

1993

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

STATES GRANTS (GENERAL PURPOSES) BILL 1993

EXPLANATORY MEMORANDUM

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



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STATES GRANTS (GENERAL PURPOSES) BILL 1993

GENERAL OUTLINE

The purpose of this Bill is to give effect to the arrangements agreed at the Premiers' Conference and Loan Council meeting of 5 July 1993 to apply in 1993-94 for the provision of general purpose assistance to the States and Territories. In large part, the provisions of the Bill parallel those of the *States Grants (General Purposes) Act 1992*.

General Revenue Grants

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

At the 1993 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 base level of financial assistance grants will be distributed on the basis of the Commonwealth Grants Commission's Medicare adjusted relativities including an alternative treatment for corporate reconstructions from the *Report on General Revenue Grants Relativities 1993*. The reference to this relativity is *Alternative calculation No 25, Commonwealth Grants Commission Working Papers, 1987-88 to 1991-92, Vol 4*.

It was agreed that special revenue assistance of \$30 million will be provided to the Northern Territory in 1993-94 and \$20 million provided to the ACT in 1993-94. (The ACT will receive an additional \$20 million special revenue grants funded by the Commonwealth, together with \$64 million for transitional allowances and special fiscal needs. These latter amounts are included in the Annual Appropriation rather than this Bill.)

As in previous years, the amount finally payable to the States and Territories will be adjusted to account for the difference between the actual outcome in the Consumer Price Index (CPI) in the year to the March quarter 1994 and the forecast at the time of the 1993 Premiers' Conference.

General Purpose Capital Grants

It was agreed at the 1993 Loan Council meeting that general purpose capital grants under the State Governments' Loan Council programs would be continued at the same level as in 1992-93, with \$253 million provided for the States and comparable general purpose capital assistance grants of \$43.8 million to the Northern Territory and \$33.5 million to the ACT.

FINANCIAL IMPACT STATEMENT

The arrangements put forward in this Bill provide for the payment to the States of \$14.7 billion.

ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Purposes) Bill 1993
1992 Act:	States Grants (General Purposes) Act 1992
Commission:	Commonwealth Grants Commission
Education Minister:	Minister for Employment, Education and Training
Health Minister:	Minister for Health, Housing and Community Services
State(s):	Includes Northern Territory and Australian Capital Territory
Conference:	Premiers' Conference and Loan Council meeting held on 5 July 1993

NOTES ON CLAUSES

PART 1: PRELIMINARY

Clause 1: Short title

Self explanatory.

Clause 2: Commencement

Sub-clause (2) provides for the repeal of the 1992 Act to occur on 31 December 1993, allowing for weekly payments being advanced in 1993-94 under Section 17 of the 1992 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 \$13,926,118,043. This figure has been calculated, accounting for, inter alia, the amount of general revenue assistance paid in 1992-93, plus the State-like funding component of the 1992-93 general revenue grant paid to the ACT, and a real term adjustment based on the forecast increase in the CPI at the time of the Conference.

- The figure of 443.8 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 1994.

The "population factor" for each State represents Medicare adjusted relativities from the Commission's Report on General Revenue Grant Relativities 1993, *Alternative Calculation No. 25, Commonwealth Grants Commission Working Papers, 1987-88 to 1991-92, Vol 4.*

In a change from the 1992 Act and earlier Acts, State has been defined to include the Australian Capital Territory.

Sub-clause (2) provides that revisions to the index numbers will be disregarded after publication of the index number for the March quarter 1994. Sub-clause (3) provides for adoption of a new reference base for the index numbers if one is introduced.

Clause 4: Hospital grant

Financial assistance grants are distributed among the States according to relativities 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 1994 setting out the estimated populations of the States at 31 December 1993. 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

Clause 6: Financial assistance grants

This Clause provides that each State is entitled to financial assistance of amounts fixed by formula which includes the base assistance amount, any change in the CPI outcome from that forecasted by Treasury in July 1993, the population of the State, the relativities calculated by the Grants Commission and the amount of Hospital Funding Grants.

Sub-clause 6 (1) determines that part of financial assistance grants included in the Commonwealth's offer at the 1993 Premiers' Conference in fulfilment of the commitments made in 1990 to provide the same real level of financial assistance grants for three years. It provides for a payment of around \$13.9 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 1993-94. Under Clause 4, estimates of each State's "hospital grants" in 1993-94 are to be determined by the Health Minister by 10 June 1994.

