Chapter 1

Introduction

Background

1.1 The recent economic downturn makes it an appropriate time for state and territory governments (hereafter called 'states') to expand infrastructure investment, both in budgetary terms (in that resources are cheaper and more available during such times) and as a counter-cyclical measure (to stimulate the economy by creating jobs and building a foundation for recovery). This requires substantial borrowing programmes. However, as discussed further in Chapter 3, states are finding it more expensive to borrow with the diminished appetite for risk in financial markets.

1.2 On 25 March 2009, the Treasurer the Hon Wayne Swan, announced that 'the Rudd Government will take further action to support jobs and protect vital infrastructure plans from the global recession by providing a time-limited, voluntary guarantee over state government borrowing. This important measure recognises that pulling back on critical nation-building infrastructure investment now would mean ever slower growth and higher unemployment in the future.'[1]

Conduct of the Inquiry

1.3 Under a Senate Resolution of 14 May 2009, the Guarantee of State and Territory Borrowing Appropriation Bill 2009 was referred to the Senate Economics Legislation Committee on its introduction into the House of Representatives on 27 May 2009. The resolution requires the Committee to report to the Senate on 16 June 2009.

1.4 The Committee advertised the inquiry on its website. The Committee thanks Infrastructure Partnerships Australia and the Tasmanian Government for their submissions to this inquiry. A public hearing was held in Canberra on 10 June 2009. The Committee thanks Mr Peter Jolly from nabCapital and officers from the Department of the Treasury for appearing.

The Bill

1.5 The Bill's purpose is to provide a standing appropriation enabling the Australian government to pay out of the Consolidated Revenue Fund any claim made under the government's guarantee of state borrowing.

1.6 Where there is insufficient funding in the Consolidated Revenue Fund to pay a claim, the Bill also allows the Minister to borrow money to 'top up' the Consolidated

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1 *Treasurer's Press Release*, 25 March 2009.

Revenue Fund for the purpose of paying that claim. The borrowing must not be for a period exceeding 24 months and includes raising money or obtaining credit, whether by dealing in securities or otherwise.[2]

1.7 The states will be charged a fee for the guarantee, determined according to the state's credit rating. According to the government:

> The fee has been set according to historical experience of borrowing spreads, and at a level that provides an incentive for states to cease utilising the guarantee when market conditions normalise.[3]

1.8 The proposed fee structure is outlined in Table 1.

Table 1: Fees for guarantee

Credit Rating	On existing stock	On new issuance
AAA	15 basis points	30 basis points
AA+	20 basis points	35 basis points

Source: *Bills Digest*, p 4.

1.9 The Reserve Bank observes:

> The fees payable for such a guarantee (between 15 and 35 basis points per annum) will be significantly less than those levied on the (lower-rated) authorised deposit-taking institutions.[4]

1.10 The Bill is due to commence on the day it receives Royal Assent.

Outline of the report

1.11 Chapter 2 of the report provides a brief history of state debt guarantees and discusses the question of whether there is an implicit Commonwealth guarantee of state borrowing. Chapter 3 outlines the key issues raised during the inquiry and concludes that the bill should be passed.

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2 *Explanatory Memorandum*, p 6.

3 *Treasurer Press Release*, 25 March 2009.

4 Reserve Bank of Australia, *Statement on Monetary Policy*, May 2009, p 46.