SUBMISSION TO SENATE SELECT COMMITTEE ON STATE GOVERNMENT FINANCIAL MANAGEMENT

by

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This submission to the *Senate Select Committee on State Government Financial Management* makes comments under the following headings:

1. State and Territory revenue and expenditure issues;
2. Infrastructure issues and public-private partnerships; and
3. Government budgets and financial reporting.

The submission primarily addresses issues of relevance to points a, b, g and i of the committee's terms of reference, as follows:

- Commonwealth funding to the states and territories – historic, current and projected;
- the cash and fiscal budgetary positions of state and territory governments – historic, current and projected;
- the level of investment in infrastructure and state-owned utilities by state and territory governments; and
- present and future ownership structures of current and former state-owned utilities and the impact of ownership on investment capacity.

EXECUTIVE SUMMARY

The following summarises the major points raised in this submission:

- The goods and services tax (GST), operative from July 2000, has been argued to have provided the States[1] with a 'robust, secure and growing source of revenue.' However, the role of the GST in solving the States' fiscal problems has probably been overstated.

- Of State revenues budgeted to flow from the Commonwealth for the 2007-08 year, approximately 60 per cent is from the GST. The balance of approximately 40 per cent arises from specific purpose payments (grants).

- Using Victoria as an example, slightly less than 44 per cent of State revenue for 2007-08 is budgeted to be derived from the above Commonwealth sources. GST revenue represents 28.2 per cent of total Victorian revenue, and specific purpose payments represent 15.7 per cent of total revenue. The State continues to rely on revenue from other sources, particularly from payroll tax and taxes on property (23 per cent of total revenue in Victoria's case).

- There has been strong revenue growth in GST revenue, increasing from $26.6 billion in 2001-02 to $41.9 billion budgeted for 2007-08 (an increase of 57.5 per cent). However, it is not only the States that have benefited from strong revenue growth. The Commonwealth has also experienced surging revenue, increasing from $163 billion for 2001-02 to $246.8 budgeted for 2007-08 (an increase of approximately 51.4 per cent).

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[1] Consistent with the terminology in the Commonwealth budget, reference to 'States' in this submission is to the six States and two Territories.

- The States have generally been running budget surpluses during this decade. However, their fiscal positions may be about to change. The Commonwealth, in its May 2007 budget, forecast that State budget balances (surplus/deficit) under all measures will begin to fall in coming years, reflecting higher expenditures and slower revenue growth.

- Considerable fiscal risks face the Commonwealth and State governments over coming years. Many economic forecasters have revised their economic forecasts downward since the May 2007 Commonwealth budget, particularly reflecting the expected impact of rising interest rates and an economic downturn in the United States and the world generally. The growth experienced in the past decade in individual and company taxation receipts, in GST revenue, and in revenue from land taxes and stamp duty cannot be relied on to continue.

- The above observations are especially sobering when the variously documented problems with State government services are considered. For example, considerable capital expenditures are required in the areas of health, education and public transport. Required developments flowing from climate change issues, particularly in the areas of water and energy, will add further pressures for infrastructure expenditures. A further problem is that the cost of the desired expenditure items in these areas will no doubt increase at a faster rate than State revenues.

- Given the above, the involvement of the private sector in infrastructure projects will be increasingly attractive to State governments. This will require careful consideration of the extent to which the private sector might be involved.

- Public-private partnership (PPP) arrangements must be subject to clear transparency, accountability, oversight and risk assessment processes, with a need to balance commercial considerations and the public (taxpayer) interest.

- Comprehensive risk assessments are required to ensure an appropriate risk-return profile for PPP projects and to ensure such arrangements do not hamper the attainment of other government objectives.

- Government accountability requires high quality budgets and financial reports. Significant developments have occurred since the early 1990s with the move from cash to accrual accounting principles, and further uniformity should be achieved with the new accounting standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, operative from 1 July 2008.

- All States should be subject to a *Charter of Budget Honesty* similar to the Commonwealth's to ensure that applicable accounting rules, particularly those specified in AASB 1049, are adopted in all published government budget documentation and in all financial reports.

- A limitation of the Commonwealth's *Charter of Budget Honesty* is that departures from the prescribed accounting standards are allowable, provided relevant disclosure of the departure is disclosed. Such departures are not allowed for companies reporting pursuant to the *Corporations Act*, and should not be allowed for governments.

