

1994

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

STATES GRANTS (GENERAL PURPOSES) BILL 1994

EXPLANATORY MEMORANDUM

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



STATES GRANTS (GENERAL PURPOSES) BILL 1994

GENERAL OUTLINE

The purpose of this Bill is to give effect to the arrangements agreed at the Premiers' Conference and Loan Council meeting on 25 March 1994 to apply in 1994-95 for the provision of general purpose assistance to the States and Territories. In large part, the arrangements implemented by the provisions of the Bill are the same as those established by the *States Grants (General Purposes) Act 1993*. The structure of the Bill differs from that Act since those parameters that are limited in their effect to the 1994-95 financial year are contained within a schedule to the Bill.

General Revenue Grants

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

At the 1994 Premiers' Conference and Loan Council meeting, the Commonwealth undertook to maintain the level of financial assistance grants to the States and Territories in real per capita terms for the three years from 1994-95 to 1996-97.

The base level of financial assistance grants in 1994-95 will be distributed on the basis of the relativities recommended in the Commonwealth Grants Commission's *Report on General Revenue Grant Relativities 1994 Update*.

It was agreed at the 1994 Premiers' Conference that special revenue assistance of \$585 million will be provided to the States in 1994-95. (Of this amount the ACT will receive \$65.8 million for transitional allowances and special fiscal needs in the Annual Appropriation rather than in this Bill.)

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 four quarters to March 1995 divided by the sum of the CPI for four quarters to March 1994. This calculation will be based on the CPI index numbers published in the March quarter 1995 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 1994 and the population as at 31 December 1993.

FINANCIAL IMPACT STATEMENT

The arrangements to be established by this Bill provide for the payment to the States and Territories of around \$15 billion in 1994-95.

ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Purposes) Bill 1994
1993 Act:	States Grants (General Purposes) Act 1993
Commission:	Commonwealth Grants Commission
Education Minister:	Minister for Employment, Education and Training
Health Minister:	Minister for Human Services and Health
State(s):	Includes Northern Territory and Australian Capital Territory
Conference:	Premiers' Conference and Loan Council meeting held on 25 March 1994

NOTES ON CLAUSES

PART 1: PRELIMINARY

Clause 1: Short title

Self explanatory.

Clause 2: Commencement

Self explanatory.

Clause 3: Application of Act to 1994-95 grant year

Schedule 1 to the Act sets out a range of matters which were decided by the Premiers' Conference but will apply only for the 1994-95 financial year. These matters are likely to be varied on an annual basis. They include the definition of the base assistance amount, the relativities factor used as the basis of interstate distribution of base assistance grants, amounts of arterial road grants and the base amount for special revenue assistance. Any reference in the Act to the applicable Schedule is, by virtue of this Clause, a reference to Schedule 1.

Clause 4: Interpretation

Sub-clause (1) defines the terms used in subsequent clauses.

The "index number" for the grant year is the sum of the CPI index numbers for the four quarters to March 1995 while the "index number" for the previous year is the sum of the CPI index numbers for the four quarters to March 1994. The data for this calculation is to be the CPI index published in the March quarter 1995 release by the Australian Bureau of Statistics.

The "relativities factor" for each State is that recommended in the Commission's *Report on General Revenue Grant Relativities 1994 Update*.

Sub-clause (2) provides that revisions to the index numbers will be disregarded after publication of the CPI result for the March quarter 1995 which is the last of the eight quarters used in the calculation of the index factor.

Clause 5: Hospital grants

Financial assistance grants are distributed among the States in accordance with relativities recommended by the Commission. These relativities are applied to a pool of funds equal to financial assistance grants plus a component of the specific purpose payments which the Commonwealth makes to the States and Territories under agreed arrangements for the funding of hospitals. Certain parts of the hospital funding arrangements are excluded from this pool. Those parts of these grants which are included in the calculation are known as unquarantined hospital funding grants.

Clause 5 sets out the details of hospital funding payments to each State which are determined by the Health Minister. The amounts determined by the Health Minister enter into the calculation of each State's share of the pool of financial assistance grants and hospital grants in accordance with the formula in Clause 9.