The pool of financial assistance grants in 1993-94 is 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.

A State's share of adjusted total population depends upon the "population factors", that is the Medicare adjusted relativities, specified under Sub-clause 3(1).

Sub-clause 6(2): Transfer of nurse education funding from the States.

Sub clause 6(2) provides that each State's share of financial assistance grants as provided for under sub-clause 6(1) be reduced by an amount determined by the Education Minister as a result of the transfer of funding for nursing education from the States to the Commonwealth.

Full responsibility for the funding of basic nurse education will be transferred from the States from 1 January 1994. Under the terms of the Nurse Transfer Agreement the States pay approximately 75 per cent of recurrent costs and all capital costs associated with basic nurse education for an agreed number of places for the duration of the transfer period between 1985 and 1993. The Commonwealth contributes approximately 25 per cent of the cost of places under the *States Grants (Nurse Education Transfer Assistance) Act 1985*.

When the transfer is complete, the full cost of basic nurse education will be funded through the *Higher Education Funding Act* (HEF Act) on the same basis as other higher education places, the necessary amendments to the HEF Act will be introduced later in this session. This clause allows for the necessary offset to Commonwealth/State financial arrangements, with the amount to be determined by the Education Minister being dependent on the additional amounts paid under the HEF Act in the period from 1 January 1994 to 30 June 1994.

Clause 7: Identified arterial road grants

This clause provides that each State is entitled to financial assistance, in the form of untied grants for arterial roads grants. These amounts are not to be indexed.

From 1 January 1994 the Commonwealth will untie \$350 million of Commonwealth road funding. These will replace funding previously paid as a specific purpose payments under the *Australian Land Transport Development Act 1988*. In 1993-94 and 1994-95 payments will be \$175 million and \$350 million respectively, distributed on the average of the arterial roads allocation for the three years to 1992 (inclusive). In 1995-96 and 1996-97 the aggregate level of funds will be indexed to the movements in financial assistance grants. In 1997-98 the funds will be absorbed into financial assistance grants.

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 - Australian Capital Territory

This Clause provides that the Australian Capital Territory is entitled to special revenue assistance of \$20 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 1994. 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 - Northern Territory

This Clause provides that the Northern Territory is entitled to special revenue assistance of \$30 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 1994. 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: Special revenue assistance grant relating to additional Medicare agreement guarantees - New South Wales

This Clause provides for the payment of \$135,762,074 to New South Wales as payment for the Medicare guarantee payments agreed to at the Conference. The final amount will be adjusted to reflect the difference between the actual change in the CPI and the estimate assumed at the time of the Conference.

As part of the recently renegotiated Medicare agreements with New South Wales, the Commonwealth provided guarantees as to the benefit New South Wales would obtain from the use of Medicare adjusted relativities to distribute financial assistance grants among the States. The Medicare guarantee payments satisfy the obligations arising from the guarantees.

Clause 12: Special revenue assistance grant relating to additional Medicare agreement guarantees - Victoria

This Clause provides for the payment of \$190,297,095 to Victoria as payment for the Medicare guarantee payments agreed to at the Conference. The final amount will be adjusted to reflect the difference between the actual change in the CPI and the estimate assumed at the time of the Conference.

As part of the recently renegotiated Medicare agreements with Victoria, the Commonwealth provided guarantees as to the benefit Victoria would obtain from the use of Medicare adjusted relativities to distribute financial assistance grants among the States. The Medicare guarantee payments satisfy the obligations arising from the guarantees.

Clause 13: Reduction of general revenue grants to States (other than the Australian Capital Territory) to take account of certain advance payments

This Clause provides for the payments to the States for 1993-94 under Clauses 6, 7, 10, 11 and 12 are to be reduced to the extent that advance payments were made under Section 17 of the 1992 Act. This Section of the 1992 Act empowered the Treasurer to make advance payments to any State during the six months commencing 1 July 1993 of an amount up to 55 per cent of the amount paid in 1992-93 to that State (and the total to all States to not exceed one half of the total paid in 1992-93). The purpose of this provision is to ensure that the total revenue grant paid to each State in 1993-94 is not greater than the amount payable to it as determined by Clauses 6, 7, 10, 11 and 12.

