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19th March 2008

To: Senate Select Committee on State Government Financial Management
Parliament House
Australia

Dear Members of the Select Committee

Annual financial statements, to be useful for decision makers and as a means of reporting to members of the relevant community, should include statements such as

Statement of Receipts and Payments and
Statement of Income and Expenditure and
Statement of Assets and Liabilities

(the titles may change but should be self-explanatory).

Unfortunately, there is still a cash-accounting mentality in government. This leaves too much scope for fiddling.

A significant emphasis should be on the change, year by year, on the bottom line of the Statement of Assets and Liabilities - net assets (which requires a consequential emphasis on "accrual-accounting").

Emphasis on the bottom line of the Statement of Assets and Liabilities (net assets) rather than solely on the net cash flow figure could break present governments' emotional avoidance of borrowings. By providing the information that many households have in relation to their own homes and their related mortgages (that their equity is increasing (except for those who should not have been funded – but that's another story) ), governments could then feel confident that people recognised that the governments were only borrowing when it was in the best interests of the community.

Governments would then not feel the need to sign up to "public-private-partnerships" which finish up costing the community more than if the government provided essential infrastructure directly. PPPs could be described as un-Australian. We are cheating on the previous generations who denied themselves to the extent of providing for future generations – we are taking advantage of the assets that they built up (and not always maintaining them in appropriate operating condition) - and we are cheating on future generations by imposing higher than necessary costs (and sometimes onerous conditions) on them.

In addition to the usual details re cash in and cash out and year-end values for various cash-type items (debtors, creditors, prepayments, investments that are readily converted to cash, etc), there need to be inexpensive revaluations (estimates, initially even guesses if there's nothing better) at each year-end of a number of significant assets that are presently not recognised in the Statement of Assets and Liabilities or Balance Sheet - assets such as oil reserves and standing timber.

(Assets such as better educated teenagers and university graduates are more difficult to value for balance sheet purposes but there are other indicators already available for these.)

The comparative year-end values of eg oil and timber would show, in the case of oil, the extent to which we are exhausting a non-replaceable asset and, in the case of timber, the extent to which we are using timber faster than it is growing. Our dependence on and consumption of these two assets are very disturbing and the inclusion of them in official government financial reports is essential for any government which takes its responsibilities seriously.

(Incidentally, moneys received by governments from oil companies should be shown partly as proceeds of sale of an asset – not totally as a tax.)

And another point - governments should not brag about a surplus or about coming in "better" than budget when that has been achieved by not adequately providing the services for which the money was collected (education, health, etc).

Governments shouldn't have much to hide from their people and should be open and honest about the moneys that have been entrusted to them ("commercial-in-confidence" should not be used as an excuse to hide questionable deals).

Yours sincerely,

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