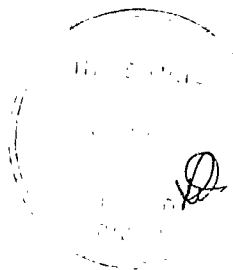


The Parliament of the Commonwealth of Australia

Joint Committee of Public Accounts



DEPARTMENT OF THE SENATE
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REPORT 351

An Advisory Report on the Charter of Budget Honesty Bill 1996

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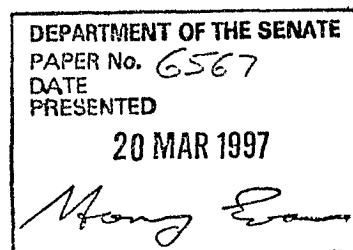
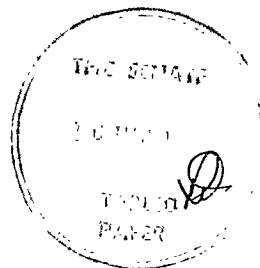


THE NATIONAL COUNCIL ON
PUBLIC BUDGETING
AN INDEPENDENT ORGANIZATION
OF THE BUDGETARY PROCESS

An Advisory Report on the Content of Budget Honesty Bill 1976

WILLIAM E. SCHLES

The Parliament of the Commonwealth of Australia
Joint Committee of Public Accounts



REPORT 351

An Advisory Report on the Charter of Budget Honesty Bill 1996

March 1997

Australian Government Publishing Service

MEMBERSHIP OF THE COMMITTEE

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	Mrs S N Stone, MP
	Mr M A J Vaile, MP

Secretary:	Dr Margot Kerley
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¹ Appointed 13 December 1996.

² Appointed 29 May 1996, discharged 13 December 1996.

MEMBERSHIP OF THE SECTIONAL COMMITTEE ON THE BUDGET HONESTY BILL 1996

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Mr Alan Griffin, MP (Vice-Chairman)

Hon David Beddall, MP

Senator the Hon Brian Gibson

Mrs Sharman Stone, MP

Senator John Watson

Mr Mark Vaile, MP

Inquiry Staff

Ms Maureen Chan
Mrs Aliceann Duckworth

DUTIES OF THE COMMITTEE

The Joint Committee of Public Accounts is a statutory committee of the Australian Parliament, established by the *Public Accounts Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being to:

- examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the *Audit Act 1901*;
- examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- report to both Houses of the Parliament, any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to the house upon that question.

The Committee is also empowered to undertake such other duties as are assigned to it by Joint Standing Orders approved by both Houses of Parliament.

TERMS OF REFERENCE

On 3 March 1997 the Senate resolved that:

- (a) the *Charter of Budget Honesty Bill 1996* be referred to the Joint Committee of Public Accounts for consideration and the tabling of an advisory report to the House by 20 March 1997;
- (b) the terms of this resolution, so far as they are inconsistent with the standing and sessional orders, have effect notwithstanding anything contained in the standing and sessional orders; and
- (c) a message be sent to the House of Representatives acquainting it of this reference to the Committee.

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LIST OF ABBREVIATIONS

ANAO	Australian National Audit Office
CPAs	Certified Practicing Accountants
Finance	Department of Finance
GBEs	Government Business Enterprises
GFS	Government Finance Statistics
JCPA	Joint Committee on Public Accounts
Treasury	Department of Treasury
NCA	National Commission of Audit

CHAIRMAN'S FOREWORD

This Report presents the findings of the Joint Committee of Public Accounts' review of the *Charter of Budget Honesty Bill: 1996*. The Bill resulted from an undertaking made by the Government during the 1996 election and draws on the JCPA *Report 341, Financial Reporting for the Commonwealth: Towards Greater Transparency and Accountability: 1995* and on the National Commission of Audit *Report to the Commonwealth Government: 1996*.

The issue of fiscal responsibility was first taken up by the Committee when it considered the feasibility of recasting the financial reporting framework for the Commonwealth as a whole to reflect accrual accounting concepts.

In *Report 341*, tabled on 29 November 1995, the Committee argued that whole-of-government reporting on this basis would make the financial position of the Commonwealth more transparent. In particular, since whole-of-government reports would reveal the Commonwealth's assets and liabilities, as well as the cashflow, such reports would make immediately apparent any government attempts to run down the asset base of the Commonwealth to fund recurrent spending, to the detriment of future generations of Australians.

The Committee recommended that these financial reports should be made public so that the information gathered could be feed into financial planning and the Budget. The legislative reporting framework proposed in *Report 341* made it clear that it is Parliament which should determine the type of financial reports to be presented for its consideration.

