

The Senate

Select Committee on
State Government
Financial Management

Report

September 2008

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TABLE OF CONTENTS

Membership of the Committee	iii
List of Abbreviations	ix
Recommendations	xi
Chapter 1 - Introduction	1
Background to the inquiry	1
Conduct of the inquiry	1
Structure of the report.....	2
Assistance with the inquiry	2
Chapter 2 - Commonwealth-state and territory fiscal relations	3
An historical overview	3
Current arrangements	4
Specific Purpose Payments.....	6
Vertical fiscal imbalance	9
Horizontal fiscal equalisation	11
Reforming funding arrangements.....	12
Chapter 3 - State and territory bottom lines and debt levels	15
Sectoral divisions of government	15
What is the 'bottom line'?	16
Fiscal positions	18
Debt levels	25
Chapter 4 - Financial Management	35
Debt	35
Interest	42
Public sector wages	44
Unfunded superannuation.....	48

Forecasting.....	51
Income from the Commonwealth.....	52
State government taxes.....	53
Local government.....	58
Conclusion.....	60
Chapter 5 - Government Business Enterprises.....	63
Payment of dividends from GBEs.....	63
Community Service Obligation equalisation payments.....	67
Conclusion.....	68
Chapter 6 - Infrastructure	71
The current state of infrastructure	71
Strategic management of infrastructure development.....	74
Public-Private Partnerships	79
The proper role of the Commonwealth	81
Conclusion.....	83
Chapter 7 - Norfolk Island	85
Evidence from the Government of Norfolk Island.....	89
Conclusion.....	91
Chapter 8 - Conclusions and recommendations	93
Financial reporting principles.....	93
Fiscal policy formulation.....	94
Government Business Enterprises.....	95
Infrastructure	96
Other recommendations.....	97
Appendix 1 - Submissions received	109
Appendix 2 - Additional information received	111
Appendix 3 - Public hearings and witnesses.....	115

Appendix 4 - Timetable for the abolition of state taxes	119
Appendix 5 - Financial data by jurisdiction.....	123
Appendix 6 - GBEs with dividend payout ratios of over 100 per cent	137
Appendix 7 - Attachment F to <i>Submission 43</i> received from the Hon Grant Tambling.....	139

List of Abbreviations

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AiG	Australian Industry Group
ALGA	Australian Local Government Association
CB	Cash balance
CF	Cash flow
CSO	Community service obligation
FB	Fiscal balance
FTE	Full-time equivalent employees
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GGG	General Government Sector
GSP	Gross State Product
GST	Goods and services tax
IASB	International Accounting Standards Board
IPA	Institute of Public Affairs
LPI	Labour price index
MLA	Member of the Legislative Assembly
MP	Member of Parliament
ND	Net debt
NFW	Net financial worth
NOB	Net operating balance
NW	Net worth

OECD	Organisation for Economic Cooperation and Development
PFC	Public Financial Corporations
PNFC	Public Non-Financial Corporations
PPPs	Public-private partnerships
SPPs	Specific purpose payments
UCB	Underlying cash balance
UPF	Uniform Presentation Framework
WPI	Wage price index

Recommendations

Recommendation 1

8.5 The committee recommends that each state and territory government enact a Charter of Budget Honesty.

Recommendation 2

8.10 The committee recommends that each state and territory government adopt principles to govern financial reporting in its Charter of Budget Honesty, including requirements that financial reporting:

- be fully consistent with all relevant financial reporting standards;
- enable improved transparency and parliamentary and external scrutiny, of a state's progress towards achieving its fiscal objectives;
- forecast, as accurately as possible, future levels of government revenue and expenditure; and
- include provision that specifically prevents the state government from using misleading accounting practices.

Recommendation 3

8.14 The committee recommends that each state and territory government adopt principles to govern fiscal policy formulation in its Charter of Budget Honesty including requirements that fiscal policies:

- prudently manage financial risks including levels of government debt;
- contribute to dampening cyclical fluctuations in economic activity;
- contribute to the achievement of adequate state-wide saving;
- pursue spending and taxing arrangements that are consistent with a reasonable degree of stability and predictability;
- maintain the integrity of the tax system; and
- ensure that policy decisions have regard to their financial effects on future generations.

Recommendation 4

8.19 The committee recommends that each state and territory government adopt principles governing its relationship with Government Business Enterprises (GBEs) in its Charter of Budget Honesty including requirements that:

Dividend payments:

- be an appropriate return on the community's investment;
- allow GBEs to operate on a commercially sustainable basis; and
- allow GBEs the ability to make ongoing investment in infrastructure.

Governments:

- **justify the dividend payout ratios they require from individual GBEs;**
- **publicise in advance a dividend payout ratio range for each GBE for the Budget year and forward estimates period and explain any actual deviations; and**
- **must fully cost, and fully fund out of General Government Sector revenue, Community Service Obligations and publicise these funding commitments.**

Recommendation 5

8.24 The committee recommends that each state and territory government adopt principles governing its infrastructure investment policies in its Charter of Budget Honesty, including requirements that infrastructure investment policies:

- **Enunciate a strategic management framework for infrastructure projects including criteria for project timing, quality and management; and**
- **Enunciate conditions for the use of Public-Private Partnerships.**

Recommendation 6

8.28 The Committee recommends that the Commonwealth Government should require all states to abolish inefficient state taxes covered by the Intergovernmental Agreement on the reform of Commonwealth-State Financial Relations. Furthermore the states should agree to, and abide by, a timetable to abolish stamp duty on conveyances of real non-residential property.

Recommendation 7

8.30 The Committee recommends that the Commonwealth Government appoint a special taskforce, to examine the feasibility of options to reduce Commonwealth income taxation, and introduce state and territory income taxes, so that the states and territories are less reliant upon the Commonwealth Government for funding.

8.31 The Committee recommends that in developing detailed options for a system of state and territory income taxes, the taskforce should be required to have regard to how the following objectives can be maintained, or obtained:

- **reducing Commonwealth payments to the states and territories, which could be offset through each state/territory's income taxation system;**
- **ensuring that a system of state income taxation is simple to administer, preferably as part of the collection of income tax by the Commonwealth;**
- **ensuring that states and territories are accountable to their constituents for their own spending and management of services;**
- **promoting real competition between the states and territories to be the lowest taxing jurisdiction; and**
- **ensuring that the tax burden in the initial years does not increase.**

8.32 The Committee recommends that the taskforce be required to provide its report to COAG, for detailed consideration.

Recommendation 8

8.34 The Committee recommends that the Council of Australian Governments carefully consider the costs and benefits of input controls compared to output controls in the development of Specific Purpose Payments.

Recommendation 9

8.36 The Committee recommends that the Australian National Audit Office undertake a performance audit in 2008–09 into the development and implementation of the new federal financial framework.

Recommendation 10

8.38 The committee recommends that the Commonwealth Government consider mechanisms to enhance and strengthen the powers of the Australian Loan Council to scrutinise excessive growth in state debt.

Recommendation 11

8.40 The committee recommends that the Australian Government impose more stringent requirements on state governments having regard to the identification of Commonwealth funds flowing through states to local government.

Recommendation 12

8.42 The committee recommends that the Commonwealth Government reform Australia's relationship with Norfolk Island with a view to assisting improved governance, health, aged care, education and other issues reported to exist on the Island, drawing on information from the 2006 Cabinet submission process and the recent work of the Parliamentary Joint Standing Committee on the National Capital and External Territories.

Recommendation 13

8.43 The committee, whilst acknowledging government evidence of some improvements, recommends that the Government of Norfolk Island implement measures to improve the level of financial and management transparency of Government Business Enterprises.

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,¹ 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 2008.²

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

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.

Chapter 2

Commonwealth-state and territory fiscal relations¹

An historical overview

2.1 The Australian Constitution confers on the Commonwealth limited exclusive powers, such as managing Australia's defence forces, and setting the rates of customs and excise.² The Constitution also provides for areas where the Commonwealth can exercise powers concurrently with the state governments, although the Commonwealth does hold legislative supremacy in the case of inconsistency. These powers include taxation, social welfare, postal services and telecommunications, banking and insurance and industrial disputes that extend over state borders.

2.2 The state governments have exclusive responsibility over all other service areas, including housing and urban development, law and order, energy, rail and road transport, and health care and education. Taxes on property (immovable property and financial and capital transactions) and payroll taxes account for a major share of total state tax revenue. The Commonwealth can be involved in areas of state responsibility through the granting of financial assistance on terms and conditions it deems appropriate, as, for instance, in the health care and education areas.³

2.3 The Commonwealth controls some of the broadest tax bases, including personal and corporate income taxes, and as previously noted, customs and excises. It collects the revenue of the Goods and Services Tax (GST), implemented in July 2000, but transfers it entirely to the states.

2.4 The dissolution of internal tariff barriers at the time of Federation meant that the states lost a major source of revenue. Section 94 of the Constitution was designed to guarantee the states' financial wellbeing by empowering the Commonwealth Parliament to provide to the states all surplus Commonwealth revenue. With the propensity of the Commonwealth Government in recent years to proclaim large 'surpluses,' one wonders why the states are not making a greater political call for

1 This chapter draws heavily on *Specific purpose payments and the Australian federal system*, Mr Scott Bennett and Mr Richard Webb, Parliamentary Library Research Paper, January 2008, and on *Developments in Commonwealth-state financial relations since 2000–01*, Mr Richard Webb, Parliamentary Library Research Brief, March 2006.

2 *Commonwealth of Australian Constitution Act*, ss. 51, 52, 114 and 115.

3 Dr Vassiliki Koutsogeorgopoulou, *Fiscal relations across levels of government in Australia*, Organisation for Economic Co-operation and Development, Economics Department Working Papers no. 541, 2007, p. 8, [www.oecd.org/olis/2007doc.nsf/LinkTo/NT000009EA/\\$FILE/JT03220724.PDF](http://www.oecd.org/olis/2007doc.nsf/LinkTo/NT000009EA/$FILE/JT03220724.PDF) (accessed 4 July 2008).

'surplus revenue of the Commonwealth' to be returned to them, although over the years the Commonwealth has found ways of ensuring that no true surpluses exist.

2.5 States can also be assisted through section 96, the key part of which states:

...the Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit.

The reason behind the insertion of these words was the desire to provide financial security for the states in the early years of the Commonwealth whilst also providing a means of helping the poorer states if they should require financial assistance. Section 94 becoming effectively redundant in the first years after Federation as the Commonwealth found ways of ensuring that no surplus existed. As an alternative, the Commonwealth began to use section 96 to make annual payments to the states to assist in the delivery of services to their communities. Such payments came to be referred to as 'general-purpose' grants, by which it was understood that the states were free to spend the money as they saw fit.

2.6 The Commonwealth Parliament's Main Roads Development Bill 1923 granted the states funding that could be used only on the development of main roads. This was the Commonwealth's first foray into the provision of funding subject to conditions. Five decades later, the Whitlam Government's decision to use tied grants to impose major policy change on the states signalled the beginning of a trend that has seen successive governments follow suit.

2.7 By the start of the 21st Century, about four of every ten dollars given by the Commonwealth to the states had conditions attached. A large proportion of these grants pertained to policy areas that were not included in the original constitutional powers granted to the Commonwealth, such as health and education. Such a high level of conditionality became a major feature of the Australian federal model.

Current arrangements

2.8 The current framework for Commonwealth-state financial relations is heavily influenced by the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, which was negotiated between the Commonwealth and states and territories in 1998 and 1999 primarily to govern arrangements for the distribution of GST revenue.⁴ Amongst other things the agreement provides that:

- the states can spend GST-related payments as they wish;
- revenue from the GST will be distributed among the states on 'horizontal fiscal equalisation principles', according to a formula implemented by the Commonwealth Grants Commission;

4 A copy of the agreement can be obtained at:
www.coag.gov.au/ig_agreements/reform_of_comm-state_financial_relations.htm
(accessed 4 July 2008).

- the Commonwealth would, for a transitional period, ensure that no state is worse off under the new arrangements than under the old arrangements through the provision of 'budget balancing assistance';⁵ and
- the states would abolish certain taxes⁶ by specified dates, and that retention of some duties by states come under review in the future.⁷

2.9 The Committee notes that in April 2005, all states with the exception of New South Wales and Western Australia submitted a proposal that commits them to abolish, by no later than 1 July 2010, most of these duties.

2.10 Under the Intergovernmental Agreement, the States agreed to abolish a range of inefficient indirect taxes that were impeding economic activity. The States themselves nominated the taxes to be abolished.

2.11 By 1 July 2005, the States had abolished several taxes that were listed in the Intergovernmental Agreement. This first tranche of abolished state taxes included accommodation tax, financial institutions duty, quoted marketable securities duty and debits tax.

2.12 The agreement also provided for further state taxes to be abolished once GST revenues proved to be sufficient. In 2006, the Australian Government reached agreement with all States on a schedule for the abolition of a second tranche of taxes, including all but one of the remaining state taxes listed in the Intergovernmental Agreement. This second tranche of inefficient state taxes being abolished includes stamp duties on mortgages, leases, and credit and rental arrangements. Notwithstanding that all States are already receiving substantial revenue gains from the Australian Government's reforms, some of these state taxes will not be abolished until as late as 2012–13.⁸ A timetable for the abolition of state taxes is included in Appendix 4.

2.13 The committee notes the States are still required to abolish the one remaining tax, the stamp duty on conveyances of real non-residential property, before all of their commitments under the Intergovernmental Agreement will have been met. So far, no State has specified when it will abolish this tax.

5 This undertaking was originally scheduled to cease on 30 June 2006. The submission from Commonwealth Treasury (*submission 25*, p. 9) now lists cessation at 30 June 2009.

6 These included bed taxes, financial institutions duty, stamp duty on marketable securities, and debits tax.

7 These included duties on business conveyances, non-quotable market securities, leases, mortgages, bonds, debentures, credit arrangements, rental agreements, cheques, bills of exchange and promissory notes.

8 Australian Government, *Budget Paper no. 3, Federal financial relations, 2007–08*, May 2008, p. 4.

2.14 The committee makes a recommendation (Recommendation 6) for the Commonwealth Government to pursue this matter in chapter 8.

2.15 Since 1 July 2000 when the GST was introduced, the other main forms of Commonwealth financial assistance to the states have been budget balancing assistance, payments made under National Competition Policy, and Specific Purpose Payments (SPPs).

Specific Purpose Payments

2.16 Under existing arrangements, SPPs—which can be for current or capital purposes—take the forms of:

- payments 'to' the states that supplement state funding of areas such as public hospitals, government schools and roads. In 2006–07, such payments accounted for about three-quarters of SPPs by value;
- payments 'through' the states that the states pass on to targeted recipients such as non-government schools and local governments. In 2006–07, payments through the states accounted for 20 per cent of SPPs by value; and
- payments paid directly to local government for services such as disability, children's and other welfare services, or payments made under the *Roads to Recovery* program. These payments account for about five per cent of SPPs by value.

The rationale for Specific Purpose Payments

2.17 Most SPPs are subject to conditions which, while not legally binding, must be met by the states, and so are called 'tied' grants. According to an Organisation for Economic Co-operation and Development (OECD) working paper,⁹ such 'conditionality' takes a variety of forms:

- general policy conditions that may be attached to the grant of money (e.g. that the states provide free public hospital access for Medicare patients in return for funding under the Health Care Agreements);
- expenditure conditions (e.g. SPPs for schools to be spent on teacher salaries and curriculum development);
- input control requirements, in the forms of 'maintenance of effort' and 'matching funding' arrangements, where the states are required to maintain funding levels and/or match Commonwealth funding in a program area;
- performance and financial information reporting by the states; and

9 Dr Vassiliki Koutsogeorgopoulou, *Fiscal relations across levels of government in Australia*, Organisation for Economic Co-operation and Development, Economics Department Working Papers no. 541, 2007.

- due recognition conditions, whereby the states are required to acknowledge publicly the Commonwealth's funding.

2.18 By contrast, general purpose ('untied') section 96 grants are not subject to conditions. The main component of untied grants is the revenue from the GST. The value of other untied grants is relatively small and includes, for example, the compensation paid to the states for the revenue they have forgone since the introduction of the national scheme for the regulation of companies and securities.

2.19 Several reasons exist for the Commonwealth to provide SPP assistance to the states. First, while a state may have a very narrow view of a particular program that it is seeking to undertake, seeing it as relevant to its own residents, it may not account for the benefit the activity might have for residents of other states. This can lead to the allocation of insufficient resources. The Commonwealth may seek to encourage adequate expenditure by means of an SPP. Some argue that this is the only legitimate reason for the provision of tied grants. An example of such grants is funding for interstate highways.¹⁰

2.20 A second reason for the use of SPPs is a desire to promote co-operative arrangements between the Commonwealth and individual states to achieve national standards in particular services. This is highlighted in circumstances where no individual state could be expected to effectively deliver services or to deliver services in accordance with national objectives.¹¹ A well-known example was the standardisation of Australian railway gauges.

2.21 Third, SPPs may provide a means of giving additional budget support to enable the states to meet their expenditure responsibilities. Such grants may take the form of cost-sharing arrangements between the Commonwealth and the states. Grants which assist the states to meet their hospital running costs illustrate this form of assistance. Typically this is related to the states having an inadequate range of taxes with which to fund their responsibilities.

2.22 Fourth, at times, Commonwealth action may effectively amount to a Commonwealth 'takeover' of a particular policy area as it seeks to achieve economies of scale. The committee recalls that in 2006 the NSW and South Australian Premiers actually argued in favour of yielding their responsibilities for health to the Commonwealth Government.¹²

10 Professor Russell Mathews, as quoted in *Specific purpose payments and the Australian federal system*, Scott Bennett and Richard Webb, Parliamentary Library Research Paper, January 2008, p. 5.

11 Professor Russell Mathews, as quoted in *Specific purpose payments and the Australian federal system*, Scott Bennett and Richard Webb, Parliamentary Library Research Paper, January 2008, p. 5.

12 Patricia Karvelas and Adam Cresswell, 'States ask Canberra to control hospitals', *The Australian*, 2 June 2006. www.theaustralian.news.com.au/story/0,20867,19335557-23289,00.html (accessed 8 September 2008).

2.23 The use of SPPs means that today, a great many functions are shared between the Commonwealth and the states to a much greater extent than would have been envisaged by most of Australia's Prime Ministers and Premiers since Federation.

2.24 It must be noted, however, that sharing responsibilities creates problems for Australian federalism, including inefficiencies derived from the blurring of government responsibilities, wasteful duplication of effort, under-provision of services, and a lack of effective policy co-ordination. Most notable, however, is cost and blame-shifting among different levels of government.

2.25 Evidence was given that with shared responsibility, Commonwealth funding enabled State Governments to avoid accountability for their actions, or lack of action.

State and territory government dependence on SPPs

2.26 The level of SPP funding is an ongoing issue between the Commonwealth and the states. Paragraph 5(v) of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations states:

The Commonwealth will continue to provide Specific Purpose Payments (SPPs) to the States and Territories and has no intention of cutting aggregate SPPs as part of the reform process set out in this Agreement, consistent with the objective of the State and Territory Governments being financially better off under the new arrangements.¹³

2.27 The reason for this provision is that the states were concerned that the Commonwealth would reduce funding of SPPs following the introduction of the GST and the Commonwealth's undertaking to provide all revenue from that tax to the states. The states have interpreted the provision to mean that the level of SPPs should be measured in real per capita terms using the consumer price index to remove the effect of inflation.

Inputs and outcomes

2.28 As noted above, conditionality sometimes takes the form of so-called input controls such as the states having to match Commonwealth funding. Generally speaking, in recent years, input controls have been relatively benign. Short of replacing SPPs with untied grants, another option that has been proposed is for conditionality to focus on outcomes and results.¹⁴

2.29 Input controls may have the effect of:

- A focus on input controls may not place clients first, particularly for SPPs providing services directly to individuals and groups within the community;

13 www.coag.gov.au/ig_agreements/reform_of_comm-state_financial_relations.htm (accessed 4 July 2008).

14 Professor Ross Garnaut and Dr Vince FitzGerald, *Review of Commonwealth-State funding, Final Report*, August 2002, p. 71.

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- A focus on inputs distracts attention from meeting SPP objectives and may not provide any indication of what is being achieved via the service provision;
 - Input controls limit incentives for service providers to improve their efficiency, and prevent the redirection of efficiency savings into other areas of expenditure; and
 - Input controls do not allow service providers the flexibility to move funds between program elements within SPPs to ensure that overall objectives are achieved.

2.30 To address these concerns, it has been suggested that input controls should be replaced by output controls – where State Governments receive funding at least partly based on outcomes. However replacing input controls with output controls does not necessarily mean improvements:

- It is much easier for States to meet input controls. For example, it is much easier for a school to know in advance that they will meet a requirement to have a flagpole than to meet a requirement for test results of a particular standard. As a result, input controls provide more funding certainty.
- It is easier to administer input controls and they have lower compliance costs.

2.31 The committee makes a recommendation (Recommendation 8) relating to the further consideration of the costs and benefits of input and output controls in chapter 8.

Vertical fiscal imbalance

2.32 Vertical fiscal imbalance refers to the relationship between the relative spending responsibilities of a tier of government and its capacity to raise revenue. It is common to most, if not all, federal systems. In Australia, the states have relatively large constitutionally-assigned spending responsibilities but, in recent decades, relatively few own-revenue sources. The reverse is true at the Commonwealth level.

2.33 Even before the GST was introduced, Australia had a comparatively high degree of vertical fiscal imbalance. It is surpassed by countries, for example, Belgium and Mexico but exceeds other countries such as Canada, United States and Germany.¹⁵ The Commonwealth raises about 75 per cent of total general government revenue but is responsible for about only 60 per cent of total expenditure on government programs. In 2003–04, the Commonwealth raised about 78 per cent of total government revenue and was responsible for about 65 per cent of total government expenditure.

2.34 It can be argued that the advent of the GST and the abolition of some state taxes have contributed to the rise in the degree of vertical fiscal imbalance. Indeed, the

15 Department of the Treasury, *Architecture of Australia's tax and transfer system*, August 2008, p. 301.

states frequently complain that the shift in revenue-raising power to the Commonwealth and their lack of own-source revenue have increasingly led to a situation where the Commonwealth is virtually able to dictate to the states the terms of SPPs.

2.35 On the other hand, it could be argued that the Commonwealth is, in effect, merely acting as an agent who collects the GST on the states' behalf; that this is tantamount to shifting some revenue-raising capacity back to the states; and that this rolls back somewhat the vertical fiscal imbalance in the states' favour.

2.36 The presence of vertical imbalance, with the states relying on transfers from the Commonwealth, leads to design issues concerning the inter-governmental transfer arrangements to bridge the vertical fiscal gap. Concerns include the potential for: undermining accountability to taxpayers for expenditure decisions; creating duplication and overlap in the provision of services; constraining beneficial tax competition across jurisdictions; and weakening incentives for tax and microeconomic reform. Increasing the states' revenue raising capacity would be a step towards reducing the vertical fiscal gap.¹⁶

2.37 Many witnesses raised the question of the states resuming an incomes tax ability with the Commonwealth vacating a certain percentage of the income tax collections and allowing the states to impose their own level of top-up income tax requirements. It was argued that this would increase the states' accountability.

2.38 The Committee does not necessarily support the 'reform' of Income Tax Collections by reducing the Commonwealth's collections with a corresponding reduction in the payment of SPPs to the States and transferring to the States the ability to raise their own income tax by adding a surcharge to the Commonwealth's base income tax collections to fund what previously came to them as an SPP payment, but believes there should be serious consideration of that proposition, to address the States' concerns of vertical fiscal imbalance and to impose more accountability on, and lessen blame shifting by, the States. The need for States to impose their own income tax revenue would provide opportunities for competitive taxation systems across the nation. Any such enquiry should carefully assess benefits and costs and determine if the ability of the States to impose their own income tax would be in the national interest.

2.39 Nevertheless the Committee does believe that this option needs to be considered in detail by a specialised taskforce. Such an inquiry should carefully assess benefits and costs and determine if the ability of the States to impose their own income tax would be in the national interest. A specialised taskforce should comprise leading economists and senior officials of the Commonwealth's and each

16 Dr Vassiliki Koutsogeorgopoulou, *Fiscal relations across levels of government in Australia*, Organisation for Economic Co-operation and Development, Economics Department Working Papers no. 541, 2007, p. 5.

State/Territory's Treasury. The committee makes a recommendation (Recommendation 7) in this regard in chapter 8.

Horizontal fiscal equalisation

2.40 Whereas vertical fiscal imbalance refers to the Commonwealth-state relationship, horizontal equalisation refers to the relative distribution amongst the states. Beginning in 2002–03, the states, in aggregate, have benefited under the new arrangements in that the amount of GST payments they have received has exceeded the amount they would have received under the old system. However, these 'gains' have been distributed unequally, with Queensland gaining the most (in dollar terms) principally at the expense of NSW but also Victoria.¹⁷ The main reason for the uneven distribution is the application of the horizontal fiscal equalisation principle, on which the Commonwealth Grants Commission bases its calculations of the relativities used to determine each state's GST entitlement.

2.41 Questions have been raised regarding the appropriateness of the current equalisation mechanism in terms of the equity it achieves against the potential efficiency losses and the cost of institutional complexity it entails. Concerns arise about the usefulness of extensive interstate fiscal equalisation given the relatively low pre-equalisation disparities.¹⁸ There have, in recent years, been a number of calls to reform and to remove horizontal fiscal equalisation, for example by the Victorian Employer's Chamber of Commerce and Industry.¹⁹

Transitional and other assistance

2.42 The Commonwealth also provides compensation to the states for the deferral of GST revenue resulting from its decision that small businesses and non-profit organisations, which voluntarily registered for the GST, could pay and report GST on an annual, rather than monthly or quarterly, basis. Due to an overpayment of this compensation to the states, the Commonwealth agreed with the states to suspend the payments for 2006–07.²⁰

2.43 In March 2008, the Council of Australian Governments announced a change to the architecture of Commonwealth-state financial arrangements. This new financial framework will result in a significant rationalisation of SPPs; consolidating the nearly

17 Mr Richard Webb, *Developments in Commonwealth-state financial relations since 2000–01*, Research Brief no. 11, 2006, Parliamentary Library, p. 2.

18 Dr Vassiliki Koutsogeorgopoulou, *Fiscal relations across levels of government in Australia*, Organisation for Economic Co-operation and Development, Economics Department Working Papers no. 541, 2007, p. 6.

19 See for example: Victorian Employer's Chamber of Commerce and Industry, *Horizontal Fiscal Equalisation: The business plan to make GST distributions transparent, efficient and equitable*, 2006.

20 Department of the Treasury, *Submission 25*, p. 10.

ninety existing SPPs into five or six new national agreements for delivery of core government services. These are health, affordable housing, early childhood and schools, vocational education and training, and disability services. The reform is said to be finalised by the end of 2008, and the new framework will commence from 1 January 2009 with the reform of payments for healthcare to be implemented by 1 July 2009.²¹

2.44 The Australian National Audit Office (ANAO) has identified the development and implementation of the new federal financial framework as a potential audit topic in 2008–09.²² The committee would support the ANAO undertaking such an audit and accordingly makes a recommendation (Recommendation 9) in chapter 8.

Reforming funding arrangements

2.45 Clarifying government roles and responsibilities has the potential to improve public sector efficiency. Fragmentation of decision making and funding arrangements, particularly in the areas of hospital services and old-age care, creates incentives for cost and blame-shifting between different levels of government. A collaborative approach between different levels of government to overcome some of these problems, would help to develop better governance arrangements and improve spending assignments. A less complex system of inter-governmental transfers would also contribute to a more effective specification of spending responsibilities. Stronger revenue-raising capacity on the part of the states, through a further improvement in the efficiency of the state tax system, would raise the ability of state and local governments to meet expenditure responsibilities and allow them to be better prepared for coping with demographic change.²³

2.46 However such reforms could come at significant cost. Collaboration between governments could well mean a reduction in competitive pressures which should be there to increase efficiency. Reduced complexity of payments to states could mean fewer conditions, and therefore lesser accountability, on the states and stronger revenue-raising capacity for the states could result overall in higher taxation for Australians.

2.47 There is no straightforward solution to the question of dividing responsibilities between jurisdictions. The 'subsidiarity' principle may, however, provide some guidance. This principle holds that the central government should limit its activities to those which lower levels of government cannot perform effectively.

21 Council of Australian Governments' Meeting, *Communiqué*, 26 March 2008, p. 3, www.coag.gov.au/meetings/260308/docs/communique20080326.pdf (accessed 21 July 2008). See also 2008–09 Budget Paper No. 3, p. 6.

22 Australian National Audit Office, *Planned Audit Report Programme*, July 2008, pp 69–70.

23 Dr Vassiliki Koutsogeorgopoulou, *Fiscal relations across levels of government in Australia*, Organisation for Economic Co-operation and Development, Economics Department Working Papers no. 541, 2007, p.1.

That is, responsibility should rest, where possible, with the lowest level of government.

2.48 It is important to distinguish between responsibility for funding and responsibility for service provision. Under SPPs, the states are responsible for service provision. Funding, on the other hand, is sometimes shared between the Commonwealth and the states and sometimes not. Reform proposals envisage different combinations of responsibility for service delivery and funding.

2.49 It is interesting to note that the Business Council of Australia estimated in 2006 that Australian taxpayers were \$836 million a year worse off because of higher spending by the Federal Government on areas of responsibility like pharmaceuticals, general practitioners and aged care facilities than for services that would have been more efficiently provided by public hospitals which are the responsibilities of the states.²⁴ The Business Council of Australia also calculated the cost of the inefficiencies in the Federal system were \$8.9 billion,²⁵ including:

- a \$2.8 billion cost of inefficient state taxes such as taxes on insurance, land tax, stamp duty and commercial conveyances and other stamp duties;²⁶
- a \$2.3 billion cost in inefficient state spending;²⁷
- a \$1.8 billion cost from duplicated spending or administration of inefficient grants.²⁸

2.50 An operator of an interstate train in Australia may have to deal with six access regulators, seven rail safety regulators, with nine different pieces of legislation, three transport accident investigators, 15 pieces of legislation covering occupational health and safety of rail operations and 75 pieces of legislation with powers over environmental management.

24 Business Council of Australia, *Submission 16, Attachment C*, pp 20 and 127.

25 Business Council of Australia, *Submission 16, Attachment C*, p. 127.

26 Business Council of Australia, *Submission 16, Attachment C*, p. 169.

27 Business Council of Australia, *Submission 16, Attachment C*, p. 166.

28 The figure \$1.8 billion is an aggregate of \$861 million and \$931 million from the Business Council of Australia, *Submission 16, Attachment C*, p. 127.

Chapter 3

State and territory bottom lines and debt levels

3.1 This chapter aims to provide a comparative analysis of the fiscal positions of each state and territory and their respective levels of debt and revenue. Such analyses can be highly technical, and can appear confusing to the uninitiated. This section aims to clarify the situation as far as possible and serve as guidance when interpreting the information contained in the rest of the chapter.¹

Sectoral divisions of government

3.2 There are typically three main levels of government that are reported on across jurisdictions.

3.3 The first is the *General Government Sector* (GGS). This typically includes entities such as government departments. The shorthand way to consider the GGS is that it is the sector over which the executive has direct control.

3.4 The second is the *Public Non-Financial Corporations* (PNFC) sector.² This includes trading businesses that are owned by government, and do not perform specifically financial functions. This sector is separated because the executive is usually the shareholder of the business, and conceptually the decision making is at an arms length from the shareholder.

3.5 The third sector is the *Public Financial Corporations* (PFC). As the name implies these entities perform purely financial functions, such as the Reserve Bank or the various state Treasury corporations. Conceptually, this sector is also operated at an arms length to government. Limited forecast data is available in this sector.

3.6 Each of the sectors can be reported on under any of the commonly-accepted accounting standards (Australian Accounting Standards Board (AASB), International Accounting Standards Board (IASB),³ Government Financial Statistics (GFS)⁴), and

1 Much of the information in this chapter, including graphs relating to the fiscal position and debt levels of states was drawn from *The many bottom lines of Government*, Client Memorandum, Adrian Makeham-Kirchner, Parliamentary Library, July 2008.

2 Businesses owned by governments are known by various names, including, Government-owned Corporations (GOCs), Government-Trading Organisations (GTOs), Public Trading Enterprises (PTEs) and Government Business Enterprises (GBEs). For simplicity, the last of these will be used in this report.

3 AASB/IASB has been the reporting standard for businesses. Many government agencies have reported on this standard for some time. However, the aggregated government position really only started to move towards AASB reporting when governments adopted accrual accounting for whole-of-government reporting. In recent years the Board has incorporated standards within the AASB rules that relate specifically to government transactions.

on either a cash or accrual basis. Inconsistency in standards applied between states hinders easy analysis and comparison of fiscal positions.

What is the 'bottom line'?

3.7 There are three main bottom lines that are reported across levels of government, depending on the standard used.⁵ All relate to the flow of financial transactions, as compared to balance sheet measures which are stocks of resources.

3.8 Jurisdictional interpretation and the Australian Bureau of Statistics (ABS) measurement of the balances can have different outcomes. This is important for time series comparisons which include both historical statistics (drawn from the ABS) and budget forecasts (made by a jurisdiction).

3.9 The first main result in the GFS standard is the *net operating balance* (NOB). This bottom line measures the difference between accrual GFS recurrent revenue and expenses, not accounting for any movement in the investment position of government. This measures how much of the general revenue raised by government is left within a financial year. It can indicate whether the government is borrowing to fund operations or what aspects of spending are impacting the economy at large.

3.10 The second main result is the *fiscal balance* (FB), which is sometimes called GFS net lending or borrowing depending on whether the budget is in surplus or deficit. The FB is measured as the NOB less the net acquisition of non-financial assets. Non-financial assets include infrastructure such as buildings, plant and equipment and inventories. As a net measure the lending figure discounts the purchase of these assets by their sales and depreciation.

3.11 The third headline is the *underlying cash balance* (UCB). This data is drawn from the cash flow statement (CFS) and is a 'dollars and cents' equivalent to the accrual fiscal balance. It represents the net cash operating balance plus net non-financial investing balance less net acquisition of assets under finance leases (and similar) less future fund earnings. For example, the underlying cash balance excludes proceeds from the privatisation of government business enterprises (GBEs).

3.12 There is no rule around which balance must be reported and jurisdictions are free to report on which level they wish to. However, the recent moves to harmonise the AASB/IASB and GFS concepts should bring some convergence to bottom line reporting. Although most jurisdictions have already done so, all jurisdictions are

4 GFS is a system built, initially, through the International Monetary Fund (IMF) to enable consistent measurement of government finances on an economics standard. The marginal difference to other standards is that the end goal of the reporting is to measure the impact of government on the economy, not just the internal performance management of government.

5 Detailed explanations are available at www.treasury.gov.au/documents/186/HTML/docshell.asp?URL=accrualmeasures.asp.

required to report in accordance with AASB standard 1049 before their 2009–10 budgets.

The Uniform Presentation Framework

3.13 The committee took evidence from Treasury officials on the Uniform Presentation Framework (UPF), a fiscal reporting framework which the Australian Government and all state and territory governments have agreed to adopt in their budget papers or reporting.

