

1988

The Parliament of the Commonwealth of Australia

House of Representatives

States Grants (General Revenue) Bill 1988

Explanatory Memorandum

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

STATES GRANTS (GENERAL REVENUE) BILL 1988

GENERAL OUTLINE

The purpose of this Bill is to give effect to the arrangements agreed to at the Premier's Conference and Loan Council meeting held on 12 May 1988 to apply in 1988-89 for the provision of general revenue assistance to the States and the Northern Territory.

In large part, the provisions in the Bill parallel those embodied in the States Grants (General Revenue) Act 1985. The main differences are that, in 1988-89:

- . the Northern Territory is to be included in the States' arrangements;
- . general revenue assistance is no longer to include identified health grants (all hospital funding is to be provided for separately as a specific purpose payment);
- . general revenue assistance is to be based upon the combined forward estimates for 1988-89 of general revenue assistance and hospital funding at the time of the Premiers' Conference, less \$650 million in savings and the estimated total payments under the new hospital funding arrangements;
- . the Conference-time estimate of the base amount of general revenue assistance is to be adjusted for subsequent movements in the consumer price index in the year to the March quarter 1989;
- . the per capita relativities to apply are those assessed by the Commonwealth Grants Commission in its 1988 report;
- . to ease adjustment to the reduction in general revenue assistance and the implementation of the new relativities, special revenue assistance is to be provided to States most affected by these changes;
- . the special revenue assistance is to be funded by a temporary reduction in the pool of general revenue assistance, with the remainder of that pool being paid as financial assistance grants;

- to ensure that the new distribution arrangements under the changed hospital funding arrangements would be introduced in a way which did not advantage or disadvantage any particular State, the distribution of financial assistance grants is to be based upon relativities applicable to a combined pool of general revenue assistance and hospital grants. As a result, except for an AIDS funding component, the level of a State's hospital funding grant will not influence the combined amount of such assistance, only the split between general revenue assistance on the one hand and hospital grants on the other;
- consequent upon the Government's decision to remove the payroll tax exemption for certain Commonwealth business enterprises from 1 July 1988, 90 per cent of the additional revenue available to each State and the Northern Territory from this source is to be recouped by an additional reduction in their financial assistance grants; and
- following failure to achieve unanimous agreement to the borrowing limits proposed by the Commonwealth under the Global Approach at the May 1988 meeting of the Australian Loan Council, provision is to be made allowing the Commonwealth to reduce its payment of financial assistance grants to a State if new borrowings by that State in 1988-89 exceed the limit proposed by the Commonwealth.

FINANCIAL IMPACT STATEMENT

The arrangements put forward in this Bill are estimated to reduce Commonwealth outlays in 1988-89 by \$829 million compared with the forward estimates as estimated at the time of the Premiers' Conference. This reduction is the combined result of the \$650 million in savings and \$179 million on account of the payroll tax recoupment.

ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Revenue) Bill 1988
1985 Act:	States Grants (General Revenue) Act 1985, as amended
Commission:	Commonwealth Grants Commission
Education Minister:	Minister for Employment, Education and Training
Health Minister:	Minister for Community Services and Health
State:	Includes the Northern Territory
Conference:	Premiers' Conference and Loan Council meeting held on 12 May 1988

NOTES ON CLAUSES

Clause 1: Short title

Self explanatory.

Clause 2: Commencement

Sub-clause (2) provides for the repeal of the 1985 Act to occur on 31 December 1988, allowing for weekly payments being advanced in 1988-89 under Section 12 of the 1985 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 "population factor" for each State represents the per capita relativities recommended by the Commission in its 1988 report and adopted at the 1988 Premiers' Conference.
- . The "extra payroll tax revenue" is 90% of the revenue raised by the State as a result of the Commonwealth's decision to remove payroll tax exemptions from the following Commonwealth business enterprises from 1 July 1988:
 - Telecom;
 - Australia Post;
 - Civil Aviation Authority;
 - Federal Airports Corporation;
 - Australian National Railways; and
 - Pipeline Authority.
- . The figure of 724.5 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 1989 (namely 178.1, 180.1, 182.1 and 184.2 respectively).

Sub-clause (2) provides that revisions to the index numbers not be taken into account. Sub-clause (3) provides for adoption of a new reference base for the index numbers if one is introduced.

Clause 4: Determination of population of a State

This Clause provides for the Australian Statistician to make a determination before 10 June 1989 setting out the estimated populations of the States at 31 December 1988. 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.

