



Appropriation Bill (No. 4) 2006-07

Richard Webb
Economics Section

Contents

Purpose	1
Background	1
Annual appropriations	1
Additional estimates	2
The Senate’s powers and ‘money’ bills.	3
Departmental and administered expenses	3
Advance to the Finance Minister	4
Special accounts	4
Major items of expenditure	5
Payments to the States, the ACT, NT and local government.	5
Australian Federal Police.	6
Department of Defence	6

Office of Workplace Services	7
Department of Finance and Administration.	7
Department of Human Services	8
Department of Immigration and Citizenship	8
Department of Industry, Tourism and Resources.	8
Department of the Treasury	8
Australian Taxation Office	8
Financial implications	8
Main provisions.	9
Part 2-Basic appropriations	9
Part 3-Additions to basic appropriations	10
Endnotes.	10

Appropriation Bill (No. 4) 2006-07

Date introduced: 8 February 2007

House: House of Representatives

Portfolio: Finance and Administration

Commencement: On Royal Assent

Purpose

To appropriate \$637 million for purposes other than the ordinary annual services of the Government.

Background

Section 83 of the Constitution states:

No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law.

There are two broad categories of appropriations:

- annual appropriations, and
- special (or standing) appropriations.

There are usually six annual appropriation Bills. They authorise about 25 per cent of annual Commonwealth spending.

Special (or standing) appropriations—the terms are often used interchangeably—authorise about 75 per cent of spending. An example is the *Social Security (Administration) Act 1999* under which age pensions and other social security payments are made.

Annual appropriations

Annual appropriations are usually contained in six Appropriation Acts. The first three are:

- Appropriation Act (No. 1)
- Appropriation Act (No. 2), and
- Appropriation (Parliamentary Departments) Act (No. 1).

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

The Bills for the first three Acts are introduced at the same time as the Budget. The Acts authorise the payment of specified amounts for particular purposes.

Appropriation Act (No. 1) provides for the appropriation of money from the Consolidated Revenue Fund for the ordinary annual services of government.

Appropriation Act (No. 2) appropriates money for purposes other than the ordinary services of government. The latter encompass administered expenses—grants to the states, payments to the territories and local government and new administered expenses—and so-called ‘non-operating’ costs. The latter—sometimes called ‘capital’ costs—comprise:

- ‘*equity injections*’, which are provided to entities, for example, to enable investment in new capacity to produce departmental outputs when normal cash flows are insufficient
- ‘*loans*’, which are provided to entities by Government when an investment to produce future departmental outputs is expected to result in a direct return such as an efficiency saving (these are generally not formal loans established in contracts)
- ‘*previous years’ outputs*’ appropriations, which provide funding to replenish appropriations used to deliver departmental outputs in a previous year. This can occur, for example, when a decision is made to implement a new activity after the date for inclusion in the additional appropriation bills. Such activities are funded initially from existing appropriations which are then replenished by the *previous years’ outputs* appropriation, and
- ‘*administered assets and liabilities*’ appropriations, which provide funding for acquiring new administered assets, enhancing existing administered assets and discharging administered liabilities relating to activities administered by entities on behalf of the Government.¹

Additional estimates

Funding requirements usually change after the Budget is brought down. The government may agree to additional funding if the amounts in the three Budget Appropriation Acts are inadequate and so has to seek parliamentary approval for additional spending. The process whereby additional funds are provided is called ‘additional estimates’ and begins around November of the Budget year. The approved additional estimates are incorporated into Appropriation Bills 3 and 4 and Appropriation (Parliamentary Departments) Bill No. 2. These Bills are the counterparts of Appropriation Bills No. 1 and 2 and Appropriation (Parliamentary Departments) Bill No. 1, respectively. The Bill, which is the subject of this Digest, appropriates money for purposes other than the ordinary services of government.

Portfolio Additional Estimates Statements are the additional estimates counterparts of Portfolio Budget Statements and contain explanations of Appropriation Bills 3 and 4 and Appropriations (Parliamentary Departments) Bill No. 2.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

The Senate's powers and 'money' bills

Section 53 of the Constitution states:

Proposed laws appropriating revenue or moneys, or imposing taxation, shall not originate in the Senate. But a proposed law shall not be taken to appropriate revenue or moneys, or to impose taxation, by reason only of its containing provisions for the imposition or appropriation of fines or other pecuniary penalties, or for the demand or payment or appropriation of fees for licences, or fees for services under the proposed law.

The Senate may not amend proposed laws imposing taxation, or proposed laws appropriating revenue or moneys for the *ordinary annual services of the Government*.

The Senate may not amend any proposed law so as to increase any proposed charge or burden on the people.

