

# Chapter 1

## Introduction

### Background to the inquiry

1.1 On 14 February 2008, the Senate resolved to establish the Select Committee on State Government Financial Management,<sup>1</sup> and that the Select Committee inquire into and report by 18 June 2008 on the following Terms of Reference:

Commonwealth and state and territory fiscal relations and state and territory government financial management, including:

- (a) Commonwealth funding to the states and territories – historic, current and projected;
- (b) the cash and fiscal budgetary positions of state and territory governments – historic, current and projected;
- (c) the level of debt of state/territory government businesses and utilities – historic, current and projected;
- (d) the level of borrowing by state/territory governments – historic, current and projected;
- (e) an examination of state/territory net government debt and its projected level – historic, current and projected;
- (f) the reasons for any government debt including an analysis of the level and efficiency of revenue and spending;
- (g) the level of investment in infrastructure and state-owned utilities by state and territory governments;
- (h) the effect of dividends paid by state-owned utilities on their ability to invest;
- (i) present and future ownership structures of current and former state-owned utilities and the impact of ownership on investment capacity; and
- (j) the effect of investment by state-owned utilities on Australia's capacity constraints.

1.2 Time pressures associated with the committee's hearing program saw the date for reporting subsequently extended to 18 September 2008.<sup>2</sup>

### Conduct of the inquiry

1.3 The inquiry was advertised in major national and state and territory daily newspapers on 25 February 2008, and on a number of occasions subsequently. The

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1 For the purposes of this report, reference to states should be interpreted as a reference to states and territories.

2 *Journals of the Senate*, 17 September 2008, p. 865.

committee also wrote to a range of individuals and organisations inviting them to submit. Information about the inquiry, including its terms of reference, reporting date, hearing schedule and how to submit, were posted on the committee's webpage. The initial closing date for submissions was 19 March 2008, which was later extended to 30 April 2008 as a consequence of the committee's reporting date being delayed.

1.4 The committee received 45 submissions. A list of these is at Appendix 1 and all other documents that were received by the committee and authorised for publication appear at Appendix 2.

1.5 The committee commenced its hearing program in Adelaide on 27 March 2008. This was followed by hearings in Melbourne, Hobart, Perth, Brisbane, Sydney and Canberra throughout May, June and July of 2008. The committee's final hearing, during which it took evidence from representatives of the Norfolk Island Government, took place in Canberra on 1 September 2008. A full list of the committee's public hearings, and witnesses who appeared, is at Appendix 3. Transcripts of the public hearings may be accessed through the committee's webpage.

### **Structure of the report**

1.6 The structure of the report reflects the terms of reference. In chapter 2, it considers the history and current practice of federal-state and territory fiscal relations. Chapter 3 deals with the cash and fiscal positions of the states and territories, and the level of debt with which they operate. Building on data contained therein, state and territory financial management is analysed in chapter 4, while chapter 5 deals with Government Business Enterprises. Infrastructure is dealt with in chapter 6. Chapter 7 examines the current and future financial situation of Norfolk Island. Chapter 8 summarises the committee's findings, and sets out its recommendations. In particular, it addresses the prospect of state-based charters of budget honesty.

### **Assistance with the inquiry**

1.7 In the course of the inquiry, the committee received submissions from a range of organisations and private individuals, often with supporting documents, reports, and other references. Others gave freely of their time in appearing before the committee at its public hearings, and in some cases, undertook additional work to provide follow up information to the committee in response to questions raised during the discussions.

1.8 The committee would like to record its appreciation to all of these people for the time taken in preparing their evidence to the inquiry, all of which contributed greatly to the committee's consideration of these issues.

1.9 The committee also wishes to acknowledge the assistance provided by the Parliamentary Library.

1.10 Finally, the committee thanks the officers of the Secretariat team who supported the inquiry, and assisted with the research and drafting of the report.