3.14 Mr Derek Bazen, Analyst with the State Finance and Reporting Unit of Treasury, made the point that the existence and use of the UPF by states for fiscal reporting did not mean that states would not also publish budgetary information in a non-uniform way, to suit their own purposes. In the committee's view, this practice causes considerable confusion among those seeking to compare finances between states. Mr Bazen said that:

In our monitoring of state finances we tend to rely on the uniform presentation framework, particularly because of the ability to compare what is happening between jurisdictions. But states do vary in terms of what they feel the most important fiscal indicator for their jurisdiction is, and this is why the headline measures that states report often seem a bit at odds in terms of how they present their material.⁶

3.15 The most recent iteration of the UPF (April 2008)⁷, implemented nationally from this financial year, was developed to deliver alignment with Australian Accounting Standard 1049, which itself aims to standardise government reporting.⁸ The committee welcomes the introduction of the common standard, the absence of which has made accurate financial analysis more difficult than it should be.⁹

3.16 However, the committee is concerned to note that the introduction of the standard could be undermined by allowing departure from prescribed accounting rules, as long as those departures are disclosed. Associate Professor Graeme Wines submitted that:

In summary, AASB 1049 should result in greater uniformity in government financial reports, but the potential advantages will not be achieved if governments are allowed to depart from the prescribed rules. Accordingly, the Commonwealth and all States should be subject to Charters of Budget

6 Mr Derek Bazen, Analyst, State Finance and Reporting Unit, Department of the Treasury, *Committee Hansard*, 25 July 2008, p. 79.

7 Available at www.treasury.gov.au/documents/1371/PDF/2008_UPF.pdf

8 Mr Derek Bazen, Analyst, State Finance and Reporting Unit, Department of the Treasury, *Committee Hansard*, 25 July 2008, pp 78–79.

9 The committee notes similar sentiments expressed by submitters. See, for example, Associate Professor Graeme Wines, personal capacity, *Submission 17*, p. 11.

Honesty which require complete compliance with applicable accounting standards.¹⁰

3.17 The committee wholeheartedly agrees. Not only do consistent reporting standards across jurisdictions make good common sense, they also reduce the ability of governments to successfully pick, choose and publicise different headline data year-to-year to suit their political purposes. The committee elaborates on this subject in chapter 8, in which it also makes a recommendation (Recommendation 1) that each state adopt a charter of budget honesty.

3.18 The utility of producing truly comparable financial records between jurisdictions was widely acknowledged by witnesses giving relevant evidence. Mr Henry Ergas called for the development of standards to be strictly complied with by states:

I believe that there would be gains from having greater consistency both between jurisdictions and over time. I wonder whether there would not be scope for a consultative process, involving the Commonwealth and the states, to reach agreement and try to monitor compliance with that agreement with regard to reporting standards. That might well be a function that could be allocated productively to the Productivity Commission, which has considerable expertise also in this area from its review of state government performance and which, I suspect, could quite readily come up with recommendations as to what might be done in that area.¹¹

3.19 The committee supports the intention behind Mr Ergas' suggestion. The Productivity Commission may well have expertise to offer in the development of state-based charters of budget honesty which are the subject of Recommendation 1 in chapter 8.

Fiscal positions

3.20 The committee asked the Parliamentary Library to collate the fiscal positions of each state and territory. This section graphs state and territory GGS and PNFC sector bottom lines from 1998–99 to the latest available forward estimates (see Figure 3.1).¹²

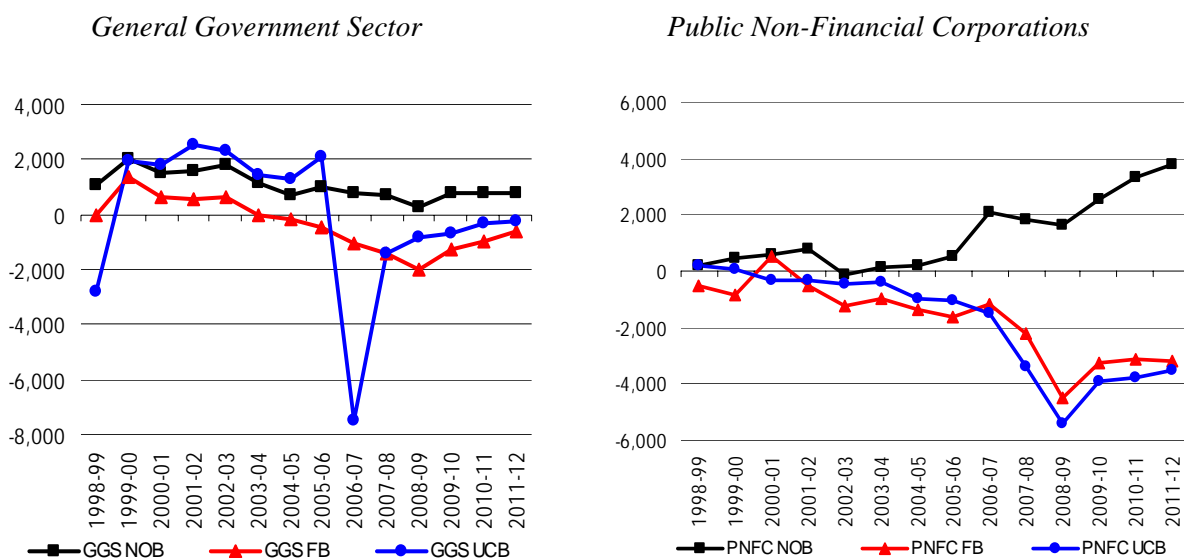
10 Associate Professor Graeme Wines, personal capacity, *Submission 17*, p. 13.

11 Mr Henry Ergas, personal capacity, *Committee Hansard*, 25 July 2008, p. 37.

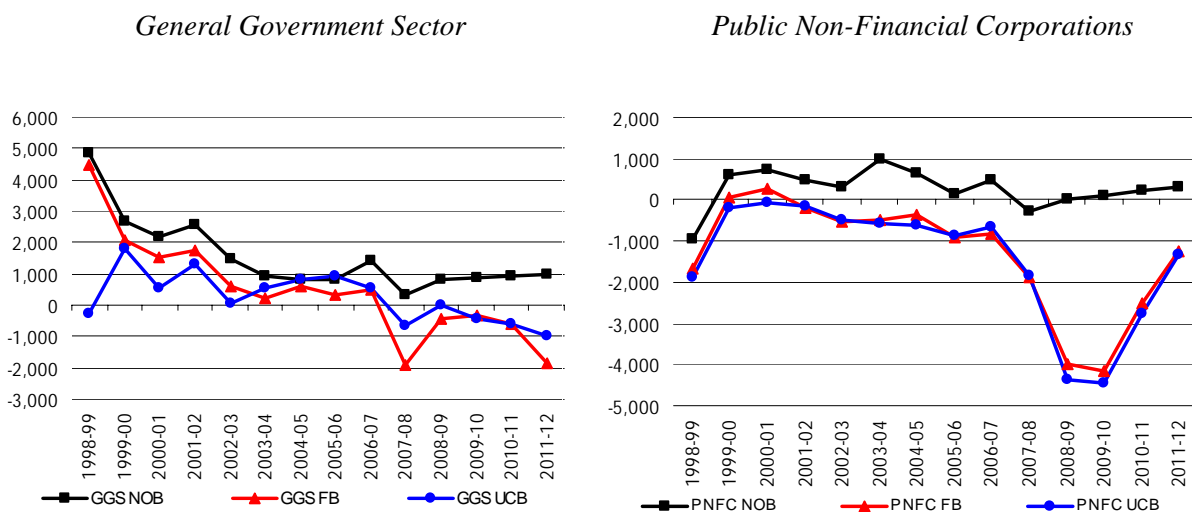
12 The Library warns that volatility around 2006–07 may be more an issue of recording than actual changes in balance, as the data to 2006–07 is drawn from ABS data, while 2007–08 is drawn from the respective Uniform Presentation Framework section of the relevant state or territory Budget Paper. Adrian Makeham-Kirchner, *The many bottom lines of Government*, Client Memorandum, Parliamentary Library, July 2008, p. 5. All data is in nominal (current) dollars, not accounting for any inflationary impact, and the left hand chart relates to the GGS and the right hand chart relates to PNFC. NOB: Net Operating Balance. FB: Fiscal Balance. UCB: Underlying Cash Balance.

Figure 3.1—State and territory fiscal bottom lines, 1998–99 to 2011–12

New South Wales – GGS and PNFC (in \$m)

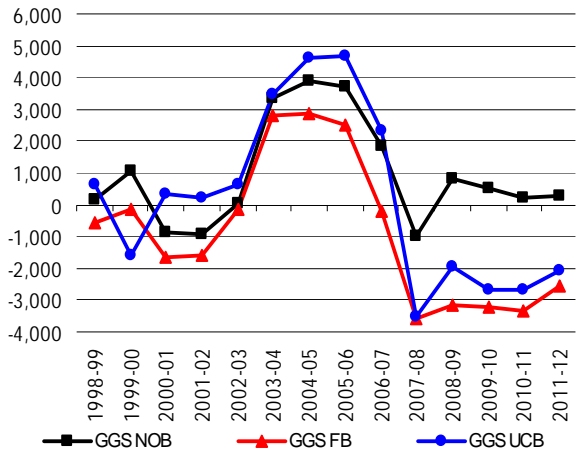


Victoria – GGS and PNFC (in \$m)

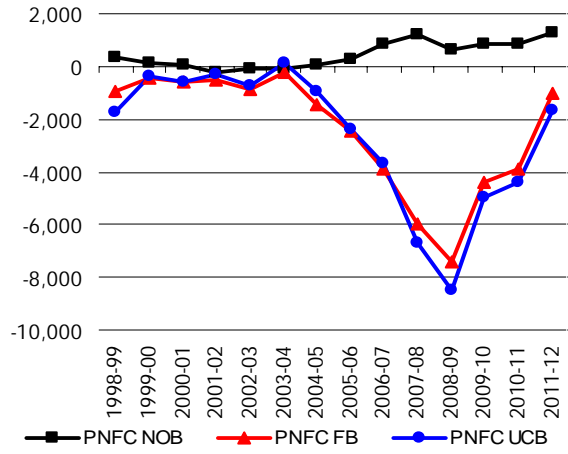


Queensland – GGS and PNFC (in \$m)

General Government Sector

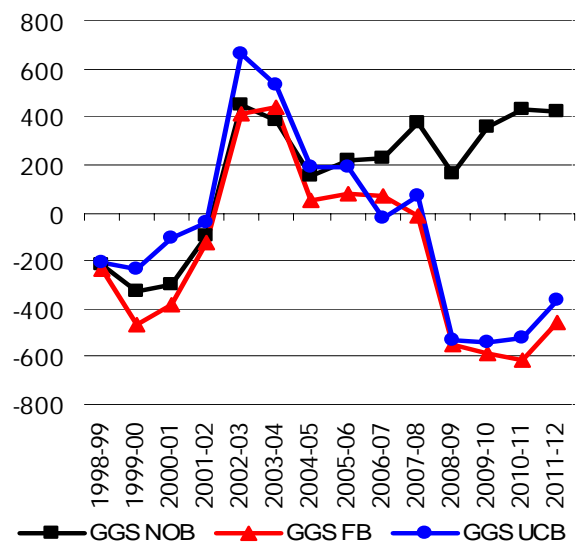


Public Non-Financial Corporations

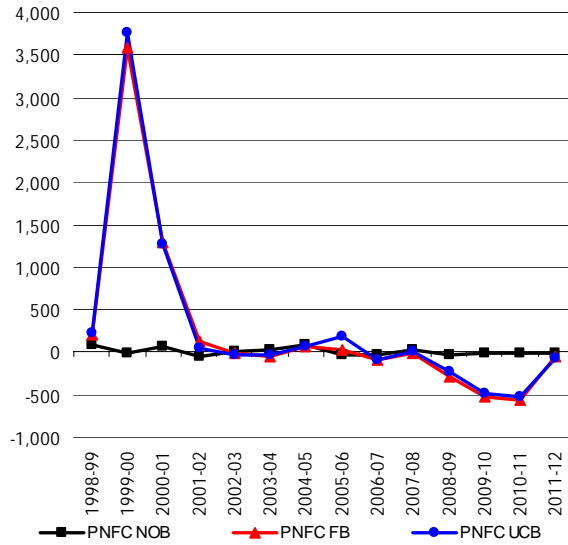


South Australia – GGS and PNFC (in \$m)

General Government Sector

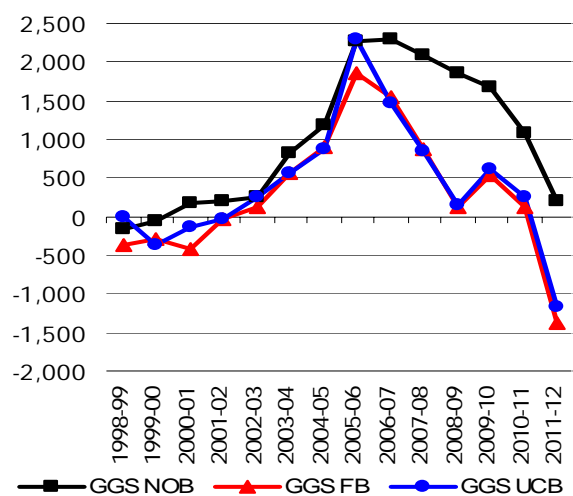


Public Non-Financial Corporations

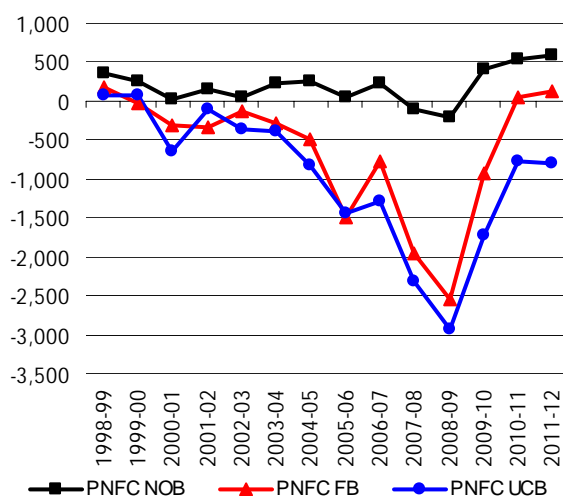


Western Australia – GGS and PNFC (in \$m)

General Government Sector

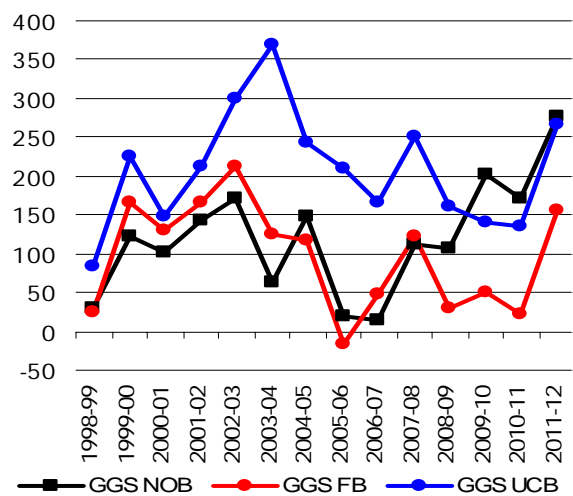


Public Non-Financial Corporations

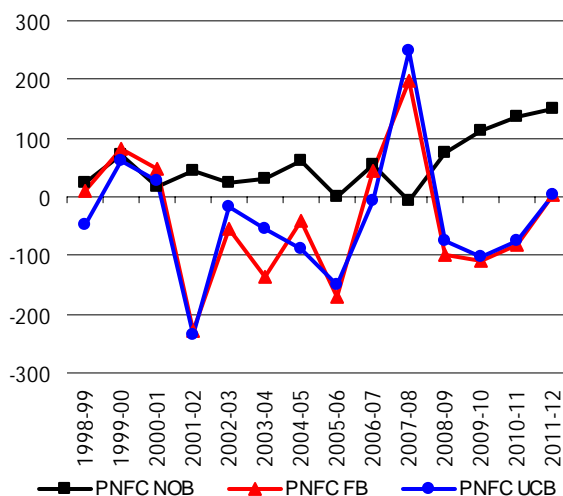


Tasmania – GGS and PNFC (in \$m)

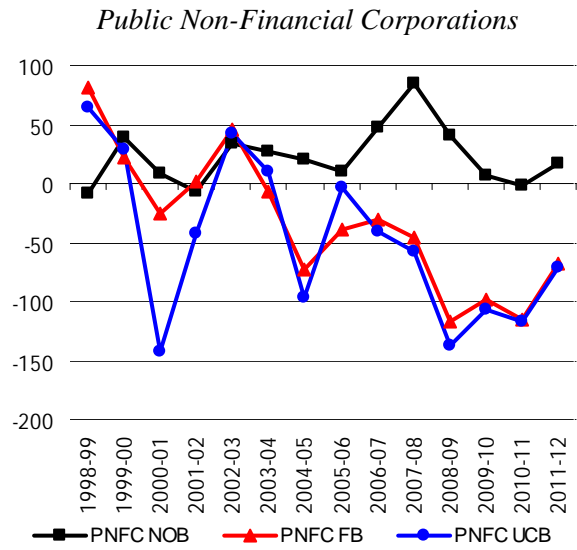
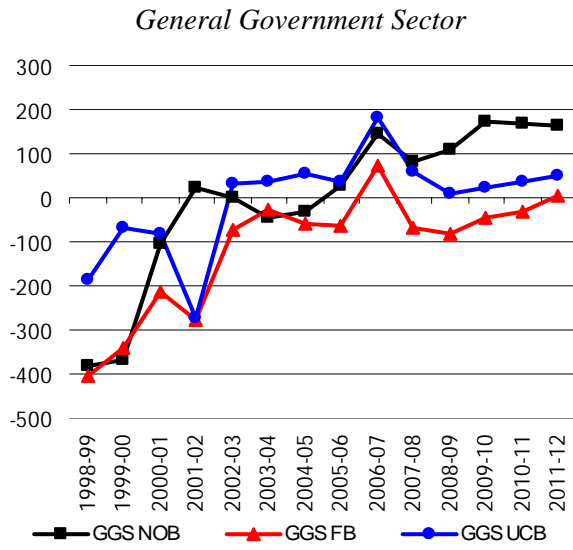
General Government Sector



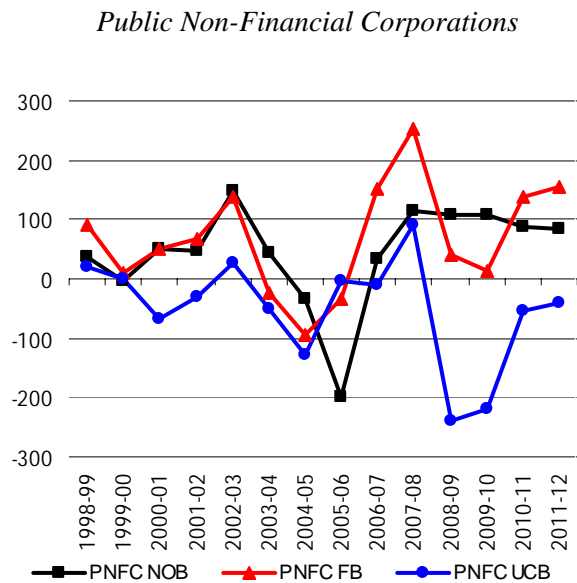
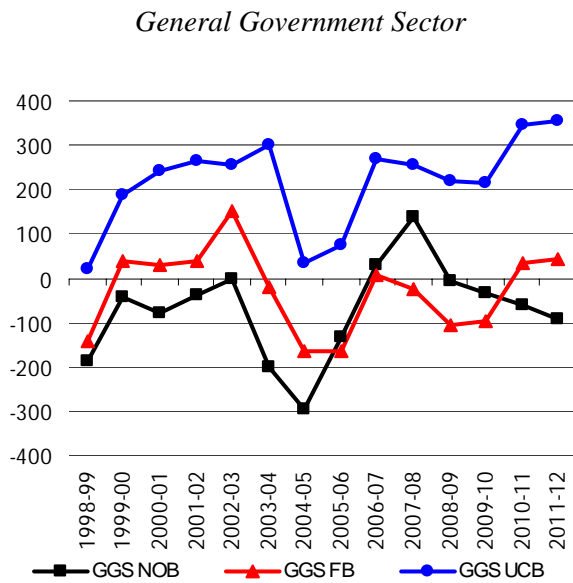
Public Non-Financial Corporations



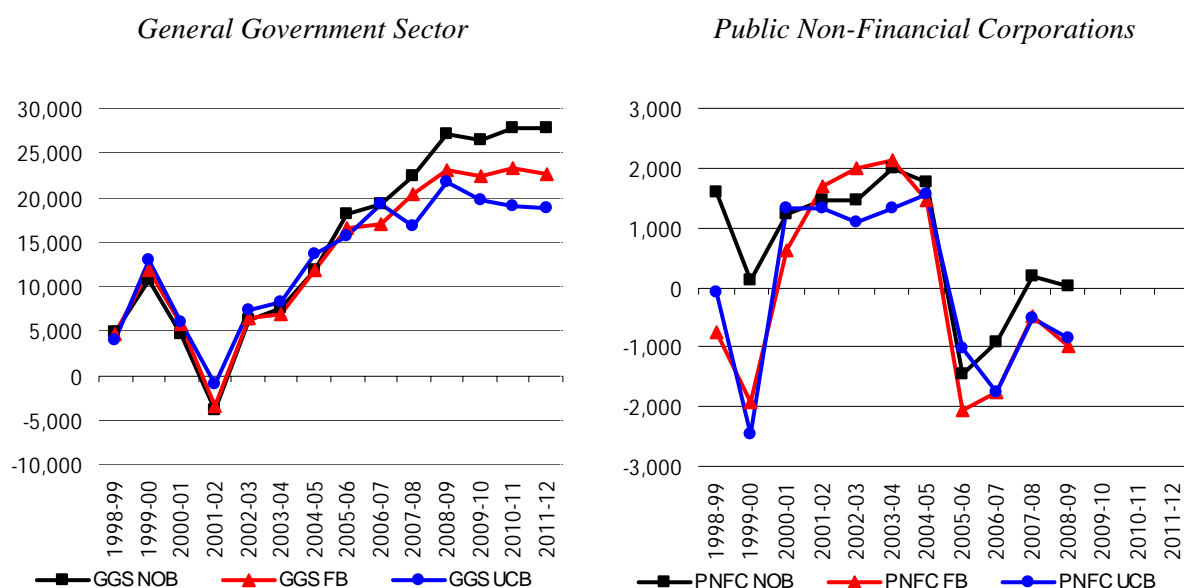
Northern Territory – GGS and PNFC (in \$m)



Australian Capital Territory – GGS and PNFC (in \$m)



Commonwealth – GGS and PNFC (in \$m)



3.21 In aggregate, the states are expected to record net operating surpluses in accrual terms for the GGS of about 0.3 per cent of GDP in 2007–08 and over the forward estimate period 2008–09 to 2010–11. The fall in states' operating balances, compared with 2005–06, largely reflects the impact of higher expenditures and slower revenue growth.¹³

3.22 The aggregate state fiscal balance (as distinct from the net operating balance) for the GGS is estimated to be in deficit by 0.5 per cent of GDP in 2007–08. This arises from the recent increased funding of capital expenditure. The deficit is expected to extend over the forward years. Western Australia is the only state expected to have a fiscal surplus in 2007–08 and in the forward years, reflecting its large operating surpluses, which are more than sufficient to cover its general government capital expenditures.¹⁴

3.23 The committee, from its own resources has attempted to provide a table that gives some broad understanding of what the above graphs may mean to a layperson.

3.24 The information contained in the state bottom lines graphs (Figure 3.1) is both complex and relatively high level. It provides an overall picture of the past and future financial performance of each jurisdiction. All of the various economic and fiscal activities that occur in a state are reflected in these bottom lines. As a result there is a limit to the extent to which such data can be interpreted. Different financial arrangements (such as the types of GBEs and relative economic circumstances)

¹³ Department of the Treasury, *Submission 25*, p. 1.

¹⁴ Department of the Treasury, *Submission 25*, p. 2.

between states make interstate comparisons difficult. However, it is possible to discern some basic overall projected trends within a state.

3.25 For instance, a positive NOB demonstrates that state revenues are meeting recurrent expenditure (in accrual terms). The gap between the NOB and the FB is an indication of the level of capital investment (including infrastructure investment). Adding state net debt (ND, defined in paragraph 3.27) position to this picture can provide information on whether state debt is being used to fund capital investment. Table 3.1 analyses the NOB, FB and ND positions of each state in the current budget year and the forward estimates period to 2011–2012. The descriptors used in this table, such as 'modest', 'stable', 'large', and 'sharp' are relative to the preceding period.

Table 3.1—Analysis of State fiscal and debt data, 2008–09 to 2011–12

State	Measure	GGs	PNFC
NSW	NOB	• modest positive and stable, suggesting recurrent expenditure met by revenue	• large positive and increasing, suggesting increasing revenues or decreasing expenses
	FB	• modest negative and increasing, suggesting small and declining capital investment	• large negative and stable, suggesting ongoing strong capital investment
	ND	• modest increase, suggesting debt funded infrastructure	• rising steadily, suggesting debt funded infrastructure
VIC	NOB	• modest positive and stable, suggesting recurrent expenditure met by revenue	• modest positive and stable, suggesting recurrent expenditure met by revenue
	FB	• modest negative and declining, suggesting small but increasing capital investment	• large negative and increasing, suggesting strong but declining capital investment
	ND	• rising steadily, suggesting debt funded infrastructure	• rising steadily, suggesting debt funded infrastructure
QLD	NOB	• modest positive with slight decline, suggesting recurrent expenditure met by revenue	• modest positive and steadily increasing, suggesting recurrent expenditure met by revenue
	FB	• large negative and stable, suggesting strong and steady capital investment	• large negative, increasing rapidly, suggesting very strong but sharply declining capital investment
	ND	• small negative (net investment), rising steadily, suggesting increasing use of debt funded infrastructure	• rising strongly, suggesting significant debt funded infrastructure
SA	NOB	• modest positive with moderate increase, suggesting improving operating balance	• near zero and stable, suggesting revenue matching recurrent expenditure
	FB	• large negative and stable, suggesting ongoing strong capital investment	• large negative and increasing, suggesting strong but declining capital investment
	ND	• rising steadily, suggesting debt funded infrastructure	• stable rising slowly, suggesting minor debt funded infrastructure

State	Measure	GGS	PNFC
WA	NOB	• large positive with strong decline, suggesting diminishing surplus	• minor negative (deficit) increasing to modest positive, suggesting improving operating balance
	FB	• moving from strongly positive to strongly negative, suggesting strong capital investment	• large negative but increasing rapidly, suggesting very strong but sharply declining capital investment
	ND	• minor negative (no net debt) and stable, suggesting little or no debt funded infrastructure	• slight increase, suggesting little debt funded infrastructure
TAS	NOB	• modest positive with steady increase, suggesting improving operating balance	• modest positive with steady increase, suggesting improving operating balance
	FB	• minor positive increasing over time, suggesting small and decreasing capital investment	• minor negative and increasing, suggesting moderate but declining capital investment
	ND	• small negative and decreasing, suggesting no debt funded infrastructure	• slight increase, suggesting little debt funded infrastructure
NT	NOB	• moderate positive with slight increase, suggesting improving operating balance	• modest positive and declining, suggesting recurrent expenditure is being met by revenue
	FB	• modest negative and steadily increasing, suggesting moderate but declining capital investment	• moderate negative and steadily increasing, suggesting strong but declining capital investment
	ND	• gradually decreasing, suggesting modest reduction in debt funded infrastructure	• rising steadily, suggesting increasing levels of debt funded infrastructure
ACT	NOB	• modest negative (deficit) steadily declining, suggesting a weakening operating balance	• modest positive and stable, suggesting recurrent expenditure is being met by revenue
	FB	• modest negative increasing to a modest positive, suggesting declining capital investment	• modest positive increasing over time, suggesting little capital investment
	ND	• small negative (net investment) and decreasing, suggesting no debt funded infrastructure	• modest positive rising gradually, suggesting low levels of debt funded infrastructure

Debt levels

3.26 Conceptually, the balance sheet is the representation of the assets and liabilities of government at a point in time. There are three key measures that are drawn from the balance sheet, which are typically of interest in analysing government.

3.27 The first is net debt (ND). ND is strictly defined as:

- The sum of deposits held, advances received, government securities issued, loans and other borrowings (liabilities); less

- The sum of cash and deposits, advances paid, investments, loans made and placements (assets).

3.28 The size of the ND is a measure which illustrates the potential call on recurrent resources from debt servicing, or conversely the potential revenue which might be gained from net investments (negative ND). Importantly, ND focuses on shorter-term liabilities, so liabilities such as superannuation are not typically included. Unfunded superannuation is discussed in the following chapter. A depiction of the 2008–09 and 2011–12 ND position of each state, for both the GGS and PNFC sectors, is presented in Table 3.2. These data show a general upward trend over time in ND levels across most jurisdictions, in both the GGS and PNFC sectors. Figure 3.2 below shows in graph form the relative debt position of each state.

Table 3.2—State and territory net debt positions, 2008–09 and 2011–12

	GGS (in \$ million)		PNFC (in \$ million)	
	2008–09	2011–12	2008–09	2011–12
NSW	6,191	7,809	23,833	36,790
VIC	3,739	9,465	7,278	13,415
QLD	-21,928	-13,277	30,847	40,455
SA	610	1,983	2,167	3,246
WA	-2,747	-2,041	11,985	15,022
TAS	-1,123	-1,665	2,076	2,360
NT	1,045	848	533	828
ACT¹⁵	-3,235	-4,421	585	834

Source: Parliamentary Library, September 2008

3.29 The next common measure is net financial worth (NFW). Like ND the NFW measure includes the amount of financial assets less financial liabilities. The difference is that NFW includes all financial assets and liabilities, such as provisions (like superannuation), whereas ND usually uses only selected financial assets and liabilities. It is therefore a wider measure than ND.

3.30 The final measure is the broadest measure on the balance sheet, measuring the net worth (NW) of government. NW is basically total assets less total liabilities (including superannuation provision), and is akin to the 'shareholders equity' concept in a corporation. Table 3.3 provides the 2008–09 and 2011–12 NW position of each state, for both the GGS and PNFC sectors.

15 The Net Debt figures for the ACT General Government Sector include superannuation related investments.

Table 3.3—State and territory net worth positions, 2008–09 and 2011–12

	GGs (in \$ million)		PNFC (in \$ million)	
	2008–09	2011–12	2008–09	2011–12
NSW	141,911	154,550	71,644	80,388
VIC	92,436	106,158	40,453	43,159
QLD	128,563	140,243	18,807	21,185
SA	22,425	25,427	16,116	17,910
WA	84,178	94,842	30,050	34,221
TAS	10,767	12,754	3,461	4,037
NT	2,946	3,671	974	985
ACT	13,514	15,211	5,402	6,244

Source: Parliamentary Library, September 2008

3.31 These data show that in general the NW of all jurisdictions is trending upwards over time in both the GGS and PNFC sectors.

3.32 The hierarchy of these data is important. NW measures a very broad figure on the worth of the government as if it were to be liquidated, implying how much the public owns through the government. The NFW excludes non-financial measures, and issues associated with their valuation (for example, a more valuable road, as measured on a balance sheet revaluation, doesn't increase the resources of government to pay debt). The ND measure goes further and excludes some volatile financial measures such as superannuation (usually), which is subject to actuarial revaluation, and provides some methods to assess the operating cost impact of debt and the liquidity of government available to meet financial liabilities. It should be noted that differences in net debt among governments will partly reflect differences in the extent to which each government has chosen to hold financial assets vis-à-vis non-financial assets.¹⁶

3.33 These three measures are represented in Figure 3.2, from 1998–99 to the latest available forward estimates figures. Data to 2006–07 is drawn from ABS GFS data, while data and projections thereafter to 2011–12 are drawn from the Uniform Presentation Framework section of the relevant state/territory budget paper.¹⁷

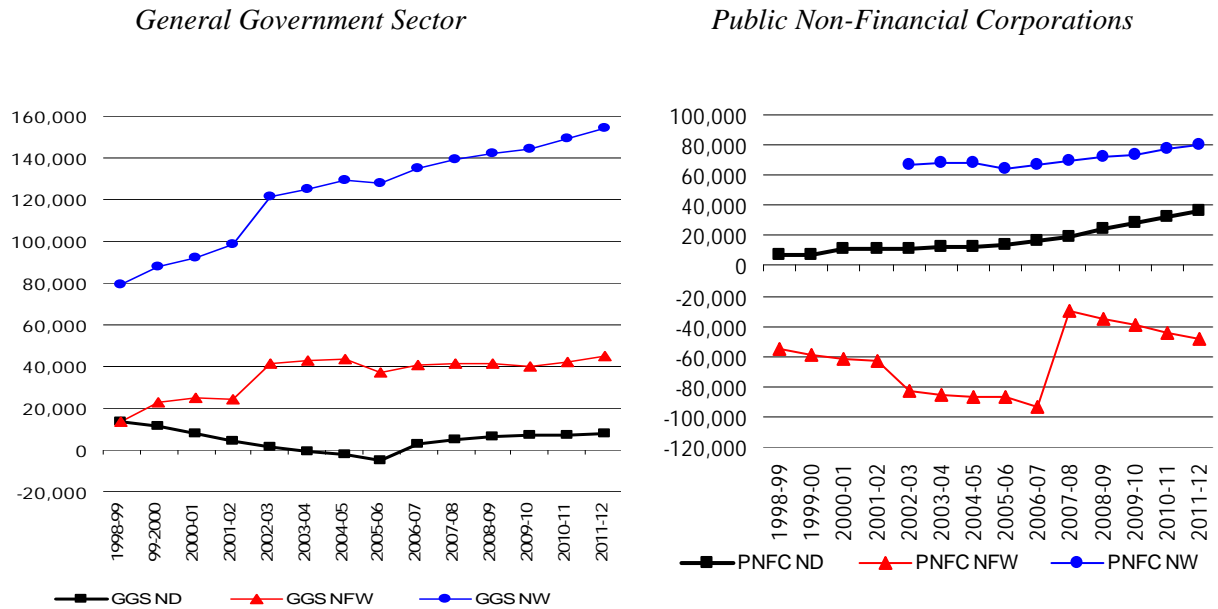
16 Department of the Treasury, *Submission 25*, p. 5.

17 All data is in nominal (current) dollars, not accounting for any inflationary impact. Net worth figures are generally not available from the ABS, while only some forecast figures are available. The left hand chart relates to the GGS and the right hand chart relates to PNFC sector. Once again, volatility around 2006–07 may be more an issue of recording than actual changes in balance. In most jurisdictions there appears to be a level shift at the end of 2006–07, which implies a regime shift between the ABS and jurisdiction reporting. ND: Net debt. NW: Net worth. NFW: Net financial worth.

