PRIMARY INDUSTRY BANK AMENDMENT BILL (NO. 2) 1978

Date Introduced: 26 October 1978
House: House of Representatives
Presented by: Hon. J.W. Howard, M.P., Treasurer

Short Digest of Bill

Purpose

To alter the machinery for the lending of Income Equalisation Deposits (IEDs) to the Primary Industry Bank of Australia (PIBA).

Background

PIBA was originally established under the Australian Rural Bank Act 1977 (see Digest 77/139). Its name was changed under the Primary Industry Bank Amendment Act 1978 (see Digest 78/66). Details of arrangements for lending by PIBA and on-lending by prime lenders are given in the Second Reading Speech to this Bill, joint statements by the Treasurer and the Minister for Primary Industry on 15 October 1978 and 7 November 1978 and a News Release by PIBA on 16 October 1978 (incorporated in Hansard, Senate, 17 October 1978, page 1315).

One source of funds for PIBA will be grants or loans from the Commonwealth (including loans from the IED Trust Account). IED funds available for lending to PIBA will total $30m., on which PIBA will pay 5% interest, initially. PIBA will lend such funds to prime lenders at maximum interest rates of 9% for loans below $100,000 and 11% for loans of $100,000 or more.

Provisions

This Bill will provide for three changes to the arrangements for lending IED funds to PIBA. Clause 3 amends section 8 of the Principal Act by replacing existing sub-sections 8(2) and 8(3) and adding new sub-sections 8(5), 8(6) and 8(7).

Sub-section 8(2) of the Principal Act provides for loans to PIBA to be made from IED funds by paying moneys out of the IED Trust Account (the Account) to PIBA. New sub-section 8(2) will provide for two ways to make such loans, namely, the existing way and also, by investing on deposit.
in PIRA moneys in the Account. The lending of IED funds to PIBA by the existing method would be classified as a budgetary transaction (in this case, a budgetary expenditure) which would, of course, appear in the Budget. However, the investment on deposit in PIRA of IED funds held in the Account, would constitute a (negative) financing transaction, which would be 'under the line' and would not appear in the Budget. This is in keeping with investment in general of trust account funds being regarded as financing transactions. Both forms of lending would have the same effect on PIRA in that it would pay interest on borrowed IED funds. However, the new provision will ensure that the option exists of lending IED funds to PIBA without increasing the Budget deficit. New sub-section 8(3), embodying drafting changes to comply with new sub-section 8(2), continues the provision whereby loans from IED funds to PIBA are subject to prescribed maximum limits in respect of amounts of such loans and prescribed rates of interest payable by PIBA on such loans.

New sub-section 8(5) will ensure that any IED funds lent to PIBA by payment of moneys out of the Account to PIBA are repaid by payment directly into the Account, thus avoiding the need for an appropriation of the Consolidated Revenue Fund (CRF), which would have been the case had repayment been made to the CRF and thence to the Account. Repayment of IED funds lent by investment on deposit in PIBA will automatically be made by payment directly into the Account.

New sub-section 8(6) provides for payments to be made from the CRF to the Account at any time, to ensure that the lending of IED funds to PIBA will not prevent the Account from meeting its obligations to IED depositors (i.e., primary producers), should they require the return of their IEDs. New sub-section 8(7) will authorise the repayment to the CRF from the Account of moneys provided to the Account by the CRF under new sub-section 8(6), and will ensure that, if at any time, the sum of such moneys provided by the CRF exceeds the sum of IED funds lent to PIBA, the excess shall be repaid from the Account to the CRF.