Given this background, the Committee welcomes the introduction of this *Charter of Budget Honesty Bill* by the present Government. During the Committee's review of the Bill, it found universal support for the Bill's intent to improve the fiscal accountability framework through better and more frequent disclosure of relevant and timely information.

The regular reports being proposed will provide valuable sources of data for assessing the Government's fiscal performance. As such, the regular reports add to the developing accountability framework which will promote public confidence and trust in the integrity, fair dealing and cost effectiveness of public sector programs.

The true value of this initiative as demonstrated by the Bill will be effected when the Government adopts accrual accounting and accrual budgeting across all Commonwealth sectors in addition to the present accrual reporting and trial whole-of-government reporting.

As its Terms of Reference show, the Committee had to complete its review within an unreasonably tight timeframe. The Committee is concerned that the consultation process has suffered in the rush to meet the reporting deadline. For its own part, the Committee has not had the time to review the Bill as comprehensively as it would have liked. Nevertheless, the Committee believes that it has succeeded in highlighting the positive aspects of this initiative by drawing attention to those issues which should be taken into account by the Senate in its consideration of this legislation. The Committee sees no reasons why the Senate should further delay the passage of this Bill.

My sincere thanks are extended to the witnesses who have provided written and verbal evidence to the Committee, all at very short notice. In particular, I wish to record the Committee's thanks to His Excellency, the New Zealand High Commissioner who very kindly provided the Committee with a comprehensive overview of the changes to economic and fiscal reporting in New Zealand after the introduction of its *Fiscal Responsibility Act* in 1994.

I would also like to thank Hansard who did a marvellous job getting the Transcripts back to the Committee in record time. Without these the Committee's report drafting would have been much more difficult.

Alex Somlyay MP
Chairman

SETTING THE CONTEXT

Introduction

1.1 On 11 December 1996, the *Charter of Budget Honesty Bill: 1996* (the Bill) was introduced into the House of Representatives as part of the Government's promise to ensure that all Australian Government accounts are presented in a transparent and honest manner. The Bill requires certain standards of Budget presentation and financial performance from the Commonwealth Government from now on.

1.2 After the Bill passed the House of Representatives, on 3 March 1997, the Senate referred the Bill to the Joint Committee of Public Accounts (JCPA) for its consideration with the expectation that an advisory report would be presented to Parliament by 20 March 1997.¹

Structure of the Bill

1.3 The *Charter of Budget Honesty Bill: 1996* itself is only two pages long. The bulk of the detail, including the actual Charter of Budget Honesty itself and the consequential provisions are contained in Schedule 1 appended to the Bill.

1.4 For reading convenience, however, this report refers to clauses in the Schedule as if they were in the Bill itself. Thus, for example, Clause 12(3) of Schedule 1 of the Bill, is referred to as Clause 12(3) of the Bill.

¹ House of Representatives Votes & Proceedings, No. 74, 4 March 1997, Message No 146; Journal of the Senate No 83, 3 March 1997.

Conduct of the Review

1.5 Invitations for submissions to this review of the Bill were advertised in the national press on 7 and 8-9 March 1997. A list of the submissions received by the Committee can be found at Appendix I and a list of exhibits at Appendix II.

1.6 The Committee held a public hearing on the Bill on 13 March 1997. The hearing used a 'round table' format structured to encourage all participants to comment on issues of concern to them. In the morning session, witnesses from the public sector appeared while in the afternoon session, other interested parties, mainly from the private sector, gave evidence. Those unable to attend because of the short notice, were encouraged to provide written submissions. A list of participants at the hearing can be found at Appendix III.

1.7 The Committee believes that there is a definite relationship between fiscal and monetary policies. On this basis, the Reserve Bank was invited to participate in the review but chose not to do so.

Structure of the Report*Chapter Outline*

1.8 Chapter 2 reviews the clauses of the Bill and identifies those aspects which could be improved.

1.9 In Chapter 3, the Committee stresses the need for a commitment by all involved to ensure that the initial reporting cycle fulfils public expectations of honesty, transparency and accountability.

Issues in Report 341 Not Re-Opened in this Report

1.10 Although the Treasurer stated in his second reading speech that the *Charter of Budget Honesty Bill* incorporates many of the recommendations in *Report 341*², not all the measures recommended were included. Therefore, a number of the issues, concerns and debates that arose during the Committee's earlier consideration of financial reporting for the Commonwealth, as set out in *Report 341*, have not been considered in this report. Such issues include, *inter alia*, the concept of whole-of-government reporting, accrual accounting, the way government business enterprises (GBEs) should be included in Government fiscal and economic reports and asset management.

1.11 The Committee has, however, re-examined those issues, in the context of the 1996 Bill, where they have had a particular bearing on individual Clauses of this Bill.

