Government represent the proceeds of oversea loans, securities for which were issued directly by the Commonwealth Government. From the point of view of the aggregate net debt of the Commonwealth and the States, it would thus involve duplication if the sum of the securities on issue were to be regarded as representing the " net public debt ".

§ 1. General

Under the Financial Agreement between the Commonwealth and the States in 1927, the Commonwealth Government accepted responsibility for the securities of the State Governments then on issue, and was empowered to arrange for all future borrowings on behalf of the Commonwealth and the States and to issue Commonwealth securities for all money borrowed. The Commonwealth is reimbursed by the States for interest, exchange, etc., paid on their behalf, and the securities are redeemed from the National Debt Sinking Fund to which both the Commonwealth and State Governments make contributions.

In the statistical tables relating to Government securities, details of securities on issue, annual interest liability and average rate of interest liability, except in § 3, paras. 3 and 4, are shown in the currencies in which they are repayable or payable respectively. Australian currency equivalents for oversea loans have been calculated using International Monetary Fund par rates of exchange (and the calculated equivalent for Swiss francs) ruling at 30th June in each year shown. Rates of exchange to £A. at 30th June, 1963, were as follows:—£Sterling, 0.8000; United States dollars, 2.2400; Canadian dollars, 2.4216; Swiss francs, 9.7955; Netherlands guilders, 8.1088; German Deutsche marks, 8.9600.

§ 2. The Financial Agreement between the Commonwealth and the States

1. **General.**—Full details of the Financial Agreement between the Commonwealth and the States are given in earlier issues of the Year Book (*see* No. 37, pp. 685–90). In this issue, a summary of the main provisions only is given.

2. **Australian Loan Council.**—The Australian Loan Council was set up to co-ordinate the borrowings of the Commonwealth and the States. It consists of the Prime Minister of the Commonwealth, or another Minister nominated by him in writing, as Chairman, and the State Premiers, or Ministers nominated by them in writing. Each year, the Loan Council examines the loan programmes of the Commonwealth and the States and determines the total amount to be borrowed during the year. Borrowings by the Commonwealth for defence purposes are not subject to decisions of the Loan Council.

3. **Loan Raisings for the Commonwealth and States.**—Subject to the decisions of the Loan Council, the Commonwealth arranges for all borrowings for or on behalf of the Commonwealth or any State, and for all conversions, renewals, redemptions, and consolidations of the securities issued on behalf of the Commonwealth and of the States.

If the Loan Council unanimously decides, however, a State may borrow outside Australia in its own name, and may issue securities for the amount so borrowed. The Commonwealth then guarantees that the State will fulfil all its obligations to bond-holders in respect of the money so borrowed, and the money is deemed to be borrowed by the Commonwealth for and on behalf of the State.

Subject to any maximum limits decided upon by the Loan Council for interest, brokerage, discount and other charges, the Commonwealth or any State may borrow within its own territory, for any purpose, money from any authorities, bodies, funds or institutions (including savings banks) constituted or established under Commonwealth or State law or practice; borrow from the public by means of counter sales of securities; and use any available public moneys.

However, any securities issued for money so borrowed or used must be Commonwealth securities on terms approved by the Loan Council.

4. **Taking over of State Government Securities.**—The Commonwealth on 1st July, 1929, took over securities issued by each State existing on 30th June, 1927; and all other securities of each State existing on 1st July, 1929, for money borrowed by that State deemed by the Agreement to be money borrowed by the Commonwealth for and on behalf of the State; and in respect of these securities assumed, as between the Commonwealth and the States, the liabilities of the States to bond-holders.

5. **Transferred Properties.**—In relation to State properties transferred to the Commonwealth under Section 85 of the Constitution, the States, as from 1st July, 1929, were discharged from any liability in respect of principal, interest or redemption on so much of the securities bearing interest at 5 per cent. per annum taken over by the Commonwealth as amounted to the agreed value of these properties, namely £10,924,323.

