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PREMIERS' CONFERENCE AND LOAN COUNCIL MEETING
30 JUNE - 1 JULY 1983

The heads of government of the Commonwealth of Australia and of the six states today reached agreement on important fiscal policy aspects of the Commonwealth Government's national economic recovery programme.

After two days of discussions in the Premiers' Conference and the Loan Council, the heads of government agreed that the Commonwealth Government has designed its macro-economic policies to promote national economic recovery. In particular, they agreed that significant fiscal stimulus to promote recovery, while avoiding excessive strain on financial markets, would be provided within a budget deficit of \$8.5 billion. They agreed that any deficit significantly above this figure would bring into question the durability of recovery through its possible effects in raising interest rates.

The heads of government agreed upon revenue-sharing arrangements that represent the current distribution of financial resources under the control and influence of the Premiers' Conference and Loan Council. The parties noted the severe budgetary environment for all governments, both Commonwealth and State. Within this environment, the substantial increase in the real value of transfers from the Commonwealth to the States would require reductions in other Commonwealth outlays or increases in Commonwealth revenues, or some combination of the two. The States argued, and the

Commonwealth accepted, that difficult measures along these lines were justified by the severity of the States' budgetary problems. The States agreed that in these circumstances the Commonwealth had gone as far as it reasonably could in meeting their claims, but stressed that increases in State taxes and charges could be necessary as their responsibility.

The States accepted that payment of a special revenue assistance grant of \$155.5 million in 1983-84, in recognition of the unusual severity of the States' own budgetary difficulties in 1983-84, would be a once-for-all transfer. All agreed that this additional \$155.5 million would be distributed among the States as in Table I attached and that it would not be counted in the base for determining tax sharing grants in 1984-85 or beyond.

The heads of government agreed on the revised proposals for Medicare as outlined by the Minister for Health in Premiers' Conference, including the basis for compensation payments to each of the States as outlined by the Minister, on the need for review of compensation arrangements before the end of 1984-85, and on guarantees on compensation payments until the end of financial year 1986-87. There will be further consultations with Queensland on the appropriateness of the compensation offered to that State.

The heads of government further agreed on Loan Council borrowing programs for 1983-84 on the basis set out in the final Commonwealth offer attached.

The heads of government also agreed on a Working Group of Commonwealth, State and Northern Territory Treasury officers to examine without commitment longer-term issues of the distribution of taxation powers between the Commonwealth and State governments and advise by end October 1983 on terms of reference for a review by February 1985 of the distribution of the tax sharing and identified health grants.

The heads of government welcomed the spirit of co-operation in which the Premiers' Conference and Loan Council had been held.

LOAN COUNCIL BORROWING PROGRAM - FINAL COMMONWEALTH OFFER

On the basis that the States agree to:

- . limit borrowings in 1983-84 by electricity authorities to no more than the estimates supplied by States to the Loan Council Secretariat;
- . no new projects being admitted to the infrastructure program;
- . a new money program of \$7,000 million for the Commonwealth;
- . a new money program for Commonwealth and Northern Territory larger non-electricity authorities of \$341.5 million;
- . overseas borrowings by the AWB in 1983-84 and subsequent years of not less than half of its annual net borrowing requirement;
- . borrowings by the AIDC and the CDB being exempted from Loan Council approval;
- . the resolutions circulated by the Commonwealth regarding specific allocations of loan proceeds in respect of borrowing programs for 1982-83, and the general principles by which allocations will be determined in future years;
- . approve, in principle, the possible issue of indexed bonds by the Commonwealth;

- . operations of CBAs being regularised in relation to the Financial Agreement as soon as possible in the light of a report by officers which would also examine questions relating to CBA borrowings on behalf of smaller authorities;
- . States be permitted to nominate funds from their Loan Council programs for public housing under CSHA terms, subject to them meeting their matching requirements under the Commonwealth/State Housing Agreement from other State funds pending further consideration of this matter.

The Commonwealth is now prepared to offer for 1983-84:

- . a State Government program of \$1469 million, an increase of \$96 million or 7 per cent on the 1982-83 program;
- . a program for State larger non-electricity authorities borrowing more than \$1.8 million a year of \$1202.6 million, an increase of \$157.8 million or 15.1 per cent on the 1982-83 program, including the special temporary and infrastructure additions as previously indicated;
- . an overseas borrowing ceiling of \$800 million, with the distribution to be mutually agreed by the States and States be free to allocate such borrowings between larger authorities, with no access being permitted to bond markets overseas pending the consideration of detailed proposals by the States and the ceiling being subject to a mid-year review in the light of developments in the external monetary situation and of progress by State authorities in filling their borrowing program;
- . the freeing from Loan Council control of terms, conditions and timing of domestic borrowings of all larger authorities.

The attached tables set out the final Commonwealth offer in detail.

TABLE I : TAX SHARING AND SPECIAL TEMPORARY REVENUE ASSISTANCE GRANTS

	1982-83			1983-84		
	\$m	\$m	% Inc	\$m	\$m	% Inc
NSW	2361.8	2585.8	9.5	47.1	2632.9	(11.5)
VIC	1743.4	1908.7	9.5	34.8	1943.5	(11.5)
QLD	1527.4	1700.0	11.3	31.0	1731.0	(13.3)
SA	864.1	946.0	9.5	17.2	963.2	(11.5)
WA	913.1	999.7	9.5	18.2	1017.9	(11.5)
TAS	362.8	397.2	9.5	7.2	404.4	(11.5)
TOTAL	7772.5	8537.4	9.8	155.5	8692.9	(11.8)

(a) This special temporary revenue assistance in 1983-84 to be a once only payment and not to be included in the tax sharing base for future years