Figure 3.2—State and territory debt positions, 1998–99 to 2011–12

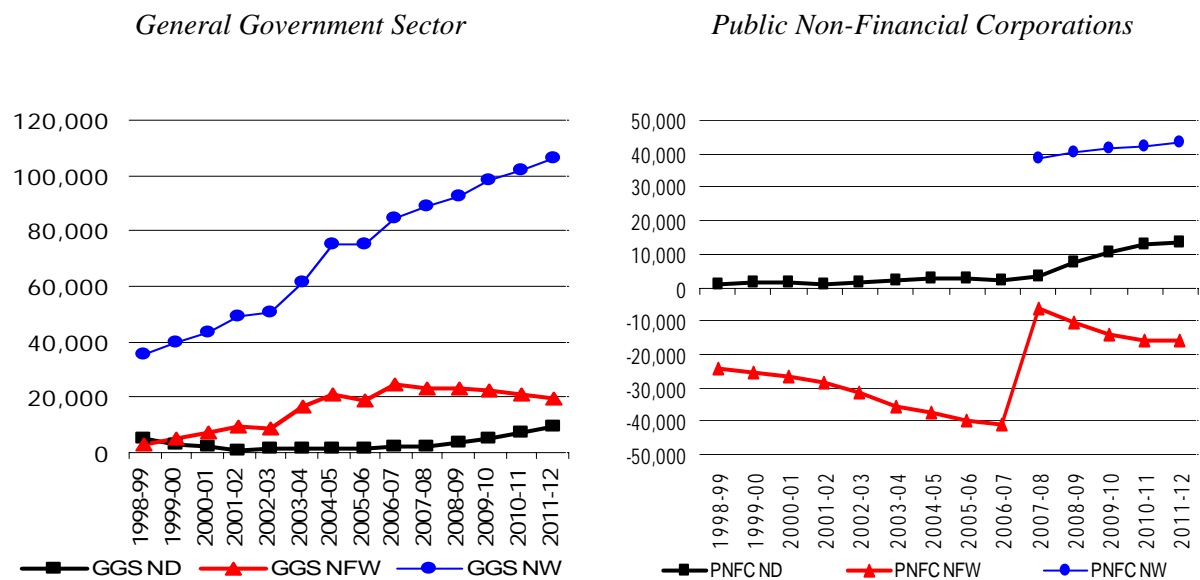
New South Wales

Key debt measures of the New South Wales GGS and PNFC (in \$m)



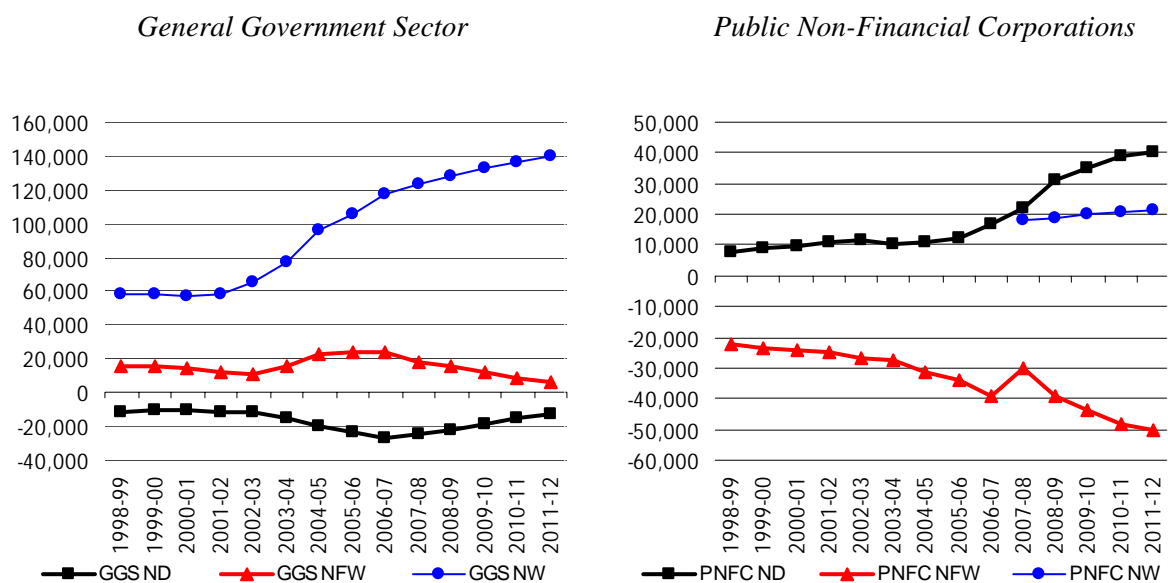
Victoria

Key debt measures of the Victorian GGS and PNFC (in \$m)



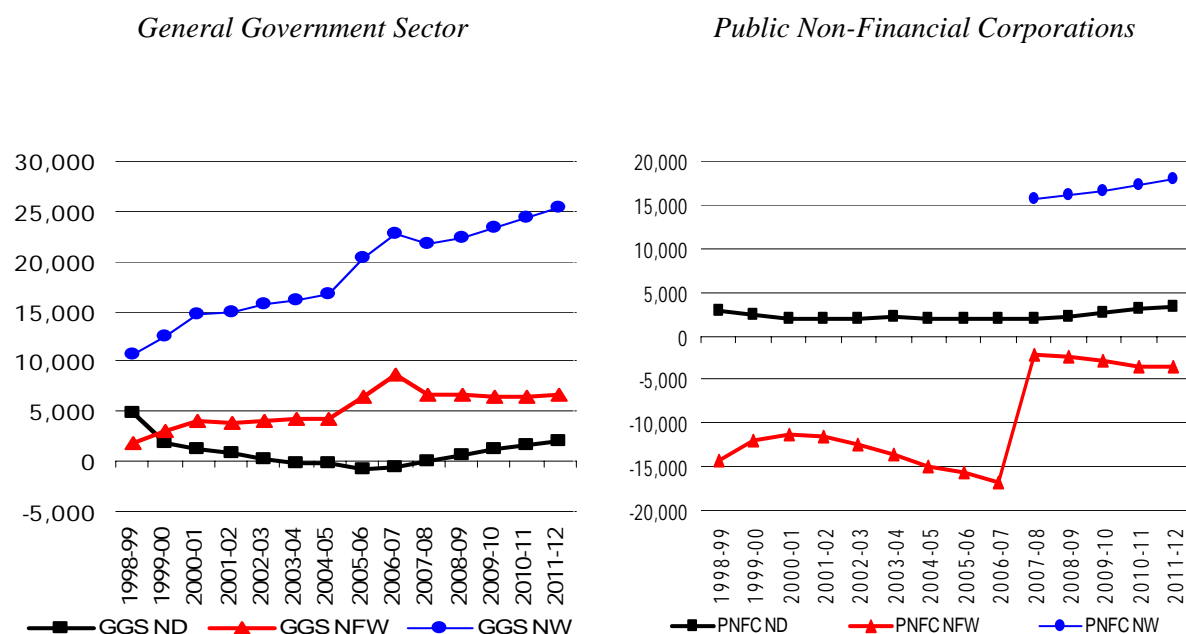
Queensland

Key debt measures of the Queensland GGS and PNFC (in \$m)



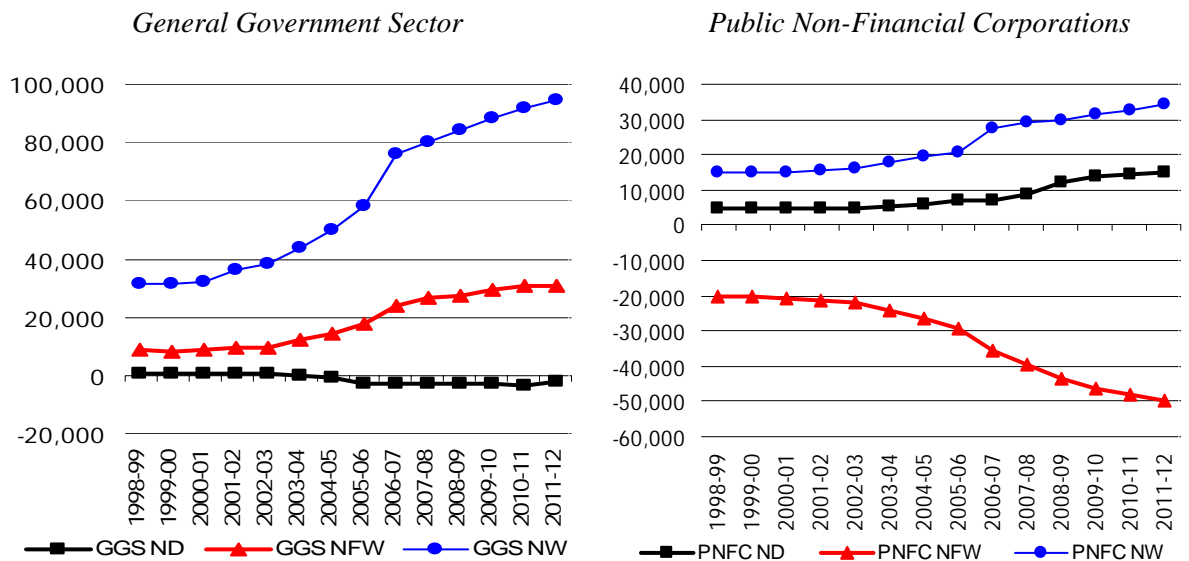
South Australia

Key debt measures of the South Australian GGS and PNFC (in \$m)



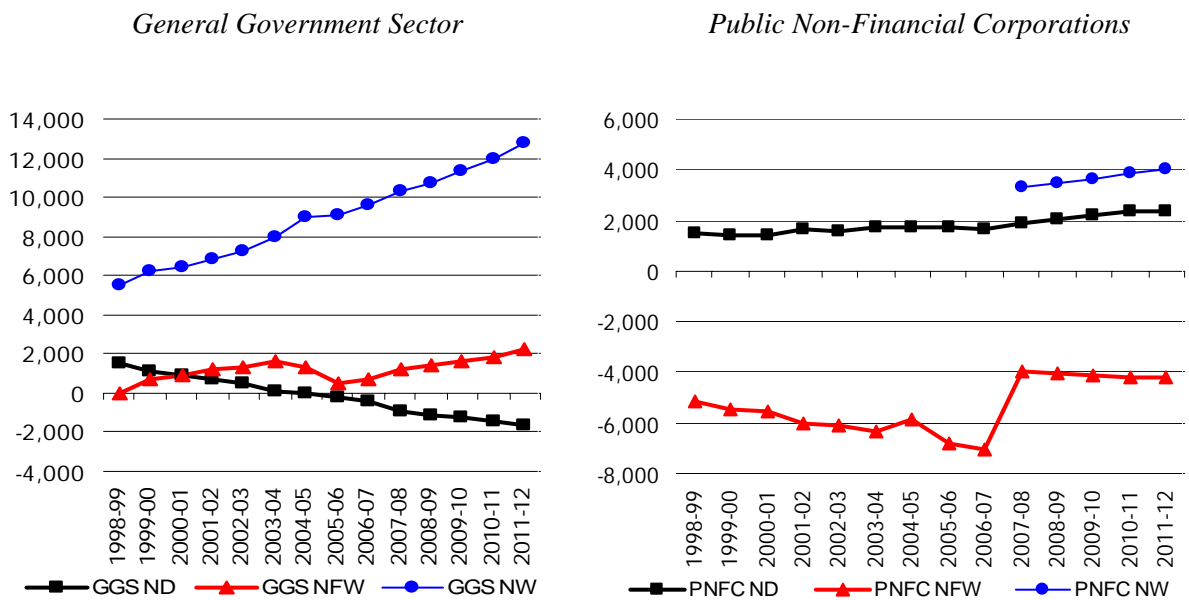
Western Australia

Key debt measures of the Western Australian GGS and PNFC (in \$m)



Tasmania

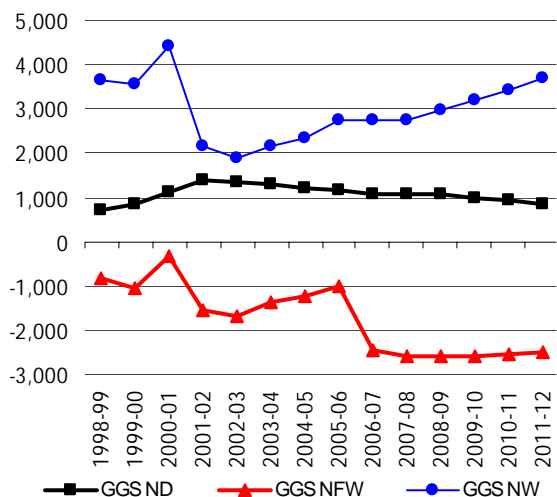
Key debt measures of the Tasmanian GGS and PNFC (in \$m)



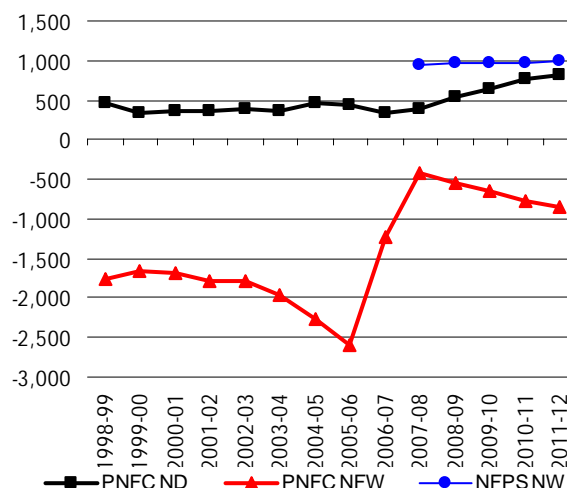
Northern Territory

Key debt measures of the Northern Territory GGS and PNFC (in \$m)

General Government Sector



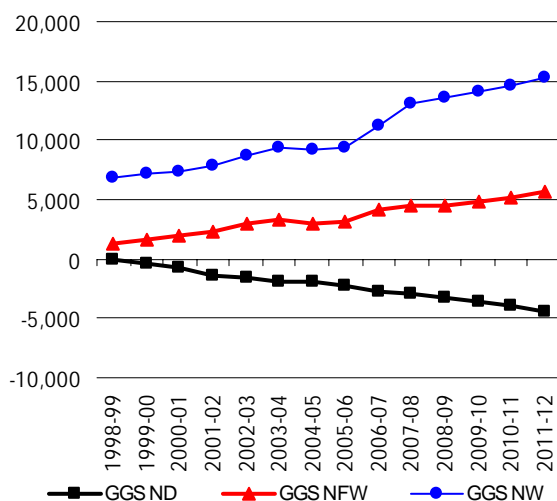
Public Non-Financial Corporations



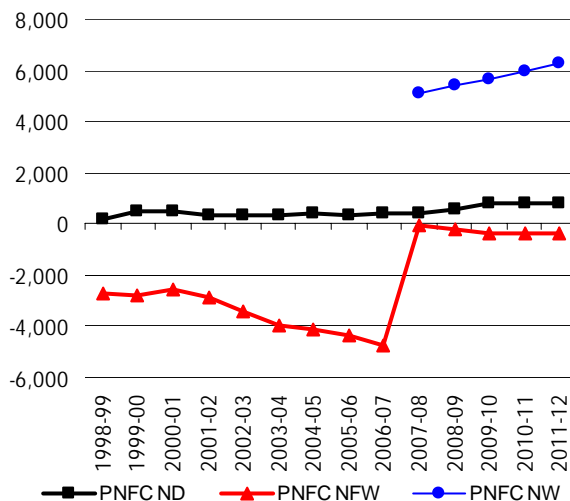
Australian Capital Territory

Key debt measures of the Australian Capital Territory GGS and PNFC (in \$m)

General Government Sector

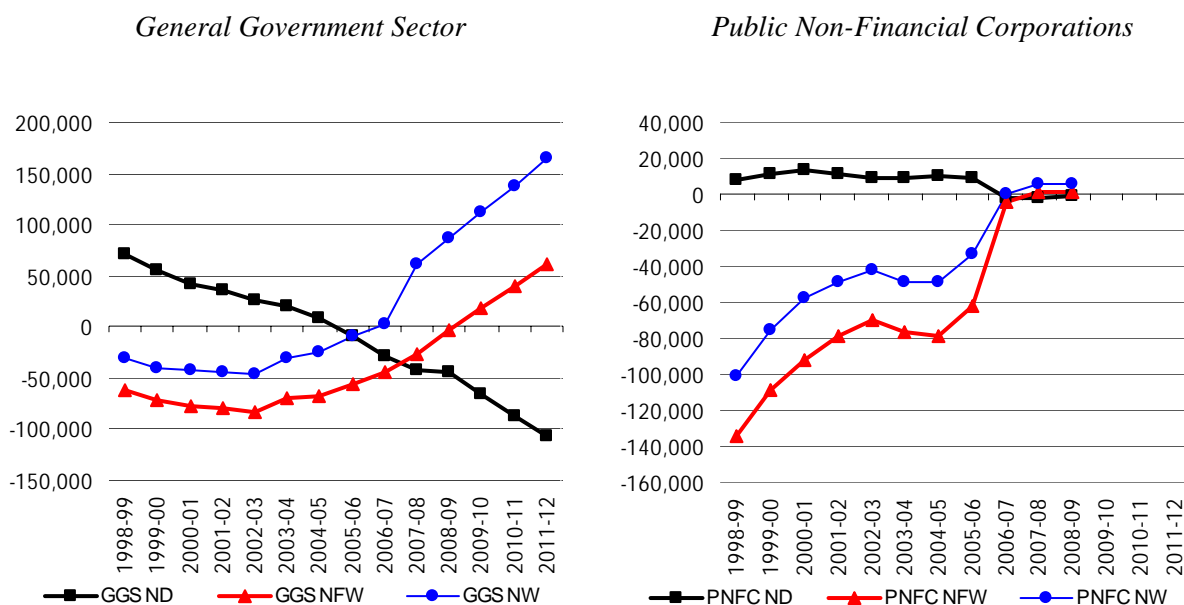


Public Non-Financial Corporations



Commonwealth

Key debt measures of the Commonwealth GGS and PNFC (in \$m)



3.34 The tabulated data on which these graphs are based forms Appendix 5 to this report.

3.35 Figure 3.2 demonstrates that most states are forecasting an increase in GGS ND in 2007–08 and in the forward years. Increased spending notwithstanding, Queensland, Western Australia, Tasmania and the Australian Capital Territory expect to have a ND position below zero (that is, a surplus) in 2007–08 and the forward years.¹⁸

3.36 However, the level of ND for the state PNFC sector is perhaps more relevant, because this sector owns nearly all of the stock of state public debt. It was estimated to be 4.5 per cent of GDP in 2006–07, up from 4.2 per cent in 2005–06.¹⁹ Significantly, aggregate ND of the state total non-financial public sector (which combines GGS and PNFC) is expected to be \$37.148 billion (3.3 per cent of GDP) in 2007–08. It is expected to increase to \$86.265 billion (6.6 per cent of GDP) in 2010–11.²⁰

3.37 Table 3.4 below disaggregates state level net debt for the PNFC sector. The forward figures are based on 2008–09 State Budget papers.

18 Department of the Treasury, *Submission 25*, p. 5.

19 Department of the Treasury, *Submission 25*, p. 5. Note these figures are based on 2007–08 State Budget papers.

20 Department of the Treasury, *Submission 25*, p. 5.

Table 3.4—Net debt of State and territory Public Non-Financial Corporations, 2005–06 to 2010–11 (in \$ million)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
NSW	13,873	16,895	18,639	23,833	28,268	32,782
VIC	2,981	1,946	3,449	7,278	10,717	12,666
QLD	12,326	16,969	22,282	30,847	35,183	39,119
SA	1,905	2,013	1,948	2,167	2,651	3,172
WA	6,978	6,904	8,941	11,985	13,599	14,290
TAS	1,729	1,689	1,924	2,076	2,242	2,345
NT	449	338	396	533	640	757
ACT	373	378	395	585	781	815
Total	40,614	47,132	57,974	79,304	94,081	105,947

Source: Parliamentary Library, September 2008.

Chapter 4

Financial Management

4.1 This chapter builds on information contained in chapter 3 to analyse state and territory financial management. It discusses interest payments, public sector wages, unfunded superannuation liabilities, and financial forecasting as key features of financial management across the states. The chapter then examines the main revenue sources of state government; taxation, and income from the Commonwealth. Finally, the chapter touches on the financial relationship between state and local levels of government. However, the first, and perhaps most significant aspect of financial management in this chapter, is debt levels and management.

Debt

4.2 Of itself, debt is not symptomatic of a problem for sustainable budgeting. It is common practice for governments to borrow even when they have a cash surplus. For example, the Australian Government is committed to issuing sufficient Treasury Bonds to support the Treasury Bond Futures market, despite having large cash surpluses to fund spending.¹

4.3 Infrastructure management, which is dealt with substantively in chapter 6, is a case in point. Borrowing to fund economically responsible infrastructure spending does not necessarily reflect poor economic management. In fact, it can help to spread the financial burden of paying for that infrastructure across those generations that benefit from it. Infrastructure can expand the nation's productive capacity thereby allowing it to achieve strong, sustainable growth with low inflation.² However it may be that it is inefficient for governments to borrow to build infrastructure if the private sector could have built that infrastructure instead. Governments have been loath to borrow in recent decades. It is commonly held that incurring debt, for whatever purpose, is deeply unpalatable to voters in contemporary Australia. Mr Henry Ergas provided the committee with his analysis of the situation as it affects state and territory governments:

What is true is that in the late nineties we were coming out of the situation during the eighties and early nineties where state governments had in numerous instances managed their fiscal positions extremely poorly. Because they had managed their fiscal positions extremely poorly, there was an overhang of debt and widespread concern among the public that further accumulation of debt or further spending by state governments might well be as inefficient as some of the spending that had occurred in previous years had proven to be.

1 Department of the Treasury, *Submission 25*, p. 5.

2 Department of the Treasury, *Submission 25*, p. 5.

In my view, what happened at that point was that we got both the wrong prescription and the wrong implementation of the prescription. We got the wrong prescription in the sense that the conclusion was drawn that what state governments should do was look like the Commonwealth and essentially have either a cyclically adjusted budget surplus or aim to run surpluses over the course of the economic cycle, if not over an even shorter time frame than that. That is a position that makes sense from the point of view of the Commonwealth, but in our system of government it is not the right fiscal rule for state governments, given that those state governments have responsibility for providing some very long-lived assets.

...

Additionally, we got the wrong implementation of that prescription, because there were many areas where state governments could have and should have improved the quality of their outlays, including infrastructure. The right way to do it would have been to focus on improving the quality of state government spending—looking at areas such as public services, where there was doubtless potential to improve efficiency significantly—making savings to the extent to which they could be made without compromising service delivery to the public and continuing to fund vital infrastructure. Instead, what we got, and what emerges quite clearly when you look at the state government finances over the period, were severe constraints imposed on funding for the long term and much less severe constraints imposed on funding that had much more short-term objectives and were much more visible in the short term. That is understandable; that is the nature of the world in which governments operate, but it meant that we then entered a period of very strong economic growth with key players in our system in infrastructure delivery not having done their bit. That was not the sole factor but it contributed to the difficulties that we had subsequently.³

4.4 Representatives from a number of state opposition parties gave evidence in relation to debt, often expressing misgivings about its escalation in their state in recent years.⁴ Views expressed by Dr Bruce Flegg MP, the Queensland Shadow Treasurer were typical. Dr Flegg said that:

...the issue of government debt is particularly concerning. In the past two state budgets, we have seen a dramatic escalation of borrowings that are now forecast to reach over \$64 billion by 2011–12. Most of this debt is [GBE] sector debt, with Queensland's [GBE] sector having the highest gearing ratio of any state, at around 70 per cent.

...

3 Mr Henry Ergas, personal capacity, *Committee Hansard*, 25 July 2008, pp 44–45.

4 See, for example, Mr Kim Wells, Shadow Treasurer for Victoria, *Submission 3*, p. 3.

...this government has left Queensland's budget enormously vulnerable—and I think 'vulnerable' is probably the appropriate word to describe it—particularly as we enter a period of economic uncertainty.⁵

4.5 The level of debt held by states attracted significant comment from other witnesses. The Australian Industry Group (AiG) commented that:

It is our belief that the borrowing and debt positions of the Australian states and Territories have been overly conservative for some time. This has been associated with a significant underinvestment in Australia's infrastructure. In recent years...this overly-conservative stance has been wound back and the states and territories have become more willing to borrow and to make inroads into the backlog of important projects that has built up over many years.

...

It is difficult to rationalise the excessive focus on reducing debt. It has little basis in good economic management but seems rather to be driven by an ideological position.⁶

4.6 Officials from the Treasury submitted that, by historical standards, the projected level of debt for states in the forward years is relatively low.⁷

4.7 Putting aside the borrowings themselves, the timing of investment in recent years also bears directly upon the states' management of their finances. On this point, Mr Henry Ergas observed that:

I believe that what has happened is that the states, which should have been investing in expanding productive capacity throughout the late 1990s and the early part of this century, stalled that investment. That created bottlenecks and constraints, and those bottlenecks and constraints added to the extent of the constraints in the economy as a whole. When those constraints became both severe and apparent, the states then largely reversed course and at that point greatly expanded their infrastructure spending—just at a time when the private sector was also expanding very heavily. If the states had followed a more steady-as-she-goes course then we would have had less competition for resources in the period subsequent to 2005. But they did not. As regards the period from 2005, the problem there is that we have had both this accentuated competition for resources and, within that, many projects which look like they are relatively poor quality or where it is very difficult to assess the quality of those projects. What those projects are doing is displacing private sector investment, which

5 Dr Bruce Flegg, Shadow Treasurer for Queensland, *Committee Hansard*, 17 July 2008, pp 1–2.

6 Australian Industry Group, *Submission 21*, p. 1.

7 Mr Tony McDonald, General Manager, Department of the Treasury, *Committee Hansard*, 25 July 2008, p. 74.

is being truly market tested. We know that that private sector investment will in the long run yield real benefits to the community.⁸

4.8 Again, this evidence is expanded on in chapter 6, but the implication is that state investment was ill-timed. It occurred at a time when the private sector was also seeking resources for its own projects. It is uncontroversial to say that this increase in demand boosted the price of the project inputs, especially skilled labour, and that the final price paid by taxpayers, through their governments, was higher than it might otherwise have been. Mr Ergas also warned:

...but even worse to have that stop-go cycle coincide with overall cyclical movements in the economy, which means that you, as it were, open the tap to the full just as the economy is going into what looks like a period of overheating or at least where labour markets and product markets are very tight. Hence, you accentuate all of the inflationary pressures underway in the economy. That in my view highlights a serious failure of policy.⁹

4.9 The committee shares the concerns of Mr Ergas that badly planned and badly managed infrastructure investment, and in the past few years, has put upward pressure on inflation.

4.10 To address the issue of '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',¹⁰ there does need to be some overall mechanism to ensure that governments' borrowings and spendings do not negate the Federal Government's economic goals.

4.11 Mr Swan in his Press release, mentions the Australian Loan Council. The committee considers that it may be appropriate to re-energise the Australian Loan Council.

Overview of the Australian Loan Council

4.12 The Loan Council's origins lie in the 1920s when the Commonwealth and States competed for funds on capital markets. Whilst the Commonwealth wanted to refinance war debt, the States were interested to fund infrastructure programs. To resolve this and other disputes, the May 1923 Premiers' Conference agreed to form a

8 Mr Henry Ergas, personal capacity, *Committee Hansard*, 25 July 2008, p. 43.

9 Mr Henry Ergas, personal capacity, *Committee Hansard*, 25 July 2008, p. 38.

10 The Hon Wayne Swan, MP, Treasurer of the Commonwealth of Australia, 'Investing In a Modern Federation', Press release 037, 13 May 2008, www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/037.htm&pageID=003&min=wms&Year=&DocType=0 (accessed 4 September 2008).

voluntary Loan Council responsible to coordinate the timing of debt issues and deal with other matters including interest rates on issues of securities.¹¹

4.13 The Loan Council formally came into being in 1927 and the ratified Financial Agreement was incorporated into the *Financial Agreement Act 1928* (the Act). Amongst other things, the Act provided for:

- the Loan Council to regulate borrowing by the Commonwealth and States;
- the Commonwealth to borrow on the States' behalf;
- limits on the States' borrowing powers;
- the Commonwealth and the States to contribute to the National Debt Sinking Fund to redeem debt; and
- the Commonwealth to provide grants to the States to help them meet interest payments and Sinking Fund contributions.¹²

4.14 In the 1950s, a major change to the role of the Loan Council took place given that the Commonwealth increasingly viewed it as an instrument of macroeconomic policy. The Commonwealth Treasurer advocated a reduction of Council-approved borrowing to ease strong inflationary pressures. The Commonwealth's influence over the Loan Council was strengthened given that the Commonwealth undertook to provide funds to the States if the States were unable to raise, through the issue of securities, any borrowing that the Loan Council had approved. In effect, 'the Commonwealth agreed to underwrite State borrowing'.¹³

4.15 Mr Geoffrey Anderson appearing before the committee in a private capacity made note of the role of the Loan Council in the 1970s and 1980s:

The deregulation of world financial markets in the mid-1970s to the 1980s and the pressure on state governments to borrow money to fund an early infrastructure boom, coupled with the rapid deregulation of the Australian financial system following the floating of the dollar in 1983, put great strain on the agreements which had governed the level of borrowing by both the Commonwealth on behalf of the states, through the Loan Council, and borrowing by the states' own authorities. All this was happening at a time when the Commonwealth was attempting to significantly reduce the overall public sector borrowing requirement. I should add there is an interesting academic debate about whether that was a good idea but the fact is that at that time there was enormous pressure from the Hawke and Keating governments to reduce government borrowing.

11 Mr Richard Webb, *The Australian Loan Council*, Parliamentary Library Research Note no 43, 2001–02, 18 June 2002, p.1.

12 Mr Richard Webb, *The Australian Loan Council*, Parliamentary Library Research Note no 43, 2001–02, 18 June 2002, p. 1.

13 Mr Richard Webb, *The Australian Loan Council*, Parliamentary Library Research Note no 43, 2001–02, 18 June 2002, p. 2.

It is fair to say that most of those arrangements were failing, particularly the so-called global limits where the states agreed to limit their borrowings to a global limit. States were borrowing and conducting transactions which effectively amounted to borrowing outside of the Loan Council. Slowly, by the mid-1990s those agreements had been replaced by a system in which the states were responsible for their total borrowing within financial markets, which was specifically designed to increase the market scrutiny on the fiscal and debt management of the individual states.¹⁴

4.16 In response to such trends which undermined the Loan Council's effectiveness, new arrangements were adopted for monitoring and reporting in the early 1990s. These arrangements provided for each jurisdiction to nominate a Loan Council Allocation, based on its net borrowing as indicated by its deficit/surplus.¹⁵ Of the agreement, Mr Anderson explains:

The 1992 meeting of the Loan Council also agreed to amend the Financial Agreement to permit the states to issue securities in their own name in both domestic and overseas markets and to remove the requirement that borrowings needed to be approved under the provisions of that agreement.

Taken together, these changes completed the process which had been underway for more than a decade, of moving the control of government borrowing back into the market, and this establishing a new relationship between the public sector and the markets. As the Commonwealth budget papers described the process: "The changes in Loan Council arrangements broadly reflect the evolving nature of financial markets and their interaction with the public sector. The new arrangements are designed to enhance the role of financial market scrutiny as a discipline on the public sector and, in doing so, build on the changes instituted in the 1980s to enable the individual states to assume responsibility for managing their own borrowings and to be accountable to financial markets for their actions".¹⁶

4.17 The impact of these changes was that borrowing by the individual States was now much more subject to financial market scrutiny, a mechanism designed to impose the financial discipline upon them which previously had been the province of the Loan Council.¹⁷

4.18 As of 1 July 1995, the Loan Council operated under the *Financial Agreement between the Commonwealth, States and Territories* which is incorporated as a

14 Mr Geoffrey Anderson, private capacity, *Committee Hansard*, 27 March 2008, pp 52–53.

15 Mr Richard Webb, *The Australian Loan Council*, Parliamentary Library Research Note no 43, 2001–02, 18 June 2002, p. 2.

16 Mr Geoffrey Anderson, *Submission 19*, Attachment C, p. 9. The Commonwealth Budget Paper referred to is Budget Paper No 4: Commonwealth Financial Relations with other Levels of Government 1993–1994 PP90 of 1993. p. 65.

17 *Loan Council mid-1990s*, Client Memorandum, Richard Webb, Parliamentary Library, 4 September 2008.

schedule to the *Financial Agreement Act 1994*. The Financial Agreement incorporates changes agreed in 1992 which:

- remove the requirement for Commonwealth and State borrowings to be approved under the Agreement;
- remove the Commonwealth's explicit power to borrow on the States' behalf;
- abolishes the restriction on State's borrowing through the issue of securities in their own name; and
- includes the Australian Capital Territory and Northern Territory as members.¹⁸

4.19 Mr Anderson explains the ramifications of these changes:

As a consequence the borrowing arrangements of the Federation had become as “deregulated” as the nation’s financial system had during the 1980s, with the States active players in domestic and global financial markets. But while borrowing arrangements were deregulated they were not “unregulated”. Rather than being governed by constitutional provision, legislative scheme or political agreement they were now being regulated by the financial markets and in particular by an agent of the markets in the form of international credit ratings agencies.¹⁹

The contemporary role of the Australian Loan Council

4.20 The Loan Council which is formally a Commonwealth-State Ministerial council comprising Commonwealth, state and territory treasurers meets once a year to consider the nominations having regard to each jurisdiction's fiscal position.

4.21 Of the current status of the Loan Council, Mr Anderson stated:

In recent years, the pressure to renew infrastructure and provide new infrastructure for economic development has seen the pressure for zero debt or near zero debt to modify. Increasingly, the rating agencies have been at pains to point out that they do not necessarily follow an approach of no debt whatsoever. I think we saw that in New South Wales and Victoria last year, when both states announced major capital programs and the rating agencies came out broadly in support of that capital expenditure. They made the point in both cases that their overall financial position could support greater borrowings. Of course, the Loan Council has not totally vacated the field: states have to agree among themselves at the Loan Council for their allocation of the amount they are going to borrow, which is a methodology that now takes account of transactions that are not strictly debt but nevertheless have implications for the amount of risk states take on. In

18 Mr Richard Webb, *The Australian Loan Council*, Parliamentary Library Research Note no 43, 2001–02, 18 June 2002, p. 2.

19 Mr Geoffrey Anderson, *Submission 19*, Attachment C, p. 2.

short, they look at the overall financial requirements of the states rather than their formal borrowing.²⁰

4.22 The role of the Loan Council is now primarily that of monitoring and approving the loan programs of the Commonwealth and the States. Since the new financial agreement in 1995 between Federal and State governments, the Loan Council's borrowing constraints have essentially been voluntary. Indeed, it has been 15 years since the Loan Council has amended any borrowing proposals of the States.²¹

4.23 Nevertheless, the current Loan Council arrangements are still used as a tool of macroeconomic policy. The overall level of conventional borrowings and other financing arrangements proposed by the Commonwealth and the States is still assessed for consistency with Commonwealth macroeconomic objectives.

4.24 In relation to a possible alarm trigger mechanism in relation to state debt levels, Mr Derek Bazen, an Analyst at the Department of the Treasury informed the committee:

...whilst the role of the Australian Loan Council has changed, the Australian Loan Council do still meet following the Ministerial Council on Federal Financial Relations, and they consider the aggregate borrowing requirements of all Australian governments. I would anticipate that, should there be borrowings at levels that are ringing those sorts of alarms, that would be the forum at which those issues would be raised and dealt with.²²

4.25 Given the scope for the Australian Loan Council to provide a greater oversight of state borrowing, the committee makes a recommendation (Recommendation 10) in chapter 8 to investigate mechanisms to enhance and strengthen the powers of the Australian Loan Council to scrutinise excessive growth in state debt.

Interest

4.26 The costs of borrowing have escalated along with the level of state debt in recent years. An estimate of state interest payments as a percentage of Gross State Product (GSP)/GDP for the General Government Sector, the Public Non-financial Corporations sector and the Non-financial Public sector, each show an upward trend of the level of state borrowing over the forward estimates as states fund their infrastructure programs. However, these payments remain a small percentage of the states' GSP.²³ A year on year breakdown for the period 2000–01 to 2010–11, compiled from state data, is presented in Tables 4.1, 4.2 and 4.3 below.

20 Mr Geoffrey Anderson, private capacity, *Committee Hansard*, 27 March 2008, p. 54.

21 See as an example, Budget Paper No. 3: *Australia's Federal Relations 2008–09*, p. 85.

22 Mr Derek Bazen, Analyst, State Finances Unit, Commonwealth State Relations, Department of the Treasury, *Committee Hansard*, 25 July 2008, p. 82.