Clause 6: Index factor

Clause 6 defines the index factor as the sum of the index numbers for the four quarters to March 1995 divided by the sum of the index numbers for the four quarters to March 1994. This factor is to be applied to the base amount of financial assistance grants and special revenue assistance so that in total they are maintained in the same real terms as in 1993-94.

Clause 7: Population factor

Clause 7 defines the population factor as the quotient of the total estimated population as at 31 December 1994 and the total population as at 31 December 1993. This factor is applied to the base amount of financial assistance grants and special revenue assistance so that they are maintained in the same per capita terms as in 1993-94.

Clause 8: Determination of population of a State

This Clause provides for the Australian Statistician to make a determination before 10 June 1995 setting out the estimated populations of the States at 31 December 1994 and 31 December 1993. The determinations made under this Clause will serve two purposes. First, they will be used to determine the population factor and hence the total of financial assistance grants. Secondly, the 31 December 1994 determination will be used as a factor in the distribution of the grants among the States.

Sub-clause (3) 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

Division 1 - General revenue grants

Clause 9: Financial assistance grants

Clause 9 provides that each State is entitled to financial assistance which will be determined in accordance with a formula.

The formula set out in Clause 9 will be used to calculate the total amount of financial assistance grants and each State's share of the total. The total is set by reference to the base assistance amount, the index factor and the population factor. It is anticipated that financial assistance grants will be around \$14,065 million for 1994-95.

The "base assistance amount" will be adjusted by the "index factor" (in line with the change in CPI between the year to March 1994 and the year to March 1995) and the population factor (in line with any change in the population between 31 December 1993

and 31 December 1994). The purpose of this adjustment is to maintain payments in real per capita terms.

Each State's share of total financial assistance grants is set by reference to the relativities calculated by the Commission, the particular State's population and the amount of unquarantined hospital funding grants paid to that State. Specifically, a State's share is the difference between its adjusted population weighted share of the combined pool of financial assistance grants and unquarantined hospital funding grants and its own share of the unquarantined hospital funding grant in 1994-95. As noted above, in respect of Clause 5, estimates of each State's "hospital grants" in 1994-95 are to be determined by the Health Minister by 10 June 1995.

A State's share of adjusted total population depends upon the "relativities factor", calculated by the Commission. The 'relativities factor' for each State is specified in Clause 2 of Schedule 1.

Clause 10: Arterial road grants

This clause provides that each State is entitled to financial assistance additional to its financial assistance grants as specified in Schedule 1.

In 1994-95 the Commonwealth will provide \$350 million of arterial road grants. These funds will be 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. These payments replace funding provided through specific purpose payments under the *Australian Land Transport Development Act 1988* until 31 December 1993.

Clause 11: States not bound to apply payments towards expenditure on roads

Clause 11 clarifies the Commonwealth's intention that no conditions are imposed on the States in connection with arterial road grants.

Clause 12: Special revenue assistance grant

Special revenue assistance paid in accordance with this Bill will take the form of either transitional assistance or as Medicare guarantee payments. The amounts to be paid to particular States are determined by the Premiers' Conference and funded either as an additional cost to the Commonwealth or from the pool of funds that would otherwise be paid to the States as financial assistance grants in line with the relativities recommended by the Commission.

The current estimates of total special revenue assistance to be paid to each State in 1994-95 under this Bill are included in the table below. (Transitional Allowances and Special Fiscal Needs for the ACT is paid to the ACT from Appropriation Bill No. 2.) These estimates, like those for financial assistance grants, will be adjusted for both CPI and population growth, to maintain the value of assistance in real per capita terms.

Special Revenue Assistance 1994-95 (\$m) (a)

	Once-off Transitional Special Revenue Assistance		Medicare Guarantee Payments		Total
	Pool funded	Non Pool Funded	Pool funded	Non Pool Funded	
NSW	..	25.0	74.3	64.4	163.6
VIC	..	20.0	147.7	46.7	214.4
QLD	29.9	10.0	..	..	39.9
WA	10.0	5.0	..	..	15.0
SA	..	5.0	..	..	5.0
TAS	..	8.0	..	..	8.0
ACT	20.0	21.3	..	..	41.2
NT	20.0	9.0	..	..	28.9
Total	79.9	103.1	222.0	111.1	516.1

(a) Amounts shown are indexed for CPI and population growth.

