LEGISLATIVE RESEARCH SERVICE
DEPARTMENT OF THE PARLIAMENTARY LIBRARY

STATES GRANTS (GENERAL REVENUE) BILL 1985

Date introduced: 11 September 1985
House: House of Representatives
Presented by: Hon. Paul Keating, M.P., Treasurer

DIGEST OF BILL

Purpose

To provide general revenue grants to the States for the period 1985-86 to 1987-88.

Background

The Commonwealth has provided assistance to the States since Federation and particularly since the States gave the Commonwealth exclusive power to levy income tax. The assistance takes a number of forms, including specific purpose and general revenue grants. The latter category, which is dealt with in this Bill, can be broken into three groups namely, financial assistance, health and special revenue grants.

(i) Financial Assistance Grants

These grants, previously known as tax-sharing grants, provide the States with general purpose, untied grants to supplement State revenue. The grants aim to achieve 'fiscal equalisation', i.e. that each State should be able to provide, without having to impose taxes and charges at levels appreciably different from the other States, government services at a standard not appreciably different from the standards provided by the other States.

Over the past decade, the total amount of grants has been related to Government revenue collections. In the period 1976-77 to 1980-81 the grants were based on a percentage of net personal income tax collections, while from 1982-83 to 1984-85 the grants were based on total net Commonwealth tax collections. For the 1981-82 year, the level of grants was not related to tax collections. The distribution of grants between the States is determined at the annual Premiers' Conference.
At the May 1985 Premiers' Conference, it was decided that the distribution of the grants would be in accordance with the relativities assessed by the Commonwealth Grants Commission, although certain special revenue assistance will be given to South Australia and Tasmania to smooth their adjustment to the new relativities. The Commission has been asked to assess such relativities on three occasions (1981, 1982 and 1985), but it has only been in this year that the Commission's assessments have been accepted in their entirety. In 1981, the assessments of the Commission had been entirely rejected. In 1982, its assessments were modified to maintain South Australia's and Tasmania's health funding advantage. More importantly however, in 1982 the Fraser Government also instituted a new set of guarantee arrangements which had the effect in practice of significantly altering the Commission's assessments.

Since 1976-77, the Government has instituted various guarantee arrangements which set the minimum amount to be received by each State.

Between 1976-77 and 1980-81, the Government guaranteed that the grant to any State would not be lower than that which it would have received under the former financial assistance grants formula. In 1980-81, the States were guaranteed that no State would suffer a real decline in its grant. Under the arrangements that came into force in 1982-83, the Commonwealth guaranteed that no State would receive less than a 2 per cent real increase in its grant in 1982-83, nor less than a 1 per cent real increase in each of the succeeding two years. As well as giving the States a degree of certainty as to the level of future grants, the guarantees have had two other effects. First, except in 1982-83, the grants have exceeded the agreed proportion of tax collections in all years since 1976-77. Secondly, as mentioned previously, the guarantees have largely prevented the implementation of new per capita relativities (on which the distribution to the States is based) that were agreed to at the 1982 Premiers' Conference.

This Bill will implement the new relativities recommended by the Commonwealth Grants Commission which were accepted at the 1985 Premiers' Conference. As well, it will remove the nexus between the grants and tax collections. For the next 3 years, increases in the total amount of funds available for grants will be based on changes to the Consumer Price Index. (Also refer to the tables at the end of this Digest.)
(ii) Identified Health Grants

Since 1981-82, the States have received Identified Health Grants. These are general purpose grants but are identified as Health Grants as they replaced specific purpose hospital cost-sharing, community health and school dental service grants. Between 1981-82 and 1983-84, Tasmania and South Australia received such grants only in lieu of community health and school dental assistance. Only since 1984-85 have these two States been treated in a similar manner as the other States. The first two years of the Identified Health Grants scheme were characterised by transitional arrangements but, in 1983-84 and 1984-85, the grants to each State were increased at the same rate as total tax collections, although certain minor modifications were also made. The aim was to eventually have the Identified Health Grants increasing at the same rate as Tax Sharing Grants so that the two could ultimately be combined. This strategy still applies. With the abandonment of the nexus between general revenue grants and tax collections from 1985-86, Identified Health Grants will be escalated at the same rate as Financial Assistance Grants. It is proposed that these two forms of assistance will be amalgamated from 1987-88.

From 1975 to 1 February 1984, Tasmania and South Australia remained on the specific purpose hospital cost grants system. This was possible as these States had signed a 10 year agreement in 1975 while the other States had signed only 5 year agreements. This gave them an advantage as, unlike the Health Grants, the specific purpose hospital cost grants took no account of the States' increased ability to raise hospital revenue under the health insurance arrangements that applied at that time. From 1 February 1984, these States moved to Health Grants following the introduction of Medicare. However, their advantage was maintained and they received an additional 'agreed amount' as well as their entitlements under the Health Grants scheme.

