Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 86

Topic: Composition of the debt assistance

Hansard Page: E27

Senator SHERRY asked:
What does debt assistance of $220 million in 2005-06 comprise? That is midway down table 17.

Mr Tune—At the very top of the next page, it mentions
... the cessation of the agreed debt redemption arrangement between the Australian Government and the States in 2005-06.
That is the extent of my knowledge of it.

Mr Martine—That is the top of page 6-24.

Senator SHERRY—You say that is the extent of your knowledge of it. Is that the explanation of the $220 million?

Mr Tune—That explains why it is $220 million in 2005-06 but zero thereafter.

Senator SHERRY—That is the sole factor?

Mr Tune—I am going on what is written there.

Senator SHERRY—Yes, I know you are going on what is written there; I can read that. I am just wondering if that is the total.

Mr Tune—We will take that on notice and confirm that.

Answer:

The debt assistance of $220 million in 2005-06, published in table 17 of Budget Paper No. 1, refers to the Debt Redemption Assistance specific purpose payment (SPP).

This SPP covers the payment of compensation to the States and the Northern Territory (the States) to offset additional costs borne by them as a direct result of the new debt arrangements instituted under the *Financial Agreement Act 1994*, under which the States raise debt on their own behalf.

Full compensation was provided in relation to two aspects of the new arrangements:

- the higher costs faced by the States on borrowings in their own name compared to those which would have applied on Commonwealth Government Securities raised by the Commonwealth on their behalf if the arrangements applying prior to that enactment had remained in place; and

- the reduced Commonwealth contributions to the sinking fund due to the accelerated rate of debt redemption.

The SPP agreement specified that the final compensation payment would be made to the States in 2005-06, as this coincided with the final maturity of state debt raised under the previous arrangements. The final payment of $220 million represents the net present value of the annual compensation payments out to 2039-40.