1.12 Finally, the Committee has made a deliberate decision not to make any recommendations. Instead, it examines aspects which it believes would enhance the Bill and augment the Government's objective of greater fiscal honesty, transparency and accountability. The Report seeks to raise issues for consideration and commends desirable outcomes which it encourages the Government to consider, especially as the review has indicated that there is widespread support for these changes in both the public and private sectors.

1.13 The Committee believes that the Charter is dynamic. It is a flexible Charter which has the capacity, within the fixed principles and standards specified, to reflect changes in the demands of accountability, in information technology and the needs and expectations of the electorate, well into the next century.

² Peter Costello, Treasurer, *House of Representatives Hansard*, 11 December 1996, P7805.

2

CONSIDERATION OF THE CHARTER OF BUDGET HONESTY BILL: 1996

Implementation

2.1 The Committee supports the framework outlined in the *Charter of Budget Honesty Bill* as a suitable mechanism for improving the accountability and transparency of Government fiscal policy objectives, strategies and outcomes. The legal requirements bind all Federal Governments to publicly outline twice a year the actual Commonwealth fiscal position. It extends the public disclosure of economic and fiscal policies beyond the current discretionary practice by legislating for:

- external reporting standards
- a statement of the government's fiscal strategy and objectives
- a statement of risks to the economic and fiscal outlook
- a statement of specific key fiscal measures and their expected outcomes for the budget and the next three years
- increased reporting of the outcomes for the general government sector
- the inclusion of information on tax expenditures, including three-year projections
- an explanation on how the government's fiscal strategy meets the principles of responsible fiscal management, as set out in the Bill
- an explanation of how the government will moderate cyclical economic and fiscal fluctuations
- a mid-year economic and fiscal outlook report
- intergenerational reports every five years covering the next 40 years
- pre-election economic and fiscal outlook reports

2.2 federal governments. The reporting to external standards means uniformity of reporting frameworks and definitions over the years, enabling historical comparisons to be made. The issuing of economic and fiscal outlook reports and intergenerational reports will facilitate analysis of the likely consequences of the Government's adopted fiscal strategy. The publishing of pre-election reports should remove some of the politicising of fiscal issues during the caretaker period, allowing the electors to focus on the actual policies and strategies. Most importantly of all, the Charter will bind this and all future Federal Governments.

2.3 Although Section 3(2) of the Bill states that the Charter of Budget Honesty is not judicially enforceable, non-compliance or any aberration by a Government will result in extensive parliamentary and public debate. The Bill creates an expectation of, and a moral obligation on governments to be as transparent and as honest as possible in their reports. The spotlight will be on the behaviour of governments.¹

2.4 While the Committee acknowledges that the Bill provides an extension to fiscal responsibility, it cautions that reporting is not an end in itself: public reporting is just another step in the direction the JCPA has long advocated, another link in the accountability chain. Fiscal accountability will be greatly enhanced when the Commonwealth moves to accrual accounting and whole-of-government fiscal reporting.

General Reactions

2.5 During its review of the *Charter of Budget Honesty Bill: 1996*, the Committee found widespread acceptance and support for increasing Government accountability and transparency through budget honesty.² As David Hope, from the Society of CPAs, said:

¹ Ted Evans, Treasury, *Transcript 13 March 1997*, PA17.

² Pat Barrett, ANAO, *Transcript 13 March 1997*, PA4; Various witnesses, *Transcript 13 March 1997*, PA34-39, PA44-45, PA48.

*three months away from a reasonably current view of Australia's economic outlook. ... it is going to be regularly updated ... So we will now have a greater degree of what it means in terms of the accrual budget and what it means at the end of that reporting period; what will the community wealth be; have we increased it; have we maintained it; have we run it down?*³

2.6 Professor Marc Robinson was more cautious. His view was that:

*No legislation can compel fiscal responsibility ... The most positive view of the Bill is that it is merely the latest in a long series of incremental improvements in fiscal reporting requirements.*⁴

2.7 The Committee is well aware that expectations of a Government's fiscal performance will be raised by the Charter of Budget Honesty. Within the private sector, the belief is that the Charter will:

*raise the general awareness of the Government's fiscal intentions and facilitate a more informed debate, increase the pressure on Government to act responsibly, provide greater certainty for private sector decision makers, particularly for investors, and finally, to improve the quality of fiscal decision making since it will be more difficult to avoid public scrutiny. ... it will add to the level of overall business confidence.*⁵

2.8 Comments made by the private sector indicate also that many in the business community expect the Charter to deliver a balanced budget⁶ but as a Treasury official at the public hearing said:

³ David Hope, *Transcript 13 March 1997*, PA43.

