

1989-90 BUDGET PAPER No. 1



BUDGET STATEMENTS

1989-90

DEPARTMENT OF THE SENATE
PAPER No. 3501
DATE PRESENTED
15 AUG 1989
<i>Mary Egan</i>

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 1989-90

AUSTRALIAN GOVERNMENT PUBLISHING SERVICE
CANBERRA 1989



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- No. 9 Towards Social Justice for Young Australians**
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Outlines Commonwealth support for science and technology with a particular focus on major Commonwealth research agencies and programs supporting research-related activities.
- Report of the Auditor-General**
A report on the Financial Statements prepared by the Minister for Finance for the year ended 30 June 1989.
(This document is to be released in November 1989).

CONTENTS

	Page
Statement 1 SUMMARY OF THE 1988-89 BUDGET	1.1
Statement 2 THE BUDGET AND THE ECONOMY	2.1
Recent Developments	2.3
Medium-Term Trends	2.29
Economic Policy	2.51
The Economic Outlook	2.60
Statement 3 OUTLAYS	3.1
Overview	3.3
Analysis by Function	3.42
Statistical Appendix	3.345
Statement 4 REVENUE	4.1
Overview	4.3
Measures	4.4
Outcomes and Estimates	4.24
Longer-Term Trends	4.41
Statement 5 THE BUDGET BALANCE AND ITS FINANCING	5.1
Introduction	5.3
Balance	5.5
Financing Transactions	5.8
Statement 6 TRANSACTIONS OF THE PUBLIC SECTOR AS A WHOLE	6.1
Introduction	6.3
Composition and Characteristics of the Public Sector	6.3
Overview of Public Sector Transactions	6.6
Public Sector Outlays and Revenue	6.10
Public Sector Borrowing	6.19
Public Sector Indebtedness	6.25
Public Financial Enterprises	6.27
Statement 7 COVERAGE AND CLASSIFICATION OF INFORMATION IN THE BUDGET STATEMENTS	7.1
Coverage	7.2
Classification of Information	7.3
Major Reporting Classifications for Budget Outlays	7.9
Treatment of ACT Self Government	7.15
Treatment of Comcare	7.16
Statistical Appendix	7.16

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Notes:

- (a) Figures in tables and, generally in the text, have been rounded. Discrepancies in tables between totals and sums of components are due to rounding. Percentage changes in all tables are based on the underlying unrounded amounts and not the rounded amounts.
- (b) In the tables showing revenue, the sign in front of the 'change' reflects the impact of the change on the aggregate concerned. For Statement 3, however, see the style convention notes on page 3.2.
- (c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.
- (d) The following notations are used:

NEC/nec	not elsewhere classified
—	nil
..	not zero, but rounded to zero
n.a.	not applicable (unless otherwise defined)
\$m	\$ million
\$b	\$ billion
%	per cent

Budget Statements 1988-89 is one of a series of Budget Papers, the purpose of which is to provide information supplementary to that in the Budget Speech. A full list of the series is printed on the inside cover of this Paper.

STATEMENT 1—SUMMARY OF THE 1989-90 BUDGET

The budget surplus for 1989-90 is estimated at \$9122m, compared with \$5899m in 1988-89. This will be the third consecutive budget surplus and only the third surplus in the more than thirty five years for which comparable records are available.

The major budget aggregates for 1989-90, together with comparable figures for 1988-89, are:

	1988-89			1989-90		
	Actual	Change on 1987-88	%	Estimate	Change on 1988-89	%
Outlays	\$m 82 128	\$m 3 364	4.3	\$m 86 753	\$m 4 625	5.6
Revenue—						
Tax	83 252	8 355	11.2	91 325	8 073	9.7
Non Tax	4 775	-1 157	-19.5	4 550	-225	-4.7
Total	88 027	7 198	8.9	95 875	7 848	8.9
Balance	5 899	3 835		9 122	3 223	

Total outlays are estimated to increase by 5.6% in nominal terms in 1989-90.

- On the basis of the forecast increase of about 6 1/4% in the price deflator for non-farm GDP, total real outlays are estimated to decline by 0.6%, the fourth consecutive real decline.
- This will represent a cumulative decline in real terms of 8.1% over the past four years.
- As a percentage of GDP, outlays are expected to decline to 23.7% in 1989-90 and to 22.0% by 1992-93, the lowest level since the mid-1960s.

Details of the 1989-90 outlay estimates, the forward estimates for the period 1990-91 to 1992-93, the 1988-89 outcome and an historical overview are provided in Statement 3.

Total budget revenue is estimated to increase by 8.9% in nominal terms and by 2.5% in real terms. Details of the 1989-90 revenue estimates, the 1988-89 outcome and an historical overview are provided in Statement 4.

With the Budget continuing to be in a substantial surplus, the ratio of the Commonwealth budget sector's total gross debt outstanding to GDP is expected to be about 13% at end-June 1990, compared with the recent peak of 26.8% at end-June 1986. Expected debt repayment and financing transactions in 1989-90 are discussed in Part IV of Statement 2, with more detailed information and an historical overview being provided in Statement 5.

The 1989-90 Commonwealth budget aggregates and the Australian public sector's net borrowing requirement (net PSBR), all expressed as a percentage of forecast GDP, along with comparable data for recent years, are:

	1986-87	1987-88	1988-89	1989-90 Estimate
			% of GDP	
Outlays	28.7	26.5	24.5	23.7
Revenue—				
Tax	25.2	25.2	24.8	25.0
Total	27.7	27.2	26.2	26.2
Balance	-1.0	0.7	1.8	2.5
Net PSBR	3.5	0.4	-1.0	-1.2

The net PSBR moved into surplus in 1988-89, for the first time in the almost thirty years for which comparable data are available. The surplus in the net PSBR is expected to increase further in 1989-90. Further details regarding the public sector as a whole are provided in Statement 6.

**STATEMENT No. 2—THE BUDGET AND THE ECONOMY
CONTENTS**

	Page
Part I	
Recent Developments	2.3
International Economic Conditions	2.4
Domestic Economy	2.7
Causes of the Strong Growth in Private Demand	2.10
Implications of the Strength of Demand	2.19
Conclusion	2.28
Part II	
Medium-Term Trends	2.29
External Debt	2.29
Inflation	2.33
Investment, Employment and Productivity	2.38
Saving and Investment	2.42
External Accounts	2.45
Conclusion	2.50
Part III	
Economic Policy	2.51
Structural Reform	2.51
Labour Market Reform	2.52
Financial Deregulation and Monetary Policy	2.54
Fiscal Policy Settings	2.56
Conclusion	2.59
Part IV	
The Economic Outlook	2.60
The Forecasting Framework and Assumptions	2.60
Financial Conditions and Budget Funding	2.63
Demand and Output	2.64
Balance of Payments	2.66
Prices and Incomes	2.67
Labour Market	2.67
Conclusion	2.67

2

PART I: RECENT DEVELOPMENTS

World production and trade continued to expand strongly over the past year. The industrial countries are now in their seventh year of uninterrupted expansion since the recession of the early 1980s. Employment has been growing and unemployment falling. Inflation rates have declined over much of that period, although they have crept up recently in a number of countries. Profits have been healthy and investment has been particularly buoyant. Market conditions for Australia's exports remained generally favourable.

Within Australia, the dominant economic development in 1988-89 was the exceptionally strong growth of private sector spending—the strongest, in fact, since the 1960s. That strength largely reflected the sustained improvement in profitability and business confidence, the further sharp improvement in the terms of trade and cyclical forces (especially in the building sector). Notwithstanding much tighter fiscal policy, private spending was also boosted by the lagged effects of lower interest rates during 1987, particularly in the wake of the stock market decline. The combined effect of all these forces produced rapid growth in business and dwelling investment and, through strong growth in employment and disposable income, more buoyant consumer demand.

The response of domestic production appears to have been limited, largely because the economy was operating at high rates of capacity utilisation. Demand absorbed potential exports and spilt over into imports, widening the current account deficit considerably (notwithstanding the terms of trade improvement). Australia's net external liabilities remained broadly steady relative to GDP. Excess demand pressures also contributed to the stalling of the downward trend in price inflation which had been evident since the December quarter 1986, and to considerable strains in the labour market. Unemployment fell to its lowest level since 1981-82 and overtime rose to near the historically high levels recorded in 1973-74.

The medium-term thrust of economic policies was maintained. A further tightening in fiscal policy consolidated the progress in eliminating, and now reversing, the public sector's net borrowing, while wage restraint withstood growing labour market pressures, underpinning continued high levels of profitability and business investment. Further progress was achieved in structural reforms, notably in establishing the process of award restructuring and fostering changes in domestic transportation.

In conformity with this overall strategy, policies over the past year have responded specifically to the strength of domestic demand. Fiscal policy and, especially, monetary policy were tightened during the course of 1988-89 and a wage/tax/transfer package designed to reinforce wage restraint was initiated in mid-1988 and concluded in April 1989. An increasing number of indicators suggest that these measures will bring about the intended slowing in demand in the period ahead. The lags are such, however, that inflation and the current account deficit are likely to remain uncomfortably high in 1989-90 as a whole, although improved trends can be expected to be well established as the year progresses. For some time yet, policy will need to continue to be directed towards achieving a slowing in demand combined with a shift of production to net exports.

INTERNATIONAL ECONOMIC CONDITIONS

The lengthy period of strong growth and relatively low inflation in the industrial countries can be attributed to a number of factors, including sustained wage moderation and strong business investment. Greater efforts by many countries to set and pursue economic policies in a medium-term framework have also been important.

Although major international imbalances persist, there has been a widespread reduction of large fiscal deficits. Generally cautious monetary policy has helped to restrain inflationary pressures, notwithstanding the leeway granted by monetary authorities after the 1987 stockmarket decline. Structural reforms (especially financial market liberalisation, tax reform and greater public sector efficiency) have been important in enhancing the flexibility of economies and easing constraints on output, although progress in this area has been uneven. (Little progress has been made, for example, in reducing the costs and inefficiencies of agricultural policies.) These factors, together with nominal wage restraint in many OECD economies, the absence of major economic disturbances and lower real oil prices, have contributed over the period to sustained profitability, strong private sector confidence and investment. The volume of private non-residential investment in OECD countries increased at an annual rate of around 7 per cent in the five years to 1988, compared with less than 2 per cent in the previous five years.

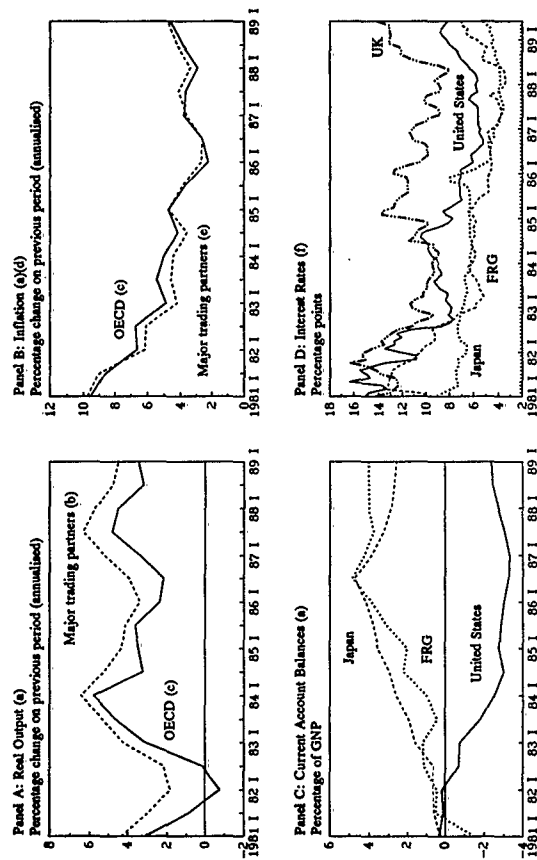
Real GNP in the OECD rose by 4.1 per cent in 1988. Activity was strong in the second half of 1988 and the first half of 1989 (Chart 1, Panel A), but signs are now emerging of moderation in the pace of expansion in some countries, including the United States.

Growth among the developing countries was again uneven in 1988. Economic activity in countries facing high debt-servicing burdens remained sluggish. Efforts are continuing to be made to help to ease debt servicing burdens, reduce negative transfers and produce more manageable new financing requirements. These efforts, however, will be frustrated without continued world economic expansion and liberalisation of market access for developing countries' exports, as well as sound domestic policies in the debtor countries.

The newly industrialising economies of Asia—Korea, Taiwan, Hong Kong and Singapore—and China (which, together with the larger OECD countries, comprise Australia's major trading partners) maintained strong growth rates in 1988, when their combined real GNP increased by around 10 per cent. Activity in those countries may now slow a little, in part reflecting less buoyant demand in the industrial countries.

Inflationary pressures emerged as a significant concern over the past year. The rate of increase in prices (as measured by the OECD area private consumption deflator), which fell from 10.5 per cent in 1980 to a low of 2.7 per cent in 1986, has picked up again, reaching an estimated 4½ per cent in the first half of 1989 (Chart 1, Panel B). Strong demand, associated high capacity utilisation rates and tightening labour market conditions in most OECD countries have contributed to these pressures. Labour costs began to accelerate in 1988 in several OECD countries,

Chart 1: Selected International Indicators



(a) Data for 89 I are OECD forecasts. (b) Weighted by shares of 1987-88 Australian exports. (c) Weighted by shares of 1987 production. (d) Private consumption deflator. (e) Weighted by shares of 1987-88 Australian trade. (f) Short term average monthly rates; US 3 month treasury bills (secondary market); Japan 2 month bank bills (central rate); UK 3 month sterling interbank rate; FRG 3 month interbank rate.

notably the United States, Italy and the United Kingdom. Buoyant industrial demand contributed to higher non-oil commodity prices. Higher oil consumption and renewed OPEC unity were factors behind a strong recovery in the world price of oil, with spot prices rising from a low of \$US12.10 per barrel in October 1988 to \$US17.55 per barrel in June 1989.

Firmer monetary policy settings were put in place over the past year in response to this lift in inflationary pressures. The United States monetary authorities began to increase short-term rates in May 1988; those rates had risen by around 3 percentage points by March 1989, but have eased a little since then as signs of slowing in the economy have emerged. Increases were recorded in many other OECD countries—generally a little later than in the United States—notably the United Kingdom, where rates increased quite sharply in the second half of 1988 (Chart 1, Panel D). Higher interest rates overseas have added to pressures for the maintenance of higher rates in Australia.

Earlier policy and exchange rate adjustments contributed to reductions in the current account imbalances of the United States, Japan and Germany after 1986. However, little further progress has been made over the past twelve months (Chart 1, Panel C).

The large current account imbalances have persisted without severe financial or foreign exchange market disruption for longer than many observers thought possible. Financial deregulation and the associated increased depth in world capital markets have facilitated accommodating capital flows. Nevertheless, current account positions that are symptomatic of serious underlying domestic imbalances—as in the case of countries with large fiscal deficits or excess domestic demand—need to be addressed through domestic corrections. Unless they are, there remains potential for disruptive adjustments in financial markets, as well as in international trade flows.

The general government fiscal deficit in the United States has declined as a percentage of GNP, from almost 4 per cent in 1983 to about 2 per cent now. Further gradual reduction could be expected to contribute to sustaining the current expansion. In the United Kingdom, as in Australia, excess domestic demand has contributed importantly to the widening in that country's current account deficit, despite the existence of a large fiscal surplus.

Cooperation among the larger industrial countries on economic policy—predominantly with exchange rates in mind—has continued over the past year. This appears to have contributed to greater private sector confidence than might otherwise have occurred. Sentiment towards the US dollar has improved during 1989 reflecting, in part, signs of moderation in the pace of activity in the United States, as well as political and economic uncertainties in other countries.

Further economic integration within the Asian/Pacific region has occurred. Intra-regional trade and investment have risen strongly, accompanied by the development over the years of a variety of regional economic fora. Australia is becoming more involved in that process. China and the four Asian newly industrialising economies, for example, now account for over 15 per cent of Australia's total import and export trade (compared with around 10½ per cent a decade ago); this proportion rises to over 38 per cent with the inclusion of Japan.

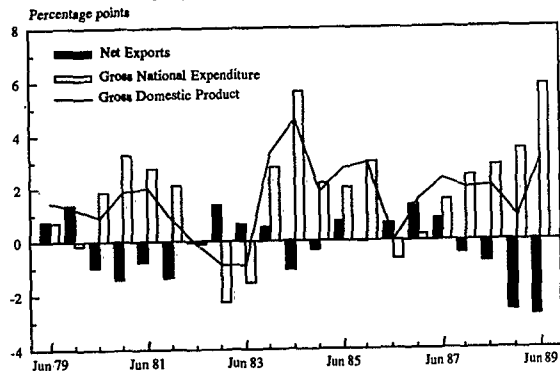
Some progress was made during the year in the GATT Uruguay Round, with agreement at the Mid-Term Review in April by GATT contracting parties to bring about a successful outcome for the Round, particularly in agriculture. Protectionist pressures, however, have not abated: they remain a threat to a healthy multilateral trading system and desirable growth in world trade.

DOMESTIC ECONOMY

The August 1988 Budget envisaged a continuation of domestic demand growth of about 4 per cent, with a slight worsening in the net export position. The pattern of demand growth—strong private investment, moderate private consumption expenditure and subdued public demand—was seen as conducive to the medium-term external adjustment task. The current account deficit was expected to continue to fall relative to GDP and the rate of inflation was expected to ease further.

Preliminary national accounts data indicate that, although the composition of domestic demand growth was broadly as expected, its level was very much higher than forecast at Budget-time. Total domestic demand (GNE) increased by 7.7 per cent, considerably faster than growth in domestic production (GDP), presently estimated at 3.3 per cent. With parts of the domestic economy operating near capacity, this led to a large increase in imports and greater domestic absorption of goods that might otherwise have been exported, with a significantly greater than expected net import response (Chart 2).

Chart 2: Contributions to GDP Growth (average 1984–85 prices)
Seasonally adjusted annualised changes on preceding half year



While the national accounts provide the best available overall picture of trends in the economy, estimates for the most recent periods (notably 1988-89) need to be treated with particular caution. Estimates prepared for the Budget are very preliminary, and are based on less information than the Statistician normally has at his disposal for quarterly national accounts. The estimated increase in GDP of 3.3 per cent, in particular, appears to be low—for example, the strength in the labour market and in taxation revenues suggests that product (and incomes) were stronger than indicated by the preliminary national accounts. Higher income and product growth would tend to lift estimates for other derived measures, including productivity and saving.

The adverse consequences of the exceptional demand growth for inflationary pressures and the external accounts prompted further policy adjustments which were implemented progressively as the strength of demand became clearer. Monetary policy had a particularly important role to play, partly because of its flexibility and partly because demand was strongest in interest-sensitive areas. Given Australia's history, the emerging tightness of the labour market posed a considerable threat to continued wage moderation. The wage/tax/transfer package initiated in mid-1988 and concluded in April 1989 was directed against this threat; it sought to ensure that, in contrast to previous periods of pronounced labour market tightness, wages growth would be contained during both 1988-89 and 1989-90, while at the same time the momentum for fundamental labour market reform was maintained. Although a public sector net financial surplus was already in prospect as a result of previous restraint, further fiscal measures to restrain demand and reduce public borrowing were announced in May in the context of the Premiers' Conference and Loan Council meetings.

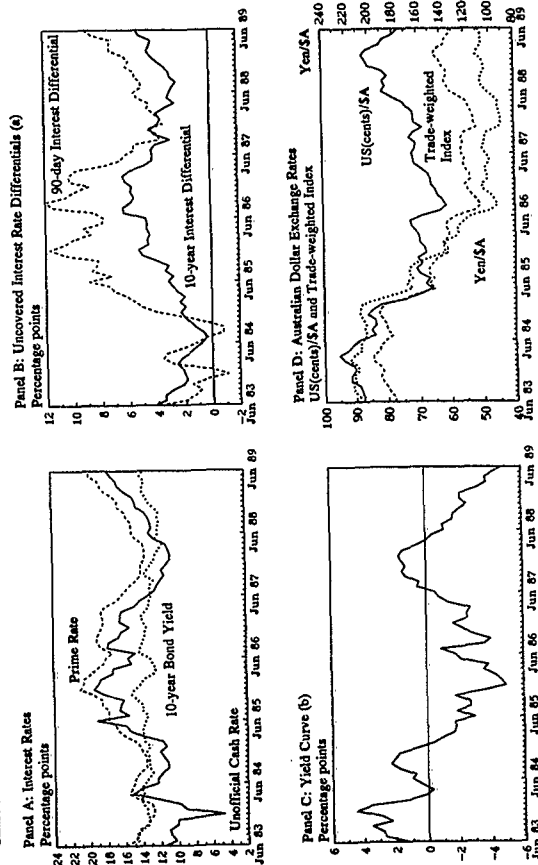
Monetary Policy

The progressive tightening of monetary policy commenced in April 1988, following signs that spending and activity had been largely unaffected by the October 1987 share market decline. Monetary policy was tightened further throughout 1988-89 in a number of steps in response to evidence of overly buoyant demand trends.

The cumulative effect of the tightening of monetary policy was to increase short-term professional and most retail interest rates by around 7 percentage points compared with the March quarter 1988 (Chart 3, Panel A). Housing loan rates rose by around 3½ percentage points; the very comfortable liquidity position of the savings banks resulting from the October share market crash meant that those rates were slower to rise. The yield curve became progressively more inverted as 1988-89 proceeded (Chart 3, Panel C). Longer-term yields increased during 1988-89, but more slowly in the second half (particularly in relation to short-term rates). While remaining high by historical standards, the rate of expansion in credit eased throughout most of 1988-89, reflecting the tighter stance of monetary policy.

After fluctuating during the September quarter 1988, the \$A exchange rate (Chart 3, Panel D) appreciated in the December quarter and into 1989, reflecting among other things a widening interest rate differential (Chart 3, Panel B) and some further improvement in commodity prices. The exchange rate peaked in early February 1989 at TWI 67.3 (\$US 0.895) and then depreciated sharply as official

Chart 3: Financial Indicators



(a) Against US interest rates.
(b) 10-year bond yield minus 90-day bank bill yield.

pronouncements and concerns about balance of payments and inflation prospects generated a shift in sentiment. In the latter months of 1988-89 the exchange rate on a TWI basis was relatively steady, with the \$A/\$US exchange rate varying largely in response to influences on the \$US.

Public Sector Transactions

As a result of discretionary tightening in the August 1988 Budget and buoyant economic conditions, the Commonwealth budget surplus increased from \$2.1 billion (0.7 per cent of GDP) in 1987-88 to \$5.9 billion (1.8 per cent of GDP) in 1988-89. Together with the effects of earlier fiscal tightening, this has produced a turnaround equivalent to 6.0 percentage points of GDP from the peak deficit of 4.2 per cent of GDP in 1983-84. The surplus in 1988-89 was used to repay \$A2.7 billion of domestic debt and the equivalent of \$A3.2 billion of foreign currency-denominated debt.

Although Commonwealth budget outlays fell by 4.6 per cent in real terms, total public sector final demand increased by a moderate 2.4 per cent in 1988-89. Commonwealth sector final demand rose by around 4½ per cent, with Commonwealth general government final demand virtually flat and capital expenditure by Commonwealth business enterprises (notably Qantas and Telecom) increasing by over 30 per cent. State and local sector final demand increased by around 1½ per cent, with consumption expenditure increasing strongly and capital spending declining. Overall, public final consumption expenditure increased by 3.6 per cent while public gross fixed capital expenditure fell by 1.3 per cent.

Causes of the Strong Growth in Private Demand

With public sector demand increasing moderately overall, the surge in total domestic demand in 1988-89 was concentrated in the private sector. Several factors contributed to this outcome.

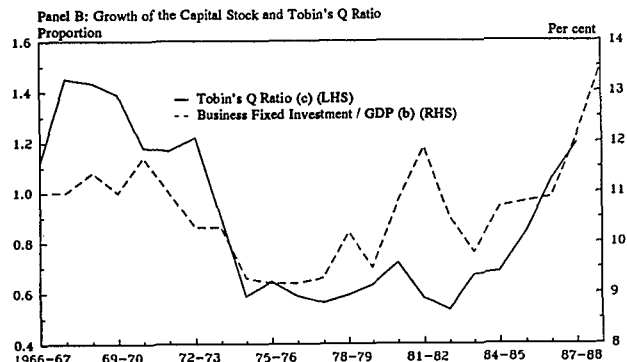
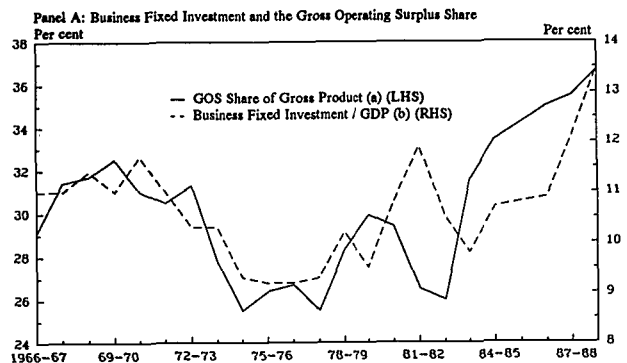
Real Wages and Profitability

The first of these has been the ongoing effectiveness of wage restraint. Wages policy, through the operation of the Accord, has helped to create an environment conducive to investment and employment growth. Profitability has been enhanced directly by the restrained growth of wage costs. Moreover, the lower and more stable trend in inflation (compared with the beginning of the decade), together with reduced industrial disputation, has meant greater certainty and confidence for decision-making.

The harm that rapid wages growth can do to economic activity, despite the direct (temporary) boost it provides to some household incomes, was amply demonstrated in the 1973-74 and 1981-82 episodes. On each of those earlier occasions, explosive wage increases were followed by a jump in inflation, a sharp fall in the profit share, and cutbacks in investment and employment. The wage restraint of recent years has had the reverse impact; in particular, growth in business investment and employment has been enhanced, especially over the last two years.

Chart 4 shows a relationship between profitability and business fixed investment which, while not close from year to year, is reasonably clear over a number of years. Signs of emerging capacity constraints, the easing in financial conditions in 1987 and lower prices of imported plant and equipment, have also contributed to

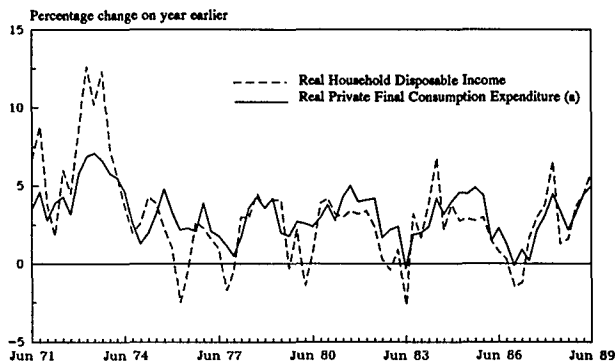
Chart 4: Business Fixed Investment



- (a) Ratio of gross operating surplus of the private non-farm corporate sector to gross product at factor cost of the private non-farm corporate sector.
 (b) Private investment in plant and equipment and buildings and structures as a percentage of GDP.
 (c) Reserve Bank measure of the ratio of the market value of corporate debt plus equity to the replacement value of the capital stock.

the increase in investment. Business fixed capital expenditure increased by 15.5 per cent in 1988-89—after a similar increase in 1987-88—and represented 13.5 per cent of GDP, the highest level on record.

Chart 5: Income and Consumption
(average 1984-85 prices, seasonally adjusted)



(a) Adjusted for the introduction of Medicare, which had the effect of transferring certain expenditures on health care from private consumption expenditure to public consumption expenditure.

Wage restraint also contributed to particularly strong employment growth again in 1988-89 which, in turn, was the major factor in the sustained growth in household disposable income (Table 1). Another significant factor behind the growth in household disposable income was increased incomes of unincorporated enterprises, both farm and non-farm. Private consumption expenditure increased broadly in line with income growth (Chart 5), with the household saving ratio thus unchanged for the year as a whole.⁽¹⁾

(1) Estimates of household disposable income and household saving have been subject to substantial revision recently.

Table 1: Household Income and Labour Costs

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
	(Percentage change on preceding year)					
Employment (a)	0.9	3.4	3.9	2.8	3.0	4.5
At average 1984-85 prices (b) —						
Average earnings (national accounts basis) (a)	-2.5	0.8	-1.9	-1.4	-0.4	0.1
Wages, salaries and supplements (a)	-1.8	4.1	1.9	0.9	2.7	4.8
Personal benefit payments	9.0	5.8	-0.2	-0.3	4.1	-0.4
Household income	3.3	4.1	2.7	1.4	3.2	4.4
Household disposable income	4.0	2.6	2.3	-0.2	3.6	3.5
Household disposable income per capita	2.7	1.3	0.8	-1.6	2.0	1.8(c)

(a) Non-farm wage and salary earner employment (national accounts basis).

(b) Based on implicit price deflator for private final consumption expenditure.

(c) Based on Treasury estimate for population growth.

Monetary Conditions

Following the lengthy period of tight monetary conditions in 1985 and 1986, interest rates eased in 1987 as fiscal conditions were being tightened decisively and financial market sentiment improved. The terms of trade picked up again and the exchange rate strengthened. With the benefit of hindsight, it is clear that market sentiment was allowed to drive interest rates below what was desirable, in light of the subsequent expansion. In Australia, as elsewhere, the concern to manage the expected effects of the October 1987 stock market decline stayed the authorities' hands until April 1988 when monetary policy was tightened. Shifts out of equities into residential and non-residential property took place in a relatively easy credit environment as funds flowed to the banking system. Values were bid up rapidly during 1988. The lagged effects of monetary conditions in 1987 and early 1988, the so called 'flight to quality' to the banking system, and the relative attractiveness of property investments, were important influences in the strong domestic demand growth in certain sectors of the economy in 1988-89.

Cyclical Factors

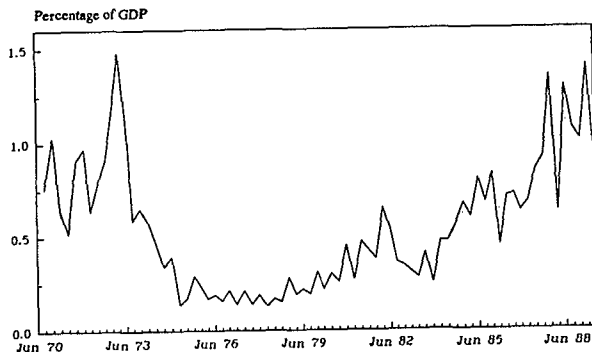
Some medium-term cyclical factors were also involved. Expenditure on dwelling investment, non-residential building investment (notably the construction of offices) and purchases of motor vehicles were in the upswing phase characteristic of stock adjustment cycles. Inflationary expectations, particularly in the real estate area, costs of funds influences from financial markets, strong economic growth, an accelerated immigration program, and high profitability accentuated upswings in these areas. Nevertheless, in each case, significant increases would have been likely in 1988-89 even without these supporting factors.

Dwelling investment had fallen to low levels in 1986-87 as a result of low income growth and shortages of housing finance prior to the deregulation of new housing interest rates in April 1986. Commencements of new dwellings totalled 116,100 in 1986-87, compared with 152,700 in 1984-85. With immigration keeping a floor under potential demand, a cyclical upturn could have been expected as financial market conditions softened. That is what happened, with dwelling investment recovering sharply from mid-1987. Following the October 1987 stock market shock and the reintroduction of the tax benefits from negative gearing, investors formed a growing part of the market. Demand was especially strong in Sydney, although, because of the limited supply of suitable land, much of it showed up in higher prices. Over the year to the June quarter 1989 the CPI house and land price index for Sydney increased by 46.7 per cent.

In the December quarter 1988, total dwelling commencements had reached an annual rate of 180,600 units, well above underlying demand. By that time, however, acquisition costs were rising strongly as a result of the sharp increases in house and land prices and the lift in mortgage rates. Forward indicators confirmed that demand for housing moderated in the second half of 1988-89, although the large amount of construction in progress meant that actual work done on new dwellings was still increasing at the end of 1988-89.

The upturn in the dwelling cycle occurred at the same time as non-residential building investment was continuing to expand from already quite high levels. While investment in factories and facilities related to tourism made a major contribution to this growth, office building was a significant influence. To a large extent, the office building sector has had a life of its own, experiencing much longer cycles than those in the rest of the economy (Chart 6). From a relatively high level in

Chart 6: Office Building Approvals (a)
(average 1984-85 prices, not seasonally adjusted)



(a) Current price value of building approvals, deflated by the implicit price deflator for private investment in buildings and structures, and expressed as a percentage of GDP.

the early 1980s, office vacancy rates tightened significantly in the major central business district areas by the mid-1980s, implying that an upturn in office construction could be expected. This prospect was reinforced by strong corporate profit levels, an increase in demand for office space associated with growth in employment in service industries, and the financial market influences already noted.

New motor vehicle registrations fell by more than 30 per cent over the course of 1985-86 and 1986-87. Uncertainty about the impact of the introduction of fringe benefits taxation and the sharp rise in motor vehicle prices, in part a response to the SA depreciation at that time, contributed to this decline. The low levels of registrations meant that, without some upward correction, the average age of the stock of motor vehicles would have increased sharply. That correction occurred in 1988-89 when registrations rose by 21 per cent, aided by strong income growth, a firmer exchange rate (which may have meant that some motor vehicle purchases were brought forward), and a growing recognition that the provision of company cars was still a relatively concessionally-taxed fringe benefit.

None of these three components of private demand subject to relatively long-lived cycles constitutes a large part of domestic demand. As a share of GNE in 1988-89, dwelling investment was around 5 per cent, non-residential building 4 per cent and expenditures on motor vehicles, including that recorded in business investment, around 3 per cent. However, these sectors have had a much greater influence on fluctuations in overall economic activity; indeed, in 1988-89 they contributed over 30 per cent of the growth in final domestic demand.

Terms of Trade

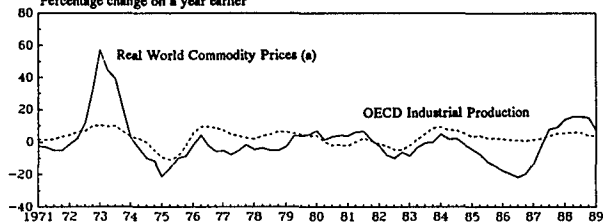
Movements in the terms of trade frequently have had an important influence on domestic incomes and expenditure, and that was again evident in 1988-89.

Commodity market 'fundamentals' remained quite positive last year. The growth of OECD industrial production, which has an important influence on the demand for commodities, eased from the exceptional 6 per cent annual growth rate recorded in early 1988 to a still strong 4 per cent in early 1989. World commodity stocks remained at relatively low levels (Chart 7, Panel C), despite stronger production (particularly of coal and wool). As a consequence, after rising substantially between mid-1986 and mid-1988, Australian commodity prices remained fairly steady in foreign currency terms during 1988-89. They increased strongly in year-average terms.

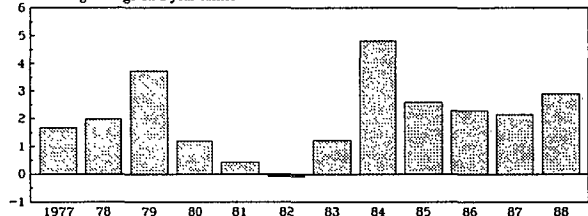
The terms of trade increased by over 15½ per cent in 1988-89, compared with a Budget-time forecast of 9 per cent. This increase primarily reflected the continued strength of world commodity prices, although falls in world prices for some major imports also contributed. In particular, import prices were again affected by the trend decline in the price of computer equipment; over the past ten years, the computer equipment price index has declined by 10½ per cent at an annual average rate, whereas the implicit price deflator for all other imported goods has risen at an annual average rate of about 7½ per cent.

Chart 7: World Industrial Production, Commodity Prices, Production and Stocks

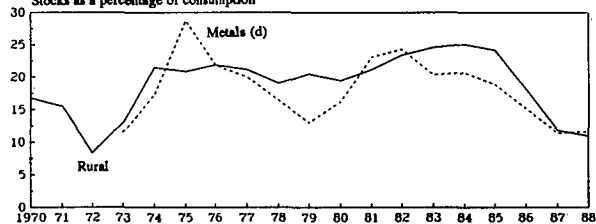
Panel A: Commodity Prices and OECD Industrial Production
Percentage change on a year earlier



Panel B: World Commodity Production (b)
Percentage change on a year earlier



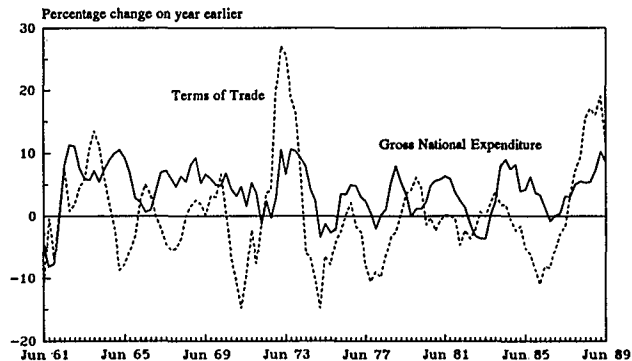
Panel C: Commodity Stocks (c)
Stocks as a percentage of consumption



- (a) Weighted by average Australian export values in the period 1983-84 to 1987-88.
- (b) Volume of world production of thirteen commodities weighted by average Australian export values in the period 1983-84 to 1987-88.
- (c) Volume of world stocks of five base metals (at end calendar year) and wheat, wool and sugar (at end of crop year) weighted by average Australian export values.
- (d) Data for metals are not available prior to 1973.

The boost to domestic incomes from the recovery in the terms of trade since 1986-87—equivalent to over 4 per cent of GDP—had its strongest impact on domestic demand in 1988-89. Chart 8 illustrates the broad link between movements in the terms of trade and domestic demand.

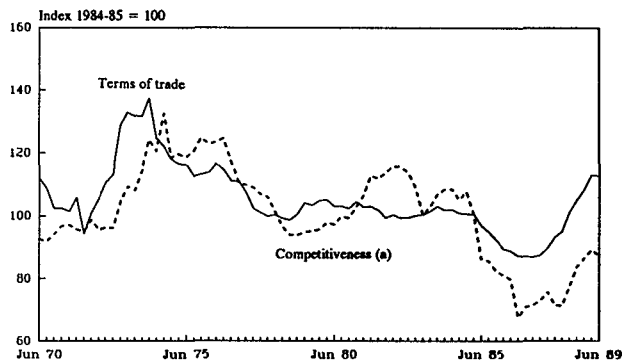
Chart 8: Total Domestic Demand and the Terms of Trade
(average 1984-85 prices, seasonally adjusted)



Different sectors of the economy will be affected in different ways by increased foreign currency returns from higher commodity prices. In addition to the direct effects, there are also likely to be significant indirect effects associated with the reaction of the exchange rate to higher commodity prices. Chart 9 illustrates the reasonably close relationship between the terms of trade and international competitiveness (the 'real exchange rate'). While other factors such as real interest rate differentials and investor confidence can be influential, especially over a short period of time, the terms of trade has been the dominant influence over a longer period.

The rise in international commodity prices and the (partly related) appreciation of the \$A resulted in an increase of 6 per cent in export prices and a fall of 8 per cent in import prices in 1988-89. With such a significant decline in import prices, the terms of trade gain was widely distributed across the community. Business in general faced sharply reduced prices for imported inputs, especially capital goods. Consumers also benefitted, although not to the same extent, partly because lower import prices were not fully passed through to consumer prices. Instead, the strength of domestic demand resulted in some rebuilding of profit margins.

Chart 9: Australia's Terms of Trade and International Competitiveness



(a) Unit labour cost index of competitiveness. A rise (fall) in the index implies a deterioration (improvement) in Australian unit labour costs relative to those of our major trading partners after adjusting for exchange rate changes. The unit labour cost index is the ratio of unit labour costs in the non-farm sector of the Australian economy to the weighted average of the exchange rate adjusted unit labour cost indices for the business sectors of Australia's four major import sources. The weights used are the average shares of Australia's imports from the US, Japan, UK and the Federal Republic of Germany from 1984-85 to 1987-88. Information on unit labour costs for these four countries is available only to the March quarter 1989. Movements in the index in the June quarter 1989 are based on OECD forecasts.

Summary

The pronounced strength of domestic demand last year resulted from the conjunction of a number of factors. It is difficult to determine the relative contribution of each factor, although, given the magnitudes involved, the improvement in the terms of trade and the stimulatory effects of real wage restraint have been central, albeit not universally appreciated.

Fiscal policy and monetary policy have been deployed to curb that demand strength. There are increasing signs that the pace of domestic demand growth is slowing, particularly in interest-sensitive areas. Indeed, especially in the property market, such a slowing was inevitable. All leading indicators for dwelling investment have now turned down, with substantial falls in lending for housing. Job vacancies have started to decline, while final domestic demand and imports grew at a much slower rate in the June quarter 1989 than in the previous two quarters. Associated with these changes—and, indeed, partly responsible for them—business and consumer confidence has weakened from previous high levels.

Implications of the Strength of Demand

Movements in the preliminary estimates of the major national accounts aggregates for demand and product are shown in Table 2. While final domestic demand increased by 5.9 per cent in 1988-89, total demand expanded by 7.7 per cent. Part of this difference is due to the statistical discrepancy, which accounted for 0.7 percentage points of the growth in GNE.⁽²⁾

Stockbuilding also added to demand growth. With farm stocks declining to very low levels in the previous year, a modest build-up in 1988-89 meant that farm and public authority stocks contributed 0.4 percentage points to GNE growth.

The increase in private non-farm stocks added a further 0.8 percentage points to GNE growth as stock holdings were increased to meet the higher sales levels. However, despite the high stockbuilding, the non-farm stocks/sales ratio continued to decline, falling to 0.554 from 0.565 in 1987-88 (see Chart 13 below).

Capacity Constraints

Domestic production could not have been expected to respond to the point of satisfying fully the exceptional surge in demand in 1988-89. Nevertheless, even allowing for some possible understatement of product growth in the past year, it is noteworthy that the estimated increase in production was considerably less than in 1984-85, 1985-86 and 1987-88 when GNE increased less rapidly. In other words, while the macroeconomic focus of the past year or so has been (rightly) on the excessive rate of growth in aggregate demand, the apparently limited supply response has also been very significant.

Some of the reasons which can be adduced for this more limited response in domestic production are discussed below.

(a) Capacity Utilisation

Australia has no comprehensive measures of capacity utilisation, but the several partial indicators confirm what prior reasoning would suggest—namely, with the recovery into its sixth year in 1988-89, and with investment having been weak over much of the previous decade, capacity has been increasingly fully utilised. Over these six years, GDP growth has averaged 4.2 per cent and capital/output ratios for some sectors, including for manufacturing as a whole, have been falling (Chart 10). The CAI/Westpac measure of capacity utilisation for manufacturing was higher last year than at any time since the early 1970s. According to ABS estimates, the average age of the capital stock in manufacturing has increased from 9.9 years in 1966-67 to 12.8 years in 1987-88.

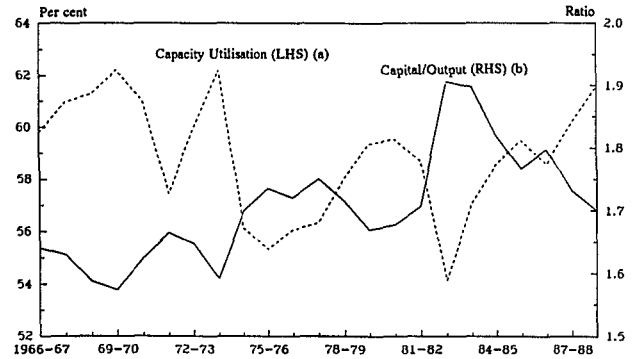
(2) In similar episodes of strong GNE growth in the 1960s and 1970s, the discrepancy also increased. This appears to have resulted, at least in part, from difficulties in capturing in the national accounts estimates all of the growth in expenditure in a quickly growing economy, when new businesses tend to be established. It is quite possible that final domestic demand increased somewhat faster than presently estimated.

Table 2: Components of Gross Domestic Product (average, 1984-85 prices)

Year	Private consumption		Private business investment		Public final demand		Statistical discrepancy		Gross national expenditure		Exports of goods and services		Imports of goods and services		Farm product		Non-farm product		GDP adjusted for the terms of trade	
	(a)	(b)	(a)	(b)	(a)	(b)	(c)	(c)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Average 1979-80 to 1983-85	2.9	3.6	3.6	6.1	3.4	2.6	..	0.3	3.5	4.7	6.2	-0.3	3.3	3.2	3.3	3.2	3.3	3.2	3.3	3.3
1979-80	2.3	10.1	10.1	-3.8	2.1	1.2	-0.5	..	1.3	7.5	-0.4	-14.2	3.4	2.5	3.0	3.0	3.0	3.0	3.0	3.0
1980-81	3.4	12.4	12.4	16.9	5.8	3.1	-0.4	0.9	5.6	-4.9	9.4	-14.5	4.1	3.3	3.2	3.2	3.2	3.2	3.2	3.2
1981-82	1.4	1.5	1.5	-12.1	-2.5	2.8	-2.2	0.6	-2.9	1.2	1.2	-24.0	1.2	1.8	1.6	1.6	1.6	1.6	1.6	1.6
1982-83	1.4	1.5	1.5	-12.1	-2.5	2.8	-2.2	0.6	-2.9	1.2	1.2	-24.0	1.2	1.8	1.6	1.6	1.6	1.6	1.6	1.6
1983-84	2.7	7.6	7.6	-1.5	2.8	3.1	2.2	-0.3	4.8	8.5	5.2	49.1	3.9	5.3	5.7	5.7	5.7	5.7	5.7	5.7
1984-85	3.9	11.9	11.9	14.9	5.8	3.6	-0.3	1.0	6.0	13.5	15.5	0.6	5.7	5.5	5.1	5.1	5.1	5.1	5.1	5.1
1985-86	3.3	..	..	5.7	3.3	5.7	0.1	-0.5	3.5	5.9	1.5	-3.5	4.6	4.3	2.8	2.8	2.8	2.8	2.8	2.8
1986-87	0.5	..	..	3.7	0.3	1.4	-1.1	1.2	0.7	8.9	-3.2	3.7	2.8	2.8	1.9	1.9	1.9	1.9	1.9	1.9
1987-88	3.7	24.2	24.2	15.5	7.0	2.4	1.3	0.7	7.7	1.0	25.5	3.1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
1988-89	3.7	24.2	24.2	15.5	7.0	2.4	1.3	0.7	7.7	1.0	25.5	3.1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3

(a) Compound growth rate, except for stocks and the statistical discrepancy which are average percentage points contribution to change in GDP.
 (b) of Medicines, from 1 February 1984, which had the effect of transferring certain expenditures on health care from private consumption expenditure to public consumption expenditure.
 (c) Percentage points contribution to change in GDP.

Chart 10: Manufacturing Sector Capacity Utilisation and Capital/Output Ratio



(a) Capacity utilisation is measured as the net balance of respondents recording satisfactory capacity utilisation in the CAI/Westpac Survey of Industrial Trends.
 (b) Capital stock is the average of gross capital stock and net capital stock. Output is gross product at constant prices. The figure for 1988-89 is a Treasury estimate.

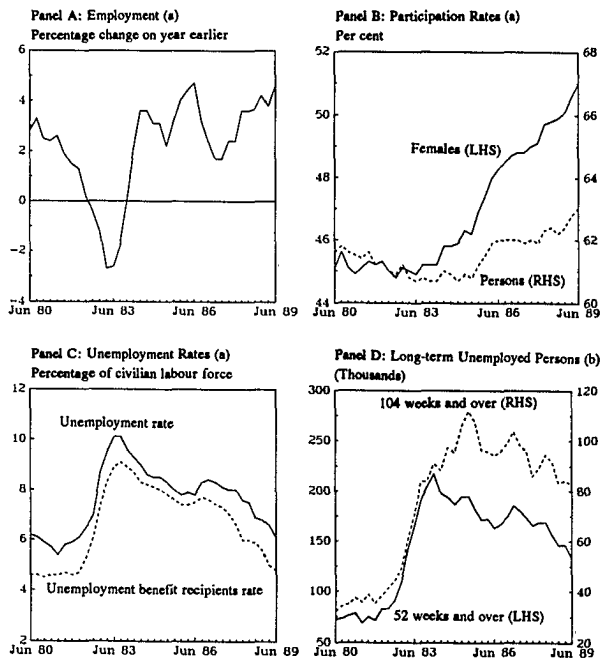
(b) Labour Market

The pronounced tightness of the labour market over the past year is evident in a wide range of measures, including unemployment, overtime and vacancies. As can be seen in Chart 11, employment again grew strongly—by 4.1 per cent in the past financial year. Despite an increase in the participation rate, the unemployment rate fell from 7.5 per cent in the June quarter 1988 to 6.1 per cent by the June quarter 1989.

The largest absolute reductions in unemployment occurred among short-term unemployed persons looking for full-time work. In consequence, and notwithstanding further substantial inroads into long-term unemployment (Chart 11, Panel D), the average duration of unemployment increased from 46.8 weeks in 1987-88 to 49.0 weeks in 1988-89.

The level of overtime suggests that the labour market was tighter in 1988-89 than at any time since the early 1970s (Chart 17 in Part II), although the unemployment rate was still well above the average range of 11-21 per cent in the 1960s and early 1970s. Shortages of suitable labour in the building trades have been pronounced for some time, with resultant sharp increases in labour costs and prices. As Table 3 illustrates, many segments of the labour market have become tighter over the past two years.

Chart 11: Labour Market Indicators



(a) Seasonally adjusted data. Treasury has applied a link to labour force data prior to April 1986.
 (b) Unlinked original data.

Table 3: Vacancy/Unemployment Ratios By Occupation and Industry

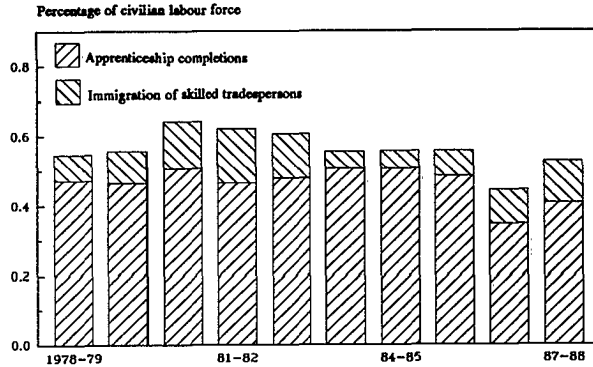
	Year		
	1986-87	1987-88	1988-89
Occupation (a) (b)—			
Managers and administrators	0.05	0.06	0.07
Professionals	0.15	0.18	0.15
Para-professionals	0.04	0.04	0.05
Tradespersons	0.28	0.41	0.55
Clerks	0.02	0.03	0.03
Sales persons and personal service workers	0.16	0.22	0.35
Plant and machine operators	0.05	0.08	0.13
Labourers and related workers	0.02	0.02	0.04
Total	0.10	0.13	0.18
Industry (c)—			
Manufacturing	0.17	0.20	0.26
Wholesale and retail trade	0.13	0.16	0.24
Transport and storage (d)	n.a.	0.13	0.21
Public administration and defence	0.20	0.27	0.35
Community services	0.47	0.42	0.52
Other (e)	0.14	0.15	0.25
Total	0.16	0.18	0.26

(a) Based on unfilled vacancies data by occupation obtained from the Department of Employment, Education and Training and ABS mid-month unemployment data.
 (b) Data for 1988-89 are the average of the September, December and March quarters.
 (c) Based on ABS mid-month unemployment and vacancies data.
 (d) The vacancies data include communication.
 (e) Covers mining, construction, finance, property and business services and recreational, personal and other services. Unemployment data are not available for mining.

A large part of the recent shortages can be traced back to past developments on the supply side of the labour market. The cut-back of apprentice intakes around 1983 and 1984 led to sharply lower apprenticeship completions in 1986-87 and 1987-88 (Chart 12). In addition, the proportion of skilled tradespersons from immigration increased only very recently from the low levels in the period immediately after the 1982-83 recession. Perhaps most important was that, with the contraction of the manufacturing sector in the early 1980s, and growing opportunities in other sectors (notably services), many tradespersons left their previous occupations and have not returned.

It is not possible to say categorically that current conditions in the labour market as a whole can be taken as evidence that full employment has now been reached, but that does seem to be the position in some regions and in some occupations. It follows that further progress in reducing unemployment on a sustained basis will depend importantly on alleviation of present imbalances by the development of relevant skills. To a large extent, this will occur naturally, but gradually, as clear evidence of sustained demand for particular skills is perceived by the workforce. Part III addresses the question of how award restructuring can contribute to these processes.

Chart 12: Skilled Labour Supply - Tradespersons. (a)

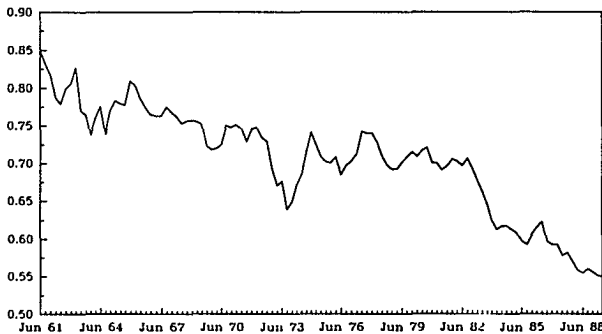


(a) Based on published and unpublished information from the Department of Employment, Education and Training.

(c) Inventories

The recent pick-up in final demand came at a time when stock-holdings relative to sales overall were at a low level (Chart 13). The high cost of holding stocks and improved stock management techniques have led to a situation where inventories,

Chart 13: Private Non-Farm Stocks-to-Sales Ratio
(average 1984-85 prices, seasonally adjusted)



2.24

particularly in cyclical upturns, no longer play much of a buffer role. With a smaller stocks 'cushion', there is greater reliance on quickly available sourcing. Given the high levels of domestic capacity utilisation, there was a rapid spill-over into imports and pressure on goods prices.

Incomes, Costs and Prices

Given the labour market tightness and Australia's experiences in similar situations in the past, there was surprisingly little lift in nominal wage growth. Average earnings (national accounts basis) rose by 7.0 per cent in 1988-89, compared with 6.6 per cent in 1987-88. The preliminary estimate of the outcome for 1988-89 exceeded the Budget forecast by 0.5 percentage points, reflecting in part the impact of labour market pressure on overtime earnings.

Demand pressures had a more pronounced impact on prices, especially housing costs (Table 4).

The treatment of mortgage interest charges in the CPI was changed in the March quarter 1989. Because of the once-off adjustment required to effect this change, the 'official' CPI needs to be interpreted carefully, particularly in the March quarter. An 'analytical' series provided by the Statistician (based on the new debt profile method of measuring mortgage interest charges since their introduction in the March quarter 1987) gives a consistent indication of movements over recent quarters. The CPI rose by 7.4 per cent in 1988-89 following a rise of 7.3 per cent in 1987-88 and compared with a forecast increase in the CPI of 5+ per cent. The analytical series rose by 7.1 per cent in 1988-89.

Table 4: Price Indicators

	Year				Half years (at annual rates)			
	1987-88		1988-89		1987-88		1988-89	
	I	II	I	II	I	II	I	II
	(Percentage change on previous period)							
Consumer price index—								
All groups (a)	8.4	9.3	7.3	7.4	6.7	7.2	7.8	6.6
All groups, analytical series (b)	n.a.	9.3	7.3	7.1	6.8	6.9	7.0	7.6
Excluding mortgage interest and consumer credit charges	n.a.	n.a.	n.a.	6.8	6.9	7.5	6.6	6.3
Implicit price deflators—								
Private final consumption expenditure	8.3	8.6	7.1	6.9	6.8	6.9	7.1	6.4
Gross non-farm product	7.0	7.4	7.4	9.3	6.6	8.7	9.3	10.0
Terms of trade	-8.6	-4.6	9.1	15.6	10.1	14.5	18.6	12.1
Wholesale price indices—								
Manufacturing input	4.9	0.5	5.7	1.0(c)	3.4	5.7	-3.8	7.0(c)
Manufacturing output	6.3	6.6	7.3	6.5(c)	6.7	8.5	6.0	6.3(c)
Building materials used—								
In housing	7.2	5.8	7.6	10.4(c)	6.6	11.1	11.1	9.3(c)
Other than housing	8.0	7.7	8.8	8.8(c)	8.4	11.4	8.6	7.7(c)

(a) Official CPI as published.

(b) Based on debt profile method of measuring mortgage interest charges since their introduction to the CPI in the March quarter 1987.

(c) Based on figures to May 1989.

2.25

Apart from a somewhat higher increase in nominal unit labour costs, the major influences contributing to the higher than expected rise in the CPI were:

- continued increases in retail prices of goods wholly or predominantly imported, despite the marked decline in import prices stemming from the strength of the SA in late 1988 and early 1989. Strong growth in domestic demand is estimated to have added significantly to inflation during the course of 1988-89;
- strong increases in mortgage interest charges, reflecting increases in house and land prices and mortgage interest rates. Excluding mortgage interest and consumer credit charges, the CPI grew by 6.8 per cent in 1988-89. For many purposes, this provides a better indication of underlying inflationary pressures than does the overall CPI; and
- fresh fruit and vegetable prices. Floods in eastern Australia for the second year in succession meant that these prices rose during the year rather than falling back to more normal levels.

Because of the lift in the terms of trade, prices of domestically produced goods and services, on average, rose much more quickly than prices of goods and services purchased domestically (Table 4). This gap, combined with the effects of a further decline in real unit labour costs and strong economic growth, resulted in a further substantial lift in the profit share (Table 5).

Table 5: Gross Operating Surplus, Company Income and Real Unit Labour Costs

	Corporate gross operating surplus share (a)	Share of private non-farm corporate sector gross operating surplus (b)	Real company income before tax (c)	Share of company income after tax (d)	Private non-farm corporate sector (e)	Non-farm sector (f)	Indices of real unit labour costs
Average:							
1966-67 to 1972-73	16.4	31.1	n.a.	n.a.	100.0	100.0	
1973-74 to 1982-83	12.6	27.2	-3.5(g)	11.0(g)	105.9	107.4	
Year—							
1982-83	11.3	26.0	-4.6	8.6	107.6	107.7	
1983-84	13.6	31.5	-29.0	13.4	99.7	103.2	
1984-85	14.6	33.4	14.1	14.0	97.0	100.7	
1985-86	14.6	34.2	-3.7	12.9	95.9	100.0	
1986-87	14.8	35.0	8.1	14.1	94.8	100.3	
1987-88	15.6	35.5	23.6	16.7	94.0	97.1	
1988-89	16.5	36.7	13.9	18.5	92.3	94.1	

- (a) Ratio of the gross operating surplus of trading enterprise companies and financial enterprises (less imputed bank service charge) to gross non-farm product at factor cost.
- (b) Ratio of the gross operating surplus of private non-farm trading enterprise companies and private financial enterprises (less imputed bank service charge) to gross product at factor cost of the private non-farm corporate sector. Gross product at factor cost for the private non-farm corporate sector is derived using Treasury estimates for wages of the unincorporated sector for 1987-88 and 1988-89.
- (c) Income of the private corporate sector before income tax deflated by the implicit price deflator for gross non-farm product; percentage change. Income is defined as gross operating surplus plus dividends received, net extraordinary insurance claims and capital grants from general government, less depreciation, net interest payments, imputed bank service charges and third party insurance transfers to persons. Estimates of net interest payments used in the derivation of this measure have been adjusted by Treasury to allow for the effects of inflation on monetary assets and liabilities. (See article in Treasury's *Economic Round-up*, June 1988.)
- (d) The ratio of income of the private corporate sector (as defined in (b), but after tax) to gross product at factor cost of the private corporate sector.
- (e) Ratio of wages, salaries and supplements, payroll-tax (less employment subsidies) and fringe-benefits tax paid by the private non-farm corporate sector to private non-farm corporate sector gross product at factor cost, plus payroll tax (less employment subsidies) and fringe-benefits tax (base for index: average 1966-67 to 1972-73=100).
- (f) 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 average 1984-85 prices, per hour worked by all persons employed in the non-farm sector (base for index: average 1966-67 to 1972-73=100).
- (g) Average for 1976-77 to 1982-83. Data for periods prior to 1976-77 are not available.

External Accounts

The effects of rapid growth in domestic demand were especially evident in the balance of payments. Australia's current account deficit widened in 1988-89—from \$11.8 billion (or 4.0 per cent of GDP) in the previous year to \$17.4 billion (or 5.2 per cent of GDP). The continuing growth of the net income deficit, which accounts for the larger part of the current account deficit and is now equivalent to 3.9 per cent of GDP, played a role (Table 6). However, the principal proximate influence was a significant increase in the goods and services trade deficit. Strong domestic demand, particularly for the more import-intensive components such as investment goods, and a higher exchange rate, produced a sharp increase in imports. The improved terms of trade partly offset the markedly weaker trade volume performance.

Table 6: Balance of Payments Indicators

	1984-85	1985-86	1986-87	1987-88	1988-89
	\$ billion				
Balance on goods and services	-4 657	-7 299	-4 716	-2 314	-6 721
Net interest deficit	-4 234	-5 281	-5 509	-5 462	-7 019
Net income deficit	-6 728	-8 333	-9 396	-11 182	-12 979
Net unrequited transfers	198	709	1 213	1 664	2 274
Balance on current account	-11 187	-14 923	-12 899	-11 832	-17 426
	Percentage of GDP				
Balance on goods and services	-2.2	-3.1	-1.8	-0.8	-2.0
Net interest deficit	-2.0	-2.2	-2.1	-1.8	-2.1
Net income deficit	-3.1	-3.5	-3.6	-3.8	-3.9
Net unrequited transfers	0.1	0.3	0.5	0.6	0.7
Balance on current account	-5.2	-6.3	-4.9	-4.0	-5.2
Percentage change in volume of—					
Exports of goods and services	13.5	5.9	8.9	6.8	1.0
Imports of goods and services	15.5	1.5	-3.2	9.9	25.5
Balance on goods and services \$ billion (1984-85 prices)	-4 657	-3 193	1 369	244	-10 217
Net interest deficit	37.8	35.4	42.7	46.2	40.3
Net income deficit	60.1	55.8	72.8	94.5	74.5
Percentage of current account deficit					
Year-average terms	-2.4	-8.6	-4.6	9.1	15.6
Year to June quarter	-5.3	-8.4	-1.4	15.7	11.5

Higher than forecast endogenous imports accounted for more than half of the discrepancy (of almost \$8 billion) between the Budget forecast of the current account deficit and the outcome. Exports of goods and services were around \$0.7 billion less than had been forecast and the net income deficit turned out to be higher than forecast.

Export volumes were adversely affected in 1988-89 by the diversion of manufactured goods to the domestic market and disruptions to the supply of some commodities (notably coal and crude oil). Favourable seasonal conditions and the prospective opening of Asian beef markets encouraged Australian graziers to concentrate on herd rebuilding. The potential for beef exports in later years was thereby increased at the expense of exports in 1988-89. Export products recording high growth included aluminium, gold and some metal ores.

Endogenous import volumes rose by 27 per cent in 1988-89. All categories of endogenous imports recorded substantial growth, but the 43 per cent increase in capital goods imports was the strongest. Imports of consumption goods rose by 30 per cent and imports of 'other' endogenous goods (primarily intermediate goods) increased by 19 per cent. Imports of machinery and industrial transport equipment, passenger motor cars (which accounted for about half of the increase in consumer goods imports) and industrial supplies increased particularly sharply, accounting for around 85 per cent of the increase in current price merchandise import values (excluding civil aircraft and fuels) between 1987-88 and 1988-89.

Imports accounted for around 60 per cent of the increase in GNE in 1988-89, implying a 'marginal' import penetration ratio roughly three times the average penetration ratio. While the large increase in imports aggravated an adverse balance of payments position, it also helped to protect the economy from excessive price pressures and other bottlenecks and shortages of goods. The heavy investment goods component of those imports will help to expand Australian output over the years ahead, thereby contributing to the reduction of the current account deficit.

CONCLUSION

Economic developments in 1988-89 clearly demonstrated the adverse implications, particularly in terms of inflation and the current account of the balance of payments, of overly rapid growth of domestic demand. They also underlined once again the importance of enhancing the flexibility and growth potential of the economy. The Australian economy is now slowing but still faces further substantial adjustment in order to bring the current account deficit and external debt down to sustainable levels. The ways in which that adjustment is proceeding over the medium-term are addressed in Part II.

PART II: MEDIUM-TERM TRENDS

Australia's major medium-term economic problems—namely, inflation and external imbalance—have been exacerbated by the excessive demand pressures over the past year. At the same time, however, the continuing strong expansion of business investment and employment has improved the productive base of the economy. Against the background of these developments, this Part reviews some fundamental factors influencing the underlying performance of the economy.

The economic well-being of Australians is primarily determined by the rate at which the productive potential of the economy is expanded over the longer term. To the extent that this is done by drawing on foreign saving, there will be a claim on future real income generated by Australians to service those foreign obligations. That will be generally acceptable so long as that saving is used in ways which generate more than its servicing costs. If, however, foreign saving is not deployed effectively, foreign obligations will become burdensome and will heighten the economy's exposure to adverse external developments, such as lower world economic growth and commodity prices. The overall process of economic adjustment under way in this country has as its ultimate objective the effective participation by Australia in an increasingly competitive international economy. Trends in inflation, factor shares, investment and saving, and the myriad of factors making for a more productive and efficient economy, are all important to the realisation of that objective, and to the maintenance of adequate control of the economy's external debt burden.

External Debt

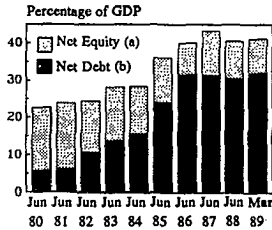
Australia's net external liabilities were equivalent to 41 per cent of GDP at end-March 1989 (Chart 14, Panel A), lifting the net external liabilities servicing ratio in 1988-89 to 22 per cent of exports of goods and services, compared with about 11 per cent in the early 1980s. Although external liabilities have fallen a little relative to GDP over the past couple of years, a rebound is likely in the short run. Stabilisation of the ratio will require a significant reduction in the current account deficit.

Within total liabilities, net external debt was equivalent to 32 per cent of GDP at end-March 1989, about the same level as at end-June 1986. On the other hand, the rapid expansion of Australian equity investment abroad, and the relative decline in equity values and investment in Australia, have seen a notable reduction in net equity liabilities in recent years.

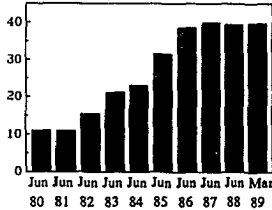
For some purposes the distinction between debt and equity financing is not important. In each case, investors will commit funds only in the expectation of earning a satisfactory rate of return. There are, however, two significant differences. First, equity financing is serviced only if the investment is profitable, whereas debt is a fixed contractual obligation. Secondly, debt financing is essentially passive in nature, whereas equity is more entrepreneurial and can bring with it access to foreign technology, markets and linkages with the international economy. In this second respect, the predominance of equity investment in the continuing growth of Australian investment abroad is particularly important.

Chart 14: Australia's External Assets and Liabilities

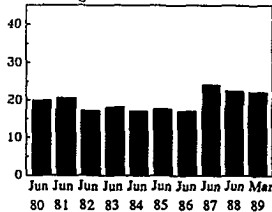
Panel A: Net External Liabilities



Panel C: Australian Gross Foreign Debt Percentage of GDP

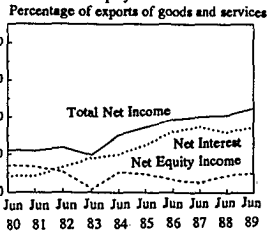


Panel E: Foreign Equity in Australia Percentage of GDP

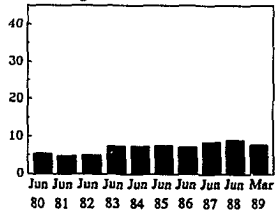


- (a) Net equity liabilities are defined as gross foreign equity in Australia less gross Australian equity abroad.
 (b) Net external debt is defined as total gross debt less official reserve assets and Australian lending overseas.

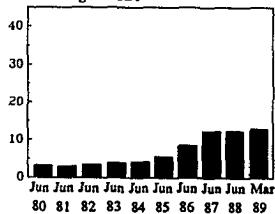
Panel B: Net Income Payable on Debt and Equity



Panel D: Australian Gross Lending Abroad Percentage of GDP



Panel F: Australian Equity Abroad Percentage of GDP



Relative to GDP, the stock of Australian equity abroad has grown from about 4 per cent at end-June 1983 to about 13 per cent at end-March 1989. The increase in the value of the assets has been from \$6 billion to \$42 billion. Income on these assets has also increased rapidly—from around 2 per cent of exports of goods and services in the year ending June 1983 to nearly 5 per cent in the year ending June 1989. As Australian equity investment abroad continues to grow, the returns to Australia from that investment will become even more important.

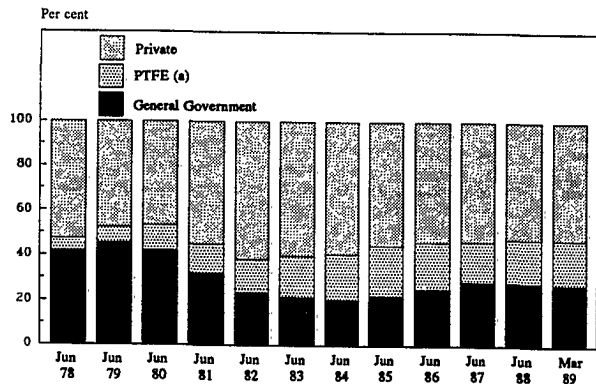
Some interesting changes have been occurring in the structure of external debt that are related to risk. The appreciation of the \$A during 1987 and 1988 (which contributed to the stabilisation of debt relative to GDP over that period (Chart 14, Panel A)), together with relatively high interest rates in Australia, attracted investment in \$A-denominated assets. As a consequence, the proportion of gross debt denominated in foreign currencies stood at 61 per cent at end-March 1989, compared with 77 per cent at end-June 1986. The higher proportion of \$A-denominated debt means that interest payments abroad have been greater than they would have been if more of Australia's debt was in foreign currency, given generally higher interest rates in Australia. On the other hand, \$A denomination removes the risk of exposure to exchange rate changes for the term of the debt.

The portfolio adjustment response of investors to changes in exchange rates (ie, moving between assets denominated in \$A and foreign currencies) appears to be quickening. With deregulation of financial markets, overseas borrowing by banks has increased sharply and, as banks' operations are concentrated at the short-term end of the credit market, this has also contributed to an overall shortening of the maturity structure of Australia's external debt. At end-June 1983, 12 per cent of gross debt domiciled abroad was expected to be repaid within one year; this ratio had risen to almost 30 per cent by end-June 1988. The shorter maturity structure of debt and the higher proportion of borrowings made on floating rate terms have meant that interest rate changes flow more quickly into income payments to foreign investors.

As discussed in this Statement in previous years, the initial phase of rapid build-up in Australia's external debt was associated in part with public borrowing for activities which did not always provide returns capable of servicing the debt. Some of the sharply increased private borrowing related to the resources boom of the late 1970s and early 1980s also encountered servicing difficulties in the wake of subsequent commodity price falls, although the recovery over more recent years would have eased these difficulties.

Recently public sector borrowing has been reduced and, at the Commonwealth level, overseas debt is being repaid. The general government share of total gross external debt has fallen by 1½ percentage points since June 1987 (Chart 15).⁶³ The composition of general government external debt has also changed: State governments now owe more and the Commonwealth Government owes less.

Chart 15: Shares of Gross External Debt



(a) Public trading and financial enterprises.

Much of the *increment* to debt in the more recent build-up phase has thus been associated with private investment decisions and, *prima facie*, there is no reason for policy makers to interfere with such commercial judgments. It remains the case, however, that almost 50 per cent of gross external debt is held by the public sector as a whole. Notwithstanding the fact that over 40 per cent of this is on behalf of government business enterprises, competitive forces in that area are not, generally speaking, as strong as in the private sector.⁶⁴ Fiscal policy has been in part directed at reducing that debt recently.

⁶³ The recorded fall would have been greater but for certain changes in this period in the way the data are compiled by the Statistician. Another factor working in the same direction has been the purchase by non-residents of outstanding domestically issued Commonwealth securities.

⁶⁴ In some circumstances, whether public sector debt is held domestically or by foreigners does not matter greatly. An increase in the proportion held domestically, for example, will require an offsetting adjustment in private capital flows as the current account deficit must be financed.

More broadly, policy has a role whenever it is judged that net external liabilities are increasing more rapidly than the capacity of the economy to comfortably service those obligations. Such a situation could develop for a number of reasons, including inappropriate economic policies in the past, poor private or public sector investment decisions, and external influences beyond the control of decision-makers in Australia (such as sharply adverse movements in the terms of trade). High external obligations mean that the borrowing country must allocate a greater share of its production to meeting income demands of foreign lenders, leaving less for domestic consumption. The further this process goes, the more difficult it is likely to be to satisfy domestic expectations of steadily rising living standards. Those considerations dictate that governments adopt a cautious approach to the growth of external liabilities.

There are no universally applicable debt servicing thresholds. Rather, the issue of the sustainability of a particular country's borrowing position is a matter for judgment, having regard to that country's circumstances, policies and prospects. In Australia's case, while there is no shortage of potential foreign lenders, global financial markets have placed a sizeable risk premium on all \$A assets in recent years.

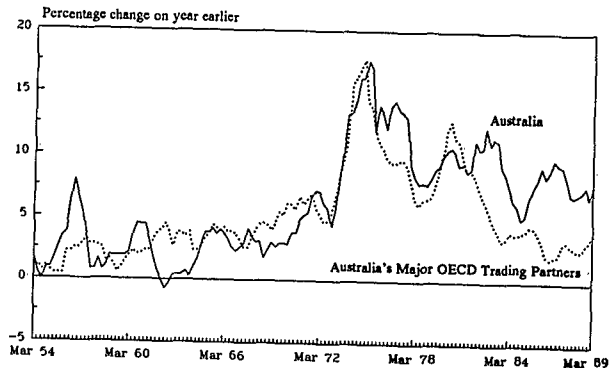
There will need to be continuing evidence of satisfactory progress towards external adjustment if those borrowing costs are not to stay high or rise further in the period ahead. In particular, there needs to be a sustained reduction in the current account deficit, which in turn will require domestic spending to grow less rapidly than domestic production for some time to come. Over a longer time frame, it will be important to maintain the improvement in public sector saving, and to foster an environment conducive not only to sustained investment but also to satisfactory private sector funding of it. Progress in these areas will reduce Australia's call on global capital markets. International experience suggests that—provided there is confidence that progress is being made—global capital markets are prepared to finance external account imbalances over much lengthier periods of adjustment than previously thought likely.

Inflation

Over the past two decades inflation in Australia has averaged 9.1 per cent per annum. For the most part, this has been well above the inflation rate in other OECD countries, in contrast to the situation earlier in the post-war period (when inflation in Australia was broadly in line with that of other industrial countries) (Chart 16). A high rate of inflation has become deeply embedded in Australian attitudes and institutions. Changing those attitudes, and the behavioural patterns which spring from them, will require sustained effort, not only by policy makers but also by leaders of business, unions, welfare and other community groups. High inflation, by introducing distortions throughout the economy, increasing uncertainty, and focussing attention on speculative investment and projects with relatively fast pay-back periods, damages the economy's growth potential. Moreover, it has harmful consequences for many in society whose incomes or assets are vulnerable to rapid increases in costs.

The containment of inflation in major OECD countries during the current long upswing in world economic activity has owed a good deal to the cautious conduct of monetary policy and associated positive real interest rates. In Australia, monetary policy—along with wages policy—undoubtedly also played a role in quickly confining and reversing an inevitable initial rise in inflation that followed the \$A depreciation in 1985-86 (Chart 16). While monetary policy influences inflationary outcomes, and will need to continue to play an appropriately constraining role, there are three proximate factors that weigh heavily on prices. These are labour costs, import prices and demand pressures.

Chart 16: International Comparison of Inflation Rates (a)



(a) The Australian CPI is adjusted for the introduction of Medicare from the March quarter 1984 to the March quarter 1985. Australia's eight major OECD trading partners comprise: the US, Japan, FRG, France, the UK, Italy, Canada and New Zealand. Percentage changes in each country's CPI are weighted using import and export weights current for each financial year.

Wages policy has been used to restrain nominal labour costs over the past six years and has proved to be quite effective in that respect:

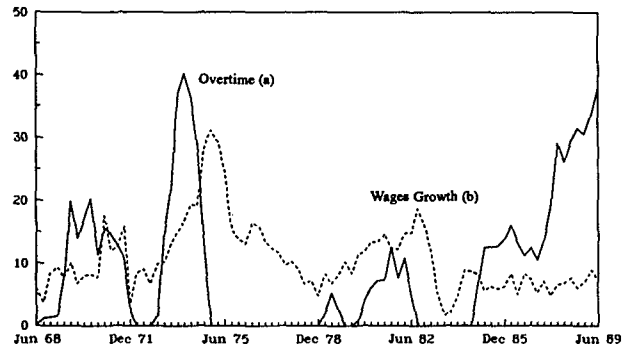
- Wages growth in the market sector⁽⁶⁾ has averaged 7.0 per cent over the past six years, when consumer price inflation has been running at 7.7 per cent. This fall in real wages is in marked contrast to similar episodes in the past. The rate of nominal wage growth also has been well below that experienced in the six years to 1982-83 (10.7 per cent).

⁽⁶⁾ The 'market' sector includes all industries except finance, property and business services, public administration and defence and community services. Estimates for market sector wages have been derived from ABS Cat. Nos. 5204.0 and 5211.0, with adjustments made to reflect the latest national accounts data.

- Moreover, this wage restraint has occurred at a time when the demand for labour has been growing strongly. Chart 17 shows that wages growth has remained at comparatively low levels despite the emergence of pressures that have been more intensive than in 1981-82 and similar to those experienced in 1973-74.

The question arises as to why wage restraint did not lead to lower inflation over the past six years than, in the event, occurred. Nominal unit labour costs for the market sector increased at an average rate of 5.9 per cent between 1982-83 and 1988-89, 1.8 percentage points below the average annual increase in the CPI. It could be argued that if CPI growth had been closer to that in nominal unit labour costs, a virtuous circle of lower nominal increases in wages and prices and a higher nominal exchange rate would have emerged, resulting by now in a noticeably lower inflation rate.

Chart 17: Overtime and Wages Growth



(a) When above trend (times 100).

(b) Average weekly earnings, national accounts basis (percentage change on year earlier).

Three major factors that have contributed to the gap between inflation and the demand in labour costs can be identified—namely, public sector-related prices, demand pressures and, until 1988-89, import prices.⁽⁶⁾

A range of costs and charges associated with the provision of services by the public sector (including rents, local government rates and charges, urban transport fares, health costs and education and childcare costs) have tended to rise at a faster pace than have prices generally. This has arisen, in part, from moves to price some services on a more economically sound basis as part of wider programs of micro-economic reform intended to improve resource allocation and reduce inflation in the longer term. Not all public sector charges have outpaced inflation—for example,

⁽⁶⁾ While 'special' factors also have had a large effect on prices in particular years, their impact has tended to average out. For example, smaller increases in petrol prices have tended to offset higher housing costs and fruit and vegetable prices over the period as a whole.

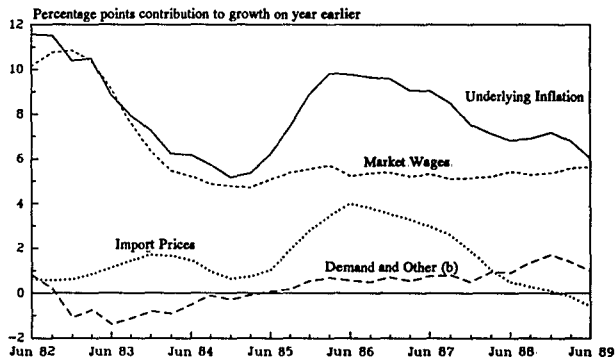
postal and telephone charges have grown more slowly, in part reflecting the benefits of new technology. Nonetheless, estimates suggest that public sector-related charges overall have added on average about 0.4 percentage points a year to the growth in the CPI.

For much of the past six years, demand growth has been relatively strong. There are different ways to estimate the extent to which this would have added to inflation. Treasury's estimates of the 'underlying' CPI suggest that demand strength could have added an average of about 0.5 percentage points a year, with larger increases in the past year or so.

Landed prices of 'endogenous' imports (other than capital goods) increased by an average of 6.1 per cent a year over the past six years, below the rate of increase in the CPI. However, this six-year average masks strong fluctuations within the period. In particular, these import prices increased by an average of 8.6 per cent a year in the five years to 1987-88 before declining sharply in 1988-89 as a result of the stronger \$A. Lags and, especially, the strength of demand have meant that the most recent falls in import prices have had a limited impact on the CPI to date.

In summary, public sector-related pricing decisions, demand pressures and import prices account for a good part, but not all, of the gap between inflation and the growth in unit labour costs. Chart 18 provides estimates of the contributions to growth in the 'underlying' CPI from import prices, demand pressures and market sector wages.

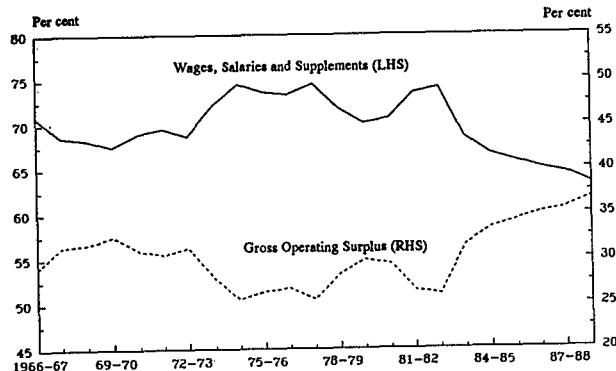
Chart 18: Contribution to Growth in CPI *Underlying* Component (a)



- (a) The "underlying" component represents the total CPI less meat and seafoods, fresh fruit and vegetables, health services, tobacco and alcohol, petrol, fuel and light, postal and telephone services, rent of government-owned dwellings, urban transport fares, clothing, local government rates and charges, holiday travel and accommodation, education and childcare, consumer credit charges, mortgage interest charges and from the December quarter 1986, pharmaceuticals.
- (b) Other equals the contribution to growth in the "underlying" component from items other than market wages, import prices and demand.

The major consequence flowing from the sustained period in which price inflation has outstripped the growth in unit labour costs has been the recovery in the profit share.¹⁰ The correction of the earlier imbalance in factor shares has been a major policy objective for some years. As can be seen in Chart 19, the profit share has recovered from the low levels of the 1970s and early 1980s to be at levels above those recorded in the buoyant 1960s (see also Table 5). Correspondingly, the wage share has fallen to levels below those of the 1960s and the early 1970s.

Chart 19: Factor Shares (a)



(a) The share of wages, salaries and supplements and gross operating surplus in private non-farm corporate sector gross product at factor cost.

As elaborated below, the strong recovery in profits has generated widespread benefits throughout the economy by underpinning employment, investment and output. It has meant that, despite the decline in the wage share, real household disposable incomes have risen at an average rate of 2.6 per cent a year over the past six years, above the 2.0 per cent in the preceding six-year period.

With profit shares likely to decline as domestic demand pressures ease, continued restraint in nominal wages could be expected to feed more prominently into lower inflation rates. The progressive moves towards exposing Australian industry to a more competitive trading environment will reinforce that prospect (see Part III).

¹⁰ Public sector-related prices and import prices do not directly affect the profit share.

Investment, Employment and Productivity

The substantial improvement in profits over recent years and the associated confidence effects have been major influences behind the recent strength of business investment. These influences have been reinforced by reductions in the size of the public sector and in its borrowing requirement. Indeed, the performances of real wages and profits are important reasons why sustained fiscal restraint has not led to softness in the short-run demand picture.

Part and parcel of these developments have been important changes in the composition of domestic demand that will contribute to the longer-term health of the economy. Table 7 shows average growth rates in the major components of demand and product for five-year intervals since 1959-60. Some of the more striking features of this table are:

- public sector final demand grew at an average 2.3 per cent a year in the latest period, the lowest of any of the five-year periods;
- private consumption expenditure increased at an average of 2.9 per cent in the same period, lower relative to GNE or GDP growth than in all the earlier periods—that it was not even lower primarily reflects the strong growth in employment;
- following fifteen years of poor investment performance (2.2 per cent per annum growth), the average increase in business fixed investment in the last five years was a remarkable 10.8 per cent; and
- on the other hand, in the latest period, growth in domestic demand (4.5 per cent a year) exceeded product growth (4.0 per cent a year). This gap was relatively large compared with earlier periods, and its consequences have become more important as external debt has risen.

Real wage restraint and the associated lift in profitability have contributed to the strong growth in employment. Over the past five years, employment has increased at an average annual rate of 3.3 per cent and total hours worked at an average rate of 3.2 per cent. Real wage restraint has therefore been central to stimulating growth in the two fundamental factors of production—namely, employment and the capital stock. As a result, output has expanded strongly, notwithstanding some slowing in productivity growth.

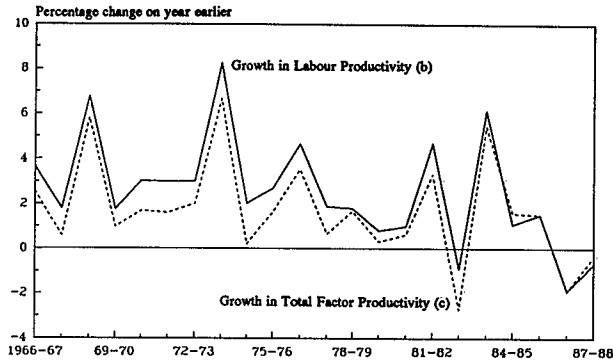
Chart 20 shows trends in both labour and total factor productivity growth over the past twenty years. As has been widely recognised, and in common with experience overseas, growth in both measures of productivity has tended to slow since the mid-1970s. Moreover, despite the strong output performance in recent years, productivity growth has not recovered. Also widely recognised has been the role of declines in real unit labour costs in reducing growth in measured labour productivity: with reduced labour costs, employers will be prepared to use more labour for a given amount of output (Chart 21, Panel A).

Table 7: Changes in Components of Gross Domestic Product (average 1984-85 prices)

	Final domestic demand				GDP adjusted for the effect of trade									
	Private investment in construction (d)	Private investment in dwelling (d)	Private business investment (e)	Private final demand (e)		Public final demand (e)	Imports of goods and services	Exports of goods and services	Gross national product	Statistical parity (f)	Stocks (f)	Non-product	Form product	GDP
Average: (c)														
1959-60 to 1963-64	4.7	6.1	8.9	5.3	3.9	-0.2	-0.1	4.6	8.0	8.5	4.9(d)	4.4(d)	4.5	4.8(d)
1964-65 to 1968-69	4.8	7.4	7.4	5.3	6.8	0.4	..	6.0	5.1	7.5	4.2	5.8	5.7	5.4
1969-70 to 1973-74	5.2	5.8	2.7	5.0	3.9	..	0.4	5.1	5.9	7.1	-2.6	5.3	4.9	5.4
1974-75 to 1978-79	2.6	0.6	2.3	2.3	4.0	-0.1	-0.6	2.0	6.1	2.2	7.1	2.3	2.5	1.8
1979-80 to 1983-84	2.9	0.3	1.6	2.6	2.5	-0.1	-0.1	2.4	2.4	3.1	-0.1	2.4	2.3	2.3
1984-85 to 1988-89	2.9	7.0	10.8	4.4	2.3	..	0.6	4.5	7.1	9.4	-0.5	4.2	4.0	4.3

(a) Adjusted for the impact of the introduction of Medicare, from 1 February 1984, which had the effect of transferring certain expenditures on health care from private consumption expenditures to public consumption expenditure.
 (b) Average annual contributions to GDP growth for the period.
 (c) Compound annual growth rate for the period.
 (d) Based on four years data, earlier data not available.

**Chart 20: Growth in Labour Productivity and Total Factor Productivity
Private Sector (a)**

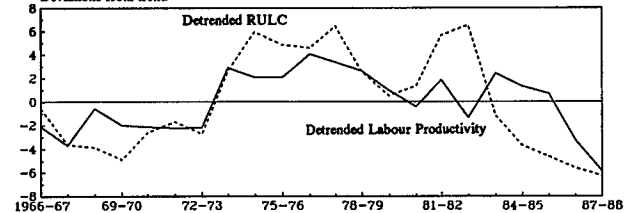


- (a) The private sector consists of the ASIC divisions: construction; manufacturing; mining; transport, storage and communication (private); wholesale and retail trade; finance, property and business services; recreation, personal and other services; and agriculture, forestry and fishing.
- (b) Labour productivity is measured as gross product at constant prices divided by aggregate hours worked.
- (c) The measure of total factor productivity is calculated as gross product at constant prices divided by aggregate hours to the power of 0.75 times net capital stock to the power of 0.25. Net capital stock includes the stock of private business fixed capital plus inventories.

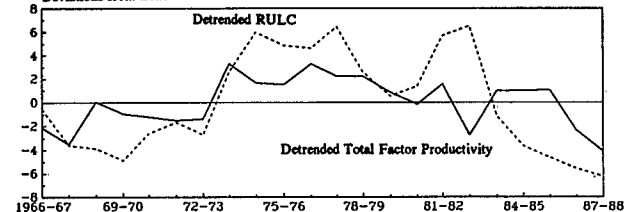
What has not been so widely recognised is that the declines in real unit labour costs over the past six years have also led to slower growth in total factor productivity. This implies that the increased use of labour inputs has not been fully compensated by relatively lower capital inputs. Although important measurement and other qualifications apply, Chart 21, Panel B shows a relationship between real unit labour costs and total factor productivity which is very similar to that with labour productivity alone.

**Chart 21: Productivity, Real Unit Labour Costs and Product Growth
Private Sector (a)**

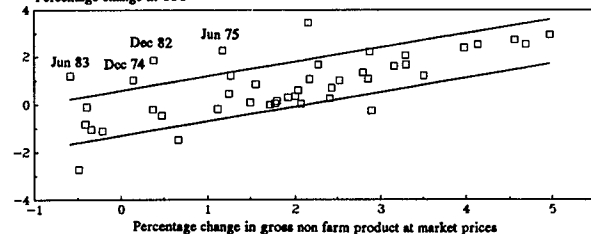
**Panel A: Labour Productivity and Real Unit Labour Costs (b)
Deviations from trend**



**Panel B: Total Factor Productivity (TFP) and Real Unit Labour Costs (c)
Deviations from trend**



**Panel C: Growth in Productivity (half-yearly, June 1967 - June 1988) (d)
Percentage change in TFP**



- (a) See footnote (a) of Chart 20 for the definition of private sector.
- (b) See footnote (b) of Chart 20 for the definition of labour productivity. Real unit labour costs are as defined in footnote (c) of Table 5.
- (c) See footnote (c) of Chart 20 for the definition of total factor productivity.
- (d) This measure of total factor productivity uses non-farm man hours as the labour component.

The positive relationship between total factor productivity and labour costs appears to reflect in part generalised 'labour hoarding'. Firms will normally operate at a level below peak capacity (of both labour and capital), since it is costly to change the level of operation frequently in the face of fluctuating demand. The higher the cost of holding labour which is not fully utilised, the less hoarding there will be: firms will operate with less of a buffer, just as the high cost of holding inventories has contributed to greater use of 'just-in-time' stock management practices.

To the extent that the level of real labour costs affects the degree of labour hoarding, both measured labour productivity and total factor productivity will be affected. Developments after the 1974 and 1982 wage surges indicate that this phenomenon has been important. In both instances, more labour was shed more quickly than would normally have occurred given the extent of the scaling back in output (Chart 21, Panel C). Recent experience has been the reverse: as real unit labour costs have declined, so has growth in total factor productivity.

Although reduced real unit labour costs appear to have been a major factor leading to the recent low levels of measured labour and total factor productivity growth, total productive potential has clearly been enhanced by the stimulus to employment and investment. The slower productivity growth represents only a partial offset to even greater capacity expansion. None of this, of course, lessens the need to continue the process of structural reform to further enhance productivity levels (see Part III), especially as productivity depends importantly on how well the factors of production are combined.

The recent strong expansion of the capital stock and employment augur well for the productive potential of the domestic economy, with the benefits emerging progressively over the next few years. How fully these potential benefits are reaped, however, will depend not only on the organisation of production but also on a stable overall economic environment, and especially on the successful correction of Australia's external account difficulties. The balance between demand and production will be critical in this regard.

Saving and Investment

The *definitional* equivalence between three fundamental balances helps to bring together the analysis of major trends in the economy. Specifically, an excess of domestic demand over production will be reflected in both a shortfall of national saving relative to investment, on the one hand, and capital inflow (or the current account deficit) on the other. The saving balance (borrowing requirement) for the nation as a whole comprises the balances of the domestic sectors: public, corporate trading enterprises and households (including unincorporated enterprises) are the major ones.

As has been seen in recent years, there are strong interconnections between the sectoral balances. As the public sector's borrowing was cut back sharply, the corporate sector's borrowing increased (with net investment rising much faster than retained earnings) while the household sector has tended to reduce its net saving. The result has been only a limited reduction in net borrowing from abroad. It is apparent that complex offsetting or compounding influences can be at work between the sectors, and the same is true within sectors. All of this has important implications for policies which are directed at the current account balance, or at particular components of national saving.

Of itself, the improvement in the net PSBR over recent years could have been expected to lower the current account deficit significantly.¹¹ However, as already noted, there have been countervailing factors at work, with many of the influences behind the strength of domestic demand over the past year or so acting to increase private sector investment more than saving.

Reduced labour costs and higher profitability and confidence levels have stimulated business fixed investment in a major way. This has been reinforced by the cyclical strength in non-residential building and the reduction in equipment prices consequent upon a higher exchange rate. Those higher profits have, of course, fed into corporate retained earnings (corporate saving), but to a lesser extent than the lift in investment.

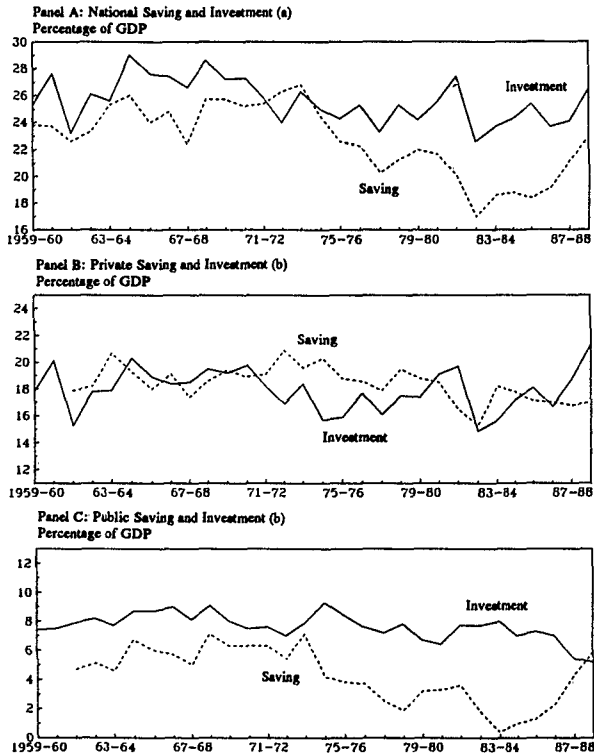
In the household sector, investment has also been rising strongly over the past two years, reflecting both increased residential investment and investment by unincorporated businesses. Over the same period, the household saving ratio is estimated to have been broadly unchanged.¹²

In summary, the recent increase in total *private* net borrowing is essentially the consequence of a lift in investment spending; in fact, private sector saving has been largely unchanged relative to GDP (Chart 22, Panel B). For the *economy as a whole*, after declining sharply from the mid-1970s, saving has increased significantly relative to GDP over the past six years, with shifts in public sector saving clearly being the dominant influence.

¹¹ In principle, the outcome is dependent on the composition of the reduction in the net PSBR. Some elements of the reduction (eg asset sales), while important for other reasons, do not have any direct or quick effect on the current account deficit. Nevertheless, these have accounted for a relatively small part of the reduction in the net PSBR.

¹² Estimates of household saving are inherently difficult to derive and should be interpreted with care. As the Statistician noted in the preliminary March quarter 1989 national accounts estimates, they 'are affected by any deficiencies or inconsistencies in the estimation and seasonal adjustment of household income and expenditure' — ie they are estimated as a residual. The substantial revisions to the household saving ratio in the latest national accounts estimates highlight the limitations of such estimates.

Chart 22: Saving and Investment



- (a) Based on national accounts estimates. The difference between national saving and investment represents net lending to overseas plus the statistical discrepancy. Positive values of the statistical discrepancy, such as in the last two years, mean that the gap between saving and investment is less than net lending to overseas.
- (b) Data from 1976-77 onwards are based on the 1987-88 annual national accounts and subsequent quarterly national accounts. Because figures for earlier years are not fully consistent with these estimates, public saving prior to 1976-77 has been derived by subtracting the net PSBR from public investment; private saving has been derived as the residual between national and public saving.

External Accounts

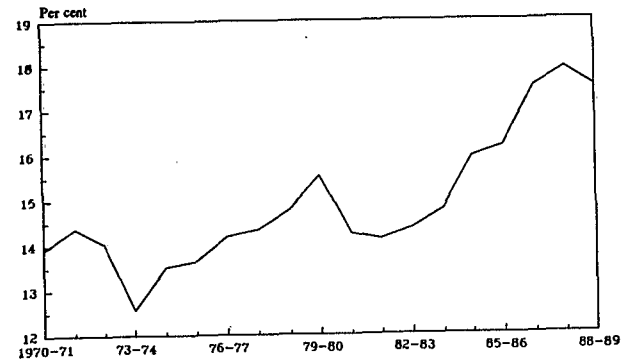
There is little doubt that the current account deficit, relative to GDP, will narrow as demand slows in the period ahead. That narrowing, however, will be limited by the net income deficit, which is now equivalent to almost 4 per cent of GDP. This is much higher than the current account deficit ratio needed to stabilise the net external debt ratio at a reasonable level, and twice the comparable ratio in the 1960s and 1970s. Given the inherent unresponsiveness of the net income deficit to policy in the short- to medium-term, a turnaround of the trade balance from deficit to surplus is required to narrow the current account deficit significantly.

While a sustained improvement in Australia's terms of trade, stemming from continued increases in commodity prices, would facilitate the external adjustment task, those prices are very largely beyond Australia's control. The *real* trade balance, which abstracts from price movements, must be the main focus of policy.

(a) Export Performance

In volume terms, exports of goods and services have increased much faster than GDP since 1982-83 (Chart 23). This upward trend was broken in 1988-89, for the reasons mentioned in Part I. Australia's export capability is now growing strongly and the coming to fruition of some major investment projects, notably the North-West Shelf project, will add to export volumes over coming years. Although economic growth in some of our major trading partners is showing signs of slowing, potential markets remain quite buoyant.

Chart 23: Ratio of Exports of Goods and Services to GDP
(average 1984-85 prices)



Despite moderate volume growth last year, manufactured export volumes rose by over 8 per cent per annum in the four years ended 1988-89. This growth was largely a response to the significant improvement in the international competitiveness of Australian industry that occurred in the mid-1980s. Within manufactured exports, shipments of non-metal manufactured goods rose by over 10 per cent per annum. In 1988-89 manufactured goods accounted for 23 per cent of merchandise export volumes, compared with under 20 per cent in the three years ended 1985-86.

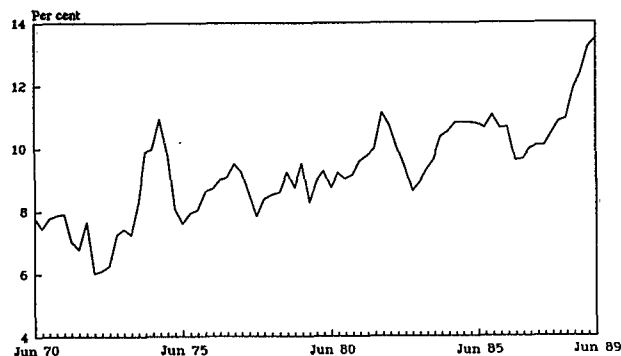
Exports of services maintained their recent strong growth in 1988-89, with the tourism industry again making a major contribution; in part this reflected the temporary boost to overseas arrivals associated with the Bicentennial and Expo events. Australia's typical deficit on tourism trade has been significantly reduced over recent years, mainly as a result of continued income growth overseas, improved competitiveness in tourism, promotional activity and significant investment in tourist facilities. Arrivals of visitors rose by an average of over 20 per cent per annum over the last four years, contributing to a \$4 billion rise in export earnings. Tourist accommodation capacity has risen by over 6 per cent per annum over the three years to the March quarter 1989.

Important contributions to export receipts are emerging from those who provide consulting, financial, advertising, management, business, technical and other services. This category of exports grew by 28 per cent over the two years to 1988-89, when it accounted for 18 per cent of total exports of services. Overall, the proportion of total export volumes accounted for by services increased to almost 20 per cent in 1988-89.

(b) Import Penetration

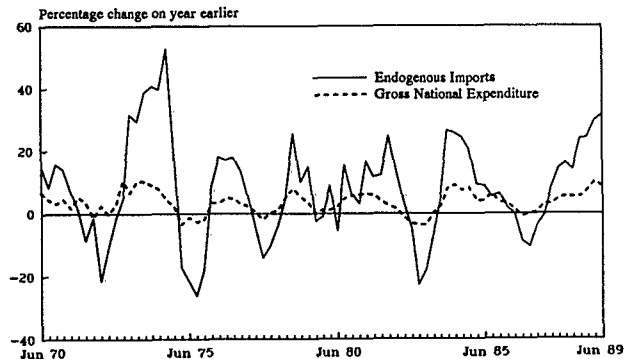
The lift in the import penetration ratio in 1988-89 came on top of a trend rise in this ratio (Chart 24). In last year's Statement some key reasons for this trend increase were identified—notably the growing use of computers, the worldwide trend to increased specialisation, lower transportation costs and factors associated with the earlier relative decline in the size of the Australian manufacturing sector. Some of these influences are likely to continue, although they are expected to be overwhelmed by the likely slower growth of domestic demand this year. Past falls in import penetration brought about by reduced GNE growth are apparent in Chart 25. Those falls were not, however, long-lived and the trend increase in the ratio re-asserted itself as domestic demand growth resumed. That trend is not in itself a bad thing, particularly if it is associated with an improvement in the efficiency with which resources are used, thereby strengthening the long-run competitiveness of exports. Policies fostering a strong business investment climate and facilitating structural adjustment are in part directed to that end.

Chart 24: Import Penetration Ratio (a)
(average 1984-85 prices, seasonally adjusted)



(a) Endogenous imports as a percentage of non-farm sales (defined as gross non-farm product plus imports of services and endogenous goods less changes in private non-farm stocks).

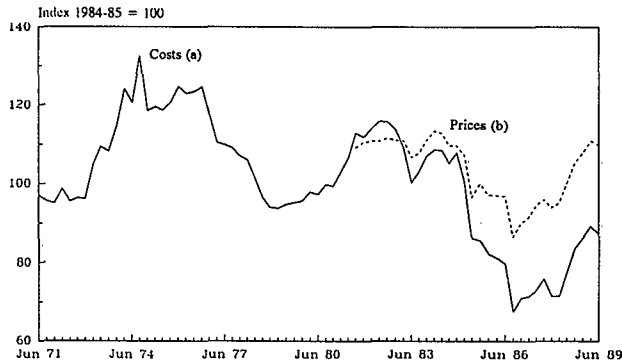
Chart 25: Endogenous Imports and Gross National Expenditure
(average 1984-85 prices, seasonally adjusted)



(c) *Medium-Term Considerations*

As already noted, improvement of the real trade balance is crucial to external adjustment. Price incentives for Australians to supply traded rather than non-traded products, for foreigners to buy Australian products rather than purchase from other suppliers, and for Australians to buy local goods and services rather than imports have an important role to play in that regard. Price competitiveness can be measured by a variety of statistical indicators, but all fail to capture non-price aspects of competitiveness. No single measure is unambiguously 'correct' for all circumstances. Nevertheless, most available indices suggest that Australia's international competitiveness remains favourable by historical standards, and significantly better than in 1983 and 1984. Indices of the relative unit labour costs, expressed in a common currency, of Australian and overseas producers suggest that local industry remains highly competitive (see Chart 26).

Chart 26: Competitiveness Indices



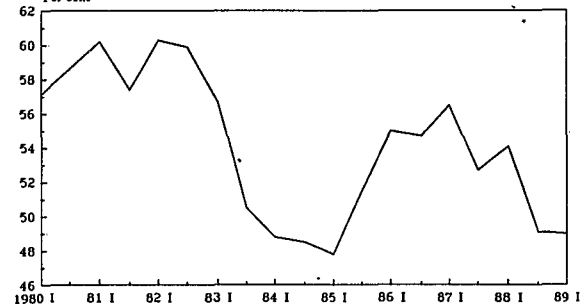
(a) Unit labour cost index of competitiveness. See footnote (a) of Chart 9.
 (b) Price index of articles produced by Australian manufacturing industry relative to import prices (with fixed common industry-level weightings for both series).

However, as also shown in Chart 26, movements in local manufacturing output prices relative to import prices present a less favourable picture. The combination of favourable cost competitiveness but less favourable price competitiveness suggests that margins have been increasing in Australian manufacturing since mid-1985. Such a conclusion is consistent with the strong growth recorded in company profits. The combination of a lift in margins, high levels of capacity utilisation and preservation of underlying cost competitiveness has been important in encouraging resources to move to the manufacturing sector and arresting the trend decline in the share of manufacturing in total GDP.

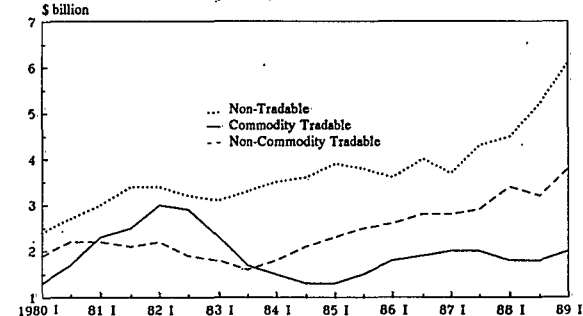
Further evidence of resources responding to improved competitiveness is seen in the composition of business investment. There was a sharp lift in the share of investment occurring in 'tradable' industries in 1985 and 1986 (Chart 27). Over the

Chart 27: Investment in Tradable and Non-Tradable Industries (a)

Panel A: Tradables Share in Survey Investment (a)(b)
 Per cent



Panel B: Investment Levels by Industry Sector (c)
 \$ billion



(a) Private new capital expenditure on an industry of effective use basis, seasonally adjusted at average 1984-85 prices. This covers approximately 70 per cent of business investment on a national accounts basis, and excludes community services, construction and agriculture. This topic is discussed in more detail in an article entitled 'New Data on Business Investment' in Treasury's Economic Round-up, April 1988. Source: ABS Cat. No. 5626.0 and unpublished data. Figures for 1989 I are based on March quarter figures plus expectations for the June quarter adjusted using 5 year average realisation ratios.
 (b) Tradable investment is defined as expenditure by mining, manufacturing and 'other non-manufacturing' (service) industries (which include tourist-related projects). Non-tradable investment covers the finance, property and business services group and 'other selected industries' (except 'other non-manufacturing').
 (c) Commodity tradable investment is defined as expenditure in mining and in 'basic metal products manufacturing'. Non-commodity tradable is defined as expenditure in manufacturing excluding basic metal products, and in 'other non-manufacturing'.

past two years, investment in both tradable and non-tradable industries has grown strongly. Investment in non-commodity tradable industries—notably tourism—is estimated to have been the fastest-growing component since 1982-83.

To help restore external balance, exports will need to resume the strong growth rates of the mid-1980s. Australia's poor trade volume performance is partly a consequence of its specialising in the production of goods for which international demand grows relatively slowly and whose real prices trend downwards, whereas import demand is oriented towards goods for which the demand increases strongly with income. This pattern of export specialisation and import demand is, in large part, the outcome of a combination of comparative advantage and previous policy incentives that resulted in the development over the post-war period of a largely inward-looking manufacturing sector operating in protected domestic markets. That situation and the culture associated with it is changing only slowly.

The foregoing considerations point strongly to the need to continue to enhance competitiveness in its various dimensions. Continuation of the process of micro-economic reform is a necessary adjunct to demand-oriented policies intended to correct external imbalance and restrain wage and price pressures. Such reform will help the process of export diversification, thereby orienting our productive capacity towards the faster-growing elements of demand. Moreover, by raising the potential output of the economy, and allowing a greater contribution to correction of the current account through net exports, structural reform would permit domestic demand and standards of living to be maintained at higher levels than otherwise for a given narrowing in the current account deficit.

Conclusion

From a medium-term perspective, the strong growth in business investment and employment in recent years will lift the economy's productive potential. That will facilitate greater control over inflation and greater external adjustment in the longer term. However, the stalling of the downward trend in inflation and the renewed increase in the current account deficit in 1988-89 emphasise the size of the adjustment task and the need both to contain domestic demand and to lift domestic production. Part III discusses policies against this background.

PART III: ECONOMIC POLICY

Domestic demand increases over the past year have been of such a magnitude that they could not possibly have been met in full by domestic production. Policy is continuing to be directed at curbing those demand pressures and, at the same time, at improving the economy's flexibility and productive potential. This means further enhancing the economy's stock of human and physical capital, and making better use of it. Microeconomic reforms are important here, especially in terms of more efficient organisation of production and distribution. The recent pattern of strong growth in private sector investment relative to private consumption and public final demand needs to be sustained. Continued containment of wage pressures and the maintenance of satisfactory profitability levels will be paramount in that respect. It will be essential also to maintain the lowered demands of the public sector in capital markets, and for real resources, through continuing tight fiscal settings.

Structural Reform

Policies pursued over much of the post-war period which aimed at protecting inefficient industry sectors have left a continuing legacy of poor work practices, often indifferent management, excessive regulation and high costs. As a result, the growth of efficient activities has been impeded and the flexibility of the economy to adjust to changing circumstances impaired.

A good deal has been done recently to attack these problems, and the benefits will become more apparent as these measures take their full effect. Phased reductions in tariffs and other forms of assistance still have some way to run in many industries, and some measures—such as changes in the tax system, improvements in training arrangements, the restructuring of awards and the encouragement of industry-based research and development—will take several years to bear full fruit.

Nevertheless, much remains to be done to encourage industry to become more efficient, outward-looking and responsive to market signals. In pursuing these objectives it is important that the medium-term perspective not be diminished and that any measures that might be taken to deal with short-term problems do not cut across medium-term aims.

Some parts of the services sector are in urgent need of reform, particularly where services are major inputs to other industries. In some cases, the high costs or unreliability of such services can effectively prohibit the development of potential export industries. The high cost of coastal shipping around Australia relative to the cost of international shipping, for example, seems to have been an important factor in the off-shore processing of some raw materials produced in Australia. Similarly, high costs and risks of delays on the waterfront can impede the development of export-oriented manufacturing activities. Initiatives by the Commonwealth Government, including the availability of continuous voyage permits for the use of foreign-flagged vessels in coastal shipping, are now being pursued in these areas.

Considerable scope also exists for State governments to improve the efficiency of State enterprises such as railways, electricity commissions and port authorities, and to reduce regulatory and other rigidities. Changes are now beginning to occur in some of these areas. The Commonwealth has moved to reform its business enterprises, which are largely in the transport and communications sectors. The

benefits will be seen over the coming years in better service to customers, greater price restraint, and higher returns for the ultimate owners (the community at large), as well as the release of resources to other sectors of the economy. Flow-on benefits will accrue to user industries which rely on these enterprises for essential services.

A number of legislative and operational amendments have been implemented. On 1 July 1989, the Australian National Line joined Qantas, Australian Airlines, AUSSAT and OTC in being incorporated as a Commonwealth-owned company. Also on that date, Australia Post and Telecom began operation under new corporate and financial structures. Under these arrangements the Government is exercising strategic oversight of its enterprises through approval of their corporate plans and the setting of financial targets which include a requirement to achieve (or in some cases move towards) rates of return comparable with similar enterprises in the private sector. The Australian Telecommunications Authority (AUSTEL), which began operation on 1 July 1989, will administer a price-capping mechanism to ensure that productivity gains flow to users.

Labour Market Reform

Reform is continuing in the labour market, particularly through award restructuring. As part of this ongoing reform process, wage determination in Australia has also undergone an important transition in recent times. Within the framework of a centralised system providing overall wage restraint, wages policy has increasingly taken on the role of a catalyst for productivity improvement and labour market reform: wage increases linked to economy-wide inflation and applied to the whole workforce from a common date have given way to wage determination arrangements which place greater emphasis on negotiations at a more decentralised level. Past efforts to move to more decentralised arrangements have been hamstrung by structural deficiencies in the system, including importantly in the structure of unions and awards, which have produced, amongst other things, a tendency for wage leap-frogging.

The National Wage Case Decision of August 1988, in establishing the Structural Efficiency Principle, added to the momentum of labour market reform initiated under the two-tier wage system introduced in March 1987. It provided a framework for changing some of the more fundamental and institutionalised elements of the Australian system of industrial relations that obstruct increased productivity and efficiency at the enterprise level. Such changes include removing inefficient working practices and arrangements, revising conditions of employment in line with industry needs, establishing more appropriate wage relativities, providing better career structures and improving incentives for training.

As management and employees learn to make the most of the opportunities provided by award restructuring, there is potential for a major improvement in the industrial relations environment, leading to lower levels of industrial disputation and improved productivity. Through its emphasis on training and skill formation, award restructuring can also play a crucial role in addressing chronic skilled labour shortages which, as recent experience has once again demonstrated, place severe constraints on the productive capacity of the economy.

The 25 May 1989 Decision emanating from the Industrial Relations Commission's review of progress under the Structural Efficiency Principle again emphasised that the Principle is aimed at changing those aspects of the award system which inhibit measures to improve efficiency in individual establishments. The Decision stressed that the Principle contemplates substantive changes in workplace practices by both management and employees. To that extent, an important measure of the success of the Principle will be the degree to which changes at award level lead to genuine improvements at the plant and enterprise level.

The August 1989 National Wage Case Decision linked future wage increases to case-by-case consideration and implementation of award restructuring agreements, in a manner consistent with the continuation of aggregate wage restraint. The Decision also reaffirmed that there was no limitation on the nature of the issues covered by the Structural Efficiency Principle, and went on to outline a wide range of issues relating to working patterns and arrangements that can be included in negotiations. While there is inevitable debate about the detail of some changes, the broad directions outlined by the Commission are supported by both unions and employers.

Among the issues which the Commission has noted should, where relevant, be dealt with under the Structural Efficiency Principle is that of the structure of trade unions and of awards. The current structure of trade unions is based predominantly on craft, occupational or general unions extending across industries. In addition, many of the key awards (such as those covering metal workers, transport workers, storemen and clerks) extend across a wide range of very disparate industries and employers.

These structural features of the industrial relations scene have adverse consequences for the efficient operation of the labour market. Most middle-sized and larger employers have to deal with a number of unions and awards covering different sections of their workforces and this can complicate the negotiation of changes in working arrangements. In some cases the task is apt to be consigned to the 'too hard' basket by employers, particularly those protected from foreign competition or who know that their domestic competitors face similar problems. In addition, the sometimes rigid demarcation of work between different unions and awards in individual enterprises can lead to inefficient work patterns and wasteful disruptions. An excessive degree of job specialisation and division of labour can also limit the development of effective career paths and multi-skilling.

More fundamentally, the coverage of unions and awards, as well as that of various employer organisations, has important implications for attempts to adapt and change wage relativities and for the achievement of overall wage restraint. A union representing employees in a number of industries will understandably seek to extend gains made in one industry to others in which it has members; furthermore, changes to one award which upset established relativities in a multi-award and multi-union workplace are likely to lead to pressures for changes to other awards to restore established relativities, regardless of their appropriateness in the different situations. The structure of unions and awards can therefore be an important source of wage flow-on pressures and constitutes a substantial barrier to the development of more flexible wages policies.

The Structural Efficiency Principle provides scope for dealing directly with some of these issues. The Principle includes a reference to 'updating and/or rationalising the list of respondents to awards', and the Commission, in both its May and August 1989 Decisions, specifically directed attention to the need for consideration of such matters. It also referred to the deeply ingrained attitudes with respect to union structures, highlighting the time, effort and wide-ranging education required of management and the workforce if the necessary changes are to occur.

The most recent National Wage Case Decision also seeks to mitigate some of the adverse effects of the existing structure of unions and awards by establishing stable and consistent relationships between awards. Over the longer term, the rationalisation of our award and union structure is necessary if the industrial relations system is to continue to evolve in a way that is more conducive to improved productivity, performance and flexibility at the industry and enterprise level.

Just as microeconomic reform and medium-term structural change will be central to producing a more efficient and flexible economy over time, macroeconomic policies must continue to foster a sound economic environment which is conducive to change. One aspect of the latter, highlighted by the experience of the past year or so, concerns the effectiveness of monetary policy in deregulated financial markets.

Financial Deregulation and Monetary Policy

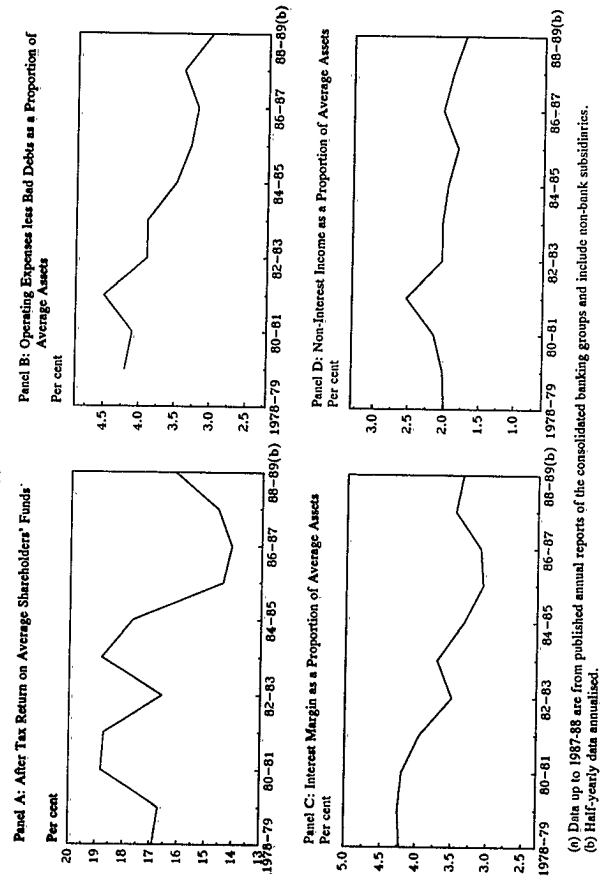
The deregulation of Australia's financial markets has improved the efficiency of the financial sector, resulting in cost-savings and innovations in the services provided to other sectors of the economy. Interest margins for the major banking groups are lower now than they were at the beginning of the 1980s prior to bank deregulation (Chart 28, Panel C), notwithstanding a lift in those banks' profit performance in the last two years. That improved profit performance is attributable in part to favourable economic conditions and to the cut in the corporate tax rate in 1988-89. The largest contribution, however, has come from reductions in the banks' operating costs, with increased competition prompting greater internal efficiency (Chart 28, Panel B). Non-interest income (including fees and charges) has had a largely neutral effect on profit performance (Chart 28, Panel D).

At the same time, the process of internationalisation of our financial sector has continued, facilitating the greater international reach of many other Australian businesses.

Nevertheless, some concerns have been expressed about the process of financial deregulation, including from those who, as home loan borrowers, have faced unexpectedly high levels of interest rates as monetary policy has been tightened. It is certainly the case that in this environment price changes (including changes in interest rates) play the major role in balancing housing demand and supply. But deregulation has also brought other changes:

- in a free market for housing finance, there is full continuity of supply, in place of the rationing of loans, or 'cocktail' lending with high average costs, which would have accompanied any continuation of the lending rate ceiling for banks;

Chart 28: Performance of the Major Private Banks (a)



- deregulation of retail banking has introduced near-commercial rates of return for household savings (and households in aggregate have more savings than borrowings); and
- deregulation has improved the relative availability of finance for non-housing investments (although in other ways housing is still a favoured form of investment).

Financial deregulation has also had implications for the conduct of monetary policy. In particular, monetary aggregates have become unreliable guides for the formulation or assessment of the stance of monetary policy. In this situation, current and prospective developments in a broad range of financial and economic indicators bearing upon demand, activity, inflation and the current account have come to be monitored and assessed in the ongoing conduct of monetary policy.

Moreover, whereas monetary policy was previously implemented through controls on interest rates, reserve asset ratios and guidance on the amount and direction of bank lending, in the contemporary environment implementation is primarily through the Reserve Bank's operations in money markets. These operations influence short-term professional interest rates which, along with expectations of future economic conditions and policy, also influence (with a lag) longer-term and retail interest rates. This process was clearly evidenced in the tightening of monetary policy during 1988-89.

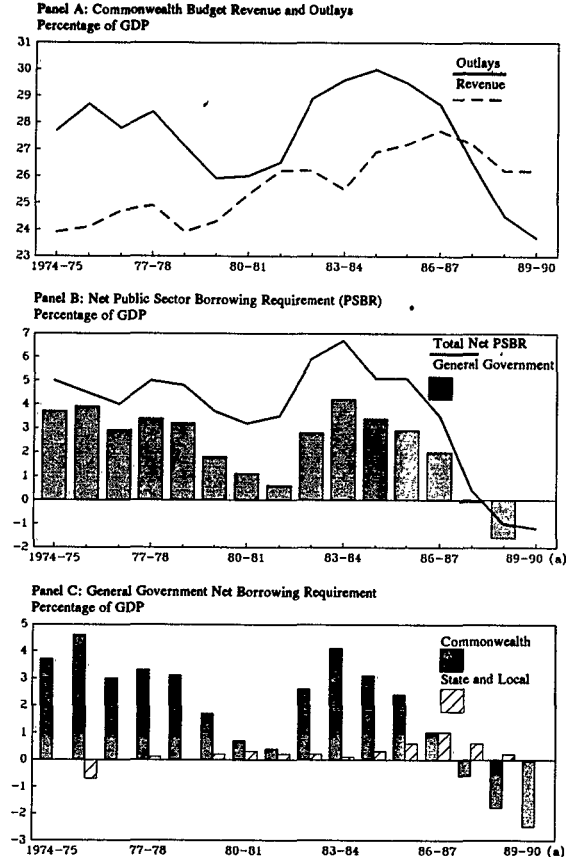
Monetary policy is the most flexible macroeconomic policy instrument and it has been employed actively over recent years. However, the persistent strength of demand during 1988-89 has raised questions about its effectiveness in the deregulated environment. It has been suggested, for example, that financial innovations may have reduced the sensitivity of expenditure decisions to interest rate increases, especially if the latter are thought to be temporary; and that larger increases in interest rates may now be necessary to produce the same impact on demand. On the other hand, significant changes in interest rates are now more readily achieved. Moreover, policy now affects the entire financial sector, rather than being limited in its initial impact to the banking sector alone. As always, of course, judging the degree of monetary tightening required to produce the desired degree of slowing in demand remains a difficult art. This is particularly so in circumstances where there is considerable uncertainty about the underlying strength of demand and about the lags involved, and where maintaining business investment and competitiveness are also important policy objectives.

The timing and extent of the impact of tightening in monetary policy has been difficult to gauge, but the slowing which is now occurring in the economy confirms that monetary policy remains an effective instrument in helping to curb excess demand pressures. That in turn will help to lower inflation and to slow imports.

Fiscal Policy Settings

Over time, a consistently firmer fiscal stance should facilitate lower interest rates, particularly as the overall stance of policy contributes to an easing in inflationary pressures. The substantial tightening of fiscal policy that has occurred over recent years is indicated in Chart 29. Panel A shows that outlays relative to GDP have declined by 6.3 percentage points from the peak in 1984-85, whereas

Chart 29: Fiscal Indicators



(a) Budget Statement 6 provides preliminary estimates of the total State/local net borrowing requirement; however, it does not separately identify the general government component for that sector for 1989-90. Consequently, 1989-90 estimates for total general government and State/local general government are not included in the above Panels B and C respectively.

revenue to GDP has declined by 0.7 percentage points over the same period. Clearly, therefore, it has been declines in outlays, rather than increases in revenues, which have been instrumental in turning the budget from deficit to substantial surplus.

The turnaround in the total public sector borrowing requirement (the net PSBR) has been even sharper than that for Commonwealth outlays and the budget balance. The net PSBR has been reduced progressively from a peak of 6.7 per cent of GDP in 1983-84 (Panel B) to the point where a surplus of 1.0 per cent was achieved in 1988-89.

Most of the fiscal adjustment has been in the general government sector, reflecting mainly the swing from budget deficit to surplus by the Commonwealth. Until recently, the State and local sector made relatively little contribution (Panel C), but in 1987-88 and 1988-89 there was a significant reduction in the net borrowing requirement of that sector, with a fall over the two years equivalent to 1.4 percentage points of GDP. (Further details of public outlays, revenue and borrowings are contained in Budget Statement 6.)

The prospective budget surplus in 1989-90 and the decisions taken at the April Premiers' Conference and Loan Council meetings will lead to a public sector net financial surplus of 1.2 per cent of GDP in 1989-90.

The substantial turn-around in the net PSBR might normally have been expected to show up in much higher domestic net saving in total; that is, in a significantly lower call on foreign saving. As discussed in Part II, however, this has not occurred, basically because of the increase in private net borrowing associated with the large lift in business and other investment. A much better balance between national saving and investment is expected to emerge as the excess demand of the past year or so is removed from the economy.

Recently, various proposals have been advanced to boost private sector saving. These require careful analysis, not least because they almost invariably imply a certain loss of public sector savings (through, for example, reduced taxation revenue) against less certain gains in private sector savings and hence in national savings overall. The merit of such proposals will depend on their specific nature, including their efficiency, fairness and practicality.

Private saving might be expected to be boosted by higher marginal rates of return on saving. However, the evidence of such a response is not strong. For example, when the household saving ratio was particularly high in the mid-1970s, real after-tax interest rates were very low; its subsequent fall in the 1980s was in a period when real after-tax interest rates were considerably higher. Most empirical analysis indicates at best a modest saving response to rates of return.

Over the medium-term, household saving rates are affected by a range of factors beyond rates of return, such as inflation, demographic structures, wealth, income distribution and the range and quality of government services generally which households would otherwise have to provide privately. The wide cross-country variations in household saving rates, and their changes over time within countries, suggest that they are the outcomes of a complex range of economic factors and social attitudes. *In the shorter-term, their variation is largely attributable to changes in income and householder uncertainty about economic conditions.*

Changing attitudes to self-provision for retirement incomes could also influence personal saving over the medium term. In the wake of the Government's overhaul of superannuation arrangements since 1983, there has been a more than five-fold expansion of superannuation assets (to over \$100 billion). That structural overhaul has made superannuation more accessible and more attractive to all sections of the community. The tax-related measures announced in the Budget will further enhance superannuation as a vehicle for savings. The Government has also announced a major change in the Australian approach to retirement incomes in the direction of greater self-provision. This is intended to strengthen attitudes favouring personal saving for retirement in the years ahead and to reinforce the trend away from reliance on the age pension.

Conclusion

Economic policy in recent years has been directed towards delivering a more productive, efficient and flexible economy over the medium-term. Macroeconomic policies have helped to boost profitability and stimulate investment and employment. These policies have been complemented by a wide range of microeconomic reforms, notably in financial, product and labour markets, and in the taxation field.

In an important respect, those policies have been too successful, creating a private investment boom of a strength which the economy could not readily accommodate. As a result, inflationary pressures mounted and the current account deficit widened again during 1988-89. While the events of the past year did not cast doubt on the basic approach and strategy, they did call for policy adjustments during the year.

Overall macroeconomic settings were moved further toward restraint on demand while the Accord process was again deployed to continue wage restraint and labour market reform. With the gap widening between domestic spending and production, a heightened premium was placed on microeconomic change to lift the economy's productive potential, and further progress on that front occurred. The broad policies now in place are intended to work steadily to restrain domestic demand, and re-establish downward trends in inflation and the current account deficit, while sustaining reasonable growth in output and employment. Progress towards these goals is unlikely to be rapid but is expected to resume during the course of the year ahead.

PART IV: THE ECONOMIC OUTLOOK

Output and trade of the OECD countries are expected to continue to expand in 1989 and 1990, albeit more slowly than in 1988. This slowing is likely also to affect the fast-growing Asian region, but trade and output there are forecast to continue to grow substantially faster than in the industrial countries. Earlier concerns that a widespread lift in inflationary expectations could bring the long period of sustained economic growth to an end in the near future have receded. Monetary policy was tightened in major countries during the past twelve months and inflationary pressures seem likely to be contained.

Other significant risks to continued global expansion stem from the recent slowing in the adjustment of the large external balances of the major countries and from continuing difficulties faced by heavily indebted developing countries. However, provided domestic economic policies fostering the necessary adjustments are continued—and are supported by appropriate international cooperation—financial markets seem likely to continue to accommodate, in an orderly fashion, the gradual correction of these imbalances.

Overall, the prospects for continued, albeit more moderate, expansion of the world economy in the short run appear sound. This will be conducive to a generally good Australian export performance, although some commodity producers are likely to face less buoyant market conditions than they have of late.

On the domestic side, given the healthy state of a number of economic fundamentals, the momentum of economic expansion and the inevitable lags in responses to the tightening of policies during 1988-89, it has taken some time for signs of slowing in demand to appear. Growth in demand is, however, forecast to ease significantly during the course of 1989-90, especially in the dwelling and non-residential investment sectors. Other components of private spending are unlikely to slow as markedly. Household income growth is projected to remain fairly strong and buoyant profitability should be sustained. While lower demand growth can be expected to have its main impact on imports, output and employment will probably grow more slowly than in 1988-89, especially over the course of the year.

With the economy slowing during 1989-90, *through-the-year* rather than *year-average* changes will provide the more meaningful guide to emerging trends for many aggregates. This is true, for example, of inflation and the current account deficit. The latter, in particular, may show little improvement in year-average terms (relative to GDP) while narrowing progressively over the course of this financial year and into the next.

The Forecasting Framework and Assumptions

The forecasts in this Statement are based on a set of assumptions covering largely exogenous factors. There is always a degree of uncertainty attaching to these assumptions. The forecasts also build upon the latest economic statistics, many of which (as noted in Part I) are preliminary in nature and subject to significant revision. For these and other reasons, the focus of attention should be on the overall picture provided by the following assessment, and on broad trends rather than precise numbers.

Chart 30: Comparison of Budget Forecasts and Outcomes (a)

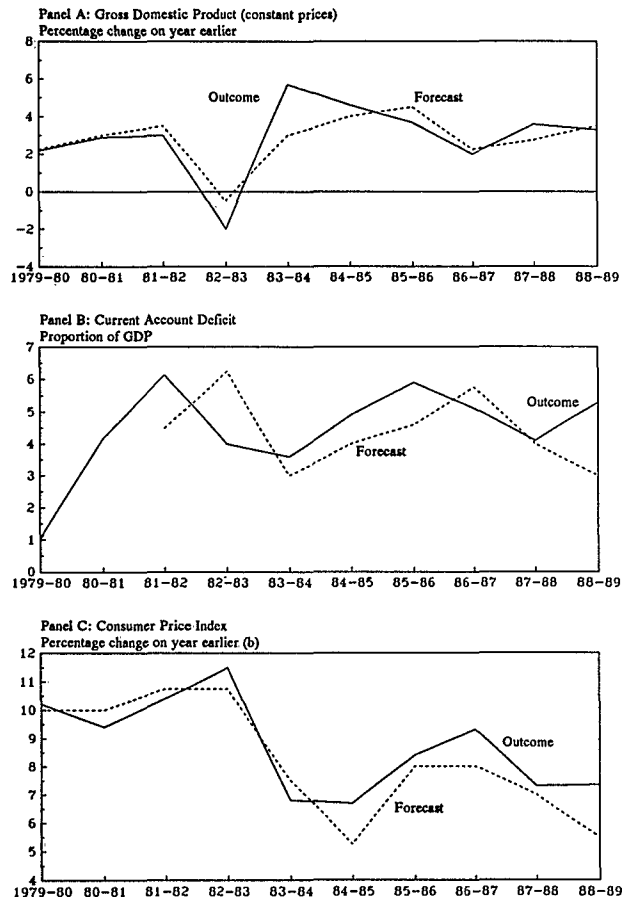
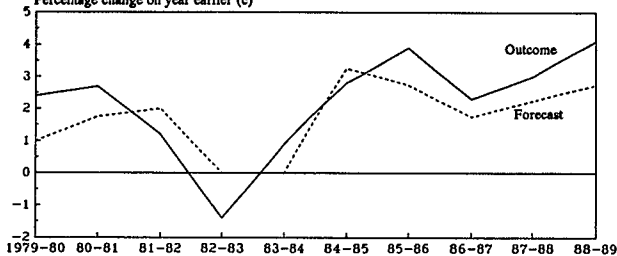
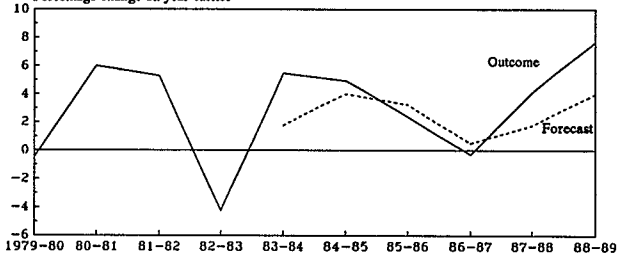


Chart 30: Comparison of Budget Forecasts and Outcomes (continued)

Panel D: Employment (labour force survey basis)
Percentage change on year earlier (c)



Panel E: Gross National Expenditure (constant prices)
Percentage change on year earlier



- (a) Outcomes shown are as first published. Unless otherwise indicated year-average figures are used.
 (b) Figures for 1984-85 represent through the year growth.
 (c) Figures for 1980-81 represent growth in non-farm wage and salary earner employment.

Chart 30 presents summary measures of past budget forecasts and outcomes and provides some indication of the typical order of magnitude of the divergences involved. The outcomes are those first published for the relevant financial year; with the exception of the CPI, these outcomes are usually revised.

The standard technical assumption of an unchanged TWI exchange rate over the forecast period has been substantially invalidated on some occasions (eg in the mid-1980s). Nevertheless, Chart 30 suggests that the major elements of the budget forecasts have usually provided a reasonably accurate indication of the overall direction of the economy. In recent years, there has been a tendency to underestimate both inflation and employment. GNE and the current account deficit—the latter being the outcome of a wide range of domestic and international influences—have sometimes deviated significantly from budget forecasts.

The magnitude of the deviations last year in domestic demand, inflation and the current account stand out in an historical perspective. As discussed in Part I, these deviations were of course closely interrelated. The underprediction of domestic demand in 1988-89 was largely responsible for the unanticipated severity of the fall in net exports and deterioration in the current account deficit relative to GDP (despite the greater than expected improvement in the terms of trade). The strength of domestic demand also contributed to the inflation outcome being less favourable than forecast.

The forecasts for the year ahead have been formulated on the basis of the fiscal policy stance outlined in the 1989-90 Budget and the following major assumptions:

- growth in real GNP of Australia's major OECD and Asian trading partners easing from around 5 per cent in 1988-89 to 4½ per cent in 1989-90;
- price inflation in Australia's major trading partners remaining relatively steady at about 4½ per cent in 1989-90;
- the volume of world trade expanding by around 7 per cent in 1989-90, compared with 8 per cent in 1988-89;
- overseas nominal interest rates remaining around current levels in 1989-90;
- Australian monetary policy remaining sufficiently tight to contribute to a slowing in demand and an improving outlook for the current account deficit during 1989-90 and beyond;
- the standard technical assumption of no change during 1989-90 in the exchange rate from the recent TWI level of around 58;
- on the basis of the recent National Wage Case Decision:
 - wage increases related to award restructuring agreements payable in two instalments (of \$10-15 or 3 per cent, whichever is the higher) not less than six months apart;
 - adjustments to minimum award rates spread over not less than four six-monthly instalments beginning no earlier than 1 January 1990 and also related to award restructuring;
 - continuing access to award-based superannuation benefits; and
- normal seasonal conditions for rural production for the remainder of 1989-90.

Financial Conditions and Budget Funding

The Government has indicated that firm monetary policy settings will be maintained until there are clear signs of a slowing in domestic demand sufficient to re-establish downward trends in inflation and the current account deficit.

As discussed in more detail in Statement 5, the Commonwealth will again retire overseas and domestic debt, resulting in a further large reduction in the Commonwealth budget sector's overall stock of debt outstanding relative to GDP. There is also likely to be some decline in the stock of Treasury Notes on issue. It is estimated that the ratio of Commonwealth Government debt to GDP will fall to around 13 per cent by end-June 1990, compared with 17 per cent at end-June 1989, and nearly 27 per cent at end-June 1986.

The Commonwealth does not plan to undertake any Treasury Bond tenders over the remainder of this financial year and will commence a program of 'reverse bond tenders' in the December quarter to supplement existing market arrangements for buying back bonds. As in past years, cash base growth and the Government's foreign currency requirements will be met by Reserve Bank market operations.

Demand and Output

Forecasts of demand and output in real terms in 1989-90 are summarised in Table 8, with forecasts of other selected measures shown in Table 9. As noted above, those year-average forecasts mask a considerable slowing in major demand aggregates during the year. There are, inevitably, some uncertainties about the timing of the slowdown, and small variations in timing could have significant effects on the year-average forecasts for 1989-90 without necessarily implying a significantly different trajectory once the turning point has been reached.

Real household disposable income growth is forecast to be slightly higher than in 1988-89, with slower growth in employment and unincorporated enterprise income expected to offset partially the effects of the income tax cuts. Continuing tight financial conditions are likely to moderate the growth in *private final consumption expenditure* during the course of 1989-90 and contribute to a rise in the *household saving ratio*. In year-average terms, consumption is forecast to grow at about the same rate as in 1988-89.

Private dwelling investment is expected to decline during 1989-90 in response to the tightening in monetary conditions and increases in house construction costs and land prices during the past year or so. It is forecast to weaken more sharply than any other component of demand.

Despite a high level of work in the pipeline, an absolute decline in *non-residential construction* is also likely as the year unfolds (although not in year-average terms). Factory and tourist facility construction is expected to continue to grow, but surplus office space appears to be developing in several centres. With property values already falling absolutely in some centres, there could well be further downward correction in this area of demand in the face of sustained high real interest rates. The outlook for *plant and equipment* investment remains more buoyant, with profits in many sectors likely to continue at high levels. However, the prospect of slower growth in sales, higher import prices (stemming in part from the recent SA depreciation) and higher funding costs should result in plant and equipment investment growing less rapidly in the period ahead than it has in the recent past.

Public final demand is forecast to increase faster in 1989-90 than in the preceding year, largely because of a strong increase in Commonwealth public enterprise investment (particularly in civil aircraft and telecommunications) and smaller declines in State and local investment expenditures than have occurred in recent years. Excluding the impact of civil aircraft imports and the mismatch between deliveries and payments for defence equipment, public sector final demand is forecast to rise at about the same rate in 1989-90 as in 1988-89.

Table 8: Forecasts of Demand and Output (average 1984-85 prices) (a)

	1987-88 Actual	1988-89 Actual	1989-90 Forecast
Private final consumption expenditure	3.4	3.7	3†
Gross fixed capital expenditure—			
Dwellings	11.5	24.2	-8
Non-dwelling construction	24.2	8.2	4
Plant and equipment	10.8	19.3	6†
Business investment	15.0	15.5	6
Private final domestic demand	5.9	7.0	3
Public final domestic demand	-1.5	2.4	3†
Total final domestic demand	4.0	5.9	3
Increase in stocks (b)—			
Private non-farm	0.5	0.8	-1
Farm and public authority	-0.1	0.4	2
Gross national expenditure	4.9	7.7	2
Exports of goods and services	6.8	1.0	7†
Imports of goods and services	9.9	25.5	3
Net exports (b)	-0.5	-4.4	†
Gross domestic product	4.3	3.3	2†
Comprising—			
Non-farm product	4.8	3.3	2†
Farm product	-6.2	3.1	2†
Memorandum Items:			
Public final demand			
(payments basis, excluding civil aircraft)	-1.1	2.0	2
Gross national expenditure			
(excluding civil aircraft)	5.3	7.4	2
Net exports			
(excluding civil aircraft) (b)	-0.9	-4.1	†

(a) Unless otherwise stated, figures are percentage changes on the preceding year.
(b) Percentage points contribution to change in GDP.

Table 9: Forecasts of Other Selected Economic Measures (a)

	1987-88 Actual	1988-89 Actual	1989-90 Forecast
Average earnings			
(national accounts basis)	6.6	7.0	7
Consumer price index	7.3	7.4	7†
Gross non-farm product deflator	7.4	9.3	6†
Non-farm real unit labour costs (b)	-3.1	-3.1	1
Employment (labour force survey basis)	3.0	4.1	2†
Unemployment rate (per cent)	7.8	6.6	6†
Participation rate (per cent)	62.2	62.6	63
Real household disposable income	3.6	3.5	4
Terms of trade	6.7	6.6	7†
Household saving ratio (per cent) (c)	9.1	15.6	-3†
Current account deficit—			
\$ billion	11.8	17.4	18†
Percentage of GDP	4.0	5.2	5

(a) Unless otherwise indicated, figures are percentage changes on preceding year.
(b) As defined in footnote (f) of Table 5.
(c) Ratio of household saving to household disposable income.

As outlined in Part I, *private non-farm stocks* increased rapidly during 1988-89, in line with the strength of domestic demand. The tightness in financial conditions and the forecast easing of demand in 1989-90 are expected to induce some disinvestment in stocks, consistent with the trend decline in the stocks/sales ratio, reflecting ongoing improvements in inventory management. *Farm stocks* are unlikely to contribute significantly to GDP growth in 1989-90.

The easing in private consumption growth during the course of the year, together with the expected downturn in dwelling construction and business investment and destocking, is likely to generate a considerable slowing in the growth in *private final demand* and *gross national expenditure* in 1989-90, with both falling in absolute terms as the year progresses. This downturn in domestic demand is forecast to be partly offset by a lift in net export performance, but *gross domestic product* is expected to increase more slowly than in 1988-89, with growth moderating during the year.

