

1995

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

**STATES GRANTS (GENERAL PURPOSES) AMENDMENT BILL 1995**

EXPLANATORY MEMORANDUM

(Circulated by Authority of the Treasurer, the Hon Ralph Willis, MP)

## STATES GRANTS (GENERAL PURPOSES) AMENDMENT BILL 1995

### GENERAL OUTLINE

The purpose of this Bill is to give effect to the arrangements agreed at the Premiers' Conference on 11 April 1995 for the provision of general revenue assistance to the States and Territories in 1995-96. The new arrangements are largely implemented by the addition of a new schedule to the *States Grants (General Purposes) Act 1994*. Amendments to the Act also reflect the decision of the Premiers' Conference that the method of distributing arterial road grants will change in 1995-96, and that their level will be increased in line with the Consumer Price Index (CPI) and population growth in the same manner as financial assistance grants.

### General Revenue Grants

General revenue grants include financial assistance grants, arterial road funding and special revenue assistance.

At the 1994 Premiers' Conference meeting, the Commonwealth undertook to maintain the level of financial assistance grants (FAGs) to the States and Territories in real per capita terms for the three years from 1994-95 to 1996-97. The 1995 Premiers' Conference confirmed that FAGs in 1995-96 will increase in real per capita terms and that they will be distributed in 1995-96 on the basis of the relativities recommended in the Commonwealth Grants Commission's *Report on General Revenue Grant Relativities 1995 Update*.

It was agreed at the 1995 Premiers' Conference that special revenue assistance totalling \$486 million will be provided to selected States in 1995-96. (Of this amount, the ACT will receive \$49.1 million for transitional allowances and special fiscal needs in the Annual Appropriation Bill No 2 rather than in this Bill.) It was also agreed that arterial road grants are to be indexed from 1 July 1995 in line with CPI and population growth, and that in 1995-96, one third of arterial road grants will be distributed on the basis of the relativities underlying FAGs, with the remaining two thirds distributed in the same shares as in 1994-95.

The amount finally payable to the States and Territories will be determined in accordance with an index factor and a population factor. The index factor will be the sum of the CPI for the four quarters to March 1996 divided by the sum of the CPI for the four quarters to March 1995. This calculation will be based on the index numbers published in the March quarter 1996 CPI release by the Australian Bureau of Statistics. The population index factor is defined as the quotient of the population of the States and Territories as at 31 December 1995 and the population as at 31 December 1994.

### FINANCIAL IMPACT STATEMENT

The arrangements to be established by this Bill provide for the estimated payment to the States and Territories of about \$15.7 billion in 1995-96.

## ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Purposes) Amendment Bill 1995
the Act:	States Grants (General Purposes) Act 1994
State(s):	Includes the Northern Territory and the Australian Capital Territory
FAGs:	Financial Assistance Grants

## NOTES ON CLAUSES OF THE BILL

### Clause 1: Short title

Self explanatory.

### Clause 2: Commencement

Self explanatory.

### Clause 3: Schedule

Clause 3 amends the Act in accordance with the seven clauses contained in the schedule to the Bill. The first six clauses contained in the schedule are associated with amending the Act so that the relevant schedule for both the 1994-95 and 1995-96 years are appropriately applied. Clause 7 inserts a new Schedule 2 which provides all the entitlement details for each State as agreed at the 1995 Premiers' Conference for 1995-96.

## SCHEDULE

### AMENDMENTS OF THE STATES GRANTS (GENERAL PURPOSES) ACT 1994

#### NOTES ON CLAUSES

##### Clause 1: Section 3 of the Act—Application of the Act to a grant year

Section 3 of the Act provides for the application in 1994-95 of the range of matters specified in Schedule 1 which were decided by the 1994 Premiers' Conference for the 1994-95 financial year. The amendments to this section provide for the application of a new Schedule 2 which relates to the matters applicable to the 1995-96 financial year.

##### Clause 2: Section 10 of the Act—Arterial road grants

Section 10 of the Act provides that each State is entitled to additional funding by way of arterial roads grants as specified in the schedule. In 1994-95 these were fixed amounts for each State. As from 1 July 1995, these amount are to be indexed in line with the growth in FAGs.

The amendments to Section 10 specify that while each State in 1994-95 is entitled to the fixed amount as specified in Schedule 1, the 1995-96 entitlement will be fixed by the formula specified in Schedule 2.

##### Clause 3: Section 12 of the Act—Special revenue assistance

Section 12 as amended provides for the payment of additional financial assistance in the form of special revenue assistance according to the formula that was previously incorporated in Schedule 1 of the Act. That formula increases in real per capita terms the base amounts set out in the schedules that apply to the relevant financial years. This provides for the levels of special revenue assistance financed from the FAGs pool to move in line with adjustments to maintain FAGs in real per capita terms.