(b) Estimate

TABLE II DISTRIBUTION OF PROGRAMS SUBJECT TO LOAN COUNCIL CONTROL

	Govt \$M	NON-ELECTRICITY			Total \$M	TOTAL LOAN COUNCIL PROGRAMS	
		Basic \$M	Special \$M	Infra' \$M		\$M	% change on 82/83
NSW	474.8	427.2	-	40.5	467.7	942.5	+13.0
VIC	369.1	349.0	-	6.0	355.0	724.1	+10.9(f)
QLD	194.8	237.0	-	17.0	254.0	448.8	+4.7(g)
SA	191.4	37.5	22.0 (c)	-	59.5	250.9	+18.5(h)
WA	135.9	43.8	-	-	43.8	179.7	-1.2(i)
TAS	103.0	2.6	20.0	-	22.6	125.6	+15.9
TOTAL	1469.0	1097.1	42.0	63.5	1202.6	2671.7	+10.5
	(a)	(b)		(d)	(e)		

FOOTNOTES:

- (a) An increase of 7 per cent.
- (b) An increase of 32 per cent.
- (c) Committed special addition for salvaging bushfire affected timber (SA).
- (d) One half of States' bids for new expenditure on previously approved infrastructure projects.
- (e) An increase of 15.1 per cent.
- (f) Victoria has a slightly lower growth rate than NSW due to completion of Wurdee Boluc and World Trade Centre infrastructure projects, and the fact that Victoria had a \$20 million temporary special addition in each of 1981/82 and 1982/83 as part of a \$110 million package of grants and loans.
- (g) Small net growth rate is explained by Queensland's large infrastructure allocation in 1982/83 (\$60m cf \$17m in 1983/84) and the fact that 1982/83 allocations included a temporary special addition for the Burdekin (\$7 million).
- (h) Growth rate affected by the once only temporary special addition of \$22 million (see footnote (c)).
- (i) Negative growth rate due to completion of Kwinana-Koolyanobbing rail project (\$13.7 million in temporary special additions in 1982-83) and the completion of two minor non-electricity infrastructure projects.

TABLE 111 - COMMONWEALTH PAYMENTS TO STATES AND LOAN COUNCIL BORROWING PROGRAMS SUBJECT TO APPROVAL (*)

	1981-82	1982-83 (est)		1983-84 (est)	
	\$m	\$m	% Inc	\$m	% Inc
New South Wales					
- total Recurrent	3496	3993	(14.2)	4485	(12.3)
- total capital (net)	799	946	(18.4)	1147	(21.2)
Total Payments (net)	4295	4939	(15.0)	5632	(14.0)
- authorities	377	390	(3.4)	468	(20.0)
Total	4672	5329	(14.1)	6100	(14.5)
Victoria					
- total Recurrent	2664	3032	(13.8)	3399	(12.1)
- total Capital (net)	613	706	(15.1)	822	(16.4)
Total Payments (net)	3277	3738	(14.1)	4221	(12.9)
- authorities	293	308	(5.3)	355	(15.3)
Total	3570	4046	(13.3)	4576	(13.1)
Queensland					
- total Recurrent	1914	2120	(10.8)	2429	(14.6)
- total Capital (net)	381	522	(37.0)	583	(11.7)
Total Payments (net)	2296	2642	(15.1)	3012	(14.0)
- authorities	163	247	(51.0)	254	(2.8)
Total	2459	2889	(17.5)	3266	(13.0)
South Australia					
- total Recurrent	1160	1334	(15.0)	1493	(11.9)
- total Capital (net)	246	333	(35.4)	365	(9.6)
Total Payments (net)	1406	1667	(18.6)	1858	(11.5)
- authorities	26	33	(27.5)	60	(81.8)
Total	1432	1700	(18.7)	1919	(12.9)
Western Australia					
- total Recurrent	1240	1371	(10.6)	1536	(12.0)
- total Capital (net)	252	299	(18.7)	364	(21.7)
Total Payments (net)	1492	1670	(11.9)	1900	(13.8)
- authorities	58	55	(-6.0)	44	(-20.0)
Total	1550	1725	(11.3)	1943	(12.6)
Tasmania					
- total Recurrent	452	510	(12.9)	571	(12.0)
- total Capital (net)	150	180	(20.2)	185	(2.8)
Total Payments (net)	601	689	(14.6)	757	(9.9)
- authorities	2	12	(505.0)	23	(91.7)
Total	603	701	(16.3)	779	(11.1)
Total Six States					
- total Recurrent	10925	12360	(13.1)	13914	(12.6)
- total Capital (net)	2441	2986	(22.3)	3467	(16.1)
Total Payments (net)	13367	15346	(14.8)	17381	(13.3)
- authorities	920	1045	(13.6)	1203	(15.1)
Total	14286	16391	(14.7)	18583	(13.4)

* Notes

1. Includes Special Temporary Revenue Assistance Grants in 1983-84 of \$155.5 million.
2. Includes larger non-electricity authorities only.
3. Assumes State Government Loan Council programs increase by 7.0 per cent in 1983-84 to \$1469 million and non-electricity authorities borrowing programs increase by 15.1 per cent in total (i.e. 8.4 per cent plus an additional \$70 million including a temporary special addition of \$20 million for Tasmania).
4. Figures for 1982-83 payments are latest estimates. 1983-84 figures are preliminary estimates only.
5. All figures exclude
 - . payments to the States in respect of Medicare in 1983-84.
 - . fodder subsidies and natural disaster relief in each year.
 - . Special budgetary assistance (\$19.5 million for Victoria and \$10.5 million for South Australia in 1982-83) in respect of bushfires.
6. All payments under the Community Employment Program (\$244 million in 1983-84) are included as payments for recurrent purposes.
7. Totals may not add due to rounding.