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The Parliament of the Commonwealth of Australia

House of Representatives

States Grants (General Purpose) Bill 1990

Explanatory Memorandum

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



STATES GRANTS (GENERAL PURPOSES) BILL 1990

GENERAL OUTLINE

The purpose of this Bill is to give effect to the arrangements agreed at the Premiers' Conference and Loan Council meeting held on 28-29 June 1990 to apply in 1990-91 for the provision of general purpose assistance to the States and Northern Territory. In large part, the provisions of the Bill parallel those of the States Grants (General Purpose) Act 1989.

General Revenue Grants

General revenue grants include financial assistance grants and special revenue assistance. It was agreed at the 1990 Premiers' Conference that the total pool of financial assistance grants for the States in 1990-91 would be determined by deducting from the latest forward estimates (adjusted to reflect later estimates of recoupment of 90 per cent of additional new tax collected by the States from the Commonwealth government business enterprises in respect of 1989-90):

- . \$400 million in savings; and
- . a further \$50 million to fund special revenue assistance to the Northern Territory.

The net reduction in general revenue grants is therefore \$400 million (ie \$450 million reduction in financial assistance grants offset by the \$50 million special revenue assistance provided to the NT). As in previous years, the pool of financial assistance grants is to be adjusted to account for the difference between the actual outcome in the Consumer Price Index in the year to March 1991 and the forecast at the time of the Premiers' Conference.

Financial assistance grants are to be distributed on the basis of the Grants Commission's updated relativities based on the five year review period included in the Commission's 1990 Report.

Minor adjustments are to be made to 1990-91 financial assistance grants, to better align the amount of the 1989-90 recoupment with actual tax payments. The net adjustment in aggregate is currently estimated at \$0.4 million. The final amount of financial assistance grants also incorporates a downwards adjustment to take account of the Prime Minister's announcement, subsequent to the Premiers' Conference, to transfer the base for the debits tax to the States .

As mentioned earlier, it was also agreed at the 1990 Premiers' Conference that special revenue assistance of \$50 million would be provided to the Northern Territory in 1990-91. As with financial assistance grants, the actual amount of this assistance is to be adjusted to account for the difference between the actual outcome in the Consumer Price Index in the year to March 1991 and the forecast at the time of the Premiers' Conference.

General Purpose Capital Grants

It was agreed at the 1990 Loan Council meeting that general purpose capital assistance in the form of grants would be provided to the States and Northern Territory in 1990-91. These grants were to be at the same nominal amounts provided in 1989-90 adjusted for the recoupment of 90 per cent of State motor taxes levied on Telecom and Australia Post from 1989.

FINANCIAL IMPACT STATEMENT

While the arrangements put forward in this Bill provide for the payment to the States of some \$13.5 billion, they also represent a reduction in Commonwealth outlays in 1990-91 by \$400 million compared with the forward estimates as estimated at the time of the 1990 Premiers' Conference/Loan Council meeting.

ABBREVIATIONS

The following abbreviations are used in this Explanatory Memorandum:

Bill:	States Grants (General Purposes) Bill 1990
1989 Act:	States Grants (General Purposes) Act 1989
Commission:	Commonwealth Grants Commission
Education Minister:	Minister for Employment, Education and Training
Health Minister:	Minister for Community Services and Health
State(s):	Includes the Northern Territory
Conference:	Premiers' Conference and Loan Council meeting held on 28 and 29 June 1990
GBEs:	Government Business Enterprises

NOTES ON CLAUSES

Clause 1: Short title

Self explanatory.

Clause 2: Commencement

Sub-clause (2) provides for the repeal of the 1989 Act to occur on 31 December 1990, allowing for weekly payments being advanced in 1990-91 under Section 14 of the 1989 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 \$13,294,449,485. This figure has been calculated, accounting for, inter alia, the amount of general revenue assistance paid in 1989-90, an adjustment to account for the recoupment of 90 per cent of a full year's amount of State taxes and charges (except for motor vehicle taxes) paid by GBEs for the first time in 1989-90, and a real terms adjustment based on the forecast increase in the CPI at the time of the Premiers' Conference. There is a provision to make minor adjustments to the amount of \$13,294,449,485 so that account may be taken of any developments on unresolved questions relating to the liability of Telecom and Australia Post to pay Land Tax in certain States.
- . The "extra State revenue" for each State is presently estimated at nil, but has been included in the Bill to allow for finalisation of tax liabilities in respect of 1989/90.
- . The "adjusted extra State revenue" is "extra State revenue" adjusted to account for the difference between 90 per cent of the latest estimates of state tax and charges paid to the States by Commonwealth GBEs for the first time in 1989-90 and the actual amount recouped in 1989-90.
- . The figure of 845.9 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 1990.