Clause 5: 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 formula. The formula indicates that a State's share of financial assistance grants is derived as the difference between:

- . the share that its adjusted population bears to the combined pools of financial assistance grants and hospital grants (excluding grants for AIDS); and
- . the sum of:
 - its hospital funding grant in 1988-89 (excluding grants for AIDS), and
 - 90 per cent of its additional payroll tax collections in 1988-89 consequent upon the removal of the payroll tax exemption for Commonwealth business enterprises.

The pool of financial assistance grants in 1988-89 is the base amount determined at the time of the Conference (\$12,387,516,792) adjusted up and 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 1989. 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.

Under sub-clause 3(1), estimates of each State's "hospital grants" in 1988-89 are to be determined by the Health Minister by 10 June 1989, and the "extra payroll tax revenue" to be recouped from each State is to be determined by the Treasurer, also by that date.

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 its 1988 report as the appropriate population-weighted shares for distribution of the combined pool of general revenue assistance and hospital grants, on the assumption that the Northern Territory was to be included on the same basis as the six States.

Clause 6: Special revenue assistance grants

This Clause provides that Western Australia, South Australia, Tasmania and the Northern Territory are entitled to special revenue assistance. The base level of such assistance was estimated at the Conference at a level then expected to be sufficient to ensure that each State would receive at least the same nominal level of general revenue assistance and hospital grants in 1988-89 as in 1987-88. The base amounts for each State are set out in the table. The Clause also provides

that these base amounts are to be 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 March quarter 1989. This adjustment has the effect of maintaining the real value of that assistance at the level estimated at the time of the Conference.

Clause 7: State observance of global borrowing limit

This Clause makes the payment of financial assistance under the Bill conditional upon a State observing the global borrowing limit proposed by the Commonwealth at the 1988 meeting of the Australian Loan Council. These limits are set out in the table. Sub-clause (1)(b) provides that, if he determines that a State has breached those limits during 1988-89, the Treasurer may reduce payments of financial assistance to that State by an amount up to the excess borrowing.

Sub-clause (2) provides that, if agreement were reached between the Commonwealth and a State to vary the State's global borrowing limit from that specified in the table, the provisions of sub-clause (1) would then apply to that revised limit. In accordance with the Global Approach resolution of the Australian Loan Council, these variations would also be subject to agreement of the other States.

Clause 8: 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 1989 of an amount, determined by the Education Minister no later than 31 March 1989, equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in that State during 1988-89. This provision is analogous to Section 10A of the 1985 Act (inserted by the States Grants (General Revenue) Amendment Act 1987), except that under sub-paragraph 8(2)(b)(ii) allowance is made for the Commonwealth Government's decision to fund the 3 per cent superannuation productivity benefit.

Sub-clause (1)(b) provides that if, by 31 May 1989, 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 State 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)(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 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 9: Reduction of grants to take account of certain advance payments

This Clause allows for the payments to the six States for 1988-89 under Clauses 5 and 6 to be reduced to the extent that advance payments were made under Section 12 of the 1985 Act. This Section of the 1985 Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1988 of an amount up to one half of the amount paid to that State under the 1985 Act in 1987-88. This Clause also makes the equivalent provision for the Northern Territory for which advance payments are being made under the Supply Act (No. 2) 1988-89 and the Appropriation Act (No. 2) 1988-89.

Clause 10: Advance payments for grant year

This Clause provides for the Treasurer to make advance payments to a State during 1988-89 of amounts to which the State is expected to be entitled during the year. This allows payments of regular instalments of grants to be paid until the time when the final amounts to which a State is entitled in 1988-89 can be calculated.

Clause 11: 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 1989 of amounts up to one-half of the amount payable under the Bill in 1988-89. The Clause allows for the continuation of regular payments of general revenue assistance to the States in 1989-90 pending the passage of new legislation to provide for grants during that year. A similar provision was included in Section 12 of the 1985 Act.

Clause 12: Treasurer may fix amounts, and times of payments, of financial assistance

This Clause, consistent with arrangements for other general purpose payments to the States, authorises the Treasurer to approve the amounts and timing of payments making up a State's entitlements for 1988-89. In general, grants are paid in equal weekly instalments.

Clause 13: Appropriation

Self explanatory.

Clause 14: Delegation by Treasurer

Sub-clause (1) empowers the Treasurer to delegate his powers under Clauses 10, 11 and 12 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.

Clause 15: Determinations

Self explanatory.

Clause 16: Repeals

This Clause provides for the repeal of the 1985 Act and amending legislation on 31 December 1988.

