m	\$m	\$m	%
Youth Training	21.5	29.7	8.2	38.4
Trade Training	12.3	30.7	18.3	148.5
Australian Traineeship System	115.1	129.5	14.4	12.5
Skills Training	13.6	44.6	31.0	227.3
Related Salaries and Administration	16.4	22.6	6.2	37.9
	14.4	13.1	-1.3	-9.0
Total	193.3	270.1	76.8	39.7

Participants in approved training courses receive the Formal Training Allowance (FTA) which is equivalent to the unemployment benefit or other social security benefit payable, plus a training allowance and ancillary benefits. The costs of FTA are included within the estimates for each component of the training program. In view of the direct encouragement of young people to remain in full-time education and training arising from the changes in youth income support announced in the May Statement, the Government has decided that an FTA training allowance in addition to unemployment benefit is no longer appropriate for those under 21 but ancillary benefits will continue to apply. From 1988 the training allowance will, therefore, no longer be available to new trainees below that age. The Government has also decided to set the training allowance at a standard rate of \$30 per week for those 21 years and over (currently a higher rate applies to those 25 years and over). These measures will save \$2.6m in 1987-88 and \$6.4m in a full year.

Adult Training

The Commonwealth provides a range of assistance for short-term vocational training for adults who, without training or retraining, would be at a disadvantage in obtaining employment. In 1987-88 additional assistance is being provided to sole parents and mature-aged women entering or re-entering the workforce. This assistance is targeted at those people affected by recent changes in pension and benefit entitlements. Migrants with overseas professional qualifications are also to receive assistance through the provision of bridging courses to enable them to utilise their skills and qualifications in the Australian labour market.

Under adult training arrangements, assistance is provided to job seekers 21 years and over who have been unemployed for at least 6 of the previous 9 months, although this requirement is waived for disabled or other especially disadvantaged people. Those eligible are assisted to attend existing courses at training/educational institutions or courses designed to meet identified group needs.

The estimates include an additional \$7.5m within the extra funds announced for training in the May Statement. 12 700 people are expected to be approved for assistance in 1987-88 compared with 8700 in 1986-87.

Youth Training

The Commonwealth provides a range of assistance to enhance labour market prospects for disadvantaged youth through broad-based vocational training opportunities.

The Youth Training Program is directed towards under 21 year olds who have been unemployed for at least 6 of the previous 9 months or are otherwise specially disadvantaged. Courses take into account the needs of the participants and the skill requirements of the local labour markets, and are delivered mainly through TAFE. Currently the courses are mainly in office skills, data entry and various occupations in the hospitality, tourism and rural industries.

Outlays on Youth Training in 1987-88 are estimated to be \$30.7m, and will provide for some 13 100 approvals in 1987-88, compared with 8400 in 1986-87. The estimates include \$15.5m of the additional training funds announced in the May Statement.

Trade Training

The Commonwealth supports a number of trade training schemes to help meet the long-term needs of the economy for skilled labour. Trade training also aims to improve access to the labour market for women, disabled people and mature-aged workers and to increase the responsiveness of the trade training system to changes in demand for skilled labour.

Through the Commonwealth Rebate for Apprentice Full-time Training (CRAFT) Scheme the Government meets a significant part of the cost of training apprentices. Under current arrangements employers are reimbursed for costs incurred in releasing apprentices to undertake technical education and approved off-the-job training. This is achieved through the payment of a variety of employer rebates set according to the trade concerned, the year of apprenticeship and stage of technical education. Changes to this system are planned to be phased in from 1 January 1988 with the rebates being replaced by a system of grant payments to employers. Two payments of up to \$1500 will be made, one at the commencement of an apprenticeship and the other on completion. The new arrangements will simplify administration, and are intended to direct assistance towards training outcomes rather than cost inputs. It is estimated that during 1987-88, 98 000 apprentices will be assisted, compared with 89 000 in 1986-87. The increased provision for CRAFT (\$109.9m in 1987-88 compared with \$96.3m in 1986-87) largely reflects this change in numbers, but also includes a reduction of \$1.5m on the forward estimates because of reduced attendance days and the outyear effect of reduced indexation from January 1987.

A number of special apprenticeship support programs under the heading Special Apprenticeship Training are designed to complement traditional apprenticeship training and reduce wastage from apprenticeship. \$19.4m has been provided for these programs in 1987-88, compared with \$18.9m in 1986-87. The estimates reflect a reduction of \$1.0m on the previous forward estimates for the Special Assistance Program, and provision for the further expansion of group apprenticeship arrangements, funding for which is provided jointly by the Commonwealth and States on a \$ for \$ cost sharing basis. Grants totalling \$3.0m are expected for group apprenticeship schemes in 1987-88. This is an expanding area of Commonwealth assistance and by June 1988 it is expected that 5500 apprentices will be receiving assistance through group arrangements, compared with 4300 in June 1987 and 2770 in June 1986.

Australian Traineeship System

The objective of the Australian Traineeship System established in 1985-86 is to provide an improved system of quality vocational training for young people who do not go on to higher education, technical or trade training. The scheme is primarily targeted at 16-18 year olds who have left school before completing Year 12. Traineeships combine work-based training and training off-the-job usually provided through the TAFE system. In 1986-87, 7085 trainees commenced a traineeship. While take-up has been slower than originally envisaged, \$44.6m is provided in 1987-88 to provide for a further 13 000 commencements.

Skills Training

Under the Innovative Training Projects component, assistance is provided for a range of approaches to training designed to meet significant occupational and industry skills shortages as well as supporting the development and expansion of industry skills centres in partnership with industry, State and local governments.

Through Industry Training Services, assistance is given to the national network of tripartite industry training committees and industry organisations to develop improved training, and a range of trainer training courses, training manuals and technical support to related committees is provided. Other assistance under this program includes:

- assistance with the development and expansion of industry skills centres in conjunction with industry, TAFE and State Governments; and
- encouraging the development of innovative industry approaches to improved workforce training.

The estimates include an additional \$4.5m allocated from the additional training funds announced in the May Statement.

7C.2 JOB CREATION AND EMPLOYMENT ASSISTANCE

	1986-87	1987-88	Change	
	Actual	Estimate		
	\$m	\$m	\$m	%
Employment Creation	195.5	103.5	- 92.0	- 47.1
Jobstart	124.4	100.0	- 24.4	- 19.6
Mobility Assistance	4.0	3.9	- 0.1	- 2.1
Industry and Regional Employment Assistance	11.9	21.6	9.6	80.7
Related Salaries and Administration	8.1	4.2	- 3.8	- 47.6
Total	343.9	233.2	-110.7	- 32.2

The *Employment Creation* estimates encompass the Community Employment Program and the New Enterprise Incentive Scheme.

The Community Employment Program (CEP), established under the *Community Employment Act 1983*, is a short-term job creation scheme aimed at assisting the long-term unemployed and other disadvantaged job seekers. The scheme provides employment opportunities through labour intensive projects which are deemed to be of social and economic benefit to the community.

As announced in the May Statement, no further grants are to be made under the CEP, saving \$100.0m in 1987-88, and \$200.0m in a full year. A total of \$100m has been allocated in 1987-88 to meet all commitments entered into prior to 30 June 1987. The abolition of the program reflects the general shift in emphasis of the Government's labour market programs in favour of education and training.

Some 12 000 placements under CEP are expected in 1987-88 compared with 20 761 placements in 1986-87.

The New Enterprise Incentive Scheme (NEIS) provides on-going employment opportunities for unemployed people by providing training and income support (alongside State/Territory Government loans/grants) for the establishment of small business ventures. Following consideration of an initial evaluation report on the pilot NEIS, the Government has decided to continue the scheme and provide 600 places per year for four intakes over the next 5 years, with a further review of the program in 1990. The scheme is targeted at unemployed people 18 years and over who, at the time of application, are registered as unemployed with the Commonwealth Employment Service (CES) and in receipt of unemployment benefits. NEIS is also open to dependent spouses of unemployment beneficiaries and recipients of supporting parent's benefit, widow's pension or wife's pension. Participants are paid a flat rate allowance for 52 weeks broadly equivalent to unemployment benefits. \$3.8m, including associated running costs, has been provided for NEIS in 1987-88.

The *Jobstart* program is directed to improving the long-term employment prospects of less competitive job seekers by providing wage subsidies to employers for standard periods in respect of job seekers from defined target groups who are recruited through the CES. Subsidy levels are related to age, period of prior unemployment and degree of job seeker disadvantage.

Rates payable to private sector employers are set out below.

Characteristics of Job Seeker	15-17 yrs	18-20 yrs	21-44 yrs	45 yrs +
	\$ per week			
Unemployed 6 months in last 9 months	50	75	100	125
Unemployed over 12 months in last 15, or especially disadvantaged	75	110	150	180

A reduction of \$28.0m in overall spending on *Jobstart* was announced in the May Statement. This reflected in part the abolition of the Commonwealth Work Experience Program, which provided full wage reimbursement for work placements in Commonwealth Departments and statutory authorities. Some 55 000 placements under *Jobstart* are expected in 1987-88 compared with 67 000 placements in 1986-87.

Under *Mobility Assistance*, financial support is provided to job seekers through the Fares Assistance Scheme and the Relocation Assistance Scheme to offset the costs incurred in pursuing suitable employment opportunities.

Under *Industry and Regional Employment Assistance*, \$1.5m is allocated to provide retraining, employment and relocation assistance for Christmas Islanders who require alternative employment outside the phosphate mining industry, either on Christmas Island or on the mainland.

Funding is also provided as part of a five-year Commonwealth program commenced in 1983 for a range of projects designed to expand employment in steel industry regions. Outlays on this overall program are expected to decrease by \$24.2m to \$12.5m in 1987-88. Of this, \$6.4m is provided under this function for projects to assist the steel regions. (The remaining outlays are classified under 7B. *Industry Assistance and Development* and 7D. *Other Economic Services*.)

Under a three-year package of assistance to the heavy engineering industry to enhance its competitiveness, \$8.0m will be provided for skills enhancement and labour adjustment assistance in 1987-88. This provision reflects a reduction of \$4.0m on forward estimates for 1987-88, owing to the slower implementation of heavy engineering assistance as announced in the May Statement.

\$1.0m, including related salaries and administration costs, is to be provided for people made redundant in the textile, clothing and footwear industries to assist them to find new employment.

Under the Coal Mining Industry Labour Adjustment package, workers from New South Wales and Queensland coal mines with more than 12 months employment in the industry in the 24 months prior to retrenchment will be eligible for assistance in the form of wage subsidies, relocation assistance and formal vocational training. *Intensive program delivery* through CES retrenchment teams and via community-based re-employment committees will also be provided. \$2.6m, including salaries and administration costs, is to be provided in 1987-88, and up to \$8.0m over the next 3 years.

Under Labour Adjustment Training Arrangements (LATA) assistance is made available for workers retrenched from designated industries. Despite a reduction in recent years, the general LATA provisions remain in force in the steel and passenger motor vehicle industries. Some \$2.6m will be made available for LATA in 1987-88 to assist an estimated 350 program participants.

7C.3 COMMUNITY BASED AND ABORIGINALS

Complementing its direct employment and training programs, the Commonwealth provides assistance through community-based organisations to provide additional training and employment opportunities, particularly for young people. Specific assistance is also provided for Aborigines. The following table sets out details of outlays.

	1986-87	1987-88	Change	
	Actual	Estimate	\$m	%
Community Youth Support Scheme	35.1	36.9	1.8	5.2
Community Training	15.1	19.0	3.9	25.8
Community Volunteer Program	1.8	3.7	1.9	105.5
Aboriginals	70.9	81.1	10.2	14.4
Related Salaries and Administration	11.0	11.4	0.4	3.7
Total	133.9	152.2	18.2	13.6

Community Youth Support Scheme

The Community Youth Support Scheme (CYSS) provides grants to some 350 community-based, publicly-elected, local management committees to provide young people with a range of employment-oriented skills and support during periods of unemployment. Emphasis is on training in work skills and job-search techniques, and on encouraging young people to gain work experience in community service and part-time, casual and temporary work. Grants to the local management committees assist with the staffing, accommodation and administrative costs of operating a CYSS centre. A reduction of \$1.0m has been effected to forward estimates for this program, largely to reflect discontinuation of the Special Initiatives Grants element introduced in 1984-85.

Community Training

The Community Training Program, introduced in 1986, provides assistance to 66 locally-based community projects to deal with the special employment needs of those most disadvantaged in the labour market. Grants help to meet the establishment and operational costs of individual projects. The estimates also include provision for the establishment of a national network of ten Information Technology Centres in 1987-88 at an additional cost of \$3.4m (\$4.5m in 1988-89). The centres offer disadvantaged jobseekers a mix of training and work experience in a wide range of information technology applications.

Community Volunteer Program

An amount of \$3.7m has been allocated for the Community Volunteer Program, which is designed to provide voluntary community service opportunities for the unemployed, especially young people, and complements current training and employment programs. Some 63 voluntary agencies will be assisted under the program in 1987-88, and it is estimated that some 15 000 unemployed people will participate in the voluntary community service opportunities provided.

Aboriginals

In order to increase the range of occupations in which Aboriginals are employed, the Commonwealth provides funds through the Department of Employment, Education and Training for the provision of training assistance and other measures to encourage the employment of Aboriginals.

Public sector training provides trainees with on-the-job experience for up to twelve months in clerical, semi-skilled and technical areas of Commonwealth and State Government employment. The number of placements is expected to decrease from 1482 to 1147, with a reduction in outlays from \$21.6m to \$15.5m, reflecting a shift in emphasis away from public sector training because of its relatively high cost and the progressive adoption of equal employment opportunity programs by public sector organisations.

Training allowances and employer subsidies are available to encourage the employment of unemployed Aboriginals registered with the CES. In 1987-88, \$2.7m is provided for formal training allowances for an estimated 348 trainees, and \$31.0m is provided through the private and community sectors on-the-job component, to assist 7590 trainees. Special projects, developed where no other forms of training are appropriate, are expected to assist some 2500 people in 1987-88 at a cost of \$18.3m.

Following further consideration of the Miller Report on Aboriginal Employment and Training, an additional \$3.0m has been provided for the expansion of the Aboriginal Employment Development Policy, including an additional \$1.6m for the Enterprise Employment Assistance (EEA) Program. The EEA program involves the payment to Aboriginal community enterprises of wage subsidies equivalent to the unemployment benefit payments Aboriginal employees would otherwise have received. Servicing of rural and remote communities has also been strengthened. In addition, \$1.0m has been allocated for the Aboriginal Enterprise Incentive Scheme to provide assistance with establishment costs to individuals who are able to set up their own small businesses. Information on other initiatives taken following consideration of the Miller Report is included under 4.8 *Aboriginal Advancement Programs nec.*

Also included within this function is \$8.4m (\$7.7m in 1986-87) provided through the Department of Aboriginal Affairs for direct grants to Aboriginal communities and organisations and grants to the States for employment and training projects.

7C.4 PLACEMENT/INFORMATION SERVICES

A major function of the Department of Employment, Education and Training is to promote and assist the efficient operation of the labour market by providing a range of information, counselling and placement services for employers and job seekers. The placement, delivery and information service is provided by the Commonwealth Employment Service (CES).

The CES delivers its services through 318 CES offices and a number of agencies. Services provided include placement of job seekers in employer-notified vacancies, gathering and dissemination of information about the labour market, particularly for youth, and the administration of labour market programs. During 1986-87 the CES processed 2 400 000 registrants, and had 930 000 vacancies notified of which 735 000 were filled.

Staffing for the CES office network is established after a process of consultation with the unions and the application of a formula related to workload forecasts. Excluding Youth Access Centres and Career Reference Centres a total of 4921.4 staff years have been allocated to the CES network in 1987-88, an increase of 3.7% over 1986-87.

A national network of Youth Access Centres is being established to provide information, assistance and referral services to young people. The increased estimates for Placement/Information Services also reflects the introduction of the new Job Search Training program. An additional \$1.6m is being provided (\$2.8m in 1988-89) within the additional funds made available in the May Statement for training. Some 16 000 long-term unemployed jobseekers (30 000 in 1988-89) will be provided with the opportunity to receive structured training in job search skills.

7C.5 INDUSTRIAL RELATIONS

	1986-87	1987-88	Change	
	Actual	Estimate	\$m	%
Industrial Relations Advising	7.4	8.7	1.3	16.9
Conciliation and Arbitration	21.2	20.5	-0.8	-3.5
Arbitration Inspectorate	4.6	4.7	0.1	2.5
Special Industry Legislation	43.8	50.7	6.9	15.7
Working Environment	2.1	1.8	-0.2	-11.9
Trade Union Training Authority	8.5	7.7	-0.8	-8.9
National Occupational Health and Safety Commission	17.8	16.1	-1.7	-9.6
Total	105.5	110.3	4.8	4.5

The allocation for *Industrial Relations Advising* covers the costs associated with the provision of advice to the Minister, Commonwealth authorities, industry and unions on industrial relations matters, including the operation of relevant legislation.

The bodies funded within the *Conciliation and Arbitration* sub-function are involved in the settlement of industrial disputes and the determination of wage and salary claims. Other outlays relate to the provision of certain legal and other costs. The \$20.5m provided includes \$17.5m for the operation of the Conciliation and Arbitration Commission.

The *Arbitration Inspectorate* provides a nationwide federal labour inspectorate service under powers conferred by the *Conciliation and Arbitration Act 1904*. The objectives are to secure observance of the regulations and awards made under the *Conciliation and Arbitration Act 1904* by carrying out labour inspections, and by providing an educational facility to assist employers and employees to understand their rights, duties and obligations.

Special Industry Legislation involves the administration of special legislation for the financing of employee entitlements in the black coal mining and stevedoring industries. Costs are normally offset by levies on black coal production and stevedoring industry employers under the relevant legislation.

Working Environment activity is intended to increase the awareness and practice of industrial democracy in both the private and public sectors. This involves the provision of information dissemination services and training material, the sponsoring of research, and financial subsidies for specific projects.

The *Trade Union Training Authority Act 1975* provides for training services for unionists and for the operation of State training centres and a National Training College at Albury-Wodonga. The estimate of \$7.7m for the Authority will cater for approximately 55 000 student training days in 1987-88.

The *National Occupational Health and Safety Commission Act 1985* provides for the establishment of a National Occupational Health and Safety Commission (NOHSC). The objective of NOHSC is to provide a coordinated approach by employers, unions, States and the Commonwealth to occupational health and safety. Its activities centre on the development of national standards, the establishment of priorities, the upgrading of research efforts, the enlargement of training resources and the improvement of information collection and dissemination.

In the context of the May Statement the forward estimates for NOHSC were reduced by \$7.0m partly to reflect the estimated level of funds on hand at the conclusion of 1986-87, but also to effect ongoing savings. Total funds available to NOHSC will nonetheless allow a staffing level of 229 staff years in 1987-88, as against an actual utilisation of 217 staff years in 1986-87.

7C.6 ECONOMIC AND LABOUR MARKET ADVISING

\$12.4m is provided for labour market and economic analysis, labour market research, women's employment policy advising and program policy, review and evaluation. \$1.1m of this is allocated for the Affirmative Action Agency which administers the *Affirmative Action (Equal Employment Opportunity for Women)* legislation. The Agency assists employers in the implementation of affirmative action programs, monitors and evaluates the effectiveness of these programs, and conducts research and community education activities.

7C.7 GENERAL ADMINISTRATION

This heading includes the Executive Management, Central Office and State/Territory administrative management and support services related to the performance of this function in the Department of Employment, Education and Training and the Department of Industrial Relations, and other support services not identified elsewhere.

7D. OTHER ECONOMIC SERVICES

This section covers outlays on economic services provided by the Government which are not included in other specific functional classifications. It includes outlays on certain forms of economic and trade regulation, specialised activities such as meteorological and mapping services, and more general outlays on energy and resource industries.

Appropriations for 1987-88 indicate an expected fall of \$19.1m, due primarily to two large non-recurring payments incurred last financial year. Last year \$17.0m was provided for South Australian water supply programs and \$40.6m for construction of a gas fired power station in the Northern Territory (\$0.8m in 1987-88). The latter reduction is partly offset by the return to the full level of Commonwealth assistance for the NT Electricity Commission (up \$18.1m). Outlays on other parts of the function are expected to remain relatively stable.

SUMMARY OF OTHER ECONOMIC SERVICES OUTLAYS

	1985-86		1986-87		1987-88		Change	
	Actual	Actual	Actual	Estimate	\$m	\$m	%	%
	\$m	\$m	\$m	\$m	\$m	\$m		
7D.1 Economic and Trade								
Regulation	63.0	60.3	66.6	6.3	10.5			
7D.2 Meteorological Services	63.2	70.6	77.1	6.5	9.2			
7D.3 National Mapping	16.0	19.3	28.9	9.6	49.5			
7D.4 Urban Water Supply	15.7	33.6	15.8	-17.8	-53.0			
7D.5 Electricity Supply	47.6	58.0		-22.3	-38.4			
7D.6 Subsidy on Liquefied Petroleum								
Gas	3.3	—	—	n.a.	n.a.			
7D.7 Economic Services nec	18.9	24.7	23.4	-1.4	-5.5			
TOTAL	226.8	266.6	247.5	-19.1	-7.2			

7D.1 ECONOMIC AND TRADE REGULATION

	1985-86		1986-87		1987-88		Change	
	Actual	Actual	Actual	Estimate	\$m	\$m	%	%
	\$m	\$m	\$m	\$m	\$m	\$m		
Patent, Trade Marks and Designs Office	19.7	21.8	25.2	3.4	15.5			
Industries Assistance Commission	12.0	11.6	10.8	-0.8	-6.7			
Trade Practices	10.9	7.6	8.6	1.0	13.8			
Prices Surveillance	1.2	1.6	2.0	0.4	22.1			
Consumer Protection nec	3.7	4.1	5.9	1.7	42.5			
National Companies and Securities Commission	2.7	2.8	3.1	0.3	10.4			
Australian Government Analytical Laboratories	7.8	5.1	4.8	-0.3	-6.4			
Standards and Accreditation	3.9	4.0	4.3	0.3	7.4			
Other	1.1	1.6	1.9	0.3	16.6			
Total	63.0	60.3	66.6	6.3	10.5			

Outlays for the regulatory bodies listed here are mainly for salaries and administration.

Patent, Trade Marks and Designs Office

The Patent, Trade Marks and Designs Office administers Australian property systems for the protection of inventions, trade marks and industrial designs, examines applications for Letters Patent of inventions and for the registration of designs and trade marks, and publishes details of successful applications.

The increase in projected outlays is largely due to the Government decision to provide resources to reduce the backlog in examination of Patent, Trade Marks and Designs applications. In addition to the \$1.1m provided for this purpose in 1986-87, \$2.5m has been allocated for 1987-88 to provide for increased staffing and administrative resources and computer system development to reduce further the number of unexamined applications. The Office expects \$30.4m in revenue from statutory fees (see Statement No. 4).

Industries Assistance Commission

The reduction reflects reduced staffing levels announced by the Government in the May Statement saving \$1.2m in 1987-88 off the forward estimates. Further savings are expected in 1988-89.

Trade Practices

This item includes activities of the Trade Practices Commission and the Trade Practices Tribunal. The Commission administers the *Trade Practices Act 1974*, which proscribes certain restrictive trade practices and provides for consumer protection. The increase in outlays largely reflects non-recurring legal costs incurred in relation to a major court case.

Prices Surveillance

The increase of \$0.4m reflects the full year effect of additional resources provided to the Prices Surveillance Authority last year to undertake the price surveillance activities announced in the Prime Minister's Address to the Nation of 11 June 1986.

Consumer Protection nec

The increase in outlays to \$5.9m reflects increased provision for salaries and administrative expenses for the Federal Bureau of Consumer Affairs. The estimate also includes a grant-in-aid of \$0.2m to the Australian Federation of Consumer Organisations for the coordination of consumer affairs bodies in Australia.

National Companies and Securities Commission

The Commission administers a uniform co-operative scheme for the regulation of companies and securities transactions including the Commonwealth companies legislation and counterpart State laws. The Commonwealth contributes one half of the Commission's budget and the States provide the balance in proportion to their respective populations. The Government has agreed to provide funds in 1987-88 for development of a proposal for the Commonwealth to assume full responsibility during 1988-89 for matters now regulated by the Co-operative Companies and Securities Scheme (see *8B Law, Order and Public Safety*). Pending development of this proposal the Commission will continue to administer the scheme throughout 1987-88.

Australian Government Analytical Laboratories

The Australian Government Analytical Laboratories (AGAL) carry out chemical and microbiological analyses, primarily for Commonwealth agencies, for the protection of public health, identification of appropriate tariffs on imports, support of law enforcement agencies dealing with illicit drugs and quality assurance testing of exports. Operational payments will total \$11.3m (\$9.6m in 1986-87), with AGAL receipts increasing to \$6.5m in 1987-88 (\$4.5m in 1986-87).

The increased outlays in 1987-88 reflect an expected increase in pesticide residue testing which will facilitate beef and other primary produce exports.

AGAL receipts increased from \$1.9m in 1985-86 to \$4.5m in 1986-87 as a result of the Government's acceptance of the recommendation of the Report of the Independent Committee of Inquiry into Commonwealth Laboratory Services and Facilities (Ross Report) that AGAL achieve full cost recovery. The introduction of increased charges for AGAL services led to a reduction in demand, although this is now expected to be offset by increased pesticide residue testing.

Standards and Accreditation

This category consists of the Commonwealth's contributions to the Standards Association of Australia (SAA) and the National Association of Testing Authorities (NATA). The SAA's main function is to publish and promote Australian standards. NATA provides accreditation for laboratories of demonstrated competence and capability.

Other

The main item in this category is the operational expenses of the National Standards Commission (\$1.2m).

7D.2 METEOROLOGICAL SERVICES

The Commonwealth Bureau of Meteorology provides weather services and forecasts for the general public and specialist users. Estimated total payments for 1987-88 are \$98.5m which includes salaries (\$54.7m), administrative and operational expenses (\$18.9m), contributions to overseas organisations (\$0.7m), plant and equipment (\$7.5m), instruments and apparatus (\$6.1m), observer expenses (\$4.7m), buildings, works and maintenance (\$5.1m) and other (\$0.9m). The Bureau recovers the full costs of providing specialised services to some of the major users of meteorological data such as the Departments of Defence and Transport and Communications (\$22.4m). Receipts from rental charged by the Bureau are estimated at \$0.5m. The Government has decided to recover an additional \$0.6m in 1987-88 and \$1.4m in 1988-89 for services provided to the media through introducing or increasing charges for certain services. Outlays by the Bureau are thus expected to total \$75.1m in 1987-88. The expected real increase in outlays for 1987-88 mainly reflects the Government's decision to upgrade the Bureau's capital equipment to achieve greater operational efficiency at a cost of \$1.3m in 1987-88.

The Ionospheric Prediction Service provides predictions on the state of the ionosphere for users of radio communications systems, including the Defence Services, and telecommunications authorities. Operational outlays in 1987-88 are estimated at \$2.0m.

7D.3 NATIONAL MAPPING

The increase of \$9.6m for National Mapping mainly reflects increased outlays on the upgrade of the Australian Landsat Station (\$10.1m; up \$9.4m from 1986-87) announced in the 1986-87 Budget. This is partly offset by an expected \$0.5m improvement in cost recovery from the sale of mapping products and satellite imagery data and reduced administration costs (\$0.9m).

7D.4 URBAN WATER SUPPLY

The main component of this sub-function is assistance to the States for urban water supply provided under the Federal Water Resources Assistance Program (FWRAP). \$12.5m is to be allocated for this purpose, the reduction of \$2.8m on 1986-87 reflecting the expected completion in 1987-88 of work on water treatment facilities in the Hunter River region of NSW. The \$12.5m includes \$5.5m for the Country Towns Water Supply Improvement Program, and \$5.5m for water treatment facilities in South Australia. Details of other components of the FWRAP are provided under the functions 5. *Housing and Community Amenities nec*, for 'urban flood mitigation', and 7B. *Industry Assistance and Development* for 'water resources development and management'. Almost all of the decline in outlays (\$17.8m) on urban water supply reflects a special payment of \$17.0m for South Australian water supply programs in 1986-87.

7D.5 ELECTRICITY SUPPLY

The operational assistance grant for the NT Electricity Commission is to be \$47.5m (\$29.5m in 1986-87). This represents a return to the full level of Commonwealth assistance agreed upon in 1985 whereby a grant of \$40.0m per annum indexed in line with the CPI is to be provided.

A capital grant of 40% of the annual outlays incurred since 1 January 1985 is being provided to the NT by the Commonwealth to help finance the construction of a gas-fired power station. The capital grants total \$52.0m in December 1984 prices with the final grant of \$0.8m to be provided in this Budget.

7D.6 SUBSIDY ON LIQUEFIED PETROLEUM GAS

The subsidy on liquefied petroleum gas was terminated on 1 October 1985. Outlays in 1985-86 were \$3.3m.

7D.7 ECONOMIC SERVICES NEC

This category consists of outlays on the Snowy Mountains Engineering Corporation (SMEC) and part of the operational and capital costs (other than those allocated to specific regulatory functions) of the Department of Primary Industries and Energy.

In an attempt to return SMEC to profitability after a downturn in engineering activity, \$8m was granted in equity capital (\$6m on 1 December 1986 and \$2m payable on 1 December 1987) to allow for funding of a voluntary retrenchment program and increase the working capital base of the Corporation.

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 services, administrative services, administration of the courts and law enforcement, foreign affairs, overseas aid and administration of external territories.

8A. LEGISLATIVE SERVICES

SUMMARY OF LEGISLATIVE SERVICES OUTLAYS

	1985-86	1986-87	1987-88		Change
	Actual	Actual	Estimate	Estimate	
	\$m	\$m	\$m	\$m	%
8A.1 New Parliament House					
Construction	177.3	293.6	301.3	17.7	6.2
8A.2 Other Parliamentary Outlays	130.9	141.0	175.6	34.6	24.6
8A.3 Other Legislative Services	39.5	49.8	96.9	47.1	94.6
TOTAL	347.7	474.3	573.8	99.4	21.0

8A.1 NEW PARLIAMENT HOUSE CONSTRUCTION

Estimated outlays by the Parliament House Construction Authority (PHCA) in 1987-88 total \$301.3m comprising \$4.3m for administration and \$297.0m to fund activities directly associated with construction. This includes the effect of the decision announced in the May Statement to reinstate landscaping of the new Parliament House (\$5.0m). The increase in estimated outlays (\$17.7m) over 1986-87 reflects a continuation of the peak levels of activity on site in 1987-88 which should see the completion of the building's exterior and much of its interior. The building is planned to be occupied in time for the August budget session of Parliament in 1988.

8A.2 OTHER PARLIAMENTARY OUTLAYS

This heading covers the five Parliamentary Departments and outlays by the Department of Administrative Services for parliamentary and ministerial services.

Major elements in the increase of \$34.6m are additional salaries associated with increased security and operational activities for the new Parliament House (\$3.7m), provision for additional Ministerial staff and termination payments (\$2.6m), increased administration costs arising from the move to, and operation of, the new Parliament House (\$12.4m), the first stage of a Ministerial communications network (including secure voice) in the new Parliament House (\$2.8m), computer systems for a Parliamentary information service for Senators and Members (\$4.7m) and to support building management and catering services in the new Parliament House (\$1.9m), and increased outlays for parliamentary and ministerial services (\$4.9m).

8A.3 OTHER LEGISLATIVE SERVICES

This heading covers the Australian Electoral Commission, the Governor-General's Office, the Office of Parliamentary Counsel, the Constitutional Reform Commission and maintenance of official establishments (Government House, The Lodge in Canberra and Admiralty House and Kirribilli House in Sydney).

The budget increase of \$47.1m is mainly attributable to costs of \$35.8m for the conduct of the 1987 Federal Election and \$10.3m for reimbursement of election campaign expenditure to registered political parties and independent candidates who qualified.

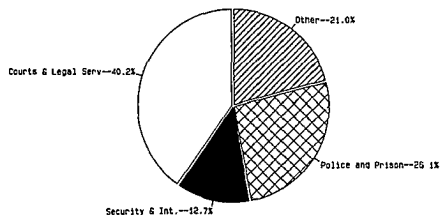
8B LAW, ORDER AND PUBLIC SAFETY

Outlays under this function are summarised in the following table and the composition shown in Chart 1 below.

SUMMARY OF LAW, ORDER AND PUBLIC SAFETY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
8B.1 Courts and Legal Services . . .	193.2	210.9	232.8	21.9	10.4
8B.2 Security and Intelligence Services . . .	69.5	77.6	73.8	-3.8	-4.9
8B.3 Police and Prison Services . . .	133.1	142.5	151.2	8.7	6.1
8B.4 Law and Order and Public Safety—Other	76.1	89.0	121.4	32.5	36.5
TOTAL	471.8	520.0	579.3	59.3	11.4

CHART 1. LAW, ORDER AND PUBLIC SAFETY
COMPOSITION OF OUTLAYS 1987-88



8B.1 COURTS AND LEGAL SERVICES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
High Court	5.6	6.0	6.3	0.2	4.1
Federal Court	8.3	9.1	9.9	0.8	8.5
Family Law	31.7	34.3	36.4	2.1	6.1
Courts of the ACT	3.3	3.5	3.6	0.1	2.8
Court Buildings	0.4	0.4	0.4	-	8.3
Bankruptcy Administration	7.8	8.7	9.5	0.8	8.6
Reporting Service	9.9	10.9	11.1	0.1	1.2
Australian Government Solicitor	18.8	20.4	23.6	3.2	15.7
Public Prosecutions	20.2	21.1	22.8	1.8	8.4
Australian Law Reform Commission	2.6	2.8	2.5	-0.2	-7.9
Legal Aid	79.6	88.9	99.8	10.8	12.2
Protection of Human Rights	5.1	4.8	7.0	2.2	44.9
Total	193.2	210.9	232.8	21.9	10.4

Components of this sub-function are represented in table 8B.1. The amount provided for Legal Aid, which is the largest component in this sub-function, includes \$14.1m for Aboriginal legal aid and \$2.2m for grants to voluntary legal aid organisations. The \$10.8m increase in this item reflects largely the full year effect of additional costs incurred by the Commonwealth in the merger on 2 April 1987 of the NSW Legal Aid Commission with the Australian Legal Aid Office, NSW.

Additional funds are provided for the Family Court reflecting staffing and administrative costs associated with reference to the Commonwealth by some States of family law powers in relation to custody, guardianship, maintenance and access and extension of similar coverage to Australian Territories (\$1.5m), and staffing and administrative costs for the Family Court associated with the introduction of the Child Support Scheme (\$0.6m).

Increases in the Australian Government Solicitor, Bankruptcy Administration and the Federal Court represent largely increased staffing and administrative costs approved in the Budget for the protection and recovery of Commonwealth revenue (mainly taxation). Estimated additional revenues of \$115m in 1987-88 from this initiative are reflected in Estimates of Revenue (see Statement No. 4). Increased funds for Prosecution Services largely reflect additional staffing and administrative provisions for the Director of Public Prosecutions to allow for increased activity upon passage of the *Proceeds of Crime Act 1987*. Increases in Protection of Human Rights reflects estimated costs, attributable to this component, of the Royal Commission into Aboriginal Deaths in Custody (\$1.8m) and the full year costs associated with establishment of the Human Rights and Equal Opportunity Commission (\$0.4m).

8B.2 SECURITY AND INTELLIGENCE

This provision comprises outlays for the Australian Security Intelligence Organisation (ASIO—\$35.3m), the Australian Secret Intelligence Service (\$15.9m), the Office of National Assessments (\$3.5m), security at overseas posts (\$16.3m), counter-terrorist training and equipment (\$2.6m) and the Office of the Inspector-General of Intelligence and Security (\$0.3m). The net decrease of \$3.8m (4.9%) on 1986-87 outlays in this sub-function is largely the result of a non-recurring provision in 1986-87 for the relocation of ASIO to Canberra.

8B.3 POLICE AND PRISON SERVICES

\$147.2m is provided for the Australian Federal Police (AFP). This increase of \$8.6m includes final funding to meet the Government's 1984 election commitment to provide a stronger police force over a 3 year period (\$3.0m), the implementation of the telecommunications interception unit (\$0.2m), additional funding for anti-crime measures (\$1.5m for computer projects and \$0.4m to enforce the provisions of the *Proceeds of Crime Act 1987*), and the effect of the March 1987 National Wage Case (\$2.2m) partially offset by increased receipts. \$2.5m is provided for the care of ACT prisoners in NSW institutions under the *Removal of Prisoners (Australian Capital Territory) Act 1968*, and \$1.3m for the operational costs of adult and juvenile corrective services facilities in the ACT and payments for ACT juveniles in NSW training institutions.

8B.4 LAW AND ORDER AND PUBLIC SAFETY—OTHER

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Attorney-General's Department					
General Administration	44.4	49.8	72.1	22.3	44.8
Public Safety and Protection—					
Road Safety	2.7	2.8	2.5	-0.2	-8.1
Other	12.1	14.6	14.8	0.2	1.5
Buildings, Works and Equipment nec	0.7	2.1	12.1	10.0	na
Recoveries	5.6Cr	5.6Cr	7.1Cr	-1.5	-27.6
Other	21.8	25.3	27.0	1.7	6.7
Total	76.1	89.0	121.4	32.5	36.5

The major components of this sub-function are contained in the table above. The large increase in funding for General Administration of the Attorney-General's Department principally reflects provision for acquisition of suitable sites for location of a Family Court Building in Sydney (\$17.8m) and a Law Courts complex in Adelaide (\$3.0m). Also provided for is an amount of \$1.1m for development of arrangements for the Commonwealth to assume responsibility during 1988-89 for company law, futures and securities industries matters now regulated by the joint Commonwealth/State Co-operative Companies and Securities Scheme, and \$0.3m in respect of costs associated with introduction of the Child Support Scheme.

The increase in Buildings, Works and Equipment nec, principally reflects progress with construction of the Parramatta Law Courts. Major expenditures included in 'Other' under this heading are the operating costs of the National Crime Authority (\$15.1m), the Australian Police College (\$1.0m) and the Commonwealth's share of the cost of operations of the Australian Bureau of Criminal Intelligence (\$3.3m).

8C. FOREIGN AFFAIRS AND OVERSEAS AID

This expenditure supports policies designed to promote Australia's external relations, including its strategic and trade interests, with overseas countries. A major component is the assistance provided for the social and economic development of developing countries, reported internationally as Official Development Assistance (ODA).

SUMMARY OF FOREIGN AFFAIRS AND OVERSEAS AID OUTLAYS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
8C.1 Bilateral Aid	749.5	735.6	756.1	20.5	2.8
8C.2 Multilateral Aid	230.8	187.7	195.3	7.7	4.1
8C.3 Overseas Aid—Other	15.2	17.0	19.7	2.7	15.6
Total Aid (a)	995.5	940.3	971.1	30.8	3.3
8C.4 Foreign Affairs—Non-Aid	329.7	361.5	420.8	59.3	16.4
TOTAL	1 325.2	1 301.8	1 391.9	90.1	6.9

(a) Figures in the table may differ from those shown in Budget Related Paper No. 4 because of the use of different concepts for recording Australia's overseas aid performance.

OVERSEAS AID

Official Development Assistance (ODA) in 1987-88 is estimated to be \$1007.6m. Outlays of \$971.1m (an increase of 3.3%) are reported under this function, reflecting a reduction of \$20m on the forward estimates which was foreshadowed in the May Statement. This was a consequence of the Government's resolve in the current economic circumstances to give priority to Australia's domestic economic problems. Nevertheless, there is scope to restore a number of high priority activities and for real growth in programs for some countries and regions.

The aid figures accounted for under this function exclude some additional indirect assistance to developing countries, such as financing provided in certain circumstances through Austrade (trading as the Export Finance and Insurance Corporation) for exports of capital goods on concessional terms. There are, as well, some budget provisions included in ODA for international reporting purposes that are accounted for under other functions.

The charts which follow highlight the trend in outlays on overseas aid and its recent composition.

A more detailed account of Australia's aid than that outlined below is provided on a program basis in Budget Related Paper No. 4—*Australia's Overseas Aid Program*.

CHART 1. OVERSEAS AID BY CATEGORY
1985-86 TO 1987-88

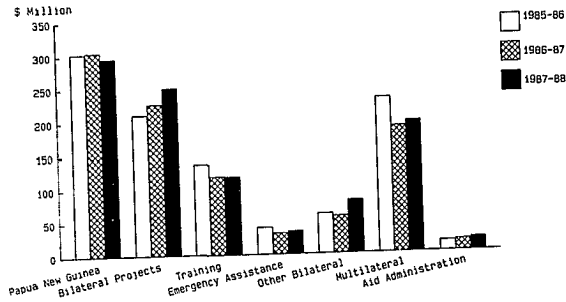
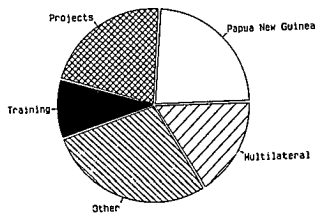


CHART 2. OVERSEAS AID BY CATEGORY
1987-88



8C.1 BILATERAL AID

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Papua New Guinea—Budget Support	\$m 302.8	\$m 304.5	\$m 275.0	-29.5	-9.7
Projects, Technical Co-operation and Related Activities	210.2	225.9	250.1	24.2	10.7
Training	135.7	117.5	117.2	-0.3	-0.3
Emergency Aid and Refugee and Relief Assistance	40.8	31.8	34.5	2.7	8.4
Other	60.0	55.9	79.4	23.4	41.8
Total	749.5	735.6	756.1	20.5	2.8

\$756.1m or 77.9% of aid payments is provided on a bilateral basis. Bilateral assistance is provided largely through country programs which combine the major forms of assistance in a manner designed to achieve the most effective development outcome for the particular country or region. In addition, bilateral assistance is provided through a range of channels, including non-government organisations, and in various forms of aid. In 1987-88 Australia will commence a three year program of economic aid to Southern Africa at an estimated total cost of \$55m. The program will utilise most forms of aid including training and staffing assistance.

Papua New Guinea—Budget Support

New aid arrangements are being negotiated with Papua New Guinea (PNG) as part of a wide ranging review of the overall relationship between Australia and PNG. It is expected the new arrangements will provide for declining levels of budget support and for increasing amounts allocated to programmed developmental activities (an amount of \$12m in 1987-88 is included in 'Projects, Technical Co-operation and Related Activities'). The allocation for direct budget support in 1987-88 is \$275m. The underlying objective of this approach is to increase progressively PNG's fiscal self-reliance and to place the aid arrangements on a footing not dissimilar from that of other major recipients of Australian development assistance in the region.

Payments of termination and retirement benefits and other pensions to expatriate officers (and their dependants) of former Papua New Guinea administrations and the Australian Staffing Assistance Group, made under the *Papua New Guinea Staffing Assistance Act 1973*, are estimated at \$14.8m. These payments are classified as 'Other Bilateral Aid'.

Projects, Technical Co-operation and Related Activities

Under this heading, bilateral projects and related technical assistance comprise a major form of assistance to developing countries utilising Australian expertise and equipment to support individual projects. These projects tend to be concentrated in developing countries within our immediate region. Priority is given to projects of high developmental benefit to recipient countries and in which Australia possesses special expertise, such as in agriculture.

Some assistance will be provided through development import grants, the Association of South-East Asian Nations (ASEAN)-Australia Economic Co-operation Program, co-financing of projects with international financial institutions, staffing assistance and through food aid.

Training

The major outlay under this heading is the payment by the Australian International Development Assistance Bureau (AIDAB) to the Department of Employment, Education and Training of the 'student subsidy'—i.e. the difference between the full cost of educating in Australia overseas students from all developing countries and the Overseas Student Charge (OSC) levied on these students. An amount of \$85.2m is to be provided in 1987-88, a decrease of \$2.8m over 1986-87. In addition, provision is made to cover the Overseas Student Charge for sponsored students from developing countries and for private students from PNG, South Pacific developing countries and the People's Republic of China.

Other outlays under this heading are:

- \$21.9m to cover costs such as miscellaneous tuition fees, fares and living allowances for officially sponsored students from developing countries, teaching and administrative costs of the International Training Institute and costs of the Australian Development Assistance Courses; and
- \$7.1m for the provision of experts and equipment to selected Asian universities and for fellowships in Australia for Asian academics under the International Development Program of Australian Universities and Colleges.

Emergency Aid and Refugee and Relief Assistance

An estimated \$7.4m is to be provided for emergency aid, partly on a government to government basis and partly through non-government organisations, to allow Australia to respond quickly and effectively to emergency relief requirements in different parts of the world. A further \$27.1m is to be applied principally for assistance to Afghan refugees and refugees in Indochina, for famine relief in Africa and for restoration work after natural disasters. Funds are also provided for disaster preparedness and co-ordination activities in Australia's region, principally through the Australian Overseas Disaster Response Organisation. Australia's contributions to the United Nations High Commissioner for Refugees and to the United Nations Relief and Works Agency (\$4.9m in 1987-88) are included in 'United Nations Programs'.

Other Bilateral Aid

The Australian Centre for International Agricultural Research will receive an estimated \$14.8m to enable commissioning and funding of research by Australian institutions in agriculture and related areas of benefit to developing countries. This is an increase of \$1.9m over the 1986-87 allocation.

The use of the Development Import Finance Facility (DIFF) to assist recipient countries to import Australian goods and services for development projects was reviewed during 1986-87. As a result of the review, restrictions on use of the facility were eased and a decision was taken to increase the allocation of funds for the facility over the next three years to about 5% of the aid program, budgetary circumstances permitting. The allocation in 1987-88 will be \$30m, a \$14.4m increase over 1986-87. While DIFF provides benefits to Australian exporters, grants are approved only where the projects concerned meet stringent development guidelines and complement established country programs.

8C.2 MULTILATERAL AID

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
International Development					
Finance Institutions	\$m	\$m	\$m	\$m	%
UN Programs	106.0	105.7	94.2	-11.6	-10.9
Regional and Other International Organisations	90.3	55.1	67.8	12.7	23.0
Total	34.4	26.8	33.4	6.6	24.5
Total	230.8	187.7	195.3	7.7	4.1

The Commonwealth contributes to the activities of a number of international organisations including development finance institutions, United Nations' agencies and various regional organisations. Australian assistance provided in this way recognises the particular expertise and experience of a number of international organisations which have an important role in development. Participation in very large and developmentally effective projects that, funded bilaterally by Australia, would inhibit assistance in other areas is also facilitated through contributions to multilateral organisations.

International Development Finance Institutions

Australia provides significant support for the lending activities of international finance institutions. Both capital contributions and contributions for concessional funding activities organised through these institutions are involved.

Expenditure will result mainly from draw-downs of \$70.4m and \$11.7m against promissory notes lodged with the International Development Association and the Asian Development Fund respectively. Other expenditure will comprise capital contributions to the International Bank for Reconstruction and Development (the World Bank) and purchase of International Finance Corporation shares, totalling \$7.2m, payments of \$2.4m for the Asian Development Bank's third general capital increase and contributions of \$2.5m to the International Fund for Agricultural Development.

United Nations Programs

Total payments under this heading are estimated to increase by \$12.7m or 23% over those in 1986-87. The increase mainly reflects the partial restoration for a number of United Nations' organisations of voluntary contributions which had been reduced in 1986-87. The cost of Australian membership of the United Nations, the assessed contribution, is reported below as Foreign Affairs—Non-Aid expenditure.

United Nations' organisations supported include the United Nations Development Programme, the United Nations Children's Fund and the United Nations Fund for Population Activities.

Regional and Other International Organisations

The increase of \$6.6m in assistance under this heading mainly reflects the restoration of contributions reduced in 1986-87 to a number of regional and other international bodies. Organisations receiving support include the Commonwealth Fund for Technical Co-operation, the Commonwealth Youth Program, the South Pacific Commission and the South Pacific Bureau for Economic Co-operation. Support is also given to a number of international and regional research and training centres.

8C.3 OVERSEAS AID—OTHER

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Aid Administration	16.6	19.5	22.4	2.9	14.8
Recoveries and Repayments	1.4Cr	2.5Cr	2.7Cr	-0.2	-9.2
Total	15.2	17.0	19.7	2.7	15.6

Aid Administration

The administrative costs of the Australian International Development Assistance Bureau (AIDAB) are estimated to increase from \$19.5m to \$22.4m. The increase mainly reflects the relocation of the central office of the Bureau, and the decision by the Government to charge on a full cost basis for various transport and storage services provided by the Department of Administrative Services.

Recoveries and Repayments

The main repayments included in the estimate of \$2.7m are in respect of loans provided to the Fiji and Papua New Guinea governments on concessional terms.

ASSISTANCE ADDITIONAL TO AID PAYMENTS

Certain other Budget provisions are recognised as Official Development Assistance (ODA) for international reporting purposes and are additional to assistance reported in this section. These are estimated to total \$38.6m.

Australia provides indirect economic aid through the Defence Co-operation Program (described under the *Defence* function). Aid is also provided through Australia's contributions to the regular budgets of a number of international organisations (eg the World Health Organisation, the Commonwealth Secretariat and the United Nations Food and Agriculture Organisation) that assist in the funding of aid projects in developing countries.

8C.4 FOREIGN AFFAIRS—NON-AID

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Membership of International Organisations	43.7	50.4	50.2	-0.1	-0.3
Other Activities	15.8	17.6	15.8	-1.8	-10.2
General Administration	270.3	293.5	354.8	61.3	20.9
Total	329.7	361.5	420.8	59.3	16.4

Expenditure under this item is provided to support programs that promote Australia's interests through the conduct of its relations with other countries. These relations are conducted both on a country-to-country basis and through Australian contributions to, and participation in, a variety of international organisations and fora.

As a consequence of the changes to the Administrative Arrangements Orders of July 1987, data relating to a number of functions previously included in other functional classifications are this year included in Foreign Affairs—Non-Aid for the first time. Included here are the multilateral and bilateral trade policy and negotiation areas and some corporate services of the former Department of Trade previously included under classification 7B6 *Assistance to Export Industries* (\$21.0m), and Promotion Australia previously shown under classification 8E *Administrative Services* (\$8.6m). Data relating to these functions for 1985-86 and 1986-87 are reported under the earlier classification.

Membership of International Organisations

These outlays relate mainly to Australia's membership of a large number of international and regional organisations. Participation in these organisations entails contributions to their administrative expenses and, in some cases, their functional activities. Total expenditure for these purposes is estimated at \$50.2m including \$16.7m for the United Nations' regular budget, \$6.2m for the World Health Organisation (WHO), \$5.3m for the United Nations Food and Agriculture Organisation (FAO), \$4.2m for the United Nations Educational, Scientific and Cultural Organisation (UNESCO), \$3.8m for the International Labour Organisation (ILO), \$4.5m for the Organisation for Economic Co-operation and Development (OECD) and \$2.7m for the International Atomic Energy Agency (IAEA). Provision has also been made for payment of \$1.6m to the United Nations Conference on Trade and Development (UNCTAD) Common Fund for Commodities. The Fund is likely to come into effect in 1987-88.

Other Activities

Provision is made for cultural relations activities overseas and exchange visits (\$2m), the Australia-Japan Foundation (\$1.9m), the Australia-China Council (\$0.7m), and for the Australia-New Zealand Foundation (\$0.1m), together with \$3.1m for the United Nations Interim Force in the Lebanon and \$1.2m for the Australian Federal Police contingent in Cyprus.

General Administration

This heading covers the administration costs of the Department of Foreign Affairs and Trade (other than those of AIDAB which are included under 'Aid Administration') and outlays on overseas property services provided by the Department of Administrative Services.

Department of Foreign Affairs and Trade administration costs are estimated to increase by \$37.9m to \$252.5m. This reflects the inclusion this year for the first time of Promotion Australia (\$8.6m) and parts of the former Department of Trade (\$21.0m) which previously were classified elsewhere (see above).

Outlays on overseas property services relate to the cost of providing residential and office accommodation for Australian Embassy, Consulate and High Commission staff overseas. Outlays in 1985-86 included costs of accommodating Australian Trade Commission (Austrade) staff. These costs are included under the heading 'Export and Trade Promotion' from 1986-87, reflecting the establishment of Austrade as a separate authority and its assuming responsibility for accommodation of its staff.

Outlays are estimated at \$99.2m in 1987-88, an increase of \$22.4m. Contributing to the increase are costs relating to the Beijing Chancery project (\$15.4m), fees for the redevelopment of the Tokyo Embassy site (\$5.5m), renovation works in New York and Washington (\$1.9m), rent and other cost increases (\$4.0m), offset by the completion of the Riyadh Chancery and Head of Mission residence project (\$5.5m). These outlays do not include construction costs associated with the Tokyo Chancery and residential redevelopment which are expected to be met by the transfer of title for an apartment block in Tokyo presently owned by the Australian Government, with appropriate financial adjustment on completion of the redevelopment.

8D. GENERAL AND SCIENTIFIC RESEARCH NEC

Outlays on scientific policy and research and development not covered in other functional categories are estimated to be \$525.2m. Substantial elements of Commonwealth support for research in specific fields such as defence technology, industry, medicine, and education, are accounted for under various headings elsewhere in this statement.

Estimated total outlays show an increase of \$3.9m (0.8%) over 1986-87. Despite the provision of additional funds for the Australian Science and Technology Centre, the real reduction in total funds for scientific research in large part reflects the off-budget receipt targets the Government has set the CSIRO.

SUMMARY OF GENERAL AND SCIENTIFIC RESEARCH OUTLAYS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
8D.1 CSIRO	\$m 344.3	\$m 367.8	\$m 354.7	\$m -13.0	% -3.5
8D.2 Australian Nuclear Science and Technology Organisation	45.4	45.2	47.7	2.4	5.3
8D.3 Other General and Scientific Research nec	96.3	108.3	122.9	14.6	13.4
TOTAL	486.0	521.3	525.2	3.9	0.8

8D.1 COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANIZATION

CSIRO is the largest research organisation in Australia, employing more than 7,400 staff. Its main role is to carry out programs of strategic and applied research which include collaborative, commissioned, and other forms of joint projects with Government bodies and Australian industry. CSIRO is organised into five Institutes: Animal and Food Sciences, Biological Resources, Energy and Earth Resources, Industrial Technology, and Physical Sciences.

In 1987-88, CSIRO will continue to improve the relevance of its research to Australian industry highlighted last year by the establishment of a company, SIROTECH, to assist in the commercial development of products and processes developed by CSIRO.

The Government has set receipt growth targets for CSIRO to encourage the organisation to collaborate more closely with industry. Growth targets have been set at \$5m in 1987-88, and \$10m in 1988-89 with corresponding reductions in appropriations. CSIRO funding has also been reduced in the expectation that it will receive \$5m from sales of assets in both 1987-88 and 1988-89. CSIRO expects to earn an additional \$6m through other measures in 1987-88 to give it a total non-appropriated receipts increase of \$16m over 1986-87.

A further factor in the decline in appropriations to CSIRO was the one-off provision in 1986-87 of \$5.0m for the Early Separation Incentive Scheme which, in combination with additional funds from CSIRO's operational outlays, allowed for the early retirement of 259 research staff by July 1987 from lower priority areas of the organisation.

It is estimated that CSIRO will have \$460.5m available in 1987-88 for its activities including budget appropriations of \$354.7m, funds from industry contributions and other forms of private and government support for specific projects (\$65.0m), a contribution of \$4.7m from the Department of Primary Industries and Energy to meet half of the operating costs of the Australian Animal Health Laboratory, receipts from other sources (such as sales of assets and publications) of \$26.5m and cash on hand at 1 July 1987 of \$9.6m. Detailed allocation of these resources among CSIRO's programs is shown in the table below.