- The Commonwealth’s accounting treatment of GST is an example of a departure from the prescribed rules. The Commonwealth’s view has been that GST is a State tax and therefore does not need to be disclosed in the Commonwealth’s budgets and financial reports. That view, though, is not supported by the relevant authoritative *Government Finance Statistics* framework and accounting rules. A full view of the Commonwealth’s finances is obfuscated by this accounting treatment.

1. STATE AND TERRITORY REVENUE AND EXPENDITURE ISSUES

Pursuant to *The New Tax System*, Federal–State financial relations were substantially reformed from 1 July 2000 with the introduction of the *Goods and Services Tax* (GST). The Commonwealth budget for 2007-08 notes that 'the new financial arrangements provide the States and Territories (the States) with a robust, secure and growing source of revenue…' (Commonwealth Treasury, 2007a, p. 1). The budget forecasts that GST revenue of $41.9 billion will be received by the States in 2007-08.

The 2007-08 Commonwealth budget emphasises at quite a few points that the States will be 'better off' as a result of the Commonwealth's reforms. For example, the budget emphasises that GST revenue received by the States for 2007-08 will be 5.8 per cent higher than for 2006-07, and that GST revenue will amount to 3.8 per cent of GDP in 2007-08, up from 3.6 per cent of GDP in 2001-02 (the first full year of the new tax system's operation) (Commonwealth Treasury, 2007a, p. 1). The 2007-08 budgeted GST revenue of $41.9 billion compares to $26.6 billion in 2001-02 (Commonwealth Treasury, 2007a, p.9). In summary, the budget states:

> *In 2007-08, the States will be better off by an estimated $3.2 billion due to the Australian Government's reforms. Each State will receive more revenue from the GST than it would have received had the previous financial arrangements continued. This revenue windfall will increase to $4.6 billion by 2010-11.* (Commonwealth Treasury, 2007a, p. 1).

The Commonwealth budget also emphasises the increase in the amount of specific purpose payments to the States. These payments usually require the States to meet specified conditions, and are tied to most of the States' functional areas of activity (especially education, health, social security, housing and transport). Specific purpose payments are budgeted at $28.5 billion for 2007-08, an increase of 8.7 per cent from 2006-07 (Commonwealth Treasury, 2007a, p. 1). When payments to local government authorities are included, the 2007-08 specific purpose payments are budgeted at $30.8 billion, which compares to an equivalent figure of $21.5 billion for 2001-02 (Commonwealth Treasury, 2007a, p. 18).

The following table summarises the total Commonwealth source revenue for State governments (excluding payments through the States for local government) budgeted for 2007-08:

State Revenues from the Commonwealth	**$bn**	**%**
Goods and Services Tax	41.9	59.5
Specific Purpose Payments	28.5	40.5
	70.4	100.0

The above table serves to emphasise that, while GST represents the greatest source of State revenue from the Commonwealth, specific purpose payments (at slightly over 40 per cent of revenue) nevertheless represent a significant amount. Accordingly, any discussion of State revenue needs to consider both these components and not focus only on the GST.

To put this Commonwealth source revenue into perspective, the following table shows, using Victoria as an example, all sources of revenue (excluding payments through the State for local government) as disclosed in the Victorian 2007-08 budget (Victorian Department of Treasury and Finance, 2007):

Victorian government budgeted revenue (2007-08)	**$m**	**%**
Commonwealth: GST	9,124.8	28.2
Commonwealth: Grants (specific purpose payments)	5,083.9	15.7
Payroll tax	3,601.8	11.1
Taxes on property	3,830.5	11.9
Levies on statutory corporations	61.6	0.2
Gambling taxes: electronic gaming machines and casinos	1,072.2	3.3
Gambling taxes: other	457.6	1.4
Taxes on insurance	1,135.5	3.5
Motor vehicle taxes	1,338.4	4.1
Other taxes	91.4	0.3
Fines and regulatory fees	842.8	2.6
Dividends, income tax and rate equivalent revenue	905.4	2.8
Interest	301.9	0.9
Sale of goods and services	2,643.8	8.2
Other revenue	1,827.6	5.7
	32,319.2	100.0

While the rhetoric has generally been that the introduction of the GST should have solved any of the State's revenue problems, the Victorian figures above cast doubts on this view. The Victorian figures reveal that GST is actually less than 30 per cent of total revenue, and demonstrate the significant role that payroll taxes and taxes on property, in particular, continue to play. At 23 per cent of Victoria's total revenue, payroll tax and taxes on property are almost as significant as GST revenue (28.2 per cent of total revenue).

