

1991

The Parliament of the Commonwealth of Australia
House of Representatives

States Grants (General Purposes) Bill 1991
Explanatory Memorandum

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



STATES GRANTS (GENERAL PURPOSES) BILL 1991

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 31 May 1991 to apply in 1991-92 for the provision of general purpose assistance to the States and Northern Territory. In large part, the provisions of the Bill parallel those of the States Grants (General Purposes) Act 1990.

General Revenue Grants

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

At the 1991 Premiers' Conference and Loan Council Meeting the Commonwealth agreed to honour its 1990 Premiers' Conference undertaking to maintain the level of general revenue assistance to the States and Northern Territory in real terms for the three years 1991-92 to 1993-94 (subject to the condition that Australia not suffer a major deterioration in its economic circumstances).

As in previous years, the pool of financial assistance grants is to be adjusted to account for the difference between the actual outcome in the Consumer Price Index (CPI) in the year to March 1992 and the forecast at the time of the Premiers' Conference.

Financial assistance grants are to be distributed on the basis of the Grants Commission's updated relativities based on the five year review period included in the Commission's 1991 Report.

It was also agreed at the 1991 Premiers' Conference that special revenue assistance of \$40 million would be provided to the Northern Territory in 1991-92. This payment is funded from the pool maintained in real terms. As with financial assistance grants, the actual amount of this assistance is to be adjusted to account for the difference between the actual outcome in the year to March 1992 and the forecast at the time of the Premiers' Conference.

The Bill also provides for the payment to the States of part of the funds related to the decision of the October 1990 ~~Special Premiers Conference~~ that "Funds for local roads be untied and paid at the same real level as at present to local government and to State Governments where they are responsible for local roads, via general purpose grants." The bulk of these payments will be to local governments and were covered by an amendment to the Local Government (Financial Assistance) Act 1986 passed in the Autumn 1991 Session. This Bill covers the small portion which is to be paid to State governments.

General Purpose Capital Grants

It was agreed at the 1990 Loan Council meeting that general purpose capital assistance in the form of grants would be provided to the States and Northern Territory in 1991-92. These grants were to be at the same nominal amounts provided in 1990-91.

FINANCIAL IMPACT STATEMENT

The arrangements put forward in this Bill provide for the payment to the States of some \$13.7 billion.

ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Purposes) Bill 1991
1990 Act:	States Grants (General Purposes) Act 1990
Commission:	Commonwealth Grants Commission
Education Minister:	Minister for Employment, Education and Training
Health Minister:	Minister for Health, Housing and Community Services
State(s):	Includes the Northern Territory
Conference:	Premiers' Conference and Loan Council meeting held on 31 May 1991

NOTES ON CLAUSES

Clause 1: Short title

Self explanatory.

Clause 2: Commencement

Sub-clause (2) provides for the repeal of the 1990 Act to occur on 31 December 1991, allowing for weekly payments being advanced in 1991-92 under Section 14 of the 1990 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 \$13,381,200,733. This figure has been calculated, accounting for, inter alia, the amount of general revenue assistance paid in 1990-91, an adjustment to account for the recoupment of a full year effect of the transfer to the States of the debits tax base and a real terms adjustment based on the forecast increase in the CPI at the time of the Premiers' Conference.
- . The figure of 876.1 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 1992.
- . The "population factor" for each State represents the per capita relativities based upon a five year review period, prepared by the Commission in its 1991 Report, and which were adopted at the 1991 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 1992 quarter. Sub-clause (3) provides for adoption of a new reference base for the index numbers if one is introduced.

Clause 4: Hospital Grants

Financial assistance grants are distributed among the States and the Northern Territory according to relativities (or per capita shares) determined by the Commonwealth Grants Commission. These relativities are applied not just to financial assistance grants but to a pool of funds equal to financial assistance grants plus the larger part of the specific purpose payment under the hospital funding arrangements. Certain parts of the hospital funding arrangements are excluded from the relativities arrangements. This clause sets out the details of hospital

funding payments to each State which the Health Minister is required to determine. The amounts determined by the Health Minister ~~are used to calculate each State's share of both the joint pool and its share of financial assistance grants in accordance with the formula in Clause 6.~~

Clause 5: Determination of population of a State

This Clause provides for the Australian Statistician to make a determination before 10 June 1992 setting out the estimated populations of the States at 31 December 1991.

