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House of Representatives

States Grants (General Purposes) Bill 1989

Explanatory Memorandum

(Circulated by Authority of the Treasurer,
The Hon P.J. Keating MP)

STATES GRANTS (GENERAL PURPOSES) BILL 1989

GENERAL OUTLINE

The purpose of this Bill is to give effect to the arrangements agreed at the Premiers' Conference and Loan Council meeting held on 18 May 1989 to apply in 1989-90 for the provision of general purpose assistance - including general revenue and general purpose capital grants - to the States and Northern Territory. In large part, the provisions of the Bill parallel those of the States Grants (General Revenue) Act 1988 and the States (Works and Housing) Assistance Act 1988.

General Revenue Grants

General revenue grants include financial assistance grants and special revenue assistance. It was agreed at the 1989 Premiers' Conference that the total pool of financial assistance grants for the States in 1989-90 would be determined by deducting from the latest forward estimates (adjusted to reflect later estimates of recoupment of 90 per cent of additional payroll tax collected by the States from Commonwealth government business enterprises in respect of 1988-89):

- . \$550 million in savings; and
- . a further \$45 million to fund special revenue assistance to the Northern Territory.

Therefore, while the reduction in financial assistance grants totals \$595 million, the net reduction in general revenue grants is \$550 million. The pool of financial assistance grants (as in 1988-89) is to be adjusted to account for the difference between the actual outcome in the Consumer Price Index in the year to March 1990 and the forecast at the time of the Premiers' Conference.

The distribution of financial assistance grants is to be based on the updated per capita relativities determined by the Commonwealth Grants Commission and included in its 1989 Report. Under the States Grants (General Revenue) Act 1988 the per capita relativities applied to the pool of financial assistance grants and hospital funding grants, excluding the AIDS component of the hospital funding grants. In 1989-90, the total 'incentives' package, including the AIDS component, (currently estimated at around \$63 million), offset by adjustments involving penalties where States have not met pre-determined conditions set out in the hospital funding arrangements (currently estimated at around \$36 million), are excluded from the pool of funds to which the per capita relativities are applied.

In addition, each State's financial assistance grant will be reduced by 90 per cent of the additional revenue accruing to them as a result of the decision to remove exemptions for Commonwealth government business enterprises (GBEs) from State taxes and charges from 1989. This is consistent with the arrangements in 1988-89, when 90 per cent of the additional State revenue arising from the removal of payroll tax exemptions for certain Commonwealth GBEs from 1 July 1988 was recouped through a reduction in financial assistance grants. For 1989-90, exemptions from 'other' State taxes and charges (such as land tax and stamp duty) have also been removed for Telecom and Australia Post (from 1 July 1989) and OTC Limited (from 1 April 1989). The amount to be recouped in 1989-90 is currently estimated at around \$70 million.

At the same time, minor adjustments are to be made to 1989-90 financial assistance grants, to better align the amount of the 1988-89 payroll tax recoupment with actual tax payments. The net adjustment in aggregate is currently estimated at \$0.3 million.

As mentioned earlier, it was also agreed at the 1989 Premiers' Conference that special revenue assistance of \$45 million, funded from the pool of financial assistance grants, would be provided to the Northern Territory in 1989-90. As with financial assistance grants, this assistance is to be adjusted to account for the difference between the actual outcome in the Consumer Price Index in the year to March 1990 and the forecast at the time of the Premiers' Conference.

General Purpose Capital Grants

It was agreed at the 1989 Loan Council meeting that general purpose capital assistance to the States and Northern Territory in 1989-90 would be provided entirely by way of grants. The concessional loans for public housing that were provided under the States (Works and Housing) Assistance Act 1988 and previous legislation are to be replaced by additional grants to the States and the Northern Territory under the Commonwealth State Housing Agreement. Capital grants of \$310.5 million are to be provided in 1989-90, the same amount provided by way of grants in 1988-89. The distribution of the general purpose capital grants among the States and Northern Territory will be the same as in 1988-89.

Other Matters

Provision has been included to authorise the Treasurer, if necessary, to recover a debt outstanding in respect of the Commonwealth State Land Exchange Agreement through a reduction in the payment of assistance and to continue the arrangements for recovering State contributions for higher education superannuation.

FINANCIAL IMPACT STATEMENT

While the arrangements put forward in this Bill provide for the payment to the States of some \$13.1 billion, they also represent a reduction in Commonwealth outlays in 1989-90 by \$550 million compared with the forward estimates as estimated at the time of the 1989 Premiers' Conference/Loan Council meeting.

ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Purposes) Bill 1989
1988 General Revenue Act:	States Grants (General Revenue) Act 1988
1988 Works and Housing Act:	States (Works and Housing) Assistance Act 1988
Commission:	Commonwealth Grants Commission
Education Minister:	Minister for Employment, Education and Training
Health Minister:	Minister for Community Services and Health
State(s):	Includes the Northern Territory
Conference:	Premiers' Conference and Loan Council meeting held on 18 May 1989
GBEs:	Government Business Enterprises

NOTES ON CLAUSES

Clause 1: Short title

Self explanatory.