Various figures indicate strong growth in State government revenues over the course of this decade. Most States have been running budget surpluses over the course of this decade, and 'windfalls' in the last few years have meant that the final surpluses (budget balance outcomes) have usually exceeded the amounts originally budgeted for.[2] Not only have GST revenues, as noted above, been increasing significantly, but the State budgets have also benefited from significant increases in stamp duty and land taxes arising from the boom in property prices. The figures from Victoria's 2007-08 budget presented above reveal that Commonwealth source revenue (GST and grants) represents only approximately 44 per cent of the State's budgeted total revenue.

It is relevant to note at this point that it is not only the States that have benefited from strong revenue growth. The Commonwealth has also experienced surging revenue. Commonwealth revenue (on an accrual basis), excluding GST revenue, was budgeted at $163.0 billion for 2001-02. This is budgeted in the *Mid-year Economic and Fiscal Outlook 2007-08* to increase to $251.9 billion for 2007-08 (Commonwealth Treasury,

[2] It should be noted, though, that the windfall gains have not been experienced evenly across the States.

2007b).[3] The significant increase in Commonwealth revenue has particularly resulted from surging income tax receipts from individuals and companies. This rise in revenue has, in turn, enabled Commonwealth expenditure to increase substantially.

The table below compares the various major categories of Commonwealth revenue, including the GST, for 2001-02 with the parallel figures contained in the original 2007-08 budget. This allows an examination of the extent to which the increase in GST revenue flowing to the States compares with the increase in Commonwealth revenues.

Commonwealth revenue source	**2001-02 ($m)**	**2007-08 ($m)**	**Increase (%)**
Individual income tax	86,422	119,560	+38.3%
Company tax	27,133	64,580	+138.0%
Superannuation taxes	4,171	8,300	+99.0%
Other direct taxes	5,338	6,090	+14.1%
Excise and customs duty	24,844	28,910	+16.4%
Other indirect taxes	2,965	3,629	+22.4%
Interest, dividends and other	12,083	15,691	+29.9%
Sub-total	**162,956**	**246,761**	**+51.4%**
Goods and services tax	26,600	41,900	+57.5%
Total	**189,556**	**288,661**	**+52.3%**

The table above indicates the significant increase in Commonwealth source revenue. Excluding GST, Commonwealth revenue has increased from $162,956m for 2001-02 to $246,761 in the original 2007-08 budget, an increase of $83,805m (51.4 per cent). GST has increased from $26,600m for 2001-02 to $41,900m in the 2007-08 budget, an increase of $15,300m (57.5 per cent). Of particular note is the increase over the period of $33,138m in individual income tax revenue (increase of 38.3 per cent) and of $37,447m in company tax revenue (increase of 138 per cent). These figures reinforce the earlier observation that the Commonwealth has experienced surging revenue.

The Commonwealth has reported significant budget surpluses during the current decade, and healthy tax receipts have also enabled it to establish the *Future Fund* and the *Higher Education Endowment Fund*. It is significant that these funds were established with revenues arising over a two to three year period to 30 June 2007, and that this was after a period when the Commonwealth repaid a significant level of debt.

The States, as noted earlier, have generally been running budget surpluses. The table following shows the budgeted 2007-08 net operating balances (operating surplus/deficit) for each of the States:[4]

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3 Illustrating the unexpectedly rapid rise in Commonwealth revenue over the past three years, the amount of $251.9 billion currently budgeted for 2007-08 Commonwealth revenue compares to the amount of $223.1 billion contained in the forward estimates for the 2007-08 year contained in the 2004-05 budget. It also compares to the amount of $246.8 billion in the original 2007-08 budget released only half a year before the revised figure contained in the mid-year update.

4 It should be highlighted, though, that some States are expected to have a final result that will exceed that contained in their original budgets.