ESTIMATED OUTLAYS OF TOTAL FUNDS AVAILABLE TO CSIRO

	1986-87	1987-88	Change	
	Actual	Estimate	\$m	%
<i>Animal and Food Sciences—</i>				
Running Costs	56.3	56.4	0.1	0.1
Capital Works	1.7	3.0	1.2	73.2
Australian Animal Health Laboratories	8.9	9.5	0.6	6.5
<i>Biological Resources—</i>				
Running Costs	77.4	76.9	-0.6	0.8
Capital Works	3.3	7.3	4.0	118.1
<i>Energy and Earth Resources—</i>				
Running Costs	51.4	51.5	0.1	0.2
Capital Works	2.7	5.9	3.2	117.6
<i>Industrial Technology—</i>				
Running Costs	42.1	41.6	-0.5	-1.2
Capital Works	6.9	5.7	-1.2	-17.5
<i>Physical Sciences—</i>				
Running Costs	57.4	61.1	3.7	6.5
Capital Works	4.1	2.1	-1.9	-47.4
<i>National Facilities—</i>				
Australia Telescope—				
Running Costs	2.0	2.7	0.8	39.4
Capital Works	16.0	11.2	-4.8	-30.1
Research Vessel 'Franklin'—				
Running Costs	3.4	3.9	0.5	14.5
Capital Works	0.1	—	-0.1	-100.0
<i>Research Support—</i>				
Running Costs	32.0	32.5	0.5	1.4
Capital Works	3.8	0.5	-3.3	-86.1
<i>Corporate Services—</i>				
Running Costs	22.2	23.6	1.4	6.2
Capital Works	0.1	0.1	—	-31.1
Specific Project Industry Contributions	54.0	65.0	11.0	20.4
TOTAL	445.9	460.5	14.5	3.2

8D.2 AUSTRALIAN NUCLEAR SCIENCE AND TECHNOLOGY ORGANISATION

The main objective of the Australian Nuclear Science and Technology Organisation (ANSTO) is to encourage the utilisation of, and development of benefits from, nuclear science and technology in medicine, industry, commerce, agriculture, science and other areas of the community. In addition to its research activities, the ANSTO produces radioisotopes for a variety of applications throughout Australia.

\$47.7m is provided towards the cost of ANSTO activities, an increase of \$2.4m (5.3%). This figure includes \$4.0m (as an offset within outlays) expected to be received by the Commonwealth from the disposal of ANSTO assets. ANSTO will also receive receipts from sale of radioisotopes and services (\$4.2m) and a contribution from the CSIRO (\$3.7m).

The Budget provision includes \$0.8m for work in relation to the proposed establishment of a National Medical Cyclotron facility at the Royal Prince Alfred Hospital, Sydney, and \$1.9m to further develop the SYNROC process for immobilisation of radioactive wastes.

8D.3 OTHER GENERAL AND SCIENTIFIC RESEARCH NEC

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
<i>Science and Technology policy including</i>					
ASTEC	7.3	5.8	6.0	0.2	3.0
Australian Research Council	34.4	40.3	43.7	3.4	8.5
Commission for the Future	—	0.9	1.0	0.1	7.8
Australian Science and Technology Centre	—	1.9	8.7	6.8	362.4
Australian Institute of Marine Science	—	7.6	8.2	0.6	7.8
Space Projects	-0.1	0.2	0.2	0.1	61.0
Anglo-Australian Telescope Board	1.9	2.0	2.4	0.4	19.1
Antarctic Division	42.2	47.4	49.6	2.2	4.6
Other	3.1	1.7	1.7	—	2.9
TOTAL	96.3	108.3	122.9	14.6	13.4

Science and Technology Policy including ASTEC

The Australian Science and Technology Council (ASTEC) provides broad policy advice and ad hoc reviews related to science funding in Australia. Commonwealth support for the Council has been broadly maintained (\$1.5m).

Australian Research Council

The Government has decided to establish the Australian Research Council (ARC) as a non-statutory authority within the Employment, Education and Training portfolio. ARC funding subsumes research grants previously included under Science Grants and Fellowships (notably the Australian Research Grants Scheme and National Research Fellowships). The ARC has also been allocated \$5m for new Special Research Centres and Key Centres of Teaching and Research (these funds are shown under the function 2. Education and are not included in the ARC outlay figure shown here). The Government intends to seek advice from the ARC, for consideration in the 1988-89 Budget context, on the adequacy of existing national research funding levels and on means of improving the effectiveness and co-ordination of existing research funding schemes.

Australian Science and Technology Centre

The increase in funding for the Australian Science and Technology Centre of \$6.8m mainly reflects the next stage of construction costs and an anticipated shortfall in private sector contributions.

Australian Institute of Marine Science (AIMS)

The Institute carries out research into marine science, particularly in relation to tropical waters. The real increase in funding for the Institute relates to a better program of repairs and maintenance of AIMS property.

Antarctic Division

The Antarctic Division of the Department of the Arts, Sport, the Environment, Tourism and Territories carries out scientific research and maintains an Australian presence at three stations on the Antarctic continent and one on Macquarie Island.

The estimated outlay of \$49.6m allows for continued significant Commonwealth funding in Antarctica. It also allows for the continuation of the rebuilding program for the Australian bases (\$5.3m), including outlays of \$1.3m on three new buildings at Casey and Davis bases which were approved in the Budget context.

8E. ADMINISTRATIVE SERVICES

This heading covers outlays which are administrative in nature and do not relate to other specific functions. It includes the running costs of the Australian Taxation Office, the Australian Bureau of Statistics, and the Departments of Finance, Treasury and Administrative Services as well as outlays on common services, works on government property such as Commonwealth offices, and for superannuation payments to former Commonwealth employees. It also incorporates revenues such as Fringe Benefits Tax payments by Commonwealth agencies and the ongoing sale of surplus Commonwealth real property assets and stores. However, the function does not include proceeds from the major asset sales (estimated to realise \$1000m in 1987-88) separately identified in the May Statement which is shown under the function 9D. *Asset Sales*.

SUMMARY OF ADMINISTRATIVE SERVICES OUTLAYS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
8E.1 Financial Affairs and Fiscal Administration	840.5	867.9	825.1	-42.8	-4.9
8E.2 Statistical Services	124.1	165.4	132.0	-33.4	-20.2
8E.3 Administration of the ACT and Island Territories, nec	164.1	116.5	126.9	10.4	8.9
8E.4 Construction Services	160.2	172.7	186.1	13.4	7.8
8E.5 Commonwealth Offices	46.8	88.4	144.3	55.9	63.3
8E.6 Property Management and Services	133.4	137.2	211.4	74.1	54.0
8E.7 Rent	236.1	284.8	373.5	88.7	31.1
8E.8 Net Superannuation Payments, nec	408.0	531.1	643.1	112.0	21.1
8E.9 Administrative Services—Other	272.4	330.3	263.8	-66.4	-20.1
8E.10 Ongoing Property and Equipment Sales	197.3Cr	153.7Cr	136.7Cr	17.0	11.1
8E.11 Recoveries, nec.	40.1Cr	44.4Cr	46.6Cr	-2.1	-4.8
TOTAL	2 178.3	2 496.1	2 723.0	226.8	9.1

The outlays shown above are the net outcome of a large number of offsetting payments and receipts, including those netted under various trust accounts within the Administrative Services function through which many common service operations are funded.

ADMINISTRATIVE SERVICES PAYMENTS AND RECEIPTS

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
Payments	3123.3	3657.2	4288.0	630.8	17.2
Receipts	945.0Cr	1161.1Cr	1565.0Cr	-403.9	-34.8
Outlay	2178.3	2496.1	2723.0	226.8	9.1

8E.1 FINANCIAL AFFAIRS AND FISCAL ADMINISTRATION

These outlays are largely of an administrative nature, the major elements being the running costs of the Departments of Treasury and Finance, the Australian Taxation Office, the Australian Customs Service, the Australian Government Retirement Benefits Office, the Australian Audit Office and a number of smaller agencies.

A number of offsetting factors contribute to the reduction in outlays under this item. Increases in running costs and other expenses are offset by increased Fringe Benefits Tax (FBT) receipts (\$46.2m), increased loan guarantee charges (\$3.8m) and decreased loan flotation expenses (\$34.6m). Specific savings measures have been taken in regard to the introduction of a processing charge on applications for refunds of customs duty (\$1.0m) and revised timing of acquisition of ADP systems for the Australian Audit Office (\$5.2m).

Fringe Benefits Tax receipts included in this item (\$115.0m) represent the total estimated FBT liability for departments and budget-dependent authorities. The treatment of FBT receipts as an offset against payments in outlays is consistent with the treatment elsewhere in the Budget estimates of transfers between on-budget authorities which are always netted in determining outlays. Payments of FBT by off-budget authorities is treated as taxation revenue, estimates for which are shown in Statement No. 4.

Also included are estimated receipts of \$7.6m relating to the ongoing effect of the loan guarantee charge levied by the Government on off-budget borrowings in 1986-87 by Commonwealth business enterprises that were covered by an explicit Government guarantee. From 1987-88 a charge is to be levied on new borrowings by enterprises to cover the guarantee either provided explicitly or implicit in the enterprises' status as government-owned bodies. Estimated receipts (\$1.3m) from the charge on borrowings to be undertaken in 1987-88 are classified as budget revenue (under 'Other Taxes, Fees and Fines' in Statement No. 4).

It is estimated that loan flotation expenses incurred by the Treasury will be \$6.5m.

The increase in salaries (\$26.1m), reflects in the main the full year effect of the March 1987 National Wage Case decision, additional Australian Taxation Office staff to meet workload increases, to implement further the taxation reform measures and to establish the Child Support Agency. Additional funding has also been provided to upgrade audit positions in the Australian Taxation Office. \$8.4m is being provided to the Health Insurance Commission for costs related to implementation of the Australia Card program with an assumed commencement date of December 1987. (See also the function 8B. Law, Order and Public Safety.)

Administrative and other expenses will increase by \$31.3m. This includes administrative funding to establish the Child Support Agency, further implementation of the tax reform measures, additional funding provided to agencies as a result of the more widespread use of inter-departmental charging, and continuing expenditure for the upgrading of the Australian Customs Service computer equipment to aid drug law enforcement and receipt collection activities. Outlays by a number of the departments on buildings, works and equipment (up \$4.9m) other than outlays of the Department of Administrative Services on the construction and maintenance of Commonwealth offices, include new computing facilities for the Australian Taxation Office to enhance debt collection efficiency, and for the new Child Support Agency.

8E.2 STATISTICAL SERVICES

This item covers the activities of the Australian Bureau of Statistics. The estimated 33.4% decrease arises mainly from completion of the 1986 Census of Population and Housing at a total cost of some \$64m over four years. The introduction of comprehensive charging by the Australian Bureau of Statistics is estimated to increase receipts by \$2.7m.

8E.3 ADMINISTRATION OF THE AUSTRALIAN CAPITAL TERRITORY AND ISLAND TERRITORIES, NEC

Outlays under this heading include works and services of a general nature in the ACT and Island Territories which cannot readily be classified under other functions (details of outlays and revenue for ACT territorial and municipal activities are contained in Budget Related Paper No. 7).

Estimated outlays for the ACT Administration are to increase by \$9.1m principally reflecting expenditure on works that are in progress and new works agreed for commencement in 1987-88.

The net cost of administering the Island Territories is estimated to be \$17.5m. The increase of \$1.3m reflects 1986-87 delays in the purchase of capital equipment and the payment of resettlement entitlements to redundant employees as a result of the scaling down of mining operations on Christmas Island.

8E.4 CONSTRUCTION SERVICES

These outlays, including net transactions through the Construction Services Trust Account, cover running costs for the Department of Administrative Services—Construction Group. Aggregate payments (\$232m) are offset in part by recoveries (\$42.9m) on works for non-budget funded agencies, resulting in outlays of \$186.1m.

The expected increase in outlays of \$13.4m reflects general price movements and supplementation for the Government's introduction of user charges for some common services such as car hire.

8E.5 COMMONWEALTH OFFICES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Repairs and Maintenance	15.4	20.0	22.7	2.7	13.5
Acquisition of Sites	0.7	0.6	2.0	1.4	233.3
Direct Construction of New Offices--					
Department of Administrative Services	21.1	41.8	45.4	3.6	8.6
National Capital Development Commission	7.0	13.6	26.0	12.4	91.2
Purchases of Offices by Instalment Purchase	1.1	11.2	47.4	36.2	323.2
Other	1.5	1.2	0.8	-0.4	-33.3
Total	46.8	88.4	144.3	55.9	63.3

Outlays on construction of Commonwealth offices in 1987-88 (other than construction under instalment purchase—see below) reflects the announcement in the May Statement not to proceed with refurbishment of the Melbourne Commonwealth Centre consequent upon the decision to sell the site and progress on office blocks in Adelaide, Brisbane, Sydney and Melbourne which were commenced in or before 1986-87. The figures also reflect the impact of new office initiatives in the 1987-88 budget—including extension of existing offices in Ipswich, Queensland, the construction of new Commonwealth offices in Sydney (Haymarket; \$118m over 5 years) and Melbourne (\$143m over 5 years) and the refurbishment of the Edmund Barton Building, Canberra (\$25m over 5 years).

In 1983-84 the Commonwealth agreed to purchase ten new office blocks by annual instalments over ten years at a total current estimated cost of \$333.3m (including interest). Nine projects have been completed with the remaining project (Parramatta, NSW) expected to be completed during 1987-88. Outlays in 1987-88 on instalment purchase represent the annual instalments for those ten projects. In addition, the Commonwealth has agreed to purchase office blocks at Frankston and Oakleigh in Victoria (total cost estimated at \$15.3m in current prices excluding interest) through instalment purchases.

8E.6 PROPERTY MANAGEMENT AND SERVICES

Outlays under this heading are associated with the management, security and servicing of Commonwealth office accommodation and the fit-out of leased accommodation for Commonwealth departments/agencies.

Major components of the estimated outlay of \$211.4m are salaries (\$15.2m), office services including electricity, fuel oil and gas (\$44.3m), fit-out work in leased office premises (\$126.4m) and contract cleaning (\$15.2m). Increased outlays of \$57.1m (including \$25.0m additional to the forward estimate) on fit-out work is attributable mainly to premises leased in 1986-87 for additional or replacement accommodation for departments/agencies and to cover new leases in 1987-88 such as replacement space for occupants of the Sydney Commonwealth Centre which is to be vacated prior to sale.

8E.7 RENT

The increase in the provision (\$88.7m) is a result of ongoing legal obligations arising from existing lease agreements and the need to enter into new leases to enable the efficient delivery of new or ongoing Government programs. The major elements of the increase comprise the full year effect of existing leases which were renegotiated in 1986-87 and the estimated expenditure for existing leases which must be renegotiated in 1987-88 (\$27m), the full year effect of new leases entered into in previous financial years (\$27m), and other costs which are payable as a result of conditions of lease agreements. These other costs include cleaning and energy costs, legal and valuation fees, payment of local government charges and other management costs for which lessors may legally request payment (\$17m).

Expenditure on new leases in 1987-88 will be \$17.7m (including \$7.5m additional to the forward estimate) with a full year effect of \$39.0m. Accommodation is required for staff to be displaced from the Sydney Commonwealth Centre and for various other departments and agencies including Social Security, Employment, Education and Training, Attorney-General's and the Australian Taxation Office.

8E.8 NET SUPERANNUATION PAYMENTS, NEC

This item covers superannuation benefits payable under the *Superannuation Acts 1922 and 1976* and the *Parliamentary Contributory Superannuation Act 1948* to, or in respect of, former Members of Parliament and former employees of the Commonwealth (excluding defence force personnel and employees of the Australian Postal and Telecommunications Commissions). It also covers payments to SA and Tasmania in respect of pensions for former railway employees.

The figures shown are net of employer contributions by Commonwealth authorities (including additional employer contributions resulting from the termination of the implicit superannuation subsidy to Australian Airlines), amounts paid into the Consolidated Revenue Fund from the Superannuation Fund and contributions by parliamentarians to their superannuation scheme.

The estimated increase of \$112.0m in net superannuation payments reflects the cost—under the Commonwealth Superannuation Scheme—of pension increases payable from July 1987 to existing pensioners, an expected net increase in the number of pensioners, the full-year effect of new pensions granted in 1986-87, an additional fortnightly payday in 1987-88 and an increase in retrenchment lump sums payable as a result of the disposal of Commonwealth assets. Payments to SA and Tasmania for former railway employees are estimated to increase by \$3.3m.

8E.9 ADMINISTRATIVE SERVICES—OTHER

Outlays under this heading cover the operating costs of several departments not elsewhere classified and the cost of various common service activities provided by the Department of Administrative Services.

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Departments--					
Prime Minister and Cabinet	62.4	64.1	55.4	-8.8	-13.7
Arts, Sport, the Environment, Tourism and Territories	13.0	14.6	20.4	5.8	39.9
Immigration, Local Government and Ethnic Affairs	80.9	92.6	101.6	8.9	9.7
Administrative Services	40.4	49.3	44.1	-5.2	-10.6
Common Services					
Printing and Publishing	23.1	27.2	12.3	-14.9	-54.7
Survey	3.3	18.7	2.9Cr	-21.6	n.a.
Transport and Storage	19.3	34.0	14.5	-19.5	-57.2
Protective and Custodial	20.2	22.0	7.6	-14.4	-65.5
Purchasing and Disposal	9.8	7.6	10.8	3.2	42.1
Total	272.4	330.1	263.8	-66.4	-20.1

DEPARTMENTS

Outlays for the Prime Minister and Cabinet portfolio under this heading have decreased by \$8.8m reflecting mainly the abolition of the Public Service Board. The increase under Arts, Sport, the Environment, Tourism and Territories relates mainly to the expected acquisition of pastoral properties to enable expansion of the Kakadu National Park.

Outlays of \$101.6m for the Department of Immigration, Local Government and Ethnic Affairs include costs associated with Australia's migration and visitor entry programs and the granting of citizenship. (Outlays related to post-arrival settlement services and local government programs appear under the functions 2. *Education*, 4. *Social Security and Welfare* and 5. *Housing and Community Amenities, nec.*) The growth in outlays for this portfolio reflects the full year effect of the March 1987 National Wage Case decision, provision of additional resources (100 staff years) to eliminate a backlog of appeals against *Migration Act* decisions and an additional provision of \$0.8m for promotion of the business migration program. The reduction under the Administrative Services Department in 1987-88 reflects mainly economies in staffing (130 staff years under this heading—375 staff years for the total portfolio) flowing from the Administrative Arrangements Order of 24 July 1987.

COMMON SERVICES

Printing and Publishing

As part of a rationalisation process initiated in the 1986-87 budget, the operating subsidy provided to the Australian Government Publishing Service (AGPS) will be phased out over the next two years (a reduction of \$7.9m in 1987-88, and a further \$2.8m in 1988-89). The reduction reflects increased efficiencies and a broader application of the user-pays principle as the AGPS becomes commercialised. An increased allocation \$1.7m in 1987-88 and \$1.2m in 1988-89 for plant and equipment is provided to facilitate that process.

Survey

Outlays relate to survey services provided for other departments/agencies by the Australian Survey Office. From 1 January 1988 departments/agencies will be charged for these services resulting in costs being reflected under the relevant functional headings. The net credit in outlays in 1987-88 relates to receipts from charges being based on recovery of full accrued costs (including superannuation, capital costs etc). Turnover for the Australian Survey Office is expected to be \$42.5m.

Transport and Storage

This item covers the provision by the Department of Administrative Services of transport, storage, freight and removal services for departments and budget agencies. Until 1987-88 user-dependent departments were charged for all services except removals—although charges did not reflect all costs involved (notably capital costs). From 1 July 1987 Departments have been charged for removal services. As well, as announced before the budget, measures have been introduced to place the entire operation on a more commercial basis. Those measures, to take effect from 1 October 1987, involve inclusion of capital costs in charges, extended financial and staffing flexibility and exposure to private sector competition. The measures will allow the operation to be conducted independently of budget appropriations through the Transport and Storage Trust Account. Outlays of \$14.5m in 1987-88 include \$13m (\$18m in 1986-87) for new vehicle purchases (net of disposal proceeds) prior to the commencement of the new arrangements, and to a carryover of removals costs of \$1.5m (\$16m in 1986-87) which were committed prior to charging being introduced on 1 July 1987. Receipts of \$16.5m, representing the return to the Commonwealth on capital employed, is shown against 'Other Interest Revenue' in Statement No. 4. Turnover for the transport and storage operation in 1987-88 is expected to be \$206.3m (\$198.7m in 1986-87).

Protective and Custodial

This item covers outlays on protective services for certain Commonwealth facilities and personnel and for custodial services at Immigration Detention Centres. From 1 January 1988 the user-pays principle will be applied to departments/agencies resulting in costs being included under the various functional headings rather than here. Turnover for this activity is expected to be \$30m in 1987-88.

Purchasing and Disposal

Outlays relate to the administration only of purchasing and disposals activities of the Department of Administrative Services.

8E.10 ONGOING PROPERTY AND EQUIPMENT SALES

This item represents proceeds (including May Statement measures of \$82.2m) from the ongoing sale of Commonwealth real property and equipment that become surplus from the day-to-day administration of government. Included here are disposals of former Defence land and buildings (\$59.5m) the proceeds of which are not included in Defence outlays and \$66.2m for civil disposals. The decline (\$17.0m) in estimated receipts reflects the one-off sale in 1986-87 of various Commonwealth Rehabilitation Centres. (Proceeds from the disposal of major assets outlined in the May Statement are included under the function 9D. *Asset Sales*.)

8E.11 RECOVERIES, NEC

Miscellaneous revenues not elsewhere classified are included under this heading. These revenues arise from fines and fees paid to the Australian Taxation Office (\$16.1m), the lease of Commonwealth property (\$10.3m), fees charged by the Australian Bureau of Statistics (\$3.7m) and other miscellaneous revenues (totalling \$16.4m).

9. NOT ALLOCATED TO FUNCTION

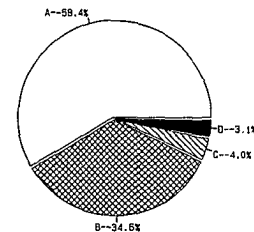
This category covers outlays to the States and local government authorities that are not elsewhere classified, assistance related to South West Tasmania, natural disaster relief, public debt interest outlays, and a contingency reserve.

9A. ASSISTANCE TO OTHER GOVERNMENTS, NEC

Outlays under this heading include general revenue grants to the six States, the State Governments' Loan Council Borrowing Program, assistance related to State debt, assistance for local government, assistance related to South West Tasmania and natural disaster relief. Similar forms of assistance in respect of the NT are also included. These outlays amount to 62.8% of total estimated Commonwealth Budget outlays made available to the States and local government sector in 1987-88. Most specific purpose assistance to the States is not included under this heading, being classified elsewhere in this statement under the relevant functional headings. Details of total assistance to the States are provided at the end of this section. A more detailed description of total assistance to the States and local government sector can be found in Budget Paper No 4, *Commonwealth Financial Relations with other levels of Government: 1987-88*.

As noted above, over 60% of the Commonwealth's budget sector outlays for the States and local government sector relate to this function. The pie chart below shows the division of the Commonwealth's funding to the States and local government in 1987-88. While the shares of outlays for the NT and local government authorities have not changed greatly in recent years, general purpose assistance to the six States has declined from 60.6% of total assistance to other governments in 1982-83 to 58.4% in 1987-88. This movement has been offset by an increase in specific purpose assistance to the States from 32.3% in 1982-83 to 34.6% in 1987-88.

CHART 1. ASSISTANCE TO OTHER GOVERNMENTS
1987-88



A. General Purpose Outlays to the Six States
B. Specific Purpose Outlays to the Six States
C. Outlays to the Northern Territory
D. Payments to or for Local Government

Apart from these developments, Chart 2 shows that since 1982-83 Commonwealth general purpose assistance to the States has declined as a proportion of GDP. This largely reflects the restraint that the Commonwealth has exercised towards the States since 1983-84, principally in the area of general purpose capital assistance. Capital assistance as a proportion of general purpose assistance to the States has declined from 13.9% in 1982-83 to 4.2% in 1987-88 (see Chart 3). In absolute terms, \$1493.6m was made available to the States in the form of general purpose capital assistance in 1982-83. In 1987-88, capital assistance will amount to \$621.0m.

CHART 2. GENERAL PURPOSE OUTLAYS AS A PROPORTION OF GDP

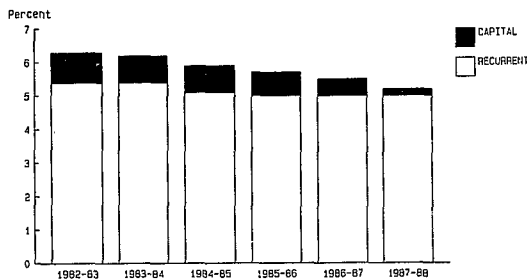
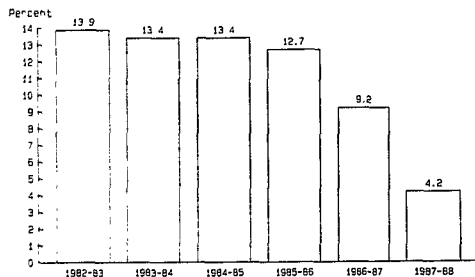


CHART 3. GENERAL CAPITAL AS A PROPORTION OF TOTAL GENERAL PURPOSE OUTLAYS TO OTHER GOVERNMENTS



SUMMARY OF ASSISTANCE TO OTHER GOVERNMENTS, NEC

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
9A.1 General Revenue Assistance	\$m 11 919.9	\$m 13 227.1	\$m 14 252.9	1 025.8	7.8
9A.2 Capital Assistance	1 053.1	540.1	-102.4	-642.4	-119.0
9A.3 Debt Assistance	49.9	51.4	51.7	0.3	0.6
9A.4 Local Government	538.5	585.6	642.5	56.9	9.7
9A.5 Assistance to South West Tasmania	33.6	29.9	29.7	-0.2	-0.6
9A.6 Natural Disaster Relief Assistance	8.0Cr	2.7	5.6Cr	-8.3	-311.0
TOTAL	13 587.1	14 436.8	14 868.8	432.1	3.0

9A.1 GENERAL REVENUE ASSISTANCE

9A.1.1 GENERAL REVENUE ASSISTANCE TO THE SIX STATES

The Commonwealth provides general revenue grants to the six States comprising, in 1987-88, financial assistance grants, identified health grants and special revenue assistance grants. Provisions are detailed in the following table.

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Financial Assistance Grants	\$m 9 781.7	\$m 10 889.6	\$m 11 756.1	866.4	8.0
Identified Health Grants	1 483.3	1 651.3	1 782.7	131.4	8.0
Temporary Revenue Assistance Grants	46.1	23.1	-	-23.1	-100.0
Special Grants	41.1	22.6	31.0	8.4	37.2
Total	11 352.2	12 586.6	13 569.7	983.2	7.8

Financial Assistance Grants

At the Premiers' Conference on 30 May 1985 it was agreed that the tax sharing arrangements that had applied between 1976-77 to 1984-85 should be replaced by financial assistance grants to the six States. The amount of assistance each State received in 1985-86 was based on:

- maintenance of the 1984-85 tax sharing grants pool in real terms by the application of the average increase in the all-groups Consumer Price Index (CPI) for the six State capitals in the year ending in the March quarter of 1986 over the preceding year; and
- distribution of the total amount so determined among the six States in accordance with the per capita relativities recommended by the Commonwealth Grants Commission (the Grants Commission), following its "Report on Tax Sharing Relativities 1985".

As part of the agreement reached at the May 1985 Premiers' Conference the Commonwealth undertook to provide a 2% real increase (measured in terms of movements in the CPI) in the level of financial assistance grants to the six States in each of the years 1986-87 and 1987-88. However, budgetary circumstances have

only allowed the 2% real increase to be paid to the six States in 1986-87. In 1987-88 the six States are to receive a fixed money level of funding that was estimated at the time of the May 1987 Premiers' Conference to maintain the same real level of funding they received in 1986-87 including adjustment for an estimated increase in the CPI in the year ending in the March quarter of 1988 over the preceding year of 8.0%.

Identified Health Grants

From 1 July 1981 to 30 June 1985 identified health grants were paid to the six States and the NT as a component of general purpose financial assistance. For NSW, VIC, QLD and WA, these grants replaced the specific purpose assistance they had previously received on a cost-shared basis for hospital operating costs, community health and school dental services.

SA and TAS decided not to participate fully in the identified health grants arrangements when these were introduced in 1981. Rather, they continued to receive a higher level of specific purpose assistance for hospital operating costs under their hospital cost-sharing agreements. They did, however, receive identified health grants to replace the assistance previously provided to both States for community health and school dental services. SA and TAS joined the identified health grants arrangements when Medicare was introduced (1 February 1984) but retained their entitlements under their hospital cost-sharing agreements which expired in June 1985. The new per capita relativities for distributing financial assistance grants introduced in 1985-86 offset the relative advantage these States received from the distribution of identified health grants.

At the May 1985 Premiers' Conference, it was agreed that identified health grants would continue to be paid to the six States until 30 June 1988, in the expectation that they would be absorbed into financial assistance grants in 1988-89. It was also decided to determine the annual grants on the same basis as financial assistance grants. Thus, consistent with the decision made at the May 1987 Premiers' Conference not to increase financial assistance in real terms in 1987-88, total identified health grants paid to the States in 1987-88 will be \$1782.7m.

Temporary Revenue Assistance Grants

In view of the impact on SA and TAS of the Grants Commission's assessed relativities, the Commonwealth agreed at the 1985 Premiers' Conference to provide additional temporary budgetary assistance in 1985-86 and 1986-87 to these States.

SA and TAS received respectively \$34.2m and \$11.9m in 1985-86 and \$17.1m and \$6.0m in 1986-87. These amounts represented two-thirds and one-third respectively of the extra funding each would have experienced in 1985-86 and 1986-87 had the additional assistance under identified health grants not been offset by lower financial assistance grants. Although these grants increased the total level of general revenue grants payable to these States in these years, they have not formed part of the base for determining the annual level of financial assistance grants.

Special Revenue Assistance Grants

In addition to the temporary budgetary assistance grant mentioned above, the Commonwealth provided a further \$13m to TAS in 1986-87 to assist it to adjust to the changed fiscal environment occasioned by the Government's acceptance in 1985 of the Grants Commission's relativities (which affected TAS more than any other

State). This assistance was provided on the clear understanding that TAS, during 1986-87, would adjust to the relativities determined by the 1985 Premiers' Conference.

Following its decision to terminate the Isolated Patients' Travel and Accommodation Assistance Scheme, with effect from 1 January 1987, the Commonwealth has provided special revenue assistance grants to the six States totalling \$9.6m in 1986-87 and \$20.7m in 1987-88 to enable them to continue to provide assistance to persons in isolated areas should they so wish. In addition, in the 1987 May Statement context the Government decided to transfer full responsibility for the Program of Aids for Disabled People to the States. A grant of \$10.3m has been provided to the six States for this purpose in 1987-88. These arrangements are preparatory to the absorption of these funds into the financial assistance grants following the Grants Commission's next review of relativities which is due to be handed down in March 1988.

9A.1.2 GENERAL REVENUE ASSISTANCE TO THE NORTHERN TERRITORY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
	\$m	\$m	\$m	\$m	%
General Revenue Assistance					
Financial Assistance Grants	561.3	628.1	690.0	61.8	9.8
Additional Assistance and Special Grants	—	—	14.4Cr	-14.4	—
Special Revenue Assistance Grant	—	1.2	2.8	1.6	130.4
Grants in lieu of Uranium Royalties	4.4	4.5	4.7	0.2	5.1
Payments for Furlough and Recreation Leave	—	—	—	—	—
.	2.0	6.7	—	-6.7	-100.0
Total	567.8	640.5	683.1	42.6	6.7

Financial Assistance Grants

At the May 1985 Premiers' Conference it was agreed that for the current triennium (1985-86 to 1987-88) the NT would remain outside the States' financial assistance grant arrangements. Certain changes were, however, made to the Territory's general revenue grant arrangements to bring them more into line with the arrangements for determining general revenue grants to the six States.

During the current triennium, the Territory is to receive general revenue grants on a basis similar to the arrangements for determining the annual level of financial assistance grants to the six States. These general revenue grants replace the tax sharing arrangements which had applied since 1979-80 (the first year in which financial arrangements between the Commonwealth and a self-governing NT applied) and incorporate the identified health grants paid to the NT between 1981-82 and 1984-85.

The \$628m grant for 1986-87 was calculated by, *inter alia*, using a base amount of \$558.9m determined by notionally reducing the grant for 1985-86 by \$2.5m which was transferred to the Territory's grant for general purpose funding for local government. This followed the Government's decision in the light of the report of the National Inquiry into Local Government Finance to raise general purpose assistance to local government in the NT to the same average per capita level as

that applying to the six States. This base figure was escalated by the increase in the all groups CPI for the six State capitals in the year to March quarter 1987 over the preceding year, adjusted for the Territory's relative population growth in the year to 31 December 1986, plus a real growth factor of 2%. Consistent with the decisions made at the May 1987 Premiers' Conference, the NT will receive a financial assistance grant of \$690.0m in 1987-88, calculated, *inter alia*, by increasing the 1986-87 grant as estimated at the time of the Premiers' Conference by 8% and applying the Territory's projected relative population growth in the year to 31 December 1987.

Additional Assistance and Special Grants

For the six years from 1979-80 to 1984-85, the NT was, according to the Memorandum of Understanding covering the financial arrangements between the Commonwealth and the NT, to receive either a special grant after consideration of the recommendation of the Grants Commission, or an additional assistance grant (as determined by the Memorandum of Understanding), whichever was the greater. In 1984-85, the Commission assessed the NT as having been overfunded (on fiscal equalisation principles) by the Commonwealth in 1982-83 to the order of \$12.6m. An additional assistance grant of \$5m, which represented the minimum amount payable under the Memorandum of Understanding, was paid to the NT in 1984-85, but, in view of the Commission's assessment which was presented to the Government in early 1985, the Commonwealth also decided that the NT should repay \$12.6m as an assessed 'negative' special grant in 1984-85.

No special grant was paid to the NT in 1985-86. During the course of 1986-87 the Grants Commission reported on the appropriateness of the level of financial assistance provided to the Territory in 1983-84 and 1984-85. It assessed that the NT had been overfunded in 1983-84 and 1984-85 to the order of \$27.6m. In view of the Commission's assessment, the Commonwealth decided that the NT should repay \$14.4m by way of a negative special grant in 1987-88. The balance of the \$27.6m is to be forgone by the Commonwealth on the understanding that general revenue funding for the NT will be fully adjusted to a State-like basis from 1 July 1988.

Special Revenue Assistance Grants

In line with the Government's decision to terminate the Isolated Patients' Travel and Accommodation Assistance Scheme from 1 January 1987, and to transfer responsibility for the Program of Aids for Disabled People to the States from 1 July 1987, an amount of \$2.8m has been provided to the NT in 1987-88 to enable it to continue these programs should it so wish.

Grants in lieu of Uranium Royalties

The Commonwealth makes a payment to the NT Government in lieu of uranium royalties. This has in recent years been of a similar order to the \$4.7m estimated for 1987-88.

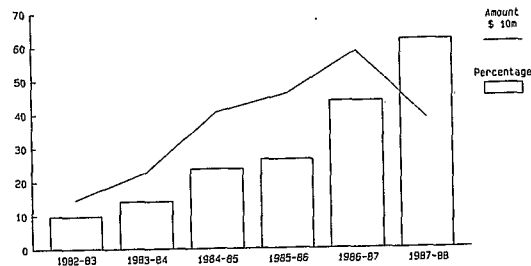
Payments for Furlough and Recreation Leave

The Commonwealth previously made payments to the NT in lieu of the accrued recreation leave and furlough entitlements of officers who were transferred from the Commonwealth Public Service to the NT Public Service. A final payment of \$6.7m was made during 1986-87 representing the balance of the Commonwealth's liability for furlough entitlements of officers compulsorily transferred.

9A.2 CAPITAL ASSISTANCE

As mentioned above, Commonwealth general purpose capital assistance to the States has declined significantly over the last five years both in absolute terms and as a proportion of total general purpose assistance to the States. These aggregate trends, however, mask some major developments in the composition of capital assistance provided to the States. As can be seen from the chart below, the States in recent years have nominated increasing proportions of their borrowings for public housing. While the absolute amounts nominated increased each year to 1986-87, the amount has declined in 1987-88 as a result of the overall reduction (by \$715m) in capital assistance to the States effected at the May 1987 Loan Council meeting.

CHART 4. GENERAL PURPOSE CAPITAL ASSISTANCE
PUBLIC HOUSING NOMINATIONS



9A.2.1 CAPITAL ASSISTANCE TO THE SIX STATES

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Capital Grants	\$m 558.0	\$m 429.4	\$m 176.1	\$m -253.3	-59.0
Advances (a)	580.1	240.8	—	-240.8	-100.0
Sinking Fund Receipts	218.0Cr	204.8Cr	331.1Cr	-126.3	-61.7
Total	920.2	465.4	155.0Cr	-620.4	-133.3

(a) Excludes amounts nominated for public housing which are shown in 5. Housing and Community Amenities nec.

The Commonwealth funds the State Governments' Loan Council Borrowing Program from its Budget. At its May 1987 meeting, the Loan Council approved a 1987-88 borrowing program of \$533.3m, being some \$670.7m or 55.7% less than the program in 1986-87.

In each year from 1975-76 to 1985-86 (with the exception of 1982-83) one third of the program was provided in the form of interest-free non-repayable capital grants, and the remainder in the form of interest bearing advances. In 1982-83, the approved program included a supplementary grant of \$65m for public housing. In 1985-86 and 1986-87, 35.7% of the funds were provided as capital grants. One third of the program will be provided as capital grants in 1987-88.

Between 1982-83 and 1984-85, the six States were able to nominate from this program, up to the limit of their advances, funds for public housing to be provided on the same concessional terms and conditions available under the Commonwealth-State Housing Agreement (4.5% over 53 years). In 1985-86, those States (ie WA and SA) that had previously nominated the whole of their loan portion for public housing were able to do so again, with the other States able to nominate only 30% of their advances for this purpose.

As a result of decisions taken by the Government, both in relation to the housing package announced in April 1986 and at the Loan Council meeting in June 1986, those States previously restricted to nominating only 30% of their advances for public housing were allowed to increase this to a maximum of 60% in 1986-87 while WA and SA continued to be able to nominate 100% of their advances, if they so chose. At the 1987 Loan Council meeting it was agreed that all States and the NT could nominate up to 100% of their advances for public housing, if they so choose.

It has been assumed that all of the six States will do this. Should this be the case, none of the six States in 1987-88 will be allocated advances on which interest will be paid at market rates. The increase in sinking fund receipts reflects the decision by the South Australian Government to retire in 1987-88 \$125m of outstanding debt.

9A.2.2 CAPITAL ASSISTANCE TO THE NORTHERN TERRITORY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Grants	\$m 61.2	\$m 47.1	\$m 30.9	\$m -16.2	-34.3
Advances (a)	77.2	34.0	28.4	-5.6	-16.4
Sinking Fund Receipts	5.4Cr	6.3Cr	6.6Cr	-0.3	-5.4
Total	132.9	74.7	52.7	-22.1	-29.5

(a) Excludes amounts nominated for public housing which are shown in 5. Housing and Community Amenities nec

The Commonwealth provides general purpose capital funds to the NT on the same terms and conditions as apply to the State Governments' Loan Council Borrowing Program (which does not include the Territory). Prior to 1985-86, the level of general purpose capital assistance to the Territory had changed each year in proportion to changes in the State Governments' Loan Council Borrowing Program.

Unlike the State Governments' Loan Council Borrowing Program (which was held at the same nominal level in 1985-86 as in 1984-85), the Territory's capital program increased from \$137.5m in 1984-85 to \$171.5m in 1985-86. The increase resulted from the agreement reached at the 1985 Premiers' Conference/Loan Council meeting to transfer \$34m previously paid to the NT in its tax sharing grant to its capital program.

Consistent with the reduction effected in the six States' program at the June 1986 Loan Council meeting, the NT borrowing program was reduced by \$40m in 1986-87 to \$131.9m, with 35.7% of that amount to be paid as an interest-free non-repayable capital grant. The 1987-88 Loan Council meeting approved general purpose capital assistance to the NT of \$87.7m, a reduction of \$44.2m compared with the 1986-87 figure. It has been assumed that the Territory will nominate 50% of the permissible amount for public housing, or \$28.4m, and this has been included under 5. Housing and Community Amenities nec.

9A.3 DEBT ASSISTANCE TO THE SIX STATES AND THE NORTHERN TERRITORY

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
The Six States	\$m 48.6	\$m 49.9	\$m 50.1	\$m 0.2	0.4
The Northern Territory	1.3	1.6	1.6	0.1	5.4
Total	49.9	51.4	51.7	0.3	0.6

Under the Financial Agreement Act 1976 the Commonwealth is required each year to make a sinking fund contribution in respect of each of the six States, equivalent to 0.28% of a State's net debt as at 30 June of the preceding year. These arrangements came into force for the States, apart from NSW, on 1 July 1985 and have applied in respect of NSW since 1 July 1986.

Until 30 June 1985, debt charges payable to the Commonwealth by the NT were funded by the Commonwealth through annual specific purpose assistance to the NT. From 1985-86, however, debt charges assistance has not been made separately available to the Territory, following its absorption in that year into the 'base' for determining the Territory's general revenue grant for 1985-86 and subsequent years.

During the course of 1985-86, debt sinking fund arrangements were established as part of the Commonwealth Public Account to handle the funding of expenditure on the repurchase and redemption of securities allocated by the Commonwealth to the NT. In line with the sinking fund arrangements that apply in relation to the six States, the Commonwealth makes a contribution each year into the sinking fund equivalent to 0.28% of the Territory's net debt as at 30 June of the preceding year and pays interest on the Territory's sinking fund balances.

9A.4 GENERAL PURPOSE ASSISTANCE TO LOCAL GOVERNMENT

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
The Six States	\$m	\$m	\$m	\$m	%
The Northern Territory	536.0	580.2	636.4	56.2	9.7
	2.6	5.4	6.1	0.6	11.5
Total	538.5	585.6	642.5	56.9	9.7

General Purpose Assistance to Local Government in the Six States

Under tax sharing arrangements introduced in 1976-77, the Commonwealth had, prior to 1985-86, provided funds to the six States for general purpose assistance to local government authorities. The assistance was determined each year as a proportion of Commonwealth net personal income tax collections in the preceding year. The proportion that applied in 1984-85 was 2%. In 1985-86, general purpose assistance to local government was increased by 2% in real terms (measured by movements in the all groups CPI for the six State capitals in the year to the March quarter 1986 over the preceding year) pending the outcome of the Government's consideration of the report of the National Inquiry into Local Government Finance (the Inquiry).

Having considered the report of the Inquiry, the Government decided, *inter alia*, that for 1986-87 and 1987-88 the level of general revenue assistance to local government would be the greater of:

- the annual percentage change in general purpose payments to the six States (defined as the sum of financial assistance grants, identified health grants and general purpose capital assistance payments under the State Governments' Loan Council Borrowing Program); and
- the increase in the all groups CPI for the eight capital cities to the March quarter of each year over the preceding year.

As general purpose payments to the six States in 1987-88 will decline in real terms, the estimate of general revenue assistance for local authorities in 1987-88 reflects the real terms guarantee implicit in the funding formula outlined above as well as the decision to carry forward into 1987-88 an amount that would otherwise have been paid to local government in 1986-87 on account of the increase in the CPI to March 1987 being higher than was expected at the time of the 1986-87 Budget.

General Purpose Assistance to Local Government in the Northern Territory

Specific purpose assistance of \$6.1m will be provided to the NT Government for distribution as general revenue assistance among local government authorities in the Territory during 1987-88 on the same basis as in the six States.

9A.5 ASSISTANCE TO SOUTH WEST TASMANIA

Under a Memorandum of Understanding signed on 26 June 1984, the Commonwealth undertook to provide financial assistance to TAS to offset the effects on employment and electricity prices of the cessation of Stage II of the Gordon River Power Development. Assistance under these arrangements amounted to \$29.9m in

1986-87. A further \$29.7m is to be provided in 1987-88, which includes the fifth (of 10) annual instalments of \$20m (indexed on January 1984 prices) to subsidise the future cost of electricity supply in that State.

9A.6 NATURAL DISASTER RELIEF

	1985-86	1986-87	1987-88	Change	
	Actual	Actual	Estimate	\$m	%
Payments	\$m	\$m	\$m	\$m	%
Repayments	26.2	36.3	25.0	-11.3	-31.2
	34.2Cr	33.7Cr	30.6Cr	3.1	9.1
Total	8.0Cr	2.7	5.6Cr	-8.3	-311.0

Commonwealth assistance under the natural disaster relief arrangements aims to help the six States and NT meet the unpredictable and sometimes large costs of providing natural disaster relief and restoration. The arrangements recognise the States' primary responsibility under the Constitution for the administration, provision and financing of relief measures. The arrangements cover bushfires, cyclones, droughts, earthquakes, earthquakes, floods and storms.

Under the arrangements, the Commonwealth reimburses at least 50% of State expenditure on eligible measures for the relief of personal hardship and distress. In respect of other eligible relief and restoration measures, the Commonwealth provides financial assistance when total State expenditure on all measures in a financial year exceeds its assessed financial capacity, as represented by an annual base amount.

The base amounts are set at 0.225% of State annual budget sector revenue and grants two years earlier (the latest available data). The base amounts applying in 1987-88 and recent years are as follows:-

	1985-86	1986-87	1987-88
	\$m	\$m	\$m
New South Wales	22.39	24.58	27.78
Victoria	16.87	18.73	20.22
Queensland	10.48	11.60	14.00
Western Australia	6.87	7.85	8.41
South Australia	6.05	7.00	7.51
Tasmania	2.41	2.57	2.71
Northern Territory	1.83	2.05	2.19

Commonwealth assistance is on a \$ for \$ basis in respect of expenditure by a State above its base amount for amounts up to 75% above the base amount and 33 Commonwealth to \$1 State thereafter.

An amount of \$25m has been provided for disaster relief in 1987-88, based on past experience. Actual outlays will depend on the level of ongoing assistance in respect of past disasters and the incidence and severity of any disasters in 1987-88. Expenditure of \$36.3m in 1986-87 was above average, mainly reflecting outlays by QLD following Cyclone Winifred in February 1986 and expenditure by NSW after the August 1986 floods in the greater Sydney area.

Repayments

Some Commonwealth assistance to the States for natural disaster relief has been provided as interest-free loans in respect of certain eligible expenditures by the States. Those expenditures take the form of concessional loans to individuals and

business enterprises directly affected by natural disasters. Such loans are normally repayable by the States in eight equal annual instalments, with the first instalment due for repayment near the end of the second financial year after the year in which the relevant loans were made.

SUMMARY OF COMMONWEALTH PAYMENTS TO OTHER GOVERNMENTS

The assistance described above is largely of a 'general purpose', as distinct from 'specific purpose', kind. Detailed information on both categories of assistance is provided in Budget Paper No 4. Estimated total Commonwealth assistance to the six States, the NT and local government authorities in 1987-88 is, however, summarised below.

	1986-87			1987-88		
	1985-86 Actual	Change on 1985-86 Actual	%	Estimate	Change on 1986-87 Estimate	%
Payments to or for the six States, Northern Territory and local authorities						
General Purpose Revenue Funds	11 919.9	13 227.1	11.0	14 252.9	1 025.8	7.8
General Purpose Capital Funds	1 736.0	1 336.0	-23.0	621.0	-714.9	-53.5
Total General Purpose	13 655.9	14 563.1	6.6	14 873.9	310.8	2.1
Specific Purpose Assistance						
Assistance related to State Debt	49.9	51.4	3.0	51.7	0.3	0.6
Education Commissions	3 989.5	4 152.7	4.1	4 438.9	286.2	6.9
Grants for Housing	618.6	655.7	6.0	659.5	3.8	0.6
Roads	1 250.9	1 247.5	-0.3	1 249.0	1.5	0.1
Local Government General Purpose Assistance						
Community Employment Program	538.5	585.6	8.7	642.5	56.9	9.7
Medicare	256.8	181.0	-29.5	95.3	-83.7	-47.4
Other	996.3	1 017.9	2.2	1 083.9	66.0	6.5
Total Specific Purpose	8 392.3	8 806.3	4.9	9 175.5	369.2	4.2
Total Payments to or for the six States and Northern Territory	22 048.1	23 369.3	6.0	24 049.4	680.1	2.9
Payments direct to local authorities	111.4	101.5	-8.9	112.8	11.3	11.2
Gross Payments from the Budget to the six States, Northern Territory and local authorities	22 159.5	23 470.8	5.9	24 162.2	691.4	2.9
Repayments	369.1Cr	344.4Cr	-6.7	474.3Cr	-129.9	-37.7
Total Outlays to the six States, Northern Territory and local authorities	21 790.5	23 126.4	6.1	23 687.9	561.5	2.4

9B. PUBLIC DEBT INTEREST

Interest payments from the Budget sector to other sectors are recorded under this heading, with interest receipts on Commonwealth securities held by the various Commonwealth Government Trust Accounts offset against gross interest payments on Commonwealth securities. Public debt interest (PDI) in 1987-88 is estimated at \$7850.9m, a reduction of 0.9% on the 1986-87 figure.

	1985-86 Actual	1986-87 Actual	1987-88 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Interest on behalf of the Commonwealth					
Paid under the Commonwealth Inscribed Stock Act and the Loans Securities Act	5 153.7	5 932.2	5 803.9	-128.3	-2.2
Paid on advances to Commonwealth authorities under specific legislation	6.1	1.0	—	-1.0	-100.0
Paid under the Loans (Income Equalisation Deposits) Act	5.5	2.9	3.0	0.1	2.3
Other	1.8	3.9	14.4	10.5	272.6
Total	5 167.1	5 940.0	5 821.3	-118.8	-2.0
Interest on behalf of the six States—					
Paid under Commonwealth Inscribed Stock Act and the Loans Securities Act	1 858.8	1 930.7	1 975.0	44.3	2.3
Paid under Savings Bank Agreements	65.3	68.1	61.0	-7.1	-10.5
Interest on behalf of the Northern Territory	65.7	74.0	79.0	5.0	6.8
Other	0.7	0.7	0.7	—	—
Total	1 990.6	2 073.5	2 115.7	42.2	2.0
Gross Interest Payments	7 157.7	8 013.6	7 937.0	-76.6	-1.0
Interest Received on Government Securities and Cash Balances held by the Commonwealth Government on its own behalf—Loan Consolidation and Investment Reserve	88.3Cr	75.4Cr	70.0Cr	5.4	7.2
Other	14.8Cr	14.9Cr	16.1Cr	-1.2	-8.2
TOTAL PUBLIC DEBT INTEREST	7 054.6	7 923.3	7 850.9	-72.4	-0.9

PDI includes interest payments made on Treasury Bonds, Treasury Indexed Bonds, Australian Savings Bonds, the Commonwealth's overseas debt and the discount on Treasury Notes, recorded at the date of issue. Most of the Commonwealth's debt instruments are subject to semi-annual interest payments (although indexed bonds have quarterly interest payments and some overseas debt has annual interest payments), and hence usually incur, at most, half of their full year PDI cost in the first year of issue. However, because Treasury Notes are within-year financing instruments (13 or 26 week maturities), those issued in the first half of the year are generally re-financed one or more times during the year and hence record more than half a full year PDI cost (and some incur a full year's interest cost) in that year. Thus, a larger impact on PDI in the year of issue is recorded for Treasury Note issue than for new issues of other debt instruments.

Commonwealth securities are also issued for borrowings undertaken by the Commonwealth on behalf of the States. Payments of interest on the debt of State Governments are treated as Commonwealth outlays. Reimbursement by the States of interest paid on these Commonwealth securities is recorded as revenue under the heading 'Interest, Rent and Dividends' (see Statement No. 4).

During the course of 1985-86 the Commonwealth began to issue both capital and interest indexed bonds. The 'deferred interest' component of capital indexed bonds accrues annually but is paid at the maturity of the security. Under the current cash-based accounting system operated by the Commonwealth, such interest accruals are not brought to account annually and therefore no provision is made for them in PDI outlays. It is estimated that at the end of 1986-87 'deferred interest' on capital indexed bonds stood at \$115m.

Growth in Public Debt Interest since 1980-81

The following table shows the growth in PDI outlays since 1980-81. Such outlays accelerated in the early 1980s and have been decelerating since 1984-85; they are estimated to constitute 10.0% of outlays in 1987-88 compared with 10.6% in 1986-87 and 7.1% in 1980-81.

Year	Total public debt interest		Change on previous year		Percentage of total outlays
	\$m	\$m	%	%	
1980-81	2 562.3	339.0	15.2	7.1	
1981-82	2 882.0	319.7	12.5	7.0	
1982-83	3 379.0	497.1	17.2	6.9	
1983-84	4 331.1	952.1	28.2	7.7	
1984-85	5 657.8	1 326.7	30.6	8.9	
1985-86	7 054.6	1 396.8	24.7	10.1	
1986-87	7 923.3	868.7	12.3	10.6	
1987-88 (estimate)	7 850.9	-72.4	-0.9	10.0	

Chart 1 indicates the total stock of Commonwealth debt (domestic and overseas) for each year since 1980-81. Growth in the volume of debt outstanding largely reflects the accumulation of borrowings used to finance successive budget deficits over the years. As the chart shows, borrowings have predominantly been in Australian dollar denominated debt, with only 22% of total Commonwealth debt at 30 June 1987 being denominated in foreign currencies.

Chart 2 shows outlays on PDI and the budget deficit as a percentage of GDP.

CHART 1. DOMESTIC, OVERSEAS AND TOTAL VOLUME OF DEBT AT 30 JUNE 1981 TO 1987

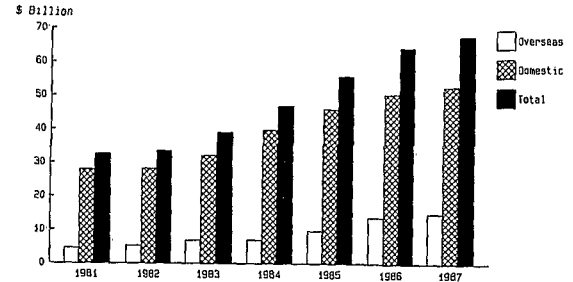
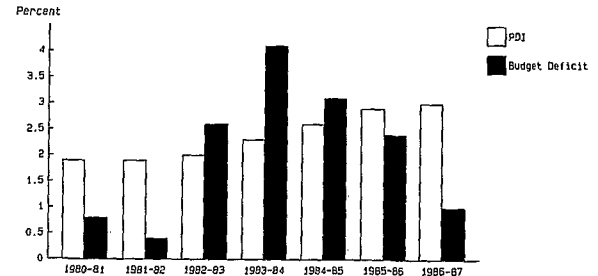


CHART 2. PUBLIC DEBT INTEREST AND BUDGET DEFICIT AS A PERCENTAGE OF GDP 1980-81 TO 1986-87



- lower interest rates on average on some Commonwealth securities in 1987-88 than in 1986-87.

Not all the factors that will affect the total amount of PDI, such as the timing and cost of debt to be issued in 1987-88, can be known in advance with any precision, and the estimates are necessarily subject to uncertainty.

The Government has decided in principle to consider undertaking swap transactions in relation to its foreign currency debt in order to minimise PDI costs over time to provide greater flexibility in terms of the composition of the Commonwealth's external debt.

