
THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

SUPPLY BILL (NO. 2) 2019-2020

EXPLANATORY MEMORANDUM

(Circulated by the authority of the Minister for Finance and the Public Service, Senator the Honourable Mathias Cormann)
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Supply Bill (No. 2) 2019-2020

General Outline

1 This Explanatory Memorandum accompanies the Supply Bill (No. 2) 2019-2020 (the Bill).

2 The main purpose of the Bill is to propose appropriations from the Consolidated Revenue Fund (CRF) for services that are not the ordinary annual services of the Government.

3 The Bill proposes appropriations broadly equivalent to $5/12$ of the estimated 2019-20 annual appropriations that are not for the ordinary annual services of the Government, excluding 2019-20 Budget measures.

4 Annual appropriations that are not for the ordinary annual services of the Government for the balance of 2019-20, being an amount broadly equivalent to $7/12$ of those appropriations for 2019-20 plus Budget measures, are proposed in Appropriation Bill (No. 2) 2019-2020.

5 Appropriations for the ordinary annual services of the Government must be contained in a separate Bill from other appropriations in accordance with sections 53 and 54 of the Australian Constitution (the Constitution). Consequently, the Bill proposes appropriations that are not for the ordinary annual services of the Government. Annual appropriations that are for the ordinary annual services of the Government are proposed in the Supply Bill (No. 1) 2019-2020, on the same proportional basis as this Bill. Other annual appropriations that are not for the ordinary annual services of the Government are proposed in Supply (Parliamentary Departments) Bill (No. 1) 2019-2020, on the same proportional basis as this Bill. Together these three Bills are termed the Supply Bills.

6 The Portfolio Budget Statements (portfolio statements) are published and tabled in the Parliament in relation to the Appropriation Bill (No. 2) 2019-2020. The portfolio statements are taken to cover both the Bill and the Appropriation Bill (No. 2) 2019-2020. This Explanatory Memorandum should be read in conjunction with the various 2019-20 portfolio statements, which contain details on the appropriations set out in the Schedules of the Bills.

Structure of the Bill

7 The Bill provides for the appropriation of specified amounts for expenditure by Australian Government entities, primarily being non-corporate Commonwealth entities (non-corporate entities) under the Public Governance, Performance and Accountability Act 2013 (PGPA Act).
8 Part 1 of the Bill deals with definitions, the interpretative role of the portfolio statements, and the concept of notional transactions. Part 2 of the Bill proposes appropriations to make payments of the amounts in Schedule 2 for State, ACT, NT and local government items (clause 7), administered items (clause 8), administered assets and liabilities items (clause 9), other departmental items (clause 10) and corporate entity items (clause 11). Part 3 of the Bill specifies the Advance to the Finance Minister (AFM) provision (clause 12).

9 Part 4 of the Bill deals with the debit limits applicable for 2019-20 (clause 13) for the general purpose financial assistance and national partnership payments, as specified in the Federal Financial Relations Act 2009. Part 4 also deals with increases to the debit limits to provide for the Goods and Services Tax (GST) (clause 14).

10 Part 5 deals with credits to special accounts (clause 15), the conditions that apply to payments of State, ACT, NT and local government items (clause 16 and Schedule 1), provides for amounts to be appropriated as necessary (clause 17) and specifies when the Bill is repealed (clause 18). In addition to the AFM provision in Part 3, clause 17 of the Bill recognises that the appropriations proposed in the Bill may also be varied by the PGPA Act.

Financial Impact

11 The Bill, if enacted, would appropriate the amounts specified in Schedule 2 as set out in section 6.
Statement of compatibility with human rights

1. The Bill seeks to appropriate money for services that are not considered to be the ordinary annual services of the Government.

2. Accordingly, the Bill performs an important constitutional function, by authorising the withdrawal of money from the CRF for the broad purposes identified in the Bill.

3. However, as the High Court has emphasised, beyond this, Appropriation Acts do not create rights and nor do they, importantly, impose any duties.