23 Department of the Treasury, *Submission 25*, p. 7.

Table 4.1—General government sector borrowing as a percentage of GSP/GDP, 2000–01 to 2010–11

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
NSW	5.06	4.31	3.81	3.79	3.79	3.82	3.79	3.88	4.20	4.41	4.59
Vic	3.57	3.36	3.12	2.56	2.45	2.61	2.91	2.54	3.12	3.61	3.99
Qld	2.28	2.37	2.43	1.87	1.69	1.17	1.16	2.66	3.83	5.48	6.91
WA	2.96	2.60	2.43	1.95	1.28	0.85	0.70	0.83	0.68	0.55	0.51
SA	6.45	6.36	5.31	4.47	3.68	3.39	3.44	2.97	3.57	4.23	4.89
Tas	11.76	11.23	5.19	3.66	2.19	0.83	0.64	1.46	1.30	1.22	1.15
ACT	4.54	4.14	3.78	3.56	3.54	3.50	3.19	3.54	4.51	4.25	4.00
NT	18.08	19.16	17.76	16.03	14.39	13.02	12.04	11.02	10.23	9.76	9.31
States	4.35	3.99	3.53	3.11	2.87	2.68	2.69	2.89	3.37	3.90	4.36

Source: Commonwealth Treasury, *Supplementary Submission*, p. 5.

4.27 The level of borrowing for the state PNFC sector is perhaps more relevant, because this sector owns nearly all of the stock of state public debt (see Table 4.2 below).

Table 4.2—Public non-financial corporations borrowing as a percentage of GSP/GDP, 2000–01 to 2010–11

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
NSW	4.76	4.59	4.52	4.42	4.55	4.87	5.71	5.63	6.51	7.31	8.06
Vic	1.42	1.29	1.47	1.67	1.72	1.96	1.96	2.26	3.28	4.25	4.68
Qld	9.89	9.90	10.20	8.31	8.16	8.90	11.29	11.67	14.32	15.39	16.16
WA	7.33	7.00	7.09	7.36	7.52	7.51	6.11	6.90	8.23	8.75	8.73
SA	2.58	2.39	2.38	2.33	2.24	2.11	2.18	2.37	2.53	3.02	3.75
Tas	11.55	12.94	11.60	11.34	11.56	10.24	9.41	9.18	9.26	9.59	9.70
ACT	0.03	0.01	0.01	0.02	0.01	0.01	0.00	0.00	0.02	0.04	0.06
NT	7.02	3.81	3.96	3.53	2.95	2.92	2.68	3.00	3.53	3.86	4.37
States	4.93	4.80	4.86	4.60	4.68	5.02	5.60	5.86	7.09	7.96	8.56

Source: Commonwealth Treasury, *Supplementary Submission*, p. 6.

4.28 Combining the borrowings of these two sectors of government yields the Non-financial Public Sector figures, which represent the overall presented in Table 4.3.

Table 4.3—Non-financial public sector borrowing as a percentage of GSP/GDP, 2000–01 to 2010–11

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
NSW	9.82	8.90	8.33	8.21	8.34	8.68	9.48	9.47	10.65	11.65	12.56
Vic	4.99	4.65	4.59	4.23	4.17	4.57	4.86	4.80	6.21	7.66	8.47
Qld	12.08	12.21	12.56	10.17	9.84	10.04	12.27	14.32	18.15	20.87	23.06
WA	10.28	9.60	9.52	9.31	8.80	8.35	6.82	7.72	8.91	9.30	9.24
SA	9.03	8.76	7.68	6.80	5.91	5.50	5.62	5.35	6.10	7.25	8.64
Tas	23.30	24.16	16.80	14.96	13.75	11.08	10.05	10.64	10.56	10.81	10.85
ACT	4.57	4.15	3.79	3.58	3.55	3.51	3.19	3.54	4.52	4.28	4.06
NT	25.10	22.97	21.73	19.56	17.35	15.94	14.72	14.01	13.76	13.62	13.68
States	9.27	8.77	8.38	7.71	7.55	7.69	8.24	8.74	10.40	11.78	12.85

Source: Commonwealth Treasury, *Supplementary Submission*, p. 7.

Public sector wages

4.29 The committee notes the disparity between the Commonwealth and state governments on public sector wages. For example during the June quarter 2007 the Commonwealth spent \$3.8 billion compared to \$17.8 billion in spending by the states.²⁴

4.30 During the course of its hearings, the committee heard significant evidence on the growth in state government spending on their public service. Mr Henry Ergas submitted that the 'poor performance' of state and territory governments in part reflected a failure to contain public sector wage costs.²⁵ During the period September 1997 to March 2008, increases in the Labour Price Index (LPI)²⁶ for the public sector in many states and territories substantially exceeded those for the private sector. Over the same period, the LPI for the Commonwealth public sector closely tracked that of the private sector as a whole. Most noteworthy among the states was New South Wales where government wage growth exceeded that in the private sector by over 14 percentage points. Table 4.4 sets out the relative levels of wages growth between public and private sectors over time.

Table 4.4—Growth in Labour Price Index, September 1997 to March 2008

Jurisdiction	Public Sector (per cent increase)	Private Sector (per cent increase)
NSW	56.8	42.3
Victoria	43.1	43.0
Queensland	49.7	43.3
SA	52.0	43.0
WA	44.1	49.4
Tasmania	47.3	39.7
ACT	49.4	42.6
NT	43.9	40.4
Commonwealth	45.6	43.3

Source: Mr Henry Ergas, *Submission 42*, p. 6. Drawn from ABS, decomposing data published in ABS Cat 6345.0 Labour Price Index.

4.31 The committee acknowledges the warning it received from Dr Tony Richards, representing the Reserve Bank of Australia, in relation to the LPI:

24 Australian Bureau of Statistics, *Wage and Salary Earners, Public Sector, Australia*, June 2007. www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/C976CA0DFCB18A1BCA25707C007B02D4?OpenDocument (accessed 5 September 2008).

25 Mr Henry Ergas, personal capacity, *Submission 42*, pp 5–6.

26 The LPI is also referred to as the Wage Price Index (WPI).

I note that the wages price index is just one measure of wages growth in the economy and it is not as broad as some other measures. The broader measures which are more likely to capture bonuses et cetera are more likely to be paid in the private sector. It may be that the wage price index is not a perfect measure of the entire payments for labour in the public and private sectors.²⁷

4.32 Nonetheless, the committee accepts that the LPI is indicative of relative trends of the labour price movements between sectors. Mr Ergas added detail to his explanation when he spoke of the factors feeding the growth:

It is always very difficult to say, but when you look at it there are a few components. One is that the composition of employment in state governments changed. That change in the composition of employment, with a reduction in the number of essentially unskilled and a relative growth in more skilled types of employment contributed to a growth in labour costs. At the same time, there was some shift within the public sector in the types of positions or areas and occupations which were growing, and that too made a contribution. But, finally, in a number of cases there did appear to be wage growth which was, when compared to the private sector, relatively generous.²⁸

4.33 Mr Ergas also expressed doubt about whether the increases in public sector wages have been sufficiently underpinned by increased productivity:

The difficulty also is that, in the private sector, there has been a closer link between increases in labour costs—or, rather, increases in remuneration—and increases in productivity. Of course, part of the problem in the public sector is that it is very difficult to measure productivity, so we do not know how close that relationship has been. But, if we look at outputs, we do not see outputs or outcomes increasing particularly rapidly. That is certainly not dispositive of the question but suggests that there may be real issues there about whether those increases have been justified by increases in the productivity with which services are being provided.²⁹

4.34 It would seem that substantially increased hospital waiting lists, worsening school performance are instances where increased wages costs have not increased productivity. The Australian Institute of Health and Welfare reported that last year, just 70 per cent of public hospital visits and just 65 per cent of urgent visits were seen

27 Dr Tony Richards, Head of Economic Analysis, Reserve Bank of Australia, *Committee Hansard*, 24 July 2008, p. 32.

28 Mr Henry Ergas, personal capacity, *Committee Hansard*, 25 July 2008, p. 51.

29 Mr Henry Ergas, personal capacity, *Committee Hansard*, 25 July 2008, p. 51. See also evidence from Ms Vicky Chapman MP, Deputy Leader of the Opposition for South Australia, *Committee Hansard*, 27 March 2008, p. 17.

on time.³⁰ Yet in several states and territories there are more health bureaucrats than hospital beds.³¹

4.35 According to the Ministerial Council on Employment, Education and Youth Affairs, between 2002 and 2005 (the four most recent years in which statistics are available), the percentage of Year 5 children who received benchmark results in reading and writing had declined overall and declined in the majority of States and Territories.³²

4.36 Yet in 2006–07, whilst the Australian Government increased funding by 11 per cent, the State and Territory Governments increased funding to schools by just 5 per cent – less than half of what was provided by the Commonwealth.³³

4.37 Evidence from Dr Steve Thomas MLA, Shadow Treasurer for Western Australia, added weight to Mr Ergas' doubts:

...of the additional public servants that are now employed, only a small proportion of those are frontline public servants and there is a significant rise of backroom Public Service operators. It is interesting that, when you see an economy booming, it is a bit like Murphy's Law: the amount of work for social workers effectively expands to fill the number of social workers you have got, and the same applies in relation to the general government sector. If the money is there, the departments are spending it and there is significant wastage in relation to additional public servants.

If you look at the advertising budgets, for example, they are rising constantly. If you look at the number of people sitting in offices that are providing policy direction, for example, they are expanding daily, and the number of public servants who are fulfilling roles that are not front-line public servants is increasing. There has been an increase in police, an increase in nurses and an increase in teachers, and they are all very welcome, but at the same time there has been a fourfold increase on top of that of everybody else...³⁴

30 Australian Institute of Health and Welfare, *Australian hospital statistics 2006-07*, Health Services Series No. 31, May 2008, p. 107, www.aihw.gov.au/publications/hse/ahs06-07/ahs06-07-c05.pdf (accessed 12 September 2008).

31 Australian Capital Territory Department of Health, *ACT Health Annual Report 2005–06*, p. 72; Northern Territory Department of Health and Community Services, *Annual Report 2006–07*, p. 117; Tasmania Department of Health and Human Services, *Annual Report 2005–06*, p. 15.

32 Ministerial Council on Employment, Education and Youth Affairs, *National Report on Schooling in Australia*, Preliminary Paper: National Benchmark Results: Reading, Writing and Numeracy, Years 3, 5 and 7, p. 25, www.curriculum.edu.au/verve/resources/ANR2007Bmrks-Layout_FINAL.pdf (accessed 9 September 2008).

33 The Hon Ms Julie Bishop, Minister for Education, Science and Training, *House of Representatives Hansard*, 13 February 2007, p. 20.

34 Dr Steve Thomas MLA, Shadow Treasurer for Western Australia, *Committee Hansard*, 12 June 2008, p. 10.

4.38 Shadow Finance Minister for New South Wales, Mr Mike Baird MP told the committee of the situation in his home state:

In relation to some of the [public sector] expense rises we have seen—and the total expenses have gone from \$36 billion to \$45 billion—the employee expenses have gone up at the highest rate, from \$18 billion to almost \$23 billion. The important point there is that those rises have grown at a much faster rate than the private sector.³⁵

4.39 The situation was mirrored in Victoria, where Mr Kim Wells MP, Victorian Shadow Treasurer submitted that:

The number of public servants has grown significantly from what it was in 1999. The Victorian Public Service wages bill is now \$12.2 billion. It is my understanding that, from 1999 to 2008, the Victorian Public Service has increased by between 64 000 and 65 000. We accept that there has been an increase of police of 1400 and an increase of teachers and nurses of between 5000 and 6000, and we understand that there has been an increase in public health allied workers. But I am unsure of the allocation of employment in other sectors of the Victorian Public Service.³⁶

4.40 In an attachment to his submission, Dr Flegg observed that labour costs taken together with other public service operating expenses in Queensland painted an even more dramatic picture. Total expenses grew by 10 per cent in 2004–05; 13 per cent in 2005–06; and 12 per cent in 2006–07. This spending represented an increase on forecast estimates of 3.4 per cent, 5 per cent and 4 per cent respectively over the same years.³⁷

4.41 Mr Mike Blake, the Auditor-General of Tasmania, made an obvious point but one worth noting:

I highlighted that the numbers of FTE [full-time equivalent employees] are growing and the salary costs are growing. I think there are good reasons why the money is being spent primarily in the education and health sectors and that has been well documented in this state. All I am trying to highlight is that, if that trend continues and your expenditure growth is higher than your revenue growth, at some point you hit a negative situation.³⁸

4.42 According to ABS data on Wage and Salary Earners in the Public Sector in Australia 2007:

35 Mr Mike Baird MP, Shadow Finance Minister for New South Wales, *Committee Hansard*, 24 July 2008, p. 3.

36 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, p. 8.

37 Dr Bruce Flegg MP, Shadow Treasurer for Queensland, *Submission 37*, Attachment A, p. 6.

38 Mr Mike Blake, Tasmanian Auditor-General, *Committee Hansard*, 20 May 2008, p. 5.

- Between 1996 and 2007 the number of public sector employees in the Australian government decreased by 121 700. Over the same time public sector employees at state level increased by 210 700.
- Between 1996 and 2007 the amount spent by the Commonwealth Government on wages increased by 12 per cent. At the same time the state government wages bill increased by 95 per cent.³⁹

Unfunded superannuation

4.43 It is partly through the exclusion of superannuation liabilities from their calculations that some state governments are able to claim they hold no 'net debt' (ND), or even enjoy 'negative net debt'. As explained in chapter 3, ND often does not include liabilities which could be subject to significant actuarial recalculation.

4.44 Nonetheless, not all jurisdictions report single ND figures, making comparisons between states less straightforward. For example, the Australian Capital Territory (ACT) provides two ND calculations—one including superannuation, the other without. The reason for different reporting in the ACT is the establishment of a Superannuation Provision Account in which assets are placed for the purposes of meeting future superannuation liabilities. These funds cannot be used for any other purpose. Other jurisdictions report either a 'superannuation liability' or an 'unfunded superannuation liability'. The details on how assets and liabilities are held for the purposes of superannuation, compared to general operations, are widely dispersed across budget papers. There is little detail on what is counted or not counted for these definitions.

4.45 The Parliamentary Library compiled Table 4.5 to give the committee a broad picture of superannuation liabilities across the jurisdictions, using figures from the state budget paper balance sheet.

Table 4.5—Superannuation liabilities of the states and territories, 2007–08 to 2011–12

	2007-08	2008-09	2009-10	2010-11	2011-12	Notes
	\$m	\$m	\$m	\$m	\$m	
NSW	17 126	17 389	19 921	20 016	20 024	a, c
QLD	20 849	21 874	22 816	23 674	24 442	a
ACT	3 248	3 723	3 997	4 278	4 563	a
NT	2 303	2 371	2 430	2 479	2 519	a
SA	6 910	6 992	7 062	7 120	7 164	b, d
TAS	3 675	3 886	3 994	4 094	4 185	a
VIC	12 939	13 067	13 101	13 156	13 159	a, e
WA	5 366	5 170	5 088	4 972	4 860	b
Total	72 417	74 473	78 408	79 790	80 915	

Source: state and territory budget papers 2008–09.⁴⁰

39 Australian Bureau of Statistics, *Wage and Salary Earners: Public Sector*, Australia, 2007.

4.46 When these liabilities are incorporated into state ND figures,⁴¹ the 'before and after' comparison can be dramatic, as demonstrated in Table 4.6.

Table 4.6—Comparison of Net Debt incorporating superannuation liabilities and published Net Debt, 2007–08 to 2011–12

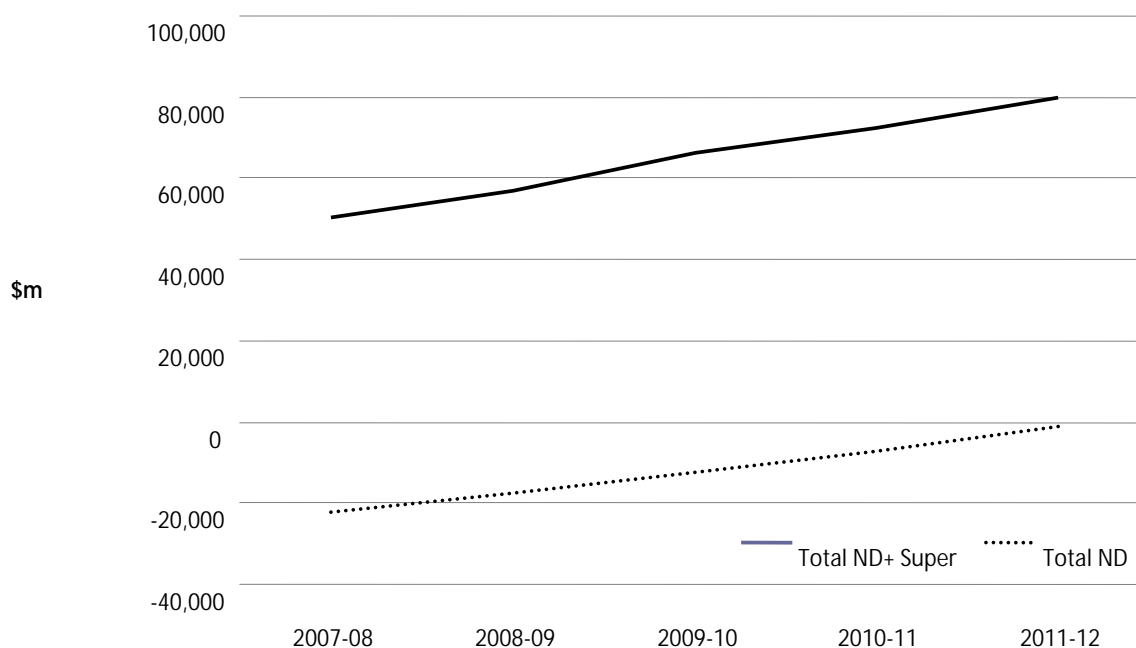
	<i>Net debt incorporating superannuation</i>					<i>Net debt as published</i>				
	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
NSW	22 104	23 580	26 843	27 483	27 833	4 978	6 191	6 922	7 467	7 809
QLD	- 3 522	- 53	4 145	8 113	11 216	- 24 371	- 21 927	- 18 671	- 15 561	- 13 226
ACT	304	488	475	322	141	- 2 945	- 3 235	- 3 522	- 3 956	- 4 421
NT	3 385	3 417	3 426	3 409	3 367	1 082	1 045	996	929	848
SA	6 992	7 602	8 216	8 797	9 146	82	610	1 154	1 677	1 982
TAS	3 219	2 763	2 731	2 697	2 520	- 456	- 1 123	- 1 263	- 1 397	- 1 665
VIC	15 210	16 806	18 458	20 060	22 623	2 271	3 739	5 357	6 904	9 465
WA	2 486	2 509	1 994	1 721	2 906	- 2 968	- 2 749	- 3 182	- 3 339	- 2 042
Total	50 178	57 112	66 288	72 602	79 752	- 22 328	- 17 448	- 12 208	- 7 275	- 1 251

Source: state and territory budget papers 2008–09.⁴²

4.47 Plotted as an aggregate of all states and territories, the ND liability with and without superannuation is portrayed in Figure 4.6.

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- 40 (a) Reported as superannuation liability.
 (b) Reported as unfunded superannuation liability.
 (c) NSW budget notes superannuation liabilities are reported net of prepaid superannuation contribution assets.
 (d) SA budget indicates a structural break in 2008 from the transfer of TransAdealide, the Adelaide Festival Centre Trust and the SA share of the Murray-Darling Basin Commission into the GGS.
 (e) The Victorian budget includes a detailed note on the superannuation system, indicating that the superannuation figure is net of assets, that is, assets held against superannuation.
- 41 The method used to achieve this incorporation is as follows: The sum of deposits held, advances received, government securities issued, loans and other borrowings; plus superannuation liabilities; less the sum of cash and deposits, advances paid, investments, loans made and placements.
- 42 Western Australia records a recurrent \$88 million figure for 'convergence differences impacting net debt'. Net debt is calculated in accordance with the description in chapter 3. Please refer also to notes from Table 4.4.

Figure 4.1—Comparison of published Net Debt and Net Debt incorporating superannuation liabilities, 2007–08 to 2011–12



Source: state and territory budget papers 2008–09.

4.48 Figure 4.1 demonstrates that, in 2008–09, for example, the ND position of *minus* \$17.4 billion (a surplus) reverses to a net debt position of \$57.1 billion, a difference of \$74.5 billion.

4.49 To take the Northern Territory example, while General Government Sector ND at 30 June 2008 is published at \$1.082 billion, the committee heard that an extra \$2.3 billion is owed in the form of superannuation liabilities.⁴³ In the 2002–03 Northern Territory Budget Paper No II, superannuation liability was projected to grow to \$1.45 billion by 2005–06. The final results for 2005–06 disclosed a figure of \$1.8 billion, and in 2007–08, \$2.3 billion.⁴⁴

4.50 The Tasmanian Auditor-General told the committee that the superannuation liability in Tasmania was \$3.6 billion, and that the state's reported ND did not include the liability.⁴⁵

4.51 In New South Wales, Mr Baird alleged that the government had inaccurately minimised the state's superannuation liability, explaining that:

43 Mr Terry Mills MLA, Leader of the Opposition for the Northern Territory, *Submission 39*, p. 3.

44 Mr Terry Mills MLA, Leader of the Opposition for the Northern Territory, *Submission 39*, p. 3.

45 Mr Mike Blake, Tasmanian Auditor-General, *Committee Hansard*, 20 May 2008, p. 9.

[mis-forecasting] significantly depresses the unfunded super obligations of the state going forward, which then creates the position that you do not need to contribute as much from an ongoing state budget. They changed the ageing population assumptions, against national trends, and the impact of that was almost \$3 billion in the estimate period. In terms of the forward estimate, their estimation of unfunded super obligations was \$12 billion; using the old accounting standards it was \$17 billion. So there is a huge requirement, which depresses it. It is a good example of the need for transparency.⁴⁶

4.52 Dr Flegg reported on a similar situation in Queensland:

We have seen in Queensland what would, if it were in the private sector, be called creative accounting. For years, certainly since the last downturn following the GST, we have seen the state government bring some \$22 billion worth of superannuation assets, positioned on the balance sheet, and the investment returns from that, which have been up to a maximum of 21 per cent, going straight to the bottom line as though they were tax receipts. That money is not available for any general government purpose; it belongs to the superannuants in the public sector. To my mind, that is misleading accounting. But now markets have changed, returns are negative. They are certainly below the long-term average and, in the recent past, have actually been negative. So they have introduced a different system.⁴⁷

4.53 It is interesting to note that the South Australian Government is reported in the *Adelaide Advertiser* of 1 September 2008 as having to fund an additional \$120 million for superannuation costs as a result of the international financial crisis.⁴⁸

Forecasting

4.54 In addition to evidence of 'creative accounting', the committee heard evidence of a growing tendency by a number of state and territory governments to underestimate revenue in their forward estimates. Mr Terry Mills MLA, Leader of the Opposition in the Northern Territory, submitted that:

...[T]he Territory has repeatedly and substantially underestimated its revenue outcomes. In Budget Paper II for the year 2004–05 the projected income for the year 2007–08 was \$2.77 billion, compared with the \$3.49 billion of the 2007–08 mid-year report.⁴⁹

4.55 The New South Wales Shadow Treasurer submitted that in his state:

46 Mr Mike Baird MP, Shadow Finance Minister for New South Wales, *Committee Hansard*, 24 July 2008, p. 4.

47 Dr Bruce Flegg, Shadow Treasurer for Queensland, *Committee Hansard*, 17 July 2008, p. 3.

48 Mr Greg Kelton, 'House slump to cost \$30m in tax revenue', *Adelaide Advertiser*, 1 September 2008, p. 2.

49 Mr Terry Mills MLA, Opposition Leader for the Northern Territory, *Submission 39*, p. 2.

Two continuing trends in the mis-forecasts are the windfall tax revenues and the continuing blowouts in expenses above budget targets. The 2006–07 expenses increase target of 5.7 per cent blew out to 5.9 per cent and the 2007–08 target of 3.6 per cent has already blown out to 6.8 per cent.⁵⁰

4.56 The Property Council of Australia submitted that, of the 56 state and territory budgets handed down since the introduction of the GST, subsequent property tax revenues were underestimated 91 per cent of the time.⁵¹

4.57 The committee was told of a number of instances of wages and other spending being mis-forecast. In 2005, employee expenses in the Northern Territory exceeded estimates by \$120 million, or 12 per cent.⁵²

4.58 While the committee can understand the desire to exercise caution in forecasting, the consistency and extent of under-forecasting revenue appears excessive. The committee makes the point that deliberately engaging in this practice misleads the public in exactly the same way as under-forecasting a deficit or debt result. Insofar as this detracts from the public having an accurate picture of the financial position of their state, it is equally as serious. The committee makes a recommendation (Recommendation 2) about improving state financial forecasting in chapter 8.

Income from the Commonwealth

4.59 Consistent with the relatively high level of Vertical Fiscal Imbalance discussed in chapter 2, Treasury submitted that total Commonwealth funding payments to the states for 2007–08, comprising GST revenue, general revenue assistance and Special Purpose Payments (SPPs) is expected to be \$73.1 billion.⁵³

4.60 The states will receive GST revenue of \$42.2 billion in 2007–08, an increase of 6.8 per cent from 2006–07. This is expected to be \$3.4 billion more revenue in 2007–08 than they would have received had the GST not been in place. These outcomes represent significant tax windfalls for the states over and above what they were forecast to receive at the introduction of the GST in 2000. Revenue from the GST comprises about 60 per cent of revenue received by states from the Commonwealth.⁵⁴

4.61 Commonwealth SPPs totalling \$30.3 billion were made in 2007–08, and SPPs should increase slightly to \$30.9 billion in 2008–09. Of these, the Commonwealth

50 The Hon. Greg Pearce MLC, Shadow Treasurer for New South Wales, *Submission 6*, p. 13.

51 Property Council of Australia, *Submission 30*, p. 1.

52 Mr Terry Mills, Leader of the Opposition for the Northern Territory, *Submission 39*, p. 2.

53 Department of the Treasury, *Submission 25*, p. 9. See also the table setting out Commonwealth funding in this section.

54 Associate Professor Graeme Wines, personal capacity, *Submission 17*, p. 5.

provided \$22.6 billion 'to' states and \$7.6 billion in payments 'through' the states to local government in 2007–08. In 2008–09, SPPs 'to' the states are estimated to be \$22.8 billion and payments 'through' the states to be \$8.1 billion.

4.62 Between 1997–98 and 2005–06, the Commonwealth provided \$4.9 billion in National Competition Policy payments to the states for implementing National Competition Policy and related reforms.

4.63 The annual amounts for each of these Commonwealth funded revenue sources are detailed in Table 4.7 for the period 2000–01 to 2010–11.

Table 4.7—Total Commonwealth funding, 2000–01 to 2010–11

(\$million)	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
GST revenue	24,354.9	26,632.0	30,479.1	33,218.7	35,322.7	37,181.6	39,551.9	42,230.0	45,270.0	47,670.0	50,130.0
SPPs "to" the States	14,376.9	15,490.9	16,109.4	16,590.4	17,968.9	19,612.5	20,931.6	22,618.7	22,845.3	0.0	0.0
SPPs "through" the States	4,721.0	5,464.3	5,392.3	5,981.4	6,515.0	6,915.5	7,237.3	7,644.5	8,054.4	0.0	0.0
SPPs direct to local government	108.9	502.6	279.0	368.0	311.3	376.1	380.7	587.8	688.6	0.0	0.0
Other payments											
Special Revenue Assistance	13.5	14.2	-	-	-	-	-	-	-	-	-
Budget Balancing Assistance	2,818.1	4,093.8	994.0	68.8	-	-	-	-	-	-	0.0
National Competition Policy Payments	448.0	733.3	739.9	578.5	724.4	816.5	-	43.2	-	-	-
Compensation for GST Deferral measure	-	-	-	-	219.4	127.0	-	-	-	-	-
Residual Adjustment Amount	-	-	-	-	-	95.2	-	-	-	-	-
Total Payments	46,841.4	52,931.1	53,993.7	56,805.8	61,061.6	65,124.4	68,101.4	73,124.1	76,858.3	47,670.0	50,130.0

Source: Mid-year economic and fiscal outlook 2007–08 estimates, Commonwealth Treasury, *Submission 25*, p. 9.

State government taxes

4.64 State government taxation proceeds constitute a significant proportion of their total revenue. In New South Wales, revenue from taxation in 2008–09 is forecast to be 38.7 per cent of total revenue,⁵⁵ while the Queensland Government expects to raise 27.6 per cent of its revenue from tax in the same period.⁵⁶ In states relying more heavily on assistance from the Commonwealth, the figure is lower; in 2006–07 Tasmania derived 20 per cent of its income through taxation.⁵⁷

4.65 The sentiment of many submitters to the inquiry regarding state and territory taxation was summarised by the Real Estate Institute of Australia, which contended that:

55 New South Wales Government, Budget Papers 2008–2009, *Budget Overview*, p. 11.

56 2008–09 Queensland Budget Papers, *How the money is raised; How the money is spent*, www.budget.qld.gov.au/budget-papers/2008-09/budget-highlights-15-2008-09.pdf, (accessed 20 August 2008).

57 Tasmanian Audit Office, Report of the Auditor-General No. 2 of 2007, *Executive Summary*, November 2007, p. 29.

An ongoing lack of financial autonomy results in states and territories clinging to taxation regimes which are known to be distortionary and inefficient. While significant progress was made as a result of the implementation of the intergovernmental agreement underpinning the introduction of the GST, a raft of relatively inefficient state and territory taxes remain in place, with little prospect of removal in the absence of alternative revenue sources. These taxes include stamp duties on property conveyancing, land tax and payroll tax.⁵⁸

4.66 Mr John Nicolaou, representing the West Australian Chamber of Commerce and Industry, made his organisation's purpose clear:

What we are here to see is a more competitive tax regime. That is the central message that we have been trying to articulate for some time now. On a per capita basis, Western Australia is clearly the most uncompetitive state. In relation to tax as a percentage of the total economy, which Treasury now use as their benchmark, we do rank middle-of-the road, but that percentage is increasing, so we are moving up in terms of overall tax burden. The Commonwealth Grants Commission use a tax effort ratio and we rank as the highest taxing state.

...

Payroll tax is not a big business issue and it is a furphy to suggest that it is. It is a small business issue and it is having an impact at the margin on small businesses that are struggling to meet increased costs.⁵⁹

4.67 The Property Council submission argued that states and territories have relied too heavily on property taxes in recent history. In calling for the elimination of stamp duty on commercial conveyances and indirect property taxes, the Property Council informed the committee that, since the introduction of the GST, \$11.6 billion has been collected through property taxes over and above the amount anticipated. Land tax and conveyancing duty revenue are growing at more than double the average rate of all other state taxes combined.⁶⁰ The Property Council calculated that land taxes make up 37 per cent of all state and territory taxation revenue.⁶¹

4.68 Nor were industry groups the only witnesses to draw attention to these concerns. Victorian Shadow Treasurer, Mr Kim Wells MP had this to say:

I am very concerned about the reliance of the state budget on property taxes. I think the reliance on land tax and stamp duty was in the high teens in the late nineties; now the percentage is in the very high 30s. With increased interest rates, petrol prices, the CPI moving and pressure from

58 Real Estate Institute of Australia, *Submission 28*, p. 4. See also, for example, Insurance Australia Group, *Submission 10*, pp 1–2; Commerce Queensland, *Submission 4*, p. 4.

59 Mr John Nicolaou, Chief Economist, Chamber of Commerce and Industry of Western Australia, *Committee Hansard*, 12 June 2008, pp 44 and 50.

60 Property Council of Australia, *Submission 30*, p. 3.

61 Property Council of Australia, *Submission 30*, p. 5.

overseas markets, my concern is that, if the property market is hit and there is a slight downturn, there is going to be a significant impact on the Victorian budget because of its heavy reliance on property taxes.⁶²

4.69 The warnings of Mr Wells about over-reliance on stamp duty in the property boom were prescient. The *Adelaide Advertiser* of 1 September 2008 reports a reduction in that state government's revenue of \$30 million because of a downturn in the property market.⁶³

4.70 The negative impact of state taxes such as conveyance duties was not lost on the committee. A report on state taxation reform by Mr Robert Carling found that stamp duty on property conveyance:

...distorts choices between buying and renting and between moving house and staying put or renovating. It tends to lock householders into sub-optimal housing and militates against resource mobility. Marginal deadweight costs have increased over the years as a rising proportion of transactions have become subject to the upper levels of the progressive scales.⁶⁴

4.71 Another primary focus for criticism was payroll tax, the abolition of which a number of witnesses called for.⁶⁵ Mr Behrens, State Manager of Commerce Queensland, explored the common objections to the tax:

Payroll tax is the absolute standout, and the interesting thing is that, from our own surveys, it is identified by the entire business community as the tax that they would like to see removed. It is interesting because 95 per cent of Queensland businesses do not pay payroll tax, yet they are citing payroll tax as a major concern. We were very curious as to why, so we explored it and we came up with three reasons. The first one is that, ultimately, they are a small business and they aspire to grow, so eventually they may pay payroll tax. The second one is that they do receive some of the indirect windfall or benefit of the tax cut in that big business does do business with smaller sized enterprises, who receive some indirect benefit. The third one is a

62 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, p. 17. See also Ms Vicky Chapman MP, Deputy Leader of the Opposition for South Australia, *Committee Hansard*, 27 March 2008, pp 25–26.

63 Mr Greg Kelton, 'House slump to cost \$30m in tax revenue', *Adelaide Advertiser*, 1 September 2008, p. 2.

64 Mr Robert Carling, *State Tax reforms: Progress and Prospects*, 2008. See also Mr Robert Carling, personal capacity, *Submission 27*, Attachment B, p. 10. See also Australian Industry Group, *Submission 21*, p. 3

65 See, for example, Mr Nick Behrens, State Manager, Commerce Queensland, *Committee Hansard*, 17 July 2008, p. 15; Mr Paul Bidwell, General Manager, Commerce Queensland, *Committee Hansard*, 17 July 2008, p. 16.

principle—that ultimately it is a tax on economic growth and it is a tax on employment. So they have this principle that it should be removed.⁶⁶

4.72 Other witnesses called for payroll tax rates and thresholds in their state to be modified, primarily for reasons of inter-state competition. Mr Kim Wells MP, Shadow Treasurer in Victoria, remarked that:

To the government's credit, they have cut payroll tax from five per cent to 4.95 per cent, so it is under the five per cent range—and it has not been that way for some time. But the problem is that the threshold of \$550,000 has not changed. So, as small businesses pay their employees pay increases, more and more small businesses will be caught up in the payroll tax net... more small businesses are paying payroll tax. A small business in this state is a business that has 20 or less. So 20 or less means that obviously more and more small businesses are paying payroll tax. The issue is that we welcome the cut of the rate, but the threshold has not been adjusted, and that is where they are getting more. In fact, despite the cut, with payroll tax they will collect an extra \$200 million from businesses in Victoria.⁶⁷

4.73 Mr Mike Baird MP echoed this call:

We did see a reduction in payroll tax in the last state budget. We went from six per cent down to 5.75 per cent, and the closest state is Victoria at 4.95 per cent. So we are still a long way from parity in relation to payroll tax. Again, I think that is something you need to look at federally. There needs to be harmonisation. A company operating across Australia will see huge differences in relation to payroll tax rates and thresholds. It is the most inefficient system we have spoken about.⁶⁸

State income tax

4.74 At various stages during the inquiry, particularly in discussions about Vertical Fiscal Imbalance, the prospect of states levying their own income tax was raised. Realistically, this would likely require the Commonwealth to 'make room' for the states by lowering personal income tax rates. In 1978, the Fraser Government legislated to allow the states to impose an income tax surcharge in order for the states to broaden their own-source tax base. The initiative failed partly because the Commonwealth did not cut tax rates to make room for surcharges.⁶⁹

4.75 As discussed in chapter 2, Vertical Fiscal Imbalance reflects the larger stream of revenue flowing to the Commonwealth relative to the states. The committee's

66 Mr Nick Behrens, State Manager, Commerce Queensland, *Committee Hansard*, 17 July 2008, pp 22–23.

67 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, pp 4–5.

