(Only the Explanatory note is available for this Bill)

**Act 1994 No. 71**

# FINANCIAL AGREEMENT BILL 1994

NEW SOUTH WALES

## EXPLANATORY NOTE

**(This Explanatory Note relates to this Bill as introduced into Parliament)**

On 25 February 1994 an Agreement with respect to public sector debts was made between the Commonwealth, States and Territories ("the financial agreement"). The object of this Bill is to obtain Parliamentary approval of the financial agreement between the Commonwealth, States and Territories and to provide for the appropriation of money required for New South Wales to carry out the agreement. The 1994 financial agreement replaces the original financial agreement between the Commonwealth and the States made in 1927, as subsequently varied.

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**Clause 1** specifies the short title of the proposed Act.

**Clause 2** provides for the commencement of the proposed Act on a day to be proclaimed.

**Clause 3** defines ''1994 financial agreement".

**Clause 4** provides for the approval of the agreement set out in Schedule 1 to the proposed Act.

**Clause 5** provides for the Consolidated Fund to be appropriated to the extent necessary for the purpose of carrying out the agreement on the part of New South Wales.

**Clause 6** makes consequential amendments to the Public Finance and Audit Act 1983.

**Schedule 1** sets out a copy of the agreement. The agreement contains provisions for the following purposes:

**Power of States to conduct public borrowings**

The financial agreement formalises certain voluntary arrangements that exist outside the terms of the original financial agreement. The Commonwealth no longer borrows on behalf of the States, with the States then meeting interest and sinking fund obligations in respect of such debts previously raised on their behalf. The States now conduct borrowings through their own central borrowing authorities. The 1994 financial agreement therefore:

(1) abolishes the explicit power of the Commonwealth to borrow on behalf of the States;

(2) removes the restriction on States borrowing by the issue of securities in their own names in both domestic and international markets;

(3) removes the requirement that the Commonwealth and States obtain Loan Council approval of future borrowings.

**Debt Retirement Reserve Trust Account**

The 1994 financial agreement establishes obligations and arrangements in respect of past Commonwealth borrowings on behalf of the States. The States and the Northern Territory must refinance debt raised on their behalf by the Commonwealth. The Commonwealth must enact legislation, as required under the 1994 financial agreement, to replace the old National Debt Sinking Fund and the Northern Territory Debt Sinking Fund with a new Debt Retirement Reserve Trust Account. The 1994 financial agreement provides for the payment of contributions to the Trust Account by the States, the Northern Territory and the Commonwealth, calculated in accordance with the terms of the 1994 financial agreement. The Commonwealth must compensate the States and the Northern Territory for any additional costs incurred by them as a result of the change-over.

**Role of the Loan Council**

The 1994 financial agreement provides for the continued existence of the Loan Council and the formal membership of the Australian Capital Territory and the Northern Territory. The Loan Council is to be a monitoring and co-ordinating body, with the power to make resolutions in relation to the borrowings, fund raisings and other financial arrangements of public sector entities. The 1994 financial agreement also prescribes the operating procedures of the Loan Council.