State/Territory	Net operating balance (surplus/deficit)
Western Australia	$1,453m surplus
New South Wales	$376m surplus
Victoria	$324m surplus
Queensland	$268m surplus
Australian Capital Territory	$103m surplus
Northern Territory	$25m surplus
South Australia	$30m surplus
Tasmania	$39m deficit

However, the fiscal position for the States may be about to change. The Commonwealth has forecast that State budget balances (surplus/deficit) under all measures will begin to fall in coming years, reflecting the impact of higher expenditures and slower revenue growth (Commonwealth Treasury, 2007a, p. 27).

For the surplus/deficit under the net operating balance measure,[5] the States are budgeted to have smaller surpluses over the forward estimate years, while Tasmania and the Australian Capital Territory are expected to record operating deficits.

Under the accrual based fiscal balance (net lending/borrowing) measure, which takes into account the funding of capital expenditure, the aggregate of State fiscal balances is estimated to be in deficit. Western Australia is the only State expected to have a fiscal surplus over the forward years, reflecting its larger operating surpluses (Commonwealth Treasure, 2007a, p. 29).

On a cash basis, reflecting operating cash receipts and cash payments including capital expenditure, the aggregate State cash budget balance[6] is expected to be in deficit over the forward years. As with the fiscal balance, this reflects the significant capital expenditure requirements facing the States.

The above discussion highlights the considerable fiscal risks for governments over coming years. If the economy does not continue to grow to the extent forecast in the Commonwealth 2007-08 budget, total government revenues could remain stagnant. It must be highlighted that the 2007-08 budget was released in May 2007, almost 12 months ago. Many economic forecasters have since revised their forecasts downward, particularly reflecting the expected impact of rising interest rates and an economic downturn in the United States and the world economy generally.

The growth experienced in the past decade in individual and company taxation receipts, in GST receipts, and in receipts from land taxes and stamp duty cannot be expected to continue. It is likely that this will result in considerably lower operating surpluses, possibly even moving toward operating deficits across the board. Also, especially at the State level, larger fiscal deficits are likely given the lower operating

5 The net operating balance measures, in accrual accounting terms, the gap between a government's expenses and revenues for a given period. This provides a good indication of the sustainability of the existing level of government services (Commonwealth Treasury, 2007a, p. 27).

6 The cash budget balance (cash surplus or deficit) is the cash equivalent of the accrual based fiscal (net lending/borrowing) balance.

surpluses (or higher deficits) and capital expenditure requirements. This will result in an upward trending in State government borrowing requirements.

This is an especially sobering thought when the variously documented problems with State government services are considered. For example, considerable capital expenditures are required in the areas of health, education and public transport. A further problem is that the cost of the desired expenditure items in these areas will no doubt increase at a faster rate than State revenues.

2. INFRASTRUCTURE ISSUES AND PUBLIC-PRIVATE PARTNERSHIPS

The previous section highlighted the tightening fiscal position that the States are likely to face in the coming years, this being at a time when the demand for spending on public infrastructure is increasing. This is evidenced by supply-side constraints contributing to inflationary pressures. The involvement of the private sector, especially in infrastructure projects in the areas of hospitals, public transport, schools and public housing, will therefore be increasingly attractive to State governments. Required developments flowing from climate change issues, particularly in the areas of water and energy, will add further pressures for infrastructure expenditures.

This will require careful consideration of the extent to which the private sector might be involved to reduce the requirement for further borrowings by the various State governments. My observations here relate to public-private partnerships (PPPs) generally, in all their forms.

In contrast to some past examples, there is a requirement that the various agreements that will no doubt be entered into over future years, by both the Commonwealth and the State governments, be subject to clear transparency, accountability, oversight and risk assessment processes. There is a clear need to balance both commercial considerations and the public (taxpayer) interest.

These PPP agreements are typically operative over long periods of time.[7] Accordingly comprehensive risk assessments are required to ensure the agreements do not significantly hamper the attainment of other government objectives. For example, agreements entered into for CityLink in Melbourne and for the cross-city tunnel in Sydney incorporated 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.