Clause 2: Commencement

Sub-clause (2) provides for the repeal of the 1988 General Revenue Act to occur on 31 December 1989, allowing for weekly payments being advanced in 1989-90 under Section 11 of the 1988 General Revenue Act to be continued until all necessary approvals under this Bill have been obtained.

Clause 3: Interpretation

Sub-clause (1) defines many of the terms used in subsequent clauses. With the following exceptions, most of these terms are self explanatory or their meaning is evident in the context of the clause to which they apply:

- . The "base assistance amount" is \$12,766,981,591. This figure has been calculated, accounting for, inter alia, the amount of general revenue assistance paid in 1988-89, an adjustment to account for the recoupment of 90 per cent of the payroll tax collected from Commonwealth GBES in a full year, and a real terms adjustment based on the forecast increase in the CPI at the time of the Premiers' Conference. There is a provision to make minor adjustments to the amount of \$12,766,981,591 so that account may be taken of any matters currently outstanding between State taxation authorities and GBES regarding their full year liability for payroll tax.
- . The "extra State revenue" is 90 per cent of the revenue raised by the State as a result of the decision to remove certain tax exemptions for OTC Limited as from 1 April 1989 and from Telecom and Australia Post as from 1 July 1989.
- . The "adjusted extra State revenue" is "extra State revenue" adjusted to account for the difference between 90 per cent of the latest estimates of payroll tax paid to the States by Commonwealth GBES in 1988-89 and the actual amount recouped (90 per cent of collections estimated prior to the end of 1988-89). The definition has been drafted to permit refinement of the estimates during 1989-90 as certain matters between State taxation authorities and GBES regarding 1988-89 liabilities are still outstanding.

- . The figure of 786.5 referred to in the definition of the "index estimate" is the sum of the index numbers as projected at the time of the Conference for the four quarters ending March 1990.
- . The "population factor" for each State represents the per capita relativities recommended by the Commission in its 1989 Report and adopted at the 1989 Premiers' Conference.

Sub-clause (2) provides that revisions to the index numbers not be taken into account after publication of the index number for the March 1990 quarter. Sub-clause (3) provides for adoption of a new reference base for the index numbers if one is introduced.

Clause 4: Determination of population of a State

This Clause provides for the Australian Statistician to make a determination before 10 June 1990 setting out the estimated populations of the States at 31 December 1989. Sub-clause (2) requires the Statistician, when making his determination, to consult the official Statistician of each State and to have regard to the latest available statistics in relation to population.

Clause 5: Financial assistance grants

This Clause provides that each State is entitled to financial assistance, in the form of financial assistance grants, of amounts determined by the formula. The formula indicates that a State's share of financial assistance grants is derived as the difference between:

- . the share that its adjusted population bears to the combined pools of financial assistance grants and hospital grants (excluding the 'incentives and penalties' package); and
- . the sum of its hospital funding grant in 1989-90 (excluding the 'incentives and penalties' package) and 90 per cent of its "adjusted extra State revenue".

The pool of financial assistance grants in 1989-90 is the "base assistance amount", adjusted up or down (by the "index factor") in line with any variation between the Conference-time forecast and the actual increase in the CPI in the year ending the March quarter 1990. This adjustment has the effect of maintaining the real value of the pool of grants at the level estimated at the time of the Conference (subject to minor adjustments to the base amount relating to payroll tax recoupment).

Under sub-clause 3(1), estimates of each State's "hospital grants" in 1989-90 are to be determined by the Health Minister by 10 June 1990, and the "adjusted extra State revenue" is to be determined by the Treasurer.

A State's share of adjusted total population depends upon the "population factors", that is the per capita relativities, specified under sub-clause 3(1). These factors are those assessed by the Commission in its 1989 Report as the appropriate population-weighted shares for distribution of the combined pool of general revenue assistance and hospital grants.

Clause 6: Special revenue assistance grant

This Clause provides that the Northern Territory is entitled to special revenue assistance of \$45 million. The Clause also provides that this amount is to be adjusted up or down (by the "index factor") in line with any variation between the Conference-time forecast and the actual increase in the CPI in the year ending the March quarter 1990. This adjustment has the effect of maintaining the real value of that assistance at the level estimated at the time of the Conference.

Clause 7: Reduction of general revenue grants to take account of certain advance payments

This Clause provides for the payments to the States for 1989-90 under Clauses 5 and 6 to be reduced to the extent that advance payments were made under Section 11 of the 1988 General Revenue Act. This section of the 1988 General Revenue Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1989 of an amount up to one half of the amount paid in 1988-89 to that State. The purpose of this provision is to ensure that the total revenue grant paid to each State in 1989-90 is not greater than the amount payable to it as determined by Clauses 5 and 6.