Clause 14: Reduction of general revenue grants to the Australian Capital Territory to take account of certain advance payments

This Clause provides for the payments to the ACT for 1993-94 under Clause 6, to be reduced to the extent that the ACT receives payments for the same purpose from either the *Supply Act (No.2) 1993-94* or the *Appropriation Act (No. 2) 1993-94*. The purpose of this provision is to ensure that the total revenue grant paid to the ACT in 1993-94 is not greater than the amount payable to it as determined by Clause 6. Inclusion of payments to the ACT in the Supply Act was necessary to ensure a continuation of payments to the ACT from 1 July until the passage of this Bill through Parliament is completed.

Clause 15: Grants to States in respect of capital expenditure

This Clause provides for the payment to each State during 1993-94 of its share of the total capital grants of \$330,307,000 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.

Clause 16: 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 17: Reduction of capital expenditure grants to States (other than the Australian Capital Territory) to take account of certain advance payments

This Clause provides for the payments to the States for 1993-94 under Clause 15 to be reduced to the extent that advance payments were made under Section 17 of the 1992 Act. This Section of the 1992 Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1993 of an amount up to 55 per cent of the amount paid in 1992-93 to that State (and the total to all States to not exceed one half of the total paid in 1992-93). The purpose of this provision is to ensure that the total capital grant paid to each State in 1993-94 is not greater than the amount payable to it as set out in Clause 15.

Clause 18: Reduction of capital expenditure grants to the Australian Capital Territory to take account of certain advance payments

This Clause provides for the payments to the ACT for 1993-94 under Clause 15, to be reduced to the extent that the ACT receives payments for the same purpose from either the *Supply Act (No.2) 1993-94* or the *Appropriation Act (No. 2) 1993-94*. The purpose of this provision is to ensure that the total capital grant paid to the ACT in 1993-94 is not greater than the amount payable to it as determined by Clause 15. Inclusion of payments to the ACT in the Supply Act was necessary to ensure a continuation of

payments to the ACT from 1 July until the passage of this Bill through Parliament is completed.

Clause 19: 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 1994 of an amount, determined by the Education Minister no later than 31 March 1994, equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in that State during 1993-94.

Sub-clause (2) provides that if, by 31 May 1994, 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 (4) deems such an offset to have been paid by the State to meet the obligation under Sub-clause (1).

Sub-clause (3) 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.

Clause 20: Higher education funding condition

Section 25A of the *Higher Education Funding Act* 1988 provides for grants to be made to higher education institutions for financial support for student organisations in circumstances where the Education Minister is satisfied that a State, by its actions, has affected the ability of institutions to provide such support as they see fit.

Sub-clause (1) makes it a condition of financial assistance to a State under this Act that it reimburse the Commonwealth for any grants to the State's higher education institutions made under section 25A of the *Higher Education Funding Act* 1988. Sub-clause (2) provides that if this condition is not fulfilled the Treasurer may reduce the amount of payments to the States under this Act by the amount not reimbursed. Sub-clause (3) deems such an offset to have been paid by the State to meet the obligation under Sub-clause (1).

PART 3: MISCELLANEOUS

Clause 21: Advance payments for grant year

This Clause provides for the Treasurer to make advance payments to a State during 1993-94 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 1993-94 can be calculated.

Clause 22: 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 1994 of amounts up to 55 per cent of the amount payable in 1993-94 (with the total paid to all States not to exceed one half of the amount paid in 1993-94). The Clause allows for the continuation of regular payments of general revenue or capital expenditure grants to the States in 1994-95 pending the passage of new legislation to provide for grants during that year. Similar provisions were included in Section 17 of the 1992 Act.

Clause 23: 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 1993-94. In general, grants are paid in equal weekly instalments.

Clause 24: Appropriation

Self explanatory.

Clause 25: Delegation by Treasurer

Sub-clause (1) empowers the Treasurer to delegate his powers under Clauses 17,18,19,21,22 and 23 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 1992 Act.

Clause 26: Determinations

Self explanatory.

Clause 27: Repeal

This Clause provides for the repeal of the 1992 Act on 31 December 1993.