The terms of such contracts must be examined carefully to ensure an appropriate risk-return profile. There has been a questioning of some of these agreements in the past with respect to whether the contract terms have resulted in generous returns accruing to private operators but significant risks still being borne by governments (and hence taxpayers generally). Terms of contracts can include, for example, provisions that the government reimburse the operator for revenue shortfalls. Also, as noted above with the roads examples, restrictions on the development of adjacent roads can result in

[7] For example, BOOT (build-own-operate-transfer) schemes are often operative over a 30 year period.

lower risk for private operators, as road users are then more likely to use the privately provided facilities.

Cost of capital considerations are also always an issue. Private sector entities invariably face higher interest costs than those procurable by government bodies.[8] In addition, private sector entities must produce a positive return for shareholders over and above their higher interest costs. The implications of this must always be considered for any potential PPP projects.

The difficult issues and risks arising from PPP projects are illustrated by an article in the *Australian Financial Review* on 19 March 2008 (Ong and Hepworth, 2008). This reports Leighton Holdings writing off 70 per cent of the value of its holdings in the Lane Cove Tunnel project in Sydney, which was built as a $1.1 billion PPP. The write off has been due to traffic through the tunnel being only 50 per cent of that originally forecast. The article also reports on Sydney's Cross City Tunnel, 'which went into receivership before being sold at a substantial discount to the original project cost' (Ong and Hepworth, p. 1). This resulted in the statement that 'The Cross City Tunnel fiasco prompted warnings that the cost for future capital works projects might increase as the private sector considers them more risky and the contracts necessary to provide assurances would necessarily become increasingly complex' (Ong and Hepworth, p. 11).

An appropriate balance between commercial considerations and the public interest must therefore result from such agreements. This can be informed by a careful review of various past PPP arrangements. The Commonwealth should oversee the PPP arrangements entered into by State governments, and should also carefully consider the terms of any of its own agreements.

3. GOVERNMENT BUDGETS AND FINANCIAL REPORTING

The issues discussed earlier in relation to State revenue, expenditure and budget balances highlights the role of high quality budget reporting and financial reporting practices if government accountability is to be achieved. Major accounting reforms have occurred since the early 1990s. These have seen the move from cash based accounting to accrual based accounting principles.

The accrual accounting reforms, though, were complicated by the presence of two alternative accrual frameworks: the *Government Finance Statistics* (GFS) framework and the accrual accounting rules specified in Australian professional accounting standards, principally AAS 31 *Financial Reporting by Governments*.

The *GFS* framework was developed by the Australian Bureaus of Statistics, and is based on the international equivalent developed by the International Monetary Fund (IMF, 2001) and on the United Nations *System of National Accounts* (United Nations, 1993). The aim of the GFS framework is to 'meet the community's demand for standardised and detailed financial information about the activities of all Australian governments' (ABS, 2005).

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[8] Although this interest is generally tax deductible for private sector entities.

In parallel with the GFS framework developments, the Australian accounting profession developed a number of public sector accounting standards. AAS 31 *Financial Reporting by Governments* (Public Sector Accounting Standards Board, 1998) was the standard developed for Australian Commonwealth and State governments for 'whole of government' reporting.

Unfortunately, there are important differences between the *GFS* framework and AAS 31 in the manner in which some items are recognised and measured in the financial statements.[9] Various writers have recognised the problems and potential for confusion arising from the presence of the two alternative accounting and budgeting systems[10] but, fortunately, reforms are occurring in this area.

A new Australian accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (Australian Accounting Standards Board, 2007) becomes operative from 1 July 2008.[11] This new standard will supersede AAS 31. The aim of AASB 1049 is to harmonise GFS and Generally Accepted Accounting Principles (GAAP)[12] reporting (AASB, 2007, p. 3).

AASB 1049 notes that some differences remain between GFS and GAAP principles (Australian Accounting Standards Board, 2007, p. 10), and specifies the manner in which these differences are to be treated. In particular, AASB 1049 specifies GAAP rules that better align with GFS, and in other cases allows GFS information to be presented in addition to GAAP information, together with reconciliations between the two frameworks and explanations for the differences.

Accordingly, the new accounting standard should result in greater uniformity in government financial reporting, although specific areas of difference will remain. Despite some differences, it is important that the various governments, including the Commonwealth, comply with the AASB 1049 requirements in their various budget documents and financial reports.