⁴ Marc Robinson, Queensland University of Technology, *Submission No 1*, p 2.

⁵ Dr Steven Kates, ACCI, *Transcript 13 March 1997*, PA34-35.

⁶ Dr Steven Kates, ACCI, *Transcript 13 March 1997*, PA34, PA39, PA42.

*The Charter does not say that you cannot have a budget deficit, and our advice would have been that that would have been inappropriate. The Charter does not say that you have to have a balanced budget over any particular period. But what it does say is that you have to say what your objectives are. ... that sort of requirement leads to greater fiscal responsibility.*⁷

Reporting Standards

2.9 Clause 3 of the Bill specifies that reports are to be written to external reporting standards such as Government Finance Statistics (GFS) Australia, as updated from time to time. These are soundly based and widely accepted. The Committee welcomes this attempt at adherence to external accounting standards. In its *Report 341*, the JCPA had advocated that the format and content of fiscal reports should remain constant over time to allow historical comparisons.⁸ Legislating reporting standards to which governments have to adhere means such standards cannot be ignored: governments cannot manipulate standards to suit their own ends.

2.10 Similarly the National Commission of Audit (NCA), in its *Report to the Commonwealth Government*, argued that there were significant advantages in having comprehensive fiscal reporting standards since these standards would enhance economic and fiscal transparency and accountability by increasing pressures on governments to act responsibly.⁹

⁷ Ron Shogren, Treasury, *Transcript 13 March 1997*, PA27

⁸ JCPA, *Report 341, Financial Reporting for the Commonwealth: Towards Greater Transparency and Accountability*, November 1995, p 138

⁹ National Commission of Audit, *Report to the Commonwealth Government*, June 1996, p 277.

2.11 12(3)(b), 16(30)(b), 19(2)(b) and 24(3)(b) indicate that variations from the standards are permissible. Where this occurs the Committee believes firmly that the *reasons* for any deviations from those standards and the likely *impact* of the variations should be fully explained in the reports. Representatives from both the private and the public sector support this suggested inclusion.¹⁰

2.12 A further note of warning was sounded by the Society of CPAs, which pointed out that the accounting reporting standards referred to deal with reports on existing accounts. As the Charter encompasses also reports which are prospective in nature, namely economic and fiscal outlook reports and intergenerational reports, there may be a need to develop additional accounting standards through the Public Sector Accounting Standards Board.¹¹

2.13 The Committee believes this is sound advice and its feasibility should be investigated by both Treasury and the Department of Finance. The Committee also urges that any variations from the *prospective* reporting standards set should be explained in the economic and fiscal outlook reports being issued.

Economic and Fiscal Outlook Reports

2.14 The Bill provides in Part 5 for the Treasurer to provide three reports:

- Budget economic and fiscal outlook report
- Mid-year economic and fiscal outlook report
- Final Budget outcome report

The first two reports include an overview of estimated tax expenditures and go beyond the current one-year projections. Instead the fiscal estimates are to encompass the budget year and the following three financial years.

¹⁰ Pat Barrett, ANAO, *Transcript 13 March 1997*, PA26; David Hope, CPAs, *Transcript 13 March 1997*, PA36, PA50; Claude Piccinin, BCA, *Transcript 13 March 1997*, PA36.

¹¹ David Hope, Australian Society of CPAs, *Transcript 13 March 1997*, PA35

2.15 This strategic planning is particularly welcomed by the private sector as it will provide some stability to the economy and lessen uncertainty.¹²

2.16 The Final Budget Outcome Report is to be released no later than three months after the end of the financial year. This report will contain Commonwealth budget sector and Commonwealth general government sector fiscal outcomes for the preceding financial year. The report will enable Government fiscal policy and strategy to be assessed against stated policy intentions.

2.17 During the public hearing, the Auditor-General pointed out that in the past, it had been the discretion of governments to explain variations from estimates. There had not been a great deal of information provided on underlying assumptions or parameters when fiscal policies were announced. As a result, there were often conflicting views as to what was being presented, since those debating were using different underlying assumptions and parameters.¹³ Mr Barrett went on to say:

... this is an incremental step, which in essence has at least the opportunity to grow in the future as people become more accustomed to the information that is provided and are able to generate better questions, leading to better reports.¹⁴

2.18 The fact that the advice is being published may provide incentives for more considered bureaucratic analysis and advice to Government. Publication will not however guarantee accuracy because, as Mr Evans pointed out, *"it is in the nature of forecasts that they will always be wrong and we have to do our best to minimise those errors."*¹⁵

¹² David Hope, CPAs, *Transcript 13 March 1997*, PA36-37; Claude Piccinin, BCA, *Transcript 13 March 1997*, PA37.