68 Mr Mike Baird MP, Shadow Minister for Finance for New South Wales, *Committee Hansard*, 24 July 2008, p. 11.

69 Scott Bennett and Richard Webb, *Specific Purpose Payments and the Australian federal system*, Parliamentary Library Research Paper no. 17, 2007–08, p. 17.

interest in states levying their own income tax lies with the prospect of reducing the imbalance and alleviating some of its effect.

4.76 One advantage of states levying a surcharge would be that the cost of administration would not increase greatly if the base rate was unchanged and identical across the states, and the Commonwealth administered and collected the tax. Another possible advantage is that competition among the states would be likely to put downwards pressure on surcharge rates.

4.77 A state surcharge could, however, face considerable barriers because it would entail a fundamental change to Commonwealth-state financial arrangements. That would require the agreement of all jurisdictions which may not be forthcoming. Indeed, the Deputy Leader of the Opposition in South Australia, Ms Vicky Chapman, remarked that any government seeking to introduce income tax might be said to have a 'death wish'.⁷⁰ On the other hand, Dr Steve Thomas, Shadow Treasurer in Western Australia expressed a personal view that, while it would likely be impossible to manage, it would be a good idea.⁷¹

4.78 The Institute of Public Affairs, called for the complete abandonment of income tax collection by the Australian Government to enable the states to levy their own. The IPA argued that:

In addition to exiting the provision of social services, health and education the Commonwealth should give up all its personal income tax powers. This would enable the states and territories to levy their own personal income taxes. This would also allow the states and territories to give up the inefficient transactions taxes that they currently levy. The Commonwealth should continue to levy the corporate income tax and GST and other excise taxes that it currently levies and should continue to allocate funds (in excess of its own requirements) to the states and territories. Using the 2007-08 Budget papers as a guide this implies that the Commonwealth would give up almost half (excluding the GST) of the revenue it currently raises. In contrast by exiting its redistributive functions the commonwealth would reduce its own expenditure by almost two-thirds. In other words there may still be a large role for the Commonwealth in allocating funding to the states and territories.⁷²

4.79 Professor Sinclair Davidson, Economist with the Institute of Public Affairs, elaborated on the IPA's submission at the Melbourne hearing:

Our argument is that we should push down some level of taxation. Within Australia, if we think back to the Australian Constitution and what it is

70 Ms Vicky Chapman MP, Deputy Leader of the Opposition for South Australia, *Committee Hansard*, 27 March 2008, p. 32.

71 Dr Steve Thomas MLA, Shadow Treasurer for Western Australia, *Committee Hansard*, 12 June 2008, p. 17.

72 Institute of Public Affairs, *Submission 30*, p. 6.

designed to do, it is effectively designed to create a common market within the six former colonies and the territories, which basically means that the Commonwealth or the federal government should be looking after common market activities. It should be looking after corporates, which it does, and therefore our argument is that the Commonwealth should retain the corporate income tax power. But individuals are located within states and therefore the states should have the personal income tax power.⁷³

4.80 While the committee was not in a position to explore in detail the possibilities of states introducing an income tax levy, the concept has some obvious appeal. Put simply, it has the potential to significantly reduce or bring an end to the funding 'blame game' between states and the Commonwealth. Were states to receive income tax revenue in the same way they receive GST revenue, they would be forced to manage their own budgets without recourse to criticising a 'donor' Commonwealth.

4.81 The committee recommends that the Commonwealth Government seriously consider all aspects of the states accessing income taxation powers at Recommendation 7.

4.82 Even taken alone, the prospect of reforming the tension between the Commonwealth and states over funding suggests to the committee that the concept of state income tax deserves further exploration.

4.83 Another possible advantage is the prospect of encouraging competition between the states for residents, through the establishment of the most efficient taxation regime. Far from being mere 'pie in the sky', Professor Davidson reminded the committee of the situation in Switzerland:

There may actually be some population movement around that, and that is normally the argument—that there would be a race to the bottom. Yet if we look at the Swiss, who have a confederation, and their cantons, some of the richer cantons actually have higher levels of taxation than others and the rich are not stampeding out of the doors. People actually trade off tax against what they are getting.⁷⁴

Local government

4.84 The Australian Local Government Association (ALGA) made a number of points to the committee. Principal among these was that services provided, and infrastructure owned and operated, by local government is critical to the efficient operation of the Australian economy, as well as to meeting the social and other needs

73 Professor Sinclair Davidson, Economist, Institute of Public Affairs, *Committee Hansard*, 19 May 2008, p. 24.

74 Professor Sinclair Davidson, Economist, Institute of Public Affairs, *Committee Hansard*, 19 May 2008, p. 26.

of citizens.⁷⁵ This is particularly the case where other levels of government have withdrawn services from isolated and rural shires.⁷⁶

4.85 To this end, the adequate and efficient funding of local government is critical. The committee was reminded by the ALGA of the effect cost shifting between jurisdictions has on local government bottom lines, and on that level of government's ability to provide services to ratepayers.⁷⁷

4.86 The ALGA was confident that a new agreement between local government and state planning ministers would help avoid cost shifting in the future.⁷⁸ The committee is pleased to hear that progress is being made to reduce cost shifting, an inherently inefficient practice that helps nobody in the longer term. This is referred to in Recommendation 6 which appears in chapter 8.

4.87 The Commonwealth Grants Commission have indicated that states have recently stepped up the practice of shifting costs onto local councils. One example is the reduction in funding for libraries, forcing councils to assume extra responsibility, rather than having those services withdrawn from their communities.⁷⁹

4.88 The House of Representatives Standing Committee on Economics, Finance and Public Administration noted in its 2003 *Rates and Taxes* report that:

There is no doubt that local government has, over a number of years, been on the wrong end of cost shifting largely by State governments. The Commonwealth Grants Commission has recorded that over the last 25 years the Federal government has, in real terms, progressively increased its contribution to local government while State contributions have not grown.⁸⁰

4.89 The committee also heard evidence of a lack of transparency on the part of state governments in the provision of funding to local councils. This was of particular interest to the committee, because much of the funding in question originates from the Commonwealth. The ALGA submitted that:

75 Australian Local Government Association, *Submission 33*, Attachment A, pp 1–4.

76 Professor Brian Dollery, *Submission 20*, Attachment B, Dollery, Byrnes and Crase, *Resolving the Australian Local Infrastructure Crisis through a Federal Infrastructure Asset Fund*, p. 5.

77 Australian Local Government Association, *Submission 33*, Attachment A, p. 2.

78 Australian Local Government Association, *Submission 33*, Attachment A, p. 2.

79 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003, p.34.

80 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003, foreword.

Currently, the Commonwealth provides general-purpose funding to local government via the States [Financial Assistance Grants], which then administer the funding following recommendations made to the Commonwealth Minister by Local Government Grants Commissions established in each State... [Because funding is] paid initially to the states to distribute to councils, some states have treated these grants as payments to local government from the state government. This is misleading and in the absence of better accounting treatment rules and...there is a real risk of double-counting...aggregate fiscal data for local government provide a misleading picture which overestimates the states' financial contribution to local government and undermines efforts to establish a true picture of local governments' financial circumstances.⁸¹

4.90 Should the ALGA's submission be accurate, and the committee has no reason to think otherwise, the states are engaging in practices that are at best sloppy and at worst duplicitous. The committee recommends that the Government take the opportunity to specifically address the issue of identification of Commonwealth funding through its planned SPP reform program at Recommendation 11 in chapter 8.

Conclusion

4.91 During the course of the inquiry, a number of significant financial management issues were brought to the committee's attention. The committee is mindful of evidence received from a variety of witnesses that debt, incurred for the enhancement of productive capacity, is a sign of responsible economic management. While the committee is heartened by the evidence from some submitters that debt levels in states and territories are relatively manageable, it notes that witnesses generally made their assessment based on a comparison with historic levels.

4.92 Recent revelation by the former NSW Treasurer in his resignation media conference mirror the alarm of many of the witnesses. In a revealing parting shot at the State's parlous fiscal position, the Hon Michael Costa said that Stamp Duty had fallen \$180 million in the first 2 months of this financial year, the Health Budget had blown out by \$300 million this year with a \$5 billion capital funding shortfall over the next 5 years causing Standard and Poor's to warn that there was a 1 in 3 chance of NSW losing its AAA rating which would in turn raise borrowing costs by over \$500 million over the forward estimates.⁸²

4.93 Memories of the irresponsibly high levels of debt incurred by some states in recent decades should serve as a warning to those seeking to minimise concern at the rising levels of debt revealed in this report.

4.94 Increases in public sector wage expenditure appear, in some jurisdictions, to be excessive. The proportion of budget expenditure going to fund the public sector is

81 Australian Local Government Association, *Submission 33*, Attachment A, pp 3–4.

82 Tracy Ong, 'Parting shot on credit rating', *Australian Financial Review*, 6 September 2008, p. 5.

significant, meaning that even modest wage increases can have dramatic effects on the budget bottom line. As well as the obvious impact wage rises have on inflation, the committee notes the considerable danger posed by continuing blowouts to states' fiscal health.

4.95 States employ various means of accounting for their superannuation liabilities. Not all of these are transparent, and the committee encourages the respective governments to take an honest and transparent approach with their constituents on what, in some cases, are very large superannuation liabilities to be met in coming years. The committee takes a similar view on the issue of inaccurate forecasting. Recommendations contained in chapter 8 seek to address these matters, as well as those concerning the states' fiscal relationship with local government, through the adoption by each state of a charter of budget honesty.

4.96 The committee's overall perspective, in a time of increasing state GST receipts, combined with increasing non-GST revenue, increasing debt, and excessive wages growth, was perhaps summarised best by Mr Ergas, who observed that:

These trends suggest significant scope for improved efficiency in financial management at the state and territory level. The concern is not simply with the deterioration in the fiscal position, though this is significant in terms of macroeconomic policy, given the pro-cyclical nature of the current deterioration. Rather, further concern arises to the extent that this deterioration is symptomatic of basic failures of governance at the state and territory level, also reflected in their poor management of infrastructure investment.⁸³

4.97 It is to infrastructure, often operated through Government Business Enterprises, that the committee now turns.

83 Mr Henry Ergas, personal capacity, *Submission 42*, p. 5.

Chapter 5

Government Business Enterprises

5.1 Governments typically provide a number of services through a government-owned, commercial enterprise mechanism. These can include electricity, water, gas and public transport. While these businesses usually have government as their sole shareholder, they are ostensibly managed by an independent board. The committee was interested to learn, in the context of state Government Business Enterprises (GBEs), where ownership ends and management begins. It is principally this dynamic that underlies the discussion in this chapter.

Payment of dividends from GBEs

5.2 A number of witnesses commented on the way in which state and territory governments receive dividends from their GBEs. The committee's interest in payment of dividends was twofold.

5.3 The first concerned the impact that payment of dividends to government might have on the ability of the enterprise to re-invest in infrastructure. This potentially affects the ability of utilities to provide essential services to customers, but also has severe implications in relation to the longer term value of utility assets. The current situation in New South Wales electricity generation was used as an example in this regard. Of significant concern to the committee was Mr Baird's report that:

I have been told by board members of some of these companies, as an example, that over the last three or four years they have been told, 'Do not do any strategic investments,' and that is specifically about the carbon scrubbing that we are talking about. In the US they have introduced carbon scrubbing across a lot of their generators, and emissions last year, for the first time, went backwards across the US because of this technology. That has been under way for over a decade. There has been informal advice to the various companies that, 'You're not to do that. We're just doing tactical capital expenditure.'¹

5.4 Victorian Shadow Treasurer, Mr Kim Wells expressed similar misgivings:

The government is taking significant dividends from the water authorities and at the same time is forcing the water authorities to increase their debt. The dividends from the water authority run into hundreds of millions of dollars, and we will get an exact figure. But it does seem ironic that the water authorities are being charged the dividends and then being expected to build infrastructure. You would expect them to use those retained earnings to build infrastructure. \$2.4 billion in dividends is coming from the

1 Mr Mike Baird MP, Shadow Minister for Finance for New South Wales, *Committee Hansard*, 24 July 2008, p. 6.

water authorities—which is ironic, as I said, because you would expect those retained earnings to be used for building infrastructure, such as dams and pipelines—which is increasing their debt significantly.²

5.5 The committee's other focus in relation to dividends was the degree of independence exercised by enterprise managers in relation to the decision to pay dividends, and their quantum.

5.6 Mr Baird pointed out that the payments in New South Wales seemed to coincide with election periods:

You cannot help but look at the electoral cycle of dividends. In 2003 there was a peak in the dividends in that election cycle, 2003 being the election. There was \$768 million paid to the state government in dividends. In 2007 that rises to again another peak of \$1.1 billion and, in the forecast estimates the next peak, not surprisingly, is 2011, being \$1.4 billion. So the dividends are at their highest level at the point of each state election. The [GBEs] is an issue that we do not take lightly and we certainly think that the committee should look at them in terms of the overall management of a state government.³

5.7 In Queensland, Dr Flegg spoke more broadly about the lack of independence of GBEs in that state. When asked whether major asset decisions, such as the sale of the Mackay Airport, were made by the governing Board or the shareholding ministers, Dr Flegg responded:

I have had very strong information from the boards, concerned that they did not even know these assets [Mackay Airport] were being considered for sale. I have no doubt that that was the case. This was a political decision, and I do not think the government have tried to hide that. When they got up and made the announcement, they simply said, 'The government have decided to sell the airport.' I think that reinforces the point that I was making before: that, in order to fund a hospital project, the government has to scratch around in the silver cabinet and find something to sell. That approach is not necessarily going to produce as good an outcome as a thought-through, economically responsible approach.⁴

5.8 Dr Flegg went on to explain the extent of political control in GBE decision making:

I think there is little doubt in Queensland that the government views the assets of its [GBEs] as under political control. You have seen a lot of activity in Queensland Rail in recent days, and you have seen very significant privatisation with little or no consultation. Queensland owned a

2 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, p. 15.

3 Mr Mike Baird MP, Shadow Minister for Finance for New South Wales, *Committee Hansard*, 24 July 2008, p. 3.

4 Dr Bruce Flegg MP, Shadow Treasurer for Queensland, *Committee Hansard*, 17 July 2008, pp 4–5.

good portfolio of Australian wind farms; they were sold recently. Why you would want to sell a portfolio of wind farms on the eve of emissions trading defeats me. The government owned North Queensland gas pipelines. There was never any indication they were to be sold. It basically just came up with a sale announcement. There is a whole succession of those things. I have no doubt that other assets are under active consideration for sale—no doubt at all. Golden Casket is another example. All of a sudden it was announced that it was to be sold to UNiTAB.⁵

5.9 As Professor Davidson said, in a quotation elaborated at paragraph 5.15, it is not unreasonable for a controlling shareholder to tell the company that they would like to have a dividend. However, this highlights that, at times, the lack of independence of the Board in determining a dividend policy.

5.10 In June 2008, the Productivity Commission released the latest in a series of research papers looking at the performance of Australian industries and the progress of microeconomic reform. The latest paper examines the financial performance of GBEs from 2004–05 to 2006–07. In his foreword to the report, Chairman Gary Banks summarises the Commission's findings as follows:

It is imperative that [GBEs], as significant providers of infrastructure services, operate efficiently. Those services are key determinants of Australia's international competitiveness as well as being fundamental to community wellbeing.

Despite commitments by governments to operate their businesses on a fully commercial basis, many [GBEs] continue to be commercially unsustainable. The majority failed to achieve even the risk-free rate of return in 2006-07.⁶

This under-performance impedes efficient capital management, the focus of a three year research program which concludes with this report. The research has emphasised the inter-relationship between [GBEs] operating profitably, properly managing their assets and providing efficient services.⁷

5.11 The report, which examined 86 GBEs, found that:

- Just over half of monitored GBEs failed to achieve a return on assets above the risk-free rate of return in 2006–07. This implies that an even greater proportion did not earn a commercial rate of return;
- Twelve GBEs (14 per cent) failed to achieve a positive return on their assets;

5 Dr Bruce Flegg MP, Shadow Treasurer for Queensland, *Committee Hansard*, 17 July 2008, p. 5. See also, Ms Vicky Chapman MP, Deputy Leader of the Opposition for South Australia, *Committee Hansard*, 27 March 2008, pp 29–30; Mr Geoffrey Anderson, personal capacity, *Committee Hansard*, 27 March 2008, p. 56.

6 The 'risk free rate of return' is defined as the 10 year government bond rate, which is currently 5.8 per cent.

7 Productivity Commission, *Financial Performance of Government Trading Enterprises 2004–05 to 2006–07*, Research Paper, June 2008, p. iii.

- In total, GBEs made dividend payments to owner-governments of almost \$4.4 billion in 2006–07. In addition, income tax and tax-equivalent payments totalled \$1.8 billion; and
- Poor profitability can lead to inadequate investment and asset maintenance, which can in turn reduce the future profitability of GBEs. Without a return to commercially sustainable operations, this cycle can persist.⁸

5.12 The report also found that nine GBEs in 2006–07 (six in 2005–06) reported dividend payout ratios of over 100 per cent, mainly in the water and ports sectors. That is, the dividends paid or provided for exceeded operating profit (after tax) in that year. It implies that the GBE might be required to fund the dividend payment from previous years' retained earnings or from borrowings. Some GBEs (seven in 2005–06 and six in 2006–07) made dividend payments after reporting after-tax losses, resulting in negative dividend payout ratios. This can be explained by their owner-governments requiring them to pay pre-determined special dividends of a given amount regardless of after-tax profits.⁹ A list of GBEs that have reported dividend payout ratios of over 100 per cent is included at Appendix 6.

5.13 Mr Tim Marney, Under-Treasurer for Western Australia, explained the dividend settings in his state this way:

It is based on a 50 per cent payout ratio, which is a decision by government based on analysis of what is a competitive payout ratio relative to similar entities in other jurisdictions... We try and ensure that those entities have the right payout ratios appropriate to their balance sheet and we try and keep them stable.¹⁰

5.14 While unable to comment on the impact that payment of dividends has on public utilities' ability to invest, Commonwealth Treasury submitted that:

On the broader issue of dividend payments from the sector, it should be noted that the payment of dividends to state governments is analogous to the payment of dividends to shareholders in private companies. That is, the payment of dividends merely emulates a common method of return of profits to the investor. It is desirable that public corporations act competitively. Accordingly, the making of a market return on the provision of goods and services is desirable, and a return on the investment incurred by state governments for the provision of goods or service is not, in itself,

8 Productivity Commission, *Financial Performance of Government Trading Enterprises 2004–05 to 2006–07*, Research Paper, June 2008, p. 1.

9 Productivity Commission, *Financial Performance of Government Trading Enterprises 2004–05 to 2006–07*, Research Paper, June 2008, p. 33.

10 Mr Tim Marney, Under-Treasurer, Department of Treasury and Finance, Western Australian Government, *Committee Hansard*, 12 June 2008, p. 25.

undesirable. Indeed, a policy of retaining all normal profits in a public corporation would be questionable.¹¹

5.15 Professor Davidson took a similar view:

...in many respects these are entities with a controlling shareholder. Any entity with an identifiable controlling shareholder would have to get their controlling shareholder's permission to make major decisions. It is not unreasonable for a controlling shareholder to tell the company that they would like to have a dividend.¹²

5.16 Whilst the Committee notes, however, that the profits of government business enterprises are not always comparable to the profits of private companies the payment of dividends in excess of profits, let alone the provision of dividends when a loss has been taken, can hardly be said to emulate corporate practice. It is difficult to escape the conclusion that some GBEs are being 'milked' for short-term gain at the expense of their medium- to long-term health. Funds transferred to state governments for recurrent spending cannot be used by enterprises to modernise infrastructure and situate themselves positively for the future.

5.17 Witnesses such as AiG specifically identified the danger of practices such as these, as well as their implications:

Ideally businesses would fund new investments from the most appropriate mix of sources of finance – borrowing, equity and retained earnings. Public ownership may be associated with excessive payouts of dividends when governments would prefer to derive revenue this way rather than find budget savings or raise taxes. This in turn could lead to underinvestment or less than optimal use of retained earnings on the part of the public sector enterprise.¹³

Community Service Obligation equalisation payments

5.18 Another practice of concern to the committee is that of state governments failing to provide capital injections or regular payments to compensate GBEs for activities that would not be undertaken if the enterprise were private, such as offering concession fares on public transport. These community service obligations (CSOs) 'cost' enterprises significant sums, and the Productivity Commission notes compensatory funding can be a significant source of revenue. Nonetheless, examples were given of GBEs which are forced to absorb CSO-related operating losses without recompense. These included Forestry Tasmania, which the Productivity Commission report stated was required to undertake non-commercial activities costing \$5.3 million in 2006–07, even though it did not receive CSO payments over the reporting period.

11 Department of the Treasury, *Submission 25*, p.17.

12 Professor Sinclair Davidson, Economist, Institute of Public Affairs, *Committee Hansard*, 19 May 2008, p. 31.

13 Australian Industry Group, *Submission 21*, p. 2.

Indeed, the majority of GBEs received no grant funding from government over the relevant reporting period.¹⁴

5.19 Substantial emphasis is placed on transparency and accountability in all government CSO policies, which are subject to intergovernmental agreements.¹⁵ Contrary to their stated policies, not all governments are identifying all CSOs. Governments are generally not reporting funding in a transparent manner. Almost no information is reported on the costs of meeting CSOs.¹⁶

5.20 The Productivity Commission makes the obvious point that inadequate compensation for CSOs affects the financial performance of a GBE and impairs commercial viability which compromises governance and the integrity of operating government businesses on a commercial basis. Under-funding a CSO could also result in under-investment or higher prices for commercial services. Service quality might also be reduced.¹⁷ The committee notes that if the GBE is a monopoly then it can easily overcharge for non-CSO services. The committee makes a recommendation in relation to government funding of CSOs in Recommendation 4 in chapter 8.

Conclusion

5.21 The committee is concerned at the practices of state governments in relation to the management of many GBEs. In particular, the committee is troubled by evidence of dividend policies imposed on GBEs by their state government owners that take little or no account of the operating conditions of the particular business, its market or infrastructure needs. The determination of dividend payments – a decision which should be made by the business' managers – appears commonly to be made, arbitrarily, at a political level. This cannot be said to be in the best long-term interests of any GBE.

5.22 The committee is alarmed by the Productivity Commission's finding that payment of dividends is being directed in excess of profits, or even in cases where businesses make a loss. Such practices cannot be justified, especially at a time when states are enjoying record GST revenue and state tax receipts are high.

14 Productivity Commission, *Financial Performance of Government Trading Enterprises 2004–05 to 2006–07*, Research Paper, June 2008, p. 34.

15 The Productivity Commission Report identifies policy documents from jurisdictions which acknowledge the existence of agreement to run GBEs on a commercial basis, and to exercise transparency in relation to CSO costs and payments. See, for example, Box 3.1, p. 42. See also evidence from Mr Tim Marney, Under Treasurer, Western Australia, *Committee Hansard*, 12 June 2008, p. 37.

16 Productivity Commission, *Financial Performance of Government Trading Enterprises 2004–05 to 2006–07*, Research Paper, June 2008, pp 41–46.

17 Productivity Commission, *Financial Performance of Government Trading Enterprises 2004–05 to 2006–07*, Research Paper, June 2008, p. 39.

5.23 In addition to 'milking' GBE profits (or in some cases, their asset base) matters are made worse by a tendency on the part of some jurisdictions to inadequately compensate their GBEs for goods and services provided to customers on a subsidised basis. This in spite of firm undertakings by each state and territory to operate GBEs on a strict commercial-equivalent basis.

Chapter 6

Infrastructure

6.1 Infrastructure is a means for the delivery of goods and services that promote prosperity, growth and wellbeing. Infrastructure is an essential input to virtually all economic activities. Ensuring that infrastructure is adequate, allocated to the right areas and used effectively reduces economic costs and contributes to more efficient production.

6.2 Australia is particularly dependent on efficient infrastructure and investment due to its size and population dispersion (road, rail, airports and communications), its climate (water and electricity) and its reliance on trade (ports).

6.3 In 2005, the Productivity Commission estimated that infrastructure sector reforms up to 2005 had increased Australia's GDP by 2.5 per cent.¹ Again in 2005, the Export and Infrastructure Taskforce, chaired by Dr Brian Fisher, reported that there were immediate export infrastructure constraints caused by Australia's role in supplying the global commodities boom, but that these were localised in nature.²

6.4 The Organisation for Economic Co-operation and Development (OECD) 2006 *Economic Survey of Australia* found that infrastructure market reforms undertaken under the National Competition Policy were largely a success. However, the OECD emphasised that there remains 'unfinished business' to raise productivity and reduce bottlenecks in all sectors, but most pressingly in water markets, where little progress has been made to date.³

6.5 This chapter examines the current state of infrastructure, and the factors which have impacted on the effectiveness and efficiency of significant recent investment by the states in infrastructure development. It then examines the role of Public-Private Partnerships and of the Commonwealth in infrastructure provision and development.

The current state of infrastructure

6.6 The adequacy and serviceability of the existing infrastructure pool was commented on by a number of witnesses, who in general took the view that infrastructure development, as well as maintenance of the existing pool, had lagged. Treasury officials submitted that the average age of Australia's public sector infrastructure has been rising since the 1970s.⁴ The committee notes that the average

1 Department of the Treasury, *Submission 25*, p. 15.

2 Department of the Treasury, *Submission 25*, p. 15.

3 Department of the Treasury, *Submission 25*, p. 15.

4 Mr Tony McDonald, General Manager, Department of the Treasury, *Committee Hansard*, 25 July 2008, p. 77, drawing from 2008–09 Budget Paper No. 1, Statement 4, pp 4–8.

age of that infrastructure is now approximately 20 years,⁵ and that Australia's infrastructure lags behind the average of leading advanced economies in terms of its ability to support economic activity.⁶

6.7 Dr Vince FitzGerald, observed that across the country, underinvestment by state governments in critical infrastructure has led to economic capacity constraints:

...we were underinvesting in infrastructure and we are paying for that now. We have rising congestion on our roads; we have increasing congestion in even the public transport system; we have a backlog of facilities, and not simply current services, in health; and so on... [I]n my opinion, we are playing catch-up, as is the nation generally. We have got stresses and strains in the export infrastructure...[B]ulk export infrastructure is the most obvious area that we see occasionally highlighted in the media, but it is also right in the metropolitan regions of Australia, whether you are talking about Brisbane, Sydney, Melbourne, Perth, Adelaide or perhaps Hobart—certainly in the bigger cities. In today's service economy era, when the transport of goods and people around those regions is what makes the economy go, we clearly have backlogs. Having strong infrastructure investment programs is overdue, frankly.⁷

6.8 Dr Steve Thomas MLA, Shadow Treasurer in Western Australia, pointed out the shortcomings in infrastructure in key economic locations such as Karratha:

The hospital struggles and transport issues are significant. The era of opportunity for Western Australia might pass us by without us being able to put the infrastructure in place that would develop those resources well into the future.

...

Most of the iron ore royalties go to the state. The state government has to some degree dropped the ball on this over time. Oakajee, for example, which is just north of Geraldton and will be the mid-west iron ore port - a brand-new port which will be developed and built by the private sector - was first mooted a decade ago.⁸

6.9 Mr Terry Mills MLA, Opposition Leader in the Northern Territory, commented that:

Although there has been an increase in infrastructure spending in recent years, much of this spending has been aimed at repairing an ageing asset base...[M]uch of the infrastructure is reaching its use by date....Many roads, schools, hospitals and other assets now need work. There will be a

5 2008–09 Budget Paper No. 1, Statement 4, pp 4–8.

6 2008–09 Budget Paper No. 1, Statement 4, pp 4–9.

7 Dr Vince Fitzgerald, private capacity, *Committee Hansard*, 19 May 2008, pp 35–36.

8 Dr Steve Thomas MLA, Shadow Treasurer for Western Australia, *Committee Hansard*, 12 June 2008, pp 4 and 6.

need to borrow substantially for infrastructure augmentation into the future.⁹

6.10 Mr Kim Wells MP, Shadow Treasurer in Victoria, presented a range of statistics to the committee showing that hospitals, schools and water infrastructure in Victoria were attracting insufficient investment. In relation to water, Mr Wells submitted that:

I think the Melbourne water authorities deliver a good service; the reality is that there is not the infrastructure to support them. We have pipelines that are crumbling. We have lack of infrastructure. If the infrastructure were in place, like the [desalination] plant, it would assist the water authorities. But we are not seeing that at the moment. There are lots of promises and plans, but we will wait and see what occurs over the next couple of years.

...

I think water authorities should pay a dividend, but I also think that some common sense should be applied. If your infrastructure is crumbling around you, you should be able to say to the water authorities, 'That dividend will be reviewed or suspended,' to allow the water authority to use retained earnings to build that infrastructure.¹⁰

6.11 Mr Wells also submitted that major road funding had been neglected by the Victorian Government, and that this had resulted in economic losses:

We have spent less per head on construction than any of the other states has. Obviously, you would expect Western Australia and Queensland to spend more than us, but in Victoria we do not seem to spend the money on roads, bridges or tunnels. We do not build things or fix things. As a result... for anyone travelling on Melbourne roads—the Calder, the Monash or the eastern—there is gridlock. It is costing us and our economy millions and millions of dollars because we are having trouble moving our products and our personnel around... on our main roads, in the morning peak, traffic travels at around 20 kilometres per hour and, in the afternoon peak, we travel at around 35 to 40 kilometres per hour.¹¹

6.12 Dr Bruce Flegg submitted that the Queensland Government under Premiers Beattie and Bligh had not completed one major road project since 1998, and was trying to build infrastructure at the top of the economic cycle when it was most expensive.¹² This was a theme running through the evidence of a number of witnesses, some of which is discussed later in this chapter.

9 Mr Terry Mills MLA, Leader of the Opposition for the Northern Territory, *Submission 39*, p. 5.

10 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, pp 15–16.

11 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, pp 8–9.

12 Dr Bruce Flegg MP, Shadow Treasurer for Queensland, *Submission 37*, p.3.

6.13 Recent increases in infrastructure spending by the states and territories followed a prolonged period in which they placed very low priority on infrastructure investment. Treasury submitted that state net capital investment in the total public sector has more than doubled in recent years, rising from around \$11 billion in 2005–06 to \$23 billion in 2007–08. It is projected to peak at \$32 billion in 2008–09 and then moderate to around \$24.5 billion in 2010–11.¹³

Strategic management of infrastructure development

6.14 The need to invest in infrastructure has not been lost on states and territories, and one reason for the deterioration in their fiscal position in recent years has been their sharp increase in infrastructure investment. This section examines the factors that have affected the success of state and territory investment in infrastructure over recent years, and the impact it has had on the broader economy.

Timing

6.15 The committee heard that the recent surge in infrastructure spending by the states and territories is symptomatic of a general pattern of not anticipating and responding in a timely and effective way to infrastructure needs. Rather, infrastructure problems were allowed to reach breaking point before corrective action was taken.¹⁴

6.16 Due to State Government inactivity in recent years, there is an urgent need for investment in infrastructure, much of which should be provided by the private sector. However, increased infrastructure spending by states and territories at a time when unemployment was very low, and demand for skilled labour strong, strengthened inflationary pressures in the economy and, in all likelihood, crowded out worthwhile private sector investment. This impact was not lost on Reserve Bank of Australia Governor Glenn Stevens, who was quoted by Treasury officials as saying that:

Ideally [the investment] would have been done five years ago when the miners did not want to do it at the same time, but it was not. It still has to be done and, yes, that is a factor at work in the economy along with very strong private demand and along with...large foreign stimuli... So there are a lot of things that are basically giving us quite a strong demand picture. Those infrastructure spend things are one, but only one among a number.¹⁵

13 Ms Marisa Purvis-Smith, Manager, State Finance and Reporting Unit, Department of the Treasury, *Committee Hansard*, 25 July 2008, p. 63.

14 See also, for example, Mr Henry Ergas' evidence before the committee in Canberra, private capacity, *Committee Hansard*, 25 July 2008, p. 45.

15 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Committee Hansard*, 17 August 2007, p. 14.

6.17 Increased spending has also had a hand in fuelling labour market shortages and steeply increased construction costs.¹⁶ Thus, in the case of roads, estimates suggest that construction costs per completed road kilometre are up by as much as 30 per cent in an 18 month period, meaning that the community is getting far less for the outlays than it would have had the spending been better timed.¹⁷ On this point, Mr Ergas was unequivocal:

...[H]ave state governments, on balance, acted in a way which increased or reduced those inflationary pressures? I would say they have acted in a way which increased those inflationary pressures and have done so in a manner that could have been avoided had they pursued a more stable approach to the key spending decisions.¹⁸

6.18 Officials from the Treasury acknowledged the impact that the sudden additional demand from states has on the economy:

If...the economy is in a position of full capacity, very simply you are saying that the aggregate demand in the economy is more or less equal to the supply potential of the economy. It is clear...that the investment by the states in public infrastructure is adding to aggregate demand. [This investment in infrastructure] will add to aggregate supply in time, but not immediately. It adds to aggregate demand before it adds to aggregate supply.¹⁹

6.19 State government representatives in at least one jurisdiction rejected the contention that infrastructure had not developed in a timely fashion. Western Australia's Under-Treasurer, Mr Tim Marney submitted that:

I think...our planning for infrastructure has been reasonably robust and there have been some investments in capacity which have been long term. If I went back to our advice at the time, probably it would have been, 'Yes, maybe that's a bit early' and it has proven to be timely, so I think that it has been quite strategic of government to place greater emphasis on expansion of the productive capacity of the economy as opposed to recurrent spending on an ongoing basis.²⁰

6.20 It would appear that the states were in a good position to increase their investment earlier than they did. The committee heard that in 2005–06, for example, the states and territories received \$47.4 billion more revenue than they had received in

16 Evidence from representatives of the Reserve Bank of Australia was that public spending, insofar as it contributes to total spending in the economy, contributes to inflationary pressures. Dr Tony Richards, Head of Economic Analysis, *Committee Hansard*, 24 July 2008, p. 20.

17 Concept Economics, *Submission 42*, p. 9.

18 Mr Henry Ergas, private capacity, *Committee Hansard*, 25 July 2008, p. 51.

19 Mr Tony McDonald, General Manager, Department of the Treasury, *Committee Hansard*, 25 July 2008, pp 69–70.

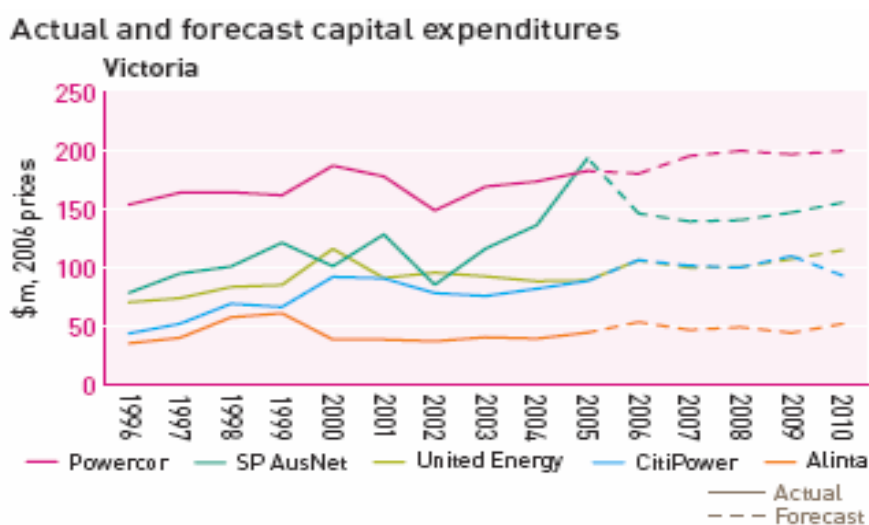
20 Mr Tim Marney, Under-Treasurer, Western Australia, *Committee Hansard*, 12 June 2008, p. 26.