4. Given that the legal effect of Appropriation Bills is limited in this way, the Bill is not seen as engaging, or otherwise affecting, the rights or freedoms relevant to the Human Rights (Parliamentary Scrutiny) Act 2011.

5. Detailed information on the relevant appropriations, however, is contained in the portfolio statements.
Notes on clauses

Part 1—Preliminary

Clause 1—Short title

1 Clause 1 specifies that the short title of the Bill, once enacted, will be the Supply Act (No. 2) 2019-2020.

Clause 2—Commencement

2 Clause 2 provides for the Bill to commence as an Act on the later of either 1 July 2019 or the day of the Royal Assent.

Clause 3—Definitions

3 Clause 3 defines the key terms used in the Bill, such as “administered item”, “non-corporate entity”, and “State, ACT, NT and local government item”. Clause 3 also confirms that, for the purposes of other laws, the Bill when enacted it to be regarded as an Appropriation Act.

Clause 4—Portfolio statements

4 Clause 4 declares that the portfolio statements are relevant documents under paragraph 15AB(2)(g) of the Acts Interpretation Act 1901 (AI Act) which provides for material to be considered in the interpretation of an Act if the material is declared by the Act to be relevant material for the purposes of section 15AB of the AI Act.

5 The purpose of the portfolio statements is to provide information on the proposed allocation of resources to Government outcomes by Commonwealth entities within each portfolio. The term “portfolio statements” is defined in the Bill, at clause 3, to mean the Portfolio Budget Statements tabled in relation to the Appropriation Bill (No. 2) 2019-2020.

Clause 5—Notional transactions between entities that are part of the Commonwealth

6 Clause 5 provides that notional transactions between non-corporate entities are to be treated as if they are real transactions. Notional transactions, therefore, require the debiting of an appropriation made by Parliament. The payments of the amounts in Schedule 2 from one non-corporate entity to another do not require, in a constitutional sense, an appropriation, because both non-corporate entities operate within the CRF. For reasons of financial discipline and transparency, the practice has arisen for these payments between non-corporate entities to be treated as though they required an appropriation, and to debit an appropriation when such notional payments are made. This is consistent with section 76 of the PGPA Act.
When a non-corporate entity makes a payment, whether to another non-corporate entity or another part of the same non-corporate entity (such as a different “business unit” within the entity), it is to be treated as a “real” payment. This means that the appropriation made by Parliament is extinguished by the amount of the notional payment, even though no payment is actually made from the CRF. Similarly, a notional receipt in such a situation is to be treated by the receiving non-corporate entity (where relevant) as if it were a real receipt. This does not mean every internal transfer of public money involves a notional payment and receipt.

Part 2—Appropriation items

Clause 6—Summary of appropriations

Clause 6 sets out the total of the appropriations in Schedule 2 of the Bill. The amounts in Schedule 2 may be increased by a determination under clause 12 (Advance to the Finance Minister).

The amounts in Schedule 2 of the Bill may be adjusted further in accordance with sections 74 to 75 of the PGPA Act. Specifically:

- Section 74 of the PGPA Act, when read with Rule 27 of the Public Governance, Performance and Accountability Rule 2014, permits non-corporate entities to retain certain types of receipts by adding them to their most recent departmental item or other type of appropriation in an Appropriation Act when prescribed.

- Appropriations may be adjusted by amounts recoverable by a non-corporate entity from the Australian Taxation Office for Goods and Services Tax (GST), in accordance with section 74A of the PGPA Act. The amounts specified in Schedule 2 exclude recoverable GST. The appropriations shown represent the net amount that Parliament is asked to allocate to particular purposes. Section 74A has the effect of increasing an appropriation by the amount of the GST qualifying amount arising from payments in respect of the appropriation. As a result, there is sufficient appropriation for payments under an appropriation item, provided that the amount of those payments, less the amount of recoverable GST, can be met from the initial amount shown against the item in Schedule 2. Section 74A also applies to notional transactions between and within non-corporate entities.

