

1985-86

The Parliament of the Commonwealth of Australia  
House of Representatives

States Grants (General Revenue) Bill 1985

Explanatory Memorandum

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



## STATES GRANTS (GENERAL REVENUE) BILL 1985

### GENERAL OUTLINE AND MAIN PURPOSE OF BILL

The main purpose of this Bill is to provide for the payment of grants to the States of general revenue assistance during the three years 1985-86, 1986-87 and 1987-88, and the making of advance payments during the first six months of 1988-89 in anticipation of the further arrangements to apply in that year. The Bill supersedes and repeals the States (Tax Sharing and Health Grants) Act 1981 which provided for the payment of general revenue assistance in the three years 1982-83 to 1984-85 and for the making of advance payments during the first six months of 1985-86.

The Bill seeks to provide for the payment of three types of general revenue grants:

- (a) financial assistance grants to the States in each of the three years;
- (b) identified health grants to the States in each of the three years; and
- (c) special revenue assistance grants to South Australia and Tasmania in 1985-86 and 1986-87.

The purpose of each of these forms of general revenue grant is to assist the States, by way of subventions to their budgets, in the financing of their recurrent outlays. The States are free to determine the purposes for which these grants are spent in accordance with their own budgetary priorities. The grants together comprise the major component of Commonwealth financial assistance to the States.

#### FINANCIAL ASSISTANCE GRANTS

The Bill provides for the payment in respect of each of the three years of a pre-determined real level of financial assistance grants to the States.

In 1985-86, the total amount of the financial assistance grants to which the States are entitled comprises the product of:

- . a base amount corresponding with the total amount of the tax sharing grants paid in 1984-85 (\$9,058,428,568); and
- . an index factor which consists of the change in the All Groups Consumer Price Index for the six State capital cities in the year ending in the March quarter of that year over the preceding year as published by the Australian Statistician.

(ie, financial assistance grants in 1985-86 will be held to the same real level as in 1984-85.)

In 1986-87 and 1987-88, the total amounts of the financial assistance grants to which the States are entitled comprise the product of the grants payable in the preceding year, a corresponding index factor for the year and a real growth factor of 1.02 (ie, in each of those years, provision is made for a 2 per cent real increase in financial assistance grants).

The Bill provides for the total amount of financial assistance grants to be distributed among the States in each year in accordance with per capita relativities recommended by the Commonwealth Grants Commission following its 1 April, 1985 "Report on Tax Sharing Relativities 1985" (hereinafter referred to as the Commissions' 1985 Report) and agreed to at the Premiers' Conference held on 30 May, 1985. These relativities were determined by the Grants Commission following its examination of the fiscal capacities of the States over the three years 1981-82 to 1983-84 and represent the relative shares of the grants which the Commission considered would be most consistent with the principle of fiscal equalisation, ie, they represent the relative share of assistance which the Commission considers would be required to enable each State, provided that it makes a comparable revenue effort, to provide services to its residents at a

standard not appreciably below the standards of the other States. The relativities offset the relative advantage which South Australia and Tasmania enjoy from the distribution of health grants (see below). This advantage had not been offset through tax sharing grants over the period 1981-82 to 1984-85 as the Commonwealth had accepted the argument from those States that during that time they were entitled, as a result of their 1975 Hospital Cost Sharing Agreements with the Commonwealth, to retain it.

The per capita relativities are weighted each year by the relative populations of the States in that year in order to determine the State's shares of the total amount of the financial assistance grants payable.

#### HEALTH GRANTS

Health grants, commonly known as "identified" health grants, have been paid to four States since 1981-82. They are general revenue grants but were identified as replacing specific purpose grants previously paid to the States under hospital cost sharing agreements and payments for community health and school dental programs.

As a result of their 1975 Hospital Cost Sharing Agreements with the Commonwealth, South Australia and Tasmania continued to receive specific purpose assistance for hospital operating

costs until 1 February, 1984 when they agreed to participate fully in the identified health grant arrangements in conjunction with the introduction of Medicare. These States (which in 1975 had entered into 10 year hospital cost sharing agreements rather than the 5 year agreements entered into by the other States at that time) chose to continue to receive assistance under the hospital cost sharing agreements as it placed them in an advantageous position relative to the other States. This was because their hospital cost sharing agreements were not subject to the deductions that were made in the identified health grants to other States in 1981-82 and 1982-83 to reflect the increased revenue raising capacity assessed to be available to the States from hospital charges under the health insurance arrangements then prevailing.

From 30 June, 1985 South Australia and Tasmania will continue to receive a relatively advantageous share of identified health grants but, as noted earlier, this will be offset by commensurately lower financial assistance grants.

