

## Chapter 7

# Tied Grants and Policy Reform in Public Hospitals and Schools

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### I Introduction

The specific purpose payment, or 'tied grant',<sup>1</sup> has been a long-standing and controversial aspect of Australian federalism. First appearing in the 1920s, use of the tied grant remained fairly contained until the Whitlam government substantially expanded their role and significance in fiscal federal relations during the 1970s.<sup>2</sup> Since that time, and in spite of shifting federal ideologies, the grants have evolved into a primary mechanism for facilitating Commonwealth policy interventions across a broad range of state-run services.<sup>3</sup> In 2011–12, tied grants are estimated to account for \$45.515 billion or 48 per cent of total Commonwealth

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1 A tied or earmarked grant is one that is provided on the condition that it is used only for a specific purpose. In Australia, tied grants can be attached with a range of conditions: policy conditions; expenditure conditions; input control conditions (for example matching or maintenance of effort requirements); reporting conditions; and conditions that require the federal government's funding contribution to be publicly acknowledged. The significance of tied grants is heightened in the Australian federal system due to the presence of extreme vertical fiscal imbalance, a distinguishing feature since 1942. See Vassiliki Koutsogeorgopoulou, 'Fiscal Relations Across Levels of Government in Australia' Economics Department Working Papers: Organisation for Economic Co-operation and Development (2007) 15; Daniel Bergvall, Claire Charbit, Dirk-Jan Kraan and Olaf Merk, 'Intergovernmental Transfers and Decentralised Public Spending' (2006) 5(4) *OECD Journal on Budgeting* 116; Neil Warren, 'Designing Intergovernmental Grants to Facilitate Policy Reform', Chapter 8 in this volume.

2 Alan Fenna, 'Commonwealth Fiscal Power and Australian Federalism' (2008) 31 *University of New South Wales Law Journal* 518. See also Russell Lloyd Mathews and Bhajan Grewal, 'Fiscal Federalism in Australia: From Keating to Whitlam', Centre for Strategic Economic Studies Working Paper 1 (1995); and Russell Lloyd Mathews and William Robert C Jay, *Federal Finance: Intergovernmental Financial Relations in Australia Since Federation* (Melbourne Thomas Nelson 1972).

3 See Robyn Hollander, 'Using Regulation to Effect Constitutional Change in Higher Education', Chapter 9 in this volume.

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