One problem that has been observed in the past in relation to government budgets is that there have been some departures from prescribed accounting rules in the information disclosed in government budgets, and that the figures calculated in accordance with the relevant rules have been buried in the later chapters and appendices of the budget papers (Wines and Scarborough, 2006a, 2006b). Accordingly, all States should be subject to a *Charter of Budget Honesty* similar to the Commonwealth's *Charter of Budget Honesty Act 1998* (Commonwealth of

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9 Differences mainly arise as the GFS framework only recognises transactions-based revenues and expenses. Major differences between GFS and AAS 31 principles relate to accounting for asset writedowns (operating expenses under AAS 31 but negative equity revaluations pursuant to the GFS framework), other gains and losses on assets (not included as revenues or expenses under GFS), bad and doubtful debts (not recognised under the GFS framework), swap interest revenue and expense (not recognised under GFS), and the acquisition of defence weapons platforms (capitalised and depreciated under AAS 31, but expensed at the time of acquisition pursuant to the GFS framework).

10 See, for example, Robinson (2001), Barton (2003), Challen and Jeffery (2003), Sheehan (2005) and Wines and Scarborough (2006a, 2006b).

11 This replaced an earlier version of AASB 1049 (Australian Accounting Standards Board, 2006), which was also not to be operative until 1 July 2008.

12 GAAP refers to the professional accounting standards and principles of which, as noted earlier, AAS 31 was the major standard applicable to governments.

Australia, 1998) to ensure the applicable accounting rules are adopted in all published budget documentation and in all financial reports.

However, one limitation has been that the Commonwealth's *Charter* has explicitly allowed departures from the prescribed accounting rules. The *Charter* requires the government to present financial statements in (a) the budget, (b) a mid-year update, (c) a final budget outcome report, and (d) a pre-election update, where applicable. The rules in the *Charter*, though, specifically allow governments to depart from the prescribed accounting rules. If departure occurs, all that is required is that the relevant government disclose 'any ways in which the report departs from (the applicable) standards' (ss. 12(3)(b), 16(3)(b), 19(2)(b) and 24(3)(b)).

In contrast, this is not an option for Australian companies. Pursuant to the *Corporations Act 2001*, directors must ensure that the company's financial reports are prepared and presented in accordance with applicable AASB accounting (financial reporting) standards. The auditor is required to qualify the auditor's report if the prescribed rules are not followed.

The Commonwealth's accounting treatment of GST is an example of a departure from the prescribed rules. The Commonwealth's view has been that GST is a State tax, and hence that the GST revenue raised and the related distributions to the States do not need to appear in the Commonwealth government's financial reports (Simes, 2003; Bassanese, 2004). However, the GFS documentation issued by the ABS makes it clear that the government's preferred accounting treatment for GST is not the correct one. In accordance with the principle of attributing tax revenue to the appropriate level of government, the GFS framework states that:

> *In the case of the Goods and Services Tax … the tax is levied under the authority of the Commonwealth, the Commonwealth has the final discretion to set and vary the rate of tax and the Commonwealth has the final discretion over the use of the funds. Therefore … the GST is treated as a Commonwealth tax in GFS*. (ABS, 2003, para. 2.66)

Contrary to this authoritative guidance and in accordance with the government's preferred accounting treatment, the GST revenue and expense items are not included in the main presentations within the Commonwealth's major budget documentation and financial reports.[13] Hence, GST revenue that is budgeted to represent 14.5 per cent of total revenue for 2007-08 is generally excluded from the Commonwealth's budget and financial statements. Referring to 2004-05 budget figures, Wines and Scarborough (2006a) note that Commonwealth revenue is disclosed to represent 22.5 percentage of gross domestic product (GDP). However, if GST had been included, this would have been a considerably higher 26.6 per cent. This demonstrates that a full view of Commonwealth government finances is obfuscated by the Commonwealth's accounting treatment.

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[13] Because the GST revenue is distributed to the States (with the exception of a small amount retained for administration purposes), the amount of the budget balance (surplus/deficit) is unchanged by the GST accounting treatment. However, exclusion of the GST results in an understatement of both total revenues (receipts) and total expenses (payments).

The above represents an example of an accounting treatment that is not consistent with applicable accounting rules, but one that is allowed because of the loophole in the *Charter of Budget Honesty* mentioned above.

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 Honesty* which require complete compliance with applicable accounting standards.

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