The Bill provides for health grants to continue to be payable in 1985-86, 1986-87 and 1987-88. The total amount of the grants to which the States are entitled is calculated in the same way as for the financial assistance grants except that in this case the base amount for calculation of the 1985-86 grant is \$1,373,626,098, representing the total amount of the health grants paid in 1984-85.

The mechanism for the distribution of the health grants among the States in each of the three years is also similar to that for the financial assistance grants. However, the relativities set out in the Bill in this case represent the factors necessary to preserve the same relative per capita distribution of health grants as occurred in 1984-85. This will ensure that each State maintains a constant per capita share of health grants over the three years 1985-86 to 1987-88.

#### SPECIAL REVENUE ASSISTANCE GRANTS

As noted above, the relativities for distributing financial assistance grants among the States offset the advantage South Australia and Tasmania derive from the distribution of identified health grants. Consequently the share that each of those States will receive in aggregate of financial assistance and health grants in each of the three years commencing in 1985-86 will be considerably lower when compared with the share they received in 1984-85 of tax sharing and health grants. In recognition of this, and as a transitional arrangement to help smooth the adjustment process for these two States, the Commonwealth agreed at the May 1985 Premiers' Conference to provide special revenue assistance grants to those States in 1985-86 and 1986-87.

In 1985-86, the special revenue assistance grants will amount



to two thirds of the difference between the financial assistance grants actually payable to those States and the notional grant that would have been applicable if the relative advantage of the two States had been preserved.

In 1986-87, the special revenue assistance grants will amount to half the amounts payable to each State in 1985-86. The effect will be to phase out the relative health grant advantage over three years.

## NOTES ON CLAUSES

## PART I - PRELIMINARY

## CLAUSE 1 - SHORT TITLE

Self-explanatory

## CLAUSE 2 - COMMENCEMENT

Self-explanatory

## CLAUSE 3 - INTERPRETATION

Sub-clause (1), *inter alia*, defines the years to which the Act applies as the 1985-86, 1986-87 and 1987-88 financial years.

Sub-clause (1) also defines the "index factor" relating to a year required for the calculation of the amounts of grants payable. The factor is defined as the change in the average level of the All Groups Consumer Price Index for the six State capital cities in the four quarters up to and including the March quarter of the year over the preceding four quarters.

Sub-clause (2) provides that revisions to the index will not be taken into account, while sub-clause (3) provides for the

adoption of a new reference base for the index if one is introduced.

#### CLAUSE 4 - DETERMINATION OF POPULATION OF A STATE

This clause provides for the Australian Statistician to make a determination setting out the estimated populations of the States at 31 December in each year to which the Bill applies before 10 June of that year.

Sub-clause (3) requires the Australian 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 II - FINANCIAL ASSISTANCE GRANTS

##### CLAUSE 5 - INTERPRETATION

This clause defines the factors which determine the shares of the total financial assistance grants to which each State is entitled in each year.

The "adjustment factor" for each State represents the per capita relativity recommended by the Grants Commission and adopted at the 30 May, 1985 Premiers' Conference. These factors represent the Grants Commissions' assessment of the

per capita deficits each State would incur relative to the per capita deficit assessed for Victoria if it were to provide government services at standards not appreciably different from the standards provided by the other States, without having to impose taxes and charges at levels appreciably different from the other States. (Victoria's deficit is traditionally used as the basis for comparison and is set at unity.)

The "adjusted population figure" for each State for each year represents the product to the adjustment factor for each State and the estimated population of the State as determined by the Australian Statistician under clause 4. The "adjusted total population" is the sum of the "adjusted population figures".

#### 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 algebraic formulae in sub-clause (1) for 1985-86 and sub-clause (2) for 1986-87 and 1987-88.

Sub-clause (1) authorises the payment to each State in relation to 1985-86 of an amount equal to the product of

- . the base amount of \$9,058,428,568 (the total amount of tax sharing grants payable to the States in 1984-85);

- . the index factor (defined in clause 3) in relation to that year; and
- . the adjusted population figure (defined in clause 5) in relation to a State in relation to that year.

all divided by the adjusted total population (defined in clause 5) in relation to that year.

Sub-clause (2) authorises payments in relation to 1986-87 and 1987-88. The formula is analogous to that in sub-clause (1), except that;

- . a real growth factor of 1.02 applies (ie the Bill provides for a 2 per cent real increase in grants in each of those years); and
- . the base amount is defined as the financial assistance grant to which the State is entitled for the preceding year under this clause.

### PART III HEALTH GRANTS

#### CLAUSE 7 - INTERPRETATION

This clause defines the factors which determine the shares of the total health grants to which each State is entitled in each year.

The "adjustment factor" for each State corresponds with the relative per capita share of total health grants paid to that State in 1984-85. This will ensure that each State maintains a constant per capita share of identified health grants over the three years 1985-86 to 1986-87. (Victoria's share is used as the basis for comparison and is set at unity.)