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 6: 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 its adjusted population weighted share of the combined pool of financial assistance grants and base hospital grants and its own share of the base hospital funding grant in 1991-92;

The pool of financial assistance grants in 1991-92 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 1992. 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.

Under Clause 4, estimates of each State's "hospital grants" in 1990-91 are to be determined by the Health Minister by 10 June 1992.

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 1991 Report as the appropriate population-weighted shares based upon a five year review period for distribution of the combined pool of general revenue assistance and hospital grants.

Clause 7: Identified road grants

This Clause provides for the payment to certain of the States of that part of Commonwealth funding for local roads (previously paid as a specific purpose payment under Australian Land Transport Development Act 1988) where the responsibility is being assumed by State rather than local government. The amount provided is the real terms equivalent, using estimates underlying the 30 June 1991 Premiers' Conference estimates, of funding provided in 1990/91 as specific purpose grants under the Australian Land Transport Development Act 1988 and not covered by related

provisions in the Local Government (Financial Assistance) Act 1986. As with financial assistance grants, the amounts specified are 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 1992. This adjustment has the effect of maintaining the real value of that assistance at the level estimated at the time of the Conference.

Clause 8: States not bound to apply payments towards expenditure on roads

In line with the decision of the Special Premiers' Conference, the purpose of this Clause is to clarify the Commonwealth's intention that no conditions are imposed on the States with respect of the expenditure of the funds, including that they are not necessarily required to be applied to expenditure on roads.

Clause 9: Special revenue assistance grant

This Clause provides that the Northern Territory is entitled to special revenue assistance of \$40 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 1992. This adjustment has the effect of maintaining the real value of that assistance at the level estimated at the time of the Conference.

Clause 10: Reduction of general revenue grants to take account of certain advance payments

This Clause provides for the payments to the States for 1991-92 under Clauses 6, 7 and 9 to be reduced to the extent that advance payments were made under Section 14 of the 1990 Act. This section of the 1990 Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1991 of an amount up to 55 per cent of the amount paid in 1990-91 to that State (and the total to all States to not exceed one half of the total paid in 1990-91). The purpose of this provision is to ensure that the total revenue grant paid to each State in 1991-92 is not greater than the amount payable to it as determined by Clauses 6, 7 and 9.

Clause 11: Grants to States in respect of capital expenditure

This Clause provides for the payment to each State during 1991-92 of its share of the total capital grants of \$296,786,000 payable in that year. This amount is the same as the amount paid in 1990-91. 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 12).

Clause 12: 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 13: Reduction of capital expenditure grants to take account of certain advance payments

This Clause provides for the payments to the States for 1991-92 under Clause 11 to be reduced to the extent that advance payments were made under Section 14 of the 1990 Act. This section of the 1990 Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1991 of an amount up to 55 per cent of the amount paid in 1990-91 to that State (and the total to all States to not exceed one half of the total paid in 1990-91). The purpose of this provision is to ensure that the total capital grant paid to each State in 1991-92 is not greater than the amount payable to it as set out in Clause 13.

Clause 14: 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 1992 of an amount, determined by the Education Minister no later than 31 March 1992, equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in that State during 1991-92.

Sub-clause (1)(b) provides that if, by 31 May 1992, 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 States 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 15: Advance Payments for grant year

This Clause provides for the Treasurer to make advance payments to a State during 1991-92 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 1991-92 can be calculated.

Clause 16: 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 1992 of amounts up to 55 per cent of the amount payable in 1991-92 (and the total paid to all States does not exceed one half of its account paid in 1991-92). The Clause allows for the continuation of regular payments of general revenue, special revenue assistance or capital grant assistance to the States in 1992-93 pending the passage of new legislation to provide for grants during that year. Similar provisions were included in Section 14 of the 1990 Act.

Clause 17: 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 1991-92. In general, grants are paid in equal weekly instalments.

Clause 18: Appropriation

Self explanatory.

Clause 19: Delegation by Treasurer

Sub-clause (1) empowers the Treasurer to delegate his powers under Clauses 13 14, 15, 16 and 17 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 1990 Act.

Clause 20: Determinations

Self explanatory.

Clause 21: Repeals

This Clause provides for the repeal of the 1990 Act on 31 December 1991.