Clause: 13: Reduction of general revenue grants to States to take account of certain advance payments

The purpose of this clause is to ensure that the total revenue grant paid to each State in 1994-95 does not exceed the amount to which it is entitled under Clauses 9, 10 and 12 in the Act.

Division 2 - Conditions on which grants made

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 1995 of an amount, determined by the Education Minister no later than 31 March 1995, equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in that State during 1994-95.

Sub-clause (2) describes the basis of the determination by the Education Minister. 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.

Sub-clause (3) provides that if, by 31 May 1995, 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).

Clause 15: Higher education funding condition

Section 25A and proposed Section 25B of the *Higher Education Funding Act 1988* provide for grants to be made 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 higher education institutions to provide such support as they see fit.

Sub-clause (1) makes it a condition of financial assistance to a State under this Bill that it reimburse the Commonwealth for any grants made under section 25A or proposed Section 25B 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 Bill 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 16: Advance payments for grant year

This Clause provides for the Treasurer to make advance payments to a State during the grant year 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 1994-95 can be calculated.

Clause 17: Advance payments for succeeding year

Clause 17 provides for the Treasurer to make advance payments to any State during the six months commencing on 1 July of the year following the grant year of amounts of up to 55 per cent of the amount payable in the grant year (with the total paid to all States not to exceed one half of the amount paid in that year). The Clause allows for the continuation of regular payments of general revenue grants to the States in the year following the grant year pending the passage of legislation in the form of an amendment to the Act to provide for grants during that year.

Clause 18: Treasurer may fix amounts, and times of payments, of financial assistance

Consistent with the arrangements included in previous legislation governing general purpose payments to the States, this clause authorises the Treasurer to approve the amounts and timing of payments making up a State's entitlements. 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, 16 17 and 18 to an officer in the Department of the Treasury. Sub-clause (2) provides for the nominated delegate to be subject to the Treasurer's directions. A similar provision was included in the 1993 Act.

Clause 21: Determinations

Self explanatory.

Clause 22: Repeal

This Clause provides for the repeal of the 1993 Act on 31 December 1994.

SCHEDULE 1 Grant year 1994-95

Clause 1: Interpretations

Clause 1 of the Schedule defines terms used in the Schedule. Most of the terms are self-explanatory.

The "base assistance amount" is \$13,634,329,736. This figure is based upon payments made in 1993-94 which have been adjusted to take account of the full year effect of the transfer of responsibility for nurse education and for a minor adjustment for an item paid to South Australia in 1993-94 as special revenue assistance. Adjustments have also been made for that part of special revenue assistance that is funded from the pool available to pay financial assistance grants.

Clause 2: Relativities factors

Clause 2 lists the relativities factor for each State for 1994-95. These are the relativities recommended by the Commission and adopted by the Conference.

Clause 3: Arterial road grants

Clause 3 lists the amounts each State will receive in 1994-95 for arterial road grants. These amounts were agreed between the Commonwealth and the States at the time of the agreement to untie the arterial road components of the Commonwealth's road funding assistance.

Clause 4: Special revenue assistance grants

Clause 4 lists the base amounts for the calculation of special revenue assistance that each State will receive in 1994-95 as special revenue assistance. The base amount is to be indexed for changes in the CPI and population growth.

Clause 5: Reduction of general revenue grants to States to take account of certain advance payments

This Clause modifies the operation of Clause 13 of the Bill so that in 1994-95 it operates in respect to advances made in the early part of 1994-95 under Section 22 of the 1993 Act. This section of the 1993 Act empowered the Treasurer to make advance payments to any State during the six months commencing 1 July 1994 of amounts up to 55 per cent of the amount paid in 1993-94 to that State (with the total to all States not to exceed one half of the total paid 1993-94). The purpose of this Clause and Clause 15 of the Bill is to ensure that the total revenue grant paid to each State is not greater than the amount payable to it as determined by clauses 9, 10, and 12 in the Act.

