

1987

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

STATES GRANTS (GENERAL REVENUE)  
AMENDMENT BILL 1987

EXPLANATORY MEMORANDUM

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



## STATES GRANTS (GENERAL REVENUE) AMENDMENT BILL 1987

### GENERAL OUTLINE

The purpose of this Bill is to amend the States Grants (General Revenue) Act 1985 in two distinct respects:

- . to give effect to decisions taken at the Premiers' Conference on 25 May 1987 in respect of the level of financial assistance grants and identified health grants payable to the States in 1987-88; and
  - . to implement the Budget proposal that the States will in future be expected to share in meeting some of the costs of higher education superannuation.
2. The amendments consequent to the Premiers' Conference are designed to fix, in dollar amounts, the level of grants to be distributed among the States in 1987-88 at amounts estimated at the time of the Premiers' Conference which would maintain the grants at the same real level as in 1986-87. The method for distributing these grants among the States is not affected by the Bill.
3. In line with decisions taken at the May 1985 Premiers' Conference, the Act provides for the level of financial assistance grants and identified health grants to the States to be increased by a real growth factor in the years 1985-86, 1986-87 and 1987-88. In respect of 1985-86, the amounts paid were equal to the 1984-85 grant maintained in real terms, as measured by the increase in the All Groups Consumer Price Index for the six State capital cities in the year ending March quarter 1986. In respect of 1986-87 and 1987-88, the Act provides for the levels to be increased by two per cent in real terms in each year.
4. These arrangements applied in both 1985-86 and 1986-87. At the May 1987 Premiers' Conference, it was agreed that it was no longer appropriate for a two per cent real growth factor to be applied to these grants in 1987-88. It was decided instead that the level of financial assistance grants and identified health grants to be distributed among the States in 1987-88 would each be maintained in real terms on the basis of estimates available at the time of the Premiers' Conference. This has the effect of fixing the total pool of such payments to the States in 1987-88 at \$13,538.8 million. The component amounts are calculated as follows:

	Financial Assistance Grants	Identified Health Grants
actual 1985-86 grants (\$)	9,781,693,242	1,483,302,432
<u>multiplied by estimated</u>		
CPI growth factor (a)	1.091	1.091
<u>multiplied by two per cent</u>		
real terms increase factor	1.02	1.02
<u>equals estimated 1986-87</u>		
grants (\$) (b)	10,885,263,874	1,650,648,612
<u>multiplied by forecast</u>		
CPI growth factor (c)	1.08	1.08
<u>equals actual 1987-88 grants (\$)</u>	11,756,084,984	1,782,700,501

(a) At the May 1987 Premiers' Conference, the increase in the All Groups Consumer Price Index (CPI) in the year ended March quarter 1987 was estimated to be 9.1 per cent.

(b) As estimated at the time of the May 1987 Premiers' Conference. The grants actually paid in 1986-87 involved a CPI increase of 9.14 per cent.

(c) At the May 1987 Premiers' Conference, the increase in the CPI in the year ended March quarter 1988 was forecast to be 8 per cent.

5. The amendments to Part II of the Act fix the level of financial assistance grants to the States in 1987-88. The amendments to Part III of the Act fix the level of identified health grants to the States in 1987-88.

6. The second element of the Bill gives effect to the Government's decision, announced in the Budget, that, commencing on 1 January 1988, the Commonwealth will limit its contributions to higher education superannuation outlays associated with State schemes funded on an 'emerging cost' basis, with States in future being expected to meet the remainder of such costs.

7. For as long as is necessary, the affected States will be required to make a contribution equal to the superannuation expenditures incurred by higher education institutions in the State during the financial year associated with:

- . their share of costs attributable to service prior to 1974 (based upon their contribution, relative to the Commonwealth's, to total recurrent outlays on higher education during the relevant period); and
- . those costs attributable to service after 1981 in excess of those which would have arisen if employer contributions had been limited to 14 per cent of higher education salaries.

8. The purpose of the amendments to Part V of the Bill is to put the necessary arrangements into place with respect to 1987-88.