Clause 8: Grants to States in respect of capital expenditure

This Clause, in conjunction with the second column of the Schedule 1 to the Bill, provides for the payment to each State during 1989-90 of its share of the total grants of \$310,504,000 payable in that year. The grants are expressed as being 'in connection with expenditure of a capital nature' but there are no conditions imposed on the manner in which States may apply them (see also Clause 9).

Clause 9: States not bound to apply payments towards capital expenditure

This Clause clarifies the intention of the Bill that no conditions are imposed on the States with respect of the expenditure of capital grants, including that they are not necessarily required to be applied to capital expenditures.

Clause 10: Reduction of capital expenditure grants to take account of certain advance payments

This Clause provides for the payments to the States for 1989-90 under Clause 8 to be reduced to the extent that advance payments were made under Section 5 of the 1988 Works and Housing Act. This section of the 1988 Works and Housing Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1989 of an amount up to one half of the amount paid in 1988-89 to that State. The purpose of this provision is to ensure that the total capital grant paid to each State in 1989-90 is not greater than the amount payable to it as set out in the second column of the schedule to the Bill.

Clause 11: State contribution to costs of higher education superannuation

This Clause makes the payment of financial assistance to a State under the Bill conditional on the State making a payment to the Commonwealth before 31 May 1990 of an amount, determined by the Education Minister no later than 31 March 1990, equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in that State during 1989-90.

Sub-clause (1)(b) provides that if, by 31 May 1990, a State has failed to make full payment, the Treasurer will be able to recover the amount outstanding by offsetting that amount against payments due to the State from the Commonwealth under the Bill. Sub-clause (3) deems such an offset to have been paid by the State to meet the obligation under sub-clause (1)(a).

Sub-clause (2) details the basis upon which the Education Minister is to make his determination. The amount of the payment which each State is required to make to the Commonwealth is the sum of:

- . the State's estimated share of the total expenditure on higher education superannuation attributable to service prior to 1974, being in proportion to its relative contribution to the recurrent costs of higher education over the relevant period; and
- . the estimated amount by which expenditure attributable to service after 1981 is in excess of the expenditure which would otherwise have been necessary if the employer contribution had been limited to 14 per cent of higher education salaries, after account is taken of the Commonwealth's agreement to fund the 3 per cent superannuation productivity benefit under terms consistent with the provision of that benefit in the area of Commonwealth Government employment.

Clause 12: Payment under the Commonwealth State Land Exchange Agreement

This Clause makes the payment of financial assistance to New South Wales under the Bill conditional on New South Wales making a payment to the Commonwealth before 31 May 1990 of an amount, determined by the Minister for Administrative Services, equal to the balance owed by New South Wales as at 30 April 1989 from the exchange of lands between the Commonwealth and New South Wales under the Commonwealth State Land Exchange Agreement. New South Wales currently owes the Commonwealth around \$18.8 million.

Sub-clause (1) provides that if, by 31 May 1990, New South Wales has failed to make full payment, the Treasurer will be able to recover the amount outstanding by offsetting that amount against payments due to the State from the Commonwealth under the Bill. Sub-clause (2) deems such an offset to have been paid by that State to the Commonwealth in respect of the Commonwealth State Land Exchange Agreement.

Clause 13 Advance payments for grant year

This Clause provides for the Treasurer to make advance payments to a State during 1989-90 of amounts to which the State is expected to be entitled during the year. This allows regular instalments of grants to be paid until the time when the final amounts to which a State is entitled in 1989-90 can be calculated.

Clause 14: Advance payments for succeeding year

This Clause provides for the Treasurer to make advance payments to any State during the six months commencing on 1 July 1990 of amounts up to one-half of the amount payable in 1989-90. The Clause allows for the continuation of regular payments of general revenue or capital grant assistance to the States in 1990-91 pending the passage of new legislation to provide for grants during that year. Similar provisions were included in Section 11 of the 1988 General Revenue Act and Section 5 of the 1988 Works and Housing Act.

Clause 15: Treasurer may fix amounts, and times of payments, of financial assistance

This Clause, consistent with past arrangements for general purpose payments to the States, authorises the Treasurer to approve the amounts and timing of payments making up a State's entitlements for 1989-90. In general, grants are paid in equal weekly instalments.

Clause 16: Appropriation

Self explanatory.

Clause 17: Delegation by Treasurer

Sub-clause (1) empowers the Treasurer to delegate his powers under Clauses 13, 14 and 15 to an officer in the Department of the Treasury, and Sub-clause (2) provides for the nominated delegate to be subject to the Treasurer's directions. Similar power was granted under the 1988 General Revenue and Works and Housing Acts.

Clause 18: Determinations

Self explanatory.

Clause 19: Repeals

This Clause provides for the repeal of the 1988 General Revenue Act on 31 December 1989.