Interest Received

The Loan Consolidation and Investment Reserve (LCIR) receives interest on its investments in Commonwealth securities which were issued mainly as Special Loans to assist with the financing of the State Governments' Loan Council Borrowing Program. These amounts, which represent the receipt of interest by the Commonwealth from itself (through one of its Trust Accounts), are offset against gross interest payments to other sectors. The slight reduction in the estimates of interest received reflects a reduction in the portfolio of Treasury Bonds held by the LCIR.

Other Commonwealth Trust Accounts also receive interest on their holdings of Commonwealth securities. These amounts are also deducted in arriving at public debt interest payments.

Any debt issued beyond the Commonwealth's immediate needs results in higher levels of Commonwealth cash balances, which earn a market-related rate of interest. Although interest earnings on the Commonwealth's cash balances are recorded as a non-taxation revenue item (see Statement No. 4) they can be considered conceptually as an offset to the Commonwealth's PDI. The table below shows 'net PDI' (that is, total PDI less interest earnings on the Commonwealth's cash balances). In 1986-87 interest earnings on the Commonwealth's cash balances with the Reserve Bank were \$170.2m, some \$57m more than the budget estimate and partly offsetting the increase in total PDI. In 1987-88 they are estimated to be \$220.7m.

	1985-86	1986-87	1987-88 estimate
	\$m	\$m	\$m
Total PDI	7 054.6	7 923.3	7 850.9
Less			
Interest on Commonwealth Cash Balances	114.1	171.9	220.7
Net PDI	6 940.5	7 751.4	7 630.2

In addition to the interest earned by the Commonwealth on its cash balances, interest paid by the Commonwealth on the Reserve Bank's holdings of Commonwealth Government securities contributes to profits in Reserve Bank operations and hence dividend payments to the Commonwealth.

A number of factors can contribute to changes in PDI, including changes in:

- the volume of debt outstanding;
- interest rates payable on that debt;
- the exchange rate (affecting the \$A amount of interest payments on foreign currency denominated debt);
- the mix of debt instruments; and
- the term structure of the debt.

These influences are closely interconnected. For example, an increase in the volume of debt on issue can affect both interest rates and the exchange rate—although these are also subject to other important influences. Accordingly, it is not possible to determine with precision the relative contribution of any one factor to the growth of PDI payments. This said, however, it is possible to make a number of general observations about the relative importance of various factors in the increase in PDI outlays over recent years.

The budget deficit declined significantly between 1978-79 and 1981-82. As a consequence, the volume of debt on issue grew relatively slowly and does not appear to have contributed significantly to PDI growth over this period. Rising interest rates and greater use of Treasury Notes (which, as already noted, have a more immediate impact on PDI outlays than do interest payments on longer term debt) are likely to have been more important influences on PDI outlays during this period.

In contrast, the growth in the Budget deficits recorded over the following two years (1982-83 to 1983-84) contributed to a substantial increase in the volume of debt on issue and hence to the growth in PDI outlays over this period. Higher average interest rates on debt outstanding and depreciation of the \$A also contributed in some measure, although, as noted above, these influences may not be unrelated to the sizeable increase in debt outstanding.

Since 1983-84, the Budget deficit has declined both in nominal terms and as a percentage of GDP. Growth in the volume of debt on issue has moderated somewhat although the total stock of Commonwealth debt, as a percentage of GDP, has continued to expand. This deceleration in the increase in the volume of debt has been reflected in a decline in the rate of growth in PDI outlays commencing in 1985-86, although higher interest rates, the depreciation of the \$A and the increased issue of Treasury Notes (in 1985-86 and 1986-87) have contributed substantially to the still strong PDI growth in this period.

Outlays on PDI in 1987-88

With, *inter alia*, a much reduced borrowing requirement in prospect for 1987-88, outlays on PDI are expected to decrease marginally (-0.9%) in 1987-88. This compares with growth of 24.7% in 1985-86 and 12.3% in 1986-87. The estimate for 1987-88 also reflects the following assumptions:

- a reduction in the stock of Australian Treasury Bonds outstanding;
- some further increase in Treasury Note issue in 1987-88;
- the value of the \$A against overseas currencies in which Australia's overseas interest payments are made is at a higher level, on average, than in 1986-87; and

9C. CONTINGENCY RESERVE

The provision of \$150m under this heading comprises:

- a contingency for wage and salary increases for departments and most one-line appropriations of Commonwealth statutory authorities. A separate provision is made in the 1. *Defence* function for possible Defence related wage and salary rate increases under the first tier of the National Wage principles. The individual appropriations for wages and salaries and the salaries component of most one-line appropriations for budget-financed Commonwealth statutory authorities are calculated using the latest available wage and salary rates at the time the budget is prepared. For 1987-88, the rates incorporate the first increase in the first tier of the National Wage Case granted by the Commonwealth Conciliation and Arbitration Commission on 10 March 1987. Because of uncertainties at budget time surrounding the terms of settlement of any second-tier wage increase for budget sector staff and the costs and offsets of related efficiency and restructuring, it is not considered practicable to identify a separate *Defence* function component for second-tier increases;
- provision for the salaries costs of former Public Service Board staff to be redeployed as a result of the restructuring of that organisation. Departments will be provided with additional salaries cover for 1987-88 to allow these staff to be effectively redeployed;
- a negative allowance for the carryover into 1988-89 of up to 4% per cent of unspent administrative expenses appropriations which was first permitted between 1986-87 and 1987-88. The allowance has been set at the same level as the actual carryover from 1986-87 into 1987-88; and
- a negative allowance for the savings resulting from the streamlining of the travel arrangements for the Public Service which are expected to commence operation in January 1988. As the exact distribution of these savings over the Public Service are not yet determined the provision has been made in this reserve.

While uncertainties surround the estimates of the separate elements of the contingency reserve, the total is considered to be a reasonable provision to cover their combined effect on budget outlays.

9D. ASSET SALES

With the aim of promoting greater efficiency in the use of resources from a national point of view, the Government is committed to an on-going program of identifying surplus or under-utilised property and other assets whose retention by the Commonwealth can no longer be justified as being in the public interest. The proceeds from sale of these assets will be used to reduce the Budget deficit and, in this way, will reduce the public debt interest payments that would otherwise have to be made. Placement of these assets in private ownership will also avoid on-going outlays commitments by the Commonwealth in respect of the assets.

Notwithstanding the decision not to proceed with the sale of international airport terminals (see below), it is estimated that the total proceeds from asset sales in 1987-88 will be of the order of \$1 billion and that sales in 1988-89, including disposal of the Defence Service Homes Corporation, will amount to another \$1 billion. In order to protect the interests of the Commonwealth, and taxpayers generally, in obtaining fair and reasonable prices for the assets concerned, it is not appropriate to disclose the returns expected from individual sales.

Progress with sales already announced

The previous equity interest of the Commonwealth in the Primary Industry Bank of Australia has been sold to the Rural and Industries Bank of Western Australia for \$2.46 million.

The disposal of the assets of the National Materials Handling Bureau is expected to be completed by the end of 1987.

Tenders for re-development of the Tokyo Embassy complex and sale of that part of the Embassy site which is surplus to requirements, as well as the adjacent Mita Avenue staff apartments, will be invited from a short-list of six consortia (each of which contains some Australian representation) in November 1987. Tenders for the sale of the surplus Ambassadorial Residence in Paris are to be called in September 1987.

The Commonwealth will call tenders in the next few months for the sale of a long-term lease over its Chifley Square building and the adjacent vacant block of land in Sydney. In Melbourne, part of the existing Commonwealth Centre is to be sold, with the remaining area to be re-developed. The proceeds from these sales are expected to be received towards the end of 1987-88.

A number of Defence assets were identified for disposal in the May Statement, including a controlling interest in the Williamstown Dockyard; a substantial share of the Government Aircraft Factories; Cockatoo Island; part of the Newington Armament Depot; and certain surplus military equipment. Substantial progress has been made towards the sale of the Williamstown Dockyard—tenders closed early in September 1987. The proceeds from this sale are expected to be received by February 1988. Aerospace Technologies of Australia Pty Ltd (ATA), a Commonwealth-owned company, took over responsibility for the management of the operations of the Government Aircraft Factories (GAF) on 1 July 1987. The relevant GAF assets will be transferred to ATA during this financial year, with the aim of a substantial share of the equity in ATA being sold to the private sector.

For a variety of reasons, the Government has decided not to proceed with its earlier decision, announced in the May Statement, to sell long-term leases over the

international airport terminals that are owned by the Commonwealth. Instead, the terminals will be vested, along with other airport assets, in the Federal Airports Corporation (FAC) in accordance with the *FAC Act*.

Defence Service Homes Corporation (DSHC)

The Government has recently re-considered its May 1985 decision that the Defence Service Homes Scheme be transferred to the private sector. The restructuring of the Scheme is discussed in *5. Housing and Community Amenities nec*. The present portfolio of DSHC mortgages and the insurance business are to be sold. The terms of the sale are yet to be finalised, however it is expected that the sale will take place in 1988-89 yielding a significant return to the Government.

Commonwealth Accommodation and Catering Services Ltd (CACS)

The Government has decided to dispose of the Commonwealth's 100 per cent interest in CACS. In 1984 the Government agreed to allow CACS to provide accommodation and catering services to all Commonwealth departments on a fixed contract basis for three years, with the supply of these services subject to public tendering thereafter. These contracts are due to expire on 1 July 1988. To enhance the saleability of CACS, the Government has decided to extend the existing food services and accommodation contracts by six months to 31 December 1988.

Commonwealth Task Force

The Government has set up a Task Force chaired by the Department of Finance to coordinate the asset sales program. The Task Force, which will draw on private sector expertise to assist it with various sales, as and when necessary, has direct responsibility for managing the proposed sales of the Defence Service Homes Corporation, the Commonwealth Accommodation and Catering Service and the stocks of phosphate rock that the Commonwealth owns around the country. It is closely involved in the proposed re-development of the Tokyo Embassy complex and the sale of surplus land at that Embassy, and is also overseeing progress with various other property sales being handled by relevant Departments.

STATEMENT NO. 4—ESTIMATES OF REVENUE 1987-88

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STATEMENT NO. 4—ESTIMATES OF REVENUE 1987-88

Total budget revenue in 1987-88 is estimated at \$78 119m, an increase of \$5 935m or 8.2% over 1986-87. The measures announced in the Budget are estimated to add a net \$35m to revenue in 1987-88.

Revenue in both 1986-87 and 1987-88 has been substantially reduced by the personal income tax reductions from 1 December 1986 and 1 July 1987. In the absence of these measures, revenue would have been \$1500m higher in 1986-87 and \$4480m higher in 1987-88.

RECEIPTS MEASURES

The table below shows the estimated revenue effects in 1987-88 and in a full year of:

- (1) tax reform measures announced on 19 September 1985 which have been subject to modification during the past year or otherwise warrant mention;
- (2) other measures announced prior to the Budget; and
- (3) measures announced in this Budget.

The following costings of measures announced as part of the 19 September 1985 tax reform and those announced during the last year may differ from those provided in the original announcements because of revisions to base or parameter estimates.

Measure	Estimated change in revenue	
	1987-88	Full year (a)
	\$m	\$m
(1) Tax Reform Package		
Imputation system of company tax	-50(b)	-300(b)
Fringe benefits tax	750	750
Substantiation requirements	200	190
Quarterly instalment system for provisional tax	70(c)	-
Personal income tax rate scale	-4 480	-4 500
Capital gains tax	50-100(d)	*
(2) Other Measures Announced Prior to the Budget		
Income Tax—		
New arrangements for superannuation	4	30
Deductibility of gifts	..	..
Offshore banking units—interest withholding tax exemption	..	..
Discounted and deferred interest securities	..	..
Thin capitalisation and corporate restructures	..	..
Investment allowance	-	-30
Application of taxation laws to offshore areas	..	..
Customs and Excise Duty—		
Change in diesel fuel rebate scheme	6	7
Ceiling on excise rate increases	-34	-(e)
Crude oil excise	-20	-60(f)
Duty free passenger concessions and migrant vehicle concessions	20	21
Customs duties of non-departmental Commonwealth agencies	75(g)	75(g)
Surcharge on aviation gasoline	4	4
Wholesale Sales Tax—		
Exemption for certain tourism promotional material	..	..
Removal of exemption for Commonwealth commercial authorities	320(g)	400(g)
ACT Taxes and Charges—		
Business franchise fees on tobacco products	2	2
Financial institutions duty(FID)	-0.6(h)	-0.4(h)
Stamp duty on insurance premiums	..	..
ACT tax and stamp duty on transfer of company debentures	..	..
Measures to Counter Tax Avoidance and Evasion—		
Use of annuities to avoid tax	..	..
Redeemable preference shares	..	..
Double-dipping tax avoidance arrangements	..	..
Statutes of limitations	..	..

Measure	Estimated change in revenue	
	1987-88	Full year (a)
	\$m	\$m
(3) Measures Announced in the Budget		
Income Tax—		
Pensioner rebate	-	-
Social security and Commonwealth education allowance beneficiary rebates	..	-8
Medicare levy low income thresholds	-10	-40
Provisional tax uplift factor	..	..
Negative gearing measures	-24	(f)
Depreciation allowances on buildings	..	-(j)
Wholesale Sales Tax—		
Purchases by US missions and consular posts in Australia	..	..
ACT Taxes and Charges—		
Business franchise fee on petroleum products	6	10
Stamp duty on conveyances	2	3
Land tax	2	2
Tax on ACT totalisator turnover	1	1
Gaming machine tax	1	2
Motor vehicle registration charges	2	2
Other Measures—		
Increase in radio and television station licence fees	3	7
Tendering systems for the granting of new radio and television licences	22	*
Fee for conversion from AM to FM by regional radio licensees	2	*
Radiocommunications licence fees	1	3
Australian design rule compliance plates	1	1
Uranium export levy	1	1
Immigration and migration application fees	16	29
Indexation of passport fees	3	7
Commonwealth loan guarantee charge	1	1
Quarantine charges	3	6
Administrative Appeals Tribunal—filing fees	..	..
Air transport regulatory charges	2	4

.. Less than \$0.5m.

* The nature of the provision is such that a reliable estimate cannot be provided at this stage.

- (a) Unless otherwise indicated, full year figures are estimates of the ultimate change in receipts that would occur if the measure applied in respect of the whole of 1987-88; they are not necessarily the same as the estimated change in receipts in 1988-89.
- (b) Revenue cost of the full system, including cost of imputation credits, abolition of branch profits tax and of dividend withholding tax on franked dividends, offset by increased company tax rate.
- (c) The measure is revenue neutral in ongoing terms; however, \$70m associated with late payments will be brought forward to 1987-88.
- (d) There is, as yet, considerable uncertainty as to the extent of realised capital gains on which capital gains tax is to be paid in 1987-88. The figure in the table is the revenue estimated to be directly attributable to the new capital gains tax provisions introduced as part of the 1985 tax reform package. It is based principally on substantial past increases in sharemarket prices and, adopting necessarily tentative assumptions as to the size of realised gains, the amount exempt from tax and the amount taxed as income. The bulk of taxable realised sharemarket gains would be taxed as income under either s.25 (1) or s.26AAA of the Income Tax Assessment Act 1936. It is also likely that the new capital gains tax provisions are indirectly generating a substantial increase in revenue from those other sections. Expected revenue from the capital gains tax and these related provisions has been included in the appropriate income tax categories.
- (e) This measure is applicable only to 1987-88.
- (f) The estimated average annual cost of these arrangements over the five years to 1991-92.
- (g) Under transitional arrangements Telecom will receive a refund of up to \$100m of sales tax if total sales tax and customs duty payments exceed \$360m in respect of 1987-88. Refunds of \$80m are expected to be paid in 1987-88 with the remainder of up to \$20m payable in 1988-89.
- (h) With the introduction of the FID on 1 September 1987 certain other duties on financial transactions were abolished, resulting in a small net loss of revenue. The additional \$0.2m cost in the year of introduction is due to the FID having a longer collection lag than one of the duties it has replaced.
- (i) The cost will peak at about \$80m in 1988-89 when interest deductions carried forward will be allowed against 1987-88 incomes. The revenue cost will be \$47m in 1989-90, and will fall considerably in later years.
- (j) Savings are estimated at \$3m in 1988-89, and will increase to \$10m in 1989-90, \$29m in 1990-91 and will exceed \$500m per annum after 25 years.

(1) TAX REFORM PACKAGE

Some modifications to components of the 19 September 1985 tax reform package were made during the past year. These related to the imputation system of company tax, the fringe benefits tax and substantiation requirements, the quarterly instalment system for provisional tax and the capital gains tax. On 1 July 1987, the second stage of the personal income tax cuts took effect.

Imputation System of Company Tax

On 19 September 1985 the Treasurer announced that a full imputation system for company income tax would commence in the 1987-88 income year. On 10 December 1986 the Treasurer announced that the new system would operate broadly as foreshadowed in the 1985 tax reform package, with the principal exception that a compensatory tax would not be imposed on companies when they pay out dividends. Rather, imputation credits would attach to 'franked' dividends, ie those effectively paid out of income which has borne tax at the company rate of 49%. As part of the imputation package, the branch profits tax has been removed as from 1 July 1987 (on 1986-87 income) and the dividend withholding tax has been removed in relation to franked dividends paid on and from 1 July 1987. Imputation credits may be utilised only to offset income tax payable by Australian resident individuals and therefore do not extend to exempt taxpayers or non-residents.

With the company rate of tax and the maximum marginal personal income tax rate aligned at the 49% level from 1 July 1987, the Division 7 provisions relating to undistributed profits of private companies have been abolished, subject to transitional provisions. As part of the imputation package, changes to the tax treatment of bonus share issues and distributions by company liquidators have also been introduced.

Fringe Benefits Tax (FBT) and Substantiation Requirements

A fringe benefits tax was introduced with effect from 1 July 1986 and new substantiation requirements for employment-related expense claims also came into effect on that date in respect of income earned on or after 1 July 1986. A number of important changes, back-dated to 1 July 1986, were announced during the year.

On 26 August 1986 it was announced that the following exemptions from FBT would apply: hospital and medical treatment and other benefits provided under workers' compensation; travel costs for the purpose of employment interviews; specified expenses arising from work relocation; and travel costs incurred in obtaining medical treatment while employed in prescribed developing countries. The change in tax treatment of fringe benefits paid to employees located overseas will ensure that their fringe benefits are exempted from tax to the same extent as their wage and salary income.

Following a review, a number of further changes were announced on 29 October 1986. For both FBT and income tax substantiation purposes, the motor vehicle log book requirements have been substantially reduced, with taxpayers generally required to maintain a log book for a period of only 12 weeks where the log book method is chosen. The requirement for documentation of petrol and oil expenses has been removed. Minor benefits of small value which are infrequently provided or difficult to record and value have been exempted. The annual exemption for staff discounts on in-house benefits has been increased from \$200 to \$500. All private use by employees of employers' facilities and equipment has been made

exempt, as have all car parking benefits. Additional concessions have been extended to relocation expenses (the costs of selling and buying a principal residence), occupational health and counselling, safety and long service awards, holiday travel and children's education for overseas employees. Specified compassionate benefits (eg benefits provided in emergencies) have also been made exempt. Finally, remote area benefits have been accorded further concessions; the discount on housing benefits has been increased from 40% to 50%, a generous statutory value replaced the statutory formula as an optional way of valuing housing benefits, and restrictions have been eased on the application of the remote area holiday travel discount of 50%.

Quarterly Instalment System for Provisional Tax

The tax reform measures announced on 19 September 1985 provided for a compulsory quarterly instalment system for the payment of annual provisional tax liabilities, commencing in 1987-88. Legislation for the new system was enacted in early June 1987, but with several significant amendments. The threshold for the general exemption from the provisional tax instalment provisions has been raised from \$2000 to \$5000. In addition, payment of provisional tax by instalments will not be required of primary producers or of authors and inventors with abnormal income.

The measure does not increase annual tax payable in ongoing terms, but it is expected that collections associated with late payments under the previous system could be brought forward each year, commencing in 1987-88 when they could be up to \$70m. The smoother pattern of receipts will result in reduced sales of short-term Government securities; associated interest savings are estimated to be of the order of \$120m in 1987-88.

Personal Income Tax Rate Scale

As foreshadowed by the Treasurer on 19 September 1985, the second stage of the reductions in personal income tax rates and changes to thresholds took effect on 1 July 1987. These changes have been reflected fully in PAYE instalments from that date and will be used for assessment and provisional tax purposes in respect of 1987-88 income.

The rate scale for assessment of 1987-88 incomes is compared below with the earlier rate scales:

Income Range (per annum)	Marginal Tax Rate (cents per dollar)		
	Before 1 December 1986	From 1 December 1986	From 1 July 1987
\$			
0-4595	0	0	0
4596-5100	25	0	0
5101-12500	25	24	24
12501-12600	30	24	24
12601-19500	30	29	29
19501-28000	46	43	40
28001-35000	48	46	40
35001 and over	60	55	49

Capital Gains Tax

The following changes to the capital gains tax have been announced since the last Budget:

- the treatment of bonus shares issued after 30 June 1987 has been modified to be consistent with the treatment of distributions under the imputation system of company tax;
- the treatment of call payments on certain partly-paid bonus shares or units issued after 1:00 p.m., 10 December 1986, in respect of original shares or units acquired prior to 19 September 1985 was changed to deem such payments to constitute new investment and therefore to be subject to the capital gains tax;
- the treatment of units in unit trusts was changed to enable depreciation allowances for income-producing buildings to be passed through to unitholders with no additional capital gains tax liability; and
- individual taxpayers who cease to be Australian residents now have the option to defer capital gains tax liability on ex-Australian assets until the assets are disposed of, in certain limited circumstances, accrued gains on such assets are now exempt from tax.

(2) OTHER MEASURES ANNOUNCED PRIOR TO THE BUDGET

INCOME TAX

New Arrangements for Superannuation

On 12 January 1987 the Government announced changes to the income tax law relating to the taxation of lump sum superannuation and kindred payments effective from 13 January 1987. Any excessive non-arm's length income derived from that date by approved deposit funds is subject to tax at the rate of 50% in line with similar provisions already applying to superannuation funds. The tax rate is reduced to 49% from 1987-88. Lump sum payments made as an alternative to a superannuation pension or annuity entitlement are to remain subject to taxation as eligible termination payments. Measures also were announced to guard against the exploitation of annuity contracts.

Deductibility of Gifts

Since the 1986-87 Budget, the Government has announced that gifts to the following bodies would qualify as deductible donations (for gifts of \$2 or more made after the dates, or in the inclusive periods, shown in brackets):

- Lionel Murphy Foundation (24.4.1987)
- Australia-Hellenic Memorial Trust Fund (1.4.1987 to 30.6.1989)
- 9th Australian Division Memorial of Participation (El Alamein) Fund (15.6.1987 to 30.6.1989)
- Korean and South East Asian and Vietnam War Memorial Anzac Square Trust Fund (15.6.1987 to 1.7.1989)

Offshore Banking Exemption from Interest Withholding Tax

On 1 July 1986 the Treasurer announced that interest paid to non-residents by separate offshore banking units (OBUs) is to be exempt from interest withholding

tax where their deposits accepted or borrowings in foreign currencies are on-lent only to non-residents. On 9 April 1987 the Treasurer announced further details on the relevant legislative arrangements to apply to OBUs. The major points were:

- the exemption is to be confined to authorised banks, State banks, and other financial institutions authorised to deal in foreign currency;
- the exemption will also apply to transactions, denominated in Australian dollars, between non-residents which are intermediated by an OBU and its offshore branches or subsidiaries; and
- anti-avoidance measures will help ensure that the exemption is confined to 'genuine' offshore banking transactions.

Discounted and Deferred Interest Securities

The tax rules applying to discounted and deferred interest securities are to be modified to deny, from 23 April 1987, deductions for interest on an accruals basis in respect of qualifying securities, where the securities are issued in Australia to, or on behalf of, a non-resident associate of the issuer, or in accordance with certain other arrangements between associates that are designed to minimise Australian tax

Thin Capitalisation and Corporate Restructures

In the context of liberalising foreign investment policy, the thin capitalisation and corporate restructuring conditions of approval imposed on foreign investors under foreign investment policy are to be replaced by amendments to the income tax law. Those conditions of approval counter tax avoidance practices which would otherwise have enabled foreign investors to avoid Australian taxes on the profits from their Australian investments.

In broad terms, the new provisions will apply to interest-bearing loans or other debt provided by foreign investors (or associates) to an Australian company or business enterprise where that interest-bearing foreign debt is more than three times the foreign investors' equity in the company or business. Where the ratio is exceeded, a tax deduction for interest paid on the debt, to the extent of the excess, will be disallowed to the company or business. In recognition of the special funding needs of banks and non-bank financial intermediaries, a ratio of 6:1 is to be allowed for foreign investments in this sector.

Investment Allowance

The Treasurer announced on 12 June 1987 that the investment allowance cut-off date, by which eligible property must be in use or installed ready for use, would be extended from 30 June 1987 to 31 December 1987.

Application of Taxation Laws to Australia's Offshore Areas

The scope of the income and sales tax laws is to be extended, with effect from 21 January 1987, to apply in areas adjacent to, and in the land masses of, certain of Australia's island territories. They will also be extended to cover installations within the outer limits of the continental shelf or within 200 nautical miles of Australia. The changes will mean that non-residents will be taxed on commercial activities, such as tourism operations conducted in the territories concerned, or on fixed installations or structures in the waters surrounding these territories. Appropriate exemptions will apply for bona fide Norfolk, Christmas and Cocos (Keeling) Islands residents.

CUSTOMS AND EXCISE DUTY

Diesel Fuel Rebate Scheme

As a result of an Efficiency Scrutiny Review, legislative and administrative changes, which took effect from 1 August 1987, continue the procedure of claimants self assessing the quantity of diesel fuel eligible for rebate but place greater emphasis on claimants substantiating their claims. To simplify administrative procedures the actual rebate payable on claims received in any given month will be the average of the declared rates of rebate which were in force on the last day of each of the preceding six months. This means a slight variation in previous arrangements under the Scheme whereby primary producers paid no excise on eligible diesel fuel and miners paid only 2.388 cents per litre.

Six Per Cent Ceiling on Excise Rate Increases

The Prime Minister announced on 13 March 1987 that a ceiling of around 6% will be imposed on the combined total of the indexation adjustments in August 1987 and February 1988. The full August 1987 adjustment was made in the usual way while the February 1988 adjustment will be such as to achieve a total increase in rates of around 6% over the two adjustments.

Changes to Crude Oil Excise

During 1986-87, the Government undertook a detailed review of the crude oil taxation arrangements and subsequently announced new arrangements that came into effect from 1 July 1987. These arrangements include the reduction in the top 'old' oil excise rate from the 1986-87 concessional rate of 80% (previously 87%) to 79% in 1987-88, 77% in 1988-89 and 75% by 1989-90; the exemption from excise of the first 30 million barrels of crude oil production from new offshore projects (in those areas not subject to the resource rent tax); the exemption from excise of the first 30 million barrels of crude oil from all onshore fields; and the exemption from excise of LPG production onshore and of condensate marketed separately from crude oil.

Full details are set out in the Appendix to this statement.

Change in Duty Free Passenger Concessions and Abolition of Migrant Vehicle Concessions

Commencing 1 July 1987, the arrangements governing customs duty and sales tax free entitlements for passengers arriving from overseas were changed so that all goods up to a value of \$400 per adult person (\$200 for persons under 18 years) may be brought in duty and tax free. In addition to this concession, duty and tax free entry is allowed for all clothing (other than furs) for the personal use of travellers, articles for personal hygiene and for tobacco and alcohol within the existing quantity limits on these goods. Normal rates of duty apply to imports above the \$400 limit.

The import duty and sales tax concession for migrants' motor vehicles (other than vintage cars) was abolished from 14 May 1987.

Payment of Customs Duties by Certain Non-departmental Commonwealth Agencies

From 1 July 1987, certain Commonwealth non-departmental agencies became liable to customs duty on all their imports.

Surcharge on Aviation Gasoline for General Aviation

From 1 July 1987, the fixed annual air navigation charges (ANCs) which apply to general aviation were replaced by a 3.9 cents per litre surcharge incorporated in the excise on aviation gasoline. Refunds of ANCs (up to \$4m), prepaid in respect of the period after 1 July 1987, are being made to relevant general aviation operators. In addition, landing charges are payable for general aviation aircraft which use the capital city primary airports scheduled to be taken over by the Federal Airports Corporation.

WHOLESALE SALES TAX

Conditional Exemption for Certain Tourist Publicity and Tourism Promotional Material

Certain tourist publicity and tourism promotional materials for use or free distribution (but not for sale) by national tourist organisations of any foreign country, or representatives of such organisations, are to be exempted from sales tax with effect from 1 July 1987.

Removal of Exemption for Certain Commonwealth Commercial Authorities

The sales tax exemption for certain previously exempt Commonwealth commercial authorities (including Telecom and Australia Post) has been withdrawn as from 13 May 1987.

The effect of withdrawing the exemption is that sales tax is payable on goods supplied to these authorities. In addition, where certain of these authorities were previously exempt from direct liability for sales tax on goods they manufactured themselves or imported directly, they are now taxable.

A transitional concession for 1987-88 is being applied in the case of Telecom. A refund will be paid to Telecom if the total tax payment arising from the removal of the exemption from both sales tax and customs duty exceeds \$360m in respect of 1987-88. The amount of the refund is estimated at \$80m in 1987-88, with a further payment of up to \$20m in 1988-89.

ACT TAXES AND CHARGES

ACT Business Franchise Fees on Tobacco Products

The rate of business franchise fee on the sale of tobacco products to ACT residents was increased from 25% to 30% from 14 November 1986.

ACT Financial Institutions Duty

As foreshadowed in the 1986-87 Budget, FID has been introduced in the ACT with effect from 1 September 1987. Simultaneously, the higher rates of debits tax, which applied only in the ACT, and certain stamp duties have been abolished. These duties were:

- stamp duty on cheques, bills of exchange and promissory notes;
- loan security duty; and
- stamp duty on hire purchase arrangements.

FID is levied at a rate of 0.03% on amounts received by financial institutions, with a maximum duty of \$300 per transaction. Instead of a rate per transaction, a rate of 0.005% is levied monthly on the average daily liability of short term money market dealers for amounts received by them in the ACT.

Stamp Duty on Insurance Premiums

Insurance premiums received by insurers for insurance of goods carried in international trade, and of the hulls of vessels and aircraft engaged in international trade, were exempted from ACT stamp duty and tax from 1 January 1987. This was to counter the trend whereby aviation and marine insurance was being written overseas to the detriment of Australian insurers. The co-operation of the States and Northern Territory with respect to their own stamp duties and similar taxes on insurance premiums has also been sought.

ACT Tax and Stamp Duty on Transfers of Company Debentures

The Government, in line with similar decisions already taken in all States, decided to abolish, with effect from 16 July 1987, ACT tax and stamp duty as it applied to transfers of debentures. This will require consequential amendments to anti-avoidance legislation covering transfers of marketable securities introduced last year, so as to confine the effects of this legislation to marketable securities other than debentures. These amendments will have retrospective effect to 10 June 1986.

MEASURES TO COUNTER TAX AVOIDANCE AND EVASION

Use of Annuities to Avoid Tax

The Government announced on 19 September 1986 that deferred annuities not purchased for retirement purposes are to be taxed on an accruals basis, under the legislation applying to discounted and other deferred interest securities, rather than when received in cash at some future date.

Redeemable Preference Shares

All redeemable preference shares with an effective term to maturity of two years or less, issued after 7 April 1986 and before 1:00 p.m., 10 December 1986, are treated as debt for income tax purposes.

On 10 December 1986 the Treasurer announced that dividends on all redeemable preference shares and similar instruments issued after 1:00 p.m. on that date and before 1 July 1987 would be treated as equity income but would not be eligible for the section 46 rebate when received by companies. From 1 July 1987, dividends paid on redeemable preference shares and similar financing arrangements, irrespective of term, are denied the section 46 rebate when received by resident companies, unless they are dividends franked with imputation credits.

Double-Dipping Tax Avoidance Arrangements

On 17 December 1986 the Treasurer announced amendments to the tax laws, with immediate effect, to overcome schemes by which companies utilise the income tax laws of Australia and another country to obtain a double tax benefit for what is essentially the same outlay. The measures will have effect only where the Australian revenue is detrimentally affected by the double-dipping arrangements.

Statutes Of Limitations

Amendments of the taxation law in 1986 modified the application of State and Territory limitation laws, in those cases where an objection or appeal has been lodged against an assessment, so that any applicable limitation period is taken to have ended as if it had commenced to run when the objection, or any subsequent appeal, becomes final.

On 14 August 1987 the Treasurer announced that the taxation law would be amended further to make it clear that this measure also applies to additional tax for late payment.

(3) MEASURES ANNOUNCED IN THE BUDGET

INCOME TAX

Pensioner Rebate

A rebate is allowable for taxpayers in receipt of an Australian social security or repatriation pension that is subject to Australian income tax. In order to allow eligible pensioners to take full advantage of the \$250 rebate following the full year effects of the reductions in personal income tax rates on 1 December 1986 and 1 July 1987, the income level above which the maximum rebate begins to shade out is to be increased from \$5914 to \$6142 in 1987-88. The rebate will be reduced by 12.5 cents for each dollar of taxable income in excess of \$6142 until fully extinguished at \$8142.

Social Security and Commonwealth Education Allowance Beneficiary Rebates

Rebates are available for taxpayers in receipt of Australian social security, unemployment, sickness or special benefits and certain Commonwealth education allowances to ensure that persons wholly or mainly dependent on a taxable benefit do not bear income tax. To this end, the maximum amount of rebate is to change from \$190 in 1986-87 to \$180 in 1987-88 for single beneficiaries (this lower level of rebate reflects the decision announced in the May Statement to align the level of single sickness benefit and single unemployment benefit) and from \$280 to \$430 for (legal or de facto) married beneficiaries. The maximum amount of rebate will continue to be reduced at the rate of 12.5 cents for each \$1 of taxable income in excess of the implied thresholds; for 1987-88 the thresholds are to be raised from \$5669 to \$5850 for single beneficiaries and from \$9436 to \$10 350 for married beneficiaries. The rebate will shade out completely at a taxable income of \$7290 for a single beneficiary and \$13 790 for a married beneficiary.

Medicare Levy Low Income Thresholds

In 1986-87 the low income thresholds were \$8030 for single persons and \$13 370 for married couples and sole parents, with an addition of \$1660 to the threshold for each dependent child or student. In line with past practice, these will be increased to \$8980, \$15 090 and \$2100 respectively in 1987-88.

Provisional Tax Uplift Factor

To take account of expected growth in incomes, provisional taxpayers' incomes for the previous year have, since 1980-81, been increased by a standard percentage to obtain notional current year incomes on which the calculation of provisional tax payments is based. The standard percentage applied last year was 11% and a factor of 11% will apply again in 1987-88. The 1987-88 rate scale will be applied to notional incomes calculated in that way.

Provisional taxpayers retain the option of self-assessing, ie of providing an estimate of their income for the current year which is then used in calculating their provisional tax payment. The provisional tax payment of those who self-assess will be derived by applying the 1987-88 rate scale to their estimates of 1987-88 income.

BUSINESS INCOME TAX

Negative Gearing

The Government has decided to abolish the negative gearing quarantining provisions relating to rental property investments with effect from the commencement of the 1987-88 income year. Interest deductions carried forward from previous years will be allowed as a deduction in the 1987-88 or later income years.

Depreciation Allowances on Buildings

In conjunction with the negative gearing decision, the Government has decided to reduce the depreciation allowance on new income-producing buildings from 4% to 2 1/2%.

This change will take effect for buildings where construction commences after 15 September 1987 except where:

- construction is pursuant to a contract entered into on or before that date; or
- the land on which the building is constructed was acquired on or before 15 September 1987 and borrowings used to finance construction were contracted for that purpose on or before that date.

WHOLESALE SALES TAX

Purchases by US Missions and Consular Posts in Australia

The Government has agreed to grant sales tax exemptions for official purchases by the US embassy and consular posts in Australia with effect from 1 July 1987, subject to the granting of similar exemptions with respect to purchases by Australian missions and posts in the US.

ACT TAXES AND CHARGES

In its 1986 Report on Financing the Australian Capital Territory, the Commonwealth Grants Commission found that in 1985-86 ACT revenues fell short of expenditures on territorial and municipal functions by \$55m (or \$214 per capita) more than would be consistent with the principle of fiscal equalisation with the States. Measures announced in the previous two Budgets have reduced the degree to which the ACT revenue-raising effort is below that of the standard States. In order to improve further the ACT revenue-raising effort, the Government is introducing the following measures (further details are provided in the Statement of 15 September 1987 by the Minister for the Arts, Sport, the Environment, Tourism and Territories).

Business Franchise Fee on Petroleum Products

A franchise fee will be introduced at the wholesale level on sales of petroleum fuels to ACT residents from 1 November 1987 at the rate of 3.53 cents per litre for motor spirit and 3.57 cents per litre for diesel fuel. Diesel fuel sold for off-road use will be exempt.

Stamp Duty on Conveyances

Effective from 16 September 1987, the rate of stamp duty on transfers or assignments of interests in land applying to that part of the value that exceeds \$300 000 will be increased from \$3.50 per \$100 to \$4.50 per \$100, and to that part of the value that exceeds \$1m from \$3.50 per \$100 to \$5.50 per \$100.

Land Tax

The rate of land tax on non-residential properties will be increased from 0.5% to 0.75% of unimproved value effective from 1 July 1987. Land used primarily for primary production will continue to be exempt.

Tax on ACT Totalisator Turnover

The rate of tax on the turnover of the totalisator operations of the ACT's Gaming and Liquor Authority will be increased from 4% to 5% (including the 1% levy previously paid to the Community Development Fund) effective from 27 September 1987.

Gaming Machine Tax

Effective from 1 April 1988, the ACT rate of gaming machine turnover tax for licenced clubs (currently at 10% of net revenue) will be adjusted to achieve a return to the Government equivalent to the NSW levels.

Motor Vehicle Registration Charges

Registration charges for private passenger vehicles will be increased by \$20 (from \$85 to \$105) effective immediately. Registration charges for other vehicle categories will also increase by similar proportions.

OTHER MEASURES

Increase in Radio and Television Station Licence Fees

With effect from 1 January 1988, the Government has decided to increase the ceiling rate for commercial television station licence fees from their current maximum of 8% of annual gross earnings (AGE) to a maximum of 9% for AGE of \$100m and above. Similarly, it has been decided to increase the ceiling rate payable by radio stations from 5.5% to 6.5%, and to make other minor amendments to the fee scale. The measures are expected to impact only upon the largest commercial metropolitan television and radio stations.

Tendering Systems for the Granting of New Radio and Television Licences

The Government has changed the selection process for the granting of new commercial radio and television licences. Applicants for licences will now be required to submit a sealed bid along with their initial application. The Australian Broadcasting Tribunal will conduct a simplified licence grant inquiry to determine whether any of the applicants are unfit to be considered for a licence. The highest bidder amongst the suitable applicants will be awarded the licence.

This initiative will not affect the equalisation of television services in regional areas, and at this stage there are no plans to issue additional commercial television licences anywhere.

Fee for Conversion from AM to FM by Regional Radio Licensees

In recognition of the advantages of FM broadcasting over AM, existing commercial AM radio licensees in areas facing competition from new FM stations will be allowed to convert to FM broadcasting, providing it is technically appropriate to do so.

Reflecting the higher value of an FM licence, a conversion fee will be payable based on the estimated size of the market.

Radiocommunications Licence Fees

To maintain their real value, radiocommunications licence fees are to be increased by an average of 7% with effect from 1 December 1987.

Australian Design Rule Compliance Plates

The charge for motor vehicle compliance plates supplied to vehicle manufacturers and importers for motor vehicles which comply with Australian design rules is

to increase from \$3.50 to \$5.00. The increase will become effective from 1 October 1987.

Uranium Export Levy

The Government has decided to increase the levy under the *Customs Tariff (Uranium Concentrate Export Duty) Act 1980* from 80c/kg to \$1.02/kg; this is estimated to recover 75% of the costs of the Office of the Supervising Scientist associated with uranium mining.

Immigration and Migration Application Fees

The Government has decided to introduce from 1 January 1988 a charge of \$5 per adult passenger on airlines which require immigration clearance services for passengers entering Australia.

The Government has also decided that infringement notices will be issued from 1 January 1988 to international airlines and shipping companies which commit offences under the *Migration Act 1958* by bringing to Australia passengers who do not have full visa documentation.

These fees are consistent with the cost recovery principles adopted by successive governments.

From 1 October 1987, individuals seeking a review of *Migration Act* decisions which affect resident and visitor status will be required to lodge a fee equivalent to that charged by the Administrative Appeals Tribunal (AAT). Consistent with refund arrangements applying generally to appeals to the AAT, the fee of \$240 will be refundable if the appeal is successful.

Migration application fees are to be increased from \$40 to \$60 on lodgement of an application, and from \$110 to \$165 for further processing of the application. Other fee increases include the application for grant of resident status (from \$200 to \$300) and the processing of entry permits for visitors extending their stay in Australia (from \$35 to \$50). These increases will become effective from 1 October 1987.

Indexation of Passport Fees

From 1 October 1987, passport fees for adults will increase from \$60 to \$66 and for children from \$25 to \$27, in line with general movements in the Consumer Price Index (CPI) for the twelve months ending 31 March 1987. Subsequent increases will be on 1 July of each year in line with general movements in the CPI for the preceding twelve months ending 31 March. This measure will maintain the real value of the 1986-87 level of passport fees. In addition, as from 1 January 1988 a new 'frequent traveller' passport will be available from the Department of Foreign Affairs and Trade for a fee of \$100.

Commonwealth Loan Guarantee Charge

A loan guarantee charge is to be levied from 1987-88 on off-budget borrowings of Commonwealth business enterprises to cover the guarantee either provided explicitly or implicit in the enterprises' status as government-owned bodies.

The charge represents an extension of the charge levied in 1986-87 on borrowings that were explicitly guaranteed by the Commonwealth, the revenue from which is classified under outlays (see 8E *Administrative Services* function in Statement No. 3). The charge is in recognition of the contingent liabilities assumed by the Commonwealth and will serve to bring the borrowing costs of these enterprises more into line with companies in the private sector.

Quarantine Charges

The Government has decided to revise cost recovery arrangements for agricultural quarantine services. From 1 March 1988, charges will be set to recover 60% of the total cost of providing quarantine services, less the costs of Government services of a non-commercial nature. Exemptions will continue to apply for foreign diplomatic staff, the clearance of foreign vessels, equipment involved in joint defence exercises, and accompanied personal luggage of passengers and non-commercial goods sent by parcel post. Under current policy, charges are designed to recoup the direct operating costs.

Changes are also being made in the general quarantine area to waste disposal and quarantine operations at international seaports and airports. As current contracts expire or are renegotiated, approved contractors will be empowered to tender on a commercial basis for disposal of waste from ships and aircraft. As an interim measure it is proposed, from 1 November 1987, to raise fee levels for seaport waste disposal to collect the full cost of undertaking this activity.

Administrative Appeals Tribunal—Filing Fees

The Government has decided to increase filing fees for matters coming before the AAT from \$200 to \$240 effective from 17 September 1987.

Air Transport Regulatory Charges

The Government has decided to introduce new charges and increase certain existing charges from 1 October 1987 for air transport regulatory services provided by the Department of Transport and Communications.

REVENUE ESTIMATES

The following table compares estimated revenue for 1987-88 with 1986-87 collections. A discussion of the outcome for 1986-87, compared with the budget estimates for that year and the outcome for 1985-86, is contained in Statement No. 5. Information on collections in earlier years is provided in Statement No. 6.

	1986-87			1987-88		
	Actual	Change on 1985-86	Estimate	Change on 1986-87	Proportion of total revenue	
	\$m	%	\$m	\$m	%	%
Taxation Revenue -						
Income Tax -						
Individuals						
Gross PAYE (a)	30 657	11.2	32 655	1 998	6.5	41.8
Refunds (a)	2 520	5.7	2 610	90	3.6	3.3
Net PAYE	28 136	11.7	30 045	1 909	6.8	38.5
Other (a)	7 457	30.9	8 215	758	10.2	10.5
Medicare Levy (b)	1 715	28.5	2 065	350	20.4	2.6
Prescribed Payments System	765(c)	48.6	835	70	9.1	1.1
Total Individuals	38 074	16.3	41 160	3 086	8.1	52.7
Companies	6 714	9.9	7 675	961	14.3	9.8
Withholding Tax	639	13.8	600	-39	-6.1	0.8
Fringe Benefits Tax	535	n.a.	750	215	40.1	1.0
Total Income Tax	45 962	16.6	50 185	4 223	9.2	64.2
Sales Tax	6 348	10.8	7 110	762	12.0	9.1
Excise Duty -						
Crude Oil and LPG	2 062	-48.7	2 187	125	6.1	2.8
Petroleum Products	4 666	65.8	4 800	134	2.9	6.1
Other	2 557	7.7	2 700	143	5.6	3.5
Customs Duty -						
Imports	3 237	-1.4	3 220	-17	-0.5	4.1
Coal Exports	52	-10.2	60	8	16.4	0.1
Debits Tax (d)	261	29.0	330	69	26.5	0.4
ACT Taxes and Charges	185	22.6	216	31	17.1	0.3
Other Taxes, Fees and Fines	357	-2.5	435	78	21.8	0.6
Total Taxation Revenue	65 685	12.5	71 243	5 558	8.5	91.2
Non-Tax Revenue -						
Interest	3 560	3.3	3 674	114	3.2	4.7
Rent, Dividends and Royalties	2 934	25.0	3 199	265	9.0	4.1
Miscellaneous Receipts from Commonwealth Enterprises	4	..	3	-1	..	..
Total Non-Tax Revenue	6 498	12.2	6 876	378	5.8	8.8
TOTAL REVENUE	72 184	12.4	78 119	5 935	8.2	100.0

(a) These figures exclude the Medicare levy, which is listed separately.

(b) Estimate only; the Medicare levy is not separately identified at the point of collection.

(c) Includes an estimated \$50m collected from companies under the Prescribed Payments System.

(d) On 1 July 1987 the bank account debits tax law was extended to cover debits made to payment order accounts with non-bank financial institutions. Accordingly, the 'bank account debits tax' is now referred to as the 'debits tax'.

Total revenue in 1987-88 is estimated to increase by 8.2%, to \$78 119m, equivalent to 26.8% of forecast GDP, compared with 27.3% in 1986-87.

TAXATION REVENUE

Total taxation revenue in 1987-88 is forecast to increase by 8.5%, to \$71 243m, following an increase of 12.5% in 1986-87. Estimates for the principal taxation revenue items are described below.

INCOME TAX—INDIVIDUALS

Income tax collections from individuals are estimated to grow by 8.1% in 1987-88, compared with 16.3% in 1986-87. As well as gross PAYE collections, this aggregate includes PAYE refunds, non-PAYE collections from individuals, and collections from the Medicare levy and the Prescribed Payments System.

PAYE Instalment Deductions

Gross PAYE receipts (net of the Medicare levy) are estimated at \$32 655m, an increase of 6.5% compared with 11.2% in 1986-87.

The estimate is based on employment growth for wage and salary earners of 2 1/4% and an increase in average weekly earnings (on a national accounts basis, excluding superannuation) of around 6%.

The relatively slow forecast growth in gross PAYE receipts reflects:

- the full year effect of the 1 December 1986 tax cut and 11 months' effect of the 1 July 1987 tax cut;
- slightly slower growth of earnings and employment of wage and salary earners forecast for 1987-88; and
- the first-tier flat dollar element of the 1987-88 wage increases, which will have a smaller revenue effect than would an equal increase in the total wage bill derived from uniform percentage increases across all income ranges.

PAYE Refunds

Refunds in 1987-88 relate to tax instalments deducted from salary and wage income earned in 1986-87 and earlier years. They are estimated at \$2610m in 1987-88, an increase of 3.6%. This modest increase reflects the effects of the substantiation and tax free threshold changes.

Other Individuals

Collections from taxpayers in this category in 1987-88 are generally determined by tax on 1986-87 assessed income, less any credits for amounts paid in 1986-87 as provisional tax, PAYE and payments made under the Prescribed Payments System, plus provisional tax for 1987-88 which, in general, is calculated by raising 1986-87 income by an uplift factor of 11%, and applying the 1987-88 tax rates.

Collections from other individuals (net of the Medicare levy) in 1987-88 are estimated at \$8 215m, 10.2% higher than the previous year. This compares with the exceptionally strong increase of 30.9% in 1986-87 which resulted from unusually high income growth in the previous year and, related to that, a surge in the number of provisional taxpayers. The 1987-88 tax estimate reflects reduced, but still substantial, growth in 1986-87 of income subject to provisional tax, a consequence mainly of a levelling out in interest rates which reduced the growth of interest earnings.

Additional major influences on other individuals collections in 1987-88 are:

- the full-year effect of the 1 December 1986 tax cut and the effect on provisional tax of the 1 July 1987 tax cut; and

- the granting of tax credits on franked dividends paid to individual shareholders (which is expected to be reflected through increased self-assessment of provisional tax).

Medicare Levy

Medicare levy collections are estimated at \$2065m in 1987-88, 20.4% higher than 1986-87 collections. About half of this increase is attributable to the full year effect of the rate rise, effective from 1 December 1986, from 1.0% to 1.25%. The total estimate comprises \$1680m from PAYE taxpayers (gross PAYE \$1820m, less refunds of \$140m) and \$385m from other individuals.

Prescribed Payments System

Collections under the Prescribed Payments System in 1987-88 are estimated at \$835m, an increase of 9.1% following a lift of 48.6% in 1986-87 (reflecting the rate rise from 10% to 15% on 1 July 1986). The 1987-88 estimate is based on prospective activity in the building and transport sectors where this form of tax payment predominates.

INCOME TAX—COMPANIES

Company tax collections in 1987-88 are estimated at \$7675m, an increase of 14.3% compared with 9.9% in 1986-87. Tax collections will be boosted by the increase from 46% to 49% in the company tax rate as from 1 July 1987 (a major element in the introduction of the dividend imputation scheme which will lower collections from individuals and non-residents), higher collections against tax outstanding at the start of the year and intensified audit activities.

Overall growth in corporate taxable income in 1986-87 (the base for 1987-88 payments) is estimated to have been affected by a substantial decline in incomes from the mining and resources sector and by the increasing impact of the 5/3 accelerated depreciation regime.

WITHHOLDING TAX

Withholding tax collections are estimated at \$600m in 1987-88, a decline of 6.1% compared with an increase of 13.8% in 1986-87. The cessation from 1 July 1987 of withholding tax on franked dividends is estimated to lower dividend withholding tax to \$50m compared with \$173m in 1986-87. Interest withholding tax is expected to increase to \$550m in 1987-88, from \$466m in 1986-87, implying slower growth than in the previous two years when depreciation boosted the \$A value of interest payments fixed in foreign currencies.

FRINGE BENEFITS TAX

Collections from the fringe benefits tax—excluding those from Commonwealth Government on-budget authorities—are estimated at \$750m in 1987-88, an increase of 40.1%. This increase reflects:

- four quarterly instalments rather than the three instalments in 1986-87, the first year of the tax; and
- an increase in the FBT rate from 46% to 49%, to align with the new corporate and maximum marginal personal tax rates.

SALES TAX

Sales tax collections are estimated at \$7110m in 1987-88, an increase of 12.0% compared with 10.8% in 1986-87. Nearly half of the expected growth in 1987-88 is attributable to the withdrawal of the sales tax exemption for Commonwealth commercial authorities announced in the May Statement (expected to increase collections by \$320m). The growth in consumption of goods subject to sales tax in 1987-88 is expected to be somewhat weaker than the growth in private consumption in aggregate.

Estimated collections of sales tax on goods falling within the specified rate classes for 1986-87 and 1987-88 are shown in the following table:

Rate Class	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	%
10%	1 006	1 070	6.4
20%	4 274	4 865	13.8
30%	731	810	10.8
Not allocated by rate (a)	337	365	8.3
TOTAL SALES TAX	6 348	7 110	12.0

(a) These collections cannot be allocated readily to particular rate categories. They include amounts collected on imports at entry as well as an amount for recoveries in respect of avoidance and evasion practices.

EXCISE DUTY

Total collections of excise duty are estimated at \$9687m, 4.3% above the 1986-87 outcome. The main components of this estimate are shown in the following table:

	1986-87		1987-88		
	Actual	Change on 1986-86	Estimate	Change on 1986-87	
	\$m	%	\$m	%	
Crude Oil and LPG	2 062	-48.7	2 187	125	6.1
Petroleum Products(a)	4 666	65.8	4 800	134	2.9
Total Petroleum	6 727	-1.5	6 987	260	3.9
Other Excise—					
Beer	1 363	8.4	1 462	99	7.2
Potable Spirits	144	6.8	137	-7	-4.8
Tobacco Products	1 018	7.0	1 068	50	4.9
Other(b)	32	7.6	33	1	..
Total Other Excise	2 557	7.7	2 700	143	5.6
TOTAL EXCISE DUTY	9 284	0.9	9 687	403	4.3

(a) Includes motor spirit, diesel fuel (net of rebates), aviation gasoline, aviation turbine fuel, fuel oil, heating oil, kerosenes and—as an offset—refunds/drawbacks of petroleum products excise to eligible users.

(b) Includes the coal excise duty and refunds/drawbacks.

Crude Oil and LPG Levies

Revenue from these sources is estimated at \$2187m in 1987-88, 6.1% higher than in 1986-87. Projected collections reflect the effect of assumed higher average crude oil prices, partly offset by an anticipated decline in crude oil production, a reduction in the top marginal excise rate for 'old' oil, a forecast step down in crude oil prices from 1 January 1988 associated with the introduction of a free market, lower collections of LPG excise due to lower domestic LPG prices and the exemption from excise of all onshore production of crude oil and LPG. Details are set out in the Appendix to this statement.

Net crude oil excise collections are estimated at \$2172m in 1987-88. This estimate assumes that world crude oil prices will remain at the level ruling when the 1 August 1987 import parity price was set (\$A29.00) and that there will be no change in crude oil prices in Australia apart from an expected fall with the introduction of a free market on 1 January 1988.

LPG excise collections in 1987-88 are estimated at \$15m on the assumption that 1 July 1987 export prices prevail throughout the financial year. Domestic prices and excise rates are expected to increase somewhat during the year as those export prices are taken into account. (Details of LPG pricing arrangements and price movements are provided in the Appendix to this statement.)

The Commonwealth also receives income from the resource rent royalty (RRR) levied on petroleum production from Barrow Island in Western Australia. Collections from these sources are included as 'Petroleum Royalties' in the non-tax revenue table in this statement. Details of the RRR arrangements were set out in Statement No. 4, and the Appendix to that statement, in the 1985-86 Budget Paper No. 1.

