

# Government Senators' Minority Report

## Introduction

This Senate Select Committee Inquiry into State Government Financial Management was a politically motivated inquiry from the outset.

The resolution to establish the Select Committee was moved on the first full day of the sitting of the Senate following the election of the Rudd Labor Government. At that time the Coalition parties still had an absolute majority in the Senate. Yet at no stage in its previous twelve years of Government, including after it achieved its absolute majority in the Senate from 1 July 2005, did the then Federal Government ever move to establish an inquiry into State Government Financial Management.

Clearly the Coalition parties did not consider it a significant issue until after it lost office.

The Coalition Opposition also used its Senate majority to establish, on the same day, two other Select Committees. Each of the Committees had a majority of Coalition Senators with a Coalition chair. Yet between July 2005 and the 2007 federal election the previous Coalition Government did not establish any Select Committees.

If the Coalition was truly concerned with these issues it could have undertaken such inquiries whilst in Government.

Further, if the Coalition was serious either when in Government, or now in Opposition it could have referred these issues to the appropriate Senate Standing Committee which in this case would have been the Senate Standing Committee on Finance and Public Administration. The fact that they did not do so but established a special select Committee dominated by Coalition Senators was political and hypocritical.

The Majority Report states at Paragraph 1.2 that:

Time pressures associated with the committee's hearing program saw the date for reporting subsequently extended to 18 September 2008

It further states that

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.

The Government Senators do not accept these assertions or excuses. It is noteworthy that only 18 submissions had been received by 19 March 2008. Further, only three State Opposition (ie Liberal) representatives had, at that stage, responded to the Committee's invitations or advertisements seeking submissions.

The only logical reason for the extension of time was to allow coalition parties in other states time to get involved in what was intended to be a political attack upon

state Labor Governments. Much of the majority report relies heavily on the submissions and evidence given by State Opposition Leaders and Shadow Treasurers.

### **Commonwealth State Relations**

The Government Senators do not support the core conclusions and recommendations of the majority report.

The report represents an extension of the previous Coalition Government's failed approach to Commonwealth-State relations, an approach which focused more on blame than finding solutions. The Government Senators consider co-operative federalism and ending the blame game is the best way to deal with the issues facing Australia.

Fundamentally, the report fails to reflect the reform agenda underway through the Council of Australian Governments (COAG) which is fundamentally changing the financial relationship between the States and Commonwealth.

On 26 March 2008, COAG agreed to implement a new framework for federal financial relations. The focus of the new framework is on improving the quality and responsiveness of government services by reducing Commonwealth prescriptions on service delivery by the States in conjunction with clearer roles and responsibilities and outcomes-based public accountability.

The framework will centre on key changes.

First, the number of Specific Purpose Payments will be reduced from more than 90 to five – in the areas of healthcare, early years education and schools, vocational education, disabilities, and housing. This represents a fundamental break this is with the past, with the number of Specific Purpose Payments sitting at around 100 for decades now. This rationalisation will reduce wastage at a time when we can no longer sustain the excesses of the past.

Second, the Commonwealth will give the States the budget flexibility they need to allocate resources where they will produce the best results. The Commonwealth will move away from the prescription of the past, and remove the input controls which inhibit State service delivery and priority setting. Instead, the focus will be on the achievement of outcomes.

Third, the Commonwealth will provide the States with more funding certainty. States will be better off financially, and will no longer be plagued with the uncertainty of not knowing whether they will receive Commonwealth payments. There will be no more five year agreements with 'take it or leave it' offers when they expire. Instead, the new National Specific Purpose Payments will be on-going agreements, reviewed periodically to ensure the maintenance of funding adequacy.

Fourth, and central to the new framework, there will be simpler, standardised and more transparent public performance reporting. The new reporting framework will

focus on the achievement of results, value for money and timely provision of publicly available and comparable performance information. Roles and responsibilities will be clarified and the performance of each jurisdiction will be independently assessed by the COAG Reform Council.

Fifth, and central to the new financial framework reforms, will be additional incentive payments to drive key economic and social reforms. National Partnership Payments will reward those States which best deliver the services and outcomes to their citizens, and not reward those that don't.

## **Financial Reporting**

Government Senators do not consider it appropriate for a Senate Committee to make recommendations requiring the direct action of other sovereign parliaments within the Commonwealth. As such we do not support Recommendation 1, 2 or 3 in the report, that each state and territory enacts a Charter of Budget Honesty. However, we do see merit in state and territory government considering the benefits of implementing a Charter of Budget Honesty.

Recommendation 2 on developing new financial reporting requirements fails to recognise the work undertaken through the Heads of Treasuries under the Uniform Presentation Framework (UPF).

The primary objective of the UPF is to ensure that Commonwealth Government, State and Territory governments provide a common 'core' of financial information in their budget papers.

The review of the impact of the new accounting standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* was undertaken by the UPF Committee, convened by Heads of Treasuries for these tasks. The Committee comprised representatives from Australian, State and Territory Treasuries and the Australian Department of Finance and Deregulation. The Committee consulted with the Australian Bureau of Statistics and the Commonwealth Grants Commission.