- . The "population factor" for each State represents the per capita relativities based upon a five year review period, prepared by the Commission, in its 1990 Report, and which were adopted at the 1990 Premiers' Conference.

Sub-clause (2) provides that revisions to the index numbers not be taken into account after publication of the index number for the March 1991 quarter. 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 1991 setting out the estimated populations of the States at 31 December 1990. 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:

- . its adjusted population weighted share of the combined pool of financial assistance grants and base hospital grants; and
- . the sum of
 - its base hospital funding grant in 1990-91;
 - 90 per cent of its "adjusted extra State revenue" and;
 - its share of the amount of tax revenue foregone by the Commonwealth as a result of the decision to transfer the debits tax base.

The pool of financial assistance grants in 1990-91 is the "base assistance amount", 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 1991. 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 (subject to minor adjustments which may yet need to be made to the base amount relating to land tax recoupment).

Under sub-clause 3(1), estimates of each State's "hospital grants" in 1990-91 are to be determined by the Health Minister by 10 June 1991, and the "adjusted extra State revenue" is to be determined by the Treasurer.

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 1990 Report as the appropriate population-weighted shares based upon a five year review period for distribution of the combined pool of general revenue assistance and hospital grants.

Clause 6: Special revenue assistance grant

This Clause provides that the Northern Territory is entitled to special revenue assistance of \$50 million. The Clause also provides that this amount is 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 the March quarter 1991. 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: Reduction of general revenue grants to take account of certain advance payments

This Clause provides for the payments to the States for 1990-91 under Clauses 5 and 6 to be reduced to the extent that advance payments were made under Section 13 of the 1989 Act. This section of the 1989 Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1990 of an amount up to one half of the amount paid in 1989-90 to that State. The purpose of this provision is to ensure that the total revenue grant paid to each State in 1990-91 is not greater than the amount payable to it as determined by Clauses 5 and 6.

Clause 8: Grants to States in respect of capital expenditure

This Clause, in conjunction with the second column of the Schedule 1 to the Bill, provides for the payment to each State during 1990-91 of its share of the total grants of \$296,786,000 payable in that year. This amount is the same as the amount paid in 1989-90 after account is taken of the full year estimate of motor vehicle taxation now being paid by Telecom and Australian Post. It has been necessary to effect the recoupment of this tax through the capital grants, because it is excluded from the Commission's assessments of the relativities for general revenue grants. 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 (see also Clause 9).

Clause 9: 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 10: Reduction of capital expenditure grants to take account of certain advance payments

This Clause provides for the payments to the States for 1990-91 under Clause 8 to be reduced to the extent that advance payments were made under Section 14 of the 1989 Act. This section of the 1989 Act empowered the Treasurer to make advance payments to any State during the six months commencing on 1 July 1990 of an amount up to one half of the amount paid in 1989-90 to that State. The purpose of this provision is to ensure that the total capital grant paid to each State in 1990-91 is not greater than the amount payable to it as set out in the second column of the schedule to the Bill.

Clause 11: 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 1991 of an amount, determined by the Education Minister no later than 31 March 1991, equal to the State's estimated share of superannuation expenditure undertaken by higher education institutions in that State during 1990-91.

Sub-clause (1)(b) provides that if, by 31 May 1991, 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 (3) 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 12 Breach of Higher Education Funding Conditions

This clause complements amendments currently before the Parliament to the Higher Education Funding Act 1988. The amendments to the Higher Education Funding Act are designed to impose on the States a requirement, as a condition of grants under that Act, not to prevent or hinder the imposition and collection of fees for organisations that represent the interest generally of students at an institution. Where a State breaches that proposed condition, the Commonwealth may pay an amount to the institution for the student organisation and the State is required to pay the specified amount to the Commonwealth. The purpose of this Clause in the Bill is to provide the Commonwealth with the authority to recover, if necessary, the amount provided under the Higher Education Funding Act should the States fail to make the required payment to the Commonwealth.

Clause 13 Advance Payments for grant year

This Clause provides for the Treasurer to make advance payments to a State during 1990-91 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 1990-91 can be calculated.

Clause 14: 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 1991 of amounts up to one-half of the amount payable in 1990-91. The Clause allows for the continuation of regular payments of general revenue or capital grant assistance to the States in 1991-92 pending the passage of new legislation to provide for grants during that year. Similar provisions were included in Section 14 of the 1989 Act.

Clause 15: 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 1990-91. In general, grants are paid in equal weekly instalments.

Clause 16: Appropriation

Self explanatory.

Clause 17: Delegation by Treasurer

Sub-clause (1) empowers the Treasurer to delegate his powers under Clauses 11, 13, 14 and 15 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 1989 Act.

Clause 18: Determinations

Self explanatory.

Clause 19: Repeals

This Clause provides for the repeal of the 1989 General Revenue Act on 31 December 1990