Balance of Payments

Rural exports will benefit from higher production and are forecast to increase moderately in 1989-90 following falls in the two preceding years. The strongest increases are expected to occur in exports of meats, cereals and sugar. Non-rural exports are forecast to increase by around 10 per cent, with a large contribution coming from the commencement of natural gas exports from the North West Shelf. Gold and coal are also likely to be significant contributors, while iron and steel and other manufactured exports are expected to recover strongly (as slower domestic demand growth frees output for export markets). The very strong growth in tourism earnings in recent years, however, is not expected to be sustained in 1989-90. Overall, the *volume of exports of goods and services* is forecast to grow substantially in 1989-90, in contrast to the modest rise in 1988-89.

At the same time, growth in the *volume of imports of goods and services* is forecast to slow markedly after the exceptional increase in 1988-89. The sharp deceleration of demand and the easing of domestic capacity constraints are reflected in a forecast increase in endogenous imports of 3 per cent. Exogenous imports are expected to be little changed in 1989-90. An expected concentration of civil aircraft imports in the first half of the year, together with the slowing in domestic demand during the year, is likely to produce falls in the volume of merchandise imports during 1989-90—as occurred in the demand slowdown phases earlier in the decade (see Chart 25 in Part II). Consistent with decelerating import shipments, the rate of *growth of freight payments* should ease, and other services imports are expected to increase much more slowly than last year.

The depreciation of the \$A in the latter part of 1988-89 should result in some increases in import and export prices. The exchange rate effect on export prices is expected to be offset to some extent by lower world commodity prices. A moderation in the growth of world demand for raw material inputs to industrial production, and higher world output of many commodities following favourable prices over the past few years, are likely to result in an easing of commodity prices over the course of 1989-90. Metals prices are expected to ease most. The *terms of trade* are expected to decline by some 3½ per cent in year-average terms with the decline over the course of the year being somewhat higher.

With the net income deficit expected to increase again, these forecasts imply an overall *current account deficit* in 1989-90 of some \$18½ billion, equivalent to about 5 per cent of GDP. By the second half of the year, the deficit is expected to be at a significantly lower level, reflecting the pick-up in exports and slowing in imports.

Prices and Incomes

Average weekly earnings (survey basis) are forecast to rise by around 6½ per cent in 1989-90, compared with 6.8 per cent in 1988-89. *Average earnings* (national accounts basis) are forecast to increase slightly faster—by around 7 per cent in 1989-90—largely as a result of the further spread of award-based occupational superannuation benefits. This compares with 7.0 per cent in the previous year.

The recent exchange rate depreciation will tend to lift prices, but that influence is forecast to be more than offset by the progressive easing of demand and continuing wage moderation in 1989-90. The increase in the *CPI* is forecast to ease to around 7 per cent over the year to the June quarter 1990, compared with 7.6 per cent during 1988-89. For the year as a whole the increase is put at 7½ per cent, essentially unchanged. As in 1988-89, the *CPI* is expected to increase by more than the private consumption deflator in 1989-90, mainly due to the continuing large contribution from mortgage interest charges.

The small adverse movement in the terms of trade forecast for 1989-90 follows strong increases in the previous two years. Consequently, increases in the *implicit price deflators for gross non-farm product* and total *GDP* are expected to be much lower in 1989-90 than in 1988-89.

With the slowing in the rate of growth of the implicit price deflator for gross non-farm product, *real unit labour costs* in the non-farm sector are forecast to rise moderately—by around 1 per cent in 1989-90 following a sharp decline of 3.1 per cent in 1988-89. The rise in real unit labour costs, together with the general slowing of the economy, is forecast to produce a slight decline in the corporate profit share from its recent high levels.

Labour Market

The easing in demand and product growth is expected to be reflected in slower *employment* growth in 1989-90, though from a very high rate of increase and with the usual lags. The *participation rate* is not expected to decline markedly during the course of 1989-90, and the year-average unemployment rate is forecast at around 6½ per cent.

Conclusion

Those forces responsible for the strength of demand, imports and inflation in 1988-89 are expected to moderate considerably during 1989-90. Sustained firmness of macro-economic policy, of which the 1989-90 Budget is an important element, will have an increasingly apparent effect. The wage/tax/transfer package will reinforce other instruments of policy by minimising the risk of a sharp increase in nominal wages such as has characterised past periods of strong expansion in Australia.

These are conditions which should lead to a rebalancing in the economy while avoiding the risks of a recession. A considerable easing of domestic demand pressures and the re-emergence of a stronger net export performance during the course of the year are envisaged. By the end of 1989-90, trend declines in inflation and the current account deficit are expected to be clearly evident.

Although production and employment should not slow nearly as much as demand, the rebalancing of demand and supplies is likely to see slower growth in 1989-90 than is acceptable over the longer run. This underlines the need to continue to pursue the medium-term structural adjustment already underway to further improve efficiency, competitiveness and hence productive potential.

STATEMENT 3—OUTLAYS

CONTENTS

	Page
PART I. Overview	
1. Highlights of the 1989-90 Budget	3.3
2. Reconciliation of Forward and Budget Estimates	3.5
3. Outlays Trends	3.15
4. The 1988-89 Budget in Review	3.18
5. Basis of the Forward Estimates	3.21
6. Budget Flexibility	3.26
7. Summary of Outlays by:	
• Function	3.28
• Economic Type	3.31
• Portfolio	3.33
8. Summary of Running Costs Budgets	3.37
PART II. Analysis by Function	
1. Defence	3.42
2. Education	3.63
3. Health	3.86
4. Social Security and Welfare	3.113
5. Housing and Community Amenities, nec	3.147
6. Culture and Recreation	3.167
7. Economic Services—	
A. Transport and Communication	3.181
B. Industry Assistance and Development	3.199
C. Labour and Employment	3.234
D. Other Economic Services	3.252
8. General Public Services—	
A. Legislative Services	3.260
B. Law, Order and Public Safety	3.264
C. Foreign Affairs and Overseas Aid	3.272
D. General and Scientific Research, nec	3.285
E. Administrative Services	3.298
9. Not Allocated to Function—	
A. Assistance to Other Governments, nec	3.314
B. Public Debt Interest	3.330
C. Contingency Reserve	3.338
D. Asset Sales	3.341
Statistical Appendix	3.345

STYLE CONVENTIONS

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

- References in the text to allocations or estimates refer to the 1989-90 financial year unless otherwise stated. Similarly, references to changes in such amounts refer to comparisons with the 1988-89 outcome unless otherwise stated. References to the "Forward years" are to the years 1990-91 to 1992-93.
- 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 1989-90" comprises 1987-88, 1988-89 and 1989-90).
- Real growth in outlays, unless otherwise stated, has been measured by reference to the non-farm GDP deflator.
- Functional and sub-functional tables (except for those functions which exclude salaries and the Defence function) do not include for the Budget and forward years amounts for wage increases expected to take place after the Budget in that year. An allowance for such increases is included in Function 9C. *Contingency Reserve*.
- The sign of the percentage change reflects the result of the calculation, not the effect on the aggregate concerned. Therefore, the sign on the percentage change for an aggregate moving from -ve to +ve will be -ve.

PART I: OVERVIEW

1. HIGHLIGHTS OF THE 1989-90 BUDGET

TABLE 1: SUMMARY OF OUTLAYS

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Outlays excluding asset sales	\$m	82666	87953	93961	97880	101495
Real growth over preceding year	%	-5.0	0.1	1.3	-0.3	-0.8
Outlays as proportion of GDP	%	24.6	24.0	23.6	22.8	22.0
Asset sales	\$m	-538	-1200	-800	-	-
TOTAL	\$m	82128	86753	93161	97880	101495
Real growth over preceding year	%	-4.6	-0.6	1.8	0.5	-0.8
Outlays as proportion of GDP	%	24.5	23.7	23.4	22.8	22.0

- In 1989-90:
 - outlays are expected to increase by 5.6% in nominal terms, a decrease in real terms of 0.6%.
 - this is the fourth successive year in which outlays will decline in real terms, an outcome not achieved over the last 35 years.
 - real outlays are forecast to be 8.2% below the peak level attained in 1985-86.
 - outlays are also expected to decrease from 24.5% of GDP in 1988-89 to 23.7% of GDP in 1989-90.
 - the major sources of growth in outlays are increases in the Social Security and Welfare, Health and Education functions; declines are expected in most other functions.
- Decisions taken by the Government in framing the Budget have increased 1989-90 outlays by a net \$223m. New policy costing \$1621m has been very substantially offset by savings of \$1399m, including \$100m from a new program of asset sales.

- The net effect of these decisions in 1990-91 is estimated at a decrease of \$305m, including \$800m from asset sales.
- Over the three years of the forward estimates period:
 - 1990-91 shows a real increase of 1.8% with growth declining sharply thereafter, producing an overall real increase over the period of 1.5%.
 - the downwards trend in outlays as a proportion of GDP is projected to continue, falling to 22% in 1992-93, the lowest since 1964-65.
 - major sources of growth in outlays over the three years are Health, Social Security and Welfare, and Defence; partly offset by declines in Economic Services and Public Debt Interest.
- Excluding the impact of asset sales, real outlays are expected to increase by 0.1% in 1989-90 and 1.3% in 1990-91 before declining by a total of 1.1% to 1992-93.

2. RECONCILIATION OF BUDGET AND FORWARD ESTIMATES FOR 1989-90

The Budget process for the last several years has been based upon rolling forward estimates compiled by the Department of Finance in consultation with other departments, and published following the Budget each year. The estimates do not include any provision for new programs, or for expansion of existing programs that have not already been previously agreed by the Government. However, the estimates do include a bulk allowance for slippage or drift in the cost of existing policy (see 9C. *Contingency Reserve*).

The forward estimates thus represent a benchmark against which the effects of Government decisions and changes in parameter assumptions can be measured.

The starting point for the 1989-90 Budget process was the forward estimates published in November 1988 for the years 1989-90 to 1991-92. The forward estimates reflected the minimum cost of maintaining on-going government policy, on the basis of then prevailing economic and other parameter assumptions.

The November 1988 estimates were updated in January, May and July 1989 to reflect revised assumptions following release of the latest national accounts or other economic data. They have also been progressively updated to incorporate the effects of Government policy decisions.

Table 2: "Reconciliation of Forward and Budget Estimates of Commonwealth Outlays 1989-90" summarises these changes by function.

Since the forward estimates were published, the estimates for 1989-90 outlays have increased by \$1858m in nominal terms. Policy decisions have contributed a net \$223m of this increase, and parameter and other variations a net \$1636m.

At the time of the forward estimates, real outlays were expected to decrease by 0.7% in 1989-90. The Budget estimate is for a decrease of 0.6%. This revised forecast outcome reflects the net impact of revised parameters and policy decisions.

Policy decisions

The effects on the 1989-90 Budget of major budget outlays decisions taken by the Government since the publication of the Forward Estimates are set out in Table 3: "Summary of Measures by Function" at the end of this section. The table also shows the effects of decisions in 1990-91. Full-year effects of such decisions would generally be approximated by the 1990-91 figures. Detailed figuring for each measure has been factored into the forward estimates for the appropriate program.

The published forward estimates in Table 2 have been adjusted to reflect classification changes adopted in this Budget which affect total outlays (excluding the inclusion within other functions of property expenses previously included in the 8E. *Administrative Services* function). Details are provided in *Statement 7 Coverage and Classification of Information in the Budget Statements*.

TABLE 2: RECONCILIATION OF FORWARD AND BUDGET ESTIMATES 1989-90, BY FUNCTION (\$ MILLION)

FUNCTION	1989-89 Actuals	1989-90		Difference between Budget and Forward Estimates		Parameter and Other Estimates Variations		Policy Decisions		1990-91 Effect of Policy Decisions	
		Forward Estimates	1989-90 Budget Estimates	1989-90 Budget Estimates	Forward Estimates	Increase/Decrease Net	Increase/Decrease Net	Increase/Decrease Net	Increase/Decrease Net		
1. Defence	7780	8029	8327	298	13	-73	358	13	-60	8	-39
2. Education	6044	6532	6688	157	101	63	101	63	-8	55	124
3. Health	10790	11671	11778	108	137	71	100	29	-29	97	-96
4. Social Security and Welfare	28002	24772	26334	1562	982	650	-270	590	1386	-455	931
5. Housing and Community Amenities	1239	1354	1416	62	42	22	-2	20	48	-3	45
6. Culture and Recreation	1078	1021	1081	60	48	33	-21	12	43	10	52
7. Economic Services -											
A. Transport and Communication	1723	1301	1554	253	126	130	-3	127	69	-2	57
B. Industry Assistance and Development	2051	1944	2184	233	104	138	-34	105	182	-16	157
C. Labor and Employment	1031	1143	1281	118	107	42	-32	0	54	-46	100
D. Other Economic Services	326	154	217	63	40	23	23	23	100	100	100
Total Economic Services	5760	4572	5715	603	338	323	-58	265	354	-63	297
8. General Public Services -											
A. Legislative Services	418	304	386	82	77	4	4	4	4	4	4
B. Public Safety	698	606	830	223	163	60	-60	60	60	47	47
C. Foreign Affairs and Overseas Aid	1551	1493	1564	71	65	13	-8	6	24	24	24
D. General and Scientific Research	523	530	582	51	15	37	-1	36	43	43	43
E. Administrative Services	2574	2938	2485	-454	-511	105	-48	57	231	-14	217
Total General Public Services	5765	5672	5646	-26	-190	220	-57	164	349	-14	335
9. Not Allocated to Function -											
A. Assistance to Other Governments	13606	14288	13978	-311	282	25	-618	-593	26	-623	-597
B. Public Debt Interest	7403	7245	7280	35	127	-92	-92	-92	-500	-500	-500
C. Contingency Reserve	-	700	110	-590	-590	-	-	-	-60	-60	-60
Total Not Allocated to Function	21009	22233	21368	-865	-167	25	-710	-685	26	-1163	-1167
OUTLAYS EXCLUDING ASSET SALES	82686	86985	87863	1868	1636	1621	-1289	323	2435	-1840	485
9. D. Asset Sales	-538	-1100	-1200	-100	-	-	-100	-100	-	-800	-800
TOTAL	82128	84885	86753	1858	1636	1621	-1389	223	2435	-2740	-305

Major measures increasing outlays include the Family Package (\$554m in 1989-90), and the bringing forward of indexation increases in pensions and benefits (\$125m)—both of which were announced in the Economic Statement, April 1989; reforms to the waterfront and coastal shipping (\$55m); and policy reviews of government support for science (\$39m), sport (\$16m), youth (\$24m) and the environment (\$36m); and rent assistance and pension increases (\$96m). Savings include reductions in assistance to the States (-\$550m); changes in the definition and application of eligibility criteria for a range of pensions and benefits (-\$253m); reduced planning guidance for Defence outlays (-\$73m); changed arrangements for the Pharmaceutical Benefits Scheme (-\$43m); and a modified pathology services table (-\$45m). Some of these measures have also previously been announced, either in the Economic Statement, April 1989, or in other policy statements.

Total reductions in outlays for forward estimates are slightly lower than those announced in last year's Budget and are considerably lower than corresponding reductions associated with the 1987 and 1986 Budgets. This reflects the sustained fiscal restraint since 1986 which has reduced the level of the base forward estimates. Combined with the discipline inherent in the tighter linkage of the forward and Budget estimates, this restraint has significantly reduced the need for annual reductions in the forward estimates and the scope for doing so without compromising the Government's existing priority program areas.

Parameter and other variations

Parameter and other revisions to the estimates resulted in a net increase over the forward estimates of \$1636m. This increase included \$1789m for economic parameters. These were partially offset by a net \$20m in downward revisions to some program specific parameters (eg production estimates and the numbers and characteristics of pensioners and beneficiaries).

Other variations totalled -\$133m including the absorption of the \$450m that had been included in the published forward estimates for upward revisions or ("drift") in the cost of existing policy.

The major parameter changes between the forward and Budget estimates are as follows:

- forecasts of domestic price indices have increased since the forward estimates by 3½ percentage points for the CPI (to 7½) and by 2% for the implicit price deflator for non-farm GDP (to 6½). Forecast average weekly earnings have also increased somewhat since the forward estimates. Taken together, these higher forecasts have increased outlays by around \$1740m, mainly in the areas of indexed pensions and benefits and grants to other governments.
- the average number of unemployment beneficiaries is now estimated to be 413,000, a net reduction of 37,000 in 1989-90 on the assumption incorporated in the forward estimates. This reduction is primarily the result of higher economic activity. This has decreased expected outlays by some \$165m.
- \$142m has been added to Public Debt Interest by higher domestic interest rates and a lower exchange rate, partially offset by the effects of the higher than anticipated budget surplus. Higher domestic interest rates have added around \$30m to other programs.

- the exchange rate assumption in the Budget of 58 on a Trade Weighted Index basis is 2 points lower than assumed in the forward estimates. This is estimated to lead to a direct increase in outlays other than public debt interest of approximately \$40m.
- revisions to take-up rates for pensions and benefits (excluding unemployment benefits) are expected to result in a net increase of \$67m to outlays over the forward estimates. The major revisions have occurred in Sickness Benefits and Sole Parent Pensions with some offset in AUSTUDY.

Some of the above increases in outlays since the forward estimates have been offset by lower disbursements of revenues from primary industry levies (−\$118m) resulting from lower revised production estimates .

Effect of Reallocation Between Functions

The 1989-90 estimates are also affected by reallocation of funds between departments as a result of Administrative Services commercialisation and introduction of Comcare premiums—both of these changes affected outlays for individual functions but were budget neutral in their overall effect.

TABLE 3: SUMMARY OF MAJOR MEASURES BY FUNCTION

#Indicates measure announced in the April Statement

Function and description of measure	Estimated Effect on Outlays	
	1989-90	1990-91
	\$m	\$m
1. DEFENCE		
Decrease		
• Reduction in real growth in Defence outlays to 0% in 1989-90#	−72.9	−39.4
Increases		
• Assistance to PNG forces	8.0	—
• Restore DFRDB pension base#	4.7	7.6
2. EDUCATION		
Decrease		
• Reduction in Higher Education Early Retirement Fund	−5.0	—
Increases		
• Aboriginal education policy	6.4	15.4
• Additional funding for migrant education	5.4	10.8
• Asian studies teacher training	0.5	1.0
• International Literacy Year	1.6	1.5
• National Agenda for a Multicultural Australia		
– School ESL (new arrivals)	1.4	3.4
– Workplace English	0.4	0.6
– ESL TV series	1.2	—
– Additional monies for Aboriginal Languages	—	0.5
• Revised arrangements for assistance to overseas students	21.7	30.0
• Science and Technology Statement		
– Commonwealth postgraduate awards	2.9	10.8
– Higher education research infrastructure	12.9	33.5
• Youth Strategy		
– Projects for students at risk of leaving before completion of secondary school	2.0	3.5
– Improved income support provisions for 16-17 year old homeless and independent/jaw from home students	1.9	3.8
3. HEALTH		
Decreases		
• Pharmaceutical Benefits Scheme		
– Changed General Patient Contribution	−10.0	−35.0
– Allowance for Pharmacists' Remuneration	−23.0	−70.0
– Transfer to HIC	−1.5	−3.0
– Reduce drug hoarding by safety net users	−5.5	−6.0
– Audit of Repeat Scripts	−1.5	−5.0
– Reduce Nursing Home PBS	−1.0	−3.0
• Changes to health insurance arrangements	−1.0	−1.0
• Introduce a modified pathology services table#	−45.0	−47.0
• Reduce rate of growth in HACC to 15% a year	−4.0	−7.8
• Reductions in special assistance grants to private hospitals	−1.5	−1.5
• Reductions in special services, capital and nursing home benefits	−5.4	−7.4
Increases		
• Assistance for ex-POW's-Japan	0.7	1.4
• Capital funding for Repatriation institutions	4.5	5.8
• Measures to improve health care for Veterans	2.0	1.7
• Women's health strategy	2.2	5.0
• Health Information Research	0.5	—
• Commonwealth contribution to the cost of asbestos removal in Canberra residences		
• National Agenda for a Multicultural Australia		
– Information strategy	0.5	0.5
– Ethnic health users data	0.1	0.1
– HACC survey	—	0.1
• National HIV/AIDS strategy	6.7	13.5
• Schedule Fee revision including revised remuneration arrangements for GPs	35.0	37.0
• Science and Technology Statement		
– Medical training, equipment and research	5.2	9.1

#Indicates measure announced in the April Statement

Function and description of measure	Estimated Effect on Outlays	
	1989-90	1990-91
	\$m	\$m
3. HEALTH (continued)		
• Construction of blood fractionation plant at Broadmeadows	—	5.0
• Youth Strategy		
- Provision of innovative health services for young people	1.0	2.0
• Multipurpose facilities in rural areas	0.4	0.8
4. SOCIAL SECURITY AND WELFARE		
Decreases		
• Recover double payment of child and education payments	-2.5	-2.5
• Abolish payments for children under 16 working full time#	-4.0	-8.0
• Automatic overnight checking of applications for pensions and benefits#	-14.0	—
• Legislative prescription of de facto relationships for sole parent pensioners#	-8.0	-29.0
• Revised review arrangements for sole parent pensioners#	-4.9	-9.8
• Verification of income details for pensioners and beneficiaries#	-10.9	-23.0
• Review of overseas born Australian pension recipients to detect non-disclosure of overseas pension income#	-16.4	-23.4
• Improved arrangements for unemployment benefit reviews	-43.5	-98.4
• Deferral of unemployment and sickness benefit for annual leave payments on termination of employment#	-51.0	-61.2
• Strengthening the unemployment benefit work test#	-16.4	-16.4
• Tighter treatment of beneficiaries moving locations	-3.6	-8.9
• Mandatory provision of tax file number by unemployment and sickness beneficiaries	-33.4	-49.8
• Defer capital subvention to Aboriginal and Torres Strait Islander Commission Development Corporation	-10.0	—
• Improved administration of compensation and debt recovery arrangements	-8.5	-20.9
• FAS income test changes—extend notification	-3.9	-7.8
• Review of family allowance recipients	-15.0	-30.0
• Reassess family allowance on increase of income	-12.0	-27.6
• Reduce rate of growth in HACC to 15% a year	-5.4	-14.7
• Sickness benefit mobile review teams	-3.1	-13.7
• Sickness benefit reviews and age limit on invalid pensions	-2.4	-5.8
Increases		
• Aboriginal service delivery schemes package	1.3	1.9
• Aboriginal Torres Strait Islanders Commission establishment and operation costs	6.9	3.7
• Increase pension rates over and above indexation (\$2 per week single; \$3.30 married)	52.6	314.4
• Bringing forward indexation increases of pensions and benefits#	125.0	205.0
• Upgrade provision of advice on financial matters to pensioners	1.9	2.1
• Child care including indexation of fee relief means test thresholds and ceilings	8.9	16.5
• Family package#	554.0	680.0
• FAS income test changes—extend 25% reduction rule	4.0	5.5
• Self provision package for the aged	5.4	16.6
• Income support package for older unemployed	1.2	5.8
• Reforms to income support in bereavement	3.7	7.4
• Research projects on reform of assistance to disabled persons	2.4	0.3
• Visit by WWI Veterans to Gallipoli	0.8	—
• Mortgage Relief funding	15.0	—
• Increased rate of rent assistance	43.0	92.5
• Growth funds for Supported Accommodation Assistance Program	5.0	10.0
• Measures to protect the rights of users of Residential Aged Care, HACC and Disabilities programs	2.5	3.4
• Liberalisation of UB income test	—	7.0
• Regional operations and rural access package for DSS	2.8	4.1
• Youth Strategy		
- Adolescent mediation services and family therapy as primary prevention for youth homelessness	1.0	1.5
- Income support initiative	1.3	2.0
- Youth accommodation	10.0	—
- Crisis accommodation-innovative service development	2.2	4.7
• Family Mediation and Marriage Counselling	1.0	1.1

3.10

#Indicates measure announced in the April Statement

Function and description of measure	Estimated Effect on Outlays	
	1989-90	1990-91
	\$m	\$m
5. HOUSING AND COMMUNITY AMENITIES NEC		
Decrease		
• Introduction of 12 months residency requirement under First Home Owners Scheme	-2.0	-3.0
Increases		
• Rehabilitation of abandoned uranium mines in the NT	1.0	3.0
• Additional Maralinga rehabilitation studies	0.4	—
• Establishment of a Resource Assessment Commission	5.2	8.9
• Environmental Package		
- Community trees	4.0	4.0
- Environmental database	1.0	1.5
- Save the bush	3.8	3.7
• Housing Costs Reduction Program and related measures	2.3	26.0
• Funding for rental property housing trusts	—	—
6. CULTURE AND RECREATION		
Decreases		
• Rescheduling of payments to Film Finance Corporation#	-20.0	10.0
• Deferral of spending on National Transmitting Facilities	-1.0	-0.3
Increases		
• Assistance to sport	16.3	27.6
• Review of Commonwealth's role in Conservation of the National Estate	1.7	2.0
• Environmental Package		
- Endangered species	2.0	2.0
- Crown of Thorns Starfish	0.3	0.3
- Tasmanian World Heritage Tracks	1.3	1.4
• Radio Australia Transmitter	1.1	1.1
• Additional resources for Australian Broadcasting Tribunal	1.5	1.0
• Film and Sound Archive preservation of nitrate film	1.0	1.0
• Minor works for National Library	2.8	-0.1
• National Museum Australia accelerated cataloguing and restoration	1.0	0.9
• National Agenda for a Multicultural Australia	—	—
- Extension of SBS services	0.1	1.1
- Cultural Heritage Institution	0.3	—
7. ECONOMIC SERVICES—		
7A. TRANSPORT AND COMMUNICATION		
Increases		
• Second Sydney airport land acquisition, design and road upgrading	69.0	-7.5
• Aircraft noise regulation and curfew enforcement	1.5	—
• Waterfront and Shipping Reforms	55.7	65.9
7B. INDUSTRY ASSISTANCE AND DEVELOPMENT		
Decreases		
• Reduction in grain harvesters and cultivation machinery and equipment bounties #	-17.9	-9.9
• Rural adjustment scheme—reduced funding	-2.9	-2.9
Increases		
• Additional resources for Australian Tourist Commission	4.7	—
• Increased funding for Australian Quarantine and Inspection Services to implement agricultural quarantine policy statement	3.5	2.4
• Housing—approved lending program interest subsidy	1.0	1.2
• Housing—Supply Side Measures	1.3	1.3
• Investment promotion	3.7	6.2
• National Procurement Development Program	1.0	1.0
• Metal based engineering program	2.5	5.5
• Rural research—move to 0.5% of GVP	—	7.5
• New arrangements for Wheat Marketing	35.2	35.2
• Tasmanian wheat freight subsidy	3.1	3.4
• Assistance package to Tasmanian industries	10.5	—
• Tasmanian Forests Package—Plantation Development and other assistance	—	9.6
• National Forests Accord Secretariat	1.1	0.3
• National Forests Inventory	—	1.0

3.11

#Indicates measure announced in the April Statement

Function and description of measure	Estimated Effect on Outlays	
	1989-90	1990-91
	\$m	\$m
7B. INDUSTRY ASSISTANCE AND DEVELOPMENT (continued)		
• Environmental Package		
- Energy management	0.5	0.9
- MDB National Resources Management Strategy	3.0	5.0
- National Afforestation Program	1.9	2.0
- National Soil Conservation Program	10.0	10.0
- Sewerage studies	0.2	—
- South-East Forests Package	0.5	1.0
- Southern Bluefin Tuna	0.7	0.8
- Tropical Forests Initiatives	0.1	0.2
- Year and Decade of Soil Conservation	1.0	0.5
• Feasibility Study for Multifunctional Pools	1.0	—
• Renewal of Ships bounty	25.5	35.0
• Science and Technology Statement		
- DPIE review of R&D effectiveness and equipment (BMR)	1.3	1.3
- Marine science and technology	0.7	0.8
- Australian Prize	0.3	0.3
- Special projects	0.6	0.6
• Technology development program	1.4	1.4
• Vendor qualification scheme	2.6	2.6
• Timor Gap Joint Authority Loan	—	2.5
7C. LABOUR AND EMPLOYMENT		
Decreases		
• Abolition of Commonwealth funded trade based pre-employment	-2.8	-6.0
• Savings in JOBSTART program #	-17.0	-21.0
• Abolition of pre-vocational graduate employment rebate #	-0.9	-1.9
• Labour market program savings	-8.4	-12.5
Increases		
• Establishment of National Training Board #	1.5	2.6
• Expansion of industry training support program #	3.3	6.5
• Assistance to apprentices/trainees #	2.4	3.9
• Funding for new industry training	3.3	9.1
• Labour market programs, including assistance for older workers and the disabled	2.4	2.8
• Mobility assistance	1.0	1.6
• Workplace reform—award restructuring #	7.2	—
• Tasmanian Forests Package—Labour Training	2.0	2.0
• Youth Strategy		
- Provision of joint CES/DSS interview and caseloading arrangements for 16—17 year old JSA recipients after 12 months registration with the CES	0.6	0.7
- Extend Newstart interviews to longer term 18—20 year old UB recipients	0.3	0.5
- Labour market assistance for disadvantaged young people	1.7	2.8
- Expansion and enhancement of Youth Access Centre network	1.6	2.2
- Publicity and information about the Government's social justice strategy	0.3	0.3
• Overseas qualifications	—	2.2
• Industrial Relations Commission	1.5	1.5
• Reform of the DEET client services network	7.1	7.0
7D. OTHER ECONOMIC SERVICES		
Increases		
• Australian Securities Commission—establishment and operation costs	15.7	65.0
• Resumption of NT Electricity Subsidy and relieving NT of electricity debt	2.8	33.0
• Revised charging arrangements and increased funding for meteorological services provided to the aviation industry	1.3	0.6

3.12

#Indicates measure announced in the April Statement

Function and description of measure	Estimated Effect on Outlays	
	1989-90	1990-91
	\$m	\$m
8. GENERAL PUBLIC SERVICES—		
8A. LEGISLATIVE SERVICES		
Increase		
• Postage entitlements for MPs	4.2	4.2
8B. LAW ORDER AND PUBLIC SAFETY		
Increases		
• Additional court and legal aid resources for Stage 2 of Child Support Scheme	9.5	10.8
• Reimbursement to States for family law work in magistrates courts—increased rates	5.5	5.5
• Commonwealth Law Courts Construction Program	17.8	18.7
• Increased Judges salaries following report by members of the Remuneration Tribunal	2.6	2.0
• Revision of legal aid agreements with States	5.2	2.5
• Australian Federal Police Force Development Program	2.5	—
• Australian Federal Police—ADP and Overseas Liaison Officer	1.9	—
• ADP Facilities for Attorney-General's Department	7.0	2.0
• Continuation of Special Investigation Unit funding into Nazi War Crimes	3.2	—
• National Agenda for a Multicultural Australia		
- Legal interpreters	0.1	—
- Law review	0.2	0.3
- Other	0.8	—
• Extension of Coastal Surveillance Contract	0.3	3.0
8C. FOREIGN AFFAIRS AND OVERSEAS AID		
Decrease		
• AIDAB—reduced funding	-7.5	—
Increases		
• Implementation of CAAP recommendations	2.1	2.1
• Upgrade of diplomatic communications network and other minor new policy	7.8	12.9
• 1992 Seville Expo	2.5	7.5
• National HIV/AIDS strategy	1.0	1.0
8D. GENERAL AND SCIENTIFIC RESEARCH NEC		
Increases		
• Antarctic rebuilding program	2.5	3.3
• Australian response to the Greenhouse Effect and Climatic Change	5.7	—
• CSIRO—restoration of 1988-89 Budget reductions	6.6	11.6
• May 1989 Science and Technology Statement		
- CSIRO equipment—new research	14.0	19.0
- Other	4.1	4.6
8E. ADMINISTRATIVE SERVICES		
Decreases		
• Abolition of Data Protection Agency	-3.3	—
• AGRBO—Charge employers share of operating costs	-6.5	-6.7
• Final payment under Commonwealth—NSW Land Exchange Agreement	-18.9	—
• Property sales including Lady Davidson Hospital and Gowrie Hostel	-18.7	—
Increases		
• Australian Bureau of Statistics—security	0.6	0.7
• Australian Taxation Office—ADP re-equipment and redevelopment	18.6	37.1
• Australian Construction Service—Computer acquisition	6.4	9.0
• Expansion of decentralised client services systems for DILGEA	1.0	1.0
• Resources for AUSLIG for revision mapping program	5.1	4.1
• Commonwealth Offices—site acquisition and construction	12.5	55.7
• Capital injection to transport and storage group for motor vehicles for Senior Executive Service	12.0	—
• Reform of the Transport and Storage Group	3.7	8.0
• Extension of IRIS II to remaining migration posts	2.0	2.0
• Implementation of CAAP recommendations (including new selection and review system and research resources)	17.2	18.5

3.13

#Indicates measure announced in the April Statement

Function and description of measure	Estimated Effect on Outlays	
	1989-90	1990-91
	\$m	\$m
8E. ADMINISTRATIVE SERVICES (continued)		
• Insurance and Superannuation Commission—Review of administrative arrangements associated with the Reasonable Benefits Limits	2.7	0.6
• National Agenda for a Multicultural Australia		
— Administrative Review	0.3	0.2
— Community information	0.7	2.7
• Additional resources for Australia Made Campaign	2.4	—
• New Customs Vessel	1.9	—
• New Commonwealth superannuation scheme	8.0	49.0
• Public service training	—	10.0
• Resources for conduct of 1991 census	1.4	9.6
• Restoration of pension base for Commonwealth Superannuation Scheme #	7.2	12.0
9. NOT ALLOCATED TO FUNCTION—		
9A. ASSISTANCE TO OTHER GOVERNMENTS NEC		
Decreases		
• Reduction in assistance to ACT	-21.3	—
• Reduction in assistance for local government	-29.3	-27.5
• Reduction in assistance to the States#	-550.0	-575.3
• Exclude drought from natural disaster relief arrangements#	-17.3	-20.2
Increase		
• No clawback of local government rates and charges payable by Telecom and Australia Post	25.2	26.3
9B. PUBLIC DEBT INTEREST		
Decrease		
• Improved arrangements for management of Commonwealth cash balances	-50.0	-80.0
• Public Debt Interest effects of bringing forward Company Tax Collections	-22.0	-350.0
• Public Debt Interest effects of fortnightly PAYE remittances	-20.0	-70.0
9C. CONTINGENCY RESERVE		
Decrease		
• Running costs—continuation of efficiency dividend	—	-60.0
9D. ASSET SALES		
Decrease		
• Asset sales program	-100.0	-80.0

3. OUTLAYS TRENDS

Comparisons of outlays between the historical period (1979-80 and 1988-89) and the period covering the Budget and forward years are complicated by the treatment of prospective wage and salary increases. For the Budget and forward years estimates of wages and salaries shown in each function are based on the wage and salary rates assumed to be current at Budget time in that year. An allowance for wage and salary increases determined after the Budget each year is included in 9C. *Contingency Reserve*.

In the ten years to 1989-90 outlays increased by 23.0% in real terms. Most of this increase occurred in the four years from 1982-83. Since 1986-87 outlays have declined in real terms each year, falling by 0.2% in that year and 2.9% and 4.6% respectively in 1987-88 and 1988-89. (The 1988-89 Budget estimate was for a real decline of 1.8%.) Outlays for 1989-90 are budgeted to decline by 0.6% in real terms, the fourth successive real decline, something not achieved since before 1953-54, the earliest date for which comparable data are available. For the forward years, outlays are expected to grow by some 1.8% in real terms in 1990-91 as a result of substantial real growth in 1. *Defence*, 2. *Education*, 3. *Health* and 4. *Social Security and Welfare*. Subsequently, outlays decline by a net 0.2% in real terms to 1992-93.

The ratio of Budget outlays to GDP is also an important indicator of the scale of budget activity and of the resources appropriated by the budget, though it is, of course, sensitive to cyclical influences and year to year variations in relative growth rates. As a proportion of GDP, outlays averaged 27.6% between 1979-80 and 1988-89. This ratio peaked at 30.0% in 1984-85, reflecting, among other things, the upward pressure exerted from 1981-82 onwards by sharply decelerating economic activity and steeply rising unemployment. Since 1984-85, however, there has been a sustained decline in the ratio which is forecast to reach 23.7% in

CHART 1. OUTLAYS AS A PROPORTION OF GDP AND CUMULATIVE REAL GROWTH

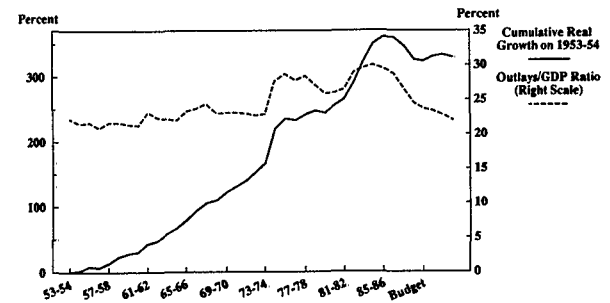
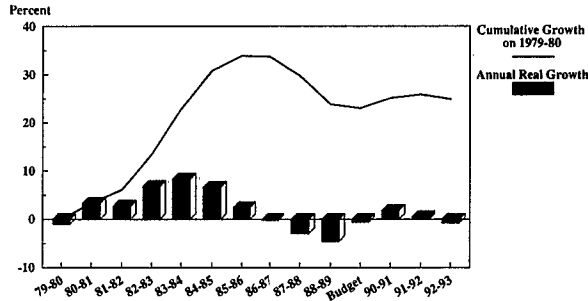


CHART 2. REAL GROWTH IN OUTLAYS



1989-90, the lowest level recorded since 1973-74. This trend is expected to be maintained over the forward estimates period. The ratio is forecast to decline to 22.0% in 1992-93, the lowest since the mid 1960's and some 8 percentage points lower than the 1984-85 peak. Chart 1 shows trends in this ratio between 1953-54 and 1992-93, together with cumulative real growth in outlays over the same period. Chart 2 shows cumulative growth in real outlays between 1979-80 and 1992-93, together with changes in annual real growth.

Chart 3 shows contributions to real growth between 1979-80 and 1989-90 by each function. Those functions which contributed significantly to real growth over the period include 4. *Social Security and Welfare*, 3. *Health*, 9B. *Public Debt Interest* and 1. *Defence*. These areas of activity account for the majority of real growth in the period reflecting their large size relative to total outlays. The function which made a major negative contribution to growth over the period was 9A. *Assistance to Other Governments*. To an extent, this decline has been offset by an increase in specific purpose assistance—eg for public housing and hospitals. Other negative contributions came from 9D. *Asset Sales* and 7A. *Transport and Communications*.

Over the forward years, significant real increases are expected in *Personal Benefit Payments* and *Grants to Non-Profit Institutions*, partly reflecting the Government's social welfare objectives. In functional terms, significant real increases are budgeted for in 3. *Health*, 4. *Social Security and Welfare* and 2. *Education* resulting in real growth in 1990-91 of 1.8%. The large contribution of 9C. *Contingency Reserve* to real growth in the forward years reflects the inclusion of an allowance for "drift" in the cost of existing policies and an allowance for late

CHART 3. CONTRIBUTIONS TO REAL GROWTH 1979-80 TO 1989-90

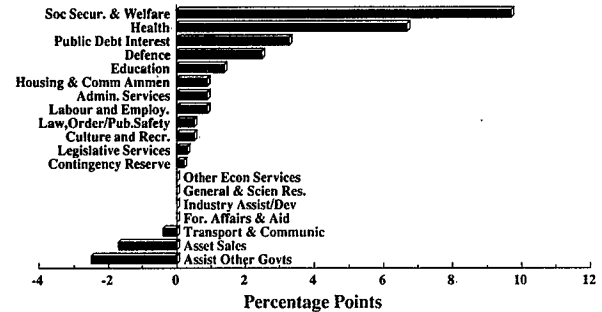
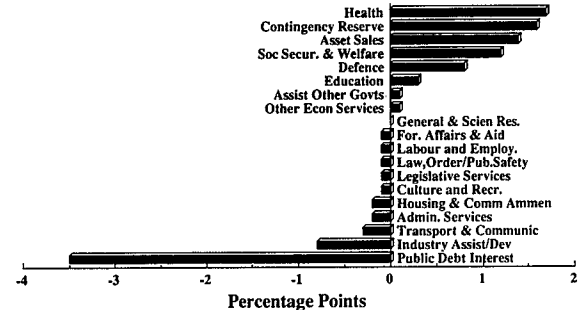


CHART 4. CONTRIBUTIONS TO REAL GROWTH 1989-90 - 1992-93



parameter changes to the forward years which could not be factored into individual program estimates (as discussed in the next paragraph). Thereafter, real reductions in other areas of Commonwealth outlays are expected to result in a net real decline in total outlays in 1992-93, resulting in an overall real increase over the forward years of 1.5%. The most significant declines are expected to occur in 9B. *Public Debt Interest* and the 7. *Economic Services* group of functions. Relative contributions to real growth over the period are shown in Chart 4. Further detail on outlays trends is provided in *Section 7: Summary of Outlays* and in Part II of this Statement—Analysis by Function.

The deflators used to calculate real growth for total outlays in the forward years are slightly higher than those used in Part II of this Statement for real growth calculations for individual functions. The former reflect June quarter National Accounts data which could not be incorporated into detailed estimates in the time available. Real growth rates for individual functions have, therefore, been calculated using deflators consistent with the price basis of these estimates. An allowance for the additional outlays effects of the higher deflators has been included in 9C. *Contingency Reserve* so that the aggregate outlays totals and real growth figures reflect the latest national accounts information.

4. THE 1988-89 BUDGET IN REVIEW

A detailed report on the outcome of the 1988-89 budget was released by the Minister for Finance with the June Statement of *Commonwealth Financial Transactions* on 28 July 1989. Variations from the figures published in this budget stem from classification changes adopted for the 1989-90 budget as outlined in Statement 7.

Outlays were held to within \$85m, or about 0.1%, of the budget estimate, representing a real decline of 4.6% compared to the original estimate of 1.8%. A reconciliation of the outcome against the budget estimates is set out in Table 4. The most significant influences adding to the outcome were post budget decisions, the effect of higher than expected inflation on index-linked programs, and slippage in implementation of budget measures. These factors were largely offset by the effect of reductions in the numbers of unemployment beneficiaries, higher average exchange rates than assumed at budget time and program underspends.

Table 5 gives the outcome and the budget estimate for each function. Further information on the major variations from budget is provided under the function headings in Part II of this statement.

TABLE 4. RECONCILIATION - OUTCOME AND BUDGET 1988-89 (\$m)

	Post-Budget Decisions		Slippage of Budgeted Measures		Other (c)	Total
	Parameter Changes (a)	New Policy	Savings (b)			
1 Defence	75.1	62.1	-	-	-15.0	122.2
2 Education	9.9	28.3	-	-	-301.2	-263.0
3 Health	-20.4	21.1	-	5.0	-50.5	-44.8
4 Social Security and Welfare	-126.8	10.4	-	107.1	-22.3	-31.6
5 Housing and Community Amenities	6.7	-	-12.8	-3.0	-81.0	-90.1
6 Culture and Recreation	2.9	0.3	-	-0.2	-18.7	-15.7
7 Economic Services						
A. Transport and Communications	-44.7	25.0	-	-	33.8	14.1
B. Industry Assistance and Development	-18.1	5.6	-	-17.2	-53.9	-83.6
C. Labour and Employment	-14.4	-	-1.2	-22.6	-41.9	-80.1
D. Other Economic Services	0.8	90.0	-	-1.0	11.3	101.1
Total Economic Services	-76.4	120.6	-1.2	-40.8	-50.7	-48.5
8 General Public Services						
A. Legislative Services	1.4	2.8	-	1.6	10.8	16.6
B. Law, Order and Public Safety	8.9	10.9	-	-	-20.2	-0.4
C. Foreign Affairs and Trade	-5.2	108.8	-	-	-20.2	83.4
D. General and Scientific Research	6.5	9.7	-	-	6.6	22.8
E. Administrative Services	33.3	209.6	-	29.6	-95.2	177.3
Total General and Public Services	44.9	341.8	-	31.2	-118.2	299.7
9 Not Allocated to Function						
A. Assistance to Other Governments	79.4	-	-	-	296.7	376.1
B. Public Debt Interest	145.0	-	-	-	-396.5	-251.5
C. Contingency Reserve	-113.7	-	-	-	-16.3	-130.0
D. Asset Sales	-	-	-	147.8	14.0	161.8
Total Not Allocated to Function	110.7	-	-	147.8	-102.1	156.4
TOTAL OUTLAYS	26.6	584.6	-14.0	247.1	-759.7	84.7

- (a) Includes economy-wide and program-specific parameters.
 (b) Includes delay and non-achievement of budgeted measures.
 (c) Includes changes in non-economic activity levels, carryover of running costs and program underspends.

TABLE 5: OUTLAYS BY FUNCTION

	1987-88		1988-89		Change in 1988-89 Actual		Over	
					1987-88		1988-89	
	Actual	Estimate (a)	Actual	Estimate (a)	Actual	%	Estimate	%
	\$m	\$m	\$m	\$m	\$m	%	\$m	%
1. Defence	7422	7658	7780	7780	122	4.8	122	1.6
2. Education	5714	6307	6044	6044	-263	5.8	-263	-4.2
3. Health	8311	10834	10790	10790	-45	29.8	-45	-0.4
4. Social Security and Welfare	22570	23834	23802	23802	-32	6.5	-32	-0.1
5. Housing and Community Amenities	1386	1329	1239	1239	-90	-10.8	-90	-8.8
6. Culture and Recreation	1056	1094	1078	1078	-16	2.0	-16	-1.4
7. Economic Services								
A. Transport and Communications	1725	1709	1723	1723	14	-0.1	14	0.8
B. Industry Assistance and Development	2203	2114	2031	2031	-84	-7.8	-84	-4.0
C. Labour and Employment	1116	1206	1240	1240	124	34.2	124	46.9
D. Other Economic Services	239	126	130	130	101	38.5	101	46.3
Total Economic Services	5282	5239	5190	5190	-48	-2.3	-48	-0.9
8. General Public Services								
A. Law and Public Safety	577	401	418	418	17	37.8	17	4.1
B. Law, Order and Public Safety	657	698	698	698	63	6.3	63	0.1
C. Foreign Affairs and Trade	1380	1468	1551	1551	83	12.5	83	8.7
D. General and Scientific Research	516	500	523	523	23	1.3	23	4.9
E. Administrative Services	2257	2377	2377	2377	177	14.0	177	7.4
Total General and Public Services	5387	5465	5765	5765	300	7.0	300	6.6
9. Not Allocated to Function								
A. Assistance to Other Governments	14830	13229	13606	13606	-83	-8.3	-83	2.8
B. Public Debt Interest	7865	7655	7403	7403	-252	-5.9	-252	-3.3
C. Contingency Reserve(b)	-	130	-	-	-130	-	-130	na
D. Asset Sales	-1059	-700	-538	-538	-49.2	-49.2	-162	-23.1
Total Not Allocated to Function	21636	20314	20471	20471	156	-5.4	156	0.8
TOTAL	78764	82043	82128	82128	85	4.3	85	0.1

(a) The 1988-89 estimates differ from those published in the 1988-89 Budget Papers due to classification changes introduced in the 1989-90 Budget. See Statement No 7 for details.

(b) Actual requirements have been allocated to the relevant functions.

5. BASIS OF THE FORWARD ESTIMATES

Reports on the forward estimates of budget outlays have been published since 1983. Until 1985 they were published in Autumn, and served as a scene-setting document for the Budget. In 1985 two Reports were produced, one in May and one, after the Budget, in November. Since then the Reports have been published in November or December, showing the outyear implications of the policies contained in the Budget brought down usually in August.

In 1988 the Budget Statements presented estimates of outlays for the first forward year. Forward estimates for three years have now been fully incorporated into this modified outlays Statement, so that a separate Forward Estimates Report will no longer be required.

The forward estimates record the minimum cost of on-going government policy, as adjusted from time to time by the Department of Finance for the effects of parameter and allow other variations, and do not include any allowance for the introduction of new programs or expansion of existing programs (unless already announced by the Government). They represent the lowest level of budget outlays in future years if the parameter assumptions underlying the estimates were realised and if no further policy changes were made. As such the estimates constitute a basis for future government decision-making: they do not in any sense represent policy targets.

Forward estimates of government outlays tend to be somewhat conservative in their assessment of spending in later years. The overall estimates thus include an allowance for drift in the cost of existing policy, based on the experience of past years. In some cases where formal authority for a program lapses, but where the program is expected to continue in some form, the estimates make provision for the continuation of the program on the basis of existing arrangements. While these arrangements reduce conservative bias in the estimates, they do not eliminate it entirely. For example, the completion of specific capital projects, which may not be replaced by new commitments, leads to a decline in outlays. Decisions to undertake new capital projects in 1990-91 will be reported as new policy in this Statement with expenditure shown in each of the relevant years.

By providing a consistent, on-going basis for Budget deliberations, the forward estimates have contributed to a more structured budgetary process. By removing unproductive contention over baseline estimates, and freeing Ministers from consideration of the detail involved in development of base estimates, the Government has been able to concentrate on policy issues involving substantive changes to programs.

The need for any variations from the baseline estimates to be justified has also contributed to overall fiscal restraint by ensuring that the estimates reflect the minimum requirement necessary to maintain the Government's existing policy for each program. These variations are summarised in the reconciliation of the published forward and budget estimates included in this Statement each year which plays an important part in public accountability. By showing the derivation of the Budget estimates in terms of the published forward estimates, adjusted for policy decisions, parameter changes and other variations, it clearly establishes the extent to which the Government has made discretionary changes to the estimates.

Economic assumptions

The economic assumptions underlying the Budget estimates are set out in Statement 2 of this Budget Paper. The assumptions underlying the forward estimates are consistent with and build upon those parameters. However, they necessarily embody much greater uncertainty and are therefore intended to be essentially illustrative.

The broad economic outlook over the forward years is assumed to be one of steady growth in GDP averaging around 3% per annum. Nominal wage increases and price inflation are both assumed to moderate over the next three years.

The following key assumptions have been used in calculating the relevant estimates:

- **Prices**—the CPI and price deflator for non-farm GDP are assumed to increase by around 5½% in 1990-91 and 4½% thereafter, compared with around 7½% in 1989-90 for the CPI and 6½% for the non-farm GDP deflator.
- **Wages and salaries**—public sector wages and salaries are assumed to rise more slowly than is expected in 1989-90.
- **Exchange Rate assumptions**—Australian dollar exchange rates are taken as unchanged over the forward years with Trade Weighted Index (TWI) remaining at 58.
- **Unemployment benefit recipients**—the estimates assume beneficiary numbers of around 425 000 in the forward estimates period, increasing from the 413 000 assumed for the Budget year owing to the moderation of growth to a level more in keeping with the longer term growth of productive capacity.
- **Interest rates** are assumed to decline in nominal terms consistent with the forecast declining rate of inflation as demand growth moderates.

The estimates are also dependent on a wide range of parameters not of a general economic nature, for example beneficiary numbers, volume of medical and pharmaceutical services, and the value of production in a number of primary industries.

Parameter Sensitivity of the Budget Estimates

The following section provides rule of thumb estimates of the sensitivity of outlays estimates for the forward years to variations in key economic parameters. The analysis set out below examines the direct effects on outlays of independent and economy-wide changes in specific parameters.

The normalised variations for each individual parameter are as follows:

- **Prices**—an assumed 1% increase in all price deflators (including CPI and GDP deflator) is factored into all estimates. The increase is evenly distributed over the four quarters of the first year. For later years increases in deflators are kept unchanged from base-line assumptions. That is, estimates for later financial years vary only to reflect lagged effects or revised base estimates;
- **Wages**—an additional 1/2% increase in all wage and salary rates in both the December and June quarters of the financial year with future wage rises as per baseline assumptions;

- **Economic Activity**—a 1% increase in the rate of real growth of GDP (and, where relevant, GNP), evenly distributed over the four quarters of the first year with future years at baseline growth rates. The change is assumed to occur uniformly across all sectors of the economy;
- **Interest Rates**—a 1 percentage point increase in all interest rates used to calculate all relevant estimates, occurring at the beginning of the first year and maintained throughout that year and returning to baseline levels in following years;
- **Exchange Rates**—a 1 index point increase in the value of the \$A on a Trade Weighted Index (TWI) basis, assumed to occur uniformly against all currencies from the beginning of the first year and returning to baseline levels in following years.

The effect on outlays of the variations in assumptions is sensitive to timing of these variations, especially in the first year. For example, an increase of 1% in prices at the start of the first year would have an effect broadly double that of a 1% increase spread over the four quarters. In the case of the TWI, the response can also be sensitive to the particular currencies which move to bring about the change, and the foreign currency denomination of the Government's overseas outlays, the largest proportion of which is in \$US.

Table 6 sets out the results of the sensitivity analysis. An increase in prices, wages or interest rates leads to an increase in estimated outlays, whereas an increase in the TWI or economic growth leads to a decrease in estimated outlays.

Reductions in these parameters would lead to equivalent but opposite effects in budget outlays.

TABLE 6. ESTIMATED EFFECT ON TOTAL OUTLAYS OF VARIATIONS IN KEY PARAMETERS

Parameter and Variation	Estimated Effect on Total Outlays (rounded to nearest \$25m)		
	1990-91	1991-92	1992-93
	\$m	\$m	\$m
Prices—sustained 1% increase	125	450	550
Wages—sustained 1% increase	100	200	200
Interest Rates—1 percentage point increase in 1989-90	125	50	25
Exchange Rates—1 index point increase in TWI in 1989-90	(25)	—	—
Economic Activity—1% sustained increase in GDP	(75)	(275)	(325)

The estimated responses vary in some cases from those published in last year's Forward Estimates Report because of changes in the nominal value of the forward estimates, the increase in the prevalence of automatic indexation and rounding effects.

The key areas of the outlays which are sensitive to each parameter are as follows:

- **Prices**—the programs affected are described in detail in the following section *Parameter Dependence of Outlays*.
- **Wages**—45% of the change is accounted for in direct wage and salary costs of public sector employees, while the remainder is in program expenditure linked to wage costs, notably public hospital funding grants, medical benefits and education grants. The much higher impact in the outyears reflects the full-year effect of the increase which is assumed to occur evenly through 1989-90.
- **Interest Rates**—the principal component affected is public debt interest. The size of the impacts in the years following the first year is smaller because interest rates in those years are assumed to return to the base-line assumptions. However, forward years are affected by the extent to which the increased debt financing requirement in the first year is met by the sale of Treasury Bonds which continue to incur the higher rate of interest in the later years. Other major programs affected are interest subsidies on Defence Service Homes loans and the Austrade interest subsidy scheme.
- **Exchange Rates**—outlays affected are interest payments on Commonwealth debt denominated in foreign currencies, defence capital purchases, foreign aid payments and salaries and allowances of overseas staff such as those employed by Austrade and the Department of Foreign Affairs and Trade.
- **Economic Activity**—the predominant effect is on unemployment beneficiaries. The later year effects increase substantially because of the lag between higher economic activity and job creation caused by increased hours of overtime worked and recruitment delays.

Parameter Dependence of Outlays

Table 7 classifies outlays into four groups according to their relationship to movements in prices.

- **Group 1** covers programs that are fixed in dollar terms.
- **Group 2** programs are payable at a fixed rate of benefit during the budget year. The rates of benefit are reviewed under a range of mechanisms. For example, aged persons homes and hostels grants are increased annually according to an agreed formula while other benefits are reviewed and increased on a less regular basis.
- **Group 3** includes programs that are indexed in forward estimates and supplemented during the budget year for price and other parameter movements. This category mainly includes programs funded under special appropriations.
- **Group 4** covers programs which are indexed in forward estimates but are cash limited in the budget year.

TABLE 7: PARAMETER DEPENDENCE OF OUTLAYS

Category of outlays	Exchange rate	Beneficiary numbers	Interest rate	Volume	1988-90 Budget \$m
Group 1: fixed in dollar terms					
Accommodation assistance					95
Commonwealth - State housing agreement					958
Debt assistance					51
Export market development grants					140
Film Finance Corporation					55
Jobstart					91
Loan Council borrowing					239
Loan Council repayments					-272
Membership of international organisations					50
Telecom - repayment of advance					-326
Other - Group 1					328
Sub total					1408
Group 2: payable at fixed rate of benefit					
Aged persons homes and hostels	*				313
Defence service homes interest subsidy		*			173
First Home Owners Scheme	*				146
Labour and training	*				535
Telephone and postal concessions	*				51
Other - Group 2	*				97
Sub total					1315
Group 3: linked to price indices and supplemented in the budget year					
Austrade interest subsidy			*		22
Bounties				*	246
Capital outlays					464
Children's services		*			237
Comcare benefits		*			136
Defence - non salary/admin - domestic	*				2794
Defence - non salary/admin - overseas	*				1095
Education allowances					906
Education grants					5966
Family allowance and supplement					2360
General revenue grants to other governments					13910
Handicapped persons facilities		*			184
Medical and hospital benefits		*			3998
Nursing homes benefits and subsidies		*			1908
Overseas property management	*				59
Pensions and benefits	*				21301
Pharmaceutical benefits	*				1322
Primary industry research and marketing	*		*	*	880
Public debt interest	*		*	*	7280
Public hospital grants	*		*		3593
Superannuation and DFRDB					1431
Wages and salaries					6874
Other - Group 3					381
Sub total					76485
Group 4: linked to price indices and fixed in the budget year					
Aboriginal advancement programs					386
Administrative outlays (non-salary)					3148
Commonwealth off budget authorities					1761
Home care services					245
On budget authorities					353
Overseas aid					1096
Roads					1333
Other - Group 4					178
Sub total					8502
Total outlays identified					87709

The table shows that 90% of outlays consists of programs supplemented for parameter movements in the budget year; 87% is supplemented for movements in prices and wages and 37% varies according to the number of beneficiaries (these categories are not mutually exclusive).

The table is indicative only and covers most major outlays programs excluding asset sales. While programs included in Group 4 are formally cash limited, it is not unusual for additional funds to be provided during the budget year.

6. BUDGET FLEXIBILITY

This section briefly discusses the flexibilities and constraints affecting decisions concerning outlays at both the program and aggregate level.

Government may seek to change outlays, whether to achieve macro economic policy objectives and/or to meet certain social and political objectives. Decisions on priorities must take account of the differing economic effects of different types of spending. In turn, the resources devoted to achieving the goals of a particular program may be at least partially dependent on the levels of spending in other areas. Table 8 summarises the extent to which governments over the period from 1981-82 have moved from forward estimates in framing successive budgets.

The need to satisfy competing and changing demands places a premium on a budget system which is flexible. However, flexibility is restricted to an extent by commitments to specific levels of funding in advance of the actual appropriation of funds, and the desirability for some guarantee of future funding to enable forward planning of activities within certain programs. In fact, very few if any outlays are truly non-discretionary. The degree of commitment or 'lock-in' depends more on the time it takes for discretion to be exercised and the appropriateness of doing so. The actual or perceived restrictions on budgetary flexibility therefore depend crucially on the nature of commitments which can be broadly categorised as formal or informal obligations.

Formal commitments are normally unavoidable owing to the Government's having entered into some form of contractually binding agreement, for example:

- Formal contractual commitments eg purchase of a computer by instalments. Currently 8% of total outlays can be expected to be formally committed in the year prior to the budget year.
- Interest payments arising from borrowing of moneys which represent about 8% of total outlays and are a non-discretionary commitment.
- Commitments to State governments either through formal agreements or legislation which binds the Government to certain levels of assistance and may extend over a number of years.
- The level of benefits paid to those satisfying certain criteria as specified in legislation eg unemployment benefits.
- Commonwealth liability to pay salaries and allowances in accordance with implicit or explicit employment contracts (representing around 8% of total outlays).

TABLE 8 : RECONCILIATION OF FORWARD ESTIMATES AND BUDGET ESTIMATES, 1981-82 TO 1989-90 (\$m)(a)

Year	Forward Estimates	Budget Estimates	Total Change	Change accounted for by:		Policy Decisions Post Forward Estimates		Accounted for by Policy Decisions		Total %
				Parameter/Estimates Variation	Estimates	Increase	Decrease	Increase	Decrease	
1981-82	41512	40662	-650	-175	308	-783	-475	-1.1	-1.6	
1982-83	46112	47067	955	459	1153	-656	497	1.1	2.1	
1983-84	54594	56703	2109	838	2485	-1214	1271	2.3	3.9	
1984-85	64125	63948	-177	-753	1138	-556	582	0.9	-0.3	
1985-86	69164	69067	-97	667	716	-1480	-764	-1.1	-0.1	
1986-87	75702	74764	-1118	1039	816	-2973	-2157	-2.8	-1.5	
1987-88	80939	78146	-2791	696	638	-4125	-3487	-4.3	-3.4	
1988-89	82309	82013	-296	297	973	-1566	-593	-0.7	-0.4	
1989-90	84895	86573	1658	1636	1621	-1399	223	0.3	2.2	

(a) The forward estimates for each year have been adjusted from those which appeared in the respective Reports to reflect classification changes which occurred prior to the presentation of the relevant budget.

Informal commitments normally arise implicitly from past decisions or explicitly through negotiations conducted by Ministers or officers before formal endorsement by Cabinet.

For any agency to perform any activity or to assess future options it must assume, tacitly at least, that it will continue to exist and that funding will be provided. Similarly, where funding is provided for the purchase of a new asset, the presumption also arises that funding for future maintenance will be provided.

In order to function effectively, some programs require a form of multi-year financial planning, but the only amounts formally committed are those settled in the budget each year. For example, Defence employs a five-year planning program to allow defence planners to test the feasibility of policy options and new and existing commitments against assumptions about future resource availability.

Table 9 gives some impression of the impact of assumed inflexibility in the estimates. The simple examples provided indicate the type of action which would be necessary to achieve a 1% (\$930m) reduction in the estimates for 1990-91 if the existing commitments in some programs are regarded as unavoidable.

The analysis shows that the magnitude of savings required to achieve a given reduction in the forward estimates is highly sensitive to assumptions about the level of on-going commitments.

TABLE 9: ACTION NECESSARY TO REDUCE OUTLAYS BY 1% IN 1990-91

Programs excluded from the reduction	Proportion of total outlays (excluding asset sales) excluded from the reduction	Reduction in remaining programs consistent with a 1% decline in total outlays
	%	%
• Public Debt Interest	6.7	1.1
• Public Debt Interest and Age Pensions	17.4	1.2
• Public Debt Interest, Defence and all personal benefit payments	53.7	2.2
• Public Debt Interest, Defence, all personal benefit payments and Financial Assistance Grants to the States and NT	69.8	3.3

7. SUMMARY OF OUTLAYS

The 1989-90 Budget and forward estimates of outlays are summarised below:

- by function, identifying the primary purpose of particular activities independent of the way they are administered or of their underlying economic nature;
- by economic type, indicating the underlying nature of each item; and
- by portfolio.

OUTLAYS BY FUNCTION

While total outlays are expected to decline in real terms in 1989-90, a number of areas of Commonwealth activity, including most 4. *Social Security*, 3. *Health* and 2. *Education* programs, increase in real terms.

TABLE 10 - OUTLAYS BY FUNCTION

	1988-89		1989-90		1990-91			1991-92			1992-93		
	Actual	Budget	Change	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
	\$ m	\$ m	%	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m	
1. Defence	7780.4	8327.1	7.0	9106.3	9772.2	10371.1							
2. Education	6043.9	6688.5	10.7	7274.3	7684.3	7956.0							
3. Health	10789.7	11778.5	9.2	12969.1	14045.6	15241.3							
4. Social Security and Welfare	23802.1	26333.8	10.6	28589.4	30115.8	31518.9							
5. Housing and Community Amenities	1238.6	1416.0	14.3	1421.7	1376.8	1395.8							
6. Culture and Recreation	1077.9	1080.9	0.3	1139.4	1169.6	1113.0							
Economic Services													
A. Transport and Communication	1722.9	1553.6	-9.8	1559.1	1551.5	1505.8							
B. Industry Assistance and Development	2030.9	2113.9	4.1	2080.6	1838.6	1667.7							
C. Labour and Employment	1080.1	1230.7	13.9	1267.1	1325.5	1347.6							
D. Other Economic Services	326.4	217.2	-33.4	307.8	326.0	321.9							
Total Economic Services	5160.2	5115.5	-0.9	5214.7	5041.6	4843.1							
8. General Public Services													
A. Legislative Services	418.0	385.8	-7.7	322.8	319.2	331.1							
B. Law, Order and Public Safety	698.1	829.6	18.8	846.8	847.5	876.1							
C. Foreign Affairs and Overseas Aid	1551.5	1563.8	0.8	1641.9	1706.8	1746.3							
D. General and Scientific Research	522.8	581.5	11.2	619.7	640.0	664.3							
E. Administrative Services	2574.2	2484.7	-3.5	2692.4	2719.2	2619.1							
Total General Public Services	5764.6	5845.5	1.4	6123.6	6232.7	6236.9							
9. Not Allocated to Function													
A. Assistance to Other Governments	13605.5	13977.7	2.7	14994.8	15603.4	16189.5							
B. Public Debt Interest	7403.2	7279.7	-1.7	6288.0	5553.1	4929.0							
C. Contingency Reserve	-	310.0	n.a.	840.0	1285.0	1700.0							
D. Asset Sales	-538.2	-1200.0	123.0	-800.0	-	-							
Total not Allocated to Function	20470.5	20167.5	-1.5	21322.8	22441.5	22818.5							
TOTAL	82127.9	86753.2	5.6	93161.3	97880.1	101494.5							

1. *Defence* outlays in 1989-90 reflect measures announced in the *Economic Statement, April 1989*, which include zero underlying real growth in Defence guidance. Outlays over the remainder of the forward estimates allow for 2% a year real growth.

Outlays on 2. *Education* are expected to increase by 4.1% in real terms in 1989-90 and continue to increase over the forward years, mainly as a result of increased education places, the indexation of education grants for price movements, rising per capita assistance for schools and increased student assistance beneficiaries.

3. *Health* outlays are budgeted to increase by 2.7% in real terms in 1989-90, with strong growth expected to over the forward years. This is largely accounted for by medical benefits, reflecting expected schedule fee increases and growth in service volumes, and continued rapid growth in pharmaceutical benefits.

The expected 4.1% real growth in 4. *Social Security and Welfare* outlays in 1989-90 is the result of decisions to increase pensions beyond indexation, to increase and to index child payments, to reduce the pension indexation lag, and to increase the level of rent assistance and other accommodation assistance. Growth is expected to moderate over the forward years, mainly reflecting a decline in the number of veterans eligible for disability and service pensions. Improved targeting and administration of assistance is also expected to produce savings in outlays.

Outlays on 5. *Housing and Community Amenities* will increase by 7.5% in real terms in 1989-90 mainly as a result of the full-year effect of interest subsidy payments to the purchaser of the *Defence Services Homes* mortgage portfolio. Real outlays are budgeted to decline over the forward years mainly because payments to the States under the Commonwealth State Housing Agreement are expressed in fixed nominal terms.

6. *Culture and Recreation* outlays decline in real terms in 1989-90. Additional funding for the SBS, the upgrading of national transmission facilities and assistance for sport are offset by the completion of the Bicentennial celebrations and new funding arrangements for the ACT following self-government.

The most significant real decline over the Budget and forward years occurs in the 7. *Economic Services* group of functions. 7A. *Transport and Communication* and 7B. *Industry Assistance and Development* will decline: the former owing to the repayment by Telecom of a portion of its outstanding Commonwealth loans; and the latter as a result of the scheduled termination of a range of industry assistance programs.

Projected increases in numbers assisted by various training programs will result in real growth in the 7C. *Labour and Employment* function in 1989-90. Real outlays are expected to decline over the forward years with the termination of a number of labour adjustment packages, savings generated by previous reforms in the Commonwealth Employment Service and increased cost recovery and the rescheduling of running costs allocations for the Industrial Relations portfolio.

The completion of construction of Parliament House will result in a nominal fall in 1989-90 for 8A. *Legislative Services*. Increased funding associated with the Child Support Scheme and the construction of Commonwealth Law Courts largely account for a real increase in 1989-90 of 11.8% in outlays on 8B. *Law, Order and Public Safety*. Outlays will decline in real terms over the forward years reflecting reduced demand for legal aid under the Child Support Scheme and completion of the Royal Commission into Aboriginal Deaths in Custody.

8C. *Foreign Affairs and Overseas Aid* outlays will decrease by 5.2% in real terms in 1989-90. This is mainly the result of the rescheduling of payments to International Financial Institutions. Non-aid outlays will decrease in real terms over the forward years. A decrease in 1990-91 as a result of the completion of the Beijing Chancery complex will be partly offset by increases associated with the redevelopment of the Australian Diplomatic Communications Network.

During 1988-89, the Government announced a range of initiatives to assist science and technology. This is reflected in a 4.6% real increase in 1989-90 on 8D. *General and Scientific Research* outlays.

Outlays on 8E. *Administrative Services* decline in real terms over the Budget and forward years following the introduction of revised funding arrangements for the provision of a range of common services and the advent of self-government in the ACT. These reductions are broadly matched by increases under other functions.

9A. *Assistance to Other Governments* is budgeted to decline by 3.4% in real terms in 1989-90, mainly as a result of policy measures agreed at the Premiers Conference in May 1989.

9B. *Public Debt Interest* outlays decline in nominal terms in 1989-90 and over the forward estimates as a result of the movement of the Commonwealth Budget into surplus, improved management of cash balances, and earlier and more frequent remittance of tax collections. Overall, a 45% real decline in the function is expected to take place between 1988-89 and 1992-93.

OUTLAYS BY ECONOMIC TYPE

Outlays by economic type can be grouped into four broad categories: Commonwealth outlays on its own behalf, current transfer payments, capital transfer payments and net advances.

Commonwealth outlays on its own behalf comprise salaries and administrative expenses and capital payments for construction and purchase less sale of capital assets. Real growth of approximately 2% is expected in this aggregate in 1989-90 reflecting increases in administrative expenses, the movement off-budget of proceeds from ACT land sales and a higher level of land purchases for the site of the second Sydney airport. A further real increase is expected in 1990-91 as a result of expected salary increases and a higher level of capital works. Little increase is expected in these outlays in the forward years.

TABLE 11 - OUTLAYS BY ECONOMIC TYPE

	1988-89	1989-90	Change	1990-91	1991-92	1992-93
	Actuals	Estimate		Estimate	Estimate	Estimate
	\$m	\$m	%	\$m	\$m	\$m
CURRENT OUTLAYS						
On Goods and Services	14948.5	16028.8	7.2	17131.8	17934.3	18707.1
Current Transfer Payments						
Interest	7480.3	7384.2	-1.3	6340.4	5604.8	4977.9
Subsidies	1244.7	1226.5	-1.5	1169.7	1115.5	967.1
Personal Benefit Payments	28352.9	31552.1	11.3	34644.4	37005.3	39332.4
Grants to Non-Profit Institutions	1086.4	1196.3	10.1	1337.3	1439.9	1531.3
Grants to Non-Budget Sector	2731.6	2438.3	-10.7	2590.5	2537.1	2502.5
Grants To Other Governments	21480.1	22583.8	5.7	24223.2	25286.7	26286.2
Grants Overseas	916.2	1023.5	11.7	988.7	997.1	1040.8
Other Transfers	4.8	9.1	80.0	5.0	3.8	3.8
Total Current Transfer Payments	63297.0	67523.8	6.7	71289.1	73990.1	76642.2
TOTAL CURRENT OUTLAYS	78245.5	83526.6	6.8	88430.9	91924.4	95349.3
CAPITAL OUTLAYS						
Capital Outlays On Goods	517.8	583.2	12.8	840.1	879.3	831.4
Capital Outlays On Land	-114.8	92.0	-180.1	-	-	-
Capital Transfer Payments						
Grants to Non-Budget Sector	305.3	88.5	-71.0	66.7	50.0	49.8
Grants to Other Governments	3063.8	3467.4	13.2	3579.1	3547.2	3506.5
Grants to Other Sectors	351.7	420.4	19.5	438.4	406.6	420.7
Total Capital Transfer Payments	3720.9	3976.3	12.1	4084.2	4003.9	3977.0
Net Advances	296.9	270.8	-191.2	61.1	107.6	146.8
TOTAL CAPITAL OUTLAYS	4420.7	4380.6	-0.9	4985.4	4990.7	4955.3
Contingency Reserve	-	20.0	n.a.	545.0	965.0	1190.0
Asset Sales	-538.2	-1200.0	123.0	-800.0	-	-
TOTAL OUTLAYS	82127.9	86753.2	5.8	93161.3	97880.1	101494.5

Current Transfer Payments increase marginally in real terms in 1989-90 and 1990-91 reflecting lower interest payments on a declining stock of debt, reduced subsidies to enterprises as a range of industry assistance programs terminate and a lower level of grants to Commonwealth non-Budget activities in 1989-90 with the transfer of the ACT Schools Authority and Health Authorities to the ACT administration. This is offset in 1990-91 by payments to the Australian Securities Commission. Personal Benefit Payments increase by approximately 5% in real terms in 1989-90 although this growth tapers off in the forward years, largely reflecting increases in medical benefits and indexation of social security benefits and income test thresholds. Payments to Non-Profit Institutions also increase in real terms in 1989-90 and the forward years mainly as a result of higher payments for aged residential care and community employment programs and Children's Services. Current Grants to Other Governments decline in real terms in 1989-90 and low growth levels are expected to prevail over the forward years. Other Current Transfer Payments increase markedly in 1989-90 as a result of a series of labour adjustment packages that will then be wound down in the forward years.

Capital Transfer Payments increase marginally in real terms in 1989-90 but decline over the forward years. Capital Grants to the Non-budget sector fall markedly in 1989-90 reflecting the completion of construction of the new Parliament House and the transfer to the ACT Administration of the bulk of the National Capital Development Commission functions and responsibility for ACT schools and housing. Capital Grants to Other Governments increase in 1989-90 as a result of ACT self-government and the inclusion of States and Territories housing nominations. Other Capital Grants increase in 1989-90 as a result of higher payments for community employment projects and capital grants for hostels accommodation.

Net Advances are affected by the commencement of large repayments of advances by Telecom commencing in 1989-90 which reduce outlays under this category in the Budget and forward years. Net Advances to Other Governments decrease markedly in 1989-90 with the transfer of housing nominations to the CSHA which are classified as grants. Net Advances to Other Sectors increase in real terms in 1989-90 mainly reflecting the full operation of the Higher Education Contribution Scheme under which payments to institutions on behalf of students are classified as advances, partially offset by the cessation of Commonwealth loans following the sale of the Defence Service Homes Corporation.

The forward estimates contain no provision for asset sales beyond 1990-91.

OUTLAYS BY PORTFOLIO

Parliament

Outlays remain approximately constant over the Budget and forward years after one-off costs associated with occupying the new Parliament House are excluded. This reflects higher operating costs for the new building.

TABLE 12 - OUTLAYS BY PORTFOLIO

	1988-89	1989-90	Budget Change %	1990-91	1991-92	1992-93
	Actual	Budget		Estimate	Estimate	Estimate
	\$ m	\$ m		\$ m	\$ m	\$ m
Parliament	121.3	121.8	0.4	122.8	125.7	131.1
Administrative Services	730.7	460.0	-37.0	563.1	459.6	409.3
Arts, Sport, The Environment, Tourism and Territories	862.9	618.5	-28.3	611.3	587.2	516.8
Attorney General's	652.0	789.9	22.7	876.1	906.2	932.2
Community Services and Health (Portfolio)						
- Community Services and Health	11511.7	13056.9	13.4	14408.7	15587.4	16891.2
- Veteran Affairs	4395.6	4837.0	10.0	5013.7	5045.7	5046.9
Sub-total	15907.3	17893.9	12.5	19422.4	20633.0	21938.2
Defence	7808.2	8418.7	7.8	9132.7	9789.3	10388.5
Employment, Education and Training (Portfolio)						
- Employment, Education and Training	6707.2	7696.0	14.7	8329.0	8806.8	9099.8
- Aboriginal Affairs	460.6	523.3	13.8	557.5	545.8	565.7
Sub-total	7167.8	8219.3	14.7	8886.6	9352.6	9665.5
Finance	873.5	802.1	-8.2	966.6	957.9	1041.8
Foreign Affairs and Trade	1490.5	1500.2	0.7	1583.0	1657.5	1712.2
Immigration, Local Government and Ethnic Affairs	218.4	271.3	24.2	283.4	290.5	304.4
Industrial Relations	260.1	165.4	-36.4	164.1	165.3	172.8
Industry, Technology and Commerce	1360.8	1372.2	0.8	1391.0	1237.0	1204.3
Primary Industry and Energy	1335.2	1406.2	5.3	1472.1	1411.3	1296.6
Prime Minister and Cabinet	96.4	81.6	-15.3	95.6	98.1	99.5
Social Security	19075.5	21145.2	10.8	23030.1	24399.3	25691.9
Transport and Communications	2233.3	2242.4	0.4	2280.7	2314.9	2280.4
Treasury	22472.0	22324.4	-0.7	22294.7	22299.7	22144.0
Contingency Reserve	-	110.0	n.a.	785.0	1195.0	1565.0
Asset Sales	-538.2	-1200.0	123.0	-800.0	-	-
TOTAL	82127.9	86753.2	5.6	93161.3	97880.1	101494.5

Administrative Services

Completion of construction of Parliament House and revised funding arrangements for a range of common services such as property management, construction design and supervision and purchasing and disposal contribute to a significant decline in outlays in the Budget and forward years. This is offset by transfers to customer portfolios.

Arts, Sport, the Environment, Tourism and Territories

Setting aside the new funding arrangements for the ACT following self-government, portfolio outlays will increase in 1989-90 and the forward years. This mainly reflects additional funding for sport, a number of environment initiatives announced by the Prime Minister in July 1989 and Australia's participation in Expo '92. Over the forward years, outlays are expected to trend downwards following the completion in 1990-91 of Queensland Rainforest labour assistance, and the expiry in 1991-92 of a number of programs including film financing arrangements for both Film Australia and the Film Finance Corporation.

Attorney General's

The significant increase in 1989-90 mainly reflects the establishment of the Australian Securities Commission (ASC), implementation of Stage II of the Child Support Scheme and increased activity under the Commonwealth Courts Construction Program. The full-year effect of the ASC's establishment and progress on court construction is expected to lead to a further real increase in outlays in 1990-91. Outlays remain relatively unchanged in later years.

Community Services and Health

Increases in medical benefits and the conversion of nominated loan funds to grants under the Commonwealth State Housing Agreement are the main reasons for the significant real growth in 1989-90 outlays. Outlays continue to increase in real terms over the forward estimates period owing to continued growth in medical benefits and rapidly increasing outlays on pharmaceutical benefits.

Defence

Outlays reflect the Government's decision, announced in the Economic Statement, April 1989, to restrict Defence outlays to zero real growth in 1989-90. The forward estimates are based on planning guidance of 2% real growth a year.

Employment, Education and Training

The expected increase in 1989-90 mainly reflects growth in higher education outlays which in turn reflects increases in the number of places and capital funds, an increase in general recurrent per capita funding for schools and increases in the number and value of student assistance payments. Increases are also expected in outlays on certain training programs and assistance for the long-term unemployed. These trends continue over the forward years, producing moderate real growth over the period.

Finance

The substantial decline in 1989-90 mainly reflects one-off payments from the ACT Government to the Commonwealth for costs incurred by the Commonwealth in the development of ACT land before ACT self-government. The significant increase in 1990-91 primarily reflects the Government's decision to fund the 3% superannuation award. It also reflects initial costs associated with the introduction of the new Commonwealth Superannuation Scheme (which are more than offset by savings in later years).

Foreign Affairs and Trade

The decline in 1989-90 results primarily from the rescheduling to 1988-89 of payments to International Financial Institutions. Outlays remain relatively unchanged over the remainder of the forward estimates period.

Immigration, Local Government and Ethnic Affairs

The growth in outlays reflects the Government's response to the recommendations of the Fitzgerald Committee to Advise on Australia's Immigration Program (CAAIP).

Industrial Relations

The increase in 1989-90 reflects the full-year effect of Comcare, which was introduced on 1 December 1988, and further funding for workplace reform.

Industry, Technology and Commerce

Expected savings in 1989-90 from the termination of bounties and subsidies on agricultural machinery, steel and fertilisers and changes to the Export Market Development Grants Scheme are approximately offset by increased funding for a range of programs including CSIRO and interest subsidies payable to Austrade for the provision of concessional export finance. Outlays remain relatively unchanged in 1990-91 before declining significantly in later years with the winding down or expiry of a range of programs.

Primary Industries and Energy

The introduction of new wheat marketing arrangements and increased allocations for soil conservation and water resources development are partially offset by a transfer of responsibility for Northern Territory electricity subsidy payments to the Treasury and the termination of supplementary dairy market support.

Outlays increase in 1990-91, mainly owing to a residual wheat underwriting payment in respect of the 1986-87 crop and the introduction of a new Income Equalisation Deposit Scheme, before declining marginally in later years.

Prime Minister and Cabinet

The reduction in 1989-90 reflects the termination of the Bicentennial celebrations, while the increase in 1990-91 results from increased provision of funds for the development of skills in public sector management.

Social Security

The real growth in 1989-90 and the forward years reflects decisions to increase pensions beyond the rate of inflation and to reduce the pension indexation lag, to increase and index child payments, and to increase the level of rent assistance. The decision to index the amount pension recipients may earn before the pension is reduced under the income test contributes to growth from 1991-92.

Transport and Communications

Outlays are approximately the same in nominal terms in the Budget and forward years. Increases in road grants to the States and costs associated with the acquisition of land for the Badgerys Creek airport are offset by the repayment of advances by Telecom and Australia Post.

Treasury

In 1989-90, a real reduction in financial assistance grants to the States and the conversion of nominated loan funds to grants under the CSHA (see *Community Services and Health*, above) are partially offset by increased resources for the Australian Taxation Office. The forward estimates of financial assistance grants reflect assumed increases in the CPI. Significant reductions in public debt interest are expected to result in outlays declining in nominal terms by 1991-92.

8. SUMMARY OF RUNNING COSTS BUDGETS

Running costs budgets incorporate all major administrative recurrent costs including salaries and administrative expenditure except for major capital investment costs which continue to be budgeted for separately and for the bulk of the employer's contribution to staff superannuation benefits (excluded for practical reasons). (See Budget Paper No. 3 for details of the running costs arrangements.)

The following table shows the estimated changes in real running costs, for portfolios, between 1988-89 and 1992-93, together with aggregate staffing levels for those years. The period is limited because running costs, as a separate budget aggregate, have only been measured since 1987-88 and that year was affected by major Machinery of Government changes and the special form of funding supplementation to departments for second tier wage increases granted under the 1986 National Wage Case principles.

The portfolio figures for 1988-89 and 1989-90 include the effect of the efficiency dividend of an average of 1 1/4% a year except where agencies/activities have been exempted. For the forward years, the Government has reaffirmed the obligation on the Public Service to generate continuing efficiency gains and has endorsed the continuation of the efficiency dividend. Marginal issues of coverage and application of the efficiency dividend, together with other possible modifications to the system, will be further considered during 1989-90. In the meantime a bulk adjustment to the total figures at the cumulative rate of \$60m a year has been added to the forward years.

TABLE 13. RUNNING COSTS ESTIMATES: 1988-89 TO 1992-93

PORTFOLIO (Includes only agencies under salaries budgeting arrangements)	RUNNING COSTS					REAL CHANGE YEAR ON YEAR			
	88-89 (1)	89-90	90-91	91-92	92-93	89-90 (2)	90-91	91-92	92-93
	\$m	\$m	\$m	\$m	\$m	%	%	%	%
Administrative Services	690.0	694.6	659.1	680.4	680.4	-2.7	-0.8	-1.3	0.0
Arts, Sport, Environment, Tourism & Territories	229.0	246.5	243.2	233.3	233.5	3.1	-1.3	-4.1	0.1
Attorney-General's	403.3	461.5	515.0	533.4	529.6	10.7	11.6	3.6	-0.7
Community Services & Health	847.4	850.5	831.7	819.1	811.0	-2.9	-2.2	-1.5	-1.0
Defence	1 569.1	1 526.3	1 498.8	1 477.1	1 470.1	-6.6	-1.8	-1.4	-0.5
Employment, Education & Training	462.5	487.7	489.4	480.2	480.2	2.0	0.3	-1.9	0.0
Finance	86.5	95.5	98.0	95.2	94.6	6.9	2.6	-2.9	-0.6
Foreign Affairs & Trade	297.9	327.7	331.0	330.0	328.6	5.8	1.0	-0.3	-0.4
Immigration, Local Government & Eth- nic Affairs	128.5	147.4	154.0	151.7	151.4	10.4	4.5	-1.5	-0.2
Industrial Relations	109.7	112.4	107.9	106.1	109.9	-1.4	-4.0	0.2	0.8
Industry, Technology & Commerce	719.1	752.5	766.4	764.9	764.3	1.0	1.8	-0.2	-0.1
Primary Industries & Energy	268.2	293.9	295.4	283.0	280.1	5.5	0.5	-4.2	-1.1
Prime Minister & Cabinet	64.1	59.8	70.7	70.5	70.6	-10.0	18.2	-0.2	0.2
Social Security	610.6	655.3	637.9	624.3	619.8	3.7	-2.7	-2.1	-0.7
Transport & Communication	244.1	253.1	244.2	243.3	241.3	-0.6	-3.5	-0.4	-0.8
Treasury	804.4	924.0	965.8	1 008.4	941.8	11.2	4.5	4.4	-6.6
Adjustments (4)	-45.0	-41.0	-14.0	-56.0	-2.0				
Efficiency Dividend (5)			-60.0	-120.0	-180.0				
TOTALS (6)	7 489.0	7 847.7	7 864.1	7 727.4	7 624.1	1.0	0.2	-1.7	-1.3
Average Staffing Levels (Staff-years) (7)	155 004	155 297	153 874	151 421	149 352	0.2	-0.9	-1.6	-1.4

NOTES

- (1) The 1988-89 figures are in 1988-89 prices.
- (2) The Forward Estimates are on the same price basis as the 1989-90 estimates which incorporate 1989-90 prices for administrative expenses and wage rates prevailing at Budget time.
- (3) 1988-89 figures have been adjusted to 1989-90 prices using a standard Service-wide index to take account of the full effect on salaries on the 3% and \$10 per week National Wage Case Decision handed down in 1988-89 and the 6.3% non-farm GDP deflator estimate on administrative/operational expenses (does not take account of the mix of programs or factor inputs peculiar to individual agencies).
- (4) Aggregate figures have been put on a consistent basis by correcting for carryovers, compensation arrangements, the extension of user charges and changes in coverage, principally transfers from the Department of Defence to Australian Defence Industries Ltd and from the Department of Community Services and Health to the Health Insurance Commission.
- (5) The Efficiency Dividend for 1988-89 and 1989-90 is included in Portfolio figures. For forward years it is included as a bulk correction to running costs and average staffing levels.
- (6) Portfolio estimates include the cost of the 3% superannuation benefit, the interim benefit for 1988-89 and 1989-90 and the fully funded amount for 1990-91 to 1992-93.
- (7) The Average Staffing Levels for all years incorporate the application of an annual efficiency dividend.

Running costs are estimated to decline by 1.9% or \$145.1m (constant prices) over the period 1988-89 to 1992-93, while average staffing levels are estimated to reduce by 3.6% or 5600 staff years over the same period. The measurement of "real" changes in running costs in this Section is based on a specific deflator computed as a weighted average of arbitrated increases in wage rates and non-salary prices, using the non-farm GDP deflator. There have also been corrections for changes in coverage and major transfers such as the shift of resources from the Department of Defence to Australian Defence Industries Ltd. With the predominance of the weighting given to salaries, the moderation in wages in recent years has led to slower growth in the running costs deflator than in the non-farm GDP deflator. That is, the relative price of running costs to total outlays has been falling.

The development of the running costs budgeting arrangements has provided a much improved framework for assessing the costs of government administration.

The traditional focus on trends in public service staff numbers failed to take account of:

- the budget cost of changes in average salary rates, for example as a result of arbitrated decisions or of departmental management decisions to vary the salary classification profile of its staff; and
- different trends in the costs of goods and services which supplement or substitute for direct labour input (which can affect the labour intensity of administrative activity).

Notwithstanding the estimation inevitable in recalculating running costs at constant prices, it is considered that this provides a better measure of the real change in the cost of servicing government programs than a count of the number of staff employed.

The trends in real running costs, as defined above, are determined by two major influences: changes in policy and other factors affecting the demand for government services; and changes in the efficiency of the work involved in delivering those services.

Changes in demand derive from government initiatives and from the parameters of existing services, such as client numbers. Such changes are reflected directly in running costs budgets. In recent years, a particular focus of government initiatives has been to intensify the administration of revenue collection and entitlement payments. The latter has been directed expressly at generating reductions in program outlays, particularly through improved fraud control and better targeting of pensions and benefits. These initiatives have tended to add to running costs while reducing total outlays.

Running costs budgets are also reduced each year for ongoing and one-off improvements in efficiency required of agencies by government. Specific initiatives authorised by the Government to improve the efficiency of the public service at large include:

- the broad budgetary and management reforms, notably the Financial Management Improvement Program and Program Management and Budgeting, aimed principally at improving program outcomes and the efficiency of program delivery;
- the administrative arrangements changes of July 1987 which removed overlap and duplication between departments and restructured ministerial responsibilities;
- the efficiency scrutiny program headed by Mr David Block;
- the arrangements for improving productivity as part of the second tier wage increase, particularly the major restructuring and consolidation of office structures classifications; and
- the continuing efficiency initiatives taken by departments themselves in response to the Government's policy of requiring an annual efficiency dividend from running costs budgets.

The efficiency measures, for which agencies' running costs budgets have been reduced, have provided management with the means and flexibility to maintain ongoing activities without increasing the workload imposed on staff. (Information on the efficiency improvements within agencies can be obtained from the more detailed discussion of program performance in Portfolio Explanatory Notes which are tabled in Parliament immediately after the Budget.)

Real running costs for the 1989-90 Budget year are estimated to rise significantly for most portfolios with smaller but still positive growth continuing in 1990-91. In aggregate real running costs are also estimated to grow faster than outlays in the Budget year. This pattern was also observed in 1988-89 (see Budget Paper No. 1, 1988, p85) and reflects upward pressure on running costs arising from new policy decisions, greater administrative complexity of many policy initiatives and the increased intensity of activity in areas such as fraud control, outweighing the efficiency offsets in the budget year. Over the forward estimates period, real running costs tend to decrease in relation to total outlays (real running costs are projected to fall at an average rate of about 1% a year compared to an estimated marginal rise in real outlays, excluding asset sales).

Variability in the Estimates

The running costs system permits departments to vary running costs expenditures from the Budget estimates within limits. In particular, while departments' running costs budgets are cash-limited, except for the effect of National Wage Case decisions and significant changes in workload and new policy initiatives, departments may re-allocate funds between salaries and other administrative inputs. Departments may also change the level and composition of their workforce to match better their workload requirements, provided that they comply with job classification standards and that the changes are compatible with their running costs budgets for the forward years. Further, the carryover provision allows agencies to switch a limited proportion of their running costs between years, either by saving or by borrowing. For these reasons, actual salaries expenditure and particularly staffing levels may be varied from the above estimates by managerial decisions during the course of 1989-90 and future years. This means that no great significance can be attached to the rate of growth in individual years, and especially not for "expected" growth in a particular year; the estimated average growth over two or more years should be more revealing.

Major Variations

The major variations in the running costs budgets as revealed in Table 13 are explained below.

Administrative Services

- Reductions in the Budget year and the first two years of the forward estimates reflect, principally, the further impact of the progressive commercialisation of services provided to other departments (eg construction services). (There is an element of uncertainty about the running costs estimates because of difficulties in determining the running costs element in the trust accounts for the commercialised groups.)

Attorney-General's

- The increase includes the cost of setting up of the Australian Securities Commission.

Defence

- Further reductions reflect the movement of resources off-budget following the formation of Australian Defence Industries Ltd as well as a real decline in the remaining civilian workforce.

Finance

- Growth reflects additional resources for the Australian Government Retirement Benefits Office to implement the new Commonwealth Superannuation Scheme and a carryover from the 1988-89 running costs allocation to the department.

Foreign Affairs and Trade

- Increases in the budget and forward years are mainly the result of the full-year effect of overseas living allowance determinations, supplementation for exchange rate fluctuations and workload increases in the passport office and the Australian International Development Assistance Bureau.

Immigration, Local Government and Ethnic Affairs

- Growth reflects the Government's response to the recommendations of the (Fitzgerald) Committee to Advise on Australia's Immigration Policy.

Prime Minister and Cabinet

- Reduction in 1989-90 reflects primarily the winding down of the Australian Bicentennial Authority while the increase in future years is primarily the result of additional funding for development of skills in Public Service management.

Social Security

- Reflects provision of resources for a number of high priority initiatives including Assistance to the Aged, the Labour Market Package and Family Allowance Reassessment, offset by continuing savings in areas such as the Department's computer re-equipment program (STRATPLAN).

Treasury

- The growth in 1990-91 and 1991-92, and the decline in 1992-93, reflects the impact on running costs for the Australian Taxation Office of (a) the start-up costs and (b) the progressively increasing savings associated with the ATO's major computer redevelopment and re-equipment, the Modernisation Project, commencing in 1989-90.

PART II: ANALYSIS BY FUNCTION

1. DEFENCE

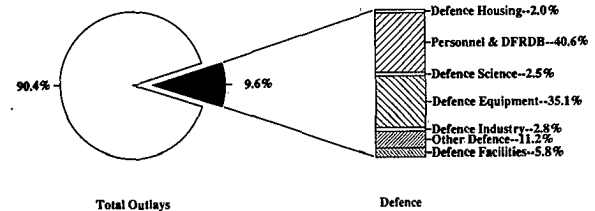
OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
1.1 Personnel Costs and Retirement	\$m	3289.7	3384.4	3658.0	3909.5	4089.7
Benefits	%	8.1	2.8	8.1	8.8	4.8
1.2 Defence Equipment and Stores	\$m	2707.7	2921.5	3348.2	3723.4	4154.9
%	%	3.6	7.8	14.8	11.2	11.8
1.3 Defence Facilities	\$m	414.6	480.9	482.9	508.4	448.4
%	%	-8.1	14.0	0.4	5.3	-11.8
1.4 Defence Housing	\$m	140.6	166.8	186.3	211.3	232.4
%	%	-10.4	12.7	11.7	13.4	10.0
1.5 Defence Industry	\$m	334.0	232.8	186.1	113.4	92.6
%	%	12.0	-30.3	-20.1	-38.0	-18.4
1.6 Defence Science	\$m	200.2	208.7	214.1	225.8	232.0
%	%	7.1	4.2	2.8	5.5	2.7
1.7 Defence Other	\$m	693.7	932.0	1030.8	1080.3	1121.2
%	%	11.5	34.4	10.8	4.8	3.8
TOTAL	\$m	7780.4	8327.1	9106.3	9772.2	10371.1
%	%	4.8	7.0	8.4	7.3	8.1

- Total Defence outlays increase by \$547m or 7.0% (incorporating zero real growth in Defence outlay terms) in 1989-90. Planning guidance for the remainder of the Five Year Defence Program 1990-95 has been set by the Government at 2.0% real growth a year.
- Revised treatment of receipts from additional property sales will allow Defence to add some \$54m to its resources in 1989-90.
- Defence outlays are forecast to increase to 9.6% of total Commonwealth outlays in 1989-90, up slightly from 9.5% in 1988-89. This level is estimated to be approximately 2.3% of GDP.

- Chart 1 illustrates that Personnel Costs and Retirement Benefits dominate with 41% of defence outlays, whilst Equipment and Stores account for a further 35%.
 - outlays for Equipment and Stores will increase (in the forward years to about 40%) largely as a result of expenditure on new submarines and the Government's intention to construct up to eight ANZAC frigates in Australia.
 - most defence production establishments were transferred off-Budget to Australian Defence Industries Pty Ltd (ADI) on 3 May 1989, effectively resulting in a transfer in outlays from the Defence Industry sub-function to other Defence sub-functions.

CHART 1. DEFENCE
Proportion of Total Outlays and Function
1989-90



- the main sources of the 1989-90 increase of \$547m—from \$7780m to \$8327m—are:
 - service and civilian salaries and Defence Force Retirement and Death Benefits (DFRDB) (\$95m in total), reflecting pay and allowance increases and indexation of benefits;
 - increased payments for existing commitments (e.g. submarines) and for recent and anticipated projects (e.g. ANZAC frigates) in Defence Equipment and Stores (\$214m);

- increases in expenditure on Defence Facilities (\$66m) and Defence Housing (\$26m); and
- increased general administration costs, including: higher Fringe Benefits Tax liability (\$30m); Comcare premiums (\$31m); and charges for property and construction provided by the Department of Administrative Services (\$68m).
- Budget measures announced in the Economic Statement, April 1989 reduced Defence outlays for 1989-90 by \$73m, and by \$127m over the forward estimates period.
- Other measures include restoration of the DFRDB pension base (\$4.7m in 1989-90) and increased assistance to Papua New Guinea (\$8m in 1989-90).

PURPOSE

Outlays on defence maintain and develop defence forces and associated capabilities. The objective is to achieve security from armed attack and from the constraints on independent national decisions imposed by the threat of such attack. The Government aims to provide the nation with adequate, self-reliant defence and to increase the capabilities of the Defence Force and national infrastructure for the independent defence of Australia and its interests within the framework of our alliances and regional associations. The Defence White Paper, entitled *The Defence of Australia*, released in March 1987, provides a comprehensive review of Australia's defence capabilities and requirements up to the end of the century.

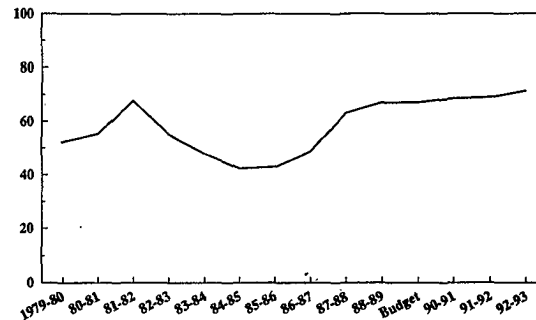
NATURE OF DEFENCE OUTLAYS

Whilst the bulk of defence outlays support the existing defence force—for example, salaries for personnel, fuel, ammunition and equipment maintenance—an increasing proportion is devoted to new or replacement equipment and facilities, in line with the priorities of the 1987 Defence White Paper.

In keeping with the Government's policy of defence self-reliance, an increasing proportion of defence outlays is now spent within Australia. Nevertheless, much defence equipment is not available locally and a significant proportion is necessarily purchased from overseas.

Chart 2 shows the proportion of total payments on equipment and stores made in Australia over recent years, together with projections for the forward estimates period.

**CHART 2. DEFENCE EQUIPMENT AND STORES
PAYMENTS IN AUSTRALIA
PERCENTAGE OF TOTAL EQUIPMENT**



Australian industry will play a major part in the construction of the new submarines and of the ANZAC frigates.

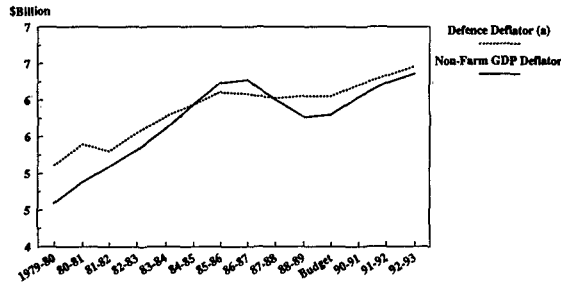
Commonwealth owned companies have been established to provide commercial incentives to increase efficiency in the defence industrial base. Aerospace Technologies of Australia Pty Ltd (ASTA) and Australian Defence Industries Pty Ltd (ADI) now operate most former Office of Defence Production (ODP) establishments.

TRENDS IN DEFENCE OUTLAYS

As a proportion of GDP, defence outlays remained relatively steady, between 2.4% and 2.8%, over the ten years to 1988-89. The peaks of 2.8% during 1982-83 and 1985-86 largely reflected overseas equipment purchases. Since then, the ratio has declined slightly to 2.3% in 1988-89.

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

CHART 3. DEFENCE
(1984-85 prices)



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

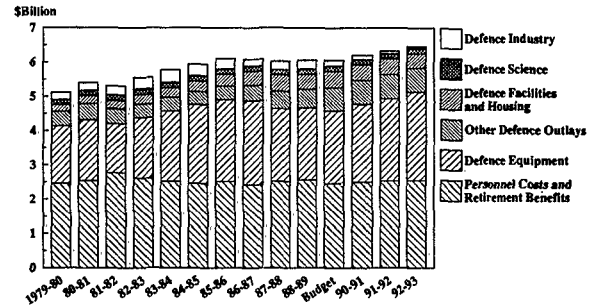
Chart 3 illustrates trends in defence outlays over the past ten years, together with forward estimates to 1992-93. The chart shows defence outlays in terms of the non-farm GDP deflator (solid line) (measuring the real demands of the function on Australian community resources), and also an indicator of the underlying change in the level of defence goods and services procured, derived from the defence real growth calculation, allowing for price, exchange rate and timing movements (dashed line).

As can be seen from the dashed line (which parallels the basis on which defence financial guidance is provided), defence outlays grew strongly between 1979-80 and 1985-86, averaging 3% real growth a year. The slight decline in 1981-82 reflects absorption of the substantial pay increases awarded to service personnel in that year.

From 1982-83, growth has been dominated by the capital components of the defence function. Growth slowed over the period 1986-87 to 1988-89 as a result of Government decisions to reduce global allocations to the function in the context of generalised fiscal restraint.

The major changes in the composition of Defence outlays over the last ten years are illustrated in Chart 4 below.

CHART 4. DEFENCE - COMPOSITION
(1984-85 prices)



Features of the chart are:

- the increasing level of outlays devoted to equipment and facilities since 1982-83 and to housing in more recent years, a trend which is expected to continue in the forward estimates period;
- the relative stability of personnel costs following significant growth in the years to 1981-82, which has resulted in their decline as a proportion of total defence outlays; and
- a rapid decline in direct outlays on defence industry.

MAJOR POLICY CHANGES

The period since 1979-80 has seen a number of significant policy changes including:

- disposal of the aircraft carrier *HMAS Melbourne*, resulting in phasing out of naval fixed wing aviation;
- the publication, in March 1987, of the Defence policy information paper, *The Defence of Australia*, setting out priority areas for development and signalling a move towards a more self-reliant defence posture;
- implementation of initiatives foreshadowed in the White Paper, including acquisition of a second underway replenishment tanker, in-flight refuelling for the F/A-18 aircraft, commencement of work on new submarines and to enhance defence infrastructure in the west and north of Australia;
- establishment of the Defence Housing Authority to improve service housing;
- significant restructuring of defence production, including:
 - the sale of Williamstown Dockyard to the private sector;
 - the incorporation of Aerospace Technologies of Australia Pty Ltd embodying the former Government Aircraft Factories; and
 - the creation of Australian Defence Industries Pty Ltd, a Commonwealth owned company, to operate former defence production establishments.

Real growth allocations for defence have been set annually, but at reduced levels in recent years.

1988-89 OUTCOME

The increase of \$122m (or 1.6%) on the 1988-89 budget estimate mainly results from the establishment costs for ADI (\$52m) and ASTA (\$10m), redundancy payments associated with the transfer of defence production establishments to ADI (\$25m), together with a payment to assist in meeting employer superannuation liability of Aerospace Technologies of Australia Pty Ltd (\$30m). The increase in civilian and service salary expenditures exceeded the budget provision (including that for contingent salary increases) by \$16m, largely as a result of National Wage Case and related salary and allowance increases. Other contributing factors were: higher than expected Fringe Benefits Tax liability (\$21m), mainly in relation to housing benefits; and a shortfall in receipts (\$39m), attributable to reduced sales of surplus properties and obsolete equipment, together with lower than anticipated recoveries from other governments for fuel.

These increases are partly offset by lower than budgeted outlays on defence equipment and stores reflecting variations in progress and payment patterns for a wide range of projects, and the effect of favourable exchange rate and price movements.

FORWARD ESTIMATES

Defence planning and the acquisition of defence capabilities is a long term process. Accordingly, successive governments have provided Defence planners with financial guidance for a five year period—the Five Year Defence Program (FYDP)—to permit examination of policy options and new and existing commitments in the light of assumptions about future resource availability. For the Five Year Defence Program (FYDP) 1990-95, the Government has set defence real growth guidance at 2% per annum. This forward guidance is provided for planning purposes and not as a fixed commitment: the actual amount allocated is determined each year as part of the Budget consideration.

Defence real growth guidance for 1989-90 was reduced from the previously approved level of 1.0% to zero in the measures announced in the Economic Statement, April 1989. Only half of this is a reduction in the 1989-90 outlays base to which defence real growth guidance applies. The remaining half of the reduction relates to 1989-90 only, with offsetting additional resources being available to defence through revised arrangements allowing retention of an increased share of proceeds from the sale of additional surplus or under utilised properties.

Outlays growth in future years will continue to be dominated by equipment and stores. A new feature is the predominance in the capital program of two very large projects—the new submarines and the ANZAC ships. This has important implications for flexibility within the function. Previously approved capital equipment projects have generally accounted for an average of about 65% of funds available for capital equipment. The progression of these large projects concurrently will mean that the degree to which likely capital funds will be committed will approach 90% for several years. Taken together with personnel and retirement benefits, some 80% of defence outlays will be broadly committed. Consequently, to provide flexibility, economies and productivity improvements will need to be pursued vigorously elsewhere within the function.

1.1 PERSONNEL COSTS AND RETIREMENT BENEFITS

1.1		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Defence Force Personnel	\$m 2262.7	2296.4	2461.6	2648.7	2764.9
	%	5.9	1.5	7.2	7.6	4.4
	Civilian Personnel	\$m 541.1	538.5	582.4	599.7	619.0
	%	6.1	-0.6	2.2	3.0	3.2
	Defence Forces Retirement and Death Benefits (DFRDB)	\$m 485.9	549.5	614.0	661.1	705.8
	%	6.8	12.1	11.7	7.7	6.8
	TOTAL	\$m 3289.7	3384.4	3658.0	3909.5	4089.7
	%	6.1	2.9	2.1	6.0	4.6

Included under this item are pay and allowances for Australian Defence Force (ADF) personnel, salaries for civilian staff and the Defence Force Retirement and Death Benefits (DFRDB). The increase in personnel costs in 1989-90 reflects the full year effects of National Wage Case decisions, together with the impact of changes in various allowances payable to service personnel. Provision for possible future wage rate and allowance increases is included under 1.7 *Defence Other*.

Service Personnel

The objective of the ADF is to plan, develop and maintain forces for contingencies within Australia's area of direct military interest. ADF personnel are engaged on operational duties; in training; or on other tasks related to the development of capabilities and which provide a suitable basis for timely expansion.

Details of ADF personnel numbers are:

	Average Staff Levels				
	1988-89 Actual	1989-90 Budget	1990-91 Estimate	1991-92 Estimate	1992-93 Estimate
Permanent Forces—					
Naval	15641	15796	15976	15976	15976
%	—	1.0	1.1	—	—
Military	31896	32203	32188	32155	32061
%	-0.2	1.0	—	-0.1	-0.3
Air	22468	21934	22079	22079	22079
%	-0.4	-2.4	0.7	—	—
Reserve Forces	3041	3306	3317	3320	3329
%	-1.9	8.7	0.3	0.1	0.3
TOTAL	73046	73239	73560	73530	73445
%	0.3	0.3	0.4	..	-0.1

A marginal decrease of 72 in the ADF permanent forces is forecast for 1989-90. Subsequently, numbers are expected to remain fairly static over the forward estimates period. The estimated variations in 1989-90 for each service are: Navy, +155; Army, +307; and Air Force, -534. Whilst much of these variations represent fluctuations in the size of the training force, a further 181 positions were transferred from Air Force to Army following removal of responsibility for battlefield helicopters to the latter service, and a reduction of 174 personnel results from the withdrawal from service of the Chinook helicopters.

It is expected that there will be a reduction of about 120 senior ADF staff positions in Canberra over the next 18 months, resulting from a recent efficiency review of the ADF top structure.

For the Reserve Forces, the average staff levels indicate the full year equivalent of the training days allocated for reserve activities. The 30 June 1990 target strengths for the active reserves are: 1466 for the Naval Reserve, 26 000 for the Army Reserve and 1428 for the Air Force Reserve. The actual strengths at 30 June 1989 were 1373, 25 242 and 1322 respectively.

Civilian Personnel

Civilians are employed in general administration, policy development, management of the capital procurement and facilities programs, and the provision of logistics, financial, scientific and technical services to the ADF.

	Average Staff Levels				
	1988-89 Actual	1989-90 Budget	1990-91 Estimate	1991-92 Estimate	1992-93 Estimate
Total Civilian Staff	32 325	25 017	24 555	23 772	23 336
%	—	-9.8	-2.6	-1.7	-3.2

Civilian personnel average staffing levels (ASL) for 1989-90 are estimated at 25 017, a reduction of 23% from the 1988-89 outcome of 32 325. The full year effect of the May 1989 transfer of about 6386 former defence production employees to ADI and a further 1358 who left under redundancy or early retirement arrangements, will result in a reduction of 6456 ASL in 1989-90. In addition, ASL reductions totalling 852 are to occur during 1989-90 as a result of further rationalisation within defence, including a reduction of 300 personnel in defence Central and a reorganisation within the Defence Science and Technology Organisation.

The costs of some personnel discussed above are included in the sub-functions 1.5 *Defence Industry*, 1.6 *Defence Science* and 1.7 *Defence Other*.

Defence Force Retirement and Death Benefits (DFRDB)

DFRDB provides an occupational, contributory superannuation scheme for members of the Defence Force.

The increased provision for DFRDB in 1989-90 is attributable to:

- the update of pension rates in July to reflect the 6.8% Consumer Price Index increase in the year to March 1989 (\$29.9m);
- increased commutation payments arising from the National Wage Case (\$3.0m);
- an increase of 1886 in the projected pensioner population and the full year effect of 1988-89 new pensions (\$27.3m); and
- the Government's decision, announced in the Economic Statement, April 1989, to restore the DFRDB pension base to the level it would have been had the 2 per cent discount applied as part of the 1986-87 Budget not taken effect (\$4.7m).

Trends

Personnel costs and retirement benefits accounted, on average, for 44% of defence outlays in the ten years to 1988-89, peaking at 52% in 1981-82, when there was a significant increase in ADF salary levels. Since then, they have declined to around 41%. This trend is expected to continue into the forward years, with personnel costs contributing only some 39% to defence outlays by 1992-93.

Permanent ADF numbers have remained relatively stable over the past ten years; from a maximum of 73 185 in 1981-82, they have declined to 70 005 in 1988-89. This reduction is largely the result of a decrease in the number of RAN personnel from 17 598 in 1981-82 to 15 641 in 1988-89 following the Government's decision not to replace the aircraft carrier *HMAS Melbourne* and to disband the RAN fixed wing aviation capability.

The total number of civilians employed under the Defence function has declined from a peak of 41 241 in 1983-84, to a projected 25 017 in 1989-90, largely as a result of reductions in the number of defence production staff employed by Defence. Civilian employees in this latter area have fallen from 15 444 to 306 over this period, as defence production activities have been transferred off-budget and rationalised.

Outlays on DFRDB have grown rapidly (averaging real growth of 7% per annum) over the last ten years, largely as a result of increases in the number of beneficiaries, and indexation of pensions.

Personnel costs and retirement benefits outlays increased by \$62.8m over the 1988-89 estimate, resulting from National Wage Case and related salary and allowance increases. This was largely offset by a reduction in DFRDB payments of \$23.3m and of \$60m in the allowance for contingent salary increases, which is recorded under 1.7 Defence Other.

Future growth in expenditure on personnel costs and retirement benefits will be largely related to wage and salary increases, as service numbers are expected to remain fairly stable and civilian numbers are planned to decline by about 2% per annum over the forward years. Resources saved in this area will, however, be redeployed within Defence to high priority programs.

The DFRDB scheme is presently under review, but on an existing policy basis will grow relatively rapidly as a result of forecast increases in pensioner numbers and the indexation of benefits.

1.2 DEFENCE EQUIPMENT AND STORES

1.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Major Projects and New	\$m	1691.0	1795.7	2052.8	2352.3	2735.6
Equipment	%	3.8	8.2	14.3	14.8	18.3
Supporting Equipment and	\$m	1016.7	1125.7	1295.4	1371.2	1419.3
Maintenance	%	3.5	10.7	15.1	5.9	3.5
TOTAL	\$m	2707.7	2921.5	3348.2	3723.4	4154.9
	%	3.8	7.8	14.8	11.2	11.8

Outlays on defence equipment and stores relate to the acquisition of ships, aircraft, and weapons systems, and to providing operating, training and infrastructure support, for a force structure with capabilities to defend Australia in credible contingencies and to provide a basis for future expansion.

Major Projects and New Equipment

Substantial progress has already been made towards a number of the Defence White Paper's equipment objectives. Following the recent decision to construct six new submarines in Australia, significant activities during 1988-89 include acquisition of a second underway replenishment tanker, *HMAS Westralia*, and the awarding of contracts for upgrading F111 radar and avionics.

Payments during 1989-90 largely reflect projects approved in earlier years. The more significant payments in 1988-89 and provisions for payments in 1989-90 on projects already approved are:

	1988-89	1989-90
	\$m	\$m
New Submarine	373	488
New tactical fighter (F/A-18)	387	213
Australian and US built FFG guided missile frigates	65	182
Seahawk helicopters	83	108
Raven HF VHF field communications	28	55
Discon secure communication	36	52
Blackhawk utility helicopters	87	51
Basic trainer aircraft	50	46
Perentie light field vehicles	47	43
Small arms	23	34
DDG/Destroyer modifications	32	33
Jindalee over-the-horizon radar development and upgrade	26	25
F111 Avionics Update	5	25
Harpoon missiles	5	23
105mm field gun	28	22
Standard missile	7	22
Laser airborne Depth Sounder	7	16
Maritime command support system	2	15
Army medium trucks	24	12
Tanker transport	7	12
Trucks, Tractors and Semi-trailers	4	12
Towed Arrays	1	11
ANZAC Ship (preliminary phase)	10	10

The 1989-90 Budget figures also contain an allowance of \$123m to begin new projects accorded a high priority in the Defence White Paper. A Government decision on the large ANZAC frigate project is expected shortly. Other projects to be considered later include phases of a major new logistics computer system, improved electronic support measures for P3C aircraft, the first one or two radars for the new network of over-the-horizon radars, further Raven combat radios, introduction of a range of computer systems in support areas, further progress with mine countermeasures capability and acquisition of further light field vehicles. Details of new initiatives will be announced in due course by the Minister for Defence.

Australian industry continues to participate in the 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 field radios, assembly of F/A-18 aircraft and new helicopters and the submarine project. The ANZAC Ship will be the most important project other than the New Submarine, involving significant Australian industry participation.

Supporting Equipment and Maintenance

Outlays under this category are for supporting equipment and stores for Defence Force training and exercises, and for repairs and maintenance of ships, aircraft, vehicles, and other equipment. The increase of \$109.0m in 1989-90 largely reflects variations in repair and replenishment programs; higher activity levels resulting from exercise Kangaroo 89, price increases, particularly for liquid fuels, and commercial cost recovery by ADI and ASTA following the conversion of defence production establishments to company structures.

Trends

Given the multi-year nature of many equipment projects, expenditure in this category heavily reflects the impact of earlier decisions. Defence equipment and stores averaged 35% of total defence outlays over the ten years from 1979-80, declining to 27% in 1981-82 and then growing rapidly as new equipment projects got underway to peak at 40% of defence outlays in 1986-87. Outlays for 1989-90 and the preceding two years are in line with the average.

Outlays for this sub-function in 1988-89 were lower than budgeted, largely as a result of variations in payment patterns and progress on a wide range of projects and savings resulting from lower fuel prices.

Equipment and stores outlays are planned to increase from 35% to 40% of total defence outlays over the forward estimates period.

As indicated earlier, commitment to two of the largest defence equipment projects—new submarines (\$4.3 billion over approximately 14 years) and the ANZAC frigates (\$3.6 billion over some 15 years)—will absorb a very high proportion of available capital funds for several years, until other projects draw to a conclusion. Flexibility to introduce other new proposals will be constrained, unless efficiencies and economies can be generated elsewhere within defence outlays.

1.3 DEFENCE FACILITIES

1.3		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Buildings and Capital Works	\$m	265.2	305.4	283.8	305.6	235.4
	%	-10.3	18.2	-7.1	7.7	-23.0
Repairs and Maintenance	\$m	149.4	175.4	199.0	202.7	212.9
	%	2.3	17.4	13.5	1.9	5.0
TOTAL	\$m	414.6	480.9	482.9	508.4	448.4
	%	-8.1	18.0	0.4	5.3	-11.8

This item covers the development of bases, airfields, communications stations, training and other facilities necessary to support the ADF and its operations, including the provision of single living accommodation for service personnel and office accommodation for the Department of Defence.

Buildings and Capital Works

Expenditure on facilities in 1989-90 mainly relates to continuing progress on projects approved in previous years. These include (expected payments in 1989-90 shown in brackets): School of Military Engineering, Casula, NSW (\$13.0m); 21 Supply Battalion Warehouse, Moorebank, NSW (\$10.0m); upgrade of Army living-in accommodation at various locations (\$24.3m); redevelopment of HMAS Coonawarra, NT (\$6.5m); Stage 2 development, RAAF Base Townsville, Qld (\$12.5m); and training facilities for Army at Swanbourne, WA (\$8.9m).

In addition, an allowance of \$13.5m is included for initial expenditure on major new proposals, such as working and living facilities for 2 Cavalry Regiment in Darwin, NT; redevelopment at HMAS Stirling, WA; and development of RAAF Base Wagga, NSW.

Repairs and Maintenance

The increased expenditure for this item largely reflects introduction of a fee for service by Australian Construction Services.

Trends

The facilities item has remained relatively stable over the past ten years, averaging 5% of defence outlays. It is expected that the item will continue at broadly this proportion over the forward years.

Outlays for this sub-function in 1988-89 were \$14.6m lower than budgeted, largely resulting from slowing of a number of projects, partly as a consequence of adverse weather conditions.

1.4 DEFENCE HOUSING

1.4		1988-89		1989-90		1990-91		1991-92		1992-93	
			Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	Capital Subvention to DHA	\$m	42.7	57.4	66.3	78.2	90.8				
		%	-42.6	34.3	18.6	17.9	16.2				
	Rent Payments to DHA	\$m	152.8	172.9	189.3	205.9	217.3				
		%	133.5	73.1	2.6	2.7	5.6				
	Rent Recoveries	\$m	-55.6	-63.3	-69.4	-72.7	-75.7				
		%	7.7	13.8	0.6	4.8	4.2				
	Other Housing Payments	\$m	0.7								
		%	-69.0	-100.0	n.a.	n.a.	n.a.				
	TOTAL	\$m	140.6	168.8	186.3	211.3	232.4				
		%	-10.4	18.7	11.7	13.4	10.0				

Subsidised housing is provided for eligible ADF personnel. The Defence Housing Authority (DHA) now administers the Defence housing stock of some 24 000 dwellings on a commercial basis. The Authority charges Defence commercial rents for the houses under its control and is responsible for maintenance, rental payments on leased properties, and for capital payments to improve the housing stock.

Rents to DHA and Rent Recoveries

These items relate to payments of market rents to the DHA by Defence and recoveries from members of the ADF under the Group Rent Scheme.

Rent recoveries from ADF personnel, estimated at \$63.3m for 1989-90, represent some 37% of the market rent of \$172.8m paid by Defence; the subsidy of 63% is a major source of Defence's Fringe Benefits Tax liability.

Outlays under this category do not include some \$38.5m for Temporary Rental Allowance for ADF personnel renting non-Defence housing, or about \$21.6m for Temporary Accommodation Allowance paid to service personnel occupying hotel-type accommodation, these amounts being included under 1.1 Personnel Costs and Retirement Benefits. The Fringe Benefits Tax liability of \$74.8m for housing rental assistance and related benefits paid to service personnel is included under 1.7 Defence Other.

Capital Subvention to DHA

Additional capital funds are provided to the DHA through loans from the Budget at the long term Bond rate. \$57.4m has been allocated for this purpose in 1989-90.

Together with retained earnings of the DHA generated from commercial rents charged to Defence, these funds will allow continued progress towards meeting the Government's undertaking to invest \$750m over 10 years for defence housing improvement. Until that undertaking has been met, interest received by the Commonwealth on Budget advances is reinvested in the DHA.

Arrangements for the renegotiation of Commonwealth State Housing Agreements (Servicemen) (CSHA(S)) with the States, involving sharing between the Commonwealth and the States of equity and debt in houses constructed under the CSHA(S) are well advanced. An off-budget borrowing program of \$5m in 1989-90 is available to DHA to facilitate new arrangements.

Trends

Payments for housing accounted for less than 1% of defence outlays prior to 1985-86, but have since risen to 2% as greater emphasis has been placed on improving the quality of housing available for service families. Since 1978-79, the housing subsidy to service families has increased from about 40% to the present level of 63%.

On the basis of existing arrangements, the level of subsidy for service housing is expected to increase slightly, to 65%, over the forward years. Loans to DHA to assist in financing the \$750m defence housing improvement program also grow over the forward estimates period, largely reflecting the reinvestment of interest received from the on-budget loans to DHA.

A new housing assistance scheme for service personnel who enlisted after 14 May 1985 will come into operation during May 1991, whereby eligible members of the ADF will be entitled to an interest subsidy of 40% of the prevailing market rate on home loans up to \$40 000. Loan subsidies will be available for a maximum of 20 years. The costs of this scheme will be met from within defence outlays.

Outlays for defence housing were \$9.8m higher than budgeted in 1988-89, largely as a result of increased rent payments made to DHA.

1.5 DEFENCE INDUSTRY

1.5		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Defence Production	\$m 231.4	145.3	137.4	73.8	63.0
		% 7.5	-37.2	-5.5	-48.3	-14.7
	Aerospace Technologies of Australia	\$m 50.9	20.2	-	-	-
		% -38.7	-80.4	-100.0	n.e.	n.e.
	Australian Defence Industries	\$m 51.7	67.3	48.7	39.6	29.6
		% -	30.2	-27.7	-18.5	-25.3
	TOTAL	\$m 334.0	232.8	186.1	113.4	92.6
		% 12.0	-30.3	-20.1	-39.0	-18.4

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

Major activities include the repair and refit of RAN vessels; the supply of ammunition, explosives, equipment and maintenance services to the ADF; the development of products and the maintenance of manufacturing capacity required on strategic grounds.

Defence Production

In previous years this item covered payments to Office of Defence Production (ODP) establishments for operating expenses, capital advances, new equipment and stores. With the transfer of most ODP establishments to ADI Pty Ltd in May 1989, the nature of expenditure under this item changed and outlays are now expected to decline.

From 1989-90, the item covers payments, including to ADI, for Defence required support capability, and the operation by Defence of the Explosives Factory, Maribyrnong, Vic until its planned closure in 1991-92. Also covered is expenditure on completion of facilities projects by Defence at ADI establishments, including the transfer of manufacturing capability from the closed Albion Explosives Factory, Vic to the Mulwala Explosives Factory, NSW (to be completed in 1992).

Aerospace Technologies of Australia

This item covers payments to Aerospace Technologies of Australia Pty Ltd (ASTA), a Government owned company, established to operate the former Government Aircraft Factories, Vic. Payments are made for costs incurred in setting up the company and include compensation for losses on defence contracts taken over by ASTA, restructuring costs and payments to complete already commenced machinery, plant and equipment purchases. Setting up costs of this nature are expected to cease in 1989-90.

In 1988-89, in addition to similar set-up costs, a once-only payment of \$29.7m was made to a trust fund to assist in meeting employer liabilities for ASTA employees who are members of the Commonwealth Superannuation Scheme. This is preparatory to the proposed sale by the company of a minority interest in the ASTA subsidiary ASTA Aircraft Services Pty Ltd.

Australian Defence Industries

\$67.3m is provided in 1989-90 for set-up costs associated with the creation of Australian Defence Industries Pty Ltd (ADI), a wholly owned Government company established in May 1989 to run the Defence factories and Garden Island dockyard, NSW. The payments include amounts for employee liabilities transferred to the company, restructuring costs, completion payments for machinery and plant, and loss adjustments on defence contracts taken over by the company.

In addition, assets and liabilities (including real property) of specific ODP establishments presently valued at some \$280m have been transferred to ADI. This will form the basis of the initial capital structure of the company which will, under deeds of agreement, consist of both debt to the Commonwealth and a Commonwealth shareholding.

Trends

Outlays on defence industry averaged 4.7% of total defence allocations over the ten years to 1988-89. During this period, however, the defence industry share grew rapidly from 4.1% in 1979-80 to 6.3% in 1983-84, with the creation of the Department of Defence Support and increasing investment in plant, equipment and facilities. The proportion of defence outlays devoted to this sub-function later declined to 3.2%, coinciding with the amalgamation of the departments of Defence and Defence Support. An increase in outlays over the period 1987-88 to 1988-89 was largely the result of costs associated with the modernisation of production establishments and dockyards.

Outlays on defence industry are expected to fall significantly during 1989-90 as a result of:

- privatisation initiatives: the sale of Williamstown Dockyard, Vic, early in 1988 and the sale of the Aircraft Engineering Workshop at Pooraka, SA;
- the closure of the Albion Explosives Factory, Vic, in July 1988; and
- corporatisation initiatives involving the creation of Aerospace Technologies of Australia Pty Ltd, in 1987 and Australian Defence Industries Pty Ltd.

Outlays on defence industry were higher than budgeted in 1988-89. This mainly resulted from increases of \$51.7m and \$10.3m respectively for establishment costs for ADI and ASTA, \$29.7m for employer superannuation liability for ASTA, and \$25.0m for redundancy payments.

The figures for the forward estimates reflect trends already evident over the last few years, with outlays under this item declining steadily as a proportion of the total defence allocation to about 0.9%. Expenditure on Defence production is expected to fall in 1991-92 when the Explosives Factory Maribyrnong, Vic, is planned to be closed.

1.6 DEFENCE SCIENCE

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 equipment, develops selected prototype military equipment, assists in the transfer of technology to defence-related industries and develops its technology base to meet future needs.

DSTO activities in 1989-90 will be directed towards improving its technology base, with particular emphasis on providing support to key defence capabilities identified in the Defence White Paper: intelligence, surveillance (including over-the-horizon radar), mine warfare, and command, control and communications.

Attention continues to focus on translating DSTO work into commercial products for development and marketing by Australian industry. As part of the commercialisation process, DSTO is examining proposals from a number of companies to lease, manage and operate the Woomera instrumented range on behalf of the organisation.

The DSTO provision covers salaries and other administrative and operational expenses for its research establishments and \$8.7m for research and development work contracted out to universities and industry.

The increase of \$8.4m in 1989-90 derives from the requirement to meet the full cost of guarding services provided by the Australian Protective Service (\$3.1m); the purchase of essential components for the joint development, with CSIRO, of a low-cost high-definition imaging radar system (\$1.3m); construction of a high frequency radar facility for the Surveillance Research Laboratory (\$4.4m) and a weapons performance simulation facility for the Weapons Systems Research Laboratory (\$2.3m), which are both located at Salisbury, SA.

Trends

Outlays on this category have averaged 2.7% of total defence allocations over the ten years since 1979-80, with a peak of 3.1% in 1981-82, declining to 2.5% in 1989-90.

Outlays are forecast to decline slightly as a proportion of total defence outlays to about 2.2% by 1992-93.

1.7 OTHER DEFENCE OUTLAYS

1.7	1988-89		1989-90		1990-91	1991-92	1992-93
	Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate
Defence Co-Operation Program	\$m	60.6	74.2	71.7	74.4	76.0	
	%	5.3	22.4	3.4	3.8	2.1	
Natural Disasters and Civil	\$m	7.4	7.5	8.1	8.5	8.9	
Defence	%	8.5	1.1	8.7	4.8	4.2	
General Administration	\$m	827.0	1009.4	1037.8	1074.6	1120.1	
	%	19.2	22.1	2.8	3.5	4.2	
Recoveries and Repayments	\$m	-201.3	-239.0	-186.9	-167.1	-173.8	
	%	48.3	18.8	-21.8	-10.8	4.0	
Provision for Contingent Salary	\$m	-	80.0	100.0	90.0	90.0	
and Related Increases	%	n.a.	n.a.	25.0	-10.0	-	
TOTAL	\$m	693.7	932.0	1030.8	1080.3	1121.2	
	%	11.5	34.4	10.8	4.8	3.8	

Defence Co-operation Program

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

Under this sub-function in 1989-90, \$40.9m is allocated to Papua New Guinea, \$19.0m to South Pacific countries and \$14.1m to various South East Asian nations, principally for training and to assist with equipment-based projects (such as the Pacific Patrol Boat), combined with exercises and professional exchanges.

Major activities for 1989-90 include:

- facilities for the relocation of the Papua New Guinea Defence Force Air Transport Squadron from Lae to Port Moresby;
- development of a patrol boat wharf and associated facilities at Lombrun, Manus Island;
- assistance to Papua New Guinea in developing a rotary wing capability including the supply of four UH-1H helicopters;
- continued development of personnel exchanges with Malaysia and Thailand; and
- providing Pacific Patrol Boats to Tonga and the Federated States of Micronesia.

Expenditures for the South Pacific and South East Asian region are expected to continue at current levels during 1990-91 and 1991-92, with a slight increase in the South Pacific component in 1992-93. A reduction in expenditure for Papua New Guinea is expected, following the initial implementation of a Rotary Wing Helicopter project in 1989-90.

Natural Disasters and Civil Defence

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

General Administration

This category comprises Fringe Benefits Tax (FBT), rent, movement and storage expenses, office requisites, postage and telephones, fuel (but not fuel for service operational activities), light, power and water freight, security of premises, medical and dental services, computer services and consultants. Increases relate in part to price variations, but also include \$29.8m for increased FBT liability, mainly in relation to housing benefits, \$30.9m for Comcare premiums and \$42.9m for rent charges, and fees for services provided by the Department of Administrative Services. Increased provisions are also included under this item for administrative aspects of major military exercises, particularly exercise Kangaroo 89 (\$21.6m).

Recoveries and Repayments

Included under this heading are charges made for meals and accommodation at Defence establishments (\$42.9m), Defence Co-operation recoveries (\$3.6m), proceeds from the disposal of obsolete defence equipment and stores (\$18.9m), sales of aircraft and other military stores (\$16.5m) and defence-related recoveries from other governments (\$32.3m).

Estimated receipts of \$70.4m in 1989-90 relate to the defence share of proceeds from sale of surplus land and buildings. Major receipts from sales that are not attributable to defence outlays are shown under *8E Administrative Services* and *9D Assets Sales*.

For defence properties previously declared for disposal under revenue sharing arrangements, but not yet sold, Defence will receive half of the net proceeds after sales and relocation expenses with the balance accruing to the Budget generally. New arrangements apply for additional properties identified for disposal in 1989-90, up to the value of \$73m. Under these arrangements, revenues from the sales to the value of \$36.5m (equivalent to 0.5% real growth in defence outlays) will accrue entirely to Defence; for the remaining \$36.5m, gross revenue will be shared half to Defence and half to the benefit of the Budget generally. Receipts from further sales beyond these revised arrangements will be shared as in 1988-89, namely Defence will receive half of the net proceeds after sales and cost effective relocation expenses, with the balance accruing to the Budget.

Provision for Contingent Salary and Related Increases

The budget estimates include a provision of \$80m to meet contingent salary and related increases. 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 year.

Trends

Other defence outlays averaged 7.0% of total defence allocations during the ten years from 1979-80, but are expected to remain at around 11.1% over the forward years. The higher percentage results partly from more costs being brought to account (eg rent, fringe benefits tax, Comcare premiums, protective services) than in earlier years.

FURTHER REFERENCES

Annual reports, particularly the Defence Report and those of the Defence Science and Technology Organisation, the Defence Housing Authority and Aerospace Technologies of Australia

Budget Paper No. 3, Portfolio Program Estimates

The Defence of Australia, the Defence policy information paper published in March 1987

Portfolio Explanatory Notes (Budget Related Paper No. 8) for Defence

2. EDUCATION

OVERVIEW

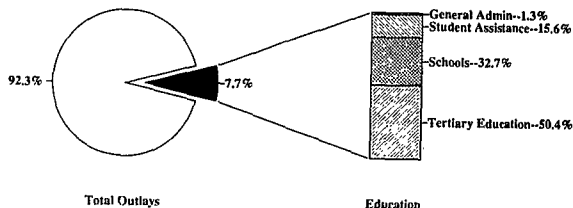
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
2.1 Tertiary Education	\$m	2913.1	3368.5	3674.4	3869.4	3972.5
	%	2.5	18.6	8.1	5.3	2.7
2.2 Schools and Preschools	\$m	2119.6	2189.5	2348.0	2473.1	2573.7
	%	8.7	3.3	7.2	5.3	4.1
2.3 Student Assistance	\$m	930.8	1044.2	1171.4	1265.9	1328.6
	%	11.2	12.2	12.2	8.1	5.0
2.4 General Administration	\$m	85.6	92.1	86.1	81.5	86.8
	%	-1.0	7.7	-0.5	-5.3	0.5
2.5 Recoveries	\$m	-5.2	-5.8	-5.7	-5.7	-5.7
	%	n.a.	12.4	-2.3	-	-
TOTAL	\$m	6043.9	6688.5	7274.3	7684.3	7956.0
	%	5.8	10.7	8.8	5.8	3.5

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in *9C. Contingency Reserve*.

Outlays under this function are adjusted annually by specific sectoral indices such as the Schools Price Index. This may result in patterns of growth in outlays slightly different from those appearing in this document which reflects the uniform application of the non-farm GDP price deflator.

- Total outlays on Education are expected to increase by \$644.6m or 10.7% (4.1% in real terms) in 1989-90, and existing policies imply significant, though declining, real increases over the forward years cumulating to 11.8% by 1992-93.
- As illustrated in Chart 1, education outlays are forecast to account for 7.7% of total Commonwealth outlays in 1989-90, compared with 7.4% in 1988-89. This proportion is expected to increase marginally over the forward years.

CHART 1. EDUCATION
Proportion of Total Outlays and Function
1989-90



- The main sources of real growth in 1989-90 are:
 - an increase in higher education student intakes of 6500 in 1989 and 12 300 in 1990, resulting in additional outlays of \$97.2m, an expanded higher education capital program of \$37m and the effect of changed payment arrangements in 1989 of \$115m;
 - continued real increases in general recurrent per capita funding for schools (\$59.4m); and
 - a further increase in outlays on student assistance as student numbers grow (\$51.5m).
- Growth over the forward estimates years largely reflects:
 - continuing increases in higher education funding over the remainder of the current triennium, partially offset by increased collections under the Higher Education Contribution Scheme (HECS) and fewer budget-funded places for overseas students; and
 - increased real per capita funding for schools.
- Budget measures have added a total of \$55m to outlays in 1989-90 and \$385.5m over the forward estimates period, arising primarily from:
 - the Aboriginal Education Strategic Initiatives Program to commence on 1 January 1990, replacing existing Aboriginal education programs and providing increased funds (\$6.4m in 1989-90, \$15.4m in 1990-91 and \$17.5m in 1991-92 and 1992-93);

- the planned replacement from 1990 of the current subsidised overseas student program with a full fee/scholarship arrangement (\$21.7m in 1989-90, \$30m in 1990-91 and \$32.9m in 1991-92);
- policy changes announced in the May 1989 Science and Technology Statement;
 - : greater funding for higher education research infrastructure (\$12.9m in 1989-90, \$33.5m in 1990-91, \$45.5m in 1991-92 and \$50.7m in 1992-93); and
 - : increases in the number and value of Commonwealth post-graduate research awards (\$2.9m in 1989-90, \$10.8m in 1990-91 and \$13.2m in 1991-92 and 1992-93); and
- additional funding for migrant education (\$5.4m in 1989-90 and \$10.8m each year thereafter).

PURPOSE

The principal purposes of Commonwealth involvement in education are:

- to provide in conjunction with both State and non-government authorities, an education system capable of satisfying the legitimate aspirations of individuals from all socio-economic backgrounds and the requirements of industry and the community; and
- to improve social justice by expanding the educational opportunities of disadvantaged students.

NATURE OF EDUCATION OUTLAYS

Approximately 74% of the Commonwealth's outlays on Education are in the form of specific purpose grants to the States.

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

Payments under this function are offset by the Higher Education Contribution Scheme (HECS), the Overseas Students Charge (including charges subsidised by AIDAB for students from developing countries), and recoveries from the States in respect of the superannuation costs of higher education staff belonging to the State schemes.

The running costs associated with the Education function in the Department of Employment, Education and Training are also included.

TRENDS IN EDUCATION OUTLAYS

The general pattern of total Commonwealth outlays on Education has been one of modest steady growth in real terms over the last 10 years, though with a slight decline in 1986-87 and a more pronounced decline in 1988-89. The decline in 1988-89 largely reflects the one-off effect of a revision to the payment arrangements for higher education operating and designated recurrent grants in 1989, which equalised payments in the first and second half of the calendar year, thus reducing 1988-89 outlays relative to the previous and following years.

The major source of real growth over the past ten years has been an increase in outlays for student assistance which has grown by an average annual rate of 6.8% real since 1979-80. About half of this growth was attributable to higher payments to secondary students, overwhelmingly because more students became eligible (increased participation in Year 12 was a small additional factor). Almost all of the rest reflects increased maximum rates of tertiary and secondary allowances as student payments were aligned with unemployment benefit rates in 1988, and about one-tenth of the growth reflects increased participation in higher education.

Outlays on higher education have experienced moderate real growth over the past ten years and this trend is expected to continue over the forward estimates period. The costs of the major expansion of higher education over the forward estimates period is being partially offset by:

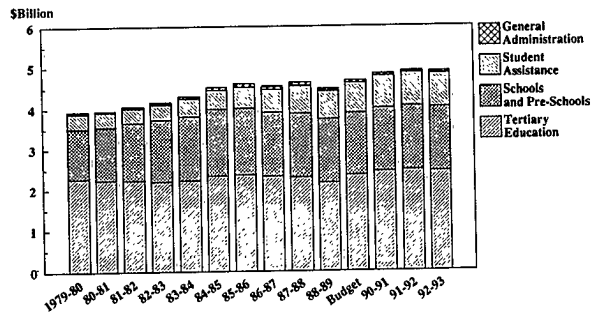
- increasing collections under HECS which are expected to rise from \$125.3m in 1990-91 to \$200.1m in 1992-93 (both through up front payments and taxation system collections); and
- reduced funding for places for overseas students resulting from the phased replacement from 1990 of the current subsidised overseas student program (a reduction of \$35.4m in 1990-91, increasing to \$70.5m in 1992-93).

Higher education funding levels for 1992, affecting the estimates for both 1991-92 and 1992-93, will be decided later this year (under the rolling triennium arrangements).

Outlays on schools have shown moderate, but consistent, real growth, predominantly owing to increasing per capita recurrent grants but also reflecting demographic factors, higher retention rates, and a change in the composition of students between government and non-government schools.

Outlays in total are expected to grow moderately in real terms over the forward estimates years.

CHART 2. EDUCATION (1984-85 prices)



MAJOR POLICY CHANGES

Over the ten year period since 1979-80 the main policy measures affecting education outlays have been:

- the introduction of the Higher Education Administration Charge (HEAC) in 1987 (-\$188.5m over the calendar years 1987 and 1988 offset in part by greater outlays on AUSTUDY of \$53.5m);
- a package of reforms for higher education outlined in the Government's *Policy Statement on Higher Education* (White Paper, July 1988), including the creation of an additional 40 000 new intakes over the 1989-91 triennium (\$429.3m in December 1987 prices), increased capital funding for 100 major new capital projects (\$213.9m over the triennium) and the replacement of HEAC with the Higher Education Contribution Scheme (HECS) (-\$369.6m over the triennium compared to anticipated HEAC collections of \$195m over the same period);

- a commitment to increase substantially real per capita funding for general recurrent grants to both government and non-government schools for the period 1985-92 (\$416m);
- the restructuring of student assistance schemes in 1987 and 1988 to improve the incentives for students to undertake post-compulsory secondary and tertiary studies (\$130m); and
- the commencement of ACT self-government in May 1989, resulting in reduced Commonwealth outlays under this function (-\$214m).

1988-89 OUTCOME

Outlays for 1988-89 were \$263.0m (4.2%) less than the Budget estimate. The major factors were:

- lower outlays than forecast on higher education (-\$134.2m) resulting mainly from account not being taken of the timing of an adjustment for the HEAC (\$98m);
- lower than expected growth in take-up of student assistance (AUSTUDY -\$53.3m and ABSTUDY -\$8.5m); and
- lower payments than forecast for TAFE (-\$45.4m) primarily as a result of delays in payments of 1989 capital caused by one State not meeting the procedural requirements for payment (-\$26.2m) and removal of the ACT TAFE as a Commonwealth institution following ACT self-government (-\$17.6m).

2.1 TERTIARY EDUCATION

2.1		1988-89	1988-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Higher Education						
	Grants to the States and Commonwealth Institutions	\$m 2464.7	2610.5	2829.0	2948.6	3008.8
		% -4.1	5.9	8.4	4.2	2.0
	Payment to Higher Education Trust Fund	\$m 225.1	470.8	500.8	523.3	522.6
		% n.a.	108.2	6.4	4.5	-0.1
	Other Higher Education	\$m 14.0	12.6	13.0	13.9	14.5
		% -8.6	-10.6	3.7	6.9	4.0
	Higher Education in the ACT (a)	\$m 30.4				
		% n.a.	-100.0	n.a.	n.a.	n.a.
	Post Graduate Awards	\$m 24.4	32.5	37.5	43.6	45.0
		% 7.2	33.1	15.6	18.0	3.3
	ACT Trust Account (b)	\$m -32.3				
		% n.a.	-100.0	n.a.	n.a.	n.a.
	Sub-Total Higher Education	\$m 2726.4	3126.4	3380.4	3529.4	3590.9
		% 4.0	14.7	8.1	4.4	1.7
	TAFE Grants to the States	\$m 283.7	347.9	363.2	381.5	399.7
		% -20.6	22.7	4.4	5.0	4.8
	TAFE in the ACT (a)	\$m 45.1				
		% n.a.	-100.0	n.a.	n.a.	n.a.
	Other TAFE	\$m 0.4	0.4	0.5	0.5	0.5
		% 4.7	3.2	3.9	3.2	1.7
	Sub-Total Technical and Further Education	\$m 329.2	348.4	363.7	382.0	400.2
		% -8.6	5.8	4.4	5.0	4.8
	Overseas Student Charge	\$m -64.7	-50.8	-36.1	-22.8	-11.4
		% 15.8	21.6	-20.0	-38.7	-49.9
	Contribution for Students from Developing Countries (c)	\$m -77.7	-55.4	-33.6	-19.1	-7.1
		% -8.8	-28.7	-38.3	-43.2	-82.8
	TOTAL	\$m 2913.1	3368.5	3674.4	3869.4	3972.5
		% 2.5	15.6	8.1	5.3	2.7

(a) Outlays on higher education and TAFE in the ACT for 1989-90 and the forward years are zero, reflecting the advent of self government for the ACT from 11 May 1989.