We note that the revised UPF was released in April 2008. The revised UPF is to be implemented across all jurisdictions prior to 2009–10 budgets.

Notwithstanding the significant gains from the UPF, Government senators consider that more work could be done to enhance the consistency of the presentation of budget information.

### **Government Senators' Recommendation 1**

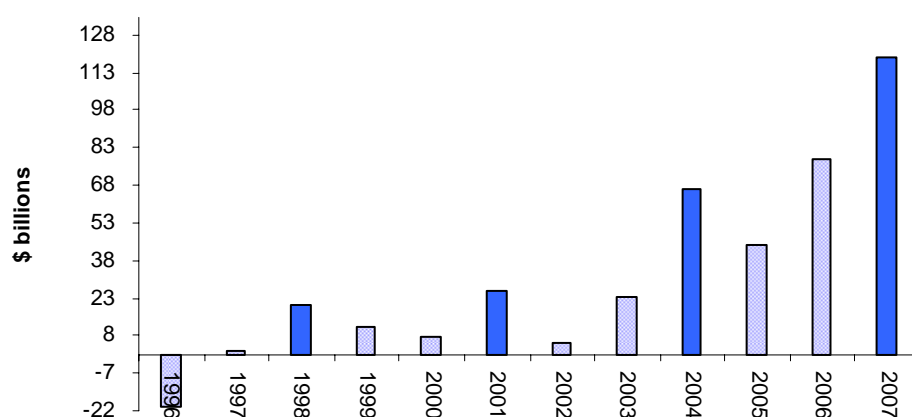
**Government Senators recommend that the Commonwealth Government work through COAG with the States to enhance consistency in the presentation of budget information, to allow greater transparency and comparability of State and Commonwealth financial information.**

## Fiscal Management

Government Senators consider that sound fiscal policy is crucial to good government and agree that it does not happen by governments taking politically expedient decisions in election years.<sup>1</sup>

Government Senators note that the previous Coalition Government announced new policies with a budgetary impact on average three times more in election years than non-election years and that this did not represent good fiscal management (see Figure 1).

**Figure 1—Effect of New Policies across the Forward Estimates under the Coalition Government (1996–2007)**



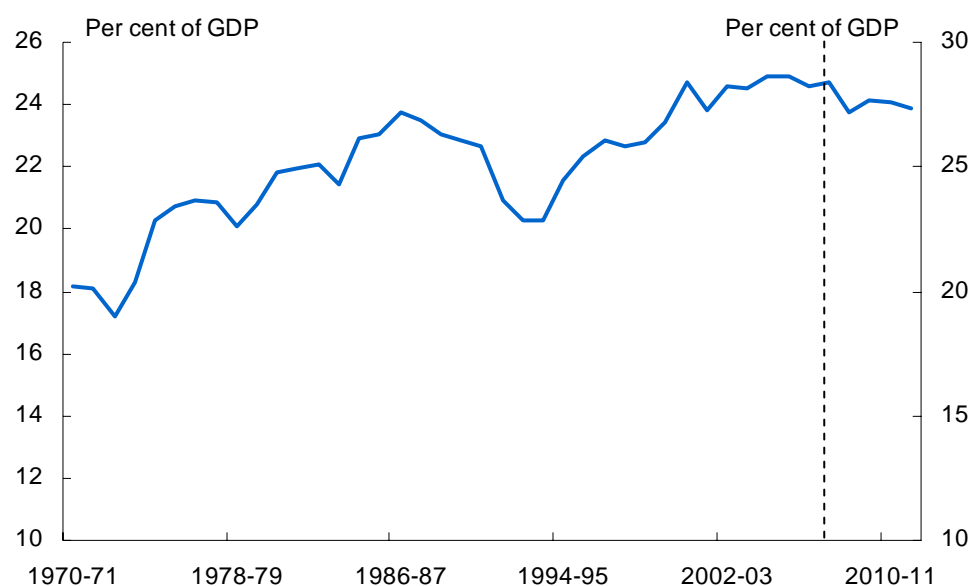
Source: Various Budget Papers<sup>2</sup>

1 Majority report, p. 94.

2 1996–97 Budget Statement 3, Budget Paper 1 and 2; 1998–99 Budget Paper 1 and 2; 1999–00 Budget Paper 1 and 2; 2000–01 Budget Paper 1 and 2; 2001–02 Budget Paper 1 and 2; 2002–03 Budget Paper 1 and 2; 2003–04 Budget Paper 1 and 2; 2004–05 Budget Paper 1 and 2; 2005–06 Budget Paper 1 and 2; 2006–07 Budget Paper 1 and 2; 2007–08 Budget Paper 1 and 2; 2007–08 MYEFO.

Government Senators also note that the former Coalition Government was the highest taxing Government in Australia's history (see Figure 2).

**Figure 2—Australian Government General Government Sector Taxation Receipts as a percentage of GDP**



Source: 2008–09 Budget Paper 1.

