

CHAPTER 3

LOAN FUND

Section 55 of the *Audit Act 1901* provides that a separate account, called the Loan Fund, shall be kept of all moneys raised by way of loan upon the public credit of the Commonwealth, other than moneys raised by way of advances made by banks in pursuance of agreements under section 20 of the Act. The Fund is kept under separate heads as are specified in the Loan Acts under the authority of which the moneys are raised. Moneys standing to the credit of the Loan Fund may be expended only under the authority of an Act.

A summary of the revised estimates of receipts and payments of the Loan Fund for 1996-97 together with estimated payments for 1997-98 is set out in Table 8. As a reliable breakdown of the borrowing instruments to be used in 1997-98 cannot be provided at this stage, no estimates of borrowings have been included in Table 8.

The Parliament has power to make laws for borrowing money under section 51(iv) of the *Commonwealth of Australia Constitution Act 1901*. Financial agreements between the Commonwealth and the States provide for the establishment of the Australian Loan Council which determines the annual borrowing programs for the year, the allocation of loan funds and the arrangements for conversion, renewal or redemption of the public debt of the Commonwealth and of the States. No borrowings are made otherwise than in accordance with the provisions of the agreements except borrowings for defence and for temporary purposes which are expressly excluded from those provisions. Until 1989-90, subject to minor exceptions, the Commonwealth Government arranged all borrowings and redemptions on behalf of the State Governments. However, at the Premiers' Conference in June 1990, it was decided that from 1 July 1990, the States would be redeeming their maturing debt rather than meeting the bulk of their debt obligations through the new issue of debt by the Commonwealth.

Securities denominated in Australian Dollars currently issued for public borrowings comprise Treasury (Fixed Coupon) Bonds, Treasury (Adjustable Rate) Bonds, Treasury Indexed Bonds and Treasury Notes issued in accordance with the provisions of the *Commonwealth Inscribed Stock Act 1911*. Securities denominated in overseas currencies are issued in accordance with the *Loans Securities Act 1919*.

Treasury (Fixed Coupon) Bonds, Treasury (Adjustable Rate) Bonds, Treasury Indexed Bonds and Treasury Notes are marketable securities issued by periodic tender and may be freely transferred throughout Australia. Treasury (Fixed Coupon) Bonds are medium to long term securities which carry a rate of interest fixed over the life of the security payable on the face (or par) value of the security and are repayable at face value on maturity. Treasury (Adjustable Rate) Bonds are a medium to long term investment which carry an interest rate, adjusted quarterly in line with movements in Bank Bill rates, on the face value of the security and are repayable at face value on maturity. Treasury Indexed Bonds are also medium to long term securities and are issued in the form of Capital Indexed Bonds. The nominal value of the securities, on which a fixed rate of interest applies, varies over time according to movements in the

Consumer Price Index. At maturity, the adjusted capital value of the Bonds is repaid. In the past, Treasury Indexed Bonds were also issued in the form of Interest Indexed Bonds which carry a nominal rate of interest which varies over time according to movements in the Consumer Price Index and are repayable at face value on maturity.

Treasury Notes are issued in periodic tenders (usually weekly), with maturities of 5, 13 or 26 weeks at a discount determined in the tender process. They are freely transferable throughout Australia and are redeemable at par on maturity. Treasury Notes are primarily used to finance within-year differences in timing between the Government's expenditure and revenue collections. Internal Treasury Bills are a form of security available for the investment of Trust Fund cash surpluses to help finance any potential deficits in the Consolidated Revenue or Loan Funds.

The Commonwealth has not borrowed through the issue of securities denominated in foreign currencies since 1987. Outstanding borrowings are denominated in a variety of currencies and were issued with medium to long term maturities.

Interest on securities is a charge on the Consolidated Revenue Fund. Details of estimated interest payments, together with other debt charges, are shown under Department of the Treasury in Table 6 - Estimates of Payments from Special Appropriations.