The Senate may at any stage return to the House of Representatives any proposed law which the Senate may not amend, requesting, by message, the omission or amendment of any items or provisions therein. And the House of Representatives may, if it thinks fit, make any of such omissions or amendments, with or without modifications.

Except as provided in this section, the Senate shall have equal power with the House of Representatives in respect of all proposed laws. [Emphasis added]

As this Bill is not concerned with the ordinary annual services of the government, it may be amended by the Senate, so long as the total amount appropriated by the Bill is not increased. The Senate can, for example amend the Bills so as to reduce the total amount appropriated or change the method, object and destination of the any of proposed expenditure.

Departmental and administered expenses

Expenses are classified as either departmental or administered. Departmental expenses are the resources that agencies control and use to produce outputs. In essence, departmental expenses are the cost of running agencies. Examples of departmental expenses are salaries, other employee entitlements, and the use of equipment. Departmental expenses are appropriated as a single amount for each agency.

Administered expenses are spending that agencies manage on the government's behalf. Examples of administered expenses are subsidies, grants and benefit payments, and the financial assistance grants the Commonwealth makes to local governments.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

Advance to the Finance Minister

The Advance to the Finance Minister (AFM) provides flexibility in that it allows the spending of funds for unforeseen contingencies. The AFM is a provision authorised by the annual Appropriation Acts and made available to the Finance Minister as a central contingency fund to provide urgent funding to agencies throughout the financial year. Examples of the AFM provision are found in section 12 of *Appropriation Act (No. 1) 2006-2007* and section 13 of *Appropriation Act (No. 2) 2006-2007*.

AFM funding is available only if agencies meet two tests:

- the need for funding must be urgent, and
- the need was unforeseen or arose because of erroneous omission or understatement.

Special accounts

A Special Account is a ledger account recording a right to draw money from the Consolidated Revenue Fund (CRF) in accordance with designated purposes. The *Financial Management and Accountability Act 1997* (FMA Act) provides the appropriation authority for expenditure up to the balance of a Special Account. As to their purpose, the Department of Finance and Administration has stated:

[Special Accounts] provide a useful method of delivering some government programs, particularly ones funded by, say, indirect taxes or other compulsory imposts, contributions by other governments or discretionary contributions by members of the community. Special Accounts allow money in the CRF to be set aside for particular spending purposes, and moneys in a Special Account can only be spent for the purposes nominated.

... Special Accounts may be used for proper trustee type moneys, where the Commonwealth is holding money on behalf of other parties, so genuine trustees' moneys can fit into the Special Account definition. Also, where we are holding moneys on behalf of the States and for other similar uses, Special Accounts are an appropriate vehicle as well.

Special Accounts are established in two ways:

- by a determination issued by the Finance Minister under section 20 of the FMA Act or
- by enabling Acts, under section 21 of the FMA Act.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

Major items of expenditure

Payments to the States, the ACT, NT and local government

Of the total of \$637 million sought, \$277 million is for additional payments to the states, territories and local governments. They include:

- the largest amount—\$223 million—for the Department of Agriculture, Fisheries and Forestry to support primary producers in regions that have been declared eligible for exceptional circumstances assistance support, and
- additional compensation payments totalling \$35.4 million to New South Wales and Victoria under the Snowy Hydro Ltd corporatisation agreements. The payments compensate for the lower dividends received by these states from Snowy Hydro Ltd as a result of the company now paying company tax, ensuring that the states are not penalised by the new structure.

The Mid-Year Economic and Fiscal Outlook 2006-07 (MYEFO), which was released in December 2006 (at page 85) states:

The Government will provide an additional \$867.9 million over four years (including \$1.7 million in 2005-06) to support primary producers in regions that have been declared eligible for Exceptional Circumstances assistance.

Farmers who have not experienced a break in drought over the past 18 months can have Exceptional Circumstances drought declarations extended to the end of their next production cycle. Such extensions are considered following the receipt of information and advice from the National Rural Advisory Council and the Department of Agriculture, Fisheries and Forestry Drought Taskforce.

Exceptional Circumstances assistance comprises interest rate subsidies and income support to assist viable farm businesses and farm families who have been adversely affected by exceptional climatic events, such as drought. Eligible recipients are also provided with a health care concession card and access to Youth Allowance.

Further information can be found in the press release of 16 October 2006 issued by the Prime Minister.

According to the minister's second reading speech, the additional payments relating to Snowy Hydro Ltd arise because the sale of the company will not proceed.

