

Arnold Bloch Leibler Library

1992

No: 153 of 1992

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

STATES GRANTS (GENERAL PURPOSES) BILL 1992

EXPLANATORY MEMORANDUM

(Circulated by Authority of the Treasurer,
The Hon John Dawkins, MP)



STATES GRANTS (GENERAL PURPOSES) BILL 1992

GENERAL OUTLINE

The purpose of this bill is to give effect to the arrangements agreed at the Premiers' Conference and Loan Council meeting of 12 June 1992 to apply in 1992-93 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 1991*.

General Revenue Grants

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

At the 1992 Premiers' Conference and Loan Council Meeting, the Commonwealth reaffirmed the undertaking made at the 1990 Premiers' Conference 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. The Commonwealth also agreed to a 'one-off' augmentation of \$166 million to the base level of financial assistance grants for 1992-93. These arrangements were endorsed by all parties at the Premiers' Conference.

The base level of financial assistance grants will be distributed on the basis of the Grants Commission's updated *per capita* relativities, in accordance with the terms of reference provided to the Commission in November 1991, and amended in line with supplementary calculations provided by the Commission in April 1992.

The Commonwealth's initial offer for augmentation was \$150 million. However, it was decided that States would receive the higher of their share based on either the use of the Commission's amended *per capita* relativities or on an equal *per capita* distribution. This resulted in the Commonwealth's revised offer of \$166 million.

It was also agreed that special revenue assistance of \$139 million will be paid to Victoria by way of compensation for the loss of the petroleum resource rent tax revenue following the Commonwealth's decision earlier this year not to share that revenue. This payment will be absorbed into the financial assistance grants base for 1993-94. It was further agreed that special revenue assistance of \$40 million will be provided to the Northern Territory in 1992-93.

As in previous years, the amount finally payable to the States and the Northern Territory will be adjusted to account for the difference between the actual outcome in the Consumer Price Index (CPI) in the year to March 1993 and the forecast at the time of the 1992 Premiers' Conference.

General Purpose Capital Grants

It was agreed at the 1992 Loan Council meeting that general purpose capital grants under the State Governments' Loan Council programs would be continued at the same level as in 1991-92, with \$253 million provided for the States and comparable general purpose capital assistance grants of \$43.8 million to the Northern Territory.

FINANCIAL IMPACT STATEMENT

The arrangements put forward in this Bill provide for the payment to the States of \$14.1 billion.

ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Purposes) Bill 1992
1991 Act:	States Grants (General Purposes) Act 1991
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 12 June 1992

NOTES ON CLAUSES

PART 1: PRELIMINARY

Clause 1: Short title

Self explanatory.

Clause 2: Commencement

Sub-clause (2) provides for the repeal of the 1991 Act to occur on 31 December 1992, allowing for weekly payments being advanced in 1992-93 under Section 16 of the 1991 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 \$13,431,789,209. This figure has been calculated, accounting for, inter alia, the amount of general revenue assistance paid in 1991-92 and a real term adjustment based on the forecast increase in the CPI at the time of the Conference.

The figure of 434.9 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 1993.

The "population factor" for each State represents the per capita relativities based upon the five year review period, prepared by the Commission in its 1992 Update Report but subsequently amended in line with supplementary calculations provided by the Commission in April 1992, and which were adopted at the Conference. The supplementary calculations reflect an alternative treatment of State stamp duty on marketable securities and conveyancing in the case of corporate reorganisations which the Commonwealth considers would remove a disincentive in the Commission's current methodology for States to facilitate *bona fide* corporate reconstructions which offer significant potential efficiency gains.

Sub-clause (2) provides that revisions to the index numbers will be disregarded after publication of the index number for the March 1993 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 Commission. These relativities are applied not only 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 1993 setting out the estimated populations of the States at 31 December 1992. 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.

PART 2: GRANTS TO THE STATES AND THE NORTHERN TERRITORY

Clause 6: Financial assistance grants

This Clause provides that each State is entitled to financial assistance of amounts determined by formula. The amount payable to each State is the sum of amounts calculated from formula in Sub-clauses (1) and (2).

Sub-clause 6(1)

Sub-clause 6(1) determines that part of financial assistance grants included in the Commonwealth's offer at the 1990 Premiers' Conference to provide the same real level of financial assistance grants for three years. This is the greater part of financial assistance grants payments and provides for a payment of around \$13.4 billion.

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 1992-93. Under Clause 4, estimates of each State's "hospital grants" in 1992-93 are to be determined by the Health Minister by 10 June 1993.

The pool of financial assistance grants in 1992-93 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 1993. 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.

It is the total amount payable under this Sub-clause which determines the base for the calculation of the forward estimates of financial assistance grants .

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 a supplementary calculation to its 1992 Update 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.

Sub-clause 6(2)

Sub-clause 6(2) determines the payment of the supplementary financial assistance grants to each State; that is, that part of the Commonwealth offer at the Conference over and above maintenance of the same real level of payment of general revenue assistance. The amount involved is estimated at around \$166 million. The Commonwealth offer of this amount was on a 'one-off' basis and will not be built into the base level of funding in future financial years.