Excise Indexation

Under the system of indexation, the rates of duty for the main excisable commodities (with the exception of crude oil and LPG) are adjusted each August and February in line with half-yearly CPI movements. During 1987-88, excise rate indexation increases are to be limited to about 6%. The rates of duty for the main excisable commodities that applied at 19 August (Budget night) 1986, and after the indexation increases of 4 February and 15 August 1987, are shown in the following table:

	Rates applying from:		
	19 August 1986	4 February 1987	15 August 1987
	\$	\$	\$
Petroleum Products (per litre)			
Motor Spirit	0.23884	0.20756	0.20097
Diesel—Gross	0.23884	0.20756	0.20097
—Rebates Primary Producers	0.23884	0.20756	0.20097 (a)
Mining	0.21496	0.18368	0.17709 (a)
Other	0.18185	0.15803	0.15301 (a)
Aviation Gasoline	0.20107	0.17473	0.20870
Aviation Turbine Fuel	0.19099	0.16597	0.16070
Fuel Oil	0.04954	0.04305	0.04168
Heating Oil	0.04954	0.04305	0.04168
Kerosenes	0.04954	0.04305	0.04168
Beer (per litre)			
Between 1.15% and 3.8% alcohol by volume	0.67002	0.70754	0.73230
Greater than 3.8% alcohol by volume	0.76243	0.80513	0.83331
Potable spirits (per litre of alcohol)			
Brandy	20.07	21.19	21.93
General Rate for Other Spirits	23.51	24.83	25.70
Spirits nei and Liqueurs nei	24.14	25.49	26.38
Tobacco Products (per kg of tobacco)			
Cigarettes	37.26	39.35	40.73
Cigars	37.26	39.35	40.73
Manufactured Tobacco	37.26	39.35	40.73

(a) From 1 August 1987, the actual rebate payable on claims received in any given month will be the average of the declared rates of rebate which were in force on the last day of each of the preceding six months.

Petroleum Products Excise

Excise from refined petroleum products is estimated at \$4800m in 1987-88, an increase of 2.9% on 1986-87. This modest increase principally reflects the excise rate reductions in July and August 1987 aimed at offsetting the revenue gains (of the crude oil levy) that resulted from the 1 July and 1 August 1987 increases in the import parity price.

Taken together, total petroleum products excise and crude oil (and LPG) levy collections are estimated at \$6987m in 1987-88, an increase of 3.9% following a fall of 1.5% in 1986-87.

Other Excise Duty

Collections from the remaining excise categories—beer, potable spirits and tobacco products—are estimated at \$2700m. The projected increase of 5.6% on 1986-87 is attributable to indexation increases; clearances of beer, potable spirits and tobacco products are all forecast to fall slightly, consistent with the trends in recent years.

CUSTOMS DUTY

Imports

Collections of customs duty on imports are estimated at \$3220m, 0.5% lower than in 1986-87. While little change in the nominal value of imports is expected, the underlying average rate of duty is projected to fall in year-average terms, continuing a trend evident in the past two years when the SA depreciation reduced demand for imported consumer goods which attract relatively high rates of duty. However, this fall is expected to be moderated by the adoption of tariff harmonisation (announced on 22 September 1986) to simplify the existing complex tariff structure. In addition, 1987-88 revenue is expected to be boosted by \$95m because of changes (announced in the May Statement) governing duty free passenger concessions, the abolition of migrant vehicle concessions, and the removal of exemptions from payment of customs duties by non-departmental Commonwealth agencies.

Coal Exports

Reflecting little expected change in the volume of dutiable exports, collections from the coal export duty are estimated at \$60m.

DEBITS TAX

Debits tax collections are estimated at \$330m, an increase of 26.5% on 1986-87, reflecting the full-year effect of the rate increases of 50% in most rate categories effective from 1 December 1986.

ACT TAXES AND CHARGES

Collections from ACT taxes and charges are estimated at \$216m, an increase of \$31m on 1986-87. The main components are shown in the table below:

	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	\$m
Payroll Tax	39	43	4
Stamp Duty	52	53	1
ACT General Rates	35	39	4
Other	58	81	23
TOTAL ACT TAXES AND CHARGES	185	216	31

The increase in estimated stamp duty revenue reflects the impact of the change in ACT stamp duty arrangements announced in the Budget (\$2m), growth in activity, offset in part by the effects of one-off share transactions in 1986-87 and the introduction of the FID from 1 September 1987.

The estimated increase of \$23m in the 'Other' category reflects the introduction of new revenue measures and revised rates under existing measures. As foreshadowed in last year's Budget, the FID was introduced on 1 September 1987 and replaced elements of the debits tax and some stamp duties as they applied to ACT financial transactions. It is expected that this change will be broadly revenue neutral; estimated revenue in 1987-88 from FID is \$4m and in a full year \$6m. The balance of the increase reflects, in part, the introduction of a business franchise fee on sales of petroleum products (\$6m), the full year effect of the ACT land tax introduced in the 1986-87 Budget and the increased rate announced in this Budget (\$4m), the full year effect of the increase in the tobacco franchise fee announced during 1986-87 (\$1m), increased motor vehicle registration charges (\$2m), the increased rate of turnover tax on totalisator operations of the ACT Gaming and Liquor Authority (\$1m) and adjustment of the rates of gaming machine taxation (\$1m).

OTHER TAXES, FEES AND FINES

The main components of other taxes, fees and fines are as follows:

	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	\$m
Recoupment Tax	6	10	4
Broadcasting and Television Station Licence Fees	77	113	36
Radiocommunications Licence Fees	33	37	3
Stevedoring Industry Collections	24	28	4
Departure Tax	56	61	5
Passport Fees	34	37	3
Patents, Trade Marks and Design Fees	28	30	2
Immigration and Migration Application Fees	17	37	20
Court and Tribunal Fees	7	8	1
Other	75	74	-1
TOTAL OTHER TAXES, FEES AND FINES	357	435	78

Broadcasting and Television Station Licence Fees

Licence fees are levied on a progressive basis by the Commonwealth on the annual gross earnings (AGE) of commercial radio and television stations. Revenue from this source is projected to increase by \$12m to \$88m in 1987-88. Some \$3m of the increase is attributable to higher ceiling rates for these licence fees and the

balance reflects current projections of further growth in the AGE of most commercial radio and television stations. A further \$24m is expected to be raised by new fee arrangements for new radio licences and for radio licensees converting from AM broadcasting to FM (see Measures section).

Radiocommunications Licence Fees

The radio frequency spectrum is used by corporations and individuals for a wide variety of private, commercial and public radiocommunications purposes. Since September 1983 radiocommunications licence fees have included a 'royalty' component in recognition of the financial benefits derived from use of the spectrum. The rates are to be increased from 1 December 1987 by an average of 7% to maintain their real value.

Stevedoring Industry Collections

Certain award entitlements and non-award benefits for waterside workers are funded by levies on employers under stevedoring industry legislation. These levies, which are expected to yield \$28m in 1987-88, are paid to the Stevedoring Industry Finance Committee for disbursement.

Departure Tax

The departure tax is estimated at \$61m in 1987-88; it largely reflects the continued strong growth in international tourism.

Passport Fees

Revenue from passport fees is estimated at \$37m in 1987-88, an increase of \$3m over 1986-87. The increase arises from a small rise in the number of passports expected to be issued in 1987-88, and the decision to index passport fees annually in line with movements in the CPI, commencing 1 October 1987.

Patents, Trade Marks and Design Fees

Fees are levied by the Patents, Trade Marks and Design Office for applications to register patents, trade marks and designs pursuant to the relevant Acts and for annual renewal of registrations. Revenue from this source is estimated at \$30m in 1987-88, an increase of \$2m on 1986-87.

Immigration and Migration Application Fees

Total revenue from these sources is estimated to increase to \$37m in 1987-88, mainly reflecting the decisions to increase migration application fees from \$40 to \$60 on lodgement of an application and from \$110 to \$165 for further processing of the application (\$7m) and to introduce an on-arrival clearance service charge of \$5 per adult passenger on airlines which require immigration clearance services for passengers entering Australia (\$8m).

Court and Tribunal Fees

The increase in estimated receipts for 1987-88 reflects the full year effect of the introduction of a \$200 filing fee for applications to the Administrative Appeals Tribunal, together with the decision in the Budget to increase this fee to \$240, indexation of court fees in the Federal and Family Courts, and an expected increase in applications to the courts.

Other

The small decline in this category is attributable mainly to the reduction of \$22m in the Bass Strait Freight Adjustment Levy, reflecting the Government's decision to introduce a free market for indigenous crude oil (thereby dismantling the allocation system) from 1 January 1988.

Partly offsetting increases are anticipated in the following items:

- fees for occupational superannuation funds (\$6m), which are levied to recover the administrative costs of supervising arrangements. The delay in passing the legislation to establish the Occupational Superannuation Commission means that the revenue from fee collections will now be received in 1987-88 instead of 1986-87;
- quarantine charges (\$4m), which are levied to recover part of the costs relating to animal and plant imports, the disposal of waste from aircraft and ships, and the general health clearance of incoming vessels and aircraft. Under current policy, charges are designed to recoup direct operating costs. However, from 1 March 1988, 60% of the attributable total cost of quarantine activities will be recovered, except for the contractual costs of waste disposal, costs of feed and veterinary supplies provided to livestock, associated freight costs and overtime costs which are fully recoverable. Charges are adjusted annually to reflect movements in costs;
- Interstate Road Transport Charge (\$4m), which results from charges on the registration of vehicles and licensing of operators engaged in interstate trade and commerce, commenced on 1 January 1987 and 1987-88 is the first full year of operation. The registration charge ensures that the owners of such vehicles make a contribution to the repair and maintenance costs of the roads they use; and
- the loan guarantee charge (\$1m), which will be levied from 1987-88 on the off-budget borrowings of Commonwealth business enterprises in respect of implicit, as well as explicit, guarantees associated with the enterprises' status as government-owned bodies.

NON-TAXATION REVENUE

This heading covers interest paid to the Commonwealth Government from sources outside the budget sector, dividends received from Government-owned companies and miscellaneous receipts from Commonwealth enterprises.

Details are set out below:

	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	\$m
Interest received from the States and Northern Territory—			
On Advances for State Loan Council Programs and NT			
Advances	2073	2115	42
On Specific Purpose and Special Advances—			
Housing Agreements	265	289	24
Other	89	93	4
Other Interest Revenue—			
ACT—Housing and Other	28	25	-2
Defence Service Homes	75	77	2
Non-Budget Authorities—			
ACT Electricity Authority	2	2	..
Australian National Railways Commission	8	8	..
Snowy Mountains Hydro-Electric Authority	72	73	1
Pipeline Authority	33	31	-2
Australian Postal Commission	6	5	..
Australian Telecommunications Commission	661	653	-8
Public Financial Enterprises	4	1	-3
Other	245	302	57
Total Interest Revenue	3560	3674	114
Rent, Dividends and Royalties received from—			
Non-Budget Authorities—			
Qantas Airways Limited	15	25	10
Overseas Telecommunications Commission	40	46	6
Australian National Airlines Commission	—	13	13
Other (including Australian Shipping Commission)	6	8	2
Public Financial Enterprises—			
Reserve Bank of Australia	2601	2659	58
Commonwealth Banking Corporation	100	68	-32
Housing Loans Insurance Corporation	12	1	-12
Australian Industry Development Corporation	9	10	2
Other Rent, Dividends and Royalties—			
Petroleum Royalties	103	113	10
Royal Australian Mint	7	212	205
Other (incl receipts nec)	42	43	1
Total Rent, Dividends and Royalties	2934	3199	265
Miscellaneous Receipts from Commonwealth Enterprises	4	3	-1
TOTAL NON-TAXATION REVENUE	6498	6876	378

Total non-tax revenue in 1987-88 is estimated at \$6876m, an increase of 5.8% over 1986-87 collections.

INTEREST REVENUE

The States and Northern Territory

The estimated increase in 1987-88 in interest received on advances to the States under the State Governments' Loan Council Borrowing Program reflects the increase in the level of such advances in 1986-87 (on which full year interest is paid in the subsequent year). Also contributing have been increased interest rates on debt rolled over in 1986-87 and the first half of 1987-88. The rate of increase has slowed compared with 1986-87, due to the States opting to nominate all their advances for public housing in 1987-88.

Interest revenue from the Northern Territory is estimated to increase to \$79m in 1987-88, reflecting, inter alia, continued growth in the level of outstanding general purpose advances to the Northern Territory.

Receipts of interest from the States and the Northern Territory in respect of concessional housing loans are expected to increase by around 9% in 1987-88. This increase is principally attributable to increased public housing nominations by the States and the Northern Territory from their loan funds programs since 1985-86.

Included in 'other' interest revenue from the States and the Northern Territory are:

- interest on Commonwealth loans made to New South Wales, Victoria, Queensland and Western Australia under the *National Railways Network (Financial Assistance) Act 1979* for main-line railway upgrading;
- interest on advances to the States for sewerage and other projects under the *Urban and Regional Development (Financial Assistance) Act 1974*; and
- interest on advances for on-lending to primary producers under the *States Grants (Rural Reconstruction) Act 1971* and *States Grants (Rural Adjustment) Act 1976*.

ACT—Housing and Other

Revenue in 1987-88 is estimated at \$25m and includes payments of interest by mortgagors under the Commissioner for Housing Loan Scheme and the Commonwealth of Australia Mortgage Vendor Finance Scheme. The decrease mainly reflects a reduced number of outstanding loans to be discharged.

Defence Service Homes

Interest on any capital advanced to the Defence Service Homes Corporation (DSHC) or rolled over during a year is payable at the current long-term bond rate. Interest on outstanding capital is payable at the rate applying at the date it was advanced or rolled over.

The estimated increase of \$2m in interest revenue from the DSHC is mainly attributable to the rollover of \$107m at higher interest rates.

An interest rate subsidy covers the difference between the interest payable to the Commonwealth on the Corporation's capital and the interest charged to borrowers on loans provided by the Corporation. The interest rate subsidy, estimated at \$98m for 1987-88, is offset against gross interest payments by the Corporation of \$175m to produce the net \$77m shown in the table.

As part of the Government's decision on the future of the Defence Service Homes Scheme, the present portfolio of DSHC mortgages is to be sold to the private sector in 1988-89 (see 5. *Housing and Community Amenities* function in Statement No. 3).

Non-Budget Authorities

The fall in total interest revenue from both the Australian Telecommunications Commission (Telecom) and the Australian Postal Commission (Australia Post) in 1987-88 reflects, in part, capital repayments by both Commissions in 1986-87 of \$98m and \$3m respectively. This effect was partially offset by the conversion on 1 July 1987 of a further one-tenth of the respective amounts of outstanding pre-1975 capital vested in each of Telecom and Australia Post from 13.2% to 14.425% and 14.725% respectively. The new rates reflect the estimated rates of interest which these authorities would have had to pay for a borrowing from the capital market on 1 January 1987, including the effect on rates of the Government's decision to impose an ongoing charge on all borrowings by Commonwealth business enterprises that are explicitly or implicitly Commonwealth guaranteed. Also offsetting the impact of the capital repayment was a rollover of a loan of \$103m to Telecom in February 1987 involving an increase in the interest rate from 10.4% to 14.65% reflecting the equivalent market rates at the time.

The estimated \$2m decrease in interest receipts from the Pipeline Authority results from a reduction in the total outstanding balance of loans from the Commonwealth. This reduction is due to repayments made during 1986-87 and a better than anticipated trading performance during 1986-87 resulting in the Authority not requiring any new advances during that year.

Public Financial Enterprises

The reduction of \$3m under this category mainly reflects the full repayment of all outstanding deposits to the Commonwealth in 1986-87 by the Primary Industry Bank of Australia. As a result there will be no further interest payment due from this source. In addition, the Commonwealth's shareholding in the Bank has now been sold.

Other Interest

The increase of \$57m under this category reflects mainly increases in the following items:

- the higher average level of cash balances (up \$49m) estimated to be maintained with the Reserve Bank of Australia throughout 1987-88, although the pattern underlying that average is of a high starting level early in the year with a run-down of balances over the course of the year; and
- interest on capital from the Transport and Storage Trust Account has increased by \$14m as a result of measures, to take effect on 1 October 1987, to place the Department of Administrative Services' transport and storage operation on a more commercial basis. Interest will be paid on all fixed capital employed in the operation. In 1986-87, interest was paid on appropriated working capital only.

RENT, DIVIDENDS AND ROYALTIES

Non-Budget Authorities

The Overseas Telecommunications Commission (OTC) is required to pay a single final dividend to the Commonwealth out of the operating profits that it earns

each year, based on a percentage of the total shareholder funds in OTC as at the beginning of its income year (ie 1 April). The percentage for 1987-88 remains at 15% and the estimated dividend payable in 1987-88 is \$46m, a \$6m increase on 1986-87.

Dividend payments to the Commonwealth by Qantas are expected to be \$25m in 1987-88. This amount includes an interim dividend of \$5m expected to be paid in December 1987.

The Australian National Airlines Commission (Australian Airlines) will resume dividend payments to the Commonwealth with a \$13m dividend in respect of profits earned in 1986-87. The previous dividend payment from Australian Airlines was \$2m in 1981-82.

The Australian Shipping Commission (ANL) is expected to pay a dividend of \$7m in 1987-88 in respect of profits earned in 1986-87, \$2m more than was paid in 1986-87 on profits earned in 1985-86.

Public Financial Enterprises

Total payments from the Reserve Bank to the Commonwealth in 1987-88 are estimated at \$2659m, an increase of \$58m on 1986-87.

The *Reserve Bank Act 1959* requires the Reserve Bank to pay its net earnings, after provisions for contingencies and appropriations to reserves, to the Commonwealth. The 1987-88 payment includes \$1493m from Central Banking Business (CBB) profits in 1986-87, \$107m as a final payment from the 1986-87 profits of the Note Issue Department and an estimated interim payment in June 1988 of \$1000m from the Bank's expected 1987-88 profits.

In 1986-87 net earnings of CBB were \$2283m, compared with net earnings of \$1671m in 1985-86. In the main, the increase reflected higher gains from sales of foreign currency. These were associated with supplying part of the Government's foreign currency requirements and with the Bank's other operations in the foreign exchange market. The balance of CBB earnings was mainly attributable to interest received on holdings of domestic and foreign securities. A transfer to RBA reserves of \$762m was made from the CBB's 1986-87 operating earnings to provide against possible future losses from fluctuations in exchange rates.

1987-88 payments by the Bank to the Commonwealth will also include \$60m from the Rural Credits Department's (RCD) capital and reserves. This was part of the \$120m determined by the Board of the Bank to be surplus to RCD requirements; the remaining \$60m was credited to the Reserve Bank Reserve Fund.

Total payments from the member banks of the Commonwealth Banking Corporation are estimated at \$68m in 1987-88.

Dividends from net profits in 1986-87 of the Commonwealth Bank of Australia and its subsidiary, the Commonwealth Savings Bank, are expected to be \$61m in 1987-88, compared with \$100m in 1985-86. The decrease of \$39m reflects a lower proportion of the Banks' earnings being paid to the Commonwealth, compared with

the previous year, and a lower profit outcome for the Banks in 1986-87. The lower earnings arise from a combination of greater competition in the corporate lending market and a difficult trading year in savings bank activities.

It is also proposed that the *Commonwealth Banks Act 1959* be amended to provide for payments to the Commonwealth from the profits of the Commonwealth Development Bank. This is expected to result in additional revenue to the Commonwealth of \$7m in 1987-88.

Payments from the Housing Loans Insurance Corporation are expected to decline from \$12m in 1986-87 to \$1m in 1987-88. In 1986-87 a once-only payment of \$10m was made from the Corporation's general reserve to consolidated revenue. As well, dividend payments by the Corporation in 1987-88 are expected to decline, as a result of difficult trading conditions, from those made in 1986-87.

AIDC dividend payments are estimated to increase to \$10m, following an increase in after-tax trading profits. The dividend rate of 50% of net profit is fixed by statute.

Other Rent, Dividends and Royalties

Estimated revenue from petroleum royalties includes the Commonwealth's share of resource rent royalty paid in respect of oil production from Barrow Island, as well as offshore petroleum royalties. After deducting the Commonwealth's share of royalties (around one third) relating to Bass Strait and North West Shelf production, the balance is passed on to the relevant State. In addition, the Commonwealth will pay to Western Australia an agreed portion of its share of royalty from the North West Shelf Project. The estimated increase in petroleum royalties of \$10m in 1987-88 mainly reflects the impact of higher world crude oil prices.

Payments from the Royal Australian Mint relate to seignorage on circulating coin production and profits from the production of numismatic coins. The expected very sharp increase in payments in 1987-88 of \$205m (from \$7m in 1986-87) reflects mainly the revenue expected from the proposed introduction of the \$2 coin in the first half of 1988 and expected increases in seignorage and profits from circulating and numismatic coinage to commemorate Australia's Bicentenary.

APPENDIX: PETROLEUM TAXATION AND RELATED ARRANGEMENTS

This Appendix describes the taxation arrangements applying to crude oil, Liquefied Petroleum Gas (LPG) and other petroleum, including the major changes to crude oil excise and marketing arrangements announced in June 1987.

1. OVERVIEW OF PETROLEUM TAXATION

Various taxation arrangements apply specifically to the petroleum industry. They can be divided into *two* stages: taxation of crude petroleum production and taxation of petroleum products.

- **Crude petroleum taxation:** The Commonwealth imposes excises on the production of crude oil and LPG, and is introducing a resource rent tax on offshore production of petroleum. The States impose royalties on onshore production and share, with the Commonwealth, offshore royalties and onshore rent royalties levied on petroleum production. These taxes on production can be seen as a means by which the community obtains a return from the exploitation of the nation's scarce natural resources. To the extent that crude oil and gas prices are set by world market conditions or parity prices prevail, these taxes do not add to the prices to consumers but reduce the returns to producers. Some States also impose a levy on sales of natural gas.
- **Petroleum product taxation:** These taxes are levied after the refinery process on domestic and imported products. The Commonwealth collects the product excises from petroleum distributors when petroleum products leave bonded storage at their terminals. Most of the States levy, on petroleum wholesalers, franchise fees which are related to petroleum sales, and levy a fixed licence fee on petroleum retailers.

Table 1 and Chart 1 show that the revenue from crude oil excise and petroleum royalties has declined sharply since 1985-86, following the sharp fall in oil prices in February 1986.

Table 1: Commonwealth and State Revenues: Excises, Royalties and Franchise Fees

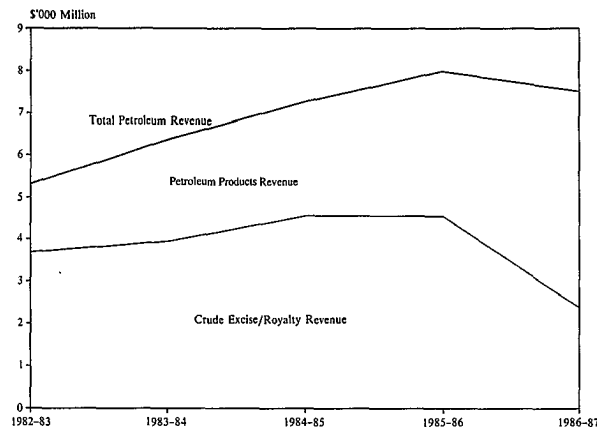
	1982-83	1983-84	1984-85	1985-86	1986-87
	\$m				
Commonwealth Crude Oil and LPG Excises	3486	3651	4202	4019	2062
Commonwealth Royalties and Resource Rent Royalties	68	85	97	169	103
State Royalties and Resource Rent Royalties (a)	132(b)	208(b)	244	352	212
Total Revenue from Crudes	3686	3944	4543	4540	2377
Commonwealth Product Excises	1293	1973	2207	2813	4666
State Franchise Fees (c)	334	432	508	553	473
Total Revenue from Products	1627	2405	2715	3366	5139
Total Revenue from Petroleum	5313	6349	7258	7906	7516

(a) Source: State budget documents and Auditors-General reports.

(b) Does not include the Northern Territory.

(c) Source: ABS, Taxation Revenue Australia, 1985-86, Catalogue No. 5506.

Chart 1: Commonwealth and State Petroleum Revenue



Although oil prices have since recovered from about US\$8 per barrel in mid-1986 to more than US\$18 per barrel in mid-1987, they are still well below the mid-1985 price of about US\$28 per barrel. The decline in crude oil excise revenue in 1986-87 has also been affected by reduced excise rates on 'old' oil, an extension of concessions on the coverage of crude oil excise and by lower crude oil production. The decline in revenue from crude oil excise and petroleum royalties was partially offset by increased revenue from product excises. A downward trend in crude oil excise is likely to continue as Bass Strait crude oil production declines in the years ahead.

2. RESOURCE RENT TAX—RESOURCE RENT ROYALTY

Resource rent tax (RRT) and resource rent royalty (RRR) arrangements apply respectively to offshore and onshore petroleum projects and, where applied, replace the excise and royalty. The RRT was introduced by the Commonwealth to apply with effect from 1 July 1984 to all new offshore petroleum projects other than those covered by production licences granted before then and other than the permit area from which those licences were drawn, while the RRR can be applied to onshore petroleum projects with the agreement of the relevant State. At present, the Jabiru field in the Timor Sea has been developed under RRT policy. An RRR agreement, which is based on the RRT model, was introduced by the Western Australian Government for Barrow Island, in agreement with the Commonwealth,

and replaces both the Commonwealth's crude oil excise and the State royalty, with revenues shared 25:75 between the State and the Commonwealth. Negotiations are proceeding to apply an RRR to the Mereenie field in the Northern Territory.

Unlike crude oil excises, the RRT and RRR are tied directly to the profitability of a project and are payable only when it exceeds a threshold level (see below). Taxes in this form aim to avoid discouraging exploration and development while providing the community with a fair proportion of the potentially high returns from the exploitation of such scarce and non-renewable resources. In contrast, production based taxes, such as the crude oil excise, are not automatically responsive to the profitability of projects.

Broadly, the RRT is to be levied on a project basis at a rate of 40% on all income from petroleum defined to allow both current and capital expenditures (including eligible exploration expenditure within the original exploration permit area from which the project's production licences are drawn) to be written off in the year in which they are paid, and to exclude payments and receipts relating to the provision of debt and equity capital. Any excess of deductible expenditures over receipts from petroleum will be compounded forward at a 'threshold' rate set at the long term bond rate plus 15 percentage points (except in respect of exploration expenditure, made more than 5 years before the granting of the first production licence, which is to attract compounding at a rate equal to the increase in the GDP deflator). RRT payments will be deductible for company tax purposes.

3. CASH BIDDING

The Government's cash bidding system for the granting of petroleum exploration permits also provides a return to the community for access to petroleum resources. Under this system, which began in November 1985, permits are awarded to the highest bidder, provided certain financial and technical criteria are satisfied. In March 1986, the results of the bidding round for the Timor Sea region were announced. The successful bids for this region totalled about \$32m.

4. CRUDE OIL EXCISE ARRANGEMENTS

On 4 June 1987 the then Minister for Resources and Energy announced changes to the crude oil excise arrangements to apply from 1 July 1987. The main changes to the excise arrangements were as follows:

- the maximum rate of excise on 'old' oil is reduced to 79% from the 1986-87 concessional rate of 80% (previously 87%). It will be reduced further over the next two years to 77% in 1988-89 and to 75% in 1989-90 and thereafter. If the price of crude oil rises above \$A32.50 per barrel (indexed by the Consumer Price Index (CPI)) the top marginal excise rate (TMER) for 'old' oil will be adjusted upwards to a limit of 80% according to a formula;

i. The formula is:

$$\text{adjusted TMER} = \text{TMER} + 0.15 \frac{(P - 32.50 \text{ indexed})}{P}$$

where TMER is the prevailing top marginal excise rate expressed in decimals and P is the crude oil price. 'Old' oil is that discovered before 18 September 1975.

- for new offshore projects, ie those that commenced production after 1 July 1987, in Bass Strait and on the North West Shelf, the first 30 million barrels of crude oil production from the relevant petroleum accumulations are exempt from crude oil excise, excluding production that would otherwise have been captured by prior developments;
- for onshore fields, the first 30 million barrels of crude oil production are exempt from excise;
- LPG produced onshore is exempt from excise; and
- condensate marketed separately from crude oil is exempt from excise.

As a result of these changes it is expected that production of Bass Strait crude oil will average 389 thousand barrels per day (kbd) in 1987-88. In response to these concessions the Bass Strait producers have indicated they will, amongst other things:

- restart Kingfish A production and produce from Flounder at maximum rates, as soon as practicable, and proceed with projects to enhance the rate of production in certain Bass Strait fields, involving expenditure of about \$300m;
- undertake new developments in Bass Strait involving expenditure of \$400-600m and also reassess the Tuna B development which, if implemented, could entail expenditure of \$800m; and
- increase their exploration activities in several areas within Australia, with expenditure of up to \$600m providing crude oil prices remain above \$US15 per barrel.

Table 2 sets out excise rates applying to 'old', 'intermediate' and 'new' oil in 1987-88. Currently, 'old' oil accounts for about 76% of total Bass Strait production, and of that some 70% is levied at the maximum excise rate.

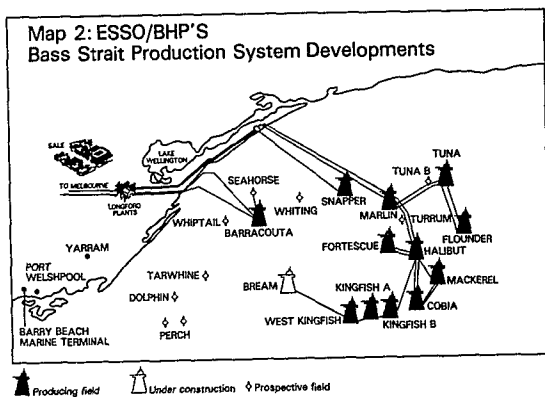
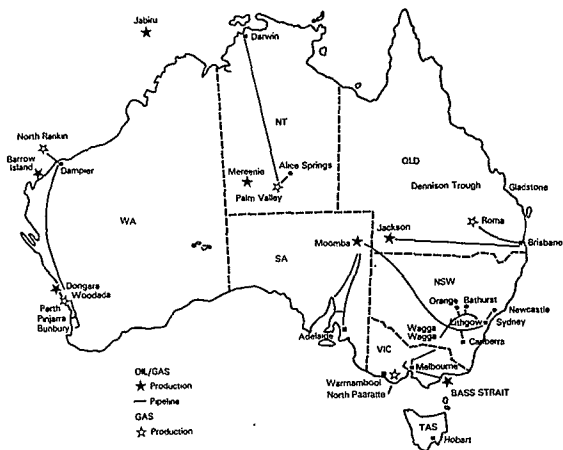
Table 2: Excise Rates on Crude Oil Production

Annual Production Range	Average Daily Production Rate (d)	Excise Rates (% of Bass Strait Import Parity Price)									
		'Old' Oil (a)		'Intermediate' Oil (b)		'New' Oil (c)					
		Marginal	Average (e)	Marginal	Average (e)	Marginal	Average (e)				
Megalitres	kbd										
0-50	0-0.87	. . .	0	0	0	0	0	0	0	0	0
50-100	0.87-1.72	. . .	5	2.50	0	0	0	0	0	0	0
100-200	1.72-3.44	. . .	15	8.75	0	0	0	0	0	0	0
200-300	3.44-5.17	. . .	20	12.50	0	0	0	0	0	0	0
300-400	5.17-6.90	. . .	40	19.38	15	3.75	0	0	0	0	0
400-500	6.90-8.62	. . .	70	29.50	30	9.00	0	0	0	0	0
500-600	8.62-10.35	. . .	79	37.75	50	15.83	10	1.67			
600-700	10.35-12.07	. . .	79	43.64	55	21.43	20	4.29			
700-800	12.07-13.79	. . .	79	48.08	55	25.63	30	7.50			
800+	13.79+	. . .	79	n.a.	55	n.a.	35	n.a.			

- (a) 'Old' oil areas currently in production are: Halibut, Kingfish A and B, Barracouta, Mackerel, South Mackerel, West Kingfish, Cobia, Marlin, Snapper, Tuna and Flounder.
 (b) Bream, Perch, Dolphin and Turrum will produce oil subject to the 'intermediate' excise scale.
 (c) 'New' oil areas include: West Kingfish, Fortescue, Snapper, Tuna and Flounder (all currently producing) and Whiting, Tarwhine, Seahorse and Whiptail (not yet producing).
 (d) The first 30 million barrels of crude oil from new projects in Bass Strait and on the North West Shelf which commenced production from 1 July 1987 will be exempt from excise. For a medium sized Bass Strait field producing say, 13 kbd of 'new' oil, excise would not be paid until about the sixth year of production, after which a top marginal rate of 30% would apply (average rate about 6%).
 (e) Average excise rates at the top of each production range.

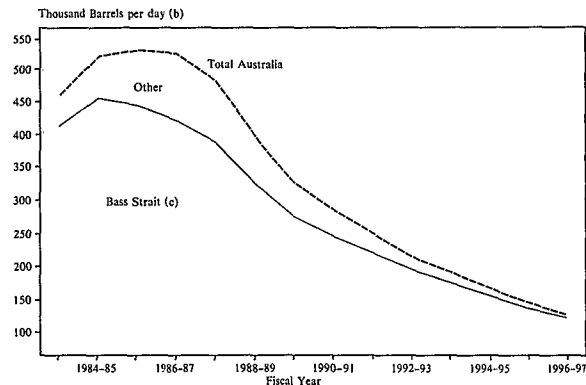
Maps 1 and 2, respectively, provide details of the major oil and gas production areas in Australia and Esso/BHP's current and prospective production areas in Bass Strait.

Map 1: Major Oil and Gas Production Areas in Australia



Australian crude oil production is expected to decline over the next decade (see chart 2) with the depletion of the main producing area, Bass Strait, which is currently about two-thirds depleted. Australian crude oil and condensate production reached a peak rate of nearly 547 kbd in 1985-86 but fell to an average rate of 542 kbd in 1986-87. Export volumes recovered from 87 kbd in 1985-86 to around 99 kbd in 1986-87. Crude oil import volumes have risen from an average of 107 kbd in 1985-86 to around 133 kbd in 1986-87. A further increase in traded volumes is expected with the introduction of a free market (see section 6 below).

Chart 2: Forecast Total Australian Crude Oil Production (a)



- (a) Production from currently known reserves based on advice from producers.
- (b) Rounded to nearest thousand.
- (c) As at June 1987 and includes comingled condensate.

5. CRUDE OIL ALLOCATION SCHEME

The Crude Oil Allocation Scheme was introduced in 1965 with the objective of guaranteeing a market for domestically produced crude oil through its allocation to domestic refiners. The scheme has been modified several times since, especially in recent years, and now permits sales to be made outside the allocation process ('free market' sales), including for export. These free market sales are transacted at market determined prices rather than at the import parity price.

Since 1978, all allocated domestically produced crude oil has been sold at an import parity price (IPP) set by the Government based on its assessment of the price which refiners would be required to pay to import a similar quality crude oil. Since 1 March 1986, the import parity price for Australian crude has been based on an average of spot price movements for four Middle East crudes (as a proxy for changes in the price of Arab Light), together with allowances for the quality differences between indigenous crudes and Arab Light, international and domestic

freight rates, wharfage, insurance and an average of recent \$US/\$A exchange rates. Table 3 shows the import parity price for Bass Strait crude oil and marker crude oil prices since July 1983.

Table 3: Import Parity Price for Bass Strait Crude Oil and Marker Crude Oil Prices

	Marker Crude (a)	IPP (b)
	(\$US/barrel fob)	(\$A/barrel Westerntport)
1 July 1983	29.00	36.53
1 January 1984	29.00	34.68
1 July 1984	29.00	35.36
1 January 1985	29.00	36.78
1 March 1985	28.00	38.44
1 May 1985	28.00	44.97
1 July 1985 (c)	27.32	44.50
1 September 1985	27.62	42.25
1 January 1986 (d)	27.67	43.71
1 March 1986 (e)	16.77	27.09
1 April 1986	12.55	20.59
1 May 1986	11.36	18.90
1 June 1986	12.45	20.04
1 July 1986	11.09	18.73
1 August 1986	8.07	15.75
1 September 1986	12.93	24.79
1 October 1986	13.70	24.94
1 January 1987	15.14	26.05
1 February 1987	18.11	30.34
1 March 1987	17.57	29.37
1 May 1987	17.87	27.82
1 July 1987	18.03	27.89
1 August 1987	18.68	29.00

(a) Based on fob price of the Saudi Arabian crude at Ras Tanura, Arab Light, until 1 March 1986. The official price for Arab Light was used until 1 May 1985.

(b) Prices (and excise rates) are set in dollars per kilolitre but, for purposes of comparison, are converted to dollars per barrel.

(c) From 1 July 1985, calculated as a 50:50 weighted average of the official and spot prices calculated as the average of the mid-points for buying and selling reported in *Platt's Oilgram Price Report* over the latest available two weekly period in the month preceding the date of effect of the new IPP.

(d) From 1 January 1986, the price of Arab Light crude oil was calculated on a 20:80 weighted average of the official and spot prices with spot prices calculated as in footnote (c).

(e) From 1 March 1986, a proxy for Arab Light consisting of a basket of four crudes has been used. The average spot prices for the four crudes were sourced from *Platt's Oilgram Price Report* for each crude, normally over the latest available two week period in the month preceding the date of effect of the IPP.

6. NEW MARKETING ARRANGEMENTS

On 21 June 1987, the then Minister for Resources and Energy announced new marketing arrangements for crude oil to apply from 1 January 1988. Refiners and crude oil producers will be permitted to negotiate freely the quantities and prices of crude oil they buy and sell, without Government involvement. The deregulation decision was made on the basis of assurances from oil refiners that they will continue to lift the output of the very small oil producers (producing up to 5 kbd) in a timely manner and at fair market-related prices. Oil refiners also gave assurances that there will be no closures of refineries as a result of deregulation and they will be maintaining their existing arrangements for Australian flag shipping.

The new marketing arrangements require a change in the basis for calculating crude oil excises. Previously, the IPP was used for sales under domestic allocation arrangements, while excise on exports has been calculated on realised prices. A system based on realised prices will be used for all crude oil excise calculations from 1 January 1988.

7. PETROLEUM PRODUCT EXCISES

Petroleum product excises have provided an increasing share of total Commonwealth revenue from taxes specific to petroleum, accounting for some 68% in 1986-87. Changes in the rates for motor spirit (petrol) and automotive distillate (diesel) since 1983 are set out in Table 4.

Table 4: Excise Rates for Petrol and Diesel from 1 July 1983

		Cents per litre					
1983-84	1 Jul	22 Aug	2 Feb				
		7.155	9.027	9.397			
1984-85	2 Feb						
			9.641				
1985-86	2 Aug	4 Feb	15 Mar	17 Apr	17 May	14 Jun	
		10.007	10.437	15.766	18.368	19.200	18.622
1986-87	18 Jul	1 Aug	16 Aug	19 Aug	13 Sep	16 Oct	19.706
		19.240	20.010	20.884	23.884	20.185	
			17 Jan	4 Feb	14 Mar	16 May	
			19.655	20.756	18.720	19.150	19.840
1987-88	18 Jul	15 Aug					
		19.808	20.097				

Since August 1983, the excise rates have been indexed each six months based on movements in the CPI. On 13 March 1987, the Prime Minister pledged that the Government will restrict the increase in excises which would otherwise have occurred at the next two half-yearly indexation adjustments to a total of around 6%. At the first of those adjustments in August 1987, excise rates were increased by 3.5%, the same as the CPI rise in the March and June quarters of 1987; the February 1988 adjustment will be such as to limit the combined adjustment to around 6%.

Since April 1986, the revenue effects of changes in crude oil excise and royalty due to adjustments in import parity prices (but not other factors) have been offset by discretionary changes in the excise rates on petroleum products.

8. PETROLEUM PRODUCTS PRICING AND FREIGHT SUBSIDIES

The Prices Surveillance Authority (PSA) endorses maximum wholesale prices for petrol, distillate, aviation fuels and refinery produced LPG. For products other than LPG the PSA sets a uniform maximum base price at refinery capital cities, to which State government franchise fees and any premia for State low lead requirements are added. The PSA also sets freight differentials which represent the cost of moving product to country areas, and buyer category differentials for sales made by oil companies to certain categories of purchasers.

Table 5 shows the PSA endorsed maximum wholesale base prices of super grade petrol for the capital cities since August 1984, when the present approach to pricing commenced, and the capital city differential applicable as at 1 June 1987.

Table 5: Endorsed Maximum Base Price of Super Grade Petrol

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
1984-85	42.42	42.42	42.65	42.65	42.65	42.65	42.65	42.65	43.78	45.59	49.74	49.91
1985-86	49.91	49.74	48.11	48.11	48.11	48.11	48.11	49.59	49.59	43.82	42.82	42.82
1986-87	43.16	43.93	46.93	49.05	49.29	49.67	49.67	50.07	50.17	49.90	49.90	49.65

Maximum Wholesale Price Differentials: June 1987

	Sydney	Melbourne	Perth	Adelaide	Hobart	Brisbane	Darwin	Canberra
Franchise Fees	5.53	4.26	4.52	2.31	7.52	—	—	—
Low Island Freight	0.20	0.41	—	0.31	0.11(e)	—	—	1.50
Freight Differential	3.73	4.67	4.52	2.82	7.70	—	—	1.50
Total Differential								

(a) The endorsed maximum wholesale price in June 1987 thus ranged from 49.65 cents a litre in Darwin and Brisbane to 57.35 cents per litre in Hobart.

Freight differentials for motor spirit, automotive distillate and aviation fuels are calculated for about 4000 country locations recognised by the Australian Customs Service as retail sites, remote locations or safe anchorages for the purposes of the Petroleum Products Freight Subsidy Scheme. The freight differentials calculated by the PSA are used in the determination of subsidies under that scheme. The scheme provides a subsidy on freight costs for these fuels, above a set margin (from 22 September 1987 of 10.2 cents per litre) which is indexed to the CPI. The cost of the Petroleum Products Freight Subsidy Scheme in 1986-87 was \$16m.

9. LPG PRICING AND EXCISE

The Commonwealth also sets wholesale prices for both naturally occurring and refinery produced LPG for automotive and traditional industrial, residential and commercial uses. Prices for exports, petrochemical and other uses are determined on the basis of negotiations with the producers. New price setting arrangements were introduced on 1 November 1986 to apply until 30 September 1988. Under the new arrangements an administered wholesale price is determined on 1 April and 1 October each year at \$20 a tonne above the average export price of Bass Strait propane for the six month period to end-February and end-August respectively.

Excise is not payable on naturally occurring LPG produced from fields which first commenced production after 16 August 1977 and from pools discovered after 17 August 1976. The excise rate is determined on 1 April and 1 October each year, based on negotiated prices and quantity weights over the same six month period as for the pricing arrangements, and the administered wholesale price determined for the next six month period. The formula for the excise rate is 60% of the excess of the weighted average of domestic and export prices over \$147 per tonne.

The administered wholesale prices, export parity prices and excise rates for naturally occurring LPG from July 1984 to September 1987 are shown in Table 6.

Table 6: LPG Prices and Excise Rates

Date	Administered Wholesale Price (a)	Average Export Price (b)	Excise Rate (c)
From:	per tonne \$	per tonne \$	per tonne \$
1.7.84	244.75	260.80	68.61
1.10.84	240.59	283.52	64.66
1.4.85	253.34	310.90	68.29
1.10.85	262.21	307.36	94.13
1.4.86	269.55	173.41	95.04
1.10.86	267.41	162.96	35.81
1.11.86	214.18	168.58	28.28
1.4.87 to 30.9.87	184.02	180.74(d)	9.84

(a) Administered wholesale prices for Bass Strait propane at Long Island Point.

(b) Average for period.

(c) Approximate dollars per tonne conversion of excise rates, which are set in dollars per kilolitre.

(d) For period to end-June 1987.

STATEMENT No. 5—BUDGET OUTCOME 1986-87

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Introduction

This Statement compares the 1986-87 Budget outcome with the 1986-87 Budget estimates, and comments on the reasons for major variations. Details on the financing of the Commonwealth budget deficit in 1986-87 and analysis of the implications for domestic liquidity and for holdings of Commonwealth Government Securities are described later in this Statement. Appendix 3 to this Statement provides detailed information on fringe benefits taxation revenue collected in 1986-87.

Summary

The aggregate budget outcome for 1986-87 was as follows:

Table 1: Budget Outcome

	1985-86		1986-87		Change in 1986-87	
	Actual	Budget Estimate	Actual	Over 1985-86 Actual	Over 1986-87 Budget Estimate	Actual
	\$m	\$m	\$m	%	\$m	%
Outlays	69 918	74 765	74 899	7.1	134	0.2
Revenue	64 193	71 262	72 184	12.4	922	1.3
Deficit	5 726	3 503	2 716		-788	
Overseas						
Deficit	3 587	4 308	3 936		-372	
Domestic						
Deficit (+)/Surplus(-)	2 138	-805	-1 220		-416	

NOTE: The outlays and revenue outcomes for 1986-87 differ slightly from those shown in the Statement of Commonwealth Financial Transactions issued on 31 July 1987 due to classification changes introduced in the 1987-88 Budget. Details of these changes are provided in Statement No. 8 of Budget Paper No 1.

The most notable feature of the 1986-87 outcome was a deficit significantly lower than budgeted. This was mainly the result of strong growth in income tax revenue, largely in the other individuals category. Outlays growth was only slightly stronger than budgeted, with a disproportionate contribution in this direction coming from public debt interest. A tabular comparison of budget estimates and outcomes for the past 10 years is provided in Appendix 1.

The domestic and overseas components of the deficit outcome are shown in the table above. Further details on the main components of the overseas budget deficit, on a quarterly basis, are provided in Appendix 2.

The table on the next page shows the budget aggregates as percentages of GDP for the past three years.

Table 2: Budget Aggregates as Percentages of GDP

	1984-85	1985-86	1986-87
	%	%	%
Outlays	29.7	29.1	28.3
Revenue			
- Tax	24.4	24.3	24.8
- Non-tax	2.1	2.4	2.5
- Total	26.5	26.7	27.3
Deficit	3.1	2.4	1.0

Budget Outlays by Function

Aggregate outlays in 1986-87, at \$74 899m, were 7.1% higher than in the previous year and 0.2% above the budget estimate. Outlays were 28.3% of GDP in 1986-87, some 0.8 percentage points lower than 1985-86 and the lowest ratio since 1981-82. In real terms, outlays declined by 0.8%, the first such decline since 1979-80.

Table 3 compares budget outcomes for 1986-87 with those for 1985-86 and also with the 1986-87 Budget estimates on a functional basis. Table 4 provides a more detailed reconciliation between 1986-87 Budget estimates and outcomes. In categorising variations between the estimates and outcomes, Table 4 identifies the responses to influences such as changes in economic and program activity. It also demonstrates the Government's effort to contain a potential outlays overrun, identified early in the financial year, by restricting additional outlays to essential and unavoidable new policy whilst quarantining fortuitous savings and achieving additional savings through cuts, particularly in *Defence* and *Administrative Services* outlays.

Budget estimates are generally based on forecasts of economic conditions and client numbers and some departures from forecasts usually occur. In terms of economic parameters, higher than assumed interest rates through the year contributed some \$220m towards a public debt interest overrun, whilst a higher than expected CPI movement saw payments to the States and the Northern Territory overrun by \$103m. However, a strengthened exchange rate saved \$118m in *Defence* which was offset to the extent of \$68m by other parameter revisions (giving a net reduction of \$50m). Significant variations due to program parameter changes, relative to budget time assumptions, brought about underspend of \$139m and \$66m in unemployment benefits and age pensions respectively.

In net terms, post-budget Government decisions resulted in savings of some \$2m, a significant achievement considering the inevitability of continuing pressures for new policy outlays. The largest savings decision was a cut in the real allocation for *Defence* saving \$68m. New policy decisions added \$89m in total.

Slippage of budgeted measures resulted in two largely offsetting effects on outlays. A delay in the transfer of some of the activities of the *Defence* Service Homes Corporation to the private sector added \$36m to outlays, and cessation of work on the Australia Card reduced outlays by \$34m.

Detailed explanations of the variations in each of these categories and of those in the 'Other' category in Table 4 (which includes, inter alia, variations due to delays and deferrals in expenditure on civil works and equipment purchases estimated at some \$45m) are contained in the following functional explanations.

Table 3: 1986-87 Budget Outlays by Function

	1985-86		1986-87		Change in 1986-87 Actual	
	Budget Estimate (a)		Over 1985-86 Actual		Over 1986-87 Budget Estimate	
	\$m	\$m	\$m	%	\$m	%
1. Defence	6 673	7 415	7 209	8.0	-207	-2.8
2. Education	4 915	5 204	5 216	6.1	11	0.2
3. Health	6 870	7 329	7 499	9.2	170	2.3
4. Social Security and Welfare	19 144	20 709	20 533	7.3	-175	-0.8
5. Housing and Community Amenities (nec)	1 474	1 631	1 673	13.5	42	2.6
6. Culture and Recreation	905	956	949	4.8	-8	-0.8
7. Economic Services						
A. Transport and Communication	1 795	1 703	1 669	-7.0	-33	-2.0
B. Industry Assistance and Development	1 425	1 246	1 180	-17.2	-66	-5.3
C. Labour and Employment	1 041	1 085	1 031	-1.0	-54	-5.0
D. Other Economic Services	227	233	267	17.6	33	14.3
Total Economic Services	4 487	4 267	4 147	-7.6	-121	-2.8
8. General Public Services						
A. Legislative Services	348	478	474	36.4	-3	-0.7
B. Law, Order and Public Safety	472	523	520	10.2	-3	-0.6
C. Foreign Affairs and Overseas Aid	1 325	1 306	1 302	-1.8	-4	-0.3
D. General and Scientific Research	486	519	521	7.3	2	0.4
E. Administrative Services	2 178	2 459	2 496	14.6	38	1.5
Total General Public Services	4 809	5 285	5 314	10.5	29	0.6
9. Not Allocated to Function						
A. Assistance to Other Governments (nec)	13 587	14 328	14 437	6.3	108	0.8
B. Public Debt Interest	7 055	7 515	7 923	12.3	408	5.4
C. Contingency Reserve	(b)	125	(b)	—	-125	-100.0
Total Not Allocated to Function	20 642	21 969	22 360	8.3	391	1.8
TOTAL OUTLAYS	69 918	74 765	74 899	7.1	134	0.2

(a) The 1986-87 estimates differ from those published in the 1986-87 Budget papers due to classification changes introduced in the 1987-88 Budget.

(b) Actual requirements have been allocated to the relevant functions.

Table 4: Reconciliation of 1986-87 Actual Outcome with Budget Estimates

	Parameter Changes (a)	Post-Budget Decisions		Slippage of Budgeted Measures	Other	Total
		New Policy	Savings			
	\$m	\$m	\$m	\$m	\$m	\$m
1. Defence	-50	—	-68	—	-89	-207
2. Education	16	2	—	—	-7	11
3. Health	26	18	-16	6	137	170
4. Social Security and Welfare	-175	5	-2	3	-6	-175
5. Housing and Community Amenities (nec)	-11	1	—	36	16	42
6. Culture and Recreation	1	1	—	—	-11	-8
7. Economic Services						
A. Transport and Communication	3	2	—	—	-38	-33
B. Industry Assistance and Development	3	6	—	—	-75	-66
C. Labour and Employment	-45	—	—	—	-9	-54
D. Other Economic Services	8	23	—	—	3	33
Total Economic Services	-32	31	—	—	-120	-121
8. General Public Services						
A. Legislative Services . . . . .	..	—	—	—	-3	-3
B. Law, Order and Public Safety	1	2	—	—	-6	-3
C. Foreign Affairs and Overseas Aid	-7	20	—	—	-17	-4
D. General and Scientific Research	—	—	—	—	2	2
E. Administrative Services . . . . .	..	9	-5	-53	86	38
Total General Public Services	-6	31	-5	-53	62	29
9. Not Allocated to Function						
A. Assistance to Other Governments (nec)	103	—	—	—	6	108
B. Public Debt Interest	388	—	—	—	20	408
C. Contingency Reserve	-57	—	—	—	-68	-125
Total Not Allocated to Function	434	—	—	—	-42	391
TOTAL OUTLAYS	203	89	-91	-8	-59	134

(a) Includes economy-wide and program-specific parameters.

Defence (down \$207m or 2.8%)

Lower than estimated outlays can be attributed substantially to a combination of the post-budget decision to reduce the real allocation for defence, savings to offset a shortfall in receipts from the sale of certain surplus defence materiel and equipment recorded under the *Administrative Services* function, and favourable movements in the exchange rate. Consequently, there were significant savings on equipment payments (\$129m) on a range of projects, such as the purchase of Seahawk helicopters, the F/A-18 fighters and the Australian Frigate Project. In addition, a \$59m reduction in *Defence* administrative outlays reflects, in large part, the lower than expected FBT payments—the reduction on this account is matched by a corresponding increase in outlays under the *Administrative Services* function (in respect of the Treasury portfolio), since FBT revenue from Government departments is recorded as an offset within outlays under that functional heading. Higher than expected workforce reductions at Government defence factories and dockyards contributed to a fall of \$19m in defence industrial capacity. Partly offsetting these savings was an overspend of \$8m emanating from price increases associated with payments made by a number of defence science and technology establishments, mainly on equipment and stores items (primarily computer equipment).

Education (up \$11m or 0.2%)

This increase on budget estimates is the net effect of higher than expected cost movements in recurrent and equipment expenditures impacting upon tertiary education grants (\$24m), particularly higher education (\$16m), and of a fall of \$16m in student assistance which mainly reflected fewer than estimated student claimants for benefits under AUSTUDY (introduced from 1 January 1987) and for the Isolated Children's Assistance Scheme.

Health (up \$170m or 2.3%)

A number of significant overspends occurred during 1986-87, notably in pharmaceutical benefits (\$76m), hospital services for veterans (\$42m), nursing home benefits (\$30m), nursing home assistance (\$25m) and home and community care (\$9m).

Higher than estimated outlays under the Pharmaceutical Benefits Scheme mainly stemmed from a reduction in processing times, increased volume of drug purchases by patients prior to the increased charges and delisting of items applying after 1 November 1986; and higher than expected average prices reflecting, inter alia, increased prescribing of expensive drugs including some newly listed items and drugs on which prescribing restrictions had been lifted. Higher bed day charges in public and private hospitals treating veterans (\$16m), the transfer of salaries expenditure to veterans' hospitals from the *Social Security and Welfare* function (\$19m), and the lower than expected receipts recovered from privately insured veterans treated in Repatriation General Hospitals (\$5m) were responsible for the overspend in the veterans' hospital program. Veterans' nursing care was up \$6m. The increase of \$30m in nursing home benefits reflects, inter alia, variations in the Nursing Home Award (\$9m) (applicable in NSW and Victoria), the partial lifting of the freeze imposed on non-government nursing homes in Victoria, SA and the NT from November 1986 (\$6m), nursing home fee levels increasing by larger amounts than estimated (\$6m) and the generally higher than expected occupancy levels nationwide (\$8m).

About half of the overspend on nursing home assistance can be attributed to increased nursing awards in NSW, Victoria and WA. Some provision had been made in the *Contingency Reserve* (see below) in anticipation of these award increases. The increase of \$9m in home and community care relates mainly to movements in nurses awards and the introduction of the NSW Home Care Award. This was partly offset by an underspend in the *Social Security and Welfare* function.

Offsetting the above increases in this function was the \$10m lower than budgeted advance to the Health Insurance Commission as a result of the change in the apportionment of administrative costs between Medicare and Medibank Private (\$6m) with the balance due to lower than expected volumes of Medicare claims processed and salary costs. There was also a \$10m decrease on the budget estimate for health program grants caused by the lower than expected number of private hospitals receiving Commonwealth temporary special assistance (following the abolition of the private hospital bed day subsidy) and a reduction of \$6m in veterans' pharmaceutical services (non-institutional care) following the transfer of war widows' and service pensioners to the pensioner category of the Pharmaceutical Benefits Scheme.

Social Security and Welfare (down \$175m or 0.8%)

Lower than estimated beneficiary numbers and average rates of payment for unemployment benefit recipients (\$139m) and age pensioners (\$66m), were the most significant contributions to the underspend in this function.