- Items may be adjusted to take into account the transfer of functions between non-corporate entities, in accordance with section 75 of the PGPA Act. It is possible that adjustments under section 75 may result in new items and/or outcomes being created in an Appropriation Act.
Notes on clauses

10 Additionally, the Finance Minister manages the payment from items in the Bill by non-corporate entities using a discretionary power under section 51 of the PGPA Act. Section 51 allows the Finance Minister to manage the timing and the amount of appropriated money to be made available to a Commonwealth entity (an entity as defined in section 10 of the PGPA Act), except as required by law.

Clause 7—State, ACT, NT and local government items

11 Clause 7 provides administered appropriations for financial assistance to the States, ACT, NT and local governments. State, ACT, NT and local government items are appropriated separately for each outcome, making it clear what the funding is intended to achieve. The amount specified in Schedule 2 for an outcome may be applied by a non-corporate entity for the purpose of making payments to any of the States, ACT, NT or local government authorities for the purpose of achieving that outcome.

12 Clauses 7 and 16 delegate Parliament’s power under section 96 of the Constitution to impose terms and conditions on payments of financial assistance to the States to the responsible Ministers listed in Schedule 1 of the Bill. Schedule 1 also lists the Ministers who may determine the amounts and timing of those payments. These payments are usually made pursuant to eligibility rules and conditions established by the Government or Parliament.

13 Additional information on payments to the States, Territories and local government can be found in Appendix E to Budget Paper No. 3 2019-20, as well as the portfolio statements of the relevant entities. These documents can be found at www.budget.gov.au.

Clause 8—Administered items

14 Subclause 8(1) provides for the appropriation of new administered outcome amounts to be applied by a non-corporate entity for the purpose of contributing to the outcome for a non-corporate entity. An “administered item” is defined in clause 3 to be an amount set out in Schedule 2 opposite an outcome for a non-corporate entity under the heading “New Administered Outcomes”. As with administered items in the Supply Bill (No. 1) 2019-2020, New Administered Outcomes are appropriated separately for each outcome, making it clear what the funding is intended to achieve.

15 The purposes for which each administered item can be spent are further set out in subclause 8(2). Subclause 8(2) provides that where the portfolio statements indicate a particular activity is in respect of a particular outcome, then expenditure on that activity is taken to be expenditure for the purpose of contributing to achieving that outcome.
New Administered Outcomes are those administered by a non-corporate entity on behalf of the Government (e.g. certain grants, benefits and transfer payments). These payments are usually made pursuant to eligibility rules and conditions established by the Government or the Parliament. Specifically, administered items are tied to outcomes (departmental items are not).

New Administered Outcomes are typically proposed when a non-corporate entity’s outcomes are changed to reflect new program objectives, strategies and/or activities; and/or

- a non-corporate entity seeks administered operating appropriations for the first time (including existing non-corporate entities that have received departmental operating appropriations in the past); and/or
- annual administered operating appropriations are proposed for the first time, for programs previously funded by special appropriations.

**Clause 9—Administered assets and liabilities items**

Clause 9 provides amounts in Schedule 2 to acquire administered assets, enhance existing administered assets and/or discharge administered liabilities relating to activities administered by non-corporate entities on behalf of the Government. Administered assets and liabilities appropriations are provided for functions managed by a non-corporate entity on behalf of the Government. Administered assets and liabilities items can be applied for any outcomes of the non-corporate entity in Schedule 2 of the Bill, or Schedule 1 to the Supply Bill (No. 1) 2019-2020.

**Clause 10—Other departmental items**

Clause 10 appropriates departmental non-operating appropriations in the form of equity injections, over which the non-corporate entity also exercises control. This clause provides that the amount specified in other departmental items for a non-corporate entity may be applied for the departmental expenditure of the entity. For example, “equity injections” can be provided to non-corporate entities to enable investment in assets to facilitate departmental activities and for Designated Collecting Institutions to purchase heritage and cultural assets.

