Digest of Bill

Purpose

To provide for the payment of capital grants to the States in 1987-88 and provide for loans to the States and Northern Territory for public housing in 1987-88.

Background

Federal and State Government borrowings are co-ordinated by the Loan Council which limits the total amount that may be borrowed in each financial year. The borrowing is undertaken by the Federal Government for its own purposes and on behalf of the States. Since 1970-71 part of the annual borrowing approved by the Loan Council for State governments has been provided by the Federal Government as non-repayable, interest-free grants. From 1975-76 to 1984-85 these capital grants have amounted to one-third of each State's Loan Council borrowings. It was decided at the 13 June 1986 Loan Council meeting that State government borrowings for 1986-87 would be reduced from the 1985-86 level of $1564.5 million to $1204 million. It was further decided that the 1985-86 arrangement whereby the grant proportion rose by 7% (to approximately 35.7% of total borrowings) and the loan proportion decreased by an equal amount would continue in 1986-87.

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) and general revenue assistance 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 considered at the Loan Council meeting of 25 May 1987 and, as a result, it was agreed to further reduce the total amount of loans to the States and Northern Territory in 1987-88 by $715 million as well as general revenue assistance by $285 million. The loan amount of $533 million for the State Governments is 56% lower than the 1986-87 figure, while Northern Territory borrowings have been reduced by 36% to $88 million. Of the total amount of $621 million, it was decided that the capital grant proportion would make up one-third. This proportion is similar to that which applied in 1975-76 to 1984-85 but slightly lower than the 1985-86 to 1986-87 grant proportion of 35.7%.¹

For further information, refer to the Digest of the States Grants (General Revenue) Bill 1987.
Since 1982-83, the States have been able to nominate part of their loan proportion for public housing. These funds are available at a concessional interest rate of 4.5% per annum, repayable over 53 years. To be eligible for the concessional interest rate the States must first have fulfilled their obligations under the Commonwealth/States Housing Agreement. In accordance with the 25 May 1987 Loan Council meeting, the States and the Northern Territory will be able to nominate the total amount of their loan proportion for public housing 1987-88, an estimated $385.6 million compared with $584.7 million nominated in 1986-87.2

Main Provisions
A detailed explanation of the clauses of the Bill is contained in the Explanatory Memorandum.

Clause 3 will insert new sections 5C and 5D into the States (Works and Housing) Assistance Act 1985 (the Principal Act). Proposed section 5C provides for payment of grants to the States during 1987-88 in respect of capital expenditure and proposed section 5D provides for advance payments during the period of six months commencing 1 July 1988. The maximum each State will receive under these proposed sections is set out in proposed Schedule 4 which will be inserted into the Principal Act by clause 7.

The States can nominate a percentage of their Loan Council borrowings to be allocated for public housing purposes (section 6 of the Principal Act). Clause 4 will amend section 6 of the Principal Act to increase the maximum percentage that States can nominate for this purpose from 60% to 100% in 1987-88. Clause 5 will amend section 10 of the Principal Act to similarly increase the maximum percentage that can be nominated by the Northern Territory.

References
1. 1987-88 Budget Paper No.4, p.43.
2. Ibid., p.44.

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

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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.