Other significant sources of underspends included lower service pension numbers (\$14m), lower beneficiary numbers on disability pensions and allowances (\$8m), a lower than estimated average rate of payment for widows' pensions and allowances (\$11m) and supporting parents' benefits (\$3m), lower than expected claims for telephone rental and postal concessions (\$6m) and underspends of \$20m on children's services programs, \$2m in handicapped child's allowance, and \$4m on home and community care.

Significant underspends were also recorded in general administration outlays in the Department of Social Security (\$12m) and Veterans' Affairs (\$20m), the latter largely due to the transfer of salaries expenditure to veterans' hospitals under the *Health* function (referred to earlier).

The higher than expected number of, and average rate of payment for, invalid pensioners (\$18m), sickness beneficiaries (\$19m) and recipients of special benefits (\$17m), the higher than expected number of recipients of supporting parents' benefits and allowances (\$7m), an overspend of \$16m on family allowances (largely due to revision of the savings associated with a 1985-86 initiative which removed eligibility for family allowances for 18-24 year olds) and a \$3m above-budgeted increase in the rehabilitation services program, partly offset the above underspends. The greater than expected cost of the June 1987 indexation for relevant pensions and benefits also partly offset the underspends.

Housing and Community Amenities (nec) (up \$42m or 2.6%)

The increase over the budget estimates principally arose out of the deferral of the transfer of the Defence Service Homes Corporation (DSHC) to the private sector (\$36m), necessitating an extended program of loans by the DSHC. Other factors were a fall in expected revenue from land sales in the ACT (\$14m), a reduction in the number of early discharges of defence service homes mortgages

(\$8m) and a \$3m increase in insurance claims under the DSH insurance program following a series of major storms in Sydney.

Offsetting reductions occurred in the First Home Owners Scheme (\$9m), reflecting fewer than estimated applications (marginally offset by the March 1987 government decision to increase the income limits), and the slower than expected progress in negotiating satisfactory agreements under the Rainforest Conservation Program, mainly with Queensland and Tasmania (\$6m).

Culture and Recreation (down \$8m or 0.8%)

Little net departure from estimates occurred in this function. A \$13m payment to the ABC, primarily for the purchase of the Samuel Taylor site by the ABC (\$7m of which was fully offset by receipts recorded in the *Administrative Services* function) and for its Management Initiated Redundancy Scheme, acted to increase outlays above budgeted estimates. Underspends of \$8m and \$5m within the War Memorial and the Commonwealth-State Bicentennial Commemorative Program respectively are expected to be made up in 1987-88 and future years.

Transport and Communication (down \$33m or 2.0%)

The main reason for the lower than estimated outlays was the \$27m underspend on air transport programs, attributable to contractual delays in the acquisition of equipment (\$11m), reductions in operational and administrative expenses (\$9m), works and transfers not proceeding at the initially assessed rate under the Aerodrome Local Ownership Plan (\$7m), and a larger than expected increase in revenue from airport rentals and business concessions (\$4m) offset by lower revenue from air navigation charges (\$5m). Other contributing factors included a saving of \$4m arising from the improved trading performance of The Pipeline Authority, enabling the Authority to avoid drawing an advance during the year and increase payments of advances outstanding, and \$3m saved on communication programs. Finally, an increase in roadworks in the ACT resulting from a faster rate of progress in roadworks associated with the new Parliament House (\$3m) was offset by the delayed purchase of buses for use in the ACT (\$4m).

Industry Assistance and Development (down \$66m or 5.3%)

Variations from budget estimates occurred in a number of programs under this function. The major items contributing to a reduction on estimates included: the \$27m proceeds from the winding up of the British Phosphate Commissioners (not foreseen at budget time); a \$9m prepayment to the Commonwealth by the South Australian Oil and Gas Corporation in respect of its prior purchase of petroleum interests in the Cooper Basin (SA); subsidy payments under the *Subsidy (Cultivation Machines and Equipment) Act 1986* reflecting lower levels of production of eligible equipment (\$12m); claims under the Australian Industrial Research and Development Incentives Scheme (\$8m); outlays under the National Energy Research, Development and Demonstration Program (\$8m); outlays under the Petroleum Products Freight Subsidy Scheme (\$8m) as a result of reviews of freight charges by the Prices Surveillance Authority and the impact of indexing the consumer paid margin to the CPI; and finally, outlays on the heavy engineering assistance programs introduced in the 1986-87 Budget (\$7m).

The above reductions from budget estimates were offset by higher than expected payments on textile yarn bounties (\$16m), fertiliser subsidies (\$9m), steel industry assistance (\$3m), and the Commonwealth's contribution to wool promotion (\$3m);

a \$2m payment to the Leighton/MTA Consortium and an unanticipated \$2m payment by the Commonwealth of a claim under the national interest provisions of the *Australian Trade Commission Act 1985*.

Labour and Employment (down \$54m or 5.0%)

An underspend of \$35m on training programs accounted for most of this fall, of which \$21m can be credited to the slower than expected rate of youth traineeship commencements and \$5m to the lower than budgeted levels of demand for labour adjustment training arrangements for workers retrenched from the motor vehicle and steel industries. The unexpectedly low take-up by retrenched, together with a lower than estimated expenditure on skills enhancement programs under the Heavy Engineering Adjustment Package contributed \$5m to the underspend total.

Other Economic Services (up \$33m or 14.3%)

The increase over the budget estimate was largely the result of a separate payment of \$17m to South Australia for water quality improvement projects. Other variations included the increased operating costs incurred by the NT Electricity Commission (\$8m) caused by world oil price increases, \$5m for accelerated construction activity levels at the Channel Island Power Station and the post-budget decision to provide an additional capital injection to the Snowy Mountains Engineering Corporation (\$6m).

Legislative Services (down \$3m or 0.7%)

The variation is mainly attributable to the combined effects of reduced staffing requirements and salaries payments for the Joint House Department and electorate office staff (\$2m), and reductions in expenditure on certain administrative items (\$7m) such as the deferred purchase of smallwares for the new Parliament House, reduced FBT liability, and the deferral of implementation of the electorate office automation program, partly offset by greater than expected progress on construction of the new Parliament House (\$5m).

Law, Order and Public Safety (down \$3m or 0.6%)

The small decrease is primarily attributable to a fall in the expected requirements by the States for legal aid (\$10m) offset by an increase in the running and associated costs resulting from a four month delay in the merger of the Australian Legal Aid Office (NSW) with the NSW Legal Aid Commission (\$7m).

Foreign Affairs and Overseas Aid (down \$4m or 0.3%)

The decrease for this function is the net result of a number of significant offsetting variations. The major increases included supplementation of the aid vote by \$16m (in the context of winding up the British Phosphate Commissioners) of which \$8m was designated as a contribution to the Tuvalu Trust Fund and \$7m was for the Solomon Islands post-cyclone reconstruction and the partial restoration of planned reductions in South Pacific aid and an additional \$4m expenditure on food aid following Government approval to adopt a 1:1 distribution between multilateral and bilateral food aid which was fully offset by reduced expenditure elsewhere in the global aid vote. There was a net fall of \$14m in the overseas property services program. Reductions arising from favourable exchange rate movements (\$5m), an over-estimate of rental and associated utilities requirements of overseas property (\$6m) and slow progress on the Australian embassy in Beijing (\$6m) were partly offset by lower revenue for services provided to Austrade.

General and Scientific Research (up \$2m or 0.4%)

The small increase is the net result of increased capital works by the CSIRO (\$4m) being partly offset by the deferral of capital works and services (\$2m) administered by the Australian Nuclear Science and Technology Organisation (formerly the AAEC).

Administrative Services (up \$38m or 1.5%)

The increase reflects a number of significant offsetting movements. The fall in FBT revenue payable by departments whose administrative expenditure is classified to other functions (particularly *Defence*—see earlier explanation) and budget sector authorities (\$70m) following post-budget amendments to legislation (in particular, the exemption of removal/relocation expenses); the large increase in the number of tax cases resolved by the AAT and the consequent interest incurred upon repayment (\$22m); *slippage in sales of some surplus defence materiel and equipment* (\$19m) (which was however offset by a reduction in *Defence* outlays); and the higher than expected number of lump sum superannuation payments (\$29m) on retrenchments, all contributed to the overspend.

Largely offsetting underspends resulted from the reduction of \$45m in domestic loan flotation expenses due to fewer new overseas borrowings at cheaper than expected rates; cessation of work on the Australia Card (\$34m); the decision of the AIDC not to take up an optional loan guarantee (\$3m); better than expected revenue associated with the sale of inner city rehabilitation centres (\$3m); and sale of other surplus Commonwealth property assets (\$9m).

Assistance to Other Governments (nec) (up \$108m or 0.8%)

Assistance to other governments was \$108m higher than budgeted, mainly as a result of increased financial assistance grants (\$89m) and identified health grants to the States (\$14m) caused by the actual increase in the CPI in the year to the March quarter 1987 being higher than expected at budget time. Natural disaster relief assistance was \$12m higher than budgeted, reflecting higher than expected claims, mainly in respect of the damage caused by cyclone Winifred in Queensland (February 1986) and by the August 1986 floods in the greater Sydney area. These increases were partially offset by a \$1m fall in the financial assistance grant to the NT resulting from its relative population growth rate being less than estimated at budget time and a reduction of \$5m in assistance to South West Tasmania, comprising a \$4m shortfall in claims for employment generation projects and a revision of the price index used to calculate the electricity subsidy.

Public Debt Interest (up \$408m or 5.4%)

Public debt interest payments were higher than the budget estimate, primarily because of larger than expected sales of Treasury Notes and higher than assumed Treasury Note yields (volume and yield effects having about equal weighting). Volume effects in part reflected the larger than expected budget deficit in the early part of the financial year. Slightly higher interest payments on overseas debt contributed marginally to the overrun.

Contingency Reserve

An allowance of \$125m was made in the budget for contingent salary and related increases in outlays. About half of this allowance was not required; the remainder was distributed across the relevant functions whenever increases were awarded. As a consequence, the function showed a decline of \$125m against budget estimates.

BUDGET OUTLAYS BY ECONOMIC TYPE

The following table summarises variations in the 1986-87 outcome from budget estimates on an economic type basis. Variations are discussed below.

Table 5: Budget Outlays by Economic Type

	1985-86		1986-87		Change in 1986-87 Actual	
	Actual	Budget Estimate	Actual	Over 1985-86 Actual	Over 1986-87 Budget Estimate	
	\$m	\$m	\$m	%	\$m	%
CURRENT OUTLAYS						
Current Outlays on Goods and Services—						
<i>Defence:</i>						
Salaries	2 523	2 623	2 610	3.4	-13	-0.5
Non-Salary	4 094	4 738	4 544	11.0	-194	-4.1
<i>Non-Defence:</i>						
Salaries	3 401	3 760	3 651	7.3	-109	-2.9
Non-Salary	2 652	2 931	2 900	9.3	-33	-1.1
Sub-Total	12 669	14 053	13 705	8.2	-349	-2.5
<i>Current Transfer Payments—</i>						
Interest	7 090	7 549	7 978	12.5	430	5.7
Subsidies	1 323	1 095	1 061	-19.8	-34	-3.1
Personal Benefit Payments	22 358	24 132	24 085	7.7	-47	-0.2
Grants to non-Profit Institutions	881	1 048	1 029	16.8	-19	-1.8
Transfers to non-Budget Sector	1 856	1 879	1 889	1.8	10	0.5
Grants to Other Governments	17 757	19 216	19 331	8.9	115	0.6
Transfers Overseas	806	769	783	-2.8	15	1.9
Other Transfers nec	—	—	—	—	—	—
Sub-Total	52 072	55 687	56 157	7.8	470	0.8
TOTAL CURRENT OUTLAYS	64 741	69 740	69 862	7.9	121	0.2
CAPITAL OUTLAYS						
Capital Outlays on Goods and Land						
<i>Capital Transfer Payments—</i>						
Transfers to the Commonwealth non-Budget Sector						
Grants to Other Governments	429	572	580	35.2	8	1.4
Grants to Other Sectors	3 247	3 227	3 249	0.1	22	0.7
Sub-Total	4 007	4 106	4 127	3.0	22	-0.5
<i>Advances Paid (net)—</i>						
Commonwealth non-Budget Sector						
Other Governments	-102	-125	-122	19.8	3	-2.6
Other Sectors	786	535	546	-30.5	11	2.1
Sub-Total	115	58	101	-12.4	43	75.1
Sub-Total	800	468	525	-34.3	58	12.3
TOTAL CAPITAL OUTLAYS	5 177	5 026	5 038	-2.7	13	0.3
TOTAL OUTLAYS	69 918	74 765	74 899	7.1	134	0.2

Current Outlays

The 0.2% increase in current outlays was the result of offsetting variations in current outlays on goods and services and current transfer payments. The under-expenditure of \$349m (2.5%) on current outlays on goods and services was mainly attributable to the delay in the effective date of the national wage case decision, lower than expected payments from the flow-on of nurses' award increases and lower than estimated payments on defence equipment purchases.

The above under-expenditure was more than offset by over-expenditure of \$470m (0.8%) in current transfer payments mainly reflecting the overrun in Public Debt Interest.

Capital Outlays

The 0.3% increase on budget estimates for capital outlays was largely the net result of offsetting variations in Capital Outlays on Goods and Land and in Net Advances Paid. The under-expenditure on goods and land mainly reflects the proceeds from the winding up of the British Phosphate Commissioners (see explanation under the *Industry Assistance and Development* function). A separate payment to South Australia for water quality improvement projects was mainly responsible for the over-expenditure on capital transfer payments (see explanation under the *Other Economic Services* function). The over-expenditure in Net Advances Paid mainly reflects the delay in the transfer of some of the activities of the Defence Service Homes Corporation to the private sector (see explanation under the *Housing and Community Amenities* function).

BUDGET REVENUE

Details of 1986-87 Budget revenue, compared with the budget estimates and collections in 1985-86, are provided in the table below.

Table 6: 1986-87 Budget Revenue

	1985-86		1986-87		Change in 1986-87 Actual	
	Actual	Budget Estimate	Actual	Over 1985-86 Actual	Over 1986-87 Budget Estimate	
	\$m	\$m	\$m	%	\$m	%
Taxation Revenue—						
Income Tax—						
Individuals—						
Gross PAYE (a)	27 575	30 245	30 657	11.2	412	1.4
Refunds (a)	2 385	2 430	2 520	5.7	90	3.7
Net PAYE	25 189	27 815	28 136	11.7	321	1.2
Other (b)	5 485	6 530	7 457	30.9	927	14.2
Medicare Levy (b)	1 335	1 645	1 715	28.5	70	4.3
Prescribed Payments System (c)	515	750	765	48.6	15	2.1
Total Individuals	32 734	36 740	38 074	16.3	1 334	3.6
Companies	6 111	7 025	6 714	9.9	-311	-4.4
Withholding Tax	562	700	639	13.8	-61	-8.7
Fringe Benefits Tax	n.a.	325	535	n.a.	210	64.7
Total Income Tax	39 408	44 790	45 962	16.6	1 172	2.6
Sales Tax	5 728	6 434	6 348	10.8	-86	-1.3
Excise Duty—						
Crude Oil and LPG	4 019	1 316	2 062	-48.7	746	56.7
Petroleum Products (d)	2 813	5 576	4 666	65.8	-910	-16.3
Other (d)	2 373	2 634	2 557	7.7	-77	-2.9
Customs Duty—						
Imports	3 282	3 276	3 237	-1.4	-39	-1.2
Coal Exports	57	60	52	-10.2	-8	-14.1
Bank Account Debits Tax	202	260	261	29.0	1	0.3
ACT Taxes and Charges	150	173	185	22.6	12	6.8
Other Taxes, Fees and Fines	366	366	357	-2.5	-9	-2.5
Total Taxation Revenue	58 399	64 885	65 685	12.5	800	1.2
Non-Tax Revenue						
Interest	3 446	3 503	3 560	3.3	57	1.6
Rent, Dividends and Royalties	2 347	2 872	2 934	25.0	62	2.2
Miscellaneous Revenue from Commonwealth Enterprises . . . . .	..	2	4	..	2	..
Total Non-Tax Revenue	5 793	6 377	6 498	12.2	121	1.9
TOTAL REVENUE	64 193	71 262	72 184	12.4	922	1.3

- (a) Excludes an estimated amount of Medicare levy, listed separately.
 (b) Medicare levy is not separately identified at the point of collection: these figures are therefore estimates.
 (c) Includes in 1986-87 an estimated \$50m collected from companies under the prescribed payments system. The equivalent figure in 1985-86 was \$28m.
 (d) Includes—as an offset—refunds/drawbacks of excise to eligible users. In the 1986-87 Budget documentation, refunds/drawbacks were categorised as an offset against 'other' excise only, notwithstanding a substantial petroleum products excise component. The new classification, whereby refunds/drawbacks are offset as appropriate against petroleum products and 'other' excise, has been carried through to the '1985-86 actual' and '1986-87 Budget estimate' figures.

Aggregate revenue in 1986-87, at \$72184m, was 12.4% higher than for the previous year and 1.3% above the budget estimate. Revenue was 27.3% of GDP in 1986-87, compared with 26.7% in the previous year. Stronger than expected growth in collections from PAYE income tax, 'other' individual (non-PAYE) income tax, fringe benefits tax, interest earnings and rent, dividends and royalties, added \$1650m to budget-time estimates. These were partly offset by a \$739m shortfall in revenue from company tax, withholding tax, sales tax, liquid fuels (crude oil, LPG and petroleum products) and other excise and customs duties on imports.

Income Tax—PAYE

Gross PAYE receipts in 1986-87 were \$30657m, 11.2% higher than in the previous year and 1.4% above the budget estimate. The budget estimate was premised on growth in average weekly earnings (national accounts basis, excluding superannuation) of around 6% whereas actual growth was higher at 6.5%. The collections overrun also reflected stronger than expected employment growth of 2.3%, compared with around 1% estimated at budget time. Refunds were 3.7% higher than the budget estimate; net PAYE collections were \$28136m, an increase of 11.7% on 1985-86 and 1.2% above the budget estimate.

Income Tax—Other Individuals

Revenue from non-PAYE (other) individuals totalled \$7457m in 1986-87, 30.9% higher than the 1985-86 outcome and 14.2% above the budget estimate. The substantial overrun reflected a number of factors including:

- much stronger than anticipated growth in primary producers' income, property income (interest income particularly) and income of other non-corporate businesses;
- a substantial increase in the number of provisional taxpayers, partly a consequence of the large increase in interest earnings in 1985-86;
- the Government's tax reform measures and an apparent improvement in the level of compliance with the tax laws associated with increased audit activity and strengthened penalty provisions;
- the anti-avoidance measure, designed to prevent deferral of income tax liabilities by partnerships and trust estates announced in the 1986-87 Budget, appears to have increased tax collections by more than the \$50m estimated at that time;
- the phasing in of self-assessment, which enabled earlier issue of assessment notices; and
- a marked improvement in Australian Taxation Office processing/collection performance, well in excess of expectations.

Income Tax—Medicare Levy

Medicare levy receipts cannot be identified separately from income taxes at the point of collection; the following estimates are based on gross taxes paid. Net of refunds in 1986-87, total Medicare levy revenue is estimated at \$1715m, 4.3% higher than the budget estimate. The 1986-87 estimate embodies \$1515m attributed to gross PAYE collections, \$125m to refunds and \$325m to 'other' individuals tax payments.

Income Tax—Prescribed Payments System

Prescribed Payments System (PPS) collections are withholdings at source from payments for prescribed labour and services in certain industries. The taxation rate applicable to prescribed payments was increased by half, to 15%, in 1986-87. As a result, collections under the PPS in 1986-87 totalled \$765m, 48.6% greater than in 1985-86; this was 2.1% over the budget estimate.

Company Tax

Company tax collections were \$6714m in 1986-87, 9.9% greater than in 1985-86, but 4.4% below the budget estimate. In contrast to the 1985-86 outcome, where a similar shortfall was largely a function of an overly optimistic (survey-based) estimate of public company incomes, on this occasion the survey proved a fairly reliable guide to corporate sector income movements. The 1986-87 shortfall appears to reflect two main factors: several abnormal refunds resulting, in part, from court decisions and lower than expected collections in respect of earlier income years.

Withholding Tax

Revenue from withholding tax—levied on dividends and interest earnings of non-residents—totalled \$639m in 1986-87, 13.8% more than in 1985-86, but 8.7% below the budget estimate. The major factor in the shortfall was a greater than expected deferral of dividend payments pending introduction of the imputation system for company dividends from 1 July 1987.

Fringe Benefits Tax

1986-87 Fringe Benefits Tax (FBT) revenue (excluding that from the Commonwealth budget sector) was estimated in last year's budget to be \$325m. The estimate was based largely on ABS data relating to the number of employees in receipt of particular types of fringe benefits and, in the absence of data, assumptions about the average levels of those benefits per employee.

Actual tax collections for 1986-87 of \$535m were significantly higher than the budget estimate. Further work remains to be done in comparing ABS data with the information arising out of the FBT collections. It would appear, however, that the ABS data provided reasonable estimates of the number of benefit recipients in the various benefit categories. The main factors in the underestimation appear to have been a significantly higher than expected value of the benefits per employee and a better than anticipated level of compliance with the tax.

Commonwealth on-budget authorities were estimated in last year's budget to have fringe benefits tax liabilities of \$138m. The much lower outcome (at \$68m) reflects the concessions announced by the Treasurer on 26 August and 29 October 1986, as well as some revision of authorities' estimates as the parameters of the FBT became better understood.

Appendix 3 to this Statement provides more detailed information on FBT revenue in 1986-87.

Sales Tax

Sales tax collections totalled \$6348m in 1986-87, 10.8% greater than in 1985-86, but 1.3% short of the budget estimate. The shortfall resulted principally from weaker than expected sales of motor vehicles. The effect on nominal sales values of higher than estimated general price increases acted as a partial offset.

Excise Duty

The following table compares the 1986-87 outcome for the major excisable commodity groups with the 1985-86 outcome and the 1986-87 budget estimates.

Table 7: Excise Duty

	1985-86		1986-87		Change in 1986-87 Actual			
	Actual	Budget Estimate	Actual	Over 1985-86 Actual	Over 1986-87 Budget Estimate			
	\$m	\$m	\$m	%	\$m	%		
Crude Oil and LPG	4 019	1 316	2 062	-48.7	746	56.7		
Petroleum Products (a)	2 813	5 576	4 666	65.8	-910	-16.3		
Other Excises—								
Beer	1 258	1 405	1 363	8.4	-42	-3.0		
Potable Spirits	135	149	144	6.8	-5	-3.4		
Tobacco Products	951	1 048	1 018	7.0	-30	-2.9		
Other (b)	29	32	32	7.6	..	-1.1		
Total—Other Excises	2 373	2 634	2 557	7.7	-77	-2.9		
TOTAL EXCISE DUTY	9 205	9 526	9 284	0.9	-242	-2.5		

(a) Includes motor spirit, diesel fuel (net of rebates), aviation gasoline, aviation turbine fuel, fuel oil, heating oil, kerosenes and—as an offset—refunds/drawbacks of petroleum products excise to eligible users.

(b) Includes coal excise duty and refunds/drawbacks.

Crude Oil and LPG Levies

Net revenue from the crude oil and LPG levies totalled \$2062m in 1986-87, 48.7% lower than 1985-86 but 56.7% higher than the budget estimate. The budget estimate was based on assumptions of Bass Strait crude oil production of 420 000 barrels a day in 1986-87, including 70 000 barrels a day for export or for the domestic free market; the Import Parity Price (IPP) of 1 August remaining unchanged over the remainder of 1986-87; and LPG excise being only modestly affected by the decline in world LPG prices.

The increase in net levy revenue compared with the budget estimate is mainly due to the recovery in world oil prices. However, consistent with the Government's practice since April 1986, the revenue gain was surrendered by appropriate reductions in petroleum products excise rates through the year. The overall effect of the movements in crude oil and LPG excise revenue and petroleum products excise revenue was a sizeable net revenue shortfall. This reflected a number of factors: a higher than projected proportion of Bass Strait production exported (these exports were at prices lower than the IPP and yielded lower excise); a greater than expected differential between the IPP and prices for exports and domestic free market sales; a different pattern of production from fields subject to various excise rates to that assumed at the time of the budget; a greater end-of-year carry-over of excise into 1987-88 from the last ten days of June reflecting higher oil prices and sales in June 1987 than in June 1986; and a sharper fall in LPG prices than that underlying the budget estimate.

Details of new excise and marketing arrangements to apply in 1987-88 are given in the Appendix to Statement No. 4.

Petroleum Products Excise

Revenue from the refined petroleum products excise totalled \$4666m in 1986-87, 65.8% greater than the 1985-86 outcome, but 16.3% below the budget estimate. The shortfall stemmed mainly from discretionary excise rate reductions designed to surrender the crude oil and LPG excise revenue gains as discussed above. The higher than expected CPI—which affected the biannual excise rate indexation adjustment—represented a partial offset.

Other Excise

Revenue from other excisable commodities (principally beer, tobacco products and potable spirits) amounted to \$2557m in 1986-87, 7.7% higher than in the previous year, but 2.9% below the budget estimate. The principal factor underlying the shortfall was lower clearances of these commodities than assumed at budget time, consistent with generally weaker than projected private consumption expenditure. Again, the higher than expected CPI was a partial offset.

Customs Duty

Revenue from customs duty on imports in 1986-87 was \$3237m, 1.4% less than in 1985-86, and 1.2% below the budget estimate. While overall import volumes were marginally lower than the budget estimate, the major factor in the lower than expected level of collections was a further marked fall in the implied average rate of duty. This would seem to largely reflect a depreciation-induced demand shift away from consumer goods attracting relatively high rates of duty—such as motor vehicles.

Coal export duty totalled \$52m in 1986-87, 10.2% below the 1985-86 outcome, and 14.1% less than the budget estimate. Export tonnages fell short of original estimates.

Bank Account Debits Tax

Collections totalled \$261m in 1986-87, 29.0% higher than in 1985-86 and 0.3% above the budget estimate. The rapid increase reflects an increase in the rate of tax on debits from 1 December 1986.

ACT Taxes and Charges

Total collections were \$185m in 1986-87, 22.6% higher than in 1985-86 and 6.8% above the budget estimate. The overshoot was principally a product of higher than forecast receipts from stamp duties, particularly on share transactions.

Other Taxes, Fees and Fines (Net)

Collections amounted to \$357m, 2.5% less than in 1985-86 and 2.5% below the budget estimate. The variation reflected a large number of small changes in individual items.

Interest

Interest earnings totalled \$3560m in 1986-87, 3.3% more than in the previous year and 1.6% greater than the budget estimate. Interest payments on the Commonwealth's cash balances were some \$57m higher than the budget estimate reflecting both a higher earning rate and a higher average level of balances than envisaged at budget time.

Rent, Dividends and Royalties

Revenue under this item was \$2934m in 1986-87, 25.0% above the 1985-86 outcome and 2.2% greater than the budget estimate. The major sources of the variation were stronger collections of offshore petroleum royalties (\$17m) and resource rent royalty (\$26m), in line with the strengthening of international oil prices through the year.

The Reserve Bank dividend payment to the Commonwealth in 1986-87 totalled \$2601m, in line with the budget estimate. The payment comprised \$1080m from the Note Issue Department (NID) (including a \$1055m interim payment from NID profits for 1986-87) and \$1521m from Central Banking Business profits in 1985-86.

Overall, the Reserve Bank payment was some 31% higher than in 1985-86. Central Banking Business net profits in 1985-86 were 38% higher than in 1984-85, reflecting a substantial increase in realised gains from net sales of foreign currency holdings in the 1985-86 financial year. As in 1984-85, foreign currency sales during 1985-86 were made in circumstances where foreign currencies were generally appreciating against the SA. NID net profits were \$1162m in 1986-87, a 22% increase over 1985-86, reflecting a higher level of investible funds in 1986-87. As noted above, the bulk of these earnings (\$1055m) was paid to the Commonwealth as an interim payment in 1986-87.

The Reserve Bank's profits are calculated in accordance with standard accounting practice. They can vary substantially from year to year, depending on the current stance of monetary policy and market factors, particularly movements in interest rates and the exchange rate. Valuation changes in the Bank's asset holdings realised through transactions (eg as a result of exchange rate movements) are included in the Bank's profits. Non-realised valuation changes are taken into the Bank's revaluation reserves. Realised profits arising from the Bank's market operations involve a transfer of funds from the private to the public sector. When the Bank's net profits are paid to the Commonwealth, they form part of budget revenue. The definition of the Reserve Bank's profits and the treatment of transfers between the Bank and the Commonwealth are in accordance with international (IMF) standards for government accounting.

BUDGET DEFICIT PATTERN

Chart 1 below page shows the quarterly pattern of the deficit/surplus for 1986-87 and the five years prior to that. The broad pattern in the deficit for 1986-87 did not differ significantly from that of earlier years, generally declining in the first three quarters before turning sharply into surplus in the final quarter. In 1986-87 this fourth quarter surplus was more pronounced than was the case in recent years. The quarterly pattern is largely a consequence of a slight concentration of outlays and a more pronounced concentration of revenue in opposite halves of the financial year.

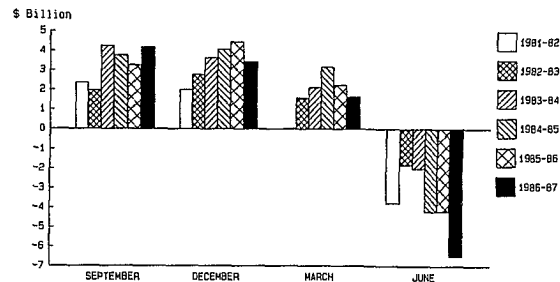
The relative concentration of outlays in the first half of the year results mainly from general purpose payments to local governments, tertiary education payments and a higher proportion of public debt interest falling due. For revenue, the relative concentration in the last quarter comes mainly from the payment of dividends by the Reserve Bank to the Commonwealth, and from collection of 'other' individual income tax; the major part of company tax collections is also received in April. The within-year pattern of the deficit has important implications for the gross issue of Treasury Notes and its attendant effect on the payment of public debt interest. In recent years there has been a greater effort directed towards achieving a smoother pattern of outlays and revenue as part of a wider move aimed at improving cash management practices generally. Some examples of recent changes in the timing of payments are as follows:

- the change from a quarterly to a monthly basis for payments to most government schools in 1986-87;
- the change from a quarterly to a monthly basis for aid payments to PNG implemented in 1987-88; and, also in 1987-88
- the change from an annual to a quarterly basis for payments to local government authorities.

On the revenue side recent measures include:

- a compulsory quarterly instalment system for the payment of annual provisional tax liabilities (with exemptions for certain classes of taxpayers) to be implemented in 1987-88; and
- the introduction in 1986-87 of changed arrangements for the timing of company tax instalments where substituted accounting periods apply.

CHART 1. QUARTERLY DEFICIT (+) / SURPLUS (-)



FINANCING OF THE BUDGET DEFICIT AND THE TAKE-UP OF COMMONWEALTH GOVERNMENT SECURITIES

The 1986-87 Commonwealth budget deficit was \$2716m, which was more than accounted for by a foreign currency requirement of \$3214m. The domestic surplus was \$1220m and the overseas deficit—which also includes a \$A component—was \$3936m. Debt issue by the Commonwealth totalled \$3640m, comprising net overseas raisings of \$724m, net issue of Commonwealth Government Securities (CGS) to the domestic private sector of \$2833m and net CGS issue to the Reserve Bank of \$83m.

The bulk of the Commonwealth's foreign exchange requirement was met by purchases in the market for the Commonwealth by the Reserve Bank, financed by CGS issues to the private sector (\$2407m); the balance was met by use of official reserve assets funded by the issue of CGS to the Reserve Bank (\$83m); and by net overseas borrowings (\$724m).

Total debt issue exceeded the budget deficit financing requirement, resulting in an increase of \$1123m in the Commonwealth's cash balances. Major contributing factors were a lower than expected budget deficit (the extent of the shortfall not being evident until very late in the financial year) and the need to maintain Treasury Note issue so as to have a sufficient volume of Notes outstanding for liquidity management purposes late in the financial year.

Details of budget financing for 1986-87 are shown in Table 8. Information on longer term trends in the Commonwealth's budget financing transactions is provided in Statement No 6.

Table 8: Financing of Commonwealth Budget Deficit 1986-87 (a)

	\$m	\$m
Budget deficit		2716
Funded by:		724
Net overseas borrowings		724
Issues to private sector (b)—		
Net Treasury Bond subscriptions	627	
gross Treasury Bond subscriptions	(3402)	
less maturing bonds	(-2775)	
Net Treasury Note subscriptions	2414	
Net ASB subscriptions	-511	
Net Treasury Indexed Bond subscriptions	303	2833
Issues to Reserve Bank (b)—		
Net Treasury Bond subscriptions	1210	
Net Treasury Note subscriptions	-1127	83
Use of cash balances		-1123
Other (c)		199
TOTAL FINANCING		2716

(a) Net subscriptions shown in this table are equal to subscriptions to primary issues less maturities during 1986-87, as at 30 June 1986.

(b) Face value.

(c) Includes movements in Income Equalisation Deposits, State domestic ratings, discount on face value of securities issued, other official sector holdings and other miscellaneous financing transactions.

Private Sector Holdings of CGS

Net issues of Treasury Bonds (conventional and indexed) to the private sector in 1986-87 were \$930m at face value, comprising gross issues of \$3705m (\$3402m conventional bonds and \$303m indexed bonds) and maturities in private sector hands of \$2775m. There were seven tenders for conventional Treasury Bonds in the year and four separate tenders for Treasury Indexed Bonds.

Net issues of Treasury Notes to the private sector were \$2414m. As noted below, net Treasury Note redemptions by the Reserve Bank were \$1127m, implying a growth in the total stock of Treasury Notes of \$1287m.

After taking account of Reserve Bank open market operations, private sector holdings of CGS increased significantly. The need to offset the liquidity impact of net foreign exchange purchases by the Reserve Bank was an important factor in determining the scale of open market operations in 1986-87. The net increase in private sector holdings of Treasury Bonds and Treasury Indexed Bonds during the year was \$2481m (see Table 9) while the net increase in the stock of Treasury Notes in private sector portfolios during the year was \$3343m, compared with \$1601m in 1985-86.

Gross subscriptions to Australian Savings Bonds (ASBs) of \$134m were more than offset by redemptions of \$645m, giving net redemptions of \$511m for 1986-87.

Overall, private holdings of CGS increased by \$5313m (\$3343m in the form of Treasury Notes, \$2481m in Treasury Bonds, including Treasury Indexed Bonds, while holdings of ASBs fell by \$511m).

Reserve Bank Holdings of CGS

During the year the Reserve Bank's net subscriptions to Treasury Bonds totalled \$1210m (consisting of gross subscriptions of \$2000m and redemptions of \$790m). The Bank's gross subscriptions to Treasury Notes were more than offset by gross redemptions, resulting in net redemptions of \$1127m. The Bank's open market operations resulted in net sales of CGS to the private sector of \$2489m (\$1560m in Treasury Bonds and \$929m in Treasury Notes). As a result, total Reserve Bank holdings of CGS fell by \$2406m in 1986-87 (\$350m in Bonds and \$2056m in Notes). This movement reflected the net influence of three main components:

- sales of CGS to the private sector to offset the liquidity effects of net purchases of foreign currency resulting from Reserve Bank transactions in the foreign exchange market (\$2846m);
- CGS purchased from the private sector to provide for cash base growth of \$1012m, which compares with \$1160m in 1985-86; and
- CGS issued to the Reserve Bank in return for foreign exchange used by the Commonwealth to meet part of the overseas budget deficit (\$83m).

After taking account of all the Reserve Bank's transactions with the official and private sectors, the change in the Reserve Bank's holdings of CGS had no net consequences for domestic liquidity conditions beyond the provision of cash base growth.

Cash Balances

The Commonwealth's cash balances held in its net Public Account with the Reserve Bank at 30 June 1987 totalled \$2313m, \$1123m higher than at the end of 1985-86. This increase primarily reflected the smaller than expected budget deficit outcome, the need to maintain Treasury Note issues towards the end of the year for liquidity management purposes, and the normal end of financial year volatility in the Commonwealth's cash position. Over the year, the average level of cash balances (excluding the balances of certain statutory authorities and drawing account balances) was approximately \$700m compared with around \$300m in 1985-86.

The net outcome of primary debt issues, maturities and Reserve Bank open market operations is summarised in Table 9.

Table 9: Net change in Holdings of Domestically Issued Commonwealth Government Securities and other Financing Transactions 1986-87 (\$m)

	Treasury Bonds	ASBs	Treasury Notes	Use of Cash Balances	Other	Total
Official sector (a)	-364	—	-2 056	-1 123	446(c)	-3 097
Private sector	2 481(b)	-511	3 343	—	-50(d)	5 263
Of which:						
Trading banks	384	—	2 115	—	—	2 499
Savings banks	-731	—	1 531	—	-32	768
Authorised money market dealers	1 080	—	-866	—	—	214
Life offices	-957	—	—	—	—	-957
Other	2 705	-511	563	—	-18	2 739
Less discounts on Treasury Bonds (e)	2 117	-511	1 287	-1 123	396	2 166
Equals domestic financing						1 992
Net overseas borrowings						724
Budget deficit						2 716

(a) Includes Reserve Bank (see text for corresponding figures for Reserve Bank only).

(b) Includes Treasury Indexed Bonds.

(c) Includes other financing transactions nec.

(d) Includes Income Equalisation Deposits and State domestic raisings.

(e) Cash raisings from Treasury Bond issues can differ from the face value of the Treasury Bonds to the extent that they have been issued at a discount or at a premium. The available data on sectoral holdings of Treasury Bonds are limited to holdings recorded at face value, which is not consistent with the cash basis on which most Commonwealth financing transactions are recorded. Consequently, the discount on Treasury Bonds has been separately recorded in this table to reconcile these different accounting bases.

Overseas Borrowings

Gross overseas borrowings amounted to \$3083m in 1986-87 and total repayments amounted to \$2359m, giving net overseas raisings of \$724m, compared with net overseas raisings of \$1271m in 1985-86 and \$906m in 1984-85. Existing loans with total principal values of \$1206m were refinanced, resulting in significant cost savings. In summary, the Commonwealth undertook the following borrowings:

Sep 1986 DM200m (\$A155m) private placement in the Federal Republic of Germany;

Sep 1986 SF300m (\$A287m) private placement in Switzerland;

Oct 1986 SF300m (\$A277m) public issue in Switzerland;

Oct 1986 Yen 35b (\$A353m) syndicated loan in Japan;

Nov 1986 \$US600m (\$A931m) public issue in Europe;

Nov 1986 DF400m (\$A267m) public issue in the Netherlands;

Feb 1987 Stg100m (\$A231m) public issue in Europe;

Mar 1987 \$US250m (\$A365m) public issue in the United States; and

Mar 1987 \$US150m (\$A219m) public issue in the United States.

Repayments amounting to \$24m were made on borrowings from the International Bank for Reconstruction and Development. Commonwealth and State Government securities to the value of \$1129m were redeemed in the United States, Japan, Switzerland, the Netherlands, the Federal Republic of Germany and the United Kingdom.

The total volume of the Commonwealth's outstanding foreign currency debt at 30 June 1987 was \$15064m (equivalent to 5.7% of GDP), compared with \$13827m (5.8% of GDP) at 30 June 1986 and \$9786m (4.6% of GDP) at 30 June 1985.

APPENDIX 1

COMPARISON OF BUDGET ESTIMATES AND OUTCOMES
FROM 1977-78 TO 1986-87

The table below compares budget estimates and outcomes for outlays, revenue and the budget deficit for the past ten years.

	Budget Estimate		Change in Actual over Budget Estimate	
	\$m	\$m	\$m	%
OUTLAYS				
1977-78	26 656	26 802	146	0.5
1978-79	28 870	29 045	175	0.6
1979-80	31 692	31 694	2	..
1980-81	35 029	36 274	244	0.7
1981-82	40 877	41 339	463	1.1
1982-83	47 067	48 982	1 915	4.1
1983-84	56 590	56 570	-20	..
1984-85	63 843	63 739	-104	-0.2
1985-86	69 048	69 917	869	1.3
1986-87	74 765	74 899	134	0.2
REVENUE				
1977-78	24 439	23 469	-970	-4.0
1978-79	26 057	25 367	-690	-2.6
1979-80	29 499	29 661	162	0.6
1980-81	34 464	35 146	683	2.0
1981-82	40 780	40 790	10	..
1982-83	45 393	44 509	-884	-1.9
1983-84	48 229	48 610	381	0.8
1984-85	57 098	56 993	-104	-0.2
1985-86	64 149	64 191	43	0.1
1986-87	71 262	72 184	922	1.3
DEFICIT				
1977-78	2 217	3 333	1 117	50.4
1978-79	2 813	3 478	666	23.7
1979-80	2 193	2 034	-160	-7.3
1980-81	1 566	1 127	-438	-28.0
1981-82	96	549	453	471.9
1982-83	1 674	4 473	2 799	167.2
1983-84	8 361	7 961	-401	-4.8
1984-85	6 746	6 746	0	0.0
1985-86	4 900	5 726	826	16.8
1986-87	3 503	2 716	-788	-22.5

NOTE: The budget estimate and outcome figures for each year are those which appeared in Statement No. 5 of the succeeding year, thereby ensuring outcomes and estimates are compared on the same classification basis. The outcomes therefore differ slightly from the figures appearing in Statement Nos. 6 and 7 which reflect definitions and classifications now in effect.

APPENDIX 2

DOMESTIC AND OVERSEAS COMPONENTS OF THE BUDGET DEFICIT,
1986-87 (\$m)—QUARTERLY BREAKUP BY MAJOR COMPONENTS

	September Quarter	December Quarter	March Quarter	June Quarter	Total
OVERSEAS BUDGET DEFICIT					
• Defence	273	524	262	649	1 708
• Foreign Affairs & Trade	156	147	219	190	712
• Loan Flotation Expenses	8	20	9	2	39
• Public Debt Interest	321	397	328	229	1 275
• Other	53	52	57	40	202
TOTAL OVERSEAS DEFICIT	811	1 140	875	1 110	3 936
DOMESTIC DEFICIT (+)/SURPLUS (-)					
	3 373	2 286	754	-7 633	-1 220
TOTAL BUDGET DEFICIT	4 184	3 426	1 629	-6 523	2 716

APPENDIX 3

FRINGE BENEFITS TAXATION REVENUE

This appendix summarises the main components of revenue collections for 1986-87 under the Fringe Benefits Tax (FBT) legislation. \$535.2m was collected from the private sector, State and local governments and Commonwealth Government non-budget agencies while an additional amount of \$68.4m was paid by Commonwealth Government departments.

Preliminary details of total revenue collected, excluding that from Commonwealth Government departments, are given in the following tables. Table 1 disaggregates the revenue by type of benefit and shows the number of taxpayers (ie employers) providing each particular benefit; where the data permit, the number of employees in receipt of benefits is also indicated. Table 2 shows the distribution of FBT liabilities across the taxpayer population.

Table 1: Fringe Benefits Tax by Type of Benefit

Type of Benefit	No of Taxpayers	No of Employees (b)	Tax Payable (\$m)	Per cent of Total (a)
Motor Vehicles	88 416	433 170	247.3	46.2
Low interest loans	4 205	168 600	87.3	16.3
Expense Payment	12 877	n.a.	58.8	11.0
Housing	8 017	105 650	49.6	9.3
Board	1 723	36 560	8.5	1.6
Living-Away-From Home allowances	701	21 750	8.4	1.6
Airline Transport	441	37 630	3.4	0.6
Property (Goods)	747	32 190	6.0	1.1
Debt Waiver	190	3 300	5.8	1.1
Entertainment	1 342	n.a.	3.7	0.7
Other Benefits	4 678	n.a.	23.6	4.4
Not allocated (a)	10 200	n.a.	32.8	6.1
TOTAL	105 653	n.a.	535.2	100.0

(a) Includes those returns where information by type of benefit was not provided and estimate of number of cases where annual return data has not yet been processed.
 (b) For motor vehicle and housing fringe benefits, figures given are for number of vehicles and number of dwellings respectively. All figures are estimates based on the tax paid for each type of benefit, as shown in the next column, and the average tax payable per 'employee' obtained from returns with all the necessary information.

Table 2: Fringe Benefits Tax by Amount of Tax

Tax Liability	No. of Taxpayers	Tax Payable	
		\$m	%
\$1-\$99	3 677	3.5	0.2
\$100-\$249	8 673	8.2	1.5
\$250-\$499	15 095	14.3	5.6
\$500-\$749	12 512	11.8	7.8
\$750-\$999	10 077	9.5	8.8
\$1000-\$1999	21 268	20.1	30.1
\$2000-\$2999	8 381	7.9	20.4
\$3000-\$3999	4 170	3.9	14.4
\$4000-\$4999	2 621	2.5	11.7
\$5000-\$9999	4 964	4.7	34.2
\$10000-\$19999	2 473	2.3	34.3
\$20000-\$49999	1 662	1.6	50.3
\$50000-\$99999	528	0.5	36.9
\$100000-\$499999	461	0.4	93.3
\$500000-\$999999	30	..	35.7
\$1m and over	41	..	129.0
Not allocated (a)	9 000	8.5	21.0
TOTAL	105 653	100.0	535.2

(a) Includes an estimate of number of cases where annual return data has not yet been processed.

Not all FBT returns disclose full details and data analysis of returns is not yet complete. Of the totals allocated to the relevant categories:

- About 86% of taxpayers were private companies and trusts, which accounted for 42% of allocated FBT receipts. The owners of these companies or the beneficiaries of the trusts are typically also employees. The tax advantage provided by fringe benefits presumably explains the high numbers of such taxpayers with FBT liability.
- Public companies paid approximately 38% of the allocated FBT while partnerships and sole traders paid less than 2%.
- Four categories of fringe benefit were responsible for almost 90% of allocated FBT revenue. 49% of the allocated tax revenue was accounted for by FBT on motor vehicle benefits, and 17% by FBT on low interest loan benefits. Housing benefits and expense payment benefits (eg payment of telephone account) accounted for 10% and 12% of allocated tax payments respectively.
- The average taxable benefit per employee for the major fringe benefits, on a yearly basis, was:

	\$
Motor Vehicles	
— statutory formula	1735
— operating cost	814
— all	1655
Low interest loans	1500
Housing	1360

- The concessional nature of the FBT is reflected in these taxable benefit figures which are much lower than the actual benefit received by the employee.
- FBT on allocated motor vehicle benefits totalled \$247m and related to around 433,000 motor vehicles. (The taxable fleet size was thus well below that estimated at the time of the budget estimates.) The statutory formula method was used with respect to 91% of all allocated motor vehicles.

- The lower taxable benefit per employee for motor vehicles under the operating cost method reflects the fact that this method is only more favourable than the statutory formula, and hence only adopted by taxpayers, for vehicles with a high proportion of business usage.
- Taxpayers can be divided into broad industry classifications on the basis of the main business of the employer. Of the FBT payments allocated to major taxing sectors, the aggregate FBT liability of the finance, insurance, real estate and business services sector was \$160m or 31% of the total while this sector accounted for only 10.3% of total wages and salaries paid in 1985-86. Manufacturing, which pays 19.9% of total wages and salaries, followed with an FBT liability of \$86m or 17% of the total and then wholesale and retail trade, which pays 15.1% of total wages and salaries with an FBT liability of \$76m or 15% of the total.
- Around 45% of the FBT liability in the finance sector was accounted for by loan fringe benefits (\$70m) while in the manufacturing sector motor vehicle fringe benefits accounted for over \$56m or 69%. In the wholesale and retail trade sector, the largest liability also arose from motor vehicle fringe benefits—\$58m or 77% of the total industry liability.
- Around 5100 primary producers—that is, less than 3% of primary producers—paid a total FBT liability of \$9.2m.
- Government bodies (excluding Commonwealth on-budget agencies) paid total FBT of \$45.0m. This comprised \$5.8m from local government, \$37.0m from State governments and State authorities and \$2.2m from Commonwealth off-budget agencies. The main benefits provided were motor vehicles, low interest loans and housing. While FBT collections from this sector accounted for 9% of allocated receipts, the sector accounted for around 27% of receipts from housing benefits.
- About 40,000 taxpayers, accounting for 3.0% of allocated FBT liability and around 40% of the taxpayer population, had an FBT liability in 1986-87 less than \$750 per taxpayer. In 1987-88 taxpayers will not be required to pay in quarterly instalments if their transitional period liability, increased by 42%, was less than \$1000 (ie less than \$704 in 1986-87).
- The 1% of taxpayers (employers) with the highest liability paid an average of over \$270,000 each, accounting for \$295m or around 57% of allocated FBT revenue.

Commonwealth Government departments and on-budget agencies are required to pay FBT on benefits provided to employees according to the same rules as other employers. However, because these employers are part of the budget sector their payments cannot be treated as revenue and special accounting treatment is required. Payments are included as outlays (or debits) by individual departments/agencies and for the budget sector as a whole, while the receipts are recorded as offsets to Australian Taxation Office outlays. While these FBT payments do not, therefore, affect the budget deficit (or surplus), they are a real charge on individual departments and agencies and help to ensure that public service managers face the same conditions as employers in the private sector. In 1986-87 total payments within the sector were \$68.8m. This was mainly in respect of housing (about 59%), expense payments, board and residual benefits (about 29%) and living-away-from-home allowances (about 8%).

The 1986-87 revenue relates only to the 9 month period from 1 July 1986 to 31 March 1987 and reflect a tax rate of 46%. Revenues in future years will be for a full 12 month period and will reflect the 49% rate which applies from 1 April 1987.

STATEMENT NO. 6—COMMONWEALTH BUDGET TRANSACTIONS

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STATEMENT No. 6—COMMONWEALTH BUDGET TRANSACTIONS

INTRODUCTION

In assessing the 1987-88 Budget it is instructive to look at budget developments over earlier years. This is the purpose of this Statement. Examination of the Budget in the context of overall public sector transactions has previously been presented in this Statement; this year such an analysis is contained in a new Statement No. 7.

Before using the data presented in the tables at the end of this Statement, readers would be advised to refer to the following text which, as well as briefly commenting on trends, also notes changes in definition and classification, and institutional and policy changes which have resulted in breaks in the continuity of the series.

BUDGET AGGREGATES

Table 1 provides the main budget aggregates since 1977-78, both in absolute terms and as proportions of Gross Domestic Product (GDP). As proportions of GDP, they are also depicted in Chart 1.

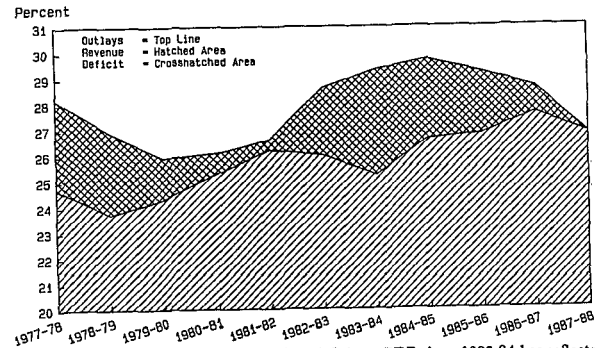
Table 1—Commonwealth Budget Aggregates

	Outlays		Revenue		Deficit	
	Proportion of GDP		Proportion of GDP		Proportion of GDP	
	\$m	%	\$m	%	\$m	%
Averages: 1957-58 to 1966-67		22.4		20.8		1.6
1967-68 to 1976-77		24.7		22.8		1.9
1977-78 to 1986-87		27.9		25.6		2.3
1977-78	26 665	28.2	23 382	24.7	3 283	3.5
1978-79	28 912	27.0	25 486	23.8	3 426	3.2
1979-80	31 445	26.0	29 457	24.3	1 989	1.6
1980-81	35 996	26.2	34 916	25.4	1 080	0.8
1981-82	41 189	26.6	40 637	26.2	553	0.4
1982-83	48 793	28.7	44 345	26.1	4 448	2.6
1983-84	56 432	29.3	48 500	25.2	7 932	4.1
1984-85	63 714	29.7	56 994	26.5	6 720	3.1
1985-86	69 918	29.1	64 193	26.7	5 726	2.4
1986-87	74 899	28.3	72 184	27.3	2 716	1.0
1987-88 (a)	78 146	26.8	78 119	26.8	27	0.0

(a) Budget estimate

NOTE 1: The figures in this Statement on Commonwealth Budget outlays, revenue and deficit have been prepared from, and are consistent with, current estimates and classifications. Where possible, other historical series have been adjusted to reflect the latest classification structures (see Statement No. 8 for a discussion of the major classification changes undertaken for 1987-88).

CHART 1. BUDGET AGGREGATES
PERCENT OF GDP



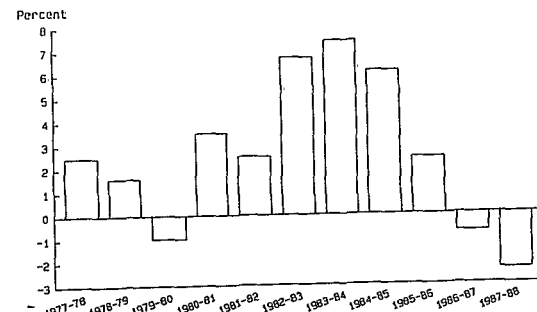
The decline in the ratio of the budget deficit to GDP since 1983-84 has reflected both a reduction in the ratio of outlays to GDP in the years after 1984-85 and, until the current financial year, an increase in the ratio of revenue to GDP. 1987-88 is the first year since 1978-79 that budget outlays, revenue and the deficit are all expected to fall as a proportion of GDP.

BUDGET OUTLAYS

Summary of Outlays

Chart 2 below shows changes in real terms in total Commonwealth budget outlays for each year since 1977-78 (deflated by the increase in the implicit price deflator for non-farm GDP).

CHART 2. BUDGET OUTLAYS
REAL INCREASE ON PREVIOUS YEAR (a)



(a) Deflated by non-farm GDP.

Outlays are budgeted to decline by 2.4% in real terms in 1987-88.

In the decade to 1987-88, the level of outlays as a proportion of GDP averaged 27.8% within a range of some + or - 2 percentage points. Growth in outlays for the earlier years of the decade was contained on average to a rate less than the growth in GDP. Following this there was a period in which growth in outlays exceeded that in GDP; over the latter part of the decade outlays again declined as a share of GDP and are budgeted to fall further in 1987-88.

Budget outlays, expressed as a proportion of GDP, are generally regarded as a summary measure of the scale of budget sector activity, and of the extent of the claims on the community's resources appropriated through the budget. However, year-to-year shifts in that proportion will reflect the relative growth rates of GDP as well as outlays and their interaction, so that the ratio of outlays to GDP is sensitive to cyclical influences.

Governments can, of course, redirect resources to meet their particular distributive, economic and other objectives through changes to either side of the budget—by way of outlays or through the taxation system. For example, over the decade from 1977-78, Commonwealth assistance for medical services has been shifted from the taxation system (tax expenditures) to direct payments. Resource transfers via direct payments can in principle permit the closer monitoring of program costs and benefits and can increase effectiveness through better targeting of recipients. Such shifts have the effect of increasing both outlays and revenue (as a proportion of GDP), but (for equivalent measures) have no net effect on resources available to the private sector.

Outlays by Function

Tables I to VI in the section at the end of this Statement present budget figures on a functional basis for the period 1977-78 to 1986-87, together with estimates for 1987-88, as follows:

- Table I—nominal outlays and revenue.
- Table II—annual percentage changes in outlays and revenue (nominal).
- Table III—outlays in constant 1979-80 prices.
- Table IV—annual percentage changes in outlays (constant 1979-80 prices).
- Table V—outlays as proportions of total outlays.
- Table VI—nominal outlays by function (detail).