From 1985-86 to 1987-88, the amount available for Health Grants will depend on movements in the Consumer Price Index and the distribution will be based on the relativities imputed from the distribution of 1984-85 Health Grants. As a result, Tasmania and South Australia will maintain an advantage in Health Grants though the agreement on which this advantage was based has expired. To offset this advantage, the Financial Assistance Grants to Tasmania and South Australia are to be adjusted.
(iii) Special Revenue Assistance Grants

The Government makes such grants available to States where the circumstances identify an extra need. In 1985-86, the Government will make Special Revenue Assistance Grants to Tasmania, South Australia and Queensland.

Tasmania and South Australia will receive grants to help phase in the removal of their previous Health Grants' advantage. It was agreed at the 1985 Premiers' Conference that these two States would receive, in 1985-86, an amount equal to two-thirds of the advantage they would have received under the previous arrangements. This additional assistance is estimated to be $34.4 million for South Australia and $11.9 million for Tasmania.[2]

In addition, Tasmania is to receive a Special Revenue Assistance grant of $31.2 million in 1985-86 to offset the effect of the new Financial Assistance Grants relativities. This grant recognises that Tasmania was the most affected, in relative terms, by the new arrangements and will ensure that the total general revenue grants made available to Tasmania do not decline by more than 4 per cent, in real terms, in the 1985-86 year.

A grant of $10 million is to be made to Queensland in 1985-86 to compensate it for the effect of Medicare on the relativities that operated prior to this Bill. It follows a Commonwealth Grants Commission report which recommended that $10 million should be made available to Queensland to compensate it for losses up to 30 June 1985. The new relativities to be introduced by this Bill will remove the need for such compensation in future.

The payments to South Australia and Tasmania to phase in their loss of Health Grant advantage are made under this Bill. The other Special Revenue Assistance Grants are made under the Appropriation Bill (No. 2) 1985-86.

Outline

The Bill provides for general purpose grants to the States for the years 1985-86 to 1987-88. It will remove the nexus between tax collections and the Financial Assistance and Health Care Grants. In 1985-86, the total amount available for both types of grant will remain at the same real level as in 1985-86. In the next two years the funds available for both types of grant will be increased by 2 per cent a year in real terms. The Bill also introduces new
Financial Assistance and Health Grant relativities which, in conjunction with population growth, will determine the distribution of grants amongst the States. In addition, the Bill provides for Special Revenue Assistance Grants to Tasmania and South Australia in 1985-86.

Main Provisions

For a detailed explanation of the provisions of the Bill, refer to the Explanatory Memorandum.

Clauses 5 and 6 contain the method for calculating the Financial Assistance Grants. Clause 5 contains the ways of calculating 'adjusted population' figures and sets out the relativities that are to apply to each State. Clause 6 gives the formulae for calculating each State's entitlements in 1985-86 and the next two years.

Clauses 7 and 8 perform the same functions in relation to Health Grants.

Clause 10 provides the formula for calculating the Special Revenue Assistance Grants to be made available to Tasmania and South Australia under this Bill.

In the Miscellaneous provisions, 1985-86 grants can be adjusted to take account of any amount advanced to the States in that year (clause 11) and the Treasurer will be empowered to make advances in the first half of the 1988-89 year (clause 12). The Governor-General is empowered to make regulations under the Bill by clause 17. Clause 18 repeals the States (Tax Sharing and Health Grants) Act 1981 and its amending Acts.

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


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## GENERAL REVENUE GRANTS 1981-82 TO 1985-86 ($ thousands)

### FINANCIAL ASSISTANCE GRANTS

<table>
<thead>
<tr>
<th></th>
<th>New South Wales</th>
<th>South Australia</th>
<th>Western Australia</th>
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### HEALTH GRANTS

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## GENERAL REVENUE GRANTS 1981-82 TO 1985-86 ($ thousands)

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### SPECIAL REVENUE ASSISTANCE

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### SPECIAL GRANTS

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### TOTAL GENERAL REVENUE GRANTS

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(a) These grants were adjusted to offset Tasmania and South Australia's advantage in Health Grants. Refer to the background for Health Grants.

Source: 1985-86 Budget Paper No. 7, p.28.
EFFECT OF NEW RELATIVITIES ON THE DISTRIBUTION OF
GENERAL REVENUE GRANTS TO THE STATES (a)
($ million)

<table>
<thead>
<tr>
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<th>Grant if 1984-85 pool had been distributed on basis of new arrangements</th>
<th>Difference (2)-(1)</th>
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<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
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<td>New South Wales</td>
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<td>Queensland</td>
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(a) Basic general revenue grants comprise financial assistance grants (formerly tax sharing grants) and health grants. Excludes special revenue assistance.


PER CAPITA RELATIVITIES(a) FOR FINANCIAL ASSISTANCE GRANTS, 1982-83 TO 1985-86

<table>
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<tr>
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<td>1.416</td>
<td>1.455</td>
<td>1.397</td>
<td>1.605</td>
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(a) The per capita relativities are used to weight a States population to determine the share of the grants pool that each State will receive. All else remaining constant, an increase in one States relativity will mean an increased share of the grants pool for that State.

DISTRIBUTION OF GENERAL REVENUE GRANTS
1985-86

- NT (4.8%)
- Tas (3.8%)
- SA (10%)
- NSW (30.2%)
- WA (11%)
- Qld (17.7%)
- Vic (22.1%)

Source: Treasury Press Release 30 May 1985