Appropriation Bill (No. 1) 1990-91

Date Introduced: 21 August 1990
House: House of Representatives
Portfolio: Treasury

Purpose
To appropriate $13,453,048,800 from the Consolidated Revenue Fund (CRF) for the ordinary annual services of government during the 1990-91 financial year.

Background
The second reading speech for this Bill is the vehicle used to introduce the Budget.

This Bill forms part of a package relating to government finance. The Bill covers expenditure for the ordinary annual services of government, while Appropriation Bill (No. 2) deals with expenditure on capital works and services, payments to the States and other purposes not authorised by special legislation. Appropriation for the expenditure of the Parliamentary Departments is contained in the Appropriation (Parliamentary Departments) Bill. Authority to spend under these Bills lapses on 30 June.

Additional appropriation may be sought in further Appropriation Bills, commonly known as the additional estimates, when the appropriation sought in the Appropriation Bills is insufficient for the financial year. The additional appropriations are usually made in the March/April period. The additional estimates also lapse on 30 June.

In the period between 1 July and the Budget, authority to spend is obtained under the Supply Acts. These are normally passed a month or so before the end of the financial year and generally do not allow for more than five months spending. The amounts authorised under the Supply Acts are later incorporated in the Appropriation Acts for the year to which the expenditure relates.

Outline
The major features of the Budget are:

Revenue: Total Budget revenue in 1990-91 will be $101,063 million, an increase of 6.4% over the previous year. This represents 25.5% of GDP, compared with 25.8% in the previous year. Net PAYE revenue will increase by 7.6% over the previous year, while company tax revenue is estimated to fall by 6.4%. Fringe benefit tax collections are estimated to increase by 9.5%.

A major negative effect on revenue over the next two financial years will occur with the change from the existing excise and royalty regime to the resource rent tax (RRT) for Bass Strait oil fields. This will replace the current system, where the rate of excise and royalty payable depended on the volume extracted and the classification of the oil (old, new or intermediate), with a tax on the profits from the operation. This will give a greater incentive to recover high cost oil from this area as charges will only be payable on the profit made, rather than being payable on the volume recovered whether a profit was made or not. With the introduction of the RRT, different collection methods will apply and this is estimated to result in a drop in revenue of $270 million in 1990-91 and $410 million in 1991-92. According to the Budget papers, "A revenue positive outcome is expected in 1992-93 with the changes resulting in increased net revenues over the next decade." Another interesting aspect of the new regime is that it is intended that there will be no change, at least over the life of the Bass Strait fields. This is based on the increased flexibility of the RRT scheme when compared to the existing regime. A further important aspect of the RRT is that producers will be able to claim a deduction for
all their exploration expenditure due to changes in the RRT deduction provisions.

A major revenue gain announced in the Budget arises from changes in those liable to pay provisional tax. The changes are aimed at the situation where people defer tax liability on non-PAYE wages and salary equivalents (the examples given by the Treasurer include Directors fees, commissions, bonuses and short-term contract employees. Another potential source of such revenue is expatriates living in Australia and employed by overseas employers). Where, in the preceding year of income, a taxpayer had a balance of tax to pay on assessment of $3000 or more and there is a shortfall in tax instalment deductions of $3000 or more, the person will be liable to pay provisional tax (which will bring the time for payment forward compared to payment on assessment). This measure is estimated to raise $370 million in 1990-91.

Outlays: Budget expenditure is to increase by 6.9% over the previous year and is estimated to comprise 23.7% of GDP (23.9% in the previous year). The calculation of the 6.9% increase is based on the deduction of $1000 million raised from asset sales. Many of the major expenditure reductions are largely offset by increases in spending in associated areas.

The Budget changes to the Pharmaceutical Beneftts Scheme (PBS) contains four main elements. First, the contribution for general patients will be increased from $11 to $15, a measure estimated to reduce spending by $31.4 million in 1990-91. Secondly, where various brands of a drug are available, the PBS price will be based on the lowest cost drug (usually the generic product). This is estimated to save $17 million in 1990-91. Thirdly, improved procedures to tighten eligibility are estimated to save $31.5 million. Finally, the largest saving will be made by the introduction of a $2.50 charge for pensioners, to an annual limit of $130. This is estimated to save $148.6 million. The latter saving is more than offset by the decision to increase the pension for those affected by this change by $2.50 per week, a measure estimated to cost $169.4 million in 1990-91.