RECEIPTS

Loans raised in Australia - Treasury Bills and Treasury Notes

Borrowings shown in Table 8 include net movements only for Treasury Bills and Treasury Notes. Where there is an increase in the amount of Treasury Bills or Notes on issue at the end of a financial year as compared with the previous year-end, the borrowings must be applied for defence purposes or charged to an approved Loan Council Program.

PAYMENTS

Balancing the Consolidated Revenue Fund

Legally, payments from the Consolidated Revenue Fund cannot exceed the moneys available to it. The annual Loan Act provides the legislative authority to charge Defence payments to the Loan Fund in lieu of the Consolidated Revenue Fund and to reimburse the Consolidated Revenue Fund from the Loan Fund for certain non-defence payments. Table 8 includes details of estimated defence payments to be charged to the Loan Fund as well as the estimated amount of reimbursement of the Consolidated Revenue Fund for non-defence payments.

Expenses of Borrowing

Loan flotation expenses, or the costs of raising money by way of loan are a charge on the Loan Fund in accordance with the legislation authorising the borrowing. Table 8 includes details of loan flotation expenses chargeable to the Loan Fund.

Rollover of Maturing Securities

The costs of meeting redemptions which have not been met from other sources such as the Debt Retirement Reserve Trust Account, the Loan Consolidation and Investment Reserve or the Consolidated Revenue Fund may be charged to the Loan Fund in accordance with the *Loans Redemption and Conversion Act 1921*. Table 8 includes details of maturing securities estimated to be met from the Loan Fund in 1996-97 and 1997-98.

TABLE 8

Estimated Receipts and Payments from Loan Fund

	Estimates 1997-98	Revised Estimates 1996-97
	\$	\$
Receipts		
Loans raised in Australia -		
Stocks and Bonds	(a) 7 000 000 000	
Indexed Bonds	(a) 622 000 000	
Treasury Notes (b)	(a) - 3 400 000 000	
Treasury Adjustable Rate Bonds	(a) 900 000 000	
Income Equalization Deposits	128 670 000	108 900 000
Internal Treasury Bills (b)	(a) —	
Total Loan Raisings	(a) 5 230 900 000	
Premiums on Treasury Bonds Issued	(a) 320 000 000	
Premiums on Treasury Adjustable Rate Bonds Issued	(a) 5 000 000	
Amounts repayable from the Consolidated Revenue Fund under subsection 3(2) of the <i>Loan (Temporary Revenue Deficits) Act 1953</i> .	25 000 000 000	25 000 000 000
Total Loan Fund Receipts	n.a. 30 555 900 000	
Payments		
Redemptions —		
<i>Loans Redemption and Conversion Act 1921—</i>		
Australian Savings Bonds	200 000	200 000
Stocks and Bonds	9 679 000 000	4 210 000 000
Sub-Total Redemptions Australia	9 679 200 000	4 210 200 000
Redemptions Overseas	223 000 000	735 000 000
Total Redemptions	9 902 200 000	4 945 200 000
Discounts on Treasury Bonds Redeemed	196 100 000	206 415 000
Discounts on overseas securities	—	85 000
Defence Services payments included in <i>Appropriation Act (Nos 1 and 3) 1996-97</i> chargeable to the Loan Fund under the <i>Loan Act 1996</i> .	—	386 050 471
Amounts payable to the Consolidated Revenue Fund under subsection 3(1) of the <i>Loan (Temporary Revenue Deficits) Act 1953</i>	25 000 000 000	25 000 000 000
<i>Loan (Income Equalization Deposits) Act 1976</i>	128 670 000	108 900 000
Loan Flotation Expenses	161 000	177 000
Total Loan Fund Payments	35 050 641 000	30 646 827 471

(a) A detailed breakdown cannot be reliably provided at this stage. However, other expenditures from Loan Fund, classified as financing transactions, are shown in aggregate form in Table 1 and can be obtained progressively from the Statement of Commonwealth Financial Transactions published monthly by the Minister for Finance.

(b) Net movement.