Table 2 on the following page shows, for the major functional categories, outlays in current prices for 1977-78 and 1986-87, shares of total outlays in those years and of the total increase in outlays between the two years, and average annual rates of growth over the period.

Table 2—Budget Outlays by Function

	1977-78		1986-87		1977-78 to 1986-87	
	Proportion of total outlays	%	Proportion of total outlays	%	Proportion of total increase	Average annual growth (%)
	\$m	%	\$m	%	%	%
1. Defence	2 340	8.8	7 209	9.6	10.1	13.3
2. Education	2 359	8.8	5 216	7.0	5.9	9.2
3. Health	2 701	10.1	7 499	10.0	9.9	12.0
4. Social Security and Welfare	7 413	27.8	20 553	27.4	27.2	12.0
5. Housing and Community Amenities nec	673	2.5	1 673	2.2	2.1	10.7
6. Culture and Recreation	270	1.0	949	1.3	1.4	15.0
7. Economic Services						
A. Transport and Communications	860	3.2	1 669	2.2	1.7	7.6
B. Industry Assistance and Development	302	1.1	1 180	1.6	1.8	16.4
C. Labour and Employment	254	1.0	1 031	1.4	1.6	16.8
D. Other Economic Services	138	0.5	267	0.4	0.3	7.7
Total Economic Services	1 553	5.8	4 147	5.5	5.4	11.5
8. General Public Services						
A. Legislative Services	72	0.3	474	0.6	0.8	23.3
B. Law Order and Public Safety	138	0.5	520	0.7	0.8	16.0
C. Foreign Affairs and Overseas Aid	606	2.3	1 302	1.7	1.4	8.9
D. General and Scientific Research nec	196	0.7	521	0.7	0.7	11.5
E. Administrative Services	782	2.9	2 496	3.3	3.5	13.8
Total General Public Services	1 793	6.7	5 314	7.1	7.3	12.8
9. Not allocated to Function						
A. Assistance to Other Governments, nec	5 915	22.2	14 437	19.3	17.7	10.4
B. Public Debt Interest	1 649	6.2	7 923	10.6	13.0	19.0
Total not allocated to Function	7 564	28.4	22 360	29.9	30.7	12.8
TOTAL OUTLAYS	26 665	100.0	74 899	100.0	100.0	12.2

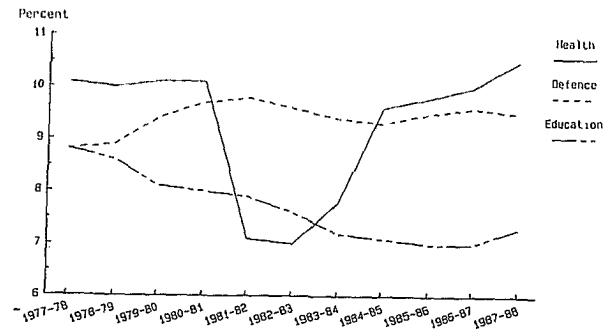
(a) Average annual growth is calculated as the average annual compound rate of increase in nominal prices.

Between 1977-78 and 1986-87, total budget outlays grew at an average nominal annual rate of 12.2%. Among the more rapidly growing functions have been *Legislative Services*; *Public Debt Interest*; *Labour and Employment*; *Industry Assistance and Development* and *Law Order and Public Safety*. Of the total growth in nominal outlays over the decade to 1986-87 from \$26.7 billion to \$74.9 billion, just over a quarter was accounted for by increased outlays on *Social Security and Welfare*, with increases in general purpose *Assistance to other Governments* (17.9%), *Public Debt Interest* (13.0%) and *Defence* (10.1%) also accounting for much of the total increase.

It should be noted that average annual rates of growth over a period of years can mask significant changes within that period, and can be affected by non-recurring factors influencing outlays at either or both ends of, or during, the period.

The accompanying charts (3-6) illustrate trends in each of the major functions during the period. These trends are further analysed in the Forward Estimates Report which is published by the Department of Finance following the Budget each year. Significant trends in the component outlays, together with classification and institutional changes that impact on the data are discussed below.

CHART 3. FUNCTIONS AS PERCENT OF TOTAL OUTLAYS



Health

The significant fluctuations over the last decade in the proportion of budget outlays devoted to the *Health* function are largely due to changes in health financing arrangements. The decline in 1981-82 reflected the replacement of specific purpose payments to the States for hospitals, community health and school dental services by identified health grants. Increases in the proportion of budget outlays in 1983-84 and 1984-85 reflect the effect of the introduction of Medicare in February 1984. The proportions for 1984-85 to 1987-88, whilst trending up slightly, are very close to that for the earlier years of the decade.

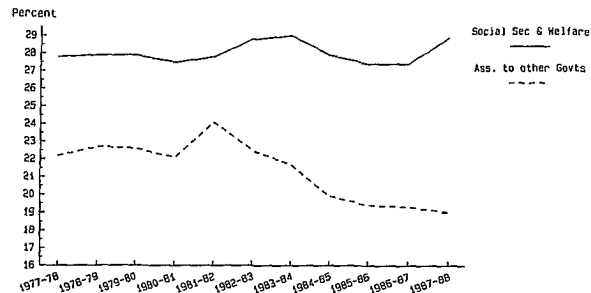
Defence

Outlays on *Defence* grew strongly between 1979-80 and 1981-82 and have been broadly maintained as a proportion of budget outlays since then. The relative stability of the share of the defence vote in Budget outlays over the 1980s masks a significant shift within its components towards increased investment in new equipment. More details are provided in Statement No 3.

Education

Education outlays have declined progressively as a share of budget outlays over the last decade. A slight increase is estimated for 1987-88. The shares of *Education* outlays directed to Universities and Colleges of Advanced Education have declined over the period despite increases in student numbers, partly because of improved efficiency from the rationalisation of Colleges of Advanced Education in the early 1980s, and, more recently, increased offsets within outlays resulting from the overseas students charge and the introduction of the higher education administration charge. The share directed to Schools and Pre-schools has risen following large increases in grants to government and non-government schools. The share of *Education* outlays directed to Student Assistance has also increased significantly over the decade as a result of increases in both the number of eligible recipients and the level of payments.

CHART 4. FUNCTIONS AS PERCENT OF TOTAL OUTLAYS



Social Security and Welfare

Social Security and Welfare outlays has maintained a large but somewhat variable share of total outlays over the past decade, peaking in the two years 1982-83 and 1983-84, largely reflecting an upturn in the number of unemployment beneficiaries. Since 1983-84, there has been a steady reduction in the unemployment rate. The proportion of total outlays devoted to *Social Security and Welfare* fell from 29.0% in 1983-84 to 27.4% in 1986-87. The projected rise in 1987-88 reflects the budgetary impact of the family assistance package.

Assistance to Other Governments

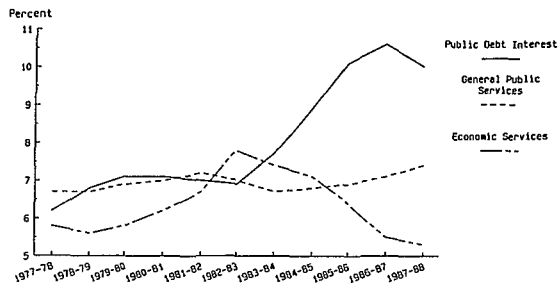
In the years since the shift from the *Health* function in 1981-82 referred to above, there has been a steady decline in the share of budget outlays devoted to general purpose payments to other Governments. This partly reflects increases in the amounts of capital assistance the States are able to nominate for public housing (which is included under *Housing and Community Amenities, nec*) but the decline also reflects the restraint that the Commonwealth has imposed on these payments in recent years. The downturn in general purpose assistance is balanced somewhat by increases in specific purpose assistance, particularly Medicare, which is reflected in other functions. Further details can be found in Budget Paper No 4.

Throughout the period there was a significant real reduction in the amount of capital assistance made available to the States.

Public Debt Interest

The sharp increase in outlays in this function reflects increases in the volume of debt, the tendency for average interest rates on debt outstanding to increase and, in the past couple of years, the impact of the devaluation of the Australian dollar on overseas interest payments. The proportion of public debt interest payments accounted for by the States has been significantly reduced in the past decade. Statement No 3 contains a more detailed explanation of recent trends.

CHART 5. FUNCTIONS AS PERCENT OF TOTAL OUTLAYS



General Public Services

This function has increased slightly as a proportion of outlays over the decade. It includes *Legislative Services* which has undergone rapid growth due largely to funding in recent years for the Parliament House Construction Authority.

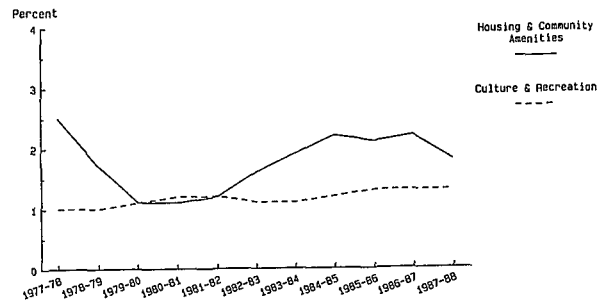
Economic Services

The significant variations over the decade in the proportion of total outlays devoted to *Economic Services* reflect changes in funding levels for a range of programs included within this functional block. For example, outlays on textiles, clothing and footwear within Manufacturing Industry rose from \$1.4m in 1980-81 to \$83.6m in 1986-87 following the introduction in 1982 of bounties on most yarns. Also, the proportion of outlays devoted to road transport increased significantly in 1982-83 and 1983-84 with the introduction of the Australian Bicentennial Road Development Program.

These increases have been offset in part by a decrease in the proportion of outlays devoted to Export Industries which have declined progressively since 1980-81. Outlays on *Other Assistance to Industry* have also declined following a substantial increase in the consumer-paid freight margin in May 1985 which caused outlays under the petroleum products freight subsidy scheme to fall from \$130.2m in 1984-85 to \$16.3m in 1986-87.

After consistently accounting for around 1 per cent of budget outlays in the late 1970s and early 1980s, *Labour and Employment* outlays rose substantially to almost 2 per cent in 1983-84. This rise reflected an increase in job creation and employment assistance provided in response to increases in unemployment, particularly long term unemployment. More recently, the *Labour and Employment* share of budget outlays has declined (to around 1.5%), but with lower unit costs associated with an increased share of payments for training programs, particularly youth training.

CHART 6. FUNCTIONS AS PERCENT OF TOTAL OUTLAYS



Housing and Community Amenities, nec

The share of outlays on *Housing and Community Amenities, nec* declined over the early part of the period, reflecting, in particular, the repayment of advances provided in 1974-75 to banks for housing purposes and, in the years up to and including 1981-82, a reduction in grants and net advances provided to the States for such purposes. Between 1981-82 and 1984-85, outlays increased substantially as a proportion of total outlays (from 1.2% to 2.2%) reflecting, in the main, increases in payments to the States for housing and payments on home purchase assistance schemes. Part of this increase resulted from the replacement of a tax concession for interest payments on home mortgages by better targeted outlay programs. This function's share of outlays is estimated to fall significantly in 1987-88, due mainly to a reduction in the level of payments to the States for housing and the cessation of the savings banks deposit interest subsidy scheme.

Culture and Recreation

Outlays on *Culture and Recreation* have grown faster than total outlays, with the major growth areas being in arts, sport and museums rather than broadcasting and television. The share of outlays is estimated at 1.3% in 1987-88.

Outlays By Economic Type

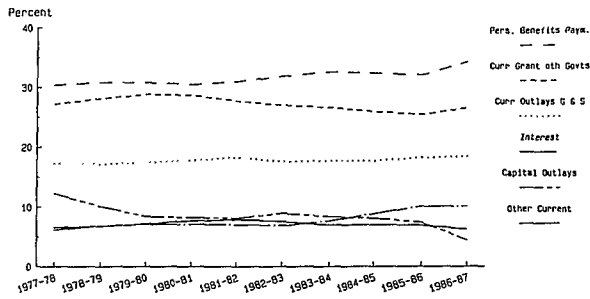
Table VII at the end of this Statement shows, for the past 15 years and for 1987-88, budget outlays classified by economic type. Changes in these categories from 1977-78 to 1986-87, presented as shares of total outlays and of the total increase in outlays between the two years, and average annual rates of growth, are shown in Table 3 below.

The contributions of the major economic type categories to changes in budget outlays over the period 1977-78 to 1986-87 are illustrated in Chart 7, and are discussed below.

Table 3—Budget Outlays by Economic Type

	1977-78		1986-87		1977-78 to 1986-87	
	Proportion of total outlays		Proportion of total outlays		Proportion of total increase	Average annual growth
	\$m	%	\$m	%	%	%
CURRENT OUTLAYS—						
Current Outlays on Goods and Services—						
Defence—Salaries	1 193	4.5	2 610	3.5	2.9	9.1
-Other than Salaries	1 091	4.1	4 544	6.1	7.2	17.2
Non-Defence—Salaries	1 413	5.3	3 651	4.9	4.6	11.0
-Other than Salaries	896	3.4	2 900	3.9	4.2	13.9
Total Current Outlays on Goods and Services	4 593	17.2	13 705	18.3	18.9	12.9
Current Transfer Payments—						
Interest	1 649	6.2	7 978	10.6	13.1	19.1
Subsidies	543	2.0	1 061	1.4	1.1	7.7
Personal Benefit Payments	8 103	30.4	24 085	32.2	33.1	12.9
Grants to Non-profit Institutions	190	0.7	1 029	1.4	1.7	20.7
Transfers to Non-Budget Sectors	664	2.5	1 889	2.5	2.5	12.8
Grants to other Governments	7 263	27.2	19 331	25.8	25.0	11.5
Transfers Overseas	383	1.4	783	1.0	0.8	8.3
Total Current Transfer Payments	18 795	70.5	56 157	75.0	77.4	12.9
TOTAL CURRENT OUTLAYS	23 388	87.7	69 862	93.3	96.3	12.9
CAPITAL OUTLAYS—						
Capital Outlays on Goods and Land	163	0.6	386	0.5	0.5	10.1
Capital Transfer Payments—						
Transfer to Non-Budget Sector	198	0.7	580	0.8	0.8	12.7
Grants to other Governments	1 502	5.6	3 249	4.3	3.6	9.0
Grants to Other Sectors	99	0.4	298	0.4	0.4	13.1
Total Capital Transfer Payments	1 799	6.7	4 127	5.5	4.8	9.7
Net Advances	1 315	4.9	525	0.7	-1.6	-9.7
TOTAL CAPITAL OUTLAYS	3 277	12.3	5 038	6.7	3.7	4.9
TOTAL OUTLAYS	26 665	100.0	74 899	100.0	100.0	12.2

CHART 7. TOTAL BUDGET OUTLAYS BY ECONOMIC TYPE 1977-78 to 1986-87



Personal Benefit Payments

Average annual growth in Personal Benefit Payments has been only slightly higher than growth in total outlays. Most of this growth occurred in the period 1980-81 to 1983-84 and parallels the growth in the share of outlays devoted to *Social Security and Welfare* during that period already referred above in the discussion on outlays by function.

Current Grants to Other Governments

Current Grants to other Governments accounted for one quarter of the total increase in outlays over the decade and grew at slightly below the rate for total outlays. Further details can be found in Budget Paper No 4.

Current Outlays on Goods and Services

The contribution of Defence outlays to the increase in total outlays is detailed above under the functional analysis.

The growth in non-defence expenditure on goods and services is largely explained by the introduction of Medicare in 1983-84 and increased expenditure on employment programs in recent years. The rising cost of superannuation payments to former Commonwealth employees has also contributed to this growth.

Interest

Outlays on interest have increased significantly over the last 10 years primarily reflecting increases in public debt interest which was discussed earlier.

Capital Outlays, Transfers and Advances

Capital Outlays on Goods and Land have fallen in real terms over the last ten years. A large part of this decline is the offsetting effect of the sale of fixed assets and land. Increased recourse to lease-purchase and instalment purchase financing has also contributed to the declining trends in this item in recent years, although the large payments associated with the construction of the new Parliament House has boosted capital outlays.

Capital Transfers to other Governments and other Sectors have grown more slowly than total outlays mainly as a result of the low growth in transfers to the States. This has been balanced, in part, by greater access of State authorities to funds through the Loan Council, particularly as a result of the 'infrastructure' borrowing program implemented in the early 1980s.

There has been a substantial decline in net advances, principally reflecting repayment of advances by non-budget Commonwealth authorities in recent years but low growth in advances to the States has also been a factor.

BUDGET REVENUE

Table 4 shows budget revenue over the past decade.

Table 4—Budget Revenue

	Real Increase on Previous Period (a)		Proportion of GDP		
	\$m	%	Tax	Non-Tax	Total
			%	%	%
Averages: 1957-58 to 1966-67.		5.3	18.4	2.4	20.8
1967-68 to 1976-77.		5.5	20.6	2.2	22.8
1977-78 to 1986-87.		4.0	23.5	2.1	25.6
1977-78.	23 382	1.2	22.5	2.2	24.7
1978-79.	25 486	2.1	21.7	2.1	23.8
1979-80.	29 457	5.2	22.5	1.8	24.3
1980-81.	34 916	7.2	23.6	1.8	25.4
1981-82.	40 637	4.2	24.5	1.9	26.2
1982-83.	44 345	-1.7	24.0	2.1	26.1
1983-84.	48 500	1.6	23.1	2.1	25.2
1984-85.	56 994	10.4	24.4	2.1	26.5
1985-86.	64 193	5.2	24.3	2.4	26.7
1986-87.	72 184	4.1	24.8	2.5	27.3
1987-88.	78 119	1.2	24.5	2.3	26.8

(a) Increase on previous period deflated by the increase in the implicit price deflator for non-farm GDP.

Budget revenues have increased as a proportion of GDP over the past decade, continuing the trend in the two preceding decades. However, the annual average real growth of budget revenue in the recent decade, at 4.0%, was less than that in each of the two preceding, both in excess of 5%.

Table 5 and Chart 8 below show the main sources of Commonwealth budget revenue expressed as proportions of the total. Further details of the composition of budget revenue are shown in attached Table IX.

Tax Revenue

In the decade to 1976-77 the share of income tax in Commonwealth Budget revenue increased sharply, from 50% to 62%. In the subsequent decade it was only a little higher—63.2%—and by the close of the decade below its opening level. The proportion of revenue from individuals income tax has increased in each decade while that from companies has fallen:

- Over the most recent decade, however, the share of individuals income tax has been fairly stable in the range 50.2% to 52.2%. Discretionary reductions in income tax rates—in February 1978, November 1982, November 1984, December 1986 and July 1987—have offset the increases which would have otherwise tended to occur as a result of the combination of progressive personal income tax scales and growing money incomes. The sizeable increase in the individual income tax share in 1986-87 reflected, inter alia, tax reform measures which broadened the income tax base and improved compliance—in particular, the cessation of deductibility of entertainment expenses, stricter substantiation requirements for expenses incurred in earning income, and increased penalties for tax avoidance and evasion.

Table 5—Major Categories of Revenue as Proportions of Total Revenue

	Taxation Revenue										Non-Taxation Revenue									
	Income Tax (a)					Excise (c)					Other Taxation Revenue					Total				
	Individuals	Companies	Total	%	%	Crude Oil and Lignite	Refined Petroleum Products	Liquor	Other	Total	%	%	%	%	%	Other	Interest Received	Total	%	%
Averages: 1957-58 to 1966-67.	32.2	15.1	47.3	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1967-68 to 1976-77.	46.2	11.4	57.6	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1977-78 to 1986-87.	51.0	11.4	62.4	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1977-78.	51.9	13.2	65.6	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1978-79.	51.1	11.9	63.1	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1979-80.	50.2	13.4	64.2	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1980-81.	51.8	10.8	62.6	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1981-82.	51.8	10.8	62.6	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1982-83.	50.4	9.6	60.1	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1983-84.	50.2	10.3	60.5	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1984-85.	51.7	10.4	62.1	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1985-86.	51.8	10.0	61.8	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1986-87.	51.7	10.4	62.1	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2
1987-88.	51.8	10.0	61.8	63.2	6.3	16.0	3.7	12.1	10.0	4.8	7.8	28.7	8.1	0.2	28.9	8.1	28.9	43.0	50.0	8.2

(a) Individuals' combines net PAYE and other individuals. For years 1983-84 to 1987-88 the Medicare levy and some collections under the prescribed payment system which have been apportioned to other individuals are included. Companies include company tax collections and prescribed payments (1982-84 to 1987-88).

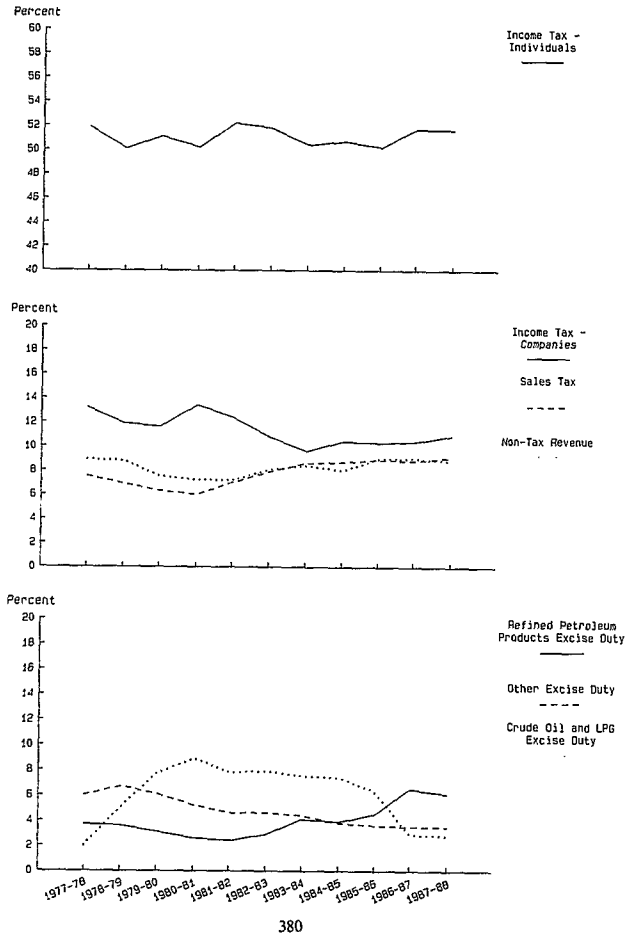
(b) Other category includes beer, postage stamps and tobacco. A more detailed breakup is shown in Statement No. 4 for 1986-87 and 1987-88.

(c) The other excise category includes petrol, diesel, and other fuels, and includes the excise on imports and the total reported excise taxes, tea and fines (including estate, gift and stamp duties), ACT (uses and charges), payroll tax (1987-88 to 1987-77) and bank account debits tax (1982-83 to 1987-88).

(d) As well as interest and rent, dividend, and royalties etc. (and most of the other non-taxation revenue) are included in the total revenue calculated as business undertakings (1957-58 to 1986-87).

(e) Includes Donating Fund (1957-58 to 1964-65), and miscellaneous revenue from Commonwealth companies (1964-65 to 1987-88).

CHART 8. MAJOR CATEGORIES OF REVENUE
AS A PROPORTION OF TOTAL REVENUE



- Considering the past decade as a whole, the long term decline in the company tax share appears to have continued.

Liquid fuel excises—comprising excises on crude oil and LPG, and refined petroleum products—currently represent about 9% of budget revenue. This share has fluctuated over the past decade as the net result of differing patterns in the two components:

- The contribution from the crude oil/LPG component rose steadily to a peak in 1980-81, declined moderately to 1985-86 and then dropped off very sharply in 1986-87. These movements reflected changes in the international price of crude oil and, more recently, reductions in the top rates of crude oil excise.
- The contribution from the refined petroleum products component declined gradually over the late 1970s and early 1980s. This was part of a long term decline in the relative importance of traditional excises stemming from erosion in effective rates, nominal rates generally being set as specific duties. Traditional excise rates have been indexed since the 1983-84 Budget and that, together with discretionary rate increases since early 1986 aimed at recouping revenue losses on the crude oil/LPG excises resulting from falling world oil prices, has lifted the contribution of the excise on refined petroleum products in recent years.

'Other' excises, which include beer, potable spirits and tobacco, have declined gradually as a proportion of total revenue over the past decade, from 6.0% in 1977-78 to around 3.5% in the years since 1985-86. This decline has reflected slow growth in the quantities consumed of beer, spirits and tobacco and, prior to 1983-84, the erosion of effective excise rates by inflation. In recent years, indexation of the rates has roughly stabilised the share of these excises in total revenue.

The sales tax share has been relatively variable, between 6% and 9% over the past decade, and with a less pronounced longer term trend than other tax categories:

- Those variations have essentially reflected discretionary rate and base changes, such as the rate reductions for motor cars and station wagons in 1978-79 and increases in rates and classification changes in 1983-84, 1985-86 and 1986-87.

Over the past two decades, there has been no major trend in the relative contribution of the total of the remaining taxes not individually specified in the above table, although there have been some changes within this category.

Non-Tax Revenue

Over the past two decades non-tax revenue as a whole has made a reasonably stable contribution to total budget revenue (around 8% to 9% although a little lower in the early 1980s). A fairly steady decline in interest received has reflected a greater proportion of Commonwealth payments to the States being provided as grants or loans on concessional terms. Rent, dividends and royalties have risen from 1980-81 to 1986-87, largely reflecting growth in Reserve Bank profit transfers to the Commonwealth, associated with realised profits from foreign currency transactions in the period since 1985-86.

THE BUDGET DEFICIT

While the impact of the Budget on the economy depends on the level and composition of budget outlays and revenue, the net balance—the budget deficit—is of major importance. The consequences of the budget for the Commonwealth's net debt position (both domestic and overseas), for conditions in financial markets and for private sector expectations are all closely linked to the budget deficit.

Movements in the Deficit

The deficit as a proportion of GDP has been higher on average in the decade to 1986-87 than in the previous decade (2.3% compared with 1.9%), which in turn was higher than in the decade 1957-1967 (1.6%). During the past decade, however, there have been two substantial cycles in the deficit (see Table 1 and Chart 1).

Reflecting a reduction in the outlay ratio and an increase in the revenue ratio, the deficit as a proportion of GDP declined over the period 1977-78 to 1981-82. Automatic consequences of the 1982-83 recession, and discretionary policy responses in relation thereto, lifted the deficit sharply in both 1982-83 and 1983-84: the outlay ratio increased sharply while the revenue ratio fell.

Since then there has been a discretionary intent to lower public sector borrowing and this has seen a contraction in the deficit. This thrust of policy has been intensified since the marked deterioration in Australia's trading situation in 1985 and 1986. The deficit in 1986-87 was 1.0% of GDP, below the average of 1.6% in the decade to the mid-1960's. For 1987-88 the estimated deficit ratio has been eliminated; a reduction in the revenue ratio is more than matched by a fall in the outlay ratio.

Domestic and Overseas Deficit

The Government makes substantial payments overseas, principally for defence equipment, overseas aid and debt service (see attached Table VIII). Since direct budgetary revenue from overseas (mainly interest) is negligible, there is typically a deficit on the Government's overseas transactions. The bulk of this deficit needs to be met in foreign currencies, there being only a small \$A component.

Domestic and overseas budget deficits over the past ten years, and as estimated for 1987-88, are provided in Table 6. Factors contributing to the increase in the overseas deficit between 1982-83 and 1986-87 have been the increase in the \$A costs of all overseas payments as a result of the fall in the exchange rate, including overseas debt service, and a rise in defence purchases (see attached Table VIII). The fall in the overseas deficit estimated for 1987-88 is a result of reduced defence purchases and lower debt service reflecting, in part, the reduction in the stock of overseas debt.

Whereas the overall budget deficit relative to GDP has fallen by a little over 4 percentage points since 1983-84, the overseas deficit has increased from 1.2% to 1.3% of GDP over the same period. There was, in consequence, a domestic budget surplus in 1986-87, and a larger surplus is estimated for 1987-88.

Table 6—Domestic and Overseas Budget Deficits (— Surplus)

	Domestic Deficit		Overseas Deficit		Total Deficit	
	\$m	% of GDP	\$m	% of GDP	\$m	% of GDP
1977-78	2 390	2.5	893	0.9	3 283	3.5
1978-79	2 281	2.1	1 145	1.1	3 426	3.2
1979-80	612	0.5	1 377	1.1	1 989	1.6
1980-81	-378	-0.3	1 458	1.1	1 080	0.8
1981-82	-795	-0.5	1 349	0.9	553	0.4
1982-83	2 382	1.5	1 866	1.1	4 448	2.6
1983-84	5 597	2.9	2 335	1.2	7 932	4.1
1984-85	3 758	1.7	2 962	1.4	6 720	3.1
1985-86	2 136	0.9	3 590	1.5	5 726	2.4
1986-87	-1 220	-0.5	3 936	1.5	2 716	1.0
1987-88 (a)	-3 693	-1.3	3 720	1.3	27	0.0

(a) The overseas deficit will be lower than indicated as a result of the sale of Commonwealth land in Tokyo and the ambassadorial residence in Paris. The estimated receipts from these sales have been reflected in the domestic surplus for commercial confidence reasons.

FINANCING THE BUDGET DEFICIT

The financing of the budget deficit has important implications for monetary and financial developments. The deficit can be financed by borrowing from the domestic private sector (the private sector excludes the Reserve Bank and authorities within the Commonwealth Government Budget sector), by borrowing from the Reserve Bank, or by Commonwealth borrowings overseas. Deficits are usually financed by a combination of these sources. The foreign currency component of the deficit can be met in three ways: by purchases in the market, by use of official reserves and by overseas borrowings. The mix of these sources will be influenced by domestic monetary and external account policy.

Domestic Financing

Over the past ten years the primary source of domestic financing has been Commonwealth Government Securities (CGS) issued to the private sector. The dominant contributors have been financial intermediaries—the banks and non-banks, notably superannuation funds and life offices. Households also contributed directly, but much of their lending to the Government were intermediated through financial institutions.

Patterns of domestic financing are influenced by foreign exchange market and monetary policy developments. In 1982-83 and 1983-84, large rundowns in the Reserve Bank's holdings of CGS, and the consequent large increase in non-official holdings of CGS (particularly in the non-bank sector, see Table 7), were the result of efforts to moderate the domestic liquidity impact of large surpluses on private sector foreign exchange transactions. Sizeable increases in the Reserve Bank's holdings of CGS in 1984-85 and 1985-86 reflected the Government's rundown of high post-float official reserve assets (in financing the foreign currency component of the deficit), and Reserve Bank's offsetting of the domestic liquidity impact of its large net sales of foreign exchange to the private sector for 'smoothing and testing' purposes. In 1986-87 there was a large rundown in Reserve Bank holdings of CGS, the foreign currency component of the budget deficit being largely met by direct market purchases and the Reserve Bank offsetting large net purchases of foreign exchange.

Treasury Bonds have been the primary domestic debt financing instrument over the past decade, accounting for 83% of cumulative net domestic sector financing since 1977-78 (see Table 8). Sales of Treasury Bonds have accounted for an even larger proportion of net domestic financing (93%) since the introduction in August 1982 of a tender system of issue.

Table 7—Changes in Holdings of Domestically-issued Commonwealth Government Securities and Other Financing, 1977-78 to 1986-87 (\$m)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
DOMESTIC FINANCING—										
Bank—										
Reserve Bank (a)	256	351	655	-680	264	-1 621	-936	3 377	2 869	-3 529
Trading Banks (b)	19	464	256	785	377	500	561	1 149	1 162	2 499
Savings Banks	-33	414	35	699	-122	950	1 089	-249	-429	768
Total Bank	242	1 229	946	804	519	-171	714	4 277	3 602	-262
Non-Bank—										
Authorised Money Market Dealers	289	99	25	22	-468	539	-46	-452	415	214
Life Offices	221	155	196	214	390	459	1 015	-133	-1 759	-957
Other Non-Bank (c)	919	594	637	165	-189	3 203	6 184	2 405	2 447	3 171
Total Non-Bank	1 429	848	858	401	-267	4 201	7 153	1 820	1 103	2 428
LESS: Discount on Treasury Bonds	—	—	2	27	67	168	297	282	250	174
TOTAL DOMESTIC FINANCING (NET)	1 671	2 077	1 802	1 178	185	3 862	7 570	5 814	4 455	1 992
OVERSEAS BORROWINGS (d)—										
Gross Raisings—										
US Dollar	951	—	—	—	—	418	996	440	709	1 511
Pound Sterling	—	—	—	—	—	176	148	—	179	233
Deutschemark	486	129	207	95	194	170	—	236	563	1 555
Swiss Franc	23	587	—	—	590	—	30	259	210	564
Yen	183	589	264	78	135	233	—	733	1 003	353
Guilder	117	252	—	—	—	154	—	139	212	267
LESS: Repayments	148	208	284	271	552	568	816	909	1 604	2 359
TOTAL OVERSEAS BORROWINGS (NET)	1 612	1 349	187	-98	368	586	362	906	1 271	724
TOTAL FINANCING TRANSACTIONS	3 283	3 426	1 989	1 080	553	4 448	7 932	6 720	5 726	2 716

(a) Includes increases in the Reserve Bank's holdings of Treasury Notes, Bonds and Bills plus decreases in the Commonwealth's cash balances at the Reserve Bank.

(b) Includes Development banks.

(c) Includes Income Equalization Deposits, State domestic raisings, other official holdings (largely Loan Consolidation and Investment Reserve) and other financing transactions not elsewhere identified.

(d) \$A equivalents. By accounting convention gross raisings include, since 1982-83, payments from the International Sugar Organisation.

Table 8—Changes in Holdings of Domestically-issued Commonwealth Government Securities and Other Domestic Financing, Classified by Instrument (\$m)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Treasury Bonds	704	593	155	594	1 236	3 472	7 794	6 093	2 558	2 117
ASBs and Special Bonds	418	283	185	-320	-721	2 391	1 943	-676	-2 005	-511
Treasury Notes	-7	1 047	205	1 912	153	-44	-1 563	822	3 959	1 287
Treasury Bills	200	500	500	-600	-500	-1 400	—	—	—	—
Cash Balances with Reserve Bank (a)	103	-454	635	-242	151	-353	-274	-322	-160	-1 123
Other Financing (b)	253	108	124	-159	-67	-36	-53	178	353	396
LESS: Discount on Treasury Bonds	—	—	2	27	67	168	297	282	250	174
DOMESTIC FINANCING (NET)	1 671	2 077	1 802	1 178	185	3 862	7 570	5 814	4 455	1 992

(a) Negative sign denotes increases in cash balances.

(b) Includes Income Equalization Deposits, State domestic raisings and other financing transactions not elsewhere identified.

Net sales of Australian Savings Bonds (ASBs), after contributing significantly to deficit financing in 1982-83 and 1983-84, have since made a negative contribution. Net redemptions of ASBs were \$2005m in 1985-86 and \$511m in 1986-87.

Although primarily a within-year financing instrument, Treasury Notes have often shown sizeable full-year changes. Largely to meet private sector demand for these securities for portfolio purposes (particularly the asset ratio requirements of the new banks) and for liquidity management purposes, the stock of Treasury Notes on issue increased by \$1287m in 1986-87 following a significant increase, \$3959m, in 1985-86.

The progressive reduction in the budget deficit over recent years has begun to produce a fall in the Commonwealth Budget sector's gross debt outstanding/GDP ratio (see Table 9). From June 1982 to June 1986 this ratio increased from 21.7% to 26.8%; at end-June 1987 the ratio had fallen to 25.7%, almost identical to the decade average of 25.6%; and is estimated to fall further by end-June 1988.

Table 9—Commonwealth Budget Sector Gross Domestic and Overseas Debt as a Percentage of GDP (a)

	Domestic	Overseas (b)	Total
	%	%	%
Average: 1978 to 1987	21.2	4.4	25.6
1978	24.6	3.8	28.5
1979	24.1	4.9	29.0
1980	22.6	4.5	27.1
1981	20.3	3.4	23.7
1982	18.2	3.5	21.7
1983	19.0	4.1	23.0
1984	20.7	3.7	24.4
1985	21.4	4.6	26.0
1986	21.1	5.8	26.8
1987	20.0	5.7	25.7

(a) Debt as measured by securities on issue as at 30 June (see Budget Related Paper No. 1); GDP in year ended 30 June, including revisions given in subsequent National Accounts publications.
 (b) Converted to Australian dollars at the rates of exchange ruling on the dates indicated.

Overseas Financing

Commonwealth overseas raisings have generally been modest over the past decade (see Table 7). The Commonwealth's gross foreign currency debt stabilised at 5.7% of GDP at end-June 1987, compared to an average of 4.4% over the decade (see Table 9). A fall in the ratio is expected over the current financial year.

Table 1—Commonwealth Budget Outlays and Revenue (\$m)

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
OUTLAYS															
1. Education	1 235	1 304	1 599	1 821	2 149	2 340	2 588	3 065	3 400	4 054	4 701	5 208	5 938	6 673	7 209
2. Health	442	559	736	864	1 069	1 259	1 482	1 756	2 071	2 488	2 916	3 406	4 018	4 615	5 216
3. Social Security and Welfare	786	949	1 206	1 509	1 701	2 002	2 368	2 811	3 288	3 716	4 208	4 819	5 495	6 216	6 885
4. Housing and Community Amenities etc	2 88	367	467	578	711	878	1 066	1 269	1 491	1 750	2 041	2 363	2 722	3 084	3 459
5. Culture and Recreation	122	168	245	361	506	670	897	1 141	1 411	1 797	2 311	2 959	3 742	4 673	5 736
6. Other Economic Services	566	728	1 071	1 371	1 691	2 026	2 396	2 821	3 297	3 826	4 411	5 053	5 752	6 505	7 269
7. Economic Services	405	515	801	1 077	1 336	1 609	1 914	2 243	2 604	3 013	3 472	3 981	4 540	5 159	5 828
A. International Trade and Development	61	84	127	186	233	284	341	410	493	591	702	828	978	1 141	1 319
B. Labour and Employment	75	94	124	149	169	178	186	198	211	221	224	234	240	247	
C. Other Economic Services	1 269	1 479	2 345	2 043	1 600	1 553	1 836	2 221	2 706	3 791	4 165	4 521	4 487	4 174	
8. General Public Services	26	37	45	50	61	72	85	100	116	136	156	186	205	234	
A. Law Order and Public Safety	276	360	433	500	554	606	645	715	802	923	1 034	1 148	1 272	1 392	
B. Foreign Affairs and Overseas Aid	359	445	604	660	693	732	815	907	1 081	1 281	1 437	1 638	1 911	2 178	
C. Research and Development	359	445	604	660	693	732	815	907	1 081	1 281	1 437	1 638	1 911	2 178	
D. Administrative Services	789	1 010	1 308	1 487	1 619	1 793	1 930	2 168	2 227	2 563	3 469	3 796	4 356	4 809	
E. Other Public Services	2 623	2 763	3 700	4 436	5 123	5 915	6 573	7 100	7 911	9 008	10 991	12 253	12 658	14 437	
9. Non-Allocated to Functions	674	712	887	967	1 411	1 649	1 971	2 223	2 562	2 882	3 379	4 331	5 658	7 055	
A. Contingency Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0		
B. Public Debt Interest	0	0	0	0	0	0	0	0	0	0	0	0	0		
C. Other	674	712	887	967	1 411	1 649	1 971	2 223	2 562	2 882	3 379	4 331	5 658		
TOTAL OUTLAYS	10 133	12 192	17 008	21 007	24 015	26 465	28 912	31 445	35 966	41 189	48 793	56 432	63 714	69 918	
REVENUE															
A. Taxation Revenue	8 437	10 848	14 054	16 607	19 596	21 293	23 235	27 249	31 907	37 711	40 764	44 438	52 431	58 685	
B. Non-Taxation Revenue	999	1 065	1 202	1 413	1 728	2 089	2 251	2 207	2 596	2 926	3 281	4 062	4 215	5 193	
TOTAL REVENUE	9 436	11 913	15 256	18 220	21 320	23 382	25 486	29 457	34 916	40 637	44 345	48 500	56 646	63 878	
DEFICIT	698	281	2 552	2 567	2 685	3 283	3 436	1 989	1 050	553	4 448	7 932	6 720	5 726	

Table II—Commonwealth Budget Outlays and Revenue—Annual Percentage Change (current prices)

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1987-88 (est.)
OUTLAYS																
1. Defence	6.4	22.7	13.9	18.0	8.9	9.8	15.4	17.7	16.2	16.0	12.7	12.1	12.4	8.0	2.7	
2. Education	94.2	93.8	11.8	16.6	8.8	5.2	3.0	12.3	13.8	13.7	10.0	10.6	8.8	6.1	9.0	
3. Health	20.7	35.5	130.1	-14.0	6.2	7.4	9.1	14.9	-20.1	17.6	28.8	39.2	12.1	9.2	9.5	
4. Social Security and Welfare	18.5	49.4	35.5	26.6	16.5	8.9	8.5	12.9	15.8	22.8	16.5	8.7	7.6	7.3	10.1	
5. Housing and Community Amenities, nec	430.2	128.6	-13.0	-16.9	-12.7	-26.0	-31.6	20.7	20.4	61.0	38.0	24.8	7.5	13.5	-17.8	
6. Culture and Recreation	37.9	45.8	6.3	2.1	1.5	10.1	11.6	25.1	20.0	7.8	17.3	22.6	17.2	4.8	8.8	
7. Economic Services																
A. Transport and Communication	15.7	49.3	3.0	-25.5	-13.3	-15.3	11.9	22.3	19.6	49.3	-2.0	8.9	-5.5	-7.0	-0.4	
B. Industry Assistance and Development	7.4	84.2	-53.0	-37.2	27.8	71.2	26.7	13.4	33.7	17.0	-5.1	10.7	16.7	-17.2	3.7	
C. Labour and Employment	37.4	51.4	46.4	14.6	19.2	15.8	-11.2	27.9	22.7	53.5	74.3	4.1	-8.8	-1.0	-0.9	
D. Other Economic Services	25.9	31.1	20.7	7.0	-13.8	-44.8	39.4	40.0	15.7	29.2	1.1	16.2	-12.8	17.5	-7.0	
Total Economic Services	14.7	58.6	-12.9	-21.7	-2.9	4.0	13.7	21.0	24.6	37.0	9.9	8.5	-0.7	-6.9	-0.1	
8. General Public Services																
A. Legislative Services	59.6	8.6	29.2	21.4	18.3	-7.8	13.3	39.6	20.1	48.1	4.3	55.5	15.1	36.4	21.0	
B. Law, Order and Public Safety	42.3	48.7	30.0	14.7	9.4	27.5	15.3	10.8	17.8	20.2	16.2	22.8	13.1	10.1	11.4	
C. Foreign Affairs and Overseas Aid	30.4	20.7	15.5	10.8	9.4	6.4	10.9	12.2	15.0	12.1	11.0	10.8	4.1	-1.7	6.9	
D. General and Scientific Research, nec	21.9	31.1	15.9	10.1	6.9	16.3	17.3	17.4	23.8	11.6	3.0	1.6	7.0	7.2	0.8	
E. Administrative Services	24.0	35.7	9.3	5.0	12.8	4.2	11.3	19.2	16.6	13.9	14.0	16.7	14.0	16.6	9.1	
Total General Public Services	28.0	29.5	13.6	8.9	10.7	7.7	12.3	16.6	17.2	15.1	11.3	14.8	10.4	10.5	9.0	
9. Not Allocated to Function																
A. Assistance to Other Governments, nec	5.3	33.9	19.9	15.5	15.4	11.1	8.0	12.3	24.3	10.9	11.5	3.3	7.3	6.3	3.0	
B. Public Debt Interest	5.6	24.5	9.1	46.0	16.9	19.5	12.8	15.2	12.5	17.2	28.2	30.6	24.7	12.3	-12.0	
TOTAL OUTLAYS	20.3	46.1	22.3	10.2	11.0	8.4	8.8	14.5	14.4	18.5	15.7	12.9	9.7	7.1	4.3	(a)
REVENUE																
Taxation Revenue	28.6	29.6	19.6	16.6	8.7	9.1	17.3	18.9	16.4	8.1	9.0	18.0	11.4	12.5	8.5	
Non-taxation Revenue	6.6	12.9	17.6	22.7	20.5	7.8	-2.0	13.7	16.6	22.4	13.4	12.6	26.7	12.2	5.8	
TOTAL REVENUE	26.2	28.1	19.4	17.1	9.6	9.0	15.6	18.5	16.4	9.1	9.4	17.5	12.6	12.4	8.2	

(a) Includes Contingency Reserve and Asset Sales.

Table III—Commonwealth Budget Outlays—Constant 1979-80 Prices (\$m)

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
OUTLAYS																
1. Defence	2 797	2 613	2 630	2 572	2 727	2 743	2 822	2 965	3 155	3 283	3 429	3 589	3 782	3 967	3 967	3 813
2. Education	1 009	1 721	2 736	2 628	2 753	2 766	2 727	2 556	2 595	2 646	2 710	2 768	2 878	2 922	2 871	2 927
3. Health	1 795	1 902	2 115	4 179	3 238	3 166	3 189	3 165	3 288	3 322	2 492	2 982	3 903	4 084	4 127	4 229
4. Social Security and Welfare	4 781	4 974	6 099	7 099	8 074	8 691	8 871	8 760	8 943	9 271	10 352	11 092	11 332	11 382	11 300	11 637
5. Housing and Community Amenities, nec	201	935	1 754	1 311	979	789	547	341	372	401	582	745	874	877	921	709
6. Culture and Recreation	279	337	403	369	338	317	326	332	375	403	392	427	492	538	522	531
7. Economic Services																
A. Transport and Communication	1 708	1 734	2 126	1 880	1 258	1 008	809	814	900	954	1 297	1 180	1 209	1 067	919	856
B. Industry Assistance and Development	915	872	1 318	532	200	354	568	555	672	804	849	747	778	847	650	630
C. Labour and Employment	139	168	209	262	270	298	323	261	302	332	460	743	728	619	567	535
D. Other Economic Services	171	189	204	211	203	162	84	106	134	138	162	152	166	135	147	128
Total Economic Services	2 943	2 963	3 856	2 885	2 031	1 821	1 775	1 836	2 008	2 240	2 765	2 822	2 881	2 668	2 299	2 149
8. General Public Services																
A. Legislative Services	55	77	68	71	77	84	73	75	95	102	136	132	192	207	261	295
B. Law Order and Public Safety	91	114	139	155	160	162	193	203	203	215	233	251	266	281	286	298
C. Foreign Affairs and Overseas Aid	630	721	712	706	703	710	709	715	725	747	754	779	810	788	717	716
D. General and Scientific Research, nec	205	220	237	235	233	230	251	267	284	315	317	303	289	289	297	230
E. Administrative Services	830	892	993	932	879	917	896	907	978	1 021	1 048	1 110	1 217	1 295	1 374	1 402
Total General Public Services	1 601	2 024	2 151	2 100	2 055	2 102	2 121	2 168	2 285	2 399	2 486	2 572	2 776	2 859	2 925	2 983
9. Not Allocated to Function																
A. Assistance to Other Governments, nec	5 989	5 537	6 085	6 266	6 502	6 934	7 223	7 100	7 207	8 023	8 017	8 301	8 062	8 078	7 945	7 657
B. Public Debt Interest	1 539	1 426	1 458	1 366	1 791	1 934	2 166	2 223	2 317	2 334	2 465	2 934	3 604	4 194	4 361	4 043
C. Contingency Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	77
D. Asset Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-515
TOTAL OUTLAYS	23 135	24 432	29 289	30 773	30 476	31 260	31 771	31 445	32 546	33 351	35 589	38 233	40 582	41 568	41 221	40 240

Table VI—Commonwealth Government Budget Outlays (\$m)

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
1. DEFENCE																
Forces Personnel	442	556	661	720	797	868	918	1 039	1 190	1 563	1 631	1 667	1 749	1 948	2 008	2 078
Civilian Personnel	145	172	202	207	229	247	256	271	311	384	383	402	426	457	478	505
Defence Force Retirement Benefits	22	37	52	63	78	92	112	126	142	168	205	242	281	340	395	448
Equipment And Stores	339	276	297	402	467	538	638	781	972	1 143	1 096	1 493	1 822	2 304	2 620	2 903
Defence Facilities	83	75	131	121	121	139	125	145	182	218	201	225	261	304	393	396
Defence Housing	7	9	28	36	37	24	13	3	4	-32	33	31	43	65	64	105
Industrial Capacity	19	43	56	64	84	93	107	125	149	200	282	333	338	340	334	271
Defence Science and Technology Establishments	49	47	64	64	70	75	79	86	98	126	139	147	158	166	184	183
Defence Co-operation	11	10	89	39	25	27	25	30	38	40	44	46	45	50	55	58
Other Defence Programs	110	79	18	96	124	137	153	178	233	292	295	320	332	383	485	596
TOTAL DEFENCE	1 225	1 304	1 599	1 821	2 149	2 340	2 568	2 965	3 490	4 054	4 701	5 298	5 938	6 673	7 209	7 404
2. EDUCATION																
Universities	142	292	502	539	640	708	728	793	872	1 007	1 091	1 163	1 250	1 375	1 427	1 547
Advanced Education	66	177	367	395	472	477	511	530	566	617	685	760	821	920	974	1 051
Technical And Further Education	16	34	55	81	100	147	173	193	198	224	259	282	373	354	384	363
Other Tertiary Education	1	1	2	-31	-39	-42	-45	-55	-64	-79	-98	-114	-121	-135	-128	-137
Schools and Pre-Schools—States	84	155	376	372	438	701	719	710	836	1 016	1 209	1 330	1 467	1 570	1 617	1 751
Schools and Pre-Schools—ACT	25	34	57	80	84	89	93	94	105	116	114	116	178	191	206	225
Other Secondary Education	0	29	120	189	228	2	3	3	3	2	2	5	8	6	6	4
Student Assistance	63	73	100	133	162	176	186	191	218	234	262	333	353	422	498	613
Special Groups	26	43	57	65	57	69	80	73	89	102	112	127	142	158	170	194
Other Education Programs	20	21	27	37	28	31	36	24	28	30	34	40	48	54	63	74
TOTAL EDUCATION	442	859	1 664	1 800	2 169	2 359	2 482	2 556	2 871	3 268	3 716	4 086	4 519	4 915	5 216	5 685
3. HEALTH																
Medical Services and Benefits	218	231	303	830	661	481	639	728	802	911	1 073	1 639	2 551	2 939	3 242	3 527
Hospital Services and Benefits	170	194	275	1 290	1 015	1 314	1 253	1 478	1 716	1 922	2 322	2 574	3 272	3 549	3 861	4 186
Pharmaceutical Services and Benefits	201	244	291	321	275	300	319	328	370	422	481	537	613	687	771	999
Nursing Home and Domiciliary Care	107	139	202	246	287	312	329	380	464	673	857	983	1 167	1 295	1 443	1 686
Health Services in the ACT	31	40	64	75	70	99	67	67	51	64	87	99	123	141	154	173
Other Health Services	15	29	37	34	34	28	34	32	32	38	44	49	72	60	72	68
Health Administration and recoveries	43	73	115	161	173	168	162	172	202	138	158	192	225	274	305	314
TOTAL HEALTH	786	949	1 286	2 959	2 544	2 701	2 902	3 165	3 636	4 205	4 817	5 632	6 418	6 870	7 499	8 213

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Table VI—Commonwealth Government Budget Outlays (\$m)—continued

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
4. SOCIAL SECURITY AND WELFARE																
Assistance to the Aged	916	1 177	1 669	2 225	2 555	3 016	3 301	3 582	4 011	4 594	4 973	5 422	5 771	6 063	6 479	7 255
Assistance to Veterans and Dependents	391	360	474	564	659	795	855	961	1 068	1 322	1 709	2 023	2 322	2 574	2 754	3 127
Assistance to the Handicapped	197	243	338	470	581	687	793	901	1 006	1 125	1 245	1 462	1 710	1 946	2 218	2 506
Assistance to Widows and Single Parents	150	239	324	462	542	652	752	846	969	1 323	1 486	1 719	1 956	2 162	2 319	2 521
Assistance to Families	263	237	244	294	1 057	1 075	1 037	1 054	1 000	1 097	1 451	1 634	1 681	1 749	1 634	1 797
Assistance to the Unemployed and Sick	181	119	477	776	747	951	1 075	1 120	1 255	1 524	2 090	3 341	3 449	3 622	4 008	4 156
Other Welfare	9	12	22	33	34	30	33	42	51	59	87	111	151	172	181	195
Aboriginal Advancement nec	17	21	38	42	16	15	15	16	37	64	88	107	124	134	150	198
Administration	58	84	122	160	171	191	212	239	275	342	406	553	629	721	791	843
TOTAL SOCIAL SECURITY AND WELFARE	2 094	2 482	3 708	5 026	6 362	7 413	8 073	8 760	9 891	11 450	14 055	16 372	17 792	19 144	20 533	22 599
5. HOUSING AND COMMUNITY AMENITIES																
Housing Assistance other Governments	7	223	391	363	369	378	316	259	267	232	444	690	954	1 033	1 191	991
Assistance to First Home Buyers	21	25	13	7	8	35	20	72	45	115	150	242	306	242	202	222
Housing in the ACT	24	32	35	112	107	42	-9	-17	-21	-14	-3	-7	2	5	5	3
Defence Service Homes	13	37	105	47	21	40	35	-81	10	87	82	36	35	35	33	16
Housing Other	11	17	154	16	26	23	27	3	29	21	25	29	30	90	114	27
General Administration	3	3	5	6	0	2	6	7	8	9	10	11	12	12	13	15
Urban and Regional Development nec	-2	110	335	341	212	127	79	69	41	15	51	53	-22	-2	47	26
Protection of the Environment	0	0	1	3	2	1	3	7	8	6	11	14	17	15	15	28
Urban Administration	12	20	28	34	26	25	22	22	26	24	27	32	39	45	53	48
TOTAL HOUSING AND COMMUNITY AMENITIES NEC	88	467	1 067	928	771	673	498	341	411	495	797	1 099	1 372	1 474	1 671	1 376
6. CULTURE AND RECREATION																
Broadcasting and Television	93	116	154	170	170	171	180	201	258	324	354	399	458	557	578	571
National Collections	11	19	24	22	26	32	38	45	53	56	56	62	76	89	102	110
Arts and Culture	17	30	52	58	63	57	58	65	81	80	85	111	142	164	209	275
Youth Sports and Recreation	1	2	2	3	2	3	6	11	10	19	35	37	52	64	86	88
National Estates and Parks	0	1	13	7	5	6	14	10	13	20	17	20	24	31	33	38
TOTAL CULTURE AND RECREATION	122	168	245	261	266	270	297	332	415	498	537	620	772	905	949	1 032

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Table VI—Commonwealth Government Budget Outlays (\$m)—continued