A similar situation exists regarding the estimated saving of $70 million from a one off change in the timing of payments for child care services. An additional $67.4 million will be spent on improved child care relief and the extension to commercial and employer sponsored child care.

Other major changes in spending include:
* a reduction in general revenue assistance to the States and Territories of $427.1 million in 1990-91 (this was agreed at the Premiers' Conference);
* the introduction of a provincial cities and rural highways program at the cost of $100 million in 1990-91;
* a saving of $119.9 million due to the introduction of computer matching of social security data and data held by other agencies;
* $30.2 million will be saved by paying the unemployment benefit at the in-home rate for those aged 18-20 without dependents;
* the deferral of unemployment benefits for four weeks where the applicant has liquid assets greater than $5000 is estimated to save $18.9 million; and
* the deferral of an increase in scheduled medical fees is estimated to save $29.3 million in 1990-91.

A major aspect of the formulation of the Budget figures is the assumptions on which they are based. Some of the more important forecasts (with 1989-90 figures in brackets) are:
* private final consumption expenditure will increase by 2.25% (4.2%);
* business investment will fall by 7.25% (-1.4%);
* exports of goods and services will increase by 7.5% (6.1%);
* imports of goods and services will fall by 3% (+3.6%);
* average earnings will increase by 7% (6.5%);
* the CPI will increase by 6.5% (8%);
* the unemployment rate for 1990-91 is forecast to be 7.25% (6.2%);
* real household disposable income will increase by 1% (5.8%);
* the current account balance will deteriorate by $18 million (-$20.7).

A contentious assumption is that the price for oil will be $US23 per barrel. While the possible effect on oil prices from the assimilation of Kuwait by Iraq will depend on many contingencies and so, at this time, be very difficult to predict, commentators on the Budget have reflected on potential difficulties. Regarding prices and wages, KPMG Peat Marwick commented "Giving the uncertainties
surrounding the international oil outlook these (wage and price forecasts) are optimistic forecasts, but the government has left itself the option of renegotiation of Accord Mark VI should the international situation turn for the worse later in the fiscal year. Another potential difficulty associated with the uncertainty regarding oil prices concerns the effect on the economy of other countries and international trade. To quote another commentator on the Budget, Price Waterhouse, "The potential impact of strong price rises in oil is acknowledged by the government but not factored into the Budget's estimates of export sales particularly for manufactured products and minerals. A downturn in the level of world activity would immediately impact upon these areas of projected growth and, combined with higher imported oil prices, would significantly increase Australia's current account deficit. The Budget papers use a price of $US23 per barrel which on current prices and expectations appears to be somewhat on the low side. The flow of benefits to the remainder of the economy from the projected increase in export earnings may, therefore, not be as significant as expected."

Main Provisions

Clause 3 will authorise the Minister for Finance to issue $13 453 048 800 from the CRF for the purposes specified in Schedule 3 of the Bill (this gives a portfolio and program breakdown of the expenditure).

Clause 4 deals with the amalgamation of the Supply Act (No. 1) 1990-91 and this Bill to authorise a total expenditure of $24 129 218 000 for the ordinary purposes of government during 1990-91.

Clauses 5 and 6 allow for additional appropriations under the Appropriation and Supply Acts for increases in salaries that become payable during 1990-91.

The remaining provisions relate to increases under the Supply Act (No. 1) 1990-91 for the Department of the Arts, Sport, the Environment, Tourism and Territories; the Bureau of Meteorology; the Commonwealth Reporting Service; the Family Court of Australia; the Department of Community Services and Health; the Department of Foreign Affairs and Trade; the Department of Industry, Technology and Commerce and the Australian Taxation Office. The clauses also provide for the potential establishment of the National Science and Technology Centre and the Australian National Maritime Museum.

References

1. Budget paper No. 1 1990-91, p. 4.7

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For further information, if required, contact the Economics and Commerce Group on 06 2772460.

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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