¹³ Pat Barrett, ANAO, *Transcript 13 March 1997*, PA19-20.

¹⁴ Pat Barrett, ANAO, *Transcript 13 March 1997*, PA20.

¹⁵ Ted Evans, Treasury, *Transcript 13 March 1997*, PA12.

2.19 forecasting is no longer done by one organisation in isolation. Today there are dozens of economic and fiscal forecasters. These forecasts are assessed by Treasury and where there are significant differences among the forecasts, Treasury will discuss the reasons for the variations with the external forecasters. He also stated that the process of government forecasting is done by a committee which includes the Reserve Bank, the Department of Finance, the Australian Bureau of Statistics and the Department of Prime Minister and Cabinet.¹⁶

2.20 It is important for Treasury officials to understand the implications of Treasury forecasts for private sector decision-making and the extent to which Treasury forecasts influence economic behaviour. The Charter of Budget Honesty is only as effective as the integrity of Treasury economic and fiscal forecasts.

2.21 The Committee, therefore, suggests that it would be desirable if the background information on which fiscal policy and strategies are based be included as an appendix to the public reporting since this would contribute to the public understanding of what the Government is proposing.

2.22 The Bill does not specify the underlying parameters and assumptions for forecasts. Underlying parameters for programs, which are determined by agencies, may differ from underlying economic parameters. Since agencies are to feed information to the co-ordinating agencies - Treasury and Finance - it is important that differing parameters and assumptions are carefully explained. The public needs to understand that 'projections' are guesses on the basis of current known assumptions whereas 'forecasts' try to describe the changing environment and make estimates based on the description.¹⁷

¹⁶ Ted Evans, Treasury, *Transcript 13 March 1997*, PA23; This view on forecasts was supported by the private sector; Steven Kates, ACCI, *Transcript 13 March 1997*, PA38-39, PA48-49.

¹⁷ Pat Barrett, ANAO, *Transcript 13 March 1997*, PA28.

2.23 attention, there will be increasing pressures on Commonwealth agencies to make the best estimates possible, within the parameters and assumptions they have set. Increased accountability will ensure agencies learn quickly from any mistakes they may honestly make. The Government will be made fully aware of the possible implications of their forecasts, especially if the forecasts are not accurate.

2.24 One outcome of the Bill, with regard to forecasts and estimates, was summed up in the public hearing by the Auditor-General in the following manner:

People can query your competence and query the basis of the information on which you made the judgement but they cannot query your honesty in coming out and saying, 'This is the judgement we made and this is the reason for the variation of the judgement'.¹⁸

Deficit Spending

2.25 In his Second Reading speech on the Bill, the Treasurer stated that:

... one of the consequences of governments living beyond their means is racking up obligations which narrow the choices of future citizens whose taxes will go to sustaining debts incurred in this generation rather than paying for their own hospitals, schools, roads and the like.¹⁹

2.26 The Charter, especially the intergenerational reports, is designed to forestall such deficit spending by forcing Governments to face the projected likely consequences of their current actions. The assumption underlying the Bill is that the public reporting will expose any attempts by a Government to behave in a fiscally irresponsible manner. As

¹⁸ Pat Barrett, ANAO, *Transcript 13 March 1997*, PA20.

¹⁹ Peter Costello, Treasurer, *House of Representatives Hansard*, 11 December 1996, P7806.

Mr Shogren from Treasury stated: *'where a Government takes temporary measures to stimulate the economy ... it has to indicate how those [measures] would be reversed. ... by requiring governments to state medium-term strategies and objectives and to set measures by which they will report against those objectives and then do the reporting, that in itself is a constraint on the behaviour of Government over the medium- and long-term.'*²⁰

2.27 Mr Evans explained that the purpose of intergenerational reports is *'really to focus on specific issues where one knows intuitively that there are intergenerational effects, that there are particular policies that one knows from the start will have an effect on future generations.'*²¹ The expectation is that public reporting will curb deficit spending. Australia will no longer be an illustrative example of President Herbert Hoover's quip: *"Blessed are the young for they shall inherit the national debt"*.

2.28 The Committee queried how effective the reports would be in limiting deficit spending. For instance, Clause 21 does not specify the contents of the intergenerational reports or their role in the reporting process. As the Explanatory Memorandum states: *'The content and format of the report are to be determined by the Treasurer.'*²² While the Committee welcomes the idea, it believes that intergenerational reports can reflect only broadbrush structural changes such as the amount of taxation required to meet government commitments. There can be no details on how the reports will affect the future, especially as we cannot anticipate international measures which may have a flow-on effect in the Australian economy.

²⁰ Rod Shogren, Treasury, *Transcript 13 March 1997*, PA26.