6. **Payment of Interest.**—For a period of 58 years from 1st July, 1927, the Commonwealth agreed to contribute the sum of £7,584,912 each year towards the interest payable on the State securities. The balance of the interest payable on the State securities is paid to the Commonwealth by the States.

7. **Sinking Fund.**—(i) *State Securities existing at 30th June, 1927.* A sinking fund at the rate of 7s. 6d. per annum for each £100 of the securities of the States existing on 30th June, 1927, and conversions thereof, was established under the terms of the Agreement. The Commonwealth contributes annually from revenue 2s. 6d. per £100 on the securities of the States existing at 30th June, 1927, and each State contributes annually 5s. per £100 on its securities at 30th June, 1927. The payments of the Commonwealth and of all States except New South Wales will continue for a period of 58 years from 1st July, 1927, and those of New South Wales for a similar period from 1st July, 1928.

(ii) *New Borrowings.* On new borrowings after 1st July, 1927 (except those for redemptions or conversions, or funding a State deficit), a sinking fund at the rate of 10s. per £100 per annum was established, and the State and the Commonwealth contribute from revenue equal shares for a period of 53 years from the date of raising. (New South Wales did not commence sinking fund contributions in respect of new loans raised in the financial year 1927–28 until 1st July, 1928.)

(iii) *Loans raised to meet a Revenue Deficit.* In respect of any loan (except any of the loans referred to in sub-para. (iv) below) raised by a State after 30th June, 1927, to meet a revenue deficit accruing after that date, no sinking fund contribution is made by the Commonwealth, but the State makes a sinking fund contribution at the rate of not less than 4 per cent. per annum of the loan for a period sufficient to provide for the redemption of the loan, the contributions being deemed to accumulate at the rate of 4½ per cent. per annum compound interest.

(iv) *Loans raised to meet Revenue Deficits between 30th June, 1927, and 1st July, 1935.* Special contributions are payable in respect of loans raised by a State or by the Commonwealth on behalf of a State, on the security of Commonwealth Treasury Bills, to meet a revenue deficit which accrued after 30th June, 1927, and before 1st July, 1935. Details of these contributions are given in Year Book No. 37, pages 688–9.

(v) *National Debt Commission.* The sinking funds established are controlled by the National Debt Commission, which may arrange with any State to act as its agent in connexion with payments due to bond-holders. Except where the conditions relating to sinking funds, redemption funds, and funds of a like nature held by a State on 30th June, 1929, precluded such transfer, all such funds were transferred to the National Debt Commission.

(vi) *Operation of Sinking Fund.* Sinking fund contributions made in respect of the securities of a State, and funds of that State transferred to the National Debt Commission, are not accumulated, but must be applied, whenever expedient, to the redemption and repurchase of loan securities. When such a loan security is repurchased or redeemed by the National Debt Commission, it is cancelled, and the State, in addition to sinking fund contributions otherwise payable, pays a further annual sinking fund contribution at the rate of 4½ per cent. on the face value of the cancelled security for the balance of the period during which the original contribution is payable in respect of that debt.

(vii) *Oversea Securities on Issue.* Sinking fund contributions in respect of oversea securities shall be calculated at the mint par of exchange prevailing on 1st July, 1927.

8. **Borrowing by Semi-governmental Authorities.**—It was realized from the inception of the Loan Council that, in the interests of co-ordinated borrowing, the Council should be advised of the borrowing of large amounts by semi-governmental authorities. In May, 1936, all resolutions passed by the Loan Council in connexion with semi-governmental borrowings were consolidated into one set of rules, which superseded all previous resolutions. This set of rules provides, *inter alia*, for the submission of annual loan programmes in respect of semi-governmental authorities proposing to raise £100,000 or more in a year, for the consideration of such programmes in conjunction with the loan programme of the government concerned, and for the fixing of the terms of individual semi-governmental loans coming within the scope of the annual programme.