(b) This amount represents Commonwealth specific purpose payments to the ACT Trust Account prior to ACT self-government. For an explanation of the operation of the ACT Trust Account in 1988-89 see Budget Paper No. 7.

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

The Commonwealth almost fully funds higher education and provides about one fifth of the funds for the State and Territories TAFE systems.

Both programs have a calendar year, rather than financial year, basis and financial year estimates are produced by combining the relevant six-monthly periods of calendar year programs. The grants under these programs are supplemented retrospectively for all price movements up to the start of a program year and for wage and salary increases during the program year.

Higher Education

The Commonwealth provides operating and capital grants to higher education institutions (via the States) under the *Higher Education Funding (HEF) Act 1988* and payments to Commonwealth institutions through the annual Appropriation Acts.

Funding is provided on a rolling triennium basis and determined each year for the additional forward calendar year to provide a stable, long term planning environment for institutions. Outlays approved by the Government for the 1989-91 triennium are shown in the following table. A decision on 1992 funding will be made later in 1989.

Higher Education Programs—Calendar Year Basis (Dec 1987 prices)

Type of Grant	1988 \$m	1989 \$m	% Change on 1988	1990 \$m	1991 \$m
Operating	2 614.8	2 744.6	5.0	2 789.8	2 871.3
Other Recurrent	5.4	7.4	37.0	7.4	6.9
Research	13.0	15.0	15.4	58.7	95.6
Capital	82.7	126.7	53.2	145.4	177.2
Total	2 715.9	2 893.8	6.6	3 001.3	3 150.9
less					
HECS offsets	98.4	90.2	-8.3	109.3	134.7
Superannuation recoveries	10.0	23.0	130.0	25.8	28.6
Total	2 607.5	2 780.6	6.6	2 866.3	2 987.6

The increased capital and recurrent funding for higher education programs primarily reflects the decisions taken last year to increase student intakes by a total of 6500 in 1989, 12 500 in 1990 and 17 100 in 1991. Those increases, together with the flow-on effects of increases in previous years, will generate a total increase of 49 000 places over the 1989-91 triennium. There will be a flow-on effect of a further 15 000 places after 1991.

In addition, a further \$12.9m is being provided in 1989-90 (\$33.5m in 1990-91) for research infrastructure as announced in the Government's Science and Technology Statement of May 1989.

Since the introduction of the Higher Education Contribution Scheme (HECS) in January 1989, a proportion of total operating grants for State and Commonwealth institutions has been paid to institutions through the Higher Education Trust Fund. Under HECS, students make a contribution (\$1800 per full-time academic year in 1989, and an estimated \$1884 in 1990), equivalent, on average, to 20% of tuition costs with payment made either at the time of notification of liability (with a 15% discount) or as a delayed payment through the taxation system when the student's taxable income reaches \$22 000.

Contributions from students under HECS are expected to make an increasing contribution to funding the expansion of the higher education system. In 1989-90, the first full budget-year of HECS, an offset to outlays of \$107.7m is expected, comprising \$9.9m from receipts through the taxation system (received for the first time in 1989-90) and \$97.8m through up-front payments (up from \$34.1m in 1988-89).

Post-Graduate Awards

The Post-Graduate Award (PGA) Scheme provides annual awards, based on academic merit, to selected higher education students undertaking Masters and PhD programs at Australian higher education institutions. Following a review of the Scheme in 1988 by the Wilson Committee, the Government announced substantial changes to the Scheme in its Science and Technology Statement, including increases in both the stipend payable to PGA award-holders and the number of awards to be offered.

From 1 January 1990, the stipend for Research Awards will be non-taxable, and will be set at a range between \$12 734 and \$16 433 per annum, with the institutions deciding on the amount to be paid to individual award holders. The number of new research awards will be increased from 745 to 900 annually.

The Government has also created 30 new industry research scholarships each year for the next three years to encourage the involvement of industry in post-graduate study. These awards will be funded by the Government at the rate of \$16 433 per annum, on the proviso that industry contributes additional funds and/or equipment for the research project undertaken by the award holder. These measures will cost \$2.9m in 1989-90 and \$10.8m in 1990-91.

As part of the changed arrangements for the overseas students program, the Overseas Post-Graduate Award Scheme will be established in 1990, with an estimated cost of \$1.7m in 1989-90, rising to \$3.9m in 1991-92.

Other Higher Education

The *Australian Film, Television and Radio School* provides advanced education and specialist training for students and creative workers in the film, television and radio industry. Outlays are expected to fall to \$8.5m in 1989-90 following the completion of the building program, and to level off over the forward years.

The *National Institute of Dramatic Art (NIDA)* provides practical training in live theatre, television, film and radio with courses in acting, directing, stage management and design. NIDA outlays (\$2.5m in 1989-90) are to be maintained in real terms over the forward years.

TAFE Grants to the States

Recurrent and capital funding for TAFE is provided to the States under the *States Grants (Technical and Further Education Assistance) Act 1989* to provide support for their TAFE systems. The Commonwealth moneys account for about 9% of the recurrent funding for TAFE and about 65% of the capital funding. Recurrent funding in 1989-90 is expected to increase by 5.1% in real terms, largely reflecting expected enrolment growth of 4%. The Commonwealth also funds TAFE via employment and training programs (see 7C. *Labour and Employment*).

Overseas Students Charge (OSC)

Under existing arrangements, a quota of overseas students attending Australian educational institutions are subsidised by the Government. These students are required to make a contribution to the costs of their tuition through the OSC.

From 1 January 1990 the OSC and the subsidised overseas students program of which it is a part, will be replaced by a full-fee/scholarship regime. Existing subsidised students currently paying the OSC will continue to do so for the duration of their current course of study.

Under the new arrangements, the Government will continue to offer scholarships to students from developing countries through aid programs administered by the Australian International Development Assistance Bureau (AIDAB), but on a full-fee basis. The new scheme will provide scholarships both to students of exceptional academic merit and to disadvantaged students. The major effects of these changes on 1989-90 outlays will be:

- a reduction in receipts from the overseas students charge (and AIDAB contributions) as the subsidised program winds down (\$36.2m); and
- a reduction in outlays for higher education as the institutions will not be funded for the overseas student places for the 1990 intake onwards (-\$11.7m).

Institutions continue to have the incentive of full cost fees to market places for overseas students, with some administrative support for the "industry" being provided by the Department of Employment, Education and Training. While no comprehensive data are available, it is understood that income received by institutions from overseas students has been continuing to increase.

(For further details see the reference to the Equity and Merit Scholarship Scheme under Country Program in 8C. *Foreign Affairs and Overseas Aid* function).

Trends

Over the past ten years, outlays on tertiary education have grown slightly in real terms and less than the growth in student numbers, reflecting marginal price funding of additional places after 1983. The growth in student numbers over this period was primarily the result of increased high school participation rates and the corresponding higher rate of transfer to higher education, rather than general demographic changes.

Growth is expected to continue in the forward years, primarily as a result of:

- the expansion of higher education over the 1989-91 triennium, with higher marginal funding for additional places and increased capital funding, moderated by the growth of HECS receipts; and
- the 1989 Science and Technology Statement which has increased research infrastructure funding (\$12.9m in 1989-90 rising to \$50.7m in 1992-93).

2.2 SCHOOLS AND PRE-SCHOOLS

2.2	1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate
Schools in the States					
Government	\$m	834.0	931.9	1043.9	1110.9
	%	10.7	11.7	12.0	8.4
Non Government	\$m	1076.0	1219.7	1264.5	1323.0
	%	11.1	13.4	3.7	4.6
Joint Programs	\$m	32.3	39.9	40.6	39.8
	%	6.5	23.5	1.9	-2.0
Sub-Total Schools in the States	\$m	1942.3	2191.5	2349.0	2473.7
	%	10.8	12.8	7.2	5.3
Schools in the ACT (a)	\$m	214.4	-	-	-
	%	6.9	-100.0	n.a.	n.a.
ACT Trust Account (b)	\$m	-33.3	-	-	-
	%	n.a.	-100.0	n.a.	n.a.
Sub-Total - ACT	\$m	181.0	-	-	-
	%	-9.7	-100.0	n.a.	n.a.
Overseas Student Charge	\$m	-1.3	-0.7	-0.4	-0.2
	%	14.1	-49.3	-43.8	-53.0
Contribution for Students from Developing Countries (c)	\$m	-2.5	-1.3	-0.7	-0.3
	%	40.7	-47.8	-48.8	-49.0
TOTAL	\$m	2119.6	2189.5	2348.0	2473.1
	%	8.7	3.3	7.2	5.3

(a) Outlays on schools in the ACT for 1989-90 and the forward years are zero reflecting the advent of self-government for the ACT from 11 May 1989.

(b) This amount represents Commonwealth specific purpose payments to the ACT Trust Account prior to ACT self-government. For an explanation of the operation of the ACT Trust Account in 1988-89 see Budget Paper No. 7.

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

The Commonwealth's schools programs are aimed at providing the nation's young people, regardless of background or ability, with an educational foundation which will equip them to meet their legitimate post school aspirations, including to pursue post-school education and training and to participate successfully in the labour market. In this context, the Commonwealth partly funds both government and non-government schools for general operating costs and provides further funding for a range of specific purpose programs aimed at identified areas of need under the *States Grants (Schools Assistance) Act 1988*.

Funds are available on a calendar year basis and adjusted for cost increases. The 1989-90 financial year estimate therefore consists of parts of the respective calendar year programs and includes an allowance for estimated cost supplementation.

Schools Programs—Calendar Year Basis (Dec 1988 Prices)

	1988	1989	% Change	1990	1991
	\$m	\$m	on 1988	\$m	\$m
			%		
Government					
General Recurrent	489.9	554.9	13.3	587.9	614.7
Capital	170.0	176.6	3.9	178.8	181.0
Specific Purpose	122.5	124.0	1.3	130.7	134.7
Non-Government					
General Recurrent	906.3	968.6	6.9	1 000.9	1 020.5
Capital	57.2	62.2	8.8	63.5	64.4
Specific Purpose	41.6	43.9	5.5	44.4	44.8
Joint Programs	33.2	34.4	3.6	36.1	35.8
Total	1 820.7	1 964.7	7.9	2 042.3	2 095.9

Arising from the Minister's Statement "Strengthening Australia's Schools" in May 1988, the Commonwealth and the States have co-operated to develop the National Schools Strategy (NSS). The NSS is designed to improve Australian schooling within a framework of national collaboration involving a range of measures including the development of strategies to improve curriculum development and approaches to assessment.

Government and Non-Government Schools

Commonwealth grants represent about 11% of total spending on government schools (with the balance being met by State and Territory governments) and 36% of total spending on non-government schools (with the balance being met by other governments (18%) and private sources (46%)). These funds are provided through general recurrent (per capita) grants, specific purpose recurrent payments, and capital programs.

To assist in implementing the NSS, Commonwealth funding for government schools is tied to Resource Agreements with the States. These Agreements set out mutually agreed objectives for schools (such as improving retention rates and educational outcomes), and require the States to provide the Commonwealth with information on performance against these objectives.

The level of Commonwealth support for individual non-government schools is based on need, with schools being categorised into one of twelve funding categories (category 1 receiving the least support and category 12 the most). Further details on the funding categories are provided in *Commonwealth Programs for Schools—Administrative Guidelines 1989*. Resource Agreements, performing a similar role to those for government schools, have been introduced for non-government school authorities, with similar reporting arrangements.

Funding for ACT schools was moved from the Appropriation Acts to the *States Grants (Schools Assistance) Act 1988* following the implementation of self-government in the ACT. Under the Act, the ACT has been treated as a State from 1 July 1989 for funding purposes.

The Commonwealth will allocate \$931.9m in 1989-90 for government schools programs, which represents a 5.0% real increase on 1988-89, and \$1219.7m in 1989-90 for non-government schools programs, a 6.6% real increase.

The estimates for 1989-90 and calendar year 1990 reflect real growth in general recurrent (per capita) grants in line with the Government's policy of providing annual real increases until at least 1992, together with increases in enrolments in line with population growth. Real increases in per capita funding levels in each of the next three calendar years are set out below. The level of per capita funding post-1992 will be reviewed later in 1989.

	1990	1991	1992
	%	%	%
Government			
- primary	2.3	4.5	4.3
- secondary	9.2	4.6	4.4
Non-government			
- primary*	2.7	1.6	0.6
- secondary*	1.8	0.9	0.4

* The increases represent the average increase across the twelve categories of schools.

Schools will be compensated for the 1986 3% National Wage Case wage-equivalent superannuation decision, which was implemented in schools in late 1988, at a cost of \$69.4m a year.

The Government has also introduced a new Students at Risk strategy, under which government schools with the lowest Year 12 retention rates are assisted to encourage students to complete Year 12 (\$2.0m in 1989-90 and \$3.5m in 1990-91).

Joint Programs

The Commonwealth provides funds for a number of joint programs, including the Country Areas Program and several special education programs which assist government and non-government schools that face particular disadvantages.

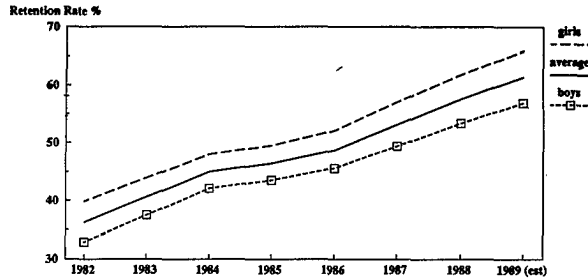
The Government has decided to allocate \$0.5m in 1989-90 (\$1.5m in 1990-91) to establish and refurbish hostels catering for rural students as part of its strategy to encourage higher school retention rates.

Total funding on joint programs is expected to be \$39.9m in 1989-90 and \$40.4m in 1990-91.

Trends

Over the last ten years, Commonwealth funding has grown in real terms by an average annual rate of 2.7% with the dominant factor being real increases in assistance per student (contributing 2.6 percentage points). With school age children declining as a proportion of the population generally over the period, demography has not been an influence on overall spending, though increases in retention rates have contributed to growth more recently (see chart 3).

CHART 3. RETENTION RATE TO YEAR 12



In the forward years spending is expected to continue to grow in real terms by around 1.3% a year. Again the main factor is increasing per capita assistance. A secondary source of growth is continued improvements in retention rates partially offset by a net reduction in the high school age population.

Underlying these trends are the different movements for government and non-government schools. Although per capita grants for government schools have been increasing at a greater rate in real terms than those for non-government schools, overall outlays on per capita grants for non-government schools have grown faster than for government schools. This is because an increasing proportion of students has attended the non-government sector and Commonwealth per capita grants to non-government schools are higher than to government schools (partly reflecting the responsibility of State governments for the latter).

Total School Enrolments for the States and Territories (as at census date each year)

	Primary	Secondary	Total	Change on
	'000	'000	'000	Previous Year %
Government				
1985	1 311.8	919.0	2 230.8	-1.3
1986	1 290.1	917.7	2 207.8	-1.0
1987	1 281.8	917.9	2 199.6	-0.4
1988	1 290.8	912.3	2 203.1	0.2
1989(a)	1 311.8	904.4	2 216.2	0.6
Non-Government				
1985	405.8	368.7	774.5	2.3
1986	410.8	382.7	793.5	2.5
1987	415.0	392.4	807.3	1.7
1988	423.6	398.8	822.4	1.9
1989(a)	430.1	402.2	832.3	1.2

(a) Projected

Source: Department of Employment, Education and Training

Budget Measures

The Government announced two new policy decisions in the Budget affecting schools programs:

- \$0.5m will be provided in 1989-90 for the establishment and refurbishment of hostels catering for rural students (\$1.5m in 1990-91); and
- \$2.0m will be provided in 1989-90 to encourage students in selected schools to complete Year 12 under the Students at Risk Program (part of the Social Justice for Youth Strategy) (\$3.5m in 1990-91 and \$2.0m in 1991-92).

2.3 STUDENT ASSISTANCE

2.3		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Austudy	\$m	732.6	823.4	923.7	1001.6	1052.3
	%	14.3	12.4	12.2	8.4	5.1
Abstudy	\$m	86.2	95.8	106.8	117.4	127.5
	%	10.4	11.0	11.6	9.9	6.6
Other Aborigines	\$m	18.9	26.4	35.9	38.9	39.8
	%	7.2	30.5	38.1	8.3	2.3
Migrant Education	\$m	66.8	76.5	83.2	85.9	86.7
	%	6.5	14.4	8.8	3.3	0.9
Other	\$m	26.1	22.2	21.9	22.0	22.3
	%	-30.6	-14.9	-1.4	0.7	1.5
TOTAL	\$m	930.8	1044.2	1171.4	1265.9	1328.6
	%	11.2	12.2	12.2	8.1	5.0

The Commonwealth provides income and other assistance to improve educational outcomes, employment opportunities and skills of low income and certain other disadvantaged groups. Student assistance is generally delivered through AUSTUDY. Special assistance is provided to Aboriginals and Torres Strait Islanders through ABSTUDY, to isolated children through the Assistance for Isolated Children's Scheme (AIC) as well as to migrants and veterans' children.

Details of the estimated number of students receiving assistance under the various schemes are shown in the following table.

Estimated Number of Recipients (by December)

	1989	1990	1991	1992	1993
AUSTUDY					
Tertiary	140 000	150 754	162 211	171 938	175 377
Secondary	152 500	158 892	163 536	166 739	170 074
Adult Secondary	5 900	6 136	6 320	6 446	6 575
Total	298 400	315 782	332 067	345 123	352 026
ABSTUDY					
Tertiary	14 010	15 411	16 952	18 647	20 139
Secondary	26 910	28 256	29 669	31 152	32 710
Total	40 920	43 667	46 621	49 799	52 849
Migrants	8 200	9 000	9 000	9 000	9 000
Other					
Veterans' Children	2 265	2 080	1 900	1 700	1 500
Isolated Children	16 500	16 500	16 500	16 500	16 500

Austudy

AUSTUDY is available, subject to certain academic criteria, to full-time secondary and tertiary students aged 16 years and over undertaking either an approved secondary or accredited tertiary course other than a higher degree. Assistance is targeted to low income groups through income and assets tests applying to the student and, for dependent students, to parents as well.

Real outlays on AUSTUDY are estimated to increase by \$41.8m or 5.7% in 1989-90. The number of recipients is expected to grow by about 6% after taking account of the full year effect of the assets test and improved benefits control measures introduced in 1988-89.

In 1990 it is estimated that around 42% of tertiary students and about 35% of secondary students aged 16 and over will be assisted under AUSTUDY.

The maximum rates of AUSTUDY are indexed each year according to movements in the CPI. This preserves their alignment to other youth allowances and removes previous incentives to become unemployed rather than to continue full-time education.

The following table summarises the rates of assistance under AUSTUDY and other programs of assistance for young people.

Maximum Youth Assistance Rates 1989 and 1990

	1989 \$pw	1990 \$pw
16-17 year olds		
AUSTUDY		
at home	53.55	57.60
away from home or independent	81.40	95.60
Unemployed/Sick		
at home	53.55	57.60
Young homeless/away from home	81.40	95.10
18-20 year olds		
AUSTUDY		
at home	64.30	69.20
away from home or independent	97.70	105.15
Unemployed/Sick	97.70	105.15
21 years and over		
AUSTUDY		
at home	64.30	69.20
away from home or independent	97.70	105.15
special categories		
single at home	76.30	82.10
single/married away from home	116.00	124.75
single with dependents	136.25	146.50
Unemployed/Sick		
single	116.00	124.75
single with dependants	136.25	146.50
married	207.10	222.70

The parental income test is also adjusted each year. From 1990 the income test threshold beyond which rates of allowance are progressively reduced will be increased from \$16 950 to \$18 150.

The Government has also decided to increase living allowances for the young homeless by \$7.50 above the indexation amount from 1 January 1990. This entitlement will flow on to secondary boarders and tertiary students aged 16-17 living away from home.

Abstudy

ABSTUDY assists secondary and tertiary Aboriginal and Torres Strait Islander students. Eligibility for living allowances is subject to a 'sudden death' parental income test based on the Family Allowance Supplement income test limit for students under 16 years and on the AUSTUDY income test limit for students 16 years and over. Certain other entitlements including those for tutorial assistance and school fees are available to all students.

Basic rates of assistance are the same as for AUSTUDY except that:

- Aboriginal students under 16 are eligible for \$10pw if living at home or \$57.60pw if boarding;
- those 21 years and over are eligible for higher allowances based on the adult rate of Unemployment Benefits plus \$30pw Formal Training Allowance if undertaking a mainstream or vocational course;
- pensioner students receive \$30pw on top of their pension; and
- part-time students are eligible for a fixed payment of up to \$240 per course.

Real outlays are expected to increase by \$3.2m or 4.3% in 1989-90 reflecting an increase of 6.7% in the number of recipients and the full year effect of the alignment of the maximum rates of allowances for those aged 21 years and over with the adult rates of unemployment and sickness benefit from 1 January 1989.

The administration of ABSTUDY was reviewed during 1988-89 and a number of recommendations have been made to streamline assistance and delivery. It is expected that these recommendations will be progressively implemented over the next three years.

Other Aboriginal Assistance

The Commonwealth provides grants to Aboriginal organisations and to the States to improve Aboriginal access to education through the provision of:

- basic literacy and numeracy courses;
- tertiary access and preparatory courses; and
- other special programs.

From 1 January 1990, the Aboriginal Education Strategic Initiatives Program will replace existing Aboriginal education programs and provide additional funds designed to increase Aboriginal participation in education (\$6.4m in 1989-90, \$15.4m in 1990-91 and \$17.5m in 1991-92 and 1992-93). Funding under the new program will total \$270m over the 1990-92 triennium.

Migrants

Special student assistance is provided through the Living Allowance for English as a Second Language Scheme (LAESL) and the Adult Migrant Education Program (AMEP) for migrants and refugees to undertake special English language courses.

LAESL provides around 4000 recipients with an allowance equivalent to the adult rate of unemployment and sickness benefit for those undertaking an approved TAFE English language course. AMEP provides English language courses, initial settlement orientation and information for adult migrants and refugees, income tested living allowances for students attending full-time and some part-time courses, child care, and a range of administrative and professional development services.

AMEP outlays are expected to increase by 8.9% in real terms in 1989-90 to \$72.4m reflecting:

- the acceptance of recommendations arising out of the report of the Committee to Advise on Australia's Immigration Policy (CAAIP) to increase the size of the Family Migration category and to exempt this category from language testing (\$5.4m in 1989-90 and \$10.8m each year thereafter); and
- the provision, as part of the National Agenda for a Multicultural Australia, of funding of \$1.6m in 1989-90 and \$0.6m in 1990-91 to extend the English in the Workplace component and to develop an English as a Second Language (ESL) television series through SBS.

Other

The Assistance for Isolated Children Scheme (AIC) assists those students who, because of geographical isolation, undertake their secondary education by correspondence or at boarding school. Part of the entitlement (\$989 pa) is provided on a non income tested basis. AIC outlays are expected to continue at about the same real level after allowing for the transfer of about 4,500 students to AUSTUDY from 1 January 1989.

The Veterans' Children Education Scheme (VCES) provides student assistance on a non parental income tested basis to those children whose parent(s) have died as a result of war service or who are the children of totally and permanently incapacitated ex-service personnel. Outlays on VCES are expected to decline by 2% in real terms in 1989-90 to \$4.9m.

Trends

Outlays in 1989-90 represent 15.6% of Commonwealth education outlays by comparison with 10% in 1979-80. On the basis of the analysis in last year's Forward Estimates Report, by far the major factor behind this growth has been increased coverage as student assistance schemes have been extended particularly for secondary students. Between 1979 and 1989, for example, the number of AUSTUDY/ABSTUDY/AIC recipients has increased by about 377,000 at an average annual rate of 4% for tertiary students and 13% for secondary students. It is estimated that 80% of the growth in secondary recipients has been due to higher take up and 20% due to higher year 11-12 retention rates.

The other major factor has been real increases in the maximum rates of assistance. Between 1979 and 1989 the maximum AUSTUDY rate for most secondary students, aged 16-17 years living at home, increased from \$10.55pw to \$53.55pw, a real average annual rate of 8.8%. These increases were part of a broader package of reforms to youth allowances resulting in offsetting savings from real reductions in youth unemployment benefits (16-20 years), the introduction of the Job Search Allowance for those under 18 years and the loss of entitlement for the Family Allowance for those in receipt of AUSTUDY.

Charts 4 and 5 illustrate movements in real outlays and student numbers since 1979.

CHART 4. STUDENT ASSISTANCE
Student Numbers (by 31 Dec)

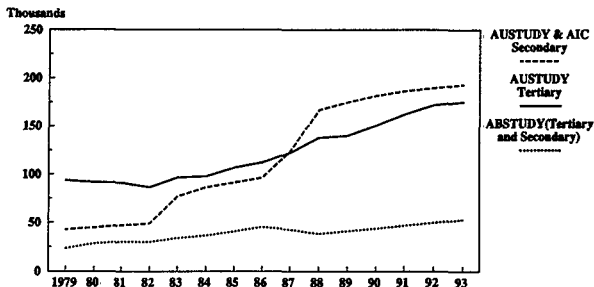
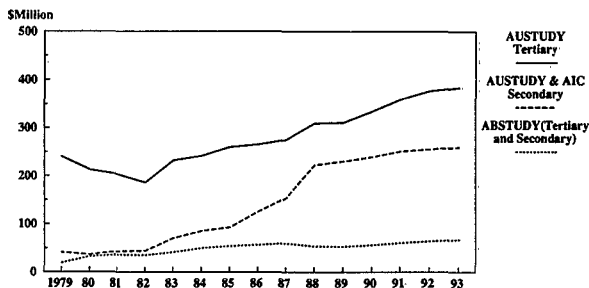


CHART 5. STUDENT ASSISTANCE
(1984-85 prices)



The forward estimates show modest real increases in the growth of student assistance outlays. This growth reflects the increased number of higher education places, expected further increases in secondary retention and expected increases in education participation by Aborigines. Some moderation of outlays growth is expected from improved benefits and fraud control measures.

Growth in ABSTUDY outlays primarily reflects a significant increase in secondary retention rates. There has, however, been a significant decline in the number of tertiary students being assisted due to the loss from 1988 of eligibility for students undertaking short or part-time hobby and craft courses.

Budget Measures

The Aboriginal Education Strategic Initiatives Program to commence on 1 January 1990 provides increased funding for measures to raise the level of Aboriginal educational participation (\$6.4m in 1989-90, \$15.4m in 1990-91 and \$17.5m in 1991-92 and 1992-93). Total funding under the program will be \$270m for the 1990-92 triennium.

During 1989-90 measures will be introduced in relation to AUSTUDY/ABSTUDY/AIC to reduce overpayments and to improve overall debt recovery. These measures will include interest on overdue debt, more convenient repayment arrangements and a tightening of the hardship conditions applicable to repayments.

Benefit and fraud control activities will also be expanded to cover the ABSTUDY scheme. These are expected to reduce outlays by \$2m in 1989-90 and \$2.6m in 1990-91.

Increased funding for the National Agenda for a Multicultural Australia (\$1.6m in 1989-90) will provide for new initiatives under the AMEP from 1989-90 to extend the English in the workplace component and to develop an English as a Second Language (ESL) television series through SBS.

2.4 GENERAL ADMINISTRATION

2.4		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
	Department of Employment,	\$m 82.6	88.1	82.5	78.5	83.8
	Education and Training	% 10.8	6.6	-6.3	-4.8	6.7
	Other	\$m 2.9	4.0	3.6	3.0	3.1
		% -75.2	36.4	-11.3	-16.3	2.7
	TOTAL	\$m 85.6	92.1	86.1	81.5	86.8
		% -1.0	7.7	-6.5	-5.3	6.5

This sub-function covers the running costs and support service activities of the education programs administered by the Department of Employment, Education and Training.

The Department's activities encompass the administration of the ABSTUDY and AUSTUDY student assistance schemes, education policy advice and developments relating to the administration of related assistance programs. Assistance provided under the National Policy on Languages is also included in this category.

General Administration

The running costs and other support services associated with the education function in the Department of Employment, Education and Training are estimated at \$68.8m in 1989-90 (an increase of \$3.9m or 6.0%).

Other Education

Major elements include project moneys and grants associated with the Commonwealth's involvement with education bodies such as UNESCO, OECD and the Australian-US Council.

Trends

Average growth over the last ten years has been 11.3% (2.8% real per annum) and mainly reflects the administration costs associated with the substantial growth in student assistance outlays.

Total outlays are expected to decline by a real 17.0% over the period of the forward estimates. Major factors contributing to this decrease include improved administrative efficiency flowing from a review of the administration of ABSTUDY, the realisation of savings from the abolition of the Commonwealth Tertiary Education Commission, reductions resulting from revised arrangements for the Overseas Student Program and the winding down of funding under the National Policy on Languages (from \$12.8m in 1989-90 to an estimated \$2.0m in 1992-93). These reductions are partly offset by salary increases flowing from the National Wage Case decision (\$2.4m), an incorrect attribution of expenditure in 1988-89 and a carry-over of \$3.8m into 1989-90.

2.5 RECOVERIES

Recoveries within this category include those from the Curriculum Development Commission and the Department of Employment, Education and Training, including repayment of AUSTUDY allowances. Average growth in recoveries over the last ten years has been 3.3% real per annum.

FURTHER REFERENCES

- Annual Reports, particularly for the Department of Education, Employment and Training*
- Budget Paper No 3, Portfolio Program Estimates*
- Budget Paper No 4, Commonwealth Financial Relations with other levels of Government*
- Commonwealth Programs for Schools—Administrative Guidelines for 1989*
- Policy Statement on High Education (White Paper, July 1988)*
- Portfolio Explanatory Notes for Employment, Education and Training*
- Research for Australia: Higher Education's Contribution, May 1989*
- Science and Technology for Australia, May 1989*
- Strengthening Australia's Schools, May 1988*
- Supplementary Funding Decisions on Higher Education for the 1989-91 Triennium, June 1989*
- TAFE 1989 Commonwealth Programs and Priorities, August 1988*
- Taking Part: Educational Participation in the 1980's, October 1988*

3 HEALTH

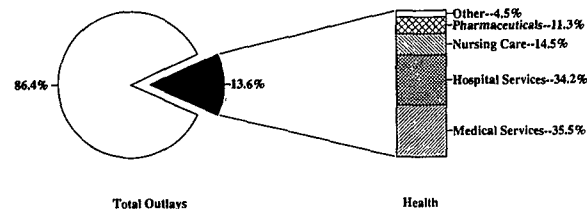
OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
3.1 Medical Services and Benefits	\$m	3722.7	4181.1	4692.3	5151.9	5758.0
	%	7.7	12.3	12.2	9.8	11.8
3.2 Hospital Services	\$m	3739.5	4026.2	4254.9	4394.0	4582.0
	%	120.6	7.7	5.7	3.3	4.3
3.3 Pharmaceutical Services and Benefits	\$m	1134.9	1328.2	1579.5	1942.1	2321.6
	%	7.2	17.0	18.9	23.0	19.5
3.4 Nursing Home Subsidies and Domiciliary Care Services	\$m	1593.6	1714.7	1850.0	1947.6	2006.0
	%	8.4	7.6	7.8	5.3	3.0
3.5 Health Services in the ACT	\$m	167.7	-	-	-	-
	%	-5.5	-100.0	n.e.	n.e.	n.e.
3.6 ACT Health - Transfer to TRUST Account	\$m	-34.1	-	-	-	-
	%	n.e.	-100.0	n.e.	n.e.	n.e.
3.7 Other Health Services	\$m	316.8	377.7	426.2	434.3	416.4
	%	8.3	18.2	12.9	1.9	-4.1
3.8 General Administration	\$m	148.6	150.6	166.1	175.6	157.4
	%	-15.4	7.4	10.3	5.8	-10.4
TOTAL	\$m	10789.7	11778.5	12969.1	14045.6	15241.3
	%	29.8	8.2	10.1	8.3	8.5

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C Contingency Reserve.

- Health outlays are estimated to increase by \$988.8m or 9.2% (2.7% in real terms) in 1989-90. Real increases averaging 4.4% a year are predicted for each of the forward years.
- Health outlays are estimated to grow to 13.6% of total outlays in 1989-90 and to 14.9% in 1992-93 as compared to 13.1% in 1988-89.

CHART 1. HEALTH
Proportion of total Outlays and Function
1989-90



The main sources of outlays growth in 1989-90 are:

- indexation of the Hospital Funding Grants (\$237m);
- increased medical benefits utilisation (\$211m) and the drift towards more expensive services (\$19m);
- fee increases for Medical Benefits (\$191m);
- growth in the pensioner category of the Pharmaceutical Benefits Scheme resulting from increased prices (\$107m) and volume growth (\$14m); and
- increases in Nursing Home costs (\$108m).
- Budget measures since the Economic Statement, April 1989 have added \$12m to outlays in 1989-90, and a further \$87m over the Forward Estimates period, the main components of which are:
 - \$2.2m in 1989-90 rising to \$6.6m in 1992-93 net of Medicare offsets for a package of Women's Health measures including initiatives to be pursued jointly with the States; and
 - an additional \$6.7m in 1989-90 rising to \$18.5m in 1992-93 for the implementation of the National HIV/AIDS Strategy;
- Offsetting savings of \$18m have been identified since the Economic Statement, April 1989 rising to \$46m by 1992-93, the main component of which is \$11m in 1989-90 rising to \$32m in 1992-93 through changes to the Pharmaceutical Benefits Scheme.

PURPOSE

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 health services are by far the most significant item, accounting for more than 90% of Health function outlays.

NATURE OF HEALTH OUTLAYS

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

For **individuals** benefits are paid for services rendered and goods supplied, in the main, by private professionals and organisations eg doctors, pharmacists and nursing home proprietors. As well, individuals can receive assistance through tax expenditures—a rebate for the excess of unreimbursed medical expenses over \$1,000 in the year of income, sales tax exemptions on a wide range of health related goods, and tax deductibility for gifts to eligible organisations.

For **institutions** support is provided to States' hospital systems through specific purpose hospital grants. Health services are also provided directly through the Repatriation hospital system as well as through organisations such as the National Acoustic Laboratories.

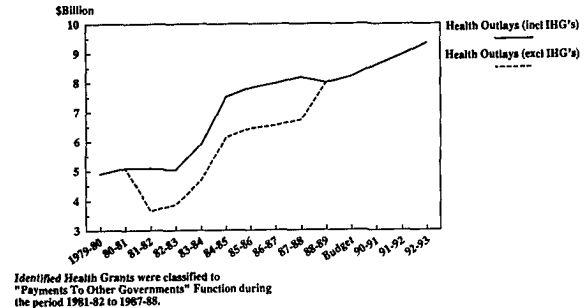
TRENDS IN HEALTH OUTLAYS

Over the ten years from 1979-80 there have been several significant changes to the extent and nature of the Commonwealth's involvement in the financing of health care. This is reflected in the rate of growth in Health outlays as shown in Chart 2.

Until 1980-81 real growth in expenditures was relatively low averaging 1.5% a year, reflecting restrictions of coverage of medical benefits paid by the Commonwealth and a reduction in the real level of pharmaceutical benefits for non-pensioners. In 1981-82, there was a sharp drop in direct outlays reflecting the cessation of the hospital cost-sharing agreements with States. These were replaced by Identified Health Grants included under 9.4 *Assistance to Other Governments*. When these are added to direct Health outlays, overall real growth between 1979-80 and 1982-83 averages 0.4% a year.

There was a sharp increase in overall health outlays in 1983-84 and 1984-85 averaging some 22% real each year. This was largely a result of the introduction of Medicare with a consequent increase in coverage and average real level of Commonwealth funding of medical benefits. These were previously financed by health insurance contributions and out-of-pocket payments by patients. There was also a significant increase in Commonwealth payments to the States for hospitals.

CHART 2. HEALTH
With and without Identified Health Grants
(1984-85 prices)



From 1985-86 until 1988-89, real growth rates moderated to about the level prior to the introduction of Medicare, averaging 1.6% a year. This reflected higher utilisation of medical services and pharmaceutical benefits plus average drug prices which increased at a faster rate than inflation largely owing to the prescribing of more expensive drugs.

The prospect is for somewhat faster growth in health outlays for the Budget and forward years.

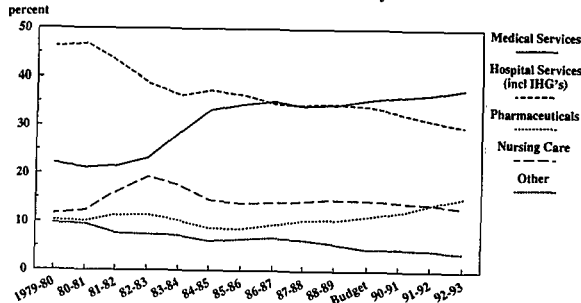
In 1989-90, real growth in the overall health function is expected to be 2.7%. Most of this arises from very strong real growth in medical services and benefits (5.6%) reflecting strong growth in service volumes, and in pharmaceutical services and benefits (10%), reflecting in particular, greater use of expensive drugs, script volume growth for pensioners and beneficiaries and measures to assist the domestic pharmaceutical manufacturing industry. The overall increase is moderated by modest real growth in nursing homes and Hospital Services (1.2%). The function is also affected by reductions in other areas including the transfer of funding to the Australian Capital Territory (ACT) following self-Government.

The forward years reflect further upward pressure on health outlays, with expected real increases of the order of 4.4% a year. These higher rates of growth mainly reflect increased costs of medical and, in particular, pharmaceutical benefits arising from accelerated volume growth in respect of both medical services and drugs and a continuation of the advances in medical technology and associated transfer of demand to new and expensive drugs. These very rapid increases in real

outlays are partly offset by modest real growth in Hospital Funding Grants (primarily reflecting growth and ageing of the population) and nursing homes (where addition to the number of beds is subject to stringent control while emphasis is shifted to hostels).

Major changes to health financing arrangements during the last 10 years have significantly altered the composition of total health outlays (including IHG's)—see Chart 3.

CHART 3. HEALTH COMPOSITION - Incl IHG's
Percentage of Total Health Outlays



In the years to 1982-83, there was an increase in the proportion of Commonwealth outlays directed towards nursing homes and a decrease in outlays in hospital grants. With the introduction of Medicare, there was relatively stronger growth in expenditure on medical benefits and hospital services.

Medical services and benefits increased from 23.2% of total spending in 1982-83 to 34.5% of spending in 1985-86 largely reflecting the higher benefits paid under Medicare. Between 1985-86 and 1988-89 composition remained largely unchanged, except for an increase in pharmaceutical benefits reflecting average real growth over this period of 6.6% a year.

Over the forward estimates period, medical and pharmaceutical services and benefits are expected to grow relatively faster than other components because of continuing increases in service volumes and drug prices so that by 1992-93 these components will comprise 53% of expenditure as compared to 45% in 1988-89.

MAJOR POLICY CHANGES

Over the 10 year period to 1988-89, there have been significant changes in the level and nature of Commonwealth involvement in health financing and service delivery. The most significant change was the introduction of universal Public Health Insurance under Medicare in 1984. Medicare greatly extended the coverage and level of medical benefits, abolished private medical insurance and substantially increased Commonwealth assistance for State hospitals. Real Commonwealth outlays rose by 27% in 1984-85, reflecting the replacement of private payments for Medicare costs (both directly and through insurance) and the cessation of private contributions to State hospital budgets through hospital charges.

Specific measures designed to improve targeting and restrain growth in outlays have been implemented:

- In medical benefits, areas of the Schedule showing rapid growth have been reviewed, including pathology in 1986 and diagnostic imaging and a number of other benefit items in 1987-88. Economies have been achieved through a combination of adjustments to the Schedule, amended benefit conditions and the tightening of regulations on providers. Subsidies for in-hospital treatment of privately insured patients were reduced from 1 August 1987.
- 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 gradually shift the emphasis away from nursing homes towards less intensive hostel places and domiciliary care. This strategy is more in keeping with the care needs of the elderly. Implementation however, has involved large increases in outlays to improve the availability of home and community care and to construct additional hostel beds.
- Changes in the Pharmaceutical Benefits Scheme have targeted the subsidies more closely on the needy and the sick. A concessional charge was introduced in 1983 for the unemployed and low income earners. In 1986 the maximum general contribution was raised to \$10 per script and a safety net was introduced in order to protect people with chronic health problems requiring high drug usage.

1988-89 OUTCOME

The outcome for 1988-89 was \$44.8m (or 0.4%) lower than the budget estimate. The major factors contributing to this result were:

- lower than expected outlays on medical benefits for veterans and their dependants as a result of lower than predicted demand for veterans' medical services. (—\$14.4m)
- the impact of ACT self-government on outlays for medical services in the ACT (—\$12.5m)
- lower than budgeted outlays on general pharmaceutical benefits as a result of a slow commencement of factor 'F' payments and lower than anticipated demand for pharmaceutical benefits by veterans (—\$20.6m)

- lower than budgeted outlays on administration, partly because of inaccuracies the reattribution of running costs and property operating expenses across functions (-\$40.4m)

These underspends were partly offset by higher than expected outlays on hospital grants because of adjustments to the penalty provisions of the hospital funding grants (\$16.8m), and reflects greater than anticipated demand and cost increases for veterans' Hospital treatment (\$22m), and a one-off payment of \$20m to the Health Benefits Reinsurance Trust Fund.

3.1 MEDICAL SERVICES AND BENEFITS

3.1			1988-89	1988-90	1990-91	1991-92	1992-93
			Actual	Budget	Estimate	Estimate	Estimate
	Medical Benefits	\$m	3337.5	3780.2	4250.8	4699.0	5289.0
		%	7.5	12.7	18.0	10.8	12.6
	Health Insurance Commission	\$m	130.4	139.4	152.2	162.4	173.0
	Administrative Costs	%	-3.7	6.8	9.2	6.7	6.5
	Veterans and Dependants	\$m	210.2	222.0	226.1	228.7	230.8
		%	3.9	5.8	1.8	1.1	0.9
	Other Services	\$m	44.6	59.5	63.2	61.8	65.2
		%	n.s.	33.4	6.2	-2.1	5.4
	TOTAL	\$m	3722.7	4181.1	4692.3	5151.9	5758.0
		%	7.7	12.3	12.2	9.8	11.8

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

Medical Benefits

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

- the Commonwealth contributes to the cost of out-of-hospital medical services by 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 in-hospital patients under private care, the Commonwealth meets 75% of the Schedule fee with no gap limit on individual benefit claims. Public patients are not charged for treatment;

- practitioners may direct bill in respect of any patient where benefit is accepted in full payment;
- registered health insurance organisations are permitted 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.

Veterans and Dependants

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

Health Insurance Commission (HIC)—Administration of Medical Benefits

The HIC pays medical benefits for medical and optometrical services and combats medical fraud and overservicing. It also provides services for processing of the Department of Veterans' Affairs Treatment accounts.

Other Services

This item, which includes Health Program Grants authorised under the *Health Insurance Act 1973*, relates to the Commonwealth's contribution to 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 such as the Yallourn Medical Society. Also included are payments to New South Wales, Victoria, Queensland and Tasmania for the continued operation of the former Commonwealth Pathology Laboratories. These activities are intended to be a cost-effective alternative to existing Commonwealth arrangements.

Trends

Between 1979-80 and 1988-89 real growth on outlays for medical services and benefits grew rapidly, at an average annual rate of 10.2%. Around three quarters of that growth resulted from higher average utilisation of more expensive services. Total population growth represents about one-fifth of the growth in medical benefits.

Coverage has fluctuated over the period with the changes in medical insurance arrangements. Overall, the rise in the proportion of the population covered since 1979 accounts for about one-tenth of the growth in real spending.

Trends in outlays over the period have been dominated by the changes in the mix of public/private sector provision of medical insurance. The growth of outlays in 1983-84 and 1984-85 was mainly the result of the increased share of medical costs met by the Commonwealth with the introduction of Medicare.

Over the period 1985-86 to 1988-89, outlays on Medical Benefits increased by 10.2% a year (2.2% real) on average. This reflects:

- higher utilisation resulting in an overall growth in the number of services of some 5.6% a year;
- increases in schedule fee levels averaging 3.5% a year; and
- an average increase of about 4.3% a year in average benefit cost of services, of which 0.8% a year reflects the drift to more expensive diagnostic services and procedures.

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

- reviewing areas of the medical benefits schedule showing rapid growth and restructuring benefits. Measures were applied in the pathology area in 1986 and in diagnostic imaging and a number of other areas in 1987-88. Overall, Schedule revisions may have contributed an average reduction of about 2% a year in the rate of growth of outlays; and
- medical benefits for in-hospital treatment of private patients were reduced from 85% to 75% in August 1987.

Since 1984-85, the HIC real unit costs have decreased reflecting increasing efficiencies and the introduction of new technology. The increased efficiency has largely been brought about by spreading overheads over increasing transaction volumes, productivity growth and the change in the mix of work volumes, particularly the move to bulk billing.

For 1989-90, medical services and benefits are estimated to increase by \$458.4m to \$4181.1m (5.6% real), the main contributors being:

	1989-90 \$m
Medical Benefits	
Underlying real growth attributable to increased utilisation and benefit drift	231
Schedule Fee increases	191
<i>Less</i>	
Full year Adjustment for modification of Pathology Table	45

Over the forward years, real outlays on medical benefits are expected to rise more rapidly reflecting annual increases in service utilisation (4.4%), the growth and ageing of the population (1.6%) and annual increases in average benefit levels associated with the continuing trend towards higher cost services (0.6%).

Major Policy Changes

The following measures have been introduced:

- Schedule fees, including a revised remuneration package for general practitioners (GPs), have been increased by \$35m; and

- a modified Table for pathology benefits (announced in the Economic Statement, April 1989) which will better reflect current pathology practice by removing anomalies and basing item descriptions on the purpose rather than the test technique utilised. Estimated savings in 1989-90 are \$45m, \$47m in 1990-91, and \$49m in outyears.

In recognition of the changing needs of ageing veterans, the Government has decided to introduce the following measures:

- a new Veterans' Independence Support Program costing \$0.8m a year for the three years 1989-90 to 1991-92 which aims to facilitate veterans' access to mainstream programs by way of pilot advocacy services operating on behalf of veterans in the community;
- a Health Promotion pilot will be implemented at a cost of \$0.4m in 1989-90, \$0.2m in 1990-91 and \$0.1m in 1991-92 to educate veterans to adopt healthy lifestyles and dietary practices and to foster chronic disease management through self-help; and
- the \$300 cash limit on certain expensive dental items has been raised to \$375 and will be indexed in line with approved dental fee increases which will cost \$0.5m in 1989-90, \$0.8m in 1990-91, \$0.8m in 1991-92 and \$0.8m in 1992-93.

3.2 HOSPITAL SERVICES

3.2		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
	Public Hospitals	\$m 3130.2	3393.3	3628.6	3752.7	3922.5
	%	107.8	8.4	6.0	3.4	4.5
	Veterans and Dependents	\$m 569.0	605.4	596.8	604.9	617.7
	%	12.0	6.4	-1.4	1.4	2.1
	Other	\$m 40.3	27.6	29.5	36.4	41.7
	%	12.0	-31.0	7.0	23.3	14.7
	TOTAL	\$m 3739.5	4026.2	4254.9	4394.0	4582.0
	%	120.6	7.7	5.7	3.3	4.3

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

Public Hospitals

Since the introduction of Medicare on 1 February 1984 funding has been provided by way of specific purpose Medicare Compensation Grants and general purpose Identified Health Grants. It was agreed at the 1988 Premiers' Conference that these payments would be combined as Hospital Funding Grants and be made for five years commencing 1 July 1988. The Grants will total \$3341.3m in 1989-90 including \$23.9m for Miscellaneous Pharmaceutical Benefits transferred from Special Revenue Assistance to the States. Under the new formula, the Grants are indexed for award wage and CPI increases and age/sex weighted population growth.

The Grants also include a specific Commonwealth contribution (\$21.7m in 1989-90) for the treatment of AIDS patients in public hospitals. This component will be indexed to the actual growth in cases treated in recognition of the growing impact of AIDS on public hospital systems.

Incentive payments and penalty provisions under the Grants are directed to ensuring appropriate levels of access for public patients. Incentive payments in 1989-90 aimed at promoting continued efficiency gains in public hospitals include:

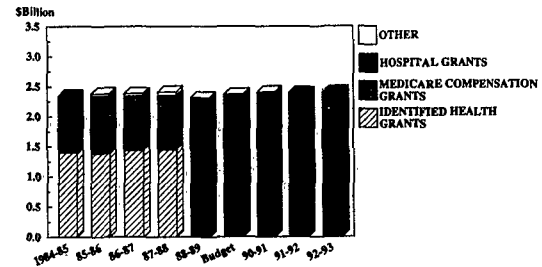
- \$27.6m for expansion of post acute and palliative care services to promote continued reductions in hospital length of stay, thereby allowing more effective utilisation of inpatient resources;
- \$11m for expansion of day only treatment as a substitute for overnight hospital stays and to allow for increased throughput with a view to reducing waiting times for longer stay procedures; and
- \$5.5m of which \$3.5m will be available for the States for the development of cost based case mix systems to allow more informed resource management in the hospital system and to assist comparison of hospital performance.

The offsetting penalty provisions involve reduced payments for those States where per capita in-hospital medical benefits exceed a prescribed maximum level and/or levels of public patient access are less than a prescribed minimum level. The total adjustment for 1989-90 is estimated at \$37.5m

The Commonwealth also contributes to the upgrading of the infrastructure of State public hospitals through the Hospital Enhancement Program. The Commonwealth will provide \$50m in each of the years 1989-90 and 1990-91. Of these amounts \$25m in 1989-90 and \$25m in 1990-91 will be matched \$ for \$ by the States.

Chart 4 shows total Commonwealth outlays in constant prices on public hospitals between 1984-85 and 1992-93. For comparative purposes, IHGs have been included for the years 1984-85 to 1987-88.

Chart 4. OUTLAYS ON PUBLIC HOSPITALS (1984-85 prices)



* Other comprises the teaching hospitals capital program, waiting list funds and the Hospital Enhancement Program.

Veterans and Dependants Hospitals

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

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

Other

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

- An indexed subsidy towards the additional recurrent costs incurred by States and Territories is payable at a rate of \$1500 (December 1983 prices) per student nurse commencing at a higher education institution. The States and Territories are required to provide appropriate capital facilities for higher education institutions;

- Nursing students training at these institutions are eligible for payments under AUSTUDY on the same basis as other students. Where the number of trainee nurses commencing training at tertiary institutions 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 arrangements also provide for the transfer of nurse education currently effected in Repatriation hospitals. The Commonwealth contribution in this case includes the standard indexed recurrent costs plus the net 'State' cost of educating nurses in a higher education institution. This component is estimated to cost \$3.4m in 1989-90; and
- Payments to the States and the Territories under these arrangements in 1988-89 totalled \$11.5m, with an estimated \$19.1m for 1989-90 reflecting increased take-up by the States.

The Government has announced new private health insurance arrangements designed to reinforce the community rating principle, under which everyone is treated equally for private health insurance purposes, regardless of age or risk of illness:

- all hospital benefits paid by patients over 65 years of age will be able to be debited to the reinsurance pool. Sharing of hospital benefits for contributors under 65 years of age will continue where a contributor claims benefits in excess of 35 days in any twelve month period;
- the range of benefits eligible for reinsurance will include supplementary benefits;
- a weighted formula will be used to distribute the benefits liability between funds; and
- an industry body, known as the Private Health Insurance Administration Council, has been established to administer certain private health insurance functions (currently performed by the Department of Community Services and Health). The Council is under the control of an independent Commissioner, who is assisted by four advisers—three health fund representatives and an independent member.

Trends

Commonwealth recurrent expenditure on hospitals services (including IHG's) has grown in real terms over the period 1979-80 to 1988-89 by just under 2% a year with the pattern of funding affected substantially by periodic changes in hospital funding arrangements. For example, the introduction of Medicare resulted in a 30.7% rise in real Commonwealth expenditure in 1984-85, largely replacing private contributions to State hospital budgets through hospital charges. After the initial impact of Medicare, growth declined until the introduction in the 1988-89 Budget of new and more generous funding arrangements for States. The decline prior to that Budget mainly reflects partial indexation of the Medicare Compensation Grants and the termination of private hospital subsidies. Under the new

arrangements the specific purpose Hospital Funding Grants are to be indexed for cost increases and population growth, with specific allowance for age/sex factors. Over the period of the Agreements growth is estimated to amount to 1.3% a year real compared to 0.1% real growth over the period of the arrangement from 1984-85 to 1987-88.

For 1989-90 outlays are estimated to increase by \$286.7m (1.3% real), the main factors being:

	1989-90 \$m
• Indexation of Hospital Funding Grants	237
• Transfer of Miscellaneous Pharmaceutical Benefits	24
• Increases in hospital costs and utilisation by Veterans	36

Less

• Reduction in Hospital Benefits Reinsurance Trust Fund Account	21
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For the forward estimates period the main features are:

- real growth in the Hospital Funding Grants of 1.1% a year reflecting, forecast age/sex weighted population growth; and
- a real decline of about 3.5% a year on outlays for veterans, mainly reflecting efficiency gains on the repatriation hospitals and the changed pattern of outlays for property operating expenses.

Major Policy Changes

The Government has decided to terminate the special subsidy to certain private hospitals saving \$1.5m in 1989-90 and the forward years.

An additional one-off payment of \$20m was made in 1988-89 through the Reinsurance Trust Fund to assist certain Health Funds in meeting the new reinsurance arrangements. Under these arrangements, the Commonwealth will no longer contribute to the Reinsurance Trust Fund, saving \$1m in 1989-90 and forward years.

In relation to Veterans' hospitals, the Government has decided:

- to allocate \$0.4m in 1989-90, \$2.2m in 1990-91 and \$3.8m in 1991-92 for the establishment of a new Radiotherapy Unit at RGH Heidelberg. The Victorian Government has also made a commitment of \$0.8m over the period;
- to allocate \$0.5m in 1989-90 for a proposal to establish a Geriatric Rehabilitation Ward at RGH Hobart. The Tasmanian Government will be approached to determine its level of contribution to the project; and
- to increase the level of expenditure on specialised equipment in the Repatriation hospitals by \$3.6m in 1989-90 and the forward years to 1992-93.

3.3 PHARMACEUTICAL SERVICES AND BENEFITS

3.3			1988-89	1989-90	1990-91	1991-92	1992-93
			Actual	Budget	Estimate	Estimate	Estimate
General	\$m		165.2	212.4	264.5	342.2	446.7
	%		12.1	16.6	24.5	26.4	30.5
Concessional	\$m		63.3	76.8	100.2	134.3	170.7
	%		22.7	21.4	30.6	34.0	27.1
Pensioners	\$m		796.7	888.0	1046.9	1290.1	1525.2
	%		6.3	11.0	17.8	23.2	18.2
Veterans and Dependents	\$m		80.8	88.3	90.3	98.3	101.5
	%		-5.7	5.3	2.3	3.0	3.3
Payments Factor F	\$m		1.3	26.0	43.2	43.2	43.2
	%		n.a.	n.a.	54.3	-	-
Health Insurance Commission	\$m		27.6	34.1	34.4	34.0	34.3
	%		11.5	23.4	1.0	-1.4	0.9
TOTAL	\$m		1134.9	1328.2	1579.5	1942.1	2321.6
	%		7.2	17.0	18.0	23.0	18.5

Through the payment of pharmaceutical benefits, the Commonwealth aims to ensure access by the Australian community to necessary cost-effective, prescribed medications at the lowest cost to Government and consumers, consistent with reliable supply. Included in this sub-function are Pharmaceutical Benefits Scheme (PBS) payments, benefits provided to eligible veterans through the Repatriation Pharmaceutical Benefits Scheme (RPBS), the direct payment of price increases to the pharmaceutical manufacturing industry and the administration of the programs through the Pharmpay system.

General, Concessional, Pensioners and Veterans

Under current arrangements for the PBS and the RPBS, items are supplied to:

- the general public at a maximum of \$11 per prescription item (this will be increased to \$12 from 1 October 1989);
- 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 PHB card and their dependants, at a concessional rate of \$2.50 per prescription item;
- Pensioner Health Benefits (PHB) and Health Benefits (Sickness Beneficiaries) cardholders and Department of Veterans' Affairs' Dependant Treatment Entitlement (War Widows) card holders and their dependants at no cost; and
- Eligible veterans at no cost. This includes items on the Repatriation Pharmaceutical Supplementary List for those veterans with war-caused disabilities.

There is also a safety net arrangement which operates on a calendar year basis for general and concessional users of pharmaceuticals, individuals or families, who use more than 25 PBS prescriptions in a calendar year: such users are entitled under the safety net to obtain further PBS prescriptions at no cost during the remainder of the calendar year.

Items available under the PBS and the conditions under which they may be prescribed are determined by the Minister for Housing and Aged Care on the recommendation of the Pharmaceutical Benefits Advisory Committee (PBAC). Prices paid to manufacturers are recommended by the Pharmaceutical Benefits Pricing Authority (PBPA), which also takes account of guidelines for granting special price increases to pharmaceutical manufacturers for increased Australian activity (Factor F). Pharmacists' remuneration is determined by the Pharmaceutical Benefits Remuneration Tribunal.

Health Insurance Commission (HIC)—Administration of Pharmaceutical Benefits Scheme

Payments to pharmacists are made through the Pharmpay system which was transferred to the Health Insurance Commission on 17 July 1989. Previously the Department of Community Services and Health was responsible for the day to day administration of these payments.

Trends

Outlays on pharmaceutical benefits have increased on average at some 16% a year in nominal terms over the period 1979-80 to 1988-89 accounting for about one-tenth of total growth in health outlays in the period.

The key determinants of growth in pharmaceutical benefits are shifts in the patterns of doctors' prescribing; changes to average usage of drugs; the size and composition of patient categories, particularly the effects of ageing; the range of drugs on the Schedule (including new listings) as recommended by the PBAC; the wholesale prices of drugs negotiated between the manufacturers and the PBPA; pharmacists' remuneration; and the extent of patient contributions.

With regard to these various factors:

- underlying volume growth of around 5% a year in pensioner scripts is a major cause of real growth in the program;
 - pensioner (and safety net) components now comprise some 70% of expenditure on pharmaceutical benefits;
- the recent acceleration in PBS outlays also reflects a substantial rise in the average price of prescriptions. Since 1984-85, the average dispensed price of pensioner prescriptions has increased by some 14% a year. This reflects the increased prescribing of expensive drugs, including heavy utilisation of new listings;

- It has been estimated for the PBS as a whole, that between August 1987 and October 1988, the listing of new drugs and increased prescribing of newer and expensive products caused a shift in average prices of 9%.

Other influences on the scheme include changes aimed at directing assistance more closely to the needy and the sick. The patient contribution was significantly reduced for the unemployed and low income earners in 1983 by the introduction of the concessional arrangements; and in 1986, when the general patient contribution was increased from \$5 to \$10, a safety net was introduced for non-pensioner individuals or families using more than 25 scripts in a calendar year.

Until the mid 1980s restraint on net outlays under the PBS came mainly from periodic increases in the general patient contribution and the containment of price increases of listed drugs. In the 1987 Budget, steps were taken to introduce cost-effectiveness criteria into PBAC decision making and in 1988 restrictions were introduced on the prescribing of some expensive drugs.

However, the prospective rate of growth is still high in real terms in 1989-90 comprising:

1989-90
\$m

- underlying growth attributable to increased utilisation and average price
- general 51
- concessional 16
- pensioner 121
- Industry development (Factor 'f') 27

Upward pressure on the costs of the PBS is expected to mount in the forward years with increases in outlays averaging about 20% a year in nominal terms and about 15% in real terms. Approximately half of this results from an expected acceleration in script volume while the balance reflects an assumed continuation of advances in medical technology and the listing and heavy utilisation of new and expensive drugs.

Overall, pharmaceutical benefits are expected to increase from 11.3% of total health outlays in 1989-90 to 15.2% in 1992-93.

Major Policy Changes

The Government foreshadowed savings in the PBS in the Economic Statement, April 1989. These will be achieved through:

- increasing the general patient contribution from \$11 to \$12 on 1 October 1989 and to index this on 1 August of each year thereafter. Savings are estimated at \$10m in 1989-90 rising to \$78m in 1992-93; and
- making allowance for changes to pharmacists' remuneration yet to be determined by the PBRT which reduces the estimates by \$23m in 1989-90 rising to \$160m in 1992-93. This is based on the Commonwealth's previous offer to the Pharmacy Guild.

Pharmpay administration was transferred to the HIC on 17 July 1989. While there are some costs included with this transfer, the enhancement of checking procedures to overcome fraud and overservicing and to determine eligibility will result in net savings of at least \$1.5m in 1989-90 and \$3m in 1990-91.

The Government is also concerned to minimise possible adverse health risks related to the issue of multiple scripts for all patients, particularly for nursing home residents and safety net users who stockpile prescriptions at the end of the safety net period. Accordingly, restrictions will be placed on the filling of repeat prescriptions and additional resources of \$1m in 1989-90 will be directed to enhancement of audit procedures which together are expected to realise program savings of at least \$9m in 1989-90.

Estimates for the Program have been increased by \$0.2 in 1989-90 rising to \$2.1m in 1992-93 to reflect the extension of eligibility for health benefit and health care cards (details of these measures are outlined under 4 Social Security and Welfare).

3.4 NURSING HOME SUBSIDIES AND DOMICILIARY CARE SERVICES

3.4		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Nursing Home Subsidies	\$m 1320.7	1406.7	1517.6	1594.8	1632.2
	for the Aged	% 10.8	8.5	7.0	5.1	2.3
	Nursing Care for Veterans and Dependents	\$m 102.5	107.1	108.5	110.2	111.8
		% -2.0	4.5	1.4	1.5	1.5
	Nursing Home Subsidies for People With Disabilities	\$m 77.6	94.4	100.7	104.0	106.0
		% 4.2	21.7	6.7	3.2	1.0
	Domiciliary Nursing Care Benefits	\$m 30.1	31.6	33.2	34.8	36.6
		% 1.0	5.0	5.0	5.0	5.0
	Home Nursing Service	\$m 62.8	74.9	90.1	103.9	119.5
		% 17.7	16.3	20.3	15.4	15.0
	TOTAL	\$m 1593.6	1714.7	1850.0	1947.6	2006.0
		% 2.4	7.0	7.0	5.3	3.0

Nursing home subsidies are provided to ensure that those people who are assessed as needing nursing home care have access to residential support and care which is appropriate to their needs. Domiciliary nursing home care benefits provide financial support to carers to assist frail aged and young disabled people, who would otherwise require nursing home admission, to remain in the community.

Nursing Home Subsidies for the Aged

New funding arrangements for nursing homes commenced on 1 July 1987 involving the phased introduction over the period to 1 July 1991 of standard daily resident fees and standard Commonwealth benefits. The first stage introduced a national standard funding component for infrastructure costs and the second stage from 1 July 1988 introduced nationally uniform nursing and personal care staffing arrangements. Under the uniform staffing arrangements five levels of resident service need were established at a standard number of hours and a standard rate of funding per hour.

From 1 July 1989 additional standard benefits are payable for respite care patients as an incentive for the provision of respite care. In the latter part of 1989-90 a small proportion of nursing homes will be exempted from the standard fee and benefit arrangements. This modification will enable the nursing homes involved to respond flexibly to those residents who are prepared to pay for a higher standard of accommodation.

Capital assistance for the construction, extension or purchase of nursing homes is provided under the *Aged or Disabled Persons Homes Act 1954* to eligible non-profit organisations (\$13m in 1989-90).

Certain approved services attached to nursing homes and previously funded under the *Nursing Homes Assistance Act 1974* will be funded in 1989-90 by annual appropriations, but are still included under this classification. The approved services include a range of therapy services and are provided to non-nursing home residents.

Nursing Care for Veterans and Dependants

The Commonwealth meets the costs of nursing home accommodation required for veterans with service-related disabilities and certain categories of veterans and war widows with disabilities not related to service, subject to the payment of a standard contribution by the patient.

Nursing Home Subsidies for People with Disabilities

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

Eligible non-profit nursing homes are encouraged to seek a transfer from funding under those Acts to more flexible funding arrangements under the *Disability Services Act 1986*. During 1988-89, some 20 nursing homes transferred to these arrangements, including 18 from the *Nursing Homes Assistance Act 1974*.

Commonwealth expenditure on nursing homes for the disabled under the *Disability Services Act* is also included under this sub-function. Ongoing funding will not be available under the *Nursing Homes Assistance Act 1974* after 30 June 1992.

Domiciliary Nursing Care Benefits

The Commonwealth pays a benefit of \$42 per fortnight to some 28 000 (1988-89) eligible persons who provide care for approved persons at home as an alternative to nursing home care. Such persons must be aged 16 years or *NurBover* and would otherwise justify admission to an approved nursing home.

Home Nursing Services

The Commonwealth funds under the cost-shared Home and Community Care (HACC) Agreements with the States certain home nursing services to assist frail or at risk aged and young disabled people to continue to live in their own homes. The estimated increase in outlays reflects the Commonwealth's contribution to the overall increase in Home and Community Care outlays (see also *4 Social Security and Welfare, 4.1 Assistance to the Aged*).

Trends

Prior to 1975-76 and in the early 1980s real outlays grew very rapidly with demographic factors contributing significantly to pressures on the program. However, growth has abated significantly from the mid-1980s. From then and through the forward estimates period, real outlays and the client population are running roughly in parallel. A significant contributory factor to this abatement in growth is the Government's decision in 1986 to shift the emphasis in growth of residential care places for the aged away from nursing homes towards less costly hostels which cater better for the care needs of the elderly, within an overall planning target of 100 residential care places per 1000 aged population, combined with more effective funding arrangements for nursing homes.

There were 72 716 eligible nursing home beds at 1 July 1989. A further 2100 beds are expected to come on stream over the four years to 1992-93 offset by the withdrawal of 525 underutilised State Government beds.

Major Policy Changes

The Government has decided:

- to facilitate the maintenance and development of multipurpose facilities in small rural communities as a means of ensuring access to a range of health related services. These services include acute hospital, nursing home, hostel, disability and community services. Total outlays of \$0.4m in 1989-90 are estimated rising to \$1.6m in 1992-93;
- to implement a package of measures to enhance the rights of consumers of nursing home and hostel services (this measure will also affect the Home and Community Care program and services for people with disabilities). The primary focus of the measures is to ensure a tangible improvement in service outcomes. Total outlays in 1989-90 which are estimated at \$2.5m and rising to \$3.85m in 1992-93 are included under *4 Social Security and Welfare, 4.9 General Administration*;

- to withdraw funding approval for under-utilised nursing home beds in larger State Government nursing homes in regions which are oversupplied with beds. This measure is estimated to save \$3m in 1989-90, rising to \$4m in 1992-93;
- not to proceed with an arrangement involving supplementary funding under the Special Services Program for nursing home residents with high service needs. This measure will save an estimated \$2.4m in 1989-90 rising to \$3.4m in 1992-93; and
- the Government has decided to limit the growth in matched grants under the HACC program to a maximum of 15% in all States for the Budget and forward years, resulting in estimated total savings against forward estimates of \$9.4m in 1989-90, rising to \$67.2m in 1992-93. Of these savings, \$4.0m is reflected under this function for 1989-90, increasing to \$23.5m in 1992-93. The balance appear under 4. Social Security and Welfare, 4.1 Assistance to the Aged.

3.5 HEALTH SERVICES IN THE ACT, NEC

Outlays for 1989-90 and the forward years are zero reflecting self-Government for the ACT from 11 May 1989. Commonwealth general and specific purpose payments to the ACT analogous to payments to the States and the NT have been classified to the appropriate sub-function.

3.6 ACT HEALTH—TRANSFER TO TRUST ACCOUNT

The 1988-89 outcome of \$34.1mCr represents Commonwealth Specific Purpose Payments to the ACT Trust Account prior to self-Government. For an explanation of the operation of the ACT Trust Account in 1988-89, see *Statement 7*.

3.7 OTHER HEALTH SERVICES

The Commonwealth provides financial assistance to support health research, to promote better health in conjunction with the prevention of disease, and to provide health services supplementary to the mainstream health care system. Outlays are shown in the table on the following page.

Health Research

Commonwealth support for health research activities covers medical and public health research including financial assistance through the Medical Research Endowment Fund (MREF) and the Public Health Research and Development Committee (PHRDC) and to the Australian Institute of Health (AIH).

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

3.7		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Health Research	\$m 77.0	68.7	95.7	101.7	104.3
	%	9.7	18.2	7.9	8.2	2.8
	Health Promotion and Disease Prevention	\$m 36.0	45.0	47.9	53.3	48.5
	%	14.5	24.9	8.5	11.3	-9.1
	AIDS Control	\$m 25.3	35.5	46.4	53.8	56.1
	%	21.8	49.3	30.8	15.8	4.3
	National Drug Programs	\$m 26.6	30.0	31.5	32.8	34.1
	%	4.0	12.9	5.0	4.0	4.0
	Health Support Services	\$m 69.5	82.9	108.4	90.9	68.3
	%	10.1	19.2	30.8	-16.1	-24.9
	Health Services for Aboriginals	\$m 43.8	49.0	41.9	43.6	45.3
	%	8.8	11.9	-14.5	4.0	4.0
	Aids and Appliances	\$m 34.1	37.5	40.2	43.0	44.7
	%	8.1	8.9	7.3	8.9	4.0
	Other	\$m 4.5	9.2	14.2	15.3	15.1
	%	-44.4	103.8	54.1	7.8	-0.8
	TOTAL	\$m 316.8	377.7	426.2	434.3	416.4
	%	8.3	18.2	12.9	1.9	-4.1

Health Promotion and Disease Prevention

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

The National Health Promotion Program (\$2.5m in 1989-90) supports community based initiatives to promote better health and to prevent illness, as well as the establishment of preventive health strategies throughout Australia including the development of those recommended by the Better Health Commission.

The National Better Health Program (\$6.6m in 1989-90), funds projects with the States to encourage reductions in the incidence of hypertension, accidental injury, poor nutrition, skin cancer and preventable health problems in the elderly.

Under the National Community Health Program (\$13.4m in 1989-90) the Commonwealth funds national projects which provide health professional training initiatives and foster community participation, self-help and multi-disciplinary approaches to health care (eg through support to voluntary associations and other non-government organisations operating at the national level). Under this Program the largest project is the Family Medicine Program (\$9.7m in 1989-90) funds a vocational training program organised by the Royal Australian College of General Practitioners for medical graduates wishing to enter general practice.

Financial assistance is provided to non-Government Family Planning Associations for clinical services (part of which is paid in lieu of benefit for medical services provided in clinics) and for education and training (\$12.1m in 1989-90).

The Public Health Program (\$7.4m in 1989-90) provides assistance to tertiary education institutions for courses and programs in public health.

The three year program of grants to the States for women's health screening initiated in 1987-88 to undertake cost shared selected trials of cervical cancer screening and to assess the feasibility of mammography screening for breast cancer has been extended for a further two years (\$2.3m in 1989-90).

AIDS Control

The Commonwealth has significantly expanded its efforts in this area from \$5.1m in 1984-85 to \$25.3m in 1988-89 (excluding hospitals). Grants are provided for education and prevention, treatment and support services, the National Media Campaign and Research activities. Total expenditure in 1989-90 for these activities is estimated at \$35.5m.

Although primary care and treatment of AIDS patients is a State responsibility, the Commonwealth has included a further \$21.7m in the 1989-90 hospital funding grants to the States based on the actual number of AIDS cases treated.

National Drug Programs

The National Campaign Against Drug Abuse (NCADA) activities include drug abuse treatment, rehabilitation and prevention programs, the 'Drug Offensive' public information campaign, the development of a national drug abuse data system together with research and evaluation. Of the \$30m provided in 1989-90, \$18.8m is to go to the States and Territories for funding on a \$ for \$ basis.

As a result of the Task Force on Evaluation which reported to the Ministerial Council on Drug Strategy in 1988, the Commonwealth undertook to maintain current real levels of funding for the NCADA program.

Health Support Services

In addition to its commercial activities, the Commonwealth Serum Laboratories Commission (CSL) carries out functions determined by the Minister to be in the national interest, including research projects, blood fractionation and maintenance of reserve stocks. The Commonwealth reimburses CSL for the cost of carrying out these functions. CSL also processes blood products for other countries in the region, including New Zealand. These countries must contribute to the full costs of work undertaken by CSL including a component to recover capital outlays. The Government has decided to construct new blood fractionation facilities at Broadmeadows, Victoria. The project is expected to be completed in 1993. The 1989-90 capital allocation is \$20m for the project.

The annual operating costs of the Red Cross Society's Blood Transfusion Service (BTS) in the States are shared by the States (60%), the Society (the lower of 5% of operating costs and 10% of the previous year's income from donations) and the Commonwealth (the balance). Approved capital costs are shared between the

Commonwealth and the States on a \$ for \$ basis. Blood collected by the BTS is processed by the CSL and blood products are supplied, free of charge (excluding freight), to hospitals and approved pathologists for use in medical treatment and analysis. The Commonwealth reimburses CSL for the cost of processing the blood. Of the \$42.7m provided in 1989-90, \$21m is for BTS and \$21.7m for CSL blood processing.

The Commonwealth subsidises the Royal Flying Doctor Service to the extent of about 45% of annual operating costs (matched on a \$ for \$ basis with the States) and also provides a substantial contribution to capital costs. Total provision in 1989-90 is \$10.7m.

Health Services for Aboriginals

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

Of the \$49m provided for Aboriginal health programs in 1989-90:

- \$28.9m in 1989-90 (\$26.9 in 1988-89) is for the operating costs of 62 Aboriginal Health Services which cater for a variety of needs including general medical services, dentists, nurses, referrals, social work, nutrition and health education; and
- \$8.7m in 1989-90 (\$4.7m in 1988-89) is for programs to combat problems caused by alcohol, illicit drugs and the sniffing of volatile substances such as petrol and glue.

Aboriginal people are also encouraged to make better use of the health services available to the general community. The remaining funds (\$11.2m) will 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.

Expenditure in the outyears will decrease, following the termination of the Special National Health Initiatives program.

Aids and Appliances

The Commonwealth provides through the National Acoustic Laboratories, at no cost to users, a range of hearing services to eligible pensioners and children under the age of 21. 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. This item includes the costs of hearing aids, their components and batteries.

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

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, frequently 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 with other countries; and payments towards the operational costs of the Australian Medical Council.

Also included under this sub-function is a \$5.2m payment to the ACT as the Commonwealth's estimated share of costs in 1989-90 associated with a program of sealing and removal of asbestos insulation from residential dwellings.

Trends

Average annual growth over the period 1979-80 to 1988-89 was 7.8% (-0.8% real). This real decline reflects a reduction in outlays under this item following the transfer of the Community Health Program to the States in 1981-82. Excluding these expenditures average annual growth was 14.3% (5.2% real).

The main contributors to the substantial real growth over the period have been expenditures under the Medical Research Endowment Fund reflecting the generous indexation arrangements that applied for most of the period, supplemented by periodic real increases in Budget allocations; the development of the AIDS control program (38.5% real growth from 1984-85 to 1988-89); and the continued growth in expenditure on Aids and Appliances mainly reflecting growth in supply of hearing aids and stoma appliances.

Outlays in Other Health Services are estimated to increase by 19.2% nominally and 12.1% real in 1989-90 to \$377.7m. The main factors contributing to the increase are:

	1989-90	
	\$m	
• Science and Technology Package	5	
• Approved growth in the National Better Health Program	6	
• Increased funds for AIDS control	10	
• Approved capital expenditure for new CSL Blood Fractionation Plant	16	

For the period 1990-91 to 1992-93 average annual growth is expected to be -1% real. There will be real increases in funding for AIDS, medical research and Women's Health, offset by a decrease in funding for CSL reflecting the pattern of outlays for the construction of the new blood fractionation plant.

Major Policy Changes

The Government has decided to introduce the following measures:

- a significant increase in funding for the AIDS program will be provided in the context of the National Strategy White Paper, amounting to \$57.2m under this function over 4 years (\$6.7m in 1989-90);
- a new national Women's Health Program cost-shared with the States to fund community based multi-disciplinary health centres, information and education programs, and continuing education and training of health care providers. Expenditure is estimated to be \$1m in 1989-90, \$2.7m in 1990-91 and \$6.6m in 1991-92 and 1992-93 before offsetting savings from Medicare of \$0.3m in 1989-90 rising to \$1.9m in 1992-93;
- a Birthing Services Program which will provide financial assistance to the States/Territories to encourage more cost-effective birthing options as alternatives to hospital birthing services. Expenditure is estimated to be \$0.6m in 1989-90, \$1.96m in 1990-91 and \$1.94m in 1991-92 and 1992-93 before offsetting savings from Medicare of \$0.2m in 1990-91 and \$0.5m in 1991-92;
- an extension of the screening program for breast and cervical cancer for a further two years at an additional cost of \$0.6m in 1989-90 and 1990-91;
- as a component of the Science and Technology package, increases in funding for Medical Research Endowment Fund and the Public Health Research and Development Committee of \$5.2m in 1989-90 and \$9.1m in 1990-91 and \$10.4m in 1991-92 and 1992-93;
- an additional \$8m (\$5m in 1990-91 and \$3m in 1991-92) to allow the new blood fractionation plant at Broadmeadows to operate as a stand-alone facility;
- an epidemiological study (\$0.3m in 1989-90 only) into the effects of the anti-malarial drug Dapsone on Vietnam veterans; and
- innovative Health services cost shared with the States and Territories directed towards homeless youth as part of the Government's response to the Burdekin Report. Outlays are estimated to be \$1m in 1989-90 and \$2m a year from 1990-91 to 1992-93.

3.8 GENERAL ADMINISTRATION

3.8		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
	Veterans Affairs	\$m 23.3	15.7	15.3	16.0	15.8
		% 37.0	23.9	-2.3	4.7	-1.6
	Community Services and Health	\$m 125.2	134.3	150.8	159.6	141.6
		% -21.0	7.7	11.8	5.9	-11.3
	TOTAL	\$m 148.6	150.6	166.1	175.6	157.4
		% -15.4	1.4	10.3	5.8	-10.4

Outlays under this heading comprise the general administrative and capital expenses of the Community Services and Health portfolio relating to the Health function comprising the Department of Community Services and Health, the Department of Veterans' Affairs, the Defence Service Homes Corporation, the Defence Service Homes Trust Account, and the Australian War Memorial.

Community Services and Health

This item comprises a proportion of the operating costs of the Department of Community Services and Health including the National Acoustic Laboratories (NAL), the National Biological Standards Laboratory (NBSL) and the Australian Radiation Laboratory. This item includes \$100.7m for general administration representing some 47% of the Department's total allocation, \$20.5m for property operating expenses and \$5.4m for plant and equipment. For balance see 4 Social Security and Welfare and 5 Housing and Community Amenities.

A major element of this item is for the construction of an integrated laboratory complex of the NBSL at Symonston in the ACT. Total cost is estimated at \$59.2m over 4 years with \$9.3m in 1989-90.

Veterans' Affairs

This item comprises the total operating costs of the Department of Veterans' Affairs (including the Defence Service Homes Corporation prior to its winding up and the sale of the portfolio to Westpac—see 5. Housing and Community Amenities), the Defence Services Homes Trust Account and the Australian War Memorial.

Major Policy Changes

In 1989-90 an additional \$2m rising to \$4.6m in 1990-91 will be provided to upgrade the Therapeutic Goods Program prior to the introduction of charging based upon 50% cost recovery from 1 July 1990.

In the context of the National Agenda for a Multicultural Australia, additional funds have been provided in the Community and Services and Health portfolio to improve information about Health services and to collect data about the health status of and service utilisation by people from non-english speaking backgrounds. These funds total \$0.6m in 1989-90, \$0.7m in 1990-91 and \$0.6m in 1992-93.

FURTHER REFERENCES

Annual Reports, particularly those of the Departments of Community Services and Health, Veterans' Affairs, the Health Insurance Commission (HIC) and Commonwealth Serum Laboratories Commission (CSL)

Budget Paper No 3, Portfolio Program Estimates

Budget Paper No 4, Commonwealth Financial Relations with other levels of Government

The Economic Statements, May 1988 and April 1989

Portfolio Explanatory Notes (Budget Related Paper No 8) for Community Services and Health Portfolio and Veterans' Affairs Department.

4. SOCIAL SECURITY AND WELFARE

OVERVIEW

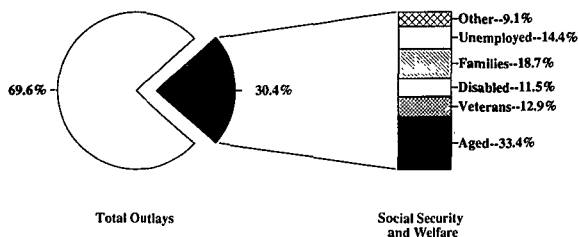
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
4.1 Assistance to the Aged	\$m	7869.9	8786.0	9899.7	10656.4	11401.1
	%	8.7	11.0	12.7	7.0	7.0
4.2 Assistance to Veterans and Dependents	\$m	3186.9	3404.3	3595.4	3615.7	3591.0
	%	1.0	8.8	5.0	0.8	-0.7
4.3 Assistance to the Disabled	\$m	2736.2	3015.4	3335.7	3544.7	3728.3
	%	10.3	10.2	10.0	0.3	5.2
4.4 Assistance to Families with Children	\$m	4130.8	4917.2	5177.0	5426.6	5639.1
	%	7.2	10.0	5.3	4.8	3.0
4.5 Assistance to the Unemployed and Sick	\$m	3688.6	3793.9	4117.3	4367.2	4605.1
	%	-5.1	2.0	8.5	8.1	5.4
4.6 Other Welfare Programs	\$m	955.1	1052.1	1089.4	1113.9	1128.5
	%	11.1	10.8	3.5	2.3	1.3
4.7 Aboriginal Advancement Programs nec	\$m	240.8	258.3	311.0	320.2	331.1
	%	22.4	7.0	20.4	2.0	3.4
4.8 General Administration	\$m	1005.0	1130.0	1098.2	1117.9	1153.7
	%	8.1	12.4	-2.8	1.8	3.2
4.9 Recoveries and Repayments	\$m	-11.2	-23.4	-34.3	-46.7	-59.1
	%	148.7	106.8	48.5	38.1	26.5
TOTAL	\$m	23802.1	26333.8	28589.4	30115.8	31518.9
	%	5.5	10.6	8.0	5.3	4.7

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve.

- Total Social Security and Welfare outlays are expected to increase by \$2531.7m or 10.6% (4.0% in real terms) in 1989-90. Existing policies imply a deceleration over the subsequent three years, to yield an overall real increase of 5.4% to 1992-93.
 - these trends reflect an initial strong growth in outlays on the aged, the disabled and on families with children which is expected to moderate in the forward years.
 - the rate of growth in outlays on the unemployed is also expected to rise in the Budget year and 1990-91 before moderating in 1991-92 and 1992-93.

- In 1989-90, Social Security and Welfare outlays are forecast to be 30.4% of total Commonwealth outlays, up from 29.0% in 1988-89 (see Chart 1):
 - assistance to the aged amounts to one third of total Social Security and Welfare outlays, with assistance to families with children around 20%.

CHART 1. SOCIAL SECURITY AND WELFARE
Proportion of Total Outlays and Function
1989-90



- The main areas of growth in outlays in 1989-90 are:
 - assistance to the aged (up \$916.1m or 11.6%);
 - assistance to families with children (up \$786.4m or 19.0%);
 - assistance to the disabled (up \$279.2m or 10.2%); and
 - assistance to veterans (up \$217.4m or 6.8%).
- Budget measures have added a total of \$173.1m to outlays in 1989-90 and \$499.9m in 1990-91, including:
 - an increase in April 1990 of \$2 a week for single pensioners and \$3.30 a week for married pensioner couples on top of indexation (\$52.6m in 1989-90 and \$314.4m in 1990-91) taking the single rate of pension above 25% of AWE in April 1990;
 - the increase will also apply to married beneficiaries and those with dependants. In addition the rates of family allowance supplement (FAS) and additional pension/benefit (AP/B) will be increased to maintain benchmarks in January 1991;

- a \$10 a week increase in rent assistance for pensioners, beneficiaries and FAS recipients payable in two steps of \$5 in December 1989 and September 1990 (\$43.0m in 1989-90 and \$92.5m in 1990-91) with indexation of rent assistance from March 1991;
- a package of measures for the older unemployed to improve their labour force participation and to enhance income support for those with limited reemployment prospects (\$1.2m in 1989-90 and \$5.8m in 1990-91);
- improved funding for youth accommodation, income support and mediation services as part of the Strategy for Young People (\$14.5m in 1989-90 and \$8.2m in 1990-91);
- a significant liberalisation of the income test for married unemployment and sickness beneficiaries from September 1990 (\$7.0m in 1990-91 and \$8.9m in 1991-92).
- Measures have also been taken in the 1989-90 Budget to achieve offsetting savings of \$143.3m in 1989-90 and \$280.1m in 1990-91, including:
 - reducing further the scope for fraud and abuse in the provision of social security payments by requiring, from 1 November 1989, unemployment and sickness beneficiaries to provide their tax file number as a pre-requisite for receiving benefits (-\$33.4m in 1989-90 and -\$49.8m in 1990-91);
 - revised unemployment benefit review arrangements (-\$43.5m in 1989-90 and -\$98.4m in 1990-91);
 - the establishment of three sickness benefit mobile review teams (-\$3.1m in 1989-90 and -\$13.7m in 1990-91);
 - measures to eliminate double payment of child and education allowances (-\$2.5m in 1989-90 and 1990-91);
 - new work test procedures to apply to beneficiaries who move to areas with low employment opportunities or who move around the country regularly (-\$3.6m in 1989-90 and -\$8.9m in 1990-91).
- Measures announced in the Economic Statement, April 1989, will increase outlays in net terms by \$553.4m in 1989-90 and \$714.2m in 1990-91, viz:
 - increased rate of child payments (\$554.0m in 1989-90 and \$680.0m in 1990-91) and accelerated indexation of pensions and benefits (\$125.0m in 1989-90 and \$205.0m in 1990-91);

- partially offset by improved targeting and administration of pensions and benefits (-\$125.6m in 1989-90 and -\$170.8m in 1990-91).
- staged increases in the pensioner tax rebate so that by 1990-91 non-pensioner income up to the pension free area (currently \$40 a week for a single pensioner and \$70 a week for married pensioner couples) will be totally tax free. In order to further encourage self-provision by removing uncertainty about the tax and means test treatment of private income, the pension free area will be indexed annually from July 1991 at an estimated cost of \$22.0m in 1991-92 and \$45.0m in 1992-93.

PURPOSE

The Australian social security system exists to protect people from economic hardship because they are unemployed or are unable or not expected to work because of age, invalidity, sole parenthood or similar factors. Lower and middle income families with children also receive assistance in recognition of the additional costs they face. Veterans are compensated for service-related disabilities, as are the dependants of those whose deaths are service related.

NATURE OF SOCIAL SECURITY AND WELFARE OUTLAYS

Most social security assistance is provided as cash benefits directly to recipients and/or families who satisfy the eligibility criteria. The amount received will depend on the particular circumstances of the recipient. Most payments are indexed to movements in the CPI to maintain their real value.

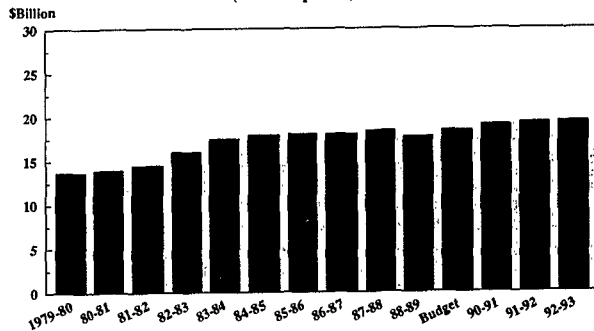
In addition, a wide range of welfare services for people with special needs are made available either directly or through State and local government authorities and voluntary agencies. Assistance is provided in a variety of forms for the advancement of Aboriginal people. Details of specific programs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

Assistance is also available 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 extend indirect assistance to the organisations concerned. Self provision for retirement is encouraged by the concessional tax treatment of superannuation contributions and payments.

TRENDS IN SOCIAL SECURITY AND WELFARE OUTLAYS

Outlays on Social Security and Welfare have increased from \$8782.7m in 1979-80 to an estimated \$26 333.8m in 1989-90 in nominal amounts, an annual average increase of 3.0% in real terms. Chart 2 below shows the movement in outlays between 1979-80 and 1988-89 in constant (1984-85) price terms and estimates for the Budget and forward years.

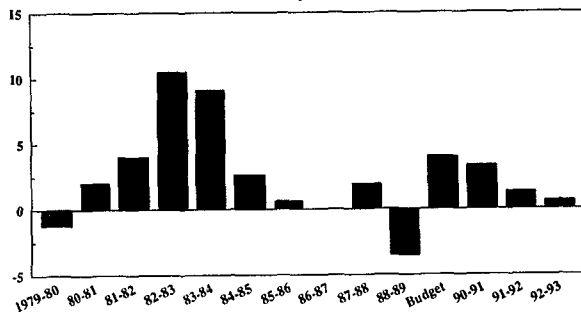
CHART 2. SOCIAL SECURITY AND WELFARE (1984-85 prices)



The dominant components of the function are indexed pensions and benefits, which means that the level of real outlays will be broadly maintained for any given number of recipients. The number of pension/benefit recipients is influenced by growth in the population as a whole as well as changes in economic circumstances and eligibility criteria. Changes in the rate of pensions/benefits not arising from indexation increases will also affect the level of real outlays (as will any divergence between the CPI and the GDP deflator).

Chart 3 shows the annual movements in function outlays in real terms.

CHART 3. SOCIAL SECURITY AND WELFARE ANNUAL PERCENTAGE CHANGE (1984-85 prices)



3.118

Rapid growth in the early 1980s primarily resulted from sharp increases in the number of unemployment beneficiaries, particularly in 1982-83. This contributed just under half of the 27.9% real growth in total function outlays from 1979-80 to 1983-84. Increased outlays on assistance to families from higher rates of payment for child allowances and larger numbers of sole parents and on assistance to veterans as more veterans became eligible at age 60 for service pensions were further factors contributing to growth in that period (accounting for a further 4.3 and 4.9 percentage points of the growth respectively).

Since 1983-84 the rate of growth in total function real outlays has moderated markedly increasing over the period to 1988-89 by just 1.5% overall. This movement comprised large decreases in unemployment benefit and family assistance outlays, more than offset by increases elsewhere. The reduction in unemployment benefit outlays, largely the result of an improving labour market, alone led to a fall in real outlays of 4.6% over this period. Government policies to improve targeting of assistance by taking better account of the capacity of people to meet their own needs have also resulted in real declines. In particular, measures such as the pensions assets test, the family allowance income test and the lowering to 15 of the maximum child qualifying age for sole parent pensions were significant steps in restricting the coverage of payments. Government policies to reduce fraud and abuse were also important in containing growth in outlays.

However, the effect of these factors was more than offset by higher take up rates of disability, service and most importantly, invalid pensions. Growth in invalid pension outlays alone has added 2.7 percentage points to total functional outlays since 1983-84. Increases in rates of payment of some benefits also added to outlays over the period. The basic rate of pension and benefit was increased above the inflation adjustment in 1984 and additional increases to the rate of single adult unemployment and sickness benefit were made. Child payments to low income families were also substantially increased in this period as was rent assistance. These rises and continued indexation of pensions and benefits in line with the CPI led to an improvement in pension levels relative to AWE (from just above 23% in 1983 to over 24% in June 1987). Overall, however, increases in benefits contributed only slightly to real growth in the function (as the non-indexation of family allowance over this period offset increases elsewhere).

From 1986-87 the continuing decline in unemployment benefit numbers, reflecting the strengthening labour market and tighter targeting and administration, has been the major factor reducing growth in the period and leading to negative real growth in function outlays in 1988-89. (Reduced unemployment outlays led to a fall in real functional outlays of 4.0% in these years.) The overall slowing of growth does not reflect the significant real growth in assistance to low income families. The major program of assistance for such families, FAS has been expanded both through considerably higher rates of payment (which also flow through to additional pension/benefit for children) and real increases in income test limits. The 1.4% contribution to functional real growth from FAS was offset by a nearly equivalent real decline in family allowance outlays.

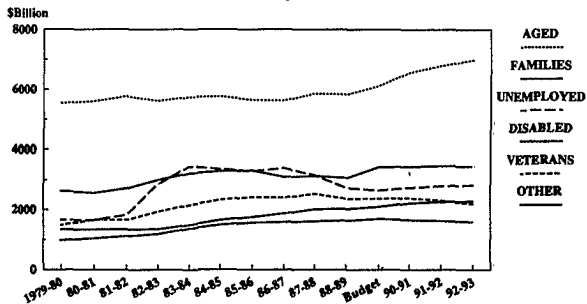
3.119

In the Budget and forward years, real outlays are expected to rise strongly as a result of significant increases to pension rates, rent assistance and child payments. Other major pressures for growth in outlays over the forward years arise from:

- demographic factors increasing the number of age pensioners; and
- continued growth in assistance to the disabled (although a major review of assistance to the disabled has been set in train to improve targeting and restrain growth in outlays).

Chart 4 identifies real growth in the major components of Social Security and Welfare outlays.

**CHART 4. SOCIAL SECURITY AND WELFARE
OUTLAYS BY SUB FUNCTION
(1984-85 prices)**



Further information on the growth in outlays of each of these sub-functions is provided in the relevant sections below.

MAJOR POLICY CHANGES

Priorities within the social security and welfare area have changed significantly over the period moving away from universal provision of benefits to means-tested benefits targeted to those most in need. Policy changes introduced by the Government have sought:

- to take better account of the capacity of people to meet their own needs including the measures mentioned above and the improved arrangements for the collection of child maintenance payments from non-custodial parents;
- to direct new spending initiatives at areas of greatest need, for example the increases in FAS and Family Allowance announced in the Economic Statement, April 1989, which together with the increases in rent assistance and FAS announced in last year's Budget will add over \$700m to outlays in this financial year;

- to encourage sole parents and the unemployed to enter or to re-enter employment particularly by providing additional targeted child care places and introducing specific programs for the long-term unemployed (NEWSTART) and sole parents (JET); and
- to reduce fraud and overpayments, including the introduction of mobile review teams and greater use of computing facilities for this task.

The Government has also moved to encourage self provision by pensioners via changes in the tax system. The Economic Statement, April 1989, announced staged increases in the pensioner tax rebate so that by 1990-91 non pension income up to the pension free area will be totally tax free. From July 1991, the free area will be indexed to the CPI to maintain its real value.

1988-89 OUTCOME

In 1988-89, actual outlays were \$31.6m under Budget estimates. Outlays on unemployment benefit were \$246.6m lower than expected which more than offset the \$125.4m overrun on assistance to widows and sole parents (due largely to the lower than expected savings from Stage 1 of the Child Support Scheme) and overspends of \$29.3m on invalid pensions, \$32.4m on sickness benefits and \$11.2m on age pensions because of higher than expected numbers.

4.1 ASSISTANCE TO THE AGED

4.1		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Age Pensions and Allowances	\$m 7516.1	8302.3	9306.3	9985.9	10625.6
	%	7.8	10.8	12.1	7.3	8.1
	Aged Persons Homes and Hostels	\$m 211.5	313.3	388.5	435.3	505.2
	%	40.5	48.1	24.0	12.0	18.1
	Home and Community Care	\$m 142.3	170.4	204.9	235.2	270.4
	%	21.0	18.7	20.3	14.8	15.0
	TOTAL	\$m 7869.9	8786.0	9899.7	10656.4	11401.1
	%	8.7	11.8	12.7	7.8	7.0

Outlays under this sub-function serve to ensure that aged people and their dependants have access to adequate and fair levels of income and that pension outlays are targeted to those with no or little other income of their own. Outlays on residential support and care for those aged people who are unable to live at home, but who do not warrant nursing home care, are included. It also covers the cost of providing cost effective community care alternatives for those frail aged and younger disabled people for whom long term residential accommodation would be inappropriate.

Age Pension and Allowances

Age pensions are payable to women aged 60 years and over and to men aged 65 years and over, subject to residency requirements and income and assets tests:

- Under the income test, the rate of pension is reduced by \$1 a week for every \$2 of non-pension income above the prescribed threshold (currently \$40 a week for a single pensioner and \$70 (combined) a week for married pensioners). The thresholds are increased by \$12 a week for each dependent child.
- Under the assets test, the rate of pension is reduced by \$2 a week for every \$1000 by which the value of assets exceeds the prescribed limits (determined by whether or not the pensioner is a homeowner and by their marital status).

To provide for movements in the cost of living, rates of pension are adjusted twice-yearly in line with movements in the CPI. In the Economic Statement, April 1989, the Government announced that the lag between pension indexation and the reference period would be reduced from 24 to 12 weeks in stages commencing in November 1989.

The single rate of pension is currently \$129.20 a week and the married rate is \$107.70 a week each or \$215.40 combined. Pensioners may also qualify for rent assistance if they are renting privately and pay more than \$20 a week in rent.

At 30 June 1989 there were 1 334 500 persons in receipt of age pension.

Aged Persons' Homes and Hostels

Under the *Aged or Disabled Persons' Homes Act 1954*, grants are made to religious, charitable and other approved organisations and local government bodies to defray costs of construction, extension or purchase of accommodation facilities for aged or disabled people.

The Commonwealth also pays the following recurrent subsidies to eligible organisations providing hostel type accommodation for aged or disabled people:

- a hostel care subsidy, to assist organisations to supply services such as meals, laundry, cleaning and social activities;
- a personal care subsidy, to help achieve a higher level of care for more dependent residents; and
- respite care bed subsidies, to encourage provision of respite care beds for aged and disabled persons who temporarily cannot care for themselves or whose carers need short term relief. These subsidies are paid at two levels:
 - hostel care level subsidy for respite residents who require hostel level care; and
 - personal care level subsidy for people whose levels of dependency require a standard of attention equivalent to personal care while in respite service.

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 aged and younger disabled people at risk of institutionalisation to help them to continue to live in their own homes. Funding is cost-shared with the States based upon respective levels of Commonwealth and State outlays in the previous year. The Commonwealth also provides unmatched funds to test innovative methods of delivering services targeted particularly at those people most at risk of institutionalisation.

Home Nursing Services provided under HACC are included under 3. *Health, 3.4 Nursing Home Subsidies and Domiciliary Care Service.*

Trends

Outlays on assistance to the aged have increased from \$3580.7m in 1979-80 to an estimated \$8786.0m in 1989-90 in nominal amounts, an average real increase of 1.0% a year.

Growth in outlays of this sub-function is dominated by movements in age pension outlays. The number of age pensioners grew rapidly over the early part of this period, peaking in 1982-83. Over the next four years, pension means test arrangements were tightened with the reintroduction of the pension income test for those aged over 70 (1983) and the introduction of the assets test (1985) in order to target assistance to those with only modest private means. These restrictions on eligibility more than offset the underlying growth in the aged population. A significant rise in the proportion of the aged population who were eligible for a service pension also led to a fall in age pension numbers in this period (outlays on service pensions are classified under 4.2 *Assistance to Veterans and Dependants*). The number of pensioners fell by 4.5% by 1987-88 as a result. However, total outlays remained fairly stable until 1987-88 because increases in average real benefit offset lower numbers.

Since 1987-88, the number of age pensioners has steadily increased. There have also been increases in average real benefits and coverage, arising principally from increases in the pension free area.

Growth in aged person homes and hostels was relatively modest over the early 1980s; capital grants declined marginally while outlays on recurrent subsidies increased. There has been significant growth in outlays on recurrent subsidies in more recent years arising from the introduction of the respite care subsidy from January 1985, the 1986-87 Budget decision to provide automatic indexation of all hostel subsidy levels, and the decision to increase the personal care subsidy (in addition to normal indexation) by five annual real increases of \$1.50 per day commencing in May 1988. The Government's strategy to shift the emphasis in residential care for the aged away from nursing homes to hostels has also meant growth in the number of hostel places. These trends are expected to continue over the Budget year with some moderation over the forward estimates period.

The Commonwealth plans to spend \$8786.0m on assistance to the aged in 1989-90, compared with \$7869.9m in 1988-89, an increase of \$916.1m or 11.6% (5.0% real). Automatic indexation of the age pension will lead to a nominal increase in outlays of \$662.2m. Real growth in outlays arises from:

- an increase in age pensioner numbers;
- the bringing forward of the date of indexation for pensions (see above);
- an increase in outlays on hostel subsidies; and
- Budget measures.

Budget Measures

This Budget includes a range of measures to assist the aged and other pensioners and beneficiaries. These also benefit veterans and their dependants and the flow-on costs have been included in the costs identified below.

In total, these measures are designed to deliver improved income support for aged persons and also give further encouragement for the aged to enhance their retirement income with non-pension income derived from personal savings. The more significant initiatives are set out below:

- a pension increase of \$2 a week (\$3.30 for marrieds) (\$52.6m in 1989-90, \$313.8m in 1990-91 for all pensioners, married beneficiary couples and those with dependents.
 - this increase, and the rent increase in the table below, in combination with measures announced in the Economic Statement, April 1989, to bring forward indexation and reduce tax liability, will increase pensioners' disposable incomes significantly. At present a pensioner with \$40 a week private income, receiving rent assistance, has a disposable income after tax of \$173.30 a week comprised of \$129.20 pension, \$15.00 rent assistance, \$40.00 private income less \$10.90 tax liability. By August 1991, the pensioner's disposable income will have risen to \$218.15 a week, comprised of \$148.15 pension, \$30.00 rent assistance and \$40.00 private income.
- a \$10 a week increase in rent assistance for pensioners, beneficiaries and FAS recipients to be introduced in two stages—a \$5 increase in December 1989, in addition to the increases which are still to be paid following the previous year's Budget, and a further \$5 increase in September 1990. Rent assistance will be indexed twice yearly from March 1991 in line with the CPI (\$42.0m in 1989-90 and \$92.5m in 1990-91). See table below.

MAXIMUM RATES OF RENT ASSISTANCE⁽¹⁾

	May 1989 Rate \$pw	June 1989 Rate \$pw	December 1989 Rate (2) \$pw	June 1990 Rate \$pw	September 1990 Rate (2) \$pw
Beneficiary (1)					
—without children	10	10	20	25	30
Pensioner					
—without children	15	15	20	25	30
Pensioner/Beneficiary					
—with 1 or 2 children	15	20	25	30	35
Pensioner/Beneficiary					
—with 3 or more children	15	20	25	35	40

- (1) Beneficiaries eligible after 26 weeks (beneficiaries over 60 eligible immediately).
- (2) Includes the two \$5 increases flowing from this Budget
- (3) Rent Assistance is paid at a rate of 50 cents in the dollar for each dollar of rent paid above a rent threshold of \$20 per week up to the maximum rate applicable.

- the portion of an annuity income stream which represents the notional return of the after tax purchase price (the undeducted purchase price or UPP) will, in future, be disregarded for purposes of the Social Security and Veterans' Affairs income test (\$3.5m in 1989-90 and \$14.0m in 1990-91);
- funeral benefit (of \$20 or \$40) has been absorbed for a number of groups and replaced with the following payments:
 - special temporary allowance (STA) will now be paid for 14 weeks instead of 12; and
 - on the death of a dependent child, sole parents with an only qualifying child, carers, and those receiving FAS or APB will continue to receive the same level of payment they would have received before the death for 14 weeks (\$4.3m in 1989-90 and \$8.5m in 1990-91);
- the advisory services on financial matters available to pensioners will be upgraded with an enhanced area office inquiry service and the provision of grants to other financial counselling organisations (additional administrative costs of \$1.1m in 1989-90 and \$1.2m in 1990-91);
- the income test treatment of home equity conversions has been relaxed. In future, drawdowns of home equity up to a limit of \$40 000 (excluding capitalised interest and charges) will be disregarded for purposes of the income and assets tests. There should be a negligible effect on outlays.

The Government has decided to limit the growth in matched grants under the HACC program to a maximum of 15% in all States for the Budget and forward years resulting in estimated savings against forward estimates for this function of \$5.4m in 1989-90 rising to \$43.7m in 1992-93.

The Government has also decided to enhance the rights of nursing home and hostel residents, recipients of benefits under the HACC, and users of services for people with disabilities. This measure is estimated to increase outlays by \$2.5m in 1989-90 rising to \$3.9m in 1992-93. These outlays are included under 4.8. *General Administration*.

4.2 ASSISTANCE TO VETERANS AND DEPENDANTS

4.2	1988-89		1989-90		1990-91		1991-92		1992-93	
		Actual	Budget	Estimate	Estimate	Estimate				
Disability Pensions and Allowances	\$m	1131.1	1210.6	1268.1	1273.3	1256.1				
	%	2.3	7.0	4.7	0.4	-1.4				
Service Pensions	\$m	2048.1	2187.7	2324.7	2339.8	2332.2				
	%	1.8	8.8	6.3	0.7	-0.3				
Other	\$m	7.6	6.0	2.6	2.7	2.7				
	%	-32.4	-21.8	-58.8	3.1	3.1				
TOTAL	\$m	3186.9	3404.3	3595.4	3615.7	3591.0				
	%	1.9	8.8	5.8	0.8	-0.7				

Outlays under this sub-function are used to provide income support and compensation, in the form of pensions, to veterans and their dependants for incapacity or death resulting from war or defence service. Veterans over the age of 55 (female) and 60 (male) and their dependants may receive a standard of living which is at least equal to that available under other Government income support programs.

Disability Pensions and Allowances

Disability pensions and allowances are paid to ex-servicemen and women for service related incapacities. A war or defence widow's pension is payable to the widow of a veteran whose death was service related (and in certain other limited circumstances). An orphan's pension is payable in respect of the veteran's children.

There are three main categories of disability pension:

- *the general rate* is payable when the incapacity does not prevent employment. The amount 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.

Various allowances are provided to supplement disability pensions, including:

- *temporary totally incapacitated pension*;
- *temporary incapacity allowance*, payable to veterans undergoing hospitalisation and convalescence or treatment;
- *loss of earnings allowance*; and
- an *extreme disablement adjustment*, as an additional payment to the general rate of pension, equal to 50% of that rate.

Disability pensions and allowances are not subject to personal income tax or the income or assets test.

Service Pensions

Service pensions are payable to veterans who have qualifying service 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 also subject to the same income and assets test arrangements as age pensions, except that any disability pension and related allowances received is not regarded as income for the purposes of the service pension income test.

Other

This item includes grants to veterans' associations and to community groups providing non-institutional care for veterans.

Trends

Outlays on assistance to veterans and their dependants have increased from \$960.1m in 1979-80 to an estimated \$3404.3m in 1989-90, an average annual increase in real terms of 4.8%. Variations in the numbers receiving pensions have been the most important influence on the growth in real outlays over the past 10 years accounting for half of outlays growth up to 1987-88.

In the case of service pensions, numbers increased rapidly up to 1986-87 (peaking at 406 000 pensioners) as veterans of WWII reached retiring age but thereafter declined. Between June 1989 and June 1990 the number of service pensioners is expected to fall by 9000 (or 2.3%).

In the case of disability, war widows and dependents' pensions, total numbers have fallen (from 435 000 at 30 June 1980 to 361 000 at 30 June 1989) particularly as a result of ceasing grants to veterans' dependants with the introduction of the *Veteran's Entitlements Act 1986* and associated Acts in 1985-86. At the same time however, there has been an increase in the proportion of recipients in those categories being paid higher rates of pension so that, overall, outlays have grown. The number of pensioners is expected to fall to 350 000 at 30 June 1990, a fall of 3.0%.

The net effect of these changes for 1989-90 is a marginal real growth, after allowing for the pension increase and accelerated indexation. By 1992-93 the impact of declining service pension numbers is expected to result in decreasing outlays in real terms.

Budget Measures

Budget measures to assist veterans and their dependants include:

- extension of entitlement to dental treatment for ex-prisoners of war (Japan) by removal of the \$300 limit (costs of which are included in 3.1 *Medical Services and Benefits*) and automatic acceptance of certain disabilities as being war-caused. The latter is expected to assist about 2000 veterans over the next two years (\$0.2m in 1989-90, and \$0.8m in 1990-91);

- extensions to other benefits which have a minor impact on outlays, including extending Telephone Rental Concessions to all World War I veterans (about 1300 additional veterans will now be entitled to Telephone Rental Concessions); and
- continuation of disability pension for up to 12 weeks (at up to 100% of the general rate) to widows of disabled veterans at a cost of \$1.8m in 1989-90 and 1990-91.

The flow on of a number of other Budget measures impacts on this sub-function, in particular those which assist the aged. These measures are described under 4.1. *Assistance to the Aged*. Other measures which impact on veterans are also described under 3.1 *Medical Services and Benefits* and 3.2 *Hospital Services*.

4.3 ASSISTANCE TO THE DISABLED

4.3	1988-89		1989-90	1990-91	1991-92	1992-93
	Actual	Budget	Estimate	Estimate	Estimate	
Invalid Pensions And Allowances	\$m 2415.6	2678.4	2970.4	3156.7	3328.1	
	% 10.4	10.9	10.9	8.3	5.4	
Other Payments For The Disabled	\$m 98.3	104.3	111.1	115.3	119.4	
	% 1.8	2.1	2.4	3.8	3.5	
Disability Services Program	\$m 173.4	183.7	202.7	218.1	223.7	
	% 14.7	8.8	10.3	7.0	2.0	
Rehabilitation Services	\$m 48.8	49.0	51.5	54.5	57.1	
	% 10.1	0.3	5.1	5.0	4.8	
TOTAL	\$m 2736.2	3015.4	3335.7	3544.7	3728.3	
	% 10.3	10.2	10.6	8.3	5.2	

Outlays under this sub-function provide income support to people who have disabilities, who have limited means and whose disability precludes full-time employment. Special services are also provided to increase the independence, employment opportunities and integration into the community of people with disabilities.

Invalid Pensions and Allowances

Invalid pensions are payable, at the same basic rate regardless of age, to all people aged 16 years or more who are assessed as permanently incapacitated for work or who are permanently blind. Invalid pensioners, apart from the permanently blind who receive a means test free pension, are subject to the same income and assets test as age pensions. Invalid pension entitlements are the same as for age pensions.

Other Payments for the Disabled

The Commonwealth also provides special assistance for eligible invalid pensioners through the following allowances (the rates of payment and associated allowances are generally the same as for invalid pensions and are subject to the same income and assets tests):

- the sheltered employment allowance payable to working age disabled people engaged in approved sheltered employment. In addition, a \$15 a week non-taxable incentive allowance is paid; and
- the rehabilitation allowance, a non-taxable allowance payable for the duration of a Commonwealth Rehabilitation Service program and for up to six months thereafter.

A mobility allowance of \$11 a week may also be paid to disabled people who are gainfully employed or undertaking vocational training and who cannot use public transport without substantial assistance.

Disability Services Program

To qualify for assistance under this program, services must be predominantly for persons who have a disability that is permanent or likely to be permanent and which results in a substantially reduced capacity for communication, learning or mobility and a need for ongoing support services.

Services approved under the *Disability Services Act 1986* include: accommodation support, advocacy, competitive employment and training, independent living training, information, print disability, recreation, respite care, and supported employment.

Some 1700 services were funded under the Act in 1988-89.

A five year transition period from 1 July 1987 has been provided to enable existing prescribed services to align their services with the requirements of the new Act. An additional \$10.3m will be provided in 1989-90, bringing total funding for the Disability Services Program under this function to \$183.7m in 1989-90.

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 a day per child.

Rehabilitation Services

The Commonwealth Rehabilitation Service (CRS) provides treatment and training programs predominantly in the field of occupational rehabilitation to people with disabilities who are of working age, and who are assessed as likely to make substantial progress towards independence or employment. The Service provides assistance without charge to clients who are not covered under compensation arrangements. Clients eligible for compensation payments are charged for costs incurred. Training allowance and living away from home allowance may be paid to clients of the CRS who are undertaking vocational courses or on the job training.

Trends

Outlays on assistance to the disabled have increased from \$859.3m in 1979-80 to an estimated \$3015.4m in 1989-90 in nominal amounts.

Outlays on invalid pension experienced a continuing high rate of growth over the 1980s. Increases in the number of invalid pensioners was the major contributor to growth over most of the period. Numbers of invalid pensioners (including recipients of wife's and carer's pension) increased from 275 996 at 30 June 1979 to 402 119 at 30 June 1989. Outlays growth appears to be related to the economic cycle as rapid periods of growth coincide with periods of high unemployment. When unemployment is high, people with disabilities face greater difficulties in finding and retaining employment. This tendency has increased since 1983 because there has been greater emphasis on socio-economic factors in assessing eligibility. It also meant that appeal bodies were able to place greater emphasis on employment prospects as a condition of eligibility. In more recent years, efforts to improve the administration of the invalid pension have slightly moderated the rate of growth.

As noted below, the Government has set in train a major review of this program, with the objectives of improving targeting and restraining growth in invalid pension outlays by discouraging long term dependence on income support.

Overall, the prospect of the forward years is for continuing real growth averaging 2.8% a year, reflecting further increases in invalid pensioner numbers (on the basis of existing policies) and the flow-on effects of accelerated indexation, the pension increase, and the family assistance package announced in the Economic Statement, April 1989.

Budget Measures

As part of the Government's review of payments to the disabled, two alternative new assessment procedures will be piloted in 1989-90 and a number of other research projects will be undertaken. The purpose of these projects is to identify policy changes to achieve a more active approach to income support for people with disabilities. The Government has also decided that invalid pension will no longer be granted to those above age pension age (-\$0.7m in 1990-91).

4.4 ASSISTANCE TO FAMILIES WITH CHILDREN

4.4		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Family Allowance	\$m 1314.9	1800.5	1880.4	2010.8	2128.3
	%	-3.0	37.0	4.4	6.0	5.8
	Family Allowance Supplement	\$m 400.0	559.4	617.8	660.0	688.2
	%	87.3	38.9	10.4	6.8	4.3
	Sole Parent Pensions and Allowances	\$m 2132.3	2236.0	2328.4	2383.0	2449.5
	%	6.0	4.9	4.1	2.3	2.8
	Other Child Payments	\$m 53.1	57.6	63.6	67.8	71.3
	%	48.3	8.8	10.5	8.5	6.2
	Child Care	\$m 213.1	236.7	260.2	276.3	272.3
	%	-5.4	11.1	9.0	8.2	-1.5
	Other	\$m 17.5	28.6	26.6	28.6	29.5
	%	39.8	82.0	-0.1	7.7	3.0
	TOTAL	\$m 4130.8	4917.2	5177.0	5426.6	5639.1
	%	7.2	19.0	5.3	4.8	3.9

Outlays included under this sub-function are intended to ensure that those with care and control of dependent children receive appropriate financial assistance for their support. This assistance is tailored to various circumstances, in particular when the children are in low income families or where they are disabled or orphaned. Assistance is also provided in recognition that sole parents may face difficulties in gaining entry to the workforce because they have sole responsibility for dependent children or because of absence from the workforce while caring for dependent children.

Family Allowance

Family Allowance (FA) is an income-tested, non-taxable allowance paid to families caring for children under the age of 16 and older full-time dependent students not receiving education support payments. In the Economic Statement, April 1989, the previous rate structure was replaced by increased rates of \$18.00 a fortnight for each child up to and including the third, and \$24.00 for the fourth and subsequent children. The family allowance income test was introduced in November 1987 and precludes payment to high income earners. Under the income test, entitlement for a calendar year is determined on the basis of the previous financial year's taxable income. The threshold for receiving maximum rate payments is indexed each January in line with the CPI (currently it is \$53 550 for one child and an additional \$2678 for each further child).

Family Allowance Supplement

Family Allowance Supplement (FAS) is an income-tested, non-taxable allowance paid, in addition to family allowance, to low income families. The maximum rate of FAS payable depends on the age of the eligible child; families currently receive \$48.00 a fortnight per child aged under 13 and \$68.20 a fortnight per child aged 13 to 15. These maximum rates are reduced under an income test based on the previous year's taxable income. For the 1990 calendar year, full payment will be made where 1988-89 taxable income was less than \$16 750 (plus \$624 for the second and each subsequent child). The fortnightly payment is reduced by \$1 for every \$52 by which annual taxable income exceeds these thresholds. Recipients of FAS are eligible for rent assistance.

Sole Parent Pensions and Allowances

Sole parent pensions and allowances are paid to persons who have substantially sole care and control of a child under 16 years of age. The sole parent pension commenced in March 1989 replacing Class A widow's pension and the supporting parent benefit. It is payable at the same rate and is subject to the same income and assets test as age pension. Currently a sole parent with two children living in rented accommodation may receive up to \$229.40 a week. With the commencement of the Child Support Scheme in 1988 to reform the collection of child maintenance, sole parents have been required to take reasonable steps to obtain maintenance.

Other Child Payments

This item covers outlays on child disability allowance (CDA) and double orphans pension (DOP). These payments are made fortnightly with FA; CDA is currently \$51.70 and DOP \$27.70 a fortnight. Neither payment is income tested.

Child Care

The Commonwealth provides capital and recurrent assistance under the Children's Services Program (CSP) for a wide range of child care services for children and their families. These include day care services in centres and in carers' homes (family day care); outside school hours and vacation care; and occasional care (see table below). Other services are provided for Aboriginal children, children of non-English speaking backgrounds, children with disabilities and children in remote areas.

CHILDREN'S SERVICES PROGRAM, OPERATIONAL PLACES BY CARE TYPE

	Long Day Care		Outside School Hours Care	Occasional Care/ Other Centres
	Centre-Based	Family Day Care		
30 June 1983(b)	20 008	20 100	9 870	(a)
30 June 1988	35 351	39 417	29 224	1 576
30 June 1989	37 555	39 549	30 448	3 536(c)
30 June 1990(d)	40 374	40 549	37 048	4 716
30 June 1991(d)	42 024	42 049	43 748	5 516
30 June 1992(d)	43 674	43 549	50 448	6 316
30 June 1993(d)	43 674	43 549	50 448	6 316

(a) Included in centre-based care for 1982-83

(b) Approved places, not operational places

(c) Multifunctional services previously classified as Centre-based Day Care now included here

(d) Estimates only

Recurrent assistance is in the form of per place operational subsidies to CSP services and means-tested fee relief. Fee relief subsidies are provided through CSP day care services to enable reduced fees for lower income families. Maximum assistance for one child in care is \$76 a week, payable when family income is less than \$300 a week.

Also included in this classification are the running costs for the Child Support Agency in the Australian Taxation Office amounting to \$13.2m in 1989-90.

Trends

Outlays on Assistance to Families with Children have increased from \$1695.1m in 1979-80 to an estimated \$4917.2m in 1989-90 in nominal amounts, or 2.7% a year in real terms.

Substantial increases in real outlays in the early 1980's levelled out by the mid-1980s and by 1986-87, outlays had fallen significantly. This stemmed largely from policy decisions aimed at reducing eligibility, including:

- from November 1985 family allowance would not generally be paid in respect of dependent students aged 18 and over;
- from 1 January 1986 family allowance would generally not be paid in respect of dependent students receiving Commonwealth education assistance (education allowances were increased more than commensurately);
- from September 1987 the maximum child qualifying age for sole parent pensions would be reduced to 15; and
- from November 1987 family allowance would be subject to an income test.

An offsetting influence to these decisions arose from the introduction of FAS to replace Family Income Supplement in December 1987. Significantly higher outlays under FAS reflected the higher level of assistance provided and the increase in the number of recipients resulting from a higher income threshold.

In 1989-90, there will be an increase in outlays of \$786.4m or 19.0% (12.0% real), primarily because of the decisions announced in the Economic Statement, April 1989, to increase and index family allowance and to increase FAS in July 1989 with further increases predicated on the Budget decision to increase real rates of pension.

In the forward years, real outlays are expected to be generally flat. Outlays on most items will be broadly maintained in real terms following the Government's decision to index family payments. But outlays on sole parent pensions, the largest single item in the sub-function, should continue to fall in real terms by about 1.2% a year on average because of the reforms of the collection of child maintenance. The first stage of the maintenance reforms came into effect on 1 June 1988. This involved the establishment of a Child Support Agency within the Australian Taxation Office to take responsibility for the collection of maintenance payments from non-custodial parents. At the same time, amendments to the Social Security Act 1947 came into effect which introduced a separate income test for such payments and a requirement that custodial parents applying for a sole parent pension take reasonable steps to obtain maintenance orders. This has increased both the number of maintenance orders and the level of compliance with those orders. The second stage of the reforms, to commence in October 1989, involves the administrative determination of maintenance obligations by use of an administrative formula, based on specified proportions of gross income.

The Children's Services Program expanded strongly from its inception in 1972-73 to \$65.2m in 1982-83. Outlays under the Program have grown significantly since 1983-84 reflecting the Government's decision to expand the number of child care places provided; to provide more generous, means tested fee relief; and, with the introduction of the 20 000 places strategy in 1985-86, to expand program support funding and special services for Aboriginals, migrants and children with disabilities. This program will continue to expand with the commencement in 1989-90, and implementation over 3 years, of the new additional 30 000 places strategy announced in last year's Budget. That strategy is made up of 4000 centre based places (1000 of which will be available for approved industry-based centres), 4000 family day care places, 2000 occasional care places and 20 000 outside school hours care places and will build on cost sharing arrangements with the States.

Budget Measures

The new FA rates effective from 1 July 1989 with annual indexation from January 1990, will provide increased family assistance to almost 2 million families, benefiting about 3.8 million children in 1989-90. A further 560 000 low income families also receive the substantial assistance provided through FAS and AP/B.

In this Budget the Government also made the following decisions:

- to ensure compliance with FA income test arrangements, selected reviews will be made of FA recipients (—\$15.0m in 1989-90 and —\$30.0m in 1990-91);
- to introduce a requirement that FA recipients notify the Department of Social Security of circumstances that are likely to result in an increase in income which may affect their entitlement (—\$15.2m in 1989-90, —\$30.4m in 1990-91);
- to change the administrative arrangements governing FAS to minimise the delay between the occurrence of a 'notifiable event' and the resulting change in entitlement, particularly, 'notifiable events' which occur before the lodgement of a FAS claim (—\$3.9m in 1989-90 and —\$7.8m in 1990-91);
- to prevent double payment of child and education allowances, parents will be provided with better information regarding cessation of child payments at the sixteenth birthday of the child and be directed to enquire about eligibility for appropriate education allowances. Child payments for children over fifteen will continue only when parents advise that the child will continue in full time education but is ineligible for an education allowance (—\$2.5m in 1989-90 and 1990-91);
- to revise the present 25% substantial reduction in income rule for FAS. Families whose income in the current financial year has or is likely to drop to below the FAS threshold, will now be eligible for reassessment of entitlement. In addition, those in receipt of AUSTUDY will be eligible for maximum rate FAS (subject to the assets test) and those already being paid under the reduction rule will in future be assessed under both the normal base assessment year and the current financial year and paid at the higher applicable rate. These changes will also apply to FA payments. (\$3.8m in 1989-90 and \$5.1m in 1990-91);

- to introduce the following measures under the Children's Services Program:
 - a formal fee relief system for outside school hours care for families with an income below the limit for FAS (\$0.8m in 1989-90, increasing to \$2.3m in 1992-93) to be cost shared with the States on a \$ for \$ basis;
 - an increase of \$25 in the threshold for maximum benefit in the long day care income test and an increase of \$2.50 in the fee relief ceiling for centre based care, both to be indexed in subsequent years (\$5.8m in 1989-90, increasing to \$13.4m in 1992-93);
 - the indexation of existing approved 40 hour fee ceilings for family day care for fee relief purposes in 1989-90 and subsequent years (\$1.7m in 1989-90, increasing to \$5.2m in 1992-93).

4.5 ASSISTANCE TO THE UNEMPLOYED AND SICK

4.5		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Unemployment Benefits	\$m 3092.2	3154.2	3434.3	3634.1	3832.6
		% -7.6	2.0	8.9	5.8	5.5
	Job Search Allowance	\$m 43.4	48.9	53.3	56.9	59.8
		% 56.0	72.0	8.0	6.8	5.1
	Sickness Benefits	\$m 553.0	590.9	629.7	676.2	712.7
		% 8.2	6.8	6.8	7.4	5.4
	TOTAL	\$m 3688.6	3793.9	4117.3	4367.2	4605.1
		% -5.1	2.0	8.5	6.1	5.4

Income support is provided to persons who are unemployed, or unable to work because of temporary incapacity, and who have no, or limited, alternative means of support.

Unemployment and Sickness Benefit

Married unemployment and sickness beneficiaries and those with dependants generally receive the same basic rates of benefit as age and invalid pensioners, while beneficiaries without dependants receive lower rates (currently \$97.70 a week for those 18-20 and \$120.65 a week for those 21 and over). Benefits payable to those 21 years and over are indexed to movements in the CPI in the same way as is age pension. Beneficiaries may also qualify for rent assistance either after 26 weeks if they do not have dependent children or immediately otherwise.

Benefits are income tested and subject to an assets test (for those 25 and over). In addition, unemployment beneficiaries are subject to a work test which requires that they are available for and actively seeking employment.

Job Search Allowance (JSA)

From 1 January 1988, unemployment benefits for 16 and 17 year olds were replaced by JSA whose rates of payment are aligned with AUSTUDY in order to reduce the financial incentive for young people to leave the education system.

Those meeting the eligibility criteria receive a minimum payment of \$25 a week with an additional \$28.55 a week available subject to a parental income test. The maximum rate of JSA is indexed in January each year in line with increases in the CPI.

Young Homeless Allowance (YHA) may be payable in addition to JSA. YHA was introduced in July 1986 to assist young people aged 16 or 17 who are unable to live at home because of difficult domestic circumstances. It is currently paid at a maximum rate of \$27.85 a week.

Trends

Outlays on Assistance to the Unemployed and Sick have increased from \$1067.9m in 1979-80 to an estimated \$3793.9m in 1989-90, or by 59.9% in real terms over the decade to 1989-90. During the early years unemployment levels increased significantly, reaching a peak of 10% of the labour force in 1983-84 and producing strong outlays growth. However, improvements in the labour market since that time have led to a substantial cutback in growth, with real outlays on unemployment benefits falling by 25.7% over the 5 years to 1988-89. Average numbers of unemployment beneficiaries (including JSA's) fell from 620 000 to 429 000 over this period.

There has been a large number of initiatives introduced over the past three years to reduce fraud and abuse which have also contributed to the reduction in outlays growth. These have included the deployment of twenty unemployment benefit mobile review teams, the requirement for mandatory CES registration and personal lodgement of unemployment benefit continuation forms, the introduction of work intention forms to ensure that applicants are genuinely seeking work and the requirement that applicants provide a certificate from their previous employer stating the date and reason for job loss.

Unlike unemployment benefit, outlays on sickness benefit have continued to increase significantly in recent years; real outlays grew by 15.2% over the 5 years to 1988-89, largely because of a growth in average numbers from 63 000 to 77 000.

Outlays on assistance to the unemployed and sick are estimated to increase by 3.3% in real terms over the period from 1988-89 to 1992-93. This is mainly due to the fact that benefits are indexed to the CPI while real outlays are calculated using the GDP deflator, increases in rent assistance announced in this and last year's Budget, and increases in rates of payment for married beneficiaries and those with dependants announced in this Budget. Average numbers of unemployment beneficiaries (including JSA's) are estimated to fall by 29 000 to 400 000 in 1989-90 and then to increase slightly to 410 000 by 1992-93.

Budget Measures

In the Economic Statement, April 1989, the Government announced that eligibility for unemployment and sickness benefits is to be deferred for the period covered by payments of annual leave on termination of employment, up to a maximum of four weeks, for all persons leaving employment from 1 September 1989. This measure is expected to reduce outlays by \$51.7m in 1989-90 and \$62.0m in 1990-91.

Several measures were also announced at that time to strengthen the unemployment benefit work test. From 1 July 1989, improved administrative procedures have been introduced in the Department of Social Security and the Commonwealth Employment Service in relation to people who are making unsatisfactory efforts to find work. The definition of 'suitable paid work' for work test purposes has also been tightened.

The changes made to the operation of the work test are estimated to produce savings in unemployment benefit outlays of \$16.5m in 1989-90 and 1990-91.

Increases in rent assistance and in rates of benefit for married couples and those with dependants, announced in this Budget and described in the functional overview and 4.1. *Assistance to the Aged*, are estimated to increase benefit outlays by \$16.0m in 1989-90 and \$56.6m in 1990-91.

The Government has also decided in this Budget to liberalise the income test applying to married beneficiaries to encourage greater labour market participation by benefit recipients and their spouses. From September 1990, the current fortnightly income test free area of \$60 is to be increased by \$30 in respect of income earned by the beneficiary or by the beneficiary's spouse. This measure is estimated to increase unemployment and sickness benefit outlays by \$6.5m in 1990-91 and \$8.8m in 1991-92.

In addition, to assist in the transition to employment, from June 1990 the Government is to provide pharmaceutical and other concessions available through the Health Care Card free of income test to long term unemployment beneficiaries and sole parent pensioners for a period of 6 months after commencing full time employment. See also 3. *Health*.

A package of measures is also to be introduced for the older unemployed to improve their labour force participation and to enhance income support for those with limited prospects for economic independence through employment. From June 1990:

- the single rate of benefit is to be increased to achieve parity with pensions for 60-64 year olds with durations on benefit of at least 6 months;
- the 6 month waiting period for rent assistance for beneficiaries without dependent children is to be abolished for 60-64 year olds; and
- access to the Health Benefit Card is to be provided to 60-64 year olds with durations on benefit of at least 12 months.

These initiatives are estimated to increase benefit outlays by \$5.3m in 1990-91 and in 1991-92. Additional outlays are included under 3. *Health*.

Further, for 55-64 year olds new interview and work test approaches are to be trialled by the Department of Social Security and the Commonwealth Employment Service; improved access is to be provided to labour market programs; the work test as it applies to short training courses, voluntary work and participation in regular part time employment is to be relaxed; and a strategy is to be developed for changing community attitudes towards labour force participation by this group.

As part of the Strategy for Young People announced by the Government in the Budget, income support is to be enhanced. The measures include:

- an increase of \$7.50 a week in the rate of YHA;
- introduction of a JSA independent rate, equivalent to the AUSTUDY independent rate, for JSA recipients living away from home who meet the independence criterion for exemption from the parental income test;
- abolition of the waiting period for YHA applicants who cannot live at home because of exceptional circumstances such as sexual abuse or domestic violence and a reduction in the waiting period from 6 to 2 weeks for other YHA applicants;
- automatic indexation of YHA and the minimum rate of JSA;

The above measures are estimated to increase benefit outlays by \$1.7m in 1989-90 and \$3.7m in 1990-91. Further detail on the income support initiatives to be introduced for young people is provided in *Budget Related Paper No. 9*.

In order to further minimise the scope for fraud and abuse relating to social security payments, the Government has decided that, from 1 November 1989, new applicants for unemployment and sickness benefit will be required to produce their tax file number as a pre-requisite for receiving benefits. In addition, those beneficiaries who are currently required to produce a tax file number but have failed to do so will forfeit their entitlement to benefit. These arrangements will, for this group, replace those which normally operate for persons failing to provide their tax file number. It is expected that these measures will reduce unemployment and sickness benefit outlays by \$32.8m in 1989-90 and \$48.9m in 1990-91.

The Government will also introduce the following measures to improve further the review procedures operating in the area of unemployment benefit:

- a universal mail review after 3 months on benefit;
- an intensive interview for 40 000 beneficiaries after 3 months on benefit and a further 30 000 after 12 months, combined with close monitoring of the job search efforts of a proportion of those interviewed;
- the deployment of an additional ten mobile unemployment benefit review teams, bringing the total number of such teams to thirty; and
- increased access by the Department of Social Security to information on job search and job training efforts made by beneficiaries held by the Commonwealth Employment Service.

These measures are estimated to reduce outlays on unemployment benefit by \$49.5m in 1989-90 and \$106.7m in 1990-91.

New work test arrangements are also to be introduced to tighten up on the treatment of beneficiaries who move from high to low employment areas or who move around the country at regular intervals. These will, among other things, involve the introduction of a 12 week waiting period for unemployment benefit for persons moving to low employment areas. Reductions in unemployment benefit outlays of \$3.7m are expected in 1989-90 from these initiatives and \$9.0m in 1990-91.

In addition, three mobile review teams are to be deployed to improve compliance in the area of sickness benefit, which are estimated to reduce sickness benefit outlays by \$4.2m in 1989-90 and \$15.0m in 1990-91.

The Departments of Social Security and Employment, Education and Training recently completed an evaluation of the JSA arrangements, the findings of which formed an input into the Government's Strategy for Young People. These two Departments are also to carry out an evaluation in 1990-91 of the Government's NEWSTART program for the prime aged (21-54 years) long term unemployed which was announced in the 1988-89 Budget.

4.6 OTHER WELFARE PROGRAMS

4.6		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
	Special Benefits	\$m 178.3	225.3	242.8	251.3	261.1
	%	18.2	24.3	7.8	3.5	3.9
	Other Assistance to Widows	\$m 534.9	560.9	591.2	595.6	595.3
	%	3.8	4.9	5.4	0.7	-0.1
	Accommodation Assistance	\$m 111.7	177.7	162.8	170.3	172.5
	%	22.7	56.1	-6.4	4.6	1.3
	Telephone, Rent and Postal Concessions	\$m 52.5	50.7	52.6	54.3	56.0
	%	7.8	-3.8	3.8	3.2	3.1
	Migrants Settlement Support	\$m 28.9	32.2	35.3	37.6	38.7
	%	5.9	11.4	9.5	6.5	3.0
	Welfare Programs in the ACT	\$m 44.4	-	-	-	-
	%	116.5	-100.0	n.a.	n.a.	n.a.
	Other	\$m 4.3	5.3	4.7	4.8	4.9
	%	-6.4	24.9	-12.6	2.8	3.0
	TOTAL	\$m 955.1	1052.1	1089.4	1113.9	1128.5
	%	11.1	10.2	3.5	2.3	1.3

This sub-function comprises a number of loosely related elements directed at achieving the following objectives:

- to provide income support to people in special circumstances;
- to assist people facing certain additional costs by providing income supplements and/or concessions; and
- to increase access for low income people and the homeless to accommodation through the provision of recurrent and capital funds in conjunction with the States and Territories.

Special Benefit

Special benefit is paid to those who are unable to earn a sufficient livelihood for themselves and their dependants and who are ineligible for any other pension or benefit. It is paid, generally at rates equivalent to unemployment benefit, at the discretion of the Secretary of the Department of Social Security in cases of demonstrable hardship.

Other Assistance to Widows

This item comprises Class B widow's pension and the widowed person's allowance. Class B widow's pensions are payable to previously married women who do not have dependent children and who were aged 50 years or more or were sole parent pensioners aged 45 years or more at 1 July 1987. They are payable at the same rate as age pensions and the same additional payments are available. They are also subject to the same income and assets test as are age pensions.

Widowed person's allowance is a new benefit which replaced Class C widow's pension from March 1989. It is payable to recently widowed persons who do not have dependent children (those with children being entitled to sole parent pension). The allowance is payable for up to 12 weeks (but not concurrently with another pension or benefit) and is subject to normal pension rates and conditions.

Accommodation Assistance

This item comprises a number of programs targeted at those in short term housing crisis.

The Mortgage and Rent Relief Scheme (MRRS), assists low income home buyers experiencing extreme difficulty in meeting their mortgage repayments and low income private renters experiencing difficulty in meeting rent payments or in gaining access to private rental accommodation.

The Crisis Accommodation Program provides for the purchase, construction, renovation or leasing of dwellings to provide short term emergency accommodation such as refugees.

Commonwealth funds for these two programs are provided to the States as sub-programs under the Commonwealth State Housing Agreement (CSHA). States are required to match MRRS funds on a \$ for \$ basis.

Under the Supported Accommodation Assistance Program (SAAP), the Commonwealth, in conjunction with the States and Territories, makes available recurrent and non-housing capital funds for transitional support services to assist people who are homeless as a result of crisis. The States and Territories match Commonwealth outlays on a \$ for \$ basis above an agreed funding base.

Telephone Rental and Postal Concessions

The telephone rental and postal concessions offer a one-third reduction in the basic annual telephone rental fee and an exemption from the postal redirection charge. Additional postal concessions are also provided to blind persons.

Migrant Settlement Support

Settlement support for migrants includes grants-in-aid, translator and interpreter services (including language services under Commonwealth/State cost-sharing arrangements), migrant resource centres, maintenance of unattached refugee children and assistance to voluntary agencies under the Community Refugee Settlement Scheme.

Welfare Programs in the ACT

Outlays on welfare programs in the ACT for 1989-90 and the forward years are zero reflecting the advent of self-government for the ACT from 11 May 1989. As from that date ACT own purpose outlays do not form part of Commonwealth outlays as the ACT will operate a separate account outside the Commonwealth Public Account. Commonwealth general and specific purpose payments to the ACT, analogous to payments to the States and the NT are described in *9A Assistance to Other Governments*.

Trends

Outlays on Other Welfare Programs have increased from \$344.6m in 1979-80 to an estimated \$1052.1m in 1989-90 in nominal amounts, an average real annual increase of 3.2%.

Growth in outlays on this sub-function has been influenced by the two largest items, namely special benefit and Class B widow's pension.

Special benefit outlays increased by 20.0% in real terms over the period from 1979-80 to 1983-84. An important factor influencing growth in this period was the deterioration of the labour market. Thereafter, labour market conditions have improved. However, from the mid 1980s the Government has introduced a large number of measures in the pension and benefit area to improve targeting and better enforce eligibility conditions and a number of those taken off these payments have been able to qualify for special benefit. This has resulted in continuing real outlays growth of 34.5% over the period from 1983-84 to 1988-89.

Growth in outlays on Class B widow's pension over the 1980s, is largely a result of increasing numbers of pensioners, particularly up to 1985. From 1 July 1987 the phasing out of Class B widow's pensions commenced (subject to a number of protection provisions for existing pensioners and certain other women) so that by the year 2002 there will be no new grants of this pension.

In 1989-90 there will be an increase in outlays of \$97.0m or 10.2% (3.6% real). Factors contributing to the real growth in outlays include an increase in special beneficiary numbers in response to a tightening in unemployment benefit eligibility criteria and administration, increased outlays for the implementation of the Government's strategy for young people and increased outlays on mortgage relief announced in this Budget. These increases will be partly offset by the fall in real outlays on Class B widow's pension (reflecting the gradual phasing out of this payment) and the cessation of outlays on ACT welfare programs.

Over the forward years the phasing out of Class B widow's pension eligibility and the forecast moderation in growth of special benefit outlays, will result in a fall in real outlays.

Budget Measures

A one-off addition of \$14.8m in 1989-90 will be provided to the States by the Commonwealth under the CSHA (and \$0.2m to the ACT). It is to be distributed under States' Mortgage and Rent Relief (MRR) eligibility criteria to those adversely affected by current high interest rates. These funds will not need to be matched by the States.

The Commonwealth is also providing a one-off grant of \$9.8m in 1989-90 to the States under the CSHA to assist in housing homeless youth as part of its youth strategy (\$0.2m to the ACT). (See also 5. *Housing and Community Amenities* for a description of the operation of the CSHA.)

The Commonwealth has agreed to enter into Agreements with the States to provide funds for SAAP on a cost-shared basis for a further 3 years, including an additional \$30.0m in growth funds (matched by the States) over the term of the new Agreements.

In addition, the Commonwealth has agreed to provide \$16.9m over the period to 1992-93 (\$2.2m in 1989-90) to promote innovative service development for homeless 16-17 year olds focussed on accommodation support priorities arising out of the Burdekin Report. The States are to match the Commonwealth's funding.

Married special beneficiaries, single beneficiaries with dependants and Class B widow's pensioners will receive the pension rate increases in April 1990. Special beneficiaries will also be eligible for the rent assistance increases described under 4.1 *Assistance to the Aged*.

4.7 ABORIGINAL ADVANCEMENT PROGRAMS

4.7	1988-89 1989-90 1990-91 1991-92 1992-93				
	Actual	Budget	Estimate	Estimate	Estimate
Aboriginal Development	\$m 108.7	80.1	76.7	78.8	81.4
Commission	% 8.9	28.3	-4.2	2.7	3.2
Community Development	\$m 98.8	134.0	181.4	189.1	195.8
Employment Program	% 50.8	36.5	35.4	4.3	3.5
Aboriginal Land Mining Royalties	\$m 23.3	22.7	22.7	22.7	22.7
	% 6.6	-3.0	-	-	-
ATSICDC	\$m -	10.0	10.0	10.0	10.0
	% n.a.	n.a.	n.a.	-	-
Other	\$m 9.9	21.6	20.3	19.6	21.3
	% 4.4	117.1	-8.1	-3.5	9.0
TOTAL	\$m 240.8	258.3	311.0	320.2	331.1
	% 22.4	7.3	20.4	2.9	3.4

The Government's policies in respect of Aboriginal Affairs are aimed at maintaining and supporting the cultural identity of Aboriginal and Torres Strait Islander people, and in the long term achieving economic and social equity with other Australians.

Programs of assistance to Aboriginals range over a number of functions.

This sub-function includes certain programs administered by the Department of Aboriginal Affairs and the Aboriginal Development Commission. It also includes costs relating to the establishment of the Aboriginal and Torres Strait Islander Commission (ATSIC) which, upon passage of enabling legislation currently in the Parliament, is intended to replace and take over the programs of those two agencies in the course of 1989-90. Other programs are classified under 2. *Education*, 3. *Health*, 5. *Housing and Community Amenities*, 6. *Culture and Recreation*, 7C. *Labour and Employment* and 8B. *Law, Order and Safety*.

This section adopts the convention of using "Aboriginals" to include persons of the Torres Strait Islands.

Aboriginal Development Commission

The role of the Aboriginal Development Commission (ADC) is to further the economic and social development of Aboriginals in order to promote self management, self determination and self sufficiency. The Commission's programs include:

- loans and grants for enterprises;
- acquisition of land of special significance, the maintenance of properties and provision of social facilities;
- home loans to individuals and grants to Aboriginal housing organisations;
- support services to Aboriginal business enterprises and housing organisations; and
- a capital account investment program to maximise the Commission's capital base.