Other departmental items are not expressed in terms of a particular financial year. For example, equity injection appropriations provide funding to meet the cost expected to be incurred in the Budget year to acquire a new asset, however, for a number of reasons, some part of the appropriation might not be required until a later financial year. Other departmental items are available until they are spent, or the Act through which they were appropriated is repealed. Annual Appropriation Acts have a lifespan of up to three years after which they automatically repeal.
Notes on clauses

Clause 11—Corporate entity items

21 Clause 11 provides for appropriations of money for corporate entities to be paid from the CRF by the relevant Department. Clause 11 provides that payments for corporate entities must be used for the purposes of those entities.

22 A “corporate entity” is defined in clause 3 to be a corporate Commonwealth entity or a Commonwealth company within the meaning of the PGPA Act. Many corporate entities receive funding from appropriations. However, these entities are legally separate from the Commonwealth, and as a result, do not debit appropriations or make payments from the CRF.

23 Corporate entity payments are initiated by requests to the relevant portfolio Departments from the corporate entities. The Finance Minister manages appropriations for corporate entities through a discretionary power to control the timing and amount made available under section 51 of the PGPA Act, except as required by law. Corporate entities hold the amounts paid to them on their own account.

24 Subclause 11(2) provides that if a corporate entity is subject to another Act that requires amounts appropriated by Parliament for the purposes of that entity to be paid to the entity, then the full amount of the corporate entity payment must be paid to the entity.

25 The purpose of subclause 11(2) is to clarify that subclause 11(1) is not intended to qualify any obligations in other legislation regulating a corporate entity, where that other legislation requires the Commonwealth to pay the full amount appropriated for the purposes of the entity.

26 In addition to the annual appropriations, some corporate entities may also receive public money from related entities such as a portfolio Department and from special appropriations managed by those Departments. Many corporate entities also receive funds from external sources.

Part 3—Advance to the Finance Minister

Clause 12—Advance to the Finance Minister

27 Clause 12 of the Bill enables the Finance Minister to allocate additional amounts for items when satisfied that there is an urgent need for expenditure, and the existing appropriation in the current year, is not provided for, or is insufficiently provided for. The allocated amount is referred to as the Advance to the Finance Minister (AFM).

28 Subclause 12(1) establishes the criteria about which the Finance Minister must be satisfied before determining to add an amount to an item of an entity.
29 The Finance Minister will only consider issuing an amount under subclause 12(1) if satisfied there is an urgent need for expenditure that is not provided for, or is insufficiently provided for, in Schedule 2, because of an omission or understatement, or because of unforeseen circumstances. Generally, options under sections 74 to 75 of the PGPA Act must be considered, where applicable, before the Finance Minister will make a determination under subclause 12(2).

30 Subclause 12(2) enables the Finance Minister to make a determination to allocate an amount from the AFM to an item in Schedule 2, to a new item not already in Schedule 2, or to a new outcome.

31 Subclause 12(3) provides that the total amount that can be determined under the AFM provisions in the Bill, once enacted, and the Appropriation Act (No. 2) 2019-2020 is $380 million.

32 Subclause 12(4) provides that, should both the Bill and the Appropriation Bill (No. 2) 2019-2020 be enacted, the amount specified in subsection 12(3) of the Appropriation Act (No. 2) 2019-2020 is to be disregarded. Instead, the amount specified in subsection 12(3) of the Supply Act (No. 2) 2019-2020 is the total amount available to be determined under the AFM provisions.

33 Subclause 12(5) provides that a determination under subclause 12(2) is a legislative instrument, which must be tabled in Parliament. It is not subject to section 42 (disallowance) of the Legislation Act 2003 as this would frustrate the purpose of the provision, which is to provide additional appropriation for urgent expenditure. Further, an AFM is not subject to Part 4 of Chapter 3 (sunsetting) of the Legislation Act 2003; legislative instruments enabled by the Bill, once enacted, automatically repeal when the Act itself repeals (see clause 13).

Part 4—Debit limits

Clause 13—Debit limits

34 Parliament may approve annual debit limits for the amounts that may be spent for general purpose financial assistance or national partnership payments under the Federal Financial Relations Act 2009.