The formula provides for an amount of \$150 million (adjusted up or down in line with any variation between the Conference time forecast and the actual increase in the CPI in the year ending the March quarter 1993). Each State then receives the higher of:

its share of that amount if the whole supplementary amount had been included with that distributed according to the formula in Sub-clause 6(2) (paragraph (a)); or

its share of that amount if the whole supplementary amount were to be distributed on the basis of equal per capita (paragraph (b)).

In practice, paragraph (b) will apply to New South Wales and Victoria while paragraph (a) will apply to the other States and the Northern Territory.

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 (which prior to 1991-92 were paid as a specific purpose payment under the *Australian Land Transport Development Act 1988*) where the responsibility remains with the State rather than local government. The amount being provided is the same as that provided to State Governments in 1991-92 indexed in line with the corresponding payments to local government bodies under the *Local Government (Financial Assistance) Act 1986*. As with financial assistance grants, the amounts specified are to be adjusted (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 1993. This adjustment has the effect of maintaining the real value of that assistance at the level estimated at the time of the Conference.

Since 1991-92, it has been agreed that the amount paid to Tasmania and part of the funds paid to the Northern Territory under the 1991 Act will, as from 1992-93, be paid under the *Local Government (Financial Assistance) Act*. The amount of the transfer in the case of the Northern Territory is being negotiated with the Northern Territory Government and for the purposes of the Budget estimates was assumed to be around \$4 million. Sub-clause 7(2) will ensure that the amount that is added to payments to Northern Territory local government bodies by virtue of Sub-section 10A(2B) of the *Local Government (Financial Assistance) Act* is matched by a reduction in the amount paid to the Northern Territory under this Bill.

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

The purpose of this Clause is to clarify the Commonwealth's intention that no conditions are imposed on the States with respect to 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 - Northern Territory

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 (by the "index factor") in line with any variations between the Conference time forecast and the actual increase in the CPI in the year ending the March quarter 1993. 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: Special revenue assistance grant relating to changes in the petroleum resources rent tax arrangements

Clause 10 provides that Victoria is entitled to special revenue assistance of \$139 million. The Clause also provides that this amount is to be adjusted up or down (by the "index factor") in line with any variations between the Conference time forecast and the actual increase in the CPI in the year ending the March quarter 1993. This adjustment has the effect of maintaining the real value of that assistance at the level estimated at the time of the Conference.

Clause 11: Reduction of general revenue grants to take account of certain advance payments

This Clause provides for the payments to the States for 1992-93 under Clauses 6, 7 and 9 to be reduced to the extent that advance payments were made under Section 16 of the 1991 Act. This Section of the 1991 Act empowered the Treasurer to make advance payments to any State during the six months commencing 1 July 1992 of an amount up to 55 per cent of the amount paid in 1991-92 to that State (and the total to all States to not exceed one half of the total paid in 1991-92). The purpose of this provision is to ensure that the total revenue grant paid to each State in 1992-93 is not greater than the amount payable to it as determined by Clauses 6, 7 and 9.

Clause 12: Grants to States in respect of capital expenditure

This Clause provides for the payment to each State during 1992-93 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 1991-92. 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.

Clause 13: 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 14: Reduction of capital expenditure grants to take account of certain advance payments

This Clause provides for the payments to the States for 1992-93 under Clause 12 to be reduced to the extent that advance payments were made under Section 16 of the 1991 Act. This Section of the 1991 Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1992 of an amount up to 55 per cent of the amount paid in 1991-92 to that State (and the total to all States to not exceed one half of the total paid in 1991-92). The purpose of this provision is to ensure that the total capital grant paid to each State in 1992-93 is not greater than the amount payable to it as set out in Clause 12.

Clause 15: 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 1993 of an amount, determined by the Education Minister no later than 31 March 1993, equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in that State during 1992-93.

Sub-Clause (1)(b) provides that if, by 31 May 1993, 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's 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.

PART 3: MISCELLANEOUS

Clause 16: Advance payments for grant year

This Clause provides for the Treasurer to make advance payments to a State during 1992-93 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 1992-93 can be calculated.

Clause 17: 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 1993 of amounts up to 55 per cent of the amount payable in 1992-93 (with the total paid to all States not to exceed one half of the amount paid in 1992-93). The Clause allows for the continuation of regular payments of general revenue or capital expenditure grants to the States in 1993-94 pending the passage of new legislation to provide for grants during that year. Similar provisions were included in Section 16 of the 1991 Act.

Clause 18: 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 1992-93. In general, grants are paid in equal weekly instalments.

Clause 19: Appropriation

Self explanatory.

Clause 20: Delegation by Treasurer

Sub-clause (1) empowers the Treasurer to delegate his powers under Clauses 14, 15, 16, 17 and 18 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 1991 Act.

Clause 21: Determinations

Self explanatory.

Clause 22: Repeals

This Clause provides for the repeal of the 1991 Act on 31 December 1992.