1999–00 (or \$22.1 billion more in real terms) and yet only \$2.1 billion of this was devoted to the net acquisition of non-financial assets.²¹ This was despite the fact that during that time it was clear that significant capacity shortages in state and territory infrastructure had developed.

Inconsistency leading to poorer service provision

6.21 The volatility of state government infrastructure investment is also notable when contrasted with infrastructure investment by private sector providers. An example provided to the committee concerned the levels of capital expenditure undertaken by electricity distributors in Victoria, where infrastructure is privately-owned, and Queensland, where it remains public, over the past decade. Whereas the privately-owned Victorian businesses engaged in a relatively steady upward trend in investment, expenditure patterns in the state-owned electricity distribution sector in Queensland have been much more volatile, with relative stagnation in investment prior to 2003–04 followed by high levels of 'catch up' investment from 2004.²²

Figure 6.1—Capital Expenditure by Victorian Electricity Distributors, 1996–2010

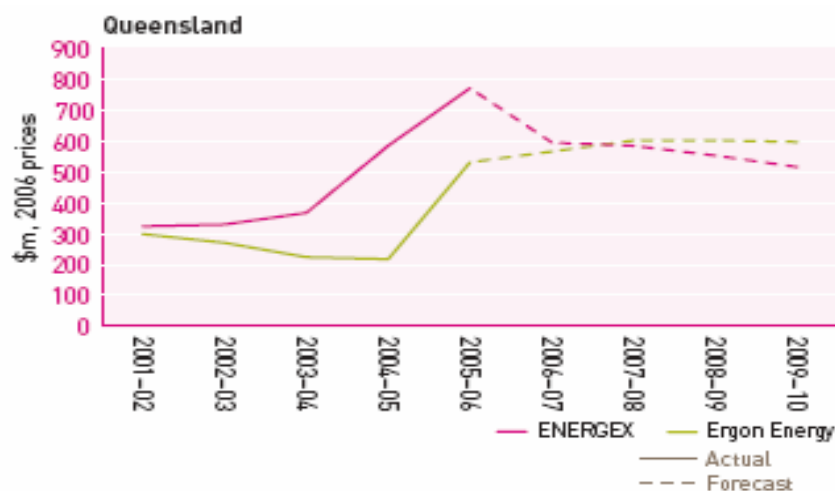


Source: Australian Energy Regulator, State of the Energy Market Report 2007, p. 154.

21 Concept Economics, *Submission 42*, p. 6.

22 Concept Economics, *Submission 42*, pp 7–8. See also Mr Ergas' evidence, appearing in a private capacity before the committee in Canberra, *Committee Hansard*, 25 July 2008, p. 46.

Figure 6.2—Capital Expenditure by Queensland Electricity Distributors, 2001–02 to 2009–10



Source: Australian Energy Regulator, State of the Energy Market Report 2007, p. 154.

6.22 Mr Ergas argued that the failure of the Queensland Government to invest in a timely manner led to a serious reduction in the reliability of electricity supply, and that outages in 2004 induced the Queensland Government to establish an independent panel to review the service delivery of Queensland electricity distributors. A key finding of the panel was that the distributors had focused unduly on improving financial performance at the expense of undertaking capital expenditure and maintaining service quality at acceptable levels.²³

Quality of investment

6.23 Separate from the problem of timing and service provision is the issue of selection of infrastructure projects to best serve the needs of taxpayers, requiring careful and rigorous cost-benefit analysis.²⁴ This was referred to by a number of witnesses as determining whether spending constituted 'quality' investment.²⁵ Mr Henry Ergas submitted that:

Unfortunately, the states and territories disclose virtually no information about the evaluations undertaken of investment infrastructure programs. Taxpayers cannot therefore have any real confidence that the debts that are being incurred on major infrastructure projects will not simply require

23 Concept Economics, *Submission 42*, p. 8.

24 See, for example, Mr Tony McDonald, General Manager, Department of the Treasury, *Committee Hansard*, 25 July 2008, p. 69.

25 See, for example, Dr Tony Richards, Head of Economic Analysis, Reserve Bank of Australia, *Committee Hansard*, 24 July 2008, p. 18; Mr Mike Baird MP, Shadow Minister for Finance for New South Wales, *Committee Hansard*, 24 July 2008, p. 2.

substantially higher taxes in the years to come, taxes not offset by a commensurate flow of benefits from the infrastructure projects undertaken.²⁶

6.24 While inefficiencies in the allocation of infrastructure funds are nothing new, the problems they create have been aggravated by the very substantial investment by states in recent years. The committee heard that public disclosure of cost-benefit analyses of all government-funded infrastructure investment programs, regardless of jurisdiction, would increase accountability for what are significant taxpayer-supported outlays.²⁷

6.25 A case in point is the Victorian Government's decision to spend over \$700 million upgrading regional passenger rail services, and to do so without renewing the track with gauge-convertible sleepers. Mr Ergas considered that, for a very modest expense, the government forewent what could have been a significant feature of the project.²⁸

6.26 Mr Kim Wells MP, Shadow Treasurer of Victoria, expressed his concern over the projects being funded by the government in his state:

We would argue that if [debt] were being spent on issues of productivity then you would understand that it is less inflationary. We have asked the government for a full list of where they are applying this debt so we can have a better understanding of what they are building to fix things, because we do not see that at the moment.²⁹

Management

6.27 As the scale of spending has increased, inefficiencies in the management of that spending have become ever more obvious. New South Wales is a case in point. The committee heard that in spite of a strategic plan for infrastructure in New South Wales in 2002, by late 2004, an audit of 88 of the key projects revealed \$752 million in cost over-runs, one in four projects delayed, and one in ten projects suspended or abandoned. By May 2006, the same group of projects (with an estimated total project value of \$11 billion), had reached timetable blowouts of around 40 years, and cost blowouts of \$1.7 billion. An assessment of the 2007–08 capital works budget papers shows 187 projects delayed, 219 years of total delays and an overall blow-out of \$2.6 billion.³⁰

26 Concept Economics, *Submission 42*, p. 9.

27 Concept Economics, *Submission 42*, p. 9.

28 Concept Economics, *Submission 42*, p. 11.

29 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, p. 6.

30 Concept Economics, *Submission 42*, p. 9. Similar evidence was received, in relation to cost over-runs, from witnesses including Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, pp 7–8.

6.28 The situation appears similar in Victoria. Mr Kim Wells submitted that:

...The cost of the channel deepening started off at less than \$100 million. It is closer to \$1 billion. The fast train started off at \$80 million and they were going to get private involvement. That was just under a billion dollars. We had the situation of the West Gate M1 contract which went from \$1 billion to \$1.363 billion. We have a list of almost \$5 billion of those sorts of cost overruns. It is of concern that poor financial management and poor contract management are costing this state. We do understand that there are cost increases over the life of a contract, but those cost blowouts are significant.³¹

Public-Private Partnerships

6.29 One approach that aims to improve efficiency in infrastructure investment involves greater reliance on Public-Private Partnerships (PPPs), which are claimed to import to infrastructure investment the discipline of private sector budget constraints. The assumption is that, since the providers of finance secure no gains from politically popular but commercially unviable projects, those projects that are not commercially viable will not be funded.

6.30 A number of witnesses pointed out that PPPs are not a suitable option for every infrastructure project. The committee heard that, while PPPs deliver on promises of efficiency in some cases, in others they fall short. Examples of difficulties with PPPs include the Airport Rail link in Sydney and, to some extent, the Sydney Cross-City Tunnel. The committee heard that both of these projects involved substantial renegotiation, which materially altered the effective risk allocation, highlighting the many difficulties involved in designing effective PPPs. These difficulties are reflected in the high transactions costs associated with establishing PPPs, with those costs usually being in the order of between 3 and 10 per cent of construction costs.³²

6.31 Mr Geoffrey Anderson, appearing in his private capacity, elaborated on the rationale behind PPPs:

The first thing is that you do not do a PPP because you get cheaper money. All treasury departments have quite specific guidelines for PPPs—which are publicly available—and they set hurdles that they have to jump over before they will agree to a PPP, which means the focus is then on taking on risk. Of course it is very difficult at times to actually contract out all risk. But I think governments are attracted to PPPs largely because they do have the opportunity to transfer as much risk as possible, particularly completion risk—and it is a big issue for governments to get buildings completed on time—and to get other risks associated with the construction of the project in somebody else's hands. I think it is a more complicated issue [than]

31 Mr Kim Wells MP, Shadow Treasurer for Victoria, *Committee Hansard*, 19 May 2008, p. 7.

32 Concept Economics, *Submission 42*, p. 12.

purely financial. For a state like South Australia, I think it also brings private investment, a commitment from people to bring business here. I think it is a way in which governments can be involved with the private sector. I think it is a way in which they can be assured they are going to get the right price and the right management process all the way down the line. It has advantages.³³

6.32 Mr Anderson went on to say that, in his opinion, the use of PPPs differed depending on the political persuasion of the government. Mr Anderson observed that:

What we are not seeing in PPPs in this state, because we have a Labor government, is the traditional PPP. The traditional PPP was that the company would build it and operate it and provide the service to the government. We are not seeing that because that involves a degree of privatisation which Labor governments are not prepared to accept—and maybe for good reasons—but we are seeing them largely as financial and construction instruments. A classic PPP was where the private sector would build the facility and staff it and provide the service back to the government.³⁴

6.33 On aspect of PPPs requiring significant improvement is the quality of the contracts on which they are based, which according to the evidence do not ensure optimal performance. Moreover, particularly for projects that are 'too big to fail', poorly designed PPPs may end up simply privatising profits while socialising losses.³⁵

6.34 Associate Professor Graeme Wines also observed that PPP agreements typically operate over long periods of time, magnifying the need to assess risk comprehensively.³⁶ Associate Professor Wines also used the agreements entered into for the Cross-City Tunnel in Sydney, as well as the CityLink in Melbourne, as examples of contract terms that severely limited the scope for development of adjacent public roads. Indeed, these contracts actually resulted in restrictions for some adjacent roads, and these restrictions will continue for the period of the respective agreements. These restrictions have accordingly limited the policy options, with respect to road infrastructure in these examples, for the respective governments.³⁷

6.35 The implications of the need for private sector entities to produce a positive return for shareholders over and above their higher interest costs must also be considered for any potential PPP projects, along with the higher interest rates usually offered to private sector borrowers.

33 Mr Geoffrey Anderson, private capacity, *Committee Hansard*, 27 March 2008, p. 56.

34 Mr Geoffrey Anderson, private capacity, *Committee Hansard*, 27 March 2008, p. 56.

35 Concept Economics, *Submission 42*, p. 12.

36 Associate Professor Graeme Wines, private capacity, *Submission 17*, p. 3.

37 Associate Professor Graeme Wines, private capacity, *Submission 17*, p. 3.

6.36 The committee heard various reports of PPPs being misused by state governments. Queensland Shadow Treasurer, Dr Bruce Flegg MP submitted that the Queensland Government had mismanaged the use of PPPs to generate 'fast cash' rather than to generate economic efficiency and savings.³⁸

6.37 A possible example of this kind of misuses was given by Ms Vicky Chapman MP, Deputy Leader of the Opposition in South Australia:

The big picture items here in South Australia are prisons, schools and the \$1.7 billion Marjorie Jackson-Nelson Hospital, which is really \$1.9 billion because there is \$200 million over in the transport budget to clean up the rail yards it is going to go on—so it is nearly a \$2 billion project. These are big projects and, quite reasonably, the government looks at whether they PPP them, but we have done the exercise and the cost under their PPP model is going to bankrupt our grandchildren. That is the way we see it, and we are very concerned about that...[W]e say that on the government's own financing for \$1.4 billion it could completely rebuild the hospital on the current...site. That is our proposal; that is our clear position.³⁹

The proper role of the Commonwealth

6.38 A small number of witnesses commented on what they saw as the proper role of the Commonwealth Government in relation to the provision of infrastructure into the future. The prevailing view was that the Commonwealth had a role to play.⁴⁰ The effect of vertical fiscal imbalance puts the Commonwealth Government in a stronger position to fund large projects, and possibly to realise economies of scale. However, Mr John Nicolaou, from the Chamber of Commerce and Industry of Western Australia, put forward another reason for Commonwealth involvement:

I think that both the Commonwealth and states have a responsibility. The states really are responsible for the basic delivery of key infrastructure because many of the deliverers of infrastructure are government owned entities, and certainly I agree with that. But in relation to infrastructure that is not owned by the state per se, I think that the Commonwealth can take a bigger role. We only have to highlight some of the perverse incentives that are created if the Commonwealth gets significant amounts of revenue and benefits from infrastructure provision while the states at the same time have to fund that infrastructure and get far less in terms of revenue. Clear examples of that are the infrastructure on the Burrup, and the Gorgon project when that comes on stream, and even the Ravensthorpe nickel project. Those are areas where the state has a responsibility to provide

38 Dr Bruce Flegg MP, Shadow Treasurer for Queensland, *Submission 37*, p. 2.

39 Ms Vicky Chapman MP, Deputy Leader of the Opposition for South Australia, *Committee Hansard*, 27 March 2008, pp 22 and 24. Ms Chapman went on to note that the primary problem may lie with the management model, rather than the project's status as a PPP.

40 See, for example, Tasmanian Opposition, *Submission 32*, p. 2.

common user infrastructure, but the majority of the revenue benefits go to the Commonwealth in terms of royalties, income tax and so forth.⁴¹

6.39 The committee finds some merit in this argument. It sees a legitimate role in some circumstances for the Commonwealth to accept a greater share of responsibility for infrastructure than it might have in the past. Whether the recently established Infrastructure Australia is a step in this direction will depend on how that body operates and on what principles.

6.40 However, some evidence was received pointing to the need for caution in defining the role of the new body. For example Dr Steve Thomas MLA, Shadow Treasurer for Western Australia, said that he was:

...hoping at some point that there will be an additional mechanism for the Commonwealth to engage in the construction of that infrastructure. We will look very carefully at Infrastructure Australia, the new group which is providing infrastructure. We will be watching that very carefully. If its agenda is to provide resources and infrastructure for high population density areas and if it ends up building roads between Brisbane, Sydney, Melbourne and Canberra and does not look at future proofing the country and investing in infrastructure which builds the country, in the north-west of Western Australia in particular, and also to some degree, I suspect, in Queensland and the Northern Territory, then Infrastructure Australia will be one of the great failures of Australian history. If it does the job that we think it should do, it may be one of the greatest success stories we have ever seen.⁴²

6.41 The need to reform state government infrastructure decision-making was also addressed by Concept Economics:

If Infrastructure Australia proves little more than a vehicle for transferring Commonwealth funds to state governments without reform of infrastructure decision-making and governance arrangements, it has the potential to merely waste taxpayers' money. Large-scale investment from a Building Australia Fund, or indeed from any other public sector source, does not absolve the Commonwealth Government of its responsibility for ensuring that state and Territory governments improve their decision-making processes and tackle pressing regulatory problems that, in some cases, are holding back commercial investment in much-needed infrastructure.⁴³

41 Mr John Nicolaou, Chief Economist, Chamber of Commerce and Industry for Western Australia, *Committee Hansard*, 12 June 2008, p. 40.

42 Dr Steve Thomas MLA, Shadow Treasurer for Western Australia, *Committee Hansard*, 12 June 2008, p. 4.

43 Concept Economics, *Submission 42*, p. 13.

Conclusion

6.42 The committee notes the sub-optimal state of the infrastructure pool across Australia, and makes the obvious point that it is crucial to get infrastructure investment right. Infrastructure assets are, by their nature, difficult to replicate, and some are natural monopolies. If development and renewal of infrastructure is mismanaged at government level, the resulting bottlenecks are likely to impose severe constraints on economic growth.

6.43 While the committee was pleased to hear that investment by states and territories has picked up over past two years, and that infrastructure renewal is taking place, it is concerned at some aspects of the investment. These concerns were captured by Mr Henry Ergas when he made the following remarks, citing two primary concerns with the way states had managed infrastructure spending in recent years:

The first is with the timing of the expenditures and the management of the timing of the expenditures, and the second is with the quality of the expenditures. The issue with respect to the timing is particularly acute with respect to infrastructure in that we had a relatively prolonged period where, albeit with some variations between jurisdictions, the states and territories tended to reduce or severely constrain their infrastructure spending, and then following that period we had a period where there was almost a spending spree associated with catching up on the shortfalls that had accumulated initially. It is bad enough to have that kind of stop-go cycle, which under any circumstances increases costs unnecessarily, but even worse to have that stop-go cycle coincide with overall cyclical movements in the economy, which means that you, as it were, open the tap to the full just as the economy is going into what looks like a period of overheating or at least where labour markets and product markets are very tight. Hence, you accentuate all of the inflationary pressures underway in the economy. That in my view highlights a serious failure of policy.

On top of that you then have my second concern, which is about the quality of outlays. It is the responsibility of state governments to undertake significant long-term investments, and it is sensible for state governments to finance those long-term investments, including through borrowings. There is nothing inherently sinful or undesirable in that. But those borrowings essentially represent a tax liability for future generations or future periods, and hence the quality of the outlays is essential. If those are good quality outlays that will yield long-term benefits and enhance the productive capacity of the economy then future generations will find it easy to bear the associated tax burdens because productive potential will have increased at the same time as some costs have been deferred to the future. On the other hand, if those outlays do not expand productive capacity in the long term, if they are not worth while, then all that is really being done is to make future generations poorer than they would otherwise be.⁴⁴

44 Mr Henry Ergas, private capacity, *Committee Hansard*, 25 July 2008, pp 38–39.

Chapter 7

Norfolk Island

7.1 At an early stage in the inquiry, the committee took the view that Norfolk Island (Norfolk) fell within its terms of reference as an external territory. While mindful of the significant attention that Norfolk has received from Parliamentary and other committees over the years since self government was instituted in 1979,¹ revisiting Norfolk Island's internal financial situation, as well as its fiscal relations with the Commonwealth, was deemed appropriate and necessary.

7.2 The committee heard from the Honourable Grant Tambling, the Administrator of Norfolk Island from 2003 to 2007, who submitted to the committee that:

...Norfolk Island is in urgent need of governance reform, federal financial support, and the associated necessary regularisation of State (Territory) and Commonwealth financial arrangements.²

7.3 Another witness who gave evidence in relation to Norfolk was an official representing the Attorney-General's Department, which has administrative responsibility for Australia's relations with Norfolk. Ms Karen Stewart, Acting Assistant Secretary of the Territories East Branch, summarised the more recent findings of the Joint Standing Committee on National Capital and External Territories regarding Norfolk Island:

...the joint standing committee expressed a view that the Norfolk Island government was not delivering services—for instance, health, welfare and the maintenance of infrastructure—to a standard that would be acceptable to the Australian mainland. The report that the department commissioned at the end of 2005 from Acumen Alliance, which was publicly released, had the view that, based on Norfolk Island's financial circumstances at that time, the Norfolk Island government was at risk of becoming insolvent.³

7.4 The committee was told that the governance model established was and is premised on the island community of around 2000 people being solely responsible for the delivery of state and local government services and for most federal government services and responsibilities. For this reason, the Australian Government devolved a range of legislative and executive powers to the Norfolk Island Government to allow it to deliver and fund those responsibilities. The expectation was that Norfolk Island would also be self sufficient and raise its own funds from within the Norfolk community to pay for its delivery of government services and programmes on-island,

1 *Norfolk Island Act 1979* (Cth)

2 Hon. Grant Tambling, *Submission 43*, former Administrator of Norfolk Island, p. 3.

3 Ms Karen Stewart, Acting Assistant Secretary, Territories East Branch, Attorney-General's Department, *Committee Hansard*, 25 July 2008, p. 55.

using 'federal' customs, postal, revenue and taxing powers devolved to it by the Australian Government. Norfolk Island was therefore excluded from federal fiscal and taxation arrangements and from the application of many federal laws and the programmes and services provided under such laws. This has resulted in expensive and sub-standard healthcare and other important services. Mr Tambling submitted that demographics are making a bad situation worse:

Because no Australian income tax applies on Norfolk Island, the offset is that there are a number of other services, such as medical and welfare services, that do not come anywhere near the Australian average. So the vulnerable groups are the elderly, the infirm and many low-income earners. The population numbers are of concern in that, whilst they are small—as I said, under 2000 people—they are decreasing. This is generally in the lower age groups, where people are seeking to make family contributions in education needs elsewhere in Australia. So the community is ageing, and that in turn is imposing costs on their budget.⁴

7.5 The Australian Government has had to provide a significant amount of financial and non-financial assistance to the Norfolk Island Government and community. Mr Tambling submitted that economic pressures, inadequate local government and inefficient public administration have brought the long term sustainability of the current governance model into question.⁵

7.6 The committee heard from Ms Stewart that the Norfolk Island Government discloses only some of their financial details to the Commonwealth, specifically those relating to general government revenue and spending. Records relating to government business enterprises are not disclosed, making an accurate overall assessment of the island's financial position difficult.⁶ The committee makes a recommendation in chapter 8 (Recommendation 13) to make improvements in this regard.

7.7 Supplementary information provided by the Attorney-General's Department paints a somewhat bleak picture of Norfolk Island's finances. Cash reserves at 30 June 2007 are contained in Table 7.1.

4 Hon. Grant Tambling, former Administrator of Norfolk Island, *Committee Hansard*, 17 July 2008, p. 31.

5 Hon. Grant Tambling, former Administrator of Norfolk Island, *Submission 43*, p. 4.

6 Ms Karen Stewart, Acting Assistant Secretary, Territories East Branch, Attorney-General's Department, *Committee Hansard*, 25 July 2008, pp 55–56.

Table 7.1—Norfolk Island's cash reserves, 2003–2007

	30 June 2003	30 June 2004	30 June 2005	30 June 2006⁷	30 June 2007
Cash at Bank	\$10,183,173	\$10,938,068	\$11,841,767	\$19,091,478	\$11,228,718

Attorney-General's Department, additional information, received 13 August 2008, p. 1.

7.8 These reserves are made up of cash held in both the Norfolk Island Government revenue fund, cash held by the government business enterprises and cash held in trust for a variety of purposes, such as a legal aid fund and environmental matters.

7.9 The Department also provided the committee with details of the Norfolk Island Government liabilities across the same time series, which are reproduced in Table 7.2.

Table 7.2—Norfolk Island's total liabilities, 2003–2007

	30 June 2003	30 June 2004	30 June 2005	30 June 2006	30 June 2007
Total liabilities	\$5,034,651	\$5,019,511	\$6,747,241	\$25,892,084	\$19,359,394

Attorney-General's Department, additional information, received 13 August 2008, p. 1.

7.10 The increase in liabilities at 30 June 2006 relates to the recognition of the \$12 million loan from the Commonwealth for the airport runway resurfacing project and the establishment of Norfolk Air as a government owned entity in 2006–07, where future ticket sales are recorded as liabilities (\$2.5 million at 30 June 2007).

7.11 Similar to the cash reserves, these liabilities relate to the Norfolk Island Government's revenue fund as well as their government business enterprises. These liabilities do not, however, include accumulated depreciation on assets, which at 30 June 2007 sat at \$31.5 million.⁸

7.12 Mr Tambling suggested that it was time for Norfolk Island to be more closely aligned with Australia within the construct of fiscal federalism, so that economic pressures might be alleviated. This would involve the redefinition of Australia's relationship to Norfolk Island so as to allow access by Norfolk Island residents to some of the Commonwealth resources accessed by the states and territories. However, it is clear that islanders are highly protective of their perceived independence, and that

7 The apparent spike in cash reserves held by the Norfolk Island Government at 30 June 2006 relates to cash received in that year for the subsequent projects to resurface the Norfolk Island Airport runway (\$5.7m) and to refurbish the Kingston Pier (\$3.4m). These projects were funded by a Commonwealth interest-free loan and grant respectively.

8 Attorney-General's Department, additional information, received 13 August 2008, p. 1.

the prospect of being subject to income tax would not attract the support of Norfolk's small cache of very wealthy residents, who wield much of the political power.⁹

7.13 This was confirmed by Ms Stewart, who submitted that:

There were two proposals being considered by the Australian government during 2006. One was to extend all Commonwealth legislation and programs, and the second part of that was to establish Norfolk Island as a local government kind of model similar to the Indian Ocean territories arrangements. The second approach was to set up a sort of modified self-government model, where they would have the powers and responsibilities of another self-governing state or territory but with greater powers of Commonwealth intervention. During that year, the Norfolk Island government expressly resisted, essentially, either proposal—and the extension of Commonwealth legislation and programs.¹⁰

7.14 Rather dramatically, the Norfolk Island Finance Minister expressed the view that an extension of Commonwealth taxes to the island would be highly detrimental:

One of the things that we worry about in Norfolk Island is that, if all of the Commonwealth taxes and legislation is extended to Norfolk, it will probably cripple the economy that we have now and probably collapse it and has the ability to turn Norfolk Island into a community that is likely to be dependent on welfare. That is not something that we really want for Norfolk Island.¹¹

7.15 Possible opposition notwithstanding, the committee was interested to read a series of recommendations generated by Mr Tambling at the end of his tenure as Administrator which were submitted to the former government, and re-submitted to the current one. These recommendations, a compilation of which forms Appendix 7, aim to address some of the most significant challenges facing Norfolk Island. These largely include improvement to and regulation of governance arrangements, but also go to the establishment of mechanisms to regulate corruption, corporate, financial and trade activity, and the inclusion of all Norfolk Islanders on the Australian electoral roll.¹²

7.16 Mr Tambling was forthright in his submission that change is needed, and in putting his fears for the Island should that change not take place:

9 The Hon Grant Tambling, former Administrator of Norfolk Island, *Committee Hansard*, 17 July 2008, p. 31.

10 Ms Karen Stewart, Acting Assistant Secretary, Territories East Branch, Attorney-General's Department, *Committee Hansard*, 25 July 2008, p. 59.

11 Hon. Neville Christian MLA, Minister for Finance, Norfolk Island Government, *Committee Hansard*, 1 September 2008, pp 41–42.

12 The Hon Grant Tambling, former Administrator of Norfolk Island, *Submission 43*, Attachment F.

I would argue that the arrangements that were set in place in 1979 were probably appropriate at that particular time. But it is now 30 years later and there have been significant, particularly governance, changes right round Australia and significant changes in advantages to people, wherever they live in Australia, through the grants commission formulas. It is a matter of how much you accept you can transfer to the future generations. As I think I said earlier, maintaining infrastructure and ignoring capital requirements are points that really worry me about the reliance on who is going to call the tune in the future—unless Norfolk Island participates in the more routine financial arrangements which...would work totally to the advantage of the Norfolk Island community and the economy.¹³

Evidence from the Government of Norfolk Island

7.17 The Norfolk Island Government made a submission to and representatives appeared before the committee relatively close to its reporting date. In addition to submitting two *Econtech* reports for the committee's information, the Government made clear its objection to much of the evidence put by other submitters, particularly Mr Tambling.¹⁴

7.18 The Government's submission cited education, healthcare and social welfare as areas in which the conditions on Norfolk Island had been 'ignored or misrepresented' by witnesses.¹⁵ When analysed alongside 'remote Australian communities of similar size', the submission argued that services on Norfolk Island compared favourably.¹⁶ While acknowledging the funding assistance provided by the Commonwealth, the submission argued that most funding was used 'to employ Commonwealth public servants to deliver programmes of national significance.'¹⁷

7.19 The submission went on to criticise restrictions on borrowing imposed by the Commonwealth, and suggested that the extent of Commonwealth support for infrastructure projects was inadequate:

The Commonwealth has indicated on many occasions its unwillingness to invest in major infrastructure projects or social programmes in Norfolk Island, and has never agreed (as required by the Norfolk Island Act) to any borrowings by the Norfolk Island Government, other than from the Commonwealth itself. Faced with this situation, the Norfolk Island Government has risen to the challenge of maintaining sustainability and

13 Hon. Grant Tambling, former Administrator of Norfolk Island, *Committee Hansard*, 17 July 2008, p. 41.

14 Government of Norfolk Island, *Submission 45*, pp 1–7.

15 Government of Norfolk Island, *Submission 45*, p. 3.

16 Government of Norfolk Island, *Submission 45*, p. 3.

17 Government of Norfolk Island, *Submission 45*, p. 6.

growing the economy through the use of innovative methods to ensure service delivery to the people of the Island community.¹⁸

7.20 In responding to criticism on the Norfolk Island Government's level of expenditure on infrastructure, the Minister for Finance, the Hon. Neville Christian MLA, elaborated to the committee:

... in 2008-09, 31 per cent of all of our expenditure will be on infrastructure and capital items. Some of the analysis provided to your committee has totally missed this point by focusing only on capital expenditure in the revenue fund. That fund is essentially the clearing house through which we fund our major service delivery areas of education, social welfare, health and tourism promotion. The majority of the infrastructure and capital expenditure occurs in the government's business enterprises. In summary... budgeted expenditure for this year includes the following: infrastructure maintenance, \$3.2 million, which is 10.7 per cent of total expenditure; new infrastructure, \$3.25 million, which is 11 per cent of total expenditure; and capital expenditure, \$2.7 million, which is nine per cent of total expenditure.¹⁹

7.21 The Government submitted two reports it commissioned by economic modelling firm *Econtech*, in an attempt to demonstrate Norfolk's financial sustainability. The first of these reported in September 2006, and the second in February 2008. The second report noted that there had been a 'significant improvement' in net operating cashflow since it was identified as a problem in 2006. This was that 'new policies and initiatives [were] heading in the right direction'. However, it went on to say that cashflow 'still falls short of likely ongoing investment needs (with an average budget hole of around \$0.4 million estimated over the three years to 2010-11).²⁰

7.22 Of the Government's response to the report and cashflow shortfall, the Finance Minister of Norfolk Island informed the committee:

We reformed our taxation system, abolished some of our regressive taxes and replaced them with a broad based consumption tax. Econtech gave us a number of options on how we could fix the administration's income and we, if you like, hybridised it. We took a slightly lower rate of GST than they had identified and combined that with achievable increases in tourism to deliver the overall financial result that we needed for Norfolk Island. Econtech's most recent review of the situation on Norfolk Island, which, as I have said, was conducted in February 2008, tells me that we need to put aside about \$3.7 million a year, going forwards—this is until about the end of financial year 2011. Currently, we are putting away about \$3.3 million.

18 Government of Norfolk Island, *Submission 45*, p. 6.

19 Hon. Neville Christian MLA, Minister for Finance, Norfolk Island Government, *Committee Hansard*, 1 September 2008, p. 2.

20 Econtech Pty Ltd, *The Norfolk Island Government Financial Position – One Year Later*, p. i, forming attachment B to Government of Norfolk Island, *Submission 45*.

That is our net operating cash flow. So, on a yearly average, going forwards I am only \$400,000 a year short of meeting the economic target set for us by the Econtech modelling.²¹

Conclusion

7.23 While the committee notes the responses put forward by the Government of Norfolk Island, a number of concerns remain largely unaddressed. The most notable of these include the longstanding and widely acknowledged shortcomings in relation to governance arrangements, which have a direct effect on service provision. The committee is concerned that the level, and in particular the accessibility, of service provision on Norfolk may not be adequate.

7.24 While the Government's submission used the Econtech reports to demonstrate financial sustainability, the committee remains unconvinced. As outlined above, even after the Government acted to remedy the situation, Econtech took the view that investment on Norfolk was inadequate.²² This augurs poorly for Norfolk's sustainability under existing arrangements, and raises doubts about the ability of the Government to provide services at their current level, let alone improve them.

7.25 The committee understands that Cabinet considered a raft of significant reforms relating to Norfolk Island in 2006, but that matters did not proceed beyond that point. The committee therefore recommends in chapter 8 (Recommendation 12) that the recommendations at Appendix 5 be read together with the findings of the relevant 2003 and 2005 reports of the Joint Standing Committee on the National Capital and External Territories²³ and that this form the basis of a Commonwealth Government initiative aimed at assisting the Norfolk Island Government to redress some of the major challenges that face Norfolk Island.

7.26 Whilst the committee has made related recommendations, it feels somewhat constrained by the fact that it has not been able to visit Norfolk Island.

21 Hon. Neville Christian MLA, Minister for Finance, Norfolk Island Government, *Committee Hansard*, 1 September 2008, p.8.

22 Econtech Pty Ltd, *The Norfolk Island Government Financial Position – One Year Later*, p. i, forming attachment B to Government of Norfolk Island, *Submission 45*.

23 *Quis custodiet ipsos custodes?; Inquiry into Governance on Norfolk Island*, Joint Standing Committee on the National Capital and External Territories, December 2003; and *Norfolk Island Financial Sustainability: The Challenge: Sink or Swim*, Joint Standing Committee on the National Capital and External Territories, November 2005.

Chapter 8

Conclusions and recommendations

8.1 This chapter aims to draw together the following four main threads that have interwoven with one another throughout this report:

- Financial reporting
- Fiscal management
- Government Business Enterprises
- Infrastructure investment

8.2 The evidence before the committee, which has been discussed in the preceding chapters, highlights significant failings in each of these four areas. In the committee's view, state and territory governments need to introduce much more rigorous discipline in all of these areas.

8.3 The committee is persuaded by the evidence of Associate Professor Graeme Wines who told the committee that the states and territories need a fiscal discipline mechanism like the Commonwealth's *Charter of Budget Honesty*. According to the *Charter of Budget Honesty Act 1998*:

The Charter of Budget Honesty provides a framework for the conduct of Government fiscal policy. The purpose of the Charter is to improve fiscal policy outcomes. The Charter provides for this by requiring fiscal strategy to be based on principles of sound fiscal management and by facilitating public scrutiny of fiscal policy and performance.¹

8.4 The committee agrees that this underpinning framework is required in state jurisdictions to improve state budgetary discipline. It has adopted Associate Professor Wines' suggestion and applied it to the four key areas of state government financial management identified during the inquiry.

Recommendation 1

8.5 The committee recommends that each state and territory government enact a Charter of Budget Honesty.

Financial reporting principles

8.6 In chapter 3 of this report the committee found that despite the existence of the Uniform Performance Framework and the harmonised accounting standard, AASB 1049, states are still able to publish budgetary information in a non-uniform

1 *Charter of Budget Honesty Act 1998*, s. 1.

way, to suit their own political purposes. States are free to report on whichever of the three main 'bottom line' balances they wish to.²

8.7 The committee was concerned to note that the harmonised accounting standard could be undermined by allowing departure from prescribed accounting rules, as long as those departures are disclosed.³

8.8 Not only do consistent reporting standards across jurisdictions make good common sense, they also reduce the ability of governments to successfully pick, choose and publicise different headline data year-to-year to suit their political purposes.

8.9 The committee is of the view that, as is the case in the corporate sector,⁴ governments should be required to comply completely with the accounting standards. Accordingly, the committee makes the following recommendation.