²¹ Ted Evans, Treasury, *Transcript 13 March 1997*, PA28.

²² Treasury, *Charter of Budget Honesty Bill: 1996 Explanatory Memorandum*, p 11.

2.29 The Committee was told by Mr Evans that:

*that are driven by demography on a long-term basis. That is a large part of what we think will come of what we term here the 'intergenerational report'. That is a report which will look at some decades ahead. In fact, the period is specified as 40 years. There are a limited number of things which are amenable to that type of thing. ... The issues that are of interest over that sort of time span will no doubt change within a five-year period.'*²³

2.30 There are, however, a number of ways in which a federal government might disguise deficit spending in the fiscal reports it presents. One method is discussed by Professor Marc Robinson in his submission to the Committee. He draws attention to the fact that a government could use Government Business Enterprises (GBEs) to plug a deficit:

This involves what might be known as the 'capital restructuring' strategy of budgetary misrepresentation. It is a strategy which enables a government to pretend that part of the borrowings used to finance the budget deficit are not borrowings but revenue, and thus to artificially reduce the reported budget deficit.

... The strategy hinges upon the division of public sector accounts into two sectors: the public enterprise sector (including GBEs such as Telstra), and the budget sector (which includes all government departments and agencies). It is, of course, the budget sector deficit which receives all the public attention, and that deficit does not include any borrowings by public enterprises. ... funds which started out as borrowings by a public enterprise end up being treated as if it were equivalent to tax revenue.

*There is nothing in the proposed Charter which would prevent this strategy.'*²⁴

²³ Ted Evans, Treasury, *Transcript 13 March 1997*, PA15.

²⁴ Marc Robinson, Queensland University of Technology, *Submission No 1*, pp 3-4.

2.31 When questioned about the effectiveness of the Charter to prevent governments from using money from government corporations by way of repatriation of capital or payment of dividend to plug a budget deficit situation, Mr Evans responded by saying that the disclosure of information would not stop governments taking actions which it judges are appropriate. The Bill will force federal governments to abide by broad objectives and principles but it allows governments 'a good deal of discretion as to how, from their own political perspective, they may want to focus their own policy and choose their own targets'.²⁵ What may cause Governments to hesitate adopting 'capital restructuring' is the knowledge that public disclosure will be hard to avoid.²⁶

Setting the Scene

2.32 When the Treasurer, the Hon Peter Costello, gave his first Budget speech, he said the following about the Charter of Budget Honesty:

Our Government will enact a Charter of Budget Honesty that will require the government of the day - ours or any other - to publish a budget update signed off by the Secretaries to the Treasury and the Department of Finance at the commencement of each Federal Election campaign. The public will be given updated financial information before the election, not after it. The public will know the state of the books before they vote.

The Charter will require any future government to set out its fiscal strategy and report against it - just as this Government is doing.

*The Charter will entrench this Government's commitment to responsible and accountable fiscal policy.*²⁷

²⁵ Ted Evans, Treasury, Transcript 13 March 1997, PA15.

²⁶ Ted Evans, Treasury, Transcript 13 March 1997, PA10-11.

²⁷ Peter Costello, Treasurer, House of Representatives Hansard, 20 August 1996, P3270.

Pre-Election Reports

2.33 The Bill breaks new ground by legislating for the release of pre-election economic and fiscal outlook reports within 10 days of the issue of the writ for a general election. This pre-election report, to be based on external reporting standards and issued by the responsible departmental secretaries, is to contain:

- Updated fiscal estimates for the current financial and the following three financial years
- The economic and other assumptions for the current and following three financial years used in preparing the update
- An appreciation of the sensitivity of updated estimates to changes in economic and other assumptions
- Updated statement of risks
- Consideration of all Government decisions which may have a material effect on budgetary outcomes
- Signed Statements by the relevant Ministers and Secretaries

2.34 The National Commission of Audit in its Report had recommended that 'A report on the economic and fiscal outlook should be published approximately one week after the calling of every federal election and should contain similar information to that in the mid-year review report on economic and fiscal outlook'.²⁸

2.35 While the availability of the pre-election report ensures that all will have access to the same economic and fiscal information which previously was available to the Government only, concern was expressed as to the report's timing. Given that the election writs can be technically delayed up to ten days after the dissolution of Parliament and Treasury has indicated that reports cannot be produced in under ten days²⁹, the Committee believes that it would be

²⁸ NCA, Report to the Commonwealth Government, Recommendation 11.6, p 289.

²⁹ Ted Evans, Treasury, Transcript 13 March 1997, PA7.

more sensible to have the pre-election reports released *within 10 days of the dissolution of Parliament*. This would then allow all political parties to finalise their policies on the basis of the most up-to-date economic and fiscal outlook as quickly as possible.