## Government Business Enterprises

In most jurisdictions, GBEs are responsible for the provision of key infrastructure projects in energy, water, rail and ports. Most of these projects result in the construction of assets with long economic lives. These assets are not netted off the debt which is carried to fund these projects in the calculation of net debt. These projects usually have stable cash flow which would allow the corporation to hold lower financial assets to meet financial liabilities.

The growth in GBE net debt in recent years reflects growing infrastructure expenditure to meet increasing demand, address limited supply issues or replace exhausted infrastructure.

## Infrastructure Investment

The majority report is critical of the failure by the states to invest in infrastructure during the 1990's and after.

Whilst it is unarguable that State Government's are now seeking to invest heavily in vital infrastructure, and undertaking significant borrowings to do so, the criticism by the Coalition is disingenuous.

During these years the prevailing economic orthodoxy, as promoted by the Federal Government, was to budget for surpluses and reduce government debt. As the

following table shows, the Howard Government had large budget surpluses in nearly every year from 1999 onwards. Further, the actual surplus in most years exceeded the predicted surplus by \$5 billion or more (see Table 1).

**Table 1—Federal Budget Operating Balance 1999–00 to 2007–08**

<b>Budget year</b>	<b>Budget (\$ billion)</b>	<b>Outcome (\$ billion)</b>	<b>Difference (\$ billion)</b>	<b>Difference (%)</b>
1999–00	5.7	12.2	6.5	114
2000–01	3.2	4.7	1.5	47
2001–02	-2.1		-2.0	95
2002–03	-0.6	5.8	6.4	-1067
2003–04	0.3	5.6	5.3	1767
2004–05	0.9	10.9	10.0	1111
2005–06	8.4	15.8	7.4	88
2006–07	12.0	13.9	1.9	16
2007–08	11.2	23.3	12.1	108

Source: Parliamentary Library.<sup>3</sup>

The previous Federal Government spent very little on new infrastructure. It is hard to think of any major Howard Government infrastructure project other than the Alice Springs to Darwin Rail link and the replacement Nuclear Reactor.

Government Senators consider that Recommendation 5 is redundant and does not take into account the work programme of Infrastructure Australia and the establishment of the Building Australia Fund.

Infrastructure Australia brings together all three tiers of government and the private sector to advise on Australia's future infrastructure needs.

Infrastructure Australia's immediate tasks are to:

- develop best practice, nationally consistent PPP guidelines to make it easier and cheaper for the private industry to partner with government and invest in nation building infrastructure.

3 Notes: All data is drawn from Budget Paper 1, GFS Financial Statements, for the years 1999–00 to 2008–09; All figures are in nominal dollars; 'Budget' is the budgeted forecast within the budget year; 'Outcome' is the ultimate outcome recorded for the budget year (typically a two year lag); and Operating balance is the difference between revenues and expenses.

- undertake a National Infrastructure Audit by the end of the year.
- deliver to COAG in March 2009 a national infrastructure priority list.<sup>4</sup>

Infrastructure Australia's advice will guide the government's decisions on allocations from the \$20 billion Building Australia Fund the Rudd government announced in the 2008–09 Budget.

### **Other Recommendations**

Government Senators note that the Henry Review is currently undertaking a root and branch review of Australia's tax system, including taxation collected by the States. Government Senators consider that Recommendation 6 pre-empts the Review and as such does not support its inclusion in this report.

Government Senators do not support Recommendation 7 of the majority report which proposes the introduction of State income taxes. Government senators consider that such a move would result in a more complex, less efficient and effective income tax system and is likely to lead to Australian families paying higher taxation.

Government Senators consider that Recommendation 8 is redundant given the COAG reform agenda which is currently underway. After careful consideration, the March 2008 meeting of COAG agreed to move away from the prescriptive and cumbersome input controls of the past which inhibit State service delivery and priority setting. Instead, COAG agreed that the new framework will focus on the achievement of outcomes.

Government Senators note that during twelve years in office, the previous Coalition Government raised no objections to the mechanisms and powers of the Australian Loan Council. Furthermore, the Australian Loan Council's role has recently been enhanced through its role in advising the Government on whether the combined spending envelope of both Commonwealth and the States can be delivered in prevailing economic conditions without putting at risk the Government's inflation targets.

Government Senators note that of total payments to the States in 2008–09 of \$33.1 billion for specific purposes, \$2.5 billion (8 per cent) is provided as financial support for local governments. Government Senators note that Heads of Treasuries have been considering the implications of COAG's financial framework reforms for local government, and as such consider Recommendation 11 is redundant.

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4 [www.infrastructureaustralia.gov.au/function\\_full.aspx](http://www.infrastructureaustralia.gov.au/function_full.aspx) and [www.infrastructure.gov.au/department/statements/2008\\_2009/budget/Part-C2-2.aspx](http://www.infrastructure.gov.au/department/statements/2008_2009/budget/Part-C2-2.aspx) (accessed 17 September 2008).

**Norfolk Island**

Government Senators support the recommendations of the majority report regarding Norfolk Island.

**Senator Michael Forshaw**

**Senator Helen Polley**