Recommendation 2

8.10 The committee recommends that each state and territory government adopt principles to govern financial reporting in its Charter of Budget Honesty, including requirements that financial reporting:

- **be fully consistent with all relevant financial reporting standards;**
- **enable improved transparency and parliamentary and external scrutiny, of a state's progress towards achieving its fiscal objectives;**
- **forecast, as accurately as possible, future levels of government revenue and expenditure; and**
- **include provision that specifically prevents the state government from using misleading accounting practices.**

Fiscal policy formulation

8.11 Chapter 4 of this report considered certain aspects of state government financial management such as public sector wages, unfunded superannuation liabilities and interest payments.

8.12 Sound fiscal policy formulation doesn't happen by chance. It certainly doesn't happen by governments taking short-term, politically expedient decisions at budget time or in election years. It must occur with the aim of maintaining the on-going

2 The Uniform Presentation Framework provides, at page 27, that 'Jurisdictions should provide full explanations for any departures from the UPF in the presentation of their data'. See www.treasury.gov.au/documents/1371/PDF/2008_UPF.pdf (accessed 21 August 2008).

3 Associate Professor Graeme Wines, personal capacity, *Submission 17*, p. 13.

4 Associate Professor Graeme Wines, personal capacity, *Submission 17*, p. 12.

economic prosperity and welfare of the people of Australia and must be part of a sustainable medium-term framework.

8.13 Drawing on the principles of sound fiscal management laid down in the Commonwealth's Charter of Budget Honesty⁵ the committee makes the following recommendation.

Recommendation 3

8.14 The committee recommends that each state and territory government adopt principles to govern fiscal policy formulation in its Charter of Budget Honesty including requirements that fiscal policies:

- **prudently manage financial risks including levels of government debt;**
- **contribute to dampening cyclical fluctuations in economic activity;**
- **contribute to the achievement of adequate state-wide saving;**
- **pursue spending and taxing arrangements that are consistent with a reasonable degree of stability and predictability;**
- **maintain the integrity of the tax system; and**
- **ensure that policy decisions have regard to their financial effects on future generations.**

Government Business Enterprises

8.15 Throughout this inquiry the committee heard that state and territory governments take advantage of Government Business Enterprises (GBEs) in order to improve the governments' financial position to the detriment of the long-term performance and service delivery of GBEs. Chapter 5 discussed the impact that the payment of high levels of dividends to government has on the ability of GBEs to re-invest in essential infrastructure.

8.16 In particular the committee focussed on the Productivity Commission's latest research paper on the financial performance of GBEs from 2004–05 to 2006–07. That report highlights the imperative that GBEs, as significant providers of infrastructure services, operate efficiently. The Commission found that many GBEs continue to be commercially unsustainable with the majority failing to achieve even the risk-free rate of return in 2006–07. Furthermore the Commission found that poor profitability can lead to inadequate investment and asset maintenance, which can in turn reduce the future profitability of GBEs. Without a return to commercially sustainable operations, this cycle can persist.

8.17 Disconcertingly for the committee, the Commission emphasised specific examples of what can only be described as GBEs being 'milked' for short-term gain at

5 *Charter of Budget Honesty Act 1998*, s. 5,
www.scaleplus.law.gov.au/html/pasteact/2/3115/0/PA000140.htm (accessed 21 August 2008).

the expense of their medium- to long-term viability. The Commission found that more than 10 per cent of GBEs examined paid dividends that exceeded their operating profit in 2006–07. Furthermore, around 7 per cent of GBEs were found to have made dividend payments after reporting after-tax losses, resulting in negative dividend payout ratios. This is a result of state and territory governments requiring GBEs to pay pre-determined special dividends regardless of after-tax profits.

8.18 This situation is of grave concern to the committee which is of the view that state and territory governments must fully consider the impact of their decisions on GBE viability. The committee acknowledges that there needs to be an appropriate and carefully determined return from GBEs to the community through the government. State and territory governments must allow GBEs to operate on a commercially sustainable basis and to make ongoing infrastructure investments. Dividend payout ratios must be justified. In order to improve transparency and to allow GBEs to develop medium-term management strategies, governments must publicise forward estimates of the dividend payout ratio of each GBEs. These principles are the basis of the following recommendation regarding GBEs.

Recommendation 4

8.19 The committee recommends that each state and territory government adopt principles governing its relationship with Government Business Enterprises (GBEs) in its Charter of Budget Honesty including requirements that:

Dividend payments:

- **be an appropriate return on the community's investment;**
- **allow GBEs to operate on a commercially sustainable basis; and**
- **allow GBEs the ability to make ongoing investment in infrastructure.**

Governments:

- **justify the dividend payout ratios they require from individual GBEs;**
- **publicise in advance a dividend payout ratio range for each GBE for the Budget year and forward estimates period and explain any actual deviations; and**
- **must fully cost, and fully fund out of General Government Sector revenue, Community Service Obligations and publicise these funding commitments.**

Infrastructure

8.20 Throughout this inquiry the committee heard evidence of mismanagement, cost blow-outs, backlogs and delays in much-needed state-level infrastructure projects. From the committee's viewpoint, these management failings by state and territory governments are particularly problematic given the importance of infrastructure to the national economy.

8.21 The committee heard evidence of the outdated and ailing state of some of Australia's existing infrastructure. Chapter 6 highlights the fact that the average age of Australia's public sector infrastructure has been rising since the 1970s, with an average age of approximately 20 years. Australia's infrastructure lags behind the average of leading advanced economies on its ability to support economic activity.

8.22 Time and again the committee heard of the deficient strategic management of infrastructure development. Issues included ill-considered timing of projects, the poor quality of infrastructure investments, and inefficient and ineffective management practices. Such mismanagement at the state government level results in infrastructure bottlenecks which are likely to impose severe constraints on economic growth.

8.23 The committee is also concerned with state government management of Public-Private Partnerships. While the committee recognises the potential value of public-private sector collaborations, when the process is mismanaged or the project poorly designed, the results can be a disastrous waste of taxpayer funding. The committee therefore recommends that state and territory governments clearly enunciate guiding principles aimed at improving infrastructure investment.

Recommendation 5

8.24 The committee recommends that each state and territory government adopt principles governing its infrastructure investment policies in its Charter of Budget Honesty, including requirements that infrastructure investment policies:

- **Enunciate a strategic management framework for infrastructure projects including criteria for project timing, quality and management; and**
- **Enunciate conditions for the use of Public-Private Partnerships.**

Other recommendations

8.25 The committee makes a number of other recommendations on specific issues that have been discussed elsewhere in this report.

Abolition of inefficient state taxes

8.26 In chapter 2 the committee noted a range of inefficient indirect state taxes that were impeding and continue to stymie economic activity. The states had identified these taxes under the GST Intergovernmental Agreement and the presumption was that these taxes would be abolished at the earliest opportunity. The taxes to be abolished included accommodation tax, financial institutions duty, quoted marketable securities duty and debits tax stamp duties on mortgages and leases and stamp duty on conveyances of real non-residential property.

8.27 The committee noted the agreed abolition timetable for most of these taxes, with some stretching out until as late as 2012–13. Importantly, the committee also noted that the states have not made a commitment to abolish stamp duty on conveyances of real non-residential property.

Recommendation 6

8.28 The Committee recommends that the Commonwealth Government should require all states to abolish inefficient state taxes covered by the Intergovernmental Agreement on the reform of Commonwealth-State Financial Relations. Furthermore the states should agree to, and abide by, a timetable to abolish stamp duty on conveyances of real non-residential property.

State income tax

8.29 At various stages during the inquiry the prospect of states levying their own income tax was raised. The committee noted the obvious appeal such a move would have as it has the potential to significantly reduce or bring an end to the funding 'blame game' between states and the Commonwealth.

Recommendation 7

8.30 The Committee recommends that the Commonwealth Government appoint a special taskforce, to examine the feasibility of options to reduce Commonwealth income taxation, and introduce state and territory income taxes, so that the states and territories are less reliant upon the Commonwealth Government for funding.

8.31 The Committee recommends that in developing detailed options for a system of state and territory income taxes, the taskforce should be required to have regard to how the following objectives can be maintained, or obtained:

- **reducing Commonwealth payments to the states and territories, which could be offset through each state/territory's income taxation system;**
- **ensuring that a system of state income taxation is simple to administer, preferably as part of the collection of income tax by the Commonwealth;**
- **ensuring that states and territories are accountable to their constituents for their own spending and management of services;**
- **promoting real competition between the states and territories to be the lowest taxing jurisdiction; and**
- **ensuring that the tax burden in the initial years does not increase.**

8.32 The Committee recommends that the taskforce be required to provide its report to COAG, for detailed consideration.

Specific Purpose Payments

8.33 In chapter 2 of this report, the committee flagged two recommendations related to Specific Purpose Payments (SPP). The first related to whether it is preferable to use input or output controls for SPP conditionality requirements. The committee is of the view that COAG needs to undertake further analysis in this area in order to achieve the most preferable and efficient outcome.

Recommendation 8

8.34 The Committee recommends that the Council of Australian Governments carefully consider the costs and benefits of input controls compared to output controls in the development of Specific Purpose Payments.

8.35 The committee noted (in chapter 2) the major overhaul of the SPP framework currently being undertaken by COAG. The Australian National Audit Office has identified this topic as possibly warranting a future performance audit, a view which is supported by the committee.

Recommendation 9

8.36 The Committee recommends that the Australian National Audit Office undertake a performance audit in 2008–09 into the development and implementation of the new federal financial framework.

Strengthening the Australian Loan Council

8.37 Chapter 6 discussed the possibility of strengthening the powers of the Australian Loan Council as a mechanism to stringently scrutinise and control unreasonable growth in state debt. The committee considers that it may be appropriate to re-energise the Australian Loan Council.

Recommendation 10

8.38 The committee recommends that the Commonwealth Government consider mechanisms to enhance and strengthen the powers of the Australian Loan Council to scrutinise excessive growth in state debt.

Funding local government

8.39 The committee noted various concerns regarding the relationship between state and local levels of government (see chapter 4). The committee heard evidence of a lack of transparency on the part of state governments in the provision of funding to local councils. This was of particular interest to the committee, because much of the funding in question originates from the Commonwealth.

Recommendation 11

8.40 The committee recommends that the Australian Government impose more stringent requirements on state governments having regard to the identification of Commonwealth funds flowing through states to local government.

Norfolk Island

8.41 The committee also examined the financial situation of Norfolk Island, with particular focus on its longer term sustainability (see chapter 7). The main conclusions drawn were that improvements are required in relation to education, healthcare, social security and governance arrangements, but also to the regulation of corruption,

corporate, financial and trade activity, and the inclusion of all Norfolk Islanders on the Australian electoral roll. The committee notes that these problems have been extensively documented in other places, and reflects this in its recommendations.

Recommendation 12

8.42 The committee recommends that the Commonwealth Government reform Australia's relationship with Norfolk Island with a view to assisting improved governance, health, aged care, education and other issues reported to exist on the Island, drawing on information from the 2006 Cabinet submission process and the recent work of the Parliamentary Joint Standing Committee on the National Capital and External Territories.

Recommendation 13

8.43 The committee, whilst acknowledging government evidence of some improvements, recommends that the Government of Norfolk Island implement measures to improve the level of financial and management transparency of Government Business Enterprises.

Senator the Hon Ian Macdonald

Chair

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

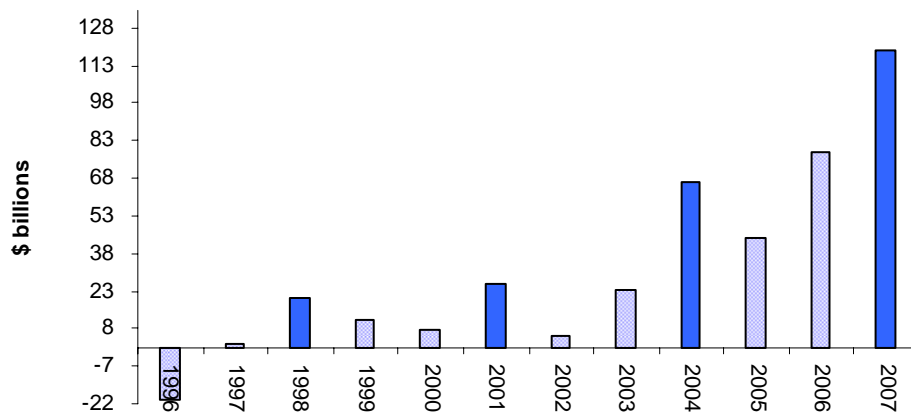
Government Senators recommend that the Commonwealth Government work through COAG with the States to enhance consistency in the presentation of budget information, to allow greater transparency and comparability of State and Commonwealth financial information.

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.¹

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)



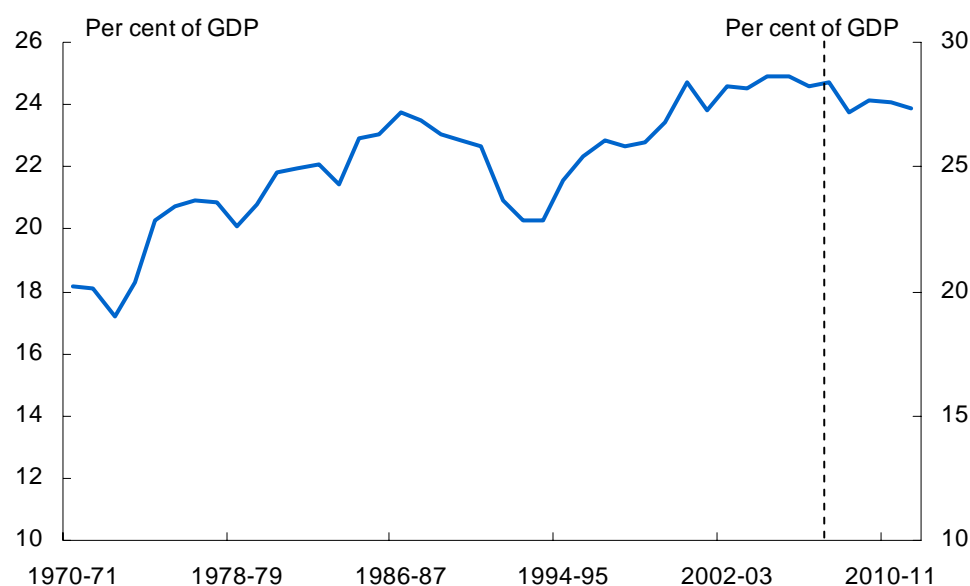
Source: Various Budget Papers²

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

Budget year	Budget (\$ billion)	Outcome (\$ billion)	Difference (\$ billion)	Difference (%)
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.³

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.⁴

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.

4 www.infrastructureaustralia.gov.au/function_full.aspx and 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

Appendix 1

Submissions received

Submission Number	Submitter
1.	Carol O'Donnell
2.	Mike Blake, TAS Auditor General
3.	Kim Wells MP, VIC- Shadow Treasurer
4.	Commerce Queensland
5.	Chamber of Commerce and Industry WA
6.	The Hon. Greg Pearce MLC, NSW - Shadow Treasurer
7.	Professor JJ Pincus
8.	Martin Hamilton Smith MP, SA - Leader of the Opposition
9.	John Martin
10.	Insurance Australia Group
11.	WA Government
12.	Alex Wadsley
13.	Business Coalition for Tax Reform
14.	Geoff Baker
15.	WA Local Government Association
16.	Business Council of Australia
17.	Associate Professor Graeme Wines
18.	Standard and Poor's
19.	Geoff Anderson
20.	UNE Centre for Local Government
21.	Australian Industry Group
22.	Local Government Association of South Australia
23.	Institute of Public Administration Australia
24.	Dr Vince FitzGerald, Chairman of The Allen Consulting Group
25.	Commonwealth Treasury
26.	NSW Treasury
27.	Robert Carling
28.	Real Estate Institute of Australia
29.	Dr Steve Thomas M.L.A WA - Member for Capel
30.	Property Council of Australia
31.	Institute of Public Affairs
32.	Tasmanian Liberal Opposition
33.	Australian Local Government Association
34.	Insurance Council of Australia
35.	Moody's Investors Service
36.	Reserve Bank of Australia

- 37. Dr Bruce Flegg MP, QLD - Shadow Treasurer
- 38. Dr Richard Eccleston
- 39. Terry Mills MLA, NT - Leader of the Opposition
- 40. Professor Brian Dollery
- 41. Sydney Ports
- 42. Concept Economics
- 43. The Hon. Grant Tambling
- 44. Robert Rex
- 45. Government of Norfolk Island

Appendix 2

Additional information received

- 1 Geoff Anderson: tabled document during Adelaide, 27 March 2008 public hearing: *A framework to Guide the Future Development of Specific Purpose Payments (SPPs)*
- 2 Institute of Public Administration Australia: tabled document during Adelaide, 27 March 2008 public hearing: *Australian Federalism: Rescue and Reform*
- 3 Institute of Public Administration Australia: tabled document during Adelaide, 27 March 2008 public hearing: *2007 SA State Budget-Opportunity Squandered*
- 4 Institute of Public Administration Australia: tabled document during Adelaide, 27 March 2008 public hearing: *Australian Journal of Public Administration, Vol. 66, Issue 3*
- 5 SA Opposition: tabled document during Adelaide, 27 March 2008 public hearing: *Menzies Research Centre State of the States*
- 6 SA Opposition: tabled document during Adelaide, 27 March 2008 public hearing: *2007-08 SA Government Budget Paper 5: Capital Investment Statement*
- 7 SA Opposition: supplementary information: *State Environmental Levies*
- 8 Institute of Public Affairs: tabled document during Melbourne, 19 May 2008 public hearing: *Opportunity Squandered: How the states have wasted their reform bonus*
- 9 Institute of Public Affairs: tabled document during Melbourne, 19 May 2008 public hearing: *information on state cash operating results*
- 10 Shadow Treasurer of Victoria: tabled document during Melbourne, 19 May 2008 public hearing: *Victoria's New and Extended Taxes Under Labor*
- 11 Shadow Treasurer of Victoria: tabled document during Melbourne, 19 May 2008 public hearing: *revised submission*
- 12 Dr Vince FitzGerland, Chairman of The Allen Consulting Group, tabled document during Melbourne, 19 May 2008 public hearing: *Victorian Budget Analysis*
- 13 Associate Professor Graeme Wines, Victoria: *Supplementary Submission*

- 14 Shadow Treasurer of Victoria: Additional information: 'Victorian projects over budget – 2000 to present day'
- 15 Shadow Treasurer of Victoria: Additional information: 'Water Authorities Dividend'
- 16 Shadow Treasurer of Victoria: Additional information: 'Victoria's Net Debt Position'
- 17 Auditor-General of Tasmania: Additional information: 'Summary of Debt Levels June 2007'
- 18 Chamber of Commerce and Industry WA: Additional information: 'WA Treasury-State Tax Review Final Report'
- 19 Auditor-General of Tasmania: Additional information: Information relating to state expenditure and infrastructure investments
- 20 Commerce Queensland: Additional information: Letter to Queensland Treasury regarding Pulse Survey
- 21 Dr Bruce Flegg MP: Additional information: Transcript of Queensland Estimated Committee B – Treasury
- 22 Dr Bruce Flegg MP: tabled document during Brisbane, 17 July 2008 public hearing: Graph – Gearing Ratio for GOC Sector, Interstate Comparison
- 23 Property Council of Australia: Additional information: IPART Review of State Taxation, Report to the Treasurer
- 24 Australian Local Government Association: Additional information: Overview of the PriceWaterhouseCoopers (PwC) National financial sustainability study of local government Overview report (November 2006)
- 25 Australian Local Government Association: Additional information: ALGA's 2008-09 pre-Budget submission to the Federal government, *National Objectives Need Local Delivery*
- 26 Commonwealth Treasury: Supplementary submission
- 27 Mr Mike Baird: tabled document during Sydney, 24 July 2008 public hearing: Federalism speech
- 28 Reserve Bank of Australia: Additional information: Updated Graphs from the Submission: Recent Developments in State Level Economic Activity and Inflation
- 29 Attorney-General's Department: Additional information: Norfolk Island's cash reserves and access to Medicare arrangements

- 30 Department of the Treasury: Additional information: Answers to questions on notice from Canberra, 25 July 2008 public hearing
- 31 Government of Norfolk Island: Tabled document during Canberra, 1 September public hearing: Summary of Selected 2008-2009 Expenditure Budgets Relating to Infrastructure and Capital Purchases
- 32 Government of Norfolk Island: Tabled document during Canberra, 1 September public hearing: Norfolk Island Government Reserves - Consolidated Balance Sheet
- 33 WA Department of Treasury and Finance: Additional information: Discussion Paper on Commonwealth-State Relations; Submission to the Public Accounts Committee inquiry into Funding Arrangements for Western Australian Infrastructure Projects; Extract from the 2007-08 State Budget Papers

Appendix 3

Public hearings and witnesses

Thursday, 27 March 2008 – Adelaide

ANDERSON, Mr Geoffrey More, Private capacity

CHAPMAN, Ms Vickie, Deputy Leader of the Opposition, Shadow Minister for Health, Housing, Families and Communities, Population, and the City of Adelaide South Australian Parliament

GILLAM, Ms Adrienne, Chief Executive Officer
Institute of Public Administration Australia

RUSSELL, Mr Christopher John, Director, Government Relations and Communications, Local Government Association of South Australia

Monday, 19 May 2008 – Melbourne

DAVIDSON, Professor Sinclair, Senior Fellow, Director of States Policy Unit
Institute of Public Affairs

FITZGERALD, Dr Vincent William John, Chairman
Allen Consulting Group Pty Ltd

WELLS, Mr Kimberley Arthur, Shadow Treasurer and Member for Scoresby
Victorian Parliament

WINES, Associate Professor Graeme Leslie, Private capacity

Tuesday, 20 May 2008 – Hobart

BLAKE, Mr Howard Michael, Auditor-General, Tasmanian Audit Office

ECCLESTON, Dr Richard, Senior Lecturer, School of Government
University of Tasmania

HODGMAN, Mr William Felix, Leader, Liberal Party of Australia
Tasmanian Division

WADSLEY, Mr Alexis Gordon Wright, Lecturer and PhD Student
School of Economics, University of Tasmania

Thursday, 12 June 2008 – Perth

BARNES, Mr Michael, Executive Director (Finance)
Department of Treasury and Finance, Western Australia

MARNEY, Mr Timothy, Under Treasurer, Department of Treasury and Finance
Western Australia

NICOLAOU, Mr John Andrew, Chief Economist
Chamber of Commerce and Industry of Western Australia

THOMAS, Dr Steven Caldwell, Member for Capel
Western Australian Parliament

Thursday, 17 July 2008 – Brisbane

BEHRENS, Mr Nicholas David, State Manager, Policy
Commerce Queensland

BIDWELL, Mr Paul, General Manager, Policy and Membership
Commerce Queensland

FLEGG, Dr Bruce Stephen, Shadow Treasurer
Queensland Parliament

TAMBLING, The Hon. Grant, Private capacity

VERWER, Mr Peter John, Chief Executive
Property Council of Australia

Thursday, 24 July 2008 – Sydney

BAIRD, Mr Michael Bruce, Member for Manly
New South Wales Parliament

CARLING, Mr Robert, Private capacity

DEVERELL, Mr Ric, Head of Regional and Industry, Analysis
Reserve Bank of Australia

RICHARDS, Dr Anthony, Head of Economic Analysis
Reserve Bank of Australia

Friday, 25 July 2008 – Canberra

BAZEN, Mr Derek, Analyst, State Finances Unit, Commonwealth State Relations
Department of the Treasury

BERESFORD-WYLIE, Mr Adrian, Chief Executive
Australian Local Government Association

BURN, Dr Peter, Associate Director, Public Policy, Australian Industry Group

ERGAS, Mr Henry, Private capacity

McDONALD, Mr Tony, General Manager, Macroeconomic Policy Division
Department of the Treasury

PURVIS-SMITH, Ms Marisa, Manager, State Finances Unit
Commonwealth State Relations, Department of the Treasury

STEWART, Ms Karen, Acting Assistant Secretary, Territories East Branch
Attorney-General's Department

Monday, 1 September 2008 – Canberra

CHRISTIAN, MLA, The Hon Neville, Minister for Finance, Government of Norfolk
Island

MAYWALD, Mr Peter, Secretary to Government, Government of Norfolk Island

WILSON, Mr Barry, Finance Manager, Administration of Norfolk Island

Appendix 4

Timetable for the abolition of state taxes

Source: Table E1, Appendix E: Timetable for the abolition of state taxes, *Budget Paper No.3: Federal Financial Relations 2007–08*, www.ato.gov.au/budget/2007-08/bp3/html/bp3_main-12.htm (accessed 5 September 2008).

Timetable for the abolition of state taxes^(a)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2000–01	Accommodation tax	Lease duty (26 April 01)						Accommodation tax
2001–02	Financial institutions duty, quoted marketable securities duty, debits tax (1 Jan 02)	Financial institutions duty, quoted marketable securities duty	Quoted marketable securities duty	Financial institutions duty, quoted marketable securities duty	Financial institutions duty, quoted marketable securities duty	Financial institutions duty, quoted marketable securities duty	Financial institutions duty, quoted marketable securities duty	Financial institutions duty, quoted marketable securities duty
2002–03		Non-quoted marketable securities duty				Lease duty, non- quoted marketable securities duty, rental duty		
2003–04				Non-quoted marketable securities duty (1 Jan 04), cheque duty (1 Jan 04), lease duty (1 Jan 04)	Mortgage duty for eligible first homebuyers (27 May 04)			
2004–05		Mortgage duty	Credit card duty (1 Aug 04)		Lease duty, cheque duty			
2005–06		Debits tax	Debits tax, lease duty (1 Jan 06), credit business duty (1 Jan 06)	Debits tax	Debits tax, part of mortgage duty (1 Jan 06)	Debits tax	Debits tax	Debits tax, electronic debits tax
2006–07		Rental duty (1 Jan 07)	Hire duty (1 Jan 07), non-quoted marketable securities duty (1 Jan 07)	50 per cent mortgage duty, rental duty (1 Jan 07)	Other minor duties	50 per cent mortgage duty	Non-real non- residential conveyance duty	Non-quoted marketable securities duty, lease duty
2007–08	Rental duty, lease duty (1 Jan 08)		50 per cent mortgage duty (1 Jan 08)		33 per cent of remaining rental duty and mortgage duty	Mortgage duty	Rental duty	Rental duty
2008–09	Non-quoted marketable securities duty (1 Jan 09)		Mortgage duty (1 Jan 09)	Mortgage duty	67 per cent of remaining rental duty and mortgage duty	Non-real non- residential conveyance duty		
2009–10	50 per cent mortgage duty (1 Jan 10)		50 per cent non-real non-residential property conveyance duty (1 Jan 10)		Rental duty, mortgage duty, 50 per cent non-real non-residential conveyance duty, 50 per cent non-quoted		Lease duty	Non-real non-residential conveyance duty

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
					marketable securities duty			
2010–11	Mortgage duty (1 Jan 11)		Non-real non-residential conveyance duty (1 Jan 11)	Non-real non-residential conveyance duty	Non-real non-residential conveyance duty, non-quoted marketable securities duty		Non-quoted marketable securities duty	
2011–12								
2012–13	Non-real non-residential conveyance duty							

a. Abolition is in full and effective on 1 July unless otherwise specified.

Appendix 5

Financial data by jurisdiction

GFS Net Operating Balance

GGs

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
NSW	1,051	2,036	1,545	1,569	1,801	1,126	695	1,033	774	700	268	792	775	779
VIC	4,837	2,654	2,189	2,573	1,479	942	797	810	1,413	324	828	851	906	963
QLD	131	1,061	-861	-902	12	3,335	3,919	3,716	1,861	-995	809	540	215	265
SA	-215	-329	-298	-97	448	387	156	219	227	373	160	356	434	424
WA	-152	-50	166	198	253	807	1,191	2,265	2,303	2,093	1,855	1,670	1,073	203
TAS	31	123	102	143	170	62	147	20	14	111	106	203	171	275
NT	-382	-368	-104	24	-2	-45	-30	29	145	81	111	174	170	163
ACT	-188	-45	-77	-40	-1	-202	-297	-134	31	137	-6	-35	-62	-91
CW	4,885	10,588	4,662	-3,886	6,139	7,536	11,907	18,010	19,279	22,280	26,994	26,407	27,778	27,681
PNFC														
NSW	193	460	608	771	-117	102	228	512	2,081	1,796	1,663	2,518	3,312	3,806
VIC	-950	611	733	467	323	983	649	164	473	-259	3	121	213	294
QLD	347	97	82	-192	-54	-70	76	287	822	1,177	604	854	828	1,294
SA	78	-4	68	-42	17	27	90	-30	-37	31	-36	-7	-12	-3
WA	345	252	27	149	48	222	259	61	238	-101	-200	420	529	581
TAS	25	73	17	46	25	29	62	0	55	-8	75	114	136	151
NT	-9	39	9	-7	34	27	20	10	48	85	40	7	-1	16
ACT	36	-2	51	47	149	45	-34	-200	35	113	107	109	86	84
CW	1,589	123	1,236	1,446	1,452	1,991	1,774	-1,446	-917	200	27			
NFPS														
NSW	1,244	2,496	2,153	2,340	1,684	1,228	923	1,546	2,855	1,356	839	2,157	2,876	3,292
VIC	3,883	3,260	2,918	3,036	1,796	1,893	1,390	901	1,936	154	535	723	905	1,074
QLD	475	1,143	-788	-1,053	-47	3,269	3,997	4,005	2,681	-781	583	367	-101	209
SA	-129	-334	-230	-140	465	412	236	125	203	388	125	350	422	420
WA	193	202	193	334	289	1,016	1,435	2,321	2,533	1,992	1,655	2,089	1,602	784
TAS	74	216	139	208	216	110	200	46	76	123	191	335	335	454
NT	-427	-409	-136	-25	25	-19	-10	32	177	166	151	176	168	173
ACT	-223	-134	-88	-57	86	-232	-386	-334	66	120	-33	-64	-104	-137
CW	6,475	10,710	5,898	-2,440	7,591	9,527	13,674	16,559	18,362	23,480	27,021			

Source: 1998-99 to 2006-07, ABS, Government Finance Statistics, Cat No. 5512.0

2007-08 to 2011-12 data are drawn from 2008-09 Budget Papers for each jurisdiction

Note: Some data is available in historical time series from budget papers. Where the ABS is silent on historical figures we have employed jurisdictions own results

GFS Fiscal Balance

GGS

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
NSW	-21	1,360	667	569	639	6	-202	-484	-1,040	-1,410	-2,025	-1,290	-966	-611
VIC	4,458	2,046	1,534	1,719	590	197	586	326	505	-1,890	-442	-352	-627	-1,836
QLD	-591	-124	-1,674	-1,609	-144	2,835	2,866	2,480	-206	-3,577	-3,134	-3,209	-3,356	-2,525
SA	-233	-466	-385	-125	413	435	51	79	71	-15	-548	-589	-611	-460
WA	-364	-289	-421	-25	130	570	898	1,846	1,534	880	125	525	129	-1,385
TAS	24	165	130	167	212	126	118	-16	49	122	30	51	22	155
NT	-406	-343	130	-279	-73	-27	-57	-62	74	-67	-81	-47	-31	6
ACT	-144	38	28	39	150	-19	-163	-166	5	-23	-105	-99	34	42
CW	4,717	11,814	5,836	-3,515	6,357	6,810	11,753	16,577	17,071	20,443	23,122	22,357	23,316	22,587
PNFC														
NSW	-539	-838	526	-517	-1,221	-997	-1,359	-1,661	-1,150	-2,219	-4,472	-3,285	-3,127	-3,187
VIC	-1,673	80	279	-202	-526	-485	-369	-906	-826	-1,890	-4,003	-4,147	-2,522	-1,247
QLD	-948	-436	-559	-542	-894	-252	-1,430	-2,456	-3,923	-5,982	-7,441	-4,396	-3,891	-995
SA	211	3,576	1,292	127	-15	-44	70	35	-97	-2	-282	-518	-571	-52
WA	174	-40	-307	-338	-123	-293	-493	-1,498	-782	-1,951	-2,554	-916	47	114
TAS	9	82	47	-227	-55	-135	-41	-171	44	197	-98	-108	-82	2
NT	82	22	-26	1	45	-6	-73	-39	-30	-45	-116	-98	-115	-68
ACT	90	10	51	66	137	-25	-95	-34	153	253	42	15	139	157
CW	-746	-1,937	610	1,707	1,988	2,129	1,472	-2,062	-1,763	-477	-990			
NFPS														
NSW	-560	523	1,193	52	-582	-992	-1,560	-2,145	-2,189	-4,763	-7,582	-5,722	-5,298	-5,085
VIC	2,780	2,122	1,809	1,514	56	167	207	-418	-265	-2,731	-4,743	-4,748	-3,363	-3,267
QLD	-1,542	-599	-2,299	-2,088	-1,032	3,177	1,438	25	-4,130	-10,522	-11,406	-8,631	-8,391	-4,870
SA	-14	3,108	908	2	398	389	111	51	-13	-17	-830	-1,107	-1,182	-512
WA	-191	-328	-727	-376	-6	264	390	343	743	-1,070	-2,429	-391	176	-1,271
TAS	52	266	197	-41	177	11	68	-161	99	338	-58	-40	-32	206
NT	-360	-401	-281	-319	-34	-33	-131	-108	27	-112	-198	-150	-146	-69
ACT	-125	-39	17	43	226	-119	-313	-201	159	-25	-478	-448	-205	-126
CW	3,971	9,877	6,445	-1,808	8,345	8,939	13,218	14,508	15,309	19,967	22,132			

Source: 1998-99 to 2006-07, ABS, Government Finance Statistics, Cat No. 5512.0

2007-08 to 2011-12 data are drawn from 2008-09 Budget Papers for each jurisdiction

Note: Some data is available in historical time series from budget papers. Where the ABS is silent on historical figures we have employed jurisdictions own results

Cash Balance

GGs

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
NSW	-2,835	1,926	1,825	2,551	2,336	1,444	1,312	2,087	-7,462	-1,391	-811	-661	-308	-222
Vic	-284	1,804	545	1,324	33	529	815	935	530	-642	10	-451	-581	-980
QLD	666	-1,571	353	196	646	3,493	4,629	4,649	2,308	-3,547	-1,970	-2,654	-2,669	-2,059
SA	-212	-239	-106	-45	659	531	191	188	-25	70	-530	-545	-527	-363
WA	-19	-379	-127	-31	259	554	859	2,301	1,460	857	150	622	260	-1,165
TAS	84	226	147	213	300	370	244	209	167	251	160	140	134	267
NT	-186	-70	-80	-273	34	38	53	38	183	58	9	21	37	50
ACT	21	188	241	263	257	299	35	76	270	256	218	213	344	356
CW (ABS)	3,934	12,944	5,906	-1,112	7,404	8,125	13,505	15,720	19,264	16,815	21,703	19,669	18,996	18,870
PNFC														
NSW	211	33	-321	-316	-443	-409	-1,004	-1,013	-1,479	-3,418	-5,421	-3,934	-3,814	-3,516
VIC	-1,885	-188	-67	-134	-501	-582	-596	-862	-671	-1,830	-4,362	-4,465	-2,753	-1,325
QLD	-1,767	-361	-606	-316	-720	131	-938	-2,371	-3,704	-6,727	-8,468	-4,965	-4,391	-1,653
SA	225	3,754	1,265	41	-31	-33	71	184	-99	0	-222	-487	-524	-77
WA	82	71	-651	-101	-354	-401	-813	-1,434	-1,301	-2,307	-2,922	-1,723	-763	-812
TAS	-49	63	28	-234	-17	-53	-89	-151	-7	250	-76	-103	-75	2
NT	64	28	-142	-42	43	10	-97	-4	-41	-57	-137	-107	-117	-71
ACT	21	1	-67	-32	27	-52	-129	-2	-9	92	-241	-218	-53	-40
CW(ABS)	-91	-2,480	1,317	1,339	1,103	1,313	1,550	-1,008	-1,759	-504	-856			
NFPs														
NSW	-2,497	1,913	1,424	2,468	1,773	963	338	1,075	-8,940	-4,809	-6,232	-4,595	-4,122	-3,738
VIC	-2,198	1,612	487	1,186	-475	426	214	241	-54	-2,475	-4,359	-4,915	-3,342	-2,314
QLD	-1,100	-1,957	-310	-122	-64	4,215	3,674	2,279	-1,395	-10,275	-10,438	-7,620	-7,061	-3,713
SA	13	3,515	1,159	-4	628	491	264	372	-50	70	-752	-1,032	-1,051	-440
WA	63	-308	-778	-133	-96	153	46	868	158	-1,501	-2,826	-1,155	-557	-2,033
TAS	34	289	176	-20	283	316	172	91	171	503	84	37	58	270
NT	-121	-52	-232	-319	67	37	-44	34	126	1	-128	-86	-80	-21
ACT	42	200	181	233	290	252	-88	79	261	348	-22	-5	291	317
CW(ABS)	3,842	10,464	7,222	227	8,507	9,439	15,055	14,712	17,505	20,028	24,341			