As the formula for maintaining payments in real per capita terms applies to payments in both schedules to the Act, it is proposed that the formula be incorporated in the Act rather than repeated in each of the schedules.

##### Clause 4: Transitional

The inclusion of the special revenue assistance payments formula in Section 12 of the Act rather than Schedule 1 requires that amounts paid under the Act prior to its amendment by this Bill be deemed as having been paid according to the amended section.

##### Clause 5: Schedule 1 of the Act (Heading)

The heading of Schedule 1 is being changed from "Grant year 1994-95" to "Grant year commencing 1 July 1994".

Clause 6: Clause 4 of Schedule 1 of the Act—Special revenue assistance

Clause 6 amends Clause 4 of Schedule 1 to the Act to delete the formula adjusting the base amounts of special revenue assistance in real per capita terms which is now incorporated in the amended Section 12 of the Act. The base amounts for special revenue assistance set out in amended Clause 4 are the same as those set out in the previous Clause 4 of Schedule 1. The level of special revenue assistance in 1994-95 is therefore unaffected by these amendments.

Clause 7

Clause 7 inserts Schedule 2 at the end of the Act. The new schedule relates to the matters decided at the 1995 Premiers' Conference.

**SCHEDULE 2**

**Grant year commencing 1 July 1995**

**Introduction**

The quantum of the FAGs pool in 1995-96 and the distribution of the pool among the States are to be determined in accordance with the formula set out in Section 9 of the Act, the "base assistance amount" provided in Clause 1 of Schedule 2 and the relativities factors provided in Clause 2 of Schedule 2. In brief:

The base assistance amount is increased by two factors to determine the total amount of FAGs in 1995-96:

- the quotient of the sum of quarterly consumer price index numbers for the year to the March quarter 1996 and the sum of the quarterly consumer price index numbers for the year to the March quarter 1995; and
- a population factor derived by dividing the estimated total population of the six States, the Australian Capital Territory and the Northern Territory as at 31 December 1995 by the estimated total population of the six States, the Australian Capital Territory and the Northern Territory as at 31 December 1994;

the "relativities factors" are applied to each State's population as at 31 December 1995 to arrive at a weighted population share; and

each State is then entitled to its weighted population share of the combined pool of FAGs and hospital funding grants.

## NOTES ON CLAUSES

### Clause 1: Interpretations

Clause 1 of Schedule 2 defines the terms used in the schedule.

The "base assistance amount" of \$14,076,153,668 is the amount of FAGs plus the amount of special revenue assistance in 1994-95 funded from the FAGs pool. This amount is then reduced by the amount of 1995-96 special revenue assistance that is to be funded from the 1995-96 FAGs pool (see the note on Clause 4 below).

### Clause 2: Relativities factors

Clause 2 lists the relativities factors for each State for 1995-96. These relativities factors were recommended by the Commonwealth Grants Commission and adopted by the 1995 Premiers' Conference.

### Clause 3: Arterial road grants

Clause 3 provides the formula which is to determine the total amount of arterial road grants in 1995-96 and each State's share of that total.

The total amount of arterial roads grants will be equal to \$350 million (the amount paid in 1994-95) increased by the rise in the consumer price index factor and the population factor. Both factors are the same as the factors used to calculate the increase in FAGs for 1995-96.

In accordance with the decision of the Premiers' Conference, one third of arterial road grants will be distributed according to the distribution underlying FAGs in 1995-96 — that is, the relativities factors weighted by population shares. The balance will be distributed on the same basis as that used in 1994-95.

### Clause 4: Special revenue assistance grants

Clause 4 lists the base amounts for the calculation of special revenue assistance that States will receive in 1995-96. The base amounts are to be increased in line with changes in the CPI and population growth in the same manner as FAGs are to be increased.

Special revenue assistance to be paid in 1995-96 will take the form of either transitional assistance or Medicare guarantee payments. The current estimates of total special revenue assistance to be paid in 1995-96 under this Bill are included in the table below. The Medicare guarantee payments of \$58.9 million shown as "Non Pool Funded" are not funded from the pool of FAGs and represent an additional cost to the Commonwealth. (Transitional allowances and special fiscal needs for the Australian Capital Territory are met from Appropriation Bill No. 2.)

**Special Revenue Assistance 1995-96 (\$m) (a)**

	Once-off Transitional Special Revenue Assistance		Medicare Guarantee Payments		Total
	Pool funded	Non Pool Funded	Pool funded	Non Pool Funded	
NSW	..	..	147.1	34.1	181.2
VIC	..	..	206.2	24.7	230.9
ACT	15.0	..	..	..	15.0
NT	10.0	..	..	..	10.0
Total	25.0	..	353.3	58.9	437.2

(a) The estimated amounts shown are indexed for CPI and population growth.

