

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

20 – 21 October 2010

Question: SBT 237

Topic: Government Business Enterprises

Senator Bushby asked:

Senator BUSHBY—The then minister for finance made a number of comments relating to the budget treatment of the NBN in the press conference announcing the release of the implementation report. In particular I draw your attention to his claim that the implementation study ‘confirms that the government contribution is an investment and not a grant’ because ‘it will be earning a return and the government will get its money back’. It is to be accounted for as an investment and is therefore on the capital side of the budget and it is not recurrent spending, and it cannot be converted into spending without hitting the recurrent spend bottom line.

The budget papers provide that the government is treating NBN Co. as a public non-financial corporation under the government finance statistics. That is a reference at page 9-37 of Budget Paper No. 1. Is that correct, that it is being treated as a public non-financial corporation?

Mr Ray—Yes, that is correct.

Senator BUSHBY—What criteria must a government business enterprise satisfy to be categorised in that way?

Senator Wong—That precise question was asked, I think by Senator Cormann, in the Finance estimates and there was quite a lengthy answer as to what are the characteristics of a—is it PNFC?

Dr Henry—Yes.

Senator Wong—If you want that information I am happy to take it on notice and we can provide that lengthy answer that Finance provided.

Mr Ray—Again, it is in the GFS manual.

Senator BUSHBY—I am content with it being taken on notice. Is it an accurate statement of the government’s position to say that, because its investments in NBN Co. are reasonably expected to return the government bond rate over the long term, this funding is treated as off budget?

Mr Ray—That goes to the earlier question of what is required for it to be a public non-financial corporation. Essentially, it needs to earn an economic return. It is actually to do with the activities of the entity rather than the return to equity that determine the definition.

Senator BUSHBY—Okay. How do you define ‘economic return’?

Mr Ray—The language, again, is from the GFS manual. You are testing my memory but I think they have to charge ‘economically significant prices’. I think that is the language.

Senator BUSHBY—So it does not even have to make a return in actual fact?

Mr Ray—Well, there are plenty of private corporations that make losses. The definition is around the activity of the entity. As I said, the language in the GFS manual is around charging economically significant prices. If you want us to go further, we would need to take it on notice. This is a very technical issue. We and Finance consult with the ABS around these matters.

Senator BUSHBY—Okay. In addition to the earlier question you have taken on notice with respect to what criteria a government business enterprise needs to satisfy, could you expand that to incorporate a summary explanation of that, that would be appreciated.

Mr Ray—Certainly. The two questions are really asking the same question.

Answer:

The Australian Bureau of Statistics *Australian System of Government Finance Statistics Concepts, Sources and Methods 2005* (pg 13) defines Public Non-Financial Corporations as “all resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services.” Further details are provided in paragraphs 2.39 and 2.40 of the Australian Bureau of Statistics *Australian System of Government Finance Statistics Concepts, Sources and Methods 2005*.