Community Development Employment Program

The Community Development Employment Program (CDEP), an integral part of the Government's Aboriginal Employment Development Program, enables Aboriginal community councils, in the more remote Aboriginal communities, to undertake community development activities through the creation of employment opportunities. Under the scheme, communities agree to forgo the individual unemployment benefits to which their members would be entitled in order to receive an equivalent consolidated amount plus an on-cost payment for associated recurrent expenditures and a separate capital costs payment.

In 1989-90, there will be an estimated 11 000 persons participating in the scheme.

Aboriginal Land Mining Royalties

Under arrangements set out in the *Aboriginal Land Rights (Northern Territory) Act 1976*, amounts equivalent to the royalties derived from mining activity conducted on Aboriginal land in the Northern Territory are paid by the Commonwealth to an Aboriginals Benefit Trust Account (ABTA) for distribution to Aboriginal Land Councils established under the Act, communities affected by mining developments and Aboriginals in the NT generally.

Aboriginal and Torres Strait Islander Commercial Development Corporation

The establishment of the Aboriginal and Torres Strait Islander Commercial Development Corporation (ATSICDC) (previously known as the Aboriginal Economic Development Corporation) is part of the Government's initiatives in the administration of Aboriginal Affairs outlined in the Aboriginal and Torres Strait Islander Commission (ATSIC) Bill 1989. The purpose of the ATSICDC will be to advance the commercial and economic interests of Aboriginals by accumulating and using a substantial capital asset for the benefit of Aboriginals. The Government is currently committed to providing a capital base of \$60.0m in the form of \$40.0m in capital subventions and the transfer of the existing Capital Entitlement Account of the Aboriginal Development Commission. Owing to delays in passage of the ATSIC Bill, monies for the purpose of the ATSICDC will not be appropriated until 1990-91.

Other

This item includes grants to the States and Aboriginal organisations for social support, the costs of the establishment of ATSIC and other outlays items of a miscellaneous nature.

Trends

Outlays on Aboriginal Advancement Programs nec have increased from \$16.8m in 1979-80 to an estimated \$258.3m in 1989-90 in nominal amounts.

By far the largest increase in this sub-function has been CDEP outlays, particularly over the last three financial years. This stems from specific decisions concerning CDEP which forms part of the overall Aboriginal Employment Development Policy. However, these outlays are largely offset by reduced outlays on social security benefits to participants. 1989-90 outlays are expected to be \$134.0m (up from \$7.4m in 1982-83). Participation has increased by 17% to 10 787 people at July 1989. The scheme will continue to expand in the outyears by a further 1900 participants in 1990-91 with a consequent effect on outlays.

The ADC has received considerable increases in funding since its establishment in 1980-81, rising from \$13.8m to \$108.7m in 1988-89. The amount for 1989-90 represents a decrease on 1988-89 of \$28.6m largely because of a reallocation of \$26m from the ADC to the Community Development and Infrastructure Program administered by the Department of Aboriginal Affairs (see 5. *Housing and Community Amenities*). The effect of this is also reflected in the forward estimates.

Payments to the ABTA for on-passing to the Land Councils are dependent upon mining activity and have increased from \$3.1m in 1979-80 to \$19.9m in 1989-90.

Budget Measures

The Government has restored entitlement of CDEP participants to FAS payments for their dependent children and has committed itself to undertaking a review of the funding arrangement of CDEP during 1989-90 (\$8.0m in 1989-90).

4.8 GENERAL ADMINISTRATION

4.8		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
	Department of Social Security	\$m 708.5	800.0	779.4	793.7	818.8
		% 2.8	12.9	-2.6	1.8	3.2
	Department of Veterans' Affairs	\$m 130.6	168.4	158.8	164.9	170.8
		% -3.5	29.0	-5.7	3.8	3.6
	Department of Community	\$m 121.4	115.0	117.9	118.3	122.9
	Services and Health	% 81.1	-5.2	2.5	0.3	3.9
	Department of Aboriginal Affairs	\$m 44.5	46.6	42.1	41.0	41.3
		% 17.6	4.7	-9.5	-2.8	0.7
	TOTAL	\$m 1005.0	1130.0	1098.2	1117.9	1153.7
		% 8.1	12.4	-2.8	1.8	3.2

Department of Social Security

The major outlays component under the Department of Social Security relates to salaries costs. Salaries outlays are expected to be \$441.3m in 1989-90 compared with \$432.2m in 1988-89, an increase of 2.1%. Significant additional resources have been provided to implement the wide range of initiatives announced in the Budget (\$17.9m) and the Economic Statement, April 1989 (\$6.4m). An additional \$10.1m has also been allocated for the full year effect of the 1988-89 National Wage Case decision. These increases have been partly offset by savings from the implementation of the Stratplan computer re-equipment program (\$9.9m) and the 1.25% efficiency dividend (\$4.8m).

The balance of the Department of Social Security's outlays relate to general administrative and capital expenses. The increase from \$276.4m to \$358.7m (29.8%) mainly reflects:

- the introduction of user charges in the areas of compensation, valuations and property operating expenses (\$33.6m);
- additional administrative resources allocated for the Budget and Economic Statement, April 1989 (\$20.1m);
- a carryover into 1989-90 of \$13.6m of unspent computer equipment funds; and
- supplementation equivalent to the non farm GDP deflator to allow for increases in other costs and charges (\$11.0m).

Department of Veterans' Affairs

The major components of general administrative costs of the Department of Veterans' Affairs allocated to this function include \$88.1m for salaries and allowances, \$39.0m for administrative expenses and \$37.5m for property operating expenses. Costs are estimated to increase by a total of \$38.0m in 1989-90 due to a number of factors including:

- the costs of absorption of residual Defence Service Homes staff (\$4.0m);
- the introduction of user charges in the areas of compensation, valuations and property operating expenses (\$12.0m);

- additional resources to implement Budget initiatives, including the cost of a trip by WWI veterans to Gallipoli to celebrate Anzac Day (\$2.5m); and
- a carryover into 1989-90 of unspent running costs (\$2.4m).

The balance of the increase is due to wage increases, price adjustments and a reallocation of running costs expenditure across the Department's various programs.

Department of Community Services and Health

The general administrative costs of the Department of Community Services and Health allocated to this function include \$61.3m for salaries and allowances, \$30.6m administrative expenses and \$19.1m for property operating expenses.

Department of Employment, Education and Training

Running costs are provided for the Department of Aboriginal Affairs within the Employment, Education and Training portfolio. The increase in running costs in 1989-90 is mainly attributable to additional costs (\$8.9m) associated with the establishment of the Aboriginal and Torres Strait Islander Commission (ATSIC). These additional costs are partially offset by savings in salaries and on-costs of \$2.0m.

4.9 RECOVERIES AND REPAYMENTS

The growth in this item from \$11.2m in 1988-89 to an estimated \$23.4m largely reflects the results of the revised reciprocal social security agreement between New Zealand and Australia (\$19.0m in 1989-90). New Zealand reimburses Australia for the cost of Australian aged, widow's and invalid pensions paid to certain New Zealanders. The total also includes smaller amounts for miscellaneous receipts under the Departments of Veterans' Affairs and Aboriginal Affairs.

FURTHER REFERENCES

Annual reports, particularly those of the Departments of Social Security, Community Services and Health, Veterans' Affairs and Aboriginal Affairs

Budget Paper No 3, Portfolio Program Estimates 1989-90

Budget Paper No 4, Commonwealth Financial Relations with other levels of Government 1989-90

The Economic Statement, April 1989

Portfolio Explanatory Notes (Budget Related Paper No 8) for the above departments

5. HOUSING AND COMMUNITY AMENITIES

OVERVIEW

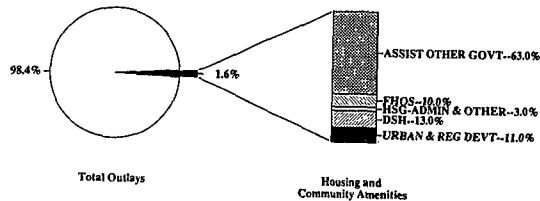
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Housing						
5.1	Housing Assistance - Other	\$m 919.8	894.1	914.9	924.8	934.6
	Governments	% -9.5	-2.8	2.3	1.1	1.1
5.2	Assistance to First Home Owners	\$m 176.0	146.3	138.3	134.5	130.1
		% -20.8	-18.0	-5.5	-2.7	-3.3
5.3	Defence Service Homes	\$m 52.3	179.2	182.6	164.6	169.3
		% n.a.	242.0	1.0	-9.0	2.8
5.4	Housing in the ACT	\$m 16.7				
		% 35.3	-100.0	n.a.	n.a.	n.a.
5.5	Housing Other	\$m 26.9	30.5	28.3	29.8	27.3
		% -11.0	13.6	-7.3	5.3	-8.3
5.8	General Administration	\$m 5.9	12.4	11.1	10.9	11.9
		% -18.2	110.5	-10.5	-1.8	9.3
	Sub-Total Housing	\$m 1197.6	1262.5	1275.2	1264.6	1273.2
		% -7.8	5.4	1.0	-0.8	0.7
Urban and Regional Development						
5.7	Urban And Regional	\$m 23.0	145.5	107.3	80.2	89.4
	Development	% -84.3	n.a.	-7.1	-25.2	11.4
5.8	Pollution Abatement and	\$m 18.0	38.1	39.2	32.0	33.3
	Control	% -19.4	111.2	3.0	-18.4	3.9
	Sub-Total Urban and Regional	\$m 41.0	183.6	146.5	112.2	122.6
	Development	% -52.7	n.a.	-4.8	-23.4	9.3
	TOTAL	\$m 1238.6	1416.0	1421.7	1376.8	1395.8
		% -10.8	14.3	0.4	-3.2	1.4

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve.

- Total housing and community amenities outlays are expected to increase by \$177.4m or 14.3% (7.5% in real terms) in 1989-90 and existing policies imply an overall decline in the level of expenditure over the three forward years (down 1.4%).
- Outlays on housing and community amenities have remained a fairly constant proportion of Commonwealth outlays in recent years. In 1988-89 spending represented some 1.5% of Commonwealth outlays. In 1989-90 it is expected to be some 1.6% (see Chart 1).

CHART 1. HOUSING AND COMMUNITY AMENITIES

Proportion of total Outlays and Function
1989-90



- The strong growth in outlays in 1989-90 reflects:
 - the full year effect of the Defence Service Home loan interest subsidy payable to Westpac following the transfer of the mortgage portfolio in 1988-89 (\$132.3m);
 - the advent of self-government for the ACT from 11 May 1989 with ACT outlays ceasing to be regarded as Commonwealth own purpose outlays, with the consequent effect that receipts from lease sales in the ACT are no longer received by the Commonwealth (\$31.0m); and
 - the increase in funding of Aboriginal Community Services and Amenities reflecting the priority of the Commonwealth to improve the infrastructures (eg housing, sewerage and power) of Aboriginal communities (\$32.7m).
- Initiatives in this Budget will add \$22.4m to outlays in 1989-90 and \$51.3m in 1990-91, including:
 - the introduction of a rental property trust subsidy to provide housing assistance to the States at a cost of \$2.3m in 1989-90, \$26m in 1990-91 and \$65m in 1993-94 at the end of the five year program;
 - funding of \$6.8m for a number of environmental initiatives announced in the Environmental Statement of July 1989, including funding for the Billion Trees Initiative, costing \$4m in 1989-90 and the forward years;
 - \$5.2m for the establishment of the Resource Assessment Commission which is to enquire into, and provide advice on, resource use matters involving consideration of conservation and development issues;
 - an increase in the Housing Costs Reduction Program and related measures costing \$3.8m in 1989-90 and \$3.7m in 1990-91; and
 - the provision of \$1m in 1989-90 and \$3m in 1990-91 for the rehabilitation of abandoned uranium mines in the NT.
- Other initiatives impacting, in part, on this function include the conversion of \$310.5m a year of nominated loan funds to grants under the Commonwealth State Housing Agreement (CSHA) at an ongoing cost to both revenue (in terms of foregone interest) and outlays (in terms of foregone principal repayments), with a total impact on the balance of \$7.0m in 1989-90 and \$22.5m in 1990-91, growing by \$15.5m a year as the volume of grants increases.
- Funding for the following Budget initiatives, not classified to this function, but to be provided under the CSHA include:
 - a special additional grant to provide mortgage interest rate relief at a cost of \$15m in 1989-90; and
 - additional housing assistance for youth at a cost of \$10m in 1989-90.
- Offsetting savings measures include the introduction of a 12 month residency requirement for assistance under the First Home Owners Scheme (FHOS), saving \$2m in 1989-90 and \$3m in each of the forward estimates years.
- However, estimates in the forward years are dominated by:
 - the fixed nominal base level of funding under CSHA;
 - the impact on entitlements of fixed nominal income limits under the FHOS means test; and
 - the eventual finalisation of the Aboriginal and Community Services programs.

PURPOSE

Commonwealth outlays for housing included under this function primarily aim to improve access to adequate, appropriate and affordable housing for those whose needs are not met through the private rental market. Direct cash assistance is also provided under the *4. Social Security and Welfare* function to pensioners and beneficiaries and other low income earners who rent in the private housing market and certain tax expenditures assist owner occupiers and suppliers of private rental accommodation (eg exemption from capital gains tax and negative gearing provisions, respectively).

Other activity under this function provides Commonwealth assistance with regional issues, the funding of Aboriginal community services and amenities and pollution abatement and control.

NATURE OF HOUSING AND COMMUNITY AMENITIES OUTLAYS

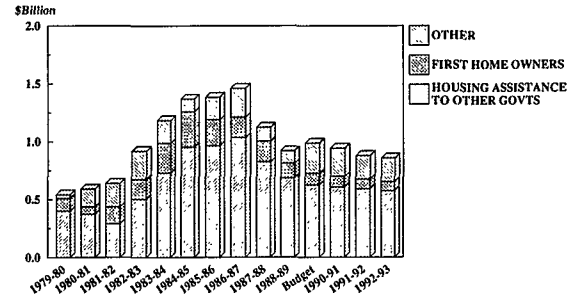
Outlays under this function are dominated by assistance for housing, both for home ownership and publicly provided rental accommodation. **Rental assistance** under this function is through specific purpose grants to State governments under the CSHA to fund both rental subsidies to public housing tenants and the construction and purchase of additional publicly owned rental stock. Jointly agreed Commonwealth and State guidelines ensure that the assistance is targeted to low income people and groups disadvantaged in finding suitable accommodation. Short term assistance is also available under the Mortgage and Rent Relief Scheme (classified to *4. Social Security and Welfare*) to those low income buyers and renters experiencing difficulties in meeting their repayments or rent. **Home ownership assistance** is provided as grants under the FHOS at the time of initial purchase and in the first few years of mortgage repayment and through CSHA Home Purchase Assistance arrangements.

Subsidised low interest loans are also made available through a private financial institution to eligible former and serving members of the Defence Force who enlisted prior to May 1985.

TRENDS IN HOUSING AND COMMUNITY AMENITIES OUTLAYS

Total outlays grew strongly in real terms between 1981-82 and 1984-85, then declined markedly between 1986-87 and 1988-89. For the period as a whole, there has been a net increase in real terms of 44%. As Chart 2 shows these trends essentially reflect changes in the two major housing programs—CSHA and FHOS. Over the years CSHA outlays have reflected changes in the demand for public housing and the degree of targeting within the program. Similarly, expenditure on FHOS (and its precursor programs) has also been demand driven, increasing in periods of rising affordability and subject to changes in targeting.

CHART 2. HOUSING AND COMMUNITY AMENITIES OUTLAYS - COMPOSITION (1984-85 prices)



In 1978-79 CSHA assistance was provided entirely as loans, States were required to match 39% of the Commonwealth's contribution and 40% was earmarked specifically for home purchase assistance. Beyond these conditions, the States were allowed considerable flexibility to set their own priorities.

Between 1979-80 and 1981-82 there was a substantial real increase in the overall level of funding (18%). Moreover, there was a progressive shift away from advances towards grant funding (from 38% to 44% grant funding) and an increased emphasis on targeting with the introduction of specific purpose grant programs to assist pensioners and Aboriginals with their particular housing needs. In 1981-82 the requirement that a fixed proportion be spent on home ownership was dropped.

CSHA funding quadrupled in real terms between 1981-82 and 1984-85 as policy sought to respond to increases in housing related poverty. Increased emphasis was placed on grant funding within the CSHA from complete reliance on loan funding in 1981-82 to full grant funding in 1984-85. Following the 1982 Loan Council meeting the States were also able to nominate a proportion of their general purpose advances for housing at concessional interest rates. In addition, the States were required to match the Commonwealth's contribution to a greater extent (from 75% in 1981-82 to 83% in 1984-85). Over this period the proportion of funds spent on providing rental accommodation increased from 77% in 1981-82 to 91% in 1984-85.

When Budget outlays growth overall slowed from 1984-85 in response to general budgetary imperatives, and in recognition of the substantial expansion of funding that had occurred, further steps were taken to improve program effectiveness. In 1984 the Commonwealth entered into a new CSHA which placed greater emphasis on targeting assistance toward specific groups with particular housing needs. One new specific purpose program was introduced (the Local Government and Community Housing Program) and two programs (the Crisis Accommodation Program and the Mortgage and Rent Relief Scheme), formerly outside the CSHA, were incorporated into CSHA assistance.

The effect of these efforts to improve targeting has been that increasing numbers of pensioners and beneficiaries and other low income groups continued to be assisted without significant further increases in Commonwealth outlays. For example, the proportion of public housing tenants who were receiving rent rebates rose from 52% in 1981-82 to 62% in 1984-85.

In the period 1984-85 to 1987-88 real funding levels for the CSHA declined. Outlays within the program were increasingly targeted to low income renters in need so that the proportion who were eligible for rent rebate subsidies increased from 62% in 1984-85 to 72% in 1987-88. In addition, a much higher proportion of Commonwealth funding was devoted to subsidising the maintenance and funding of the existing rental stock.

These trends continue in the current budget and in the forward years. Aggregate outlays on CSHA, projected at the fixed base level of funding guaranteed under the Agreement, does not grow significantly, but recent changes to the matching requirements and rent setting policy under the CSHA will help to improve further targeting and program effectiveness. The CSHA will be renegotiated during 1989-90. This may result in a revision to the base level of funding.

Assistance to home purchasers has followed a similar pattern. In 1978-79 direct homeownership assistance was provided through the Home Savings Grant program. This program had effectively replaced earlier systems of assistance provided through the 1964 Home Savings Grant Scheme and through the tax system.

Between 1979-80 and 1981-82 funding levels grew slightly until the introduction of Home Deposit Assistance Grants in the 1982-83 Budget (which doubled the level of funding) and further tax rebate schemes.

The First Home Owners Scheme, introduced in 1983-84, provided not only deposit assistance but also an ongoing subsidy payment to help meet the costs of mortgage repayments in the early years. One factor in setting the initial generosity of FHOS was a perceived need to stimulate activity in the housing sector at a time of recession.

FHOS outlays grew rapidly until eligibility was tightened in 1984-85 and again in 1985-86. In 1984-85 the income limits were revised and the maximum benefit reduced. These measures targeted assistance more closely on those most in need, namely low income earners with children, and served to stem very strong growth in the housing sector after the initial requirement for stimulus of the building industry had passed.

From a lower base, FHOS outlays remained fairly steady until a further tightening of eligibility and a reduction in payments were announced in the Economic Statement, May 1988 in the context of prospective strong growth in housing activity. By 1988-89 these outlays were 42 per cent less than the post-recession peak. A further modest real decline is expected in the forward years, reflecting a decline in the number of grants under the current unindexed income test. In this Budget the Government has introduced a 12 month residency requirement before assistance can be paid.

Defence Service Homes assistance has varied significantly over the ten years to 1989-90. Generally, outlays have fallen since 1983-84 essentially because of increased repayments from borrowers which fund new loans and thus reduce the requirement for capital injections from the budget. Outlays are expected to peak in 1990-91 reflecting the full year impact of the interest subsidy payable to Westpac following the sale of the mortgage portfolio in 1988-89. In the future years demand is expected to decline somewhat as the initial effects of the new arrangements dissipate.

There has been a trend towards reduced Commonwealth involvement in regional development initiatives such as the NSW Growth Centres. At the same time there have been increases in repayments by the States of previous loans. Outlays in the Aboriginal and Community Services area have increased from \$16.9m in 1979-80 to \$103.2m in 1989-90 (a real increase of 76%) mainly because of the introduction of policies designed to improve facilities and the living environment of Aboriginal communities.

Outlays on Urban and Regional Development are expected to decrease over the forward estimates period mainly because of changes in policy, including the cessation of funding for the Aboriginal Communities Development Program in WA, the Priority Community Strategy, and the finalisation of the ACT capital works program. Funding for the Local Government Development Program is due to end in 1990-91.

1988-89 OUTCOME

The overall change in this function (down \$90.1m or 6.8%) primarily reflects reduced outlays relating to the ACT following self-government and reduced outlays on home acquisition assistance as a result of a higher than estimated level of repayments by existing borrowers and a lower than expected level of new lending business.

5.1 HOUSING ASSISTANCE TO OTHER GOVERNMENTS

5.1		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Nominated Loan Funds	\$m 317.6		-	-	-
	%	-23.3	-100.0	n.a.	n.a.	n.a.
	Nominated Loan Funds- Repay Pr	\$m -15.0	-17.2	-18.0	-18.8	-19.6
	%	20.9	14.7	4.5	4.5	4.5
	Grants to States Under CSHA	\$m 664.1	958.1	958.1	958.1	958.1
	%	0.7	44.3	-	-	-
	CSHA Loans - Repayment of Prin	\$m -52.4	-54.5	-56.7	-59.0	-61.3
	%	4.0	4.0	4.0	4.0	4.0
	Subsidy for Provision of	\$m -	2.3	26.0	39.0	52.0
	Private Rental Housing Stock	%	n.a.	n.a.	50.0	33.3
	Other Grants for Housing	\$m 5.5	5.5	5.5	5.5	5.5
	%	-	-	-	-	-
	TOTAL	\$m 919.8	894.1	914.9	924.8	934.6
	%	-0.6	-2.8	2.3	1.1	1.1

The Commonwealth assists the States in helping low income earners purchase a home and in providing publicly funded rental housing.

Included under this sub-function are nominated loan funds (under the proposed CSHA arrangements these will be converted to grants and absorbed into the CSHA in 1989-90), grants to the States under the CSHA and repayments by the States of housing assistance loans.

Nominated Loan Funds

From 1982-83, the six States and the NT were able to nominate a proportion of their advances from the Loan Council Program and the related general purpose capital advances to the NT for public housing provided that they first met the CSHA matching requirements by allocating sufficient of their own resources for public housing. Similar arrangements were later introduced for the ACT. The States nominated 100% of their advances (\$310.5m) in 1988-89.

However, the Commonwealth agreed at the Loan Council meeting of 18 May 1989 to replace the \$310.5m pool of nominated loan funds in 1989-90 with grants under the CSHA. The cost to the Commonwealth of replacing the 1989-90 advance with a grant—in terms of forgone future principal and interest receipts—has been estimated to be in excess of \$110m on a present value basis (using the long term bond rate as a discount rate). This cost would be repeated for each year that loans at this level are converted to grants. (Details of other Loan Council decisions can be found under 9A. Assistance to Other Governments, nec and in Budget Paper No. 4 Commonwealth Financial Relations with other levels of Government 1989-90.)

Nominated Loan Funds—Repayment of Principal

Advances previously nominated by the States for public housing are repayable over 53 years at an interest rate of 4.5% a year.

Grants to the States Under the CSHA

Under the CSHA the Commonwealth may provide either capital grants or loans to the States. However, since 1984-85 all assistance provided to the States under the CSHA has been provided as grants. This arrangement will continue for 1989-90.

In May 1989 the Government offered the States \$1010.5m in CSHA grants for 1989-90 (only \$941m of which is allocated to this function) and strengthened matching obligations. In effect, \$310.5m which had previously been provided as loans under the Loan Council program was replaced by grants which are additional to the \$700m CSHA base level funding provided under the Agreement. As noted, the cost to the Commonwealth—in terms of forgone future principal and interest receipts—has been estimated to be in excess of \$110m a year.

Under the proposed revised arrangements:

- the extra grant funding of \$310.5m will be redistributed over three years to the States on CSHA relativities (essentially per capita), rather than the existing Loan Council "historical" basis;
- the States will not have to service any new Commonwealth debt but they will be required to improve their CSHA matching effort in respect of Commonwealth funds;
- half of the State matching requirement can be met from funding derived from previous Commonwealth and State effort, supplemented with private sector funds for home purchase assistance;
- Commonwealth and State matching grants are to be paid into a new rental capital account and used primarily to acquire public rental housing. States can also draw on this account:
 - to repay State debt to the Commonwealth for past funding (this is estimated to be about \$290m in 1989-90); and
 - to cover various State recurrent and capital outlays (such as property upgrading and the provision of community tenancy workers) up to 10% of these funds (this allowance is not to cover State administration costs); and
- the targeting of public housing assistance will be enhanced by requiring that tenants who are able to meet the full cost of providing the accommodation they occupy do so.

The formula used to set maximum rents will be changed to include the true interest cost on State borrowings (rather than incorporating the subsidised interest cost of moneys provided on concessional terms). This is expected to result in a cost rent closely approximating market rent levels in most States for those tenants not eligible for rent rebates. States that wish to charge maximum (non-rebated) rents in excess of these new cost rents will be free to do so, thereby increasing the incentive for higher income tenants to move into the private market. These changes, in turn, should free up more public rental dwellings for low income tenants.

The Commonwealth funds specific purpose sub-programs in areas of special housing need specified by the Commonwealth under the CSHA as follows:

- **Block Assistance**, the major component (75%) of CSHA outlays. These fund public rental housing, repayments of Commonwealth principal and interest and cover various State recurrent and capital outputs. Current arrangements provide for Home Purchase Assistance to be financed from revolving funds (ie loan repayments, supplemented by private sector raisings). This is in contrast to previous arrangements whereby some new CSHA funds were available for Home Purchase Assistance;
- **Pensioner Housing Assistance**, designed to assist pensioners and beneficiaries to gain access to accommodation which best suits their needs and capacity to pay;
- **Aboriginal Housing Assistance**, to provide grants for the construction, purchase or lease of rental dwellings for Aboriginals in need of housing assistance;
- **Local Government and Community Housing Assistance** to enable local government, community and welfare organisations to purchase, construct, lease or upgrade dwellings for low cost rental housing—intended to attract additional land and capital resources and allow tenants a greater role in the management of dwellings;
- **Mortgage and Rent Relief** for short-term assistance to low income home buyers or private renters experiencing difficulty in meeting their repayments or rent—used to provide short term bridging assistance until alternative public housing becomes available; and
- **Crisis Accommodation** for the purchase, construction, renovation or leasing of dwellings to provide short-term emergency accommodation such as refugees.

The States are required to match Block Assistance and MRR funds on a \$ for \$ basis. No matching is required for the other specific purpose programs.

A one-off addition of \$14.8m in 1989-90 will be provided to the States by the Commonwealth under the CSHA. It is to be distributed under States' Mortgage and Rent Relief (MRR) eligibility criteria to those adversely affected by current high interest rates. However, the Commonwealth has waived the requirement, as applies to other MRR funds, for a matching contribution from the States.

In addition, in 1989-90 a special one-off grant of \$9.8m is to be made to the States under the CSHA to assist in housing homeless youth.

The following table shows the various components of the CSHA, including those allocated to other functions.

Program	1988-89	1989-90	Change	
	Actual	Budget	\$m	%
Block Assistance—Rental	477.5	777.2	299.7	62.8
—Home purchase	53.1	-	-53.1	-100.0
Pensioner Housing	37.5	48.8	11.3	30.1
Aboriginal Housing	70.0	91.0	21.0	30.0
Local Government and Community Housing	16.0	24.0	8.0	50.0
Allocated to this function \$m	654.1	941.0	286.9	43.9
— % total CSHA	93.4	90.9	na	-2.7
Research and Consultancy (a)	-	0.1	0.1	na
Youth Housing (b)	-	9.8	9.8	na
Mortgage Relief (b)	-	14.8	14.8	na
Mortgage and Rent Relief (b)	26.4	30.4	4.0	15.2
Crisis Accommodation (b)	19.5	39.0	19.5	100.0
TOTAL	700.0	1 035.1	335.1	47.9

(a) This program is classified to 5.5 *Housing Other*.
 (b) Payments under these programs are classified under 4. *Social Security and Welfare*

CSHA equivalent payments to the ACT are estimated to be \$18.2m in 1989-90 with \$17.1m allocated to this function and \$1.1m allocated to 4. *Social Security and Welfare*.

Chart 3 shows the proportions of CSHA funding to be allocated to its various components in 1989-90.

CHART 3. COMMONWEALTH STATE HOUSING AGREEMENT
ALLOCATION OF FUNDS BETWEEN PROGRAMS 1989-90

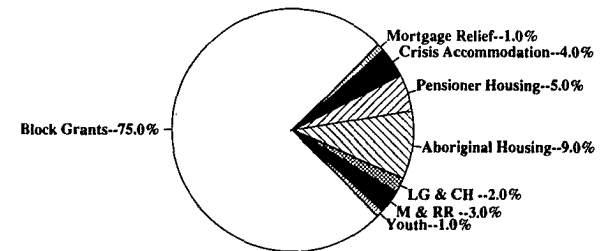
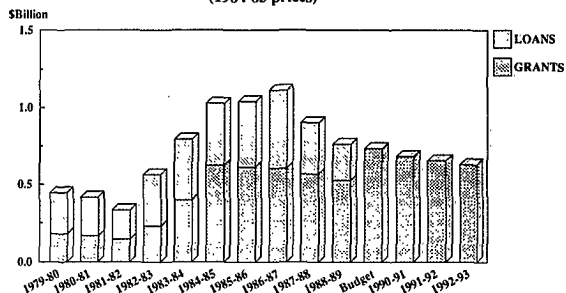


Chart 4 shows the proportions of assistance provided to the States as loans and grants since 1979-80.

CHART 4. ASSISTANCE TO OTHER GOVERNMENTS FOR HOUSING
(1984-85 prices)



The main recipients of assistance under the CSHA are pensioners and beneficiaries who currently occupy about 70% of the public housing stock. This percentage is increasing as about 90% of new allocations are made to this group, a trend which the changes to the cost rent formula to be incorporated into the new Agreement will reinforce.

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 1989-90*.

CSHA Loans—Repayment of Principal

Prior to 1984-85, in addition to the nominating arrangements, a proportion of the assistance provided under the CSHA was by way of loans, repayable in equal annual instalments over 53 years at a concessional fixed rate of interest of 4.5% a year. Repayments of loan assistance are estimated to be \$54.5m in 1989-90, compared with \$52.4m in 1988-89.

Subsidy for Private Rental Housing

The Commonwealth has offered financial assistance to the States to subsidise the operations of rental housing trusts. These trusts to fund additions to the private rental housing stock for use by low and moderate income earners. It is expected that the States will approve payment of the subsidy to commercial rental housing trusts or similar vehicles for the construction or purchase of dwellings for rent at market rates. Up to \$13.5m is available for this purpose in 1989-90 if all States take up the offer. However, only NSW has formally accepted the offer so far and details are not yet finalised. The amount included in the Budget papers for 1989-90 (see Table 5.1) will go to NSW whereas the amounts included in the forward years assume full take up.

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 will again be provided for this purpose in 1989-90.

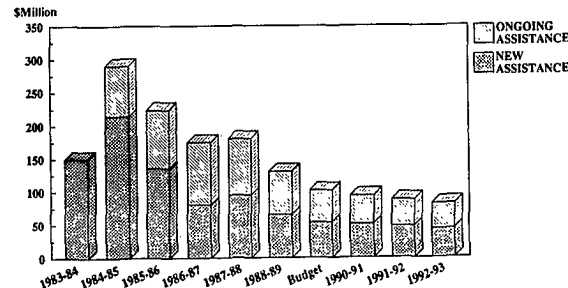
5.2 ASSISTANCE TO FIRST HOME OWNERS

The First Home Owners Scheme (FHOS) was introduced on 1 October 1983 to assist low to moderate income earners purchase their first home, to stimulate the dwelling construction industry and to create jobs. Eligibility is determined chiefly on the basis of an income test.

Included under this sub-function in addition to FHOS are the now defunct Home Deposit Assistance Scheme and the Home Savings Grant Scheme.

Chart 5 disaggregates FHOS outlays since 1983-84.

CHART 5. FIRST HOME OWNERS SCHEME OUTLAYS
(1984-85 prices)



Outlays on FHOS are expected to decline from \$176.0m in 1988-89 to \$146.3m in 1989-90. In 1988-89 the average level of benefit granted to 36 235 successful applicants was \$3731 and the average price of houses purchased with FHOS assistance was \$72 402. This can be compared with expected figures for 1989-90 of up to 40 000, some \$3500 and about \$72 500, respectively.

5.3 DEFENCE SERVICE HOMES

The Defence Service Homes (DSH) Scheme provides home ownership assistance to eligible former and serving members of the Defence Forces who enlisted prior to May 1985, in the form of low interest loans.

Included under this sub-function is direct assistance provided under the previous DSH scheme, payment of the current interest subsidy to Westpac and the DSH insurance business (see table below).

5.3	1988-89		1989-90		1990-91	1991-92	1992-93
	Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate
Home Acquisition Assistance	\$m 10.6	5.3	5.1	5.1	5.1	5.4	
	% 2.0	4.1	-3.8	0.4	5.2		
Interest Subsidy to Private Purchaser	\$m 40.7	173.0	176.8	159.0	163.4		
	% n.a.	n.a.	2.2	-10.1	2.8		
DSH Insurance	\$m 1.0	0.9	0.8	0.5	0.5		
	% n.a.	-0.9	-14.2	-30.3	1.8		
TOTAL	\$m 52.3	179.2	182.6	164.6	169.3		
	% n.a.	242.8	1.9	-8.9	2.8		

Home Acquisition Assistance

During 1987-88 the Government decided to sell the mortgage portfolio administered by the Defence Service Homes Corporation and the right to make new loans under the Scheme. In this context, a number of changes were introduced including: a reduction in the maximum length of the loan from 32 years to 25 years; the introduction of loan portability for those who applied after 8 December 1988; and the elimination of the 10 month waiting period. The 'three-tiered' concessional interest rate was also replaced by a single "blended" interest rate of 6.85% a year. New borrowers and eligible borrowers who require more than the maximum subsidised loan of \$25 000 will have access to "top up" loans from the private purchaser at first mortgage housing interest rates.

The existing DSH mortgage portfolio was progressively transferred to Westpac in the first half of 1989. (The proceeds of the sale of the mortgage portfolio are classified under function 9D. *Asset Sales*.) On completion of the sale, the Corporation was wound up and the ongoing residual functions (essentially verifying entitlements and monitoring Westpac) transferred to the Department of Veterans' Affairs. Expected outlays are \$5.3m in 1989-90 and \$5.1m in 1990-91 which compares to administrative outlays under the old scheme of around \$14.0m a year.

Interest Subsidy to Private Purchaser

DSH loans continue to attract concessional interest rates after the sale, both for existing loans and new lending. Interest on the first \$25 000 or part thereof of new loans provided by Westpac is at a single interest rate of 6.85% a year.

A subsidy is paid to Westpac to bridge the difference between the concessional interest rate paid by DSH borrowers and an agreed "benchmark" mortgage rate based on the standard bank interest rates for new owner-occupied housing.

Insurance

The Commonwealth has retained DSH's insurance business. Total outlays under this classification are the excess of cash receipts (other than receipts of interest on investments—see Statement 4 *Estimates of Revenue 1989-90*) over payments from the Insurance Trust Account.

Trends

DSH assistance has varied significantly over the ten years to 1989-90. In 1980-81, the DSH loan was increased from \$15 000 to \$25 000. Subsequently, the average number of new loans approved rose to 6500. Since then there have been about 5500 new loans each year. Outlays have fallen steadily since 1983-84 mainly because increasing repayments from borrowers have reduced the requirement for capital injections from the budget.

Outlays on DSH assistance are expected to increase significantly in 1989-90—up \$126.9m or 243%. This primarily reflects the full year effect of the interest subsidy payable to Westpac following the transfer of the mortgage portfolio in 1988-89 (\$132.3m), partly offset by a decrease in direct loans (\$5.3m).

The overall impact on ongoing outlays of the sale of the mortgage portfolio is an increase from \$10.7m in 1987-88 to \$179.2m in 1989-90, the first full year of the interest subsidy payment.

Outlays are expected to decline in 1991-92. After an initial surge of new applications, the application rate is expected to resume its historical trend. The interest rate determining the subsidy is also estimated to decline over the forward estimates period.

5.4 HOUSING IN THE AUSTRALIAN CAPITAL TERRITORY

Outlays for 1989-90 and the forward years are zero reflecting the advent of self-government for the ACT from 11 May 1989.

5.5 HOUSING OTHER

Included under this sub-function are payments to assist Aboriginals and migrants with accommodation and the Housing Costs Reduction Program along with a number of smaller programs.

While highly variable, outlays under this sub function peaked in 1986-87.

Outlays on other housing assistance are expected to increase significantly in 1989-90—up \$3.6m or 13.5%. This is primarily the result of the commencement of a new phase of the Housing Costs Reduction Program (and related measures) arising from the Special Premiers' Conference on Housing in May 1989 (\$3.8m in 1989-90 and \$3.7m in 1990-91).

Outlays on Aboriginal Hostels Limited are expected to decrease marginally over the forward estimates period (down \$2.8m in 1990-91) owing to the completion in 1989-90 of major maintenance work and the provision of additional accommodation for students.

Over the forward estimates period outlays are expected to remain static until 1992-93 when the Housing Costs Reduction Program is due to terminate.

5.6 GENERAL ADMINISTRATION (HOUSING)

Outlays of \$12.4m provide mainly for administrative costs of the housing function of the Department of Community Services and Health, including \$10.7m for salaries, \$5.1m for administrative expenses, \$3.5m for property operating expenses and \$3.2m for plant and equipment, partly offset by miscellaneous repayments.

Outlays on general administration (housing) are expected to increase significantly in 1989-90—up \$6.5m or 110.5%. This mainly reflects a revised attribution of outlays between functions.

5.7 URBAN AND REGIONAL DEVELOPMENT

5.7		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
Local Government	\$m	4.2	4.7	5.0	2.8	2.5
	%	-3.1	13.7	0.0	-43.4	-13.8
Australian Capital Territory	\$m	-41.1	10.6	3.9	2.9	3.0
	%	n.a.	-122.9	-62.8	-25.4	3.8
Aboriginal Community Services and Amenities	\$m	70.4	103.2	98.4	74.5	77.5
	%	54.0	46.4	-4.8	-24.3	4.0
Other Regional Development	\$m	-10.6	-3.0	-0.1	-0.1	6.4
	%	n.a.	-71.8	-66.6	-33.0	n.a.
TOTAL	\$m	23.0	115.5	107.3	80.2	89.4
	%	-64.3	n.a.	-7.1	-25.2	11.4

Outlays on Urban and Regional Development which are not classified to other functions are dealt with under this heading.

Local Government

This classification includes:

- the Local Government Development Program which, amongst other things, funds local governments to improve their management performance, community development and environmental management (annual outlays of \$2m have been allocated for the three years to 1990-91); and
- the operating costs of the Office of Local Government, in the Department of Immigration, Local Government and Ethnic Affairs (outlays of \$2.2m in 1988-89 and an estimate of \$2.5m in 1989-90). Two new initiatives have been launched in 1989-90 under this item:
 - as part of the National Agenda for a Multicultural Australia, \$0.5m has been allocated over three years to assist local government to develop access and equity models of service provision; and
 - as part of the package of supply-side housing measures, \$1.3m over three years has been allocated to promote reforms to land and building approval processes at the local government level.

Urban and Regional Development—ACT

Since the advent of self-government, ACT own purpose outlays do not form part of Commonwealth outlays. This item henceforth only includes outlays of the National Capital Planning Authority which is responsible for administering the National Capital Plan and for carrying out some capital works. The reduced outlays in the forward years for this item (\$10.6m in 1989-90 to \$3.9m in 1990-91) principally reflects the expected completion of the Authority's approved capital works program.

Aboriginal Community Services and Amenities

The purpose of these payments is to improve, in conjunction with responsible state, territory and local governments, the living environment of Aboriginals and Torres Strait Islanders.

The Department of Aboriginal Affairs contributes \$103.2m for Aboriginal community services and infrastructure (\$70.4m in 1988-89). This amount mainly comprises direct payments to, or in respect of Aboriginal communities, of \$91.8m and payments to the States of \$9.6m.

These payments include:

- \$23.0m (\$15.6m in 1988-89) for the second year of the Priority Communities Development Strategy. This strategy is a concentrated effort over a three year period to meet the housing and community infrastructure needs of selected severely disadvantaged communities;
- \$68.8m (\$44.3m in 1988-89) to provide and to maintain essential facilities and services for Aboriginal communities;
- \$10.0m for Western Australia (\$10.0m in 1988-89), as part of the fourth instalment of a \$50.0m five year commitment by the Commonwealth to the Aboriginal Community Development Program which is jointly funded by the State Government on a \$ for \$ basis. The program includes a range of initiatives including the supply of housing, sewerage, power and other amenities to remote communities; and
- \$1.4m (\$0.5m in 1988-89) 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.

Other Regional Development

Outlays under this classification include:

- assistance to the States under the Federal Water Resources Assistance Program (FWRAP) for urban flood mitigation, (actual outlays of \$7.0m in 1988-89 and an estimate of \$7.8m in 1989-90; other components of FWRAP are dealt with under 7B *Industry Assistance and Development* for 'Water Resources Development and Management' and 7D *Other Economic Services* for 'Urban Water Supply');

- a contribution to the administration of the Albury-Wodonga Growth Centre, (outlays of \$0.4m in 1988-89 and an estimate of \$0.4m in 1989-90); and
- repayments of the principal component of loans following the Commonwealth's involvement in:
 - the Bathurst-Orange and the Macarthur Growth Centres (receipts of \$13.0m in 1988-89 and an estimate of \$6.5m in 1989-90);
 - the Regional Development Program (1977-1981) which provided assistance to various projects outside metropolitan centres, (receipts of \$2.8m in 1988-89 and an estimate of \$2.5m in 1989-90);
 - the rehabilitation of urban areas in Sydney (Woolloomooloo Urban Renewal Project) and Melbourne (Emerald Hill Estate) (receipts of \$0.3m in 1988-89 and an estimate of \$0.4m in 1989-90); and
 - the *Sewerage Agreements Acts 1973 and 1974* to enable the States to eliminate a backlog of sewerage works in major urban areas, (receipts of \$1.7m in 1988-89 and an estimate of \$1.9m in 1989-90).

Trends

Highlights for this sub-function over the past ten years and for the forward estimates period include:

- reduced direct involvement in regional development initiatives such as the NSW Growth Centres and increases in repayments of associated loans have resulted in a decline in outlays from \$58.5m in 1979-80 to -\$10.8m in 1989-90. The level of repayments is expected to decline over the next few years;
- steady growth in outlays for urban flood mitigation from \$1.9m in 1979-80 to \$10.1m in 1992-93, reflecting a higher priority for urban flood mitigation within FWRAF; and
- increases in the Aboriginal and Community Services classification from \$16.9m in 1979-80 to \$103.2m in 1989-90 to meet a Commonwealth priority to improve the infrastructure of Aboriginal communities including:
 - the introduction of the 5 year Aboriginal Communities Development Program in WA in 1986-87; and
 - the introduction of the 3 year Priority Community Development Strategy in 1988-89.

Outlays on Urban and Regional Development are expected to decrease from \$115.5m in 1989-90 to \$107.3m in 1990-91 and to \$80.2m in 1991-92 with the completion of several programs.

5.8 POLLUTION ABATEMENT AND CONTROL

The Commonwealth has a number of programs which monitor and control the impact of pollution on the environment.

Outlays in 1988-89 under the sub-function were lower than the Budget estimate owing to reduced expenditure for the National Rainforest Conservation Program. In 1989-90 and 1990-91, outlays are expected to grow strongly in real terms reflecting a number of the environmental initiatives announced in the Government's Environment Statement of July 1989, the cost of rehabilitating former uranium mines in the Northern Territory and references to the new Resource Assessment Commission. From 1991-92, following the completion of the National Rainforest Conservation Program and mine rehabilitation activity, outlays will fall sharply in real terms.

5.8		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Supervising Scientist	\$m 6.6	7.5	6.3	6.6	6.8
		% 9.3	13.7	-15.4	4.0	4.0
	Other Pollution Abatement and Control	\$m 11.5	30.6	32.9	25.4	26.4
		% -30.0	187.3	7.5	-22.7	3.0
	TOTAL	\$m 18.0	38.1	39.2	32.0	33.3
		% -18.4	111.2	3.0	-18.4	3.0

Office of the Supervising Scientist (OSS)

The OSS was established to monitor and undertake research into the effects of uranium mining on the environment and inhabitants of the Alligator Rivers Region of Kakadu National Park in the Northern Territory.

Outlays in 1989-90 show a real increase of about 7% reflecting the one-off costs of a number of minor projects, and increases for running costs and capital works and services. Outlays are expected to fall in real terms in 1990-91, following the completion of the Office's current capital works program. Thereafter, they are maintained in real terms.

Other Pollution Abatement and Control

Financial assistance is provided to the States to support rainforest conservation programs and to various international bodies concerned with environment and conservation issues. The outlays also include the National Tree Program, mine rehabilitation costs and the administrative costs of assessing the environmental and resource impact of development proposals in which the Commonwealth has an interest.

With the rollover of unspent funds under the National Rainforest Conservation Program, the proposed workload for the Resource Assessment Commission and the extension of the National Tree Program to include the Billion Trees initiative (\$4m in both 1989-90 and 1990-91), 1989-90 outlays under this heading are expected to more than double in real terms.

FURTHER REFERENCES

Annual reports, particularly those of the Departments of Community Services and Health; Veterans' Affairs; Arts, Sport, the Environment, Tourism and Territories; Immigration; Local Government and Ethnic Affairs; and the annual reports of the Housing Assistance Act 1984, the First Home Owners Scheme and the Office of the Supervising Scientist

Budget Paper No 4, Commonwealth Financial Relations with other levels of Government 1989-90

Budget Paper No 3, Portfolio Program Estimates 1989-90

Economic Statement, April 1989

Environment Statement, July 1989

Portfolio Explanatory Notes (Budget Related Paper No 8) for the above departments

6. CULTURE AND RECREATION

OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
6.1 Broadcasting	\$m	607.1	663.0	695.9	737.5	748.5
	%	0.8	9.2	5.0	6.0	1.5
6.2 National Collections	\$m	97.6	107.4	107.5	98.5	100.4
	%	-8.0	10.1	..	-8.3	1.9
6.3 Arts and Culture	\$m	297.1	201.0	218.5	219.6	142.6
	%	-2.8	-32.3	8.7	0.6	-35.1
6.4 Youth, Sport and Recreation	\$m	36.2	60.2	67.5	67.6	72.8
	%	-13.8	66.1	12.2	..	7.8
6.5 National Estate and Parks	\$m	39.9	49.3	50.0	46.4	48.6
	%	17.0	23.6	1.3	-7.2	4.8
TOTAL	\$m	1077.9	1080.9	1139.4	1169.6	1113.0
	%	2.0	0.3	5.4	2.7	-4.8

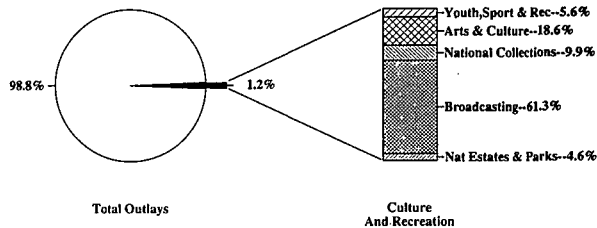
The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve.

- Total outlays for 1989-90 on Culture and Recreation (\$1080.9m) are expected to increase slightly on the 1988-89 outcome and to stay within a range of \$1.1-1.2 billion over the forward years.
- The overall increase of only 0.3% in 1989-90 and subsequent relative stability in the forward estimates masks a number of significant increases in some sub-functions arising from decisions taken in the 1988-89 and 1989-90 Budgets. Increased funding has been provided which:
 - maintains 1989-90 Budget funding for the Australian Broadcasting Corporation and Special Broadcasting Service at the same real level as provided in 1988-89 (\$26.6m);
 - expands and upgrades national transmitting stations (an increase of \$20.3m in 1989-90);
 - extends Special Broadcasting Service television transmissions to a number of Australian regions over a period of seven years (a total of \$21.2m is available from 1990-91 for capital purposes);

- implements a number of infrastructure proposals arising from the Review of the National Library of Australia (\$2.8m in 1989-90);
- expands assistance to sport by \$16.3m in 1989-90 (\$27.6m in 1990-91); and
- funds a number of environmental initiatives in the world heritage areas which were announced in the Environment Statement of July 1989 (\$1.6m in 1989-90 and \$1.8m in 1990-91).

CHART 1. CULTURE AND RECREATION

Proportion of Total Outlays and Function
1989-90



- These increases have been offset by new funding arrangements for the ACT (-\$42.6m), completion of the Bicentennial celebrations (-\$27.4m) and Expo '88 (-\$2.0m), and reduced outlays to the Film Finance Corporation for assistance to the film industry (-\$15.2m) because of a significant carryover from last financial year of funds provided to the Corporation.

PURPOSE

The Commonwealth supports a range of activities to inform, to educate and to promote a better understanding and appreciation of cultural, recreational and conservation-related values which are important to Australian society. The programs in this function also aim to encourage greater interest and participation by the community in these activities.

NATURE OF CULTURE AND RECREATION OUTLAYS

Outlays under this function are largely by way of direct payments by Commonwealth agencies. Other avenues of support include some payments to the States and Territories (shown in Budget Paper No 4, Commonwealth Financial Relations with other levels of Government 1989-90) and taxation expenditures.

Funding for broadcasting represents about 60% of Culture and Recreation outlays for 1989-90, primarily to meet the operating and capital costs of the Australian Broadcasting Corporation (ABC) and Special Broadcasting Service (SBS).

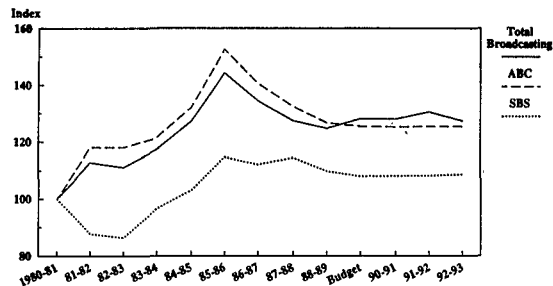
Other activities under this function include:

- managing Australia's cultural heritage through such bodies as the National Library, National Gallery and the Australian War Memorial;
- direct financial assistance for the arts and other cultural activities, including assistance for film industry development through the Film Finance Corporation and grants from the Australia Council to performing arts companies and individuals (assistance for the film industry is also available through the Division 10BA tax concession for investments in new films);
- assistance to sport and, to a lesser extent, youth and recreation activities; and
- the operations of a number of statutory authorities which manage and protect the world heritage areas of Uluru and Kakadu National Parks and the Great Barrier Reef.

TRENDS IN CULTURE AND RECREATION OUTLAYS

Even though major changes have occurred in the nature and scope of the Commonwealth's support for culture and recreation, the movement in overall outlays has been dominated by changes in the largest component of the function, broadcasting.

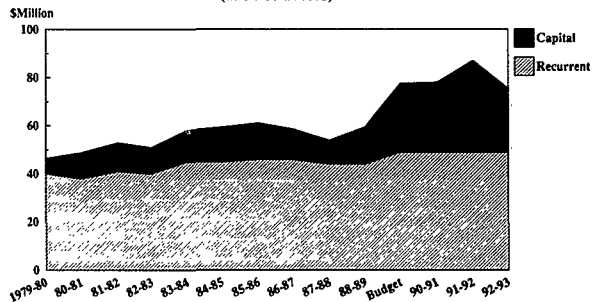
CHART 2. TRENDS IN REAL BROADCASTING OUTLAYS



Outlays for broadcasting have generally grown strongly during the 1980s (1989-90 outlays are about 28% higher in real terms than they were in 1980-81, see Chart 2). Broadcasting outlays peaked in 1985-86 after a program of expansion and refurbishment of capital facilities (the Homestead and Community Broadcast Satellite Service, improved accommodation for the Australian Broadcasting Corporation and expansion of the Special Broadcasting Service to all State capitals).

Since 1987-88, total outlays on broadcasting have been relatively constant in real terms, not varying more than about 2%, and this trend is expected to continue for the next four years. However capital investment on national transmitters is showing significant real growth with funding rising from \$20.8m in 1988-89 to a peak of \$59.7m in 1991-92 (see Chart 3).

CHART 3. OUTLAYS ON NATIONAL TRANSMITTING FACILITIES (1984-85 Prices)



3.170

Any trend for the remainder of the function is masked by major one-off effects, including the Bicentennial celebrations and the removal of ACT outlays items following self-government. Assistance for sport will, however, experience strong growth in the forward years following a period of real decline since the peak in 1985-86 associated with the defence of the America's Cup.

1988-89 OUTCOME

Outlays under this function in 1988-89 were about \$16m (or about 1.4%) lower than the Budget estimates. However, there were significant variations between estimates and outcomes within the sub-functions including:

- delays in fitting out the premises of the Australian National Maritime Museum (-\$5.5m);
- lower outlays on ACT culture and recreational activities, principally reflecting the advent of self-government (-\$10.3m); and
- a capital injection of \$10m into Film Australia Pty Ltd to put it on a more commercial footing so that a full range of future options for private sector participation in its activities can be explored realistically.

6.1 BROADCASTING

6.1	1988-89 1989-90 1990-91 1991-92 1992-93				
	Actual	Budget	Estimate	Estimate	Estimate
Australian Broadcasting Corporation	\$m 450.0	473.6	496.9	516.7	537.6
Special Broadcasting Service	\$m 56.0	59.0	61.8	64.3	67.2
National Transmitting Facilities	\$m 80.6	111.1	117.2	136.4	123.0
Regulation of the Broadcasting Industry	\$m 10.0	8.5	9.2	9.6	10.0
Planning of Broadcasting	\$m 10.5	10.8	10.9	10.5	10.9
TOTAL	\$m 607.1	663.0	695.9	737.5	748.5
	% 6.8	8.2	5.0	6.0	1.5

Broadcasting is the principal area of Commonwealth outlays on culture and recreation, especially through the Australian Broadcasting Corporation and the Special Broadcasting Service. Two discussion papers on the future of the ABC and SBS were released in 1988 as part of the Review of National Broadcasting Policy. The Government has since decided that the SBS should be established as an independent corporation with its own charter. However, a number of other issues has yet to be resolved, including the future role and functions of the ABC and consideration of future administrative and transmission arrangements for the ABC's Radio Australia.

3.171

Australian Broadcasting Corporation

The ABC's operations include four domestic radio networks, a national television network and an overseas radio service, Radio Australia. It also markets books, records and other merchandise through ABC shops and franchise outlets. Following the release of the 1988 discussion paper, the Government in consultation with the States decided that, for the present, the ABC should retain control of its orchestras under existing funding arrangements.

The ABC will receive appropriations totalling \$473.6m in 1989-90, which is the second year of the three year period of guaranteed funding for the organisation. The Government has recently reaffirmed its commitment to guaranteed funding for the period to 1990-91, and has undertaken to provide the necessary supplementation to maintain the ABC's real level of Commonwealth funding. The ABC proposes to direct \$460.7m of its 1989-90 Budget allocation to domestic radio, television and orchestral activities; \$445.4m is for operational outlays and \$15.3m for capital outlays. \$12.9m of the appropriation has been allocated to Radio Australia.

ABC receipts in 1988-89 totalled \$54.0m (an increase of \$11.9m over the 1988-89 estimate). In 1989-90 the ABC expects that its receipts will further increase to \$65.5m. As part of the Government's three year funding guarantee the ABC is permitted to retain 100% of these receipts for its own use.

Adding receipts of \$65.5m from its orchestral, sales and other activities and a \$5.5m opening cash balance to the ABC's appropriation of \$473.6m, results in total ABC resources (excluding those funded by borrowings and major asset sales) of \$544.6m. This represents an increase of 8.6% over the resources available to the ABC in 1988-89.

In addition, during 1988-89 the *Australian Broadcasting Corporation Act 1983* was amended to provide the ABC with borrowing powers. The ABC was subsequently allotted gross borrowing approvals of \$29m in 1988-89 and \$67.4m in 1989-90. The ABC intends using these funds to construct new accommodation for its domestic radio and orchestral activities in Sydney and Melbourne. The borrowings are to be repaid by operational savings (eg rent) resulting from the move to new accommodation.

Special Broadcasting Service

The SBS currently 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. As announced by the Prime Minister, the Government's National Agenda for a Multicultural Australia includes provision for SBS television to be extended to a further nine regional areas during the 1990s (see *National Transmitting Facilities*).

The SBS will receive an appropriation of \$59.0m in 1989-90, which is the second year of the Government's three year period of guaranteed funding for the SBS. This appropriation will be augmented by estimated receipts of \$3.7m and an opening cash balance of \$2.1m.

The estimated receipts for 1989-90 represent an increase of \$1.3m over the 1988-89 outcome following approval by the Minister for Transport and Communications for the SBS to accept sponsorship activities for the test pattern and World Cup soccer series.

National Transmitting Facilities

The Commonwealth provides, operates and maintains the transmitting facilities used for radio and television services by the ABC. This work is carried out by Telecom as an agent for the Commonwealth.

The SBS pays for the operation and maintenance of its own transmitters, although new transmitters and associated services required by the SBS are provided and installed by Telecom under contract to the Commonwealth.

Some national transmitting station sites are shared with commercial broadcasters or other users who contribute towards the cost of services provided to them. Offsetting receipts from this source are estimated at \$1.7m in 1989-90.

In 1989-90 \$70.0m has been allocated to operations and maintenance outlays and \$41.1m to capital outlays.

As part of its National Agenda for a Multicultural Australia, the Government has also announced a seven year capital program (\$21.2m), commencing in 1990-91, to extend SBS television transmission to the La Trobe Valley, Ballarat, Bendigo, Cairns, Darwin, Townsville, the Spencer Gulf, North Eastern Tasmania and the Darling Downs. Funds will also be provided to the SBS to meet associated operating costs, and to the Department of Transport and Communications to plan the introduction of the program.

The Government has decided to provide \$1m in 1989-90 to replace switching equipment at Radio Australia's Shepparton transmitting station, and \$0.25m in 1990-91 for a consultant to be engaged to identify the best means of meeting Radio Australia's transmission needs.

Chart 3 shows the level of funding for National Transmitting Facilities since 1979-80 in real terms. The significant increase in capital outlays during the period 1989-90 to 1992-93 mainly reflects: the commencement of a \$9m a year capital replacement program; increased activity on works associated with the Government's equalisation initiative; relocation of the ABC's Gore Hill transmitting tower; and extension of the SBS television network. The reduction in 1992-93 reflects the winding down of outlays on equalisation and the completion of the Gore Hill tower relocation.

Operation and maintenance outlays were relatively constant during the period 1979-80 to 1987-88. The projected increase in outlays from 1989-90 onwards mainly reflects the revised treatment of superannuation costs attributable to Telecom staff.

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 decrease to \$8.5m in 1989-90 mainly reflects one-off expenditure in 1988-89 on the relocation of the ABT's Melbourne head office elements to its Sydney office and the winding down of the inquiry into violence on television. The reduction has been partially offset by additional resources (\$1.1m in 1989-90) to the ABT to meet workload increases.

A fuller examination of ABT resource requirements will take place following the current review of the *Broadcasting Act 1942* and consideration of the report on the ABT's role and functions by the House of Representatives Standing Committee on Transport, Communication and Infrastructure.

Planning of Broadcasting

Departmental advice is provided to the Minister for Transport and Communications on planning of the broadcasting system in Australia and the development of policies for equitable access to radio and television services.

The Public Broadcasting Foundation (PBF) will receive \$1.9m for distribution to public broadcasting stations throughout Australia, and to help meet the administrative expenses of the PBF.

Radio for the Print Handicapped (RPH) will be provided with \$0.2m in 1989-90. In addition, RPH operators in the mainland State capital cities will each be permitted to use AM transmission facilities under Stage 1 of the Government's National Metropolitan Radio Plan.

6.2 NATIONAL COLLECTIONS

6.2		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
Libraries	\$m	28.2	33.7	32.2	30.7	32.0
	%	0.5	18.6	-4.5	-4.8	4.2
Galleries	\$m	17.4	18.8	21.2	20.0	19.6
	%	0.2	7.8	13.0	-5.7	-1.7
Museums and Archives	\$m	52.0	54.9	54.0	47.9	48.7
	%	-18.3	5.7	-1.8	-11.4	1.9
TOTAL	\$m	97.6	107.4	107.5	98.5	100.4
	%	-8.0	10.1	..	-8.3	1.9

The Commonwealth has established a number of bodies to manage and preserve the nation's collection of art, literature and other cultural heritage. The operating and capital costs of the institutions are included in this sub-function. Most of the institutions are also encouraged to raise revenue from non-government sources.

The 2% real growth in outlays over the past decade has been influenced by a number of capital projects, particularly the construction at Darling Harbour, Sydney of the Australian National Maritime Museum (NMM). The completion of the building phase in 1987-88 led to a sharp fall in outlays in the following year and further declines (15% in real terms) over the forward years are expected once the NMM's fit-out program and remedial work on the Australian National Gallery's roof are completed.

Libraries

In 1989-90 the Commonwealth has allocated an extra \$2.8m (to be repaid to the Budget over about five years) to the National Library of Australia for infrastructure works which will raise its revenue raising capacity. The Library's Budget provision (\$33.7m) also reflects the capital costs of fire protection measures commenced in 1988-89. After these one-off increases, outlays over the forward years are estimated to fall to \$32.0m in 1992-93 (about 6% less in real terms than in 1988-89).

Galleries

Outlays in 1989-90 for the Australian National Gallery are estimated to increase by \$1.3m to \$18.8m. With the remedial work on the roof due to commence this year, outlays will increase further in 1990-91 before declining to \$19.6m in 1992-93 (7% less in real terms than in 1988-89).

Museums and Archives

Outlays in 1989-90 and the forward years are to decline in real terms by about 22%. This reflects the completion of capital works programs in 1988-89 for a number of collecting institutions and revenue (estimated at \$3.0m in 1990-91) to be generated from the operation of the NMM. These reductions have been partly offset by:

- the allocation of an additional \$1m in 1989-90 (and \$0.9m in each of the following three years) to the National Museum of Australia for maintenance and preservation of the national historical collection; and
- the provision of a further \$1.5m in 1989-90 (and \$1m for each of the following three years) to the National Film and Sound Archive to continue the program to preserve nitrate based films and sound recordings.

6.3 ARTS AND CULTURE

6.3		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
Assistance to the Film Industry	\$m	101.4	76.8	93.5	90.6	11.5
	%	n.a.	-24.3	21.8	-3.1	-87.3
Assistance to the Arts	\$m	63.4	64.6	67.6	70.8	73.7
	%	14.0	1.8	4.6	4.7	4.0
Other Culture and Recreation	\$m	43.2	13.6	14.9	14.9	12.7
	%	-68.8	-68.8	0.4	0.4	-15.0
Aboriginal Heritage Culture and Recreation	\$m	20.2	19.1	17.9	18.6	19.3
	%	55.3	-5.7	-8.3	4.0	4.0
Administration	\$m	68.8	26.9	24.7	24.6	25.4
	%	-10.8	-60.8	-8.3	-0.2	3.0
TOTAL	\$m	297.1	201.0	218.5	219.6	142.6
	%	-2.8	-32.3	8.7	0.5	-35.1

The Commonwealth provides financial assistance in a number of ways for the arts and other cultural activities. Most of the outlays comprise assistance for film industry development through the Film Finance Corporation and grants from the Australia Council to performing arts companies and individuals.

The sub-function also includes the program and policy support costs incurred by the Department of the Arts, Sport, the Environment, Tourism and Territories and outlays for special cultural events.

From 1989-90, the estimates no longer include expenditures on culture and recreational activities in the ACT. This and the one-off nature of many large expenditures in this area make the identification of underlying trends very difficult.

Assistance to the Film Industry

Outlays in 1989-90 for the Australian Film Finance Corporation to assist Australian film and television production will be reduced following the decision noted in the Economic Statement, April 1989 to offset the large carryover of unspent funds from 1988-89 by deferring \$20m of the Corporation's proposed expenditure in 1989-90 to later years. Nevertheless, program outlays available to the Corporation will amount to \$102.4m in 1989-90, compared to \$22.4m expended in 1988-89.

Outlays under this heading for 1989-90 also include \$5.9m for Film Australia Pty Ltd to produce national interest programs under a three-year agreement with the Commonwealth which ends in 1990-91. Following a capital injection of \$10m in 1988-89, the company is to purchase its existing Lindfield site from the Commonwealth early in 1989-90 and also to examine various options relating to possible greater involvement by the private sector in the affairs of Film Australia in future—ranging from the hire of its facilities to sponsorship of particular films, assistance with its marketing activities, and perhaps eventual disposal by the Commonwealth of part or all of its equity in the company as a going concern.

Outlays will drop sharply in 1992-93 largely because current arrangements with respect to assistance to the film industry are to be completed and reviewed at the end of 1991-92.

Assistance to the Arts

Funding for the Australia Council's grants program and running costs are to be maintained in real terms over the forward years. However, the Council will now be required to increase the allocation made to the Australian Opera (by \$1.0m a year). To phase in the impact of this on other recipients, an additional one-off \$0.5m is therefore being provided to the Council in 1989-90, leading to overall funds in that year of \$61.3m.

Other Culture and Recreation

A reduction of \$29.6m in 1989-90 will reflect the completion of the Bicentennial celebrations and the winding up of the Australian Bicentennial Authority. These reductions have been partially offset by additional funding for multicultural affairs programs arising from the National Agenda for a Multicultural Australia.

6.4 YOUTH, SPORT AND RECREATION

6.4		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
	Assistance to Sports	\$m 27.6	42.9	54.7	58.4	63.6
		% -6.8	53.8	27.4	6.8	8.8
	Youth and Recreation	\$m 8.7	17.3	12.9	9.2	9.3
		% -30.5	98.9	-25.5	-28.8	1.1
	TOTAL	\$m 36.2	60.2	67.5	67.6	72.8
		% -13.8	66.1	12.2	..	7.8

The Commonwealth provides financial assistance to encourage interest and participation in sport and recreational activities by the community, including the nation's young people. Grants are made to the States, local government, community groups and individuals to improve and build sporting and recreational facilities and undertake special youth-related and other projects.

The Australian Sports Commission (now incorporating the Institute of Sport) has also been established to facilitate the pursuit of excellence in sport and sports development.

Over the past decade outlays under this sub-function increased in real terms by about 59%. They peaked in 1984-85 and 1985-86 following a number of initiatives in sports development, including programs to develop international standard, sporting facilities and the defence of the America's Cup. Since then, outlays have declined in real terms as capital works programs have been completed.

Following the decision in this Budget to provide more sports funding, annual outlays are now estimated to rise to \$63.6m in 1992-93, a real increase of about 91% on 1988-89.

Outlays in 1989-90 for the sub-function will increase, in real terms, by more than 56% to \$60.2m on account of:

- \$16.3m additional assistance for development of sport; and
- a carry-over from 1988-89 of unspent funds (\$3.8m) under the Community Recreation and Sporting Facilities Program. This was announced last year to provide assistance to local authorities and community groups but negotiations and assessments of requests took longer than expected.

6.5 NATIONAL ESTATE AND PARKS

6.5		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Parks And Wildlife	\$m 29.3	35.1	35.0	32.3	33.6
		% 13.0	20.0	-0.3	-7.8	4.1
	National Estate And Heritage	\$m 10.6	14.2	15.0	14.1	15.0
		% 29.8	33.7	5.3	-5.9	6.6
	TOTAL	\$m 39.9	49.3	50.0	46.4	48.6
		% 17.0	23.8	1.3	-7.2	4.8

The Commonwealth has established a number of statutory bodies and entered into arrangements with the States to implement policies to protect and manage world heritage and national estate areas.

The Australian National Parks and Wildlife Service and the Great Barrier Reef Marine Park Authority are Commonwealth agencies responsible for protecting and managing the Uluru and Kakadu National Parks in the Northern Territory and the Great Barrier Reef respectively. Day-to-day management is performed in co-operation and consultation with the State and Territory Governments. The operating costs of these agencies are to be maintained in real terms over the forward years.

Over the last decade, outlays for the sub-function have more than doubled in real terms, reflecting the Commonwealth assuming responsibility for managing Kakadu and Uluru National Parks and greater resources allocated to the day-to-day management of the Great Barrier Reef.

Strong real growth is set to continue in 1989-90 mainly reflecting increased capital outlays in world heritage areas (including \$2.5m for the Ayers Rock—Olgas Road project), new funding arrangements for the proposed new world heritage area in Tasmania (\$2.8m), and the full year effect of additional staff and administrative resources for the Australian Heritage Commission (\$1.7m). However, in 1990-91 (and again in 1991-92) outlays are expected to fall in real terms following the completion of several major capital works and other projects undertaken by the Australian National Parks and Wildlife Service.

FURTHER REFERENCES

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Economic Statement April 1989

Environment Statement July 1989

Explanatory Notes of the Arts, Sport, the Environment, Tourism and Territories Portfolio

Explanatory Notes of the Transport and Communications Portfolio

Going for Gold, March 1989, AGPS Canberra, Report by the House of Representatives Standing Committee on Finance and Administration

Issues for Discussion: What Price Heritage?, March 1989, Department of Finance
Review of National Broadcasting Policy—Discussion Papers on the Australian Broadcasting Corporation, February 1988, AGPS Canberra, Department of Transport and Communications

Review of National Broadcasting Policy—Discussion Papers on the Special Broadcasting Service, July 1988, AGPS, Canberra, Department of Transport and Communications

The Role and Functions of the Australian Broadcasting Tribunal, November 1988, AGPS Canberra, House of Representatives Standing Committee on Transport, Communication and Infrastructure

The 1987-88 Annual Reports for the following agencies:

Department of Aboriginal Affairs

Department of the Arts, Sport, the Environment, Tourism and Territories

Department of Employment, Education and Training (Youth Affairs)

Department of the Prime Minister and Cabinet (Multicultural Affairs)

Department of Transport and Communications

Broadcasting:

Australian Broadcasting Corporation

Australian Broadcasting Tribunal

Special Broadcasting Service

National Collections:

Australian Archives

Australian National Gallery

Australian National Maritime Museum

Australian War Memorial

National Film and Sound Archive

National Library of Australia

National Museum of Australian

Arts and Culture:

*Australia Council
Australian Bicentennial Authority
Australian Film Commission
Film Australia Pty. Ltd.
Office of the Australian War Graves*

Youth Sport and Recreation:

*Australian Institute of Sport
Australian Sports Commission*

National Estate and Parks:

*Australian Heritage Commission
Australian National Parks and Wildlife Service
Great Barrier Reef Marine Park Authority*

ECONOMIC SERVICES

7A. TRANSPORT AND COMMUNICATION

OVERVIEW

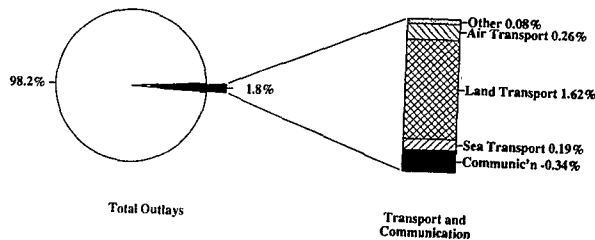
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
7A.1	Communication	\$m 20.5	-296.5	-304.9	-305.1	-304.4
	%	-129.8	7.8	2.8	0.1	-0.2
7A.2	Air Transport	\$m 163.3	222.4	135.8	138.0	131.3
	%	-40.4	38.2	-39.0	1.7	-4.9
7A.3	Land Transport	\$m 1338.3	1399.7	1481.3	1460.9	1479.5
	%	-1.4	4.5	5.8	-1.4	1.3
7A.4	Sea Transport	\$m 92.1	160.6	171.3	180.8	119.5
	%	39.2	74.9	8.7	5.8	-33.8
7A.5	Other Transport and Communication	\$m 108.7	67.5	75.7	76.8	79.8
	%	13.0	-37.8	12.2	1.4	3.8
TOTAL		\$m 1722.9	1553.6	1559.1	1551.5	1505.8
		%	-0.1	0.4	-0.5	-2.9

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve

- Total outlays on Transport and Communication are expected to decrease by \$169m in 1989-90 or 15% in real terms. Successive further declines are expected in each of the forward estimate years, producing a cumulative fall of 28% in real terms over the Budget and forward years.
- The major factor contributing to the expected net decrease of \$169m in 1989-90 is the repayment by Telecom of \$326m of its outstanding Commonwealth loans. Telecom debt repayment remains a major influence on outlays in each year of the forward estimates.
- Budget measures have added \$130m to outlays in 1989-90 and \$59m in 1990-91. These measures include:
 - the decision to acquire in 1989-90 the balance of land required for the second Sydney airport at Badgerys Creek, upgrade associated roads and proceed with initial design work for the airport (\$69m);

- financial assistance in 1989-90 for the Civil Aviation Authority to undertake aircraft noise regulation and curfew enforcement (\$1.5m); and
- the new waterfront and shipping reform initiatives announced on 1 June 1989 (\$55m in 1989-90 rising to \$69m by 1991-92).
- Other significant increases in outlays include:
 - land transport outlays (\$61m or 5% in 1989-90, \$65m in 1990-91), mainly resulting from the indexation to the non-farm GDP deflator of funding under the Australian Centennial Roads Development Program; and
 - an increase in the total taxable grants payable under the *Ships (Capital Grants Act) 1987* (\$10m).
- The annual real declines evident in the forward estimates result from three main factors: the assumption that Telecom will continue to make loan repayments of \$326m a year throughout the period; the major elements of the waterfront and shipping reforms expire in 1991-92; and the forward estimates for road grants for 1991-92 and 1992-93 assume the same nominal level of funding as in 1990-91.

CHART 1. TRANSPORT AND COMMUNICATION
Proportion of Total Outlays and Function
1989-90



- Transport and Communication outlays comprise 1.8% of total budget outlays in 1989-90, compared with 2.1% in 1988-89. On the basis of the forward estimates the proportion is estimated to decline to 1.5% by 1992-93.

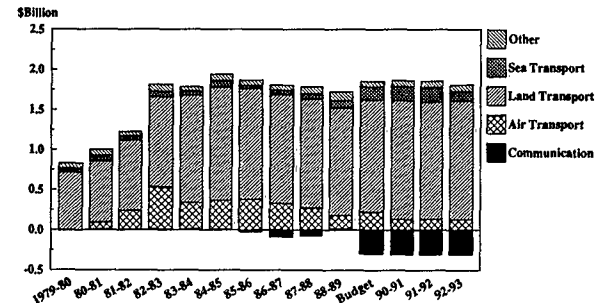
PURPOSE

The Commonwealth seeks to provide the infrastructure and regulatory framework necessary to promote efficient and cost effective transport and communication services. Improved efficiency in this sector is an important element of the Government's policies to promote restructuring and sustained high rates of growth of the Australian economy. The States also have significant responsibilities in the transport sector. In many areas, the Commonwealth works in co-operation with the States, eg in road transport matters, in providing infrastructure and promoting efficiencies.

NATURE OF TRANSPORT AND COMMUNICATION OUTLAYS

A disaggregation of outlays by sector is shown in Chart 2.

CHART 2. TRANSPORT AND COMMUNICATION



By far the largest category of outlays is direct grants and specific purpose payments to the States and local government. The bulk of these outlays is for road maintenance and construction (\$1333m). Over the years, however, the Commonwealth has provided grants for a wide range of transport infrastructure projects, ranging from railway line upgrading through to assistance for State harbour projects.

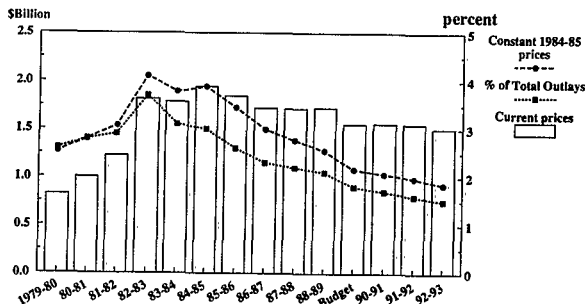
Another major category is operational and infrastructure outlays related to various services provided by the Department of Transport and Communications such as maritime communications, marine navigational aids and certain airport facilities.

A relatively modest amount of outlays relates to regulatory functions such as transport safety, radio frequency management and telecommunications regulation performed by the Department of Transport and Communications, and other organisations such as the Civil Aviation Authority and the Australian Telecommunications Authority.

The function also includes the payment and repayment of advances and loans between the budget sector and government business enterprises (GBEs) operating outside the budget which provide transport and communication services (eg Telecom, Australian National Railways). These transactions can vary markedly from one year to another.

TRENDS IN TRANSPORT AND COMMUNICATION OUTLAYS

CHART 3. TRANSPORT AND COMMUNICATION



After rapid increases early this decade, mainly reflecting the introduction of the Australian Bicentennial Road Development Program, the trend in total Transport and Communication outlays since 1984-85 has been one of steady decline (see chart 3), although some levelling out is expected in real terms over the period of the forward estimates. As a percentage of total Commonwealth outlays, Transport and Communication outlays follow a similar trend rising from 2.6% in 1979-80 to 3.7% in 1982-83 and then declining steadily to 2.1% in 1988-89. The decline is projected to continue during the forward estimates period, with Transport and Communication outlays representing 1.5% of the forward estimate for total outlays in 1992-93.

The trend in *communication* outlays over the past decade has been dominated by periodic repayments of outstanding Commonwealth loans by Telecom and Australia Post. Debt repayments by these two GBEs will total \$3.3b over the next decade. It has been assumed that the magnitude of these annual debt repayments will remain constant in nominal terms over the forward estimates period.

During the decade to 1988-89 the purpose of *air transport* outlays changed considerably. Prior to January 1988 they primarily represented the costs of providing and operating all major air transport infrastructure in Australia. However, establishment of the Federal Airports Corporation (FAC) and the Civil Aviation Authority (CAA) has significantly reduced budget outlays to amounts needed for the smaller airports under management of the Department of Transport and Communications (currently 40), Aerodrome Local Ownership Plan airports, and payments to the CAA for administering aviation safety standards and airport noise regulations.

Following the significant level of spending at the beginning of this decade, which was dominated by infrastructure investment, air transport outlays have declined steadily since 1982-83. The forward estimates exhibit a steady-state for outlays since the major infrastructure investments are now undertaken off-budget by the FAC and CAA. The movement of these outlays off-budget has reduced the trend growth rate of real Transport and Communication budget outlays by up to 12 percentage points to -8%.

During the decade to 1988-89, outlays on *surface transport* have declined by 9% in real terms. While outlays on roads have increased by 5% in real terms, outlays on rail transport (primarily on subsidies and loans) have declined, particularly over the last four years after a peak in 1984-85. Sea Transport outlays have fluctuated significantly over the decade largely as a result of changes in the capital structure of the Australian Shipping Commission (ANL). They are likely to increase substantially for the next few years reflecting the introduction of the waterfront and shipping reform packages.

1988-89 OUTCOME

The major reasons for the slightly higher than expected outcome under this function (up \$14m or 0.8%) include:

- a higher than budgeted payment to the CAA (\$18m) to cover the Commonwealth's contribution for search and rescue costs; the cost of development and monitoring safety standards; and the shortfall in recoveries of the cost of implementing safety standards following a review of the cost of these activities (the Budget estimate was a provisional sum only);
- larger than expected grants under the Aerodrome Local Ownership Plan after reaching agreement to transfer Mackay, Kalgoorlie, Mount Gambier and Camooweal airports to local authorities (\$14m); and
- larger than expected payments under the Tasmanian Freight Equalisation Scheme (\$6m).

These increases were partially offset by:

- lower outlays on road transport in the ACT after the commencement of self-government which resulted in these outlays moving off budget (\$13m); and
- a change in policy in relation to the Pipeline Authority, which from 1988-89 will borrow off-budget rather than seek advances from the Commonwealth to meet shortfalls between the Authority's receipts and its payments (including repayments of previous Commonwealth loans) (\$5m).

7A.1 COMMUNICATION

7A.1		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Policy and Administration	\$m	20.3	24.2	17.2	16.9	17.6
	%	-3.8	18.3	-29.1	-1.3	3.8
Telecommunications Regulation	\$m	0.2	5.7	4.3	4.4	4.4
	%	n.a.	n.a.	-23.7	1.3	1.3
Repayment of Advances	\$m	-	-326.4	-326.4	-326.4	-326.4
	%	-100.0	n.a.	-	-	-
TOTAL	\$m	20.5	296.5	-304.9	-305.1	-304.4
	%	-129.8	n.a.	2.8	0.1	-0.2

Commonwealth activity in the communication area is directed towards:

- promoting a diverse, high quality and efficient broadcasting and radio-communications industry;
- ensuring consumers have equitable access to a comprehensive range of broadcasting services through developing appropriate broadcasting policies and implementation programs;
- ensuring efficient and equitable access to transmission media through planning and regulation of the electromagnetic spectrum and other means of information transmission;
- obtaining international agreement on frequency allocation and positions in the geostationary orbit favourable to Australia, and technical standards which encourage growth in industry while enhancing the spectrum as a resource; and
- establishing and managing Commonwealth transmitting facilities for broadcasting and radio-communication services in a manner which provides the maximum cost-effective use.

Policy and Administration

These outlays are largely for the planning and monitoring which the Department of Transport and Communications conducts in relation to the use of the radio frequency spectrum for private, commercial and public radio-communications purposes. Outlays are expected to fall over the forward years as capital expenditure to upgrade technical equipment is completed. Outlays on radio frequency management have largely remained constant over the past decade with minor variations reflecting the increasing number and variety of users of the spectrum and the effects of the variation in the value of the \$A on both overseas equipment purchases and Australia's contributions to the International Telecommunications Union and the Asia Pacific Telecommunity.

Telecommunications Regulation

These outlays are for the establishment and ongoing costs of the Australian Telecommunications Authority (AUSTEL) which commenced operations on 1 July 1989. AUSTEL was established as an independent industry regulator as part of the reform of the policy environment of the telecommunications industry which was announced in the Economic Statement, May 1988. AUSTEL will administer specific regulations consistent with the Government's overall telecommunications policy. Its role will be to achieve goals relating to customer services, monopoly enterprise efficiency and accountability, technical compatibility and inter-operability, fair and efficient competition, and consumer protection. AUSTEL will recover part of its costs through fees and charges levied on users of its services.

Repayment of Advances

This item dominates and will continue to dominate the functional outlays profile, and provides for the repayment of Government capital advances by the Australian Telecommunications Corporation (Telecom), the Australian Postal Corporation (Australia Post), OTC Limited and AUSSAT Pty Ltd. All of these bodies operate outside the budget sector.

In May 1988 the Minister for Transport and Communications announced reform of the regulatory environment for telecommunications and the general reform of the communication GBEs. These reforms involved increased competition in providing communications services and changed corporate and financial structures, new planning and accountability mechanisms, and the focus on strategic government controls coupled with the removal of day to day controls over the GBEs.

The major impact on outlays of these changes over the next 10 years relates to the new financial structure of Telecom. The progressive repayment of about \$3.3b of existing Commonwealth loans to Telecom, as this debt is replaced with private sector borrowings, will be a significant offset within communication outlays. The remaining 25% of Telecom's existing Commonwealth debt has been converted to equity. Telecom and Australia Post will commence paying dividends to the Commonwealth from 1989-90 which will at least replace the reduced interest receipts from both enterprises resulting from the debt conversions (see Statement 4).

7A.2 AIR TRANSPORT

7A.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Airport Administration and Aviation Policy	\$m	55.5	116.7	32.6	33.3	25.4
	%	-89.4	110.4	-72.1	2.3	-23.9
Aerodrome Local Ownership Plan	\$m	30.3	9.4	6.9	7.1	7.4
	%	177.9	-69.1	-28.7	4.0	4.0
Air Safety and Search and Rescue	\$m	74.8	80.6	80.1	81.1	82.1
	%	n.a.	7.8	-0.8	1.3	1.2
Avgas Excise Paid To CAA	\$m	23.0	24.0	24.3	24.5	24.5
	%	n.a.	4.1	1.0	1.0	-
Recoveries	\$m	-20.3	-8.3	-8.0	-8.1	-8.1
	%	-92.2	-29.3	-2.8	0.2	0.2
TOTAL	\$m	163.3	222.4	135.8	138.0	131.3
	%	-40.4	38.2	-39.0	1.7	-4.9

Commonwealth activity in the air transport area promotes the operation of safe, efficient and competitive air services within, to and from Australia. Consistent with that objective, the Government has reformed air transport GBEs to require them to provide appropriate levels of service while being subject to the discipline of earning reasonable returns on the Government's investment of taxpayers' funds.

Airport Administration and Aviation Policy

Outlays on Airport Administration and Aviation Policy in 1989-90 comprise running costs and other operating expenses (\$26.8m), remote air service subsidies (\$1m), and sites, buildings and works (\$92.5m), with an offsetting payment (\$3.6m) from the FAC for the transfer of Mt Isa, Alice Springs and Tennant Creek airports, and the civilian areas of Canberra, Darwin and Townsville airports.

Of the funding for sites, buildings and works, \$86.1m is earmarked for land acquisition and road upgrading for the second Sydney airport at Badgerys Creek and \$5m is for fees for design work for the new airport. The remaining \$1.4m is for various projects at small Commonwealth owned airports. Expenditure on sites, buildings and works is expected to fall after 1989-90 upon completion of land acquisition at Badgerys Creek and again after 1991-92 when road upgrading for the second Sydney airport is expected to be completed. The remaining elements are estimated to remain at much the same levels over the forward years.

Aerodrome Local Ownership Plan (ALOP)

The 1989-90 allocation of \$9.4m (down \$20.9m) is for the ongoing operation of the ALOP, of which \$8.4m is provided for maintenance grants for some 277 airports throughout Australia participating in the plan. The remaining \$1m will be spent on completion of various development projects.

During 1988-89, development grants were made in respect of Mackay (\$9.3m), Kalgoorlie (\$4.2m), Mount Gambier (\$0.3m) and Camooweal (\$30 000) airports after agreements were reached for their transfer to the respective local authorities. Under these revised arrangements the Commonwealth will no longer have on-going financial responsibility for these airports, with consequent savings on future operational and maintenance costs.

After taking account of these savings, outlays are estimated to be fairly static over the forward years.

Air Safety and Search and Rescue

The 1989-90 provision of \$80.6m consists of \$4.6m for the operations of the Bureau of Air Safety Investigation (BASI) and \$76.0m for payments to the CAA comprising \$74.5m for search and rescue services, and \$1.5m for noise regulation and airport curfew enforcement. The 1989-90 provision (up \$5.8m) reflects as further allocation for safety surveillance owing to industry growth and impending economic deregulation of domestic aviation (\$0.6m), increased prices (\$3.7m) and the new allocation for noise regulation and curfew enforcement (\$1.5m). Future funding arrangements for noise regulation and curfew enforcement will be reviewed in 1989-90. Outlays are estimated to remain at much the same levels in real terms over forward years.

Avgas Excise Paid to Civil Aviation Authority

Although direct user charges apply to air transport movements at major airports, the cost of recording general aviation aircraft movements at minor airports is high. Accordingly, as an alternative to direct charging, excise is collected on aviation gasoline (Avgas) to help meet certain airport and airways infrastructure costs. As the CAA is responsible for the airways system, an amount equal to approximately 90% of Avgas excise is paid to the CAA.

The forward estimates assume payments at much the same levels as the budget year.

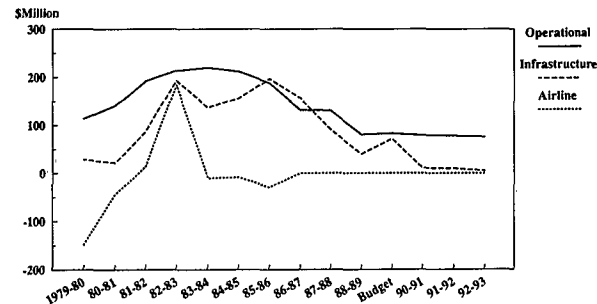
Recoveries

Recoveries comprise mainly receipts from landing charges, airport rentals and business concessions. In 1989-90 they are expected to fall by almost 50% compared with 1988-89 owing to the transfer to local ownership of Mackay, Kalgoorlie, Mount Gambier and Camooweal airports and the transfer to the FAC of the 6 airports mentioned previously.

Recoveries are expected to remain relatively stable in the forward years.

Trends

CHART 4. AIR TRANSPORT
(1984-85 prices)



Interpretation of trends in air transport outlays over the past 10 years has been complicated by lumpy infrastructure investment (see Chart 4), financing transactions associated with GBEs and the setting up of the CAA and the FAC as statutory bodies.

Operational Outlays

Net operational outlays increased gradually from 1979-80 to 1984-85 despite declining levels of industry activity due to the economic recession which ended in 1983-84. During this period, operational outlays increased by an average of 6% per year in real terms, while recoveries as a proportion of operational outlays fell from 64% in 1979-80 to 47% in 1983-84.

Between 1984-85 and 1988-89, however, operational outlays decreased in real terms by an average of 31% per year, against a background of strong increases in industry activity. The downward trend in net operational outlays was most marked in 1986-87 when recoveries as a proportion of operational outlays increased in that year by 12 percentage points to 65% following the introduction of new landing charges for all airline aircraft. Indeed, the major factor in reducing aviation outlays has been, first, the Government's policy of increasing the level of cost recovery and, subsequently, the formation of the FAC and CAA which moved the bulk of operational outlays off-budget. Future operational outlays for the remaining small airports are estimated to remain fairly stable at 1988-89 levels.

Infrastructure Investment

Investment in air transport infrastructure rose sharply between 1979-80 and 1982-83, levelled out during the next three years to 1985-86 and then fell sharply.

Between 1979-80 and 1982-83 infrastructure investment rose from \$19m to \$170m, an average annual increase in real terms of 89%, caused mainly by the construction of the new Brisbane Airport. This and other projects, such as Perth Airport's international terminal, kept investment at a high level until 1985-86. Infrastructure outlays fell to \$32m in 1988-89, with the moving off-budget of significant infrastructure investment now undertaken by the FAC and the CAA. These authorities plan over \$2.2b in infrastructure investment over the next 10 years. The Government's decision to acquire the balance of land required for the second Sydney airport at Badgerys Creek, upgrade associated roads and proceed with initial design work for the airport will raise outlays to \$92.5m in 1989-90, after which outlays will fall to between \$9m and \$10m per year in 1990-91 and 1991-92.

Airline Financing Transactions

Airline financing transactions had a significant impact on outlays between 1979-80 and 1985-86. Outlays in 1979-80 and 1980-81 were reduced by \$127m as loans made to the Government-owned airlines were repaid. By contrast, outlays in 1981-82 and 1982-83 were increased by capital injections to Qantas of \$85m and Australian Airlines of \$115m. Between 1983-84 and 1985-86 airline loan repayments progressively decreased outlays by an average of 5% a year. There have been no airline financing transactions since 1985-86 and none is provided for in the forward estimates.

7A.3 LAND TRANSPORT

7A.3			1988-89	1989-90	1990-91	1991-92	1992-93
			Actual	Budget	Estimate	Estimate	Estimate
7A.3.1	Road Transport	\$m	1311.6	1359.0	1457.0	1457.4	1457.7
		%	-1.1	3.8	7.2	..	..
7A.3.2	Rail Transport	\$m	48.8	62.7	46.4	25.6	43.9
		%	0.3	28.8	-28.0	-44.8	71.1
7A.3.3	The Pipeline Authority	\$m	-22.1	-22.1	-22.1	-22.1	-22.1
		%	23.9	..	..	..	..
TOTAL		\$m	1338.3	1399.7	1481.3	1460.9	1479.5
		%	-1.4	4.6	5.8	-1.4	1.3

Outlays by the Commonwealth on land transport are to develop the sector in ways attuned to national economic and social priorities, including securing safe and efficient operations and practices responsive to user requirements.

7A.3.1 ROAD TRANSPORT

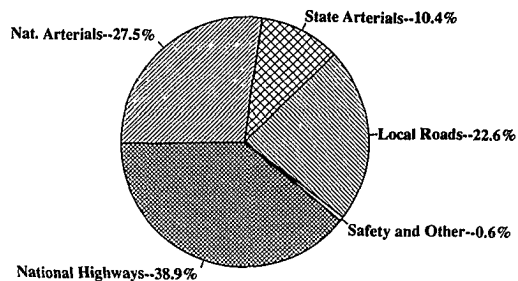
7A.3.1			1988-89	1989-90	1990-91	1991-92	1992-93
			Actual	Budget	Estimate	Estimate	Estimate
	Road Grants	\$m	1217.2	1333.2	1430.8	1430.8	1430.8
		%	-2.2	8.8	7.3	-	-
	Interstate Road Transport Charge	\$m	10.8	11.5	11.2	11.2	11.2
		%	154.7	8.8	-2.8	-	-
	Road Safety and Land	\$m	4.3	6.6	7.0	7.0	7.0
	Transport Research	%	6.6	54.1	6.5	-	-
	Road Transport in The ACT	\$m	71.9	-	-	-	-
		%	-2.0	-100.0	n.a.	n.a.	n.a.
	Policy and Administration	\$m	7.3	7.7	8.0	8.4	8.8
		%	n.a.	5.2	3.6	5.3	4.5
TOTAL		\$m	1311.6	1359.0	1457.0	1457.4	1457.7
		%	-1.1	3.8	7.2	..	..

Overwhelmingly outlays for road transport comprise grants to the States, the NT and the ACT for road construction and maintenance. Relatively minor outlays include payments for road safety and land transport research and the reimbursement to the States of registration charges for interstate (commercial) vehicles.

Road Grants

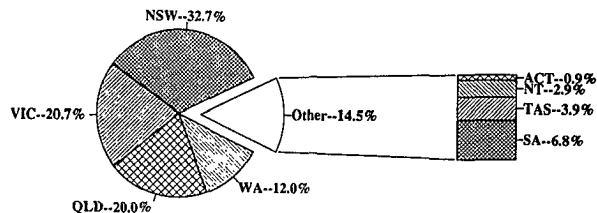
The five year Australian Centennial Roads Development (ACRD) Program commenced on 1 January 1989, with the overall level of funding guaranteed in real terms until 1990-91. The program is funded by a part of the excise and customs duty on motor spirit and diesel fuel which is paid into a trust fund. This program replaced the Australian Land Transport Program (ALTP) and the Australian Bicentennial Road Development (ABRD) Program.

CHART 5. ROAD GRANTS BY CATEGORY 1989-90



Compared to its predecessors, the ACRD Program provides a greater concentration of funding on roads of economic significance while maintaining local road funding in real terms and maintaining the total program in real terms until 1990-91. Program levels for later years have yet to be determined; the forward estimates for 1991-92 and 1992-93 assume funding at the same nominal level as for 1990-91. Charts 5 and 6 show the disposition of grants in 1989-90 by category and State respectively.

CHART 6. ROAD GRANTS 1989-90



Interstate Road Transport Charge

Commonwealth payments to the States under the *Interstate Road Transport Act 1985* and the *Interstate Road Transport Charge Act 1985* began 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 ensures that owners of such vehicles contribute to the repair and maintenance costs associated with the roads they use. Charges under the legislation (classified as 'Revenue Other Taxes, Fees and Fines' in Statement 4 Estimates of Revenue 1989-90) are collected by State and Territory vehicle registration authorities and paid into a trust fund prior to distribution to the States and Territories for expenditure on roads.

Road Safety and Land Transport Research

As with previous road grant programs, funds are provided under the ACRD Program for road safety and land transport research. The Australian Road Research Board is funded by the Commonwealth and the States to undertake research into road infrastructure, road transport efficiency and road safety and environment. The Federal Office of Road Safety conducts research from which national road safety programs are developed.

Road Transport in the ACT

From 11 May 1989, ACT own purpose outlays do not form part of Commonwealth outlays since under self-government the ACT operates outside the Commonwealth Public Account. Commonwealth general and specific purpose payments to the ACT analogous to payments to the States and the NT have been classified to the appropriate sub-function.

Policy and Administration

The \$7.7m for 1989-90, with equivalent real provisions in subsequent years, represents the cost incurred by the Department of Transport and Communications in administering its Land Transport responsibilities.

Trends

There have been significant changes in road funding during the decade. The introduction of the *Roads Grants Act 1980* brought a commitment to expenditure on upgrading the roads system over the 5 years to 1984-85. In addition, road transport outlays were substantially increased in 1982-83 with the introduction on 17 August 1982 of the Australian Bicentennial Road Development (ABRD) Program, financed by a fuel excise surcharge earmarked for expenditure under the program. The aim of the program was to develop sections of the road system to a high standard by 1988. Initially, the surcharge was set at 1 cent per litre, increasing to 2 cents per litre on 1 July 1983 and continuing until the program terminated on 31 December 1988. The Australian Land Transport Program (ALTP), financed by a share of fuel excise, commenced on 1 July 1985, replacing the Roads Grants Program. Total outlays on roads remained relatively stable over the next four years to 1988-89.

A significant feature of road transport outlays over the past 10 years has been the major construction phase associated with the National Highway System (NHS). The level of outlays on the NHS has gradually levelled out since the middle 1980's, reflecting the progress made in improving the nation's major inter-capital links. With the introduction of the Australian Centennial Roads Development (ACRD) Program from 1 January 1989 emphasis has shifted towards maintaining National Highways and improving roads that are important to Australia's export and import-competing industries as well as tourism. The ACRD Program replaces both the ABRD Program and the ALTP and guarantees the 1988-89 level of funding in real terms until 1990-91.

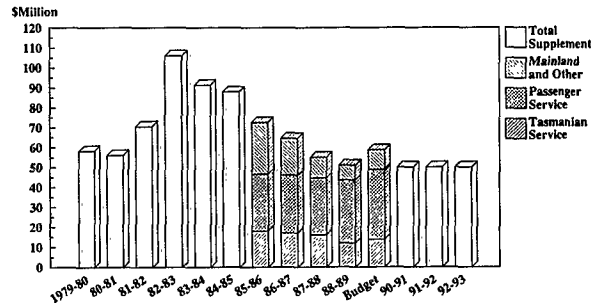
7A.3.2 RAIL TRANSPORT

7A.3.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Australian National Railways Commission						
- Revenue Supplement	\$m	51.0	58.7	50.0	50.0	50.0
	%	-7.1	16.1	-14.8	-	-
- Upgrading Grants	\$m	5.4	9.4	1.4	-18.7	-
	%	24.5	23.7	-85.1	n.a.	-100.0
- Advances	\$m	1.9		2.0	2.0	8.2
	%	20.8	-100.0	n.a.	-	n.a.
- Repayment of Advances	\$m	-1.9		-2.0	-2.0	-8.2
	%	-82.4	100.0	n.a.	-	n.a.
Repayments From States (Net)	\$m	-7.6	-5.4	-5.0	-5.6	-6.1
	%	8.1	28.8	-7.4	12.7	8.5
TOTAL	\$m	48.8	62.7	46.4	25.6	43.9
	%	0.3	26.6	-26.0	-44.8	71.1

Australian National Railways Commission (AN)

The continuing decline in AN's call on the budget for revenue supplementation to cover its operating losses is offset in 1989-90 by a change in the timing of cash payments for workers' compensation associated with the introduction of COM-CARE. The underlying trend remains favourable (Chart 7) with AN's efficiency and labour productivity continuing to improve as a result of better work and operational practices, in part facilitated by investment in track, rolling stock and systems upgrading. The 1989-90 revenue supplement of \$58.7m includes \$35m for mainland passenger services and \$13.8m for the Tasmanian system.

CHART 7. AUSTRALIAN NATIONAL RAILWAYS COMMISSION REVENUE SUPPLEMENT



From 1990-91 the revenue supplement is estimated to fall to some \$50m as mainland commercial (freight) operations achieve profitability. Tasmanian (freight only) operations are expected to break-even by 1994-95. The forward estimates to 1992-93 remain at \$50m on the basis that the relatively modest improvement for Tasmania in this period will be offset by increases in the supplement for mainland passenger operations to maintain real assistance at current levels. However, passenger operations and funding arrangements are to be reviewed by the Government during 1989-90.

A further payment of \$8m will be made in 1989-90 for the continuing program of upgrading the Islington workshops in SA (the Government decided in 1987 on a series of non-interest-bearing advances for this purpose, totalling \$18.7m and repayable by 1991-92).

Repayments from States

The remainder of this sub-function comprises repayable advances from the Commonwealth for rail projects other than in South Australia and Tasmania. The item is primarily the repayment of advances from the Commonwealth for mainline railway upgrading under the *National Railway Network (Financial Assistance) Act 1979* and rail standardisation between Kalgoorlie, Kwinana and Koolyanobbing under the *Railway Agreement (Western Australia) Act 1961*. The balance of loans owing to the Commonwealth at 30 June 1990 for all assistance to the States for rail projects is expected to be \$73.6m.

Repayments of advances for works are some \$2.3m less in 1989-90 following the final repayment in June 1989 of advances to WA made prior to 15 June 1969.

7A.3.3 THE PIPELINE AUTHORITY

The Pipeline Authority is engaged in the transport of natural gas by pipeline from Moomba (SA) to Sydney, other cities in NSW and Canberra. Outlays represent repayment of previous loans.

7A.4 SEA TRANSPORT

7A.4		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Tasmanian Freight Equalisation Scheme	\$m	34.4	34.5	35.2	35.9	36.6
	%	22.0	0.3	2.0	2.0	1.9
Ship Purchase Grants	\$m	2.9	12.9	16.0	19.7	23.7
	%	n.e.	n.e.	24.0	23.1	20.3
Maritime Services	\$m	54.8	57.8	54.6	56.3	59.2
	%	43.6	8.4	-5.6	3.2	5.1
Waterfront Industry Reform	\$m	-	40.0	55.1	64.5	-
	%	n.e.	n.e.	38.0	18.9	-100.0
Shipping Industry Reform	\$m	-	15.4	10.4	4.4	-
	%	n.e.	n.e.	-32.8	-57.6	-100.0
TOTAL	\$m	92.1	160.6	171.3	180.8	119.5
	%	39.2	74.3	8.7	5.6	-33.9

Commonwealth activity in the sea transport area is directed towards:

- enhancing the competitiveness of the maritime sector including the efficiency and reliability of the waterfront;
- encouraging the development of a more efficient and innovative Australian shipping industry;
- furthering Australia's interests in international maritime arrangements; and
- providing efficient services to the maritime industry based on the user-pays principle.

Tasmanian Freight Equalisation Scheme

This scheme provides assistance to shippers of certain non-bulk goods between Tasmania and the mainland to help alleviate the freight cost disadvantage they incur in comparison with mainland States. The estimates assume continuation of present volumes of cargo moving across Bass Strait and no change to the present rates of assistance.

Ship Purchase Grants

Under the *Ships (Capital Grants) Act 1987* the Commonwealth provides a taxable grant of 7% of the purchase price of eligible new or second-hand trading ships. Outlays under the scheme are expected to be \$12.9m in 1989-90 (increasing to \$23.7m in 1992-93). The grants are designed to encourage modernisation of the Australian fleet and are contingent on specified lower crewing levels being achieved. The scheme was to be wound-up in 1992 but has been extended for a further 5 years as part of the Government's shipping reform initiatives.

Maritime Services

The provision of \$57.8m in 1989-90 to the Department of Transport and Communications covers items such as the provision and maintenance of marine navigational aids; maintenance of the maritime communications services; oil pollution control measures; marine search and rescue; and marine survey of vessels. The costs of maritime services are, in large part, recovered, for example through the collection of Light Dues for navigational aids and the Oil Pollution Levy.

Waterfront Industry and Shipping Industry Reforms

On 1 June 1989, the Government announced initiatives aimed at reforming the shipping and waterfront industries and the establishment of independent authorities to oversee the detailed development and implementation of the reform packages.

The Government is pursuing reforms in three broad areas of the waterfront industry—fundamental changes to employment arrangements; improved efficiency of port authorities; and measures to create a more commercial and competitive environment.

Depending on a satisfactory outcome to negotiations between the Government, the ACTU, and stevedoring unions and employers, the Government is prepared to commit up to \$154m over 3 years on a \$ for \$ basis with employers towards the cost of redundancy payments, training, retraining, skills audits, and job-redesign projects. The 1989-90 estimate for this 3-year program is \$37.9m, with \$53.5m in 1990-91 and \$62.7m in 1991-92.

For the shipping industry, the Government will support a program to reduce crewing levels to international standards by contributing up to \$24m for a voluntary early retirement scheme. In addition, half the cost of retraining seafarers to upgrade their skills will be met by the Government. The 1989-90 estimate for this 3-year program is \$15.4m decreasing to \$4.4m by 1991-92.

To assist in the progress to a more efficient shipping industry the Government also has decided to extend the current fiscal regime for five years from the scheduled expiry date of 30 June 1992. The 7% taxable grant available under the *Ships (Capital Grants) Act 1987* will now be available until 30 June 1997 in addition to the extension of the accelerated depreciation provisions to the same date.

7A.5 OTHER TRANSPORT AND COMMUNICATION

7A.5		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Inter State Commission	\$m	1.9	1.7	1.8	1.9	1.9
	%	18.8	-18.0	5.9	3.2	3.7
Administration and Other	\$m	106.7	65.8	73.9	74.9	77.9
	%	12.9	-38.4	12.3	1.4	3.9
TOTAL	\$m	108.7	67.5	75.7	76.8	79.8
	%	13.0	-37.9	12.2	1.4	3.9

Inter-State Commission

As announced in the Budget Speech a new Industry Commission (IC) is to be formed which will inquire into structural adjustment and micro-economic reform policies, including transport matters. As a result all future references on transport matters will be sent to the IC rather than the Inter-State Commission (ISC). For 1989-90 \$1.7m will be appropriated for the ISC; whilst similar real provisions are shown against the forward estimates for the ISC, funding in future will be appropriated to the new IC.

Administration and Other Services

This item largely consists of corporate support, resource management and various other departmental running costs for the Department of Transport and Communications not functionally allocated elsewhere. In addition, it includes receipts from provision of various transport services, including recoveries associated with the charter of Departmental vessels. The large decline in 1989-90 reflects a payment to Victoria of \$50m for transport improvements in 1988-89.

FURTHER REFERENCES

Annual report of the Department of Transport and Communications

Annual reports of the relevant Government Business Enterprises viz: Telecom, Australia Post, OTC, AUSSAT, Qantas, Australian Airlines, FAC, CAA, Australian National Line (ANL) and AN

Australian Telecommunications Services: A New Framework, 25 May 1988 Statement by the Minister for Transport and Communications

Explanatory Notes, 1989-90, Transport and Communications Portfolio. Budget Related Paper No 8.15

Report of Shipping and the Waterfront, 1 June 1989 Statement by the Minister for Transport and Communications

Reshaping the Transport and Communications Government Business Enterprises, 25 May 1988 Statement by the Minister for Transport and Communications

7B. INDUSTRY ASSISTANCE AND DEVELOPMENT

OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
7B.1	Agricultural, Forestry and Fishing Industries	\$m 1214.8	1300.7	1319.7	1266.2	1153.8
	%	-7.8	7.1	1.5	-4.1	-8.9
7B.2	Mining Industry	\$m 56.5	67.5	61.5	60.0	62.0
	%	-32.8	18.8	-8.9	-2.5	3.3
7B.3	Manufacturing Industry	\$m 381.6	395.1	341.0	282.3	250.5
	%	-5.3	3.6	-13.7	-17.2	-11.3
7B.4	Tourism Industry	\$m 42.3	41.6	37.2	38.7	40.3
	%	-8.4	-1.6	-10.5	3.9	4.0
7B.5	Assistance to Exporters	\$m 299.1	270.5	286.0	162.2	134.4
	%	-8.2	-9.6	5.7	-43.3	-17.1
7B.6	Other Assistance to Industry	\$m 36.6	38.5	35.2	29.2	26.8
	%	23.8	5.2	-8.8	-17.0	-8.3
TOTAL	\$m	2030.9	2113.9	2080.6	1838.6	1667.7
	%	-7.8	4.1	-1.8	-11.8	-9.3

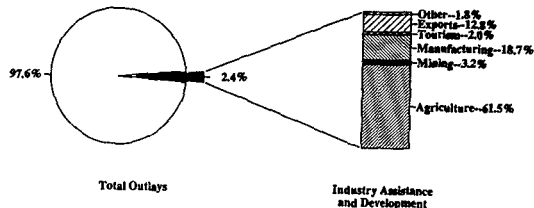
The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. *Contingency Reserve*.

- **Total outlays on Industry Assistance and Development increase by \$83m in 1989-90 or 4.1% (a 2.1% decline in real terms). They are expected to decline in real terms by 30.5% over the forward estimates period, concentrated particularly in 1991-92.**
- **The major factors contributing to the expected real decrease in 1989-90 include:**
 - reduced payments on various bounties (\$16.7m) and changes to the Export Market Development Grants scheme announced in the 1988 May Economic Statement (\$39m); and
 - termination of programs such as supplementary dairy market support (\$25.7m), fertiliser subsidies (\$16.7m) and the steel plan (\$5.9m).
- **Major policy initiatives (including those announced before the Budget) have added a total of \$129m in 1989-90 and \$372.8m over the forward years including:**
 - various environmental measures announced by the Prime Minister in July 1989 (\$17.9m in 1989-90, \$20.4m in 1990-91);

- compensation for the Tasmanian forestry industry (\$9.6m in 1989-90 and \$8.6m in 1990-91);
- new wheat marketing arrangements (\$38.3m in 1989-90 and \$38.6m in 1990-91);
- increases in rates of rural research levies in line with the objective of funding rural research at up to 0.5% of gross value of production in each industry. The lead times are such that the decision will have no impact in 1989-90 but will add \$7.5m to estimates in 1990-91 rising to \$19.3m in 1992-93;
- renewal of the shipbuilding bounty (\$25.5m in 1989-90 and \$35m in 1990-91); and
- a series of measures to assist manufacturing industry including investment promotion, a metals based engineering program and a Vendor Qualification Scheme (\$11.2m in 1989-90, \$16.7m in 1990-91).

- The real reductions expected in the forward years mainly reflect the expiry of the Export Market Development Grants scheme and some manufacturing bounties, and relatively steady agricultural production forecasts which provide the base for estimates of levy collections and for funding of rural research.
- Offsetting savings initiatives will reduce estimates by \$20.8m in 1989-90 and \$12.8m by 1990-91. These include:
 - abolition of agricultural machinery bounties announced in the Economic Statement, April 1989 (\$17.9m); and
 - a reduction in estimates for additional funding for rural adjustment (\$2.9m).

CHART 1. INDUSTRY ASSISTANCE AND DEVELOPMENT
Proportion of Total Outlays and Function
1989-90



PURPOSE

The Commonwealth's industry policies primarily seek to encourage the development of internationally competitive industries in Australia—both directly by promoting structural change and indirectly by facilitating export and research and development activity.

The Government has announced phased reductions in tariffs and other forms of protection with the aim of promoting structural change and allowing resources to flow to those industries with the best prospects in the international economy. These general measures complement a range of specific initiatives targeted to particular industries, the principal aims of which are:

- in the rural sector, to enhance the quality and long term viability of Australia's primary industries' resource base, through the funding of research, rural adjustment schemes, quarantine and inspection services; to provide a framework for the efficient marketing of primary products; and to assist in smoothing fluctuations in the incomes of primary producers;
- in the minerals and energy sectors, to promote improved productivity, access to international markets and higher returns for Australian mineral and energy exports;
- in the manufacturing and services sectors, to promote innovation and export competitiveness by targeting development assistance to key sectors and activities, providing adjustment assistance to some sectors and encouraging industrial research and development;
- in tourism, to promote overseas awareness of the attractiveness of Australia as a tourist destination; and
- in export industries generally, to motivate enterprises to increase international competitiveness and to provide support when they pursue international marketing opportunities.

NATURE OF INDUSTRY ASSISTANCE AND DEVELOPMENT OUTLAYS

Commonwealth assistance to industry via outlays from the budget includes: bounties and subsidies; price support and adjustment schemes; and contributions to research and promotion. This function also includes the outlays of some departments and organisations which service industry, eg the Department of Industry, Technology and Commerce, the Department of Primary Industries and Energy, the Bureau of Mineral Resources, Geology and Geophysics, the Australian Trade Commission and the Australian Tourist Commission. Such agencies provide a range of services to industry either free of charge or at charges which do not fully recover the costs involved.

As Chart 1 shows, agricultural, forestry and fishing industries account for more than 60% of outlays under this function. However, a large proportion (70%) of these outlays reflects the payment to relevant trust accounts and statutory corporations of industry contributions through various levies and charges collected by the Commonwealth on industry's behalf. These are classified as revenue, a total for which appears in Statement No. 4 *Estimates of Revenue 1989-90* under the heading—'Other Taxes, Fees and Fines'. Thus, more than 40% of outlays under this function is matched by revenue from primary industries.

Outlays recorded under some other functional headings also assist industry. Examples are airports and airway services, roads and shipping subsidies, outlays to maintain or improve the defence capacity of industry, certain outlays by the Commonwealth Scientific and Industrial Research Organisation, and some disaster relief assistance under the Natural Disaster Relief Arrangements.

Considerable indirect assistance is also provided to industry through special provisions in the taxation system, by way of tax expenditures. Some are of wide application, eg the 150% tax concession for research and development, while others are industry specific, eg the averaging provisions for income arising from primary production and the Income Equalisation Deposits scheme. The Government has also recently announced a series of measures to promote science and technology—see function 8D, *General and Scientific Research NEC* and Budget related Paper No.10, *Science and Technology Budget Statement 1989-90*.

TRENDS IN INDUSTRY ASSISTANCE AND DEVELOPMENT OUTLAYS

In the decade between 1979-80 and 1988-89, there were important changes in the extent and scope of Commonwealth assistance to industry. As Chart 2 indicates, in real terms outlays increased in the early to mid 1980s, and then began decreasing in line with Government policy to phase down protection, reduce disparities in assistance to different industries and encourage structural change and the flow of resources to those industries with the best commercial prospects in the international economy.

**CHART 2. TRENDS IN REAL OUTLAYS
(1984-85 PRICES)**

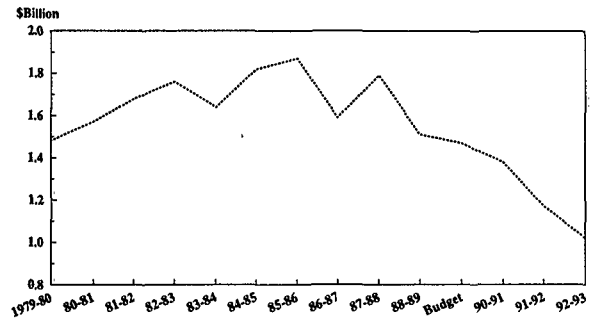
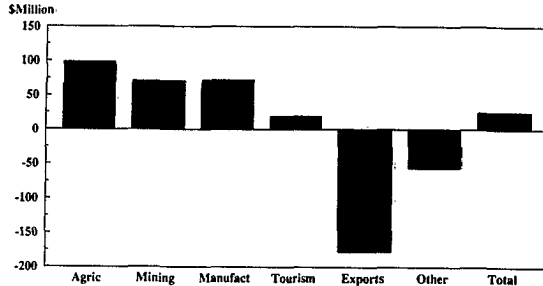


Chart 3 below analyses the components of the real terms change in Industry Assistance and Development outlays over the past decade.

**CHART 3. INDUSTRY ASSISTANCE & DEVELOPMENT
OUTLAYS- REAL CHANGE BETWEEN 1979-80 AND 1988-89
(1984-85 prices)**



Between 1979-80 and 1988-89 there has been a major (real) decline in general assistance to exporters largely because the previous Export Expansion Grants scheme which cost some \$200m a year in the early 1980s has been replaced by less costly forms of direct assistance such as the Export Market Development Grants scheme and a greater emphasis on general assistance. A decline in 'Other Assistance to Industry' largely reflects decisions in 1985 and 1987 to limit the Petroleum Products Freight Subsidy Scheme to very remote regions only. Within manufacturing there has also been a sharp fall in grants for research and development, partially replaced by taxation expenditures of some \$200m a year.

These reductions have been offset by:

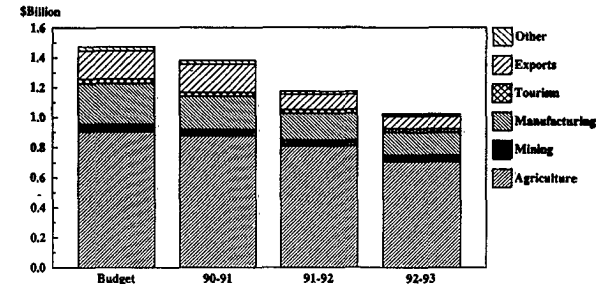
- A 12.2% real increase in assistance to the agricultural, forestry and fishing sectors resulting, among other things, from:
 - increased outlays on industry-specific research and marketing in most rural industries;
 - increased Commonwealth responsibility for quarantine and inspection activity; and
 - a steady expansion in outlays under 'Natural Resources Development and Management'.

- An increase in mining industry assistance reflecting a high degree of volatility in outlays as a result of Commonwealth involvement in the uranium industry: 1979-80, the base year for comparisons, was exceptionally low. Removing this effect from the figuring reduces the real increase in outlays from some \$70m to \$18m in 1984-85 prices.
- A 33.8% real increase in manufacturing assistance largely reflecting increases in sector-specific assistance (eg bounties on textiles and computers and higher bounties or other subsidies to automotive, steel, heavy engineering and ship-building sectors).
- A 150% real increase in assistance to the tourism industry reflecting a very large expansion in both the activities of the Australian Tourist Commission and other tourism promotional activity.

However, much of the increase over the past decade in agricultural, forestry and fishing outlays is matched by increases in revenue derived from higher levies and charges paid by producers and classified as Budget revenues. For example, some 90% of outlays on wool research and promotion is matched by wool tax collection. The net effect of agricultural, forestry and fishing outlays on the budget balance in 1989-90 is only \$417.8m.

Chart 4 shows the composition of outlays over the period 1989-90 to 1992-93.

**CHART 4. INDUSTRY ASSISTANCE & DEVELOPMENT
TRENDS & COMPOSITION 1989-90 TO 1992-93
(1984-85 prices)**



Major influences are:

- a 22% real decline in assistance to agricultural, forestry and fishing industries reflecting the expected completion of some activities such as brucellosis and tuberculosis eradication, expiry of legislation for dairy market support, relatively stable forecasts for rural industry production, and the expiry of the National Afforestation Program. This decrease is partially offset by increased outlays under the National Soil Conservation Program;
- a 44.2% real decrease by 1992-93 in manufacturing assistance, chiefly attributable to the expiry or winding down of bounties or other assistance to the automotive, heavy engineering and computer industries and to the expiry of the Grants for Industry Research and Development scheme in 1991; and
- a 56.3% real fall between 1989-90 and 1992-93 in assistance to export industries almost entirely resulting from the expiry of Export Market Development Grants at the end of the 1989-90 grant year.

1988-89 OUTCOME

The 1988-89 outcome for the entire function was \$2,030.9m; \$83.6m or 4.0% lower than the budget estimate.

The reasons for the lower than expected outcome include:

- underspends in the dairy and cattle, sheep and pig industries (—\$30.7m) reflecting lower than expected levels of production and the affect of adverse climatic conditions in Northern Australia on tuberculosis eradication activity;
- deferral to 1989-90 of compensation payments to businesses in relation to the North-East Queensland Forests (—\$11.2m) following delays as a result of legal proceedings initiated by the Queensland Government;
- an underspend of \$15.3m in fertiliser subsidies associated with the impact of the review of the fertiliser dumping duty scheme;
- deferral of a \$10m coal freight rate subsidy payment to NSW to 1989-90 to allow NSW to meet conditions related to the payment;
- a lower than expected demand for bounties as a result of buoyant conditions in the steel market (—\$15.4m); and
- a slow take up in bounties and grants for heavy engineering and machinery, motor vehicles and components and textile, clothing and footwear industries (—\$37.0m).

These decreases were partially offset by:

- a special \$62m payment to the Export Market Development Grants scheme partially to avoid an increase in the level of unpaid claims; and
- an \$8.0m compensation payment to Tasmania following the nomination for World Heritage listing of the Lemnathyme and Southern Forest regions of Tasmania.

7B.1 AGRICULTURAL, FORESTRY AND FISHING INDUSTRIES

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
7B.1.1	Fishing Industry	\$m 16.5	15.6	15.9	16.6	16.5
	%	-27.3	-8.4	1.6	4.6	-0.6
7B.1.2	Wool Industry	\$m 488.6	487.4	492.3	493.3	508.0
	%	9.3	-0.3	1.0	0.2	3.0
7B.1.3	Wheat Industry	\$m 17.9	58.5	103.6	63.6	63.4
	%	-40.4	228.9	77.0	-38.0	-0.4
7B.1.4	Dairy Industry	\$m 159.7	148.8	152.9	155.1	30.8
	%	-5.1	-6.8	2.8	1.4	-40.1
7B.1.5	Horticultural Industry	\$m 28.0	32.1	30.3	30.5	30.5
	%	55.8	14.7	-5.7	0.7	-
7B.1.6	Cattle, Sheep and Pig Industries	\$m 145.6	131.7	125.3	126.5	120.2
	%	38.2	-9.5	-4.9	1.0	-5.0
7B.1.7	Other Agricultural and Pastoral Industries	\$m 22.4	31.2	28.8	28.7	28.4
	%	30.2	39.5	-7.6	-0.3	-1.2
	Sub-Total Specific Industries	\$m 878.7	905.3	949.1	914.3	797.8
	%	-8.9	3.9	4.8	-3.7	-12.7
7B.1.8	General Assistance not Allocated to Specific Industries	\$m 206.1	205.2	216.9	209.9	211.3
	%	-10.2	-0.5	5.7	-3.2	0.6
7B.1.9	Natural Resources Development and Management	\$m 49.6	98.7	55.7	44.3	45.4
	%	13.0	88.1	-43.5	-20.5	2.5
7B.1.10	General Administration	\$m 80.5	91.6	98.0	97.7	99.3
	%	5.1	13.7	7.0	-0.3	1.8
	TOTAL	\$m 1214.8	1300.7	1319.7	1266.2	1153.8
	%	-7.8	7.1	1.5	-4.1	-8.9

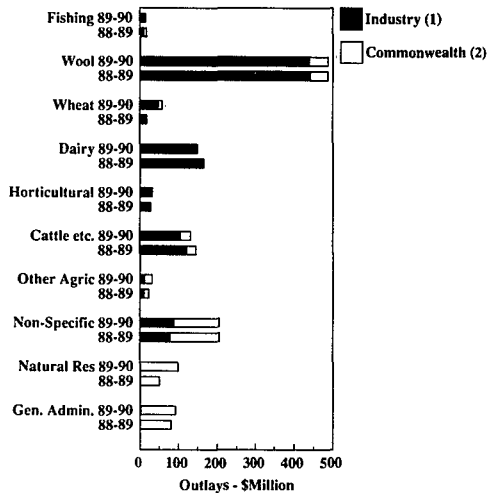
Memo:

- total revenue (industry contribution) from Agricultural, Forestry and Fishing Industries	\$m	868.1	882.9	895.4	929.0	818.9
- net Commonwealth contribution	\$m	346.7	417.8	424.3	337.2	334.9

The Commonwealth provides direct financial assistance to the agricultural, forestry and fishing industries primarily in the forms of price support, rural adjustment and disease eradication schemes, quarantine and inspection services and contributions to research and promotion. It also provides cost recovered services for the sector, including the exercise of compulsory taxing powers to collect levies on behalf of rural industries. The aim is to foster more efficient, productive, innovative and adaptable primary industries, remove constraints on Australia's export performance and improve Australia's international competitiveness. Commonwealth outlays on natural resources management aim to promote the equitable and efficient use of water, soil and forest resources at sustainable levels and the minimisation of resource degradation.

A large proportion of outlays (70%) in this sub-function is matched by industry contributions collected by the Commonwealth on the industry's behalf through various levies and charges, and classified as revenue. Chart 5 depicts the disaggregation of outlays by industry for 1988-89 and 1989-90.

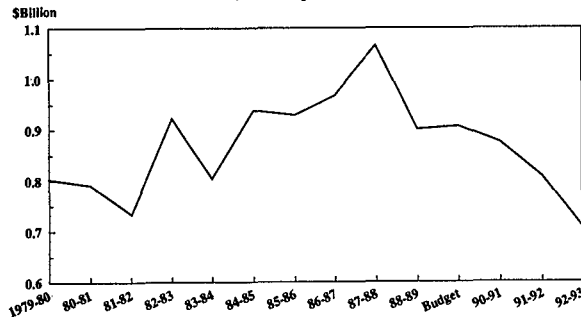
**CHART 5. AGRICULTURAL, FORESTRY AND FISHING INDUSTRIES
COMMONWEALTH & INDUSTRY CONTRIBUTIONS**



(1) Outlays matched by industry contributions through levies & charges (see Budget Statement 4)
 (2) Outlays without equivalent revenue from industry (ie the net Commonwealth budgetary contribution to these functions)

Trends

**CHART 6. AGRICULTURAL, FORESTRY AND FISHING INDUSTRIES
(1984-85 prices)**



Between 1979-80 and 1988-89, outlays for the sub-function increased at a relatively steady rate from \$518.4m to \$1214.8m, representing a real increase of 12.2%, mainly reflecting growth in research, promotion and marketing in rural industries; increased Commonwealth involvement in quarantine and inspection activity; and growth in outlays on natural resources management. Most of these increases have been matched by corresponding increases in revenue.

Notable exceptions to the pattern of steady growth were two large one-off increases: a fodder subsidy payment of \$103.7m under drought relief assistance in 1982-83 and a wheat underwriting payment of \$167.4m in 1987-88. Wheat outlays over the period show large fluctuations both up and down, reflecting changes in marketing arrangements.

For 1989-90 outlays are estimated at \$1300.7m representing a marginal real increase of around 1% on the 1988-89 outcome. The principal sources of this increase are higher payments to the wheat industry following the introduction of the new marketing arrangements and an increase in outlays under the 'Natural Resources Development and Management' item as a result of:

- the deferral to 1989-90 of some compensation payments totalling \$11.2m to businesses in the North-East region of Queensland affected by the Government's decision to nominate the wet tropical rainforests for world heritage listing; and
- funding increases arising from the Prime Minister's July 1989 Statement on the Environment (\$17.9m in 1989-90 and \$20.4m in 1990-91).

A number of assistance measures/programs (eg supplementary dairy market support, fertiliser subsidies) will be completed or terminated from 1989-90, partially offsetting the increase in outlays.

Over the forward estimates period, outlays are expected to decrease from \$1300.7m in 1989-90 to \$1153.8m in 1992-93, a real reduction of 22% reflecting principally an estimated reduction in the value of production in a number of industries (wool, dairy, cattle, sheep and pigs), expiry of legislation for dairy market support on 30 June 1992, and a return to normal levels of activity, from a 1989-90 high, in 'Natural Resources Development and Management'.

7B.1.1 FISHING INDUSTRY

7B.1.1		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Fishing Industry	\$m	16.5	15.8	15.9	16.6	16.5
	%	-27.3	-6.4	1.8	4.8	-0.8

Memo:

- proceeds of industry levy and interest earned on industry funds	\$m	10.7	13.3	13.7	11.9	11.9
- net Commonwealth contribution	\$m	5.8	2.3	2.2	4.7	4.6

Main activities under this heading include outlays for research and for reducing activity in certain fisheries by facilitating the exit of some participants. Research outlays are incurred principally through the Fishing Industry Research and Development Trust Account. The Commonwealth contribution to fisheries research in excess of those amounts which are recovered from the fishing industry and are classified as revenue is \$9.0m in 1989-90, \$4.5m to be recovered from the industry is provided to reduce fisheries activity through the National Fisheries Adjustment Program Trust Account.

7B.1.2 WOOL INDUSTRY

7B.1.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Market Support	\$m	234.4	227.7	229.7	242.2	249.9
	%	13.2	-2.9	0.9	5.4	3.2
Research, Promotion and Other Payments	\$m	254.2	258.7	262.6	251.0	258.1
	%	5.9	2.2	1.1	-4.4	2.8
TOTAL	\$m	488.6	487.4	492.3	493.3	508.0
	%	8.3	-0.3	1.0	0.2	3.0

Memo:

- proceeds of industry levy and interest earned on industry funds	\$m	442.2	438.9	442.8	466.9	481.7
- net Commonwealth contribution	\$m	46.4	48.5	49.5	26.4	26.3

Market Support

The Australian Wool Corporation (AWC) operates a reserve price scheme for wool at auctions to reduce wool price instability. The Commonwealth collects a Wool Tax (8% of the gross value of proceeds from shorn wool, classified as revenue) which is paid to the AWC in accordance with the *Wool Marketing Act 1987*. A market support component (4.15 percentage points, \$227.6m) is paid to the AWC's Market Support Fund.

Research, Promotion and Other Payments

The remaining component of the Wool Tax finances wool promotion and market administration (3.5 percentage points, \$192.0m) and research (0.35 percentage points, \$19.2m).

Industry contributions for research are matched \$ for \$ by the Commonwealth (\$23.5m in 1989-90).

The Commonwealth will also provide \$25m to the AWC in each of 1989-90 and 1990-91 for international wool promotion by the International Wool Secretariat.

7B.1.3 WHEAT INDUSTRY

7B.1.3		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Market Support	\$m	-	35.2	76.6	35.2	35.2
	%	-100.0	8.8	117.5	-54.0	-
Research, Promotion and Other Payments	\$m	17.9	23.3	27.0	28.4	28.1
	%	-4.8	30.0	15.9	5.1	-0.8
TOTAL	\$m	17.9	58.5	103.6	63.6	63.4
	%	-90.4	226.8	77.0	-38.8	-0.4

Memo:

- proceeds of industry levy and interest earned on industry funds	\$m	14.5	48.2	53.4	54.1	54.1
- net Commonwealth contribution	\$m	3.4	10.3	50.2	9.5	9.3

Market Support

New wheat marketing arrangements under the *Wheat Marketing Act 1989* began on 1 July 1989. Among other things, the Act provides for collection of a levy of 2.5% of the net sales value of wheat, of which 2 percentage points will be applied to a Wheat Industry Fund. That Fund will be used to support the trading activities of the Australian Wheat Board (AWB) in the now deregulated domestic wheat market. The Commonwealth Government will also guarantee AWB borrowings up to a limit of \$100m for this purpose. The wheat industry levy is classified as revenue.

Under the previous *Wheat Marketing Act 1984* an underwriting payment was required in respect of the 1986-87 wheat pool. A residual payment of \$41.4m is estimated in 1990-91.

Research, Promotion and Other Payments

The remainder of the wheat industry levy (0.5 percentage points) is to be directed to research. Industry contributions to wheat research are matched \$ for \$ by the Commonwealth. The Commonwealth contribution in 1989-90 is \$10.2m.

As part of the new wheat marketing arrangements, a subsidy will be provided on wheat freight to Tasmania (\$3.6m in 1989-90), to be reduced by 25% over the next 5 years.

7B.1.4 DAIRY INDUSTRY

7B.1.4		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Market Support	\$m	142.1	124.9	124.9	124.9	-
	%	-7.5	-12.1	-	-	-100.0
Research, Promotion and Other Payments	\$m	17.6	23.0	28.0	30.2	30.8
	%	19.0	28.0	17.9	7.0	2.1
TOTAL	\$m	159.7	148.8	152.9	155.1	30.8
	%	-5.1	-8.0	2.8	1.4	-90.1

Memo:

- proceeds of industry levy and interest earned on industry funds	\$m	165.1	146.8	150.1	152.0	27.1
- net Commonwealth contribution	\$m	-5.4	2.0	2.8	3.1	3.7

Market Support

Under marketing arrangements introduced on 1 July 1986, export sales of a wide range of dairy products are or were assisted by market support and supplementary market support payments. The funds for market support payments are derived from a levy on all milk produced. Outlays and the levy (on domestic sales of butter and cheddar-type cheeses) for supplementary market support cease from 30 June 1989. The proceeds from these levies are paid to the Australian Dairy Corporation (ADC).

The sharp drop in outlays in 1992-93 reflects expiry of legislation for market support arrangements from July 1992.

The negative figure shown for net Commonwealth contribution in 1988-89 reflects timing effects in payment of levy receipts to the ADC.

Under current arrangements the Commonwealth also underwrites average export returns for certain dairy products at 85% of the long-term price trend.

Research, Promotion and Other Payments

Outlays for dairy promotion and ADC administrative costs (\$17.7m) and research (\$7.0m) are financed primarily through a levy on the milkfat content of all whole-milk and whole-milk products produced in Australia. Industry contributions spent on dairy research are matched \$ for \$ by the Commonwealth (\$3.5m).

7B.1.5 HORTICULTURAL INDUSTRY

7B.1.5		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Market Support	\$m	18.9	18.6	15.4	14.5	14.5
	%	59.4	7.4	-17.9	-5.0	-
Research, Promotion and Other Payments	\$m	9.1	13.5	14.9	16.0	16.0
	%	48.0	48.3	10.4	7.6	-
TOTAL	\$m	28.0	32.1	30.3	30.5	30.5
	%	58.8	14.7	-5.7	0.7	-

Memo:

- proceeds of industry levy and interest earned on industry funds	\$m	24.0	28.0	26.9	26.5	26.5
- net Commonwealth contribution	\$m	4.0	4.1	3.4	4.0	4.0

Market Support

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 best three of the preceding four seasons. An underwriting payment of \$1.8m was required in 1988-89.

Under marketing arrangements for the dried vine fruits industry, \$19.0m will be provided to the Australian Dried Fruits Corporation (ADFC) in 1989-90 for equalisation of domestic and export market returns. This payment is fully funded by industry levies.

Research, Promotion and Other Payments

Industry levies fully pay for the marketing and promotion activities of the ADFC (\$1.1m) and the Australian Wine and Brandy Corporation (\$0.8m). The Australian Horticultural Corporation is funded both by industry (\$4.3m) and the Commonwealth (\$2.1m).

Industry expenditure on research is matched \$ for \$ by the Commonwealth (\$2.5m).

7B.1.6 CATTLE, SHEEP AND PIG INDUSTRIES

7B.1.6		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Eradication of Livestock	\$m 30.5	31.9	25.5	21.0	14.7
	Diseases and Compensation	% -14.6	4.8	-20.2	-17.6	-30.0
	Research, Promotion, Marketing	\$m 115.1	99.8	99.8	105.5	105.5
	Assistance and Other Payments	% 65.1	-13.3	--	5.7	--
	TOTAL	\$m 145.6	131.7	125.3	126.5	120.2
		% 38.2	-8.5	-4.9	1.0	-5.0

Memo:

- proceeds of industry levy and interest earned on industry funds	\$m	121.7	105.2	105.2	113.2	113.2
- net Commonwealth contribution	\$m	23.9	26.5	20.1	13.3	7.0

Eradication of Livestock Diseases and Compensation

All payments under the Bovine Brucellosis and Tuberculosis Eradication Campaign (BTEC) are pooled and shared on the basis of 20% Commonwealth (\$10.0m in 1989-90)/30% States/50% industry contributions. A cap on total payments under the program has been set at \$167.1m in real terms for the years 1988-89 to 1991-92 to meet the program's objectives of eradication of bovine brucellosis and elimination of known cases of herds infected with tuberculosis by 1992.

Industry contributions to BTEC are collected through the Livestock Export Charge and the Livestock Slaughter Levy and are paid to the National Cattle Disease Eradication Trust Account. Expenditure from the Trust Account in 1989-90 will be \$21.4m. Australia was declared brucellosis-free in July 1989.

Also included under this classification are payments of \$0.9m in respect of other animal pest and disease control programs.

Research, Promotion, Marketing Assistance and Other Payments

The Commonwealth matches industry payments on approved research programs for the meat and livestock industries. Industry funds levied for meat research by the Livestock Export Charge and Livestock Slaughter Levy (\$13.1m in 1989-90) are paid along with the Commonwealth contribution (\$14.7m) to the Australian Meat and Livestock Research and Development Corporation. Commonwealth and industry contributions for pig research are paid into the Pig Industry Research Trust Fund (\$4.0m in 1989-90).

The Commonwealth also makes payments, fully funded by industry levies, to the Australian Pork Corporation and to the Australian Meat and Livestock Corporation (AMLC) for their administrative and operational expenses, including promotion. A reduction in 1989-90 results from a decision by the AMLC not to fund chemical residue testing and computer assisted livestock marketing through levies.

3.214

7B.1.7 OTHER AGRICULTURAL AND PASTORAL INDUSTRIES

7B.1.7		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Other Agricultural and Pastoral Industries	\$m 22.4	31.2	28.8	28.7	28.4
		% 30.2	36.5	-7.6	-0.3	-1.2

Memo:

- proceeds of industry levy and interest earned on industry funds	\$m	10.9	11.9	12.4	13.5	13.5
- net Commonwealth contribution	\$m	11.5	19.3	16.4	15.2	14.9

This heading covers outlays, mainly for research, in respect of the barley, cotton, grain legumes, honey, oilseeds, poultry, sugar, tobacco and other industries. This heading also includes \$3.0m for assistance to various projects in Tasmania.

Industry contributes towards these activities through various levies, classified as revenue.

7B.1.8 GENERAL ASSISTANCE NOT ALLOCATED TO SPECIFIC INDUSTRIES

7B.1.8		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Rural Adjustment	\$m 34.9	36.9	41.4	39.6	36.6
		% 38.3	3.7	12.2	-4.6	-7.5
	Quarantine and Inspection	\$m 153.3	166.2	173.1	170.7	174.9
	Services	% 10.8	2.4	4.2	-1.4	2.5
	Land Settlement	\$m -2.6	-2.3	-2.2	-2.0	-2.0
		% -4.5	-12.8	-5.6	-6.3	-3.6
	Other	\$m 20.5	4.4	4.5	1.7	1.7
		% -70.1	-74.7	3.4	-62.8	3.1
	TOTAL	\$m 206.1	205.2	216.9	209.9	211.3
		% -10.2	-0.5	5.7	-3.2	0.6

Memo:

- proceeds of export inspection and other charges	\$m	79.0	89.0	89.3	89.3	89.3
- net Commonwealth contribution	\$m	127.1	116.2	127.6	120.6	122.0

3.215

Rural Adjustment

Under the *States and Northern Territory Grants (Rural Adjustment) Act 1988*, the Commonwealth provides funds and services to enable farmers to overcome financial difficulties arising from circumstances beyond their control; to improve their performance by changing the size of their farms, improving managerial and financial skills, or by adopting better practices and technology; and after all other options have been considered, to allow those farmers without prospects in the rural industry to make an orderly exit. This financial assistance is provided in the form of interest subsidies, loans and grants.

Quarantine and Inspection Services

The Australian Quarantine and Inspection Service (AQIS) provides export inspection services for meat and livestock, wool, grains, fruits, dairy products, fish and other exports requiring certification; provides domestic meat inspection services; and enforces plant and animal quarantine measures. By arrangement, the States administer at Commonwealth cost certain animal and plant quarantine and export inspection functions.

The Government's policy is to recover 60% of attributable export inspection, domestic meat inspection and quarantine costs, except for overtime and some other costs which are fully recovered. Additional funds were allocated to AQIS (\$3.5m in 1989-90 and \$5.4m over the forward estimates period) as a result of the December 1988 Policy Statement on agricultural quarantine, which outlined policies, objectives and strategies required to meet future demands on quarantine services.

Land Settlement

This mainly provides funds for the operation and maintenance of the Loxton SA irrigation project, offset by income and repayments related to land settlement programs.

Other

This heading includes funds for initiatives to improve access to education and training in rural areas, the primary industry marketing skills program and grants for rural counselling services. The Commonwealth meets up to half the costs of rural financial and adjustment counsellors employed by appropriate non-profit organisations.

Funds have also been provided to develop improved arrangements for providing information on Commonwealth programs to rural Australians.

Payments for fertiliser subsidies will cease in 1989-90. This follows the Government's decision announced in 1988 to terminate fertiliser consumption subsidies and the outcome of the review of dumping duties.

7B.1.9 NATURAL RESOURCES DEVELOPMENT AND MANAGEMENT

7B.1.9		1988-89		1989-90		1990-91		1991-92		1992-93	
		Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate		
Water Resources Development and Management	\$m	23.4	43.4	19.7	13.2	14.7					
	%	-28.3	43.1	-54.7	-33.0	11.7					
Forestry Development	\$m	16.3	32.1	10.7	5.2	4.2					
	%	179.0	96.0	-86.7	-51.4	-19.6					
Soil Conservation	\$m	9.8	23.2	25.4	25.9	26.5					
	%	57.2	135.9	0.2	2.2	2.2					
TOTAL	\$m	49.6	98.7	55.7	44.3	45.4					
	%	13.0	90.1	-43.5	-20.5	2.5					

Water Resources Development and Management

Outlays under this heading incorporate the major components of the Federal Water Resources Assistance Program (FWRAP) including water research; payments to the States for a range of non-urban water projects including water storage, irrigation, control, and salinity mitigation; and a payment to the Murray-Darling Basin Commission for its administrative expenses and capital works, including funding for a natural resources management strategy as part of the Prime Minister's July 1989 Statement on the Environment. These are offset by repayments of past loans by the States and other receipts. Details of other components of FWRAP are provided under function 5, *Housing and Community Amenities* (Urban Flood Mitigation) and function 7D, *Other Economic Services* (Urban Water Supply).

Forestry Development

This heading includes a range of outlays on forestry. Assistance under the National Afforestation Program (NAP) is used in conjunction with State government and private sector contributions to develop broadacre hardwood plantations, rehabilitate degraded lands, and for forestry research. The NAP has been expanded as part of the Prime Minister's July 1989 Statement on the Environment. Included also under this heading are the industry assistance components of compensation packages paid as financial assistance to Tasmania and compensation to businesses in North-East Queensland, following Government decisions in relation to World Heritage listings for forests. It also covers a package of measures to be undertaken in conjunction with NSW to facilitate resolution of the dispute over logging in National Estate areas in the South-East Forests of NSW.

Soil Conservation

The National Soil Conservation Program (NSCP) provides assistance to the States, Commonwealth Scientific and Industrial Research Organization (CSIRO), universities and other agencies for research, demonstration projects and extension activities to assist in overcoming soil degradation. Priorities under the NSCP have been reviewed in recent times to confront more effectively Australia's land degradation problems. This has led to substantial additional funding for Project Landcare under the NSCP as contained in the Prime Minister's July 1989 Statement on the Environment.

