

Chapter 1

Introduction

Background to the bills

1.1 The Treasurer described the 2008-09 Budget as heralding 'a new era of strategic investment in Australia's future challenges and opportunities.'¹ A key component was the announcement of three 'nation-building funds':

- the Building Australia Fund (BAF);
- the Education Investment Fund (EIF); and
- the Health and Hospitals Fund (HHF).

1.2 The purpose of these nation-building funds would be to provide significant investment in critical areas of infrastructure such as transport, communications, energy, water, education, research, and health, with a longer-term goal of strengthening the productive potential of the economy.

1.3 Simultaneously, the government announced that it would be working with the states and territories to modernise Australia's federal relations, including reforming the framework for federal financial relations. A central element would be the provision of new incentives known as National Partnership payments designed to drive reform. Three types of payments were proposed: project – to support the delivery of specified outputs or projects; facilitation – to facilitate reforms; and reward – to reward those jurisdictions which deliver on national reforms.²

1.4 A fourth fund, the COAG Reform Fund would be established to channel payments from the nation-building funds, as well as annual appropriations, to the states and territories via National Partnership payments.

1.5 When the policy of creating the nation-building funds was first developed, the global economy was growing strongly, and revenue from high commodity prices was delivering large budget surpluses. Inflation was rising and threatening to become entrenched above the medium-term inflation target. In these conditions, it was sensible to run a tighter fiscal policy and save the surpluses in funds which could be used to meet future needs. The previous government had started along this path by establishing the Future Fund and the Higher Education Endowment Fund. The 2008-09 Budget initiative went further by providing for future infrastructure needs.

1 The Hon. Wayne Swan MP, Treasurer, *House Hansard*, 13 May 2008, p. 2601.

2 Budget Paper No 3, Part 2: The COAG Reform Agenda. Also, see COAG Meeting, 20 December 2007: http://www.coag.gov.au/coag_meeting_outcomes/2007-12-20/index.cfm.

1.6 The new nation-building funds programme also had a counter-cyclical element. The funds were intended for a 'rainy day'. Since then there has been a deluge. The stresses in the United States financial market, which had started to emerge a year earlier, became acute in September 2008, with the US government effectively nationalising its largest mortgage institutions and one of the world's largest insurance companies while two of its largest investment banks filed for bankruptcy. These events have had ramifications around the world, with equity prices falling, credit and liquidity tightening, and real output declining in many countries. As global commodity prices are particularly important for Australia, their decline has led to Australian equity prices and the exchange rate dropping considerably.

1.7 This has made it necessary to bring forward spending from the nation-building funds as part of a policy package to support domestic economic activity.³ Accordingly, it has become a matter of urgency to pass the legislation and so the committee has only had a short time in which to conduct its inquiry.

Conduct of the inquiry

1.8 On 15 October 2008, the Senate referred, upon introduction in the House of Representatives, the provisions of three bills establishing the four funds to the Senate Standing Committee on Economics for inquiry and report. The committee was asked to report by 10 November 2008.

1.9 The COAG Reform Fund Bill 2008 was introduced in the House of Representatives on 23 October. However, by the reporting date the other two bills, the Nation-Building Funds Bill 2008 and the Nation-Building Funds (Consequential Amendments) Bill 2008, had not been introduced. Accordingly, the Senate agreed to extend the reporting date for all three bills to 1 December. The latter two bills were introduced in the House of Representatives on 13 November 2008.

1.10 The committee advertised the inquiry in *The Australian* on 19 November 2008 and on the committee's website from 13 November 2008. It also wrote to a number of government agencies and organisations alerting them to the inquiry and calling for submissions to be lodged by 20 November 2008. The committee received five submissions, listed in Appendix 1 and available online at http://www.aph.gov.au/Senate/committee/economics_ctte/coag_08/submissions/sublist.htm.

1.11 At a public hearing in Canberra on 25 November, the committee heard from the witnesses listed in Appendix 2. The committee thanks those who made submissions and provided evidence during the public hearing at short notice.

1.12 The next chapter outlines the key provisions of the bills. Chapter 3 examines key issues arising from them. Chapter 4 provides conclusions and recommendations.

3 As the Minister for Finance and Deregulation put it, 'investment in critical infrastructure can help secure economic activity in the short term and extend growth potential in the medium to long term': Hon. Lindsay Tanner MP, *House Hansard*, 13 November 2008, p. 1.