Bill No. 4 proposes \$359.6 million in funds for non-operating expenses. The following contains details of some such expenses.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

Australian Federal Police

The Bill seeks capital funding of \$22.5 million to increase the capacity of the Australian Federal Police to respond to peacekeeping and peace restoration assignments. The MYEFO states (page 92):

The Government will provide \$493.2 million over five years (including \$148.6 million in 2010-11) to increase the capacity of the Australian Federal Police to respond to peace-keeping, peace restoration and capacity-building requirements overseas. This increased capacity will allow the Australian Federal Police to respond more quickly and comprehensively to international crisis situations and will help strengthen law enforcement capabilities across the region.

This measure includes \$30.4 million in capital funding for infrastructure and equipment.

Further information can be found in the press release of 25 August 2006 issued by the Prime Minister.

Department of Defence

The Department of Defence is seeking:

- \$49.7 million to acquire protective equipment to enhance the security and effectiveness of deployments to Iraq and Afghanistan
- \$18.6 million for the Australian Defence Force to meet the cost of responding to the civil unrest in East Timor, and
- \$14.2 million for the Australian Defence Force for the first stage of the Enhanced Land Force initiative.

The MYEFO states (pages 101 and 102):

Australian Army-additional infantry battalion

The Government will provide \$4.1 billion over eleven years from 2006-07 (including \$2.7 billion over seven years from 2010-11) to increase the size of the Australian Army by one light infantry battalion, implementing Stage 1 of the Enhanced Land Force. This involves the acquisition of additional equipment including Infantry Mobility Vehicles, and an increase in military and civilian personnel and provides for Australian Defence Force support elements. This measure includes \$724.5 million in capital funding over five years from 2007-08 (including \$314.9 million over two years from 2010-11) to develop facilities at Defence bases.

The additional personnel and operating costs for the new equipment required have yet to be finalised, but are expected to be comparatively minor. Provision for these costs,

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

and for a second additional battalion planned for the Enhanced Land Force, has been included in the Contingency Reserve.

Further information can be found in the press releases of 24 August 2006 issued by the Prime Minister and of 7 December 2006 issued by the Minister for Defence.

East Timor-funding to help restore peace and stability

The Government will provide \$184.5 million over three years (including \$18.6 million in 2005-06 and \$37.7 million in capital funding) for the Australian Defence Force's contribution to restoring peace and stability in East Timor as part of Operation ASTUTE.

Further information can be found in the press release of 26 May 2006 issued by the Department of Defence.

Office of Workplace Services

The Office of Workplace Services is seeking capital funds of \$17.3 million to fund office fit-outs associated with its expanded regional presence and to develop an information technology application to manage claims and infringements. The MYEFO states (at page 117):

The Government will provide \$20.5 million over four years to raise public awareness of the services provided by the Office of Workplace Services and the Office of the Employment Advocate. The education and awareness campaign includes newspaper and radio advertising.

The aim of the campaign is to educate employees and employers to direct workplace complaints to the Office of Workplace Services and employers and employees to approach the Office of the Employment Advocate for information and clarification on agreement making.

Department of Finance and Administration

The Bill proposes providing the Department of Finance and Administration with \$60 million for the construction of the Christmas Island Immigration Reception and Processing Centre. The MYEFO (at page 179) states:

The Government will provide additional funding of \$60 million in 2006-07 for the construction of the Christmas Island Immigration Reception and Processing Centre. This additional funding is required due to an increase in project costs including in relation to the break-down and lengthy time out of service of the Christmas Island port crane.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

Department of Human Services

The Department of Human Services will be provided with capital of \$34.4 million to centralise project management and procurement activities for the Health and Social Services Access Card. These additional funds will be offset by savings in Centrelink and Medicare Australia. The \$34.4 million is additional to the \$36.7 million sought for the related purpose in Appropriation Bill (No. 3) 2006-07.

Department of Immigration and Citizenship

According to the minister's second reading speech, an additional \$12 million is proposed for the Department of Immigration and Citizenship to reimburse the department for workload increases flowing from an increase in case volume and case complexity in several visa categories. This is additional to the \$13.7 million sought for the related purpose in Appropriation Bill (No. 3) 2006-07.

Department of Industry, Tourism and Resources

According to the minister's second reading speech, the Department of Industry, Tourism and Resources will receive an additional \$28.8 million to cover an increased liability for compensation payments accrued in 2005-06 to New South Wales and Victoria under the Snowy Hydro Ltd corporatisation agreements.

Department of the Treasury

An additional \$14 million will be provided to the Department of the Treasury to meet obligations under the *HIH Appropriation Act 2001*.

Australian Taxation Office

The Australian Taxation Office will receive additional capital of \$11 million to help deliver the Simplified Superannuation reforms. This is additional to the \$47.5 million sought for the related purpose in Appropriation Bill (No. 3) 2006-07.