35 Specifying a debit limit in clause 13 is an effective mechanism to manage expenditure of public money as the official or Minister making a payment of public money cannot do so without this authority. The purpose of doing so is to provide Parliament with a transparent mechanism by which it may review the rate at which amounts are committed for expenditure.

36 The debit limits in this Bill are equivalent to 5/12ths of the estimated debit limits required for 2019-20, to ensure supply for the first part of 2019-20.
For the purposes of paragraph 9(3) of the Federal Financial Relations Act 2009, subclause 13(1) provides $5/12ths of the debit limit for general purpose financial assistance for the 2019-20 financial year.

This debit limit applies for 2019-20 to the amount that the Treasurer can credit to the COAG Reform Fund and the total amount that can be debited from that Fund for the purposes of making a grant of general purpose financial assistance to a State, the Australian Capital Territory or the Northern Territory.

The COAG Reform Fund was established by section 5 of the COAG Reform Fund Act 2008, which is a special account under section 80 of the PGPA Act. The purposes of the COAG Reform Fund Special Account are provided at section 6 of the COAG Reform Fund Act 2008.

If a debit limit is not indicated in an Appropriation Act for the purposes of paragraph 9(3) of the Federal Financial Relations Act 2009 for a financial year, amounts cannot be credited to the COAG Reform Fund under paragraph 9(2)(a) of the Federal Financial Relations Act 2009, and amounts must not be debited from the COAG Reform Fund for the purposes to which the limit applies.

For the purposes of paragraph 16(3) of the Federal Financial Relations Act 2009, subclause 13(2) provides $5/12ths of the debit limit for national partnership payments for the 2019-20 financial year.

This debit limit applies for 2019-20 to the amount that the Treasurer can credit to the COAG Reform Fund and the total amount that can be debited from that Fund for the purposes contained in paragraphs 16(1)(a) to (c) inclusive of the Federal Financial Relations Act 2009. These purposes relate to making a grant of financial assistance to a State to support the delivery by the State of specified outputs or projects, facilitate reforms by the State, or reward the State for nationally significant reforms.

If a debit limit is not indicated in an Appropriation Act for the purposes of paragraph 16(3) of the Federal Financial Relations Act 2009 for a financial year, amounts cannot be credited to the COAG Reform Fund under paragraph 16(2)(a) of the Federal Financial Relations Act 2009 and amounts must not be debited from the COAG Reform Fund for the purposes to which the limit applies.

It is important to note that this Bill will not appropriate amounts to be paid under sections 9 and 16 of the Federal Financial Relations Act 2009. The intention for specifying debit limits in subclauses 13(1) and 13(2) is to set maximum limits on the amounts that may be covered for the 2019-20 financial year, for the purposes to which those limits apply.

Clause 14—Adjustments for GST

The effect of this clause will be to increase a debit limit by the amount of any GST qualifying amount in respect of an amount paid from a fund named in clause 13.
46 Some payments from the COAG Reform Fund may include a GST qualifying amount and the relevant debit limit is adjusted accordingly. The appropriation itself is not affected by clause 14, because it is increased by the operation of section 74A of the PGPA Act. Essentially, clause 14 clarifies that the amounts specified for the debit limits for 2019-20 are exclusive of any GST qualifying amounts that may arise in respect of acquisitions made in relation to that limit.

Part 5—Miscellaneous

Clause 15—Crediting amounts to special accounts

47 Clause 15 provides that if the purpose of an item in Schedule 2 is also the purpose of a special account (regardless of whether the item expressly refers to the special account), then amounts may be debited against the appropriation for that item and credited to the special account. Special accounts may be established under the PGPA Act by a determination of the Finance Minister (section 78) that is disallowable by Parliament or by another Act (sections 79 and 80). The determination or Act that establishes the special account will specify the purposes of the special account.

