States Grants (General Revenue) Amendment Bill 1987

Date Introduced: 15 September 1987
House: House of Representatives
Presented by: The Hon. Paul Keating, M.P., Treasurer

Digest of Bill

Purpose
To reduce the amount of general purpose grants to the States and Northern Territo­ry from that allocated under the States Grants (General Revenue) Act 1985 (the Principal Act) and to require the States to contribute towards the cost of higher education superannuation costs.

Background
The Commonwealth has provided financial assistance to the States since Federation and particularly since the Commonwealth gained exclusive power to levy income tax. The assistance takes a number of forms including specific purpose grants, capital grants and general revenue grants (which consist of financial assistance and health grants) which are dealt with by this Bill. The Principal Act deals with such assistance for the period 1985-86 to 1987-88. Under the Act, there was no real increase in grants for the 1985-86 financial year and a 2% real increase for 1986-87. Another 2% real increase was provided for 1987-88.

In the Treasurer’s statement on Initial Budget Measures announced on 13 May 1987 (the May Statement), it was announced that general purpose grants (including capital grants) to the States and Northern Territory for 1987-88 were to be reduced by $1000 million as part of measures to reduce the Commonwealth deficit by $4000 million.

This proposal was discussed at the 1987 Premiers’ Conference and Loan Council Meeting held on 25 May 1987. As a result of that meeting, it was agreed that the level of grants would remain the same, in real terms, as 1986-87, thus saving $1000 million from the forward estimates. This is to be achieved by reducing general revenue grants by $285 million and general purpose capital grants (which are covered by the States (Works and Housing) Assistance Act 1985) by $715 million. As a result, general revenue funds for 1987-88 are estimated to rise by 0.9% in real terms over 1986-87, while funds for capital purposes are estimated to fall by 56.5% in 1987-88 compared to 1986-87.¹

Also refer to the Digest for the States (Works and Housing) Assistance Amendment Bill 1987.

The other measure to be implemented by this Bill, i.e. the requirement for States to contribute to the cost of superannuation for people employed in higher education was announced in the 1987 Budget and will apply from 1 January 1988. It is
estimated that the States' contribution to these costs will be $11 million in 1987-88 and $23 million in 1988-89. 2

Main Provisions

The bill will be deemed to have operated from 1 July 1987 (clause 2).

A new sub-section 6(3) will be inserted into the Principal Act by clause 3. The proposed sub-section will limit financial assistance grants to the States in 1987-88 to $11 756 084 984 and provide for the distribution of this sum on the basis of population relativities.

Clause 4 will amend section 8 of the Principal Act to limit health grants to $1 782 700 501 in 1987-88 and provide for the distribution of the grants on a population basis.

A new section 10A, titled 'State contribution to cost of higher education superannuation', will be inserted into the Principal Act by clause 5. The proposed section contains the formula for calculating the States' contributions, which is based on superannuation costs, the States' share of total recurrent higher education costs prior to 1 January 1974 and, since 1 January 1982, the contributions to higher education superannuation schemes that exceed 14% of salaries. The proposed section will also allow the Treasurer to reduce payments to a State under this Bill by an equal amount if the State does not pay its contribution for 1987-88.

References

1. 1987-88 Budget Paper No. 4, p. 7.
2. 1987-88 Budget Paper No. 1, p. 101