Financial implications

The total amount sought is almost \$637 million.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

Main provisions

The provisions are mainly identical with those in *Appropriation Act (No. 4) 2005-06*. However, **clause 3** ('definitions') contains a clarifying definition. Whereas previous Acts used the term 'a State payment item', this has been made more explicit as 'a State, ACT, NT and local government item'. This revised wording is substituted in **subclauses 7(1)** and **7(2), 15(1), 15(2) and 15 (5)**. This revised rewording was first introduced in the *Appropriation Act (No. 2) 2006-07*.

The main changes are to clause 15, which deals with the conditions and terms applying to payments to the States, the ACT, the NT and local government. Again this change was first introduced in the *Appropriation Act (No. 2) 2006-07*. For such payments to States, Territories and local government authorities, the relevant portfolio Minister is able to determine conditions under which payments can be made. Such determinations are not legislative instruments and thus not disallowable by Parliament under the *Legislative Instruments Act 2003*. Such payments must be made in accordance with the conditions determined in accordance with the procedure contained in **subclause 15(3)**.

Part 2-Basic appropriations

Clause 6 authorises expenditure of \$636 945 000. The amounts allocated to each agency, and the breakdown between departmental and administered items, are set out in **Schedule 2**.

Clause 7 empowers the Finance Minister to issue money from the Consolidated Revenue Fund to entities so that the entities can make payments to the states.

Clause 8 deals with administered items in the basic appropriation. **Subclause 8(1)** limits the amount of money the Finance Minister can issue from the Consolidate Revenue Fund to the amount specified (in Schedule 2), and the amount that the Finance Minister includes in a determination. The general procedure with respect to the latter is as follows:

Appropriations for administered expenses are subject to a determination by the Finance Minister on the amounts to be issued. The effect of that determination is to prevent any part of the appropriation that has not been expensed in the year from being issued from the Consolidated Revenue Fund. By convention the Finance Minister issues determinations in relation to administered expenses appropriations following the completion of each financial year ... the determinations for administered expenses do not reduce the appropriation. Rather, they are a declaration by the Finance Minister of the maximum amount that may be issued for the respective items. The effect of the determination is that administered expense appropriations that have not been expensed in a year cannot be spent in later years.²

Clause 11 deals with reductions of appropriations. The general process for reductions is as follows:

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

Amounts appropriated for departmental expenses and for non-operating costs can be subject to a reduction process, first introduced in the additional estimates appropriations acts for 2003-2004. Under this process, on request in writing from a responsible minister, the Finance Minister may issue a determination to reduce the entity's departmental expense or non-operating costs appropriation. Requests for amounts to be lapsed may arise, for example, because the appropriation is no longer required. Until the Finance Minister issues a determination under this process, moneys appropriated for departmental outputs and non-operating costs may be issued from the CRF as required.³

Part 3-Additions to basic appropriations

Clause 12 deals with the power of the Finance Minister to increase the amount allocated to a departmental item up to a maximum of \$20 million for the 2006-07 financial year. As noted, departmental expenses are essentially the costs of running agencies such as salaries and rent. Clause 12 provides flexibility in that when situations arise where an agency finds that it does not have enough funds for departmental expenses and the shortfall cannot be met through the normal additional estimates processes, it may request additional funds by means of a determination that the Finance Minister issues. **Subclause 12(3)** provides that such a determination is a legislative instrument, but is not disallowable. **Clause 13** deals with the Advance to the Finance Minister. **Subclause 13(3)** limits the combined total the Finance Minister can issue under *Appropriation Act (No. 2) 2006-07* and the Bill to \$215 million. **Subclause 13(5)** provides that such a determination is a legislative instrument, but is not disallowable

Clause 14 provides that when an item of spending or revenue falls within the purpose for which a Special Account has been created, then that item may be respectively debited or credited to the Special Account.

Endnotes

-
1. Australian Government, Agency Resourcing 2006-07, Budget Paper No. 4, p. 5.
 2. *ibid.*, p. 6.
 3. *ibid.*

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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

© Copyright Commonwealth of Australia 2007

Except to the extent of the uses permitted under the *Copyright Act 1968*, no part of this publication may be reproduced or transmitted in any form or by any means including information storage and retrieval systems, without the prior written consent of the Department of Parliamentary Services, other than by senators and members of the Australian Parliament in the course of their official duties.

This brief has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Parliamentary Library, nor do they constitute professional legal opinion.

Members, Senators and Parliamentary staff can obtain further information from the Parliamentary Library on (02) 6277 2464.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

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