7B.1.10 GENERAL ADMINISTRATION

7B.1.10		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
General Administration	\$m	80.5	91.8	98.0	97.7	99.3
	%	5.1	13.7	7.0	-0.3	1.0

Memo:						
- proceeds of agricultural and veterinary chemical fees	\$m	-	1.6	1.6	1.6	1.6
- net Commonwealth contribution	\$m	80.5	90.0	96.4	96.1	97.7

This heading covers a wide range of general outlays of those parts of the Department of Primary Industries and Energy involved with agriculture, forestry and fishing, not elsewhere classified. The major outlays are for running costs (including the Australian Plague Locust Commission, part of the Australian Bureau of Agricultural and Resource Economics, and the Bureau of Rural Resources) and for analytical testing. Also included are payments by the Department of Primary Industries and Energy to CSIRO, to meet half of the operating and capital costs of the Australian Animal Health Laboratory.

Also included under this heading is the main component of outlays for the management and development of Australia's fisheries resources. From 1987-88 the Government's policy is to recover 100% of additional outlays on fisheries development and management in the fishing industry.

7B.2 MINING INDUSTRY

7B.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Bureau of Mineral Resources, Geology and Geophysics	\$m	42.9	50.8	53.4	54.4	56.6
	%	5.8	18.3	5.2	1.8	4.0
Other Mining	\$m	13.6	16.7	8.1	5.6	5.5
	%	-26.8	23.2	-51.0	-30.0	-2.0
TOTAL	\$m	56.5	67.5	61.5	60.0	62.0
	%	-32.8	18.5	-8.9	-2.5	3.3

The Commonwealth provides or has provided assistance to the mining industry through direct investment and financial assistance, and through the supply of services, with the aim of improving the efficiency and competitiveness of the industry, removing constraints to its export performance, and maximising its contribution to the Australian economy.

Bureau of Mineral Resources, Geology and Geophysics

The principal research function of the Bureau of Mineral Resources, Geology and Geophysics (BMR) is to develop an integrated understanding of the geology of Australia and its offshore areas. BMR provides scientific and technical assessments and advice to the Commonwealth Government, industry and the public.

In response to the review of BMR by Mr A.J. Woods, AO, the Government announced in June 1989 that BMR will give priority to production of geoscientific maps and data sets for use by the mineral and petroleum exploration industries and as a source of information for government in balancing development and conservation issues. Greater emphasis is also to be placed in BMR's operations on cost recovery and cost sharing.

Other Mining

The major items under this heading are payment of the second Commonwealth contribution of \$10m under the Coal Freight Rate Efficiency Scheme, a jointly funded \$40m scheme with NSW to bring forward coal freight rate reductions for a number of NSW coal producers; the Commonwealth's contribution to the operation of the Joint Coal Board, a body constituted under Acts of both the NSW and Commonwealth Governments with wide powers in relation to the coal industry in NSW; continuing deferred payments in respect of the original purchase of certain oil and gas interests in the Cooper Basin; payments of amounts collected by the Commonwealth as fees and other charges under the *Petroleum (Submerged Lands) Act 1967* passed on in full to the relevant States; and payments to various international mineral commodity organisations.

Trends

Between 1979-80 and 1988-89 there were significant fluctuations in outlays on the mining industry. These mainly reflect the Commonwealth's involvement in the purchase and sale of a number of mining interests; the Commonwealth's special interest in activities related to the mining and exploration of uranium; the operation of, and subsequent winding up of, the Bass Strait Freight Adjustment Scheme which was introduced in 1984 to reduce disparities in freight costs between different refiners; and the payment in 1987-88 of the first \$10m contribution by the Commonwealth to NSW under the Coal Freight Rate Efficiency Scheme.

The second payment to NSW of \$10m under the Coal Freight Rate Efficiency Scheme, originally included in 1988-89 Budget estimates, has now been deferred until 1989-90 and is the major cause of a forecast reduction in outlays between 1989-90 and 1992-93 under the heading 'Other Mining'.

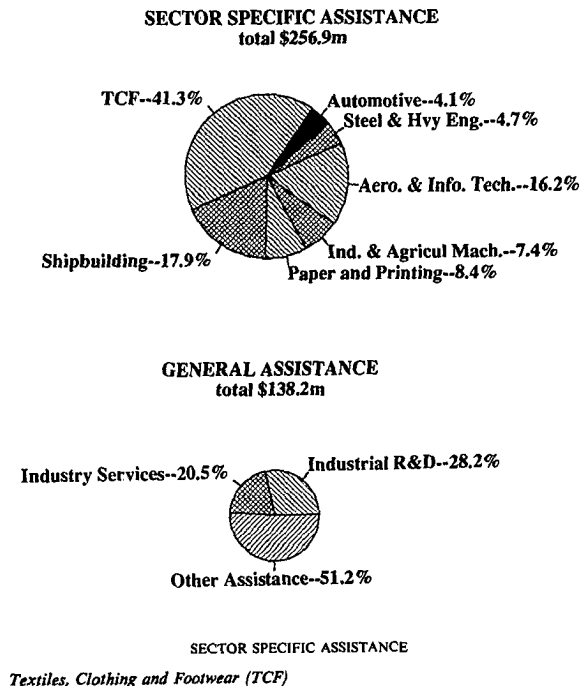
7B.3 MANUFACTURING INDUSTRY

7B.3		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Sector Specific Assistance						
Textiles, Clothing and Footwear	\$m	97.6	106.0	109.6	110.0	110.6
	%	5.4	8.8	3.4	0.4	0.7
Shipbuilding	\$m	48.3	46.0	36.6	31.3	30.2
	%	22.2	-4.8	-18.9	-14.9	-3.7
Paper and Printing	\$m	25.5	21.7	22.5	23.0	17.4
	%	22.8	-15.0	3.9	1.9	-24.4
Industrial and Agricultural Machinery	\$m	30.1	18.9	20.6	9.4	1.4
	%	11.1	-37.2	8.9	-54.6	-85.0
Aerospace and Information Technology	\$m	38.3	41.7	11.0	6.2	6.4
	%	23.4	8.7	-73.6	-43.8	3.0
Steel and Heavy Engineering	\$m	23.1	12.0	6.0	3.1	-
	%	-39.3	-47.8	-49.8	-48.8	-100.0
Automotive	\$m	10.4	10.6	7.5	3.1	1.7
	%	-25.2	1.8	-28.8	-59.2	-44.1
Sub-Total Sector Specific Assistance	\$m	273.3	256.9	214.1	186.0	167.8
	%	3.9	-9.0	-19.7	-13.1	-9.8
General Assistance						
Industrial Research and Development	\$m	35.0	39.0	35.9	24.0	11.1
	%	-3.4	11.8	-8.0	-33.2	-53.6
Industry Services	\$m	16.8	28.4	24.4	3.4	1.4
	%	-45.4	60.6	-14.1	-88.1	-80.2
Other Assistance to Manufacturing	\$m	56.5	70.8	66.6	68.9	70.2
	%	-22.4	26.2	-8.0	3.4	1.9
Sub-Total General Assistance	\$m	108.3	138.2	126.9	96.3	82.6
	%	-22.8	37.7	-8.2	-24.1	-14.1
TOTAL	\$m	381.6	395.1	341.0	282.3	250.5
	%	-5.3	3.6	-13.7	-17.2	-11.3

Budgetary assistance to manufacturing industries aims to foster international competitiveness, export orientation and structural adjustment and to promote managerial efficiency and industry research and development.

Assistance to manufacturing industries comprises bounties, subsidies and programs of targeted assistance to specific sectors, as well as generally available programs such as Grants for Industry Research and Development (GIRD) and the National Industry Extension Service (NIES). A breakdown between these two broad areas is shown in Chart 7.

CHART 7. ASSISTANCE TO MANUFACTURING
1989-90



The TCF sectoral plan became fully operational on 1 March 1989 and is scheduled to run to 1 July 1995. It is administered by the Textiles, Clothing and Footwear Development Authority (TCFDA). The plan's objectives include creation of a more responsive sector with an increased design and marketing orientation, improved managerial and entrepreneurial skills and concentration on more competitive, high value products. The TCF industries currently receive extensive tariff, quota and bounty assistance. Under the plan, quotas are being phased out and tariff rates rationalised. Bounty assistance is provided for production of various items of fabrics and yarns under a number of Bounty Acts.

The Industries Development Strategy (IDS), which is part of the TCF plan provides funds for a raw materials processing program, an export development program and a development assistance program designed to increase the internal efficiency of TCF firms. \$10m is to be provided for the IDS in 1989-90 and the same amount is allowed in the forward years for these purposes. In addition to outlays under this heading, the TCF plan contains a package of labour adjustment measures designed to assist workers to be re-employed outside the TCF industries (see function 7C. *Labour and Employment*).

Shipbuilding

The *Bounty (Ships) Act 1980* which provided assistance for the domestic construction of vessels exceeding 150 tonnes expired on 30 June 1989. Outlays of \$19.8m are required in 1989-90 to pay existing claims at the existing rate of bounty of 20%. The Government has decided, following advice from the Industries Assistance Commission, that bounty assistance for ship construction will continue until 30 June 1995 under the new *Bounty (Ships) Act 1989*. The new rates of bounty are 15% of value added to June 1991, 10% to June 1993 and 5% to June 1995. The combined effect of the new and the old bounties will maintain assistance for ship construction in 1989-90 at the previous year's levels. Outlays under the *Bounty (Ships) Act 1989* are estimated at \$25.5m in 1989-90 and rising in subsequent years (\$90.4m over 3 years).

Assistance is also provided for the repair of international trading vessels under the *Bounty (Ship Repair) Act 1986*. Outlays are estimated at \$0.7m, down from \$3.3m in 1988-89, reflecting the termination of the bounty on 9 October 1989.

Paper and Printing

Assistance to the paper and printing industry is provided through the *Bounty (Books) Act 1986* for the local production of books. The rates of bounty were reduced from 20% of production costs to 18% from 1 January 1989. Further phased reductions (including a decrease to 16.0% from 1 January 1990) will continue to an end-point bounty rate of 13.5% applying from 1 January 1992. The bounty is due to expire in December 1993.

Industrial and Agricultural Machinery

Assistance to the industrial machinery industry is provided through the *Bounty (Metal-working Machines and Robots) Act 1985* for the local production of certain advanced machine tools, robots and laser and gas operated machinery. The current rate of bounty is 28%. The bounty is scheduled to terminate on 30 June 1991.

Assistance to the agricultural machinery industry has in recent years been provided under the *Subsidy (Cultivation Machinery and Equipment) Act 1986* and the *Subsidy (Grain Harvesters and Equipment) Act 1985* for the production of certain agricultural machinery. The Government announced in the Economic Statement, April 1989 the termination of the agricultural equipment bounties from midnight 12 April 1989. It considered that these bounties were not contributing to the competitiveness or export orientation of this industry. Outlays are estimated at \$2.0m (\$14.6m in 1988-89) to meet outstanding bounty claims.

Aerospace and Information Technology

Bounty assistance is provided under the *Bounty (Computers) Act 1984* for the production of computer hardware, assemblies, electronic microcircuits, systems design and systems software. The bounty is due to expire in July 1990 and will be reviewed by the Bureau of Industry Economics before the end of 1989.

The *Information Industries Strategy (IIS)* will continue to provide funds in 1989-90 to boost these industries' exports and competitiveness (\$2.1m). The IIS aims to promote product development and international efforts in research and development and marketing for the information industries.

The National Space Program aims to promote growth of commercially viable industries based on space technologies and to encourage industry involvement in space research and development.

Steel and Heavy Engineering

The five year *Steel Industry Plan* expired on 31 December 1988.

Assistance to the heavy engineering industry has been provided under the Heavy Engineering Adjustment and Development Program. The program consists of:

- development assistance to improve the efficiency of management in areas such as product development and quality control;
- a labour adjustment program (see function 7C. *Labour and Employment*); and
- a capital adjustment program consisting of an interest subsidy on loans provided by the Australian Industry Development Corporation.

Although the program ceased on 30 June 1989, outlays for the development assistance component are estimated at \$6.0m (\$13.3m in 1988-89) to cover late claims. Outlays for the interest subsidy component are also estimated at \$6.0m in 1989-90 (\$3.9m in 1988-89) and will continue in the later years (\$9.1m over 2 years) because some loans drawn before 30 June 1989 will receive interest subsidy payments until 30 June 1992. In 1989-90 a metals based engineering program is to be established (\$2.5m in 1989-90 and a total of \$15m over the next 4 years) to encourage export enhancement, research and development and diffusion of new technology in this sector.

Automotive

In 1984, the Government announced a sectoral plan for the passenger motor vehicle industry aimed at improving the efficiency and competitiveness of the industry. The policy included the rationalisation of models and vehicle producers and the gradual lowering of tariff quotas. Amendments to the plan announced in April 1988 have since abolished tariff quotas and accelerated the reduction in import duty. The plan is due to expire on 31 December 1992.

Budgetary assistance is provided through the Motor Vehicles and Components Development Grants Scheme which provides funding for Australian research and design of components and vehicles. All grants have now been committed and funding will rise in 1989-90 to \$9.5m and decline in the forward estimate years.

The *Bounty (Commercial Motor Vehicles) Act 1978* which provided assistance for the local production of heavy commercial vehicles, parts and accessories expired on 31 December 1988. However, outlays of \$0.1m are required in 1989-90 to cover late claims.

GENERAL ASSISTANCE

Industrial Research and Development

Industrial research and development (R&D) is encouraged by the 150% tax concession on R&D expenditure (established in 1985 and subsequently extended in the May 1989 Science and Technology Policy Statement at the rate of 150% until 30 June 1993 and at the rate of 125% until 30 June 1995), and through the Grants for Industry Research and Development (GIRD) Scheme. Three types of grant are available through GIRD: Discretionary Grants—aimed at firms unable to take advantage of the 150% 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 ie projects that are likely to benefit the community as a whole but which would not proceed in the absence of Government support (no such grants have been paid to date). The GIRD scheme is administered by the Industry Research and Development Board which assesses applicants' projects and sets grant rates.

The five year GIRD program expires in 1991, and the Bureau of Industry Economics is scheduled to evaluate the effectiveness of the Discretionary Grants component before the end of 1990.

The estimated cost to revenue of the tax concession is expected to be about \$200m in 1989-90.

A further taxation incentive has been provided since 1984-85 by the Management and Investment Companies (MIC) scheme, which provides for a 100% taxation deduction for investments in licensed MICs which invest in approved high technology/growth areas. There is an annual upper limit of \$20m on revenue foregone (with some carry forward allowed) and the scheme terminates on 30 June 1991.

Industry Services

Assistance is provided to small and medium sized businesses in manufacturing industry through the National Industry Extension Service (NIES), a joint Commonwealth/State venture. It offers advisory and referral services and some subsidies to targeted firms to improve levels of business efficiency and international competitiveness. An estimated \$5.6m will be outlaid directly by the Commonwealth under NIES in 1989-90 and a further \$8.1m will be allocated to NIES projects administered by the States and Territories. The NIES agreements with the States will be reviewed prior to their expiry in May 1991. Amounts of \$2.6m in 1989-90 and 1990-91 will be allocated to a Vendor Qualification Scheme, a new project to be administered through the existing NIES infrastructure. It aims to improve international product safety standards and process qualifications of Australian firms in the information industry to enable them to supply goods for export and within the Partnerships for Development Program.

The National Procurement Development Program supports the demonstration, testing and research of high technology Australian products by government agencies. The program is to be increased by \$1m in 1989-90 and 1990-91.

The Technology Development Program supports the development of innovation, especially for medium and small scale enterprises. Funding is to be increased by \$1.3m in all forward years.

An Investment Promotion Program aimed at encouraging overseas investment in Australian manufacturing and improving the international competitiveness of the sector is to be continued this year. An extra \$3.7m will be allocated in 1989-90 for this purpose (bringing the total to \$5.7m) rising to \$6.4m in 1992-93 (a total of \$24.5m over 4 years including the \$2m previously allocated for 1989-90).

\$6m from a special grant of \$10.5m to Tasmania is being allocated for assistance to manufacturing.

Other Assistance to Manufacturing

Outlays under this heading comprise mainly administrative and related costs of the Department of Industry, Technology and Commerce which are expected to decrease slightly over the next four years reflecting operating efficiencies and reduced activity for a number of sectoral plans.

Following the May 1989 Statement on Science and Technology, the Government is providing \$1.7m under this heading towards programs for improving industrial R&D. Similar levels of funding will be provided in the forward years.

Trends

Outlays on manufacturing industry assistance over the past ten years have increased significantly, from \$136.6m in 1979-80 to \$381.6m in 1988-89, or by 33.8% in real terms. This mainly resulted from the introduction of sectoral plans to provide adjustment and other assistance for specific industries. The decision to introduce a bounty for textile yarns in 1981 significantly increased outlays for the TCF sector and contributed a large part of the strong increases in outlays on manufacturing assistance in the early 1980s. Other programs which contributed significantly to assisting specific sectors were the introduction of the steel mills bounty in 1984-85, the introduction of the computer bounty and grants for motor vehicles and components development in 1985-86.

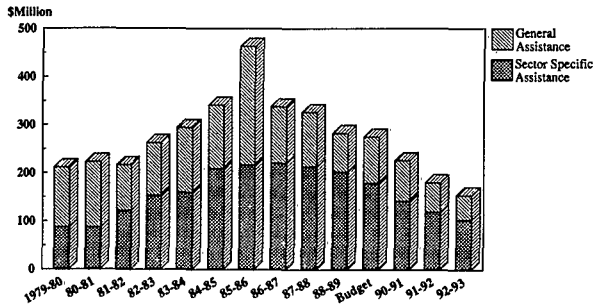
Generally available assistance (mainly grants for R&D and industry extension services) peaked in 1984-85 but has since declined. The large outlays in 1984-85 reflected a once-only payment of \$124.8m to offset losses incurred by domestic refiners in maintaining import parity prices after world crude oil prices fell sharply in January 1986. Significant increases in outlays on industrial R&D occurred between 1981-82 and 1983-84 following the introduction of grants under the *Industrial Research and Development Incentives Act 1976*. In 1987-88, a once only payment of \$15m was made to WA for industrial infrastructure associated with high technology parks.

For 1989-90, outlays are estimated at \$395.1m which is a real reduction of around 2.7% on the 1988-89 outcome. Reductions in assistance to specific sectors have been partly offset by increased funding for industrial R&D and for industry services (the National Procurement Development Program, further development of the Multifunction Polis concept and payments to the States for the National Industry Extension Service).

Over the forward estimate years, the expenditure growth trend is expected to be reversed—outlays are expected to decline by 44.2% in real terms from 1989-90 to 1992-93. Assistance to specific sectors will generally decline during the forward estimate years—with termination or reduction in outlays for most bounties (TCF, computers, books and metal working machines and robots) and in budgetary assistance under some sectoral plans (steel, heavy engineering and automotive). Assistance to the TCF sector will increase slightly in the forward years so that, as a proportion of total assistance to manufacturing industry, outlays on the TCF sectoral plan will increase from 27% in 1989-90 to 44% in 1992-93. Outlays on space related activities are estimated to increase steadily from \$4.4m in 1989-90 to \$6.4m in 1992-93 with a total of \$22.6m being provided over the next 4 years.

Assistance for generally available programs will also decrease over the forward years. Outlays on industrial R&D are expected to decline by 75% in real terms between 1989-90 and 1992-93 reflecting the scheduled expiry of the GIRD scheme, although budgets up to 1995-96 will continue to reflect revenue foregone as a result of the 150% tax concession for R&D. Outlays on the National Procurement Development Program and the National Industry Extension Service are presently expected to terminate by the end of the forward estimates period.

CHART 8. ASSISTANCE TO MANUFACTURING
(1984-85 prices)



7B.4 TOURISM INDUSTRY

7B.4		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
Australian Tourist Commission	\$m	38.2	36.9	34.3	35.7	37.2
	%	7.6	-3.2	-7.2	4.2	4.2
Other Assistance to the Tourism Industry	\$m	4.1	4.6	3.0	3.0	3.1
	%	-0.5	13.2	-36.5	1.0	2.0
TOTAL	\$m	42.3	41.6	37.2	38.7	40.3
	%	-8.4	-1.6	-10.5	3.9	4.0

Budgetary assistance complements the activities of the tourism industry itself and aims to maximise the contribution of overseas and domestic tourism to the economy by promoting overseas awareness of the attractiveness of Australia as a tourist destination.

Australian Tourist Commission (ATC)

About 90% of budgetary assistance to the industry is provided to the ATC which promotes Australia overseas with the objective of increasing the number of incoming tourists. The ATC maintains offices in most potential overseas tourist markets to co-ordinate marketing and interact with local travel operators; advertises and distributes literature; and works closely with the travel industry in Australia, State Governments and major overseas tourist operators to fulfil its objectives.

As well as Commonwealth funding the ATC received about 15% of its total revenue from the industry itself in 1988-89. This figure is projected to increase in future years.

Other Assistance to the Tourism Industry

Most of the funds in 1989-90 and later years represent running costs for the Bureau of Tourism Research and other tourism policy functions within the Department of the Arts, Sport, the Environment, Tourism and Territories.

In the past the Commonwealth has funded other tourism assistance under this item, eg the Tourism Overseas Promotion Scheme which ceased in 1987-88.

Trends

Commonwealth funding has increased over the last decade from a low base of \$8.1m in 1979-80 to \$42.3m in 1988-89, a real increase of about 150%.

Commonwealth funding for the ATC increased from \$8.2m in 1979-80 to \$38.2m in 1988-89, a real increase of about 123%. 'Other Tourism' funding grew from a negative base in 1979-80 to a peak of \$10.7m in 1987-88 and has subsequently declined to \$4.1m in 1988-89.

Commonwealth funding for tourism is estimated to decrease in 1989-90, 1990-91, and 1991-92 before increasing to \$40.3m in 1992-93, a real decrease of about 21% on 1988-89.

1988 was an exceptional year for the tourism industry, with record numbers of incoming tourists. In an attempt to maintain levels of inbound tourism and to tap new markets, the Government has decided to maintain the funds appropriated to the ATC in 1989-90 at about the 1988-89 level.

Net Commonwealth funding available to the ATC is estimated at \$36.9m in 1989-90, declining in the next two years, before increasing to \$37.2m in 1992-93, a real decrease of about 19% on 1988-89. Funding for 'Other Tourism' activities is estimated to increase slightly to \$4.6m in 1989-90 and decline to around \$3m over the next three years; the 1992-93 estimate of \$3.1m implies a real decrease of about 38% since 1988-89.

Reflecting the fact that about 80% of the ATC's funds are spent overseas, the Government has agreed to the ATC's request that it be allowed to draw down 80% of its annual Commonwealth Budget appropriation as soon as possible after passage of the relevant legislation. The intention is to give the ATC added flexibility to insulate itself from adverse foreign exchange movements; it will retain any foreign exchange gains but will not be supplemented for any losses. The ATC will pay the Commonwealth about \$0.8m per annum from 1989-90 as compensation for the Commonwealth's opportunity cost of early payment of the funds.

7B.5 ASSISTANCE TO EXPORTERS

7B.5		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Export Development Schemes	\$m	181.0	140.0	154.0	28.0	-
	%	1.1	22.7	10.0	-81.8	-100.0
Export and Trade Promotion	\$m	102.1	104.9	108.5	112.0	115.6
	%	-5.0	2.8	3.4	3.2	3.3
Export Finance Facility	\$m	11.1	21.4	14.8	13.9	10.7
	%	-4.6	23.3	-30.8	-8.4	-23.0
National Interest Export Insurance	\$m	-14.4	-15.8	-12.4	-13.8	-15.0
	%	n.a.	8.2	-20.5	11.5	8.4
Other Assistance to Exporters	\$m	19.4	19.8	21.1	22.1	23.1
	%	-2.7	2.2	8.4	5.1	4.4
TOTAL	\$m	299.1	270.5	286.0	162.2	134.4
	%	-8.2	-8.8	5.7	-43.3	-17.1

The purpose of Commonwealth assistance to exporters is to increase the export orientation of Australian industry and to help new and existing exporters to identify and exploit international market opportunities. A variety of strategies is employed to achieve these objectives, most of which involve the Australian Trade Commission (AUSTRADE):

- the provision of information and promotional assistance;
- the development of trade policy;
- finance and insurance services including concessional export finance; and
- direct financial assistance in developing export markets.

There is a close relationship between this and other sub-functions within Industry Assistance and Development. While most outlays wholly related to general export strategies are shown under this sub-function, encouragement of improved export performance may itself be a major part of assistance programs to develop specific industries, in which case the related outlays are shown under the relevant sub-functions covering that industry.

Export Development Schemes

The principal export market development scheme administered by AUSTRADE is the Export Market Development Grants (EMDG) scheme.

Grants under the *Export Market Development Grants Act 1974* aim to encourage small to medium sized Australian exporters to seek out and develop overseas markets for goods, specified services, industrial property rights and know-how of Australian origin. AUSTRADE provides cash grants based on eligible expenditures incurred on export promotion in the preceding year. The scheme is intended to help potential Australian exporters to overcome lack of familiarity with overseas markets. EMDG will constitute some 94% (\$132m) of export development schemes funding in 1989-90. Other such schemes are the International Business Development Scheme and the Innovative Agricultural Marketing Program.

Export and Trade Promotion

AUSTRADE provides assistance to Australian companies through export incentives, trade displays, the trade mission program and international projects support (including the provision of market intelligence, co-ordination of project opportunities and funding feasibility plans).

Export Finance Facility

AUSTRADE's, finance and insurance operation, Export Finance and Insurance Corporation (EFIC), provides loans under this facility to support the export of Australian produced capital goods and services.

Funds to support the facility are borrowed by AUSTRADE-EFIC at commercial rates of interest and are on-lent to eligible participants, often at concessional rates of interest, in accordance with the Organisation for Economic Co-operation and Development Arrangement on Guidelines for Officially Supported Export Credits. Any shortfall between the commercial borrowing rates and concessional lending rates is met by a subsidy payment from the Commonwealth to AUSTRADE each year. During 1988-89, AUSTRADE's new lending commitments amounted to the equivalent of \$A315m. Of this, loans worth the equivalent of \$A196m were also supported by aid grants under the Development Import Finance Facility administered by the Australian International Development Assistance Bureau (outlays on these grants are shown under 3C. *Foreign Affairs and Overseas Aid*).

National Interest Export Insurance

Under the National Interest provisions of the *Australian Trade Commission Act 1985*, AUSTRADE can refer to the Commonwealth proposals for export insurance on the Commonwealth's account. Premiums for National Interest business are remitted to the Commonwealth which is also liable for payouts on insurance claims.

Other Assistance to Exporters

This category includes the development of trade policy and oversight of trade issues undertaken within the Department of Foreign Affairs and Trade.

Trends

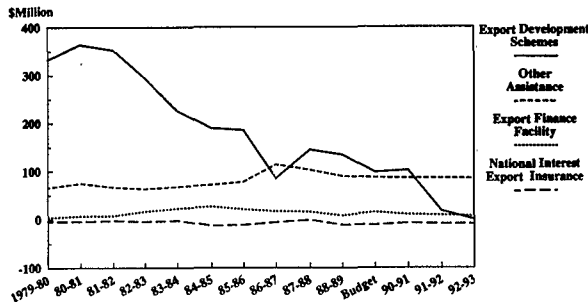
Between 1979-80 and 1988-89 outlays declined by 44.5% in real terms. This coincided with a rise in outlays on adjustment assistance to specific industries classified to other sub-functions within Industry Assistance and Development.

Export Expansion Grants (EEG) scheme outlays peaked at \$200 million in 1980-81. The scheme was terminated in 1983, but outlays on the related EMDG scheme increased to a peak of \$179m in 1984-85; more recently changes have been implemented to improve its cost effectiveness.

Following changes announced in the 1988 May Economic Statement and a special payment of \$62m during 1988-89 to avoid a payments backlog, EMDG scheme outlays are expected to decline further from \$171m in 1988-89 to \$132m in 1989-90. The existing scheme is due to terminate on 30 June 1990 (pending Government consideration of the final report of the Hughes Committee review of export assistance) with payment of grants winding down over 1990-91 and 1991-92.

Outlays under the Export Finance Facility (mainly the concessional finance interest subsidy) rose sharply over the period 1982-83 to 1984-85 but then steadily decreased until 1987-88. The large decline in 1988-89 mainly reflects the on-going impact of a transition from domestic borrowing to borrowing in foreign currencies at lower interest rates, thereby enabling EFIC to reduce the current call on the budget while increasing its overall level of lending. In addition, in 1988-89 AUSTRADE repaid \$2.7m of subsidy payments that it received in 1987-88 but, in the event, were in excess of requirements. In 1989-90 however, the interest subsidy is estimated to rise by \$7.6m largely as a result of the relatively high current level of short term interest rates in Australia.

CHART 9. ASSISTANCE TO EXPORTERS
(1984-85 prices)



3.230

7B.6. OTHER ASSISTANCE TO INDUSTRY

7B.6		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
Petroleum Products Freight	\$m	4.3	4.3	4.3	4.3	4.3
Subsidy	%	-35.4	-	-	-	-
Energy Research and Conservation	\$m	25.1	33.3	29.8	23.8	21.3
	%	41.0	32.0	-10.4	-20.2	-10.5
General Administration	\$m	7.2	1.0	1.1	1.2	1.2
	%	38.6	-36.8	17.1	4.8	5.0
TOTAL	\$m	36.6	38.5	35.2	29.2	26.8
	%	23.6	5.2	-8.6	-17.0	-8.3

These outlays are aimed at improving the efficiency and equity of Australia's energy use through enhancement of energy research and development, transfer of the results of energy research and assistance to remote users of petroleum products.

Petroleum Products Freight Subsidy

This scheme subsidises the transport of eligible petroleum products to remote locations. The subsidy equals the excess of the determined freight cost over a maximum consumer contribution, currently 11.7 cents per litre.

Energy Research and Conservation

This item includes the National Energy Research Development and Demonstration (NERDD) program to encourage energy research and development, and the National Industrial Energy Management Scheme (NIEMS), which promotes improved energy efficiency in industry.

Grants for energy research projects are approved by the Minister for Resources on advice from the National Energy Research, Development and Demonstration Council. Funds for grants are provided through the Energy Research Trust Account (ERTA); the Renewable Energy Research Trust Account (RERTA), which the Government established in December 1987 to fund research into renewable energy technologies, energy conservation and the efficient use of energy; and the Coal Research Trust Account (CRTA). The ERTA and the RERTA are funded by budget appropriations. 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.

From 1990-91 ERTA and RERTA funds will be available to the National Energy Research and Development Corporation and CRTA funds to the Coal Industry Research and Development Corporation.

The Prime Minister's July 1989 Statement on the Environment included \$0.5m in 1989-90 and \$0.9m in 1990-91 for energy management initiatives under NIEMS.

3.231

General Administration

This item covers mainly running costs expenditure related to the above programs and, until 1989-90, ACT expenditure of a similar nature.

Trends

Between 1979-80 and 1988-89 assistance under the Petroleum Products Freight Subsidy Scheme rose to a peak of \$147.5m in 1981-82 and continued at levels of more than \$100m a year until 1985-86, when it fell sharply following a Government decision to restrict the scheme's coverage to remote locations. Energy research outlays have fluctuated over the period, as a result of changes in coal research expenditure, but the overall trend shows a small increase.

In 1989-90 outlays are expected to grow by 5.2% (a decline of 1.1% in real terms) largely reflecting unusually high expenditure on coal research offset by reductions in general administration; falling off of expenditure from this level affects future years, while other outlays under this heading remain relatively constant. The sharp drop in general administration reflects the removal of ACT own purpose expenditure from the Commonwealth Public Account following ACT self-government.

FURTHER REFERENCES

Annual Reports, particularly those of:

- *Department of Arts, Sports, the Environment, Tourism and Territories;*
- *Department of Primary Industries and Energy;*
- *Department of Industry Technology and Commerce;*
- *Industries Assistance Commission; and*
- *Australian Tourist Commission*

Budget Paper No. 3, Portfolio Program Estimates, 1989-90

Budget related Paper No. 10, Science and Technology Budget Statement 1989-90

Draft Report on Travel and Tourism, June 1989, Industries Assistance Commission

Economic Effects of International Tourism, 1988, Report by the Centre for International Economics

The Economic Statement, May 1988

The Economic Statement, April 1989

The Environmental Impact of Travel and Tourism, Discussion Paper No 1, March 1989, Industries Assistance Commission

Prime Minister's July 1989 Statement on the Environment

Report on Operations 1987-88, Australian Trade Commission—Export Finance Insurance Corporation

Response of the Government to a Report to the Minister for Resources by Mr A.J. Woods, AO; Statement by the Minister for Resources, Senator the Hon Peter Cook, June 1989

Review of the Bureau of Mineral Resources, Geology and Geophysics, December 1988, A.J. Woods, AO

Some Economic Implications of Tourism Expansion, IAC Discussion Paper No 2, March 1989, Industries Assistance Commission

Yearbooks, Bureau of Mineral Resources, Geology and Geophysics (various years)

7C. LABOUR AND EMPLOYMENT

OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
7C.1 Training and Skills Formation	\$m	413.0	516.2	530.5	582.6	600.5
	%	15.0	26.0	2.8	2.8	3.1
7C.2 Job Creation and Employment Assistance	\$m	93.8	122.6	117.3	111.0	104.4
	%	-5.7	30.7	-4.3	-5.3	-6.0
7C.3 Industrial Relations	\$m	143.6	156.3	147.4	148.6	151.6
	%	-6.0	6.8	-5.6	0.8	2.0
7C.4 Administration Costs	\$m	429.6	435.6	471.9	483.2	491.1
	%	14.0	1.4	8.3	2.4	1.8
TOTAL	\$m	1080.1	1230.7	1267.1	1325.5	1347.6
	%	-3.2	13.9	3.0	4.6	1.7

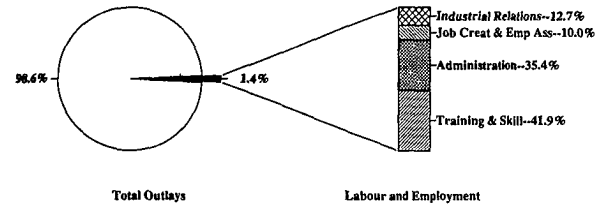
The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve.

- Total outlays on Labour and Employment are expected to increase by \$150.6m or 13.9% in 1989-90 (an increase of 7.0% in real terms). Existing policies imply an overall real decline in these outlays over the forward estimates period, cumulating to 3.7% by 1992-93.
- As illustrated in Chart 1, outlays on Labour and Employment are forecast to account for 1.4% of total Commonwealth outlays in 1989-90, a slight increase from 1988-89. About half of these outlays are attributable to the Training and Skills Formation sub-function.
- The main sources of growth are:
 - an increase in numbers expected to be assisted under JOB-TRAIN and Job Search Training (\$28.8m), JOBSTART (\$15.7m), the Australian Traineeship System (\$10.6m) and Skillshare (\$25.9m). Much of this increase reflects the full implementation of the NEWSTART and JET initiatives for the long term unemployed and sole parents which commenced in 1988-89;

3.234

CHART 1. LABOUR AND EMPLOYMENT

Proportion of Total Outlays and Function
1989-90



- an increase of \$30.2m for employment and training assistance to Aboriginal people as a result of previous decisions involving the Aboriginal Employment Development Policy;
- initiatives (costing \$14.4m in 1989-90 and \$42.9m in the forward estimates period) announced in the Economic Statement, April 1989;
- further measures costing \$21.8m in 1989-90 and \$32.7m in 1990-91 introduced in the 1989-90 Budget;
- offset by total savings of \$29.1m (\$41.4m in 1990-91) announced in the Economic Statement, April 1989 and 1989-90 Budget.
- The major measures announced in April 1989 include:
 - support for specific aspects of award restructuring, including establishment of a National Training Board, skills audits, curriculum development, and the introduction of competency assessment, and additional assistance to apprentices and trainees (\$7.2m in 1989-90, \$42.9m over the forward estimates period); and
 - greater emphasis on productivity-raising award restructuring through enhancements of the Workplace Reform Program (an additional \$7.2m in 1989-90).

3.235

- The major Budget measures include:
 - additional efforts to improve the employment prospects of disadvantaged groups, such as youth (\$4.4m in 1989-90, \$18.5m over the forward estimates period), older unemployed (\$1.7m, \$5.5m) and piloting new approaches for people with disabilities (\$0.5m, \$0.2m);
 - assistance to individual enterprises to develop and expand training facilities and equipment in the award restructuring context (an additional \$2.2m in 1989-90, \$13m over the forward estimates period) and expansion of the Industry Training Committee Network (\$1.2m, \$14m);
 - expansion of labour mobility assistance to complement program provisions for unemployed job-seekers (\$1m in 1989-90, and \$4.7m in the forward estimates period);
 - reform of the client services network to meet more effectively the needs of local labour markets and disadvantaged jobseekers (\$7.1m in 1989-90 and \$4.3m over the forward estimates period); and
 - establishment of a National Office of Overseas Skills Recognition (NOOSR) and associated advisory councils (\$0.6m in 1989-90, \$8.2m over the forward estimates period).
- Measures which reduce outlays relative to previous estimates include:
 - a shorter period of subsidy available under JOBSTART (–\$17m in 1989-90, –\$21m in each of the later years); and
 - a reduction in the numbers to be assisted under JOBSTART and revised program parameters in JOBSTART and JOBTRAIN (–\$8.1m, –\$22m over the forward estimates period).
- Self-government for the ACT from 11 May 1989 has a small negative impact on the forward estimates (–\$3m in 1989-90).

PURPOSE

Commonwealth activity in the Labour and Employment function complements macro-economic measures which impact more broadly on the economy. Its particular focus is to improve efficiency in the labour market by enhancing skill levels and productivity and by improving the efficacy of job search. Programs to assist the disadvantaged to compete on equal terms for work are designed to improve both labour market efficiency and equity.

NATURE OF LABOUR AND EMPLOYMENT OUTLAYS

These outlays are primarily directed towards training and employment assistance and the coordination and oversight of industrial relations matters generally. They include subsidies to employers for apprentices, trainees and members of disadvantaged groups, payments to suppliers of formal training, income support for people undertaking full-time training, assistance to facilitate industry restructuring and workplace reform, and the operational costs of the federal industrial relations system and the relevant parts of the Departments of Industrial Relations, and Employment, Education and Training (including the Commonwealth Employment Service).

TRENDS IN LABOUR AND EMPLOYMENT OUTLAYS

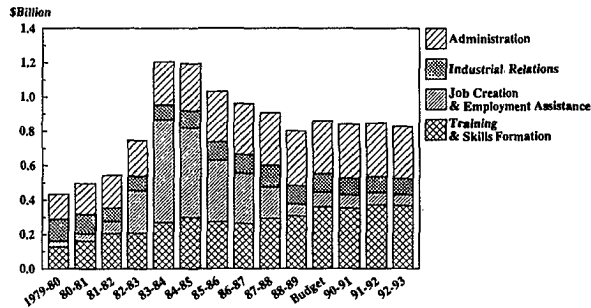
A sharp increase in the level of unemployment in Australia, and an initial emphasis on job creation as a means of addressing this problem (principally through the introduction of the Wage Pause Program and, subsequently, the Community Employment Program (CEP)), led to a substantial real increase in outlays on Labour and Employment between 1979-80 and 1983-84 (see Chart 2). This was followed by a moderate real decline from 1984-85 to 1988-89 as unemployment levels fell slowly, and the focus of government activity moved towards training and away from job creation following the Report of the Committee of Inquiry into Labour Market Programs (the Kirby Report) in 1985. Total outlays in 1989-90 remain almost double the 1979-80 level in real terms, and are estimated to decline in real terms over the forward estimates period, with real growth confined to the Training and Skills Formation sub-function.

1988-89 OUTCOME

Outlays for 1988-89 were \$80.1m or 6.9% lower than originally estimated primarily because of:

- lower than expected demand for labour market adjustment assistance packages (–\$30.5m). In particular outlays on the Rainforest Conservation package were substantially below budget estimates because of fewer than expected mill closures;
- a lower than expected number of placements for JOBSTART in 1988-89 (–\$28.7m);
- non-attribution of some income support payments to Formal Training Allowance, and reduction in average periods of training under JOBTRAIN (–\$13.9m).

CHART 2. LABOUR AND EMPLOYMENT
(1984-85 prices)



7C.1 TRAINING AND SKILLS FORMATION

7C.1	1988-89 1989-90 1990-91 1991-92 1992-93					
		Actual	Budget	Estimate	Estimate	Estimate
JOBTRAIN	\$m	77.0	105.8	116.7	120.6	123.6
	%	35.6	37.8	10.3	3.4	2.5
Trade Training	\$m	134.9	123.7	103.1	137.7	137.7
	%	13.0	-3.9	-20.5	33.5	..
Australian Traineeship System	\$m	41.0	51.6	59.4	66.0	74.1
	%	42.4	25.9	15.1	11.1	12.3
Skills Training	\$m	21.3	34.3	46.1	47.5	48.7
	%	22.2	20.7	34.3	3.1	2.5
Skillshare	\$m	60.3	86.2	90.7	93.0	95.5
	%	4.5	42.9	5.3	2.5	2.7
Aborigine	\$m	78.5	108.7	114.5	117.8	120.9
	%	-1.4	38.7	5.9	2.9	2.7
TOTAL	\$m	413.0	516.3	530.5	582.6	600.5
	%	15.0	25.0	2.8	6.8	3.1

Training programs are designed to increase opportunities for people to obtain and upgrade skills relevant to current and future labour market requirements.

Participants in approved training courses under a number of these programs may receive Formal Training Allowance (FTA). This comprises an allowance equivalent to the relevant level of Unemployment Benefit or Job Search Allowance, ancillary allowances to cover such costs as books and equipment and living away from home, and a training allowance of \$30 a week for persons aged 21 and over. The costs of FTA are included within the estimates for relevant programs.

JOBTRAIN

The JOBTRAIN classification encompasses both the JOBTRAIN and Job Search Training Programs.

The JOBTRAIN program is one element of a new integrated package aimed at assisting disadvantaged job-seekers. This package is designed to provide greater flexibility in matching program elements to client needs and comprises the JOBSTART and Job Search Training Programs in addition to JOBTRAIN.

JOBTRAIN assists disadvantaged job-seekers to obtain employment by providing short-term vocational training closely linked to individual needs and the local labour market. Eligibility is restricted to job-seekers who have been unemployed for six months or longer, although this requirement is waived for disabled or other specially disadvantaged people. Under the NEWSTART and JET strategies announced in the 1988-89 Budget, increased priority is being placed on training for long-term unemployed adults and sole parent pensioners. The Government has now decided to allocate further training places to the older unemployed.

In total, JOBTRAIN outlays are expected to increase by \$26.5m in 1989-90 (a real increase of 28.2%) reflecting increased places for groups assisted under the JET and NEWSTART strategies and older unemployed and a transfer of 3000 places from JOBSTART to JOBTRAIN under the NEWSTART initiative.

The Job Search Training Program comprises two main elements, Job Clubs and Job Search Training Courses. Job seekers, particularly the young and those unemployed 6 for months or more receive the training. Job Clubs provide intensive 3 week training courses for participants to look for work while at the Club. Job Search Training courses involve 20-22 hours of course work with a TAFE or community group. Outlays under the program are expected to increase by \$2.4m (57.4%) in 1989-90 (a real increase of 48.0%), reflecting the further implementation of NEWSTART and JET.

Trade Training

Trade training programs seek to ensure an adequate supply of skilled labour to meet the needs of industry and to increase the responsiveness of the trade training system to changes in demand for skilled labour. They also improve access to the labour market for particular disadvantaged groups.

There are two trade training programs:

- the Commonwealth Rebate for Apprentice Full-time Training (CRAFT) through which the Government meets a significant part of the cost of training apprentices; and

- the complementary Special Apprenticeship Training Scheme which is designed to reduce wastage amongst apprentices, to assist young people to take up apprenticeships and to enable small employers to participate through group training arrangements. It also provides special assistance for disabled apprentices.

The Government has been progressively redesigning the CRAFT scheme to emphasise training outputs rather than inputs, and to encourage greater efficiency and effectiveness. On 1 January 1988, a new system of grant payments to employers was introduced, consisting of two basic payments of \$1500, one at the commencement of an apprenticeship and one on successful completion.

In the Economic Statement, April 1989, it was announced that employers of apprentices assessed as disadvantaged would qualify for an additional grant of \$1000 a year. This arrangement is consistent with existing practice under the Australian Traineeship System, and represents a first step towards possible integration of the two schemes.

Abolition of the Pre-Vocational Graduate Employment Rebate paid under CRAFT was also announced in April. This rebate was made redundant by the new payment arrangements for CRAFT which effectively provide incentives to credit pre-apprenticeship training where relevant.

The Government has also decided to discontinue its support for the component of Special Apprenticeship Training relating to trade-based pre-employment (TBPE) training. This reflects record apprentice intakes over the past three years and the fact that TBPE courses are now being provided as part of mainstream TAFE activities.

For the most part, these measures affect the timing rather than the magnitude of the costs of trade training. The changes in the CRAFT payment structure explain most of the sharp increase in costs in 1988-89 and the subsequent falls in 1989-90 and 1990-91. Abolition of the Pre-Vocational Graduate Employment Rebate and reductions in assistance for TBPE will save \$0.9m and \$2.8m respectively in 1989-90 and \$1.9m and \$6m in subsequent years.

Australian Traineeship System (ATS)

The ATS provides quality vocational training for young people who do not go on to higher education, technical or trade training. The scheme was established in 1985-86, and is primarily targeted at 16-18 year olds who leave school before completing Year 12. Traineeships combine work-based training with off-the-job activity usually provided through the TAFE system. The possibility of integrating Commonwealth programs of financial support for the ATS and the apprenticeship system is under consideration. A total of 13600 young people were placed in traineeships in 1988-89. It is expected that 17000 will be placed in 1989-90 rising to 25000 by 1992-93.

Skills Training

Under Innovative Training Projects, assistance is available to industry for a range of approaches to training which underpins the award restructuring process. Recent emphasis has been on initiatives to develop competency-based training models (particularly in trade training where the successful completion of an apprenticeship has traditionally depended on "time served" rather than "competency achieved"), and on assistance for skills training in rural areas.

The Commonwealth also provides assistance to industry to upgrade workforce skills and to assist with the development and expansion of industry skill centres, in conjunction with industry, TAFE and State governments.

The Industry Training Services program funds the national network of tripartite industry training committees, foundations and industry organisations to develop improved training. A range of trainer training courses, training manuals and technical support to related committees is also available under the program.

The Economic Statement, April 1989, included a number of initiatives and enhancements, designed to underpin the award restructuring process and related moves to a competency-based approach to training. In particular, \$3.0m will be provided in 1989-90: to conduct skill audits and training needs analysis; to develop new curricula; and for the development of processes for assessment of competency. In addition, the operations of Training Services Australia will be expanded.

As a response to the need to achieve a nationally co-ordinated and consistent approach to training, the Government will also contribute \$1.5m in 1989-90, to be matched by the States, to establish and operate a National Training Board which will establish national skills standards in consultation with industry.

Further measures have been included in the Budget relating to the process of award restructuring. Assistance will be provided to individual enterprises to develop and expand training facilities and equipment, and improve both on and off-the-job training arrangements (\$2.2m in 1989-90, \$4.3m a year in later years).

Industry advisory structures will also be expanded to meet more effectively the training demands of award restructuring, the need to increase the level of industry training, and rationalisation of advisory structures at the State/Territory level. A total of \$1.2m will be provided in 1989-90 (\$4.7m a year in later years) for this purpose.

As a result of all these measures, total funding on Skills Training is expected to increase by 60.7% in 1989-90 (a real increase of 51.0%) and a further 34.3% (27.8% real) in 1990-91.

Skillshare

Skillshare—the Community and Youth Network for Employment and Training—was formed on 1 January 1989 through the integration of the Community Youth Support Scheme (CYSS), the Community Training Program (CTP) and the Community Volunteer Program (CVP). It is targeted at the long-term unemployed and other particularly disadvantaged unemployed persons, with an emphasis on young people; 75000 people participated in 849 projects in 1988-89.

The program provides grants to non-profit community groups. All approved projects involve structured skills training. Project sponsors are expected to generate a minimum community contribution of 15% of grant funds in the first year of operation, rising to 20% in the following year. The emphasis is on achieving employment, further education and training outcomes for program participants.

A new program which uses Skillshare groups to assist disadvantaged young people who are currently unable to fully benefit from existing labour market programs will commence in 1989-90 (\$1.7m in 1989-90, \$2.8m in later years).

A network of Information Technology Centres (ITeCs) provides training for both the unemployed and the broader community, and aims to stimulate enterprise-based development in information technology related fields. A community contribution matching the value of the Commonwealth grant is required for each Centre.

Outlays on Skillshare are expected to rise by 34.3% in real terms in 1989-90, reflecting an increase in the take up of FTA and the full-year effect of the introduction of the integrated program.

Aboriginals

Employment and training assistance provided for Aboriginals is administered by the Department of Employment, Education and Training and is a key feature of the Aboriginal Employment Development Policy (AEDP). The broad objective of AEDP is to improve income and employment outcomes for Aboriginal and Torres Strait Islander people. Assistance is provided through wage subsidies for public sector training and on-the-job training; formal training through vocationally oriented institutional courses; special projects establishing a training position; and subsidised work experience and financial assistance for Aboriginals to provide for the costs of seeking and obtaining employment.

The sharp growth in outlays reflects the expansion of AEDP foreshadowed in the last budget.

Trends

Outlays on Training and Skills Formation have increased rapidly in real terms over recent years, particularly as the Government has given increased priority to training over employment creation programs since the Kirby report in 1985.

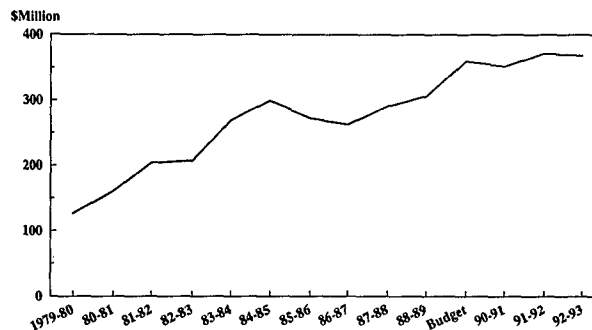
The trend is expected to continue in 1989-90 and over the forward estimate years (the "hiccup" in 1990-91 is related to changes in patterns of payments and does not reflect the underlying trend).

Budget measures

The key budget measures are:

- the integration of JOBTRAIN, JOBSTART and Job Search Training Programs to provide greater flexibility in matching program elements to client needs. Savings of \$2.0m in 1989-90 and \$6.0m a year thereafter are expected;
- additional training places for the older unemployed (\$0.2m in 1989-90 and \$0.3m a year thereafter);

CHART 3. TRAINING AND SKILLS FORMATION
(1984-85 prices)



- 3000 NEWSTART places transferred from JOBSTART to JOBTRAIN;
- abolition of two components of the Trade Training Program (saving \$3.7m in 1989-90 and \$7.9m in 1990-91);
- assistance for individual enterprises to develop and expand training facilities in the context of award restructuring (\$2.2m in 1989-90 and \$4.3m thereafter);
- expansion and rationalisation of industry training advisory structures (\$1.2m in 1989-90 and \$4.7m thereafter).

These measures are in addition to those announced in April concerning CRAFT and skills training, relating to award restructuring.

7C.2 JOB CREATION AND EMPLOYMENT ASSISTANCE

7C.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	New Enterprise Incentive	\$m 4.4	7.3	9.2	8.4	-
	Scheme (NEIS)	% -85.6	86.0	25.2	-8.2	-100.0
	JOBSTART	\$m 68.3	84.0	83.7	89.7	92.2
		% -37.0	23.0	-0.4	7.1	2.8
	Mobility Assistance	\$m 3.9	5.6	6.5	6.7	6.9
		% -14.8	66.2	14.8	3.3	3.3
	Industry and Regional	\$m 17.3	25.6	18.0	6.3	5.4
	Employment Assistance	% 25.6	48.8	-30.0	-86.1	-14.2
	TOTAL	\$m 93.8	122.6	117.3	111.0	104.4
		% -58.7	30.7	-4.3	-5.3	-8.0

The Commonwealth funds a range of activities to improve the employment prospects of members of particular disadvantaged groups in addition to general assistance with education and training. These activities include assistance to workers affected by the restructuring of industries; assistance with the costs incurred by people looking for a job; and wage subsidies to assist the long-term unemployed and especially disadvantaged to obtain continuing employment.

New Enterprise Incentive Scheme (NEIS)

NEIS provides on-going employment opportunities for unemployed people by providing training and income support to establish small business ventures. The scheme is targeted at unemployed people 18 years and over. 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, broadly equivalent to unemployment benefit, for 52 weeks. The program is run in conjunction with State/Territory Governments who provide loans and grants to participants. Under an extension announced last year, non-government and private sector organisations may also participate by providing grants and loans. The program has a 'sunset' provision pending a major evaluation to be undertaken during 1989-90.

JOBSTART

As noted earlier, JOBSTART is one component of the package of programs for disadvantaged job-seekers. It facilitates the entry of long-term unemployed and other disadvantaged people to long-term employment by providing wage subsidies to private sector employers. Subsidy levels are related to age, period of prior unemployment and degree of job-seeker disadvantage.

Additional JOBSTART places have been provided for the long term unemployed and sole parent pensioners under the NEWSTART and JET initiatives announced last year. Additional places are also being provided for the older unemployed as a result of a 1989-90 Budget decision. Up to 3000 JOBSTART and JOBTRAIN places will also be re-allocated to 16 and 17 year old long-term Job Search Allowance recipients and 18-20 year old intermediate UB recipients from within existing program allocations.

The sharp increase in outlays in 1989-90 is primarily the result of lower than expected take-up in 1988-89 as well as the impact of JET, NEWSTART and older unemployed initiatives. The total number of places expected in 1989-90 (compared to 1988-89) is 44 800 (40 200) including 1 325 sole parents (120), 20 000 (12 800) long-term prime-aged unemployed, 900 (600) older unemployed and 14 725 (14 100) youth.

JOBSTART was the subject of a major evaluation during 1988-89 with findings becoming available in 1989-90.

Mobility Assistance

Financial support is provided to job-seekers through the Fares Assistance and the Relocation Assistance Schemes to give job-seekers access to training and job opportunities which are not locally available. This also helps employers to recruit workers with appropriate skills.

Existing and new mobility entitlements have been consolidated in the 1989-90 Budget into a new scheme which includes assistance with local and long-distance fares, relocation costs, and with accommodation (for people who must move to take up training opportunities). A payment of up to \$100 is provided to disadvantaged job-seekers in necessitous circumstances who are placed in employment by the CES. The additional cost of this new scheme is \$1m in 1989-90 and \$1.6m in a full year.

Industry and Regional Employment Assistance

A range of labour market measures are provided to assist workers who are affected by structural change. These are mainly provided under the auspices of the Office of Labour Market Assistance (OLMA) in the Department of Employment, Education and Training. The Office also monitors structural change developments and, if required, provides packages of assistance (consisting of the standard elements—wage subsidies, training and relocation assistance) for workers displaced from designated industries and regions. Where appropriate small-scale non-standard assistance may also be provided.

Packages which are currently in operation are:

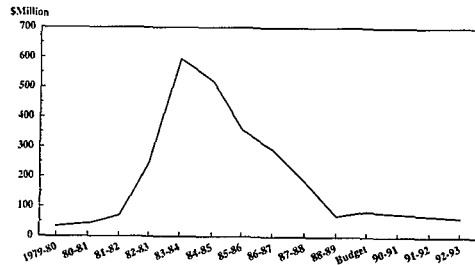
- North Queensland Rainforests Labour Adjustment Package—in nominating the wet tropical rainforests of North-East Queensland for World Heritage listing, the Government announced a labour adjustment package to the region of up to \$50.9m over the three years to 1990-91. \$16.0m has been allowed for this package in 1989-90. Assistance available to retrenched workers includes wage subsidies, retraining and relocation support, dislocation payments, early retirement packages, and short-term and long-term job creation in the public and private sector;
- Heavy Engineering Adjustment and Development Program (HEADP)—a three-year program which was to terminate in 1988-89. Funding in 1989-90 (\$2.5m) is for carry-over of funds committed but not expended in 1988-89;
- Textiles, Clothing and Footwear—funding for special re-employment, retraining and/or relocation assistance for workers retrenched during the restructuring anticipated under the 1989-95 TCF industry plan. \$2.0m has been allowed for this package in 1989-90.
- Tasmanian Forests—\$5m for industry training activities is included in a compensation package provided to Tasmania in relation to World Heritage listing of Tasmanian Forests.
- Coal Mining Industry Labour Adjustment Package—employment, training and relocation assistance is provided for retrenched coal miners in N.S.W. and Queensland. \$0.4m has been allowed for this package in 1989-90.
- Funding will continue for the Illawarra region under a package developed during 1989, small labour adjustment packages are under consideration for several other regions which are experiencing structural adjustment difficulties. In addition assistance is available under the Labour Adjustment Training Arrangements (LATA) to individuals retrenched in the passenger motor vehicle industry. For 1989-90 an amount of \$2.7m has been made available for these activities.

Trends

The trend in real outlays on Job Creation and Employment Assistance shows a continuing decline since the rapid expansion in the early 1980's with the onset of recession. The more recent decline reflects the shift in emphasis to training. Moreover, job creation programs themselves have increasingly emphasised on-the-job training; the integration of JOBSTART, JOBTRAIN and Job Search Training Programs will take this trend further.

The step up in 1989-90 is primarily the result of less than expected JOBSTART placements in 1988-89, and the slow build up of the new JET and NEWSTART strategies involving new JOBSTART places for sole parents and prime-aged long-term unemployed.

CHART 4. JOB CREATION AND EMPLOYMENT ASSISTANCE
(1984-85 prices)



Budget Measures

Measures taken in the Budget are:

- the integration of JOBSTART, JOBTRAIN and Job Search Training Programs (see under Training and Skills Formation), with the greater flexibility yielding savings in 1989-90 of \$2m, and \$6m a year subsequently;
- additional JOBSTART places for the older unemployed (\$0.7m in 1989-90 and \$1.4m in a full year);
- the reallocation of some JOBSTART places to 16 and 17 year old long-term Job Search Allowance recipients (no cost); and
- the integration and enhancement of mobility assistance schemes at a cost of \$1.0m in 1989-90 and \$1.6m in a full year.

7C.3 INDUSTRIAL RELATIONS

7C.3		1988-89		1989-90		1990-91		1991-92		1992-93	
			Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
Industrial Relations Advising and Arbitration	\$m	57.8	63.1	62.8	65.1	67.6					
	%	10.1	8.0	-0.4	3.8	3.8					
Special Industry Legislation	\$m	56.0	53.0	53.0	53.0	53.0					
	%	-25.1	-8.3	..	..	..		
Working Environment	\$m	3.3	12.0	4.8	3.4	3.5					
	%	113.2	8.8	-80.3	-28.4	1.7					
Trade Union Training Authority	\$m	8.7	8.9	9.4	9.5	9.7					
	%	12.8	1.4	6.7	1.1	2.7					
Nat Occupational Health and Safety	\$m	17.7	19.3	17.5	17.6	17.8					
	%	8.8	8.8	-0.5	1.1	1.1					
TOTAL	\$m	143.6	156.3	147.4	148.6	151.6					
	%	-8.0	8.8	-5.8	0.8	2.0					

This sub-function covers outlays on programs in the Industrial Relations portfolio.

Industrial Relations Advising and Arbitration

Costs associated with providing advice to the Minister, Commonwealth authorities, industry and unions on industrial relations matters, including the operation of relevant legislation are met under this item. It also covers bodies involved in the settlement of industrial disputes and the determination of wage and salary claims.

\$32.1m of 1989-90 outlays in this area is for the operation of the Australian Industrial Relations Commission, an increase of \$2.2m on 1988-89. The expanded Commission replaced the former Conciliation and Arbitration Commission on 1 March 1989 when the *Industrial Relations Act 1988* came into effect.

Special Industry Legislation

This item involves the administration of legislation for the financing of employee entitlements in the black coal mining and stevedoring industries. Costs are offset by levies on black coal production and stevedoring industry employers under the relevant legislation.

Working Environment

This activity is intended to promote workplace reform in both the private and public sectors. The Workplace Reform Program involves information and advisory services, training material, the sponsoring of research and financial assistance for specific projects.

This Program will be expanded to give greater emphasis to productivity raising and award restructuring, in recognition of their key roles in the Government's micro-economic reform strategy and broader wages policy. In 1989-90, as announced in April, an additional \$7.2m will be available for demonstration projects, placement of advisers, training and research, publications and industry seminars. In addition, establishment funding will be made available for Workplace Resources Centres which will be expanded from 3 to 10 Centres. These provide consultancy services to assist employers and unions at the enterprise level with award restructuring processes and other workplace reforms. The Centres are expected to be self funding within the next two to three years.

Australian Trade Union Training Authority

The Authority plans and undertakes trade union training through State-based training centres and a residential training college at Albury-Wodonga. It will cater for approximately 75,000 student training days in 1989-90, which is the same number as in 1988-89.

National Occupational Health and Safety Commission

The *National Occupational Health and Safety Commission Act 1985* provides for the establishment of the Commission, whose objective is to provide a co-ordinated approach by employers, unions, States and the Commonwealth to occupational health and safety. The reduction in the estimates from 1990-91 reflects one-off funding in 1989-90 (in the form of a loan of \$1.8m to be repaid in forward years) so that the Sydney offices may be located in the one building.

7C.4 GENERAL ADMINISTRATION

This sub-function covers the running costs and support service activities associated with the labour and employment function.

Over 95% of outlays in this category relate to the running costs of the Employment, Education and Training portfolio of which the Commonwealth Employment Service (CES) is the major component. Services provided by the CES to job-seekers include the identification of job opportunities and arranging referrals and interviews. The CES also provides counselling and support to those with special needs and delivers a range of specialised on-and-off-the-job training programs.

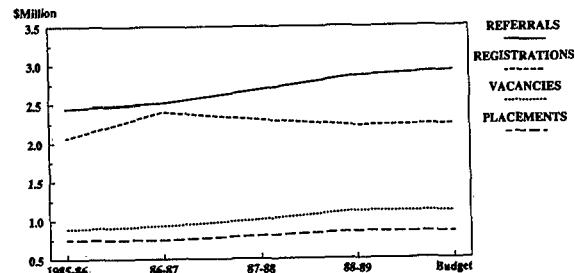
Trends

Outlays on this sub-function increased over the years 1979-80 to 1985-86 at an average real rate of around 12.5% a year. This increase reflected administrative and functional changes flowing from the Norgard Review as well as increases in unemployment levels. Growth in outlays since 1985-86 has moderated considerably to an average of 0.85% a year in real terms reflecting increases in vacancies which were only partly offset by reduced levels of unemployment. Over the forward estimates period, outlays are estimated to decrease by an average 0.3% real a year, reflecting efficiency gains arising from past computer capital investments and the relocation of elements of DEET's central office from Melbourne to Canberra.

Staffing in the CES network is derived in accordance with a formula based on forecasts of the main workload indicators, which include vacancies notified by employers and the number of jobseekers registering for work.

Chart 5 details key CES workload indicators over the period to 1985-86 to 1988-89 plus estimates for 1989-90.

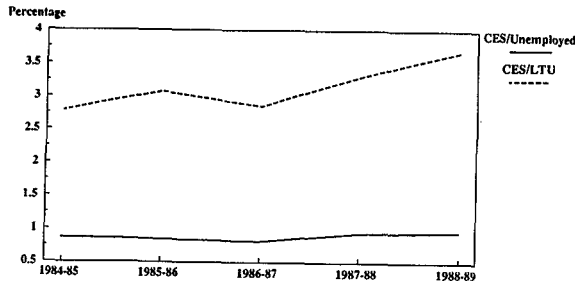
CHART 5. CES WORKLOAD INDICATORS



As a result of an anticipated slowdown in the labour market, notified vacancies and total registrations are projected to change only marginally in 1989-90; a small rise of 0.5% in vacancies and a 1.6% increase in registrations are forecast.

A total of 5561 staff years have been allocated to the CES network in 1989-90, an increase of 4.3% over 1988-89. The increase reflects new policy allocations (see further below) and a reduction in the number of days funded per staff unit in the network as a result of an industrial dispute settlement package. Chart 6 illustrates the relationships between staff levels in the CES and certain client groups. The relationships emphasise the importance placed on the CES' equity objectives in providing the various special services and programs for disadvantaged groups.

**CHART 6. CES STAFF AS % OF UNEMPLOYED
AND LONG TERM UNEMPLOYED**



Budget Measures

The Government has agreed to a package of measures to improve the CES by developing an integrated employment, education and training network. The central element of this reform package is a new service structure to cater for the specialised needs of clients. The structure will contain four separate service categories viz, job placement services, youth services, job seeker specialist services and industry services. Within this new structure, the traditional Job Centre which undertakes job placements will continue to be the prime focus in the community and will operate from shopfront premises. It will, however, be supplemented by other outlets offering specialist services.

The reforms are expected to result in better targeting of assistance for the disadvantaged and more effective and co-ordinated use of employment, education and training resources.

As part of the reforms, the Government has agreed to provide an additional \$4.5m in 1989-90 and \$6.1m in 1990-91 for the development of information technology systems and an additional 70 ASL and \$5.3m (129 ASL and \$8.5m in 1990-91) to improve job seeker specialist and youth services, including for an expansion and enhancement of the Youth Access Centre network from 53 to 73 outlets. These staffing resources are in addition to a substantial internal redistribution of resources away from State and Territory office administrations to local and Regional offices.

To defray some of the costs associated with the reforms, the Government has decided to introduce employer charging in the new network in respect of Templine services, pre-selection services and special projects.

The Government has also decided to implement a range of initiatives which will give its youth strategy a social justice focus. These include extending the joint DSS/CES interviews for long-term unemployed to people aged 16-20. These initiatives will cost \$0.9m in 1989-90, and \$1.2m in 1990-91. An additional \$1m has been allocated to the CES to facilitate increased access by DSS to information on job search and job training efforts held by the CES to enhance the effectiveness of DSS reviews of the work efforts of unemployment benefit clients. Savings in unemployment benefits resulting from improved information on work effort are estimated at \$13m in 1989-90 and \$30m in 1990-91.

Overall, outlays are estimated to be \$435.6m, 1.4% less in 1989-90 than outlays in 1988-89. Major non-recurring payments in 1988-89, including redundancy payments to central office staff not transferring to Canberra (\$6m), purchases of computer capital (\$11.7m) and enlivening costs (\$2.4m), account for the reduction.

FURTHER REFERENCES

Annual Reports of the Departments of Employment, Education and Training, Immigration, Local Government and Ethnic Affairs, Industrial Relations, and Aboriginal Affairs

Award Restructuring—The Task Ahead, 1989, Statement by Peter Morris, Minister for Industrial Relations

Improving Australia's Training System, 1989, Hon. J. S. Dawkins, Minister for Employment, Education and Training

Budget Paper No. 3, Portfolio Program Estimates

The Economic Statement, April 1989

Portfolio Explanatory Notes (Budget Related Paper No. 7) for the Employment, Education and Training, Immigration, and Local Government and Ethnic Affairs, Industrial Relations portfolios

7D. OTHER ECONOMIC SERVICES

OVERVIEW

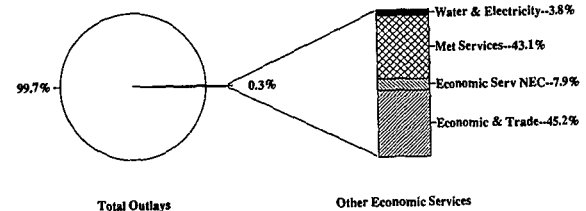
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
7D.1 Economic and Trade Regulation	\$m	72.0	98.2	154.0	180.7	182.2
	%	12.8	30.4	58.8	17.3	0.8
7D.2 Meteorological Services	\$m	88.3	63.7	96.4	95.4	99.3
	%	5.8	6.1	2.9	-1.1	4.1
7D.3 Water And Electricity Supply	\$m	149.4	8.2	39.2	31.2	21.0
	%	83.8	24.9	n.e.	-20.5	-32.7
7D.4 Economic Services nec	\$m	16.7	17.1	18.2	18.7	19.5
	%	15.0	2.4	6.5	2.9	4.3
TOTAL	\$m	326.4	217.2	307.8	326.0	321.9
	%	36.5	33.4	41.7	5.9	-1.2

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve.

- Total outlays on Other Economic Services are expected to decrease by \$109.2m or 33.4% in 1989-90. In 1990-91 outlays increase by 41.7% in nominal terms followed by modest net growth over the next two years.
- The large fall in outlays budgeted for 1989-90 reflects payments, made in 1988-89 under the Water and Electricity Supply sub-function, which are not expected to be repeated in 1989-90:
 - a special payment of \$50m for South Australian water supply programs; and
 - increased operational assistance (\$90.9m) for the Northern Territory Power and Water Authority (NTPAWA).
- Major budget measures have added a total of \$21m to outlays in 1989-90 and \$306m over the forward years. These include:
 - establishment of the Australian Securities Commission (ASC)—(\$15.7m in 1989-90 rising to \$85.3m in 1991-92);
 - revised charging arrangements and increased funding for meteorology services provided to the aviation industry, arising out of a review of costings of these services (\$1.3m);
 - relieving the Northern Territory of electricity debt from 1 July 1989 (\$2.8m);

- a further NT Electricity Subsidy (\$30m in 1990-91 declining to zero in 1993-94); and
- additional resources for the Federal Bureau of Consumer Affairs (\$0.5m) and the Trade Practices Commission (\$0.7m).

CHART 1. OTHER ECONOMIC SERVICES
Proportion of total Outlays and Function
1989-90



PURPOSE

This function covers outlays on economic services provided by the Commonwealth which are not included in other functional classifications. These include: patents and trademarks administration; the regulation of restrictive trade practices and other forms of business regulation; meteorological services and other technical services not allocable to a specific industry; the supply of water and electricity for industrial and domestic purposes; and general administration in the area of economic and commercial affairs not allocable to other areas within the Economic Services' function.

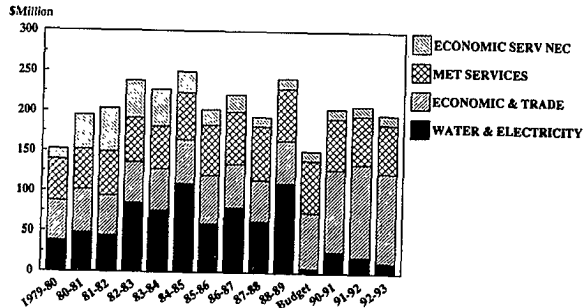
NATURE OF OTHER ECONOMIC SERVICES OUTLAYS

These outlays mainly comprise the operational costs of agencies supplying the economic services and special assistance grants to the States and Territories for water and electricity.

TRENDS IN OTHER ECONOMIC SERVICES OUTLAYS

Between 1979-80 and 1988-89 outlays grew by 59.2% in real terms, notwithstanding a slight decline from the 1984-85 peak (see Chart 2 below). Growth in the early 1980's mainly reflected the introduction of a scheme in 1980 to subsidise certain commercial and non-commercial uses of liquefied petroleum gas. The scheme was terminated in 1985-86. However, most of the growth through the period can be attributed to assistance to the States and Territories for water and electricity programs.

CHART 2. OTHER ECONOMIC SERVICES
(1984-85 prices)



From a lowered base in 1989-90 reflecting the effects of the large payments for water and electricity in 1988-89, the 1990-91 estimate approximates to the 1988-89 level, with the build up of the Australian Securities Commission (ASC) and the resumption of electricity operating subsidy payments to the Northern Territory. From 1990-91 total outlays are expected to decline marginally in real terms reflecting the impact of reduced water and electricity funding and the completion of the establishment phase of the ASC.

1988-89 OUTCOME

The 1988-89 Budget foreshadowed a reduction in outlays of 5.8% on 1987-88. The 1988-89 outcome was, however, \$101.1m (44.9%) higher than the budget estimate (an increase of 36.5% on 1987-88). The main reasons for this were the payments mentioned above to South Australia for water (\$50m) and to the Northern Territory Power and Water Authority (NTPAWA) (\$40m) above the budgeted figure of \$50.9m).

7D.1 ECONOMIC AND TRADE REGULATION

7D.1	1988-89 1989-90 1990-91 1991-92 1992-93				
	Actual	Budget	Estimate	Estimate	Estimate
Patent, Trade Marks and Designs Office	\$m 29.0	\$3.4	6.6	34.5	33.9
Industries Assistance Commission	% 11.5	12.4	13.2	13.8	14.3
Trade Practices and Consumer Affairs	\$m 17.7	22.0	22.5	23.5	24.7
Regulation of Companies and Securities	% 3.5	19.0	72.4	98.0	97.8
Other	\$m 10.4	11.4	10.3	11.0	11.5
TOTAL	\$m 72.0	96.2	154.0	180.7	182.2

Outlays covered by this sub-function relate to patents and trademarks administration, tariff regulation, the regulation of monopolies and restrictive trade practices, price control and justification, regulation of companies and securities, and other forms of business regulation.

Patent, Trade Marks and Designs Office

The Patent, Trade Marks and Designs Office administers industrial property systems for the protection of inventions, trade marks and industrial designs, examines applications for patent of inventions and for the registration of designs and trade marks, and publishes details of successful applications. The projected outlays in 1989-90 include \$0.8m as part of an ongoing project to enhance and modernise the Office's computer and equipment facilities and \$0.4m for a backlog reduction program.

The full cost of providing industrial property services through the Office is recovered through the collection of Statutory fees (see Budget Statement No. 4 *Estimates of Revenue 1989-90*).

Industries Assistance Commission

The Industries Assistance Commission (IAC) advises the Government on methods of promoting the development of Australian industry to become more internationally competitive and capable of operating with minimum levels of assistance in the long term. For details on specific forms of assistance to industry see *7B. Industry Assistance and Development*.

The IAC is to be reformed and renamed the Industry Commission, with broader functions covering the full range of structural adjustment and microeconomic reform policies.

Trade Practices and Consumer Affairs

This item provides for the running costs of the Trade Practices Commission, the Trade Practices Tribunal, the Prices Surveillance Authority, the Federal Bureau of Consumer Affairs and the National Consumer Affairs Advisory Council. In addition, it includes grants to the Australian Federation of Consumer Affairs and the Financial Counsellors Association of Australia.

The Federal Bureau of Consumer Affairs will receive \$0.5m in 1989-90 to strengthen its capacity to enforce product safety standards and its consumer education role, particularly in relation to the National Agenda on Multicultural Australia. In addition the Trade Practices Commission will receive \$0.7m in 1989-90 to enhance its computer capacity to cope with increased activity related to takeover and merger work and issues arising from the deregulation of various industries.

Regulation of Companies and Securities

This item provides for the operating costs of the National Companies and Securities Commission (NCSC) and the establishment and running costs of the recently announced Australian Securities Commission (ASC). The ASC is central to implementing the Government's decision that the Commonwealth should assume responsibility for administration of company law and regulation of the securities and futures industries. The ASC will progressively replace the NCSC. From 1990-91 additional outlays for the ASC will be matched by increased revenue which is recorded under 'Other Taxes, Fees and Fines' in Budget Statement 4, *Estimates of Revenue 1989-90*.

Other

This category covers the operating costs of the Australian Government Analytical Laboratories (AGAL), the National Standards Commission and the Commonwealth's contribution to the Standards Association of Australia and the National Association of Testing Authorities.

7D.2 METEOROLOGICAL SERVICES

The sub-function covers the running costs of the Bureau of Meteorology and the Ionospheric Prediction Service, net of recoveries for their activities. The Bureau of Meteorology provides a range of climate data, monitoring, information and advisory services for the general public and specialist users such as the aviation industry. It also undertakes research into the nature and mechanisms of Australian and Southern Hemisphere climate, including research into the Greenhouse Effect. The Ionospheric Prediction Service provides predictions on the state of the ionosphere for users of radio communications systems, including the Defence services and telecommunications authorities.

Outlays in the period 1979-80 to 1988-89 increased steadily in real terms, at an average rate of about 2.5% per year, reflecting essentially the expanding operation of the Bureau of Meteorology. Outlays are expected to remain fairly constant over the forward estimates period.

After a review of the costings of meteorological services provided to the aviation industry, reduced charges based on incremental cost are to apply to aviation and Defence. Together with increased capital funding for the service, these changes add a total of \$1.3m to outlays in 1989-90.

7D.3 WATER AND ELECTRICITY SUPPLY

7D.3		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Urban Water Supply	\$m	71.7	19.3	20.8	23.2	23.5
	%	73.2	72.1	7.5	11.8	1.3
Electricity Supply	\$m	77.7	11.1	18.5	8.0	-2.5
	%	117.2	114.3	n.a.	-50.7	-131.4
TOTAL	\$m	149.4	8.2	39.2	31.2	21.0
	%	83.6	84.5	n.a.	-20.5	-32.7

The Commonwealth provides assistance to the States and Territories for water supply. Included under this sub-function is the Country Towns Water Supply Improvement Program (COWSIP) and assistance to SA for water treatment facilities in Adelaide. These are part of the Federal Water Resources Assistance Program (FWRAP) which also comprises programs for urban flood mitigation and water resources development and management. The latter are part of the *5. Housing and Community Amenities* and *7B. Industry Assistance and Development* functions.

Also included in this sub-function is assistance to the ACT for water and sewerage and general assistance grants to the States and Territories for electricity generating purposes. Offsetting those outlays are loan repayments by the States for water and electricity supply assistance. The Commonwealth also subsidises the cost of electricity generation in Tas under the Gordon-Below-Franklin compensation agreement (see 9A.7 *Other Assistance to Governments nec*).

This sub-function has been the main contributor to growth and variability between years for Other Economic Services. In recent years there have been increased payments to SA, outside of monies allocated under FWRAP, for water treatment facilities for Adelaide, which has continuing water supply and quality difficulties. Outlays for 1989-90 and the forward years reflect the advent of self-government for the ACT from 11 May 1989 (a reduction of \$3.5m). As from that date, ACT own purpose outlays on water infrastructure do not form part of Commonwealth outlays. However, the Commonwealth will continue to provide a specific purpose payment to the ACT (\$7.0m in 1989-90), mainly for the Lower Molonglo Water Quality Control Centre.

The Government has decided to replace the old CPI indexed subsidy to the NT for electricity generation with a declining subsidy, expected to terminate in 1993-94. The \$40m provision for 1989-90 was made at the end of 1988-89 to help the NT adjust to the lower level of assistance.

The Government has also decided to relieve the NT of its electricity debt to the Commonwealth, from 1 July 1989, for assets transferred upon self-government. This will relieve the NT of scheduled repayments of principal and interest (estimated at \$2.8m and \$3.6m respectively in 1989-90) for each of the next nine years (in total a net present value of \$31.9m). Interest is classified as a revenue and hence does not effect the outlays figures under discussion here.

7D.4 ECONOMIC SERVICES NEC

This category largely consists of the resources and energy running costs of the Department of Primary Industries and Energy which are not elsewhere classified. Outlays are expected to remain fairly constant in real terms over the forward estimates period.

REFERENCES

Annual Reports, 1988 of the following Departments and agencies:

- *Department of Administrative Services;*
 - *Attorney General's Department;*
 - *Department of Primary Industries and Energy;*
 - *Department of Industry, Technology and Commerce;*
 - *Trade Practices Commission;*
 - *Prices Surveillance Authority; and*
 - *Industries Assistance Commission*
- Annual Report, 1988, Meteorology Policy Committee*
- Budget Paper No. 3, 1989-90, Portfolio Program Estimates*
- Budget Paper No. 4, 1989-90, Commonwealth Financial Relations with other levels of Government*
- Portfolio Explanatory Notes, 1989-90, of the following Portfolios:*
- *Administrative Services;*
 - *Attorney-General's;*
 - *Primary Industries and Energy; and*
 - *Industry Technology and Commerce*

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 and overseas aid.

8A. LEGISLATIVE SERVICES

OVERVIEW

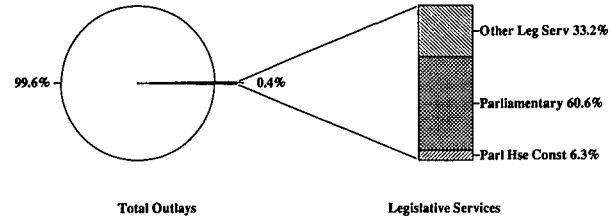
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
8A.1 New Parliament House	\$m	90.2	24.3	6.6	-	-
Construction	%	-70.1	-78.1	-72.8	-100.0	n.a.
8A.2 Parliamentary Outlays	\$m	220.2	233.7	237.5	245.4	255.2
	%	26.3	28.1	1.7	3.3	4.0
8A.3 Other Legislative Services	\$m	107.7	127.9	78.7	73.8	75.9
	%	8.1	18.8	-38.5	-8.2	2.8
TOTAL	\$m	418.0	386.8	322.8	319.2	331.1
	%	-27.8	-7.7	-18.3	-1.1	3.7

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. *Contingency Reserve*.

- Total Legislative Services Outlays decrease by \$32.1m or 7.7% in 1989-90. Outlays are expected to decline more sharply over the first forward year. This implies a real decline over the forward estimates period overall of 24.5%.
- The major factor contributing to the expected decrease in 1989-90 is the winding down of activity on the new Parliament House site.
- Outlays for 1989-90 include \$56m for a possible Federal election. The decrease in outlays of 16.3% in 1990-91 is attributable, in the main, to the non recurrence of this item.

CHART 1. LEGISLATIVE SERVICES

Proportion of Total Outlays and Function
1989-90



PURPOSE

Commonwealth activity in the Legislative Services function funds the administrative machinery, infrastructure and support services associated with the work of the Parliament.

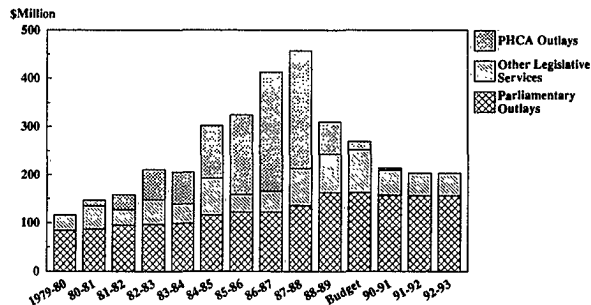
NATURE OF LEGISLATIVE SERVICES OUTLAYS

Outlays principally cover services provided by the Parliamentary Departments (the Senate, House of Representatives, Parliamentary Library, Parliamentary Reporting Staff and Joint House), the Parliament House Construction Authority, the Australian Electoral Commission, and the Department of Administrative Services (provision of parliamentary and ministerial staff and services).

TRENDS IN LEGISLATIVE SERVICES OUTLAYS

The major component affecting outlays under this function since 1981-82 (see Chart 2) has been the construction of the new Parliament House at a cost of \$1,073m. Beyond this, the main factors affecting growth have been periodical outlays associated with the holding of referenda and elections, increased support staff and services to the Parliament and costs associated with the move to, and occupation of, the new Parliament House. Indeed the size, configuration and complexity of the new building including maintenance services, enhanced computing systems and equipment, sound and vision systems and guarding services raise ongoing outlays by about 28% in real terms.

CHART 2. LEGISLATIVE SERVICES
(1984-85 prices)



1988-89 OUTCOME

The outcome for 1988-89 exceeded budget estimates by \$16.6m or 4.1%. This was mainly the result of higher than expected costs associated with servicing the Parliament.

8A.1 NEW PARLIAMENT HOUSE CONSTRUCTION

Outlays in 1989-90 and forward years are for the completion of building and finishing contracts and for maintenance and rectification work. Cost pressures in 1989-90 arise from contractual disputes.

8A.2 OTHER PARLIAMENTARY EXPENDITURE

Outlays under this sub-function include parliamentary salaries and the costs of provision of services to parliamentarians by the Parliamentary Departments and Department of Administrative Services. Support services include Hansard; specialised advisory, procedural, research and administrative support; library services; specialised information and communications support; building management services and facilities; and travel within Australia and Overseas.

Outlays in 1989-90 and outyears include \$4.2m for the Government's decision to increase postal allowance entitlements for Members of Parliament.

8.A3 OTHER LEGISLATIVE SERVICES

Outlays under Other Legislative Services relate mainly to the activities of the Australian Electoral Commission pursuant to its responsibilities under the Commonwealth Electoral Act 1918. Other outlays relate to support services to former Governors-General and for the Prime Minister's official residences at the Lodge and Kirribilli House, the conservation and development of these residences, support services for the Governor-General and maintenance of the Governor-General's residences at Government House and Admiralty House, the drafting of Bills by the Office of Parliamentary Counsel and the work of the Constitutional Commission.

The underlying level of outlays has remained generally stable under this function since 1981-82. However, total outlays are affected by provision for elections and referenda in the relevant years. 1989-90 figures provide for a possible election in that year.

Ongoing electoral outlays include maintenance of electoral rolls, habitation reviews, and development and testing of programs. In an election or referendum year significant additional outlays are incurred in staffing polling booths, counting and scrutiny of votes, and associated activity.

FURTHER REFERENCES

- Annual Reports of the Parliamentary Departments, Administrative Services, PHCA, Australian Electoral Commission, Prime Minister and Cabinet, Office of the Official Secretary to the Governor-General, Attorney-General and Official Establishments Trust*
- Explanatory Notes for the Administrative Services, Prime Minister and Cabinet and Attorney-General's portfolios.*

8B. LAW, ORDER AND PUBLIC SAFETY

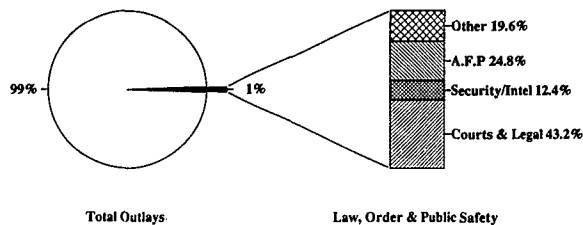
OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
8B.1 Courts and Legal Services	\$m	305.8	358.4	386.9	387.6	398.8
	%	19.0	17.3	7.9	0.2	2.9
8B.2 Security and Intelligence	\$m	76.0	103.3	91.9	90.2	93.5
	%	2.6	36.9	-11.0	-1.8	3.8
8B.3 Australian Federal Police	\$m	176.7	205.4	213.0	215.6	224.4
	%	9.8	18.3	3.7	1.2	4.1
8B.4 Other Law, Order and Public Safety	\$m	139.6	182.5	155.0	154.1	159.4
	%	-15.9	16.3	-4.8	-0.8	3.4
TOTAL	\$m	698.1	829.6	846.8	847.5	876.1
	%	6.3	18.8	2.1	0.1	3.4

The budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. *Contingency Reserve*.

- **Total outlays for Law, Order and Public Safety, which accounts for about 1% of total Commonwealth outlays, increase by \$131.5m or 18.8% (11.8% in real terms) in 1989-90. A further increase of 5.6% nominal (decrease of 7% in real terms), is currently projected over the forward estimates period.**

CHART 1. LAW, ORDER & PUBLIC SAFETY
Proportion of Total Outlays and Function
1989-90



3.264

- **Courts and Legal Services:** the major source of growth is Courts construction, outlays on which rise from \$29m in 1988-89 to \$38m in 1989-90 and \$60m in each forward year reflecting site acquisition in Melbourne, and works in Sydney, Perth and Brisbane. Other significant items in 1989-90 are an increase in the rate of payments to the States for family law matters handled by magistrates' courts (\$6m), increased legal aid and other costs associated with the Child Support Scheme (\$19m) and upgraded ADP support for legal services (\$6m).
- **Security and Intelligence Services:** the increase mainly reflects a one-off cost in 1989-90 of acquiring new premises for the Australian Security Intelligence Organization (\$15m) (an equivalent amount from sale of ASIO's current premises is shown under 8E. *Administrative Services*).
- **Australian Federal Police:** the outlays pattern reflects a number of continuing influences and one-off factors. The former includes further extension of the Force Development Program (\$2.5m a year) and additional salary costs arising from decisions of the Police Arbitral Tribunal (\$3.8m in 1988-89, \$9.4m in 1989-90 rising to \$16.8m in 1992-93). One-off factors include a major office fit-out in 1989-90 (\$9m) and a projected higher than normal level of redundancies in 1990-91 (\$8m).
- **Other Law Order and Public Safety:** The 1989-90 figures reflect the establishment of the Cash Transaction Reports Agency (\$5m a year), charging of rent on owned accommodation (\$8m a year) and fitout works, largely for the Family Court, Sydney (\$4m in 1989-90).

3.265

PURPOSE

Commonwealth activity in the area of Law, Order and Public Safety is primarily directed toward ensuring the effective administration and maintenance of law and justice, human rights, civil liberties, and legal services. The aim is to ensure that all Australians have access to appropriate legal services and protection under the law. The function also covers the collection and assessment of information of security and intelligence interest to Australia.

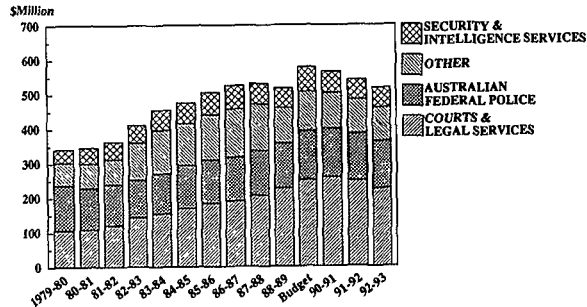
NATURE OF LAW, ORDER AND PUBLIC SAFETY OUTLAYS

These outlays cover courts administration and related legal services, legal aid, law enforcement, other police and criminology support activities, security and intelligence services and a range of public safety activities.

Funds are channelled either through budget dependent agencies to the suppliers of these services or through other levels of government, primarily to fund legal aid by State and Territory Legal Aid Commissions.

TRENDS IN LAW, ORDER AND PUBLIC SAFETY OUTLAYS

CHART 2. LAW, ORDER & PUBLIC SAFETY
(1984-85 prices)



Outlays growth has been high over the ten years to 1988-89, (an increase of 51.2% in real terms), with some tapering in more recent years. Major contributory factors have included increased resources for legal aid, expanded facilities and higher administrative costs of Commonwealth courts and tribunals; and the establishment in the mid 1980's of various budget dependent bodies such as the National Crime Authority, the Director of Public Prosecutions and the Human Rights and Equal Opportunity Commission.

Over the forward estimates period, outlays in real terms are projected to fall \$66.1m or 7%. This reflects the completion of capital projects such as ASIO's relocation and office automation, and specific ADP acquisitions approved in the 1989-90 Budget (\$28m), completion of the Royal Commission into Aboriginal Deaths in Custody (\$13m), less demand for legal aid as the Child Support Scheme becomes established (\$7m), a lower Commonwealth share of legal aid costs as revised funding agreements with the States take effect (\$4m) and completion of major fitout works for the Sydney headquarters of the AFP and the Sydney Family Court registry (\$12m). These amounts are offset by expansion of the court construction program (\$17m).

1988-89 OUTCOME

Outlays in 1988-89 were lower than budget forecasts by \$0.4m (0.1%). This mainly reflected a lower than expected take up of legal aid associated with the Child Support Scheme, offset by Australian Federal Police work value pay increases and redundancies.

8B.1 COURTS AND LEGAL SERVICES

8B.1		1988-89		1989-90		1990-91		1991-92		1992-93	
		Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate		
	High Court	\$m	7.0	7.1	7.5	7.9	8.2				
		%	11.8	11.8	8.8	4.6	4.4				
	Other Commonwealth Courts	\$m	93.7	125.3	154.5	157.8	163.5				
		%	19.8	33.7	23.3	2.1	3.8				
	Legal Services	\$m	73.8	75.1	75.0	77.0	80.4				
		%	24.4	1.8	-0.1	2.8	4.4				
	Legal Aid	\$m	114.0	130.0	135.3	135.2	136.6				
		%	11.1	14.6	4.1	-0.1	1.0				
	Protection of Human Rights	\$m	17.3	21.0	14.5	9.7	10.1				
		%	88.7	21.6	-31.1	-32.9	4.0				
	TOTAL	\$m	305.8	358.5	386.9	387.6	398.8				
		%	19.8	17.2	7.9	0.2	2.8				

These outlays support legal and law related services to the community to protect human rights and facilitate equal access to justice by all, including by funding legal aid and the operations of the Federal judiciary and related legal services. They also advance and protect the interests of the Commonwealth, its Ministers and agencies through sound, constructive and timely legal services.

High Court

This item provides for the running costs of the High Court of Australia.

Other Commonwealth Courts

This item covers the running costs of the Family Court of Australia, the Federal Court of Australia, the Supreme Court of the ACT, the Magistrates Court of the ACT and the Commonwealth Reporting Service. It also includes funding for construction of Commonwealth courts.

Legal Services

The legal services element encompasses administration of bankruptcies, the running costs of the Australian Government Solicitor and the Director of Public Prosecutions and the running expenses of the Australian Law Reform Commission.

Legal Aid

This element comprises the Commonwealth legal aid program including Aboriginal legal aid and grants to legal aid organisations. Commonwealth funding is provided to State Legal Aid Commissions (except in Tasmania) and the ACT Legal Aid Commission for provision of legal aid services. In Tasmania and the Northern Territory legal aid services are provided by the Commonwealth directly through offices of the Australian Legal Aid Office and or by engaging private practitioners.

Protection of Human Rights

Included under this heading are the outlays of the Human Rights and Equal Opportunity Commission and the Royal Commission into Aboriginal Deaths in Custody.

Trends

Courts and Legal Services outlays have grown by 115.2% in real terms in the ten years to 1988-89 (8.0% annually). Outlays over the budget and forward years are forecast to rise initially (10.3% in real terms in 1989-90) with a 2.0% decline over the subsequent period to 1992-93.

Growth to 1988-89 can be attributed primarily to the setting up of the Human Rights Commission in December 1981, steady growth in demand for legal aid, the establishment of the Director of Public Prosecutions in March 1984, funding for the Commonwealth Courts Construction Program in 1987-88 and 1988-89, additional costs associated with the merger of the NSW Legal Aid Commission with the Australian Legal Aid Office, NSW in 1987, costs associated with the Proceeds of Crime and Revenue Production/Protection initiatives commenced during 1987-88 and the establishment of the Royal Commission into Aboriginal Deaths in Custody during 1987-88.

Growth in 1989-90 results largely from acquisition of a court site in Melbourne (\$12.2m), commencement of works on the Brisbane court (\$5.6m), progress on the court project in Perth (\$7.4m), the provision of additional funds for court and legal aid costs associated with the Child Support Scheme—both Stage 1 and Stage 2 (\$19.1m), and increased reimbursements to the States and Territories for the provision in their lower courts of family law services (\$5.5m). These increases are partly offset by construction nearing completion on the Parramatta court (\$7.9m).

Outlays are forecast to decline in 1990-91 and beyond in real terms, reflecting mainly the wind up of the Royal Commission into Aboriginal Deaths in Custody (\$12.8m), expected declining demand for legal aid associated with the Child Support Scheme (\$6.8m) and a lower share of Commonwealth legal aid costs as revised funding agreements with the States take effect (\$4.2m), offset by continued progress on Perth, Sydney and Brisbane court buildings (\$17.0m).

8B.2. SECURITY AND INTELLIGENCE

The primary role of the intelligence agencies covered under this heading (the Australian Security Intelligence Organisation, the Australian Secret Intelligence Service and the Office of National Assessments) is to collect and assess information relevant to guard against possible threats to Australia's national interests. Other matters include physical and technical security at overseas posts, counter-terrorist training and equipment and the Office of the Inspector-General of Intelligence and Security which is responsible for ensuring that security and intelligence agencies adhere to legal requirements and Ministerial directions and guidelines.

Trends

Excluding the effect of ASIO's new office automation system (\$3.7m in 1989-90) and NSW Regional Office relocation (\$15m in 1989-90), the budget and forward estimates for this sub-function broadly show no increase in real terms over 1988-89.

8B.3 AUSTRALIAN FEDERAL POLICE

The Australian Federal Police aims to provide effective law enforcement in the areas of drug trafficking, organised crime, fraud against the Commonwealth, ACT policing and counter terrorism.

Trends

Australian Federal Police outlays have fallen in real terms over the 10 year period to 1988-89 by 0.3%. The 1979-80 base figure, however, includes an amount of \$17.2m for non-recurring capital works. If this amount is excluded, outlays have grown 25.0% in real terms (2.3% annually). Indeed the strongest growth occurred from 1984-85 to 1988-89 reflecting the upgrading of the AFP's computer capacity and expanded recruitment. \$3m has been invested in ADP equipment and facilities over the past four years. In excess of 400 police have been added to force strength under the Force Development Program at an additional ongoing cost of \$19m, mainly to bolster AFP's activities in combatting drug-related and organised crime. In addition, decisions of the Police Arbitral Tribunal flowing from a Career Structures Review and work value case during 1988-89 have resulted in additional salary costs of \$5.6m in 1989-90 rising to \$15.4m in 1992-93 and thereafter.

Measures taken in the 1989-90 Budget context include extension of the Overseas Officer Liaison Network (\$0.8m in 1989-90) and computing enhancements (\$1.0m). Overall outlays are forecast to rise in 1989-90 by \$28.7m or 16.2% (9.3% in real terms). The forward estimates are broadly maintained at 1989-90 real levels.

8B.4 OTHER LAW, ORDER AND PUBLIC SAFETY

8B.4		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget Estimate	Estimate	Estimate	Estimate
General Administration	\$m	73.1	94.7	89.0	85.5	87.2
	%	-8.3	28.8	-8.1	-4.0	2.0
Coastwatch	\$m	15.0	17.5	20.5	21.3	22.2
	%	18.3	18.3	17.3	4.1	4.1
ACT Law, Order and Public Safety nec	\$m	18.1	-	-	-	-
	%	-18.0	-100.0	n.a.	n.a.	n.a.
Protective and Custodial Service	\$m	-7.9	1.2	-0.8	-0.8	-0.8
	%	-15.2	-11.3	-100.7	-	-
Other	\$m	41.3	49.2	46.3	48.1	50.8
	%	10.1	18.1	-5.8	3.9	5.8
TOTAL	\$m	139.6	162.5	155.0	154.1	159.4
	%	-15.8	18.4	-4.8	-0.8	3.4

Outlays under this sub-function cover the administration of the Attorney-General's Department, funding to organisations involved in police and criminology support activities, coastal surveillance and protective and custodial services.

General Administration

This element includes the general administration costs of the Attorney-General's Department other than for Courts and Legal Services (8B.1) and the administration of grants and payments falling under the responsibility of the Attorney-General.

Coastwatch

The Coastwatch unit of the Australian Customs Service patrols Australian coastal and Australian Fishing Zone areas to enforce Australian laws covering quarantine, fisheries, drug smuggling, wildlife, environmental protection and migration controls.

ACT Law, Order and Public Safety NEC

Until this year, this item included outlays for the ACT Fire Brigade, the operational costs of adult and juvenile corrective services facilities in the ACT, the administration of ACT legal aid and payments to NSW for the care of ACT prisoners in NSW institutions. From 1989-90, following self government in the ACT, these items will no longer appear.

Protective and Custodial Service

The Australian Protective Service (APS) undertakes guarding, custodial and escort functions for certain Commonwealth facilities and personnel including Immigration Detention Centres.

Other

Included under this component are agencies primarily involved in police and criminology support activities such as the National Crime Authority, the Australian Bureau of Criminal Intelligence, the Australian Institute of Criminology and the Cash Transaction Reports Agency.

Trends

Outlays for this sub-function have increased by 55.5% in real terms in the 10 year period to 1988-89 (an annual rate of 4.5%). Growth pressure has been concentrated in the General Administration and Other elements, with offsetting reductions in outlays in Protective and Custodial Service in 1987-88 and 1988-89 reflecting the introduction of charging for those services.

Outlays are forecast to rise by \$22.9m or 16.4% (9.5% in real terms) in 1989-90 mainly reflecting the payment of rent on owned accommodation to the Department of Administrative Services (\$8.0m), the establishment of the Cash Transaction Reports Agency (\$4.6m) and revised accounting arrangements for the Australian Protective Service (\$9.1m). This latter item reflects a requirement for the Australian Protective Service (as a quasi commercial operation) to make cash payments to other agencies to cover employer superannuation contributions, rent and other corporate service overheads. The effects of these increases are offset by removal from Commonwealth outlays of ACT outlays on law, order and public safety (\$18.1m). Outlays are expected to remain constant over the forward estimates period.

FURTHER REFERENCES

- Annual Reports of the organisations within the Attorney-General's Portfolio*
- Portfolio Explanatory Notes (budget Related Paper No 8) for the Attorney-General's Portfolio*
- Budget Paper No 3, Portfolio Program Estimates*
- Budget Paper No 4, Commonwealth Financial Relations with Other Levels of Government*

8.C FOREIGN AFFAIRS AND OVERSEAS AID

OVERVIEW

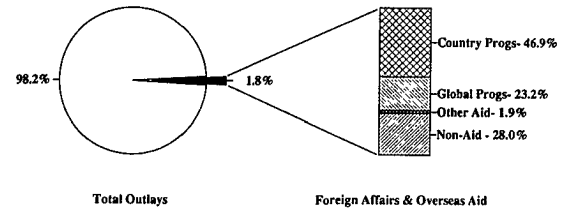
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
8C.1.1	Country Programs	\$m 716.5	732.8	723.2	724.2	761.7
	%	7.0	2.3	-1.3	0.1	5.2
8C.1.2	Global Programs	\$m 418.7	382.7	436.3	482.4	495.4
	%	40.7	-13.4	20.3	10.6	2.7
8C.1.3	Overseas Aid - Other	\$m 25.9	29.0	30.3	31.7	33.1
	%	0.7	10.0	1.9	4.6	4.2
8C.1	Sub-Total Aid	\$m 1161.1	1125.2	1189.9	1238.4	1290.1
	%	17.8	-3.1	5.7	4.1	4.2
8C.2	Foreign Affairs - Non Aid	\$m 390.4	438.6	452.1	468.4	456.1
	%	-1.0	12.3	3.1	3.6	-2.6
TOTAL		\$m 1551.5	1563.8	1641.9	1706.8	1746.3
	%	12.5	0.8	5.0	4.0	2.3

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve.

- Total outlays on Foreign Affairs and Overseas Aid will increase by \$12m or 0.8% in 1989-90 (a decline of 5.2% in real terms). They will represent 1.8% of total Commonwealth outlays, as illustrated in Chart 1. The relatively slow growth mainly reflects the rescheduling of \$94m of payments to International Financial Institutions into 1988-89.
- Outlays over the forward years are currently projected to decline by 1.7% in real terms: aid payments are projected to remain at 1989-90 levels in real terms while other payments decline consistently in real terms, especially when major non-recurring expenditures recede in 1992-93.
- Significant Overseas Aid initiatives that have been announced recently, or which will impact on 1989-90 or the forward years for the first time, are:
 - \$35m over three years beginning in 1990-91 for a significant enhancement of the Development Co-operation Program in India;

CHART 1. FOREIGN AFFAIRS AND OVERSEAS AID

Proportion of Total Outlays and Function
1989-90



- the establishment of a \$15m three year Development Assistance Program for Pakistan;
- the institution of a \$20m four year Environment Assistance Program from 1989-90;
- a commitment to the Governments of Thailand and Laos to construct a bridge over the Mekong River at an estimated cost of \$30m;
- reform of assistance arrangements for overseas students by introducing an Equity and Merit Scholarship Scheme in place of existing arrangements;
- the signing of a Development Co-operation Treaty with Papua New Guinea which provides for continued budget support at \$275m per year until 1992-93, and an increase in project aid from \$15m in 1988-89 to \$30m in 1992-93.
- a one-off reduction to the aid vote of \$7.5m on the previous allocation for 1989-90 in recognition of the additional resources made available by the rescheduling to 1988-89 of payments of \$94m to International Financial Institutions.

- Major budget measures have added a net \$4.9m to outlays in 1989-90 and \$73m over the forward years including:
 - \$2.3m in 1989-90 and \$38m in the forward years for the redevelopment of the Australian Diplomatic Communications Network.
 - \$2.5m in 1989-90 and \$22.5m in the forward years for the design, construction and operation of the Australian pavilion at the 1992 Expo in Seville, Spain;
 - \$2.1m in 1989-90 and each of the forward years to provide support to the Department of Immigration, Local Government and Ethnic Affairs in implementing a new migration selection system in response to the recommendations of the Committee to Advise on Australia's Immigration Policies (CAAIP);
 - \$1.5m in 1989-90 for a Government-Industry Chemical Weapons Conference; and
 - \$1.2m in 1989-90 for a bicentenary gift to France.

PURPOSE

Outlays under this function support policies to further Australia's external relations, including its strategic and trade interests. A major component is the Australian Aid Program which promotes the economic and social advancement of the peoples of developing countries, reflecting Australia's humanitarian concerns as well as foreign policy and commercial interests.

NATURE OF FOREIGN AFFAIRS AND OVERSEAS AID OUTLAYS

Direct assistance to foreign governments, and payments to non-government organisations and international institutions dominate outlays under this function. Also included are payments for salaries and the operating expenses of the Department of Foreign Affairs and Trade, grants and contributions to international organisations and outlays on overseas property services provided by the Department of Administrative Services.

TRENDS IN FOREIGN AFFAIRS AND OVERSEAS AID OUTLAYS

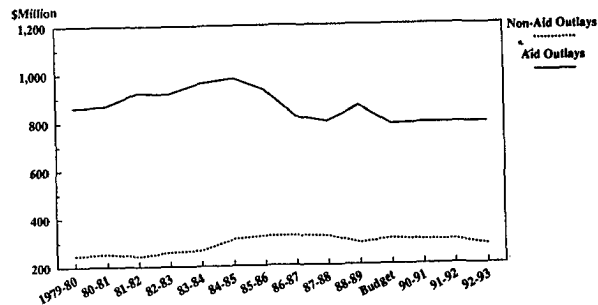
Total outlays for Foreign Affairs and Overseas Aid have declined by 1.7% in real terms over the period 1979-80 to 1989-90 and are expected to decrease by 1.8% in real terms over the forward years (see Chart 2).

Over the last decade, Overseas Aid has declined by about 9% in real terms. As a proportion of GNP the decline is from 0.44% in 1979-80 to 0.33% in 1989-90. The most significant decrease was in 1986-87—from 0.46% to 0.38%. This occurred in light of emerging economic circumstances which required tight expenditure restraint across the board. The decline in outlays was greatest for United Nations Programs which fell by \$39m or 42%. During the forward years aid payments are projected to be maintained at 1989-90 levels in real terms.

Outlays under the remainder of the Foreign Affairs and Overseas Aid function have increased by 24% in real terms over the period 1979-80 to 1989-90, an average real growth of 2.1% a year. This is partly explained by the increased costs of servicing international commitments stemming from the depreciation of the Australian dollar. The large real increase in 1984-85 mainly results from the start of construction of the Riyadh (Saudi Arabia) and Beijing Chanceries and residential complexes, and increased costs of contributions to international organisations.

Non-aid outlays over the forward years are expected to decrease by 8.5% in real terms. Reduced outlays on overseas property services in 1990-91 from the expected completion of the Beijing Chancery complex will be partly offset by increases associated with the redevelopment of the Australian Diplomatic Communications Network.

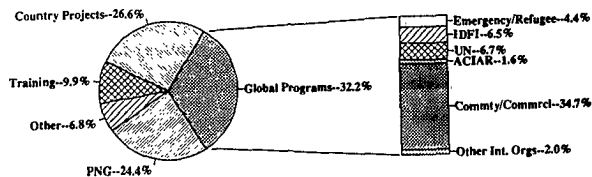
CHART 2. FOREIGN AFFAIRS AND OVERSEAS AID
(1984-85 Prices)



1988-89 OUTCOME

Outlays in 1988-89 exceeded Budget estimates by \$83.4m (or 5.7%), which mainly reflects the rescheduling into 1988-89 of payments of \$94m to International Financial Institutions comprising: Asian Development Bank (\$4m); Asian Development Fund (\$31m) and the International Development Association (\$59m).

CHART 3. OVERSEAS AID BY CATEGORY
1989-90



8C.1 OVERSEAS AID

Aid payments in 1989-90 are estimated at \$1163m (0.33% of GNP), of which \$1125.2m is included under this function. It is projected that funding for the forward years will be maintained at the same real level. Chart 3 shows the composition of aid payments in 1989-90. Country programs account for the bulk of aid payments, about one-third of which reflects budget support payments to Papua New Guinea.

8C.1.1 COUNTRY PROGRAMS

8C.1.1	1988-89 1989-90 1990-91 1991-92 1992-93				
	Actual	Budget	Estimate	Estimate	Estimate
Papua New Guinea - Budget Support	\$m 275.0	275.0	275.0	275.0	275.0
Projects, Technical Cooperation and Related Activities	\$m 275.1	299.7	305.0	299.8	328.4
Training	\$m 121.4	111.3	104.0	108.6	112.9
Recoveries - Country Programs	\$m -	-0.2	-0.2	-0.2	-0.2
Other	\$m 45.0	47.0	39.5	41.1	45.6
TOTAL	\$m 716.5	732.8	723.2	724.2	761.7
	% 7.9	2.3	-1.3	0.1	5.2

Papua New Guinea - Budget Support

A new aid agreement was signed with Papua New Guinea in 1989, which provides for a five-year Development Cooperation Treaty expiring at the end of 1993-94. Under its terms, direct budget support will be \$275m in 1989-90 and each of the forward years. The underlying objective of aid to Papua New Guinea is progressively to increase fiscal self-reliance, which implies a greater emphasis on project activities in future aid arrangements.

Projects, Technical Co-operation and Related Activities

Country programs and related technical assistance use Australian expertise and equipment. Priority is given to projects in which Australia can contribute special expertise, such as agriculture. Outlays under this heading are estimated at \$299.7m, an increase of \$24.6m from 1988-89 largely because of increased funding for Southern Africa and Papua New Guinea:

- The Southern Africa Program increase from \$35m to \$50m in 1989-90 is in keeping with the Government's decision to provide \$100m over the 3 year period 1987-88 to 1989-90 (\$50m was provided in the first two years). It is projected that the Southern Africa Program will be maintained in real terms over the forward years.
- Programmed aid for Papua New Guinea will increase by \$5.0m to \$19.2m in 1989-90 and is planned to rise to \$30m in 1992-93 in accordance with the provisions of the new Development Cooperation Treaty.

Other initiatives are a \$50m aid program for India and Pakistan over 3 years commencing in 1990-91, and the undertaking given to the Governments of Thailand and Laos to construct a bridge over the Mekong River.

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'—that is, the difference between the full cost of educating in Australia overseas students from all developing countries and the Overseas Student Charge levied on these students. An amount of \$55.4m is to be provided for this purpose in 1989-90.

The Equity and Merit Scholarship Scheme (EMSS) is being introduced into the Australian aid program to replace the education subsidy which will be phased out progressively from 1990-91. The objective of EMSS is to promote human resource development in developing countries through support for training in Australia, focusing on individual needs and personal development. It is intended to provide a more equitable and development oriented approach than the arrangements which it replaces.

Other outlays under this heading are:

- \$32m for the Sponsored Overseas Students Program to cover costs such as living allowances, course fees and fares for officially sponsored students from developing countries; and
- \$8.5m for the International Development Program of Australian Universities and Colleges to strengthen higher education in neighbouring developing countries through the provision of experts and equipment to selected foreign institutions, and of fellowships in Australia for foreign academics.

Other

Outlays under this heading include:

- \$15.1m for payments of termination and retirement benefits and other pensions to expatriate officers (and dependants) of former Papua New Guinea administrations and the Australian Staffing Assistance Group, made under the Papua New Guinea Staffing Assistance Act 1973.
- \$6m for regional organisations such as the South Pacific Commission, the South Pacific Forum Secretariat and the Forum Fisheries Agency.
- \$19m for regional and health initiatives including the ASEAN-Australian Economic Co-operation Program, which supports projects promoting economic and scientific co-operation between ASEAN and Australia.
- \$6.8m to support the Women in Development Fund, the Economic Development Institute and the Direct Aid Program which allows Australian diplomatic missions in developing countries to assist small development projects.

Trends

With a reduction in aid funding in real terms to Papua New Guinea, increasing commitments to International Financial Institutions and commercial programs, together with constraints on funds available for the total aid program, outlays on country programs have fallen from \$712m in 1983-84 to \$531m in 1988-89 (1984-85 prices), a decline of 25% in real terms.

Outlays for country programs are estimated at \$733m in 1989-90, \$16m higher than 1988-89, largely as a result of an increase in the Southern Africa program.

For the forward years, projected outlays for country programs decline by 9.5% in real terms until 1991-92, partly reflecting the unwinding of the impact of the rescheduling of 1989-90 payments to international financial institutions to 1988-89 (which freed aid resources for other purposes in 1989-90). In 1992-93 Country Programs are expected to increase by 1.1% in real terms owing to the stabilisation of payments to International Financial Institutions.

8C.1.2 GLOBAL PROGRAMS

8C.1.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Emergency Aid and Refugee and Relief Assistance	\$m	39.5	49.2	47.0	48.7	50.0
	%	11.1	14.8	-4.5	3.8	2.7
International Development	\$m	195.0	73.0	171.7	207.4	210.1
Financial Institutions	%	81.0	22.8	186.1	20.8	1.3
UN Programs	\$m	75.5	75.0	80.5	83.7	87.1
	%	11.4	-0.6	7.3	4.0	4.1
Regional and Other International Organisations	\$m	20.2	22.3	23.4	24.4	25.3
	%	11.9	10.6	5.0	4.0	4.0
Community and Commercial Programs	\$m	71.6	125.7	95.5	99.3	103.1
	%	31.3	78.7	-24.1	4.1	3.8
Australian Centre for International Agricultural Research	\$m	16.9	17.4	18.3	19.0	19.8
	%	20.7	2.8	5.0	4.0	4.0
TOTAL	\$m	418.7	362.7	436.3	482.4	495.4
	%	40.7	-13.4	20.3	10.6	2.7

Emergency Aid and Refugee and Relief Assistance

In 1989-90 an estimated \$9.5m 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. A further \$39.7m is to be provided for assistance to refugees in various parts of the world, for famine relief and for restoration work after natural disasters, including \$10m for Afghanistan in response to the Government's commitment to provide \$20m over three years (\$3m was made available in 1988-89 and \$7m is planned for 1990-91). Funds are also provided for disaster preparedness and co-ordination activities in Australia's region, principally through the Australian Overseas Disaster Response Organisation.

International Development Financial Institutions

Australia provides significant support for the lending activities of international financial institutions including the International Bank for Reconstruction and Development (the 'World Bank') and the Asian Development Bank. Outlays comprise contributions for capital and concessional funding activities organised through these institutions.

The reduction in funding estimated in 1989-90 reflects the rescheduling to 1988-89 of some \$94m of payments to International Financial Institutions. In subsequent years these payments are assumed to grow by an average of 4.2% a year in real terms.

United Nations Programs

A large number of United Nations organisations are supported including the United Nations High Commissioner for Refugees, the United Nations Development Programme, the United Nations Children's Fund, and the World Food Program.

Regional and Other International Organisations

Organisations receiving support include the Commonwealth Fund for Technical Co-operation, the Commonwealth Youth Program and International Agricultural Research Centres.

Community and Commercial Programs

The main element of this item is a mixed credit facility, the Development Import Finance Facility (DIFF), which assists Australian businesses supplying developmentally important goods and services. DIFF funding will increase from \$42.9m in 1988-89 to \$93.3m in 1989-90, because of the growing number of successful applicants under the current rules of the scheme. A review of DIFF is currently underway to examine its effectiveness and to determine the future directions of the program. In the meantime, funding for the forward years has been based on the Government's current policy of DIFF being 5% of the total aid vote.

The remaining funds, \$32m, will be provided for trade development activities including the operation of international trade centres, and for selected voluntary agencies in support of development projects, development education and volunteer programs.

Australian Centre for International Agricultural Research

The Centre commissions and funds research by Australian institutions into agriculture and related areas of benefit to developing countries.

Trends

Outlays for Global Programs have risen from \$148m in 1979-80 to \$310m in 1988-89 (1984-85 prices)—or \$240.7m abstracting from the rescheduled payments to International Financial Institutions. This increase largely reflects the need to accommodate within the aid vote increased contributions to International Financial Institutions, which rose by 53% in real terms (also abstracting from the rescheduling), and the introduction of the Development Import Finance Facility.

The projected increase in global program outlays in 1990-91 largely reflects the resumption of normal funding for International Financial Institutions, payments for which are expected to continue increasing in real (underlying) terms over the forward years. In particular, provision has been made for Australia's participation in the ninth replenishment of the International Development Association, and the fifth replenishment of the Asian Development Fund.

8C.1.3 OVERSEAS AID—OTHER

8C.1.3		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Aid Administration	\$m	27.0	30.6	31.2	32.6	33.9
	%	7.2	18.9	2.0	4.8	4.2
Recoveries And Repayments	\$m	-1.1	-0.8	-0.8	-0.8	-0.9
	%	-20.0	-27.2	5.0	4.0	4.0
TOTAL	\$m	25.9	29.8	30.3	31.7	33.1
	%	8.7	16.0	1.9	4.8	4.2

Aid Administration

This provides for the administrative costs of the Australian International Development Assistance Bureau (AIDAB) which will increase by 13% to \$30.6m in 1989-90. The increase reflects an allowance for increased staffing (65 staff) to provide better aid delivery, planning, appraisal and monitoring, increased project evaluation and internal audit, the establishment of the Equity and Merit Scholarship Scheme and the requirement for AIDAB to meet its property operating expenses.

8C.2 FOREIGN AFFAIRS NON-AID

8C.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Membership of International Organisations	\$m	43.0	49.5	49.8	49.8	49.8
	%	-16.8	15.1	0.6	--	--
Other Activities	\$m	22.9	20.0	23.0	27.4	19.3
	%	70.1	-12.7	15.1	19.0	-29.7
General Administration	\$m	324.5	369.1	379.3	391.2	387.1
	%	-7.4	19.8	2.8	3.1	-1.1
TOTAL	\$m	390.4	438.6	452.1	468.4	456.1
	%	-7.0	12.3	3.1	3.8	-2.8

These programs promote Australia's interests through diplomatic relations with other countries, both on a country-to-country basis and through Australia's contributions to, and participation in, a variety of international organisations and forums.

Membership of International Organisations

This item covers the costs of Australia's membership of numerous international and regional organisations. Participation involves contributing to their administrative expenses and, in some cases, their functional activities. Total outlays in 1989-90 are estimated at \$49.5m, an increase of 15.1% over 1988-89. This increase stems mainly from higher rates of contributions (in foreign currencies) to certain international organisations and increased costs in Australian dollar terms as a result of unfavourable exchange rate movements. Outlays in 1989-90 include: \$15.6m for the United Nations regular budget; \$6.2m for the World Health Organisation; \$6.5m for the United Nations Food and Agricultural Organisation; \$5.1m for the United Nations Educational, Scientific and Cultural Organisation; \$4.3m for the International Labour Organisation; \$3.3m for the Organisation for Economic Cooperation and Development; and \$3.0m for the International Atomic Energy Association.

Other Activities

This item funds, amongst other things, activities which enhance Australia's overseas cultural relations (including Expos), exchange visits, and Australian participation in international peace-keeping forces and observer groups.

Outlays in 1989-90 are estimated at \$20.0m, a decline of 12.7% over 1988-89, which mainly reflects a one-off contribution of \$7.9m in 1988-89 to the United Nations Transitional Advisory Group supervising elections in Namibia. 1989-90 outlays include \$2.3m for the Australia Abroad Program and contributions to the Australia-Japan Foundation (\$1.5m), the Australia-China Council (\$0.7m) and the Australia-Indonesia Institute (\$0.8m). They also reflect the Government's decision to participate at the 1992 Expo in Seville, Spain at a total estimated cost of \$25m; \$2.5m is provided in 1989-90 for design of the Australian pavilion. Also included is \$3.0m for the United Nations Interim Force in the Lebanon, \$2.4m for the United Nations Iran/Iraq Military Observer Group, \$1.6m for the Australian Federal Police Unit in Cyprus and \$0.8m for the United Nations Disengagement Observer Force in the Middle East.

General Administration

Outlays under this item cover the major part of administration costs of the Department of Foreign Affairs and Trade (other than a small proportion of Department of Foreign Affairs and Trade costs which relate to the 7B *Industry, Assistance and Development* and the 8B *Law, Order and Public Safety* functions) and overseas property services provided by the Department of Administrative Services. The latter relates to the provision of residential and office accommodation for Australian embassy staff in overseas posts.

Department of Foreign Affairs and Trade administration costs included in this item are estimated to increase by \$23m in 1989-90 to \$281.5m, a rise of 9.3%. The increase reflects a number of factors, including costs associated with the redevelopment of the Australian Diplomatic Communications Network (\$2.3m in 1989-90 and \$38m over the forward years), the effect of exchange rates (\$5.6m) and the

effects of increased salaries and general price movements. Outlays in 1989-90 have also increased because, under revised user charging arrangements, the Department of Foreign Affairs and Trade is required to meet property operating expenses of \$11.6m (previously classified under the *Administrative Services* function).

Overseas Property outlays are estimated to increase by \$12.8m in 1989-90 to \$100.0m, a rise of 14.7%. The main factors underlying the increase are the acquisition of a site for the Jakarta Embassy (expected to cost \$7.5m), the effect of exchange rates (\$3.4m), increased activity on the overseas medium works program (\$2.8m), and progress on the Beijing Chancery project (\$1.1m).

Trends

As noted above, Foreign Affairs Non-Aid Outlays increased by 24% in real terms between 1979-80 and 1989-90. Major factors contributing to this growth included costs associated with the commencement of major overseas construction projects (such as the Beijing and Riyadh Chanceries and residential complexes), and higher costs flowing from the depreciation of the Australian dollar experienced during this period.

Over the forward years outlays growth is expected to decline, with nominal outlays increasing by only 4.0% over the period 1989-90 to 1992-93, representing a decline of 8.4% in real terms. This decline partly reflects the time profile of the overseas construction program. It also reflects the fact that the forward estimates for costs associated with Australia's membership of international organisations and various peace-keeping forces are based on the latest available rates of contribution. These rates may vary as a result of decisions taken by the governing councils of these bodies, but it is not possible to forecast their timing or scope.

FURTHER REFERENCES

Annual Reports, Department of Foreign Affairs and Trade

Budget Paper No 3, Portfolio Program Estimates

Budget Related Paper No 4—Australia's Overseas Aid Program

Joint Committee on Foreign Affairs, Defence and Trade

Mid-term review of the Australian Centre for International Agricultural Research, March 1989

Portfolio Explanatory Notes (Budget Related Paper No 8.8)

A Review of the Australian International Development Assistance Bureau and Australia's Overseas Aid Program, February 1989

8D. GENERAL AND SCIENTIFIC RESEARCH NEC

OVERVIEW

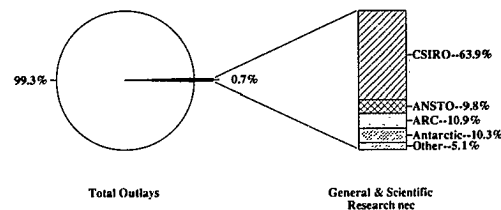
		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
8D.1 CSIRO	\$m	348.1	371.7	404.3	421.5	439.4
	%	0.1	0.8	8.8	4.3	4.3
8D.2 ANSTO	\$m	54.3	56.9	61.0	63.6	66.4
	%	0.5	0.7	7.4	4.3	4.3
8D.3 Other General and Scientific Research nec	\$m	120.5	153.0	154.4	154.9	158.5
	%	2.8	7.0	0.9	0.3	2.3
TOTAL	\$m	522.8	581.5	619.7	640.0	664.3
	%	1.3	1.2	0.6	3.3	3.6

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. *Contingency Reserve*.

- Estimated outlays for this Function are \$581.5m in 1989-90, an increase of \$58.7m or 11.2% (4.6% in real terms) on 1988-89. They are expected to increase by 6.6% in 1990-91 and at about half that rate in each of 1991-92 and 1992-93, implying an increase of about 0.5% in real terms over the current forward estimates period.

CHART 1. GENERAL AND SCIENTIFIC RESEARCH nec

Proportion of Total Outlays and Function
1989-90



- The major growth factors over the next few years are:
 - the decision in March 1989 to rescind that part of the 1988-89 Budget decision which provided for a prospective reduction in the appropriation estimates of CSIRO in the period 1988-89 to 1990-91 equivalent to one-third of estimated growth in external earnings (\$2.1m in 1988-89; \$6.6m in 1989-90; \$11.6m in 1990-91, with impact also in later years);
 - measures introduced in the Government's May 1989 Statement *Science and Technology for Australia* which have added \$18.1m to outlays in this Function in 1989-90 and \$70.7m over the forward estimates period;
 - additional funding of \$5.7m for research activities in 1989-90 as part of the Government's response to the "Greenhouse Effect" and related climatic change problems (funding arrangements for the Greenhouse strategy in subsequent years will be considered by the Government later in 1989);
 - additional allocations for new building works under the Antarctic rebuilding program (\$2.5m in 1989-90; \$3.3m in 1990-91; \$4.7m in 1991-92; \$2.9m in 1992-93).
- During 1988-89 the Government announced a range of new science and technology initiatives with outlays implications for 1989-90 and beyond affecting several functional classifications in this Statement. In particular, the Government's May 1989 Science and Technology Policy Statement involved expenditures totalling an additional \$391m in the five years from 1989-90, and \$800m in additional revenue forgone on the R&D tax incentive from 1992-93. Measures applicable to this Function account for 46% of the additional outlays under the Statement in 1989-90 and 27% over the period of the forward estimates.
- Substantial elements of Commonwealth support for science and technology in particular fields, such as defence technology, industry, health and education, are included under specific headings elsewhere in this Statement.

PURPOSE

Commonwealth support for science and technology (S&T) encompasses many activities and programs across a range of portfolios and functional classifications. Budget-related paper No 10, *Science and Technology Budget Statement 1989-90*, comprehensively details Commonwealth financial support for S&T, including historical trends.

Outlays in this Function relate principally to three Commonwealth agencies—the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), and the Australian Institute of Marine Science (AIMS). Funding is also received from a variety of Commonwealth assisted grant schemes and from contributions by private industry. The Function also includes the Antarctic research program, research grant programs, and several organisations which advise the Government on S&T activities and policy.

NATURE OF GENERAL AND SCIENTIFIC RESEARCH OUTLAYS

Funds provided to CSIRO, ANSTO and AIMS are largely for recurrent purposes. Capital funding has declined as a proportion of total appropriations in recent years following the completion of major capital projects.

Antarctic outlays cover research activities and the cost of maintaining research stations. Appropriations to the Australian Research Council (ARC) largely comprise funds for research grants and fellowships awarded by the Council.

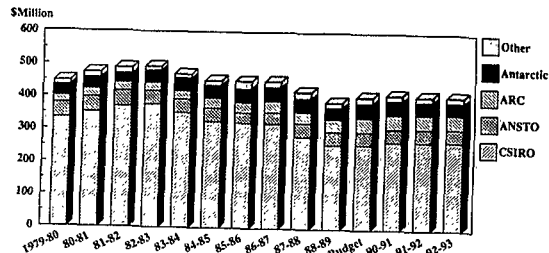
Funding is also included for the Australian Science and Technology Council (ASTEC) and for the Prime Minister's Science Council.

TRENDS IN GENERAL AND SCIENTIFIC RESEARCH OUTLAYS

Total outlays were about 8% lower in real terms in 1988-89 than a decade earlier, and significantly below the real levels of the early 1980s. The 1989-90 Budget estimate implies real growth of 4.6% compared with 1988-89, or about 5.5% if an allowance is made for prospective wage and salary increases for the three science research agencies in 1989-90. Outlays show a real increase of around 0.5% over the forward estimates period.

While funding of CSIRO accounts for a large proportion (63.9% in 1989-90) of outlays under this functional classification, this proportion is somewhat lower than in earlier years. Over the ten years ended 1988-89 direct Budget appropriations to CSIRO fell significantly in real terms. This was offset by substantial real increases for the Antarctic and ARC programs, reflecting the major rebuilding program at Antarctic stations, and increases in the various grants and fellowships offered by the ARC over the period and the transfer of some higher education operating grants to the ARC in 1988-89.

CHART 2. GENERAL AND SCIENTIFIC RESEARCH NEC
(1984-85 prices)



For consistency superannuation has been added for 1979-80 and 1980-81 for CSIRO and ANSTO

The Budget estimates imply real growth of about 0.5% in CSIRO appropriations in 1989-90. However, allowing for prospective wage and salary increases in 1989-90, real growth is almost 2%.

Direct Budget funding of CSIRO shows real growth of about 4% over the forward estimates period. However, this is largely offset within the function by a real decline of about 14% in funding for the Antarctic program, because several major projects will be nearing completion at the end of the period. The comparison is also affected by the \$5.7m provided in 1989-90 only for Greenhouse related research activities (no decision has yet been taken on funding for later years).

Total funds available to CSIRO, including external earnings, are expected grow by about 1.5% in real terms in 1989-90 if allowance is made for wage and salary increases, and to show real growth of about 2.5% over the forward estimates period. External earnings include support from other Budget appropriations (eg the rural industry research funds), and contributions from industry and other governments.

MAJOR POLICY CHANGES

Since the early 1980s there has been a change in the orientation of Government S&T policy to improve S&T institutions' responsiveness to national economic objectives, particularly the need to promote structural adjustment. The Government has, therefore, encouraged closer co-operation between researchers and users. It has also emphasised that responsibility for detailed decision making on research priorities, within the broad strategic guidance set by the Government, rests with the research institutions, researchers and users of research.

For CSIRO, ANSTO and AIMS this has involved some restructuring and internal reorientation to link research activities more closely with user needs, with increased emphasis on external funding.

The major changes have been:

- the establishment of independent Boards of Management for the three agencies;
- the reorganisation of CSIRO into six institutes reflecting broad industry sectors; and
- the restructuring of the former Australian Atomic Energy Commission (AAEC) to form a more research oriented organisation (ANSTO).

During 1988 the role of the ARC was broadened to that of an advisory council to the National Board of Employment, Education and Training (NBEET), with responsibility for advising the Government on national research priorities. This has been accompanied by expanding the resources for allocation by the ARC, achieved by redirecting higher education institution operating grants.

1988-89 OUTCOME

The 1988-89 outcome exceeded the Budget estimate by \$22.8m (or 4.6%), largely reflecting Government decisions on resourcing the science research agencies, and adjustments to wage and salary estimates on account of the August 1988 National Wage Case Decision.

8D.1 COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION (CSIRO)

CSIRO, an independent statutory authority, is Australia's largest and most diverse scientific research organisation. Its major objectives are:

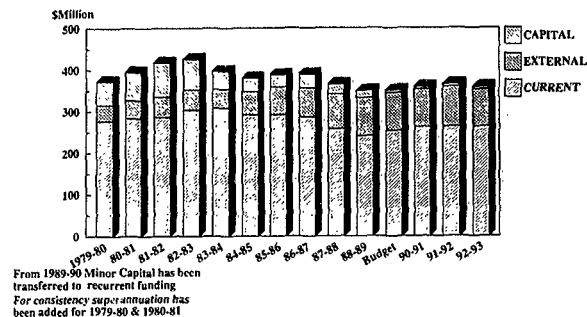
- to carry out strategic research which can be applied to Australian industry or Government for community benefit;
- to collaborate with other institutions and industry to strengthen the research effort and ensure its transfer and application; and
- to lead and promote an expanded S&T effort in Australia.

CSIRO conducts principally long-term strategic research in the physical and biological sciences and technologies. Its activities exclude research in the defence, nuclear science and clinical medicine fields.

Recent changes in Ministerial guidelines, organisational structures (including the establishment of an external Board of Directors), and funding arrangements are enhancing CSIRO's ability to target its research effort more effectively to national priorities. To encourage CSIRO to improve its links with industry, the Government has set a target for external earnings (ie funds from other than its direct Budget appropriations) of 30% of total funding.

Trends

CHART 3. CSIRO - TOTAL FUNDING BASE
(1984-85 prices)



Direct budget appropriations fell by about 19% in real terms over the decade to 1988-89, adjusting for changes in funding arrangements for superannuation, capital, and repairs and maintenance effected during the early 1980s. This largely reflected a sizeable real decline (about 56%) in capital funding, due to the major wind down from the high level of activity up to the mid 1980s. (Indeed, the wind down was such that capital accounted for only 6.6% of CSIRO's expenditure from Budget appropriations in 1988-89, compared with 22.5% in 1981-82.)

As can be seen from Chart 3, setting aside trends in capital spending, increases in external funding both from industry and from Commonwealth grant schemes (such as the National Energy Research, Development and Demonstration Council (NERDDC) and the rural industry research funds) has more than offset the real decline in recurrent appropriations over the past five years. Combined resources available to CSIRO from recurrent appropriations and external sources showed a large real increase in the mid 1980s and in 1988-89 were about 4.5% higher in real terms than a decade earlier.

It is estimated that CSIRO will have \$503.2m available for its activities in 1989-90, of which \$14.3m is for capital works and \$488.9m for running costs. The total comprises:

- direct budget appropriations of \$371.7m (recurrent \$363.0m; capital \$8.7m);
- funds from industry contributions and other forms of private and government support for specific projects (\$106.1m);
- a contribution of \$4.8m from the Department of Primary Industries and Energy to meet half the operating costs of the Australian Animal Health Laboratory (AAHL); and
- receipts from other sources, such as sales of assets and publications (\$20.7m).

The allocation of these resources amongst CSIRO's activities in 1989-90 is shown below:

ESTIMATED OUTLAYS FROM FUNDS AVAILABLE TO CSIRO

	1988-89	1989-90	Change	
	Actual \$m	Budget \$m	\$m	%
Running Costs:				
Animal Production & Processing	50.6	51.0	0.4	0.9
Australian Animal Health Laboratory	9.1	9.5	0.4	4.2
Industrial Technologies	54.8	55.7	0.9	1.7
Information and Communication Technologies	19.1	24.9	5.9	30.8
Australia Telescope	6.4	6.6	0.2	3.5
Cyber 205 Facility	2.0	2.4	0.4	17.1
Minerals, Energy and Construction	55.7	56.2	0.5	0.8
Natural Resources and Environment	45.8	46.7	0.9	2.0
Oceanographic Research Vessel	3.4	3.8	0.5	13.5
Plant Production and Processing	70.7	74.6	3.9	5.5
Research Support	44.6	51.4	6.8	15.2
Specific Project Contributions ^(a)	87.9	106.1	18.1	20.6
Total Running Costs	450.1	488.9	38.9	8.6
Capital and Repairs and Maintenance Budget^(b)	21.9	14.3	7.6CR	-34.6
Total outlays	472.0	503.2	31.2	6.6
of which:				
Appropriations	348.1	371.7	23.6	6.8
External Sources	123.9	131.6	7.7	6.2

(a) Industry contributions and other forms of private and government support.

(b) The decline in the allocation for 1989-90 under this heading mainly reflects the inclusion of \$8m for minor capital works in running costs.

Direct Budget outlays for CSIRO in 1989-90 and the forward years include the impact of several S&T policy initiatives announced by the Government during 1988-89, in particular:

- the decision in March 1989 to restore the prospective reductions to CSIRO's direct appropriation estimates which were made in anticipation of external funding increases as part of the 1988-89 Budget decision (\$2.1m in 1988-89, \$6.6m in 1989-90, and \$11.6m in 1990-91, with impact also in later years);

- additional funding included in the May 1989 S&T Policy Statement for specific research projects and new equipment amounting to \$14m in 1989-90 and \$19m in each of the subsequent four years.

However, constant price estimates suggest only a small real increase (about 0.5%) in direct Budget allocations for 1989-90. This is partly because the outcome for 1988-89 included a once only increase in infrastructure funding of \$5m announced in March 1989. Salary and related expenditures make up 64% of CSIRO's direct Budget funding. If an allowance is made for prospective wage and salary increases in 1989-90 consistent with the corresponding component of the Contingency Reserve (see Function 9C) CSIRO funding would show real growth of almost 2% in 1989-90.

1988-89 Outcome

Funds appropriated to CSIRO in 1988-89 exceeded the Budget estimate by \$13.9m, comprising:

- supplementation for the impact on wage and salary payments of the August 1988 National Wage Case decision (\$5.7m);
- the decision announced in March 1989 to restore a \$2.1m saving effected in the 1988-89 Budget, and to provide an extra \$5m for plant and equipment in 1988-89 only.

8D.2 AUSTRALIAN NUCLEAR SCIENCE AND TECHNOLOGY ORGANISATION (ANSTO)

ANSTO is Australia's major centre of competence and expertise in nuclear science and associated technologies, carrying out research and development in medicine, industry, agriculture, science and other fields, so as to contribute to Australia's industrial innovation and development.

In addition to research activities, ANSTO produces a broad range of radioisotopes for application in industry and medicine throughout Australia. ANSTO also maintains a high regional and international profile in nuclear matters, to reinforce Australia's strategic interests in nuclear technology.

The Organisation has a range of strategies to encourage industry to make greater use of nuclear technology and processes. ANSTO's R&D program is now being developed to achieve a 70/30 percent mixture of tactical applications-oriented research and longer term strategic projects aimed at identifying new potentially commercial areas.

Trends

Spending by ANSTO in 1988-89 from direct Budget appropriations was significantly lower in real terms (by about 12.5%) than a decade earlier (adjusting for changes in superannuation funding arrangements from 1981-82), when the Organisation was known as the Australian Atomic Energy Commission (AAEC) and had less of a research orientation. The real decline over the period largely reflects the transfer during 1981-82 and 1982-83 of some elements of non-nuclear research from the AAEC to CSIRO.

\$56.9m will be appropriated to ANSTO in 1989-90, including \$0.5m allocated for equipment this year (and the subsequent four years) in the Government's May 1989 S&T Policy Statement. Allowing for the impact of wage and salary increases that might be granted during the year (consistent with the adjustment included in 9C Contingency Reserve) the 1989-90 estimate would be unchanged in real terms from the 1988-89 outcome. The comparison with 1988-89 is also affected by the once-only allocation of \$0.5m for equipment in that year announced in March 1989.

Appropriations in 1989-90 will contribute towards the completion of Stage One of a Technology Park at Lucas Heights, construction of the National Medical Cyclotron facility at the Royal Prince Alfred Hospital, Sydney and development of the SYNROC process for immobilisation of radioactive waste.

In addition to the direct Budget appropriation, ANSTO expects to receive \$11.5m in external revenue in 1989-90. This includes receipts from the sale of radioisotopes and services and contributions for research projects funded by industry.

Direct Budget funding of ANSTO is expected to show real growth of about 2.5% over the forward estimates period. Consistent with the Government's decisions regarding external revenue retention by research agencies, ANSTO has set an objective of achieving an external revenue level amounting to 30% of Budget appropriations by 1993-94. Attainment of this objective will allow ANSTO a real increase in total funds of some 11% by 1993-94 compared with the 1989-90 Budget estimate.

8D.3 OTHER GENERAL AND SCIENTIFIC RESEARCH

8D.3		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Science and Technology Policy	\$m 3.0	6.5	7.5	7.8	8.1
		% 6.3	118.0	14.2	4.3	4.1
	Australian Research Council	\$m 52.1	63.7	66.8	69.4	72.2
		% 19.3	122.1	4.9	4.0	4.0
	Antarctic Division	\$m 46.3	59.8	62.1	58.9	58.6
		% -5.9	28.1	3.9	-5.2	-0.6
	Aust Institute of Marine Science (AIMS)	\$m 11.0	13.1	11.8	12.3	12.8
		% 15.5	119.1	8.4	4.2	4.2
	Other	\$m 8.0	11.9	6.2	6.5	6.8
		% -32.7	49.7	-47.4	4.2	3.9
	TOTAL	\$m 120.5	153.0	154.4	154.9	158.5
		% 2.8	127.0	0.9	0.3	2.3

Science and Technology Policy

This category includes allocations for the Australian Science and Technology Council (ASTEC), which provides broad policy advice to the Government and undertakes ad hoc reviews on issues relating to science policy and funding in Australia. The Council has been appropriated \$1.5m in 1989-90, broadly maintaining the real level of resources made available in earlier years.

The Government's May 1989 S&T Policy Statement announced the formation of the Prime Minister's Science Council, a major new forum for the consideration of S&T issues. The Council, to be chaired by the Prime Minister, is to meet at least twice a year and will include other senior Ministers with strong portfolio interests in S&T, representatives from the scientific community and leading executives from industry.

About \$0.4m is available in 1989-90 to cover the costs of Council meetings and of maintaining a secretariat within the Department of Prime Minister and Cabinet. The Government's Chief Scientist will be the Executive Officer of the Council, and is also Chairman of the Government's new S&T Co-ordination Committee.

The Co-ordination Committee has been formed to complement the work of the Prime Minister's Science Council by bringing together Commonwealth departments and agencies with responsibilities for S&T to discuss programs, policies, problems and future work plans, and to ensure coherency and consistency in implementation of the Government's S&T policy.

The Australian Research Council (ARC)

The ARC allocates research funds and advises on matters such as national research priorities, the co-ordination of research policy, the development and implementation of programs for selective concentration of research activity, and measures to improve the training of research personnel.

Appropriations to the ARC increased by about 80% in real terms over the ten years to 1988-89, with growth occurring in both ARC grants (formerly the Australian Research Grants Scheme) and in fellowships offered under the ARC.

The role of the ARC has broadened significantly over the last two years, particularly since the ARC became an advisory council of the National Board of Employment, Education and Training (NBEET). In this capacity, the ARC has additional responsibilities in advising the Government on national research priorities, including those within the higher education sector.

In addition to funds appropriated directly to the ARC for outlays on ARC research grants, National Research Fellowships and Queen Elizabeth II Fellowships, the ARC is responsible for allocating Special Research Assistance funds provided under the *Higher Education Funding Act 1988*. (For further details see Policy Statement on Higher Education, July 1988.) \$1.4m of running costs of the Department of Employment, Education and Training is included under this Function. The appropriation of \$62.4m to the ARC in 1989-90 increases by \$11.7m (about 16% in real terms) over 1988-89 due to the transfer of some funds from higher education operating grants to the ARC. It is expected that ARC funding included in this Function will be maintained in real terms over the forward estimates period. However, overall funding to be allocated by the ARC will experience real increases over that period owing to the redirection of amounts from higher education operating grants for competitive allocation by the ARC under Special Research Assistance (see 2.1 *Tertiary Education*). The level of research resources redirected was \$5m in 1988 and \$20m in 1989. In the forward years redirected funds will rise to \$40m in 1990 and to \$65m from 1991.

Antarctic Division

The Antarctic Division of the Department of Arts, Sports, 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. To ensure that its charter is carried out efficiently an extensive rebuilding program has been underway since 1980-81.

