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Appropriation Bill (No. 4) 2007-08

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Contents

Appropriation Bill (No. 4) 2007-08

Date introduced: 13 February 2008

House: House of Representatives

Portfolio: Finance and Deregulation

Commencement: On Royal Assent

Links: The *relevant links* to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

To appropriate additional money 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 of a special appropriation 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 although there can be more. The first three are:

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

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) provides for the appropriation of money from the Consolidated Revenue Fund for purposes other than the ordinary services of government. The latter encompass administered expenses (see below)—which include grants to the states, payments to the territories and local government, 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 (see below)
- '*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 (see below). 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]

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

1. Budget Paper No. 4 2007-08, p. 5.

> 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.

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 Bill so as to reduce the total amount appropriated or change the method, object and destination of any of the proposed expenditure.

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 usually 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.

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.

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.

Advance to the Finance Minister

The Advance to the Finance Minister (AFM) provides flexibility in that it allows the spending of funds for unforseen 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 in section 11 of *Appropriation Act (No. 4) 2006-2007* and section 12 of *Appropriation Act (No.2) 2007-2008.*

AFM funding is available only if it meets two tests:

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

Basis of policy commitment

The Bill proposes additional funding, some of which flows from election policies. The following lists, by agency, some of the measures the Bill covers as announced in the Minister's second reading speech.

Department of Defence

The Department of Defence will receive $26.8 million for payment to the Queensland government for the relocation of Amberley State School as a result of the expansion of RAAF Amberley. This appropriation is provided through the reclassification of an existing Defence appropriation.

Department of Families, Housing, Community Services and Indigenous Affairs

An additional $33.0 million will be provided under the Commonwealth State and Territories Disability Agreement for grants to the states for people with disabilities and their carers.

Department of Foreign Affairs and Trade

AusAID will be provided with $466.4 million for Australia's contribution to the International Development Association, which is the concessional lending arm of the World Bank. The amount reflects additional funding announced in the 2007-08 Mid-year Economic and Fiscal Outlook of $211 million. It also reflects a change in the accounting treatment for $255 million, which was previously appropriated with funding for loans in *Appropriation Act (No. 1) 2007-08*. The original funding provided in this Act under the previous accounting treatment will be returned to the budget.

Department of Health and Ageing

Funding for this Department includes:

- $40.3 million for investment in hospitals and community health under the Better Outcomes for Hospitals and Community Health program
  - this program includes funds for specific commitments announced during the election, such as $15 million for the Launceston Integrated Cancer Care Centre, and
- $18 million for a contribution to Grafton Hospital.

Department of Immigration and Citizenship

An equity injection of $121.4 million is proposed for the Department of Immigration and Citizenship to, among other things, reimburse the Department for meeting workload increases flowing from an increase in case volume in 2006-07, and to provide capital funding for IT system development and upgrades for the border control system as well as additional capital funding for the Systems for People IT program.

Department of Infrastructure, Transport, Regional Development and Local Government

The appropriation of $20 million brings forward funding under the AusLink program to allow the early initiation of (unidentified) projects by the Department of Infrastructure, Transport, Regional Development and Local Government.

Department of Innovation, Industry Science and Research

An additional $17.6 million will be provided to the Department of Innovation, Industry, Science and Research for the Innovation Investment Fund. This amount represents the profit on the fund's investment, and continues the policy that profits generated should be returned to the fund to create a self-sustaining program of investments.

Financial implications

The Bill provides for expenditure of $898.489 million. This compares with $636.945 million in the equivalent 2006-07 Act.

Main provisions

Clause 6 authorises expenditure of $898 489 000. 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, territories and local government.

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 amount 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 set the maximum amount that may be issued from each administered expense appropriation. 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:

> Amounts appropriated for departmental outputs 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.[3]

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2. Budget paper No. 4 2007-08 p. 6.
3. ibid.

Section 12 of *Appropriation Act (No.4) 2006-07* titled 'Other departmental items-adjustments and borrowings' empowered the Finance Minister to increase the amount allocated to a departmental item to a maximum of $20 million. As noted, departmental expenses are essentially the costs of running agencies such as salaries and rent. Section 12 provided 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.

It is not clear why a comparable clause has been dropped from the Bill. A possibility is that it is a way of enforcing financial discipline on agencies in the context of the government seeking to cut expenditure for fiscal policy purposes. By eliminating access to this option, agencies will be forced to operate within the budgets available through the annual appropriations and additional estimates processes.

Clause 12 deals with the AFM (see page 4 of the Digest). **Subclause 12(3)** limits the combined total the Finance Minister can issue under *Appropriation Act (No.2) 2007-08* and the Bill to $215 million. **Subclause 12(5)** provides that an AFM determination issued by the Finance Minister under **clause 12** is a legislative instrument, but is not disallowable.

Clause 13 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.
