States Grants (General Purpose) Bill 1989

Date Introduced: 5 October 1989
House: House of Representatives
Portfolio: Treasury

Digest of Bill

Purpose
To provide general revenue and capital grants to the States and Northern Territory for 1989–90.

Background

The Commonwealth has provided financial assistance to the States since Federation, and particularly since the Commonwealth gained control over income tax. Assistance takes three main forms, general revenue grants, capital grants and specific purpose grants. This Bill deals with the former two categories. Commonwealth outlays on assistance to the States and Northern Territory in 1988–89 were equivalent to approximately 40% of their outlays.

The level of assistance in 1989–90 and its distribution have been effected by two recent events. First, the 1989 Premiers Conference decided to base the level of grants on a reduction of $550 million on the Commonwealth’s forward estimates. As a result, general revenue grants are expected to increase by 2.2% in nominal terms, a fall of 3.8% in real terms. Secondly, the distribution of grants will be altered as a result of the Commonwealth Grants Commissions 1989 update of general grants relativities. (Financial grants are based on per capita relativity multiplied by the population of the State.) The new relativities will favour the least populous States and, in particular, the Northern Territory. The value of the relativity for the Northern territory has increased from 5.042 to 5.2, while that for NSW has fallen from 1.026 to 1.014.

The level of general purpose capital grants was also determined at the Premiers Conference. It was determined that the level of such grants would remain at the same nominal level in 1989–90 as in the previous year ($310.5 million). This implies a fall in real terms of the anticipated inflation rate (in the Budget Speech the Treasurer estimates that is expected to be approximately 7.5% this year).

The Premiers Conference also agreed on a special grant of $45 million to the Northern Territory as, even with the new relativities, that Territory would have been worse off than last year due to the provision of special grants in 1988.
Main Provisions

Clause 3 contains a number of definitions, including those for adjusted State revenue (which takes State receipts of pay–roll tax from Commonwealth authorities into account); base assistance amount ($12 766 981 591 or this amount adjusted for pay–roll tax receipts and refunds); extra State revenue (90% of taxes and charges paid by Commonwealth authorities that the Treasurer considers relevant); and population factor (the relativity referred to above).

Clause 5 contains the formula for calculating the assistance to each State. The formula is based on the population, the level of base assistance, hospital grants and any additional State revenue.

For 1989–90, the Northern Territory will receive an additional grant of $45 million multiplied by the index number (i.e. the capital city CPI rate) (clause 6).

Grants will be reduced to take account of any advances already made to a State (clause 7).

Capital grants are dealt with in Division 2 of the Bill. The amount of grant will be that specified in the Schedule to the Bill.

Conditions on grants are dealt with in Division 3. Clause 11 provides that States are to pay to the Commonwealth their proportion of unfunded higher education superannuation costs and that if this is not paid the Treasurer may deduct an equal amount from the grants. Similarly, if payments due to the Commonwealth from NSW under the Commonwealth State Land Agreement of 1979 are not made, an equal amount may be deducted from grants to that State.

For further information, if required, contact the Economic and Commerce Group.

25 October 1989

Bills Digest Service
Legislative Research Service

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

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