2.36 Such a change in the date of publication should not place too great a stress on the responsible co-ordinating departments nor on other Commonwealth agencies since, as Mr Evans indicated, the process of getting the data into a form that can be easily and quickly accessed will be in place. The fact that the Bill requires six monthly reports means that *'the starting point will never be more than six months long'*.³⁰ Mr Evans then went on to say:

*The further we go into the election cycle, the more emphasis we will have to put on making sure that we, in effect, have a product drafted before the election is announced. It is a trade-off as to how much effort you put into doing that, but you certainly make sure you have the processes ready so you can do it as quickly as feasible.*³¹

and

*One would expect that in the updating that would be done pre-election, we would not be, given that we have to fit within a 10-day period, producing a document the size of the budget or the mid-year review.*³²

2.37 The requirement that the responsible Ministers and the responsible Secretaries have to sign off the pre-election economic and fiscal outlook reports places greater emphasis on the honesty and accuracy of the reports provided. For this reason, the Opposition Members of the Committee raised at the public hearing, the issue of all other economic and fiscal reports being signed off by the Secretary of Treasury as well as the Treasurer before they are released.

³⁰ Ted Evans, Treasury, *Transcript 13 March 1997*, PA21.

³¹ Ted Evans, Treasury, *Transcript 13 March 1997*, PA21.

³² Ted Evans, Treasury, *Transcript 13 March 1997*, PA8.

Costing of Election Commitments

2.38 The Committee welcomes the provision for costing of election commitments during the caretaker period since this will lessen the scope for politicising the costing of election commitments. The Committee notes that in Clauses 29-31:

- The costing is extended to the Prime Minister and the Leader of the Opposition only
- Costings are of publicly announced policies only, although provisions exist for costing newly announced policies during the election campaign
- The request must be accompanied by a full outline of the policies to be costed and a statement of the purpose/intention of the policies
- The Leader of the Opposition must make his written request through the Prime Minister, who has the discretion to decide whether to pass the request on
- Requests may be withdrawn
- The policy costings will be made publicly

2.39 While there was some concern expressed that it seems inappropriate for the Prime Minister to be 'the gatekeeper' in the matter of Opposition policy costing³³, nevertheless, as Mr Shogren pointed out, this preserves the Westminster tradition of distancing the bureaucracy from the Opposition.³⁴ Mr Shogren went on to say that were a Prime Minister to delay or deny Opposition policy costing, *'presumably the Leader of the Opposition would let it be known that he [the Prime Minister] had done that and the moral political processes and media processes would have some impact. ... The point of all this is that it is out in the open.'*³⁵

2.40 While the Committee differed in its opinions on the likely effects of the Charter on election commitments, nevertheless it agreed that it was in the interest of the country to have all political parties involved in a process

³³ Tony Harris, ACAG, *Transcript 13 March 1997*, PA32; CPAs, *Submission No 6*, p 3.

³⁴ Rod Shogren, Treasury, *Transcript 13 March 1997*, PA14.

³⁵ Rod Shogren, Treasury, *Transcript 13 March 1997*, PA14, PA41.

which was open and fully costed. The spotlight would be squarely on the policies announced. A probable outcome would be to remove some of the more extravagant claims made in past election campaigns.³⁶ Since an actual budget position will be known, pre-election promises will be moderated accordingly.³⁷ The 1996 New Zealand election which was the first to be held after the introduction of the New Zealand *Fiscal Responsibility Act* in 1994 shows the full effects of open fiscal reporting.

2.11 The private sector was most appreciative of this proposal as full policy costing will enable the private sector to monitor the likely effects on the economy of a new government.³⁸

Suppression of Information

2.12 Although the Committee recognises the need to suppress information of a confidential commercial or national security nature, it believes that a *statement*, providing a general description of the information being suppressed and its aggregate amount should be included in the reports.

2.13 This statement would preserve the openness being advocated since it would show that the Government was not hiding matters which it would be "in the public interest" to disclose. Again there was public and private sector support for such a statement.³⁹

³⁶ Various comments, *Transcript 13 March 1997*, PA40-42.

³⁷ Dr Steven Kates, ACCI, *Transcript 13 March 1997*, PA35.

³⁸ CPAs, *Submission No 6*, p 3; Robert Longstaff, *Submission No 2*, p 1; Stephen Rik, PIAC, *Submission No 5*, p 2.

³⁹ David Hope, CPAs, *Transcript 13 March 1997*, PA36, PA51; PIAC, *Submission No 5*, p 2.

