Commonwealth Borrowing Levy Bill 1987

Date Introduced: 7 October 1987
House: House of Representatives
Presented by: The Hon. Clive Holding, M.P., Minister for Employment Services and Youth Affairs and Minister Assisting the Treasurer

Digest of Bill

Purpose
To impose a levy on borrowings by certain Commonwealth authorities.

Background
The levy to be introduced by this Bill will replace the Commonwealth guarantee charge announced in the 1986–87 Budget. That charge was imposed on authorities which used an explicit or discretionary Commonwealth guarantee when borrowing funds. Such a guarantee allows bodies to borrow at favourable interest rates as repayment is guaranteed by the Commonwealth and so the risk of default is greatly reduced. During the operation of the charge, authorities found that they could borrow on similarly favourable terms without relying on a guarantee because lenders were aware that, even without a specific guarantee, the Commonwealth was very unlikely to allow statutory authorities to default. As a result, bodies found that they could by-pass the charge and still borrow on favourable terms due to their semi-government status. The measures contained in this Bill, which were announced in the 1987–88 Budget, will prevent such ‘avoidance’ of the charge.

While the Bill will extend the scope of the charge, two measures contained in the Bill will reduce the revenue from the charge. First, financial institutions subject to the charge in 1986–87 will be exempt. This reflects the nature of such institutions and their position in a competitive market. As it is very unlikely that a major financial institution will default, or be allowed to default, there is little advantage to such bodies in their semi-government basis. The consortium arrangement to prevent the merchant bank Rothwells Ltd. from default (see the Financial Review, 26 October 1987) is a good example of the reduced risk of lending to a major financial institution.

Secondly, the rate of the levy will be reduced to ‘more closely reflect the benefit authorities gain from Commonwealth ownership’. This statement implies that the rate of charge in 1986–87 exaggerated the benefit obtained, and placed an additional cost on the authorities
involved. This Bill is estimated to raise $1.3 million in 1987–88 in addition to the $7.6 million that would have been raised through the guarantee charge.  

**Main Provisions**

The Bill will apply to borrowings of money, other than from the Commonwealth, on or after 1 July 1987 by the bodies listed in the Schedule to the Bill (clause 4). Those bodies include AUSSAT, Australian National Airlines Commission, Australian National Railways Commission, Australian Postal Commission, Australian Telecommunications Commission, Australian Trade Commission, Commonwealth Serum Laboratories, Federal Airports Corporation, Health Insurance Commission, Housing Loans Insurance Commission, Overseas Telecommunications Commission, Qantas Airways Limited, Snowy Mountains Engineering Corporation and Snowy Mountains Hydro–electric Authority.

The rate of levy will be as prescribed, to a maximum of 0.5% (clause 6). (In the second reading speech the Minister states that the intended rate of levy will be 0.125% per annum.)

The levy will be payable by the body which undertakes the borrowing (clause 8).

**References**


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

27 October 1987

Bills Digest Service
Legislative Research Service

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

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