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
7. ECONOMIC SERVICES																
A. TRANSPORT AND COMMUNICATIONS																
Commercial	0	0	0	396	206	42	-26	-7	8	14	52	11	31	-20	-86	-75
Air Transport	101	46	137	124	76	62	2	-3	85	232	521	376	357	337	281	267
Road Transport	112	352	405	497	489	548	553	604	662	730	914	1245	1291	1307	1308	1314
Rail Transport	11	6	36	95	71	89	105	97	88	136	201	95	121	95	62	49
Sea Transport	23	19	76	99	33	26	14	44	68	47	66	53	82	36	54	58
Postales	9	54	63	65	37	15	12	12	10	7	7	-6	-5	-10	-23	-17
Other Transport and Communications	291	387	473	56	78	78	68	67	75	25	17	19	21	66	71	67
TOTAL TRANSPORT AND COMMUNICATIONS	748	866	1293	1331	991	860	728	814	996	1191	1778	1742	1898	1795	1669	1662
B. INDUSTRY ASSISTANCE AND DEVELOPMENT																
Forestry and Fishing Industries	13	10	10	11	11	4	10	8	8	7	20	9	10	6	21	22
Agricultural and Pastoral Industries	208	238	456	174	57	288	-2	-19	-66	62	72	19	83	133	111	68
Mining	22	23	71	-18	24	-46	265	217	189	248	428	311	341	427	460	404
Manufacturing	51	45	72	80	67	61	81	122	142	151	221	266	328	479	371	412
Tourist	3	5	8	8	4	3	4	8	9	9	11	21	30	32	38	46
Export	67	89	119	108	51	62	97	258	316	339	328	297	215	295	242	240
Other Assistance to Industry	41	26	65	14	22	9	63	61	145	177	101	179	154	53	36	33
TOTAL INDUSTRY ASSISTANCE AND DEVELOPMENT	405	435	801	377	236	302	517	655	743	993	1162	1103	1221	1425	1180	1224
C. LABOUR AND EMPLOYMENT																
Training Programs	6	14	49	79	76	118	155	64	91	108	126	183	210	193	193	270
Job Creation and Employment Assistance	0	0	0	0	0	0	0	24	41	56	219	571	528	392	344	233
Community Based and Aborigines	1	0	1	1	3	7	9	22	29	54	58	87	106	117	134	152
Placement/Information Services	1	0	1	0	0	52	67	66	90	102	100	132	150	172	171	180
Industrial Relations	23	26	30	49	69	51	41	48	52	54	64	67	82	103	105	110
Economic and Labour Market Advicing	0	0	0	0	0	0	0	1	1	1	1	6	8	10	14	12
General Administration	32	43	45	57	64	25	21	37	31	34	62	50	58	55	72	82
TOTAL LABOUR AND EMPLOYMENT	61	84	127	186	213	254	294	261	334	410	629	1096	1142	1041	1031	1040
D. OTHER ECONOMIC SERVICES																
Economic Trade and Regulation	10	15	22	26	28	30	29	32	39	41	44	48	53	63	60	67
Metereological Services	16	18	22	23	25	26	27	32	34	40	47	48	56	63	71	77
National Mapping	5	6	6	7	7	8	9	10	12	13	14	15	16	16	19	29
Water Supply	5	4	10	20	36	28	15	5	4	5	17	14	38	48	58	36
Electricity Supply	29	40	47	63	56	37	-9	19	30	30	58	57	71	48	58	36
Gas Supply	0	0	0	0	0	0	0	0	20	31	28	25	7	3	0	0
Economic Services nec	10	12	17	10	8	10	6	7	9	12	14	19	20	18	25	23
TOTAL OTHER ECONOMIC SERVICES	75	94	124	149	160	138	76	106	148	171	221	224	260	227	267	248
TOTAL ECONOMIC SERVICES	1289	1479	2345	2043	1600	1553	1615	1836	2221	2766	3791	4165	4521	4487	4147	4174

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Table VI—Commonwealth Government Budget Outlays (\$m)—continued

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
8. GENERAL PUBLIC SERVICES																
A. LEGISLATIVE SERVICES																
Parliament House Construction Authority	1	1	0	0	0	0	1	8	25	55	63	109	177	284	301	
Parliamentary Expenditure	15	23	30	33	39	46	48	54	62	72	85	93	116	131	141	176
Other Legislative Services	7	14	11	17	22	25	18	20	35	26	46	38	77	39	50	97
TOTAL LEGISLATIVE SERVICES	24	38	42	50	61	72	66	75	105	126	166	194	302	348	474	574
B. LAW ORDER AND PUBLIC SAFETY																
Courts and Legal Services	9	15	24	38	49	58	72	82	77	90	120	136	163	193	211	233
Security and Intelligence	5	6	6	7	9	11	22	25	33	40	47	62	68	69	78	74
Police and Prison Services	17	22	36	42	46	45	54	64	81	95	94	101	115	133	143	151
Other Law Order and Public Safety	9	14	20	23	24	23	28	33	35	40	57	71	71	76	89	121
TOTAL LAW ORDER AND PUBLIC SAFETY	40	57	85	110	127	138	176	203	225	265	318	370	417	472	520	579
C. FOREIGN AFFAIRS AND OVERSEAS AID																
Bilateral Aid	194	272	287	342	366	386	438	476	519	583	641	712	756	750	736	756
Multilateral Aid	14	16	43	41	56	77	67	79	95	131	161	186	211	231	189	195
Overseas Aid Other	-3	2	2	5	4	4	4	4	5	6	6	7	12	15	17	20
Foreign Affairs Non-Aid	70	71	100	112	129	138	137	156	183	202	226	242	292	330	361	421
TOTAL FOREIGN AFFAIRS AND OVERSEAS AID	276	360	433	500	554	606	645	715	802	922	1034	1148	1272	1325	1302	1392
D. GENERAL AND SCIENTIFIC RESEARCH																
CSIRO																
Australian Nuclear Science and Technology Organisation	14	16	18	20	21	23	24	26	29	38	36	39	42	45	45	48
Other Scientific nec	13	14	21	23	31	27	35	46	57	60	69	77	87	96	108	123
TOTAL GENERAL AND SCIENTIFIC RESEARCH NEC	90	110	144	167	183	196	228	267	314	389	434	477	454	486	521	525
E. ADMINISTRATIVE SERVICES																
Financial Affairs and Fiscal Administration	129	163	205	230	259	296	308	327	364	454	527	607	700	841	868	825
Australian Bureau of Statistics	26	31	41	47	58	58	57	64	88	115	98	99	117	124	165	132
ACT and Island Territories	9	32	44	57	55	65	31	33	38	53	59	58	78	105	117	127
Construction Services	52	68	92	84	83	89	82	84	110	114	127	127	158	160	173	186
Commonwealth Offices	43	24	45	33	32	28	24	28	35	31	46	42	53	47	88	144
Property Management and Services	20	24	36	40	35	37	37	47	52	61	70	94	116	133	137	211
Rent	21	29	37	44	48	51	55	62	69	78	100	138	178	236	295	372
Net Superannuation Payments nec	30	37	47	66	62	96	130	164	208	207	261	307	327	408	531	643
Other	53	60	85	90	103	108	136	149	175	190	207	218	247	272	330	264
Revenues nec	-18	-17	-22	-28	-33	-40	-39	-38	-47	-51	-34	-32	-36	-40	-44	-47
Proceeds of Ongoing Sales of Assets	-4	-7	-6	-4	-7	-7	-7	-13	-12	-12	-24	-22	-25	-107	-154	-137
TOTAL ADMINISTRATIVE SERVICES	359	445	604	660	693	782	815	907	1081	1261	1437	1638	1911	2178	2496	2723
TOTAL GENERAL PUBLIC SERVICES	789	1010	1308	1487	1619	1793	1930	2168	2527	2963	3409	3796	4356	4809	5314	5793

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Table VI—Commonwealth Government Budget Outlays (\$m)—continued

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
9. NOT ALLOCATED TO FUNCTION																
A. ASSISTANCE TO OTHER GOVERNMENTS																
General Revenue Assistance	1 701	1 923	2 488	3 112	17	15	12	30	28	1 287	1 426	1 799	1 893	11 820	13 227	14 253
Capital Assistance	850	726	938	1 139	1 197	1 263	1 249	1 157	1 219	1 209	1 124	1 138	1 055	1 053	540	-102
Debt Assistance	78	91	104	47	47	49	51	55	67	79	90	110	121	50	51	52
Local Government Assistance	0	0	56	80	140	165	175	223	302	353	427	462	489	539	595	642
Assistance to South West Tasmania	0	0	0	0	0	0	0	0	0	0	0	63	34	34	30	30
Natural Disaster Relief Payments	-5	23	113	58	27	53	24	10	70	21	132	122	-15	-8	3	-6
Assistance to Other Governments Other	0	0	0	0	3 656	4 369	5 059	5 625	6 285	6 960	7 793	8 560	9 061	0	0	0
TOTAL ASSISTANCE TO OTHER GOVERNMENTS	2 623	2 763	3 700	4 436	5 123	5 915	6 573	7 100	7 971	9 908	10 991	12 253	12 658	13 587	14 437	14 869
B. PUBLIC DEBT INTEREST																
Interest on Behalf of the States	14	16	18	16	21	23	25	27	30	1 422	1 591	1 687	1 856	1 991	2 074	2 116
Interest Received on Commonwealth Stock	-86	-99	-110	-127	-114	-105	-107	-135	-160	-133	-108	-86	-84	-103	-90	-86
Interest Received on Behalf of the Commonwealth	746	795	979	1 079	1 504	1 731	2 053	2 332	2 692	1 592	1 897	2 731	3 886	5 167	5 940	5 821
TOTAL PUBLIC DEBT INTEREST	674	712	887	967	1 411	1 649	1 971	2 223	2 562	2 882	3 379	4 331	5 658	7 055	7 923	7 851
C. CONTINGENCY RESERVE																
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	250
D. ASSET SALES																
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-1 000
TOTAL NOT ALLOCATED TO FUNCTION	3297	3 475	4 586	5 403	6 535	7 564	8 545	9 323	10 533	12 790	14 370	16 584	18 316	20 642	22 360	21 870
TOTAL OUTLAYS	10 133	12 192	17 808	21 787	24 015	26 665	28 912	31 445	35 996	41 189	48 793	56 432	63 714	69 918	74 899	78 146

Table VII—Commonwealth Budget Outlays in National Accounts Format (\$m)

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
CURRENT OUTLAYS																
Current Outlays on Goods and Services																
Defence—Salaries	629	777	929	1 006	1 101	1 193	1 251	1 380	1 593	2 065	2 169	2 234	2 288	2 523	2 610	2 732
—Other than Salaries	377	508	623	741	978	1 091	1 279	1 551	1 856	1 944	2 478	3 012	3 596	4 094	4 544	4 442
Non-Defence—Salaries	570	754	1 017	1 185	1 318	1 415	1 489	1 573	1 811	2 171	2 440	2 742	3 070	3 401	3 651	3 813
—Other than Salaries	333	389	515	665	664	896	935	956	1 103	1 309	1 470	1 967	2 251	2 652	2 900	3 400
Total Current Outlays on Goods and Services	2 109	2 428	3 083	3 597	4 061	4 593	4 946	5 460	6 363	7 489	8 556	9 955	11 205	12 669	13 795	14 388
Current Transfer Payments																
Interest	674	713	887	967	1 412	1 649	1 971	2 223	2 562	2 882	3 379	4 336	5 666	7 090	7 978	7 903
Subsidies	250	280	300	426	387	543	577	801	1 026	1 121	1 191	1 211	1 318	1 323	1 061	983
Personal Benefit Payments	2 549	3 096	4 341	6 000	7 264	8 103	8 956	9 721	10 965	12 700	15 516	16 386	20 664	24 085	26 784	27 844
Grants to Non-Profit Institutions	15	22	47	58	145	190	204	251	293	381	547	651	787	881	1 029	887
Transfers to Non-Budget Sectors (a)	302	361	470	593	653	664	752	743	942	1 154	1 292	1 409	1 608	1 856	1 889	2 188
Grants to Other Governments	2 078	2 530	3 850	5 590	6 130	7 263	8 156	9 097	10 334	11 406	13 162	15 017	16 510	17 757	19 331	20 755
Transfers Overseas	219	247	292	306	343	383	444	493	546	631	687	729	807	806	783	818
Other Transfers	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	10
Total Current Transfer Payments	6 087	7 250	10 186	13 981	16 332	18 795	21 041	23 329	26 668	30 356	35 655	41 740	47 360	52 072	56 157	60 309
TOTAL CURRENT OUTLAYS	8 197	9 677	13 269	17 578	20 393	23 388	25 987	28 789	33 031	37 845	44 411	51 695	58 565	64 741	69 952	74 697
CAPITAL OUTLAYS																
Capital Outlays on Goods and Land (b)																
Capital Transfer Payments	130	170	308	318	286	163	83	86	45	191	317	244	337	370	386	633
Transfers to Non-Budget Sector (a)	83	111	156	213	200	198	194	187	192	191	240	237	342	429	580	568
Grants to Other Governments	694	897	1 348	1 556	1 530	1 502	1 485	1 546	1 649	1 778	2 230	2 792	3 165	3 247	3 249	2 973
Grants to Other Sectors (c)	51	62	79	91	88	99	94	139	120	192	241	328	385	331	268	345
Total Capital Transfer Payments	828	1 070	1 582	1 859	1 818	1 799	1 773	1 871	1 961	2 161	2 711	3 358	3 895	4 007	4 127	3 886
Net Advances	324	424	853	593	304	42	-111	-100	-22	13	183	-18	-17	-102	-122	-104
To Non-Budget Sector (a)	667	745	1 259	1 369	1 279	1 262	1 127	896	938	866	1 056	1 002	799	786	546	-40
To Other Governments	-14	106	536	70	-64	12	54	-97	42	113	115	150	133	115	101	74
To Other Sectors (d)	977	1 275	2 648	2 032	1 519	1 315	1 070	700	938	993	1 354	1 135	915	800	525	-70
Total Net Advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-1 000
Asset Sales	1 936	2 515	4 538	4 269	3 432	3 277	2 955	2 656	2 965	3 345	4 382	4 736	5 148	5 177	5 038	2 449
TOTAL CAPITAL OUTLAYS	10 133	12 192	17 808	21 787	24 015	26 665	28 912	31 445	35 996	41 189	48 793	56 432	63 714	69 918	74 899	78 146
TOTAL OUTLAYS	18 330	21 869	31 076	39 363	44 408	50 050	54 901	60 440	69 027	79 034	94 163	110 146	128 583	144 660	154 851	162 843

(a) The Commonwealth Non-Budget Sector consists of Commonwealth authorities which operate outside the Public Account. This includes both general government authorities which largely depend upon budget financing (e.g. ABC) and public trading enterprises which are largely self-financing.
 (b) Capital Outlays on Goods and Land includes the purchase of new fixed assets, purchases less sales of second hand fixed assets and land, and net increase in stocks.
 (c) Consists of capital grants to Commonwealth enterprises, private enterprises, non-profit organisations and persons.
 (d) Consists of net advances to public financial enterprises, private enterprises, persons, non-profit organisations and overseas.

Table VIII—Domestic and Overseas Outlays of the Commonwealth Government Budget (\$m)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (estimate)
Domestic Outlays											
CURRENT OUTLAYS—											
Current Outlays on Goods and Services—											
Defence											
Salaries	1 190	1 247	1 376	1 589	2 059	2 163	2 228	2 282	2 516	2 602	2 721
Other than Salaries	768	867	1 040	1 292	1 514	1 712	1 952	2 167	2 488	2 924	3 019
Non-Defence:											
Salaries	1 394	1 462	1 551	1 786	2 143	2 413	2 716	3 042	3 365	3 607	3 759
Other than Salaries	836	879	888	1 018	1 223	1 380	1 867	2 121	2 490	2 768	3 278
Total Current Outlays on Goods and Services	4 186	4 454	4 854	5 684	6 938	7 666	8 762	9 611	10 858	11 901	12 778
Current Transfer Payments—											
Interest	1 500	1 674	1 849	2 201	2 540	2 916	3 806	5 009	6 163	6 703	6 664
Subsidies	543	577	801	1 026	1 121	1 191	1 211	1 318	1 323	1 061	993
Personal Benefits Payments	8 069	8 896	9 677	10 914	12 717	15 506	18 303	20 572	22 232	23 594	26 645
Grants to Non-Profit Institutions	190	204	251	293	381	547	651	787	881	1 029	887
Transfers to Non-Budget Sector	664	752	743	942	1 154	1 292	1 409	1 608	1 856	1 889	2 168
Grants to Other Governments	7 263	8 156	9 097	10 334	11 496	13 182	15 017	16 510	17 757	19 331	20 755
Transfers Overseas	122	133	179	218	246	262	305	300	296	264	310
Other Transfers, nec.											10
Total Current Transfer Payments	18 351	20 393	22 596	25 927	29 566	34 896	40 704	46 104	50 509	54 231	58 422
TOTAL CURRENT OUTLAYS	22 537	24 847	27 450	31 611	36 505	42 562	49 466	53 715	61 367	66 132	71 200
CAPITAL OUTLAYS—											
Capital Outlays on Goods and Land	132	62	75	37	183	308	231	324	347	368	595
Capital Transfer Payments	1 799	1 773	1 871	1 961	2 161	2 711	3 358	3 895	4 007	4 127	3 886
Net Advances Paid	1 268	1 051	666	914	934	1 300	1 040	825	694	419	-164
Asset Sales (a)											-1 000
TOTAL CAPITAL OUTLAYS	3 199	2 885	2 611	2 912	3 278	4 318	4 629	5 045	5 048	4 914	3 317
TOTAL DOMESTIC OUTLAYS	25 736	27 732	30 061	34 523	39 782	46 881	54 097	60 761	66 415	71 045	74 517

(a) The estimated receipts from the sale of major overseas assets (land in Tokyo and the ambassadorial residence in Paris) have been included in domestic outlays for commercial confidence reasons.

Table VIII—Domestic and Overseas Outlays of the Commonwealth Government Budget (\$m)—continued

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (Estimate)
Overseas Outlays											
CURRENT OUTLAYS—											
Current Outlays on Goods and Services (a)											
Defence	328	418	516	569	437	773	1 067	1 436	1 613	1 628	1 434
Non-Defence:											
Salaries	19	18	22	25	28	27	26	28	36	44	54
Other than Salaries	60	56	68	85	86	90	100	130	162	132	122
Total Current Outlays on Goods and Services	407	492	606	679	551	890	1 193	1 594	1 811	1 804	1 610
Current Transfer Payments—											
Interest	149	297	374	361	342	463	530	657	927	1 273	1 239
Personal Benefits Payments	34	40	44	51	63	70	83	92	126	131	140
Transfers Overseas	261	311	314	328	385	425	424	507	510	519	508
Total Current Transfer Payments	444	648	733	741	790	959	1 036	1 256	1 563	1 926	1 887
TOTAL CURRENT OUTLAYS	851	1 140	1 339	1 420	1 340	1 849	2 229	2 850	3 374	3 730	3 497
CAPITAL OUTLAYS—											
Capital Outlays on Goods and Land	31	21	11	8	8	9	13	13	23	18	38
Net Advances Paid	47	19	34	44	59	54	95	90	106	106	94
TOTAL CAPITAL OUTLAYS	78	40	45	53	67	64	107	103	129	124	132
TOTAL OVERSEAS OUTLAYS(b)	929	1 180	1 384	1 473	1 407	1 912	2 335	2 953	3 503	3 854	3 629

(a) Salaries of all Australian based staff overseas are included in domestic outlays for the purpose of this table.

(b) The estimated receipts from the sale of major overseas assets (land in Tokyo and the ambassadorial residence in Paris) have been included in domestic outlays for commercial confidence reasons.

Table IX—Commonwealth Government Budget Revenue

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
TAXATION REVENUE															
Income Tax															
Individuals															
Gross PAYE	5 010	6 919	8 362	9 811	10 578	11 438	13 287	15 291	18 836	20 812	22 024	24 403	27 575	30 657	32 655
Less Rebates	772	848	1 343	1 282	940	1 040	1 127	1 170	1 418	1 971	2 403	2 072	2 385	2 520	2 610
Net PAYE	4 238	6 071	7 019	8 529	9 639	10 398	12 160	14 121	17 417	18 840	19 620	22 331	25 189	28 136	30 045
Medicare Levy	—	—	—	—	—	—	—	—	—	—	365	1 223	1 335	1 715	2 065
Prescribed Payments System	—	—	—	—	—	—	—	—	—	—	251	412	515	765	835
Other	1 252	1 643	2 200	2 525	2 490	2 406	2 880	3 423	3 807	4 126	4 474	5 334	5 694	7 457	8 215
Total Income Tax on Individuals	5 490	7 714	9 219	11 054	12 129	12 804	15 040	17 543	21 224	22 967	24 710	29 300	32 734	38 074	41 160
Companies	1 954	2 359	2 523	2 824	3 095	3 037	3 406	4 695	5 053	4 768	4 382	5 505	6 089	6 701	7 675
Withholding Tax	79	88	95	96	118	114	141	161	205	239	305	404	562	639	660
Recoupment Tax (a)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Fringe Benefits Tax	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Income Tax	7 523	10 161	11 837	13 974	15 242	15 954	18 588	22 399	26 482	28 074	29 649	35 334	39 435	45 968	50 195
Sales Tax	969	1 154	1 408	1 650	1 758	1 770	1 865	2 102	2 854	3 490	4 165	4 966	5 728	6 348	7 110
Excise Duty	—	—	264	344	476	1 227	2 270	3 108	3 163	3 486	3 651	4 202	4 019	2 062	2 187
Crude Oil and LPG	—	—	—	772	863	910	905	925	970	1 293	1 973	2 207	2 813	4 666	4 800
Petroleum Products	—	—	—	1 369	1 395	1 708	1 790	1 800	1 840	2 028	2 110	2 185	2 373	2 557	2 700
Other Excise Duty	1 555	1 729	2 068	2 332	2 485	2 734	3 845	4 965	5 833	5 993	6 807	7 734	8 564	9 205	9 284
Total Excise Duty	1 555	1 729	2 332	2 485	2 734	3 845	4 965	5 833	5 993	6 807	7 734	8 564	9 205	9 284	
Customs Duty	605	841	932	1 152	1 132	1 363	1 538	1 800	2 060	2 026	2 329	2 923	3 282	3 239	3 220
Imports	—	—	—	112	121	100	94	91	85	97	66	66	60	57	32
Coal Exports	605	841	1 044	1 273	1 232	1 457	1 629	1 885	2 157	2 102	2 395	2 987	3 339	3 288	3 380
Total Customs Duty	605	841	1 044	1 273	1 232	1 457	1 629	1 885	2 157	2 102	2 395	2 987	3 339	3 288	3 380
Bank Account Debit Tax	—	—	—	—	—	—	—	—	—	—	30	163	189	202	261
ACT Taxes and Charges	5	15	19	21	22	16	16	17	19	21	24	29	34	39	43
Payroll Tax	—	3	4	4	4	4	4	4	4	4	4	4	4	4	4
Stamp Duty	6	10	10	12	14	15	17	19	21	24	24	28	31	35	39
ACT General Rates	5	6	8	8	10	13	14	16	21	29	32	38	48	58	81
Other ACT Taxes and Charges	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Departure Tax	—	—	—	—	—	12	18	19	36	42	43	47	50	56	61
Broadcasting and Television Licence Fees	—	4	4	7	12	15	18	21	31	40	48	59	69	77	113
Other Taxes, Fees and Fines rec.	171	131	141	159	164	132	114	87	84	87	117	160	220	218	252
TOTAL TAXATION REVENUE	10 846	14 054	16 807	19 596	21 293	23 235	27 249	32 407	37 711	40 764	44 438	52 421	58 399	65 685	71 243

Table IX—Commonwealth Government Budget Revenue—continued

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
NON-TAX REVENUE															
Interest Received															
From Other Governments															
On General Purpose Advances	604	663	695	832	948	1 018	1 091	1 270	1 441	1 618	1 736	1 904	1 991	2 073	2 115
On Housing Agreements	82	94	113	131	149	165	176	183	189	197	212	228	245	265	289
On Other Specific	22	28	49	72	83	95	110	118	112	122	135	96	95	89	93
Total Interest from Other Governments	708	785	857	1 035	1 179	1 278	1 376	1 571	1 742	1 937	2 083	2 227	2 331	2 427	2 497
From Non-Budget Authorities															
ACT Electricity Authority	1	1	1	1	1	1	2	2	2	2	2	2	2	2	2
Australian National Railways	—	—	—	—	—	11	4	4	4	4	4	6	7	8	8
Snowy Mountains Hydro-electric Authority	41	45	48	47	47	47	47	49	55	57	57	61	66	72	73
Pipeline Authority	3	8	15	21	24	25	27	29	31	33	35	34	34	33	31
Australian Shipping Commission	3	3	13	17	20	19	18	16	17	15	11	11	1	—	—
Postal Commission	179	210	7	7	6	4	3	2	3	4	5	5	5	6	5
Telecommunications Commission	7	7	10	14	14	15	8	5	3	3	2	2	2	2	—
Qantas	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Australian National Airlines Commission	3	3	4	5	5	6	4	1	1	1	1	1	1	—	—
Other Non-Budget Authorities	—	8	34	24	9	1	—	—	—	—	—	—	—	—	—
Total Interest from Non-Budget Authorities	237	285	400	426	448	453	439	436	510	599	722	782	818	782	772
Total Interest Received	945	1 070	1 257	1 461	1 627	1 731	1 815	2 007	2 252	2 536	2 809	3 009	3 149	3 209	3 269
Rent, Dividends, Royalties etc.															
Overseas Telecommunications Commission	3	5	5	13	13	13	20	25	20	12	31	—	50	40	46
Australian National Airlines Commission (incl Australian Shipping Commission)	2	—	1	3	2	2	6	2	2	—	—	—	—	—	13
Reserve Bank	—	—	—	80	216	263	226	198	345	663	746	1 014	1 985	2 601	2 659
Commonwealth Bank	7	5	5	12	15	28	36	42	39	34	46	39	23	100	68
Housing Loans Insurance Corporation	—	—	—	—	—	—	—	—	—	—	—	4	1	7	12
Australian Industry Development Corporation	—	—	—	—	—	—	—	—	—	—	—	—	8	9	10
Other Financial Enterprises	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Petroleum Royalties	11	12	13	14	23	28	43	55	52	68	85	97	169	103	113
Royal Australian Mint	15	18	19	22	24	27	9	47	33	52	133	175	37	7	212
Other (incl receipts from)	4	4	5	5	6	7	10	16	16	32	37	32	43	42	43
Total Rent, Dividends, Royalties etc.	43	51	52	153	306	374	351	399	518	861	1 082	1 373	2 347	2 934	3 199
Total Interest, Rent, Dividends, Royalties etc.	1 057	1 197	1 406	1 720	2 069	2 243	2 201	2 507	2 927	3 574	4 061	4 567	5 793	6 494	6 872
Miscellaneous Receipts from Commonwealth Enterprises	10	4	7	15	19	9	5	2	2	6	..	4	..	4	3
TOTAL NON-TAX REVENUE	1 065	1 202	1 413	1 734	2 089	2 251	2 207	2 509	2 926	3 581	4 062	4 573	5 793	6 498	6 876
TOTAL REVENUE	11 911	15 256	18 220	21 330	23 382	25 486	29 457	34 916	40 637	44 345	48 500	56 994	64 193	72 184	78 119

(a) This item is not shown separately in Statements 4 and 5, but is allocated to 'Companies' and 'Other Taxes, Fees and Fines'.

STATEMENT NO. 7—TRANSACTIONS OF THE PUBLIC SECTOR
AS A WHOLE

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STATEMENT NO. 7—TRANSACTIONS OF THE PUBLIC SECTOR AS A WHOLE

The Commonwealth Budget accounts for around 70% of total public sector outlays and for some 75% of public sector revenues. When transfers to other sectors of government are excluded, however, the share of the Commonwealth Budget sector in total outlays is reduced to less than half. This Statement reviews transactions by the public sector as a whole and by its major sub-sectors.

COMPOSITION OF THE PUBLIC SECTOR

Data presented on the public sector as a whole in the Budget Papers in previous years have classified Commonwealth and State Government sector activities according to whether they were administered within or without the budgets of the respective levels of government. As administrative arrangements can vary among governments, this meant that some functionally identical activities would be classified to different sectors in different States. For example, railway operations fall within the budget sector of some States (New South Wales, Queensland and Western Australia) but within the non-budget sector of the other States. For some purposes, analysis based on this administrative sector classification can therefore be misleading.

Developments in statistical classification by the Australian Bureau of Statistics (ABS) now permit an alternative presentation of public sector data by institutional, rather than administrative, sector. The institutional sector classification, which is used in this Statement, distinguishes between general government, on the one hand, and public trading enterprises (PTEs) on the other—as distinct from budget and non-budget¹.

The principal functions of general government are the provision of non-market services, primarily for collective use, and the transfer of income for various public policy purposes. These functions are financed primarily by compulsory levies on other sectors; that is, largely by taxation. With some exceptions, general government does not perform these functions on a normal commercial basis. In contrast, PTEs have a greater commercial orientation, normally selling goods and services to the public on a large scale with the financial returns accruing in the first instance to the agency concerned. PTEs operate so as to recover, through charges for their goods and services, all or a significant proportion of their operating costs. There are often transfers (subsidies) from general government to PTEs and vice versa (dividends), but the manner in which each sector undertakes its functions underpins an analytically meaningful distinction.

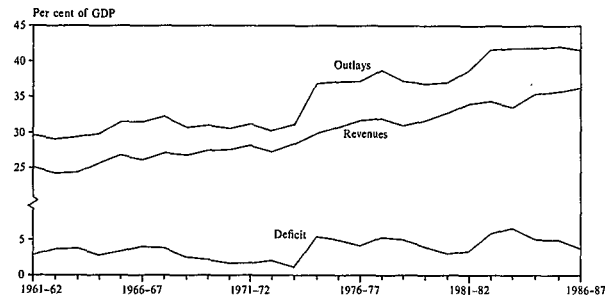
¹ There are three levels of government in Australia—Commonwealth, State and local. State and local governments are grouped together for the purposes of this Statement and are denoted as State/local. This Statement employs data prepared by the ABS on the basis of the classification methods set out in the *Classifications Manual for Government Finance Statistics, Australia* (ABS Catalogue No 1217.0). The data reflect the estimates presented in Budget Related Paper No. 2 *National Income and Expenditure 1986-87* (ABS Catalogue No 5213.0) and are more recent than data published in *Government Financial Estimates, Australia, 1986-87* (ABS Catalogue No 5501.0). There are, however, some differences between the government financial estimates and national accounts data. In particular, the national accounts incorporate estimates of current cost depreciation (treated as part of current outlays under 'consumption of fixed capital') while the government financial estimates for general government include no allowance for depreciation.

At the Commonwealth level, the general government sector includes the (administrative) Budget sector plus a number of Commonwealth statutory authorities dependent on budget funding (eg. the ABC and the CSIRO) less a small number of on-budget PTEs. The Commonwealth general government sector undertakes functions such as public administration, defence, welfare activities and assistance to other governments.² The Commonwealth PTE sector includes authorities such as Telecom, Australia Post and Australian Airlines. At the State level, the general government sector includes, for example, the provision of education, health and community services. Among State PTEs are electricity, gas and transport authorities. On the definitions applied here, the general government sector accounts for about 95% of total Commonwealth outlays; the corresponding proportion at the State/local level is around 80%³.

TRENDS IN PUBLIC SECTOR FINANCES

Chart 1 shows trends in the main aggregates for the public sector as a whole since 1961-62, measured in relation to GDP.

Chart 1: Public Sector Outlays, Revenues and Deficit as a Proportion of GDP



While the levels of the main aggregate ratios have varied over time, outlays, revenues and the deficit, to a lesser extent, are now all higher as a proportion of GDP than in the 1960s and early 1970s. The revenue ratios have tended to increase fairly steadily over the past 25 years, with only temporary downturns (the most recent occurring in the recession of the early 1980s). Major lifts in the outlays share, and in the deficit, occurred in the mid 1970s and in the early 1980s.

² More details of the coverage of the Commonwealth sector are provided in Budget Statement No. 8 *Coverage and Classification of Information in the Budget Statements*.

³ Outlays for the PTE sector comprise capital expenditures and interest and dividend payments; as for private trading enterprises, their operating expenditures and revenues are netted and an operating surplus is calculated. Outlays for the general government sector also include final consumption expenditures and other transfer payments.

Outlays

Public sector outlays as a share of GDP over the decade to 1986-87, by institutional sector and level of government, are shown in Table 1.

Table 1—Public Sector Outlays as a Proportion of GDP (a)

	General Government			Public Trading Enterprises			Total			
	Common-wealth	State/local	Total	Common-wealth	State/local	Total	Common-wealth	Common-wealth	State/local	Total
								Own Purpose ²		
%	%	%	%	%	%	%	%	%	%	%
Average: 1977-78 to 1986-87 . . .	28.1	17.1	34.7	1.6	4.8	6.4	29.4	18.7	21.1	39.8
1977-78 . . .	28.4	17.9	34.5	1.7	4.0	5.7	29.6	17.8	21.0	38.8
1978-79 . . .	27.2	17.2	33.1	1.4	4.0	5.4	28.1	16.9	20.4	37.3
1979-80 . . .	26.3	16.8	32.5	1.5	4.2	5.6	27.4	16.8	20.2	36.9
1980-81 . . .	26.4	16.5	32.4	1.5	4.3	5.8	27.6	17.0	20.1	37.1
1981-82 . . .	26.8	16.4	33.0	1.7	5.0	6.7	28.1	17.9	20.9	38.8
1982-83 . . .	28.9	17.4	35.6	1.7	5.9	7.5	30.1	19.3	22.4	41.7
1983-84 . . .	29.6	17.2	36.0	1.7	5.5	7.2	30.9	20.1	21.8	41.9
1984-85 . . .	29.9	17.4	36.8	1.6	5.0	6.6	31.1	20.6	21.4	41.9
1985-86 . . .	29.3	17.4	36.5	1.9	5.0	6.9	30.8	20.7	21.4	42.2
1986-87 . . .	28.5	17.2	36.1	1.8	5.0	6.8	30.1	20.4	21.2	41.6

(a) From 1978-79, the Northern Territory is treated as part of the State/local government sector; before then it is treated as part of the Commonwealth sector. This change, however, has not affected the movements in State/local outlays since that time.

The table includes a column showing Commonwealth 'own purpose' outlays; this excludes outlays which represent direct transfers to the State/local government sector (ie grants and net advances) or which are made on behalf of the State/local government sector (ie interest on advances). Netting out such transactions between the Commonwealth and State/local sectors permits consolidated outlays of the public sector as a whole to be presented without double-counting¹.

Commonwealth own purpose outlays increased more rapidly than State/local sector outlays in the early 1980s, although this situation has now been reversed. Those aggregate comparisons may not, however, correspond to the locus of effective decision making. For example, a significant proportion of Commonwealth outlays is transfers to the States provided on the condition that funds be used for designated purposes ('specific purpose payments'). The ensuing outlays for those specific purposes are classified as State outlays. In some cases, however, these payments relate to functions for which the Commonwealth has effective responsibility for funding and policy decisions—for example, universities and colleges of advanced education. When such expenditures vary, it is essentially as a result of decisions at the Commonwealth level, even though the outcomes are reflected in the State, rather than the Commonwealth, outlays classification. Given this arbitrariness in the existing classification of 'own purpose' outlays, the discussion in the remainder of this Statement focuses on trends in each sector's total outlays.

Public sector outlays in total grew strongly in the early 1980s, increasing from 37.1% of GDP in 1980-81 to 41.7% in 1982-83 (see Table 1). Both levels of government contributed to this increase. Most of the Commonwealth's contribution

¹ Similar netting out is involved in deriving each of the sectoral 'total' columns to account for transfers between the general government and PTE sectors.

reflected a lift in the expenditure share of the general government sector, resulting both from the impact of the recession as well as discretionary policy decisions. State/local general government outlays also rose for similar reasons, though to a more limited extent. Around two thirds of the increase in aggregate State/local outlays, however, was due to large capital works projects undertaken by State PTEs to expand electricity generating capacity and to provide infrastructure for expected resource development; State/local PTE outlays as a share of GDP rose by almost two percentage points over the five years to 1982-83. Between 1983-84 and 1985-86 total public sector outlays averaged around 42% of GDP, before falling to 41.6% in 1986-87. PTE sector outlays have fallen since their 1982-83 peak, primarily reflecting the completion of the aforementioned State PTEs' capital projects.

Outlays of the general government sector by main economic type and for each level of government are shown in Table 2. The basic distinction is between net expenditure on goods and services and transfers and advances, with the former representing the direct demands of governments on real resources.

Net expenditure on goods and services by the general government sector increased modestly over the decade, from an average just below 19% of GDP in the first half to an average of around 19.5% in the second half. This increase was more than accounted for by an increase in consumption expenditure; capital expenditure as a proportion of GDP declined marginally over the decade, reflecting developments in the State/local general government sector.

Transfer payments made by general government trended upwards over the decade, increasing from an average of around 14% of GDP during the first half to more than 16.5% in the second. This largely reflected increased Commonwealth personal benefit payments and higher debt servicing costs for the Commonwealth. The former was due to increased numbers of welfare recipients, as well as increased benefit levels, and the latter to higher interest rates and rising levels of public sector debt.

Commonwealth transfers to the State/local sector declined as a share of GDP during the late 1970s and early 1980s, but increased in 1982-83 and 1983-84 in line with faster growth in recurrent funding, and payments in respect of natural disaster and drought relief and Medicare. Such transfers have subsequently declined to their lowest level during the last decade.

For the general government sector as a whole transfer payments account for just under half of total outlays. Transfers dominate the expenditures of the Commonwealth sector, however, accounting on average for almost 80% of its outlays. This reflects its social welfare responsibilities and the transfers made to the State/local sector. Transfers comprise less than 25% of State/local general government outlays.

Table 2—General Government Sector Outlays by Main Economic Type as a Proportion of GDP

	Net Expenditure on Goods and Services		Transfers and Advances							Total	Total	
	Consumption	Capital (a)	Total	Personal Benefit Payments		Transfers to other Governments (b)			Interest			Other (c)
				%	%	%	%	%				
Commonwealth												
Average: 1977-78 to 1986-87	5.6	0.3	5.9	8.8	2.2	9.5	1.6	22.2	28.1			
1977-78	5.5	0.4	5.9	8.6	1.8	10.6	1.5	22.5	28.4			
1978-79	5.2	0.3	5.5	8.4	1.8	10.0	1.4	21.7	27.2			
1979-80	5.1	0.3	5.4	8.1	1.8	9.5	1.5	20.9	26.3			
1980-81	5.3	0.1	5.4	8.1	1.9	9.4	1.6	20.9	26.4			
1981-82	5.5	0.3	5.8	8.3	1.9	9.1	1.8	21.0	26.8			
1982-83	5.8	0.4	6.2	9.2	2.0	9.7	1.9	22.8	28.9			
1983-84	5.9	0.3	6.2	9.6	2.3	9.8	1.8	23.4	29.6			
1984-85	6.0	0.3	6.3	9.6	2.6	9.5	1.9	23.6	29.9			
1985-86	6.0	0.4	6.4	9.3	2.9	9.1	1.6	22.9	29.3			
1986-87	5.9	0.4	6.4	9.1	3.0	8.7	1.3	22.2	28.5			
State/local												
Average: 1977-78 to 1986-87	10.6	2.7	13.3	0.3	1.5	..	2.1	3.9	17.1			
1977-78	10.5	3.5	14.0	0.4	1.5	..	2.1	3.9	17.9			
1978-79	10.3	3.3	13.5	0.3	1.5	..	1.9	3.7	17.2			
1979-80	10.3	2.9	13.3	0.3	1.4	..	1.8	3.5	16.8			
1980-81	10.4	2.5	13.0	0.3	1.4	..	1.8	3.5	16.5			
1981-82	10.5	2.4	13.0	0.3	1.4	..	1.7	3.4	16.4			
1982-83	10.9	2.4	13.3	0.3	1.5	..	2.3	4.2	17.4			
1983-84	10.8	2.4	13.1	0.3	1.5	..	2.3	4.1	17.2			
1984-85	10.8	2.5	13.2	0.3	1.5	..	2.3	4.1	17.4			
1985-86	10.6	2.6	13.2	0.3	1.6	..	2.3	4.2	17.4			
1986-87	10.5	2.5	13.1	0.3	1.5	..	2.3	4.2	17.2			
Total												
Average: 1977-78 to 1986-87	16.2	3.0	19.2	9.1	2.6	..	3.7	15.5	34.7			
1977-78	16.0	3.9	19.9	9.0	2.0	..	3.6	14.6	34.5			
1978-79	15.5	3.5	19.0	8.7	2.1	..	3.3	14.2	33.1			
1979-80	15.5	3.2	18.7	8.4	2.1	..	3.3	13.8	32.5			
1980-81	15.7	2.7	18.4	8.3	2.2	..	3.4	14.0	32.4			
1981-82	16.0	2.7	18.7	8.6	2.2	..	3.5	14.3	33.0			
1982-83	16.7	2.7	19.4	9.5	2.4	..	4.2	16.2	35.6			
1983-84	16.7	2.7	19.4	9.9	2.7	..	4.1	16.6	36.0			
1984-85	16.7	2.8	19.5	9.9	3.1	..	4.2	17.2	36.8			
1985-86	16.6	2.9	19.6	9.6	3.6	..	3.8	17.0	36.5			
1986-87	16.5	3.0	19.4	9.4	3.6	..	3.7	16.7	36.1			

(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.

Table 3 shows PTE outlays by economic type expressed as a proportion of GDP. Net expenditure on goods and services consists of capital expenditures only, as consumption expenditures by PTEs are treated as an offset to revenues in calculating their operating surpluses. Taking the decade as a whole, net expenditures by this sector have not shown a trend, fluctuating around 4% of GDP. They peaked in the early 1980s under the influence of the large infrastructure projects undertaken

by State PTEs. Net expenditures by Commonwealth PTEs (which represent around one quarter of the total) have changed little over the past decade.

Transfer payments made by the PTE sector have increased strongly over the decade, being on average more than one percentage point of GDP higher in the second half than in the first. Virtually all of this increase occurred in the State/local PTE sector primarily reflecting higher interest payments (due to growing levels of debt and higher interest rates) and, to a much more limited extent, growth in dividends paid to State Governments (reflecting dividend policies recently implemented by some States).

Table 3—Public Trading Enterprise Sector Outlays by Main Economic Type as a Proportion of GDP

	Net Expenditure on Goods and Services		Transfers and Advances		Total
	Consumption	Capital (a)	Total	Interest	
Commonwealth					
Average: 1977-78 to 1986-87	1.0	0.6	1.6		
1977-78	1.2	0.5	1.7		
1978-79	0.8	0.6	1.4		
1979-80	0.9	0.6	1.5		
1980-81	1.0	0.5	1.5		
1981-82	1.1	0.6	1.7		
1982-83	1.0	0.7	1.7		
1983-84	1.0	0.8	1.8		
1984-85	0.9	0.7	1.6		
1985-86	1.2	0.6	1.9		
1986-87	1.1	0.7	1.8		
State/local					
Average: 1977-78 to 1986-87	3.1	1.7	4.8		
1977-78	2.8	1.2	4.0		
1978-79	2.8	1.2	4.0		
1979-80	2.9	1.3	4.2		
1980-81	3.0	1.3	4.3		
1981-82	3.5	1.4	5.0		
1982-83	3.5	2.0	5.5		
1983-84	3.9	2.0	5.9		
1984-85	3.5	2.1	5.6		
1985-86	2.8	2.3	5.0		
1986-87	2.6	2.4	5.0		
Total					
Average: 1977-78 to 1986-87	4.1	2.3	6.4		
1977-78	4.0	1.7	5.7		
1978-79	3.6	1.8	5.4		
1979-80	3.8	1.8	5.6		
1980-81	4.0	1.8	5.8		
1981-82	4.7	2.1	6.7		
1982-83	4.9	2.6	7.5		
1983-84	4.4	2.8	7.2		
1984-85	3.7	2.8	6.6		
1985-86	4.0	2.9	6.9		
1986-87	3.7	3.1	6.8		

(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.

Revenues

Public sector revenues by sector and level of government for the past decade are shown in Tables 4 and 5. Salient points are:

- the Commonwealth raises more than three quarters of total public sector revenues, although it undertakes a significantly smaller proportion of final outlays. This disparity has its origins in the uniform income tax arrangements agreed with the States during the Second World War. Partly as a result of these arrangements, the Commonwealth makes significant transfers to the State/local sector to assist in financing its outlays; over the second half of the past decade such transfers have on average been of the same magnitude as the State/local sector's directly raised revenues;
- public sector revenues relative to GDP have increased substantially and fairly steadily over the past decade; at 36.3% of GDP in 1986-87, total revenues were more than four percentage points higher than 10 years earlier. Around two thirds of the increase was accounted for by the Commonwealth sector;
- both Commonwealth general government and PTEs' revenues showed trend increases;
- comparing first and second half decade averages, State/local sector total revenues increased by around 1/2 of a percentage point. On the same basis own revenues increased by one percentage point of GDP, more than offsetting the decline in grants and advances from the Commonwealth; and
- the increase in State/local sector own revenues was shared fairly evenly between the general government and PTE sectors.

Table 4—Public Sector Revenues by Level of Government as a Proportion of GDP

	State/local					Total (c)
	Commonwealth (a)	Own		Transfers (b)	Total	
		Revenue (a)	%			
Average: 1977-78 to 1986-87	26.2	8.7	9.5	18.2	33.7	
1977-78	25.0	8.3	10.6	18.9	32.1	
1978-79	24.2	8.0	10.0	18.1	31.0	
1979-80	24.9	8.0	9.5	17.6	31.8	
1980-81	25.9	8.1	9.4	17.5	32.8	
1981-82	26.8	8.4	9.1	17.5	34.1	
1982-83	26.5	9.1	9.7	18.8	34.4	
1983-84	25.8	9.0	9.8	18.7	33.6	
1984-85	27.3	9.2	9.5	18.7	35.5	
1985-86	27.4	9.4	9.1	18.5	35.8	
1986-87	28.0	9.3	8.7	18.0	36.3	

- (a) Comprises taxes, fees and fines, PTEs' net operating surpluses, and property income and other revenue.
 (b) Comprises grants and net advances from the Commonwealth.
 (c) Net of transactions, including interest paid, between the Commonwealth and State/local sectors.

Table 5—Public Sector Revenues by Institutional Sector as a Proportion of GDP

	General Government						Public Trading Enterprises							
	State/local			Total			State/local			Total				
	Commonwealth (e)	Own Revenue (g)	Transfers (h)	Total (a)	Commonwealth (c)	Own Revenue (d)	Transfers (f)	Total (b)	Own Revenue (d)	Transfers (f)	Total (e)	Own Revenue (d)	Transfers (f)	Total (g)
Average: 1977-78 to 1986-87	25.8	7.2	9.6	16.7	31.9	0.8	1.9	0.4	2.3	2.6	0.4	3.1	0.4	3.1
1977-78	24.9	7.0	10.6	17.6	30.7	0.6	1.6	0.5	2.2	2.3	0.5	2.8	0.5	2.8
1978-79	24.0	6.8	10.1	16.8	30.6	0.6	1.6	0.4	2.0	2.3	0.3	2.6	0.3	2.6
1979-80	24.9	6.8	9.4	16.3	31.3	0.6	1.6	0.3	1.9	2.2	0.3	2.6	0.3	2.6
1980-81	25.6	6.8	9.4	16.2	32.4	0.8	1.7	0.1	1.8	2.4	0.2	2.6	0.2	2.6
1981-82	26.4	7.1	9.1	16.2	32.7	0.7	2.0	0.4	2.5	2.6	0.6	3.2	0.6	3.2
1982-83	26.3	7.4	9.8	17.2	31.7	0.8	2.0	0.5	2.7	2.7	0.4	3.2	0.4	3.2
1983-84	25.8	7.4	9.8	17.2	31.7	0.8	2.0	0.5	2.7	2.7	0.4	3.2	0.4	3.2
1984-85	25.8	7.4	9.8	17.2	31.7	0.8	2.0	0.5	2.7	2.7	0.4	3.2	0.4	3.2
1985-86	26.9	7.5	9.1	16.6	33.4	0.9	2.3	0.5	2.8	3.2	0.4	3.7	0.4	3.7
1986-87	27.3	7.4	8.8	16.2	33.8	1.0	2.3	0.5	2.8	3.3	0.5	3.8	0.5	3.8

- (a) Comprises taxes, fees and fines, property incomes and other revenue.
 (b) Comprises grants and net advances from the Commonwealth.
 (c) Net of transactions between sectors, including interest paid.
 (d) Comprises primarily PTEs' net operating surpluses and property incomes and other revenues.
 (e) Comprises grants and net advances from general government.

Financing Transactions

Table 6 shows public sector deficits as a share of GDP as defined in the government financial estimates—that is, outlays less revenues less increases in provisions, including for depreciation and superannuation.

Table 6—Public Sector Deficits as a Proportion of GDP

	General Government			Public Trading Enterprises		
	Commonwealth	State/local	Total	Commonwealth	State/local	Total
Average: 1977-78 to 1986-87	2.3	1.0	2.7	0.3	2.0	2.3
1977-78	3.3	1.7	3.7	0.5	1.5	2.1
1978-79	3.1	1.4	3.5	..	1.7	1.7
1979-80	1.6	1.2	2.1	0.3	1.8	2.1
1980-81	0.7	0.9	1.0	0.3	2.0	2.3
1981-82	0.3	0.7	0.6	0.4	2.5	3.0
1982-83	2.6	0.8	2.9	0.4	2.9	3.4
1983-84	4.1	0.6	4.2	0.2	2.5	2.7
1984-85	3.1	0.7	3.5	0.2	1.6	1.9
1985-86	2.3	1.0	3.1	0.4	1.7	2.1
1986-87	1.1	1.2	2.2	0.3	1.5	1.8

The deficit of the State/local sector is partly met by advances from the Commonwealth (largely under the State Governments' Loan Council program). Table 7 shows each sector's direct calls on financial markets (that is, excluding that portion of their deficit which is met by net advances), and the resulting consolidated net public sector borrowing requirement (PSBR). Chart 2 also shows the net PSBR by level of government and institutional sector. Table 8 shows the reconciliation of the State/local sector's deficit with its net PSBR.

As shown in Table 7, estimates of the PSBR are also available on a gross basis from 1982-83. The gross PSBR comprises the Commonwealth Budget deficit plus total new borrowings by Commonwealth and State semi-government and local authorities reported to, or approved by, Loan Council under the Global Approach.⁴⁹ (These gross estimates exclude conversions or refinancing of borrowings.)

The main conceptual difference between the two measures of the PSBR is the treatment of changes in holdings of financial assets. These changes are reflected in the net PSBR. Thus, when the gross PSBR for any year is higher than the net PSBR, that implies that authorities have undertaken more new borrowings than were required to finance their net deficits and so have added to their holdings of financial assets. In contrast, when the net PSBR exceeds the gross PSBR, this implies that financial assets are being liquidated and the proceeds withdrawn from the market to meet their deficits.⁵⁰

⁴ The Global Approach to borrowings by Commonwealth and State authorities was adopted in 1984-85. Estimates of total borrowings for 1982-83 and 1983-84 have been provided by State Treasuries. Chapter IV of Budget Paper No 4 *Commonwealth Financial Relations With Other Levels of Government 1987-88* provides further details.

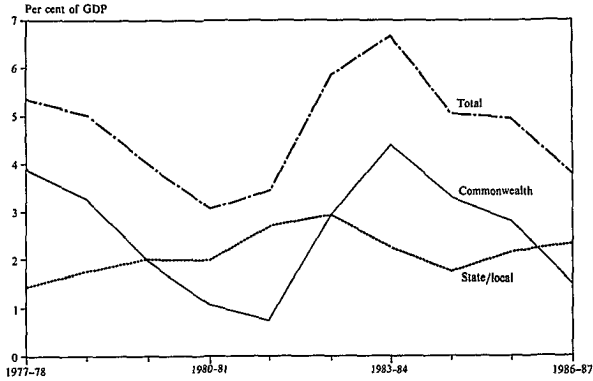
⁵ There are other factors affecting the measured differences between the net and gross PSBR. These include possible errors and omissions in the Statistician's estimates, as well as some significant differences in definition, coverage and timing between the Statistician's and Loan Council data. These measurement difficulties mean that differences between the gross and net PSBR provide only an approximate guide to the magnitude and direction of changes in holdings of financial assets.

Table 7—Public Sector Borrowing Requirement (PSBR) as a Proportion of GDP

	Net PSBR						Gross PSBR					
	General Government			Public Trading Enterprises			Total			Total		
	Commonwealth	State/local	Total	Commonwealth	State/local	Total	Commonwealth	State/local	Total	Commonwealth	State/local	Total
	%	%	%	%	%	%	%	%	%	%	%	%
Average: 1977-78 to 1986-87	2.3	0.4	2.7	0.3	1.7	2.1	2.6	2.1	4.7	3.1	3.6	6.7
1977-78	3.3	0.3	3.7	0.6	1.1	1.7	3.9	1.4	5.3	4.5	6.7	
1978-79	3.1	0.3	3.5	0.1	1.4	1.6	3.3	1.8	5.0	3.4	8.0	
1979-80	1.6	0.5	2.1	0.3	1.6	1.9	2.0	2.0	4.0	3.4	7.0	
1980-81	0.7	0.2	0.9	0.4	2.5	2.9	0.7	2.7	3.4	2.9	2.9	
1981-82	0.3	0.2	0.5	0.4	2.5	3.0	2.9	2.9	5.9	3.1	3.6	
1982-83	2.6	0.2	2.9	0.3	2.7	3.0	4.4	4.4	7.4	4.5	3.4	
1983-84	4.1	0.4	4.2	0.3	2.2	2.5	2.5	2.3	4.8	3.7	3.3	
1984-85	3.1	0.4	3.5	0.2	1.4	1.6	3.3	1.7	5.0	3.3	2.9	
1985-86	2.3	0.7	3.1	0.3	1.5	2.0	2.8	2.2	5.0	2.9	2.4	
1986-87	1.1	1.0	2.2	0.4	1.3	1.6	1.5	2.3	3.8	1.6	4.0	

Chart 2: Net Public Sector Borrowing Requirement as a Proportion of GDP

Panel A: Level of Government



Panel B: Institutional Sector

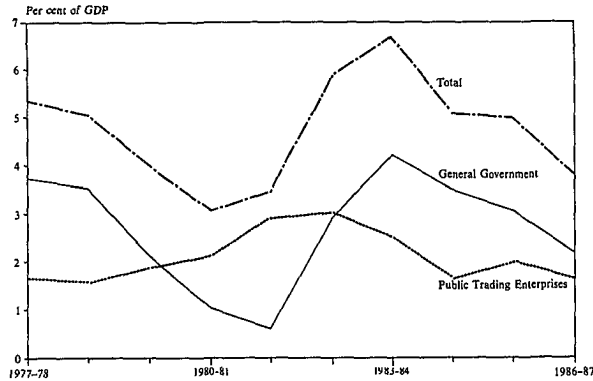


Table 8—State/Local Deficits as a Proportion of GDP

	State/Local General Government Sector			State/Local Government Sector		
	Deficit	Net Advances	Net Borrowing Requirement	Deficit	Net Advances	Net Borrowing Requirement
	%	%	%	%	%	%
Average: 1977-78 to 1986-87	1.0	0.6	0.4	2.8	0.6	2.1
1977-78	1.7	1.3	0.3	2.8	1.3	1.4
1978-79	1.4	1.1	0.3	2.8	1.1	1.8
1979-80	1.2	0.7	0.5	2.8	0.7	2.0
1980-81	0.9	0.7	0.2	2.7	0.7	2.0
1981-82	0.7	0.6	0.2	3.2	0.6	2.7
1982-83	0.8	0.6	0.2	3.5	0.6	2.9
1983-84	0.6	0.5	...	2.8	0.5	2.3
1984-85	0.7	0.4	0.4	2.1	0.4	1.7
1985-86	1.0	0.3	0.7	2.5	0.3	2.2
1986-87	1.2	0.2	1.0	2.5	0.2	2.3

As noted earlier, at the Commonwealth level, the general government sector corresponds in very broad terms to the Budget sector. Trends in the Commonwealth budget deficit over the past decade are discussed in Statement No. 6. The borrowing requirement of the Commonwealth PTE sector has been relatively modest and has fluctuated around 0.3% of GDP over the past decade (see Table 7). Trends in the total Commonwealth government sector borrowing requirement are thus covered adequately by the discussion in Statement No. 6.