Source: 1998-99 to 2006-07, ABS, Government Finance Statistics, Cat No. 5512.0

2007-08 to 2011-12 data are drawn from 2008-09 Budget Papers for each jurisdiction

Note: Some data is available in historical time series from budget papers. Where the ABS is silent on historical figures we have employed jurisdictions own results

Balance Sheet Measures

	GGS												
	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11
NSW													
GFS Net Worth	78,948	88,069	91,814	98,879	121,473	124,649	129,053	127,818	134,980	138,992	141,911	144,214	149,146
Net debt	13,310	11,701	7,699	4,608	1,153	-574	-2,061	-4,737	2,619	4,978	6,191	6,922	7,467
Net financial worth	13,724	22,606	24,661	24,011	41,483	43,091	43,612	36,852	40,971	41,579	41,090	40,086	41,971
VIC													
GFS Net Worth	35,110	39,895	43,343	48,812	50,619	61,187	75,018	75,488	84,627	89,009	92,436	97,954	101,807
Net debt	4,833	3,076	2,162	1,024	1,297	1,399	1,480	1,195	2,037	2,271	3,739	5,357	6,904
Net financial worth	2,624	5,382	7,526	9,258	8,690	16,450	21,023	18,840	24,510	22,918	22,795	22,116	21,291
QLD													
GFS Net Worth	58,457	57,773	57,619	58,087	64,896	77,722	96,433	105,033	117,832	123,095	128,563	132,708	136,490
Net debt	-11,068	-10,123	-10,672	-11,609	-11,843	-14,851	-19,446	-23,243	-26,686	-24,371	-21,928	-18,670	-15,560
Net financial worth	15,847	15,939	14,021	12,602	10,982	15,741	22,421	23,361	24,134	17,657	15,164	12,246	9,043
SA													
GFS Net Worth	10,624	12,501	14,792	15,012	15,740	16,159	16,721	20,291	22,746	21,682	22,425	23,361	24,320
Net debt	4,779	1,919	1,242	855	232	-142	-219	-707	-639	82	610	1,154	1,677
Net financial worth	1,894	3,039	4,095	3,866	3,953	4,241	4,215	6,433	8,728	6,627	6,577	6,520	6,390
WA													
GFS Net Worth	31,486	31,691	32,198	36,016	38,012	43,741	50,212	57,941	75,709	80,262	84,178	88,475	92,110
Net debt	416	726	456	472	396	-291	-997	-2,737	-2,716	-2,968	-2,747	-3,183	-3,339
Net financial worth	8,531	8,265	8,670	9,230	9,545	12,050	14,248	17,542	24,134	26,471	27,425	29,283	30,707
TAS													
GFS Net Worth	5,462	6,274	6,473	6,883	7,200	8,004	9,008	9,107	9,653	10,280	10,767	11,389	12,004
Net debt	1,527	1,109	949	752	485	114	-28	-259	-407	-969	-1,123	-1,263	-1,397
Net financial worth	-48	708	956	1,213	1,307	1,659	1,314	465	713	1,260	1,421	1,651	1,879
NT													
GFS Net Worth	3,623	3,537	4,407	2,165	1,892	2,166	2,353	2,727	2,721	2,735	2,946	3,189	3,426
Net debt	711	849	1,120	1,379	1,344	1,279	1,196	1,145	1,075	1,082	1,045	996	929
Net financial worth	-853	-1,049	-311	-1,576	-1,670	-1,387	-1,235	-1,015	-2,471	-2,609	-2,607	-2,597	-2,567
ACT													
GFS Net Worth	6,827	7,214	7,338	7,815	8,629	9,380	9,265	9,445	11,182	13,015	13,514	14,090	14,683
Net debt	-45	-355	-688	-1,358	-1,575	-1,869	-1,993	-2,228	-2,696	-2,945	-3,235	-3,522	-3,956
Net financial worth	1,266	1,623	1,920	2,309	2,941	3,372	3,058	3,150	4,117	4,443	4,539	4,804	5,218
CW													
GFS Net Worth	-31,348	-40,776	-42,664	-44,369	-47,162	-29,901	-24,814	-10,187	3,196	60,827	86,019	111,431	138,254
Net debt	71,927	54,442	41,187	35,745	26,939	19,336	8,416	-9,182	-29,144	-42,639	-44,987	-65,428	-86,517
Net financial worth	-61,334	-72,439	-76,817	-79,996	-83,368	-70,382	-67,177	-55,786	-44,671	-25,838	-3,608	18,045	40,408

Source: 1998-99 to 2006-07, ABS, Government Finance Statistics, Cat No. 5512.0

2007-08 to 2011-12 data are drawn from 2008-09 Budget Papers for each jurisdiction

Note: Some data is available in historical time series from budget papers. Where the ABS is silent on historical figures we have employed jurisdictions own results

PNFC

	30-Jun-12	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12
	154,550	0	0	0	0	66,548	67,749	68,359	64,144	67,324	70,056	71,644	74,090	77,020	80,388
	7,809	7,407	7,474	10,634	10,569	11,531	12,110	13,120	13,873	16,895	18,639	23,833	28,268	32,782	36,790
	44,666	-54,494	-59,178	-62,058	-62,861	-83,169	-84,991	-86,310	-87,302	-92,895	-29,537	-34,780	-39,805	-44,204	-48,822
	106,158	0	0	0	0	0	0	0	0	0	38,771	40,453	41,443	42,359	43,159
	9,465	1,117	1,488	1,415	1,132	1,794	2,337	2,465	2,981	1,946	3,449	7,278	10,717	12,666	13,415
	19,331	-24,444	-25,161	-26,632	-28,736	-31,413	-35,452	-37,469	-39,582	-41,169	-6,547	-10,459	-13,832	-15,598	-16,134
	140,243	0	0	0	0	0	0	0	0	0	18,138	18,807	19,872	20,681	21,185
	-13,227	7,734	8,964	9,649	10,640	11,473	10,128	11,016	12,326	16,969	22,282	30,847	35,183	39,119	40,455
	6,451	-22,235	-23,306	-24,093	-25,133	-26,561	-27,160	-31,045	-34,100	-39,310	-29,934	-38,987	-43,770	-48,301	-50,450
	25,427	0	0	0	0	0	0	0	0	0	15,604	16,116	16,679	17,267	17,910
	1,983	2,878	2,442	1,977	2,014	2,030	2,061	1,982	1,905	2,013	1,948	2,167	2,651	3,172	3,246
	6,570	-14,327	-12,073	-11,323	-11,569	-12,407	-13,502	-14,976	-15,751	-16,905	-2,192	-2,430	-2,938	-3,497	-3,560
	94,842	14,782	14,742	15,005	15,710	16,134	17,966	19,268	20,483	27,280	28,942	30,050	31,510	32,858	34,221
	-2,041	4,742	4,872	4,609	4,617	4,764	5,170	5,738	6,978	6,904	8,941	11,985	13,599	14,290	15,022
	30,596	-20,289	-20,438	-20,593	-21,522	-22,083	-24,376	-26,284	-29,558	-35,742	-39,585	-43,523	-46,419	-48,249	-50,037
	12,754	0	0	0	0	0	0	0	0	0	3,314	3,461	3,636	3,827	4,037
	-1,665	1,493	1,429	1,440	1,668	1,554	1,744	1,725	1,729	1,689	1,924	2,076	2,242	2,345	2,360
	2,266	-5,190	-5,461	-5,557	-6,045	-6,104	-6,378	-5,882	-6,792	-7,087	-3,937	-4,020	-4,132	-4,217	-4,198
	3,671	0	0	0	0	0	0	0	0	0	934	974	977	975	985
	848	451	339	368	365	379	368	460	449	338	396	533	640	757	828
	-2,487	-1,757	-1,661	-1,678	-1,774	-1,774	-1,976	-2,277	-2,597	-1,236	-432,33	-548,818	-652,138	-767,227	-842,227
	15,211	0	0	0	0	0	0	0	0	0	5,071	5,402	5,683	5,962	6,244
	-4,421	184	475	470	373	347	342	414	373	378	395	585	781	815	834
	5,660	-2,691	-2,831	-2,569	-2,907	-3,422	-3,946	-4,090	-4,344	-4,783	-24	-182	-333	-354	-364
	165,117	-101,085	-75,111	-58,207	-48,869	-42,639	-49,224	-48,991	-33,310	0	5,845	5,627	5,683	5,962	6,244
	-106,665	8,057	11,267	12,917	11,432	9,250	9,174	9,493	8,447	-2,566	-2,393	-1,482	781	815	834
	62,078	-134,743	-109,024	-92,635	-79,407	-69,736	-77,090	-78,452	-62,540	-3,976	1,504	619	977	975	985

NPPS

	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12
	78,949	88,069	91,814	98,878	121,474	124,648	129,053	127,818	134,980	138,992	141,911	144,214	149,146	154,550
	20,717	19,167	18,333	15,177	12,684	11,536	11,059	9,137	19,513	23,481	29,835	34,926	39,902	44,358
	-40,773	-36,577	-37,397	-38,851	-41,684	-41,906	-42,699	-50,443	-51,917	-57,155	-64,558	-73,035	-78,460	-83,739
	35,110	39,895	43,343	48,812	50,619	61,187	75,018	75,488	84,627	90,939	94,374	99,933	103,830	108,241
	5,950	4,564	3,577	2,156	3,091	3,736	3,945	4,176	3,983	5,715	11,011	16,068	19,563	22,872
	-21,820	-19,779	-19,105	-19,478	-22,723	-19,002	-16,446	-20,663	-16,572	-20,361	-26,054	-31,043	-34,495	-37,724
	58,457	57,773	57,619	58,087	64,896	77,722	96,433	105,032	117,832	123,095	128,563	132,708	136,490	140,243
	-3,333	-1,159	-1,022	-971	-370	-4,723	-8,430	-10,917	-9,717	-2,089	8,919	16,513	23,559	27,228
	-6,388	-7,367	-10,072	-12,497	-15,579	-11,419	-8,625	-10,739	-15,176	-23,802	-35,954	-44,307	-52,323	-56,895
	10,624	12,501	14,792	15,012	15,740	16,159	16,721	20,290	22,746	21,682	22,425	23,361	24,320	25,427
	7,657	4,361	3,220	2,868	2,262	1,919	1,762	1,199	1,374	2,029	2,776	3,804	4,849	5,230
	-12,256	-8,930	-7,133	-7,610	-8,357	-9,151	-10,643	-9,302	-8,177	-11,169	-11,969	-13,096	-14,374	-14,900
	31,486	31,691	32,197	36,017	38,012	43,741	50,212	57,941	75,709	80,262	84,178	88,475	92,110	94,842
	5,158	5,598	5,065	5,089	5,159	4,879	4,741	4,240	4,189	5,973	9,238	10,416	10,951	12,981
	-11,759	-12,172	-11,923	-12,292	-12,538	-12,326	-12,035	-12,016	-11,608	-13,114	-16,099	-17,136	-17,543	-19,441
	5,462	6,274	6,473	6,883	7,200	8,004	9,008	9,107	9,653	10,280	10,767	11,389	12,004	12,748
	3,020	2,538	2,389	2,420	2,039	1,858	1,697	1,470	1,281	955	953	979	948	695
	-5,237	-4,754	-4,600	-4,832	-4,796	-4,718	-4,569	-6,327	-6,373	-5,991	-6,059	-6,117	-6,165	-5,974
	3,623	3,537	4,407	2,165	1,892	2,166	2,353	2,727	2,721	2,735	2,946	3,189	3,426	3,671
	1,162	1,188	1,488	1,744	1,723	1,647	1,656	1,594	1,413	1,477	1,578	1,637	1,687	1,676
	-2,608	-2,710	-1,989	-3,351	-3,444	-3,363	-3,512	-3,612	-3,707	-3,976	-4,131	-4,226	-4,309	-4,315
	6,827	7,214	7,338	7,815	8,629	9,380	9,265	9,445	11,182	13,027	13,506	14,060	14,632	15,138
	139	120	-218	-985	-1,229	-1,527	-1,579	-1,855	-2,318	-2,550	-2,649	-2,742	-3,140	-3,588
	-1,425	-1,207	-629	-587	-468	-560	-1,021	-1,162	-612	-575	-983	-1,181	-1,094	-966
	-132,433	-115,887	-100,871	-93,238	-89,801	-79,125	-73,804	-43,497	3,196	60,827	86,019			
	79,984	65,709	54,104	47,176	36,189	28,510	17,908	-736	-31,710	-45,032	-46,469			
	-196,076	-181,463	-169,452	-159,403	-153,104	-147,452	-145,629	-118,326	-48,647	-30,179	-8,616			

NSW Summary

Bottom lines	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NOB	1,051	2,036	1,545	1,569	1,801	1,126	695	1,033	774	700	268	792	775	779
GGs FB	-21	1,360	667	569	639	6	-202	-484	-1,040	-1,410	-2,025	-1,290	-966	-611
GGs CF	-2,835	1,926	1,825	2,551	2,336	1,444	1,312	2,087	-7,462	-1,391	-811	-661	-308	-222
PNFC NOB	193	460	608	771	-117	102	228	512	2,081	1,796	1,663	2,518	3,312	3,806
PNFC FB	-539	-838	526	-517	-1,221	-997	-1,359	-1,661	-1,150	-2,219	-4,472	-3,285	-3,127	-3,187
PNFC CB	211	33	-321	-316	-443	-409	-1,004	-1,013	-1,479	-3,418	-5,421	-3,934	-3,814	-3,516
NFPS NOB	1,244	2,496	2,153	2,340	1,684	1,228	923	1,546	2,855	1,356	839	2,157	2,876	3,292
NFPS FB	-560	523	1,193	52	-582	-992	-1,560	-2,145	-2,189	-4,763	-7,582	-5,722	-5,298	-5,085
NFPS CB	-2,497	1,913	1,424	2,468	1,773	963	338	1,075	-8,940	-4,809	-6,232	-4,595	-4,122	-3,738
Balance Sheet	1998-99	99-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NW	78,948	88,069	91,814	98,879	121,473	124,649	129,053	127,818	134,980	138,992	141,911	144,214	149,146	154,550
GGs ND	13,310	11,701	7,699	4,608	1,153	-574	-2,061	-4,737	2,619	4,978	6,191	6,922	7,467	7,809
GGs NFW	13,724	22,606	24,661	24,011	41,483	43,091	43,612	36,852	40,971	41,579	41,090	40,086	41,971	44,666
PNFC NW					66,548	67,749	68,359	64,144	67,324	70,056	71,644	74,090	77,020	80,388
PNFC ND	7,407	7,474	10,634	10,569	11,531	12,110	13,120	13,873	16,895	18,639	23,833	28,268	32,782	36,790
PNFC NFW	-54,494	-59,178	-62,058	-62,861	-83,169	-84,991	-86,310	-87,302	-92,895	-29,537	-34,780	-39,805	-44,204	-48,822
NFPS NW	78,949	88,069	91,814	98,878	121,474	124,648	129,053	127,818	134,980	138,992	141,911	144,214	149,146	154,550
NFPS ND	20,717	19,167	18,333	15,177	12,684	11,536	11,059	9,137	19,513	23,481	29,835	34,926	39,902	44,358
NFPS NFW	-40,773	-36,577	-37,397	-38,851	-41,684	-41,906	-42,699	-50,443	-51,917	-57,155	-64,558	-73,035	-78,460	-83,739

VIC Summary

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Bottom line	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NOB	4,837	2,654	2,189	2,573	1,479	942	797	810	1,413	324	828	851	906	963
GGs FB	4,458	2,046	1,534	1,719	590	197	586	326	505	-1,890	-442	-352	-627	-1,836
GGs CF	-284	1,804	545	1,324	33	529	815	935	530	-642	10	-451	-581	-980
PNFC NOB	193	460	608	771	-117	102	228	512	2,081	1,796	1,663	2,518	3,312	3,806
PNFC FB	-1,673	80	279	-202	-526	-485	-369	-906	-826	-1,890	-4,003	-4,147	-2,522	-1,247
PNFC CB	-1,885	-188	-67	-134	-501	-582	-596	-862	-671	-1,830	-4,362	-4,465	-2,753	-1,325
NFPs NOB	3,883	3,260	2,918	3,036	1,796	1,893	1,390	901	1,936	154	535	723	905	1,074
NFPs FB	2,780	2,122	1,809	1,514	56	167	207	-418	-265	-2,731	-4,743	-4,748	-3,363	-3,267
NFPs CB	-2,198	1,612	487	1,186	-475	426	214	241	-54	-2,475	-4,359	-4,915	-3,342	-2,314
Balance She	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NW	35,110	39,895	43,343	48,812	50,619	61,187	75,018	75,488	84,627	89,009	92,436	97,954	101,807	106,158
GGs ND	4,833	3,076	2,162	1,024	1,297	1,399	1,480	1,195	2,037	2,271	3,739	5,357	6,904	9,465
GGs NFW	2,624	5,382	7,526	9,258	8,690	16,450	21,023	18,840	24,510	22,918	22,795	22,116	21,291	19,331
PNFC NW										38,771	40,453	41,443	42,359	43,159
PNFC ND	1,117	1,488	1,415	1,132	1,794	2,337	2,465	2,981	1,946	3,449	7,278	10,717	12,666	13,415
PNFC NFW	-24,444	-25,161	-26,632	-28,736	-31,413	-35,452	-37,469	-39,582	-41,169	-6,547	-10,459	-13,832	-15,598	-16,134
NFPs NW	35,110	39,895	43,343	48,812	50,619	61,187	75,018	75,488	84,627	90,939	94,374	99,933	103,830	108,241
NFPs ND	5,950	4,564	3,577	2,156	3,091	3,736	3,945	4,176	3,983	5,715	11,011	16,068	19,563	22,872
NFPs NFW	-21,820	-19,779	-19,105	-19,478	-22,723	-19,002	-16,446	-20,663	-16,572	-20,361	-26,054	-31,043	-34,495	-37,724

QLD Summary

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Bottom line	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NOB	131	1,061	-861	-902	12	3,335	3,919	3,716	1,861	-995	809	540	215	265
GGs FB	-591	-124	-1,674	-1,609	-144	2,835	2,866	2,480	-206	-3,577	-3,134	-3,209	-3,356	-2,525
GGs CF	666	-1,571	353	196	646	3,493	4,629	4,649	2,308	-3,547	-1,970	-2,654	-2,669	-2,059
PNFC NOB	347	97	82	-192	-54	-70	76	287	822	1,177	604	854	828	1,294
PNFC FB	-948	-436	-559	-542	-894	-252	-1,430	-2,456	-3,923	-5,982	-7,441	-4,396	-3,891	-995
PNFC CB	-1,767	-361	-606	-316	-720	131	-938	-2,371	-3,704	-6,727	-8,468	-4,965	-4,391	-1,653
NFPs NOB	475	1,143	-788	-1,053	-47	3,269	3,997	4,005	2,681	-781	583	367	-101	209
NFPs FB	-1,542	-599	-2,299	-2,088	-1,032	3,177	1,438	25	-4,130	-10,522	-11,406	-8,631	-8,391	-4,870
NFPs CB	-1,100	-1,957	-310	-122	-64	4,215	3,674	2,279	-1,395	-10,275	-10,438	-7,620	-7,061	-3,713
Balance She	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NW	58,457	57,773	57,619	58,087	64,896	77,722	96,433	105,033	117,832	123,095	128,563	132,708	136,490	140,243
GGs ND	-11,068	-10,123	-10,672	-11,609	-11,843	-14,851	-19,446	-23,243	-26,686	-24,371	-21,928	-18,670	-15,560	-13,227
GGs NFW	15,847	15,939	14,021	12,602	10,982	15,741	22,421	23,361	24,134	17,657	15,164	12,246	9,043	6,451
PNFC NW										18,138	18,807	19,872	20,681	21,185
PNFC ND	7,734	8,964	9,649	10,640	11,473	10,128	11,016	12,326	16,969	22,282	30,847	35,183	39,119	40,455
PNFC NFW	-22,235	-23,306	-24,093	-25,133	-26,561	-27,160	-31,045	-34,100	-39,310	-29,934	-38,987	-43,770	-48,301	-50,450
NFPs NW	58,457	57,773	57,619	58,087	64,896	77,722	96,433	105,032	117,832	123,095	128,563	132,708	136,490	140,243
NFPs ND	-3,333	-1,159	-1,022	-971	-370	-4,723	-8,430	-10,917	-9,717	-2,089	8,919	16,513	23,559	27,228
NFPs NFW	-6,388	-7,367	-10,072	-12,497	-15,579	-11,419	-8,625	-10,739	-15,176	-23,802	-35,954	-44,307	-52,323	-56,895

SA Summary

Bottom line:	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NOB	-215	-329	-298	-97	448	387	156	219	227	373	160	356	434	424
GGs FB	-233	-466	-385	-125	413	435	51	79	71	-15	-548	-589	-611	-460
GGs CF	-212	-239	-106	-45	659	531	191	188	-25	70	-530	-545	-527	-363
PNFC NOB	78	-4	68	-42	17	27	90	-30	-37	31	-36	-7	-12	-3
PNFC FB	211	3,576	1,292	127	-15	-44	70	35	-97	-2	-282	-518	-571	-52
PNFC CB	225	3,754	1,265	41	-31	-33	71	184	-99	0	-222	-487	-524	-77
NFPS NOB	-129	-334	-230	-140	465	412	236	125	203	388	125	350	422	420
NFPS FB	-14	3,108	908	2	398	389	111	51	-13	-17	-830	-1,107	-1,182	-512
NFPS CB	13	3,515	1,159	-4	628	491	264	372	-50	70	-752	-1,032	-1,051	-440
Balance She	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NW	10,624	12,501	14,792	15,012	15,740	16,159	16,721	20,291	22,746	21,682	22,425	23,361	24,320	25,427
GGs ND	4,779	1,919	1,242	855	232	-142	-219	-707	-639	82	610	1,154	1,677	1,983
GGs NFW	1,894	3,039	4,095	3,866	3,953	4,241	4,215	6,433	8,728	6,627	6,577	6,520	6,390	6,570
PNFC NW										15,604	16,116	16,679	17,267	17,910
PNFC ND	2,878	2,442	1,977	2,014	2,030	2,061	1,982	1,905	2,013	1,948	2,167	2,651	3,172	3,246
PNFC NFW	-14,327	-12,073	-11,323	-11,569	-12,407	-13,502	-14,976	-15,751	-16,905	-2,192	-2,430	-2,938	-3,497	-3,560
NFPS NW	10,624	12,501	14,792	15,012	15,740	16,159	16,721	20,290	22,746	21,682	22,425	23,361	24,320	25,427
NFPS ND	7,657	4,361	3,220	2,868	2,262	1,919	1,762	1,199	1,374	2,029	2,776	3,804	4,849	5,230
NFPS NFW	-12,256	-8,930	-7,133	-7,610	-8,357	-9,151	-10,643	-9,302	-8,177	-11,169	-11,969	-13,096	-14,374	-14,900

WA Summary

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Bottom line	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NOB	-152	-50	166	198	253	807	1,191	2,265	2,303	2,093	1,855	1,670	1,073	203
GGs FB	-364	-289	-421	-25	130	570	898	1,846	1,534	880	125	525	129	-1,385
GGs CF	-19	-379	-127	-31	259	554	859	2,301	1,460	857	150	622	260	-1,165
PNFC NOB	345	252	27	149	48	222	259	61	238	-101	-200	420	529	581
PNFC FB	174	-40	-307	-338	-123	-293	-493	-1,498	-782	-1,951	-2,554	-916	47	114
PNFC CB	82	71	-651	-101	-354	-401	-813	-1,434	-1,301	-2,307	-2,922	-1,723	-763	-812
NFPS NOB	193	202	193	334	289	1,016	1,435	2,321	2,533	1,992	1,655	2,089	1,602	784
NFPS FB	-191	-328	-727	-376	-6	264	390	343	743	-1,070	-2,429	-391	176	-1,271
NFPS CB	63	-308	-778	-133	-96	153	46	868	158	-1,501	-2,826	-1,155	-557	-2,033
Balance She	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NW	31,486	31,691	32,198	36,016	38,012	43,741	50,212	57,941	75,709	80,262	84,178	88,475	92,110	94,842
GGs ND	416	726	456	472	396	-291	-997	-2,737	-2,716	-2,968	-2,747	-3,183	-3,339	-2,041
GGs NFW	8,531	8,265	8,670	9,230	9,545	12,050	14,248	17,542	24,134	26,471	27,425	29,283	30,707	30,596
PNFC NW	14,782	14,742	15,005	15,710	16,134	17,966	19,268	20,483	27,280	28,942	30,050	31,510	32,858	34,221
PNFC ND	4,742	4,872	4,609	4,617	4,764	5,170	5,738	6,978	6,904	8,941	11,985	13,599	14,290	15,022
PNFC NFW	-20,289	-20,438	-20,593	-21,522	-22,083	-24,376	-26,284	-29,558	-35,742	-39,585	-43,523	-46,419	-48,249	-50,037
NFPS NW	31,486	31,691	32,197	36,017	38,012	43,741	50,212	57,941	75,709	80,262	84,178	88,475	92,110	94,842
NFPS ND	5,158	5,598	5,065	5,089	5,159	4,879	4,741	4,240	4,189	5,973	9,238	10,416	10,951	12,981
NFPS NFW	-11,759	-12,172	-11,923	-12,292	-12,538	-12,326	-12,035	-12,016	-11,608	-13,114	-16,099	-17,136	-17,543	-19,441

Tax Summary

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Bottom line:														
GGs NOB	31	123	102	143	170	62	147	20	14	111	106	203	171	275
GGs FB	24	165	130	167	212	126	118	-16	49	122	30	51	22	155
GGs CF	84	226	147	213	300	370	244	209	167	251	160	140	134	267
PNFC NOB	25	73	17	46	25	29	62	0	55	-8	75	114	136	151
PNFC FB	9	82	47	-227	-55	-135	-41	-171	44	197	-98	-108	-82	2
PNFC CB	-49	63	28	-234	-17	-53	-89	-151	-7	250	-76	-103	-75	2
NFPS NOB	74	216	139	208	216	110	200	46	76	123	191	335	335	454
NFPS FB	52	266	197	-41	177	11	68	-161	99	338	-58	-40	-32	206
NFPS CB	34	289	176	-20	283	316	172	91	171	503	84	37	58	270
Balance She	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NW	5,462	6,274	6,473	6,883	7,200	8,004	9,008	9,107	9,653	10,280	10,767	11,389	12,004	12,754
GGs ND	1,527	1,109	949	752	485	114	-28	-259	-407	-969	-1,123	-1,263	-1,397	-1,665
GGs NFW	-48	708	956	1,213	1,307	1,659	1,314	465	713	1,260	1,421	1,651	1,879	2,266
PNFC NW										3,314	3,461	3,636	3,827	4,037
PNFC ND	1,493	1,429	1,440	1,668	1,554	1,744	1,725	1,729	1,689	1,924	2,076	2,242	2,345	2,360
PNFC NFW	-5,190	-5,461	-5,557	-6,045	-6,104	-6,378	-5,882	-6,792	-7,087	-3,937	-4,020	-4,132	-4,217	-4,198
NFPS NW	5,462	6,274	6,473	6,883	7,200	8,004	9,008	9,107	9,653	10,280	10,767	11,389	12,004	12,748
NFPS ND	3,020	2,538	2,389	2,420	2,039	1,858	1,697	1,470	1,281	955	953	979	948	695
NFPS NFW	-5,237	-4,754	-4,600	-4,832	-4,796	-4,718	-4,569	-6,327	-6,373	-5,991	-6,059	-6,117	-6,165	-5,974

NT Summary

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Bottom line	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NOB	-382	-368	-104	24	-2	-45	-30	29	145	81	111	174	170	163
GGs FB	-406	-343	-213	-279	-73	-27	-57	-62	74	-67	-81	-47	-31	6
GGs CF	-186	-70	-80	-273	34	38	53	38	183	58	9	21	37	50
PNFC NOB	-9	39	9	-7	34	27	20	10	48	85	40	7	-1	16
PNFC FB	82	22	-26	1	45	-6	-73	-39	-30	-45	-116	-98	-115	-68
PNFC CB	64	28	-142	-42	43	10	-97	-4	-41	-57	-137	-107	-117	-71
NFPS NOB	-427	-409	-136	-25	25	-19	-10	32	177	166	151	176	168	173
NFPS FB	-360	-401	-281	-319	-34	-33	-131	-108	27	-112	-198	-150	-146	-69
NFPS CB	-121	-52	-232	-319	67	37	-44	34	126	1	-128	-86	-80	-21
Balance She	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GGs NW	3,623	3,537	4,407	2,165	1,892	2,166	2,353	2,727	2,721	2,735	2,946	3,189	3,426	3,671
GGs ND	711	849	1,120	1,379	1,344	1,279	1,196	1,145	1,075	1,082	1,045	996	929	848
GGs NFW	-853	-1,049	-311	-1,576	-1,670	-1,387	-1,235	-1,015	-2,471	-2,609	-2,607	-2,597	-2,567	-2,487
PNFC NW										934	974	977	975	985
PNFC ND	451	339	368	365	379	368	460	449	338	396	533	640	757	828
PNFC NFW	-1,757	-1,661	-1,678	-1,774	-1,774	-1,976	-2,277	-2,597	-1,236	-432	-549	-652	-767	-842
NFPS NW	3,623	3,537	4,407	2,165	1,892	2,166	2,353	2,727	2,721	2,735	2,946	3,189	3,426	3,671
NFPS ND	1,162	1,188	1,488	1,744	1,723	1,647	1,656	1,594	1,413	1,477	1,578	1,637	1,687	1,676
NFPS NFW	-2,608	-2,710	-1,989	-3,351	-3,444	-3,363	-3,512	-3,612	-3,707	-3,976	-4,131	-4,226	-4,309	-4,315

Appendix 6

GBEs with dividend payout ratios of over 100 per cent

2006–07

- ACTEW Corporation (ACT)
- Newcastle Port Corporation (NSW)
- Energex (Qld)
- Ergon Energy Group (Qld)
- Mackay Port Authority (Qld)
- Port of Brisbane Corporation (Qld)
- Forestry SA (SA)
- Esk Water Authority (Tas)
- Hobart Regional Water Authority (Tas)

2005–06

- ACTEW Corporation (ACT)
- Newcastle Port Corporation (NSW)
- Mackay Port Authority (Qld)
- Port of Brisbane Corporation (Qld)
- Hobart Regional Water Authority (Tas)
- Bunbury Port Authority (WA)

2004–05

- ACTEW Corporation (ACT)
- Forests NSW (NSW)
- Power and Water Corporation (NT)
- Port of Brisbane Corporation (Qld)
- Ports Corporation Qld (Qld)
- Esk Water Authority (Tas)

Source: Productivity Commission, *Financial Performance of Government Trading Enterprises 2004–05 to 2006–07*, Research Paper, June 2008, www.pc.gov.au/research/commissionresearch/gte0607 (accessed 8 September 2008).

Appendix 7

Attachment F to *Submission 43* received from the Hon Grant Tambling

GRANT TAMBLING 9/08/2007

LIST OF NORFOLK ISLAND RECOMMENDATIONS

1. The Department of Transport & Regional Services be required to develop a Strategic Plan against which government issues pertaining to Norfolk Island – including Norfolk Island Government requests for federal funding and assistance – can be assessed and coordinated.
2. The Department of Transport & Regional Services be proactive and be required to analyse and report to federal Ministers periodically on the Norfolk Island Government's performance in critical areas of asset, budgetary and financial management. Data is available, but no comparative and critical analysis is apparent in areas crucial to management of the Australian Government's contingent risks and liabilities in Norfolk Island.
3. Following the next Federal election, portfolio responsibility for External Territories be transferred to the Special Minister of State (or the Minister holding responsibility for Commonwealth-State Financial Relations).
4. The Australian Government assume full and complete responsibility for all Customs, Quarantine & Immigration functions. The Norfolk Island system of residential and entry permits be abolished.
5. The Australian Government act to extend to Norfolk Island the following federal laws which the Norfolk Island Government agreed in 2006 could extend to the Island: corporations, financial services, trade practices, bankruptcy, census & statistics, and food standards.
6. The Australian Public Service Commissioner extend support to the Norfolk Island Administration, particularly in regard to management systems.
7. The Australian Government act promptly to ensure that the NSW Independent Commission Against Corruption or its Queensland equivalent assumes jurisdiction to respond to complaints of corruption on Norfolk Island – particularly those involving NI Ministers. This will not happen if left to the Norfolk Island Government. The service delivery and application of laws regime for the Jervis Bay Territory and the Indian Ocean Territories provide ample precedent for such a federal initiative.

8. The Australian Government act to require the Office of the Commonwealth Ombudsman to operate on Norfolk Island, with powers to investigate the Norfolk Island Administration and GBEs.
9. The Joint Parliamentary Standing Committee (National Capital & External Territories) be given a special reference on vulnerabilities in the provision of Health & Welfare Services on Norfolk Island.
10. Current Memorandums of Understanding (KAVHA, Policing, Legal Aid, Education) be replaced with contemporary Intergovernmental Financial Agreements. Replacement of the KAVHA MOU must be subject to recommendation 13 below.
11. Federal loans and direct grants to the Norfolk Island Government be tied to outcomes in governance and financial reform.
12. The Norfolk Island Government be required to privatise all GBEs (including Norfolk Air).
13. The Australian Government review the administrative and management arrangements for the Kingston and Arthur's Vale Historic Area [KAVHA] as soon as its proposed world heritage listing is resolved. The review must have two aims; to consolidate and streamline the competing and ineffectual land and heritage management arrangements applying to this small area and to ensure effective Australian Government oversight and involvement in its management and conservation.
14. Once world heritage listing is resolved, responsibility for KAVHA and Commonwealth land with KAVHA be transferred from Department of Transport & Regional Services to the Department of Environment & Water Resources or Parks Australia.
15. Tourism Australia be required to give priority consideration to tourism support for Norfolk Island.
16. All Norfolk Island residents holding Australian citizenship currently registered on the Norfolk Island (Legislative Assembly) Electoral Roll be also transferred to an Australian electorate – and compelled to vote in Federal Government elections.

Norfolk Island has an affinity with the Lord Howe Island community and faces similar issues as that Island community. There could be merit in Norfolk Island being including in the same federal electorate as Lord Howe Island and having the same federal Members and Senators to speak on its behalf.