Input by other Commonwealth Agencies

2.14 The Committee is pleased that the fiscal reports being legislated by this Bill provide an approximation of whole-of-government reporting. However, Clauses 13, 17, 28 and 32 enable Commonwealth agencies to withhold information. Where this occurs, then a *statement*, showing the effect of this omission and its aggregate amount should be included in the reports. This will preserve the transparency and accountability advocated by the Charter.

Review Process

2.15 The Committee regards the Charter as a dynamic piece of legislation with room for future improvement in the light of experience. The fact that broad principles rather than detailed specifications have been laid down, would support this view. For this reason, the Committee suggests that the Bill could include a clause outlining a review process. Comments made in response to the Committee's questioning at the public hearing indicated widespread support for a review to be conducted after each election.

2.16 The Committee suggests that such a review should include the whole reporting cycle, be conducted by an independent auditor such as the Auditor-General, and should commence no later than three months after the return of the writs. The review report would be made to Parliament three months after the review commences. Again there was support for such a review from both the public and private sectors.⁴⁰

⁴⁰ Tony Harris, ACAG, *Transcript 13 March 1997*, PA30; Pat Barrett, ANAO, *Transcript 13 March 1997*, PA30; David Hope, CPAs, *Transcript 13 March 1997*, PA49; AARF, *Submission No 6*, p 3.

CONCLUSION

3.1 The Committee believes that the Bill is another element in the improvement of the overall fiscal accountability framework. Transparency is the essence of such a framework and this Bill legislates for the provision of regular published reports so that the public may be better informed.

3.2 Monetary policy is in the hands of an independent Reserve Bank and therefore at arm's length from the Government. The question then is, can fiscal reporting be similarly distanced from the political arena. Hopefully the Charter will spell the end of the post-election "black holes".

3.3 The Bill, however, requires a cultural change not only among political parties but in the electorate at large. As the country becomes more familiar with the reports being generated, the expectations of political parties will increase. Much of the rhetoric associated with political discussions and debates on fiscal policies will be removed.

3.4 While the Committee applauds the requirement for fiscal reports to be prepared in accordance with recognised external reporting standards, the Committee believes firmly that the *reasons* for any deviations from those standards and the likely impact of the variations should be fully explained in the reports.

3.5 The Committee also believes that the Public Sector Accounting Standards Board should establish *prospective* reporting standards for the economic and fiscal outlook and intergenerational reports since the requirements for these reports may differ from the Government Finance Statistics Australia standards being recommended in the Bill.

3.6 The Committee notes that a pre-election economic and fiscal outlook report is to be released within 10 days of the issues of the writ for a general election. Given that a writ can be delayed up to 10 days after the dissolution of Parliament, the Committee believes that it would be more sensible to have

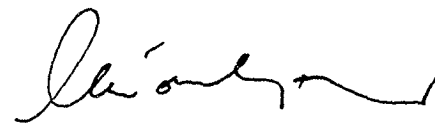
the pre-election reports released within 10 days of the dissolution of Parliament.

3.7 Although the Committee recognises the need to suppress information of a confidential commercial or national security nature, it believes that a *statement*, providing a general description of the information being suppressed and its aggregate amount should be included in the reports.

3.8 The Committee is pleased that the fiscal reports being legislated by this Bill provide an approximation of whole-of-government reporting. However, some clauses enable Commonwealth agencies to withhold information. Where this occurs, then a *statement*, showing the *effect* of this omission and its aggregate amount should be included in the reports.

3.9 Finally the Committee believes that a review component should be included in the Bill so that the full reporting process can be assessed after the next election. The Committee believes that the review should include the whole reporting cycle, be conducted by an independent auditor such as the Auditor-General, and should commence no later than three months after the return of the writs. The review report would be made to Parliament three months after the review commences.

3.10 Ultimately fiscal responsibility requires more than just a rewrite of the existing law and a greater involvement of Parliament in the process. It requires a commitment by the 38th Commonwealth Government to comprehensively review economic and fiscal behaviour. The Committee believes the *Charter of Budget Honesty Bill: 1996* is a commendable move in this direction.



Alex Somlyay MP
Chairman
19 March 1997

I

APPENDIX I - SUBMISSIONS

1. Mr Marc Robinson, Queensland University of Technology
2. Mr Robert Longstaff
3. Mr A C Harris, Australasian Council of Auditors-General
4. Mr Ian McPhee, Australian National Audit Office
5. Mr Stephen Rix, Public interest Advocacy Centre
6. Australian Accounting Research Foundation, Institute of Chartered Accountants of Australia and the Australian Society of Certified Practising Accountants.

II

APPENDIX II - EXHIBITS

1. New Zealand High Commission - Fiscal Responsibility Act 1994 information package.
2. A Harris, NSW Auditor-General - Discussion on the General Government Debt Elimination Act, 1995 No 83