9. The Bill places an obligation on the States to make a payment to the Commonwealth equal to their share of higher education superannuation costs. It does so by making the payment of assistance under the Act conditional on such higher education superannuation payments from the States being received by the Commonwealth by 31 May 1988. The Minister for Employment, Education and Training is to determine, by 31 March 1988, the precise amount payable by each State. If such payments are not received from a particular State by 31 May 1988, the Bill authorises the Treasurer to recover those amounts outstanding by means of offsets against payments made of that State's entitlements under other Parts of the Act.

#### FINANCIAL IMPACT STATEMENT

10. The proposals put forward in this Bill implementing decisions taken at the May 1987 Premiers' Conference are estimated to reduce Commonwealth outlays in 1987-88 by \$270 million compared with forward estimates based upon the existing provisions of the Act. This reduction will occur as the States no longer receive the two per cent real growth factor.

11. Those proposals which implement the Budget decision relating to higher education superannuation costs are presently estimated to reimburse to the Commonwealth around \$11 million in 1987-88.

#### ABBREVIATIONS

12. The following abbreviations are used in this Explanatory Memorandum:

Bill: States Grants (General Revenue) Amendment Bill 1987

Act: States Grants (General Revenue) Act 1985 as amended prior to any amendments affected by this Bill

Commission: Commonwealth Grants Commission

Minister: Minister for Employment, Education and Training

#### NOTES ON INDIVIDUAL CLAUSES

Clause 1: Short title etc

Clause 2: Commencement

### Clause 3: Financial assistance grants

13. Sub-clauses 3(a), (b) and (c) amend Section 6 of the Act so that sub-section 6(2) defines each State's entitlement for the 1986-87 year only, rather than both 1986-87 and 1987-88 as previously.

14. Sub-clause 3(d) inserts a new sub-section into Section 6 of the Act to define each State's entitlement in 1987-88. It will fix the pool of financial assistance grants to be distributed among the States in 1987-88 at \$11,756,084,984. The new sub-section allows for the distribution of this amount among the States in the same manner as the grants were distributed in 1985-86 and 1986-87; that is, in accordance with the per capita relativities recommended by the Commission following its 1985 Report.

### Clause 4: Health Grants

15. Sub-clauses 4(a), (b) and (c) amend Section 8 of the Act so that sub-section 8(2) defines each State's entitlement for the 1986-87 year only, rather than for 1987-88 as well.

16. Sub-clause 4(d) inserts a new sub-section into section 8 of the Act to define each State's entitlement in 1987-88. It will fix the pool of identified health grants to be distributed among the States in 1987-88 at \$1,782,700,501. The amendments allow for this amount to be distributed among the States on the same relative per capita basis as in 1985-86 and 1986-87.

### Clause 5: State contribution to costs of higher education superannuation

17. Clause 5 inserts a new Section 10A into Part V of the Act, with proposed sub-section 10A(1) defining some terms used elsewhere in the new Section.

18. Proposed sub-section 10A(2) makes the payment of financial assistance to a State under the Act conditional on the State making a payment to the Commonwealth before 31 May 1988 of an amount equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in the State during the second half of 1987-88.

19. Sub-sections 10A(3) and (5) provide that the amount payable by a State is to be an amount determined by the Minister for Employment, Education and Training. This determination is to be issued no later than 31 March 1988. Sub-section 10A(6) will make that determination conclusive.

20. Proposed sub-section 10A(4) details the basis on which the Minister is to make his determination. The amount referred to in 10A(4)(a) represents the State's estimated share of the total expenditure on higher education superannuation attributable to service prior to 1974, which is in proportion to its relative contribution to the funding of the recurrent costs of higher education over the relevant period. The amount referred to in proposed sub-section 10A(4)(b) represents the estimated amount by which expenditure attributable to service after 1981 is in excess of the expenditure which would otherwise have been necessary if employer contributions had been limited in 14 per cent of higher education salaries. Together, these amounts define the payment which each State is required to make to the Commonwealth in fulfilment of the condition expressed in sub-section 10A(2).

21. Proposed sub-section 10A(7) provides that if, by 31 May 1988, a State fails to make full payment of the amount determined by the Minister, the Treasurer will be able to recover the amount outstanding of a State's contribution to higher education superannuation costs by means of offsetting that amount against payments due to the State from the Commonwealth under the Act.