Over the decade ending 1988-89 there was a 66% real increase in funding. Early in the period this growth was associated with the beginning of the rebuilding program and more recently has been attributable to enhanced shipping support.

As part of the rebuilding program the Government has agreed this year to the construction of the following buildings at an estimated total cost of \$14.2m:

• Davis Upper Atmosphere Physics	\$4.2m
• Davis General Science	5.8m
• Mawson Living Quarters fit out	3.1m
• Mawson Balloon Construction	1.1m

Outlays for the above program are estimated at \$2.5m in 1989-90, \$3.3m in 1990-91, \$4.7m in 1991-92, \$2.9m in 1992-93 and \$0.8m in 1993-94.

The Division's appropriation of \$59.8m in 1989-90 represents an increase of \$13.5m (about 21% in real terms) on the 1988-89 outcome. This additional expenditure is attributable to:

- the chartering for the first time of the new Australian built and owned ship *Aurora Australis*, which is due to be completed in 1989-90;
- the transfer to the Division's budget of fees charged by Australian Construction Services for the ongoing rebuilding program; and
- an additional \$2.5m for new building works.

Expenditure in 1988-89 was lower than in previous years, largely reflecting savings arising from favourable exchange rate variations and a comparatively low level of activity in the rebuilding program.

Over the forward estimates period outlays are estimated to show a real decrease of about 14%, as some major projects approach completion.

The Australian Institute of Marine Science (AIMS)

AIMS' research is directed to understanding the marine environment in the coastal and continental shelf regions of Australia to assist the development, conservation and management of marine resources, particularly in the Great Barrier Reef Marine Park. The Institute has also developed links with industry in areas such as mariculture and provides a valuable research base and expertise for commercial developments.

Direct Budget funding of AIMS grew by about 76% in real terms over the decade to 1988-89. However, this growth was concentrated in the early years of the decade, when sizeable additional funds were provided to enable a build-up of scientific and support staff and an expanded research effort. Since 1980-81 the level of funding has not shown much variation in real terms, although the additional once-only allocation of \$1.1m for capital in 1988-89 meant that spending in that year was about 5.5% higher in real terms than in 1987-88.

The relatively large once-only allocation for capital in 1988-89 also impacts upon the real terms comparison of the 1988-89 outcome with 1989-90 Budget appropriation of \$11.1m, which includes the additional \$0.5m provided for equipment in 1989-90 (and each of the forward years) in the Government's May 1989 S&T Policy Statement.

Funding for AIMS shows real growth of about 1.5% over the forward estimates period.

Other General and Scientific Research

This category includes allocations for a range of purposes, including those outlined below.

\$1.9m will be provided in 1989-90 for the operation of the National Science and Technology Centre, which opened in October 1988. The Centre's level of cost recovery from entrance fees and other charges in 1988-89 was 43%. A 62% cost recovery rate is expected in 1989-90 and it is expected that cost recovery will increase to at least 65% over the next three years.

As announced in February 1989 the Government has allocated \$5.7m towards additional research into the "Greenhouse Effect" and related climatic change problems; an amount of \$0.8m was spent in 1988-89. Funding arrangements for the Greenhouse strategy in the forward years will be considered by the Government later in 1989.

FURTHER REFERENCES

Annual Reports of organisations with major S&T responsibilities, particularly those of:

- *Department of Administrative Services*
- *Department of Arts, Sport, the Environment, Tourism and Territories*
- *Department of Employment, Education and Training*
- *Department of Industry, Technology and Commerce*
- *Department of the Prime Minister and Cabinet*
- *Australian Institute of Marine Science (AIMS)*
- *Australian Nuclear Science and Technology Organisation (ANSTO)*
- *Australian Science and Technology Council (ASTEC)*
- *CSIRO*
- *National Board of Employment, Education and Training (NBEET)*

ASTEC reports and discussion papers

Budget Paper No 3, Portfolio Program Estimates

Management of the Antarctic Division, Report 297, Joint Committee of Public Accounts, Parliament of the Commonwealth of Australia, 1989

Budget-related Paper No 10, Science and Technology Budget Statement 1989-90

Policy Statement on Higher Education, by the Minister for Education, Employment and Training, July 1988

Portfolio Explanatory Notes, for departments referred to above

Science and Technology for Australia, Statement by the Prime Minister, and the Minister for Science, Customs and Small Business and Minister Assisting the Prime Minister for Science and Technology, May 1989

8E. ADMINISTRATIVE SERVICES

OVERVIEW

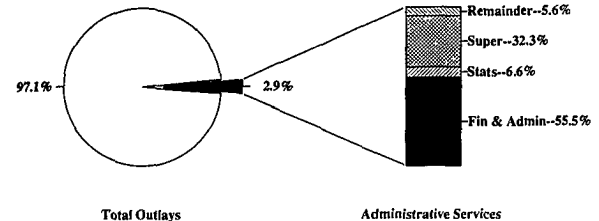
		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
8E.1 Financial Affairs and Fiscal Administration	\$m	1103.4	1379.4	1390.3	1510.0	1480.9
	%	11.1	25.0	0.8	8.8	-1.9
8E.2 Statistical Services	\$m	154.2	164.8	191.5	235.0	179.7
	%	10.0	6.9	18.2	22.7	-23.8
8E.3 Administration of the ACT	\$m	103.5	-	-	-	-
	%	87.8	-100.0	n.a.	n.a.	n.a.
8E.4 Estate Management	\$m	36.1	40.4	91.4	0.1	-101.9
	%	n.a.	-211.8	n.a.	-99.9	n.a.
8E.5 Net Superannuation Payments	\$m	770.7	803.5	904.7	893.4	974.5
	%	14.9	4.3	12.8	-1.3	9.1
8E.6 Commonwealth Employees' Compensation	\$m	102.4	4.8	4.0	3.8	7.4
	%	n.a.	-104.7	-181.8	-5.0	87.8
8E.7 Administrative Services - Other	\$m	303.9	182.2	110.5	76.9	78.5
	%	-25.8	-40.0	-30.3	-30.4	2.1
TOTAL	\$m	2574.2	2484.7	2692.4	2719.2	2619.1
	%	14.0	8.8	8.4	1.0	-3.7

The Budget and forward estimates do not include any allowance for Commonwealth sector wage and salary increases after the Budget in each year. An allowance for such increases is included in 9C. Contingency Reserve.

- Total Administrative Services outlays decrease by \$89.5m or 3.5% (9.3% in real terms) in 1989-90 and existing policies imply an increase of 8.4%, (3.1% real) in 1990-91, followed by a real decline over the remaining forward years of 10.1%.
- In 1989-90, as illustrated in Chart 1, outlays of an administrative nature are forecast to account for 2.9% of total Commonwealth outlays as compared to 3.1% in 1988-89.

CHART 1. ADMINISTRATIVE SERVICES

Proportion of Total Outlays and Function
1989-90



NOTE: Remainder comprises Administrative Services - Other (7.4%), Comcare (-0.2%) and Estate Management (-1.6%).

- The reduction in real growth in 1989-90 outlays results from:
 - the advent of self-government for the ACT (in 1988-89 \$103.5m was recorded as Commonwealth outlays under this sub-function);
 - new commercial operating arrangements for Australian Construction Services (ACS) such that most of the operating costs previously recorded under this function (\$80.2m in 1988-89), are met by fee income;
 - the introduction of rents paid by users of Commonwealth-owned offices (\$117.7m, net of operating and management expenses);
 - the introduction of premiums payable by agencies to Comcare to cover compensation payments to Commonwealth employees (\$159m);
 - an increase of \$31.7m in receipts of fringe benefits tax (FBT) paid by departments and budget-funded authorities (treated as an offset within outlays under this function);
 - an increase of \$33.4m in receipts from sales of surplus property (treated as an offset within outlays); and

- the impact of a property rationalisation program for the Transport and Storage Group (TSG) (net sales receipts of \$24m) plus interest payments by TSG to Consolidated Revenue Fund (\$22m) partly offset by increased funding for vehicles and retrenchments (\$26.1m).
- Apart from the last two, all of the above reductions in outlays are broadly offset by increases elsewhere in the budget figuring.
- Partially offsetting these reductions in outlays is strong growth (17.6% real) in outlays on Financial Affairs and Fiscal Administration mainly arising from increased resource requirements of the Australian Taxation Office (ATO).
- Budget measures have added a net \$57m to outlays in 1989-90 and \$548m over the forward estimates period, including:
 - the ATO computer system re-development and re-equipment project (\$18.6m in 1989-90 and \$37.1m, \$73.2m and \$20.6m in 1990-91, 1991-92 and 1992-93 respectively, net of staff savings associated with the project);
 - acquisition of land in Bendigo and Ballarat and construction of office blocks at Logan City, Hobart, Townsville and Alice Springs (\$12.5m in 1989-90 and \$55.7m and \$24.2m in 1990-91 and 1991-92 respectively);
 - purchase of technical computing equipment by ACS (\$6.4m in 1989-90 and \$9.0m and \$2.9m in 1990-91 and 1991-92 respectively);
 - additional funding of \$10m a year from 1990-91 for the development of skills in public sector management.
 - establishment of a new superannuation scheme for Commonwealth employees (\$8.0m in 1989-90, and \$49.0m, \$65.9m and \$64.3m in 1990-91, 1991-92 and 1992-93 respectively);
 - establishment of the Bureau of Immigration Research and the Immigration Review Tribunal, and implementation of an improved system for selecting immigrants (\$17.2m in 1989-90, \$18.5m in 1990-91 and \$17.8m in later years; and
 - property sales estimated at \$37.6m in 1989-90.

PURPOSE

This function provides for a wide range of administrative services not related to other specific functions. Outlays include:

- running costs and other outlays of the Departments of Treasury and Finance, the ATO and the Australian Bureau of Statistics (ABS); the Australian Customs Service (excluding Coastwatch); the Departments of the Prime Minister and Cabinet, of the Arts, Sport, the Environment, Tourism and Territories, of Immigration, Local Government and Ethnic Affairs, and of Administrative Services; and a number of other smaller agencies;
- costs incurred in developing and managing the Commonwealth's real estate (mainly in relation to office accommodation) net of the return on the estate and of sales proceeds;
- common business services provided by agencies within the Administrative Services portfolio;
- net superannuation payments to former Commonwealth employees and former Members of Parliament;
- net compensation payments to Commonwealth employees;
- FBT paid by departments and budget-funded authorities.

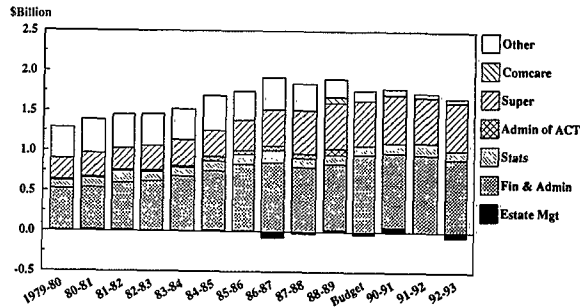
TRENDS IN ADMINISTRATIVE SERVICES OUTLAYS

Chart 2 below shows that outlays on administrative services grew rapidly over the seven years ending 1986-87, averaging 6.1% a year real. The main components contributing to the strong growth pattern were:

- net superannuation payments (8.1% real a year); and
- running costs and other outlays involved in Financial Affairs and Fiscal Administration (7.7% real a year) mainly owing to growth in the ATO.

Outlays fell in real terms in 1987-88 but not so sharply as to prevent moderate real outlays growth over the two years ended 1988-89. The main features of this period were the continued strong growth in net superannuation payments; the introduction/extension of user charging in common services for transport, survey and construction (resulting in lower outlays under this function offset by increases—appropriated to user departments—across other functions); and, following the introduction of FBT in 1986-87 on departments and budget-funded authorities, the appearance of FBT receipts under this function (with a full year effect in 1987-88).

CHART 2. ADMINISTRATIVE SERVICES
Composition - (1984-85 Prices)



Excluding common services applying user charging, FBT and the introduction of new compensation arrangements under this function in 1987-88 real outlays of other services increased by 6% a year over the nine years ended 1988-89.

Estimated real outlays increase in 1990-91 and fall in later years. This trend arises from:

- a decrease in Financial Affairs and Fiscal Administration owing mainly to a reduction in funding for interest on overpayments as the level of outstanding appeals against ATO tax assessments is reduced, and the impact of the redevelopment and re-equipment of ATO systems on which outlays are expected to peak in 1991-92 and decline thereafter;
- a peak in 1991-92 in the resource requirements of ABS to process the 1991 Census of Population and Housing;
- substantial growth in net superannuation outlays in 1990-91 resulting from the introduction of the new superannuation scheme for Commonwealth employees and payments associated with retrenchments, followed by a fall in 1991-92 when known and anticipated retrenchments of Commonwealth public servants are expected to conclude;
- a peak in 1990-91 in construction of Commonwealth office blocks;
- a decrease in 1990-91 and 1991-92 in outlays under Administrative Services—Other as a result of:
 - the wind-down of an operating subsidy being provided to ACS until 30 June 1991, and an expected increase in the balance of the ACS trust account from 1990-91;

- the one-off payment in 1989-90 to the TSG trust account for working capital (mainly to purchase additional vehicles), and a decline in the costs (mainly for voluntary retirements) associated with moving to a more commercial organisation;
- continued growth in FBT receipts from departments and budget-funded authorities.

MAJOR POLICY CHANGES

An important policy change under this function has been the progressive extension of user charging and commercialisation of common services agencies within the Administrative Services portfolio. A major development in this regard was the extension, in 1987-88, of user charging by TSG. User charging was extended in 1988 to cover services provided by ACS and the Australian Survey and Land Information Group (AUSLIG); and in 1989-90 to services provided by the Australian Property Group (APG) including office accommodation. User departments' budgets have been supplemented for the increased costs of these charges. A further step towards commercialisation was taken in July 1989 with APG, ACS and AUSLIG commencing operations under Group Two trust accounts. In the forward years user charging and the trust account mode of operation is to be extended to cover the Purchasing and Sales Group (PSG).

A major policy change affecting outlays in 1989-90 and the forward years is the redevelopment and re-equipment of ATO systems which will add \$150m to outlays between 1989-90 and 1991-92.

1988-89 OUTCOME

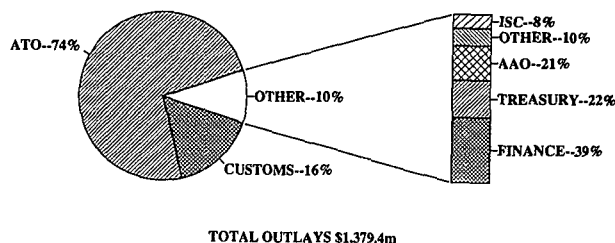
The major reason for higher than expected outlays in this function in 1988-89 (up \$177.3m or 7.4%) is the increase in the number of Commonwealth employees who were retrenched and who elected to receive a lump sum payment of superannuation entitlements on retrenchment (a net \$117.0m). In addition, there were higher outlays because of the voluntary redundancies of a large number of ACS staff (\$31.4m), lower than expected recovery of fees by the AUSLIG (\$12.3m) and higher than expected outlays under the TSG trust account (\$18.0m) due to accelerated deliveries of vehicles late in the year not offset by vehicle sales. ATO outlays on interest and overpayments also increased by \$19.0m. Those increases were partly offset by reduced ATO outlays on plant and equipment (-\$27.0m); reduced loan management expenses of the Treasury (-\$5.0m); reduced outlays on administration of the ACT (-\$8.7m), which reflects self-government from 11 May 1989; lower than expected compensation payments to Commonwealth employees (-\$9.8m); and by higher than expected collection of FBT from departments and budget-funded agencies (\$17.3m).

8E.1 FINANCIAL AFFAIRS AND FISCAL ADMINISTRATION

This sub-function provides for the running costs and other outlays of the Departments of the Treasury and Finance, the ATO, the Australian Customs Service excluding Coastwatch, the Australian Audit Office (AAO), the Insurance and Superannuation Commission (ISC) and a number of smaller agencies.

A breakdown of outlays according to the main agencies is shown in Chart 3 below.

Chart 3. FINANCIAL AFFAIRS AND FISCAL ADMINISTRATION
1989-90 OUTLAYS BY AGENCY



Trends

Outlays under this sub-function have grown at an average annual rate of 5.3% real over the nine years to 1988-89. The ATO has accounted for over 80% of that real increase. It has grown to meet increases in the size of the taxpayer population and to implement a range of measures designed to address tax avoidance and bring greater efficiency and equity in taxation administration. Growth in outlays of the Australian Customs Service has accounted for most of the remainder of the real outlays growth largely reflecting increases in 1982-83 when its functions were reconstituted in the then Department of Industry and Commerce.

The strong increase in outlays in 1989-90 reflects estimated resources for ATO's redevelopment and re-equipment project. This project will modernise ATO's operations to produce a more efficient and effective organisation. The project is estimated to cost \$1140m over 12 years and will result in savings of 3000 staff by the year 1998-99. Estimated 1989-90 outlays for ATO modernisation are \$160m, an increase of approximately \$152m on project outlays in 1988-89 (1989-90 outlays include funding for design work associated with the construction of a purpose-built computer centre for ATO).

The bulk of the remaining increases in 1989-90 under the sub-function covers price increases for administrative costs, the introduction of property operating expenses and user charging by the Department of Administrative Services for accommodation services; the full year effects of accommodation associated with previous ATO initiatives; and additional funding for the ATO to cover an expected increase in interest on overpayments as the level of outstanding appeal cases is reduced. Minor measures affecting the sub-function include the purchase in 1989-90 of a new surveillance vessel for the Australian Customs Service (\$1.9m), and additional resources for the ISC to administer the Reasonable Benefit Limits (\$2.7m in 1989-90 declining in later years).

Real outlays are estimated to fall by 1.9% a year over the forward years. This reflects slower growth for the ATO, mainly resulting from reduced requirements for funding associated with interest on overpayments as the ATO expects to reduce the level of outstanding appeals, and the impact of the ATO redevelopment and re-equipment project for which outlays peak in 1991-92.

The AAO's information technology is being upgraded over the period 1987-88 to 1990-91. This involves a major computer acquisition with an estimated cost of some \$20 million over the period.

8E.2 STATISTICAL SERVICES

This sub-function covers the statistical services for governments and the community delivered by the ABS.

Trends

Over the 9 years ended 1988-89 growth in real outlays averaged 3.2% a year under this sub-function. However, the ABS has a cyclical program of surveys which results in fluctuations in the level of outlays from year to year. The largest of these surveys is the Census of Population and Housing (the Census) which caused peaks in census processing years 1981-82 and 1985-86. A further peak is expected in 1991-92. The reduction in outlays in 1992-93 reflects the end of the main processing associated with the 1991 Census. To ensure the confidentiality of its data is maintained, the ABS is to upgrade its physical and communications security systems at a cost of \$2.1m over the period to 1991-92.

Major Policy Changes

The ABS is conducting a major review of its economic statistics strategy. The evaluation will assess the changes required to ABS statistical systems to ensure that government and the community continue to have available high quality and relevant economic statistics suitable for informed decision making, research and community discussion.

8E.3 ADMINISTRATION OF ACT NEC

Outlays under this sub-function include works and services in the ACT of a general nature that cannot readily be classified under other functions.

Trends

Historically outlays under this sub-function have been a relatively small part of total outlays under the function.

In 1984-85 they increased substantially reflecting the first major transfer of functions to the ACT from Commonwealth departments. Outlays increased again in subsequent years as further functions were transferred and as costs attributable to the ACT were allocated to the sub-function.

As noted in the Overview, outlays in 1989-90 are zero reflecting the advent of self-government for the ACT from 11 May 1989.

8E.4 ESTATE MANAGEMENT

This sub-function covers Commonwealth "landlord" responsibilities in relation to office accommodation. Included in this sub-function are the costs of management and development of the Commonwealth-owned estate, net of proceeds from disposals and the return to the Commonwealth on its investment.

Management responsibility rests with the Estate Management area of the APG and is funded by direct appropriation. (The other and larger arm of the APG, which provides services at commercial fees and operates under trust account arrangements, is included under Administrative Services—Other.)

Trends

Outlays under this sub-function can be substantially affected by large capital items such as construction or disposal of property. This has been evident since the mid-1980s with significant negative outlay results in 1986-87 (in particular) and 1987-88, returning to positive in 1988-89.

The main contributing factors were:

- a large rise in the level of property sales in 1986-87 when receipts increased almost five fold on the 1985-86 level. This was brought about by a specific government initiative to rationalise Commonwealth real property holdings by disposing of surplus or uneconomic properties. While fluctuating from year to year disposals have generally remained at a high level since 1986-87. (Major sales of Commonwealth office blocks in Sydney and Melbourne are reflected in *9D Asset Sales*.);
- the decision in 1983-84 to purchase ten new office blocks by annual instalments at a total cost then estimated at \$277.8m including those at Rockhampton, MacKay, Cairns, Fremantle, Dubbo, Port Pirie, Phillip Street—Sydney, Wollongong and Parramatta. Construction of these projects was completed by 1987-88 when payment by annual instalments began;

- the committal to construct new Commonwealth Offices in Melbourne (Casselden Place; \$194.2m over four years) and Sydney (Haymarket; \$170.7m over four years); and
- the introduction of charging in 1988-89 for design and construction supervision work provided by ACS (\$25.2m).

In 1989-90, outlays on Estate Management are estimated at -\$40.4m representing a \$76.5m decrease on the 1988-89 outcome. This mainly reflects increased real property sales of \$33.4m in 1989-90 and inclusion of the net return to the Commonwealth on its investment in the office estate (\$117.7m) within the sub-function. From 1989-90 users of Commonwealth-owned office accommodation must pay rent to APG (budget dependent users are being supplemented to meet these costs, thus transferring costs between this sub-function and other functions and sub-functions).

These reductions are offset by increases in outlays deriving from the Commonwealth's office construction program, in particular progress on new Commonwealth offices in Sydney (Haymarket) and Melbourne (Casselden Place) (\$79.2m in 1989-90) and fees for services to the Estate paid by the Estate Manager to the APG trust account established as part of the move to commercial arrangements (\$25.2m).

Budget Measures

As noted in the Overview, the Government has decided that Commonwealth offices will be constructed at Logan City, Hobart, Townsville and Alice Springs at a total cost of \$98.9m (\$9.9m in 1989-90).

In addition, acquisitions for Commonwealth office sites were approved for Bendigo and Ballarat at a total cost of \$2.6m.

The Government has decided to sell Gowrie Hostel in the ACT, a law courts site in Brisbane (Herschel St) and surplus land at Lady Davidson Hospital (Sydney) and not to extend the Commonwealth-State Land Exchange Agreement with the NSW Government. The estimates for 1989-90 allow for the recovery of the balance owing to the Commonwealth under the Agreement (\$18.9m).

In the 1988-89 Budget the Government agreed to a pre-commitment lease of a building for the Department of Social Security's national headquarters at Tuggeranong, ACT. A contract for the project will be signed in 1989-90 but there will be no impact on the budget until construction is completed and rental payments commence. This is expected in 1992-93.

8E.5 NET SUPERANNUATION PAYMENTS

This item covers part of the provision by the Commonwealth of comprehensive occupational superannuation schemes for employees and Members of Parliament. Benefits for former employees are provided under the *Superannuation Acts 1922 and 1976* and for former Members of Parliament under the *Parliamentary Contributory Superannuation Scheme 1948*. Payments to SA and Tas in respect of superannuation benefits for former railway employees are also covered.

Superannuation benefits for defence force personnel and former employees of agencies classified by the ABS as Public Trading Enterprises (PTEs) such as the Australian Postal and Telecommunications Corporations are excluded. Estimates, which include outlays, relating to the PTEs are shown in the Finance portfolio estimates in Budget Paper No 3, *Portfolio Program Estimates 1989-90*.

The figures shown are net of employer contributions by Commonwealth authorities, amounts paid into the Consolidated Revenue Fund from the Superannuation Fund and contributions by parliamentarians to their superannuation scheme.

Trends

Outlays increased by 18.3% a year (9.0% in real terms) over the nine years ended 1988-89, reflecting increasing numbers of beneficiaries and rates of pension benefits, including annual pension increases. Increasing employer superannuation contributions by a growing number of Commonwealth authorities have offset the growth in expenditure. In recent years, programs of staff retrenchments have contributed substantially to increased outlays. As most retrenchment benefits are paid as lump sums the effect does not carry into future years (indeed, for the most part, such lump sum payments, being forward superannuation commitments, would have been paid in the future).

Major Policy Changes

The Government has decided that those employers who already meet their share of employer funded benefits should pay the proportion of costs incurred by the Australian Government Retirement Benefits Office in administering the scheme on their behalf. The estimated decrease in outlays resulting from this change is \$6.5 million in 1989-90 and \$6.7 million a year in the forward years.

The ACT Government has decided to adopt the emerging cost method of meeting employer superannuation costs from 1 July 1989, rather than continue with the pay-as-you-go method that applied to ACT agencies prior to self-government. The estimated increase in outlays, under this sub-function, reflecting this decision is \$56.2m in 1989-90.

Forward estimates reflect the Government's decision to establish a new superannuation scheme for Commonwealth employees, giving members of the existing scheme an option to transfer to the new scheme. The new superannuation scheme is expected to increase outlays in the short term but provide net longer term savings in excess of 2% of salaries. Details of the new scheme will be announced shortly after the Budget.

Forward estimates also reflect the decisions by the Government:

- to allow government business enterprises to establish their own superannuation schemes;
- to restore the base for pension increase purposes of those pensions affected by the 2 per cent discount in the rate of increase applied in 1986-87 (announced in the April Economic Statement); and
- an expected increase in the number of pensions and average level of benefits payable.

8E.6 COMMONWEALTH EMPLOYEES' COMPENSATION

Outlays under this heading appeared for the first time in this function last year as a part year effect. Before the implementation of the *Commonwealth Employees' Rehabilitation and Compensation Act 1988* from 1 December 1988, compensation outlays were recorded against the administrative component of each function.

Commonwealth employees are eligible for workers' compensation for injuries or diseases arising from their employment. New "no fault" compensation arrangements introduced during 1988-89 embody incapacity payments related to income, limitations on access to common law, improved lump sums for permanent impairment and non-economic loss, and cessation of payments at age 65. Medical and other costs are met by the Commonwealth, including contributions towards the costs of home care. Increased emphasis on rehabilitation, workplace safety and improved case management is intended to assist incapacitated employees to return to suitable productive work as soon as practicable, thereby reducing the human and financial costs of work related injury.

Trends

Until December 1988, compensation outlays were recorded as part of the administrative costs of other functions. The 1987-88 annual report of the former Office for Commonwealth Employees' Compensation indicates that while the incidence of new claims appears to have stabilised at 59.9 claims per thousand employees, long term cases continue to increase in number and in cost. Over the period 1978-79 to 1987-88, compensation outlays increased by \$181m or 494% in nominal terms and \$137m and 169% in real terms.

The Government's compensation reforms, introduced during 1988-89, are designed to arrest this trend through better compensation management and rehabilitation initiatives as well as to remove anomalies such as payment of incapacity benefits beyond the maximum retiring age and doubling up of compensation and superannuation benefits. These initiatives should shorten average claim duration by providing extra assistance and incentives to return to work. Lower outlays in the medium to long term can therefore be expected. In the shorter term, estimates of outlays reflect existing claims. Moreover, outlays over the forward estimates reflect the additional costs of transitional arrangements which provided increases for almost all current employees and some former employees receiving compensation.

Outlays on administrative expenses associated with the compensation sub-function are expected to decline by \$5.8m from 1988-89 to 1989-90, reflecting reduced requirements after the initial costs of establishing the Commission for the Safety, Rehabilitation and Compensation of Commonwealth Employees (Comcare).

Major Policy Changes

From 1 July 1989, Comcare will implement a notional fully funded premium scheme. Under these arrangements, agencies will pay compensation premiums to the Consolidated Revenue Fund but Comcare will receive appropriations through the budget to meet compensation costs on an annual cash basis. Premium arrangements are designed to provide managers with financial incentives to improve compensation management, and hence reduce costs, by requiring managers to meet increased premium costs within current funding allocations. Conversely, managers may retain the benefit of reduced premiums. In the budget funded sector, one-off supplementation (to be reviewed in twelve months) will be provided to agencies' running costs base to meet the initial cost of Comcare's premium.

8E.7 ADMINISTRATIVE SERVICES—OTHER

8E.7		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Departments—						
Prime Minister and Cabinet	\$m	43.5	43.9	54.6	56.5	58.8
	%	-4.2	0.9	24.4	3.3	4.2
Arts, Sport, the Environment, Tourism and Territories	\$m	33.6	30.1	22.6	22.4	23.1
	%	73.2	-10.4	-25.1	-0.8	3.2
Immigration, Local Government and Ethnic Affairs	\$m	133.5	165.9	167.6	171.9	178.5
	%	17.6	24.2	1.0	2.6	3.8
Administrative Services	\$m	79.6	49.8	40.0	37.2	39.1
	%	-18.2	-37.5	-18.7	-7.0	5.1
Other	\$m	8.5	9.3	9.9	10.5	10.9
	%	21.0	8.6	7.3	5.1	4.6
Common Services—						
Printing and Publishing	\$m	-2.7	4.9	-0.8	-0.8	-0.7
	%	-124.7	n.e.	-118.4	-0.1	-13.1
Survey and Land Information	\$m	24.5	23.7	18.3	16.7	16.8
	%	-58.2	-3.1	-22.8	-8.9	0.6
Transport and Storage	\$m	-1.3	-20.7	-25.8	-29.5	-29.5
	%	-89.0	n.e.	24.4	14.4	0.1
Purchasing and Disposal	\$m	15.0	8.4	2.0	-1.4	-0.7
	%	9.8	-45.9	-78.1	-187.2	-60.2
Construction	\$m	80.2	35.1	-0.8	-22.5	-26.6
	%	-44.8	-59.2	-102.3	n.e.	18.1
Property	\$m	21.9	4.2	-4.9	-4.9	-4.9
	%	53.6	-118.2	16.4	-	-
FBT—Departments and Agencies	\$m	-132.3	-164.0	-172.2	-179.1	-186.3
	%	27.4	24.0	6.0	4.0	4.0
TOTAL	\$m	303.9	182.2	110.5	76.9	78.5
	%	-25.8	-40.0	-30.3	-30.4	2.1

This sub-function covers operational expenses of several departments and of common service providing agencies in the Department of Administrative Services. Receipts of FBT payments by budget-funded departments and agencies are also credited to this sub-function.

Departmental outlays under this sub-function relate to administration costs not elsewhere classified. This includes the Department of Prime Minister and Cabinet (State occasions and official hospitality, women's programs, the Ombudsman's Office and the Public Service Commission), the Department of Arts, Sport, the Environment, Tourism and Territories (administration of Territories), the Department of Immigration, Local Government and Ethnic Affairs (DILGEA) (migration and visitor-entry program and the granting of citizenship), the Department of Administrative Services, and administrative review bodies such as the Administrative Appeals Tribunal and the Administrative Review Council.

Common service agencies included are:

- the Australian Government Publishing Service (AGPS) which meets the publishing and printing requirements of Commonwealth government agencies;
- AUSLIG, responsible for survey mapping, geodesy, remote sensing and land information services and specialist advice to government on these matters;
- TSG which provides car hire (self-drive and car with driver), storage, freight and removal services for government and certain non-government clients;
- PSG which supplies non-property purchasing and disposal services to Commonwealth agencies;
- ACS which supplies planning, design, construction supervision, and repairs and maintenance services for the government as well as a range of public interest activities relating to the building and construction industry; and
- the property services arm of the APG which is responsible for a range of property services such as the provision of office accommodation and advice on the purchase and sale of property.

Trends

Outlays under this sub-function fluctuated from year to year but remained fairly steady in real terms from 1979-80 until 1987-88 when they began to decline, a trend which has continued since that time. Behind the reduction in outlays is the extension of user charging for various services. Under user charging arrangements the costs of the service are recorded under the functions to which the user agency is classified. Other factors in the reduction were the introduction, in 1986-87, of FBT to departments and budget-funded authorities, and the abolition of the Public Service Board in 1987.

Partially offsetting the above reduction are increased real outlays on migration, visitor-entry and citizenship programs of DILGEA. Real growth in outlays in 1989-90 reflects mainly further implementation of the recommendations of the Committee to Advise on Australia's Immigration Policies.

Major Policy Changes

Charging for AUSLIG and ACS services was introduced in January and July 1988 respectively. In July 1989, charging was introduced for property services provided by APG and at that time these three agencies moved their operations onto a commercial footing, with funding through Group Two trust accounts.

At inception, each of the trust accounts was provided with working capital. While these provisions will be drawn down at times during the year they are not expected to add significantly to outlays for 1989-90 as a whole.

The above three agencies are also each to receive budget appropriations for services to be provided to the government and the community for which fees cannot be readily charged. In 1989-90 the amounts are \$19.9m for AUSLIG (mainly to cover mapping and remote sensing functions), \$6.8m for ACS and \$4.6m for the APG.

ACS is also to receive budget funding to upgrade its technical computing capability (\$6.4m in 1989-90 and \$9.0m and \$2.9m in 1990-91 and 1991-92) and an operating subsidy (\$23.1m in 1989-90, reducing in 1990-91) to ease its transition to a more competitive commercial operation.

The reduction in outlays by the PSG in 1989-90 reflects the introduction of commercially-based charges for its services from 1 July 1989, before it begins operating as a commercial agency funded through a Group Two trust account in 1990-91.

The estimates for TSG largely reflect five elements:

- property rationalisation resulting in net receipts of \$24.0m in 1989-90, and \$6.0m in 1990-91;
- costs of voluntary redundancies as TSG restructures and consolidates to improve its commercial viability, \$19.2m in 1989-90 and \$10.1m in 1990-91 (the additional costs of superannuation payments are recorded under the Net Superannuation Payments sub-function);
- lower staffing costs resulting from the above redundancies (reductions of \$4.2m, \$11.6m, and \$14.0m in 1989-90, 1990-91 and 1991-92);
- a need for additional working capital mainly to cover a larger vehicle fleet (\$12m is appropriated in 1989-90, which will be supplemented by internally generated funds); and
- TSG's projected on-going performance which is expected to show a moderately increasing surplus over the period—TSG is to make a payment to the Budget, representing the return to the Commonwealth on capital employed (\$22m in 1989-90).

AUSLIG's estimates include \$6.2m in 1989-90 (\$5.3m in 1990-91 and \$6.0m in 1991-92) for its revision mapping program. The future of the program will be reviewed before the 1992-93 budget.

Additional funding of \$10.0m a year is being provided to the Public Service Commission in 1990-91 and subsequent years for development of skills in public sector management as an important element in the Government's handling of the award restructuring process in the area of Commonwealth employment.

Further implementation of the recommendations of the Committee to Advise on Australia's Immigration Policies will add to outlays in 1989-90 including:

- \$6.9m for the introduction of a new two-tiered system for reviewing appeals against immigration decisions;
- \$5.6m to complete the implementation of the new system for selecting migrants and determining resident and refugee status; and
- \$3.0m to establish a Bureau of Immigration Research.

\$5.7m (including \$0.6m in 1989-90) is being provided to the Office of Multicultural Affairs for a major community information campaign over the next three years. A further \$0.5m over three years is also being provided to the Administrative Review Council to examine the process of administrative decision making in a multicultural context.

FURTHER REFERENCES

Annual Reports, particularly those of the Departments of the Treasury; Finance; Prime Minister and Cabinet; Arts, Sport, the Environment, Tourism and Territories; Immigration, Local Government and Ethnic Affairs; Industrial Relations; Administrative Services and the Australian Taxation Office, Australian Bureau of Statistics, Australian Customs Service, Australian Government Retirement Benefits Office, the Australian Audit Office, and the Office of the Commissioner for Employees' Compensation.

Budget Paper No 2 Appropriation Bills

Budget Paper No 3 Portfolio Program Estimates 1989-90

Budget Related Paper No 5 Commonwealth Capital Works Program 1989-90 (in relation to construction and fitout of Commonwealth offices)

Budget Related Paper No 8 Portfolio Explanatory Notes for the abovementioned portfolios

Commission for the Safety, Rehabilitation and Compensation of Commonwealth Employees promotional material (available from Comcare State Offices)

Commonwealth Superannuation Scheme: A Report on the Long-Term Costs by the Australian Government Actuary, May 1986

Economic Statement April 1989: Restoration of Commonwealth Superannuation Scheme (CSS) Pension Base (page 88)

9. NOT ALLOCATED TO FUNCTION

This category covers outlays to the States, Territories and for local government that are not elsewhere classified, public debt interest outlays, a contingency reserve for prospective wage and salary increases and other uncertainties in the estimates, and the proceeds from asset sales.

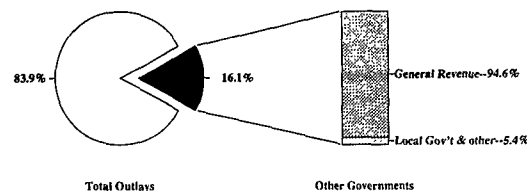
9A. ASSISTANCE TO OTHER GOVERNMENTS, NEC

OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
9A.1 General Revenue Assistance-- States and Territories	\$m	12972.8	13219.0	14016.1	14590.8	15145.3
	%	-9.0	1.9	6.0	4.1	3.8
9A.2 General Capital Assistance-- States and Territories	\$m	94.0	52.4	160.8	161.2	161.6
	%	-172.3	-44.2	208.9	0.2	0.2
9A.3 Debt Assistance - States and NT	\$m	50.7	50.6	50.5	50.4	50.3
	%	-2.0	-0.2	-0.2	-0.2	-0.2
9A.4 Assistance for Local Government	\$m	663.8	687.0	729.5	758.4	786.3
	%	3.5	3.5	3.2	4.0	3.7
9A.5 Trust Account Transactions - ACT	\$m	-280.9				
	%	n.a.	-100.0	n.a.	n.a.	n.a.
9A.6 Natural Disaster Relief	\$m	29.8	-17.0	-17.6	-14.6	-13.2
	%	n.a.	-167.0	3.8	-17.0	-9.7
9A.7 Other Assistance nec	\$m	75.3	14.2	55.4	57.2	59.3
	%	127.0	-116.8	n.a.	3.2	3.7
TOTAL	\$m	13605.5	13977.7	14994.8	15603.4	16189.5
	%	-8.3	2.7	7.3	4.1	3.8

- Total outlays for this function increase by \$372.2m or 2.7% in 1989-90 (-3.4% in real terms or -4.3% excluding assistance to the ACT, nec and some one-off ACT trust account transactions in 1988-89). The forward estimates project a real increase of 2.2% in 1990-91, and negligible real change thereafter.
- As illustrated in Chart 1, in 1989-90 Assistance to Other Governments, nec is estimated to account for 16.1% of total Commonwealth outlays, 0.5 percentage points less than in 1988-89 (excluding the ACT, they comprise 15.6% of total budgeted outlays in 1989-90, a fall of 0.6 percentage points):

CHART 1. ASSISTANCE TO OTHER GOVERNMENTS, nec
Proportion of Total Outlays and Function
1989-90



- General revenue assistance to the States and Territories dominates the function, accounting for 94.6% of outlays in 1989-90. General purpose assistance for local government, the next largest category, constitutes 4.9%.
- Excluding the effects of self-government for the ACT, growth in 1989-90 outlays largely reflects the forecast increase in the CPI in the year to March 1990, to which general revenue assistance to the States and Territories and general purpose assistance for local government are linked, net of savings measures.
- Savings measures have reduced outlays by \$617.9m relative to the previous published forward estimate of outlays under this function for 1989-90. These include:
 - a net \$550m from general revenue assistance to the States;
 - \$29.3m from general purpose assistance for local government;
 - \$21.3m from general purpose assistance to the ACT which is to be transferred to a trust account for the purpose of providing transitional assistance to the ACT in future years; and
 - \$17.3m from natural disaster relief because of the exclusion of drought as an eligible disaster.

- New policies add only \$25.2m to functional outlays in 1989-90. This occurs because the decision announced in the May Economic Statement 1988, that grants for local government in 1989-90 would be reduced by 90% of the additional revenue resulting from the removal of the exemption for Telecom and Australia Post from local government taxes and charges, has been revoked. The net savings in general purpose assistance for local government in 1989-90 therefore amount to \$4.1m.

PURPOSE

The Commonwealth aims to minimise vertical and horizontal fiscal imbalance between levels of government, consistent with achieving its overall macroeconomic policy objectives.

NATURE OF ASSISTANCE TO OTHER GOVERNMENTS, NEC

Outlays under this function include:

- general revenue grants and general purpose capital assistance to the States and Territories, and assistance to the States for the servicing of their debt;
- general purpose grants to the States and Territories for local government;
- natural disaster relief and restoration;
- other assistance to governments nec, including assistance to Tasmania related to the termination of the Gordon-below-Franklin hydro-electric scheme, a grant to the NT in lieu of uranium royalties, and assistance to the ACT to fund Canberra's role as the national capital; and
- for 1988-89 only, ACT Trust Account transactions and payments to the ACT in lieu of semi-government borrowings and, for 1989-90 only, reimbursement by the ACT of past Commonwealth land development costs.

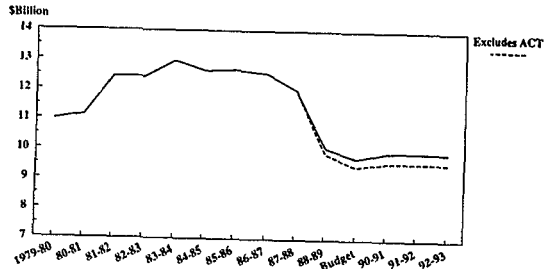
Although the ACT became a self-governing Territory only on 11 May 1989, it received general purpose assistance analogous to that provided to the States throughout 1988-89. Consequently, from 1988-89 onwards, general purpose assistance and specific purpose assistance to the ACT, nec are included under this function.

General revenue and general capital assistance represent 'untied' grants which State and Territory governments can spend according to their own budgetary priorities. Because local government is the constitutional responsibility of State and Territory governments, Commonwealth general purpose assistance for local government is classified as specific purpose or "tied" assistance to be passed on by State and Territory governments. Most specific purpose assistance to the States and Territories is classified elsewhere in this Statement under the relevant functional headings. A summary of total outlays to other governments is provided at the end of this section.

TRENDS IN ASSISTANCE TO OTHER GOVERNMENTS, NEC

Real growth has fluctuated significantly over the period since 1979-80 (Chart 2). From 1976-77 to 1984-85, the bulk of general revenue assistance consisted of tax sharing grants while guarantee arrangements provided a 'floor' to the annual level of each State's grant. Over the five years to 1984-85, real growth in outlays under this function averaged 3.0% a year. From 1985-86 to 1988-89, however, functional outlays (excluding the ACT) declined in real terms, falling by 5.5% a year on average. In 1985-86 the tax sharing arrangements for general revenue assistance to the States (and analogous arrangements for local government) were replaced by financial assistance grants linked to the CPI.

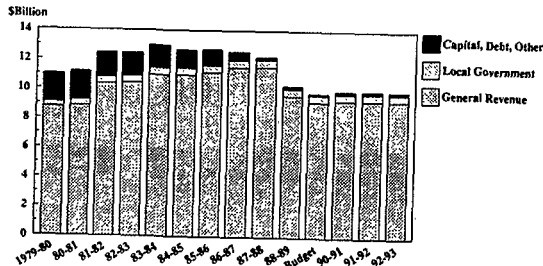
CHART 2. ASSISTANCE TO OTHER GOVERNMENTS, nec
(1984-85 prices)



ACT is included in the function from 1988-89 onwards

This change was accompanied by slower real growth in recurrent assistance. However, the bulk of the slowing in functional outlays from 1985-86 to 1987-88 came from significant real falls in general purpose capital grants to the States (Chart 3). The sharp decline in outlays under this function in 1988-89 reflects the conversion of identified health grants into (specific purpose) hospital grants; the former comprised approximately one-eighth of general revenue assistance from 1981-82 to 1987-88.

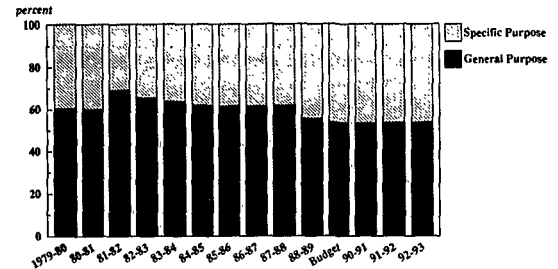
CHART 3. ASSISTANCE TO OTHER GOVERNMENTS, nec
(1984-85 prices)



excludes one-off ACT payments and repayments in 1988-89 and 1989-90.

As illustrated in Chart 4, the overall share of general purpose payments to the States as against specific purpose payments rose sharply in 1981-82, following the introduction of identified health grants. Thereafter, the share of general purpose payments declined slowly, largely reflecting the gradual conversion of general purpose advances into loans for public housing. In 1988-89, however, the general purpose share dropped significantly (from 61.7% in 1987-88 to 54.2% on a 'seven States' basis), following the termination of identified health grants.

CHART 4. GENERAL PURPOSE AND SPECIFIC PURPOSE PAYMENTS TO THE STATES



Excludes general purpose assistance for local government
Includes ACT from 1988-89

Because the changes in hospital and housing funding arrangements both commenced and ceased within the past decade, a valid comparison can be made between the beginning and the end of the period. Functional outlays on a 'seven State' basis comprise only 15.6% of total Commonwealth outlays in 1989-90, down from 22.4% in 1979-80, while the overall share of general purpose payments as against specific purpose payments fell from 60.4% in 1979-80 to an estimated 53.0% in 1989-90.

General purpose assistance to the States and Territories and for local government is determined annually at Premiers' Conference/Loan Council meetings. In the absence of forward funding commitments, the forward estimates of general revenue assistance to the States and Territories assume that these outlays are maintained in real terms (based on growth in the CPI in each year ending the March quarter). General purpose assistance for local government is projected to grow at the same rate as total general purpose payments (recurrent and capital) to the States.

MAJOR POLICY CHANGES

Over the decade to 1989-90, policy changes and budget measures have significantly affected functional outlays. Apart from the shift from tax sharing to financial assistance grants, and changes in health and public housing funding mentioned earlier, the transitional arrangements following self-government in the NT (from 1979-80) and, more recently, those related to self-government in the ACT, have increased functional outlays.

Removal of exemptions for Commonwealth Government business enterprises from State and local government taxes and charges has enhanced the revenue bases of State, Territory and local governments and permitted reductions in general revenue assistance. The full-year effect of the payroll tax adjustment in respect of general revenue assistance in 1988-89 amounts to an estimated \$194.5m. Moreover, general revenue assistance is expected to be reduced by a further \$70.7m in 1989-90 to reflect 90% of other State/Territory taxes and charges payable for the first time by Telecom, Australia Post and OTC Limited, and refinement of the previous payroll tax adjustment.

Strong growth in State own-source revenue over the past two years, combined with the macroeconomic imperative to reduce public spending in real terms, underlies the decisions of the 1988 and 1989 Premiers' Conferences to cut financial assistance grants. Including parameter effects, these savings are estimated to total \$1213.5m for 1988-89 and 1989-90.

Also, since 1988-89, special revenue assistance paid to the less populous States to assist their adjustment to revised Grants Commission relativities has been funded by reallocation of assistance between the States rather than by a separate addition to the total pool of financial assistance grants.

1988-89 OUTCOME

Outlays for this function exceeded the budget estimate by \$376.1m (2.8%).

Assistance to the ACT, nec was \$271.4m higher than estimated largely because of payment of the accumulated balance of the 1988-89 ACT Trust Account to the ACT and the impact of payments to the ACT from 11 May 1989, the date of self-government (see Statement No.7).

Assistance to the six States and the NT exceeded the budget estimate by \$104.7m. The main reasons were:

- the States' financial assistance grants were \$91.8m above the budget estimate due to the higher than forecast increase in the CPI in the year to March 1989 (\$85.5m) and lower than forecast payroll tax adjustment (\$6.3m); and
- outlays on natural disaster relief and restoration were higher than expected (\$11.9m) following the severe flooding in NSW and floods/cyclones in Qld during April and May 1989.

9A.1 GENERAL REVENUE ASSISTANCE TO THE STATES AND TERRITORIES

9A.1	1988-89 1989-90 1990-91 1991-92 1992-93				
	Actual	Budget	Estimate	Estimate	Estimate
9A.1.1 States and Northern Territory	\$m 12542.9	12824.7	13581.4	14138.2	14675.4
	% -12.0	2.2	5.0	4.1	3.8
9A.1.2 ACT	\$m 429.8	394.3	434.8	452.6	469.8
	% n.a.	-8.3	10.3	4.1	3.8
TOTAL	\$m 12972.8	13219.0	14016.1	14590.8	15145.3
	% -8.0	1.8	6.0	4.1	3.8

General revenue assistance to the States and Territories in 1989-90 is estimated to increase by 1.9% (-4.2% in real terms).

9A.1.1 GENERAL REVENUE ASSISTANCE TO THE STATES

9A.1.1	1988-89 1989-90 1990-91 1991-92 1992-93				
	Actual	Budget	Estimate	Estimate	Estimate
Financial Assistance Grants	\$m 12405.0	12779.4	13581.4	14138.2	14675.4
	% -12.7	3.0	6.3	4.1	3.8
Special Adjustment Assistance	\$m 88.0	45.3	-	-	-
	% n.a.	-48.6	-100.0	n.a.	n.a.
Program Transfer Assistance	\$m 49.9	-	-	-	-
	% 47.8	-99.8	-100.0	n.a.	n.a.
TOTAL	\$m 12542.9	12824.7	13581.4	14138.2	14675.4
	% -12.0	2.2	5.0	4.1	3.8

Commonwealth general revenue assistance to the six States and the NT comprises, in 1989-90, financial assistance grants, special adjustment assistance and program transfer assistance.

Financial Assistance Grants

The 1989-90 estimate of \$12779.4m reflects decisions made at the Premiers' Conference held on 18 May 1989, notably:

- the \$595m gross reduction from the forward estimate current at that time (see also 'Special Adjustment Assistance'); and
- adjustment of financial assistance grants for the forecast increase in the CPI in the four quarters ending March 1990.

The budget estimate also incorporates a reduction of \$68.8m which comprises:

- 90% of the estimated increase in State and Territory tax revenue attributable to the decision announced in May Economic Statement 1988 to remove the exemption for Telecom and Australia Post from State taxes and charges (other than payroll tax), effective 1 July 1989 (\$67.7m);

- the same exemption for OTC Limited was removed effective 1 April 1989, saving the Commonwealth \$0.8m; and

- further refinement of the 1988-89 payroll tax adjustment (\$0.3m).

An additional \$16.8m was deducted from the base level of financial assistance grants for 1989-90 to reflect the one month lag in payroll tax collections.

Special adjustment assistance amounting to \$88.0m and program transfer assistance of \$21.0m, provided in 1988-89, were added to the base level of financial assistance grants for 1989-90. Further details are provided below.

Special Adjustment Assistance

The distribution of financial assistance grants between the States in 1989-90 reflects the per capita relativities determined by the Commonwealth Grants Commission in its March 1989 update report. To ease the burden of adjustment on the NT, it was agreed at the Premiers' Conference that \$45m in special revenue assistance, drawn from within the pool of financial assistance grants, would be provided to the Territory. Like the financial assistance grants, this assistance will be adjusted to reflect the actual outcome for the CPI, to the extent that this differs from the forecast at the time of the Premiers' Conference.

In 1988-89, special adjustment assistance of \$88.0m was also funded from the pool of financial assistance grants. This comprised \$58.3m for the NT, \$16.5m for Tas \$10.4m for SA and \$2.8m for WA.

Program Transfer Assistance

A grant of \$26,000 is provided to NSW in 1989-90 as a carryover of the transfer of the Family Support Program from Commonwealth administration in 1988-89. This funding will be absorbed into the pool of financial assistance grants in 1990-91.

In 1988-89, program transfer assistance amounted to \$49.9m. Consistent with the decision taken at the 1988 Premiers' Conference, funding for the Family Support Program, the Vaccination Program, Royal Far West Children's Health Scheme and the Royal Queensland Bush Children's Health Scheme for 1989-90, amounting to \$21.0m, was included in financial assistance grants, while funding for the Miscellaneous Pharmaceutical Benefits program in 1989-90 is included in hospital grants (see function 3. *Health*). The Emergency Relief Program, however, has reverted to Commonwealth administration and has not been transferred to general revenue funding (see function 4. *Social Security and Welfare*).

9A.1.2 GENERAL REVENUE ASSISTANCE TO THE ACT

9A.1.2		1988-89 1989-90 1990-91 1991-92 1992-93				
		Actual	Budget	Estimate	Estimate	Estimate
General Revenue Grant	\$m	416.9	394.3	434.8	452.6	469.8
	%	n.a.	-5.4	10.3	4.1	3.8
Special Alignment Assistance	\$m	12.3	-100.0	n.a.	n.a.	n.a.
	%	n.a.	-100.0	n.a.	n.a.	n.a.
Program Transfer Assistance	\$m	0.6	-	-	-	-
	%	n.a.	-	-	-	-
TOTAL	\$m	429.8	394.3	434.8	452.6	469.8
	%	n.a.	-8.3	10.3	4.1	3.8

General Revenue Grant

Under transitional financial arrangements for the self-governing ACT, Commonwealth general purpose funding (including general revenue grants, general purpose capital funding and general purpose assistance for local government) is to be maintained in real terms until 1990-91 and moved to a basis similar to that of the States and the NT during the following two years.

The funding arrangements agreed at the 1989 Premiers' Conference provide for the difference between the notional budget estimate for the general revenue grant to the ACT (based upon the real terms guarantee), and the amount which reflects equivalent State treatment (\$16.3m), to be placed in the ACT Transitional Funding Trust Account. The principal and accrued interest will be available to assist the ACT during its transition to parity with State funding. The ACT Government may apply, over the next two years, to use funds held in this account for projects which will assist its transition (see also sub-functions 9A.2.2 and 9A.4).

The 1989-90 estimate of \$394.3m also reflects:

- adjustment of the general revenue grant for the forecast increase in the CPI in the four quarters ending March 1990;
- the inclusion of \$0.3m which was provided as program transfer assistance in 1988-89 in respect of the Family Support and Vaccination programs;
- a reduction of \$1.9m relating to the removal of the exemption for Telecom, Australia Post and OTC from State taxes and charges (other than payroll tax), together with an adjustment to the base level to allow for the one month lag in payroll tax collections (\$-0.5m); and
- adjustments to the base level of the general revenue grant for 1989-90 in respect of the transition to self-government:
 - a reduction of \$47.6m from the 1988-89 payment reflecting the decision of the ACT to shift from a 'pay-as-you-go' method of meeting employer costs of superannuation to an emerging cost payment method from 1 July 1989;
 - an increase of \$4.4m reflecting altered funding responsibilities between the Commonwealth and ACT Governments consequent upon the gazettal of National Land in the Territory;
 - an increase of \$11.4m relating to supplementation for the premium to be paid to Comcare for its handling of the ACT Government's workers' compensation claims (past years' expenditure on compensation had been removed from the base); and
 - an increase of \$4.5m for additional functions, not reflected in 1988-89 funding, that the ACT must perform (for example administrative review, and valuation and legal services—in some cases the additional functions may be provided by the existing Commonwealth agencies on an agency basis).

Special Alignment Assistance

In 1988-89 the ACT received special alignment assistance of \$12.3m which principally comprised the costs of establishing the ACT Fiscus, the first ACT election, and temporary assistance prior to the alignment of certain specific purpose payments with State arrangements during the year.

9A.2 GENERAL PURPOSE CAPITAL ASSISTANCE

The Commonwealth provides grants to the States to limit their need to borrow to finance capital works. The ACT, however, like the six States and the NT formerly, continues to receive loan assistance in addition to grants to finance its capital works program.

9A.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
9A.2.1	States and Northern Territory	\$m 29.4	3.0	103.5	103.9	104.3
		% -122.8	-80.8	n.a.	0.3	0.4
9A.2.2	ACT	\$m 64.5	49.5	57.3	57.3	57.4
		% n.a.	-23.4	15.9	..	..
	TOTAL	\$m 94.0	52.4	160.8	161.2	161.6
		% -172.3	-44.2	208.9	0.2	0.2

9A.2.1 GENERAL PURPOSE CAPITAL ASSISTANCE TO THE STATES

9A.2.1		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Capital Grants	\$m 310.5	310.5	310.5	310.5	310.5
		% 60.0	..	..	..	..
	Sinking Fund Receipts	\$m -281.1	-307.6	-207.0	-206.6	-206.2
		% -18.6	-8.4	-32.7	-0.2	-0.2
	TOTAL	\$m 29.4	3.0	103.5	103.9	104.3
		% -122.8	-60.0	n.a.	0.3	0.4

At its May 1989 meeting, Loan Council approved a capital grants program of \$310.5m for 1989-90, the same nominal level as in 1988-89. In 1989-90, the advances component of the State Governments' Loan Council Program and the related NT borrowing program which was nominated for public housing in 1988-89 (\$310.5m), is to be converted to Commonwealth grants under the Commonwealth State Housing Agreement. Further details are provided under function 5. *Housing and Community Amenities, nec.*

The estimate of sinking fund receipts in 1989-90 includes an amount of \$102m reflecting the decision of the SA government to retire outstanding debt. This follows similar repayments by SA of \$65m in 1988-89 and \$125m in 1987-88, and a repayment by NSW of \$8.3m in 1988-89.

9A.2.2 GENERAL PURPOSE CAPITAL ASSISTANCE TO THE ACT

9A.2.2		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
	Capital Grant	\$m 46.8	29.8	33.7	33.7	33.7
		% n.a.	-36.8	13.9	-	-
	Capital Advance	\$m 22.0	22.5	26.2	26.2	26.2
		% n.a.	2.3	18.6	-	-
	Repayment of ACT Loans	\$m -4.2	-2.6	-2.6	-2.6	-2.5
		% n.a.	-36.7	-0.8	-0.8	-0.9
	TOTAL	\$m 64.5	49.5	57.3	57.3	57.4
		% n.a.	-23.4	15.9	..	..

The 1989-90 estimate for general purpose capital assistance has been reduced by \$4.5m from the notional 'same real' estimate, with this amount being placed in the Transitional Funding Trust Account.

The 1988-89 payment under the grant component included \$9.8m as a one-off grant and \$7.9m as temporary assistance, prior to the alignment of certain specific purpose payments with State arrangements during the year.

As in the case of the States and the NT, the ACT's housing advance for 1988-89 (\$7.1m) is to be converted into grants under the Commonwealth State Housing Agreement in 1989-90.

9A.3 DEBT ASSISTANCE TO THE STATES

The Commonwealth makes payments to the National Debt Sinking Fund to assist the State and NT governments to redeem maturing debt incurred by the Commonwealth on their behalf.

The Financial Agreement of 1927 between the Commonwealth and the six States limits the borrowing powers of State governments and provides for the Commonwealth to borrow on behalf of the States. Although the Commonwealth has not borrowed on behalf of the six States (or the NT) since 1986-87, sinking fund contributions are required in respect of past borrowings.

Under the *Financial Agreement Act 1976* the Commonwealth makes a contribution in respect of the six States, equivalent to 0.28% of each State's net debt as at 30 June of the preceding year. Since 1985-86 the Commonwealth has also made a similar contribution each year into the NT sinking fund.

Assistance for the servicing of the States' debt in 1988-89 totalled \$50.7m. The budget estimate is \$50.6m and the forward estimates are marginally lower in nominal terms.

9A.4 GENERAL PURPOSE ASSISTANCE FOR LOCAL GOVERNMENT

9A.4		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
States and NT	\$m	652.5	675.3	716.7	745.4	773.1
	%	1.7	3.8	6.1	4.0	3.7
ACT	\$m	11.3	11.7	12.9	13.0	13.1
	%	n.e.	3.0	10.1	1.0	1.0
TOTAL	\$m	663.8	687.0	729.5	758.4	786.3
	%	3.5	3.9	6.2	4.0	3.7

The *Local Government (Financial Assistance) Act 1986* provides for general purpose assistance for local government to be passed on by the States and distributed according to criteria developed by the States' Local Government Grants Commissions. The ACT receives similar assistance for its municipal budget.

General purpose assistance for local government in 1989-90 is 3.5% higher than in 1988-89 (-2.6% in real terms). (This contrasts with general purpose assistance to the States and Territories, which is 1.6% higher than in 1988-89, or -4.5% in real terms.) However, whereas in 1988-89 a fixed amount was provided to the States, in 1989-90 grants will be adjusted according to actual movement in the CPI in the year to March 1990. The 1989-90 estimate of assistance for ACT local government functions has been reduced by \$0.5m, with this amount being placed in the Transitional Funding Trust Account.

9A.5 ACT TRUST ACCOUNT TRANSACTIONS

9A.5		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Payment of Balances	\$m	209.6	-	-	-	-
	%	n.e.	-100.0	n.e.	n.e.	n.e.
Revenue Transactions	\$m	-490.5	-	-	-	-
	%	n.e.	-100.0	n.e.	n.e.	n.e.
TOTAL	\$m	-280.9	-	-	-	-
	%	n.e.	-100.0	n.e.	n.e.	n.e.

1988-89 outlays include two specific transactions related to the ACT. The first reflects the payment to the ACT of trust account balances, nec as at self-government day (\$209.6m), while the second represents the amount of Commonwealth payments, classified to this function, that were paid to the ACT Trust Account prior to self-government (-\$490.5m). For an explanation of the operation of the ACT Trust Account in 1988-89, see Budget Statement No. 7.

9A.6 NATURAL DISASTER RELIEF

9A.6		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
Payments	\$m	62.0	15.0	13.0	13.0	13.0
	%	n.e.	-76.8	-13.3	-	-
Repayments	\$m	-32.2	-32.0	-30.6	-27.6	-26.2
	%	4.1	-0.7	-4.2	-9.8	-6.1
TOTAL	\$m	29.8	-17.0	-17.6	-14.6	-13.2
	%	n.e.	-167.0	3.8	-17.0	-9.7

Commonwealth assistance under the Natural Disaster Relief Arrangements (NDRA) aims to assist the States and Territories to 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.

From 1 July 1989 eligible disasters for Commonwealth assistance under the NDRA comprise bushfires, cyclones, earthquakes, floods and storms. In these cases, the Commonwealth reimburses at least 50% of State (Territory) payments intended to relieve personal hardship and distress. In addition, the Commonwealth has undertaken to assist when a State's total payments for those purposes in a financial year exceed its assessed financial capacity. Commonwealth assistance is then determined on a sliding scale relative to a base set annually at 0.225% of State annual general government sector revenue and grants two years earlier (the latest available data). Commonwealth assistance is on a \$ for \$ basis for State outlays up to 75% over the base amount, and \$3 Commonwealth to \$1 State thereafter.

Some Commonwealth assistance under the NDRA is provided as concessional loans. These loans are extended to individuals and business enterprises directly affected by natural disasters.

The 1989-90 NDRA payments estimate of \$15.0m is substantially lower than actual 1988-89 payments of \$62.0m, as are the forward estimates. Outlays in 1988-89 were well above average, because of severe flooding in NSW and floods/cyclones in Qld. The reduced 1989-90 estimate is calculated as an average of historical State outlays, taking into account the current financial assistance formula and expected payments arising from disasters which occurred in previous years. The main change to the assistance formula in 1989-90 is the exclusion of drought as an eligible disaster. The decline in repayments in 1989-90 reflects the repayment of substantial loans from previous years.

Other significant changes to NDRA introduced from 1 July 1989 are:

- the introduction of ceilings on the amount of Commonwealth assistance available in respect of single and aggregate loans and subsidies provided by each State/Territory;
- inclusion of the ACT; and
- abolition of early loan repayment arrangements.

9A.7 OTHER ASSISTANCE, NEC

Gordon-below-Franklin Compensation (Tas)

Under a Memorandum of Understanding signed in 1984, the Commonwealth pledged financial assistance to Tasmania to offset the effects on employment and electricity prices of the cessation of Stage II of the Gordon River Power Development. This assistance comprises \$45.2m for employment creation projects, which is expected to terminate in 1990-91, and an electricity subsidy payable from 1983-84 to 1992-93 in ten annual instalments of \$20m, indexed on January 1984 prices.

Total Gordon-below-Franklin compensation is estimated at \$33.6m in 1989-90 compared with \$31.1m in 1988-89, an increase of 8.1% (1.6% real). The forward estimates project nominal increases of 1.2%, 2.1% and 4.0% for 1990-91, 1991-92 and 1992-93 respectively.

Grant in Lieu of Uranium Royalties (NT)

Under the *Atomic Energy Act 1953*, the Commonwealth retains ownership and control of uranium in the NT. The Commonwealth does not, however, own and control uranium in the six States. Since this additional Commonwealth power in the NT deprives the NT government of royalties from uranium mining, the Commonwealth provides a grant in lieu, at the royalty rate of 1.25% of gross proceeds of sales (less minor deductions) applying at the time of self-government.

It is estimated that \$2.9m will be payable to the NT in 1989-90, as against \$3.2m in 1988-89. Forward estimates of this grant increase slightly.

This item was classified as a component of general revenue assistance in previous editions of Budget Paper No.1 and forward estimates reports. Similarly, 'Recreation Leave and Furlough Entitlements', paid to the NT from 1981-82 to 1986-87, has been reclassified from the 'General Revenue Assistance' sub-function to this sub-function.

Assistance to the ACT, nec

Payments to the ACT in 1988-89 included an advance in lieu of (off-budget) semi-government authority borrowings. Of the \$50.9m limit available, the ACT drew down only \$25.0m. From 1 July 1989, borrowings by ACT semi-government authorities are included in the 'global limits' arrangements on the same basis as Commonwealth and State semi-government borrowings. The ACT's 'global' borrowing limit for 1989-90 is \$39.5m.

In 1989-90 the ACT will receive an estimated \$17.0m for 'national capital influences'. The intention of this grant is to compensate for municipal cost and revenue disabilities (as identified by the Commonwealth Grants Commission) arising from the city's status as the national capital. The forward estimates are \$17.8m for 1990-91, \$18.6m for 1991-92 and \$19.3m for 1992-93.

The *ACT Self-Government (Consequential Provisions) Act 1988* requires the ACT to pay to the Commonwealth a reasonable amount as reimbursement of past development costs of land for which the ACT has already received the proceeds from lease sales, or which has been transferred to the ACT and is available for lease, or which is intended to be leased or used by the ACT for commercial purposes. The one-off payment by the ACT in 1989-90 is estimated at \$67.7m.

SUMMARY OF COMMONWEALTH OUTLAYS TO OTHER GOVERNMENTS

The table below provides an overview of total Commonwealth assistance to the States, Territories and local government authorities in 1988-89, 1989-90 and forward years.

	1988-89	1989-90	1990-91	1991-92	1992-93
	Actual	Budget	Estimate	Estimate	Estimate
States and Territories					
General purpose assistance					
General revenue	12972.8	13219.0	14016.1	14590.8	15145.3
General capital	379.3	362.6	370.4	370.4	370.4
Sub total	13352.1	13581.5	14386.5	14961.2	15515.7
Specific purpose assistance					
Education	4477.0	4961.4	5352.1	5604.0	5772.6
Hospitals	3103.9	3391.3	3626.4	3750.5	3920.2
Roads	1228.1	1344.7	1441.9	1441.9	1441.9
Housing	987.2	963.6	963.6	963.6	963.6
Local government general purpose	663.8	687.0	729.5	758.4	788.3
Debt assistance	50.7	50.6	50.5	50.4	50.3
Other	885.2	1094.3	1147.5	1184.3	1209.1
Sub total	11365.8	12492.8	13311.5	13753.1	14143.9
Total States and Territories	24717.9	26074.3	27698.1	28714.3	29659.6
Payments direct to local government	116.6	115.4	124.5	130.1	138.2
Gross payments to other governments	24864.5	26168.7	27822.6	28844.4	29797.8
Repayments	-444.8	-538.9	-374.6	-375.8	-370.6
Total outlays to other levels of government, net	24419.7	25660.9	27447.9	28468.8	29425.2

FURTHER REFERENCES

- Annual Reports and Explanatory Notes, Departments of Finance and the Treasury Budget Paper No. 4, Commonwealth Financial Relations with Other Levels of Government*
- Economic Statements April 1989 and May 1988*
- Economic Round-Up, June 1989, The Treasury, 1989-90 NDRA Determination of Terms and Conditions*
- Report on General Revenue Grant Relativities, 1989 Update Commonwealth Grants Commission*

9B. PUBLIC DEBT INTEREST

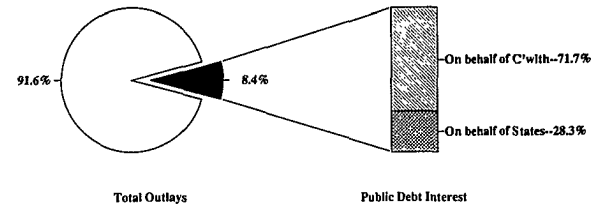
OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
9B.1 Gross Interest Payments-						
On the Commonwealth's Behalf	\$m	5369.8	5328.4	4525.7	3944.3	3573.3
	%	-8.2	-9.8	-15.1	-12.8	-9.4
On Behalf of the States and Territories	\$m	2082.5	2060.1	2042.1	2008.8	1934.5
	%	-1.2	-1.7	-0.9	-1.8	-3.7
Sub-Total Gross Interest Payments	\$m	7452.3	7388.5	6567.7	5953.2	5507.8
	%	-6.4	-8.9	-11.1	-8.4	-7.5
9B.2 Interest Received	\$m	-49.0	-106.6	-279.8	-400.1	-578.9
	%	-47.3	-181.8	-157.2	-43.0	-44.7
TOTAL	\$m	7403.2	7279.7	6288.0	5553.1	4929.0
	%	-5.9	-7.7	-13.6	-11.7	-11.2

- Outlays on Public Debt Interest (PDI) are expected to decrease by \$123.5m or 1.7% in 1989-90 (a 7.5% reduction in real terms). Budget measures to accelerate collections of some tax receipts and the assumptions underlying the forward estimates imply substantial real reductions in each of the three forward years.
- In 1989-90, as illustrated in Chart 1, PDI outlays are forecast to account for 8.4% of total Commonwealth outlays, compared to 9% in 1988-89.
- Interest on behalf of the Commonwealth, which accounts for about three quarters of PDI outlays, is expected to decline significantly as the Commonwealth continues to repay debt.

CHART 1. PUBLIC DEBT INTEREST

Proportion of Total Outlays and Function
1989-90



PURPOSE

Outlays on PDI service borrowings incurred by the Commonwealth on its own behalf and also on behalf of the States (under the Loan Council Program) and the Territories.

PDI outlays are largely determined by the longer-term borrowings from the private sector which the Commonwealth primarily incurred before it moved into surplus in 1987-88. However, PDI is also incurred because the flow of Commonwealth payments and receipts is not matched perfectly through the year: the Commonwealth issues short term securities in those quarters in which outlays and maturing debt exceed revenue. These short-term borrowings also facilitate the liquidity management task of the Reserve Bank.

NATURE OF PUBLIC DEBT INTEREST OUTLAYS

The main domestic components of PDI are interest payable on Treasury Bonds and the discount arising from the issue of Treasury Notes. In the case of Treasury Notes, the discount at which notes are issued represents the entire interest cost. Other components of PDI include interest payable on the Commonwealth's overseas debt, Australian Savings Bonds, Treasury Indexed Bonds, State domestic raisings and on other instruments such as Income Equalisation Deposits, and the net effect of any discounts and premiums arising from both the issue and the repurchase of long-term securities.

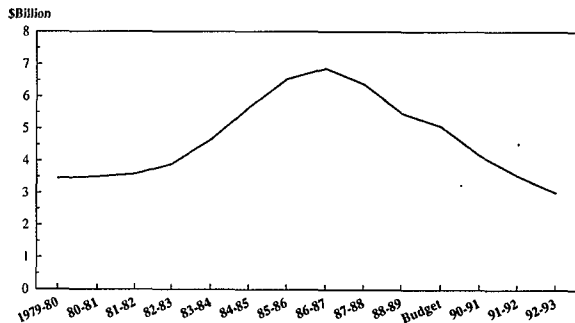
Payments of interest on the debt of State and Territory governments are treated as Commonwealth outlays. Reimbursement by the relevant governments of interest paid on these Commonwealth securities, together with interest reimbursement by the ACT on capital advances paid to it from 1 July 1988 onwards, is recorded as revenue under the heading 'Non-Taxation Revenue' (see Statement No.4, *Estimates of Revenue 1989-90*).

In addition, the Loan Consolidation and Investment Reserve (LCIR) is a Commonwealth trust account which receives interest on its investments in Commonwealth securities. Securities held by the LCIR are acquired through Special Loans, transactions in domestic securities with the Reserve Bank, and as a result of the repurchase of foreign currency securities where early redemption is not permitted by the terms of the loan agreements. In effect, the Commonwealth receives interest from itself and so the proceeds are offset against the original interest payments. Similarly, when other Commonwealth trust accounts receive interest on their holdings of Commonwealth securities, these amounts are deducted from PDI payments to arrive at PDI outlays.

TRENDS IN PUBLIC DEBT INTEREST

Chart 2 shows that real outlays on PDI grew slowly over the period 1978-79 to 1981-82 and then increased sharply between 1982-83 and 1986-87. Since then, PDI outlays have declined in real terms, reflecting the movement of the Commonwealth budget into surplus. Further real reductions in outlays are projected into the forward estimates period.

CHART 2. PUBLIC DEBT INTEREST
(1984-85 prices)



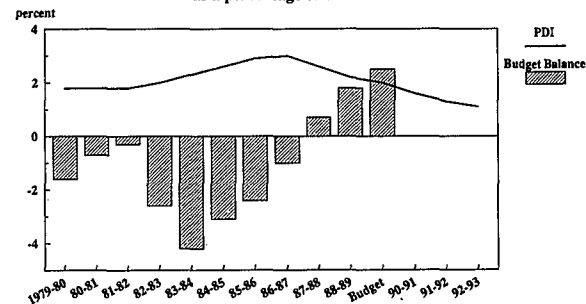
A number of factors contribute to variations in the level of PDI, including changes in:

- the volume of debt;
- the mix of debt instruments;
- the term structure of the debt;
- interest rates payable on that debt; and
- the exchange rate (affecting the \$A amount required to pay interest on foreign currency denominated debt).

The steady increase in PDI from 1978-79 to 1981-82 resulted principally from increases in nominal interest rates. The sharp rise in the budget deficit in 1982-83 and 1983-84 led to a substantial increase in the volume of debt on issue and hence to the growth in PDI. Higher average interest rates and depreciation of the \$A also influenced PDI outlays over this period.

Some indication of the relationship between PDI outlays and the budget outcome (and consequently the volume of debt) is provided in Chart 3.

CHART 3. PUBLIC DEBT INTEREST
AND BUDGET BALANCE
as a percentage of GDP



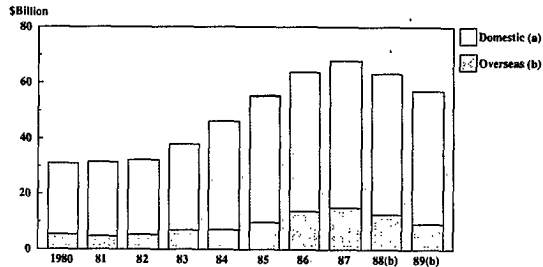
Between 1983-84 and 1986-87, the budget deficit declined in nominal terms and the pace of expansion of the volume of debt slowed. However, the total stock of debt, as a percentage of GDP, continued to expand until the end of 1985-86. Growth in PDI outlays also began to slow in 1985-86, but higher interest rates, the depreciation of the \$A and an increase in the issue of Treasury Notes in 1985-86 and 1986-87 contributed substantially to continued absolute growth in PDI over this period.

The movement of the budget into surplus in 1987-88 and the associated reduction in the volume of debt triggered a decline in PDI in that year. Other contributory factors included lower yields on Treasury Notes and lower interest payments on overseas loans.

Although Treasury Note yields increased subsequently, the decline in PDI continued in 1988-89 because the substantial budget surplus permitted a reduction in the stock of domestic Treasury Bonds and a substantial contraction in the volume of overseas debt.

An indication of the magnitude of overseas debt compared with the total stock of Commonwealth debt (domestic and overseas) is provided by Chart 4. The value of overseas debt reflects both changes in the volume of debt and movement of the \$A. Since 1987-88, the Commonwealth has been progressively repaying overseas debt. Because of this, fluctuations in the value of the \$A will in future have less influence on the value of overseas debt.

**CHART 4. COMPOSITION OF DEBT
at 30 June**



(a) excludes Internal Treasury bills
(b) excludes LCIR holdings of Dutch Guilder Securities

1989-90 and Forward Years

9B.1 GROSS INTEREST PAYMENTS

		1988-89	1989-90	1990-91	1991-92	1992-93
9B.1		Actual	Budget	Estimate	Estimate	Estimate
For Commonwealth-						
Domestic and Overseas	\$m	5329.8	5252.6	4418.6	3837.8	3467.1
Borrowings (a)	%	-8.0	-1.8	-15.0	-13.1	-9.7
Income Equalisation	\$m	1.3	5.4	40.8	40.8	40.8
Deposits	%	-22.0	n.a.	n.a.	-	-
Other	\$m	38.7	65.4	66.3	65.7	65.4
	%	172.7	71.0	-0.2	-0.8	-0.5
Sub-Total	\$m	5369.8	5328.4	4525.7	3944.3	3573.3
	%	-3.2	-0.8	-15.1	-12.8	-9.4
For States and Territories-						
Domestic and Overseas	\$m	2021.2	1992.0	1971.0	1938.0	1864.0
Borrowings (a)	%	-1.0	-1.4	-1.1	-1.7	-3.8
Savings Bank Agreements	\$m	60.6	64.0	64.0	61.0	58.0
	%	-7.3	3.6	-	-4.7	-4.9
Interest on Behalf of the ACT	\$m	-	5.4	6.4	9.2	11.9
	%	n.a.	n.a.	68.0	43.7	29.3
Other	\$m	0.7	0.7	0.7	0.6	0.6
	%	-2.7	-2.0	-3.1	-3.2	-3.5
Sub-Total	\$m	2082.5	2060.1	2042.1	2008.8	1934.5
	%	-1.2	-1.1	-0.9	-1.6	-3.7
TOTAL	\$m	7452.3	7388.5	6567.7	5953.2	5507.8
	%	-8.4	-0.8	-11.1	-9.4	-7.6

(a) Paid under the Commonwealth Inscribed Stock Act and the Loans Securities Act.

9B.2 INTEREST RECEIVED

		1988-89	1989-90	1990-91	1991-92	1992-93
9B.2		Actual	Budget	Estimate	Estimate	Estimate
Received on LCIR Holdings	\$m	-45.2	-108.0	-278.0	-399.0	-578.0
	%	-80.0	-156.4	-182.3	-43.5	-44.0
Other	\$m	-3.8	-2.9	-1.8	-1.1	-0.9
	%	43.3	-27.8	-38.3	-38.9	-18.0
TOTAL	\$m	-49.0	-108.8	-279.8	-400.1	-578.9
	%	-47.3	-121.9	-157.2	-43.0	-44.7

The 1989-90 estimate of \$7279.7m is \$123.5m below the 1988-89 outcome (-7.5% in real terms). The estimate is influenced by assumptions of higher average yields on Treasury Notes than in 1988-89 and an exchange rate slightly below its level at the end of that year. However, with the Commonwealth budget continuing in substantial surplus, these influences are more than offset by the reduction in interest paid resulting from a further program of net debt redemption.

PDI will also be lower as a net result of the Government's decision to maintain a lower level of cash balances and by earlier collection of company tax and PAYE income tax revenue, partly offset by the impact of the decision to increase the threshold for quarterly provisional tax.

The estimate for interest paid on Income Equalisation Deposits increases from \$1.3m in 1988-89 to \$9.4m in 1989-90, with a further increase in the forward years, following the introduction from 1 July 1989 of a new tax-linked scheme for primary producers.

PDI outlays are expected to continue to decline significantly in real terms over the forward estimates period. As Chart 2 shows, by 1992-93 PDI outlays in real terms are projected to have returned to the level of 1979-80. This reflects:

- continuing debt repayment on the assumption of further budget surpluses throughout the forward estimate period;
- some decline in nominal interest rates as inflation moderates, especially from 1990-91 onwards;
- the assumption that exchange rates remain broadly unchanged from the level at the start of 1989-90; and
- the further impact of Budget measures to accelerate company tax and PAYE receipts.

MAJOR POLICY CHANGES

As noted, the major influences on PDI are the size of the net Public Sector Borrowing Requirement and the level of interest rates. However, over the period since 1979-80 there have been a number of important changes in the way in which the Commonwealth has managed its debt portfolio which have also helped to minimise PDI costs. These include:

- adoption of a tender system whereby the Commonwealth allows the market to set the price for securities, taking into account the volume and coupon that have been pre-determined by the Commonwealth;
- better targeting of the financial markets when issuing the Commonwealth's debt, by utilising two key instruments: Treasury Bonds (for long-term funding requirements) and Treasury Notes (principally for within-year funding requirements); and
- taking advantage of the flexibility offered by swap transactions to influence the composition of the Commonwealth's overseas debt and to minimise expected costs.

In addition, the accounting treatment of discounts and premiums on Treasury Notes, Bonds and overseas loans has changed, with a significant impact on PDI. In 1988-89, for the first time, discounts and premiums on Bonds and overseas loans were treated as outlays rather than as financing transactions (with the recording of previous years' outlays changed to reflect the new treatment). This treatment more correctly reflects their impact on the cost of debt. All discounts are recorded at redemption with premiums being recorded at issue.

1988-89 OUTCOME

In 1988-89 PDI outlays were \$251.5m (-3.3%) lower than the budget estimate. This reflected:

- a lower than expected volume of Treasury Notes issued, due particularly to a smaller first-half deficit and thus a more muted seasonal pattern of budget financing needs than assumed;
- lower interest payments on overseas loans due to both higher than assumed exchange rates for most of 1988-89 and higher interest savings on overseas repurchases;
- lower interest on Australian Savings Bonds due to higher than anticipated early redemptions; and
- the repurchasing of long-term domestic debt at significant discounts.

These reductions were partly offset by higher Treasury Note yields than had been expected and by the premiums paid on overseas debt repurchases.

FURTHER REFERENCES

- Budget Related Paper No.1, Government Securities on Issue at 30 June 1989*
- Budget Paper No.2, The Commonwealth Public Account 1989-90*
- Economic Round-Up, November 1988, The Treasury*

9C. CONTINGENCY RESERVE

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
9C Contingency Reserve	\$m	-	110.0	840.0	1285.0	1700.0
	%	n.a.	n.a.	n.a.	53.0	32.3

The Budget and forward estimates include a contingency reserve which allows for uncertainties in the estimates relating to:

- wage and salary awards;
- minor and medium works projects and other accommodation costs;
- changes in the level of spending on existing government policy resulting from unforeseen events; and
- the effects of parameter revisions for the forward estimates that have not yet been factored into program estimates.

1989-90 and Forward Years

In line with the practice adopted in previous budgets the Contingency Reserve includes provision for changes in wages and salary rates during the course of 1989-90 and the forward years for departments and budget-funded statutory authorities. This provision is included in the budget estimates but is not appropriated, following the convention of appropriating for wages and salaries at rates consistent with those applying at the time the Budget is prepared. In 1989-90 it constitutes 0.1% of total outlays.

The assumptions used to calculate the provisions for wages and salary increases for 1989-90 and the forward years are set out in *Part I. Overview of Budget Outlays*. A separate provision is made in the *1. Defence* function for expected wage and salary increases for civilian and defence force personnel.

Also included in the reserve for 1989-90 is a **negative** allowance for the one-off effect of expected underspends by departments of amounts appropriated to them to pay for design and construction services provided by the Department of Administrative Services. The underspend is expected because bills for services provided in June 1990 will not be paid until July 1990. As the amounts to be paid by departments during the year will depend on the rate of progress of different design and construction projects, it is difficult at this stage to predict which departments will underspend.

For the forward estimate years there are four further elements included in the reserve which cannot be allocated across functions at this time. These are:

- An allowance for property expenses, including medium and minor works, new leases and fitout and rent revisions, which relate to the delivery of existing programs. While these works occur each year the amounts involved for each department vary according to emerging needs, and are subject to formal approval by the Government. While they therefore cannot be included in the forward estimates as on-going policy, an allowance is included to avoid a downward bias.
- An allowance for drift in the cost of existing policy. The forward estimates as a whole tend to be conservative and understate the growth in outlays. Consequently, since 1987 they have included a general reserve to allow for revisions to the estimated cost of delivering existing policies (excluding revisions arising from decisions and parameter movements). This allowance increases over time through both the flow-on effects to subsequent years of revisions and the fact that greater uncertainties surround the later years' estimates. Experience suggests that this drift amounts to around 0.5% in the first year, with a further cumulative 0.25% in each following year. Overall an allowance of \$450m in 1990-91, \$700m in 1991-92 and \$950m in 1992-93 has been included in the forward estimates for drift and slippage in estimates.

- An allowance for the expected savings that will arise from the decision to maintain the efficiency dividend on departmental running costs beyond 1989-90. These savings are estimated to amount to around \$60m in 1990-91, \$120m in 1991-92 and \$180m in 1992-93. As the actual allocation of the dividend has not been determined, these adjustments have been made by way of a negative allowance for those years. The reserve will be adjusted upwards once the efficiency dividend has been allocated.
- An allowance for parameter revisions to the forward estimates years decided upon close to the 1989 Budget which could not be incorporated into the detailed forward estimates in time for publication in this Statement.

1988-89 Outcome

The Contingency Reserve for 1988-89 consisted of \$130m with provision for wages and salary increases, allowance for 3% superannuation benefits and a negative allowance for administrative underspends.

A small saving against the budget estimates was achieved because of lower than expected costs arising from National Wage Case decisions, involving later than assumed commencement dates and lower than expected wage increases. This saving was offset by unexpected costs arising from public service retrenchments and higher than expected carry-forwards from 1989-90 under running costs arrangements.

9D. ASSET SALES

OVERVIEW

		1988-89	1989-90	1990-91	1991-92	1992-93
		Actual	Budget	Estimate	Estimate	Estimate
9D Asset Sales	\$m	-538.2	-1200.0	-800.0	-	-
	%	-48.2	-122.0	-33.3	-100.0	n.a.

- Proceeds from major asset sales, which are classified as an offset to outlays, are expected to more than double in 1989-90, compared with 1988-89, mainly reflecting the receipt this year of the bulk of the proceeds from the sale of the Defence Service Homes mortgage portfolio and the associated right to provide new DSH loans in future.
- estimated receipts in 1989-90 are also somewhat higher than the \$1058.7m realised in 1987-88, when this activity commenced.
- The Government has announced a further program of major asset sales, most of which are expected to be finalised in 1990-91.
 - programs for subsequent years have yet to be determined.

PURPOSE

This sub-function incorporates the sale of major assets whose retention by the Commonwealth can no longer be justified in the public interest. The proceeds from such sales have contributed significantly to the Government's ability to retire public debt, thereby reducing its on-going interest commitments in future.

The amounts shown above are additional to the proceeds derived from the normal on-going Property Disposals Program of the Department of Administrative Services—see 8E. *Administrative Services*.

The Government has established a small Commonwealth Task Force on Asset Sales within the Department of Finance to handle most of the major asset sales which are "out of the ordinary" and also to monitor/oversight progress with certain other major asset/property sales for which other Departments such as Administrative Services and Defence have the primary responsibility.

All of the sales that the Task Force has been involved in have yielded more than was originally expected.

SUMMARY OF MAJOR ASSET SALES

The following table shows the proceeds already received from particular asset sales and, where applicable, the further proceeds expected to be received this year, together with an aggregate estimate of the possible proceeds from the further major asset sales announced in the 1989-90 Budget, most of which are expected to be finalised in 1990-91.

	1987-88	1988-89	1989-90	1990-91	Total
	Actual	Actual	Estimate	Estimate	
	\$m	\$m	\$m	\$m	\$m
Tokyo Embassy Sale/Re-development Project	606.8	-	-	-	606.8
Lease on Chifley Square, Sydney	306.0	-	-	-	306.0
Williamstown Dockyard	66.9	1.2	-	-	68.1
Commonwealth Phosphate Rock Stockpile	25.2	20.0	-	-	45.2
Commonwealth Government Centre, Melbourne	20.0	15.0	-	-	35.0
Paris Head of Mission Residence	15.5	-	-	-	15.5
Commonwealth Accommodation and Catering Services Ltd	14.8	3.2Dr	0.4Dr	0.6Dr	10.6
Commonwealth Equity in PIBA	2.5	-	-	-	2.5
National Materials Handling Bureau	1.0	5.1	2.2	-	8.3
Defence Service Homes Scheme	-	500.1	1015.7	-	1515.8
Australia House, Sydney	-	-	35.5	-	35.5
Avalon Airfield	-	-	15.0	-	15.0
Surplus Military Equipment	-	-	0.6	-	0.6
Other Defence assets	-	-	8.5	-	8.5
Tokyo Embassy Land Required for Road Widening	-	-	-	-	-
Newington Armament Depot	-	-	-	-	-
Anzac Rifle Range	-	-	-	-	-
Cockatoo Island Dockyard	-	-	-	-	-
Moombe-Sydney Gas Pipeline, etc	-	-	-	-	-
Housing Loans Insurance Corporation	-	-	122.9	800.6	923.5
Commonwealth Uranium Stockpile	-	-	-	-	-
New Defence Force Home Loans Scheme	-	-	-	-	-
Commonwealth Home Loan Schemes in the ACT	-	-	-	-	-
Surplus Land at Brisbane Airport	-	-	-	-	-
TOTAL	1058.7	538.2	1200.0	800.0	3596.9

3.342

Progress with sales previously announced but not finalised in 1988-89 is outlined briefly below:

Defence Service Homes Scheme

The Government announced in 1987 that the existing Defence Service Homes (DSH) mortgage portfolio and the right to provide new DSH loans would be sold to the private sector, with an on-going interest subsidy to reflect the concessional rates of interest that are paid by borrowers under the DSH scheme. The successful purchaser was Westpac Banking Corporation. The Commonwealth Task Force on Asset Sales successfully concluded the detailed contract negotiations with Westpac in late 1988.

Westpac commenced accepting new DSH loan applications as from 19 December 1988 and the existing DSH mortgage portfolio was progressively vested in Westpac on a State-by-State basis between 15 January and 15 April 1989.

Westpac paid a premium of \$100m to the Commonwealth in addition to the agreed total face value of the DSH mortgage portfolio (\$1383.0m). Interest totalling \$32.7m was also paid on that part of the total consideration which was held over for payment early in July 1989. An amount of \$0.1m of pre-paid interest from borrowers deducted from the amount owed by Westpac was credited to sale proceeds from the DSH Trust Account. This produced an overall total of \$1515.8m from this sale. Of this amount, \$500.1m was paid in 1988-89 and \$1015.7m was received early in July 1989.

Details of the on-going interest subsidy arrangements are included under 5.3 *Defence Service Homes*.

Major Defence Properties

The sale of Cockatoo Island Dockyard and part of the Newington Armament Depot in Sydney were delayed for a variety of reasons. The latter project is now expected to be finalised in 1989-90.

Anzac Rifle Range, Sydney

This project has been delayed because of legal complications but is now expected to go ahead and be completed in 1989-90.

Australia House, Sydney

The sale of Australia House in Sydney has been agreed with the successful purchaser. Proceeds will be received early in 1989-90.

Other Defence assets

The surplus Defence land and buildings identified in the 1988-89 Budget, proceeds from the sale of which were to be shared between the Budget generally and Defence, were not sold in that year for a variety of reasons. With the exception of Schofields Aerodrome in New South Wales, they are now expected to be sold in 1989-90. It has been decided to delay the sale of Schofields Aerodrome pending a decision on its future use as an airfield. The proposal to sell equity in Aerospace Technologies of Australia Pty Ltd (ASTA) was deferred to allow that company to consolidate its financial position. The Government has decided that equity in the operating divisions of ASTA should be sold as they become attractive to the market.

3.343

PROPOSED MAJOR ASSET SALES IN 1989-90 AND 1990-91

The Government has decided to undertake a further major asset sales program over the next two years—encompassing, in particular, the sale of Avalon Airfield to ASTA, on terms and conditions to be agreed; the Anzac Rifle Range in Sydney; part of the Newington Armaments Depot in Sydney; further Embassy land in Tokyo, which is required for road-widening purposes; the Moomba to Sydney gas pipeline and associated links to Wagga Wagga, Canberra, Bathurst, Orange, Lithgow and Oberon operated by The Pipeline Authority; the business of the Housing Loans Insurance Corporation; the Commonwealth uranium stockpile; the proposed new housing loan assistance scheme to be introduced in 1991 for still serving members of the Defence Force who enlisted after 14 May 1985; the portfolio of mortgages outstanding under two previous, now defunct, Commonwealth housing loan assistance schemes in the ACT; and the surplus land at Brisbane Airport which was recently returned to the Commonwealth by the Federal Airports Corporation following the closure of the old domestic terminal.

The proposed sale of the former Commonwealth housing loan assistance schemes in the ACT will be arranged in such a way as not to affect the existing contractual rights and obligations of mortgagors.

In all, this new program of major asset sales is estimated to yield at least \$900m, most of which is expected to be received in 1990-91. To protect the Commonwealth's negotiating position, no estimates are provided for individual sale proposals yet to be finalised.

STATEMENT 3—STATISTICAL APPENDIX

INTRODUCTION

Eleven tables are presented in this appendix covering outlay transactions of the Commonwealth Budget Sector. The statistical appendix to Statement 7 covers the transactions of all Commonwealth entities and in some tables non market activities (referred to as "general government").

Statement 7 provides a definition of the Commonwealth Budget sector and terminology employed to describe transactions in these tables, in particular definitions of the terms of outlay and revenue and explanation of the functional and economic type classifications.

A list of the tables in this appendix are provided below. The period covered in the tables is from 1979-80 to 1992-93 except for the Tables III, IV, VIII and IX that only extend to the Budget year and Tables X and XI that only cover the Budget year.

Tables:

Table I	Commonwealth Budget Outlays by Function
Table II	Commonwealth Budget Outlays by Function—Annual Percentage Change
Table III	Commonwealth Budget Outlays by Function (1984-85 Prices)
Table IV	Commonwealth Budget Outlays by Function—Annual Percentage Change (1984-85 Prices)
Table V	Commonwealth Budget Outlays by Function as a Proportion of Total Budget Outlays (percent)
Table VI	Commonwealth Budget Outlays by Function and Sub-function
Table VII	Commonwealth Budget Outlays by Economic Type
Table VIII	Commonwealth Budget Domestic Outlays by Economic Type
Table IX	Commonwealth Budget Overseas Outlays by Economic Type
Table X	Portfolio Outlays by Major Function
Table XI	Portfolio Outlays by Major Economic Type

Table I—Commonwealth Budget Outlays by Function (\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
OUTLAYS														
1. Defence	2965	3490	4054	4701	5298	5938	6673	7209	7422	7780	8327	9106	9772	10371
2. Education	2556	2870	3268	3718	4086	4518	4916	5218	5714	6044	6668	7274	7884	7956
3. Health	3190	3641	2911	3425	4412	6143	6690	7517	8311	10790	11778	12069	14046	15241
4. Social Security and Welfare	8783	9015	11478	14086	16418	17848	19215	20626	22570	23802	26334	28589	30116	31519
5. Housing and Community Amenities nec	350	421	508	812	1118	1370	1480	1678	1386	1239	1419	1422	1377	1396
6. Culture and Recreation	336	421	505	546	637	776	919	971	1056	1078	1081	1139	1170	1113
7. Economic Services														
A. Transport and Communication	820	1003	1225	1815	1790	1949	1853	1729	1725	1723	1554	1559	1551	1506
B. Industry Assistance and Development	957	1119	1335	1559	1553	1818	2001	1829	2203	2031	2114	2081	1839	1658
C. Labour and Employment	280	355	434	659	1137	1192	1102	1101	1116	1080	1231	1267	1326	1348
D. Other Economic Services	98	139	162	211	215	250	217	255	239	326	217	308	326	322
Total Economic Services	2155	2817	3156	4244	4694	5208	5173	4915	5282	5190	5115	5215	5042	4843
8. General Public Services														
A. Legislative Services	82	113	135	190	200	309	356	485	577	418	386	323	319	331
B. Law Order and Public Safety	221	247	290	363	429	475	543	603	657	698	830	847	848	878
C. Foreign Affairs and Overseas Aid	716	803	927	1041	1156	1290	1340	1313	1380	1551	1564	1642	1707	1746
D. General Scientific Research nec	285	312	384	430	443	450	481	516	516	523	582	620	640	664
E. Administrative Services	832	902	1155	1289	1436	1690	1872	2127	2257	2574	2485	2962	2719	2619
Total General Public Services	2117	2486	2890	3313	3664	4214	4592	5044	5387	5795	5846	6124	6233	6237
9. Not Allocated to Function														
A. Assistance to Other Governments nec	7100	7971	9908	10991	12253	12658	13587	14437	14830	13906	13678	14995	15603	16190
B. Public Debt Interest	2229	2501	2850	3444	4389	5645	6995	7881	7895	7403	7260	6288	5553	4929
C. Contingency Reserve	-	-	-	-	-	-	-	-	-	-	110	840	1285	1700
D. Asset Sales	-	-	-	-	-	-	-	-	-1059	-538	-1200	-800	-	-
TOTAL OUTLAYS	31758	36313	41528	49277	59066	64319	70439	75496	78764	82128	86753	93161	97880	101495

3346

Table II—Commonwealth Budget Outlays by Function—Annual Percentage Change

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
OUTLAYS														
1. Defence	15.4	17.7	16.2	16.0	12.7	12.1	12.4	8.0	3.0	4.8	7.0	9.4	7.3	6.1
2. Education	3.0	12.3	13.9	13.7	10.0	10.6	8.8	6.1	9.5	5.8	10.7	8.8	5.6	3.5
3. Health	9.0	14.9	-20.1	17.7	28.8	39.2	12.2	9.1	10.6	29.8	3.2	10.1	8.3	8.5
4. Social Security and Welfare	8.5	12.9	15.8	22.7	16.8	8.7	7.7	7.3	9.4	5.5	10.6	8.6	5.3	4.7
5. Housing and Community Amenities nec	-30.8	20.5	20.5	59.9	37.5	22.8	8.0	13.4	-17.4	-10.6	14.3	0.4	-3.2	1.4
6. Culture and Recreation	12.2	25.3	19.9	8.2	16.7	21.7	18.5	5.6	8.8	2.0	0.3	5.4	2.7	-4.8
7. Economic Services														
A. Transport and Communication	11.8	22.3	22.2	48.2	-1.4	8.9	-5.0	-6.7	-0.3	-0.1	-9.8	0.4	-0.5	-2.9
B. Industry Assistance and Development	18.1	17.0	19.2	16.8	-0.4	17.0	10.2	-8.6	20.4	-7.8	4.1	-1.8	-11.6	-0.3
C. Labour and Employment	-10.1	26.7	22.1	51.8	72.6	4.9	-7.6	0.0	1.3	-3.2	13.9	3.0	4.6	1.7
D. Other Economic Services	41.7	41.8	16.5	29.9	1.9	16.5	-13.2	17.4	-6.1	36.5	-33.4	41.7	5.9	-1.2
Total Economic Services	12.0	21.4	20.6	34.5	10.6	11.0	-0.7	-5.0	7.5	-2.3	20.9	1.9	-3.3	-3.9
8. General Public Services														
A. Legislative Services	13.2	37.5	19.3	40.8	5.0	54.7	15.1	36.1	19.1	-27.6	-7.7	-16.3	-1.1	3.7
B. Law Order and Public Safety	17.6	11.5	17.4	25.5	18.0	10.8	14.2	11.1	8.9	6.3	18.8	2.1	0.1	3.4
C. Foreign Affairs and Overseas Aid	10.8	12.1	15.5	12.3	11.1	11.6	3.9	-2.0	5.1	12.5	0.8	5.0	4.0	2.3
D. General Scientific Research nec	17.1	17.7	23.1	12.0	3.1	1.5	6.9	7.4	-0.1	1.3	11.2	6.8	3.3	3.8
E. Administrative Services	9.7	19.2	16.4	11.7	11.4	17.9	10.8	13.6	6.1	14.0	-3.5	8.4	1.0	-3.7
Total General Public Services	11.9	16.5	17.2	14.6	10.6	15.0	9.0	9.8	6.8	7.0	3.4	4.8	1.8	0.1
9. Not Allocated to Function														
A. Assistance to Other Governments nec	8.0	12.3	24.3	10.9	11.5	3.3	7.3	6.3	2.7	-8.3	2.7	7.3	4.1	3.8
B. Public Debt Interest	13.8	12.2	14.0	20.8	27.4	28.6	23.9	12.7	-0.2	-5.9	-17.7	-13.6	-11.7	-11.2
C. Contingency Reserve	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.
D. Asset Sales	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	-	-
TOTAL OUTLAYS	8.7	14.3	14.4	18.7	15.6	12.9	9.5	7.2	4.3	4.3	5.6	7.4	5.1	3.7

3347

Table III—Commonwealth Budget Outlays by Function (1984–85 Prices) (\$m)(a)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
OUTLAYS											
1. Defence	4589	4881	5093	5318	5613	5938	6236	6274	6015	5768	5803
2. Education	3956	4015	4108	4203	4328	4518	4595	4541	4630	4480	4601
3. Health	4905	5092	3957	3874	4874	6143	6440	6542	6735	7908	8208
4. Social Security and Welfare	13595	13887	14420	15604	17392	17848	17958	17951	18290	17844	18361
5. Housing and Community Amenities nec	541	589	634	918	1182	1370	1383	1481	1123	918	987
6. Culture and Recreation	520	589	634	618	675	778	859	845	856	799	753
7. Economic Services											
A. Transport and Communication	1270	1402	1539	2054	1896	1949	1731	1505	1398	1277	1063
B. Industry Assistance and Development	1481	1565	1677	1763	1845	1816	1870	1592	1785	1505	1479
C. Labour and Employment	434	497	545	745	1204	1192	1030	959	904	801	858
D. Other Economic Services	152	195	204	238	227	250	203	222	194	242	151
Total Economic Services	3337	3660	3965	4801	4972	5208	4834	4277	4291	3825	3596
8. General Public Services											
A. Legislative Services	128	158	170	215	212	309	333	422	468	310	299
B. Law Order and Public Safety	342	345	364	411	454	475	507	525	532	517	578
C. Foreign Affairs and Overseas Aid	1108	1123	1164	1177	1225	1290	1252	1143	1118	1160	1090
D. General Scientific Research nec	410	436	482	486	469	450	449	449	418	388	405
E. Administrative Services	1288	1388	1451	1459	1521	1600	1750	1851	1829	1908	1731
Total General Public Services	3276	3449	3631	3748	3682	4214	4282	4360	4365	4273	4074
9. Not Allocated to Function											
A. Assistance to Other Governments nec	10991	11148	12447	12434	12980	12658	12698	12595	12018	10066	9741
B. Public Debt Interest	3450	3497	3581	3896	4849	5645	6537	6859	6373	5488	5073
C. Contingency Reserve	-	-	-	-	-	-	-	-	-	-	77
D. Asset Sales	-	-	-	-	-	-	-	-	-858	-300	-536
TOTAL OUTLAYS	49181	50787	52171	55743	60346	64319	65831	65705	63829	60881	60456

(a) Gross Non Farm Product Deflator is used as a general measure of price change
 (b) As a result of the use of different deflators for program specific estimates and for total outlays (as discussed in Part I of this Statement) constant price estimates for the forward years are not presented in this table.

Table IV—Commonwealth Budget Outlays by Function—Annual Percentage Change (1984–85 Prices) (a)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
OUTLAYS											
1. Defence	5.1	6.3	4.3	4.4	5.8	5.8	5.0	0.6	-4.1	-4.1	0.6
2. Education	-6.3	1.5	2.3	2.4	3.0	4.4	1.7	-1.2	2.0	-3.2	4.0
3. Health	-0.7	3.8	-28.2	5.9	20.6	31.4	4.8	1.9	2.9	18.8	2.6
4. Social Security and Welfare	-1.2	2.0	4.0	10.5	9.1	2.6	0.8	0.0	1.9	-3.5	4.0
5. Housing and Community Amenities nec	-37.0	8.9	8.2	44.0	28.8	15.9	0.9	5.6	-23.1	-18.2	7.5
6. Culture and Recreation	2.1	13.2	7.7	-2.6	9.3	14.9	10.7	-1.8	1.3	-6.7	-5.7
7. Economic Services											
A. Transport and Communication	1.8	10.5	9.8	33.4	-7.7	2.8	-11.2	-13.1	-7.1	-8.6	-15.2
B. Industry Assistance and Development	7.5	5.7	7.1	5.2	-6.7	10.4	3.0	-14.9	12.1	-15.7	-2.1
C. Labour and Employment	-18.2	14.5	9.7	38.7	61.6	-1.0	-13.6	-6.9	-5.7	-11.4	7.1
D. Other Economic Services	29.0	28.1	4.8	17.0	-4.8	9.9	-18.9	9.3	-12.6	24.9	37.4
Total Economic Services	1.9	9.7	8.3	21.1	3.6	4.7	-7.2	-11.5	0.1	-10.6	-6.8
8. General Public Services											
A. Legislative Services	3.1	24.3	7.2	26.8	-1.6	48.0	7.6	26.8	10.9	-33.7	-12.2
B. Law Order and Public Safety	7.0	0.8	5.5	13.0	10.5	4.8	6.7	3.5	1.4	-2.8	11.7
C. Foreign Affairs and Overseas Aid	0.9	1.3	3.7	1.1	4.0	5.3	-2.9	-8.8	-2.1	2.9	-5.2
D. General Scientific Research nec	6.6	6.3	10.6	0.8	-3.4	-4.1	-0.1	0.0	-7.0	-7.3	4.8
E. Administrative Services	-0.1	7.7	4.5	0.5	4.3	11.1	3.5	5.8	-1.2	4.3	-9.3
Total General Public Services	1.9	5.3	5.3	3.2	3.6	8.6	1.8	2.3	-0.6	-2.1	-4.7
9. Not Allocated to Function											
A. Assistance to Other Governments nec	-1.7	1.4	11.7	-0.1	4.4	-2.5	0.3	-1.1	-4.4	-18.1	-3.4
B. Public Debt Interest	3.6	1.4	2.4	8.8	19.3	21.4	15.8	4.9	-7.1	-13.9	-7.6
C. Contingency Reserve	-	-	-	-	-	-	-	-	-	-	n.a.
D. Asset Sales	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.
TOTAL OUTLAYS	-1.0	3.3	2.7	6.8	8.3	6.6	2.4	-0.2	-2.9	-4.6	-0.7

(a) Gross Non Farm Product Deflator is used as a general measure of price change

Table V - Commonwealth Budget Outlays by Function As a Proportion of Total Budget Outlays (per cent)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
OUTLAYS														
1. Defence	9.3	9.6	9.8	9.5	9.3	9.2	9.5	9.5	9.4	9.5	9.6	9.8	10.0	10.2
2. Education	8.0	7.9	7.9	7.5	7.2	7.0	7.0	6.9	7.3	7.4	7.7	7.8	7.9	7.8
3. Health	10.0	10.0	7.0	6.9	7.7	9.8	9.8	10.0	10.6	13.1	13.6	13.9	14.3	15.0
4. Social Security and Welfare	27.7	27.3	27.6	28.6	28.8	27.7	27.3	27.3	28.7	29.0	30.4	30.7	30.8	31.1
5. Housing and Community Amenities nec	1.1	1.2	1.2	1.6	2.0	2.1	2.1	2.2	1.8	1.5	1.6	1.5	1.4	1.4
6. Culture and Recreation	1.1	1.2	1.2	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.1
7. Economic Services														
A. Transport and Communication	2.6	2.8	3.0	3.7	3.1	3.0	2.8	2.3	2.2	2.1	1.8	1.7	1.6	1.5
B. Industry Assistance and Development	3.0	3.1	3.2	3.2	2.7	2.8	2.8	2.4	2.8	2.5	2.4	2.2	1.9	1.6
C. Labour and Employment	0.9	1.0	1.0	1.3	2.0	1.9	1.6	1.5	1.4	1.3	1.4	1.4	1.4	1.3
D. Other Economic Services	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Total Economic Services	6.8	7.2	7.6	8.6	8.2	8.1	7.3	6.5	6.7	6.3	5.9	5.6	5.2	4.8
8. General Public Services														
A. Legislative Services	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.5	0.4	0.3	0.3	0.3
B. Law Order and Public Safety	0.7	0.7	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	1.0	0.9	0.9	0.9
C. Foreign Affairs and Overseas Aid	2.3	2.2	2.2	2.1	2.0	2.0	1.9	1.7	1.8	1.9	1.8	1.8	1.7	1.7
D. General Scientific Research nec	0.8	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7
E. Administrative Services	2.6	2.7	2.8	2.6	2.5	2.6	2.7	2.8	2.9	3.1	2.9	2.9	2.8	2.6
Total General Public Services	6.7	6.8	7.0	6.7	6.4	6.6	6.5	6.7	6.8	7.0	6.7	6.6	6.4	6.1
9. Not Allocated to Function														
A. Assistance to Other Governments nec	22.4	21.9	23.9	22.3	21.5	19.7	19.3	19.1	18.8	18.6	18.1	18.1	15.9	18.0
B. Public Debt Interest	7.0	6.9	6.9	7.0	7.7	8.8	9.9	10.4	10.0	9.0	8.4	6.7	5.7	4.9
C. Contingency Reserve	-	-	-	-	-	-	-	-	-	-	-	0.1	0.9	1.3
D. Asset Sales	-	-	-	-	-	-	-	-	-1.3	-0.7	-1.4	-0.9	-	-
TOTAL OUTLAYS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

3330

Table VI - Commonwealth Budget Outlays - by Function and Sub-function (\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
1. Defence														
Personal Costs And Retirement Benefits	1428	1644	2115	2213	2311	2457	2744	2871	3102	3290	3384	3658	3910	4060
Defence Equipment and Stores	972	1144	1096	1493	1882	2304	2820	2903	2614	2708	2921	3348	3723	4155
Defence Facilities	145	182	218	201	225	291	304	393	442	415	481	483	508	448
Defence Housing	-35	-34	-32	33	33	43	65	84	157	141	167	186	211	232
Defence Industry	122	145	199	281	332	337	340	234	296	334	233	186	113	93
Defence Science	86	98	128	139	147	158	186	183	187	200	209	214	226	232
Defence Other	248	311	332	340	368	379	433	540	622	664	832	1031	1080	1121
Total Defence	2965	3490	4054	4701	5298	5938	6673	7209	7422	7780	8327	9106	9772	10371
2. Education														
Tertiary Education	1468	1598	1775	1945	2104	2337	2528	2672	2841	2913	3089	3674	3889	3973
Schools and Preschools	803	940	1130	1347	1487	1643	1780	1822	1950	2120	2190	2348	2473	2574
Student Assistance	254	267	328	380	443	475	559	646	837	931	1044	1171	1298	1329
General Administration	32	36	40	46	55	67	73	82	86	88	82	86	82	87
Recoveries	-2	-2	-3	-3	-3	-4	-4	-4	-1	-5	-6	-6	-6	-6
Total Education	2558	2870	3268	3716	4086	4518	4916	5218	5714	6044	6688	7274	7884	7956
3. Health														
Medical Services and Benefits	702	771	874	1031	1592	2501	2845	3218	3455	3723	4181	4662	5152	5758
Hospital Services	1487	1705	809	701	859	1434	1570	1524	1995	3740	4026	4255	4364	4582
Pharmaceutical Services and Benefits	326	368	481	508	574	659	725	866	1059	1135	1328	1580	1942	2322
Nursing Home Subsidies etc	368	451	657	857	983	1093	1167	1290	1457	1594	1715	1850	1948	2006
Health Services in the ACT	47	51	84	87	99	123	141	155	177	168	-	-	-	-
Act Health - Transfer to T/A	-	-	-	-	-	-	-	-	-	-34	-	-	-	-
Other Health Services	158	187	119	140	171	202	250	279	292	317	378	428	434	416
General Administration	102	110	106	101	134	131	152	184	176	149	161	186	176	157
Total Health	3199	3641	2911	3425	4412	6143	6890	7517	8311	10790	11778	12969	14046	15241

3331

Table VI - Commonwealth Government Budget Outlays by Function (\$m) continued

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
4. Social Security and Welfare														
Assistance to the Aged	3581	4009	4592	4969	5418	5782	6038	6464	7240	7870	8786	9900	10658	11401
Assistance to Veterans and Dependents	960	1187	1323	1711	2031	2325	2584	2762	3128	3187	3404	3595	3616	3591
Assistance to the Disabled	859	961	1073	1190	1402	1648	1874	2149	2481	2736	3015	3336	3545	3781
Assistance to Families with Children	1920	2088	2443	2963	3381	3665	3944	3984	3854	4131	4917	5177	5427	5639
Assistance to Unemployed And Sick Other Welfare Programs	1068	1186	1449	2520	3248	3348	3514	3883	3886	3689	3764	4117	4367	4605
Aboriginal Advancement Programs nec General Administration	17	37	65	84	104	125	131	147	197	241	258	311	320	331
Recoveries and Repayments	266	301	369	462	619	715	833	912	930	1005	1130	1098	1118	1154
Total Social Security and Welfare	8783	9915	11478	14086	16418	17848	19215	20626	22570	23802	26334	28589	30118	31519
5. Housing and Community Amenities														
Housing Assistance - other Govts	258	296	231	443	689	952	1032	1190	1016	920	894	915	925	935
Assistance to First Home Owners	72	45	115	150	242	306	242	202	222	176	146	138	135	130
Defence Service Homes	-81	10	87	82	36	35	35	33	11	52	179	183	185	189
Housing in the ACT	-6	-7	-4	-1	-5	-5	-19	-17	12	17	-	-	-	-
Housing Other	3	29	21	25	29	30	90	114	30	27	31	28	30	27
General Administration	-3	-6	-3	2	..	..	3	5	7	6	12	11	11	12
Urban and Regional Development	103	78	53	99	110	34	82	136	64	23	115	107	80	89
Pollution Abatement and Control	4	6	7	12	15	18	17	17	22	18	38	39	32	33
Total Housing and Community Amenities	350	421	508	812	1116	1370	1480	1678	1368	1239	1416	1422	1377	1396
6. Culture and Recreation														
Broadcasting	201	258	324	354	399	458	557	556	568	607	663	666	738	749
National Collections	46	53	56	55	62	76	89	102	106	98	107	107	99	100
Arts and Culture	70	88	88	99	123	152	182	236	306	297	201	219	220	143
Youth, Sport and Recreation	11	10	19	24	35	99	62	45	42	36	60	68	68	73
National Estate and Parks	9	12	18	14	19	21	28	29	34	40	48	50	48	49
Total Culture and Recreation	336	421	505	546	637	776	919	971	1056	1078	1081	1136	1170	1113

3352

Table VI - Commonwealth Government Budget Outlays by Function (\$m) continued

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
7. Economic Services														
A. Transport and Communications														
Communication	-6	10	11	12	14	13	-18	-82	-99	21	297	-305	-305	-304
Air Transport	-3	85	233	522	328	359	381	331	274	163	222	136	138	131
Road Transport	609	667	735	911	1252	1295	1316	1318	1326	1312	1309	1457	1457	1458
Rail Transport	96	87	135	151	95	41	79	82	49	49	65	46	26	44
The Pipeline Authority	12	10	7	7	-6	-5	-10	-23	-18	-22	-22	-22	-22	-22
Sea Transport	44	68	49	125	52	161	36	54	66	92	181	171	181	120
Other Transport and Communication	69	76	55	88	56	84	99	70	96	109	87	76	77	80
Total Transport and Communication	820	1003	1225	1815	1790	1949	1853	1729	1725	1723	1554	1559	1551	1506
B. Industry Assistance and Development														
Fishing Industry	1	2	1	3	3	5	12	16	23	17	16	16	17	17
Wool Industry	130	164	169	199	179	229	247	343	447	489	487	492	483	508
Wheat Industry	17	89	67	88	37	76	120	28	188	18	59	104	64	63
Dairy Industry	113	91	86	101	145	201	198	217	168	160	149	153	155	31
Horticultural Industry	5	3	12	17	29	27	28	28	16	28	32	30	31	31
Cattle, Sheep and Pig Industries	34	37	42	54	63	71	65	93	105	148	132	125	127	120
Other Agricultural and Pastoral	45	-4	25	63	-9	33	21	40	17	22	31	29	29	26
General Assistance	96	131	122	236	230	190	189	233	229	206	205	217	210	211
Natural Resources Development & Mgt.	23	25	25	39	32	48	36	49	44	50	96	86	44	45
General Administration	54	27	34	44	49	58	60	65	77	81	92	98	98	99
Mining Industry	-18	-66	82	72	19	83	133	12	84	56	67	124	186	188
Sector Specific Manufacturing Assistance	56	62	97	136	151	209	232	254	263	273	267	217	96	83
General Manufacturing Assistance	80	97	76	96	127	132	264	135	140	108	138	127	30	40
Tourist Industry	8	9	9	11	21	29	32	37	46	42	42	37	30	40
Assistance to Exporters	258	316	339	328	297	275	294	241	326	299	271	286	162	134
Other Assistance to Industry	54	136	168	100	179	150	53	38	30	37	36	35	29	27
Total Industry Assistance and Development	967	1119	1335	1559	1553	1816	2001	1829	2203	2031	2114	2081	1836	1666
C. Labour and Employment														
Training and Skills Formation	82	115	162	183	254	299	291	302	359	413	516	531	583	600
Job Creation and Employment Assistance	22	31	56	219	582	519	382	335	227	94	123	117	111	104
Industrial Relations	83	82	63	78	83	99	113	124	153	144	166	147	149	152
Administration Costs	94	128	152	181	238	275	315	340	377	430	436	472	483	491
Total Labour and Employment	280	355	434	659	1137	1192	1102	1101	1116	1080	1231	1267	1326	1348

3353

Table VI - Commonwealth Government Budget Outlays by Function (\$m) continued

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
D. Other Economic Services														
Economic Trade And Regulation	32	39	39	45	49	55	65	83	84	72	98	154	181	182
Meteorological Services	33	38	44	49	50	59	67	75	84	88	94	96	95	99
Water And Electricity Supply	25	34	38	75	71	109	63	92	77	149	8	39	31	21
Economic Services nec	8	31	43	41	44	26	21	25	14	17	17	18	19	19
Total Other Economic Services	98	139	162	211	215	250	217	255	239	326	217	308	326	322
Total Economic Services	2155	2617	3158	4244	4964	5208	5173	4915	5282	5180	5115	5215	5042	4843
B. General Public Services														
A. Legislative Services														
New Parliament House Construction	1	8	25	55	63	109	177	284	301	90	24	7	-	-
Parliamentary Outlays	60	69	84	87	97	119	135	148	174	220	234	238	245	255
Other Legislative Services	21	38	27	48	41	81	44	55	101	108	128	79	74	76
Total Legislative Services	82	113	135	190	200	309	356	485	577	418	388	323	319	331
B. Law, Order, and Public Safety														
Courts And Legal Services	68	77	95	125	144	188	197	218	258	306	356	387	388	399
Security and Intelligence	25	33	40	46	55	59	69	78	74	78	103	92	90	93
Australian Federal Police	85	88	95	95	109	125	138	147	161	177	205	213	218	224
Other Law, Order, and Public Safety	43	51	60	97	121	123	140	161	166	140	133	155	154	156
Total Law, Order, and Public Safety	221	247	290	316	429	475	543	603	657	698	830	847	848	876
C. Foreign Affairs and Overseas Aid														
Country Programs	453	503	552	624	672	685	674	668	664	717	733	723	724	782
Global Programs	95	109	161	177	223	281	305	255	298	419	363	438	482	495
Overseas Aid - Other	8	10	20	10	12	14	17	19	24	28	30	30	32	33
Foreign Affairs - Non Aid	159	181	193	229	249	310	344	371	364	360	439	452	468	458
Total Foreign Affairs and Overseas Aid	716	803	927	1041	1156	1290	1340	1313	1380	1551	1564	1642	1707	1748
D. General And Scientific Research nec														
CSIRO	195	228	291	328	332	325	344	368	348	348	372	404	421	439
ANSTO	26	29	38	36	39	42	45	45	51	54	57	61	64	66
Other Scientific nec	44	54	55	65	73	83	91	103	117	120	153	154	155	158
Total General And Scientific Research	265	312	384	430	443	450	481	516	516	523	582	620	640	664

3.334

Table VI - Commonwealth Government Budget Outlays by Function (\$m) continued

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
B. General Public Services														
E. Administrative Services														
Financial Affairs and Fiscal Administration	331	370	484	542	638	737	884	989	993	1103	1379	1390	1510	1481
Statistical Services	64	89	117	101	103	123	132	175	140	154	165	191	235	180
Administration of the ACT	10	8	11	17	15	54	52	62	66	104	-	-	-	-
Estate Management	7	13	11	7	7	15	13	-83	-22	36	-40	91	-	-102
Net Superannuation Payments	170	213	216	269	310	323	403	521	671	771	803	905	893	874
Comcare	-	-	-	-	-	-	-	-	-	102	-5	4	4	7
Other Administrative Services	250	299	337	352	363	438	389	463	409	304	182	111	77	79
Total Administrative Services	832	992	1155	1289	1436	1690	1872	2127	2257	2574	2485	2692	2719	2619
Total General Public Services	2117	2406	2890	3313	3864	4214	4592	5044	5387	5785	5848	6124	6233	6237
9. Not Allocated to Function														
A. Assistance to other Governments														
General Revenue Asselt - S/NT	5655	6312	8248	9215	10354	10670	11915	13223	14248	12543	12825	13581	14138	14875
General Revenue Asselt - ACT	-	-	-	-	-	-	-	-	-	430	394	435	453	470
Capital Asselt - S/NT	1157	1219	1209	1124	1138	1055	1053	540	-130	29	3	104	104	104
Capital Asselt - ACT	-	-	-	-	-	-	-	-	-	65	49	57	57	57
Debt Assistance	55	67	79	90	110	121	50	51	52	51	51	51	50	50
Local Government Assistance	223	302	353	427	482	489	539	586	642	664	687	730	758	788
Trust Account Transactions - ACT	-	-	-	-	-	-	-	-	-	-281	-	-	-	-
Natural Disaster Relief	10	70	21	132	122	-15	-8	3	-15	30	-17	-18	-15	-13
Other Assistance nec	0	0	1	4	67	38	38	34	33	75	-14	55	57	56
Total Assistance to other Governments	7100	7971	9908	10991	12253	12658	13587	14437	14830	13606	13678	14995	15603	16190
B. Public Debt Interest														
Interest on Owth Behalf	2310	2610	1555	1957	2787	3872	5095	5887	5850	5370	5328	4528	3944	3573
Interest on Behalf of S/NT	27	30	1422	1591	1887	1856	1991	2074	2108	2082	2060	2042	2006	1935
Interest Received	-109	-140	-128	-104	-85	-83	-91	-79	-83	-49	-108	-280	-400	-579
Total Public Debt Interest	2229	2501	2850	3444	4389	5645	6995	7881	7885	7403	7280	6288	5553	4929
Asset Sales	-	-	-	-	-	-	-	-	-1059	-538	-1200	-800	-	-
Contingency Reserve	-	-	-	-	-	-	-	-	-	-	-	-	110	840
TOTAL OUTLAYS	31758	36313	41528	49277	59965	64319	70439	75406	78764	82128	86753	93151	97880	101495

3.355

Table VII--Commonwealth Budget Outlays by Economic Type (\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
CURRENT OUTLAYS														
Current Outlays on Goods and Services														
Defence	2932	3449	4009	4647	5246	5884	6518	7154	7203	7579	8198	8923	9583	10178
Non-Defence	2501	2923	3443	3895	4539	5276	5934	6443	6870	7309	7831	8209	8351	8529
Total Final Consumption Expenditure	5433	6372	7452	8541	9885	11160	12550	13567	14073	14948	16029	17132	17934	18707
Current Transfer Payments														
Interest	2229	2501	2850	3444	4393	5653	7030	7938	7910	7480	7284	6340	5005	4978
Subsidies	918	1101	1205	1307	1487	1651	1527	1334	1461	1245	1227	1170	1115	967
Personal Benefit Payments	9759	11063	12850	15652	18376	20652	22339	24082	26819	28353	31852	34644	37005	39332
Grants to Non-Profit Institutions	292	342	459	605	716	871	959	1108	942	1088	1198	1337	1440	1531
Grants to Non-Budget Sector	762	969	1184	1342	1488	1675	2063	2090	2382	2732	2438	2590	2537	2502
Grants to Other Governments	9105	10343	11423	13182	15017	16509	17771	19330	20734	21480	22694	24223	25287	26286
Grants Overseas	517	570	658	718	758	840	840	810	843	918	1023	989	967	1041
Other Transfers	-	-	-	-	-	-	-	3	4	5	9	5	4	4
Total Current Transfer Payments	23581	26889	30630	36250	42195	47852	52528	56993	61095	63297	67524	71299	73900	76842
TOTAL CURRENT OUTLAYS	29014	33261	38082	44791	52080	59012	65078	70290	75168	78245	83553	88431	91924	95349
CAPITAL OUTLAYS														
Capital Outlays on Goods	153	277	301	442	436	567	603	548	690	518	563	840	879	831
Capital Outlays on Land	-12	-109	-28	-31	-52	-100	-111	-81	-72	-115	92	-	-	-
Capital Transfer Payments														
Grants to Non-Budget Sector	201	212	201	255	255	378	503	664	648	305	89	87	50	50
Grants to Other Governments	1646	1650	1778	2230	2792	3186	3247	3250	3039	3064	3467	3679	3547	3606
Grants to Other Sectors	163	135	204	239	327	388	328	303	348	352	420	438	407	421
Total Capital Transfer Payments	1910	1997	2182	2724	3374	3930	4079	4216	4036	3721	3976	4084	4004	3977
Net Advances														
To Non-Budget Sector	-100	-22	13	183	-18	-17	-102	-123	-38	29	-290	-258	-298	-239
To Other Governments	896	938	886	1058	1002	799	777	548	-46	-124	-510	-341	-343	-338
To Other Sectors	-103	30	112	112	144	128	114	100	77	392	320	850	719	721
Total Net Advances	694	947	961	1351	1129	910	789	524	-7	297	-221	61	108	147
TOTAL CAPITAL OUTLAYS	2744	3052	3448	4486	4886	5307	5361	5205	4656	4421	4381	4985	4991	4965
Contingency Reserve	-	-	-	-	-	-	-	-	-	-	20	845	965	1190
Asset Sales	-	-	-	-	-	-	-	-1059	-538	-1200	-800	-	-	-
TOTAL OUTLAYS	31758	36313	41528	49277	56966	64319	70439	75496	78784	82128	86753	93161	97880	101495

3356

TABLE VIII--Commonwealth Budget Domestic Outlays by Economic Type(\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
CURRENT OUTLAYS											
Current Outlays on Goods and Services											
Defence	2416	2879	3572	3874	4180	4449	5002	5527	6073	6536	7181
Non-Defence	2416	2814	3330	3776	4507	5111	5731	6258	6706	7189	7617
Total Current Outlays on Goods and Service	4832	5693	6902	7650	8687	9560	10733	11785	12779	13705	14798
Current Transfer Payments											
Interest	1854	2138	2511	2988	3887	4999	6095	6938	6599	6503	6982
Subsidies	918	1101	1205	1307	1487	1651	1527	1334	1461	1245	1227
Personal Benefit Payments	9715	11012	12787	15582	18293	20580	22214	23952	26679	28201	31383
Grants to Non-Profit Institutions	292	342	459	605	716	871	959	1108	942	1088	1198
Grants to Non-Budget Sector	762	969	1184	1342	1488	1675	2063	2090	2382	2732	2438
Grants to Other Governments	9105	10343	11423	13182	15017	16509	17771	19330	20734	21480	22694
Grants Overseas	203	242	273	293	334	333	330	293	333	432	521
Other Transfers	-	-	-	-	-	-	-	3	4	5	9
Total Current Transfer Payments	22849	26147	29842	35297	41162	46598	50959	54748	59134	61684	66030
TOTAL CURRENT OUTLAYS	27681	31840	36744	42947	49849	56158	61692	66533	71913	75389	80828
CAPITAL OUTLAYS											
Capital Outlays on Goods and Land(b)	130	100	265	402	371	454	488	448	594	378	834
Total Capital Transfer Payments	1910	1997	2182	2724	3374	3930	4079	4216	4035	3721	3976
Total Net Advances	690	903	932	1297	1034	820	683	418	-115	102	-344
TOTAL CAPITAL OUTLAYS	2700	3000	3379	4423	4779	5204	5230	5082	4514	4199	4296
Asset Sales	-	-	-	-	-	-	-	-	-437	-538	-1200
Contingency Reserve	-	-	-	-	-	-	-	-	-	20	80
TOTAL OUTLAYS	30381	34840	40123	47370	54828	61362	66922	71615	75900	79050	83614

3357

TABLE IX—Commonwealth Budget Overseas Outlays by Economic Type(\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
CURRENT OUTLAYS											
Current Outlays on Goods and Services											
Defence											
Salaries (c)	4	5	6	6	6	6	7	8	10	2	1
Other than Salaries	512	565	431	767	1060	1429	1607	1619	1120	1041	1019
Non-Defence											
Salaries	17	24	27	29	32	35	41	47	50	53	50
Other than Salaries	66	85	86	90	100	130	162	138	114	147	164
Total Current Outlays on Goods and Services	601	679	550	892	1196	1600	1817	1812	1294	1243	1231
Current Transfer Payments											
Interest	375	363	339	458	526	654	935	1298	1311	977	822
Personal Benefit Payments	44	51	83	70	83	92	125	130	140	152	160
Grants Overseas	314	328	385	425	424	507	510	517	510	484	502
Total Current Transfer Payments	733	742	787	953	1033	1253	1670	1945	1961	1613	1463
TOTAL CURRENT OUTLAYS	1334	1421	1337	1845	2231	2853	3387	3757	3255	2856	2724
CAPITAL OUTLAYS											
Capital Outlays on Goods and Land											
Net Advances	11	8	8	9	13	13	24	17	33	27	41
TOTAL CAPITAL OUTLAYS	45	52	67	63	108	103	130	123	141	222	114
Asset Sales	-	-	-	-	-	-	-	-	-822	-	-
TOTAL OVERSEAS OUTLAYS	1379	1473	1404	1908	2339	2956	3517	3880	2774	3078	2838

(a) Salaries of all Australian based staff overseas are included in domestic outlays for the purpose of this table.
 (b) Overseas outlays by the Commonwealth do not add directly to domestic income or the demand for locally produced goods and services, while government revenue from overseas sources increase total revenue without withdrawing purchasing power from the domestic sector.
 (c) The fall in Defence salary payments in 1988-89 is due to the running down of operations in Butterworth Malaysia.

Table X—Portfolio Outlays by Major Function, 1989-90

PORTFOLIO	Defence	Education	Health	Social Security & Welfare	Housing & Community Amenities	Culture & Recreation	Economic Services	General Public Services	Not Allocated to Function	TOTAL (a)
Parliament	-	-	-	-	0.5	19.2	98.4	430.0	-	460.0
Administrative Services	-88.2	0.1	-	-	-	-	-	-	-	121.8
Arts, Sport, The Environment, Tourism and Territories	-	12.1	5.2	-	40.5	348.6	78.0	117.1	17.0	618.5
Attorney General's	-	-	-	10.9	-	-	38.5	750.4	-	799.3
Community Services and Health	-	-	10673.1	1242.3	1134.5	-	-	7.0	-	13056.9
- Community Services and Health	-	-	1051.2	3581.7	179.2	20.8	-0.7	-	-	4837.0
- Veteran Affairs	-	4.9	-	-	-	1.9	-	-	-	8418.7
Defence	8416.8	-	-	-	-	-	-	-	-	-
Employment, Education and Training	-	-	-	-	-	-	-	-	-	-
- Employment, Education and Training	-	6598.9	-	-	4.3	1030.3	63.5	-	-	7696.0
- Aboriginal Affairs	-	-	49.0	303.7	123.9	19.1	10.9	16.7	-	523.3
Finance	-1.5	-	-	-	-15.1	-	-2.1	873.1	-52.9	802.1
Foreign Affairs and Trade	-	-	-	-	-	-	19.8	1480.4	-	1500.2
Immigration, Local Government and Ethnic Affairs	-	72.4	-	32.2	0.2	-	-	166.5	-	271.3
Industrial Relations	-	-	-	-	-0.9	-	171.2	-4.8	-	165.4
Industry, Technology and Commerce	-	-	-	-	3.9	-	684.2	684.1	-	1372.2
Primary Industry and Energy	-	-	-	-	9.0	-	1384.0	2.4	9.6	1406.2
Prime Minister and Cabinet	-	0.1	-	1.0	5.4	4.1	1.4	70.7	-	81.6
Social Security	-	-	-	21145.2	-	-	-	-	-	21145.2
Transport and Communications	-	-	-	3.6	-	663.0	1575.8	-	-	2242.4
Treasury	-	-	-	13.1	-65.0	-	25.8	1067.4	21283.2	22324.4
Contingency Reserve	-	-	-	-	-	-	-	-	-	110.0
Asset Sales	-	-	-	-	-	-	-	-	-	-1200.0
TOTAL	8327.1	6688.5	11778.5	26333.8	1416.0	1060.9	5115.5	5845.5	21254.7	86753.2

(a) Includes Contingency Reserve and Asset Sales net

Table XI—Portfolio Outlays by Major Economic Type, 1989-90

PORTFOLIO	Current Outlays on Goods and Services	Interest	Personal Benefit Payments	Capital Outlays on Goods and Land	Transfers/Advances to Other Gov't	Other Transfers	TOTAL (a)
Parliament	119.7	-	-	2.1	-	-	121.8
Administrative Services	369.6	18.2	-	43.3	-	29.0	460.0
Arts, Sport, The Environment, Tourism and Territories	167.3	-	3.0	38.8	41.4	368.0	618.5
Attorney Generals	567.9	-	0.9	87.4	108.3	35.5	799.9
Community Services and Health	-	-	-	-	-	-	-
- Community Services and Health	554.9	-	6392.7	25.9	5054.2	1029.2	13056.9
- Veteran Affairs	1102.5	-	3680.0	37.1	3.4	14.1	4837.0
Defence	8217.5	-	-	-	3.6	197.6	8418.7
Employment, Education and Training	-	-	-	-	-	-	-
- Employment, Education and Training	419.0	-	1097.5	11.9	4977.0	1190.6	7696.0
- Aboriginal Affairs	54.7	-	-	2.5	35.1	431.1	523.3
Finance	871.6	1.4	0.2	13.1	-75.9	-8.5	802.1
Foreign Affairs and Trade	459.5	0.2	1.9	12.7	-	1025.9	1500.2
Immigration, Local Government and Ethnic Affairs	236.1	-	11.7	14.8	-4.4	13.2	271.3
Industrial Relations	55.3	-	-	1.9	26.0	82.2	165.4
Industry, Technology and Commerce	339.7	-	-	15.2	8.8	1008.5	1372.2
Primary Industry and Energy	445.2	6.7	0.4	16.1	168.8	769.0	1405.2
Prime Minister and Cabinet	77.1	-	-	5.1	-	-0.5	81.7
Social Security	724.5	-	20360.2	52.4	-	8.1	21145.2
Transport and Communications	299.2	-	3.6	150.2	1348.2	441.3	2242.4
Treasury	857.6	7357.7	-	144.7	13956.5	7.9	22334.4
Contingency Reserve	90.0	-	-	-	-	-	110.0
Asset Sales	-	-	-	-	-	-	1200.0
TOTAL	16028.6	7384.2	31552.1	675.2	25650.9	6641.9	86753.2

(a) Includes Contingency Reserve and Asset Sales net

3.360

STATEMENT 4—REVENUE

CONTENTS

	Page
Part 1	Overview 4.3
Part 2	Measures 4.4
Part 3	Outcomes and Estimates 4.24
Part 4	Longer Term Trends 4.41
Appendix A	Revenue Measures Announced in the April 1989 Economic Statement 4.46
Appendix B	Other Revenue Measures Announced Since the 1988-89 Budget 4.49
Appendix C	Revenue Statistics 1979-80 to 1989-90 4.56

4.1

STATEMENT 4—REVENUE

PART 1: OVERVIEW

Total budget revenue in 1989-90 is estimated at \$95 875m, an increase of 8.9% over 1988-89. This represents an estimated 26.2% of GDP, unchanged from 1988-89 and down from 27.2% in 1987-88.

Total revenue has been reduced by a net \$3818m as a result of measures announced since the August 1988 Budget including in the April 1989 Economic Statement and in this budget.

Revenue collections in 1988-89 were \$88 027m, \$531m or 0.6% higher than the budget estimate and \$7199m or 8.9% higher than 1987-88 revenue. Collections from PAYE income tax, the prescribed payments system (PPS), company tax, sales tax, customs duty on imports and petroleum products excise were significantly above the budget estimate, primarily reflecting stronger than expected economic activity. This was partly offset by significant shortfalls in 'other' individual (non-PAYE) income tax, crude oil and LPG excise and non-taxation revenue reflecting various factors largely unrelated to economic conditions.

Revenue measures announced in the 1989-90 Budget are set out in Part 2 of this Statement. The estimates for individual revenue items in 1989-90, together with the 1988-89 outcomes and budget estimates, are set out in Part 3. Longer term trends in revenue are discussed in Part 4. Appendix A contains a brief discussion of the measures in the April 1989 Economic Statement; Appendix B outlines briefly other measures announced since the 1988-89 Budget while Appendix C details revenue information on a longer-run basis.

PART 2: MEASURES

Table 1 sets out the estimated revenue impact in 1989-90 and 1990-91 of:

- (i) measures announced in the April 1989 Economic Statement;
- (ii) other measures announced since the 1988-89 Budget; and
- (iii) measures announced in the 1989-90 Budget.

Details of (i) and (ii) are shown in Appendix A and Appendix B, respectively; the measures in (iii) are described in this part. The costings of earlier measures may differ from those provided at the time of original announcement because of revisions to base and parameter estimates.

Table 1: Revenue Measures

Measure	Estimated Change in Revenue	
	1989-90	1990-91
	\$m	\$m
(i) Measures Announced in the April 1989 Economic Statement		
Income Tax -		
Personal income tax rates scale	-4900	-5760
Concessional rebates		
Pensioner rebate	-50	-150
Taxation of foreign source income (a)	-	-
(ii) Other Measures Announced Since the 1988-89 Budget		
Income Tax -		
ACT election expenses	..	..
Beneficiary rebate	..	..
Capital gains tax: long term leases of land and principal residence exemption	*	*
Deductibility of gifts: extensions	*	*
Defence force personnel serving in Namibia	-3	*
Dividend imputation: early balancing company assessments	*	*
Research and development tax concession (b)	-	*
Substantiation rules relating to award transport allowances	*	*
Superannuation tax reform	-70	-63
Taxation of traditional financial securities	*	*
Tax file number: amendments	*	*
Thin capitalisation	*	*
Wholesale Sales Tax -		
Computer software	-30	-35
Containers for marketing alcoholic beverages	-2	-2
Recycled paper	..	..
Shipping containers	..	..
Customs and Excise Duty -		
Coated kraft paper and paperboard duty restored	..	..
Rebate on marine diesel excise	-	*
Sugar tariff arrangements	-	*
Taxation of petroleum products	-8	-3
Transport containers	..	..
Other Measures -		
Conversion of nominated housing advances to grants	-7	-21
Light dues and navigation charges	-	-
Telecommunications applications fees	..	..
Wheat Industry Fund levy	35	35

Measure	Estimated Change in Revenue	
	1989-90	1990-91
	\$m	\$m
(iii) Measures Announced in the Budget		
Retirement Income Measures - (c)		
Tax deductions for personal superannuation contributions	-	-
Changes to the administrative arrangements for the reasonable benefit limits	-	-
Improved vesting and preservation standards	-	-
Better integration of the social security and taxation systems	-	-
Tax Treatment of Life Insurance (d)	-	-
Company Tax Collection System (e)	885	150
PAYE Remittances (f)	550	-
General Income Tax Measures -		
Capital gains tax measures	*	*
Deductibility of costs of professional taxation advice and compliance with taxation laws	-	-40
Dividend selection schemes and share based financing arrangements	*	*
Medicare levy exemption	-2	-4
Medicare levy low income thresholds	-10	-35
Provisional tax - quarterly instalments (g)	..	..
Provisional tax uplift factor	-160	-
Removal of seven year loss carry-forward restriction (h)	-	-
Resetting and targeting of beneficiary rebate	-	12
Tax deductions for the quarrying industry (i)	-	-10
Tax exemption for certain clubs	-	*
Tax status of Australian Wool Testing Authority	-	-
Thin capitalisation	*	*
Wholesale Sales Tax -		
Aids to manufacture	-3	-5
Flavoured milk drinks	..	..
Small manufacturer exemptions	-8	-12
Other Measures -		
Application for temporary resident visa	3	3
Compliance/malpractice - quarantine and inspection	1	1
Interest on cash balances with the Reserve Bank (j)	-45	-70
Radiocommunications licence fees	6	10
Therapeutic goods	-	14

.. Less than \$0.5m.

* The nature of the measure is such that a reliable estimate cannot be provided;

- Nil.

(a) The measures generally take effect from the 1990-91 income year and thus have no revenue impact in 1989-90 or 1990-91. Though difficult to determine, the likely direct revenue gain from these measures is broadly estimated at \$85m in 1991-92.

(b) The four year extension of the research and development concession has no revenue impact in 1989-90 or 1990-91 but is estimated to cost a total of \$800m from 1992-93.

(c) The measure has no revenue impact in 1989-90 or 1990-91. The estimated cost to revenue of the first measure is \$200m in 1991-92.

(d) The measure has no revenue impact in 1989-90 or 1990-91. The estimated cost to revenue is \$30m in 1991-92 building to \$140m by 1993-94.

(e) This measure will reduce outlays on public debt interest by about \$22m in 1989-90, \$350m in 1990-91 and \$330m per annum in subsequent years. The estimated revenue impact of the changes in 1991-92 and subsequent years is nil.

(f) This measure will reduce outlays on public debt interest by \$20m in 1989-90, and \$70m per annum in subsequent years.

(g) This measure will increase outlays on public debt interest by \$20m in 1989-90, \$18m in 1990-91 and \$15m per annum in subsequent years.

(h) The measure will have an initial revenue cost of \$5m in 1998-99, increasing to \$20m per annum in subsequent years.