The State/local general government deficit trended downwards relative to GDP during the first half of the past decade, and upwards over the second half (see Table 6). By 1986-87, it had reached 1.2% of GDP, around 1/2 of a percentage point higher than the 1983-84 level.

A somewhat different picture emerges from Table 7, which shows that the net PSBR for the State/local general government sector was low and stable for most of the decade before increasing quite sharply from a position of balance in 1983-84 to 1% of GDP in 1986-87. This recent increase not only reflects that sector's rising deficit, but also the changing way in which that deficit is financed. Over a long period the importance of net advances from the Commonwealth has been declining (see Table 8), and in recent years some State Governments have increasingly borrowed through their authorities, particularly their central borrowing authorities (CBAs), to finance their deficits.

Any comprehensive assessment of movements in the net PSBR, however, also needs to take account of variations in total transfer payments between the sectors. When grants and advances to the States are reduced, the effect is to reduce the borrowing requirement of the Commonwealth and add to the borrowing requirement of the States (other things being equal). Broadly, it would appear that while the Commonwealth has cut back on grants and advances to the States in recent years, State Governments have made limited efforts to reduce their outlays or increase their own revenues. Consequently, the cutbacks have been reflected in a higher State/local general government borrowing requirement.

The borrowing requirement of the State/local PTE sector increased substantially in the early 1980s, reflecting the rapid expansion of infrastructure projects, and was the main contributing factor to the increase in the State/local sector's aggregate net PSBR during that period. However, State/local PTEs' borrowing requirements fell away progressively after 1982-83 and were little different at decade end than at the beginning. The increase in the total State/local sector borrowing requirement since 1984-85 therefore solely reflects developments in the general government sector.

The total net PSBR for all sectors has declined from a peak of 6.7% of GDP in 1983-84 to 3.8% in 1986-87. All of this decline is attributable to the Commonwealth sector.

Trends in the Commonwealth's gross PSBR have closely followed those of its net PSBR, as changes in the sector's holdings of financial assets are generally not significant. On the other hand, trends in the net and gross PSBR of the State/local sector have diverged in recent years, with the States' net PSBR increasing since 1984-85 despite a significant fall in their gross PSBR (both relative to GDP). This has been possible because the State/local gross PSBR was significantly above its net borrowing requirement over a number of earlier years. This 'excess' gross borrowing requirement permitted the sector to add significantly to its holdings of financial assets. The 'excess' was considerably less marked in 1986-87 and the measures are now converging (see Table 7). To the extent that holdings of financial assets by the State/local sector are reduced in future, movements in the gross PSBR could be expected to more directly affect the States' net borrowing requirements. A comparison of estimates of the net and gross PSBR for the State/local sector between 1982-83 and 1986-87, as well as direct estimates of increases in that sector's holdings of financial assets up to 1985-86, is provided in Table 9.

Table 9—State/Local Government Sector Borrowing Requirement

	Net Borrowing Requirement (1)	Gross Borrowing Requirement (a) (2)	Differences (b) (3)	Increase in Holdings of Financial Assets (c) (4)
	\$m	\$m	\$m	\$m
1982-83	4 948	6 165	1 217	535
1983-84	4 353	6 603	2 250	1 278
1984-85	3 757	7 067	3 310	584
1985-86	5 169	7 041	1 872	503
1986-87	6 088	6 379	291	na

(a) Supplied to Loan Council under the Global Approach; excludes amortization.

(b) Column (2) minus column (1).

(c) Direct ABS estimates of the increase in the sector's holdings of cash and investments. These increases are net of provisions for depreciation, superannuation etc and of holdings for private bodies. The estimate for 1985-86 is derived from national accounts data, while the estimates for earlier years are from *State and Local Government Finance, Australia, 1984-85* (ABS Catalogue No. 5504.0).

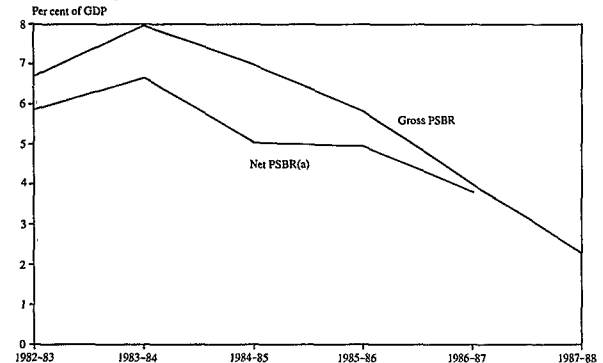
As noted above, the measured differences between the gross and net PSBR provide only a broad guide to changes in holdings of financial assets. This is emphasised by the fact that in 1985-86, the ABS's direct estimate of the increase in holdings of financial assets represented only around one-quarter of the difference between the States' gross and net PSBR. Nevertheless, the direct estimates do confirm a substantial build-up in the States' financial assets in the 1980s—around \$2900m in the four years to 1985-86. This would be considerably higher if the holdings of those State

CBA's currently outside the scope of the statistics were also included. The difference between the net and gross PSBR in 1986-87 suggests the States added only slightly to their holdings in that year.

The States' gross PSBR has been significantly reduced since the introduction of the Global Approach in 1984-85, although the global limits were initially greater than the State/local sector's net borrowing requirements, particularly in 1984-85 and 1985-86. The 'excess' was, as indicated, largely eliminated in 1986-87. Major progress was made in reducing the States' gross PSBR at the May 1987 Loan Council meeting. It was agreed that the global limit for State authorities in 1987-88 would be \$1000 million lower than the limit in 1986-87, implying a reduction in the State/local sector's gross PSBR of just over 1/2% of GDP, and bringing the fall since 1982-83 to around 1 3/4 percentage points. The aim is to encourage the States to adopt a level of fiscal restraint more consistent with the approach taken by the Commonwealth in recent years as part of its overall macroeconomic strategy.

As shown in Chart 3, the reduction in the State/local sector's global borrowings, together with the fall in the Commonwealth Budget deficit and global limit for Commonwealth authorities, will produce a significant fall in the overall gross PSBR in 1987-88.

Chart 3: Net and Gross Public Sector Borrowing Requirement as a Proportion of GDP



(a) An estimate of the total net PSBR for 1987-88 is not available.

Borrowings by Public Financial Enterprises

Government financial estimates as published by the ABS do not include outlays, revenues and borrowings of public financial enterprises (PFEs). The basis for this treatment is that PFEs act principally as financial intermediaries and, for the most part, do not claim real or financial resources for their own purposes; they are treated akin to private financial enterprises in the national accounts.

However, national accounts data and Treasury estimates of net lending suggest that some PFEs—in particular State Government insurance offices—have been substantial net borrowers in recent years (see Budget Related Paper No. 2 *National Income and Expenditure, 1986-87* and the Notes on the Estimates in Budget Paper No. 10 *National Income and Expenditure, 1985-86*). In some States these offices have been incurring large deficits on an accruals basis in their compulsory third party motor vehicle insurance and workers' compensation business. On a cash basis claims are met by running down their holdings of financial assets and hence increasing their net borrowings. The total annual rundown in insurance office assets is estimated to have increased from just under \$200m in 1982-83 to more than \$2000m in 1986-87. However, as some State Governments are in the process of addressing this problem the current situation may not persist.

National accounts data on PFE lending also reflect the treatment of the large realised profits on the Reserve Bank's (RBA) foreign exchange transactions. The national accounts statistical convention applied does not include these profits in the Reserve Bank's net operating surplus, as the profits are in the nature of capital gains and as such are essentially a redistribution of income between sectors rather than an addition to national income (also see Budget Related Paper No. 2 *National Income and Expenditure, 1986-87* and Budget Paper No. 10 *National Income and Expenditure, 1985-86*). As a result, the transfer of these profits to the Commonwealth (general government sector) as dividends means PFE net lending is commensurately lower in the national accounts. Correspondingly, the net lending of the sectors transacting with the Reserve Bank in the foreign exchange market (including the overseas sector) is boosted in the national accounts, as their net operating surplus does not reflect their losses on foreign exchange transactions. In short, national accounting conventions mean the counterpart to the actual increase in general government net lending from receipt of the RBA foreign exchange profits is recorded as a decrease in net lending for PFEs rather than as a decrease for the sectors actually incurring the foreign exchange losses.

STATEMENT NO. 8—COVERAGE AND CLASSIFICATION OF INFORMATION IN THE BUDGET STATEMENTS

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STATEMENT NO. 8—COVERAGE AND CLASSIFICATION OF INFORMATION IN THE BUDGET STATEMENTS

INTRODUCTION

This Statement briefly describes the coverage of information provided in the Budget documentation, explains the budget concepts and terminology employed, outlines the classifications used to aggregate data, and highlights the changes made in classifications during the year.

COVERAGE OF BUDGET INFORMATION

Most of the information in the Budget Statements relates to transactions of the Commonwealth budget sector with 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 that be via the Consolidated Revenue Fund (CRF), Trust Fund (TF) or Loan Fund (LF). Transactions between budget sector agencies are identified but net out when calculating aggregate budget outlays or revenue.

Many Commonwealth government authorities, such as CSIRO and TELECOM, operate outside the Public Account and, even though in some cases they may be dependent on appropriations from the Commonwealth budget, are therefore classified as off-budget authorities. Transactions between the budget and non-budget sectors are recorded in the Budget Statements but not other transactions of the non-budget sector.

Information on the transactions of the total Commonwealth Sector and the public sector as a whole (excluding public financial enterprises) is presented in Statement 7 of this Budget Paper. While the public sector is defined in the same way throughout the Budget papers, Statement 7 shows a different classification of the public sector from that used elsewhere in the Budget papers, distinguishing between the general government sector and public trading enterprises (PTEs) as set out in the Australian Bureau of Statistics (ABS) Institutional Sector classification. The *institutional* classification used in Statement 7 is one based on the type of activities involved, with the general government sector encompassing the provision of non-market services, and PTEs the commercially oriented activities of government. The division between the budget and non-budget sectors is based on the *administrative* distinction depending on whether an entity operates via the CPA.

The principal differences in coverage between the two approaches arise in respect of the classification of statutory authorities and other trading entities. There are a small number of public trading enterprises (for example the Royal Australian Mint and ACTION bus service) that operate on-budget (ie through the CPA) and a larger number of off-budget authorities (such as the CSIRO and the National Library of Australia) that, although not operating via the CPA, are heavily dependent on budget funding and are classified to the general government sector. As a result the outlays and revenue of the Commonwealth general government sector are larger than those of the Commonwealth Budget Sector.

The ABS publishes data on both bases; however, there are some differences in classification between the Bureau's treatment of the budget sector and that adopted for Budget papers (see below). Tables I and II at the end of this Statement provide

historical series for the non-budget sector and total Commonwealth sector (excluding financial enterprises) on a basis consistent with the historical series provided for the budget sector in Table 7 of Statement No. 6.

TERMINOLOGY

The basic distinction is made in the Budget Statements between 'above the line' transactions—comprising outlays and revenue, the difference between which is the deficit—and 'below the line' transactions which are undertaken to finance the deficit. *Outlays* and *revenue* are economic concepts, and expressed as net amounts, as opposed to *payments* and *receipts* which are terms referring to money flows.

Outlays show the net extent to which resources are directed through the Budget to other sectors of the economy; that is, outlays consist of payments net of associated receipt items. Revenue contributes to the funding of outlays and while basically composed of receipts, is net of tax refunds and the operating expenses of business type activities operating in the Budget sector.

NATIONAL ACCOUNTING CONVENTIONS

International accounting conventions underlie the compilation of the budget estimates and the ABS estimates for the public sector. There are some differences in treatment of data between both sets of estimates but only two have significant implications for the presentation of budget data. In the Budget Statements, outlays on primary industry assistance are shown net of the relevant primary industry levies and charges, whereas ABS publications show these outlays on a gross basis and record the levies as tax revenue. In addition payments out of the Wheat Finance Trust Fund are classified as outlays in the Budget but as offsets within revenue by the ABS.

Those two differences aside, the basic principles underlying the methodologies are the same and are based on classification rules set out in the 1968 United Nations publication "A System of National Accounts" and in the 1986 International Monetary Fund publication "A Manual on Government Finance Statistics". These two publications provide widely accepted international standards (though they do adopt different treatments in some areas, as noted below). The use of these standards facilitates an assessment of the interrelationship between the budget and the rest of the economy and assists in international comparisons. Their use also enables the consistent presentation of financial data regardless of changes in economic policy and administrations.

An important difference between the United Nations (UN) and International Monetary Fund (IMF) approaches is that the latter generally places emphasis on measurement of gross transactions whereas the former requires the netting of transactions involving goods and services so as to enable the calculation of Gross Domestic Product (GDP). Another difference is that the IMF records advances to other sectors, including those to off-budget authorities, as above-the-line outlays (to emphasise the policy objectives of these payments) whereas the UN treats these as financing transactions with no impact on the recorded budget position. The standards established by the ABS in its "Classifications Manual for Government Financial Statistics", published in 1984 (ABS 1217.0), seek to integrate the two international

standards drawing on features of both. In particular, as explained further in the following sections, the Bureau adopts the UN concept of net transactions in obtaining measures of certain budget outlays and adopts the IMF approach in recording advances to other sectors (and repayments of capital) above the line.

Budget revenues can generally be measured in gross terms but in several instances (eg allowance for tax refunds and the operating expenditure of business type activities operating in the Budget sector) the transactions have also, like outlays, to be measured in net terms.

PAYMENTS AND RECEIPTS CLASSIFIED AS OUTLAYS

The types of receipts currently offset against payments in the outlays definition are:

- certain payments received for current goods and services;
- repayments of advances; and
- proceeds from the sale of capital assets.

Governments impose a wide range of charges and levies related to the provision of goods and services but not all of these are classified as offsets within outlays. The accounting standards distinguish between those charges and levies that can be regarded as voluntary fees for goods or services rendered and of identifiable benefit to the payer, as against fees that are imposed for regulatory or revenue raising purposes. Considered from another perspective, the distinction is primarily one between situations where a market can be said to exist and one where the public interest aspect of the transactions dominates. In the former case the fees or charges are treated as an offset within outlays, while in the latter they are classified as revenue. The effect of treating some charges as offsets within outlays is to take those transactions out of the measurement of budget sector activity which then encompasses non-commercial transactions with other sectors of the economy.

The international standards do not always provide unambiguous definitions and hence there are sometimes "grey areas" of classification. Changes in policy can also change the nature of the transactions and justify a change in classification. An example of this in the 1987-88 Budget is the extension of the charge that is applied against borrowings by Commonwealth authorities with an explicit Commonwealth guarantee to cover (at a reduced rate) the implicit guarantee that covers all borrowings. When the charge applied only to explicit guarantees, authorities had a choice as to whether they sought an explicit guarantee and hence incurred the charge (although in some cases that depended on amending enabling legislation). Such receipts were classified as outlays. However, the charge is now comprehensive and authorities have no choice but to pay it; the charge is considered to be more regulatory in nature and hence is classified as revenue.

The classification of payments and receipts of a capital nature as above the line transactions is in conformity with the ABS standards. Such transactions include general purpose capital payments to the States, advances to Telecom and capital grants to Australian Airlines. Repayments are offset within outlays to obtain a measure that can be more readily related to their combined impact on the off-budget institutions concerned. While advances are of a financing nature, the ABS classification standards take the view that since advances have a public policy importance, they should be treated above the line.

The budgetary impact of sales of physical assets and whole or part sales of non-budget enterprises is the same in that the proceeds of these transactions are treated as offsets within outlays. All advances and grants made by the budget sector to non-budget enterprises are treated as outlays and repayments of advances (including repayments of equity capital) are netted off the payments. Where the sale relates to a physical asset the offset is recorded against Capital Outlays on Goods and Land. Major sales of assets are separately identified in the Budget Papers so that analysts can make allowance for them depending on the use they are making of the data.

The impact of applying the preceding conventions in measuring budget outlays is summarised in Table 1 for the 10 years to 1987-88. Abstracting from the effect of major asset sales in 1987-88, receipts classified as outlays ranged from between 3.2 and 4.1 per cent of aggregate outlays.

Table 1. Payments and Receipts Classified as Outlays 1977-78 to 1987-88

	Payments \$m	Receipts \$m	Receipts as % of Outlays	Outlays \$m
1977-78	27 684	1 020	3.8	26 665
1978-79	30 014	1 102	3.8	28 912
1979-80	32 646	1 200	3.8	31 445
1980-81	37 463	1 468	4.1	35 996
1981-82	42 589	1 400	3.4	41 189
1982-83	50 524	1 730	3.6	48 793
1983-84	58 250	1 818	3.2	56 432
1984-85	66 113	2 400	3.8	63 714
1985-86	72 262	2 344	3.4	69 918
1986-87	77 847	2 948	3.9	74 899
1987-88	82 212	4 066	5.2	78 146

Table 2 disaggregates the estimates by function for 1987-88 to enable identification of the major receipts classified as outlays.

Table 2. Payments and Receipts Classified as Outlays 1987-88 by Major Function

Function	Payments (1) \$m	Receipts (2) \$m	Outlays (1-2) \$m
Defence	7 756	352	7 404
Education	5 852	167	5 685
Health	8 218	5	8 213
Social Security and Welfare	22 605	6	22 599
Housing and Community Amenities nec	1 560	184	1 376
Culture and Recreation	1 038	6	1 032
Transport and Communication	2 175	514	1 662
Industry Assistance & Development	1 909	683	1 224
Labour and Employment	1 043	3	1 040
Other Economic Services	294	47	248
Legislative Services	575	1	574
Law, Order & Public Safety	597	17	579
Foreign Affairs & Overseas Aid	1 439	47	1 392
General & Scientific Research	530	5	525
Administrative Services	3 706	983	2 723
Assistance to Other Governments, nec	14 914	45	14 869
Public Debt Interest	7 851	—	7 851
Contingency Reserve	150	—	150
Asset Sales	—	1 000	-1 000
TOTAL	82 212	4 066	78 146

Receipts items having most effect on the measurement of outlays are:

- DFRB contributions in the defence function;
- the overseas students charge in the education function;
- sale of land in the ACT in the housing and community services function;
- repayment of advances by Telecom and the Pipeline Authority, air navigation charges, airport rentals and concessions, and light dues within the transport and communication function;
- primary industry charges in the industry assistance and development function;
- contributions to the Commonwealth Superannuation Scheme, payments of Fringe Benefit Tax (FBT) by on-budget agencies and sales of property and assets in the administrative services function; and
- sales of major assets.

RECEIPTS AND PAYMENTS CLASSIFIED AS REVENUE

In accordance with the international standards budget tax receipts are shown net of refunds. Thus income tax receipts, for example, are shown net of refunds of PAYE deductions; remissions and reimbursements of import duties and sales tax are offset against their collection. Dividends, etc, from Commonwealth business enterprises operating outside the budget sector are also included in budget revenue. Similarly, budget revenue includes gross operating surpluses, ie operating revenues less operating expenses from activities in the budget sector which are carried out as business-type enterprises. In effect, therefore, on-budget business-type enterprises are treated as if they were operating outside the public account. This treatment corresponds in concept to the netting out of commercial transactions on the outlays side of the account.

Details of the more important offsets within revenue are provided in Statement No. 4.

CLASSIFICATION OF TRANSACTIONS BETWEEN ACCOUNTS OF THE COMMONWEALTH PUBLIC ACCOUNT

While the UN and IMF standards differ in their emphasis on measuring transactions in gross and net terms, the standards are in agreement that budget aggregates such as Current Outlays on Goods and Services should be net of transactions between on-budget agencies such as payments of FBT and interdepartmental charges. This is achieved by classifying receipts from on-budget agencies as offsets within outlays. Thus in aggregating outlays across budget entities (whether it be by function, economic type or portfolio—see below) the payments and corresponding receipts will cancel out in obtaining the measure of total outlays.

The effect of this approach is to consolidate the three Funds forming the Public Account and to eliminate inter-fund transfers from the measurement of total outlays and revenue. For example, an appropriation of the CRF paid to a Trust Account (eg Medical Research Endowment Fund) through which ordinary government payments are channelled and the receipt of that transfer from CRF by the Trust Account are netted and therefore do not affect the aggregate outcome.

A reconciliation between the appropriations of the CRF and total outlays shown in Statement No. 3 is set out in Table 2 of Budget Paper No. 2, The Commonwealth Public Account. An explanation of the reconciliation is also included.

MAJOR REPORTING CLASSIFICATIONS FOR BUDGET OUTLAYS INTRODUCTION

Budget information in the Statements accompanying the Budget Speech is classified in three ways:

- a functional classification which aggregates outlays directed towards like objectives and purposes;
- an economic type classification which allows analysis according to the economic nature of transactions; and
- a portfolio classification which aggregates outlays according to the Minister who has prime administrative responsibility for the outlays.

The remainder of this Statement explains the three classifications and indicates where changes in classification have been made in the 1987-88 Budget estimates as a result of classification reviews undertaken over the past year.

THE FUNCTIONAL CLASSIFICATION

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. Detailed information on outlays for 1987-88 under each function is provided in Statement No. 3. Statement No. 6 contains data for the last 15 years.

Although the basic aim of a functional classification scheme is to categorise budget outlays according to the broad purpose for which they are undertaken, such a classification cannot always be applied without creating some ambiguity. Particular outlays will often serve two or more distinct functions, and the functional classification then classifies an outlay to the function which is considered to be its primary purpose.

The following provides summary descriptions of the broad manner in which outlays are classified to the major functional groups:

1. *Defence*

Outlays on military defence, including outlays on defence hospitals and military colleges and defence housing.

2. *Education*

Outlays on the provision, management and support of all levels of educational services. Includes outlays relating to the provision of scholarships and allowances to students; education of special groups; non-vocational adult education, school bus services and regulatory and research activities.

3. *Health*

Outlays on facilities or services for the prevention and treatment of human illness. Includes the prevention of diseases, regulation of standards of sanitation, the provision of hospital and clinical services, pharmaceuticals and nursing care, health research and nursing schools associated with hospitals. The function does not include general purpose grants to the States provided from 1981-82 for hospital operating costs, community health and school dental services but does include payments to the States and Territories as compensation for receipt losses in public hospitals associated with the introduction of Medicare.

4. *Social Security and Welfare*

Provision of pensions and allowances and other benefits to persons who, because of age, physical or mental disability, domestic circumstances or other reasons, are unable or not expected to earn a sufficient livelihood for themselves and their dependants; child care facilities in the State and Territories, child welfare services and institutions; homes for and care of the aged and disabled; and welfare programs to meet specific needs of disadvantaged groups.

5. *Housing and Community Amenities nec*

Outlays on the provision of dwellings for sale or rental, mortgage finance for purchase or construction of dwellings, and other financial assistance aimed at facilitating the purchase or construction of dwellings or home ownership. Also includes administration and research in the field of housing; urban and regional planning and development; water quality control, air pollution and monitoring, and protection of the environment; and sewage and refuse.

6. *Culture and Recreation*

Outlays related to performing and creative arts; libraries and galleries; sporting and other leisure-time activities; the protection and preservation of historic sites and buildings, parks and wildlife reserves and the national estate; and radio and television broadcasting services.

7. *Economic Services*

This category covers regulation of, and assistance provided to the private sector; direct government participation in economic activity and provision of economic infrastructure.

- A. *Transport and Communication.* Outlays concerned with postal services, domestic and overseas telecommunications, and land, sea and air transport.
- B. *Industry Assistance and Development.* Direct assistance to primary, secondary and service enterprises including bounties, subsidies, export incentives and, commodity price support; and promotion, regulation and research.
- C. *Labour and Employment.* Outlays related to the regulation of working conditions, the prevention and settlement of industrial disputes and the enforcement of industrial awards and agreements, occupational training schemes and labour exchange facilities.

- D. Other Economic Services. Outlays related to regulation of monopolies and restrictive trade practices, price control and justification, tariff regulation, other forms of business regulation; patents and trademarks, meteorological services and the supply of water, electricity and gas.

8. *General Public Services*

This category covers outlays on a number of general public services and activities concerned with the organisation and operation of government and the judiciary.

- A. Legislative Services. Outlays of the legislative and executive bodies of government, including the new Parliament House and the Prime Minister's and Governor General's establishments; and the conduct of elections and maintenance of registers of voters.
- B. Law, Order and Public Safety. Outlays on law courts (other than those concerned with industrial relations) the legal system and preparation and execution of legal action; provision of legal aid; registration of legal titles to property; prisons and probation services; police and security services, including traffic control; and fire protection and other public safety promotion or services.
- C. Foreign Affairs and Overseas Aid. Outlays relating to the conduct of Australia's external relations (excluding foreign trade offices) and the provision of aid to developing countries and contributions to international bodies.
- D. General and Scientific Research nec. Contributions for the promotion of scientific research which cannot readily be classified to other outlay categories.
- E. Administrative Services. Outlays on the collection of taxes, raising public loans, managing public debt, and controlling the disbursement and audit of public funds. Outlays on general services for the government as a whole, such as statistical services, the purchase and operation of government buildings and equipment, rent, office cleaning, personnel and other administration, excluding those directly associated with other outlay categories.

9. *Outlays Not Allocated to Function*

- A. Assistance to other Governments nec. General purpose grants and advances to States, the Northern Territory and local government authorities which may be spent at the recipient's discretion. Includes assistance for the relief of victims of drought, flood, fire and other natural disasters.
- B. Public Debt Interest. Interest payments on government securities, or under credit arrangements with other countries.
- C. Contingency Reserve. Provisions for variation in the estimates which are not allocated to functions because of uncertainty and, at times, sensitivity as to the basis of estimation.
- D. Asset Sales. Sales of enterprises or government operations as going concerns as well as major properties (land and buildings).

CHANGES IN THE FUNCTIONAL CLASSIFICATION

From time to time it is necessary to amend the functional classification to reflect shifts in the purpose of particular programs or changes in the organisation, coverage and nature of government activities. Furthermore, additional information sometimes becomes available which leads to appropriation items being reclassified or allows items that had previously been classified to a single function to be split between functions.

This section provides details of changes which have been made this year. The figures relate to the 1987-88 year; the sign indicates the effect on the new classification. All data (including data for the past 15 years) presented on a functional basis contained in this and other budget papers have been adjusted as far as possible to reflect classification changes discussed in this section.

Changes between outlays, revenue and financing transactions

A comprehensive review of Group 1 Trust Accounts, which hold moneys in trust for persons and authorities other than the Commonwealth, resulted in the reclassification of the following from outlays to financing transactions since the transactions do not involve Commonwealth moneys:

Australian Housing Research Fund (\$0.02m)

Life Be in it Program in the A.C.T (\$0.03m)

National Building Technology Centre (-\$0.02m)

The Unclaimed Moneys Trading Bank Trust Fund (\$0.2m) has been reclassified from revenue to financing transactions since the transactions do not involve public moneys. Interest received by the Defence Service Homes Corporation (\$1.6m) has been reclassified from Outlays to revenue since the transactions predominately involve interest received on non-Commonwealth securities

Changes within Outlays

Various health related Veteran's Affairs transactions (\$1.0m) were reclassified from *Social Security and Welfare* to *Health* which more correctly reflects their purpose.

Transactions of the Australian Government Analytical Laboratories (\$5.1m) have been reclassified from *General and Scientific Research to Other Economic Services* as the bulk of the technical services are concerned with matters included in the Economic Services function.

Non-Human Quarantine Services (\$19.5m) were transferred from the Department of Health to the Department of Primary Industry and this provided opportunity for a change of classification from *Health* to the more appropriate classification of *Industry Assistance and Development*.

As part of a functional review, various Salaries and Administrative Expenses associated with the Department of Arts, Sport, Environment, Tourism and Territories have been more appropriately classified as *Culture and Recreation* (\$7.8m) rather than as *Administrative Services*.

Grants to industry Research Association have been reclassified from *General and Scientific Research* to *Industry Assistance and Development* (\$2m) and payments to industry service organisations relating to standards and testing have been reclassified from *General and Scientific Research* to *Other Economic Services* (\$4m).

Monies transferred to the Commonwealth Rehabilitation Services Trust Account (\$7.8m) have been reclassified from *Administrative Services* to *Social Security and Welfare*, correcting a mis-match in the classification of transfer transactions between the CRF and Trust Fund.

Some payments relating to Nursing Home aspects of the Aged Residential Care program and home nursing service provided under the Home and Community Care (HACC) programs have been transferred from *Social Security and Welfare to Health* (\$40m). These changes return the classification to that which existed prior to 1985-86, correcting the break in history data.

From 1 July 1987, departments will be charged directly for the departmental furniture removal and storage service provided by the Department of Administrative Services and these funds will be included in individual departments running costs appropriations from 1987-88. Also from 1 October 1988 charges for other transport and storage services will be increased to reflect full cost recovery, and from 1 January 1988 guarding and survey services will be charged for. This will enable changes in the functional classification from *Administrative Services* to the appropriate functions associated with the outlay. For 1987-88, a total of \$69.6m will be reallocated. Most departments will receive under one million dollars for this purpose. Exceptions are the Department of Aviation (\$2.0m) and the Department of Foreign Affairs (\$3.1m).

The following changes have also occurred:

- Aboriginal Affairs—Heritage and Culture Program support from *Social Security and Welfare* to *Culture and Recreation* (\$1.2m)
- ACT Housing Trust Account—Rental Rebates (\$11.7m) from *Social Security and Welfare* to *Housing and Community Amenities*, correcting a mis-match in the classification of transfers, between the CRF and Trust Fund.
- ACT Prison Services (\$1.2m) from *Social Security and Welfare* to *Law, Order and Public Safety*.

Revised Administrative Arrangements have also led to appropriation items being reclassified (due to the inability of 'gaining' departments to maintain previous functional splits of appropriations) and some items previously allocated to a single function being split between functions.

THE ECONOMIC TYPE CLASSIFICATION

The economic type classification is designed to facilitate the study of the macro-economic impact of Commonwealth transactions on the economy and provide the means of grouping transactions for inclusion in the Australian National Accounts. The classification embodies the previously mentioned concepts of outlays, revenue, financing items and the deficit. Outlays are further divided into current and capital outlays.

Current outlays include:

- Current Outlays on Goods and Services—the operating result of the provision of goods and services by the Commonwealth sector net of associated receipts classified as outlays.
- Interest—payments of interest from the Commonwealth sector less interest on Commonwealth securities held by the Commonwealth itself.
- Subsidies—non repayable transfers or grants paid to business enterprises to finance their current operations; such transfers often take the form of bounties on goods and services produced or payments to ensure a guaranteed price.
- Personal Benefit Payments—primarily cash payments made directly to individuals or households who are not required to provide any goods or services in return, for example old age pensions and unemployment benefits.
- Other Current Grants—non-repayable transfers for the purpose of financing the current operations of non-profit institutions, such as private hospitals and schools, Commonwealth Non-budget authorities, other governments in Australia and other sectors in Australia. All grants to foreign governments and organisations including grants made for aid projects are treated as current grants.

Capital outlays include:

- Capital Outlays on Goods and Land—net payments on goods and services used in the production process for more than a year, and net payments on land and investment in stocks.
- Capital Transfer Payments—non repayable transfers or grants to finance capital expenditure of Commonwealth Non-budget authorities and other sectors.
- Net Advances Paid—advances to Commonwealth Non-budget authorities and other sectors less repayments of such advances. Investment of temporarily surplus funds are however classified as financing transactions.

Two items within outlays record real transactions that contribute to the measurement of GDP or production: Current Outlays on Goods and Services and Capital Outlays on Goods.

Revenue includes:

- Tax Revenue—includes the various forms of taxes, fees from regulatory services and fines.
- Non-Tax Revenue—includes interest, dividends including transfers from Non-budget authorities, land rent, royalties and the operating result of on-budget government enterprises operated as business enterprises.

CHANGES IN THE ECONOMIC TYPE CLASSIFICATION

Following the release of the Economic Transactions Framework (ETF) by the ABS in 1984, and a comprehensive review of the economic type classification of all Commonwealth budget transactions based on a revised and expanded classification structure, significant changes were made to the economic type classification for 1985-86. Consequently, only minor changes were made to the economic type classifications for 1986-87.

Table II—Outlays, Revenue of the Total Commonwealth Government Sector (\$m) (a) (b)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (preliminary)
OUTLAYS										
Current Outlays										
Current Outlays on Goods and Services	5 150	5 595	6 099	7 164	8 531	9 731	11 265	12 627	14 293	15 738
Current Transfer Payment										
Interest etc Paid	1 725	2 073	2 360	2 762	3 282	3 761	4 811	6 196	7 724	8 890
Subsidies	565	594	817	1 045	1 142	1 213	1 230	1 334	1 419	1 166
Personal Benefits Payments	8 106	8 938	9 723	10 967	12 782	15 579	18 389	20 668	22 352	24 090
Grants to Non-profit Institutions	195	206	257	301	389	554	658	799	894	1 044
Grants to other Governments	7 263	8 156	9 097	10 334	11 406	13 182	15 017	16 510	17 757	19 331
Transfers Overseas	383	444	493	546	631	687	729	807	806	783
Other Transfers nec	—	—	—	—	—	—	—	—	—	—
Total Current Transfer Payments	18 237	20 411	22 747	25 955	29 632	34 976	40 834	46 314	50 962	55 304
Total Current Outlays	23 387	26 006	28 846	33 119	38 163	44 707	52 099	58 941	65 255	71 042
Capital Outlays										
Capital Outlays on Goods and Land (b)	1 456	1 113	1 422	1 578	2 108	2 289	2 357	2 583	3 745	4 024
Capital Transfer Payments—										
Grants to other Governments	1 502	1 485	1 546	1 649	1 778	2 230	2 792	3 165	3 247	3 249
Grants to other sectors (d)	105	99	141	124	220	273	367	438	384	354
Total Capital Transfer Payments	1 607	1 584	1 687	1 773	1 998	2 503	3 159	3 603	3 631	3 603
Net Advances Paid										
To the other Governments	1 262	1 127	896	938	866	1 056	1 002	799	786	546
To other sectors (d)	-20	51	-44	63	101	197	370	271	59	135
Total Net Advances Paid	1 242	1 178	852	1 001	967	1 253	1 372	1 070	845	681
Total Capital Outlays	4 305	3 875	3 961	4 352	5 073	6 045	6 888	7 256	8 221	8 308
TOTAL OUTLAYS	27 692	29 881	32 807	37 471	43 236	50 752	58 987	66 197	73 476	79 350

Table II—Outlays, Revenue of the Total Commonwealth Government Sector (\$m) (a) (b)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (preliminary)
REVENUE										
Taxation Revenue	21 279	23 218	27 234	32 382	37 694	40 737	44 415	52 398	58 356	65 635
Non-Tax Revenue—										
Interest, Rent, Dividends etc	1 673	1 817	1 809	2 148	2 520	3 090	3 409	3 923	5 101	5 939
Gross Income of Public Trading Enterprises	950	1 122	1 123	1 235	1 630	1 603	2 352	2 644	3 058	3 577
Total Non-tax Revenue	2 623	2 939	2 932	3 383	4 150	4 693	5 761	6 567	8 159	9 516
TOTAL REVENUE	23 902	26 157	30 166	35 765	41 844	45 430	50 176	58 965	66 515	75 151
DEFICIT	3 790	3 724	2 641	1 706	1 392	5 322	8 811	7 232	6 961	4 199

(a) Derived from information provided by the Australian Bureau of Statistics adjusted for some conceptual differences.

(b) Capital outlays on goods and land includes the purchase of new fixed assets, purchase less sales of secondhand fixed assets and land, and net increase in stocks.

(c) Consists of capital grants to public financial enterprises, private enterprises, non-profit organisations and persons.

(d) Consists of net advances to public financial enterprises, private enterprises, persons, non-profit organisations and overseas.

Table III—Portfolio Outlays by Major Function 1987-88

Portfolio	Function							
	Defence	Education	Health	Social Security and Welfare	Housing and Comm Amenit	Culture and Recreat	Transpt and Commun	Industry Assist and Developmt
Parliament	—	—	—	—	—	—	—	—
Administrative Services	-6	2	61	8	1	20	91	3
Arts, Sport, Env, Tour and Terr	—	302	152	18	38	284	58	49
Attorney-General's . . . . .	..	—	—	8	—	—	—	—
Community Services and Health	—	23	7 999	4 361	992	28	—	-1
of which:								
-Veterans' Affairs	—	6	900	3 259	16	16	—	-1
-Aboriginal Affairs	—	17	41	229	62	12	—	—
Defence	7 411	—	—	—	—	2	—	—
Employ, Education and Training	—	5 300	—	—	—	4	—	—
Finance	-1	..	..	..	-2	—	—	-3
Foreign Affairs and Trade . . . . .	—	..	..	..	..	..	..	..
Immign, L/Govt and Ethnic Affairs	—	59	—	28	7	—	—	—
Industrial Relations . . . . .	—	—	—	..	..	—	—	—
Industry, Technology and Commerce	—	—	—	—	..	—	—	715
Primary Industries and Energy	—	..	—	—	5	—	-18	462
Prime Minister and Cabinet	—	—	—	—	—	122	—	—
Social Security	—	—	—	18 174	—	—	—	—
Transport and Communications	—	—	—	3	—	571	1 530	—
Treasury	—	—	—	..	335	—	—	-1
Not allocated to portfolio	—	—	—	—	—	—	—	—
• Contingency Reserve	—	—	—	—	—	—	—	—
• Asset Sales	—	—	—	—	—	—	—	—
Total	7 404	5 685	8 213	22 599	1 376	1 032	1 662	1 224

Labour and Economic Employmt	Other Services	Legislat Services	Law, Order and P S	Foreign Affairs and O/S Aid	Gen and Scient Reseach nec	Admin Services	Assist Other Govis nec	Public Debt Int	Contingency Reserve	Asset Sales	Total
—	—	89	—	—	—	—	—	—	—	—	89
2	111	466	38	99	6	856	—	—	—	—	1 758
1	1	—	17	..	54	162	—	..	—	—	1 136
1	18	4	471	3	—	11	—	—	—	—	516
8	—	—	14	7	—	3	—	—	—	—	13 436
—	—	—	—	—	—	—	—	—	—	—	4 197
8	—	—	14	—	—	—	—	—	—	—	384
—	—	—	—	—	—	—	—	—	—	—	7 413
909	—	—	—	—	46	—	—	—	—	—	6 258
—	—	—	—	—	—	699	24	3	—	—	720
—	—	—	32	1 273	—	—	—	—	—	—	1 305
—	..	—	—	1	—	100	—	—	—	—	194
118	—	—	—	—	—	7	—	..	—	—	125
—	33	—	..	—	417	192	—	—	—	—	1 358
—	72	—	..	..	..	2	5	3	—	—	532
1	—	14	4	—	1	43	—	—	—	—	187
—	—	—	—	—	—	—	—	—	—	—	18 174
—	—	—	3	—	—	—	—	—	—	—	2 106
—	13	—	—	10	—	648	14 840	7 845	—	—	23 689
—	—	—	—	—	—	—	—	—	150	—	150
—	—	—	—	—	—	—	—	—	—	-1 000	-1 000
1 040	248	574	579	1 392	525	2 723	14 869	7 851	150	-1 000	78 146

Table IV—Portfolio Outlays by Economic Type 1987-88

Portfolio	Outlays on Goods and Services	Interest	Personal Benefit Payments	Transfers and Advances to Other Governments	Other Transfers	Total
Parliament	89	—	—	—	—	89
Administrative Services	1 440	7	—	—	311	1 758
Arts, Sport, Environment, Tourism and Territories	298	..	7	35	796	1 136
Attorney-General's	410	—	1	79	26	516
Community Services and Health	1 503	—	8 400	2 328	1 205	13 436
of which:						
Veterans' Affairs	942	—	3 243	2	10	4 197
Aboriginal Affairs	36	—	—	41	307	384
Defence	7 183	—	—	5	225	7 413
Employment, Education and Training	325	—	788	4 541	604	6 258
Finance	698	3	..	18	—	720
Foreign Affairs and Trade	441	..	16	—	848	1 305
Immigration, Local Government and Ethnic Affairs	174	—	14	-2	8	194
Industrial Relations	50	..	—	23	52	125
Industry, Technology and Commerce	277	—	—	7	1 074	1 358
Primary Industries and Energy	263	3	1	207	58	532
Prime Minister and Cabinet	69	—	—	24	94	187
Social Security	618	—	17 555	—	1	18 174
Transport and Communications	409	—	3	1 255	439	2 106
Treasury	622	7 890	—	15 167	10	23 689
Not allocated to portfolio						
• Contingency Reserve	150	—	—	—	—	150
• Asset Sales	-1 000	—	—	—	—	-1 000
TOTAL	14 020	7 903	26 785	23 688	5 750	78 146

INDEX TO BUDGET PAPER NO. 1

This index lists subjects referenced in Budget Paper No. 1. Most references are listed as they appear in the text, however, some have been inverted to bring the first keyword to the front (e.g. Animal Health Laboratory—Australian) and others have been grouped under a common keyword (e.g. Budget Deficit). Major functions in Statement No. 3 appear in bold type and the names of the Acts are italicised.

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BUDGET SPEECH

1987-88

DELIVERED ON
15 SEPTEMBER 1987 BY THE
HONOURABLE P. J. KEATING, M.P.
TREASURER OF THE COMMONWEALTH OF AUSTRALIA

BUDGET SPEECH 1987-88

DELIVERED ON 15 SEPTEMBER 1987 ON THE SECOND READING

OF THE APPROPRIATION BILL (No. 1) 1987-88

BY

THE HONOURABLE P. J. KEATING, MP

TREASURER OF THE COMMONWEALTH OF AUSTRALIA

Madam Speaker, I move that the Bill now be read a second time.

Madam Speaker, the Budget for 1987-88 is in balance.

The deficit has been cut to just on zero, a mere \$27 million.

This Government, having inherited a prospective budget deficit of almost \$10,000 million, the largest in the Nation's history, has in the space of just 5 budgets wiped that dismal legacy out.

What is more, this monumental achievement has been accomplished while keeping to our election commitments not to increase taxes and not to make major additional spending cuts.

Relative to the size of the economy, tax revenue is down on last year.

On the same basis, government spending is down two percentage points compared with the level confronting us in 1983.

This Budget incorporates nonetheless significant new initiatives.

We have provided \$250 million to meet our election commitment to a Family Allowance Supplement for low income families.

We have financed the massive \$4,500 million cost of the personal income tax cuts introduced in December last year and July this year.

We have introduced a new company tax system which eliminates the double taxation of dividends.

These achievements have been made possible while simultaneously balancing the Budget by the most wide ranging and detailed review of government spending ever carried out.

This Budget incorporates a 2.4 per cent real reduction in Commonwealth spending, the biggest cut in the 35 years for which comparable records are available.

This Budget also lays the foundations for sound budgets over the life of this Parliament.

The decisions which have cut outlays by \$3,500 million this year will produce the same reductions next year.

In other words, the savings are on-going.

THE GOVERNMENT'S ECONOMIC STRATEGY

Madam Speaker, this fundamental shift down in the Commonwealth budget is making a crucial contribution to the process of economic adjustment that Australia has been undergoing since the collapse in our export prices in 1985-86.

Unlike almost any other economy in similar circumstances, the Australian economy has not been driven into recession.

The Government's policy response has been innovative, strong, and most of all, right.

Notwithstanding the enormity of the trade difficulties we have faced, our economic strategy is now bearing fruit.

Australians have responded earnestly by lifting the national export effort and successfully seeking out new markets.

No less than half of Australia's export growth last year came from the sale of manufactured goods—a remarkable achievement given the parlous state of manufacturing only 4 years ago.

We are also developing services such as tourism into major earners of foreign exchange.

At the same time we have cut imports by making locally more of the goods we used to buy from overseas.

Taken together, increased exports and reduced imports accounted for all of Australia's economic growth last year.

One hundred and forty thousand new jobs were created.

Our trading bill was cut by \$1,000 million from 6 per cent of Gross Domestic Product to 5 per cent.

In this coming year we forecast that it will decline further to 4 per cent.

These achievements are extremely gratifying.

They have exceeded the expectations of almost everybody.

Madam Speaker, as successful as we have been, the magnitude of our trading problem is such that we still have a long way to go.

The big trade deficits since the early 1980s have built up a substantial foreign debt burden.

Our external deficit, although falling, remains too high.

To reduce permanently our debt burden we must go further in reducing our dependence on overseas savings by lifting the level of Australian savings.

This is why we have acted to cut the demands of all levels of government on savings, releasing them for private investment to enhance our trade performance.

But that is only part of the story.

If Australia is to sell more abroad—and if our manufacturers are to win a greater share of the domestic market—we must ensure that the goods we produce are priced competitively.

In particular, we must make sure that labour costs in Australia are competitive with those of our trading partners.

The Australian community has shown enormous maturity and commonsense in responding to the trade crisis by exercising wage restraint.

This has helped sustain the new-found competitiveness of Australian industry.

Most importantly it has ensured that the difficult international trading conditions have not led to a surge in unemployment.

This is being reinforced by the two tier wage system which for the first time in our history is requiring efficiency and productivity improvements at an industry and enterprise level as offsets for wage increases.

In the public sector the Commonwealth is insisting that any second tier wage increase granted to its own employees be offset by genuine productivity and efficiency gains.

EMPLOYMENT, EDUCATION AND TRAINING

Madam Speaker, if Australia is to compete successfully in the international market place we must also raise our educational standards.

We are now redirecting our spending so that it better conforms with Australia's economic priorities.

In May I announced a major restructuring of unemployment benefits and study allowances which greatly increases the incentives for our young people to stay in the education and training system rather than moving onto welfare.

The centrepiece of those reforms was the abolition of unemployment benefits for 16 and 17 year olds and the substitution of a modest job search allowance.

This restructuring of study allowances has been carried further in the Budget by changes to the student assistance schemes for Aboriginal children, isolated children and the children of veterans, bringing them more into line with mainstream income support programs.

The Government also recognises that if we are to encourage young people to stay in the education system, we must provide more student places.

Consequently we have approved an extra 5,800 higher education places for young school leavers in 1988.

Our reforms in education and training have also been geared to getting better value for money.

From 1988 funds for new TAFE capital works will be allocated on the basis of competitive bidding by States and individual colleges, with priority being given to projects in economically important areas, such as computing studies and hospitality, and areas which involve joint funding with industry.

Funding for the Australian Traineeship System—which provides young people entering the workforce with a mixture of on-the-job and formal training—is to increase from \$14 million to \$45 million.

This will provide places for 13,000 new trainees.

At a cost of \$31 million, a new program to provide short-term vocational training opportunities for unemployed young people will be introduced.

My colleague, the Minister for Employment, Education and Training, Mr Dawkins, will issue tonight a comprehensive paper explaining the Government's skills formation strategy.

Among other measures, \$15 million will be provided in 1987-88 and \$28 million in a full year to implement a National Policy on Languages.

Funding for the Aboriginal Employment Development Policy will be increased by \$26 million in 1987-88 and by \$49 million in 1988-89.

FAMILY ASSISTANCE PACKAGE

Madam Speaker, the Hawke Government has always believed that only those in genuine need should be entitled to social security payments.

We have systematically implemented measures to exclude welfare cheats from the system.

In the May Statement I described a range of further initiatives to crack down on fraud and abuse.

Already these are proving very successful.

As a result of these measures we will save more than \$100 million in unemployment benefit payments in 1987-88.

We have consistently held that people who can readily support themselves should do so, rather than putting their hand out to the taxpayer.

But we have not shirked the Australian Labor Party's historical commitment to assist the most needy in our community.

This Budget further strengthens that commitment by implementing a landmark social reform in the shape of the Family Assistance Package.

From Christmas this year this package will provide help to more than half a million families in need.

More than one million children will benefit.

Subject to an income test, the new scheme will provide a Family Allowance Supplement of \$22 per week per child.

Recognising the higher costs associated with teenage children, the payment for each child aged 13, 14 or 15 will be \$28 per week.

In addition, we will provide low income families renting privately with an extra allowance of up to \$15 a week.

This means, for example, that families with incomes up to \$324 per week who rent privately and have three children, two aged under 13 and one 14, will receive a supplement of \$37 per week free of tax.

That is an increase of up to \$69 per week on what they would have received under the old Family Income Supplement.

The most any of these families would have received under the discredited election tax policy of the Liberal and National Parties would have been \$20.46.

This new Family Allowance Supplement is additional to the existing Family Allowance and will be paid directly to the primary carer of the children, generally the mother.

It is structured so that it will increase the incentive for unemployed people to find work and will provide a positive inducement to avoid welfare dependency.

In terms of assisting low income families in genuine need, this new Family Allowance Supplement ranks with any initiative introduced by any Australian government in any period.

As I said earlier, this is a landmark change in social policy and a source of much pride to the Government.

HEALTH

As promised in the election campaign, the Government will provide \$25 million to the States this year and next to reduce waiting lists in public hospitals.

Expenditure of \$20 million will be provided for prevention and education measures to combat the spread of AIDS.

Following a review of requirements, repatriation hospital staff numbers are to be increased by 337.

STAFF AND ADMINISTRATION

The Prime Minister recently announced a major restructuring of Commonwealth departments.

These changes are estimated to produce savings of \$107 million in a full year and to cut 3,100 off staffing levels by 1988-89.

ASSET SALES

In May I announced a program of asset sales estimated to yield about \$1,000 million in 1987-88.

In order to maintain maximum flexibility in aviation policy, and in the light of our election commitment to deregulate the industry, the Government has decided not to proceed with the sale of its international airport terminals.

Notwithstanding this change, however, we still expect the other elements of the program of asset sales announced in May to raise at least \$1,000 million in 1987-88.

In the 1988-89 financial year we will be selling the loans portfolio of the Defence Service Homes Corporation and other defence assets, producing savings of around another \$1,000 million.

As well as generating important efficiency gains, this will add a recurrent quality to the budgetary numbers as far as the disposal program is concerned.

REVENUE

Turning to the revenue side, I repeat that we have adhered to our election commitment not to increase taxes or introduce new taxes.

We have been able to cut spending and taxes at the same time partly because we are now reaping the benefits of earlier actions to restore integrity to the tax system and to upgrade its administration.

The capital gains tax, the fringe benefits tax and related measures like many things that are new, were controversial at inception, but are now fulfilling their proper structural function by massively broadening the tax base.

It is largely because of these measures that despite legislated lower tax rates and subdued economic growth, 1986-87 tax collections came in \$1 billion above budget-time estimates.

Not only are they yielding the revenue but they have made the system much fairer than it has ever been.

The Government is firmly committed to continuing its efforts to make the tax and welfare systems decent and secure, and consequently we will proceed with vigour to implement the Australia Card national identification system.

This system will return up to \$1,000 million a year in revenue that is presently being evaded or defrauded.

To further reinforce our anti-avoidance measures, this Budget will fund the Tax Office to establish special audit teams of highly qualified and experienced officers to mount more effective and detailed scrutinies of potential tax avoidance activities, particularly in the corporate sector.

Madam Speaker, as most Australians are aware, some people in this country have accumulated substantial wealth because of booming stock-market and property values.

Under the old tax system much of those profits would have gone tax-free.

That is no longer the case.

We have made the system fairer and those who have previously benefited from tax-free capital profits are now making a substantial contribution towards the costs of government services like schools, roads, social security, and so on.

The impact of this new, fair tax has been a fundamental factor in the Government's review of tax deductions for investors in rental property.

Since we have restored the integrity of the tax system by subjecting capital gains to tax, we are now in a position to permit the restoration of deductions against taxable income without exposing the revenue to the threat which existed before July 1985.

The full interest costs of owning and maintaining rental property will now be deductible against income from any source.

In the recent past the Government has canvassed in detail the principle of allowing tax deductions for interest costs in the case of both rural investments and equity investments.

In both cases we decided in favour of allowing offsetting deductions.

Tonight's decision restores the symmetry between investment in property and other assets such as shares or farms.

It will enhance the attractiveness of investment in both commercial and residential rental property and have a beneficial effect on the supply of residential accommodation in particular.

In the light of this decision the 4 per cent depreciation allowance for both residential and non-residential construction is to be reduced to 2 1/2 per cent for new properties.

This will moderate the cost of these concessions, which has been growing at an annual rate of \$55 million, while still representing a substantial concession to construction activity.

NEW POLICY DIRECTIONS

Following introduction of the Government's revolutionary full imputation system for company tax—to remove the double tax on dividends—I have now instituted a complementary review within the Treasury of the remaining structure of the business taxation system.

The overriding objective of this review is to identify options for financing reductions in the company tax rate through sensible broadening of the company income tax base.

This is in line with similar recent reforms in a number of major Western economies, including the United States and Britain.

I will announce the outcome of this review either in or before the next Budget.

Madam Speaker, in the coming term the Government will be concentrating its energies on the quest for efficiency throughout the economy.

We have already foreshadowed the removal of outdated regulatory arrangements in the crude oil industry and the aviation sector.

More reforms of this nature will follow as we review and remove impediments to doing things better in different sectors of the economy.

FUTURE PROSPECTS

Madam Speaker, Australia's economic performance will continue to be constrained until we overcome the fundamental problem of our trade imbalance.

Even so, in the coming year Australia's economic growth rate is estimated to increase modestly from 2 per cent last financial year to 2 3/4 per cent.

This should generate over 100,000 new jobs—meaning that by the end of our Bicentennial year one million new jobs will have been created since the Hawke Government first won office.

Continued buoyancy of employment, and the tax cuts, will lift household purchasing power from last year's low.

But the cuts we have made to government spending will restrain total domestic demand and avoid any spillover into unsustainable import pressures.

Now that we have eliminated the budget deficit we will be repaying \$1,000 million of Commonwealth overseas debt this year and the same amount of domestic bonds.

No other Commonwealth government in more than 50 years has made repayments of both external and domestic debt in the same year.

This year we have seen significant falls in interest rates, both for businesses and for home buyers.

The withdrawal of the Commonwealth Government as a net borrower this year will further reduce pressures on financial markets and help to sustain those lower interest rates.

While fiscal policy is now carrying more of the burden of policy, monetary policy will continue to play its proper role in containing domestic demand and cost and price pressures.

Lower interest rates and an improving economic climate should contribute to a lift in business investment of at least 4 per cent in real terms and much more than that in the areas taking advantage of new export and import competing opportunities.

We therefore expect that Australia will make further substantial progress in reducing the current account deficit in 1987-88.

It should fall to around \$11 1/2 billion, 4 per cent of Gross Domestic Product.

With the worst of the inflationary impact of the depreciation of the dollar behind us, and wage restraint under the Accord, inflation is expected to fall from over 9 per cent last year to around 6 per cent by the middle of 1988.

CONCLUSION

Madam Speaker, I have described tonight how Australia is successfully responding to the most adverse external economic difficulty we have faced since the Great Depression nearly 60 years ago.

We could have reacted to this trade deterioration by pushing all the economic policy levers into reverse.

That has been tried in the past, both here and in other countries.

And where it has been tried it has not produced the quick results hoped for and it has resulted in sharply higher long-term levels of unemployment, declining living standards and destructive social conflicts.

We have rejected that path and the events of the last 18 months have shown that we were right.

We have turned the corner and the big gaps in the trade accounts have begun to close.

Essential to our success to date has been cutting the size of government and pulling down the budget deficit from the near \$10,000 million that we inherited from Mr Fraser and Mr Howard to just on zero.

This is an achievement of historic proportions.

It is one of which the Government is justly proud.

We have done it the right way—by better targetting government spending and by repairing and reforming the tax system.

The needy have been protected and assisted; the cheats have been caught and made to pay their way.

This is responsible government, the Labor way.

Governing with compassion and authority, good sense and confidence.

I commend the Budget to the House.