Clause 16—Conditions etc. applying to State, ACT, NT and local government items

48 Clause 16 deals with Parliament’s power under section 96 of the Constitution to provide financial assistance to the States. Clause 16 delegates the power to the responsible Ministers listed in Schedule 1 of the Bill, by providing the Ministers named in Schedule 1 with the power to determine:

- conditions under which payments to the States, ACT, NT and local government may be made: clause 16(2)(a); and
- the amounts and timing of those payments: clause 16(2)(b).

49 Subclause 16(4) provides that determinations made under subclause 16(2) are not legislative instruments, because these determinations are not altering the appropriations approved by Parliament. Determinations under subclause 16(2) are administrative in nature and will simply determine how appropriations for State, ACT, NT and local government items will be paid.

50 Determinations under clause 16 or its equivalent are rare. Most payments to the States and Territories are governed by, and appropriated through, the Federal Financial Relations Act 2009. For the payments to the States, ACT, NT and local government in an even-numbered Appropriation Act, generally other legislative or agreed frameworks determine how the payments are made and when, such as the Local Government (Financial Assistance) Act 1995 or a National Agreement. Many of these arrangements can be found on the Federal Financial Relations website (http://www.federalfinancialrelations.gov.au/).
Notes on clauses

51 Although financial assistance is provided to the ACT, NT and local governments without reference to section 96 of the Constitution, those payments are administered in the same way. Therefore, the Ministers identified in Schedule 1 may set the amounts and timing and impose terms and conditions on those payments. Subclause 16(5) also notes that clause 16 will not limit the powers of the Commonwealth under section 96 of the Constitution to provide financial assistance to a State which is not appropriated by a State, ACT, NT and local government item.

52 In the Bill, appropriations to the States, ACT, NT and local government are sought for the Department of Education and Training against Outcome 1, the Department of Infrastructure, Regional Development and Cities against Outcome 1, and the Department of the Prime Minister and Cabinet against Outcome 2.

53 Further information may also be found in the portfolio statements for the respective portfolios. The most recent detailed estimates of Commonwealth payments to the States, Territories and local governments from 2019-20 to 2022-23 may be found in Budget Paper No. 3: Federal Financial Relations 2019-20 which is available at www.budget.gov.au.

Clause 17—Appropriation of the Consolidated Revenue Fund

54 Clause 17 provides that the CRF is appropriated as necessary for the purposes of the Bill. Significantly, this clause means that there is an appropriation in law when the Act commences. That is, the appropriations are not made or brought into existence just before they are paid, but when the Act commences. This clause indicates that the amounts appropriated may be affected by the PGPA Act, in particular sections 74 to 75 (see clause 6), after the Act commences.

Clause 18—Repeal of this Act

55 Clause 18 specifies that the Bill, once enacted, will repeal at the start of 1 July 2022.

Schedule 1—Payments to or for the States, ACT, NT and local government

56 In accordance with clause 16, Schedule 1 lists the Ministers responsible for determinations on payments to or for the States, ACT, NT and local government.
Schedule 2—Services for which money is appropriated

57 Schedule 2 specifies the appropriations proposed for the other than ordinary annual services of the Government. Schedule 2 contains a summary table which lists the total amounts for each portfolio. A separate summary table is included for each portfolio, with other tables detailing the appropriations for each Commonwealth entity. More details about the appropriations in Schedule 2 are contained in the portfolio statements and the second reading speech for the Bill.

58 Schedule 2 includes, for information purposes, a figure for the previous financial year labelled “Actual Available Appropriation (italic figures) – 2018-2019”. The Actual Available Appropriation (AAA) is an estimate that does not affect the amount available at law. That figure provides a comparison with the proposed appropriations.

59 The AAA is calculated for each item by adding the amounts appropriated in the previous financial year’s annual Appropriation Acts, plus any AFMs, and any adjustments under sections 51 and 75 of the PGPA Act. In some instances, the figure may also be affected by limits applied administratively by the Department of Finance. In addition, where an entity’s outcome structure has changed since the last Appropriation Act, only ongoing outcomes may be shown in the Bill.