The "adjusted population factor" for each State for each year represents the product of the adjustment factor for each State and the estimated population of the State as determined by the Australian Statistician under clause 4. The "adjusted total population" is the sum of the "adjusted population figures".

#### CLAUSE 8 - HEALTH GRANTS

This clause provides that each State is entitled to financial assistance, in the form of health grants, of amounts determined by the algebraic formulae in sub-clause (1) for 1985-86 and sub-clause (2) for 1986-87 and 1987-88.

The formulae are analagous to those set out in clause 6 except that;

- . the base amount for 1985-86 is \$1,373,626,098, the total amount of the health grants payable to the States in 1984-85;

- . the adjusted population figure and adjusted total population are those defined in clause 7.

#### PART IV - SPECIAL REVENUE ASSISTANCE GRANTS TO CERTAIN STATES

##### CLAUSE 9 - INTERPRETATION

This clause defines the notional factors for determining for each year the shares of financial assistance grants to which each State would have been entitled if the financial advantage South Australia and Tasmania derive from the distribution of identified health grants was to be retained (ie, not offset through lower shares of financial assistance grants).

The "adjustment factor" for each State represents the notional per capita relativity that would have applied in these circumstances, as calculated by the Grants Commission. (As in clause 5, Victoria's per capita deficit is used as the basis for comparison and set at unity.)

The "adjusted population figure" for each State for each year represents the product of the adjustment factor for each State and the estimated population of the State as determined by the Australian Statistician under clause 4. The "adjusted total population" is the sum of the "adjusted population figures".

## CLAUSE 10 - SPECIAL REVENUE ASSISTANCE GRANTS

Sub-clause (1) provides that South Australia and Tasmania are each entitled to financial assistance, in the form of special revenue assistance grants, for 1985-86. The grants represent two-thirds of the benefit that each State would have received in 1985-86 if the financial advantage they enjoy derived from the distribution of health grants was not offset.

The special revenue assistance grants for each State are calculated by taking two-thirds of the difference between:

- (i) the notional amount that would have been payable if the State had retained its health grant advantage, calculated in a manner analagous to that set out in sub-clause 6(1) except that the adjusted population figure and total adjusted population are those defined in clause 9, and
- (ii) the financial assistance grant calculated in sub-clause 6(1).

Sub-clause (2) provides that South Australia and Tasmania are each entitled to financial assistance, in the form of special revenue assistance grants for 1986-87 equal to one-half the amount to which they are entitled in 1985-86 under sub-clause (1).



## PART V - MISCELLANEOUS

CLAUSE 11 - REDUCTION OF GRANTS FOR 1985-86 TO TAKE ACCOUNT  
OF CERTAIN ADVANCE PAYMENTS

This clause allows for the payments to the States for 1985-86 under sub-clauses 6(1), 8(1) and 10(1) to be reduced to the extent that advance payments were made under section 23 of the States (Tax Sharing and Health Grants) Act 1981. This section of the Act empowered the Treasurer to make advance payments to the States during the six months commencing on 1 July, 1985 of amounts not exceeding one half of the total amount of tax sharing and health grants paid in 1984-85.

## CLAUSE 12 - ADVANCE PAYMENTS TO STATES FOR 1988-89

This clause provides for the Treasurer to make advance payments to the States during the six months commencing on 1 July, 1988 of amounts not exceeding one-half of the total amount payable to them under the Bill in 1987-88. The clause allows for the continuation of regular payments of general revenue grants to the States in 1988-89 pending the passage of new legislation to provide for grants during that year. A similar provision was included as section 23 of the States (Tax Sharing and Health Grants) Act 1981.

CLAUSE 13 - APPROPRIATION

Self-explanatory.

CLAUSE 14 - ADVANCE PAYMENTS

This clause provides for the Treasurer to make advance payments to a State during a year of amounts to which the State is expected to be entitled during the year. This allows payments of regular instalments of general revenue grants to be made until the time when the final amount to which a State is entitled in respect of a year can be calculated.

CLAUSE 15 - TREASURER MAY FIX AMOUNTS, AND TIMES OF PAYMENTS, OF FINANCIAL ASSISTANCE

This clause authorises the Treasurer to approve the amounts and timing of payments making up a State's entitlements for a year. This is the normal practice with respect to these and other general purpose payments to the States. In practice the grants are normally paid in equal weekly instalments.

CLAUSE 16 - DETERMINATIONS TO BE PRESUMED TO BE CORRECT

Self-explanatory.

CLAUSE 17 - REGULATIONS

Self-explanatory.

CLAUSE 18 - REPEALS

This clause provides for the repeal of the States (Tax Sharing and Health Grants) Act 1981 and amending legislation.









