States Grants (General Revenue) Bill 1988

Date Introduced: 1 September 1988
House: House of Representatives
Presented by: The Hon. Paul Keating, M.P., Treasurer

Digest of Bill

Purpose

To provide general revenue grants to the States and Northern Territory for 1988 – 89, and to alter the structure of general purpose payments to the States.

Background

The Commonwealth has provided financial assistance to the State since Federation and particularly since the Commonwealth gained control over income tax. Assistance takes a number of forms including specific purpose grants, capital grants and general revenue grants. The latter category, which is dealt with in the Bill, can be broken into five groups: financial assistance, identified health, temporary revenue assistance, special revenue assistance and other grants.

The level of grants in 1988 – 89 and their distribution has been affected by a number of recent events. At the 1988 Premiers' Conference, $650 million was cut from the estimates for general revenue assistance and hospital grants. As well, the relativities on which the distribution of the financial assistance grants is based were adjusted as a result of the 1988 report of the Commonwealth Grants Commission on general revenue grants to the States. (Financial assistance grants are based on the per capita relativity multiplied by the population.) The major change in relativities affects Queensland, which had its value reduced from 1.416 to 1.218. However, this has been offset by an increase in payments for hospital funding. Another major change concerned payroll tax. Payroll tax exemptions previously available to Australia Post, Telecom, the Australian National Railways Commission, the Federal Airports Corporation, and the Civil Aviation Authority were withdrawn by the
Commonwealth from 30 June 1988. By agreement reached with the States at the 1988 Premiers' Conference, the Commonwealth will recover 90% of the payroll tax estimated to be paid by those bodies to the States in 1988–89 through reduced financial assistance grants. (It is estimated that these bodies will pay $222 million in payroll tax in a full year).

A number of decisions concerning borrowing were also made in 1988. Members of the Australian Loan Council other than Queensland, agreed in May 1988 to a borrowing limit for State authorities of $4750 million for 1988–89, 10% less than the limit for 1987–88. The limit includes a temporary addition of $108 million for Western Australia. The borrowing limit for the Northern Territory in 1988–89 is $95 million. For 1988–89, Loan Council members other than Queensland also agreed to an overseas borrowing ceiling of $1045 million. This compares with overseas borrowings of $1166 in 1987–88. The Commonwealth indicated that if Queensland will not agree to the global arrangements it would reduce payments of financial assistance grants to Queensland to the extent that its borrowings in 1988–89 exceed $793 million. As a result of this restriction and the measures announced in the 1988 Budget, particularly the estimated $5.5 billion surplus, the net public sector borrowing requirements in 1988–89 will be zero.

Total general revenue assistance to the States and Northern Territory in 1988–89 will be $12 450.5 million, compared with $14 248.2 million in 1987–88. However, the 1988–89 figures do not include identified health grants ($1 782.7 million in 1987–88), which are to be replaced this year (see below).

(i) Financial Assistance Grants

In 1987–88 the States and the Northern Territory received a fixed level of real funding, based on an anticipated increase in the CPI in the year ended March 1988 of 8%. Financial assistance grants in 1988–89 are to reflect actual movements in the CPI in the four quarters ending March 1989. 2

In 1988–89, these grants are estimated to be $12 313.2 million, a reduction of $132.9 million on the previous year. The reduction principally affects the Northern Territory and Queensland.

(ii) Identified Health Grants

Identified health grants commenced in 1981–82. At the 1988 Premiers' Conference, the States accepted a Commonwealth proposal for an expanded Medicare hospital grants program to replace their grants. Funding in the new hospital grants program for 1988–89 is estimated at $10 797.3 million. This compares with Identified Health Grants of $1782.7 million in the previous year.3
(iii) Temporary Revenue Assistance Grants

At the 1988 Premiers' Conference, it was recognised that the reduction in general revenue assistance in 1988-89 would result in a nominal decline in grants allocations for some States and the Northern Territory. To ease adjustment, affected States and the Northern Territory will be guaranteed the same nominal level of general revenue assistance and hospital grants as in 1987-88. The guarantee is to be funded by a reduction of an estimated $87.4 million from the total pool that was available for financial assistance grants, rather than from an addition to the total available. The Northern Territory will receive $57.9 million in temporary assistance.

(iv) Special Revenue Assistance Grants

In 1988-89 the Commonwealth will transfer several health and community programs to the States, including the family support scheme; emergency relief program; vaccination program; and miscellaneous pharmaceutical benefits. Special revenue assistance in 1988-89 for these programs is estimated at $49.9 million.

(v) Other Grants – Northern Territory

The Northern Territory receives an annual payment from the Commonwealth in lieu of uranium royalties. For 1988-89 this payment is estimated at $3.9 million.

Main Provisions

Clause 5 provides that each State is entitled to financial assistance grants as determined by the formula contained in the clause. The formula is based on the adjusted population of the State (the population multiplied by the relativity factor); the amount available for grants and the extra payroll tax available to the States.

Clause 6 provides that Western Australia, South Australia, Tasmania and the Northern Territory are entitled to special revenue assistance grants. The clause also provides that the base amounts for each States are to be adjusted up or down in line with any variation between the Premiers' Conference forecast and the actual increase in the CPI.

Clause 7 provides that the payment of financial assistance grants will be conditional upon a State observing the global borrowing limit. If a State has exceeded its global borrowing limit, the Treasurer may reduce payments due to the State by an amount equal to, or less than, the amount the Treasurer determines to be the amount of the excess.

Payment of financial assistance to a State is conditional on a State making a contribution to costs of higher education superannuation (clause 8). Clause 8 details the basis on which each State's payment will be determined.
Clause 9 provides for reduction of grants under clauses 5 and 6 to the extent that advance payments were made under the States Grants (General Revenue) Act 1985, the Supply Act (No. 2) 1988–89, and the Appropriation Act (No. 2) 1988–89.

Grants to States are to be paid in such amounts, and at such times, as the Treasurer determines (clause 12).


References

(1) 1988 – 89 Budget Paper No.4, p.54.
(3) 1988 – 89 Budget Paper No.4, p.122.
(5) Ibid.
(6) Ibid.
(7) Ibid., p.284.

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

1 November 1988

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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