(i) Estimated revenue cost will build to \$20m per annum in later years.

(j) This measure will reduce outlays on public debt interest by \$50m in 1988-89 and \$80m in 1989-90.

MEASURES ANNOUNCED IN THE BUDGET

Retirement Income Measures

The objectives of the Government's retirement incomes policy are to ensure that all Australians have an adequate and secure income in retirement and that those still in the workforce are encouraged to save for their retirement in order to enjoy a higher standard of living and be less dependent on the social security system. The increasing age dependency of the Australian population in prospect in the first part of the next century underlines the importance of moving now to establish a comprehensive and effective retirement incomes policy.

Superannuation is the main form of retirement savings in Australia. Major tax concessions are provided to encourage self-provision by way of superannuation, thereby reducing the burden on future generations in meeting the retirement income requirements of the current workforce.

In May 1988 the Government announced a major reform of the taxation of superannuation which established a soundly based and fair structure of taxation and built on improvements made in the regulatory framework for superannuation since 1983.

The measures outlined below are intended to reinforce existing arrangements by encouraging greater savings for retirement through superannuation; by removing disincentives to retirement savings that arise from the interaction between the taxation and social security systems; and by ensuring that the taxation concessions provided to superannuation are used effectively in providing a higher standard of living in retirement. Taken together with other measures on the outlays side outlined in Statement 3 and in the Retirement Incomes Policy Statement of the Minister for Social Security, these changes will encourage self-provision for retirement.

Tax Deductions for Personal Superannuation Contributions

The annual limit on deductible personal superannuation contributions (currently \$3000) is to be substantially modified to improve access to deductible superannuation contributions for self-employed persons and employees with no, or low levels of, employer superannuation support. The new arrangements will apply in respect of superannuation contributions made after 30 June 1990.

Under the new arrangements, self-employed persons and employees without employer superannuation support will be allowed to make deductible superannuation contributions subject to:

- 25% of the excess of contributions to funds over \$3000 per annum not being deductible; and
- the total deductible contributions not exceeding the amount necessary to fund benefits at the reasonable benefit limits for the individual concerned.

The requirement in relation to non-deductible contributions is designed to place self-employed persons and employees without employer-sponsored superannuation on the same footing as employees with employer-sponsored superannuation whose

contributions will be deductible, under the measure next described, only where there are modest levels of employer support.

Persons who are members of employer-sponsored superannuation schemes (including award schemes) will be allowed to make deductible superannuation contributions in respect of a year of income up to an annual amount specified in Table 2 below.

Table 2: Deductible Contributions Scale for Supported Employees

Level of Employer Superannuation Support (a) (% of salary)	Maximum Deduction (\$pa)
up to 4.0	3000
over 4.0 to 4.5	2500
over 4.5 to 5.0	2000
over 5.0 to 5.5	1500
over 5.5 to 6.0	1000
over 6.0 to 6.5	500
over 6.5	-

(a) Including notional employer support provided under unfunded arrangements.

For employees, the level of employer support provided will be determined as either:

- for schemes other than defined benefit schemes, the percentage of salary contributed by the employer to the fund concerned in the year; or
- for defined benefit schemes, the amount of employer contributions that would be required to fund the particular scale of retirement benefit for which the person is eligible (irrespective of the actual level of employer contributions made in the year), calculated in accordance with guidelines issued by the Insurance and Superannuation Commission.

To assist employees in determining the maximum deduction they are entitled to, funds will be required to report the amount of employer support to employees each year.

These measures, which are expected to affect about 600 000 people, will encourage superannuation savings by improving access for self-employed persons and employees without employer-sponsored superannuation; by improving access for low to middle income employees who have only modest employer superannuation support; and, importantly, by enhancing the development of industry-wide schemes for which there will now be a sound framework for accommodating any increases in employer-provided award superannuation.

Changes to the Administrative Arrangements for the Reasonable Benefit Limits

As foreshadowed in the May 1988 Economic Statement, the Government is to revise the arrangements for the administration of the reasonable benefit limits (RBL). The changes, to apply from 1 July 1990, will enhance the effectiveness of the RBL as a lifetime limit over the access of individuals to the superannuation tax concessions; make

the RBL more generous for low income earners; simplify the funding rules; encourage longer workforce participation; and provide greater incentives to take benefits as pensions or annuities.

Under the new arrangements, superannuation funds will be able to pay out excessive benefits as lump sums without losing their complying status. In future, where an individual receives benefits in excess of his or her RBL, the excess benefit will be taxed at the individual's marginal rate of tax. Benefits provided by rollover vehicles will also be subject to the limits. Providers of concessional taxed superannuation benefits will be required to report details to the Insurance and Superannuation Commission which will keep a record of benefits received over a person's lifetime. These records will be used to assess whether a benefit received by a person is within the RBL and the tax treatment to apply.

The RBL will no longer be based on a person's salary over the final three years of employment, but instead will be based on the person's highest average salary in any three consecutive years prior to retirement, indexed where benefits are fully preserved to age 65 or taken as a life pension or annuity, or where those aged 55 or more satisfy a workforce participation test. This will encourage preservation, taking of benefits as pensions or annuities and longer workforce participation by allowing a person to wind down his or her workforce participation without any loss of entitlements to benefits. It contrasts with the present arrangements which encourage retirement when a person reaches peak salary, often well before full retirement age.

As well, a minimum RBL—that is, a minimum entitlement to concessional taxed benefits—will be established based on an indexed 'base salary' (initially \$25 000). This will both simplify the administration of the RBL and increase considerably the limits for low income earners.

The attractiveness of pensions and annuities that can be provided by superannuation funds will also be enhanced by:

- increasing the reversionary benefits that can be paid to a surviving spouse or dependants to 85%;
- removing the present 5% limit on the indexation of pensions and annuities and allowing indexation of pensions or annuities to the Consumer Price Index (CPI);
- allowing pensions and annuities to be paid for a guaranteed period, with unused annuity capital being payable to an estate; and
- allowing complying superannuation funds to provide pensions by way of annuities purchased from registered life offices in the name of the member using the rollover of the member's accrued benefit.

In order to qualify for the higher pension RBL, a person must take at least 50% of benefits in pension or annuity form; such pensions or annuities will be required to meet minimum standards to ensure they are genuine retirement income vehicles. A person will be subject to the lump sum RBL in all other cases.

The 20 year qualifying service rule for associated employees is to be removed, consistent with the removal of the present \$3000 limit on deductible contributions by

self-employed persons and unsupported employees to superannuation funds. From 1 July 1990, associated persons will generally be subject to the same funding rules as other fund members.

The funding rules for complying superannuation funds will be simplified and, from 1 July 1995, a uniform normal retirement age for funding purposes of 65 years will apply to all funds. Funds that exceed their funding limits will no longer be required to transfer the excess assets back to the employer or to a non-complying fund but, instead, will be required to cease receiving contributions until such time as the funds' assets are again within the funding limit. The funding rules are more flexible and, in particular, will reduce the scope for the build up of unnecessary surpluses. The taxation treatment of amounts repaid to an employer or transferred to non-complying funds is also being changed to recover tax relief gained during the period benefits accrue in a concessional taxed environment.

Full details of the changes to be made to the administration of the RBL are contained in the separate document released concurrently by the Insurance and Superannuation Commission entitled 'Information Paper: Review of the Administration of the Reasonable Benefit Limits'.

Improved Vesting and Preservation Standards

In order to ensure that the superannuation tax concessions are more effective in providing income in retirement, improved vesting and preservation standards will apply to all employer-financed benefits that accrue from 1 July 1995. In addition to the existing vesting and preservation standards:

- all employer-financed benefits accruing from 1 July 1995, other than those already required to be vested under existing standards, will be subject to a minimum 10 year vesting scale; and
- from 1 July 1995, an amount equal to the level of all employer-financed benefits that are required to be vested under the new vesting standard will also be required to be preserved until retirement on or after age 55.

Improved vesting and preservation of benefits are important elements in enhancing the role of superannuation savings in the provision of retirement income. The Government will therefore monitor the workforce's participation in superannuation and implementation of the new vesting and preservation standards in order to determine the feasibility of further enhancement of vesting and preservation to age 60 after the year 2005.

The Insurance and Superannuation Commission will be consulting with the superannuation industry, employers and unions in the process of the detailed implementation of these improved vesting and preservation standards.

Better Integration of the Social Security and Taxation Systems

The Government will be implementing measures to improve the interaction between the social security system and the tax system for pensioners so as to remove disincentives to individuals undertaking retirement savings and thereby to encourage greater self-provision in retirement.

Many pensioners currently face very high effective marginal tax rates (EMTRs) caused by the combined effects of withdrawal of the pension above the income test free area, marginal income tax rates and withdrawal of the pensioner tax rebate on their non-pension income above the free area. These very high EMTRs not only distort savings and investment behaviour of pensioners and those saving for retirement but also cause resentment, confusion and compliance difficulties for pensioners facing two separate systems of administration.

From 1995, a better integrated system of social security and tax administration will be introduced for age and service pensioners which will remove age and service pensioners from the tax system and make part-rate pensioners subject only to the 50% withdrawal rate on their pension entitlements imposed under the pension income test. This will be achieved by increasing the pensioner rebate to exempt from tax persons in receipt of an age or service pension, with the rebate being withdrawn beyond the pension shade-out range. Under these arrangements, the current high EMTRs faced by pensioners over the withdrawal range of the pension (of up to nearly 77% for a single pensioner) will be reduced to 50%. These substantial prospective reductions in EMTRs will encourage the current workforce to make greater self-provision for retirement income and thus reduce reliance on social security pensions.

This significant reform will reinforce and extend the measures announced in the April 1989 Economic Statement to exempt from tax full-rate pensioners within the income test free areas of \$40 per week for single pensioners and \$70 per week combined income for married-rate pensioners. To preserve the effect of these measures, the income test free area for the pension will be indexed annually, commencing in the 1991-92 income year.

Tax Treatment of Life Insurance

Following a review of the taxation treatment of life insurance conducted in consultation with industry bodies, expenses incurred by life office companies (that is, excluding friendly societies and other registered organisations, which are eligible for a lower tax rate) in gaining the investment component of life insurance premium income are to be allowed as a taxation deduction, with the deduction to apply in respect of expenses incurred on or after 1 January 1990. No other changes to existing taxation arrangements are proposed as a consequence of the review.

Allowing deductibility to life offices of the expenses incurred in gaining the investment component of premium income achieves broad consistency with the taxation arrangements applying to conceptually equivalent expenses of certain other financial intermediaries. Life insurance is a major source of long-term savings for business investment purposes. The removal of inconsistencies in the taxation treatment of life offices' life insurance business removes an unfair tax burden on such investments, thereby increasing the return on savings in this form.

The deductible proportion of expenses incurred in gaining life insurance premium income will be determined by reference to that proportion of total premium income remaining after subtracting the risk or insurance component. In the interests of consistency, a suitable mortality basis will be specified in the amending legislation; life offices will also be required to have the investment component of premium income on which the claim for a deduction is based certified by the Life Office Actuary. No

deduction will be allowed in respect of the gaining of premium income from exempt policies.

Company Tax Collection System

Companies presently obtain much greater tax deferral benefits than other taxpayers, benefits equivalent to an interest free loan from the Commonwealth of the deferred tax. Companies benefit from deferring the payment of tax until after, rather than during, the income year; from being able to spread such payments over that following year; and from basing the first three quarterly payments on income of two years prior to the year of tax. In comparison, tax instalments of wage and salary earners are for, and based on, actual income earned in a pay period. Provisional tax payments of other non-company taxpayers are for current year income and are based on uplifted prior year income.

A new tax collection system for companies, complying superannuation funds, complying approved deposit funds and pooled superannuation trusts will therefore apply in respect of their 1989-90 and subsequent years of income. Since these entities are required to pay tax in the year following the year of income, the new arrangements will first affect tax payments in their 1990-91 financial year (or substituted year in the case of early balancing companies). The changes will alter the timing of payments within the financial year of affected taxpayers but not the total amount payable. The bring-forward of payments within the year will reduce the tax deferral available to these taxpayers compared to individuals, thereby enhancing the equity of the taxation system. It will generate a significant reduction in Commonwealth outlays by reducing public debt interest.

The amended collection system will consist of a single instalment of tax, due by the 15th day of the first month after the end of the year of income (or substituted accounting period of early balancing companies, with 15 January being the earliest due date), equal to 85% of the notional tax amount or 85% of the taxpayer's estimate of actual tax liability. The balance of tax owing will be due by the 15th day of the ninth month following the end of the income year (or substituted accounting period of early balancing companies, with 15 September being the earliest due date). Companies which balance after 30 June in lieu of that date will continue to be treated as if they balance on 30 June.

The notional tax amount will continue to be determined by applying the tax rate applicable to the year of income to the preceding year's taxable income. The option to estimate actual tax liability will replace the current provisions allowing companies whose actual tax liability is less than the notional tax amount to vary their instalments. Penalties modelled on those currently applicable when the taxpayer varies instalments will apply where the actual tax liability is underestimated by more than 10%.

The current exclusion of liability for instalments is retained where notional tax is less than \$1000. The total amount of tax owing by companies in this situation will be due by the 15th day of the ninth month following the end of the income year (or substituted accounting period of early balancing companies).

To enhance the efficient operation of the tax collection system, changes consistent with a system of self-assessment will also be made. Rather than having the Commissioner of Taxation inform companies of their instalments by service of notices, and the balance of tax owing by issue of assessments, such taxpayers will be required to

determine their instalments on the basis of notional tax or their estimate of actual tax, and to make their own calculation of their balancing payment. A notice of assessment would still be issued and would provide for further payments or refunds in appropriate cases.

The following examples illustrate the new arrangements.

- A company balancing on 30 June 1990, in respect of its 1989-90 income year, will be required to pay an instalment of tax by 15 July 1990. The instalment will be 85% of the company's notional tax (based on taxable income of the 1988-89 income year) or, if the company so elects, 85% of its estimate of the tax payable for the 1989-90 income year. The balance of tax will be payable by 15 March 1991.
- A company with a substituted accounting period balancing on 31 December 1989, in lieu of the following 30 June, will be required to pay its initial instalment by 15 January 1990 and its balance of tax by 15 September 1990.
- A company balancing on 30 June 1990 in respect of its 1989-90 income year in which it derived taxable income, but which paid no tax in that year because it had no taxable income in 1988-89, will be required to calculate and pay by 15 March 1991 the full amount of tax due on its 1989-90 income.

To ensure that the appropriate instalment payments are not avoided, the Commissioner of Taxation will be authorised to determine that the instalment payable be based on the notional tax amount, rather than the taxpayer's own estimate, or to adjust the amount of the instalment to an amount not exceeding 85% of the notional tax amount if, in the opinion of the Commissioner, the company or its associates have engaged in a scheme designed with the sole or dominant purpose of reducing the level of the instalment. If the amount of the instalment paid by the company is less than the amount so determined by the Commissioner of Taxation, penalties will apply in respect of the difference.

The requirement for a single instalment of tax, in lieu of the existing system requiring three instalments prior to the payment of the balance, will bring forward from 1990-91 to 1989-90 revenue of \$885m from early balancing companies. The requirement for an earlier payment of the self-assessed balance of tax will bring forward \$150m of revenue from 1991-92 to 1990-91. The bring-forward of the instalment and balancing payment dates within the taxpayer's tax year will result in ongoing savings in public debt interest outlays of about \$330m in each year from 1990-91.

PAYE Remittances

From 1 December 1989, group remitters with annual PAYE remittances exceeding \$5m (and companies that are members of a wholly owned group with aggregate annual remittances exceeding \$5m) will be required to remit twice monthly—on the 7th and 21st of each month—tax instalment deductions made from wages and salaries.

This change is the first step towards PAYE remittance arrangements aimed at moving larger group employers to a bi-monthly system and small employers, comprising the majority of remitters, to a less frequent payments system than at present and, possibly, at discontinuing the tax stamps system.

The change brings forward into the 1989-90 income year two weeks' PAYE collections, lifting revenue by some \$550m.

The reduction in the payment deferral benefits achieved by the closer matching of remittances to collections will result in estimated public debt interest savings of \$20m in 1989-90 and \$70m in 1990-91 and later years.

General Income Tax Measures

Capital Gains Tax Measures

The Government has decided to make a number of amendments to the capital gains tax (CGT) provisions. These amendments do not encompass any fundamental changes in the design of the CGT. Rather, they represent a fine tuning of the provisions that the Government believes necessary having monitored the functioning of the tax over its initial four years of operation. The following is a summary description of these amendments. Further details of the amendments are contained in the Treasurer's related Press Release of 15 August 1989.

(i) Deemed Disposals of Assets

In a number of specific circumstances, transactions in relation to underlying assets acquired before 20 September 1985 are deemed by the CGT provisions to involve the disposal of a separate asset acquired immediately before the disposal takes place. These circumstances include the grant of a lease, the grant of an option and the grant of a right to use or exploit an asset, or an agreement to forfeit or surrender a right (for example, a restrictive covenant). These measures were not fully detailed until the CGT legislation was introduced into Parliament on 22 May 1986. The Government has decided to amend the law to exclude from CGT certain transactions occurring before 23 May 1986 (rather than 20 September 1985) in these circumstances.

(ii) Securities Lending Arrangements (Scrip Lending)

Taxpayers engaged in certain securities lending arrangements will be allowed relief from income (including capital gains) tax provided that the security returned is the very same security as that originally lent or a security identical to that originally lent. This change will be applied from the time amending legislation is introduced.

(iii) Effect of Tax-Free Distributions on Cost Base of Shares and Units in Unit Trusts

A tax-free distribution in respect of a unit in a unit trust or a share in a company results in a reduction in the taxpayer's cost base for the unit or share for capital gains tax purposes. Under present CGT provisions, where the tax-free distribution occurs within 12 months of the acquisition of the unit or share, the unindexed cost base is reduced, so that indexation benefits up to that point are denied.

For distributions on or after 16 August 1989, the reduction in the cost base will be applied to the indexed cost base when the distribution is made, provided that, at the time of subsequent disposal, the units or shares have been held for at least 12 months.

(iv) Business Reorganisations

Based on the principle that reorganisations of ownership arrangements which entail no change in the effective beneficial ownership of assets by a taxpayer should entail no adverse CGT consequences, the Government will amend the taxation law so that:

- with effect from 20 September 1985, rollover relief is extended to taxpayers:
 - (i) on conversion of various home unit ownership schemes (for example, company title) to strata title;
 - (ii) whose interests in incorporated associations are converted into shares in companies; and
- with effect from 16 August 1989, where a pre-CGT asset that is not a taxable Australian asset is transferred to a non-resident group company, in determining the application of anti-avoidance provision Section 160ZZT of the *Income Tax Assessment Act 1936*, the asset will be taken to be a pre-CGT asset.

(v) Treatment of Convertible Notes

The CGT provisions are to be amended to ensure that where shares acquired as a result of the conversion of a convertible note are disposed of, the CGT provisions only apply to gains and losses on the shares which arise after conversion. This amendment will eliminate the possibility of double taxation (and the possibility of duplication of losses) created by the amendments to the basis of taxation of traditional securities acquired after 10 May 1989. The amendment will apply in respect of gains on shares disposed of after 10 May 1989 and in respect of losses on shares disposed of on or after 16 August 1989.

(vi) Principal Residence Exemption

As a result of a review of certain operational aspects of the Principal Residence Exemption (PRE), that exemption is to be available where taxpayers:

- build a dwelling upon vacant land and use that dwelling as their sole or principal residence for a continuous period of (at least) three months before disposal (the residency requirement had previously been 12 months);
- die during the period after the commencement of construction of a new home but prior to fulfilling the full residency requirement; or
- erect a dwelling on land acquired before 20 September 1985, or construct a new dwelling following the demolition of an existing dwelling, or complete a partially constructed dwelling.

Further, the provisions relating to the PRE are to be amended to:

- allow the PRE to apply in respect of a period of absence from the principal residence (of up to four years) where the taxpayer dies during that period;
- allow a discretion for the Commissioner of Taxation to accept late elections from taxpayers (including beneficiaries/trustees) for the four year temporary absence concession;

- take into account the use of a dwelling (as a principal residence) by a beneficiary during the relevant period where a disposal occurs within 12 months of the deceased's date of death;
- extend the availability of the PRE in certain situations where homes are occupied by beneficiaries of trust estates for periods while title to the home continues to vest in the trustee; and
- correct two minor technical deficiencies in the PRE provisions relating to the availability of the PRE for beneficiaries.

These amendments are in accordance with established policy in providing an exemption for a principal residence. The amendments address situations where the law would otherwise have operated harshly. As a result, the amendments generally will be backdated to apply to properties acquired on or after 20 September 1985. The detailed terms and conditions of these amendments are provided in the Treasurer's related Press Release of 15 August 1989.

(vii) Anti-Avoidance Amendments

Following investigation of certain loopholes in the CGT, the Government is to introduce a range of measures to eliminate undue tax advantages. These measures do not extend the scope of the CGT and accord with established CGT principles. The measures, in summary, are set out below.

- **Certain Non-Arm's Length Transactions**—For acquisitions of assets where there is no corresponding disposal for CGT purposes (for example, share issue), the consideration for the asset is to be taken as the lesser of the actual consideration paid or the market value of the asset acquired with indexation of the cost base calculated by reference to the time at which amounts are paid. This provision will apply to assets disposed of on or after 16 August 1989.
- **Disposal of Certain Assets**—On or after 16 August 1989, where an asset is disposed of, but there is no corresponding acquisition for CGT purposes (for example, cancellation of a share), the market value of the asset can be substituted for the disposal proceeds.
- **Disposals of Shares or Interest in an Entity**—In respect of disposals on or after 16 August 1989, the provisions dealing with the disposal of an interest in an interposed entity are to be extended to include a reference to an entity that is a company or a trust estate which, within the period of 5 years commencing on or after 20 September 1985 and prior to the disposal of the relevant shares or interests, had been a private company or a private trust estate.
- **Transfer of Capital Losses**—The transfer of a capital loss realised on the disposal of an asset acquired on or after 20 September 1985 is to be limited to the amount of the cost base of the interests held, directly or indirectly, by group companies in the company transferring the loss. Where a capital loss is transferred to another company in the group, the cost base, reduced cost base and indexed cost base of interests held directly or indirectly by group companies in the transferee company that were acquired on or after 20 September 1985 will be reduced accordingly. These provisions will apply to losses transferred on or after 16 August 1989.

- Rollover Relief—The rules affecting rollover relief in relation to company reorganisations are to be tightened. Where an asset is transferred from a person to a wholly owned company or between companies in a corporate group on or after 16 August 1989, rollover relief will be limited to a case where:
 - the consideration in respect of the transfer of the asset consists solely of shares in the transferee company (and the assumption of any liabilities attributable to the asset); and
 - the market value of such consideration equals the net market value of the transferred asset.

Where an asset is transferred between companies within a corporate group:

- (i) if the transferred asset was acquired before 20 September 1985, the shares are taken to have been acquired before that time;
- (ii) if the transferred asset was acquired on or after 20 September 1985, the asset's cost base, indexed cost base and reduced cost base (less any liability assumed) are transferred to the shares;
- (iii) if the issuing of shares to the transferor company is prohibited by law (for example, a subsidiary cannot own shares in a parent), consideration in the form of securities of the transferee company is acceptable (subject to the same CGT rules—that is, cost base, market value and CGT status—that would apply to shares issued in other situations); and
- (iv) no rollover relief is allowed in relation to loss assets (that is, assets that have a market value less than the reduced cost base).

Rollover relief is also available where a subsidiary group company distributes an asset to its parent company where no consideration is received for the transfer. In these cases, the cost bases of the shares in the subsidiary will be proportionately reduced by the cost bases of the asset transferred if it was acquired on or after 20 September 1985 or by the market value of the asset transferred if it was acquired before that time (less any liability assumed).

- Although not an anti-avoidance measure, an associated amendment will apply where an asset is a right or option to acquire shares or further options of a wholly owned subsidiary company and is issued for no consideration to parent company shareholders (or convertible noteholders). The change will operate so that the deemed date of acquisition of the asset and the cost base treatment of the asset (or of shares or options acquired upon the exercise of the asset) will be the same as if the subsidiary company had issued the right or option to its own shareholders. This measure will apply to rights and options issued on or after 16 August 1989.

deductibility of Costs of Professional Taxation Advice and Compliance with Taxation laws

From 1 July 1989, expenditure incurred by a taxpayer in complying with all Australian tax laws (including attending to the requirements of an audit by the Australian Taxation Office of the taxpayer's affairs) will be deductible for income tax purposes. The costs of preparing and prosecuting an objection or appeal against a determination made

under an Australian tax law, and in seeking tax advice on the taxpayer's business and financial dealings, will also be deductible.

The allowable expenditure will be confined to payments to registered tax agents, or to solicitors or barristers who are exempt from the requirement to register as tax agents, but will include expenditure incurred where the relevant services are provided by employees of the taxpayer.

Deductions will not be allowed for expenditure incurred in connection with an offence against any tax law, or for expenditure of capital or of a capital nature other than by way of depreciation. Also, deductions will not be allowed where the expenditure relates to a non-income earning activity or asset.

Any deductible costs that are recovered will be assessable income in the income year of receipt.

Dividend Selection Schemes and Share Based Financing Arrangements

Following a review of various arrangements which have emerged since the introduction of the dividend imputation system, the Government has decided to amend the tax law to address dividend selection and share based financing arrangements.

A variety of structures has been developed to accommodate dividend selection arrangements. Under one form of arrangement shareholders are offered the choice of receiving distributions in the form of franked dividends or as bonus shares paid from the company's share premium account. The issue of shares from the share premium account has been treated as a restructuring of capital and, therefore, has not been regarded as the payment of a dividend. Shareholders with no use for franking credits could elect to receive bonus shares paid from the share premium account in lieu of franked dividends.

The other common form of dividend selection involves arrangements where shareholders have been able to select a dividend from different companies within the company group. This may have involved, for example, stapled stock where shareholders investing in a company group were issued with shares not only in a holding company, but also in one or more subsidiaries or associates of the group. These shares were 'stapled' together and could not be traded separately, the general purpose of such arrangements being to allow shareholders an election as to whether dividends are paid from the parent or from a nominated stapled entity. In practice, one arm of the staple would offer a franked dividend, while the other would offer an unfranked dividend. A variety of other structures has also been developed for these purposes, but the common feature of all such schemes is that shareholders could select the source of their dividends in order to achieve the best possible tax result.

To remove the Australian tax benefits associated with dividend selection schemes, the new measures will require that the dividend franking account of a company paying a dividend be debited in respect of all dividends paid, from whatever source, under a dividend selection scheme of which the company's dividends form part. The company's franking account will be debited at the maximum (domestic) franking rate of any dividends available under the scheme.

In addition, bonus shares paid from a share premium account will be deemed as dividends for dividend franking purposes unless the bonus shares are distributed pro rata

to all shareholders on a non-renounceable basis. The amount of dividend deemed to have been paid by the issue of bonus shares under a dividend selection plan will be calculated by multiplying the number of shares upon which an election to receive the bonus shares has been made by the amount of the dividend to which shares not participating in the scheme are entitled.

In order to give time for companies to adjust their arrangements, and for legislation to be enacted, these changes will apply in respect of dividends paid on or after 1 July 1990.

These amendments will not prevent companies from introducing dividend selection schemes designed to allow, for example, non-resident shareholders in an Australian company to obtain the benefit of imputation credits provided in their country of residence, but the ability of such schemes to exploit the Australian imputation system will be removed.

Franking credits can also be used in financing schemes through the use of preference shares (or similar schemes) on which franked dividends are paid. Such schemes are attractive to tax-loss or otherwise non-taxable borrowers, unable to access the interest deductions associated with a standard financing arrangement, but possessing franking credits surplus to their present requirements.

Under these schemes, a borrower could issue (say) redeemable preference shares to a financier; the financier would subsequently receive, in lieu of taxable interest, dividend income free of tax by virtue of the intercorporate dividend rebate and would be able to credit its franking account with the franking credits attached to the dividend; in practice, most of the tax benefits would be arbitrated to the borrower in the form of concessional-rate finance.

To combat such arrangements, dividends paid in respect of shares issued, under share based financing arrangements, on or after 16 August 1989, or under share based financing arrangements entered into on or after 16 August 1989 will be precluded from being frankable dividends. This will prevent franking credits and franking rebates arising in relation to these dividends. The meaning of 'financing arrangements' for this purpose will be the same as that applying in Section 46D of the *Income Tax Assessment Act 1936*. This will also effectively extend the scope of Section 46D to deny the intercorporate dividend rebate in respect of all dividends paid under share based financing arrangements. In addition, such dividends, by virtue of not being franked dividends, will be subject to dividend withholding tax when paid to non-residents.

Medicare Levy Exemption

From 1 July 1989, a person who is personally exempt from the Medicare levy will no longer be required to pay a half levy in respect of a non-exempt dependant where that dependant is subject to the levy on separate income.

Medicare Levy Low Income Thresholds

The low income thresholds for Medicare levy purposes will be increased to \$10 300 for individual taxpayers and \$17 360 for married couples and sole parents in 1989-90. The additional threshold for children will remain at \$2100.

Pensioner Rebate

Details of the levels of pensioner tax rebates and related arrangements to apply in 1989-90 as a result of the policy announced in the April 1989 Economic Statement are set out in Appendix A.

Provisional Tax—Quarterly Instalments

In response to a review of the quarterly instalment system of paying provisional tax, the Government has decided to raise the threshold for general exemption from \$5000 to \$8000. This change will apply to provisional tax payable in 1989-90 and subsequent income years. As a result, some 130 000 of the existing 320 000 instalment taxpayers will instead pay provisional tax annually, including 45 000 taxpayers aged over 60 years.

In addition, where income tax payable for an income year is less than the provisional tax credit of that year, the excess credit will not be offset against a quarterly instalment of provisional tax unless the instalment is due for payment. This change will apply from the time of Assent to the amending legislation.

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 to base the calculation of provisional tax payments. The standard percentage applied in 1988-89 was 12%; an uplift factor of 10% will apply in 1989-90, reflecting an anticipated slowing in income growth of provisional taxpayers. The 1989-90 rates scale will be applied to notional incomes calculated in that way.

Provisional taxpayers retain the option of self-assessment (that is, 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 1989-90 rates scale to their estimates of 1989-90 income.

Removal of Seven Year Loss Carry-forward Restriction

Consistent with the Government's policy of addressing taxation distortions, the seven year loss carry-forward restriction will be removed in respect of all taxation losses, including film losses, incurred in the 1989-90 and subsequent income years. Unlimited carry-forward will apply to such losses.

Resetting and Targeting of Beneficiary Rebate

A rebate is available for taxpayers receiving Australian unemployment, sickness or special benefits, a Job Search Allowance, a Formal Training Allowance or certain Commonwealth education allowances to ensure that persons wholly or mainly dependent on those taxable benefits do not bear income tax.

From the 1989-90 income year, the rebate level will be set on an age-related basis reflecting the different benefit levels that apply to single beneficiaries of the age groups: under 18 years, 18-20 years, 21 years and over and, where in receipt of a benefit for six months or more, 60-64 years. The separate rebate level for married beneficiaries will

continue to apply. Thus, regardless of age or marital status, application of the new rebate structure will ensure that all full-rate beneficiaries without non-benefit income will continue to be exempt from tax. The maximum rebate will be reduced, as previously, at the rate of 12.5 cents for each dollar of taxable income in excess of the taxable income thresholds implied by the full-rate, full-year benefit.

Also from the 1989-90 income year, the levels of rebate will be set, following the release of the CPI figures for the December quarter of each year, by regulation based on policy guidelines prescribed in legislation. The table below sets out, for 1989-90, estimated rebate levels and associated taxable income thresholds. As the full-rate, full-year benefit to under 18 year old beneficiaries is currently below the income tax threshold of \$5100, no rebate is required.

Table 3: Estimated 1989-90 Beneficiary Rebate Levels (\$pa)

Beneficiary Status	Rebate Level	Income Threshold (a) (1)	Income Threshold (b) (2)
Single			
under 18 years	—	n.a.	n.a.
18-20 years	70	5430	5990
21+ years	330	6670	9310
60-64 years (c)	340	6710	9430
Married	450	12000	15600

(a) Income Threshold (1) is the maximum taxable income at which the beneficiary is eligible for the full rebate.

(b) Income Threshold (2) is the taxable income at which the rebate is fully extinguished.

(c) From June 1990 single beneficiaries aged 60-64 years in receipt of a benefit for six months or more will be entitled to the higher, pensioner level of benefit.

Tax Deductions for the Quarrying Industry

Quarrying operations are to be included in the mining provisions of the *Income Tax Assessment Act 1936*. Those provisions provide write-off for certain classes of capital expenditures such as exploration, site preparation, certain items of infrastructure and for transport facilities used in transporting minerals from a site. The new arrangements will apply to all allowable capital expenditure incurred on or after 16 August 1989. The provisions will apply to quarrying on the same basis as for mining except that:

- capital expenditure on housing and welfare facilities for employees will not be deductible under these provisions. Quarries are typically located near urban areas where the housing can be expected to maintain value unrelated to the life of the quarry. There is hence no basis to accord concessional write-off; and
- the statutory maximum write-off period under both Divisions 10 and 10AAA will be set at 20 years. Quarrying operations are generally undertaken on extensive deposits which typically have a longer life than most mines. This longevity is appropriately reflected in a longer maximum write-off period. Expenditures on

quarries with a life shorter than 20 years will be eligible for write-off over the life of the quarry.

The inclusion of quarrying in the mining provisions recognises the many similarities between quarrying and mining—they involve the exploration for, and exploitation of, a wasting asset and, in many instances, use similar production methods and techniques—as justifying similar taxation treatment. All prescribed mining operations eligible for deductions under the existing provisions will remain so eligible.

Tax Exemption for Certain Clubs

All non-profit clubs, societies and associations established for the promotion or encouragement of a sport or game are to be exempt from income tax. This extends the previous exemption which had applied only to clubs, societies or associations promoting athletic games or sports in which human beings were the sole participants and to animal racing clubs. The new arrangements address many anomalies that had resulted from tax exempt status being based on such arbitrary criteria as what constitutes athletic and whether human beings are the sole participants in the activity. As a result of the changes, sporting clubs such as motor cycle clubs and pony clubs will have the same tax status as other sporting clubs. The extended exemption is to apply with effect from the 1989-90 income year.

Clubs, societies and associations will continue to be taxable where their activities go beyond the promotion or encouragement of sports or games, for example, where the provision of social facilities, entertainment and the like is more than merely incidental to sport promotion.

Non-profit community service organisations such as Lions and Rotary are also to be exempted from tax with effect from the 1989-90 year of income. Although such organisations have rarely been subject to tax in the past, and are unlikely to have a taxable income, the specific provision will remove any uncertainties in this area.

Tax Status of the Australian Wool Testing Authority

Consistent with the Government's reforms of government business enterprises directed at greater economic efficiency and a level playing field, the current exemption from taxation of income accorded to the Australian Wool Testing Authority will be removed with effect from 1 July 1990.

Thin Capitalisation

The exclusion of Australian-owned non-resident companies from the definition of 'foreign controller' for the purposes of the thin capitalisation rules in Division 16F of the *Income Tax Assessment Act 1936* will be removed with effect from 1 July 1990.

Wholesale Sales Tax

Aids to Manufacture

The Government has reviewed the application of the aids to manufacture (ATM) provisions of the sales tax law, which exempt from tax equipment and materials for use in specified processes in the manufacture of goods. The review identified that anomalies arise under the ATM provisions where persons engaged to perform certain tasks on a

manufacturer's behalf are not entitled to exemption on equipment and materials even if the manufacturer would have been so entitled. Broadly, it is proposed to amend the sales tax law to exempt goods for use exclusively by any person in:

- (i) packaging or labelling goods (but not for delivery);
- (ii) testing or checking the quality or specifications of goods;
- (iii) disposing of waste substances;
- (iv) transporting goods within manufacturing premises;
- (v) storing goods within manufacturing premises; or
- (vi) operating, applying, cleaning or sterilising ATM;

on behalf of manufacturers in relation to goods which are processed or treated in manufacturing operations. The changes will operate from the date of introduction of the legislation, which is expected to be in the Budget 1989 sittings of the Parliament.

Flavoured Milk Drinks

The Government has decided to reduce from 95% to 90% the minimum milk content requirement that flavoured milk drinks must meet in order to be taxed at the concessional sales tax rate of 10%. This follows a review of industry claims that, in meeting the 95% requirement, producers of flavoured milk drinks have had to bear additional production costs. The change will operate from 16 August 1989.

Small Manufacturer Exemptions

The sales tax law is to be amended to increase:

- from \$12 000 to \$50 000 the threshold amount of average annual sales by a manufacturer above which goods manufactured become taxable; and
- from \$250 to \$1000 the threshold amount of sales tax liability of a manufacturer above which goods manufactured by that person become taxable.

The new thresholds are double those necessary to compensate for growth in retail prices since the thresholds were last adjusted in 1979. As a result, some 12 000 small manufacturers (16% of the total) will no longer need to register and to lodge returns.

These changes will operate from the date of introduction of the legislation, which is expected to be in the Budget 1989 sittings of the Parliament.

Other Measures

Application for Temporary Resident Visa

A fee of \$30 will apply from 1 September 1989 for processing of applications for various temporary resident visa categories.

Compliance/Malpractice—Quarantine and Inspection

Fees will be charged to recover part of the cost involved in detecting and dealing with malpractice relating to breaches of relevant quarantine legislation.

Interest on Cash Balances with the Reserve Bank

As part of a program of running leaner cash balances and reducing short-term debt issue, interest earnings on the Commonwealth's cash balances held with the Reserve Bank will fall in 1989-90 and 1990-91. This decline in interest earned will be more than offset by the interest savings from reduced debt issue.

Radiocommunications Licence Fees

Radiocommunications licence fees will increase by 7.5% from 1 December 1989 and will be indexed to the CPI in future years.

Therapeutic Goods

Under a revised therapeutic goods scheme with effect from 1 July 1990, 50% of the cost of the Therapeutic Goods Program is to be recovered by fees and charges on industry.

PART 3: REVENUE ESTIMATES AND OUTCOMES

The following table sets out the 1988-89 Budget estimates and outcomes and the revenue estimates for 1989-90.

Table 4: Revenue Estimates

	1988-89			1989-90		
	Estimate	Actual	Change on 1987-88	Estimate	Change on 1988-89	%
	\$m	\$m	%	\$m	\$m	%
Taxation Revenue -						
Income Tax -						
Individuals -						
Gross PAYE (a) (c)	37950	39106	17.2	41220	2114	5.4
Refunds (c)	2710	2550	6.2	2980	430	16.9
Net PAYE (a)	35240	36556	18.1	38240	1684	4.6
Other (a) (b)	8850	7352	-6.7	8835	1483	20.2
Medicare Levy (c)	2315	2320	11.5	2595	275	11.9
Prescribed Payments System (d)	1175	1308	36.6	1650	342	26.1
Total Individuals (b)	47580	47536	13.5	51320	3784	8.0
Companies (b)	10200	10265	16.6	11360	1095	10.7
Superannuation Funds	-	7	n.a.	885	878	n.a.
Withholding Tax	700	737	10.5	850	113	15.4
Fringe Benefits Tax	1000	990	12.4	1120	130	13.2
Total Income Tax	59480	59535	14.0	65535	6000	10.1
Sales Tax	8630	9402	24.6	10500	1098	11.7
Excise Duty -						
Crude Oil & LPG	1383	1188	-42.2	1352	164	13.8
Petroleum Products	5050	5163	6.8	5645	482	9.3
Other	2217	2252	-19.0	2267	15	0.7
Customs Duty -						
Imports	3540	3753	3.3	4030	277	7.4
Coal Exports	52	50	-1.3	52	2	4.5
Debits Tax	360	358	8.6	390	32	8.9
Other Taxes, Fees and Fines	1606	1551	8.0	1554	3	0.2
Total Taxation Revenue	82318	83252	11.2	91325	8073	9.7
Non-Tax Revenue -						
Interest	3662	3751	2.3	3431	-320	-8.5
Dividends and Other	1517	1024	-54.8	1120	96	9.4
Total Non-Tax Revenue	5179	4775	-19.5	4550	-225	-4.7
TOTAL REVENUE	87496	88027	8.9	95875	7848	8.9

(a) Excludes an estimated amount for Medicare levy, which is listed separately.

(b) Includes tax on realised capital gains directly attributable to the capital gains tax provisions introduced as part of the 1985 tax reform package.

(c) Medicare levy is not separately identified at the point of collection and these figures are therefore estimates.

(d) Includes in 1988-89 an estimated \$113m collected from companies under the Prescribed Payments System.

(e) In 1989-90, repayments to the Higher Education Contribution Scheme estimated at \$10m will be collected in the gross PAYE taxation head, and transferred directly to the Higher Education Trust Fund. This appropriation is classified as an offset to a revenue, leaving the gross PAYE taxation head unaffected in aggregate.

TAXATION REVENUE

Total taxation revenue in 1988-89 increased by 11.2% and is forecast to increase by 9.7% in 1989-90. The ratio of tax revenue to GDP fell from 25.2% in 1987-88 to 24.8% in 1988-89 and is expected to rise to 25.0% in 1989-90.

Individuals

Income tax from individuals is collected in a number of ways. Wage and salary earners and some other individuals pay tax through the course of the financial year in the form of PAYE instalment deductions made by their employers from wages or salaries. To the extent that there is any over-deduction during the year, PAYE taxpayers receive refunds on the basis of their final assessments which are lodged after the end of the financial year. Most non-PAYE taxpaying individuals are provisional taxpayers who pay tax either once a year (mainly between March and May) or, if their tax liabilities are more significant, quarterly. Participants in the prescribed payments system are an exception. They pay a fixed percentage of their work-related payments at source through the course of the financial year.

The ratio of revenue collected from individuals to total revenue is expected to continue to trend upward in 1989-90 despite the large tax cuts during that year. This reflects continued strong employment and income growth, and the continued weakness in revenue from non-tax sources. (After falling by 19.5% in 1988-89, non-tax revenue is projected to decline a further 4.7% this year; see below.)

PAYE Instalment Deductions

Gross PAYE collections (net of the Medicare levy) in 1988-89 were \$39 106m, 3.0% above the budget estimate. The major factors underlying this outcome were stronger than expected growth in the number of wage and salary earners in employment and somewhat faster increases in average earnings. It is estimated that employment (wage and salary earners) grew by 4³/₄% compared with a budget-time estimate of 2²/₄% and that average weekly earnings (National Accounts basis, excluding superannuation) grew by 6¹/₄% compared with a budget-time estimate of 5³/₄%.

Gross PAYE collections (net of the Medicare levy) in 1989-90 are estimated at \$41 220m, an increase of 5.4% compared with an increase in 1988-89 of 17.2%.

The 1989-90 gross PAYE estimate is based on expected employment growth for wages and salary earners of 3¹/₄% and an increase in average weekly earnings (National Accounts basis, excluding superannuation) of about 6¹/₂%. The estimate reflects the effect on collections of the 1 July 1989 tax cuts (see Table 1), the bring-forward of PAYE remittances (see Part 2), actual collections in July 1989 and the shifting of some income in 1989-90 (and consequent tax liability) from the 'other' individual income tax head to the company tax head, as a result of decisions by some individuals to incorporate their business activities. This will increase gross PAYE collections by increasing the number of wage and salary employees.

PAYE Refunds

Refunds to PAYE taxpayers relate to tax instalments deducted from salary and wage income earned in the previous financial year against income tax assessments made for those years.

PAYE refunds (net of the Medicare levy) of \$2550m were 5.9% lower than the budget estimate, reflecting a greater than expected effect on refunds in 1988-89 of the additional payday in 1987-88, and the continuing impact of substantiation on employment-related expenses.

Refunds in 1989-90 are estimated to be \$2980m, an increase of 16.9% on 1988-89. The 1988 tax amnesty, by bringing more income to account, is expected to add to refunds; this will decrease net collections in 1989-90 because, on average, tax already paid exceeds outstanding tax liability identified through the amnesty.

Other Individuals

Most revenue received in this category is from provisional taxpayers. These are individuals who have, in the previous financial year, received \$1000 or more from sources other than salary and wages. Taxpayers with a tax liability of over \$8000 in the previous financial year (increased from \$5000 in this Budget) are normally required to pay provisional tax by quarterly instalments (in September, December, March and June). Other provisional taxpayers usually make one payment in March/April. Other revenue received under this category includes amounts received from non-provisionals and from previous years' assessments.

Current year provisional tax liability is determined by increasing the previous year's assessed income by the prescribed uplift factor—set at 10% for 1989-90—to allow for the expected increase in incomes. The provisional tax liability is combined with any balance on assessment of the previous year's tax liability to determine current year tax payments.

Net collections from other individuals (excluding the Medicare levy) totalled \$7352m in 1988-89, a substantial shortfall (\$1498m or 16.9%) on the budget estimate of \$8850m. The major factors underlying this shortfall were:

- weaker than expected growth in interest income resulting from an apparent shift in the composition of investment portfolios away from interest bearing financial assets towards insurance company and friendly society bonds;
- a higher than expected level of incorporation;
- a larger than anticipated impact of dividend imputation;
- a higher than expected level of refunds relating to tax paid under other heads of revenue; and
- some slippage of revenue into the early months of 1989-90 because of processing delays as a result of the tax amnesty and revised working arrangements flowing from the Office Structures Implementation in the Tax Office.

Other individual collections in 1989-90 are estimated to be \$8835m, an increase of 20.2% on 1988-89. This forecast increase reflects strong income growth in 1988-89, an estimated much lower revenue cost of dividend imputation than was the case in 1988-89, some recoupment of 1988-89 revenue delayed into 1989-90 and a small net positive revenue impact of measures announced in the May 1988 Economic Statement. Growth has been reduced, however, by the tax cuts, the continued impact of incorporation and the lower provisional tax uplift factor (see Part 2).

Medicare Levy

Individuals pay the Medicare levy at a rate of 1.25% of their taxable income above specified income thresholds (see Part 2).

Estimated collections from the Medicare levy in 1988-89 were \$2320m, \$5m higher than forecast at budget time. This comprised \$1960m from PAYE taxpayers (\$2140m gross PAYE less \$180m refunds) and \$360m from other individuals.

Collections in 1989-90 are estimated to reach \$2595m, \$2130m from PAYE taxpayers (\$2330m gross PAYE less \$200m refunds) and \$465m from other individuals.

Prescribed Payments System

Prescribed payments system (PPS) collections derive from withholding, at source, taxation on payments for prescribed labour and services in certain industries, including the building and transport industries. The tax liability is paid to the Tax Office in the month following payment.

In 1988-89, PPS collections totalled \$1308m, 11.3% above the budget estimate. The higher than forecast collections reflected stronger than anticipated incomes in the building industry.

Collections from the prescribed payments system in 1989-90 are estimated at \$1650m, an increase of 26.1% on 1988-89. With the nominal value of building activity expected to grow much less than last year, the increase in collections largely reflects an increase in the PPS tax rate from 15% to 20% from 1 July 1989.

Companies

Companies' tax liability is assessed as a fixed percentage of their taxable income. In broad terms, taxable income is the total income of a company minus allowable deductions such as for wages paid to employees, sales tax payments or allowances for depreciation. The company tax rate was 49% for the 1987-88 income year but was reduced to 39% from the 1988-89 income year.

The tax liability of companies, unlike individuals, is payable in the year following the year in which income was derived. The new arrangements which apply to payment of tax liabilities from companies' 1989-90 income year are set out in Part 2.

Company tax collections amounted to \$10 265m in 1988-89, \$65m or 0.6% more than the budget estimate. The small overrun reflected slightly higher income growth, higher collections from new companies and higher collections from foreign tax credits than estimated at budget time, partly offset by lower than expected audit collections and some slippage of collections into 1989-90.

Company income tax is forecast at \$11 360m in 1989-90. The increase over 1988-89 reflects the reduction in the company tax rate from 49% to 39% from the 1988-89 income year, slightly more than offset by the very strong growth in company incomes in that year and continued growth in the number of new companies, partly reflecting the trend of some individuals to incorporate their business activities in 1988-89. It also reflects the impact in 1989-90 of the new company tax collection arrangements announced in this Budget (see Part 2).

Approximately \$60m of the estimate relates to collections from complying superannuation fund business of life assurance companies which will be collected under the company head of revenue. An offsetting adjustment has been made to superannuation fund collections.

Capital Gains Tax

A capital gains tax applies to assets acquired after 19 September 1985, and covers (with some exemptions) real gains on disposal of assets. Collections from the tax are included in the 'individuals' and 'companies' revenue heads.

Collections from the capital gains tax grew strongly in 1988-89, totalling \$281m, or \$181m above the budget estimate and three times the level of 1987-88 collections.

- \$126m was collected from individuals, with over three quarters coming from individuals with taxable income over \$35 000. The bulk of the individuals' liabilities related to sales of shares and real estate, and distributions from partnerships and trusts.
- \$155m was collected from companies, with two thirds coming from companies with taxable incomes over \$2m. Most of the liability related to sales of shares and real estate.

Summary details are set out in Table 5.

Table 5 : Capital Gains Tax for 1988-89 (Income Year 1987-88)

Asset type	No. of Taxpayers	Capital Gain \$m	Tax Paid \$m
Individuals			
Shares	42659	192	78
Real Estate	6167	52	18
Partnership and Trust	13070	70	25
Others (a)	2537	15	5
Sub Total	64453	328	126
Companies			
Shares	1930	236	116
Real Estate	281	62	30
Others (a)	210	19	9
Sub Total	2421	317	155
TOTAL	66874	645	281

(a) For individuals this includes personal use assets and other property; for companies it includes other property and distributions from partnership and trust.

The estimate for capital gains tax collections in 1989-90 is \$500m, \$260m relating to collections from individuals and \$240m to collections from companies. The figures for 1989-90 include collections previously under Section 26AAA of the *Income Tax Assessment Act 1936* and now under the capital gains tax provisions of this Act.

Superannuation Funds

Changes to the taxation arrangements for superannuation funds were announced in the May 1988 Economic Statement, with effect from 1 July 1988. Such funds are now taxed at the concessional rate of 15% with payments made according to the arrangements for company tax.

Tax liability applies to investment income of, and contributions to, complying superannuation funds, including both public (Federal, State and local) and private funds, approved deposit funds, pooled superannuation trusts and the superannuation business of life insurance companies, friendly societies and other registered organisations including State government insurance offices. The taxable income of these entities, including contributions by employers and deductible contributions made under personal superannuation schemes, are now taxed at 15%.

Revenue from this source is estimated at \$885m in 1989-90, compared with the original estimate of \$980m. The original estimate was reduced by \$70m as a result of the amendment relating to fixed-interest approved deposit funds and a further \$60m as a result of the transfer of collections from life assurance companies to the company head of revenue. The estimate has been increased by \$10m as a result of a transfer of non-complying superannuation business from other individuals and by \$25m as a result of the new tax measure relating to the payment of tax liabilities by companies in general.

Withholding Tax

In total, withholding tax collections were \$737m in 1988-89, 10.5% above 1987-88 collections and 5.2% greater than the budget estimate. The estimate for 1989-90 is \$850m, which is an increase of 15.4% on 1988-89.

Interest Withholding Tax

Interest withholding tax is imposed on interest derived by non-residents from Australian sources. In 1988-89, collections amounted to \$638m, 18.1% higher than in 1987-88 and 7.7% greater than the budget estimate. The increase was the result of higher than expected domestic interest rates and a fall in the SA.

In 1989-90, collections are estimated to be \$750m, an increase of 17.5% on 1988-89, reflecting higher domestic interest rates, on average, than last year and a lower SA.

Dividend Withholding Tax

Dividend withholding tax is imposed on unfranked dividends paid to non-residents by Australian companies unless the non-residents carry on business or have permanent establishments in Australia. In 1988-89 collections were \$97m, 22.0% lower than collections in 1987-88 and close to the budget estimate of \$105m.

Collections are forecast to be \$99m in 1989-90, largely unchanged from last year.

Mining Withholding Tax

Mining withholding tax, which amounted to only \$1m in 1988-89, is paid to Aboriginal groups for the use of Aboriginal land for mineral exploration and mining. In 1989-90 collections are again estimated at \$1m.

Fringe Benefits Tax

Fringe benefits tax (FBT) applies to a range of benefits provided by employers to their employees. The FBT rate is currently 49% but, as announced in the April 1989 Economic Statement, it will be reduced to 47% for the FBT year commencing 1 April 1990. This reduction will impact on 1990-91 collections.

Collections in 1988-89 were \$990m, very close to the budget estimate of \$1000m and an increase of 12.4% on 1987-88. The table below disaggregates collections by type of benefit, showing the taxable amount and tax collected.

Table 6: 1988-89 Fringe Benefits Tax by Type of Benefit

Type of Benefit	1987-88		1988-89		Change on		Per cent of Total
	Taxable Amount	Tax Collected	Taxable Amount	Tax Collected	1987-88	1988-89	
	\$m	\$m	\$m	\$m	\$m	%	
Motor Vehicles -							
Statutory Formula Method	834	421	893	479	13.8	48.4	
Log Book Method	38	19	35	19	-1.9	1.9	
Low Interest Loans	286	144	266	142	-1.2	14.4	
Expense Payments	229	115	240	128	11.3	13.0	
Housing	155	78	151	81	3.3	8.2	
Other (a)	205	103	242	140	36.2	14.2	
TOTAL	1747	881	1826	990	12.4	100.0	

(a) Includes board, living-away-from-home allowances, airline transport, property (goods), debt waiver, entertainment, other benefits and audit collections.

Revenue in 1989-90 is estimated at \$1120m, 13.2% above 1988-89 collections, reflecting continuing solid growth in employment and wages and supplements, and an increase in the statutory rate for low interest loans.

Sales Tax

Sales tax is imposed on a range of goods manufactured in, and imported into, Australia. It is levied at the last wholesale point on the wholesale sales value of the goods, at rates of 10%, 20% and 30%.

In 1988-89, revenue amounted to \$9402m, 24.6% higher than in 1987-88 and 8.9% higher than the budget estimate. While part of this growth reflected the introduction of a 20% sales tax on beer which was previously exempt, strong sales of motor vehicles and investment goods contributed more to the increase.

The estimate for collections in 1989-90 is \$10 500m, an increase of 11.7% on 1988-89, reflecting much slower and more even growth in sales of consumption and investment goods subject to sales tax.

Table 7: Sales Tax by Rate Class

Rate Class	1988-89	1989-90	Change on		
	Actual	Estimate	1988-89		
	\$m	\$m	\$m	%	
10%	1200	1350	150	12.5	
20%	6687	7425	738	11.0	
30%	1058	1185	127	12.0	
Not allocated by rate (a)	480	540	60	12.5	
TOTAL	9425	10500	1075	11.4	
	(c)	9402	10500	1098	11.7

(a) These collections cannot be allocated readily to a particular rate class. They include amounts collected on imports at point of entry as well as an amount for recoveries in respect of audit activity.
 (b) Before allowance for the payment of a \$23m refund to Telecom in December 1988. It is not possible to allocate this refund to a particular rate class.
 (c) After allowance for the payment of the refund to Telecom.

Estimated collections of sales tax on goods falling within specified rate classes for 1988-89 and 1989-90 are set out in Table 7 above.

Excise Duty

Total collections of excise duty in 1988-89 were \$8603m, 11.0% below the 1987-88 outcome. In 1989-90, collections are estimated at \$9264m. The main components for the two years are shown in Table 8 below.

Table 8: Excise Duty

	1988-89			1989-90		
	Estimate	Actual	Change on 1987-88	Estimate	Change on 1988-89	
	\$m	\$m	%	\$m	\$m	%
Crude Oil and LPG	1383	1188	-42.2	1352	164	13.8
Petroleum Products (a)	5050	5163	6.8	5645	482	9.3
Total Petroleum	6433	6351	-7.8	6997	646	10.2
Other Excise (b) -						
Beer	857	910	-38.8	826	-84	-9.2
Potable Spirits	156	161	10.6	177	16	9.7
Tobacco Products	1176	1151	4.1	1236	85	7.4
Other (c)	28	30	-25.5	28	-2	-5.3
Total Other Excise	2217	2252	-19.0	2267	15	0.7
TOTAL	8650	8603	-11.0	9264	661	7.7

(a) Includes motor spirit, diesel fuel (net of rebates), aviation gasoline, fuel oil, heating oil and kerosene. The figures are net of refunds/drawbacks on petroleum products to eligible users.
 (b) The break-up of other excise between beer, potable spirits and tobacco products is an estimate only.
 (c) Includes the coal excise duty and refunds/drawbacks.

Crude Oil and LPG Levies

Excise is levied on the production of crude oil and LPG. For crude oil, excise is collected from particular Bass Strait oil fields at various rates depending on the annual level of production and the date of discovery of the field. Details are set out in Table 9 below. LPG excise is levied on naturally occurring LPG from particular fields at a rate of 60% of the excess of the weighted average of domestic and export prices over \$147 per tonne. As foreshadowed by the Government in June 1987, a review of the current arrangements was announced in May 1989 with an expected completion date of June 1990.

Table 9: Excise Rates on Crude Oil Production as of 1 July 1989

Annual Production Range	Average Daily Production Rate Megalitres kbd	Excise Rates (d) (% of Bass Strait Prices)					
		"Old" Oil (a)		"Intermediate" Oil (b)		"New" Oil (c)	
		Marginal	Average (e)	Marginal	Average (e)	Marginal	Average (e)
0-50	0-0.87	0	0	0	0	0	0
50-100	0.87-1.72	5	2.50	0	0	0	0
100-200	1.72-3.44	15	8.75	0	0	0	0
200-300	3.44-5.17	20	12.50	0	0	0	0
300-400	5.17-6.90	40	19.38	15	3.75	0	0
400-500	6.90-8.62	70	29.50	30	9.00	0	0
500-600	8.62-10.35	75	37.08	50	15.83	10	1.67
600-700	10.35-12.07	75	42.50	55	21.43	20	4.29
700-800	12.07-13.79	75	46.56	55	25.63	30	7.50
800+	13.79+	75	n.a.	55	n.a.	35	n.a.

(a) 'Old' oil areas are: Halibut, Kingfish A and B, Barracouta, Mackerel, South Mackerel, West Kingfish, Cobia, Marlin, Snapper, Tuna and Flounder (all currently producing).

(b) Bream (currently producing); Perch, Dolphin and Turrum (not yet producing) are subject to the 'intermediate' excise rate.

(c) 'New' oil areas include: West Kingfish, Porteusae, Snapper, Tuna, and Flounder (all producing); Whiting, Tarwhine and Seahorse (expected to be producing in 1989-90); 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 seventh 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.

Revenue from the crude oil and LPG excises in 1988-89 totalled \$1188m (comprising \$1176m in crude oil excise and \$12m in LPG excise), \$195m lower than the budget estimate and the fourth consecutive decline in collections. There were periods of very low prices in late 1988 resulting in substantial cutbacks in production. There were also a number of technical and industrial problems which depressed output from the Bass Strait oil fields, resulting in annual average Bass Strait production of 322 thousand barrels per day (kbd) compared with the 386 kbd assumed at budget time. Prices recovered in the second half of the financial year, with the estimated average price for 1988-89 as a whole being \$A19.34 per barrel, slightly above the budget estimate of \$A19.02 per barrel.

Revenue from crude oil and LPG excises in 1989-90 is estimated at \$1352m, 13.8% above 1988-89 and reversing the downward trend of recent years. The crude oil excise

estimate assumes an oil price of \$A23 per barrel, well above the 1988-89 average, and Bass Strait production of 330 kbd, 2.5% above 1988-89. LPG excise collections are expected to be nil, based on the assumption of an average price (domestic and exports) of \$140 per tonne.

Excise Indexation

The rates of duty for the main excisable commodities (with the exception of crude oil, LPG and coal) are adjusted each August and February in line with half-yearly CPI movements. The rates of duty applying from 5 February 1989 and from 1 August 1989 are shown in Table 10.

Table 10: Excise Rates

	Rates applying from -	
	5 February 1989	1 August 1989
	\$	\$
Petroleum Products (per litre)		
Motor Spirit	0.22391	0.23152
Diesel Gross	0.22391	0.23152
Rebate Primary Producers	0.22391	0.23152
Mining	0.20003	0.20764
Other	0.17048	0.17628
Aviation Gasoline	0.23805	0.24614
Fuel Oil	0.04644	0.04802
Heating Oil	0.04644	0.04802
Kerosenes	0.04644	0.04802
Beer (per litre of alcohol over 1.15 per cent)	12.17	12.58
Potable Spirits (per litre of alcohol)		
Brandy	24.20	25.02
General Rate for Other Spirits	28.35	29.31
Spirits nei and Liqueurs nei	29.11	30.10
Tobacco Products (per kg of tobacco)	44.94	46.47
Coal Excise (per tonne)	0.25	0.25

Petroleum Products Excise

Excise from refined petroleum products was \$5163m in 1988-89, 6.8% above 1987-88 and 2.2% greater than the budget estimate, owing mainly to a higher than expected indexation increase on 5 February 1989. Clearances were slightly above the budget estimate.

Collections in 1989-90 are expected to be \$5645m, 9.3% higher than in 1988-89 reflecting an expected modest growth in clearances of motor spirit and diesel fuel and the CPI indexation of excise rates.

Other Excise Duty

Other excise revenue is derived from beer, potable spirits, tobacco products and coal at rates shown in Table 10 above.

In the 1988-89 Budget, the Government announced a new single rate excise on beer based on alcoholic content, which involved an estimated loss to revenue of around \$730m in 1988-89 and a further \$865m in 1989-90.

Revenue from other excises in total amounted to \$2252m in 1988-89, 1.6% higher than the budget estimate but 19.0% lower than the 1987-88 outcome reflecting, in the main, the introduction of the new excise structure for beer. Clearances of beer grew by 3.6%, influenced by the price advantage induced by the lower excise arrangements.

Revenue from other excises in 1989-90 is estimated to be \$2267m—a slight increase on the 1988-89 outcome. This reflects a forecast fall in cigarette clearances and the first full year effect of the lower excise rate for beer, offset by a slight increase in beer clearances, as well as a small rise in clearances of spirits.

Customs Duty

Imports

Ad valorem tariffs are applied to many categories of imports. Customs duty revenue is affected by the \$A price of imports (and, hence, the exchange rate) and the composition of imports between goods with high and low tariff rates.

The multitude of tariff rates is gradually being reduced in number and level as the program of tariff reform, announced in the May 1988 Economic Statement, is implemented. Generally this means that tariffs in excess of 15% will be phased down to 15% and tariffs between 10% and 15% will be phased down to 10% by 1992. Separate arrangements have been implemented for the textiles, clothing and footwear and passenger motor vehicle industries.

Customs duty collections in 1988-89 amounted to \$3753m, 6.0% higher than the budget estimate and 3.3% higher than the 1987-88 outcome. This reflected the stronger than anticipated growth in import volumes over the year, partly offset by a lower than envisaged average duty rate, reflecting a higher proportion of investment-related imports which are generally dutiable at lower rates.

Endogenous imports are expected to rise moderately in nominal terms in 1989-90 while the underlying year-average implied rate of duty is expected to fall again, continuing the downward trend of recent years that can be seen in Chart 1 below. Revenue from customs duty is estimated at \$4030m, 7.4% higher than the 1988-89 outcome.

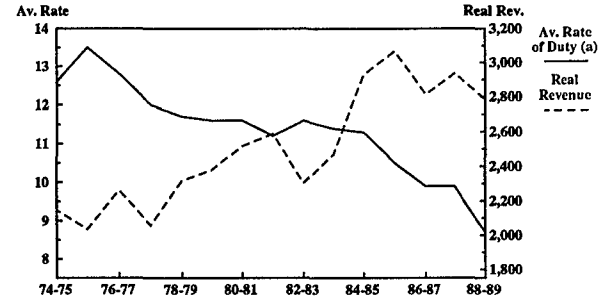
Coal Exports

Exports of high quality Australian coking coal are taxed at \$3.50 per tonne. Coal exports duty in 1988-89 amounted to \$50m based on dutiable exports of 14.3m tonnes. Coal exports duty for 1989-90 is estimated at \$52m.

Debits Tax

Collections in 1988-89 were \$358m, 8.6% above the Budget estimate. Collections in 1989-90 are estimated to be \$390m.

CHART 1. AVERAGE RATE OF DUTY AND REAL REVENUE FROM CUSTOMS DUTY ON IMPORTS 1974-75 TO 1989-90



Other Taxes, Fees and Fines

Revenue from Other Taxes, Fees and Fines in 1989-90 is estimated at \$1554m, largely unchanged from 1988-89.

The outcome for 1988-89 and the estimates for 1989-90 are set out in Table 11.

Table 11: Other Taxes Fees and Fines

	1988-89	1989-90	Change on	
	Actual	Estimate	1988-89	
	\$m	\$m	\$m	%
Primary Industry Levies	778	782	4	0.5
Primary Industry Charges	63	74	11	17.6
Broadcasting and Television Station Licence Fees	110	271	161	146.1
Radiocommunications Licence Fees	50	55	6	11.6
Stevedoring Industry Collections	28	27	-1	-2.9
Departure Tax	38	42	4	9.8
Passport Fees	53	62	9	17.9
Patents, Trademarks and Design Fees	36	40	4	10.5
Immigration Fees and Charges	40	54	15	36.8
Court Fees and Fines	10	15	5	43.9
Light Dues and Navigation Charges	42	43	..	..
ACT Taxes and Charges	233	-	-233	n.a.
Other	67	89	22	32.8
TOTAL	1547	1554	7	0.4

The major components of this category are primary industry levies, primary industry charges, broadcasting and television station licence fees and 'other' items. In 1989-90 ACT Taxes and Charges are included for the first time in this category. A brief comment on these items for 1989-90 compared with 1988-89 follows; the remaining items under this general heading show no significant change.

Primary Industry Levies

Primary industry levies are paid to industry trust accounts or to statutory marketing authorities to fund their administration, market support, product promotion and research activities.

Total revenue from these sources for 1989-90 is estimated at \$782m, up \$4m on 1988-89. The main developments are:

- the introduction of new wheat marketing arrangements on 1 July 1989 whereby the wheat tax was replaced by a new wheat industry levy, with collections estimated at \$45m in 1989-90;
- a decrease of \$18m in dairy produce levy collections largely reflecting the abolition of that part of the levy which finances supplementary market support; and
- a decrease of \$17m in livestock levy collections owing to a reduction in levy rates following a decision by the Australian Meat and Livestock Corporation to reduce levy contributions for chemical residue testing and computer assisted livestock marketing.

Primary Industry Charges

These charges are levied to recover part of the cost of export inspection, domestic meat inspection and livestock health export certification undertaken by the Australian Quarantine and Inspection Service (AQIS) and by the States on behalf of the AQIS, and the monitoring of chemical residue levels in agricultural and pastoral products.

Total revenue from these sources is estimated at \$74m, an increase of \$11m over 1988-89, which mainly reflects the full year effect of moving to 60% cost recovery for quarantine and inspection services and introduction of 50% cost recovery for agricultural and veterinary chemical activity.

Broadcasting and Television Station Licence Fees

Licence fees are levied by the Commonwealth on a progressive basis on the annual gross earnings of commercial radio and television stations.

Total revenue from these sources in 1989-90 is estimated at \$271m, \$161m above 1988-89. The increase stems largely from the \$138m expected to be raised during 1989-90 under Stage 1 of the Government's National Metropolitan Radio Plan, announced in August 1988. A further \$12m is expected to be generated as a result of current projections of further growth in the annual gross earnings of most commercial radio and television stations.

ACT Taxes and Charges

As a result of ACT self-government in May 1989, the Commonwealth no longer collects ACT Taxes and Charges. Details of the ACT Budget are published separately by the ACT Government.

Other

Total revenue from these sources for 1989-90 is estimated at \$89m, an increase of \$22m on 1988-89, mainly as a result of an increase in the proceeds from sale of assets confiscated under the *Proceeds of Crime Act*, a higher loan guarantee levy as a result of increased borrowings by authorities and increased bond store licence fee collections for 1989-90.

NON-TAXATION REVENUE

Non-taxation revenue comprises interest paid to the Commonwealth Government from sources outside the budget sector and dividends and miscellaneous revenue from Government-owned enterprises.

Table 12: Non-Taxation Revenue

	1988-89	1989-90	Change on	
	Actual	Estimate	1988-89	
	\$m	\$m	\$m	%
Interest -				
States, NT and ACT	2527	2507	-20	-0.8
Non-Budget Authorities:				
Australian Telecommunications and Postal Corporations	638	480	-158	-24.8
Australian National Railways Commission	8	4	-3	-40.4
Civil Aviation Authority	16	17	1	4.0
Federal Airports Corporation	47	48	1	1.6
Pipeline Authority	28	26	-3	-8.9
Snowy Mountains Hydro-Electric Authority	75	76	1	1.2
Commonwealth Cash Balances with RBA	231	185	-46	-19.7
Other	181	88	-93	-51.6
Total Interest	3751	3431	-320	-8.5
Dividends and Other -				
Transport and Communications Business Enterprises (a)	70	384	314	445.2
Commonwealth Banking Corporation	123	110	-13	-10.4
Australian Industry Development Corporation	-	9	9	n.a.
Reserve Bank of Australia	503	440	-63	-12.6
Royal Australian Mint	234	55	-179	-76.5
Petroleum Royalties	61	91	30	49.2
Other	32	31	-1	-4.5
Total Dividends and Other	1024	1120	96	9.4
TOTAL	4775	4550	-225	-4.7

(a) Includes AUSSAT Pty Ltd, Australian Airlines Ltd, Australian Postal Corporation, Australian Shipping Commission, Australian Telecommunications Corporation, Civil Aviation Authority, Federal Airports Corporation, Overseas Telecommunications Commission and Qantas Airways Limited.

In 1988-89, non-taxation revenue totalled \$4775m, \$404m or 7.8% below the budget estimate and, as a proportion of revenue, the lowest on record.

In 1989-90 collections are estimated at \$4550m, 4.7% down on last year and continuing the downward trend of recent years.

Details are set out in Table 12.

Interest Revenue

Interest Revenue from the States, NT and ACT

Interest revenue from the States and Territories is estimated to total \$2507m in 1989-90, a reduction of \$20m.

The Commonwealth receives interest payments from the six States in respect of advances made to them under the State Governments' Loan Council Program and from the NT in respect of advances made under similar general purpose capital assistance arrangements. The Commonwealth also receives interest from the ACT on debts assumed upon self-government. These debts largely reflect past Commonwealth payments for ACT infrastructure.

No new general purpose capital advances have been taken up by the States since 1986-87. The estimated decrease in interest payments from the States of \$23m in 1989-90 reflects the reduced stock of debt to be rolled over in 1989-90 offsetting the full-year effect of higher average coupon rates on the debt issued in 1988-89 to replace maturing debt and the interest on ACT debt.

Australian Telecommunications and Postal Corporations

The fall in interest payments from Telecom and Australia Post in 1989-90 mainly reflects the one-off conversion in 1989-90 of debt to equity in each corporation. The conversion, involving a total of some \$1.1 billion of outstanding Commonwealth loans, is intended to provide for the first time an equity base for both corporations. This new, commercially-oriented, financial structure is more appropriate in the new environment in which these enterprises will operate. Reductions in interest revenue to the Commonwealth resulting from the conversion of debt to equity will be at least offset by the dividends which Telecom and Australia Post are required to commence paying to the Commonwealth in 1989-90. Commencing in 1989-90, ten annual debt repayments will be made by Telecom as its remaining Commonwealth debt is refinanced through private sector borrowings.

Other Interest

The main factor contributing to the \$93m reduction under this category in 1989-90 is the transfer of the mortgage management function of the Defence Service Homes Corporation from the budget sector to the Westpac Banking Corporation. The sale involves a \$55m reduction in revenue to the Commonwealth from interest payments on home mortgages between 1988-89 and 1989-90. Further details of this sale are set out in Statement 3, *5 Housing and Community Amenities and 9D Asset Sales*.

Dividends and Other

Transport and Communications Business Enterprises

Consistent with dividend determination arrangements established under the 1988 reform packages for Transport and Communications enterprises, the global figure of \$384m for 1989-90 is an estimate only and is without prejudice to the eventual dividend to be settled with each of the enterprises concerned after the finalisation of their accounts for the 1988-89 financial year.

The increase in estimated dividends in 1989-90 mainly reflects the inclusion for the first time of dividends from Telecom and Australia Post in respect of the conversion of debt to equity described above. It also includes dividends from AUSSAT Pty Ltd, the Civil Aviation Authority and the Federal Airports Corporation, and the deferral of the OTC's 1988-89 dividend payment to 1989-90.

The Commonwealth Banking Corporation

Total dividend payments from the Commonwealth Banking Corporation are expected to be \$110m in 1989-90, \$13m less than in 1988-89. This comprises an estimated payment of \$105m from the Commonwealth Bank of Australia and its subsidiary, the Commonwealth Savings Bank, and an estimated \$5m payment from the 1988-89 profits of the Commonwealth Development Bank.

Australian Industry Development Corporation (AIDC)

The AIDC was restructured in July 1988 with a publicly listed subsidiary company being established to conduct the Corporation's commercial operations. No payment was made in 1988-89 following the Government's decision to reinvest its dividend in the AIDC to strengthen the equity base of the Corporation.

The estimated dividend payment in 1989-90 is \$9m.

The Reserve Bank of Australia

Payments by the Reserve Bank of Australia to the Commonwealth in 1988-89 totalled \$503m, consisting of a final payment of \$486m from the Bank's earnings for 1987-88 and a final payment of \$18m out of the capital and reserves of the Rural Credits Department which has been wound up. No interim payment was made by the Bank in respect of its 1988-89 earnings; an amount of \$400m had been included in the budget estimate.

Total payments from the Reserve Bank to the Commonwealth in 1989-90 are estimated at \$440m, \$63m less than in 1988-89. The *Reserve Bank Act 1959* requires the Reserve Bank to pay its net earnings to the Commonwealth after provisions for contingencies and appropriations to reserves. The 1989-90 figure represents a final payment of \$140m from earnings of the Bank in 1988-89, after transfer of \$277m to provisions and reserves, and an anticipated interim payment by the Bank in June 1990 of \$300m in respect of its 1989-90 earnings.

Royal Australian Mint

Revenue from the Royal Australian Mint relates to seignorage on circulating coin production and profits from the sale of numismatic coins.

The lower than expected result for 1988-89 of \$234m principally reflected the need to repurchase \$50m surplus coin stocks from the Reserve Bank.

The expected decrease in revenue in 1989-90 to \$55m largely reflects the drop in seignorage on the \$2 coin as the new coin is established in circulation.

Petroleum Royalties

Petroleum royalties include the Commonwealth's share of the income from the resource rent royalty paid in respect of oil production from Barrow Island, as well as offshore petroleum royalties.

In 1988-89 revenue amounted to \$61m, 48.1% lower than in 1987-88 and 22.7% lower than the budget estimate. The shortfall was the result of lower production than estimated at budget time.

The estimated rise in petroleum royalties of \$30m to \$91m in 1989-90 reflects the impact of higher assumed crude oil prices, and higher production estimates.

PART 4: LONGER TERM TRENDS

Table 13 below shows that the average nominal increase in revenue over the past five years was a little below the average of the three previous five year periods. Although in real terms the average increase in revenue was somewhat stronger than in the two previous five year periods, the real rate of increase in revenue has been declining consistently since 1984-85.

Table 13: Aggregate Revenue

	Taxation Revenue		Non-Taxation Revenue		Total Revenue			Proportion of GDP		
	Change on Previous Period		Change on Previous Period		Change on Previous Period			Non-Tax Total		
	Nominal	Real(a)	Nominal	Real(a)	Nominal	Real(a)	%	%	%	%
<i>5 Year Averages:</i>					\$m					
1959-60 to 1963-64	7.5	4.5	11.1	7.9		7.9	4.9	17.9	2.5	20.3
1964-65 to 1968-69	11.2	7.1	8.2	4.2		10.8	6.7	19.1	2.5	21.6
1969-70 to 1973-74	14.5	6.3	9.0	1.2		14.0	5.8	20.0	2.3	22.4
1974-75 to 1978-79	16.6	3.3	16.5	3.2		16.6	3.3	23.3	2.0	24.3
1979-80 to 1983-84	13.8	3.5	12.1	2.0		13.7	3.4	23.5	2.0	25.5
1984-85 to 1988-89	13.1	5.3	3.3	-3.8		12.4	4.7	24.9	2.1	27.0
<i>Yearly Figures:</i>										
1979-80	17.1	6.6	-2.0	-10.8	29798	15.4	5.0	22.5	1.8	24.3
1980-81	19.0	7.5	13.2	2.2	35326	18.6	7.1	23.5	1.8	25.3
1981-82	16.1	4.3	15.8	4.0	41020	16.1	4.3	24.3	1.9	26.2
1982-83	8.2	-2.6	21.5	9.4	44765	9.1	-1.7	24.1	2.1	26.2
1983-84	9.1	2.1	13.4	6.2	48979	9.4	2.5	23.3	2.1	25.5
1984-85	18.1	11.5	12.6	6.3	57621	17.6	11.1	24.8	2.1	26.9
1985-86	11.2	3.9	27.1	18.8	64809	12.5	5.1	24.7	2.4	27.2
1986-87	12.5	4.7	12.0	4.3	72864	12.4	4.7	25.2	2.5	27.7
1987-88	12.9	5.1	-8.9	-15.2	80828	10.9	3.3	25.2	2.0	27.2
1988-89	11.2	1.7	-19.5	-26.4	88027	8.9	-0.4	24.8	1.4	26.2
1989-90	9.7	3.2	-4.7	-10.4	95875	8.9	2.5	25.0	1.2	26.2

(a) Nominal increase deflated by movements in the non-farm GDP deflator.

Revenue as a proportion of GDP reached an historical peak of 27.7% in 1986-87, having increased steadily over the previous twenty-five years. Since then the revenue to GDP ratio has fallen to 26.2% in 1988-89 and is expected to remain at that level in 1989-90.

During the past several years, the Commonwealth's revenue base has been significantly repaired and restructured, improving the coverage and fairness of the taxation system. The broadening of the tax base, along with the Commonwealth's concerted efforts to reduce outlays as a proportion of GDP, has permitted discretionary reductions in tax rates at the same time as the budget balance has been shifted very substantially from deficit to surplus. These discretionary changes and the sharp non-discretionary decline in crude oil and LPG excise revenues (which fell from 8.8% of total revenue in 1980-81 to an estimated 1.4% in 1989-90) reduced the tax revenue to GDP ratio to about 25% in 1988-89 and 1989-90, the same as the average for the last

five years. This represents a break from the upward trend in this ratio apparent for the quarter century to the mid-1980s.

There has also been a substantial decline in revenue from non-taxation sources on account of a sharp decline in payments by the Reserve Bank to the Commonwealth since 1987-88, and of a lower rate of growth in interest payments received from the States. As a result, the non-taxation revenue to GDP ratio is expected to reach an historically low level of 1.2% of GDP in 1989-90.

Chart 2 and Appendix C, Table C.III show the major categories of revenue expressed as proportions of total revenue. Appendix C also provides, by revenue head, tables covering current price data and growth of revenue in real terms for each year since 1979-80.

TAXATION REVENUE

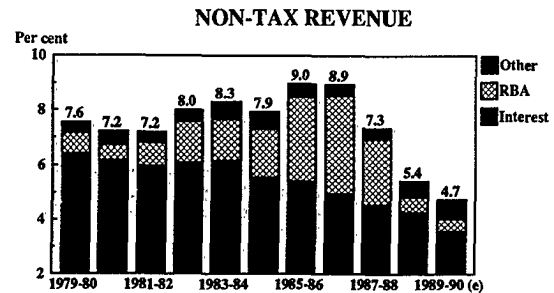
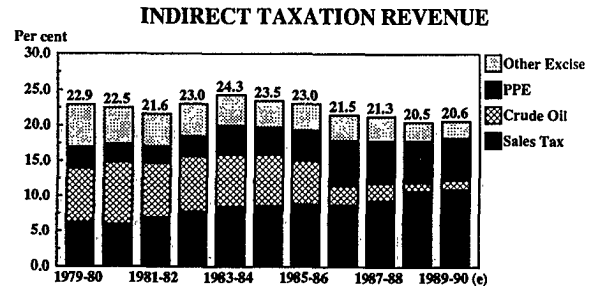
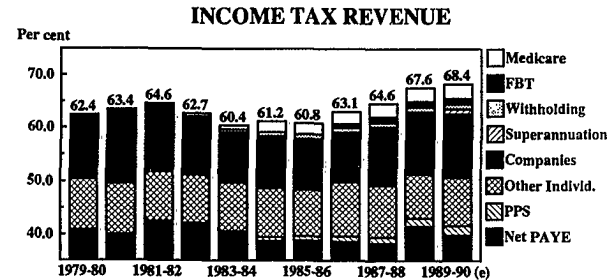
Income Tax

Income tax revenue accounts for two-thirds of all revenue. Over the past five years, there has been an increase in the share of income tax revenue to total revenue. This reflected, in the main, the very buoyant state of the economy (with above-trend employment growth and a sustained recovery in corporate profitability), the repair of the income tax system (notably, the fringe benefits tax and expenses substantiation, capital gains tax, the prescribed payments system, and the improved income tax assessment and compliance systems of the Tax Office) and the weakness in non-taxation revenue.

- The increase in the tax burden on individuals (average tax rates) that occurs as nominal incomes increase because of the progressive structure of the personal income tax system (commonly referred to as 'fiscal drag') has been more than offset over the past five years as a result of discretionary changes made to the personal income tax rates scale. Following the cuts in personal income tax rates from 1 July 1989, taxpayers as a whole will be paying less tax in 1989-90 than would have been the case if the tax rates scale in place in 1983-84 had been fully indexed for inflation.
- While discretionary reductions in personal income tax have thus offset the tax take from the higher average tax rate imposed as a result of rising nominal incomes, the strength of employment growth (averaging 3 1/4% over the five year period to 1988-89, compared with a twenty year average growth of 2%) and the weakness of non-taxation and crude oil excise revenues, have been sufficient to increase the share of revenue coming from individuals.
- The share of company tax collections to total revenue fell significantly between the late 1960s and the mid-1980s. It has recovered significantly in recent years, largely reflecting a period of sustained economic growth. The corporate gross operating surplus share over the last five years, on average, has been higher than during the previous decade. This has contributed to the strength of company income tax collections over the last two years, despite the increased cost of investment incentive measures. In 1989-90, the very large increase in corporate incomes (in 1988-89) and the change in company tax collection arrangements will

4.42

**CHART 2. COMPOSITION OF REVENUE 1979-80/1989-90
PERCENTAGE OF TOTAL REVENUE**



4.43

more than offset the impact of the reduction in the corporate tax rate, resulting in a small rise in the corporate share of total revenue.

- The growth in revenue collections from the Medicare levy, the prescribed payments systems, the capital gains tax, and the fringe benefits tax accounts for over half of the increase in the income tax to GDP ratio for the most recent five year period (1983–84 to 1988–89).

Other Taxation Revenue

The bulk of other taxation revenue is derived from sales tax, excises and customs duty. There has been no marked overall trend in this aggregate as a proportion of revenue over the past fifteen years although there have been significant changes in the importance of individual components.

The proportion of collections from the wholesale sales tax has increased substantially during the 1980s as a result of base broadening, discretionary rate changes and the impact of currency depreciation on the price level of goods subject to tax, relative to other goods.

Excises fall into two broad categories—those on the production of crude oil and LPG and those on clearances of final products (petroleum products, and alcoholic and tobacco products).

- Revenue from crude oil and LPG excise—which is essentially a form of resource rent tax—peaked in 1980–81 at nearly 9% of total revenue, and declined moderately to 1985–86 before dropping sharply to its current level of about 1¹/₂%. A reduction in world oil prices together with lower production of, and reduced maximum excise rates for, Bass Strait crude oil contributed to the decline.
- Revenue collections from excise on petroleum products declined during the late 1970s and early 1980s as increases in the specific duty rates failed to keep pace with inflation. The introduction of twice-yearly indexation of excise rates in 1983, and discretionary rate changes from March 1986 to December 1987, reversed this trend. In January 1988 the system of discretionary increases in petroleum products excise to offset the revenue effects of volatile crude oil prices was discontinued, and the excise on aviation turbine fuel was abolished in July 1988; these developments have contributed to a further small decline.
- Revenue from excises on alcoholic and tobacco products (known collectively as 'other excises') has declined steadily as a proportion of revenue during the 1980s. While the rate of decline was attenuated by the introduction of automatic indexation in 1983, the decline reflects the low growth, and in some cases decline, in clearances of these products, and the rationalisation of excise arrangements for beer introduced in the 1988–89 Budget.

Revenue from customs duty has declined from 5.6% of revenue during the last half of the 1970s to 4.7% over the five years to 1988–89. This reflects the decline in the duty rate mentioned in Part 3, which has partly offset the growth in dutiable imports.

NON-TAXATION REVENUE

The decline in the share of non-tax revenue that occurred during the 1960s and 1970s was halted in the first half of the 1980s as a result of sharply increased payments to the Commonwealth from the Reserve Bank, flowing from large increases in its profits. In both 1987–88 and 1988–89 profits declined substantially, contributing importantly to the overall fall in the share of non-tax revenue to total revenue; a further fall is likely in 1989–90.

The importance of the major contributor to non-taxation revenue—interest received—is also likely to decline further this year, with the absolute level of revenue under this head estimated to fall. The major reason for this is the reduction in the loan funds to the States over recent years.

**APPENDIX A: REVENUE MEASURES ANNOUNCED IN THE APRIL 1989
ECONOMIC STATEMENT**

Income Tax

Personal Income Tax Rates Scale

As foreshadowed by the Treasurer on 12 April 1989, the personal income tax rates scale was amended with effect from 1 July 1989. The new rates scale is set out in Table A.I below.

Table A.I: New Personal Income Tax Rates Scale

Income Range (\$ per annum)	Marginal Tax Rate (cents per dollar)	
	Previous	Current
0 - 5100	0	0
5100 - 12600	24	21
12600 - 17650	29	21
17650 - 19500	29	29
19500 - 20600	40	29
20600 - 35000	40	39
35000 - 50000	49	47
Over 50000	49	49

As from 1 January 1990, the top marginal rate will reduce to 47%, resulting in an average top marginal rate of 48% in 1989-90.

As a consequence of changes to the personal income tax rates scale, a number of other rates of tax also have been varied. These include the withholding tax rate where a tax file number is not quoted, the rate of tax on the unearned income of minors and the rates applying to various entities, all of which are aligned to the top marginal rate. The fringe benefits tax (FBT) rate will be reduced to 47% for the FBT year commencing 1 April 1990. The rates scale applicable to non-resident individuals and trust estates will comprise the existing 29% rate on taxable income up to \$20 600 and the new rates scale applicable to resident individuals on taxable income in excess of \$20 600.

Concessional Rebates

For 1989-90, the concessional rebates for dependants and the sole parent rebate have been increased to the levels set out in Table A.II.

Commencing in 1990-91, these rebates will be indexed annually based on the increase in the CPI to the preceding March quarter.

Table A.II: New Concessional Rebate Levels

Rebate	Maximum Rebate Level \$
Dependent Spouse	
No Children	1000
With Children	1200
Sole Parent	940
Daughter - Housekeeper	
No Children	1000
With Children	1200
Invalid Relative	450
Parent or Parent-in-law	900
Housekeeper	
No Children	1000
With Children	1200

Pensioner Rebate

The Treasurer announced that the maximum pensioner rebate would be raised to a level sufficient to exempt from tax repatriation and social security pensioners with non-pension incomes up to the income test-free area of \$40 per week for single pensioners and combined income of \$70 per week for married couples. This will be achieved, for married couples, in 1989-90 and, for single pensioners, in 1990-91, with rebates increased sufficiently in 1989-90 to exempt from tax a single pensioner with \$25 per week non-pension income. Based on current estimates, the necessary rebate levels for 1989-90 are provisionally put at \$650, \$520 and \$760 for single, married-rate and married pensioners unable to live together due to illness, respectively. Actual rebate levels and shade-out thresholds will be announced once the December quarter CPI figure is known.

The rebate will continue to shade out at a rate of 12.5 cents for each dollar of taxable income in excess of the implied thresholds (currently estimated at \$8190 for single pensioners, \$7570 for married-rate pensioners and \$8710 for married pensioners unable to live together due to illness). For married pensioners any unused portion of their rebate and shade-out threshold will be transferred to their spouse except where their spouse is a social security beneficiary. For 1989-90, this will mean that a married pensioner couple with a combined taxable income of around \$15 140 or less (\$17 420 or less in the case of a married pensioner couple separated owing to illness) will not pay tax.

Pensioners who qualify for a full or part rebate will continue to be exempt from provisional tax.

The 1988-89 income tax returns do not contain all the details needed to identify the categories of pensioners to which the 1989-90 rebates are to apply. Accordingly, the Commissioner of Taxation will implement interim arrangements to determine whether to levy provisional tax on pensioners for the 1989-90 income year. Under these

arrangements, provisional tax for 1989-90 will not be raised where any pensioner's 1988-89 taxable income is less than \$11 992.

When 1989-90 provisional tax notices commence to be issued towards the end of this calendar year, pensioners entitled to exemption from provisional tax on the basis of the new rebate rules outlined above will be given the opportunity to have any provisional tax that has been raised reduced to nil.

Taxation of Foreign Source Income

Following consultation with interested parties on proposals contained in 'Taxation of Foreign Source Income—A Consultative Document', released as part of the May 1988 Economic Statement, the Treasurer announced the final design of new measures for taxing such income derived from foreign companies, trusts and other arrangements. The new measures have two broad features:

- most income sheltered in low-tax countries through foreign companies controlled by Australian residents and through trusts will be taxed in Australia on an accruals basis; and
- most income derived from non-portfolio interests in companies resident in comparable-tax countries will be exempt both from the accruals tax and from tax on dividends paid to Australian corporate shareholders.

The new arrangements will generally take effect from the 1990-91 income year and are not expected to generate revenue until 1991-92. (A comprehensive discussion of these measures and design changes from the earlier proposals may be found in 'Taxation of Foreign Source Income—An Information Paper, April 1989'.)

APPENDIX B: OTHER REVENUE MEASURES ANNOUNCED SINCE THE 1988-89 BUDGET

Income Tax

ACT Election Expenses

The Government introduced amending legislation on 31 May 1989 to allow a deduction for expenses incurred in contesting an election for membership of the Legislative Assembly for the Australian Capital Territory. The amendment will apply for expenditure incurred in the 1988-89 and subsequent income years.

Beneficiary Rebate

Legislation was amended to increase the beneficiary rebate for single beneficiaries and recipients of certain Commonwealth education allowances from \$260 to \$262 in 1988-89, in order to ensure that persons wholly dependent on specified Commonwealth benefits or allowances do not pay income tax.

The rebate begins to shade out where 1988-89 taxable income exceeds \$6192 and is extinguished at \$8288.

Capital Gains Tax: Long Term Leases of Land and Principal Residence Exemption

On 16 November 1988, the Treasurer announced amendments to the capital gains tax (CGT) provisions of the *Income Tax Assessment Act 1936* in relation to the treatment of premiums received on long term leases of land. As a result, where a taxpayer grants a long term (more than fifty years) lease or sublease of land after 16 November 1988, the taxpayer is able to elect to have the CGT provisions apply to the transaction on the basis that the grant of the lease is a disposal of the underlying asset.

On 22 November 1988, the Treasurer announced the principal residence exemption would be extended so that no person will be liable to capital gains tax on the disposal of an asset that is a licence or right to occupy a unit in a retirement village that was his or her principal residence. The amendment applies from 20 September 1985.

Deductibility of Gifts: Extensions

The Treasurer announced that gifts to the following bodies would qualify as deductible donations (for gifts of \$2 or more) where made on or after the date of announcement, unless otherwise indicated.

- Announced on 10 October 1988: Melbourne Overseas Mission Fund.
- Announced on 16 December 1988: Funds set up in Australia exclusively for the relief of persons affected by the earthquake in Northern Soviet Armenia on 8 December 1988 (for gifts made before 1 July 1989).
- Announced on 11 January 1989: Dr Graham's Homes Association Overseas Aid Fund.
- Announced on 31 January 1989: For Those Who Have Less—Action Aid Aust. Ltd. Special Overseas Aid Fund (previously known as For Those Who Have Less—Special Overseas Aid Fund).

- Announced on 10 May 1989: Australia Ireland Fund.
- Announced on 8 August 1989: Building funds for hostels that provide residential accommodation for school students from rural areas in respect of gifts made on or after 7 April 1989.

Defence Force Personnel Serving in Namibia

The Prime Minister announced on 6 March 1989 that the pay and allowances received by Defence Force personnel while assigned to duty in Namibia, as part of the United Nations Transitional Assistance Group, will be exempt from income tax. The exemption applies from 18 February 1989. Legislation to give effect to this announcement was introduced into the Parliament on 31 May 1989.

Dividend Imputation: Early Balancing Company Assessments

On 18 January 1989, the Acting Treasurer announced amendments to the income tax law relating to the imputation system of company taxation as it applies to early balancing company assessments. The amendment provides that where a company received its assessment of tax for a year of income during that year, the company tax rate to be applied in calculating the franking credit is the general company tax rate for the year of tax in which the assessment is served. It applies to company assessments for 1988–89 and later years of income issued on or after the date of announcement.

Research and Development Tax Concession

As part of the strategy contained in the Government's Science Statement of 8 May 1989, the tax concession for investment by companies in research and development (R&D) activities was extended for four years. The concession, which provides for deductibility of eligible R&D expenditures at a rate of 150%, had been scheduled to terminate at 30 June 1991. It will now continue at a rate of 150% until 30 June 1993 and, thereafter, at a rate of 125% until 30 June 1995. From 1 July 1995, eligible expenditures will be deductible at the rate of 100%.

Substantiation Rules Relating to Award Transport Allowances

On 28 April 1989, the Treasurer announced alterations to the provisions for substantiation of award transport allowances.

Previously, a taxpayer in receipt of an allowance paid under an industrial award for fares or other transport costs (award transport allowances) did not need to substantiate claims for deductible expenses against that allowance provided that:

- the amount payable under the award had not increased since 29 October 1986; and
- the amount claimed was not more than the allowance paid.

These provisions have now been altered so that no substantiation is required where the claim is up to the amount of the allowance as it stood at 29 October 1986, even if the allowance has increased since that date.

If, however, the taxpayer claims in excess of the amount payable at 29 October 1986, then the taxpayer must substantiate all deductions claimed against the allowance.

The amended provisions apply from the tax year which commenced on 1 July 1988. The amendment does not apply to car expense reimbursement payments.

Taxpayers remain subject to traditional tests of eligibility for deduction.

Superannuation Tax Reform

Legislation implementing the Government's reform of the taxation arrangements for superannuation was passed by the Parliament on 15 June 1989 with one amendment to the Bills introduced by the Treasurer on 30 November 1988 and 4 May 1989. The amendment exempts from tax that part of the income of a prescribed 'fixed interest approved deposit fund' (ADF) (that is, a complying ADF which derives at least 90% of its income as interest) that relates to the 25 May 1988 balances of depositors who had rolled over retirement benefits into the ADF on or before 25 May 1988 and who were aged 55 or over at that date (50 years where the benefit was paid as a consequence of redundancy, invalidity or under a bona fide early retirement scheme). Eligible depositors who had withdrawn some or all of their 25 May 1988 balances will be allowed until 31 August 1989 to redeposit in order to qualify for the exemption. To be entitled to the exemption, the ADF must pass on the benefit it provides to the eligible depositors whom the exemption is intended to protect.

The legislation incorporated the following previously announced amendments to the original May 1988 Economic Statement proposals:

- **Contribution Tax Transfers and Pooled Superannuation Trusts**—On 20 June 1988, the Treasurer announced that complying superannuation funds and complying ADFs would be allowed to transfer the tax liability on taxable contributions they receive to a life insurance company or registered organisation in which they invest as well as to certain pooled superannuation trusts (PSTs). To be allowed to accept contributions tax liabilities from a complying superannuation fund or ADF, a PST will be required to meet certain requirements concerning the ownership of its units and to elect to be taxed on a similar basis as a superannuation fund. Where the PST meets these requirements:
 - the trustee will be taxed at the superannuation fund rate of tax;
 - any amounts it distributes will be exempt from tax in the hands of unitholders that are complying superannuation funds, complying ADFs or other PSTs; and
 - unitholders that are complying superannuation funds, complying ADFs or other PSTs will not be liable to capital gains tax on the disposal of their units.
- **Premiums for Death and Disability Cover**—On 1 July 1988, the Treasurer announced that complying superannuation funds would be allowed a tax deduction for the cost of providing death or disability benefits for dependants of a member of the fund.
- **Funding of Past Superannuation Obligations**—On 11 August 1988, the Treasurer announced that otherwise taxable contributions would not be taxed if they were made to cover a liability of a superannuation fund that was already in existence at 30 June 1988.

- **Payment of Benefits Through Superannuation Funds**—On 11 August 1988, the Treasurer also announced that where benefits are paid through a superannuation fund and are wholly or partly funded by a once-off contribution, the fund may elect to have the contribution treated as non-taxable. Where this election is taken, people who receive benefits from the fund will not qualify for the reduced rates of tax for lump sum payments or the special rebate for superannuation pensions paid from a taxable fund to the extent that the particular benefit is attributable to the non-taxable contributions.

Taxation of Traditional Financial Securities

The Government introduced amending legislation on 10 May 1989 for the taxation of traditional financial securities (not being securities issued at a discount to which the accruals provisions of Division 16E of Part III of the *Income Tax Assessment Act 1936* apply).

Under the previous law, certain gains and losses on the disposal or redemption of traditional securities were dealt with under the capital gains and capital losses provisions, whereas gains and losses on the disposal or redemption of traditional securities acquired after 10 May 1989 will be dealt with under the general income tax law.

Tax File Number: Amendments

Legislation to give effect to a tax file numbering system was passed by the Parliament on 22 November 1988. The terms of the legislation differed from the original announcement in the following major respects:

- There will be no phasing in of the use of the tax file number when making investments; tax file numbers will be required for all new accounts opened on or after 1 July 1991.
- The consequences of non-quotation have been altered such that a withholding tax will apply at the top marginal rate of personal taxation plus the Medicare levy.
- The quotation of the tax file number will apply to pre-existing investment in shares in public companies at 1 July 1991.
- In the case of shares, the withholding sanction will apply on a pro rata basis to the extent that any dividend is not a franked dividend.
- Exemption from quoting the tax file number will apply to accounts with banks, building societies and credit unions in existence at 1 July 1991 that earn less than \$120 per annum in interest.
- Persons in receipt of any part of an age, invalid or other Department of Social Security pension or a service pension will not need to quote the tax file number to operate bank or similar accounts, buy shares or have dealings with other financial institutions. This exemption does not apply to unemployment and sickness benefit recipients.
- Children under 16 years of age will not need to quote a tax file number where interest income is less than \$420 per annum. However, file number rules apply for dividend income.

- Higher Education Contribution Scheme payments made through the tax system will require the quotation of a tax file number.

Thin Capitalisation

On 30 March 1989, the Treasurer announced amendments to the thin capitalisation rules in Division 16F of the *Income Tax Assessment Act 1936*. The amendments will provide relief from the rules in a number of ordinary commercial circumstances.

Wholesale Sales Tax

Computer Software

In the 1988–89 Budget, the Government announced the removal of sales tax on computer software developed for sale or licensing to a single user and the imposition of sales tax on computer software developed for two or more users that is transferred electronically. Following a further review, the Government concluded that the Bills to give effect to the Budget announcement would not adequately address the problems associated with applying sales tax to computer software. It announced that tax liability for all computer software other than firmware would be removed from 23 December 1988. Legislation was introduced into the Parliament on 31 May 1989.

Containers for Marketing Alcoholic Beverages

On 13 February 1989, the Treasurer announced that the Government would amend the sales tax law to ensure that only bottles that are for repeated use in marketing alcoholic beverages qualify for exemption from tax on their initial acquisition by a brewer or wholesaler of such beverages. The necessary legislation, which was introduced into the Parliament on 31 May 1989, extends parallel treatment to beer kegs. The amendments apply from 24 August 1988 in the case of kegs and from 14 February 1989 for other containers.

Recycled Paper

On 20 July 1989, the Prime Minister announced in his Statement on the Environment that the Government would exempt from sales tax certain printing and writing paper, tissue and toilet paper and paper bags where these goods are made from wholly recycled paper. The change will operate after the date of introduction of the legislation, which is expected to be in the Budget 1989 sittings of the Parliament.

Shipping Containers

On 25 January 1989, the Government announced that shipping containers would be exempt from sales tax, with effect from the date of announcement, where they are for repeated use on ships to transport cargo. Legislation was introduced into the Parliament on 31 May 1989.

Customs and Excise Duty

Coated Kraft Paper and Paperboard

The Government announced on 27 April 1989 that the duty rate for coated kraft paper and paperboard be restored to 15% after inadvertently being reduced in the 1988 May Economic Statement to 10%.

Rebate on Marine Diesel Excise

As part of the Shipping Reform Package, the shipping industry will receive a rebate of the hypothecated component of marine diesel excise from 1 July 1992.

Sugar Tariff Arrangements

From 1 July 1989 the embargo on sugar imports will be lifted and a tariff of \$115 per tonne imposed. The tariff will be phased down to \$70 per tonne by July 1992.

Taxation of Petroleum Products

On 3 March 1989, the Government announced the following changes to the excise and customs duty arrangements applying to petroleum products:

- removal of customs duty on imported Liquid Petroleum Gas (LPG) from 1 July 1989 (to align it with the excise-free status of domestic LPG);
- to address avoidance practices, amendment to the duty structure to ensure that duty is paid in accordance with the stated end-use of petroleum products (announced to come into effect on 1 July 1989 but delayed pending negotiations with the oil industry); and
- various changes to the Diesel Fuel Rebate Scheme to improve administration and to correct anomalies in the coverage of activities eligible for rebate.

Transport Containers

On 25 January 1989, the Government announced that imports of all transport containers transferable between modes of transport would be duty free from the date of announcement.

Other Measures

Conversion of Nominated Housing Advances to Grants

In 1989-90, the advances component of the State Governments' Loan Council Program and the related general purpose capital advances to the NT, which was nominated by the States to be provided as concessional loans for public housing in 1988-89, is to be replaced by grants under the Commonwealth State Housing Agreement. Forgone interest repayments resulting from this measure are shown in Table 1. Forgone principal repayments are classified to outlays (see Statement 3).

Light Dues and Navigation Charges

Light dues are levied on the shipping industry to recover the cost of providing marine navigational aids. To improve the equity of the system, the rate at which dues are levied

will change from a single rate of 53 cents per net registered ton, to a sliding scale of charges ranging from 63 cents down to 33 cents per net registered ton as total tonnage increases.

Telecommunications Applications Fees

This item covers fees for various licences and other permits issued by the newly established Australian Telecommunications Authority.

Wheat Industry Fund Levy

With the introduction of new wheat marketing arrangements on 1 July 1989, the wheat tax has been replaced by a new wheat industry levy. The new levy will comprise 2.5% of the net sales value of wheat, of which 2 percentage points will be applied to a Wheat Industry Fund. The fund will be used to support the trading activities of the Australian Wheat Board in the domestic wheat market. The Commonwealth will also guarantee borrowings by the Australian Wheat Board to fund such commercial operations. Further details are provided in Statement 3, *7B Industry Assistance and Development*.

Appendix C: Revenue Statistics - 1979-80 to 1989-90

Table C.I: Commonwealth Government Budget Revenue (\$m)

TAXATION REVENUE	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Income Tax											
Individuals											
Gross PAYE	13287	15291	18836	20812	22024	24403	27575	30657	33359	39106	41220
Less Refunds	1127	1170	1418	1971	2402	2072	2385	2520	2402	2550	2980
Net PAYE	12160	14121	17417	18840	19621	22331	25189	28136	30957	36556	38240
Other	2872	3411	3787	4101	4454	5322	5673	7444	7880	7352	8835
Medicare Levy	-	-	-	-	365	1223	1335	1715	2080	2320	2595
Prescribed Payments System	-	-	-	-	251	412	515	765	958	1308	1650
Total Income Tax on Individuals	15032	17532	21204	22942	24691	29287	32713	38061	41875	47536	51320
Companies											
Superannuation	3406	4695	5053	4829	4563	5564	6111	6714	8801	10265	11360
Withholding Tax	8	11	20	25	21	14	22	13	11	7	885
Fringe Benefits Tax	141	161	205	259	305	404	562	639	667	737	850
Total Income Tax	18588	22399	26482	28054	29580	35270	39408	45962	52234	59535	65535
Sales Tax											
Excise Duty	1865	2102	2854	3490	4165	4966	5728	6348	7547	9402	10500
Crude Oil and LPG	2270	3108	3163	3486	3650	4202	4019	2062	2056	1188	1352
Petroleum Products	905	925	970	1293	1973	2207	2813	4666	4833	5163	5645
Other Excise Duty	1789	1799	1860	2028	2110	2145	2373	2557	2778	2252	2267
Total Excise Duty	4964	5832	5993	6807	7733	8554	9203	9284	9668	8603	9264
Customs Duty											
Imports	1538	1800	2060	2036	2329	2927	3282	3237	3632	3753	4030
Coal Exports	91	85	97	66	66	60	57	52	50	50	82
Total Customs Duty	1629	1884	2156	2102	2395	2987	3339	3288	3683	3803	4082
Debits Tax	-	-	-	30	183	189	202	261	330	358	390
Other Taxes, Fees and Fines											
Primary Industry Levies	20	20	20	25	25	59	51	55	59	63	74
Broadcasting and Television Licence Fees	278	353	314	369	421	531	512	577	691	778	782
Other Taxes, Fees and Fines nec	18	21	31	40	48	59	69	77	86	110	271
ACT Taxes and Charges	134	108	148	178	267	314	341	324	362	367	426
Total Other Taxes, Fees and Fines	503	562	585	700	861	1082	1116	1211	1436	1551	1554
TOTAL TAXATION REVENUE	27548	32780	38071	41183	44917	53048	58999	66354	74897	83252	91325

4.36

Table C.I: Commonwealth Government Budget Revenue (\$m) - continued

NON-TAX REVENUE	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Interest Received											
From Other Governments											
On General Purpose Advances	1091	1270	1441	1619	1736	1904	1991	2073	2107	2082	2059
On Housing Agreements	176	183	189	197	212	228	245	265	289	303	308
On Other Specific	111	119	114	124	137	98	97	91	85	141	140
ACT Loan Council	-	-	-	-	-	-	-	-	-	-	-
Total Interest from Other Governments	1378	1572	1744	1940	2085	2230	2333	2429	2481	2527	2507
From Non-Budget Authorities											
Australian National Railways	18	16	18	15	12	14	7	8	8	8	4
Snowy Mountains Hydro-electric Authority	47	49	55	57	57	61	66	72	73	75	76
Pipeline Authority	27	29	31	33	35	34	34	33	30	28	26
Telecom and Postal Corporations	328	331	397	484	610	665	705	667	654	638	480
Civil Aviation Authority	-	-	-	-	-	-	-	-	-	16	17
Federal Airports Corporation	-	-	-	-	-	-	-	-	-	22	47
Other Non-Budget Authorities	17	11	8	8	6	6	4	-	-	-	14
Total Interest from Non-Budget Authorities	437	436	509	598	720	780	816	779	787	812	665
Defence Service Homes	-30	49	52	60	66	69	71	75	76	56	-
ACT Housing	22	25	25	28	28	29	27	28	27	22	8
From Public Financial Enterprises	33	37	35	27	38	6	55	44	47	1	1
Commonwealth Cash Balances - Reserve Bank	33	28	15	14	24	21	128	187	184	231	185
Other Interest Received	40	34	69	62	52	66	83	72	65	103	65
Total Interest Received	1914	2181	2449	2731	3014	3200	3513	3614	3667	3751	3431
Dividends and Other											
From Public Trading Enterprises	7	6	11	0	1	8	26	20	48	70	384
From Public Financial Enterprises											
Reserve Bank of Australia	226	198	345	663	746	1014	1985	2601	1959	503	440
Commonwealth Banking Corporation	36	42	39	34	46	39	23	100	68	123	110
Australian Industry Development Corporation	-	-	-	-	-	8	8	9	11	-	9
Other Financial Enterprises	-	-	0	0	0	0	0	0	0	-	-
From Petroleum Royalties	43	55	52	68	85	97	169	103	117	61	91
From Royal Australian Mint	9	47	33	52	133	175	37	7	26	234	55
Other (incl revenue nec)	15	18	20	35	39	33	50	55	36	32	31
Total Dividends and Other	337	366	501	852	1049	1373	2298	2896	2265	1024	1120
TOTAL NON-TAX REVENUE	2250	2546	2950	3582	4063	4573	5811	6510	5932	4775	4550
TOTAL REVENUE	29798	35326	41020	44765	48980	57622	64810	72864	80829	88027	95875

4.57

Table C.II: Real Rate of Change in Commonwealth Government Budget Revenue Items (%) (a)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
TAXATION REVENUE											
Income Tax											
Individuals											
Gross PAYE	5.7	4.0	10.6	-0.5	-0.9	4.6	5.6	3.5	1.3	7.2	-0.8
Less Refunds	-1.4	-6.2	8.9	25.1	14.1	-18.6	7.6	-1.6	-11.3	-2.9	9.9
Net PAYE	6.5	4.9	10.8	-2.6	-2.5	7.4	5.4	4.0	2.4	8.0	-1.6
Other	8.9	7.3	-0.3	-2.5	1.7	12.8	-0.4	22.2	-1.4	-14.7	13.0
Medicare Levy	n.a.	n.a.	n.a.	n.a.	n.a.	216.3	2.0	19.6	12.9	2.0	5.2
Prescribed Payments System	n.a.	n.a.	n.a.	n.a.	n.a.	55.1	16.9	38.4	16.5	24.0	18.7
Total Income Tax on Individuals	6.9	5.4	8.6	-2.6	0.8	12.0	4.4	8.3	2.4	3.8	1.6
Companies	2.1	24.5	-3.3	-13.9	-11.5	15.1	2.6	2.3	22.0	6.7	4.1
Superannuation	16.2	32.0	59.9	14.5	-21.3	-36.7	44.6	-44.3	-23.9	-36.3	n.a.
Withholding Tax	12.6	3.0	14.5	13.7	10.3	24.9	30.0	5.9	-2.9	1.1	8.6
Fringe Benefits Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	53.2	2.8	6.5
Total Income Tax	6.0	8.9	6.2	-4.6	-1.3	12.6	4.4	8.6	5.8	4.3	3.6
Sales Tax											
Excise Duty	-4.1	1.9	22.0	10.1	11.7	12.6	7.8	3.2	10.7	14.0	5.1
Crude Oil and LPG	68.4	23.7	-8.6	-0.8	-1.9	8.7	-10.6	-52.2	-7.1	-47.1	7.0
Petroleum Products	-9.4	-7.7	-5.8	20.0	42.9	5.6	19.1	54.4	-3.5	-2.3	2.9
Other Excise Duty	-4.6	-9.1	-7.1	-1.8	-2.6	-4.0	3.4	0.3	1.2	-25.9	-5.3
Total Excise Duty	17.5	6.2	-7.7	2.3	6.4	4.4	0.6	-6.1	-3.0	-18.6	1.3
Customs Duty											
Imports	2.7	5.7	2.8	-11.0	7.1	18.6	4.8	-8.2	4.5	-5.5	1.0
Coal Exports	-11.7	-15.5	2.4	-38.3	-6.5	-14.5	-10.6	-16.3	-8.8	-9.7	-1.7
Total Customs Duty	1.8	4.5	2.8	-12.2	6.7	17.7	4.5	-8.3	4.3	-5.5	1.0
Debita Tax	n.a.	n.a.	n.a.	n.a.	478.3	-2.1	-0.3	20.2	17.7	-0.6	2.4
Other Taxes, Fees and Fines											
Primary Industry Charges	381.3	-8.2	-10.1	8.9	-6.4	125.1	-19.1	1.0	-1.0	-2.2	10.6
Primary Industry Levies	-10.5	14.5	-20.0	5.6	7.0	18.9	-9.8	5.0	11.4	3.1	-3.4
Broadcasting and Television Licence Fees	13.3	7.1	29.3	17.6	12.1	14.7	9.5	3.9	4.1	17.4	131.5
Other Taxes, Fees and Fines nec	-16.2	-27.4	23.7	8.4	40.0	11.3	1.4	-11.4	4.0	-7.3	9.3
ACT Taxes and Charges	-4.6	3.5	5.6	12.1	5.9	13.2	12.0	14.9	25.7	-10.8	-100.0
Total Other Taxes, Fees and Fines	-7.9	1.0	-6.6	7.8	15.1	18.7	-3.6	1.0	10.5	-1.2	-3.8
TOTAL TAXATION REVENUE	6.6	7.5	4.3	-2.6	2.1	11.5	3.9	4.7	5.1	1.7	3.2

Table C.II: Real Rate of Change in Commonwealth Government Budget Revenue Items (%) - continued

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
NON-TAX REVENUE											
Interest Received											
From Other Governments	-2.5	5.2	1.9	1.1	0.4	3.5	-2.3	-3.0	-5.4	-9.6	-7.0
On General Purpose Advances	-3.0	-6.2	-7.2	-5.9	0.5	1.3	0.8	0.6	1.6	-4.2	-4.4
On Housing Agreements	5.6	-3.3	-13.9	-1.4	3.0	-32.2	-8.0	-12.0	-13.3	52.0	-7.1
On Other Specific	-	-	-	-	-	-	-	-	-	-	-
ACT Loan Council	-	-	-	-	-	-	-	-	-	-	-
Total Interest from Other Governments	-2.0	3.1	-0.3	0.2	0.6	1.0	-2.2	-3.0	-4.9	-6.9	-6.7
From Non-Budget Authorities											
Australian National Railways	-37.2	-20.5	2.0	-22.8	-26.9	8.6	-52.2	4.6	-11.0	-9.7	-43.9
Snowy Mountains Hydro-electric Authority	-9.2	-5.3	0.4	-6.7	-6.4	0.0	2.0	0.9	-5.9	-5.5	-4.8
Pipeline Authority	-2.8	-3.6	-5.4	-2.7	-1.5	-8.3	-6.4	-9.3	-14.2	-14.7	-14.3
Telecom and Postal Corporations	-8.6	-9.0	8.0	9.8	18.0	2.9	-0.9	-12.0	-8.6	-10.8	-29.2
Civil Aviation Authority	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-2.1
Federal Airports Corporation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-4.4
Other Non-Budget Authorities	-40.2	-42.3	-35.9	-7.4	-29.1	2.4	-41.1	n.a.	n.a.	n.a.	n.a.
Total Interest from Non-Budget Authorities	-11.8	-10.0	4.9	5.8	12.8	2.3	-2.2	-11.1	-6.0	-5.5	-23.0
Total Interest from Other Governments	-136.4	-250.2	-5.9	4.1	3.2	-1.8	-3.1	-2.0	-5.1	-33.5	n.a.
Defence Service Homes	-14.5	1.9	-9.9	3.4	-6.4	-4.4	-11.0	-5.2	-9.8	-25.0	-66.3
ACT Housing	31.9	1.4	-15.0	-30.2	30.8	-84.5	710.4	-25.6	0.4	-98.5	-5.9
From Public Financial Enterprises	9.6	-25.0	-52.0	-12.6	37.9	-18.8	474.5	36.0	-8.6	14.9	-24.5
Commonwealth Cash Balances - Reserve Bank	-10.6	-22.2	82.5	-19.2	-22.5	20.6	17.6	-19.5	-15.2	45.5	-40.7
Other Interest Received	-9.2	3.0	0.9	0.4	3.3	0.2	2.6	-4.2	-5.5	-6.4	-14.0
Total Interest Received	-9.2	3.0	0.9	0.4	3.3	0.2	2.6	-4.2	-5.5	-6.4	-14.0
Dividends and Other											
From Public Trading Enterprises	-34.5	-13.7	53.5	-96.7	84.9	796.7	217.9	-25.4	117.3	35.1	412.9
From Public Financial Enterprises	-21.6	-21.1	56.7	73.1	5.4	28.3	83.0	22.0	-29.9	-76.5	-17.8
Reserve Bank of Australia	15.4	5.0	-15.6	-22.8	27.6	-19.4	-45.7	312.9	-36.7	64.3	-15.7
Commonwealth Banking Corporation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Australian Industry Development Corporation	n.a.	n.a.	n.a.	-10.0	-6.4	-5.6	40.2	-6.9	n.a.	n.a.	n.a.
Other Financial Enterprises	n.a.	n.a.	n.a.	-13.9	17.4	17.1	7.7	62.5	-43.4	6.1	-52.5
From Petroleum Royalties	-69.5	374.0	-36.4	40.3	139.0	24.5	-83.2	-81.8	235.6	722.2	-77.9
From Royal Australian Mint	-38.7	6.9	-2.6	37.6	5.1	-19.2	40.4	3.1	-39.6	-18.4	-10.2
Other (incl revenue nec)	-19.0	-1.9	23.0	53.2	15.3	23.6	56.4	17.4	-27.2	-58.7	2.9
Total Dividends and Other	-10.8	2.2	4.0	9.4	6.2	6.3	18.8	4.3	-15.2	-26.4	-10.4
TOTAL NON-TAX REVENUE	5.0	7.1	4.3	-1.7	2.5	11.1	5.1	4.7	3.3	-0.4	2.5
TOTAL REVENUE											

(a) Nominal increase deflated by movements in the non-farm GDP deflator.

Table C.III: Major Categories of Revenue as Proportions of Total Revenue (per cent)

	Taxation Revenue								Non-Taxation Revenue			
	Income Tax (a)			Other Taxation Revenue					Sales Tax (d)	Dividends and Other (e)	Total Non-Tax Revenue (e)	
	Individuals	Companies	Total (b)	Crude Oil and LPG	Excises (c)		Total Liquid Fuel	Other (c)				
					Refined Petroleum Products	Total						
Averages: 1959-60 to 1963-64	33.0	16.7	50.0		16.6			10.0	37.8	n.a.	n.a.	12.2
: 1964-65 to 1968-69	37.5	15.9	53.8		15.2			7.8	34.6	10.5	0.2	11.6
: 1969-70 to 1973-74	42.1	16.5	59.3		13.2			7.9	30.2	9.5	0.3	10.5
: 1974-75 to 1978-79	50.5	13.4	64.4		12.4			7.4	27.2	7.4	0.9	8.3
: 1979-80 to 1983-84	50.7	11.4	62.7	7.9	3.0	10.9	4.9	7.1	29.7	6.2	1.5	7.6
: 1984-85 to 1988-89	51.8	10.2	63.5	4.0	5.3	9.3	3.4	9.2	28.8	4.9	2.8	7.7
1979-80	50.4	11.4	62.4	7.6	3.0	10.7	6.0	6.3	30.1	6.4	1.1	7.6
1980-81	49.6	13.3	63.4	8.8	2.6	11.4	5.1	6.0	29.4	6.2	1.0	7.2
1981-82	51.7	12.3	64.6	7.7	2.4	10.1	4.5	7.0	28.3	6.0	1.2	7.2
1982-83	51.2	10.8	62.7	7.8	2.9	10.7	4.5	7.8	29.3	6.1	1.9	8.0
1983-84	50.4	9.3	60.4	7.5	4.0	11.5	4.3	8.5	31.3	6.2	2.1	8.3
1984-85	50.8	9.7	61.2	7.3	3.8	11.1	3.7	8.6	30.9	5.6	2.4	7.9
1985-86	50.4	9.4	60.8	6.2	4.3	10.5	3.7	8.8	30.2	5.4	3.5	9.0
1986-87	52.2	9.2	63.1	2.8	6.4	9.2	3.5	8.7	28.0	5.0	4.0	8.9
1987-88	51.7	10.9	64.6	2.5	6.0	8.5	3.4	9.3	28.0	4.5	2.8	7.3
1988-89	53.9	11.7	67.6	1.4	5.9	7.2	2.6	10.7	26.9	4.3	1.2	5.4
1989-90	53.4	11.8	68.4	1.4	5.9	7.3	2.4	11.0	26.9	3.6	1.2	4.7

- (a) The 'Individuals' category comprises net PAYE, other individuals income tax, Medicare levy collections (from 1983-84) and collections under the prescribed payments system which have been apportioned to individuals (from 1983-84). 'Companies' includes company tax collections and collections from the prescribed payments system which have been apportioned to companies (from 1983-84).
- (b) As well as collections from individuals and companies, total income tax includes collections from superannuation funds, withholding tax revenue (from 1960-61) and fringe benefits benefits tax revenue (from 1986-87).
- (c) The 'other' category includes excise from beer, potable spirits and tobacco. A more detailed breakup - for 1988-89 and 1989-90 - is shown in Table 8 of this Statement.
- (d) As well as excises and sales tax, other taxation revenue includes customs duty on imports and coal exports; other taxes, fees and fines (including estate, gift and stamp duties); ACT taxes and charges (1959-60 to 1988-89); payroll tax (1959-60 to 1976-77); and debits tax (from 1982-83).
- (e) As well as interest and dividends, total non-tax revenue includes revenue from the National Debt Sinking Fund (1959-60 to 1963-64), and net increases in other balances of the Commonwealth Trust Fund (1959-60 to 1964-65).

CONTENTS

Introduction	Page
Balance	5.3
Domestic and Overseas Balances	5.5
Within-Year Balance Ratios	5.5
Financing Transactions	5.8
Debt Management in 1988-89	5.8
Debt Management in 1989-90	5.10
Debt Ratios	5.11
Appendix	5.13



STATEMENT 5—THE BUDGET BALANCE AND ITS FINANCING

INTRODUCTION

While the impact of the budget on the economy depends significantly on the level and composition of outlays and revenue, the difference between them—the balance—is also of considerable 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 balance.

This Statement places the 1989–90 balance in a longer term perspective, detailing the domestic and overseas components and within-year patterns. The implications and consequences of continued budget surpluses are examined and details on recent and prospective debt repayment are provided against a longer term review of financing transactions.

BALANCE

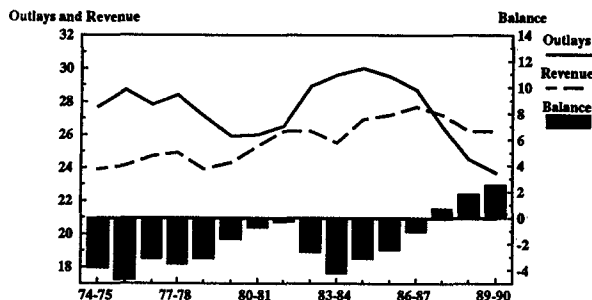
The main budget aggregates for each year since 1979–80 and averages for the last three decades, expressed both in absolute terms and as proportions of GDP, are shown in Table 1. A table showing budget outcomes since 1953–54, the limits of available data, is provided in the Appendix to this Statement (Table I). The annual aggregates from 1974–75 are depicted in Chart 1 as proportions of GDP.

Table 1: Commonwealth Budget Aggregates

	Outlays		Revenue		Balance (a)	
	\$m	% of GDP	\$m	% of GDP	\$m	% of GDP
Averages:						
1959-60 to 1968-69	4587	22.7	4240	21.0	-348	-1.7
1969-70 to 1978-79	16708	25.5	15040	23.3	-1668	-2.1
1979-80 to 1988-89	58699	27.6	56404	26.3	-2295	-1.3
1979-80	31758	25.9	29798	24.3	-1960	-1.6
1980-81	36313	26.0	35326	25.3	-986	-0.7
1981-82	41528	26.5	41020	26.2	-508	-0.3
1982-83	49277	28.9	44765	26.2	-4512	-2.6
1983-84	56966	29.6	48980	25.5	-7987	-4.2
1984-85	64319	30.0	57622	26.9	-6697	-3.1
1985-86	70439	29.5	64810	27.2	-5630	-2.4
1986-87	75496	28.7	72864	27.7	-2631	-1.0
1987-88	78764	26.5	80829	27.2	2064	0.7
1988-89	82128	24.5	88027	26.2	5899	1.8
1989-90	86753	23.7	95875	26.2	9122	2.5

(a) Negative sign indicates a deficit; positive sign indicates a surplus.

**CHART 1. BUDGET AGGREGATES
PERCENTAGE OF GDP**



The 1989-90 surplus of \$9122m or 2.5% of GDP principally reflects the cumulative effects of decisions to restrain the rate of growth in outlays. Since peaking at 30.0% of GDP in 1984-85, the outlays to GDP ratio has been reduced by 6.3 percentage points to an estimated 23.7% in 1989-90. By comparison, the estimated revenue to GDP ratio of 26.2% in 1989-90 is 1.5 percentage points lower than the peak ratio in 1986-87 and is now little different to the ratio prevailing in the early 1980s.

The aggregate outcome for 1988-89 is shown in Table 2:

Table 2: Commonwealth Budget Outcome

	1987-88		1988-89		Change in 1988-89 Actual	
	Actual	Estimate	Actual	Estimate	Over	Over
					1987-88 Actual	1988-89 Estimate
	\$m	\$m	\$m	\$m	%	%
Outlays	78764	82043	82128		4.3	85
Revenue	80829	87496	88027		8.9	531
Balance	2064	5453	5899			446

The 1988-89 outcome of a budget surplus of \$5899m, was \$446m higher than budgeted. This reflected slightly stronger than budgeted growth in revenues, with outlays growth in line with budget estimates but with the netting out of a number of offsetting factors. More detailed breakdowns of estimates and outcomes for outlays and revenue are given in Statements 3 and 4 respectively. A tabular comparison of budget estimates and outcomes since 1979-80 is provided in the Appendix to this Statement (Table II).

Domestic and Overseas Balances

The domestic and overseas balances over the past ten years, and estimates for 1989-90, are provided in Table 3.

Table 3: Domestic and Overseas Balances

	Domestic Balance		Overseas Balance		Overall Balance	
	\$m	% of GDP	\$m	% of GDP	\$m	% of GDP
1979-80	-528	-0.4	-1432	-1.2	-1960	-1.6
1980-81	553	0.4	-1539	-1.1	-986	-0.7
1981-82	945	0.6	-1453	-0.9	-508	-0.3
1982-83	-2537	-1.5	-1975	-1.2	-4512	-2.6
1983-84	-5579	-2.9	-2408	-1.3	-7987	-4.2
1984-85	-3668	-1.7	-3029	-1.4	-6697	-3.1
1985-86	-2035	-0.9	-3595	-1.5	-5630	-2.4
1986-87	1325	0.5	-3956	-1.5	-2631	-1.0
1987-88	4911	1.7	-2847	-1.0	2064	0.7
1988-89	9023	2.7	-3124	-0.9	5899	1.8
1989-90	12008	3.3	-2886	-0.8	9122	2.5

The Government makes substantial payments overseas, principally for defence equipment, overseas aid and debt servicing (see Table III in the Appendix to this Statement). Since budgetary revenue from overseas is negligible, there is typically a deficit on the Government's overseas transactions, the bulk of which is paid in foreign currencies.

The overseas budget deficit is expected to fall for the second year in succession. The fall in 1989-90 is a result of lower debt servicing costs following the net repayment of overseas debt in recent years, lower purchases of defence equipment and reduced contributions to international organisations. While the turnaround from a large budget deficit to a surplus is estimated at over 6 percentage points of GDP between 1983-84 to 1989-90, the overseas budget deficit over this period has shown little relative change. Consequently, the domestic deficit has been reduced markedly from 1983-84 and increasingly larger domestic surpluses have been recorded since 1986-87, one year ahead of the first overall surplus.

Within-Year Balance Pattern

The quarterly pattern of outlays, revenue and the balance for 1988-89 and the preceding four years is set out in Charts 2, 3 and 4. The within-year pattern of the budget balance affects both the Commonwealth's within-year financing needs and the liquidity management task over the year as a whole.

Chart 4 indicates a consistent pattern during recent years of deficits in the first three quarters followed by strong surpluses in the last quarter. In the first three quarters of the year, with the budget traditionally in deficit, the Commonwealth has issued short term securities (Treasury Notes) to finance the difference between its outlays and its revenue and to fund the redemption of maturing debt. As well as funding the Commonwealth's cash needs, issuing Treasury Notes offsets the injection of liquidity into the financial

CHART 2. QUARTERLY OUTLAYS PATTERN

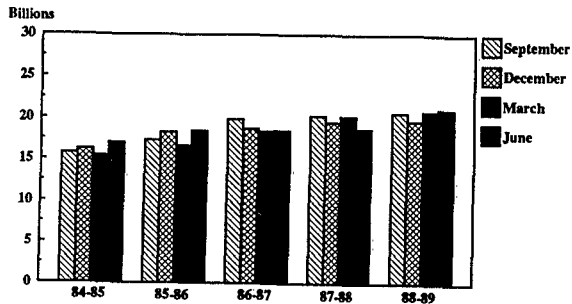
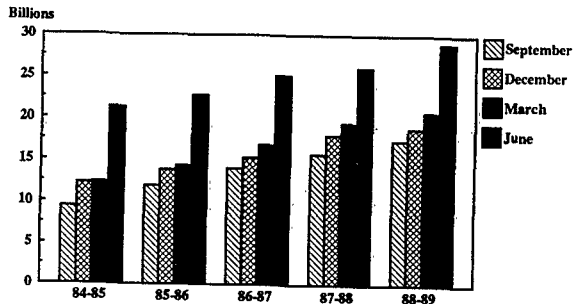


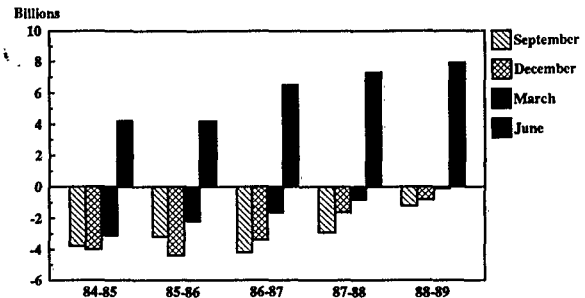
CHART 3. QUARTERLY REVENUE PATTERN



system which results from the quarterly deficits and maturing debt. In the fourth quarter, the Commonwealth has used the traditional surplus to fund the redemption of Treasury Notes issued in the previous quarters, and accordingly reduces the stock of short-term securities on issue. In doing so, it has injected liquidity into financial markets to offset that withdrawn by the June quarter 'tax run-down'.

In recent years the Government has taken a number of measures to help smooth the within-year balance pattern by spreading outlays and revenue more evenly over the four quarters. This has included making more frequent payments for major programs

CHART 4. QUARTERLY BALANCE PATTERN



(for example, the decision to make quarterly rather than annual payments to local government), and reducing the share of total revenue collected in the fourth quarter (for example, through the introduction of quarterly provisional tax collections and, in this Budget, the changed company tax arrangements). These measures have reduced the volume of Treasury Notes that would otherwise have been issued in the first three quarters of the financial year, producing substantial savings in public debt interest payments.

For 1988-89, the large June quarter surplus primarily reflected high revenue collections over the period but particularly in the month of May. The major differences between the balance pattern in 1988-89 and previous years were: the earlier movement to a surplus (February rather than March), a flatter pattern of deficits over the first three quarters (reflecting generally slower growth in outlays over the first half of the year) and the size of the year-end surplus.

Estimates of the within-year pattern of the budget balance for 1989-90 are subject to a great deal of uncertainty, incorporating not only forecasts of revenue and outlays, but also assumptions on their timing. That said, the within-year pattern of the budget balance in 1989-90 is expected to be rather different from that in earlier years. The revenue pattern in 1989-90 will be influenced significantly by the changes in arrangements for PAYE remittances and company tax payments. As a result, while there is still expected to be a pronounced revenue peak in the June quarter, the March quarter is also expected to be in surplus, and the December quarter in approximate balance. The pattern of outlays will be affected by the concentration of proceeds from assets sales in the first quarter of 1989-90. In consequence, the deficit for the September quarter is likely to be lower relative to recent years, owing to the receipt in July 1989 of around \$1 billion associated with the sale of the Defence Services Homes Scheme.

FINANCING TRANSACTIONS

Financing transactions for the past ten years are set out in Table 4.

The emergence of a Commonwealth budget surplus in the past two years, with a further large surplus budgeted for this year, raises some novel issues in undertaking financing transactions. There is no longer a central need to provide funds for financing the deficit between total outlays and revenue. Rather the need now is to manage within-year movements in liquidity in order to provide adequate liquidity to the financial system as a whole, and to fund the Commonwealth's cash balance requirements. In addition, as the Commonwealth Government has become a purchaser rather than a seller of securities, there is now the task of repaying debt in an orderly and efficient manner.

Until 1986-87, Commonwealth borrowing to fund the budget deficit led to annual increases in the volume of Commonwealth Government securities (CGS) outstanding. In 1987-88, the movement of the Commonwealth budget into surplus, combined with the use of surplus cash balances, meant that for the first time in 38 years the Commonwealth redeemed both foreign currency and domestic debt in net terms, and in substantial amounts. The continued (and much larger) budget surplus in 1988-89 meant that repayment of both domestic and foreign currency debt was again a feature. Further substantial debt repayment will continue in 1989-90.

Debt Management in 1988-89

As already noted the 1988-89 surplus of \$5899m enabled the Commonwealth to make substantial redemptions of both foreign currency and domestic debt. The main features of the financing program in 1988-89 were as follows:

- the Commonwealth repaid \$3186m of its overseas debt, following repayments of \$1587m in 1987-88, reducing the level of outstanding overseas debt at end-June 1989 to \$9261m;
- \$3604m of conventional Treasury Bonds were redeemed, following net redemptions of \$2173m in the previous year;
- Australian Savings Bonds (ASBs) totalling \$750m were redeemed, compared with net subscriptions of \$36m in 1987-88. No ASBs were issued in 1988-89;
- the stock of Treasury Notes on issue grew by \$1683m compared with a net reduction of \$291m in 1987-88; and
- as forecast, cash balances changed comparatively little over the year as a whole, with the decline of \$305m reflecting normal fluctuations in working levels.

Private sector holdings of CGS declined by \$2233m in 1988-89. This was made up of \$3420m in Treasury Bonds and \$750m in ASBs, partly offset by an increase in Treasury Note holdings of \$1937m. These changes in holdings reflected the primary issue of CGS to the private sector, maturities and early redemptions, and Reserve Bank transactions with the private sector. The Reserve Bank's holdings of CGS decreased by \$242m, with a marginal increase in Treasury Bond holdings more than offset by a \$254m fall in Treasury Note holdings.

Table 4: Trends in Domestic and Overseas Financing 1979-80 to 1988-89 (\$m)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
DOMESTIC FINANCING										
Treasury Bonds	450	188	1069	3134	7654	6227	2227	1813	-2173	-3604
Treasury Indexed Bonds	-	-	-	-	-	-	331	303	202	-1
ASBs and Special Bonds	175	-319	-720	2390	1946	-676	-2096	-511	36	-750
Treasury Notes	205	1912	153	44	-1563	822	3959	1287	-291	1683
Treasury Bills	500	-600	-500	-1400	-	-	-	-	-	-
Cash Advances with Reserve Bank (a)	637	327	116	301	225	-360	-317	-1201	1444	305
Other Financing (b)	-195	229	26	152	-183	-216	170	209	305	-346
DOMESTIC FINANCING (NET)	1772	1083	144	3931	7629	5797	4364	1900	-477	-2713
OVERSEAS BORROWING (c)										
Gross Raisings	471	173	919	1149	1174	1805	2868	3081	-	-
Less Repayments	283	270	555	570	816	904	1604	2351	1587	3186
OVERSEAS BORROWINGS (NET)	187	-97	364	580	357	900	1265	731	-1587 (d)	-3186 (e)
TOTAL FINANCING TRANSACTIONS	1960	986	508	4512	7987	6697	5630	2631	-2064	-5899

(a) Negative sign denotes increase in cash balances.

(b) Includes difference between face value of securities issued and proceeds, movements in Income Equalisation Deposits, State domestic raisings and other financing transactions not elsewhere identified.

(c) \$A. equ. units.

(d) Includes Dutch Guider liabilities purchased as part of the Commonwealth's market repurchase program. Because the loan agreements under which the Commonwealth undertook public loans in the Guider market expressly exclude repayment, it is unable to cancel this debt as done with other foreign currency liabilities repurchased. Instead the Dutch Guider liabilities are to be held by the Loan Consolidated and Investment Reserve.

(e) Commonwealth liabilities repurchased.

Details of changes in the outstanding stock of debt represented by CGS in 1988-89 and previous years can be found in Budget Related Paper No. 1, *Government Securities on Issue at 30 June 1989*.

Debt Consolidation

As foreshadowed in last year's Budget Paper No. 1, tenders for Treasury Bonds in 1988-89 were held primarily for debt consolidation purposes. The debt consolidation program was designed to enhance the liquidity of the domestic bond market as well as produce interest savings for the Commonwealth. Under this program, current or potential actively traded stocks were issued and relatively illiquid Treasury Bonds were repurchased in the market and cancelled.

New issue of Treasury Bonds totalled \$2.5 billion in 1988-89. This comprised three tenders to the private sector of \$400m each, Reserve Bank subscriptions to an equivalent amount at each tender, and a \$100m subscription by the Loan Consolidation and Investment Reserve (LCIR). With cancellations of illiquid stocks totalling \$2.3 billion and scheduled bond redemptions of \$3.8 billion, there was a net decline in the stock of Treasury Bonds on issue of \$3.6 billion.

Overseas Debt Repayment

The Commonwealth repaid \$3186m of foreign currency debt in 1988-89, following repayments of \$1587m in 1987-88; the Government has not borrowed overseas since March 1987. The Commonwealth repaid debt over the past year by:

- meeting all scheduled maturities (\$854m);
- exercising early call options (\$739m);
- undertaking market repurchases of foreign currency debt (\$1476m); and
- holding a public repurchase tender for one of its Swiss Franc issues (\$117m).

Foreign Exchange Requirements

The Commonwealth's foreign exchange requirements in 1988-89 totalled \$5523m, consisting of \$3186m of foreign currency necessary to meet overseas debt redemptions and \$2337m for the foreign exchange component of the overseas budget deficit. For the second successive year, the Commonwealth's foreign exchange requirements were met entirely by Reserve Bank purchases in the foreign exchange market.

Debt Management in 1989-90

The prospective Budget surplus of \$9122m for 1989-90 means that the Government will retire a substantial volume of both domestic and overseas debt for the third consecutive year. While the proposed funding arrangements may need to be adjusted in the light of developments, it is presently envisaged that there will be:

- retirement through maturities and early calls of around \$1³/₄ billion of overseas debt, following retirement of \$3.2 billion in 1988-89;
- redemptions through scheduled maturities of around \$3¹/₄ billion of Treasury Bonds, following net redemptions of \$3.6 billion in 1988-89;

- redemptions of around \$2 billion of ASBs, following redemptions of \$750m in 1988-89;
- repayment of additional domestic and foreign currency liabilities prior to maturity;
- a decline in the stock of Treasury Notes on issue, following a substantial increase of \$1.7 billion in 1988-89; and
- a decline in cash balances resulting partly from improved cash management techniques.

The Commonwealth does not plan to undertake any Treasury Bond tenders over the remainder of 1989-90. As part of the debt repayment program, the Government will commence a 'reverse bond tender' program in the December quarter to buy back Treasury Bonds. This new method of debt repurchase will supplement existing options available to the Commonwealth.

Because the Commonwealth does not need to issue Treasury Bonds for full-year funding, CGS on issue to the States which mature in 1989-90 and are not paid out through the sinking fund will be replaced by the LCIR subscribing to a series of Special Loans. This stock will be held as an investment by the LCIR.

As in past years, cash base growth will be provided by Reserve Bank market operations.

The Government's foreign currency requirements in 1989-90 are provisionally estimated at around \$4¹/₂ billion. These foreign exchange needs are again expected to be met through purchases in the market by the Reserve Bank.

Debt Ratios

With the move in the Commonwealth budget from deficit to substantial surplus, the ratio of the Commonwealth budget sector's total gross debt outstanding to GDP has declined markedly. As detailed in Table 5, the ratio has fallen from the recent peak of 26.8% at end-June 1986 to 17.0% at end-June 1989. As a result of the proposed debt redemption program for 1989-90, there will be a further sizeable fall in 1989-90 to around 13% at end-June 1990.

Within that, Commonwealth *domestic* debt as a proportion of GDP is expected to fall to 11% at end-June 1990 from 14.3% at end-June 1989, and the recent peak of 21.2% at end-June 1985. This will represent the lowest proportion for the past 40 years for which comparable data are available. The Commonwealth's outstanding *foreign currency* debt fell from a peak of \$15,064m at 30 June 1987 to \$9261m at 30 June 1989. At 2.8% of GDP, this was its lowest level since 1976-77. In 1989-90, the Commonwealth's foreign currency debt is expected to fall relative to GDP for the fourth consecutive year.

The sharp decline in the volume of domestic and overseas debt outstanding that has accompanied the movement of the Budget into surplus has led to a marked reduction in public debt interest outlays (PDI). In 1989-90 PDI outlays are estimated to comprise 8.4% of total outlays, compared with 10.4% in 1986-87. Further details are provided in Statement 3. Continuing budget surpluses will maintain this beneficial impact on outlays.

Table 5: Commonwealth Budget Sector: Domestic and Overseas Debt as a Percentage of GDP (a)

	Domestic (b)	Overseas (c) (d)	Total
Average: 1979-1989	19.2	4.3	23.5
1979	22.4	4.9	27.3
1980	20.9	4.4	25.3
1981	19.2	3.3	22.5
1982	17.1	3.4	20.6
1983	18.2	4.1	22.2
1984	20.3	3.7	24.0
1985	21.2	4.6	25.8
1986	21.0	5.8	26.8
1987	20.1	5.7	25.8
1988	17.0	4.3	21.3
1989	14.3	2.8	17.0
1990	11	2	13

(a) Based on Table 4A of Budget Related Paper No.1, 'Government Securities on Issue at 30 June 1989'.

(b) Excludes Internal Treasury Bills.

(c) Excludes Dutch Guilder liabilities acquired as part of the Commonwealth's market repurchase program since these no longer constitute a net liability of the Commonwealth. See footnote (d) to Table 4.

(d) Based on exchange rates as at 30 June for each year.

APPENDIX

Table 1: Commonwealth Budget Outlays, Revenue and Balance (a), 1953-54 to 1989-90

	Outlays			Revenue		Balance	
	\$m	% Real Growth	% of GDP	\$m	% of GDP	\$m	% of GDP
1953-54	2081		22.2	1940	20.7	-141	-1.5
1954-55	2149	2.6	21.5	2039	20.4	-110	-1.1
1955-56	2349	5.1	21.7	2190	20.2	-159	-1.5
1956-57	2461	-2.7	20.9	2415	20.5	-46	-0.4
1957-58	2619	7.1	21.7	2573	21.3	-46	-0.4
1958-59	2817	6.9	21.7	2546	19.7	-271	-2.1
1959-60	3061	9.8	21.4	2827	19.8	-234	-1.6
1960-61	3237	1.9	21.3	3204	21.1	-32	-0.2
1961-62	3620	9.6	23.2	3262	20.9	-358	-2.3
1962-63	3770	2.9	22.4	3356	20.0	-415	-2.5
1963-64	4145	7.6	22.2	3725	19.9	-419	-2.2
1964-65	4532	5.2	22.0	4349	21.2	-183	-0.9
1965-66	5029	7.4	23.3	4774	22.1	-255	-1.2
1966-67	5540	8.4	23.7	5088	21.4	-552	-2.3
1967-68	6225	5.8	24.4	5583	21.9	-643	-2.5
1968-69	6613	2.1	23.0	6228	21.7	-386	-1.3
1969-70	7348	6.1	23.1	7157	22.5	-191	-0.6
1970-71	8102	3.8	23.1	8093	23.1	-10	-0.0
1971-72	9047	3.7	23.0	8913	22.7	-134	-0.3
1972-73	10170	5.4	22.7	9475	21.2	-696	-1.6
1973-74	12244	5.8	22.9	11981	22.4	-263	-0.5
1974-75	17918	19.8	27.7	15435	23.9	-2483	-3.8
1975-76	21949	4.8	28.7	18370	24.1	-3579	-4.7
1976-77	24226	-0.7	27.8	21551	24.7	-2675	-3.1
1977-78	26877	2.7	28.4	23607	24.9	-3270	-3.5
1978-79	29203	1.6	27.1	25819	23.9	-3384	-3.1
1979-80	31758	-1.0	25.9	29798	24.3	-1960	-1.6
1980-81	36313	3.3	26.0	35326	25.3	-986	-0.7
1981-82	41528	2.7	26.5	41020	26.2	-508	-0.3
1982-83	49277	6.8	28.9	44765	26.2	-4512	-2.6
1983-84	56966	8.3	29.6	48980	25.5	-7987	-4.2
1984-85	64319	6.6	30.0	57622	26.9	-6697	-3.1
1985-86	70439	2.4	29.5	64810	27.2	-5630	-2.4
1986-87	75496	-0.2	28.7	72864	27.7	-2631	-1.0
1987-88	78764	-2.9	26.5	80829	27.2	2064	0.7
1988-89	82128	-4.6	24.5	88027	26.2	5899	1.8
1989-90	86753	-0.6	23.7	95875	26.2	9122	2.5

(a) While some inter-year comparisons before 1972-73 may be affected by classification differences and revisions, the data from that year is on a basis consistent with current classification treatment.

Table II: Comparison of Estimates and Outcomes From 1979-80 to 1988-89

	Estimate (a)		Outcome (b)		Change	
	\$m	\$m	\$m	\$m	%	%
OUTLAYS						
1979-80	31692	31694	2	..		
1980-81	36029	36274	244	0.7		
1981-82	40877	41339	463	1.1		
1982-83	47067	48982	1915	4.1		
1983-84	56590	56570	-20	..		
1984-85	63843	63739	-104	-0.2		
1985-86	69048	69917	869	1.3		
1986-87	74765	74899	134	0.2		
1987-88	78944	78764	-181	-0.2		
1988-89	82043	82128	85	0.1		
REVENUE						
1979-80	29499	29661	162	0.6		
1980-81	34464	35146	683	2.0		
1981-82	40780	40790	10	..		
1982-83	45393	44509	-884	-1.9		
1983-84	48229	48610	381	0.8		
1984-85	57098	56993	-104	-0.2		
1985-86	64149	64191	43	0.1		
1986-87	71262	72184	922	1.3		
1987-88	78767	80806	2038	2.6		
1988-89	87496	88027	531	0.6		
BALANCE						
1979-80	-2193	-2034	160			
1980-81	-1566	-1127	438			
1981-82	-96	-549	-453			
1982-83	-1674	-4473	-2799			
1983-84	-8361	-7961	401			
1984-85	-6746	-6746	..			
1985-86	-4900	-5726	-826			
1986-87	-3503	-2716	788			
1987-88	-177	2042	2219			
1988-89	5453	5899	446			

(a) To ensure they are on the same classification basis as the relevant outcome figures, the estimates shown for each year are those which appeared in Statement 5 of the following year. For this reason, they are not necessarily the estimates first published in the relevant year's Budget Papers.

(b) As the outcomes shown for each year reflect the classification treatment adopted for the following year's Budget, they may differ slightly from the figures elsewhere in this Budget Paper which reflect the definitions and classifications now in effect. As a result, the outcome figures in this table should not be compared between years.

Table III: Domestic and Overseas Components of the 1988-89 Balance (\$m) - Quarterly Breakup by Major Components

	September Quarter	December Quarter	March Quarter	June Quarter	Total
OVERSEAS BALANCE					
Defence	-264	-295	-226	-323	-1109
Foreign Affairs	-142	-141	-209	-280	-773
Loan Flotation Expenses	-	-	-	-	-
Public Debt Interest	-219	-337	-249	-171	-977
Other	-68	-67	-67	-64	-265
TOTAL OVERSEAS BALANCE	-694	-841	-751	-838	-3124
DOMESTIC BALANCE	-487	66	656	8789	9023
TOTAL BALANCE	-1181	-775	-95	7951	5899

STATEMENT 6—TRANSACTIONS OF THE PUBLIC SECTOR AS A WHOLE

CONTENTS

	Page
INTRODUCTION	6.3
COMPOSITION AND CHARACTERISTICS OF THE PUBLIC SECTOR	6.3
Definitions	6.3
Commerciality of the Public Trading Enterprise Sector	6.4
Implications of the Different Characteristics of the Institutional Sectors for Analysis of the Public Sector	6.6
OVERVIEW OF PUBLIC SECTOR TRANSACTIONS	6.6
Size of the Public Sector	6.6
Trends in Public Sector Transactions	6.8
PUBLIC SECTOR OUTLAYS AND REVENUE	6.10
General Government	6.10
Public Trading Enterprises	6.14
PUBLIC SECTOR BORROWING	6.19
The Different Concepts of Public Sector Borrowing	6.19
General Government	6.23
Public Trading Enterprises	6.24
1988-89 Outcome and Expected Developments in 1989-90	6.24
PUBLIC SECTOR INDEBTEDNESS	6.25
PUBLIC FINANCIAL ENTERPRISES	6.27

STATEMENT 6—TRANSACTIONS OF THE PUBLIC SECTOR AS A WHOLE

INTRODUCTION

For broader analytical purposes, it is often more appropriate to examine trends in the finances of the public sector as a whole, rather than focus on just the Commonwealth Budget—even though the latter accounts for around 70% of total public sector outlays (or around 50% when transfers to other parts of the public sector are excluded) and 75% of public sector revenues. This Statement examines transactions of the public sector as a whole and its major sub-sectors, and considers Commonwealth Budget transactions in that context.⁽¹⁾

COMPOSITION AND CHARACTERISTICS OF THE PUBLIC SECTOR

Definitions

In Australia the public sector is defined as all entities owned and/or controlled by Commonwealth, State or local governments. Included are both government departments, which deliver traditional public services, and government owned businesses (including when ownership is majority but not total). This definition is wider than that used in some OECD countries where government owned commercial businesses are excluded. International statistical comparisons of the role of the public sector in various countries therefore need to be undertaken with care.

In this presentation, public sector entities are classified both by level of government and by institutional sector.⁽²⁾ The former criterion distinguishes between the *Commonwealth* and *State/local* sectors, while the latter distinguishes between *general government*, *public trading enterprises* (PTEs) and *public financial enterprises* (PFEs).

This Statement concentrates on the general government and PTE sectors: these constitute the *non-financial* public sector.⁽³⁾ Similarly, the ABS Government Finance

(1) This Statement uses ABS data prepared on the basis of the classification methods set out in the *Classifications Manual for Government Finance Statistics, Australia* (ABS Catalogue No. 1217.0). Data presented in the tables in this Statement do not necessarily add to totals because transfers between sectors are netted out on consolidation. The data are current with those presented in Budget Related Paper No. 2 *National Income and Expenditure 1988-89* (ABS Catalogue No. 5213.0) and are more recent than the corresponding data published in *Government Financial Estimates, Australia 1988-89* (ABS Catalogue No. 5501.0). There are, however, some conceptual differences between the Government Finance Statistics used in this Statement and national accounts data. In particular, the national accounts incorporate estimates of current cost depreciation (which are treated as part of current outlays under 'consumption of fixed capital'), while in the Government Finance Statistics there is no allowance for depreciation for general government, and for PTEs depreciation is measured on the basis used in PTEs' financial statements—usually historical cost.

(2) Data can also be presented on an administrative sector classification (that is, according to whether activities are administered within or outside the budget sectors of the relevant levels of government). Refer to Statement 7 for the ABS definition of the administrative sector used to compile statistics in other Budget Statements. Because administrative arrangements vary among governments, some functionally identical activities are classified to different sectors in different States under an administrative sector classification. For example, railway operations fall within the budget sector of some States, but within the non-budget sector of others. This Statement uses the institutional sector classification because it is more meaningful analytically and allows for a greater degree of comparability among governments.

(3) Commodity marketing boards established under Commonwealth or State legislation are now included by ABS in the definition of the public sector. However, only a limited number of such entities are currently covered by Government Finance Statistics and, hence, in the statistics presented in this Statement. The ABS intends to progressively extend the coverage of these entities from the 1989-90 issue of ABS Catalogue No. 5501.0.

Statistics, from which most of the data in this Statement are derived, excludes PFEs. A short discussion on PFEs and how they relate to the rest of the public sector is contained in the final section of this Statement.

The principal functions of the general government sector are to establish and maintain the legal and other essential institutional frameworks for the community, provide a range of non-market goods and services and administer the income transfer system. It is largely tax financed and the allocation of resources between competing uses is determined by the community's preferences as transmitted through the political process. By contrast, the public trading enterprise sector consists of government owned enterprises which provide goods and services for sale in the market and which aim to recover at least a significant proportion of their operating costs through charges for their goods and services.

Commerciality of the Public Trading Enterprise Sector

There are, however, wide differences in the degree of commercial orientation within the PTE sector:

- There are some fully self-supporting businesses, usually paying dividends on their government equity, and competing against other businesses. Examples of such enterprises are Qantas and Australian Airlines.
- There are some government business enterprises which are financially self-supporting but are dominant in their market, either owing to regulated restrictions on competitors, or because of natural monopoly characteristics. Examples of such enterprises are Telecom, Australia Post and the State electricity authorities.
- Some other government business enterprises recover only a small proportion of their costs and require large ongoing subsidies from general government. Examples of such enterprises are most State metropolitan public transport undertakings and non-metropolitan railways.

While market forces play a greater role in determining resource allocation in the PTE sector than in the general government sector, the extent to which this is so obviously varies according to the degree of commercial orientation of the PTEs. For the more commercial PTEs operating against competitors, the bulk of decisions relating to provision of services, prices, operating costs and borrowings may be formulated in a fashion similar to that for private sector business even though government may retain some control over broad approaches, and even over some specific decisions. In other cases, only limited consideration may be given to seeking appropriate returns on the community's assets or principles of efficient pricing and decision making may be more akin, in many respects, to that in the general government sector.

Even the most commercial of the PTEs do not operate in an environment that is precisely the same as that for private sector businesses. A requirement to comply with government policies directed towards goals quite separate from their activities may place constraints on their operation. On the other hand, as PTEs are owned and/or controlled by government, they will always have the implicit if not explicit backing of government. They are therefore not subject to the market disciplines that come with the threat of takeover or declining share values that may accompany poor corporate performance in

the private sector. While retaining public ownership, the Commonwealth Government and some State Governments have been moving to place the operations of their PTEs on a more commercial footing and, in some instances, to facilitate greater private competition in the PTEs' areas of activity.

Increased emphasis has also been placed by the Commonwealth on ensuring that its enterprises face financing costs more comparable with private businesses through the reduced provision of Commonwealth guarantees of borrowings and the application of the Commonwealth borrowing levy of 0.125% on all borrowings undertaken since 1 July 1987. This levy partly offsets the benefit the enterprises gain in financing costs by virtue of Commonwealth ownership.

At the Commonwealth level, the *Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises* released in November 1987 are being applied to Commonwealth PTEs. The reform process is based on the principles of exercising strategic oversight and ensuring proper accountability for results. As part of this process, a number of detailed controls on the operations of PTEs have been relinquished in favour of an approach which endeavours to place government at 'arm's-length' from day-to-day decision-making and which focusses more on commercial-type results.

In 1988-89, further progress was made in developing the corporate planning process for each enterprise as the prime focus of Government involvement in PTE operations. Under the new arrangements, Commonwealth PTEs are required to establish major financial and operational goals in advance with the Government; to develop plans for pursuing these objectives; and to report on success in achieving targets. These corporate plans thus provide the focus of strategic oversight designed to promote efficiency and ensure the accountability of PTEs.

In addition to the development of strategic planning, changes to the corporate and financial structure of some enterprises were implemented on 1 July 1989 in accordance with principles developed by the Government in 1987. An incorporated company structure has been adopted for those Commonwealth enterprises in direct competition with the private sector or with a well developed commercial culture. Enterprises which have community service obligations will continue to operate as statutory corporations.

On 1 July 1989, Australian National Line joined Qantas, Australian Airlines, Aussat and OTC in becoming an incorporated Commonwealth-owned company. Also on this date, Australia Post and Telecom began operation under new corporate and financial structures aimed at encouraging competition in appropriate areas, and promoting a commercial ethos in both enterprises. In recognition of the telecommunication carriers' monopolies over certain reserved services, the Australian Telecommunications Authority (AUSTEL) was established to administer a new price-capping mechanism to ensure that productivity gains flow to users. It will also ensure that the carriers do not misuse their market power and will promote competition outside the reserved services.

The fact of government ownership/control is the determining factor in the inclusion of PTEs within the broad definition of the public sector. Their outlays are recorded as part of total public sector outlays and their borrowings are part of the total public sector borrowing requirement (PSBR).

Implications of the Different Characteristics of the Institutional Sectors for Analysis of the Public Sector

The broad definition of public sector transactions is relevant for many analytical and policy purposes, particularly when examining economy-wide saving/investment flows. Nevertheless, there remain important qualitative differences between general government and PTE transactions and this supports, for many purposes, analysis of the individual sub-sectors.

The operation and impact of macroeconomic policies can generally best be considered within the framework of a disaggregated public sector. For example, fiscal policy is implemented directly through adjustments to the revenue and outlays of the Commonwealth general government sector, including adjustments in budgetary assistance to the State sector. Those adjustments in budgetary assistance to the States may, in turn, however, indirectly influence PTEs operating under their auspices should there be consequent adjustments in PTE subsidies or imposts. Moreover, in Australia the annual global borrowing limits for the PTE sectors are an instrument of fiscal policy. However, by and large, while Commonwealth general government budget deficits or surpluses are determined primarily by the stabilisation objectives of economic management, movements in the deficit of the PTE sector are more influenced by the longer term investment programs of the enterprises.

Similarly, direct and indirect tax rates in the general government sector are set with a view to longer-run allocative effects and to shorter-run stabilisation objectives; prices and charges for specific PTE services do not normally have such shorter-run stabilisation objectives. More fundamentally, they should be set with a view to the desirable extent of longer-run cost recovery and the rate of return on enterprise assets.

Apart from anything else, these differences suggest that international comparisons of fiscal positions are best made by comparing developments in the general government sector, not only because the statistical definition of this sector is reasonably uniform across countries but because this is where the direct impact of fiscal policy settings is most apparent.

OVERVIEW OF PUBLIC SECTOR TRANSACTIONS

Data on recent trends in outlays, revenue and net PSBR are shown in Table 1.

Size of the Public Sector

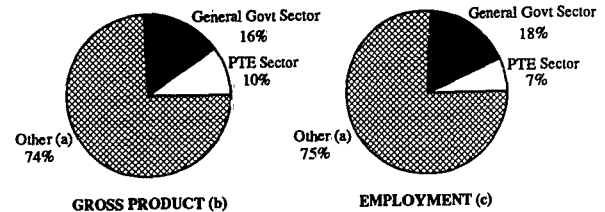
Over the past decade, general government outlays have averaged around 35% of Gross Domestic Product (GDP) and PTE outlays around 6% of GDP.

Although the ratio for general government may indicate its size in terms of the proportion of national income flowing through general government, it does not indicate the sector's direct contribution to GDP. This is because the outlays figure includes transfer payments, which do not contribute to final expenditures directly. These types of payments redistribute income within the economy and, although that may have important economic consequences in itself, the final disposition of the income is determined by the recipients of the transferred income, not the government. For PTEs the outlays figures include only capital expenditure and transfers—operating expenditure is excluded.

There is, however, no unique measure of the size of the public sector and the most appropriate measure will depend on the purpose of the analysis. Nevertheless, measures which focus on the public sector's production of goods and services relative to total production, and employment of the public sector as a proportion of total employment, provide a better indication of the relative importance of the public sector in the economy as a whole than the outlays to GDP ratio.

Some 1987-88 data on gross product (the measure of production) of general government and PTEs as a percentage of GDP, along with employment of both sectors as a percentage of total employment, are shown below.

CHART 1. GROSS PRODUCT AND EMPLOYMENT BY INSTITUTIONAL SECTOR 1987-88



- (a) Other comprises the PFE and Private Sectors. The PFE Sector contributes less than 0.5% to GDP and around 1% to total employment.
 (b) Australian National Accounts: National Income and Expenditure 1987-88 (ABS Catalogue No. 5204.0).
 (c) ABS unpublished data and IAC estimates.

Trends in Public Sector Transactions

Table 1 shows that total public sector outlays and revenues as a percentage of GDP were substantially higher in the decade to 1988-89 than in the previous ten years. This largely reflected developments in the general government sector (see Chart 2) but the acceleration in outlays and increase in net PSBR of the PTEs, particularly in the early 1980s, also contributed. There were sharp jumps in the outlays ratio in the mid 1970s and again in the early 1980s. Higher outlays were followed, on each occasion, by a sharp rise in the net PSBR and, then, periods of sustained fiscal restraint. The recent period of restraint produced a negative net PSBR in 1988-89; indeed, the fall in net debt in 1988-89 was the first recorded since data have been available on a consistent basis (the early 1960s).

Table 2 shows comparable data disaggregated by level of government. Both the Commonwealth and State/local sectors contributed to the increases in outlays and net PSBR in the first half of the 1980s. The Commonwealth subsequently led the way in reducing outlays and the net PSBR, the latter peaking in 1983-84; however, over the last two years the State/local sector has also made a significant contribution. Restraint by the State/local sector has undoubtedly been heavily influenced, as was intended, by reductions in Commonwealth budgetary assistance, which has caused the States to reassess their own budgetary positions.

Table 1: Public Sector Outlays, Revenue and Net Public Sector Borrowing Requirement (PSBR) by Institutional Sector as a Percentage of GDP

	Outlays			Revenue			Net PSBR (a)		
	General Government		Total	General Government		Total	General Government		Total
	PTEs	Total		PTEs (b)	Total		PTEs	Total	
Averages:									
1969-70 to 1978-79	30.3	5.6	33.6	28.2	3.5	29.4	2.0	1.0	3.0
1979-80 to 1988-89	34.5	6.4	39.6	32.7	3.3	34.7	1.7	1.9	3.6
1979-80	31.9	5.5	36.0	30.0	2.6	31.3	1.8	1.9	3.7
1980-81	32.0	5.6	36.5	30.9	2.5	32.3	1.1	2.1	3.2
1981-82	32.7	6.6	38.3	32.1	2.6	33.7	0.6	2.9	3.5
1982-83	35.5	7.4	41.4	32.6	3.1	34.3	2.8	3.1	5.9
1983-84	36.1	7.2	41.8	31.9	3.2	33.5	4.2	2.5	6.7
1984-85	36.9	6.5	42.0	33.4	3.5	35.5	3.4	1.7	5.1
1985-86	36.9	7.1	42.6	33.8	3.6	36.0	2.9	2.1	5.1
1986-87	36.6	6.8	41.9	34.5	3.9	36.9	2.0	1.5	3.5
1987-88	34.2	5.9	38.9	34.3	4.0	37.1	-0.1	0.5	0.4
1988-89	32.1	5.7	36.8	33.7	3.7	36.4	-1.6	0.7	-1.0

- (a) The net PSBR is defined as outlays less revenue, less increases in provisions (including for depreciation and superannuation) and, in the case of the PTE sector, net advances received from general government. The net PSBR is equivalent to the ABS concept of the net financing requirement.
 (b) Includes net advances from general government. In Government Finance Statistics, net advances are not classified as revenue but as financing transactions.

CHART 2. GENERAL GOVERNMENT SECTOR OUTLAYS, REVENUE AND NET PSBR

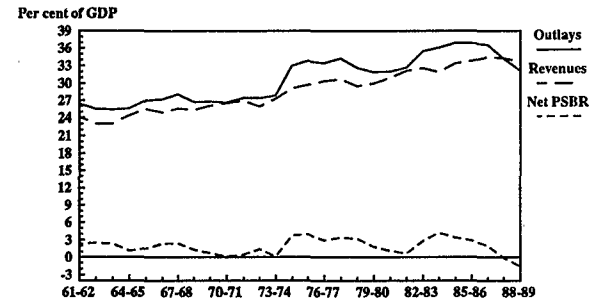


Table 2: Public Sector Outlays, Revenue and Net Public Sector Borrowing Requirement (PSBR) by Level of Government as a Percentage of GDP

	Outlays (a)			Revenue					Net PSBR (b)		
	C'wealth	State/local	Total	State/local		Total (c)(f)	C'wealth	State/local	Total		
				C'wealth (c)	Transfers (d)						
Averages:											
1969-70 to 1978-79	26.0	18.0	33.6	23.3	7.5	9.0	16.4	29.4	2.1	0.9	3.0
1979-80 to 1988-89	28.9	20.7	39.6	26.7	9.1	9.0	18.0	34.7	1.6	2.0	3.6
1979-80	27.0	19.6	36.0	24.5	7.9	9.4	17.4	31.3	2.0	1.7	3.7
1980-81	27.0	19.9	36.5	25.4	8.0	9.2	17.3	32.3	1.1	2.1	3.2
1981-82	27.7	20.7	38.3	26.4	8.4	9.0	17.3	33.7	0.8	2.7	3.5
1982-83	29.8	22.4	41.4	26.3	9.1	9.6	18.7	34.3	2.9	3.0	5.9
1983-84	30.8	21.9	41.8	25.7	8.9	9.7	18.7	33.5	4.4	2.3	6.7
1984-85	31.1	21.5	42.0	27.3	9.2	9.5	18.7	35.5	3.3	1.8	5.1
1985-86	31.1	21.6	42.6	27.5	9.5	9.1	18.7	36.0	3.1	2.0	5.1
1986-87	30.2	21.4	41.9	28.1	9.7	8.8	18.5	36.9	1.4	2.1	3.5
1987-88	27.9	19.8	38.9	28.1	9.8	8.0	17.8	37.1	-0.8	1.3	0.4
1988-89	26.2	18.6	36.8	27.2	9.9	7.2	17.1	36.4	-1.6	0.7	-1.0

- (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 significantly affected the movements in State/local outlays since that time.
 (b) The net PSBR is defined as outlays less revenue, less increases in provisions (including for depreciation and superannuation) and, in the case of the State/local sector, net advances received from the Commonwealth. The net PSBR is equivalent to the ABS concept of the net financing requirement.
 (c) Comprises taxes, fees and fines, PTEs' net operating surpluses, and property income and other revenue.
 (d) Comprises grants and net advances from the Commonwealth. In Government Finance Statistics, net advances are not classified as revenue but as financing transactions.
 (e) Net of transactions, including interest payments, between the Commonwealth and State/local sectors.

PUBLIC SECTOR OUTLAYS AND REVENUE

General Government

Outlays and revenue of the general government sector by level of government are shown in Table 3; Chart 3 also shows general government outlays, including Commonwealth 'own purpose' outlays.⁽⁴⁾ Commonwealth general government statistics are not identical to the Commonwealth Budget estimates since the general government sector differs from the Budget sector (Statement 7 provides an explanation).

Outlays of the general government sector increased through the first half of the 1980s and peaked at 36.9% of GDP in 1984-85 and 1985-86. They subsequently fell to 32.1% in 1988-89. The variations underpinning these trends are shown in Table 4, which shows general government sector outlays for the two levels of government by main economic type. The basic distinction drawn by the economic type classification is between net expenditure on goods and services (the direct and final demands of governments on real resources) and transfers and advances (to either the private sector or other levels of government).

Net expenditure on goods and services by the general government sector peaked at 19.6% in 1984-85 and 1985-86, before declining by 2.3 percentage points to 17.3% in 1988-89 (Table 4). This decline occurred at both the Commonwealth and State/local levels. More than two thirds of the fall reflected reductions in consumption outlays. A fall in State/local capital expenditure in 1988-89 is explained partly by increased sales of land which are netted off expenditure on new and secondhand assets.

Table 4 also shows final expenditures as a proportion of GDP over the past decade were around 6% for Commonwealth general government and 13% for State/local general government, within total outlay proportions of around 28% and 17% of GDP respectively. These outcomes reflect the following factors:

- transfer payments, associated with the Commonwealth's social welfare responsibilities, and transfers to the State/local sector, account for around four-fifths of Commonwealth general government outlays; and
- by contrast, transfers by State/local general government comprise less than one quarter of their outlays.

Total transfer payments rose from around 14% of GDP at the beginning of the 1980s to a peak of 17.3% in 1984-85 and 1985-86, and also accounted for an increasing share of total general government outlays over that period. This increase was across several

(4) 'Own purpose' outlays are derived by excluding outlays which represent direct transfers to the State/local sector and outlays made by the Commonwealth on the State/local sector's behalf, such as interest on advances. Netting out such transactions permits general government outlays to be presented without double-counting. Comparison based on Commonwealth 'own purpose' outlays defined in this way may not be particularly meaningful, however, because the classification is based on the level at which funds are spent, and does not correspond to the division of effective responsibilities. For example, a significant proportion of Commonwealth total outlays are conditional transfers to the States, which require the funds involved to be used for designated purposes ('specific purpose payments'). Some of these payments relate to functions for which the Commonwealth has full effective responsibility for policy decisions and funding, such as higher education. In the 'own purpose' estimates shown, these outlays are classified as State outlays, whereas they largely give effect to Commonwealth policies and reflect Commonwealth decisions on levels of activity.

Table 3: General Government Sector Outlays and Revenue as a Percentage of GDP

	Outlays (a)			Revenue				
	Commonwealth	State/local	Total	Commonwealth (b)	State/local		Total (b)(d)	
					Own Revenue (b)	Transfers (c)		
Averages:								
1969-70 to 1978-79	25.4	15.3	30.3	23.3	6.3	9.0	15.3	28.2
1979-80 to 1988-89	27.6	16.9	34.5	26.2	7.5	9.0	16.5	32.7
1979-80	26.0	16.4	31.9	24.3	6.8	9.4	16.2	30.0
1980-81	26.0	16.4	32.0	25.2	6.8	9.3	16.1	30.9
1981-82	26.5	16.3	32.7	26.1	7.1	9.0	16.1	32.1
1982-83	28.8	17.4	35.5	26.1	7.5	9.8	17.2	32.6
1983-84	29.6	17.4	36.1	25.4	7.5	9.8	17.3	31.9
1984-85	30.0	17.4	36.9	26.8	7.6	9.6	17.1	33.4
1985-86	29.5	17.5	36.9	27.1	7.7	9.2	16.8	33.8
1986-87	28.7	17.6	36.6	27.6	7.7	8.8	16.5	34.5
1987-88	26.6	16.5	34.2	27.3	7.9	8.0	15.9	34.3
1988-89	24.6	15.6	32.1	26.4	8.1	7.2	15.4	33.7

(a) See footnote (a) to Table 2.

(b) Comprises taxes, fees and fines, property incomes and other revenue.

(c) Comprises grants and net advances primarily from the Commonwealth. See also footnote (d) to Table 2.

(d) Net of transactions between sectors, including interest paid.

CHART 3. GENERAL GOVERNMENT SECTOR OUTLAYS

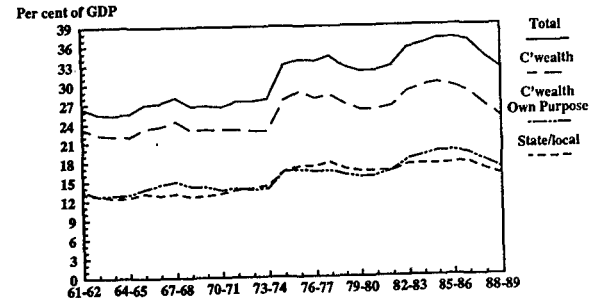


Table 4: General Government Sector Outlays by Main Economic Type as a Percentage of GDP

	Net Expenditure on Goods and Services			Transfers and Advances					Total
	Consumption	Capital		Personal Benefit Payments	Interest	Transfers to other Governments			
		(a)	Total			(b)	Other	(c)		Total
Commonwealth									
Averages:									
1969-70 to 1978-79	5.4	0.5	5.9	6.7	1.6	9.0	2.3	19.5	25.4
1979-80 to 1988-89	5.6	0.3	5.9	8.9	2.3	9.0	1.6	21.7	27.6
1979-80	5.1	0.3	5.3	8.0	1.8	9.4	1.5	20.7	26.0
1980-81	5.2	0.1	5.3	7.9	1.8	9.2	1.6	20.7	26.0
1981-82	5.4	0.3	5.7	8.2	1.8	9.0	1.8	20.8	26.5
1982-83	5.3	0.4	6.1	9.2	2.0	9.6	1.9	22.7	28.8
1983-84	5.9	0.3	6.2	9.6	2.2	9.7	1.8	23.4	29.6
1984-85	6.0	0.3	6.3	9.6	2.6	9.5	1.9	23.7	30.0
1985-86	6.0	0.4	6.4	9.4	3.0	9.1	1.7	23.1	29.5
1986-87	6.0	0.4	6.3	9.2	3.0	8.8	1.4	22.4	28.7
1987-88	5.6	0.2	5.8	9.1	2.6	8.0	1.2	20.8	26.6
1988-89	5.3	0.2	5.5	8.5	2.2	7.2	1.1	19.1	24.6
State/local									
Averages:									
1969-70 to 1978-79	8.3	3.3	11.6	0.3	1.6	..	1.8	3.7	15.3
1979-80 to 1988-89	10.4	2.4	12.8	0.3	1.6	..	2.2	4.0	16.9
1979-80	10.1	2.7	12.8	0.3	1.4	..	1.9	3.6	16.4
1980-81	10.3	2.5	12.8	0.3	1.5	..	1.9	3.6	16.4
1981-82	10.5	2.4	12.8	0.3	1.5	..	1.7	3.5	16.3
1982-83	10.9	2.4	13.2	0.3	1.6	..	2.3	4.2	17.4
1983-84	10.7	2.4	13.1	0.3	1.5	..	2.4	4.3	17.4
1984-85	10.7	2.5	13.3	0.3	1.6	..	2.3	4.2	17.4
1985-86	10.6	2.6	13.2	0.3	1.6	..	2.4	4.3	17.5
1986-87	10.5	2.5	13.1	0.3	1.6	..	2.6	4.5	17.6
1987-88	10.2	2.1	12.3	0.3	1.7	..	2.2	4.2	16.5
1988-89	9.9	1.9	11.8	0.3	1.6	..	1.9	3.7	15.6
Total									
Averages:									
1969-70 to 1978-79	13.7	3.8	17.5	7.0	1.8	..	4.1	12.8	30.3
1979-80 to 1988-89	16.1	2.7	18.7	9.2	2.9	..	3.7	15.8	34.5
1979-80	15.2	2.9	18.1	8.3	2.1	..	3.4	13.7	31.9
1980-81	15.5	2.6	18.1	8.2	2.2	..	3.5	13.9	32.0
1981-82	15.9	2.6	18.5	8.5	2.2	..	3.5	14.2	32.7
1982-83	16.6	2.7	19.3	9.5	2.4	..	4.2	16.2	35.5
1983-84	16.6	2.7	19.3	9.9	2.7	..	4.2	16.8	36.1
1984-85	16.7	2.9	19.6	9.9	3.2	..	4.2	17.3	36.9
1985-86	16.6	2.9	19.6	9.7	3.6	..	4.0	17.3	36.9
1986-87	16.5	2.9	19.4	9.5	3.7	..	3.9	17.2	36.6
1987-88	15.7	2.3	18.1	9.4	3.4	..	3.4	16.2	34.2
1988-89	15.1	2.2	17.3	8.8	3.0	..	3.0	14.8	32.1

(a) Comprises gross fixed capital expenditure, changes in stocks, and net expenditure on land and intangible assets.
 (b) Comprises grants and net advances from the Commonwealth to the State/local sector.
 (c) Comprises subsidies to enterprises, other current and capital grants and other net advances.

areas, including personal benefit payments (partly reflecting increased numbers of unemployment beneficiaries) and higher debt servicing costs. The fall after 1985-86 resulted from a decline in Commonwealth personal benefit payments as a share of GDP (partly consequent upon the reduction in unemployment beneficiaries and partly due to better targeting of the Commonwealth welfare system); a reduction in other transfer payments reflecting, *inter alia*, repayment of advances (these are treated as offsets to outlays); and significant falls in Commonwealth interest payments as a result of the Commonwealth general government sector repaying debt with the proceeds of Budget surpluses. Other transfer payments also fell significantly in 1987-88, reflecting the impact of the sale of land overseas.⁽⁵⁾

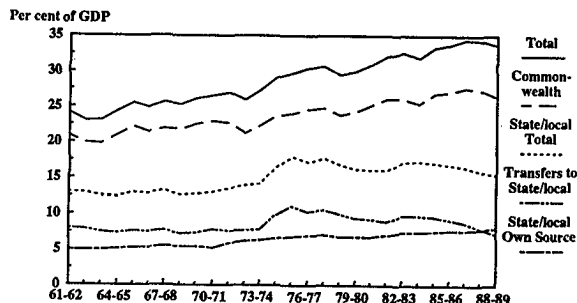
A significant feature of general government revenue (refer to Table 3 and Chart 4) is that the Commonwealth raises around 80% of all general government revenue—even though it undertakes only about half of general government outlays on its own behalf. This disparity flows from the uniform income tax arrangements agreed with the States during the Second World War and gives rise to a consequent requirement for significant transfers to the State/local sector. The main trends in general government revenue are:

- general government revenue relative to GDP increased in the first half of the 1980s, peaking at 34.5% in 1986-87. Since then it has decreased by 0.8 percentage points to 33.7% in 1988-89. These trends largely reflect developments in the Commonwealth sector.
- State/local general government 'own source' revenue as a percentage of GDP increased by 1.3 percentage points from 1979-80 to 1988-89; and
- since 1983-84, Commonwealth transfers have declined as a proportion of the State/local general government sector revenue, with sharp falls between 1986-87 and 1988-89. Transfers to the State/local sector are expected to fall again in 1989-90, reflecting the further real declines agreed at the 1989 Premiers' Conference/Loan Council meeting.⁽⁶⁾

(5) The sale of fixed assets and land by the general government sector is classified as an offset to outlays. The proceeds from the sale of land at the Tokyo Embassy in 1987-88 were classified by the ABS as a negative advance from the overseas sector and underlies the fall in other transfer payments. Other asset sales by the Commonwealth have been classified primarily as offsets to expenditure on land and second-hand fixed assets.

(6) Budget Paper No. 4 Commonwealth Financial Relations with Other Levels of Government 1989-90 provides further details.

CHART 4. GENERAL GOVERNMENT SECTOR REVENUE



Public Trading Enterprises

As mentioned in the section on Overview of Public Sector Transactions, the ABS Government Finance Statistics definition of outlays of the PTE sector makes this aggregate an inappropriate indicator of the size of the PTE sector.

The major components of PTEs' outlays are interest and dividend payments and capital expenditures. Consequently, a non-capital intensive enterprise with relatively low past borrowings and a small capital program—such as Australia Post—will make only a small contribution to PTE outlays. On the other hand, a highly capital intensive operation undertaking a large capital expenditure program—such as AUSSAT—will make a large contribution to PTE outlays. Yet, by more general standards, Australia Post is a far larger enterprise than AUSSAT and is of much greater significance in the total economy.

Chart 1 above provides a more appropriate measure of the size of the PTE sector—it shows that in 1987–88 the PTE sector accounted for about 10% of GDP and about 7% of total employment.

For analysing the financial performance of PTEs the *net operating surplus* (NOS) as shown in the Government Finance Statistics has some limitations. NOS is the excess of operating revenue (including subsidies received) over operating expenditure (wages and salaries paid plus recurrent purchases of goods and services but excluding interest paid). It represents the return, when the subsidy is counted as revenue, on all capital (grant, equity and borrowed) used in the enterprise. However, it does not measure the return achieved on the PTE's equity capital from its own operations after allowing for the cost of servicing its borrowed capital (net of income derived from any financial assets it holds).

Alternative measures of the operating performance of PTEs are *operating results* and *cost recovery ratios* (both including and excluding net interest paid). The operating result

is derived by deducting subsidies received and net interest paid from NOS. The cost recovery ratios show operating revenue as a percentage of operating expenditure. There are two alternative measures: one excluding net interest paid in operating expenditure and one including net interest paid. Table 5 shows data on operating result and the two types of cost recovery ratios.

Table 5: Operating Results and Cost Recovery Ratios of Public Trading Enterprises

	Operating Results		Cost Recovery Ratios (excl. net interest paid)		Cost Recovery Ratios (incl. net interest paid)	
	(a)		(b)		(c)	
	Common-wealth	State/local	Common-wealth	State/local	Common-wealth	State/local
	\$m	\$m	%	%	%	%
1983-84	83	-1691	113.4	108.8	100.9	90.5
1984-85	361	-1849	116.0	110.2	103.5	90.8
1985-86	438	-1951	116.5	111.0	103.9	91.4
1986-87	597	-1895	116.6	112.5	104.6	92.2
1987-88	1262	-1680	122.4	114.9	108.5	93.6
1988-89	914	-1530	119.1	115.9	105.6	94.6

(a) PTE net operating surplus (i.e. operating revenue less operating expenditure) less subsidies received plus interest received less interest paid.

(b) PTE operating revenue (excluding subsidies received) as a percentage of operating expenditure.

(c) PTE operating revenue (excluding subsidies received) as a percentage of operating expenditure plus interest paid less interest received.

Commonwealth PTEs in recent years have consistently returned positive operating results whereas State/local PTEs have consistently produced large negative operating results. Although State/local PTEs as a group cover operating costs, they do not derive enough revenue from their operations to cover the servicing costs of borrowed capital. It is evident from the cost recovery ratios that the debt servicing is a significant factor affecting financial performance, particularly of State/local PTEs.

To some extent, the State/local negative operating results reflect deliberate decisions by governments to subsidise certain PTEs, thereby enabling them to provide goods and services at less than the cost of production. The in-principle justification for such subsidies consists of the wider community benefits flowing from the provision of certain PTE services; direct users are therefore not asked to bear the full cost of providing these wider benefits. An example is the community benefits flowing from greater use of urban public transport. Going beyond the underlying rationale to the operational determination of subsidisation, its level and incidence is usually unrelated to community benefits in any systematic manner. The heavy reliance on subsidies by some PTEs has contributed to inefficient and, hence, more costly delivery of goods and services, leading over time to greater dependence on subsidies. Whatever the situation in individual instances, it is clear that the negative operating results of many State/local PTEs have involved a significant drain on State/local finances and in a number of cases greater attention is now being paid to the operating efficiency of PTEs. Table 5 indicates that results and ratios have improved over the past three years.

Despite the limitations of PTE *outlays* and *revenue* for analysing the importance of PTEs in the overall economy, an examination of trends in PTE outlays and revenue is of interest (see Table 6).

Table 7 shows PTE *outlays* by economic type. Net expenditure on goods and services consists of capital expenditures net of sales of fixed assets; operating expenditures by PTEs are treated as an offset to revenue in calculating their operating surpluses (see also Table 8).

PTE outlays during the 1980s have been dominated by initial growth and then slowing phases of capital expenditure. PTEs' net expenditure on goods and services as a share of GDP rose by over one percentage point between 1979-80 and 1982-83 as State PTEs sought to expand electricity generating capacity and develop infrastructure for resource developments. Those expenditures subsequently fell by almost 2 percentage points, to 2.9% of GDP in 1988-89, initially as State PTEs' net expenditures declined following the gradual completion of large projects and as, in more recent years, PTE asset sales increased. Commonwealth PTEs' outlays increased in 1988-89, and are expected to remain at about that level in 1989-90, primarily reflecting increased outlays on aviation activities.

Transfer payments made by the PTE sector have increased strongly over the decade as a whole although in recent years they have come off their peak set in 1985-86 and 1986-87. Most of the increase over the decade was due to PTEs within the State/local sector. Higher interest payments associated with growing levels of debt and higher interest rates over much of the decade underpinned that trend. To a much lesser extent, there were also increased dividend payments to State Governments.

As shown in Table 6, PTE *revenue* has increased by around 1 percentage point over the past decade. Virtually all of this growth has occurred in 'own source' revenue, with capital grants and net advances from general government remaining broadly constant as a proportion of GDP.

The components of PTEs' 'own source' revenue are shown in Table 8. The bulk of PTEs' own revenue comes from their net operating surpluses (NOS). While subsidiaries have contributed relatively little to the NOS of Commonwealth PTEs over the past ten years, they represented half of the NOS of State/local PTEs over the same period. The higher level of State/local PTEs' dependence on budgetary subventions reflects a relatively lower degree of commerciality, especially for metropolitan transport systems and non-metropolitan railways, leading to the negative operating results referred to above.

Table 6: Public Trading Enterprise Sector Outlays and Revenue as a Percentage of GDP

	Outlays (a)			Revenue						
	Common-wealth	State/local	Total	Common-wealth (b)	State/local			Total		
					Own Revenue (c)	Transfers (d)	Total	Own Revenue (e)	Transfers (f)	Total
Averages:										
1969-70 to 1978-79	1.7	3.9	5.6	0.6	1.6	0.7	2.3	2.1	1.4	3.5
1979-80 to 1988-89	1.6	4.8	6.4	0.8	2.0	0.4	2.5	2.8	0.4	3.3
1979-80	1.3	4.2	5.5	0.6	1.6	0.5	2.1	2.2	0.4	2.6
1980-81	1.4	4.2	5.6	0.6	1.6	0.4	2.0	2.1	0.4	2.5
1981-82	1.6	5.0	6.6	0.7	1.7	0.2	1.8	2.4	0.2	2.6
1982-83	1.5	6.0	7.4	0.5	2.1	0.4	2.5	2.6	0.6	3.1
1983-84	1.6	5.6	7.2	0.7	2.0	0.5	2.5	2.7	0.5	3.2
1984-85	1.5	5.1	6.5	0.9	2.1	0.5	2.6	3.0	0.6	3.5
1985-86	2.0	5.1	7.1	0.9	2.3	0.5	2.8	3.2	0.4	3.6
1986-87	1.8	5.0	6.8	0.9	2.4	0.6	3.0	3.3	0.6	3.9
1987-88	1.6	4.3	5.9	1.2	2.4	0.5	2.8	3.6	0.4	4.0
1988-89	1.9	3.8	5.7	1.1	2.3	0.3	2.5	3.4	0.3	3.7

(a) See footnote (a) to Table 2.

(b) Comprises own revenue and transfers as defined in footnotes (c) and (d).

(c) Comprises PTEs' net operating surpluses and other own revenue as defined in Table 8.

(d) Comprises grants and net advances from general government. See also footnote (b) to Table 1.

Table 7: Public Trading Enterprise Sector Outlays by Main Economic Type as a Percentage of GDP

	Net Expenditure on Goods and Services (a)			Transfers and Advances (b)			Total		
	Common-wealth	State/local	Total	Common-wealth	State/local	Total	Common-wealth	State/local	Total
Averages:									
1969-70 to 1978-79	1.2	2.7	3.9	0.5	1.2	1.8	1.7	3.9	5.6
1979-80 to 1988-89	1.0	2.9	3.9	0.6	1.9	2.5	1.6	4.8	6.4
1979-80	0.8	2.9	3.7	0.5	1.3	1.8	1.3	4.2	5.5
1980-81	0.9	3.0	3.9	0.5	1.3	1.8	1.4	4.2	5.6
1981-82	1.0	3.5	4.5	0.6	1.5	2.1	1.6	5.0	6.6
1982-83	0.9	3.9	4.8	0.6	2.0	2.6	1.5	6.0	7.4
1983-84	1.0	3.5	4.4	0.6	2.1	2.7	1.6	5.6	7.2
1984-85	0.9	2.9	3.8	0.6	2.2	2.8	1.5	5.1	6.5
1985-86	1.3	2.8	4.1	0.7	2.3	3.0	2.0	5.1	7.1
1986-87	1.1	2.7	3.8	0.7	2.3	3.0	1.8	5.0	6.8
1987-88	0.9	2.2	3.0	0.7	2.2	2.9	1.6	4.3	5.9
1988-89	1.2	1.7	2.9	0.7	2.1	2.8	1.9	3.8	5.7

(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.

Table 8: Public Trading Enterprise Sector Own Revenue as a Percentage of GDP

	Subsidies	Other Operating Revenue	Operating Expenditure (a)	Net Operating Surplus (b)	Other Own Revenue (c)	Total Own Revenue (d)
Commonwealth						
Averages:						
1969-70 to 1978-79	..	3.9	3.4	0.5	..	0.6
1979-80 to 1988-89	0.1	4.9	4.3	0.7	0.1	0.8
1979-80	0.1	4.5	4.2	0.5	0.1	0.6
1980-81	0.1	4.5	4.1	0.5	0.1	0.6
1981-82	0.1	4.5	4.0	0.6	0.1	0.7
1982-83	0.1	4.8	4.5	0.5	0.1	0.5
1983-84	0.1	4.8	4.2	0.7	..	0.7
1984-85	0.1	5.0	4.3	0.8	0.1	0.9
1985-86	0.1	4.9	4.2	0.8	0.1	0.9
1986-87	..	5.2	4.4	0.8	0.1	0.9
1987-88	0.1	5.4	4.4	1.1	0.1	1.2
1988-89	0.2	5.2	4.3	1.0	0.1	1.1
State/local						
Averages:						
1969-70 to 1978-79	0.4	7.1	6.2	1.3	0.3	1.6
1979-80 to 1988-89	0.8	8.0	7.2	1.6	0.4	2.0
1979-80	0.6	6.9	6.3	1.3	0.3	1.6
1980-81	0.7	7.0	6.4	1.3	0.3	1.6
1981-82	0.8	7.4	6.9	1.3	0.4	1.7
1982-83	0.9	8.2	7.5	1.6	0.5	2.1
1983-84	0.9	8.4	7.7	1.5	0.4	2.0
1984-85	0.9	8.5	7.6	1.7	0.5	2.1
1985-86	0.9	8.6	7.8	1.7	0.6	2.3
1986-87	0.9	8.5	7.5	1.9	0.5	2.4
1987-88	0.8	8.3	7.2	1.9	0.5	2.4
1988-89	0.7	8.0	6.9	1.8	0.4	2.3
Total						
Averages:						
1969-70 to 1978-79	0.4	11.0	9.6	1.9	0.3	2.1
1979-80 to 1988-89	0.9	12.9	11.5	2.3	0.5	2.8
1979-80	0.8	11.4	10.4	1.8	0.4	2.2
1980-81	0.8	11.5	10.6	1.7	0.4	2.1
1981-82	0.9	11.9	10.9	1.9	0.5	2.4
1982-83	1.0	13.0	11.9	2.1	0.5	2.6
1983-84	0.9	13.2	11.9	2.2	0.5	2.7
1984-85	1.0	13.4	12.0	2.5	0.5	3.0
1985-86	1.0	13.5	12.0	2.5	0.7	3.2
1986-87	1.0	13.7	12.0	2.6	0.6	3.3
1987-88	0.9	13.7	11.7	3.0	0.6	3.6
1988-89	0.8	13.3	11.2	2.8	0.6	3.4

(a) Includes depreciation.

(b) Subsidies and other operating revenue less operating expenditure.

(c) Comprises interest, other property income and other revenue.

(d) Comprises net operating surplus and other own revenue.

PUBLIC SECTOR BORROWING

The Different Concepts of Public Sector Borrowing

Public sector deficits are defined in the Government Finance Statistics as outlays less revenue less increases in provisions (including for depreciation and superannuation). Commonwealth budget deficits or surpluses are derived without any adjustment for provisions. The financing of public sector deficits is just as important as the overall level of the deficit in determining its economic impact. Deficits can be financed through advances from other sub-sectors of the public sector; the sale of bonds or bills and raising of loans, either domestically or from overseas; selling of financial assets; drawing down cash and bank balances; issue of minority equity in PTEs; and from the balances of trust funds held in the public account. Public sector deficits are presented as percentages of GDP in Table 9.

The deficit of the State/local sector has been partly met by net advances as opposed to transfer payments that are treated as revenue from the Commonwealth. Similarly, PTEs in recent years, especially the State/local sector PTEs, partly meet their deficits through net advances from general government. To measure each sector's direct calls on financial markets, therefore, net advances need to be excluded from the deficit. The result is the net public sector borrowing requirement—*net PSBR*—which is equivalent to the ABS concept of *net financing requirement*. The net PSBR for each sector is shown in Table 10. Table 11 reconciles the State/local general government deficit with the corresponding net PSBR. Chart 6 shows the net PSBR by institutional sector and level of government.

Table 9: Public Sector Deficits as a Percentage of GDP

	General Government			PTEs		
	Commonwealth	State/local	Total	Commonwealth	State/local	Total
Averages:						
1969-70 to 1978-79	2.0	1.5	2.0	0.7	1.5	2.2
1979-80 to 1988-89	1.4	0.7	1.7	0.3	1.8	2.1
1979-80	1.7	0.9	1.8	0.3	1.9	2.2
1980-81	0.7	1.0	1.1	0.3	2.0	2.3
1981-82	0.4	0.7	0.6	0.4	2.6	3.0
1982-83	2.6	0.8	2.8	0.4	3.0	3.4
1983-84	4.1	0.6	4.2	0.3	2.5	2.8
1984-85	3.1	0.7	3.4	0.2	1.7	1.9
1985-86	2.4	0.9	2.9	0.7	1.6	2.3
1986-87	1.0	1.2	2.0	0.4	1.4	1.8
1987-88	-0.6	0.5	-0.1	-0.2	0.9	0.7
1988-89	-1.8	0.1	-1.6	0.2	0.6	0.8

Table 10: Public Sector Borrowing Requirement (PSBR) as a Percentage of GDP

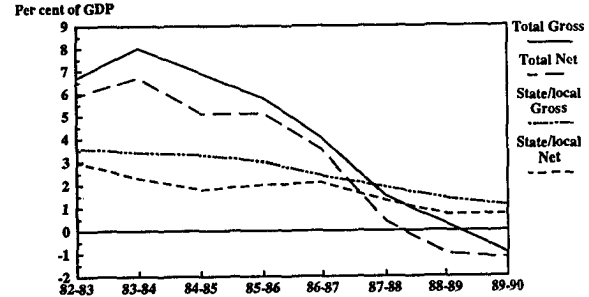
Averages: 1969-70 to 1978-79 1979-80 to 1988-89 1979-80 1980-81 1981-82 1982-83 1983-84 1984-85 1985-86 1986-87 1987-88 1988-89 1989-90 (a)/(b)(c)	General Government			PFIs			Total			Gross PSBR		
	Common-wealth	State/local	Total	Common-wealth	State/local	Total	Common-wealth	State/local	Total	Common-wealth	State/local	Total
2.0	..	2.0	0.1	0.9	1.0	2.1	0.9	3.0	3.0			
1.4	0.4	1.7	0.3	1.6	1.9	1.6	2.0	3.6	3.6			
1.7	0.2	1.8	0.3	1.6	1.9	2.0	1.7	3.7	3.7			
0.7	0.3	1.1	0.3	1.8	2.1	1.1	2.1	3.2	3.2			
0.4	0.2	0.6	0.4	2.5	2.9	0.8	2.7	3.5	3.5			
2.6	0.2	2.8	0.3	2.8	3.1	2.9	3.0	5.9	5.9	3.1	3.6	6.7
4.1	0.1	4.2	0.3	2.3	2.5	4.4	2.3	6.7	6.7	4.5	3.4	8.0
3.1	0.3	3.4	0.2	1.5	1.7	3.3	1.8	5.1	5.1	3.6	3.3	6.9
2.4	0.6	2.9	0.7	1.4	2.1	3.1	2.0	5.1	5.1	2.9	3.0	5.8
1.0	1.0	2.0	0.4	1.1	1.5	1.4	2.1	3.5	3.5	1.5	2.4	4.0
-0.6	0.6	-0.1	-0.2	0.7	0.5	-0.8	1.3	0.4	0.4	-0.4	1.9	1.5
-1.8	0.2	-1.6	0.2	0.5	0.7	-1.6	0.7	-1.0	-1.0	-1.1	1.4	0.3
-2.5	n.a.	n.a.	0.6	n.a.	n.a.	-1.9	0.7	-1.2	-1.2	-2.1	1.1	-1.0

(a) The 1989-90 estimate of the net PSBR for the Commonwealth sector is the sum of the expected Budget outcome and the expected net PSBR for Commonwealth authorities. The data shown for the State/local sector for 1989-90 is a preliminary Treasury estimate.

(b) The Commonwealth gross PSBR for 1989-90 is the sum of the expected Budget outcome plus the global limit for Commonwealth authority borrowings which were set at \$1488m by the 1987 Loan Council meeting. That meeting also agreed that the State, Northern Territory and ACT global borrowing limits (ie. the State/local gross PSBR) in 1989-90 would be \$377m.

(c) 1988-89 borrowings by ACT authorities were included in the Commonwealth gross PSBR. However, with the advent of self-government for the ACT, from 1989-90 the ACT global borrowings will be included in the State/local gross PSBR.

CHART 5. NET AND GROSS PSBR



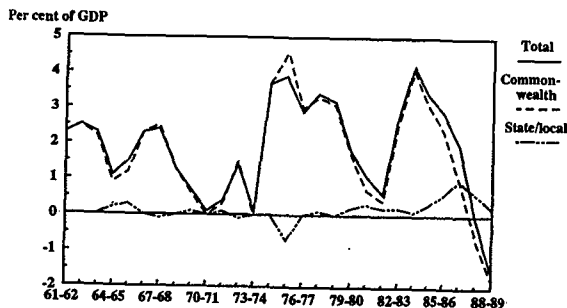
Also shown in Table 10 is the gross PSBR. This comprises the Commonwealth Budget deficit plus total new money borrowings by Commonwealth, State and Territory semi-government and local authorities reported to, or approved by, Loan Council under the Global Approach.⁽⁷⁾ The main conceptual difference between the gross and the net PSBR is that the net PSBR includes an adjustment for changes in holdings of financial assets. 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 deficits, thereby adding 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 the borrowing requirement. Seen in those terms, the net PSBR provides the better guide to public sector demands on financial markets. A comparison between the net and gross PSBR is shown in Chart 5.⁽⁸⁾

(7) The Global Approach to borrowings by Commonwealth and State authorities was adopted in 1984-85 (see Budget Paper No. 4 *Commonwealth Financial Relations with Other Levels of Government 1989-90*). Estimates of total borrowings for 1982-83 and 1983-84 have been provided by State Treasuries.

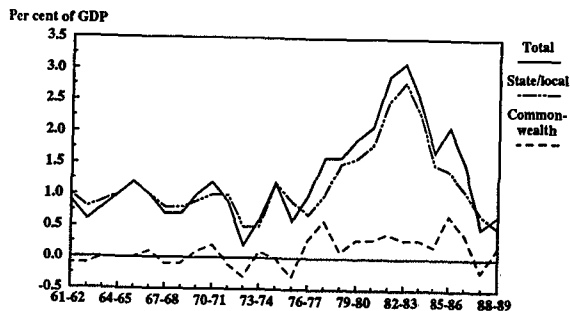
(8) A number of other factors affect the measured differences between the gross and net PSBR. These include some significant differences in definition, coverage and timing between the Statistician's and Loan Council data and possible errors and omissions in the estimates. These measurement difficulties mean that differences between the gross and net PSBR provide only a very rough indication of changes in holdings of financial assets. For instance, in the six years to 1987-88, ABS direct estimates of the increase in financial assets account for only about 35% of the difference between the gross and net PSBR of the State/local sector. Nevertheless, the difference between the State/local gross and net PSBR for 1988-89 suggests that there is likely to have been a further build-up in the sector's financial assets.

CHART 6. NET PSBR BY INSTITUTIONAL SECTOR AND BY LEVEL OF GOVERNMENT

Panel A: General Government Sector



Panel B: Public Trading Enterprise Sector



6.22

Table 11: State/local General Government Sector Deficit, Net Advances Received and Net PSBR as a Percentage of GDP

	Deficit	Net Advances Received	Net PSBR (a)
Averages:			
1969-70 to 1978-79	1.5	1.6	..
1979-80 to 1988-89	0.7	0.4	0.4
1979-80	0.9	0.7	0.2
1980-81	1.0	0.7	0.3
1981-82	0.7	0.6	0.2
1982-83	0.8	0.6	0.2
1983-84	0.6	0.5	0.1
1984-85	0.7	0.4	0.3
1985-86	0.9	0.3	0.6
1986-87	1.2	0.2	1.0
1987-88	0.5	..	0.6
1988-89	0.1	-0.1	0.2

(a) Equals deficit less net advances received.

General Government

The general government net PSBR peaked in 1983-84 at 4.2% of GDP (see Table 10 and Chart 6). By 1987-88, it had been transformed into a negative net PSBR of 0.1% of GDP which, in 1988-89, fell further to -1.6% of GDP. This fall in the general government net PSBR has been wholly accounted for by the turnaround in the Commonwealth sector from net borrowing to net debt redemption: the Commonwealth net PSBR has fallen from a peak of 4.1% in 1983-84 to a negative net PSBR of 1.8% in 1988-89.

The surpluses in the total general government and Commonwealth general government sectors in 1987-88 and again in 1988-89 were the first since at least the early 1960s (the extent of available data). The net borrowing requirement of the Commonwealth general government sector is expected to fall further, by 0.7 of a percentage point in 1989-90; that is, to be a surplus of 2.5% of GDP.

Up to 1983-84, the net PSBR of the State/local general government sector was at low levels, reflecting the arrangements under the Financial Agreement whereby State Governments have only limited borrowing powers but provision is made for the Commonwealth to undertake borrowings on their behalf. Under these arrangements, the State/local general government sector's deficits were largely funded by net advances from the Commonwealth (see Table 11). However, State Central Borrowing Authorities (CBAs) were established by each State in the mid 1980s. They are treated under the Loan Council Global Approach as State authorities and are therefore allowed to borrow in their own right, effectively allowing State general government direct access to funds borrowed from the private sector. (Borrowings by CBAs remain subject to Loan Council global borrowing limits for State authorities.)

6.23

The net PSBR of the State/local general government sector increased from 0.1% in 1983-84 to peak at 1% of GDP in 1986-87. To some extent, this increase reflected the substitution of CBA borrowings for net advances from the Commonwealth (see Table 11) as the State/local general government deficit increased less markedly (although still significantly) from 0.6% to 1.2% of GDP over the same period.⁽⁹⁾

Since 1986-87, the deficit of the State/local general government sector has declined significantly to 0.1% of GDP in 1988-89. However, with the States making small net repayments of Commonwealth advances in both 1987-88 and 1988-89, the whole of the deficit of the State/local general government sector was effectively financed through borrowings by their own authorities in those years. Thus the net PSBR was marginally above the deficit in those years.

Public Trading Enterprises

The net PSBR of the PTE sector peaked in the early 1980s, just ahead of the general government sector (see Table 10 and Chart 6). Borrowing by Commonwealth PTEs was fairly low and stable during that period, and the increase essentially reflected the rapid expansion of State infrastructure projects. These latter borrowing requirements fell away after 1982-83, and, by 1988-89, the net PSBR of the State/local PTE sector was just over one percentage point lower than a decade earlier.

The relatively high net PSBR of Commonwealth PTEs in 1985-86 and 1986-87 reflected increased investment in aviation and communications facilities. A fall off in outlays in these areas, together with some delays in planned capital works and equipment purchase programs, led to a surplus in the Commonwealth PTE sector in 1987-88. However, increased borrowings by Commonwealth PTEs in 1988-89—mainly associated with aircraft purchases by Qantas and Australian Airlines and the upgrading of airport facilities—resulted in an increase in the net PSBR of Commonwealth PTEs to 0.2% of GDP.

1988-89 Outcome and Expected Developments in 1989-90

The outcomes for the general government and PTE sectors referred to above resulted in an overall negative net PSBR of 1% of GDP in 1988-89. The Commonwealth contribution to this outcome was a negative 1.6% of GDP, partly offset by a positive State/local outcome of 0.7%.

Although the Commonwealth budget surplus will be substantially higher in 1989-90, only a small further improvement in the overall net PSBR is expected.

The State/local gross PSBR will decline in 1989-90 as a result of the 1989 Loan Council decisions, although it is expected that the State/local net PSBR will remain at about the same level as in 1988-89 (based on preliminary expectations of modest growth in outlays and some slowing in revenue collections). An increase in the Commonwealth PTE net PSBR is expected (notwithstanding a reduction in their gross PSBR), reflecting a rundown in their financial assets built up during 1988-89 (largely due to delays in the delivery of aircraft to Qantas for which borrowings were undertaken in 1988-89).

(9) The ABS has changed the institutional sector classification of those CBAs previously classified to the public financial enterprise sector to the general government sector. Where possible, the ABS intends to incorporate these CBAs into the Government Finance Statistics from the 1989-90 issue of ABS Catalogue No. 5501.0.

The increase in public sector borrowing from this source can be expected to contribute to economic adjustment. Aviation is an important direct source of export income and, by seeking to meet the demands associated with the expansion of tourism, these investments are expected to yield substantial returns.

It is estimated that the public sector will be in surplus by 1.2% of GDP in 1989-90; the estimates suggest the total gross PSBR will have fallen by 9 percentage points and the net PSBR by 7.9 percentage points since 1983-84.

PUBLIC SECTOR INDEBTEDNESS

Table 12 shows public sector gross indebtedness, financial assets and net debt at 30 June 1987, as a proportion of GDP, by level of government and institutional sector.⁽¹⁰⁾

Table 12: Indebtedness of the Public Sector as at 30 June 1987 by Level of Government and by Institutional Sector, as a Percentage of GDP (a)

	Commonwealth		State		C'wealth and State		Local	Total	
	General Government	PTEs	General Government	PTEs	General Government	PTEs			
GROSS INDEBTEDNESS (c)	25.8	5.3	28.6	28.7	32.1	22.5	47.1	2.8	49.5
-of which:									
Advances received	--	2.4	--	9.9	--	6.8	--	0.1	--
Borrowing	25.6	2.9	28.4	18.3	31.3	15.6	46.4	2.7	48.8
FINANCIAL ASSETS (d)	14.5	0.8	12.9	5.6	12.8	2.9	8.2	1.4	9.1
-of which:									
Advances paid	13.3	--	10.9	2.1	9.0	0.9	3.1	0.1	3.1
Investments	0.3	0.6	0.9	3.2	2.7	1.5	3.7	1.0	4.4
NET DEBT	11.2	4.5	15.7	23.1	19.3	19.6	38.9	1.5	40.3
-of which indebtedness to non-residents	8.8	1.0	9.8	5.5	11.2	4.1	15.3	n.a.	n.a.

(a) Source: 'Public Sector Debt, Australia, 30 June 1987' (ABS Cat. No. 5513.0).

(b) Although data by institutional sector are published for each State individually, they were not consolidated to provide a State total by institutional sector. Calculating institutional sector figures for the State sector by deducting Commonwealth institutional sector data from the Commonwealth and State combined figures would not be accurate to the extent that there are cross holdings between sectors of assets and liabilities which consolidate out when aggregated.

(c) Also includes deposits held, which in total were 0.7% of GDP.

(d) Also includes currency and deposits, which in total were 1.7% of GDP.

Net debt of the public sector at this time was estimated at \$106.1 billion, or 40.3% of GDP. The net debt comprised gross indebtedness of 49.5% and financial assets of 9.1%. About two fifths of the net debt was held by non-residents with over two-thirds of that denominated in foreign currency.

(10) The coverage of Government Finance Statistics for 1986-87 and the public sector debt collection at 30 June 1987 are similar, except that the latter includes all central borrowing authorities whereas only the WA Treasury Corporation is included in 1986-87 Government Finance Statistics.

The Commonwealth sector's net debt was 15.7% of GDP while that for the State sector and local governments were 23.1% and 1.5% of GDP respectively.⁽¹¹⁾ Since 30 June 1987, the Commonwealth Budget has moved strongly into surplus, suggesting that the Commonwealth sector's net debt would have been significantly reduced in both absolute terms and as a percentage of GDP. The net debt of the State/local sector is also likely to have fallen as a percentage of GDP since 30 June 1987, reflecting that sector's reduced borrowings.

For the Commonwealth and State sectors combined, general government and PTEs each contributed about one half to net debt. Within the Commonwealth sector, PTEs held only a quarter of the net debt while at the State level they held the greater part of net debt in all States. This reflects the greater relative importance of State PTEs in the provision of public infrastructure and the lower level of internal financing of infrastructure investment by State PTEs compared with Commonwealth PTEs.

Borrowing was the largest type of liability at all levels of government. However, advances received were also important at the State level—a reflection of the borrowings undertaken by the Commonwealth on behalf of the States under the Financial Agreement and other loans made by the Commonwealth to the States. PTEs also had a significant level of advances received, usually from the parent government.

Accordingly advances paid were the most significant financial asset for the Commonwealth Government, while investments were the largest financial asset at the State and local levels.

Net indebtedness to non-residents was highest in the Commonwealth Government (9.8% of GDP), with the general government sector accounting for the bulk of this. It should be noted that the Reserve Bank's substantial reserve assets, which at were \$17.6 billion or 5.9% of GDP, are excluded from this survey (as are the debt and assets of all public financial enterprises). These assets offset to a significant degree the net indebtedness of the Commonwealth general government sector shown in these figures.

(11) For an analysis of indebtedness on a State by State basis see Chapter II of Budget Paper No. 4 Commonwealth Financial Relations with Other Levels of Government 1989-90.

PUBLIC FINANCIAL ENTERPRISES

Government Finance Statistics as published by the ABS do not include outlays, revenue and borrowings of public financial enterprises (PFEs). The reasoning behind this treatment is that PFEs act principally as financial intermediaries and are therefore treated as being akin to private financial enterprises in the national accounts.⁽¹²⁾

National accounts data and Treasury estimates of net lending suggest that some PFEs—in particular State Government insurance offices—have recorded substantial deficits on an accruals basis in recent years. This reflects the extent to which offices in some States have incurred deficits (on an accruals basis) in compulsory third party motor vehicle insurance and workers' compensation business. Estimates of the contribution of insurance offices to net lending on an accruals basis are shown in Table 13. These net lending data are not comparable with the other public sector borrowing data in this Statement which, being taken from Government Finance Statistics, are calculated on a cash basis.

Table 13: Net Lending by Public Insurance Offices

	Percentage of GDP	
	\$m	%
1984-85	-1422	-0.7
1985-86	-1451	-0.6
1986-87	-1873	-0.7
1987-88	-1441	-0.5
1988-89	-1753	-0.5

A large component of the net lending of insurance offices is due to an accruals adjustment reflecting the change in the present value of outstanding claims. This adjustment would not be made if the data were presented on a cash basis; net borrowing on that basis would arise only if premium income were insufficient to meet claims paid out. In recent years, there is some evidence of claims being met partly by offices running down holdings of financial assets. However, because of the large accruals adjustment in the net lending data, the extent of this rundown on a cash basis is considerably lower than might be suggested by the above data.

(12) PFE data also reflect the treatment of realised profits in the Reserve Bank's foreign exchange transactions. The Notes on the Estimates in Budget Paper No. 10 National Income and Expenditure 1985-86 provide further discussion of PFE data.

**STATEMENT 7—COVERAGE AND CLASSIFICATION OF INFORMATION
IN THE BUDGET STATEMENTS**

CONTENTS

COVERAGE	7.2
CLASSIFICATION OF INFORMATION	
Government Accounting Conventions	7.3
Concepts	7.5
Relationship Between Gross and Net Concepts	7.6
MAJOR REPORTING CLASSIFICATIONS FOR BUDGET OUTLAYS	
Major Changes in Classifications for 1989-90 Budget	7.10
Other Changes in the Functional Classification	7.13
Other Changes in the Economic Type Classification	7.14
TREATMENT OF ACT SELF GOVERNMENT	7.15
TREATMENT OF COMCARE	7.16
STATISTICAL APPENDIX	
Introduction	7.16
Background to the Tables on the Commonwealth Administrative and General Government Sectors	7.17
Notes on Tables	7.18
Tables	7.20

**STATEMENT 7—COVERAGE AND CLASSIFICATION OF INFORMATION
IN THE BUDGET STATEMENTS**

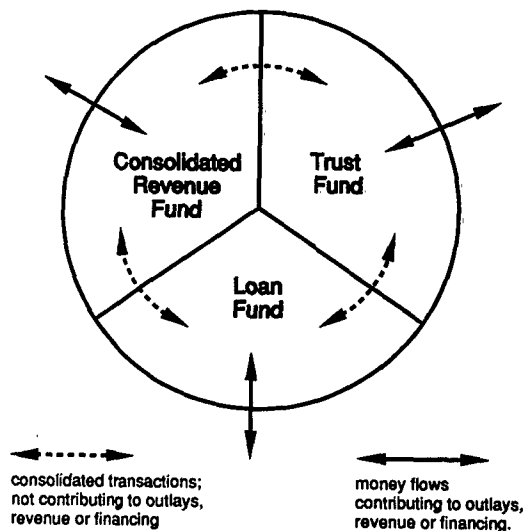
This Statement briefly describes the coverage of information in the Budget documentation, explains the budget concepts and terminology employed, outlines the classifications used to aggregate data, highlights the changes made in classifications during the year and presents statistical tables on selected sub-sectors within the Commonwealth Public Sector.

COVERAGE

Most of the information in the Budget Statements relates to transactions between the Commonwealth budget sector and other sectors of the economy, including transactions with off-budget Commonwealth entities.

The Commonwealth budget sector consists of those departments and authorities whose day to day transactions are recorded in the Commonwealth Public Account (CPA), whether via the Consolidated Revenue Fund (CRF), Trust Fund (TF) or Loan Fund (LF). Transactions between budget sector agencies are identified but net out when calculating total budget outlays or revenue.

COMMONWEALTH PUBLIC ACCOUNT



Many Commonwealth government authorities, such as CSIRO and TELECOM, operate outside the Public Account and, though in some cases they may be dependent in large measure on appropriations from the Commonwealth Budget, they are classified as part of the non-budget sector. Transactions between the budget and non-budget sectors are recorded in the Budget Statements 1, 3 and 4. Historical transactions of the budget, non-budget and total Commonwealth sectors (excluding financial enterprises) are covered in tables (I-III) contained in the Statistical appendix to this Statement.

This administrative classification into budget and non-budget sectors is used throughout the Budget papers except in Budget Statement 6. Statement 6 uses an institutional classification, distinguishing between general government and public trading enterprises (PTEs). This classification is based on the type of activities involved, with the general government sector supplying non-market goods and services and PTEs dealing with the commercially orientated activities of government. Developments in the general government sector have included the greater recourse to internal markets, for example user charging, and increasing use of external funding of activities—for example, private sector funding of CSIRO research and development.

The term "government business enterprise" crosses this classification, including PTEs as well as those general government enterprises that predominantly supply goods and services to other units within the general government sector and apply some level of user charges.

The diagram on the following page indicates the relationship between the administrative and institutional sectors based on units recognised by the Australian Bureau of Statistics (ABS) and gives examples of the government agencies found within each classification.

Transactions of the general government budget, general government non-budget and total general government sectors are covered in tables (IV-VI) contained in the statistical appendix to this Statement.

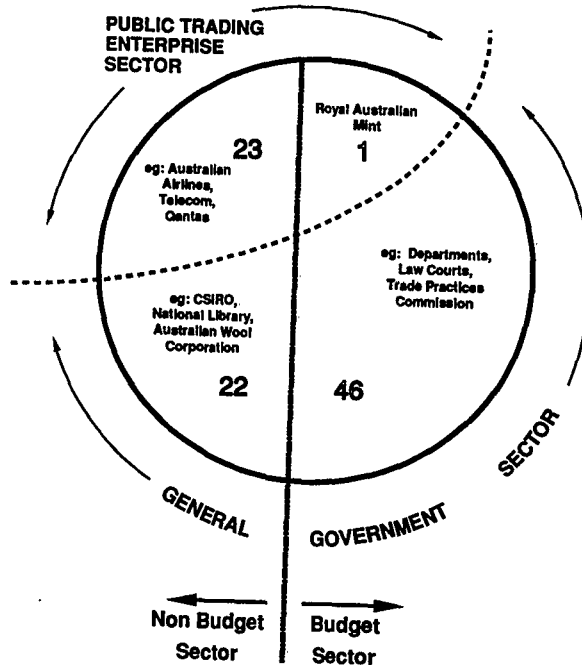
CLASSIFICATION OF INFORMATION

GOVERNMENT ACCOUNTING CONVENTIONS

International accounting conventions underlie the classification of budget statistics and the ABS statistics for the public sector. The basic principles of the methodologies are based on widely accepted 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*. Their use facilitates both assessments of the interrelationship between the budget and the rest of the economy and in international comparisons. Their use also enables the consistent presentation of financial data regardless of changes in economic policy and administrations.

The standards established by the ABS in its *Classification Manual for Government Financial Statistics Australia* (ABS 1217.0) have been adopted for the presentation of Budget statistics. They integrate the two international standards drawing on features of both.

COMMONWEALTH PUBLIC SECTOR



NOTE - Figures indicate number of enterprises/units ; units exclude financial enterprises .

There was major alignment of ABS and Budget statistics in the 1988-89 Budget when primary industry charges and levies were classified as revenue, reverting to the practice used prior to 1975-76.

CONCEPTS

In the Budget Statements the basic distinction is made between 'above' and 'below' the line transactions.

- 'Above the line' transactions comprise outlays and revenue; the difference between which is the budget balance (surplus/deficit).
- 'Below the line' transactions, are undertaken to finance a deficit or to utilise a surplus and are referred to as financing transactions.

Outlays and revenue are economic concepts expressed as net amounts. On the other hand, the terms payment and receipts in the Budget Statements indicate gross money flows out of and in to the CPA respectively.

Outlays are a measure of the cost of providing non-marketable goods and services (commonly referred to as public goods and services) that are distributed using collective political choice rather than through the operation of the market. Receipts from user charging, where the government acts like a business enterprise, are therefore offset against relevant payments in the calculation of outlays. Any profit or loss on these business operations reduces or adds to the demands for taxation revenue. Classification of the receipts from charges for goods and services as revenue would raise both outlays and revenue and inflate the perceived cost of providing public goods and services.

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 outlays. The accounting standards distinguish on the one hand between those charges and levies that can be regarded as a voluntary fee for goods or services rendered and of identifiable benefit to the payer (classified, in net terms, as outlays) as against, on the other, fees that are imposed for regulatory or revenue raising purposes (classified as revenue). In the first case, the fee bears a close relationship to the value of the goods and services obtained. As outlined above, the distinction is 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.

Consistent with the ABS interpretation of international standards, two other receipts are offset against relevant payments in the calculation of outlays:

- repayments of advances; and
- proceeds from the sale of capital assets.

The classification of advances (loans and equity injections including repayments) as outlays recognises the public policy importance of such transactions and that they are surplus/deficit determining transactions rather than an investment of surplus funds. Examples of transactions in this category are loans to Telecom and to the States and the possible sale of equity in government enterprises. This

treatment is consistent with the IMF view adopted by the ABS; however, some countries (for example Canada) follow the UN treatment and classify such transactions below the line as financing transactions. The argument for this alternative approach is that advances are no different than any other financial investment and should be classified **below the line**.

Consistent with the UN treatment adopted by the ABS, receipts from the sales of physical assets are recorded as outlays to assist in the measurement of the net stock of capital assets in the economy. If the IMF treatment were adopted, then such receipts would be classified as capital revenue. The impact of a number of major asset sales is separately identified in the Budget Papers, rather than being classified to specific Function and Economic Type, so that analysts can make allowance for them depending on the use they are making of the data. Asset sales undertaken in the normal course of government activity remain classified to functional and economic type categories.

In accordance with the international standards, budget tax revenue is shown net of refunds. Thus income tax revenue, for example, is shown net of refunds of PAYE deductions; remissions and reimbursements of import duties and sales tax are offset against their collections.

RELATIONSHIP BETWEEN GROSS AND NET CONCEPTS

The relationship between gross and net concepts is shown in the following diagram on the following page.

The impact of applying the preceding convention in measuring CRF outlays is summarised in the tables below. Table 1 presents a 10-year history showing the level of CRF receipts and payments classified as outlays. Table 2 disaggregates the 1989-90 estimates by function to provide more detailed identification of the CRF receipts and payments classed as outlays. CRF outlays are presented in the two tables rather than total outlays to abstract from the effect of transfers between funds in the CPA.

Table 1. CRF Payments and Receipts Classified as Outlays 1979-80 to 1989-90

	CRF	CRF	CRF Receipts
	Payments	Receipts	as % of CRF Payments
	\$m	\$m	
1979-80	30,637.5	-854.7	2.8
1980-81	35,712.6	-1,034.3	2.9
1981-82	41,750.2	-967.8	2.3
1982-83	47,131.4	-1,153.1	2.4
1983-84	53,569.4	-1,253.4	2.3
1984-85	60,862.1	-1,601.8	2.6
1985-86	67,466.0	-1,586.4	2.4
1986-87	73,093.2	-2,184.8	3.0
1987-88	81,376.5	-3,279.7	4.0
1988-89	85,064.0	-2,821.5	3.3
1989-90	91,467.3	-4,202.9	4.6

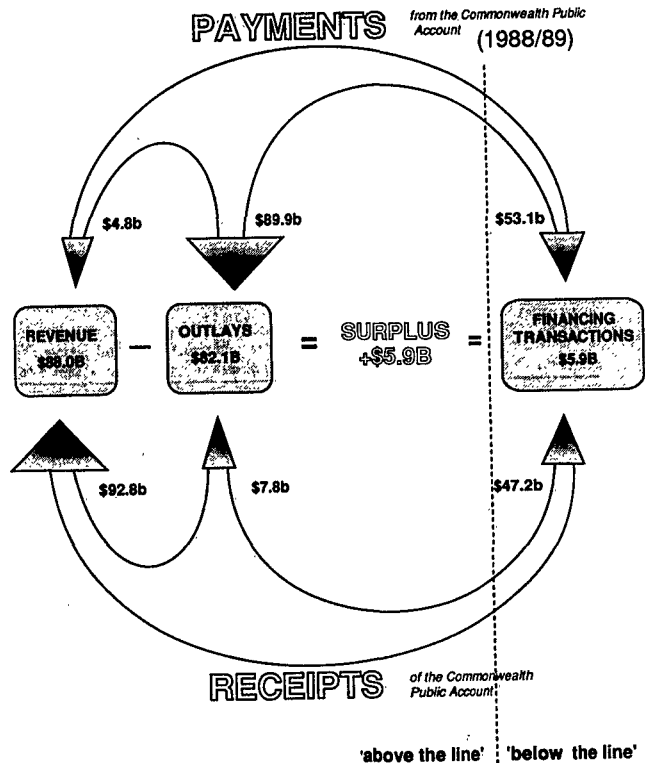


Table 2. CRF Payments and Receipts Classified as Outlays 1989-90, by Function

	CRF	CRF	CRF Receipts
	Payments	Receipts	as % of CRF Payments
	\$m	\$m	
DEFENCE	8,750.0	-422.9	4.8
EDUCATION	6,827.2	-146.3	2.1
HEALTH	11,787.6	-9.2	.1
SOCIAL SECURITY AND WELFARE	26,356.5	-25.8	.1
HOUSING AND COMMUNITY AMENITIES	1,510.4	-30.3	2.0
CULTURE AND RECREATION	1,086.1	-5.2	.5
TRANSPORT AND COMMUNICATION	1,945.3	-492.2	25.3
INDUSTRY ASSISTANCE AND DEVELOPMENT	2,157.7	-60.5	2.8
LABOUR AND EMPLOYMENT	1,242.5	-6.8	.5
OTHER ECONOMIC SERVICES	264.2	-47.0	17.8
LEGISLATIVE SERVICES	390.1	-4.3	1.1
LAW, ORDER AND PUBLIC SAFETY	867.2	-31.0	3.6
FOREIGN AFFAIRS AND OVERSEAS AID	1,610.5	-46.7	2.9
GENERAL AND SCIENTIFIC RESEARCH	585.3	-3.7	.6
ADMINISTRATIVE SERVICES	4,235.0	-1,567.8	37.0
ASSISTANCE TO OTHER GOVERNMENTS NEC	14,410.4	-102.3	.7
PUBLIC DEBT INTEREST	7,330.5	.0	na
CONTINGENCY RESERVE	110.0	.0	na
ASSET SALES	0.8	-1,200.8	na
TOTAL	91,467.3	-4,202.9	4.6

Receipts items having most effect on the measurement of total outlays in 1989-90 are:

- sales of property, materials and equipment and Defence Force Retirement Benefit contributions in the Defence function;
- the overseas student charge and Higher Education Contribution Scheme repayment of advance in the Education function;
- repayment of advances particularly in the Transport and Communications (repayment of Loans by Telecom) and Assistance to Other Governments nec functions;
- sales of property and assets undertaken in the normal course of government activity and payments of Fringe Benefit Tax (FBT) by on-budget agencies in the Administrative Services function;
- sales of major assets; and
- user charging including between on-budget agencies and departments.

Budget aggregates such as Current Outlays on Goods and Services are net of transactions between on-budget activities (such as payments of FBT and inter-departmental charges) to provide uninflated statistics on the Commonwealth budget sector. This is achieved by consolidating transactions between on-budget agencies. In aggregating outlays across budget entities (whether it be by function, economic type or portfolio) the payments and corresponding receipts will cancel out in obtaining the measure of total outlays. Therefore caution needs to be exercised in the interpretation of the level of receipts classified as outlays.

A reconciliation between the appropriations of the CRF and total outlays is set out in tabular format in the introduction to Budget Paper No 2, *The Commonwealth Public Account*.

MAJOR REPORTING CLASSIFICATIONS FOR BUDGET OUTLAYS

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 overall Ministry which has prime administrative responsibility for the outlays.

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 and allows international comparisons independent of local administrative structures.

The economic type classification is designed to facilitate the study of the macro-economic impact of Commonwealth transactions on the economy and to 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 budget balance (deficit/surplus). Outlays are further divided into current and capital components.

Defence Current Outlays on Goods and Services in the economic type classification are lower than outlays classified to the Defence function due to payments to Aerospace Technologies of Australia to cover certain operating expenses classified as subsidies, Defence co-operation payments classified as overseas grants and capital subvention to the Defence Housing Authority classified as advances.

The classification of outlays by Portfolio refers to the aggregation of financial data according to the Ministry which has prime overall administrative responsibility for the outlay. The classification provides information on the level of financial resource available to each Minister and complements the functional and economic type classifications that show the purpose and economic impact of outlays.

The classification of outlays by Portfolio is a valuable tool in the formulation of the Budget. There has been increasing emphasis in recent years on the setting of Portfolio outlays and savings targets as a means of streamlining ministerial decision-making processes, and improving resource allocation. The approach taken to program management and budgeting in the Commonwealth also emphasises a portfolio approach to budget and program management.

Tables at the end of *Statement 3* cross-classify Portfolio outlays in 1989-90 by the functional and economic type classifications.

The remainder of this Statement indicates where changes in functional and economic type classification have been made for the 1989-90 Budget estimates.

MAJOR CHANGES IN CLASSIFICATIONS FOR 1989-90 BUDGET

Major changes are defined as those that cross outlays, revenue or financing transactions, or result in significant reclassification within function or economic type.

PTE Superannuation

Commonwealth Superannuation Scheme transactions of Telecom and Australia Post have been classified as financing transactions in previous Budgets.

After consultation with the ABS, employer contributions and associated benefits of other PTE's have been reclassified as financing transactions (this is the final element in the set of major reclassifications recognised in 1988 and implemented since the 1988 May Economic Statement). Such charges on PTE's current operations are treated as outlays in the operating accounts of the enterprise concerned, but the resultant increase in reserve account is a financing transaction regardless of whether it is held by the PTE or paid into the Public Account. PTE premiums for compensation paid into CRF under COMCARE arrangements from 1 July 1989 have been similarly treated as financing transactions.

Consistent with ABS standards, general government employer contributions for superannuation and compensation paid into, and benefits paid out of, the Public Account are classified above-the-line as outlays.

Trust Account Transactions

Certain receipts and payments of the Aboriginal Benefits Trust Account (ABTA) that were regarded as private monies and treated as financing transactions have been reclassified as revenue and outlays. This follows a re-examination of the operation of the Account in conjunction with the ABS which determined that the Commonwealth has effective control of the funds.

Receipt of a \$1.1m appropriation by the Coal Mining Industry Long Service Leave (CMLSL) Trust Fund in 1986-87 has been reclassified from revenue to outlays. As previously mentioned, intrasector receipt transactions are classified as outlays to cancel out the associated payments.

Interest receipt of \$3.4m in 1987-88 by the Australian Land Transport Trust Account (ALTP) and lower amounts in other years for a number of energy research trust accounts have been reclassified from outlays to revenue. These receipts relate to interest on investments in non-Commonwealth sector securities and therefore should not be offset within outlays.

In line with ABS standards, interest earned on the Commonwealth's National Debt Sinking Fund (NDSF) account with the Reserve Bank has been reclassified from offsets within outlays to revenue. This treatment is now consistent with the revenue treatment of interest earned on other accounts with the Reserve Bank.

The effects of the superannuation, trust accounts and interest reclassifications are shown in the following table (figures refer to millions of dollars):

	79/80	80/1	81/2	82/3	83/4	84/5	85/6	86/7	87/8	88/9
Outlays										
- NDSF	28	21	8	4	1	2	14	16	15	18
- ABTA	1	..	1	..	..	1	..	..	3	..
- PTE Superannuation	6	5	8	9	3	-3	-5	-11	-22	4
- CMLSL	..	..	..	..	..	..	..	..	-1	..
- ALTP/energy accounts	..	..	1	..	..	..	1	1	4	..
TOTAL	35	26	17	13	4	..	10	5	..	22
Revenue										
- NDSF	28	21	8	4	1	2	14	16	15	18
- ABTA	14	15	15	1	2	3	3	3	3	..
- CMLSL	..	..	..	..	..	..	..	..	-1	..
- ALTP/energy accounts	..	..	1	..	..	..	1	1	4	..
TOTAL	42	37	23	5	4	5	18	18	23	18
Balance (financing transactions)										
- ABTA	13	15	14	1	2	2	3	3	..	..
- PTE	-6	-5	-8	-9	-3	3	5	11	22	-4
TOTAL	7	11	6	-8	-1	5	7	14	22	-4

Property Operating Expenses

A new subdivision called *Property Operating Expenses (POE)* has been established in the Appropriation Bill No 1 to cover project costs and commercial rates of charging levied by Australian Construction Services (ACS) for repairs and maintenance and minor new works and for the services to be charged for by the Australian Property Group (APG) for rent, office services, contract cleaning and office fit-out. Transactions classified to the Administrative Services function in previous Budgets are now classified to their appropriate function. To maintain comparability of series, estimates of the effect in historical years have been made and the amounts reallocated among functions on a pro-rata basis. Caution should therefore be exercised in interpretation of the changes. The following table highlights the functional changes.

EFFECT OF PROPERTY OPERATING EXPENSES TRANSFER FROM ADMINISTRATIVE SERVICES (\$m)												
FUNCTION	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89		
Defence	-	-	-	-	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-	-	-	-
Health	5	8	7	8	12	15	19	23	27	30		
Social Security and Welfare	19	21	24	31	44	56	71	84	103	108		
Housing and Community Amenities	..	..	..	-1	-1	-2	..	..	5	..		
Culture and Recreation	1	1	3	5	5	6	7	7	8	8		
Transport and Communications	2	2	3	4	6	7	8	11	13	14		
Industry Assistance & Development	3	4	4	5	7	9	11	13	16	17		
Labour and Employment	14	16	19	24	34	44	55	65	77	84		
Other Economic Services	1	2	2	3	4	5	6	7	9	10		
Legislative Services	2	3	3	4	5	7	9	10	13	14		
Law, Order and Public Safety	10	11	13	17	24	31	39	46	55	59		
Foreign Affairs and Overseas Aid	1	1	1	1	2	3	3	4	5	5		
General and Scientific Research	..	..	..	..	..	..	..	..	..	..
Administrative Services	-59	-85	-78	-101	-143	-180	-227	-269	-329	-349		
Assistance to Other Governments	-	-	-	-	-	-	-	-	-	-		
Public Debt Interest	-	-	-	-	-	-	-	-	-	-		

Construction Services, Fitout and Furniture and Fittings

Salaries and administrative costs of architects, engineers and construction supervisors have in the past been included in running costs and classified as current outlays. The cost of services that form an integral part of capital projects should be classified as capital outlays. After consultation with the ABS it has been decided to reclassify the above-mentioned salaries and administrative expenses to capital outlays and to treat future ACS and overseas property group services in these areas as capital outlays. The ABS has not as yet incorporated this change in its statistics.

Fitout of leased premises have been reclassified from current to capital outlays in line with ABS classification standards and consistent with the treatment of fitout in owned premises.

Outlays on furniture and fittings within running costs have been reclassified from current to capital outlays in line with ABS classification standards.

The effect of these changes are shown in the following table:

	79-80	80-81	81-82	82-83	83-84	84-5	85-6	86-7	87-8	88-9
Current Outlays on Goods and Services										
- Construction services	-33	-37	-55	-62	-72	-80	-82	-88	-103	-124
- Furniture and fittings	-8	-10	-8	-13	-20	-23	-29	-29	-35	-45
- Fitout leased premises	-8	-8	-11	-12	-32	-47	-56	-69	-82	-72
Capital Outlays on Goods										
- Construction services	33	37	55	62	72	80	82	88	103	124
- Furniture and fittings	8	10	8	13	20	23	29	29	35	45
- Fitout leased premises	8	8	11	12	32	47	56	69	82	72

OTHER CHANGES IN THE FUNCTIONAL CLASSIFICATION

Although the basic aim of a functional classification scheme is to categorise budget outlays according to the broad purposes for which they are undertaken, such a classification cannot always be applied without some ambiguity. Particular outlays will often serve two or more distinct functions. In this situation an outlay is classified to the function which is considered to be its primary purpose.

From time to time it is necessary to amend the functional classification to reflect shifts in the purpose of programs or changes in the organisation, coverage and nature of government activities. Furthermore, additional information sometimes becomes available which provides grounds for a reclassification or allows items that had previously been classified to a single function to be split between functions.

This section provides details of changes which have been made this year. The figures in the sections on changes relate to 1988-89.

The following transactions have been reclassified from the Administrative Services function:

- Running Costs associated with the Coastwatch program reclassified to Law, Order and Public Safety completing a reclassification of this activity begun in the 1988-89 Budget (approximately \$2m per year in the period 1980-81 to 1988-89);
- Department of Administrative Services property management outlays in 1988-89 reclassified to Labour and Employment (\$3m), Transport and Communication (\$3m), Health (\$7m), Social Security and Welfare (\$4m) and Law, Order and Public Safety (\$11m);
- Promotion Australia outlays reclassified to Foreign Affairs and Overseas Aid (ranging from \$5m in 1982-83 to \$6m in 1987-88);
- Parliamentary media and information services outlays reclassified to Legislative Services (ranging from \$5m in 1979-80 to \$1m in 1984-85);
- Various outlays of the Department of Arts, Sport, Environment, Tourism and Territories (DASETT) reclassified to Culture and Recreation (ranging from \$3m in 1979-80 to \$16m in 1988-89); and
- Outlays on Commonwealth public service industrial relations and working conditions reclassified to Labour and Employment (approximately \$2m per year from 1979-80).

Commonwealth outlays on water and sewerage assistance to the ACT have been reclassified from Assistance to Other Governments to Other Economic Services (\$6m 1988-89).

Outlays on a number of cultural activities for exhibition overseas have been reclassified from Culture and Recreation to Foreign Affairs and Overseas Aid (ranging from \$3m in 1981-83 to \$6m in 1985-86).

Commonwealth participation in the Thailand Narcotics Control Board activities has been reclassified from Foreign Affairs and Overseas Aid to Law, Order and Public Safety (ranging from \$3m in 1983-84 to \$1m in 1988-89).

Commonwealth assistance to legal aid have been reclassified from Labour and Employment to Law, Order and Public Safety (approximately \$1m per year in the period 1984-85 to 1988-89).

Department of Foreign Affairs and Trade outlays incorrectly reclassified to Foreign Affairs and Overseas Aid in the last round of administrative order changes have been reverted back to Industry Assistance and Development (\$19m in 1987-88) and Administrative Services (\$6m in 1987-88).

OTHER CHANGES IN THE ECONOMIC TYPE CLASSIFICATION

Changes in the classification of transactions by economic type generally arise from ongoing reconciliation of ABS and Budget statistics on the Commonwealth budget sector. In addition, information sometimes becomes available which justifies reclassification or allows items that had previously been classified to a single economic type to be disaggregated and appropriately classified.

The following outlays have been reclassified *from* Current Outlays on Goods and Services:

- Grants under the language research program reclassified to Grants to Non-Profit Institutions (\$3m in 1987-88 and \$14m in 1988-89);
- Community employment outlays reclassified to Grants to Non-Profit Institutions (\$2m in 1986-87, \$3m in 1987-88 and \$4m 1988-89);
- Payments to other governments for legal aid (ranging from \$8m in 1978-89 to 17m in 1981-82) reclassified to Current Grants to Other Governments; and
- Rent subvention to the Defence Housing Authority reclassified to Advances to the Non-budget Sector reflecting the repayable nature of the transaction.

The following outlays have been reclassified *to* Current Outlays on Goods and Services:

- Salary payments in repatriation hospitals reclassified from Capital Outlays on Goods (\$50m in 1987-88 and \$60m in 1988-89);
- Outlays on Commonwealth participation in the Thailand Narcotics Control Board activities reclassified from Grants Overseas (ranging from \$3m in 1983-84 to \$1m in 1988-89);
- Comcare benefits for general government units reclassified from Current Grants to the Non-budget Sector (\$82m 1988-89);
- Austrade national interest insurance claims reclassified from grants to the Non-budget Sector as the outlays relate to the purchase of a service (ranging from \$3m in 1983-84 to \$14m in 1988-89); and
- Construction Services Trust Account outlays on repairs and maintenance reclassified from Capital Outlays on Goods (ranging up to \$10m in the period 1979-80 to 1987-88).

Payments to Aerospace Technologies of Australia (ASTA) have been reclassified from Advances to the Non-budget sector to Subsidies as the amounts are not repayable and cover labour operational costs (\$83m in 1987-88 and \$11m in 1988-89).

Grants under the language research program have been reclassified from Current Grants to Other Governments to Grants to Non-profit Institutions (\$4m in 1987-88).

Payments to the States under the National Policy on Languages program has been reclassified from Grants to the Non-budget sector (\$2m 1987-88) and Grants to Non-profit Institutions (\$4m 1987-88) to Grants to Other Governments.

Payments to the States under the Rural Adjustment Scheme have been reclassified from Advances to Grants to Other Governments reflecting their non repayable nature (\$10m 1985-86). Also, payments to the States for urban water supply have been reclassified from Grants to Advances to Other Governments (\$2m 1987-88).

Payments to the Health Insurance Commission have been reclassified from Capital Outlays on Goods to Capital Grants to the Non-budget Sector (ranging from \$3m in 1984-85 to \$12m in 1987-88). Payments to the Australian Institute of Sport have been similarly reclassified (\$1m in 1984-85, 1985-86 and 1988-89).

TREATMENT OF ACT SELF GOVERNMENT

The ACT became self-governing on 11 May 1989.

In 1988-89 the ACT received funds on a state-type basis through general and specific purpose payments. An ACT Fiscus, operating through the ACT Trust Account and a number of subsidiary accounts, was established on 1 July 1988. Commonwealth assistance to the Fiscus was paid into the ACT Trust Account from which payments were made for territorial and municipal functions administered by the ACT, including the on-passing of funds to subsidiary trust accounts and to statutory authorities. The Fiscus was originally established within the Public Account. Commonwealth budget aggregates therefore reflect outlays of the Fiscus (payments and receipts of the various accounts), and not payments to the ACT Trust Account from the CRF, up to 10 May 1989 (these transactions, as noted before, are consolidated).

In order to achieve this result, the ACT Trust Account included a number of receipt items which were netted against the Commonwealth payments on a functional basis up to 10 May 1989.

To achieve comparability between the first full year of self government and 1988-89, the gross amount of general and specific purpose payments in 1988-89 is shown in each function. Significant offsetting trust account receipt transactions covering the period to 10 May 1989 and Commonwealth own purpose outlays for the same period are recorded in a special ACT item.

As a result of ACT self-government:

- outlays specifically on the ACT will decrease overall in 1989-90 by approximately \$325m from \$950m to \$625m;
- outlays for functions 2 to 8E (excluding 5 and 7D) in *Statement 3* will have decreases;

- outlays for functions 5, 7D and 9A in *Statement 3* will increase reflecting receipts from land sales no longer flowing into the Public Account, reclassification of ACT water and sewerage assistance and the change from Commonwealth outlays on its own behalf to state payments respectively; and
- revenue from the ACT will decrease by approximately \$260m from \$330m to \$70m.

TREATMENT OF COMCARE

The Commission for the Safety, Rehabilitation and Compensation of Commonwealth Employees (Comcare) was established in December 1988. From 1 July 1989, Comcare will introduce a premiums incentive scheme to fund fully, on a notional basis, compensation liability incurred after 1 July 1989.

Money is appropriated to Comcare to cover operating expenses and compensation benefits while premiums, which are determined on an actuarial basis, are paid into the Public Account.

In line with ABS standards and consistent with the treatment of superannuation transactions, general government employer contributions paid into and associated benefits paid out of the Public Account are classified as outlays while equivalent PTE transactions are classified below-the-line as financing transactions.

STATEMENT 7—STATISTICAL APPENDIX

INTRODUCTION

Six tables are presented in this appendix. Tables I to III cover the transactions of all Commonwealth entities and tables IV to VI Commonwealth non-market activities (referred to as "general government"). Eleven tables are presented in the statistical appendix to Statement 3 covering the outlays transactions of the Commonwealth Budget sector.

A table of contents for this appendix is provided below. The period covered in the tables is from 1979-80 to 1988-89 except for the general government tables which extend to the Budget year. Current estimates for the Commonwealth non-budget sector, which cover such large PTE units as Telecom, are not available from the ABS until some six months after the end of the financial year. Therefore Administrative sector tables only extend to 1988-89. However Commonwealth budget sector outlays by economic type for the Budget and the three forward years are provided in a table in the statistical appendix to *Statement 3*.

Current year estimates for final consumption and gross capital formation of the Commonwealth General Government non-budget sector are derived from Budget statistics on grants to the non-budget sector. Various indicators are used for the estimation of other transactions. General Government statistics therefore extend to the budget year.

Tables:

- Table I Commonwealth Budget Sector Transactions by Economic Type
- Table II Commonwealth Non-Budget Sector Transactions by Economic Type
- Table III Commonwealth Government Sector Transactions by Economic Type
- Table IV Commonwealth General Government Budget Sector Transactions by Economic Type
- Table V Commonwealth General Government Non-budget Sector Transactions by Economic Type
- Table VI Commonwealth General Government Transactions by Economic Type

BACKGROUND TO THE TABLES ON THE COMMONWEALTH ADMINISTRATIVE AND GENERAL GOVERNMENT SECTORS

The Commonwealth Non-Financial Public Sector (ie excluding public financial enterprises to avoid the consolidation of significant financing transactions) is made up of a number of sub-sectors based on the ABS administrative and institutional sector classifications:

- | | |
|-----------------------|-----------------------------------|
| administrative sector | • budget; and |
| | • non-budget |
| institutional sector | • general government (GG); and |
| | • public trading enterprise (PTE) |

as outlined above in the Coverage section of this Statement.

Statistics on administrative sectors have been published for a number of years in budget documentation, with data for the non-budget sector based on information supplied by the ABS (up to the year just completed).

As part of a continuing process undertaken by Commonwealth, State and Territory Governments to improve the coverage and content of budget documentation (in particular to publish economic type statistics comparable with definitions and concepts used by the ABS), statistical tables on the general government budget, general government non-budget and total general government Commonwealth sectors up to and including the budget year have been included in this Statement.

Terminology and layout of the six Tables are consistent with those used by the ABS in Government Finance Statistics. The Net Financing Requirement aggregate, commonly referred to as the Net Public Sector Borrowing Requirement, has been introduced to provide a measure of a sector's demand for financing from the rest of the economy and overseas.

Provisions by PTEs for depreciation, superannuation etc are regarded as self-financing and are excluded from the measurement of the net financing requirement (provisions include superannuation reserves transferred into the Public Account). Where applicable, advances received from the Budget sector are also excluded from the measure of the financing requirement.

Budget statistics on the Commonwealth budget sector and ABS statistics on the Commonwealth non-budget sectors provide the data for the tables in the appendix to this Statement. There are differences in the NFR of the Commonwealth budget sector recorded here and by the ABS which flow through to the total and general government tables. Care should therefore be exercised in comparing general government data in this Statement and in *Statement 6*, where ABS data is used.

A major review of the classification of financial data was conducted in 1987-88, resulting in a closer alignment of ABS and Budget statistics. ABS was consulted on major classification changes outlined in this Statement and therefore it is expected the changes will be reflected in ABS statistics and differences in the NFR and its components further reduced.

NOTES ON TABLES

TABLE I—Commonwealth Budget Sector

The Commonwealth budget sector consists of units that operate within the Public Account. Budget statistics are used in this table.

A major reconciliation of Budget and ABS statistics during 1987-88 (and documented in 1988-89 *Statement 8 of Budget Paper 1*) resulted in a closer alignment of these sets of statistics. However significant remaining differences are:

- (i) The ABS coverage of the non-budget sector is incomplete resulting in grants paid to some non-budget units being recorded by the ABS as budget consumption and gross capital formation;
- (ii) Payments out of the Wheat Finance Fund in years up to 1985-86 are classified as outlays in budget statistics but as offsets within revenue by the ABS;
- (iii) Light Dues and Navigation Act receipts are classified as revenue in budget statistics but as outlays by the ABS;
- (iv) The ABS has yet to incorporate in its statistics the recording of discounts and premiums on Treasury Bonds above-the-line as outlays, and discounts on Treasury Notes at redemption rather than at issue;
- (v) The revised treatment of PTE superannuation transactions which increases outlays (final consumption expenditure), and provisions, has not as yet been incorporated in ABS statistics.

ABS has agreed to change its treatment of transactions in points (i) to (iii) and (v); however there is disagreement over the treatment of repurchase and discount transactions and timing of the recording of premiums in point (iv).

After taking account of the differences in points (iv) and (v), the net financing requirements (NFR) recorded in Budget and ABS statistics for this sector are comparable although there are some differences as outlined earlier in this Statement.

TABLE II—Commonwealth Non-budget Sector

The Commonwealth non-budget sector consists of units that operate outside the Public Account. This includes both GG authorities, which largely depend upon budget funding (eg ABC) and provide public goods and services, and PTEs, which are largely self-financing and provide marketable goods and services.

ABS statistics are used in this Table after adjustment for the under-coverage by the ABS of the non-budget sector. This results in the recording of higher levels of grants received from the budget sector, of final consumption expenditure and of gross capital formation, and the recording of a different level of advances received from the Budget sector. In addition, gross rather than net operating surplus (ie net plus depreciation) is shown with an appropriate adjustment to provisions. The difference in the NFR recorded in Budget and ABS statistics is due to differences in the level of advances from the budget to the non-budget sector.

TABLE III—Commonwealth Government Sector

The Commonwealth Government sector is derived by adding budget and non-budget data after excluding intra-sector transactions. The NFRs of the component sectors are additive.

TABLE IV—Commonwealth General Government (GG) Budget Sector

The Commonwealth GG budget sector is derived by excluding transactions of budget PTE's (those recognised by the ABS) from budget data. Only three such units were recognised in 1988-89: ACT bus service and Forestry operations and the Royal Australian Mint. As a result of ACT self-government in May 1989, the ACT units no longer operate within the Public Account.

TABLE V—Commonwealth GG Non-budget Sector

ABS statistics are used in this table, adjusted for the under-coverage by the ABS of the non-budget sector (see notes on Table II).

TABLE VI—Commonwealth GG Sector

The Commonwealth GG sector is derived by adding GG budget and GG non-budget data after excluding minor intra-sector transactions. The NFR of the component sectors are additive. As outlined previously in this Statement there are some differences in the NFR recorded in ABS and Budget statistics.

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
CURRENT OUTLAYS										
Final Consumption Expenditure										
Defence	2932	3449	4009	4847	5246	5884	6616	7154	7203	7579
Non-Defence	2501	2923	3443	3895	4639	5276	5934	6443	6870	7369
Total Final Consumption Expenditure	5433	6372	7452	8541	9885	11160	12550	13597	14073	14948
Current Transfer Payments										
Interest	2229	2501	2850	3444	4393	5653	7030	7936	7910	7480
Subsidies(a)	918	1101	1205	1307	1487	1651	1527	1334	1461	1245
Personal Benefit Payments	9759	11083	12850	15652	18376	20552	22339	24082	26819	28353
Grants to Non-Profit Institutions	292	342	459	605	716	871	959	1108	942	1066
Grants to Non-Budget Sector(a)	762	969	1184	1342	1468	1675	2063	2090	2382	2732
Grants to Other Governments	9105	10343	11423	13182	15017	16509	17771	19330	20734	21480
Grants Overseas	517	570	658	718	758	840	840	810	843	916
Other Transfers	-	-	-	-	-	-	-	3	4	5
Total Current Transfer Payments	23581	26889	30630	36250	42195	47852	52528	56993	61095	63297
TOTAL CURRENT OUTLAYS	29014	33261	38082	44791	52080	59012	65078	70290	75168	78245
CAPITAL OUTLAYS										
Gross Capital Formation (b)	153	277	301	442	436	567	603	546	699	518
Net Land and Intangible Assets	-12	-169	-28	-31	-52	-100	-111	-81	-72	-115
Capital Transfer Payments										
Grants to Non-Budget Sector	201	212	201	255	255	378	503	664	648	305
Grants to Other Governments	1546	1650	1778	2230	2792	3196	3247	3250	3039	3064
Grants to Other Sectors(c)	163	135	204	239	327	388	328	303	348	362
Total Capital Transfer Payments	1910	1997	2182	2724	3374	3930	4079	4216	4035	3721

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
Net Advances										
To Non-Budget Sector	-100	-22	13	183	-18	-17	-102	-123	-38	29
To Other Governments	896	938	886	1058	1002	799	777	546	-46	-124
To Other Sectors(d)	-103	30	112	112	144	128	114	100	77	362
Total Net Advances	694	947	991	1351	1129	910	789	524	-7	297
TOTAL CAPITAL OUTLAYS	2744	3052	3446	4488	4888	5307	5361	5205	4655	4421
Contingency Reserve	-	-	-	-	-	-	-	-	-	-
Asset Sales	-	-	-	-	-	-	-	-	-1059	-538
TOTAL OUTLAYS	31758	36313	41528	49277	59066	64319	70439	75496	78764	82128
Tax Revenue										
Tax Revenue	27548	32780	38071	41183	44917	53048	59999	66354	74897	83252
Non-Tax Revenue	2250	2548	2950	3582	4063	4573	5811	6510	5632	4775
TOTAL REVENUE	29798	35328	41020	44765	48980	57622	64810	72864	80529	88027
FINANCING TRANSACTIONS										
Increase in Provisions	1960	966	508	4512	7967	6667	5630	2631	-2064	-5899
	39	21	29	37	20	115	172	273	-51	-179
NET FINANCING REQUIREMENT	1920	965	479	4475	7967	6582	5458	2358	-2013	-5720

(a) Current grants to PTE's are classified as subsidies and are not included in Grants to the Non-budget sector.

(b) Gross Capital Formation covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and stocks.

(c) Capital grants to public financial enterprises, private enterprises, persons and non-profit organisations.

(d) Net advances to public financial enterprises, private enterprises, persons, non-profit organisations and overseas.

TABLE II—Commonwealth Non-Budget Sector Transactions by Economic Type (\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
CURRENT OUTLAYS										
Final Consumption Expenditure	731	918	1123	1272	1416	1617	1841	2017	2359	2826
Current Transfer Payments										
Interest	587	636	886	924	1130	1237	1480	1637	2089	2138
Subsidies	16	19	-21	-22	-34	16	110	-8	325	23
Personal Benefit Payments	2	2	2	3	4	4	4	5	5	5
Grants to Non-Profit Institutions	6	8	7	7	7	11	18	22	102	68
Other Transfers	20	30	23	33	31	31	52	53	93	93
Total Current Transfer Payments	631	695	897	945	1138	1299	1664	1711	2614	2327
TOTAL CURRENT OUTLAYS	1362	1613	2020	2217	2554	2916	3505	3728	4973	5153
CAPITAL OUTLAYS										
Gross Capital Formation (a)	1217	1404	1814	1841	2117	2241	3600	3634	3204	4282
Net Land and Intangible Assets	15	13	14	-7	11	4	50	38	70	-9
Capital Transfer Payments	2	4	28	32	39	50	53	51	54	44
Net Advances	37	25	-4	41	54	27	148	32	31	50
TOTAL CAPITAL OUTLAYS	1271	1446	1852	1907	2221	2322	3851	3755	3359	4347
TOTAL OUTLAYS	2633	3059	3872	4124	4775	5238	7356	7483	8332	9500
REVENUE										
Grants from the Budget sector	963	1181	1385	1597	1723	2053	2596	2754	3030	3037
Indirect taxes	1	1	-40	-42	-49	3	-48	-124	-70	-151
Interest, Rent, Dividends etc	71	109	133	128	109	155	227	301	522	580
PTE Net Operating Surplus (b)	625	659	981	789	1257	1721	1832	2033	3148	3118
PTE Depreciation	453	536	604	707	944	854	1050	1196	1672	1903
TOTAL REVENUE	2113	2486	3063	3179	3984	4786	5627	6180	8302	8485
FINANCING TRANSACTIONS										
Increase in non-Depreciation Provisions	520	573	809	945	791	452	1729	1323	30	1015
Net advances from Budget sector	171	177	185	205	263	25	90	258	271	286
NET FINANCING REQUIREMENT	449	418	631	557	546	444	1741	1188	-203	700

(a)Gross Capital Formation covers the purchase of new fixed assets,purchases less sales of secondhand fixed assets and increase in stocks.
 (b)Current grants to Public Trading Enterprises(PTE's) are classified as subsidies and included in gross operating surplus of PTE's.

7.22

TABLE III—Commonwealth Government Sector Transactions by Economic Type (\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
CURRENT OUTLAYS										
Final Consumption Expenditure	6184	7290	8575	9813	11301	12777	14391	15614	16432	17774
Current Transfer Payments										
Interest	2350	2671	3201	3751	4765	6090	7801	8707	9140	8899
Subsidies	934	1120	1184	1285	1433	1667	1637	1328	1788	1258
Personal Benefit Payments	9761	11065	12852	15655	18380	20656	22343	24087	26824	28358
Grants to Non-Profit Institutions	298	350	496	612	723	882	977	1130	1044	1154
Grants to Other Governments	9105	10343	11423	13182	15017	16509	17771	19330	20734	21480
Grants Overseas	517	570	658	718	758	840	840	810	843	916
Other Transfers	-	-	-	-	-	-	-	3	4	5
Total Current Transfer Payments	22965	26119	29784	35203	41078	48644	51189	55395	60375	62050
TOTAL CURRENT OUTLAYS	29129	33409	38359	45016	52377	59421	65590	71009	76807	79824
CAPITAL OUTLAYS										
Gross Capital Formation (a)	1370	1681	2115	2283	2553	2808	4203	4180	3903	4780
Net Land and Intangible Assets	3	-156	-14	-38	-41	-96	-61	-43	-2	-124
Capital Transfer Payments										
Grants to Other Governments	1548	1650	1778	2230	2792	3186	3247	3250	3039	3064
Grants to Other Sectors(b)	165	139	232	271	306	436	381	254	402	398
Total Capital Transfer Payments	1711	1789	2010	2501	3158	3602	3628	3604	3441	3460
Net Advances										
To Other Governments	896	938	896	1056	1002	799	777	546	-46	-124
To Other Sectors(c)	-66	55	108	153	198	155	282	132	108	442
Total Net Advances	830	993	974	1209	1200	954	1039	678	82	318
TOTAL CAPITAL OUTLAYS	3914	4307	5085	5955	6870	7286	8809	8419	7404	8434
Asset Sales	-	-	-	-	-	-	-	-	-1056	-538
TOTAL OUTLAYS	33043	37716	43444	50971	59247	66689	74399	79428	83152	87720
REVENUE										
Taxation Revenue	27533	32756	38012	41112	44841	53025	58904	66183	74739	83008
Interest, Rent, Dividends etc	1851	2185	2544	3090	3409	3922	5124	5939	5590	4606
PTE Net Operating Surplus	625	659	981	789	1257	1721	1832	2033	3148	3118
PTE Depreciation	453	536	604	707	944	854	1050	1196	1672	1903
TOTAL REVENUE	30462	36136	42141	45698	50451	59522	66910	75351	85149	92633
FINANCING TRANSACTIONS										
Increase in Provisions	2581	1580	1303	5273	8796	7167	7459	4077	-1997	-4913
NET FINANCING REQUIREMENT	2371	1382	1109	5031	8513	7027	7197	3546	-2217	-5020

(a)Gross Capital Formation covers the purchase of new fixed assets,purchases less sales of secondhand fixed assets and increase in stocks.
 (b)Consists of capital grants to public financial enterprises, private enterprises, persons and non-profit organisations.
 (c)Consists of net advances to public financial enterprises, private enterprises, persons, non-profit organisations and overseas.

7.23

TABLE IV—Commonwealth General Government Budget Sector Transactions by Economic Type(\$)											
	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
CURRENT OUTLAYS											
Final Consumption Expenditure	5435	6374	7455	8542	9888	11182	12552	13601	14075	14828	16029
Current Transfer Payments											
Interest	2229	2501	2850	3444	4393	5853	7030	7936	7910	7480	7384
Subsidies(a)	918	1101	1205	1307	1487	1851	1527	1334	1401	1245	1227
Personal Benefit Payments	9759	11063	12850	15652	18376	20652	22339	24082	26819	28553	31662
Grants to Non-Profit Institutions	292	342	459	605	716	871	959	1108	942	1068	1196
Grants to Non-Budget Sector(a)	762	909	1184	1342	1468	1675	2063	2090	2382	2732	2439
Grants to Other Governments	9105	10343	11423	13182	15017	16509	17771	19330	20734	21480	22864
Grants Overseas	517	570	658	718	758	840	840	810	843	916	1023
Other Transfers	-	-	-	-	-	-	-	3	4	5	9
Total Current Transfer Payments	23582	26889	30629	36250	42195	47851	52529	56993	61095	63297	67523
TOTAL CURRENT OUTLAYS	29017	33263	38084	44792	52083	59013	65081	70294	75170	78225	83562
CAPITAL OUTLAYS											
Gross Capital Formation (b)	151	274	296	441	430	562	505	534	679	516	582
Net Land and Intangible Assets	-12	-169	-28	-31	-52	-100	-111	-81	-72	-115	82
Capital Transfer Payments											
Grants to Non-Budget Sector	201	212	201	255	255	378	503	664	648	305	86
Grants to Other Governments	1546	1650	1778	2230	2792	3196	3247	3250	3039	3064	3407
Grants to Other Sectors(c)	183	135	204	239	327	388	328	303	348	352	420
Total Capital Transfer Payments	1910	1967	2183	2724	3374	3990	4078	4217	4035	3721	3676

TABLE IV—Commonwealth General Government Budget Sector Transactions by Economic Type(\$)(cont.)											
	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
Net Advances											
To Non-Budget Sector	-100	-22	13	183	-18	-17	-102	-123	-38	29	-99
To Other Governments	896	938	896	1056	1002	799	777	548	-46	-124	-310
To Other Sectors(d)	-103	30	112	112	144	128	114	100	77	362	586
Total Net Advances	693	946	991	1351	1128	810	789	523	-7	297	-270
TOTAL CAPITAL OUTLAYS	2742	3048	3442	4485	4880	5302	6351	5193	4635	4419	4360
Asset Sales	-	-	-	-	-	-	-	-	-1050	-538	-1890
Contingency Reserve	-	-	-	-	-	-	-	-	-	-	20
TOTAL OUTLAYS	31759	36311	41526	49277	59963	64315	70432	75487	78746	82106	86762
REVENUE											
Taxation Revenue	27548	32780	38071	41183	44917	53048	58999	66354	74897	83252	91325
Non-Tax Revenue	2242	2535	2971	3582	4081	4571	5806	6513	5928	4782	4561
TOTAL REVENUE	29790	35315	41042	44765	48978	57619	64805	72867	80825	88034	95876
FINANCING TRANSACTIONS											
Increase in Provisions	1969	906	484	4512	7985	8696	5627	2620	-2079	-5028	-9124
	39	21	29	37	20	115	172	273	-51	-179	-77
NET FINANCING REQUIREMENT	1930	975	455	4475	7965	6581	5455	2347	-2028	-5749	-9047

(a) Current grants to PTE's are classified as subsidies and are not included in Grants to the Non-budget sector.

(b) Gross Capital Formation covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and increase in stocks.

(c) Capital grants to public financial enterprises, private enterprises, persons and non-profit organisations.

(d) Net advances to public financial enterprises, private enterprises, persons, non-profit organisations and overseas.

TABLE V—Commonwealth General Government Non-Budget Sector Transactions by Economic Type(\$)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
CURRENT OUTLAYS											
Final Consumption Expenditure	731	918	1123	1272	1416	1617	1841	2017	2359	2826	2462
Current Transfer Payments											
Interest	4	7	1	1	1	4	8	7	5	7	7
Subsidies	16	19	-21	-22	-34	16	110	-6	325	23	-43
Personal Benefit Payments	2	2	2	3	4	4	4	5	5	5	5
Grants to Non-Profit Institutions	6	8	7	7	7	11	18	22	102	68	55
Other Transfers	1	1	1			5	5	6	2	6	6
Total Current Transfer Payments	29	37	-10	-11	-22	40	143	34	439	109	30
TOTAL CURRENT OUTLAYS	760	955	1113	1261	1394	1657	1984	2051	2798	2935	2492
CAPITAL OUTLAYS											
Gross Capital Formation (a)	260	140	200	289	283	385	534	688	701	254	66
Net Land and Intangible Assets	2	1	3	-1	5	5	21	5	17	7	15
Capital Transfer Payments	2	4	28	32	39	50	53	51	54	44	35
Net Advances	4	7	8	13	10	13	19	25	31	-	-
TOTAL CAPITAL OUTLAYS	268	152	238	333	337	453	627	789	803	305	116
TOTAL OUTLAYS	1028	1107	1352	1594	1731	2110	2611	2820	3601	3240	2608
REVENUE											
Grants from the Budget sector	963	1181	1385	1597	1723	2053	2566	2754	3030	3037	2527
Indirect taxes	1	1	-40	-42	-49	3	-48	-124	-70	-161	-188
Interest, Rent, Dividends etc	31	9	12	16	20	30	37	97	167	110	130
TOTAL REVENUE	995	1191	1357	1571	1694	2086	2556	2727	3127	2986	2469
FINANCING TRANSACTIONS	33	-84	-5	23	37	24	56	93	474	244	189
Increase in Provisions	2	2	-3	4	17	5	23	53	7	161	125
NET FINANCING REQUIREMENT	31	-86	-2	19	20	19	33	40	467	93	-44

(a)Gross Capital Formation covers the purchase of new fixed assets,purchases less sales of secondhand fixed assets and increase in stocks.

7.26

TABLE VI—Commonwealth General Government Sector Transactions by Economic Type(\$m)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
CURRENT OUTLAYS											
Final Consumption Expenditure	6166	7292	8578	9614	11304	12779	14393	15618	16434	17754	18491
Current Transfer Payments											
Interest	2233	2508	2851	3445	4394	5657	7036	7942	7914	7485	7385
Subsidies	934	1120	1184	1285	1433	1687	1637	1328	1798	1268	1184
Personal Benefit Payments	9761	11065	12852	15655	18380	20656	22343	24087	26824	28358	31557
Grants to Non-Profit Institutions	298	350	466	612	723	882	977	1130	1044	1154	1251
Grants to Other Governments	9105	10343	11423	13182	15017	16509	17771	19330	20734	21480	22694
Grants Overseas	517	570	658	718	758	840	840	810	843	916	1023
Other Transfers	-	-	-	-	-	-	-	3	4	5	9
Total Current Transfer Payments	22848	25956	29434	34897	40705	46211	50604	54630	59149	60667	65103
TOTAL CURRENT OUTLAYS	29014	33248	38012	44711	52009	58990	64997	70248	75583	78421	83594
CAPITAL OUTLAYS											
Gross Capital Formation (a)	411	414	496	730	713	947	1129	1222	1380	770	677
Net Land and Intangible Assets	-10	-168	-25	-32	-47	-95	-90	-76	-55	-108	-107
Capital Transfer Payments											
Grants to Other Governments	1548	1650	1778	2230	2792	3166	3247	3250	3039	3064	3487
Grants to Other Sectors(b)	165	139	232	271	396	436	381	354	402	396	455
Total Capital Transfer Payments	1713	1789	2010	2501	3158	3602	3628	3604	3441	3460	3922

7.27

TABLE VI—Commonwealth General Government Sector Transactions by Economic Type(\$m)(continued)

	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
Net Advances	-100	-22	13	183	-18	-17	-102	-123	-38	29	-290
To PTE Sector	896	838	866	1056	1002	799	777	548	-48	-124	-510
To Other Sectors(c)	-99	37	120	125	154	141	133	125	108	392	530
Total Net Advances	697	953	999	1384	1138	923	808	548	24	297	-270
TOTAL CAPITAL OUTLAYS	2809	2888	3469	4563	4962	5377	5475	5298	4790	4439	4426
Asset Sales	-	-	-	-	-	-	-	-	-1059	-538	-1200
Contingency Reserve	-	-	-	-	-	-	-	-	-	-	20
TOTAL OUTLAYS	31823	36236	41492	49274	56971	64397	70472	75546	79514	82302	86851
REVENUE											
Taxation Revenue	27548	32780	38030	41141	44868	53049	58946	66224	74825	83065	91131
Non-Tax Revenue	2273	2544	2883	3588	4081	4901	5843	6909	8094	8991	4675
TOTAL REVENUE	29821	35324	41013	44739	48949	57957	64789	72833	80919	87986	96806
FINANCING TRANSACTIONS											
Increase in Provisions	2002	912	479	4535	8022	6720	5983	2713	-1905	-5985	-8966
41	23	26	41	37	120	195	329	-44	-28	48	
NET FINANCING REQUIREMENT(d)	1981	889	453	4484	7985	6900	5488	2387	-1581	-5687	-9003

(a)Gross Capital Formation covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and increase in stocks.
 (b)Consists of capital grants to public financial enterprises, private enterprises, persons and non-profit organisations.
 (c)Consists of net loans to public financial enterprises, private enterprises, persons, non-profit organisations and overseas.
 (d)The Net Financing Requirement is the difference between the Total Net Advances and the Total Net Financing Transactions.
 (e)The Net Financing Requirement is the difference between the Total Net Advances and the Total Net Financing Transactions.
 (See Background and Notes to Tables sections of the Statement)

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 (eg Animal Health Laboratory—Australian) and others have been grouped under a common keyword (eg Public Sector). Major functions in Statement No.3 appear in bold type.

	<i>Page</i>
Aboriginal—Employment Programs	3.242
—Education	3.614
—Health	3.109
—Housing	3.156, 3.161, 3.170-2
ABSTUDY	3.79, 3.80
ACT Administration and Government	
—Effect on Budget Aggregates	7.15
ACT Taxes and Charges	4.36, 4.37
AIDS (Acquired Immune Deficiency Syndrome)	3.87, 3.96, 3.108, 3.110, 3.111
AUSSAT Pty Ltd	3.187
AUSTEL (Australian Telecommunications Authority)	3.187
AUSTUDY	3.78-79, 3.98
Administrative Services	3.13, 3.31, 3.298
Administrative Services, Department of	3.35, 3.40, 3.261, 3.305
Administrative Sector Classification	7.3, 7.17, 7.20
Adult Migrant Education Program (AMEP)	3.80-1
Age pensions and allowances	3.122, 3.124
Aerodrome Local Ownership Plan (ALOP)	3.185, 3.188
Aerospace Technologies of Australia Pty Ltd (ASTA)	3.46, 3.48, 3.58
Aerospace and Information Technology	3.223
Afforestation Program, National	3.206, 3.217
Agricultural, Forestry and Fishing Industries	3.202, 3.205-7, 3.304
Air Safety and Search and Rescue	3.188
Air Transport	3.187-3.190
Animal Health Laboratory, Australian (AAHL)	3.218, 3.290
Antarctic Division	3.295
Antarctic, rebuilding program	3.286
Antarctic, research program	3.287
Apprentices	3.175-6
Arts, Sport, the Environment, Tourism and Territories, Department of	3.35, 3.311

Asset Sales	3.14, 3.341
Assistance for Isolated Children Scheme (AIC)	3.78, 3.81
Assistance to Other Governments	3.14, 3.31, 3.314
Atomic Energy Commission, Australian (AAEC)	3.289, 3.292
Attorney-General's Department	3.35, 3.41
Australia Council	3.176
Australia Post (Australian Postal Corporation)	3.184, 3.187
Australian Industry Development Corporation (AIDC)	4.39
Balance	5.3, 5.5, 5.8
Bass Strait Freight Adjustment Scheme	3.219
Bicentennial Authority, Australian	3.176
Bicentennial Road Development Program, Australian (ABRD)	3.184
Borrowings of the Public Sector	6.19
Broadcasting	3.170-4
Broadcasting and Television Station Licence Fees	4.36
Bureau of Agricultural and Resource Economics	3.218
Bureau of Consumer Affairs	3.256
Bureau of Criminal Intelligence, Australian	3.271
Bureau of Meteorology	3.257
Bureau of Mineral Resources, Geology and Geophysics	3.202
Bureau of Statistics, Australian (ABS)	3.305
CES	3.248
CRAFT (Commonwealth Rebate for Apprentice Full-time Training)	3.239
CSIRO	3.203, 3.287, 3.289, 3.291
Capital Gains Tax (CGT)	4.13, 4.28
Child Care	3.132
Child Support	3.121, 3.133, 3.267
Children's Services Program	3.134, 3.135
Classification Changes in Budget Statements	7.10
Coal Export Duty	4.34
Coal Freight Rate Efficiency Scheme	3.219
Coastal Surveillance	3.270
Coastwatch	3.270
Comcare	
—General	3.309
—Classifications of Transactions	7.16
Committee to Advise on Australia's Immigration Policies (CAAIP)	3.311

Commonwealth—Cash Balances	5.8
—Debt	5.11
—Government Securities	5.8
—Public Account	7.2
Commonwealth Banking Corporation	4.39
Commonwealth State Housing Agreement (CSHA)	3.140, 3.154, 3.351
Community Employment Program (CEP)	3.237
Community Services and Health, Department of	3.35, 3.98, 3.101, 3.112, 3.145
Community Training Program (CTP)	3.241
Community Volunteer Program (CVP)	3.241
Community Youth Support Scheme (CYSS)	3.241
Companies and Securities Commission, National (NCSC)	3.256
Company Income Tax—Capital Gains Tax	4.28
—General	4.27
—Measures	4.11
Conciliation and Arbitration Commission	3.247
Constitutional Commission	3.263
Construction Services, Australian (ACS)	3.311
Contingency Reserve	3.14, 3.338
Country Towns Water Supply Improvement Program (COWSIP)	3.257
Courts and Legal Services	3.266-8
Crime Authority, National (NCA)	3.266, 3.271
Criminology	3.270
Culture and Recreation	3.11, 3.30, 3.167
Customs Duty	4.34
Dairy Corporation, Australian (ADC)	3.212
Debits Tax	4.34
Debt—Public Sector	6.25
Debt Assistance to the States	3.325
Debt Management	5.8, 5.10, 5.11
Defence	3.9, 3.30, 3.35, 3.41, 3.42, 3.43
Defence Housing Authority (DHA)	3.56-7
Defence Industries Pty Ltd, Australian (ADI)	3.43, 3.48, 3.58,
Defence Service Homes	3.112, 3.153, 3.160, 3.341, 3.343, 4.38
Deficit	5.3, 6.19
Development Co-operation Treaty with Papua New Guinea	3.273, 3.277

Development Import Finance Facility	3.281
Diplomatic Communications Network, Australian	3.273, 3.275, 3.283
Director of Public Prosecutions	3.266, 3.268
Disability—Pension	3.126
—Service Program	3.129
Dividends and Other	4.39
Domiciliary Nursing Home Care Benefits	3.103, 3.105
Dramatic Art, National Institute of (NIDA)	3.17
Drug Programs, National	3.108, 3.269
Economic Statement, April 1989	4.4, 4.6
Economic Type Classification	7.9
Education	3.9, 3.30, 3.63
Electoral Commission, Australian	3.203
Emergency Aid and Refugee and Relief Assistance	3.280
Employment, Education and Training, Department of	3.35, 3.145, 3.248
Employment, Education and Training, National Board (NBET)	3.278, 3.289, 3.294
Energy Research Development and Demonstration Council, National	3.231, 3.290
Environment Assistance Program	3.273
Environmental Statement, July 1989	3.165, 3.209, 3.217, 3.231
Equity and Merit Scholarship Scheme	3.273, 3.278
Excise Duty	4.31
Export Market Development Grants Scheme (EMDG)	3.199, 3.200, 3.204, 3.206, 3.229
Factor F.	3.101
Family Allowance	3.119, 3.131, 3.134
Family Allowance Supplement	3.119, 3.132, 3.134
Family Court	3.268
Family Law	3.265
Federal Airports Corporation (FAC)	4.39
Federal Water Resources Assistance Program (FWRAP)	3.163, 3.217, 3.257-8
Fertiliser Subsidies	3.199, 3.206, 3.216
Film Industry	3.71, 3.176
Finance, Department of	3.36, 3.41, 3.304
Financial Affairs and Fiscal Administration	3.304
Financial Assistance Grants	3.321
Financing Transactions	5.8
First Home Owners Scheme (FHOS)	3.150, 3.159
Fishing Industry	3.210, 3.218
Force Development Program (FDP)	3.269

Foreign Affairs and Overseas Aid	3.13, 3.31, 3.272
Foreign Affairs and Trade, Department of	3.36, 3.41, 3.275, 3.283
Forestry Development	3.217
Fringe Benefits Tax (FBT)	3.239, 3.311, 4.30
Functional Classification	7.9
Galleries	3.175
General Capital Assistance	3.324
General and Scientific Research	3.13, 3.31
General Government—outlays and revenue	6.10
—PSBR	6.19
General Revenue Assistance	3.321
Gordon-below-Franklin Compensation (Tas)	3.328
Government Accounting Conventions	7.3
Grants for Industrial Research and Development (GIRD)	3.224, 3.226
Greenhouse Effect	3.257, 3.286, 3.288, 3.296
Handicapped persons	3.129
Health	3.9, 3.30, 3.86
Health Grants	3.88, 3.92, 3.93
Health Insurance Commission (HIC)	3.92, 3.93, 3.101, 3.103
Health, Australian Institute of	3.106
Heavy Engineering Adjustment and Development Program	3.223, 3.245
High Court	3.267
High Education	3.66, 3.70, 3.295
Higher Education Administration Charge (HEAC)	3.71
Higher Education Contribution Scheme (HECS)	3.69, 3.70
Home Acquisition Assistance	3.160
Home and Community Care (HACC)	3.105, 3.123, 3.125
Horticulture Subsidies	3.213
Hospital Services and Benefits	3.87, 3.95, 3.98, 3.99
Housing Assistance to Other Governments	3.154
Housing and Community Amenities	3.11, 3.30, 3.147
Immigration, Local Government and Ethnic Affairs, Department of	3.36, 3.41, 3.311
Individuals Income Tax—Capital Gains Tax	4.28
—General	4.25
—Medicare Levy	4.27
—Other Individuals	4.26
—PAYE	4.25
—Prescribed Payments System	4.27
—Rates Scale	4.46

Industries Assistance Commission	3.256
Industrial Relations Commission, Australian	3.247
Industrial Relations, Department of	3.36
Industrial Research and Development (R & D)	3.11, 3.30, 3.203, 3.206, 3.220, 3.224.
Industrial and Agricultural Machinery	3.222
Industry Assistance and Development	3.199
Industry Training	3.241
Industry and Regional Employment Assistance	3.245
Industry, Technology and Commerce, Department of	3.36, 3.202
Institutional Classification of the Public Sector	7.3
Inter-State Commission	3.198
Interest Revenue	4.38
International Development Assistance Bureau, Australian (AIDAB)	3.65, 3.281
International Financial Institutions	3.273, 3.276, 3.279, 3.280, 3.281
Interstate Road Transport	3.193
Invalid Pensions	3.119, 3.128, 3.130
Isolated Children	3.78
JOBSTART	3.239, 3.244
JOBTRAIN	3.239, 3.244
Job Search Allowance	3.136, 3.138
Jobs, Education and Training (JET)	3.239, 3.244
Labour and Employment	3.12, 3.30, 3.234
Land Settlement	3.216
Land Transport Program, Australian (ALTP)	3.191, 3.193
Law Reform Commission, Australian	3.268
Law, Order and Public Safety	3.13, 3.31, 3.264
Legal Aid	3.267
Legislative Services	3.13, 3.31, 3.260
Life Insurance	4.10
Loan Consolidation and Investment Reserve	3.332, 5.10
Loan Council	3.324, 3.331
Local Government Development Program	3.162
Local Government and Community Housing Assistance	3.156
Manufacturing Industry	3.220
Marine Science, Australian Institute of (AIMS)	3.287, 3.289, 3.295
Maritime Museum	3.174
Maritime Services	3.197
Meat and Livestock Corporation, Australian (AMLC)	3.214
Medical Research	3.106, 3.110
Medical Services and Benefits	3.89, 3.91-6

Medicare	3.88, 3.91-3, 3.98, 3.111
Medicare Levy	4.27
Migrant Education	3.80-1
Mining Industry	3.205, 3.218
Mobility Assistance	3.244
Mortgage and Rent Relief	3.140, 3.156
Multicultural Australia, National Agenda	3.112, 3.162, 3.176, 3.256
Murray-Darling Basin Commission	3.217
Museums	3.175
NEWSTART	3.239, 3.244
NSW Growth Centres	3.153, 3.164
National Capital Planning Authority	3.163
Natural Disaster Relief	3.203, 3.327
Natural Resources Development and Management	3.204, 3.208-10
New Enterprise Incentive Scheme (NEIS)	3.244
Nominated Loan Funds	3.154
Non-Taxation Revenue	4.37
North Queensland Rainforest Labour Adjustment Package	3.245
Nuclear Science and Technology Organisation, Australian (ANSTO)	3.287, 3.289, 3.292
Nurse Education	3.97-8
Nursing Home Subsidies and Domiciliary Care Services	3.91, 3.103-6
Occupational Health and Safety Commission, National (NOHSC)	3.248
Office of Labour Market Assistance (OLMA)	3.245
Office of National Assessments	3.269
Office of Parliamentary Counsel	3.263
Office of the Supervising Scientist (OSS)	3.165
Other Economic Services	3.12
Other Individual Income Tax	4.26
Other Taxes, Fees and Fines	4.35
Outlays of the Public Sector—by Institutional Sector	6.8
—by Level of Government	6.8
—concept	7.5
Overseas Aid	3.275-8
Overseas Borrowings	5.10
Overseas Property Services	3.283
Overseas Students	3.72, 3.278
PAYE	4.12, 4.25
Papua New Guinea—Budget Support	3.277-8
Parks and Wildlife Service	3.178

Parliament House, New	3.33, 3.260-1
Parliament House Construction Authority	3.261
Parliamentary Departments	3.261
Patent, Trade Marks and Designs Office	3.256
Pathology	3.94-5
Pensioner Health Benefits (PHB)	3.100
Pensioner Housing Assistance	3.156
Pensioner Rebate	3.116, 4.47
Petroleum Products Freight Subsidy Scheme	3.204, 3.231-2
Pharmaceutical Services and Benefits	3.87, 3.89, 3.91, 3.99, 3.100-3
Pipeline Authority	3.165, 3.196
Police, Australian Federal (AFP)	3.267, 3.269
Pollution Abatement and Control	3.165
Portfolio Classification	7.9
Post-Graduate Research Awards	3.71
Prescribed Payments System	4.27
Prices Surveillance Authority	3.256
Primary Industries and Energy, Department of	3.36, 3.202, 3.217
Primary Industry Levies and Charges	4.36
Prime Minister and Cabinet, Department of	3.36, 3.41, 3.311
Prime Minister's Science Council	3.287, 3.294
Property Group, Australian (APG)	3.306, 3.311
Property Operating Expenses	7.11
Property Sales	3.306
Protective and Custodial Service	3.270
Provisional Tax Uplift Factor	4.19, 4.26
PSBR	6.19, 6.21
Public Debt Interest	3.14, 3.31, 3.330
Public Financial Enterprises	6.27
Public Hospitals	3.95-99
Public Sector—analysis of	6.6
—borrowing requirement (PSBR)	6.19
—definition	6.3
—financial assets	6.21, 6.26
—indebtedness	6.25
—liabilities	6.26
—outlays and revenue	6.8, 6.10
—size of	6.6
—trends in (transactions)	6.8
Public Trading Enterprises—general	6.4, 6.10, 6.14, 6.24
—PSBR	6.19
Publishing Service, Australian Government (AGPS)	3.311

Purchasing and Sales Group	3.303, 3.311
QANTAS	3.190
Quarantine and Inspection Services, Australian (AQIS)	3.202, 3.204, 3.208, 3.216
Rail Transport	3.194-5
Railways Commission, Australian National	3.194
Rehabilitation Service, Commonwealth (CRS)	3.129
Rent Assistance	3.115, 3.124, 3.137, 3.150
Repatriation Hospitals	3.97, 3.98
Research Council, Australian (ARC)	3.287, 3.289, 3.294, 3.295
Reserve Bank of Australia	4.39
Resource Assessment Commission	3.165
Retirement Benefits Office, Australian Government (AGRBO)	3.308
Retirement Income Measures	4.6
Revenue—General	4.24
—Longer Term Trends	4.41
—Measures	4.4, 4.46, 4.49
—Concept	7.5
Revenue of the Public Sector	6.8, 6.13
Road Transport	3.191-3
Royal Australian Mint	4.40
Royal Commission—Aboriginal Deaths in Custody	3.268
Royal Flying Doctor Service	3.109
Royalties—Petroleum	4.40
Running Costs	3.37
Rural Adjustment	3.201-2, 3.208, 3.216
Sales Tax—General	4.30
—Recycled Paper	4.21, 4.53
Schools	3.73-7
Science and Technology	3.286, 3.287, 3.294, 3.296
Sea Transport	3.196-7
Second Sydney Airport	3.181
Securities Commission, Australian (ASC)	3.255, 3.256
Security and Intelligence (incl ASIO)	3.269
Self-government for the ACT	3.306
Serum Laboratories, Commonwealth (CSL)	3.108, 3.110
Service Pension	3.127
Shipbuilding	3.200, 3.222
Sickness Benefit	3.136
Skills Training	3.241

Skillshare	3.241
Social Security and Welfare	3.10, 3.113
Social Security—Rebates	3.115, 3.121, 4.47
Social Security, Department of	3.37, 3.41, 3.145
Soil Conservation	3.206, 3.217
Sole Parents Pension	3.119, 3.132
Special Broadcasting Services (SBS)	3.170-2
Sport	3.177
Standards Association of Australia	3.257
Standards Commission, National	3.257
Statistical Services	3.305
Steel and Heavy Engineering	3.225
Student Assistance	3.77
Superannuation—General	3.301, 3.307
—Classification of PTE Transactions	7.10
Superannuation Funds Tax	4.6, 4.29
Supreme Court of the ACT	3.268
Surplus	5.3
Survey and Land Information Group, Australian (AUSLIG)	3.303, 3.311
Tasmanian Freight Equalisation Scheme	3.196
Tax File Number	3.115, 4.52
Tax Revenue	4.25, 4.42
Taxation Office, Australian (ATO)	3.304
Technical and Further Education (TAFE)	3.71
Telecom (Australian Telecommunications Corporation)	3.184, 3.187
Tertiary Education	3.61-71
Textiles, Clothing and Footwear (TCF)	3.221
Tourism Industry	3.227
Tourist Commission, Australian (ATC)	3.202, 3.205, 3.227
Trade Commission, Australian (AUSTRADE)	3.202, 3.228-9
Trade Practices	3.256
Trade Training	3.239
Trade Union Training Authority, Australian	3.248
Traineeship System, Australian (ATS)	3.240
Transport and Communications, Department of	3.37
Transport and Communication	3.11, 3.30, 3.181, 3.186
Transport and Communication Business Enterprises	4.39
Transport and Storage Group	3.311
Treasury Bonds	3.331
Treasury Notes	3.331
Treasury, Department of	3.37, 3.41, 3.304
Unemployment Benefit	3.119, 3.121, 3.135-7

United Nations Programs	3.281
Uranium Industry	3.205
Urban and Regional Development	3.162
User Charging in Common Services	3.301, 3.305
Veterans and Dependants	3.93, 3.95, 3.97, 3.104, 3.126
Veterans' Affairs, Department of	3.145
Veterans' Children Education Scheme (VCE)	3.81
Water Resources Development and Management	3.217
Waterfront and Shipping Reforms	3.182, 3.197
Wheat Board, Australian (AWB)	3.211
Withholding Tax	4.29
Womens Health Program	3.87, 3.110, 3.111
Wool Corporation, Australian (AWC)	3.211
Wool Tax	3.205, 3.211
Workplace Reform Program	3.247
World Heritage Listing	3.206, 3.209, 3.217
Young Homeless Allowance (YHA)	3.136, 3.138
Young People, Strategy for	3.115, 3.138
Youth Access Centres	3.250