

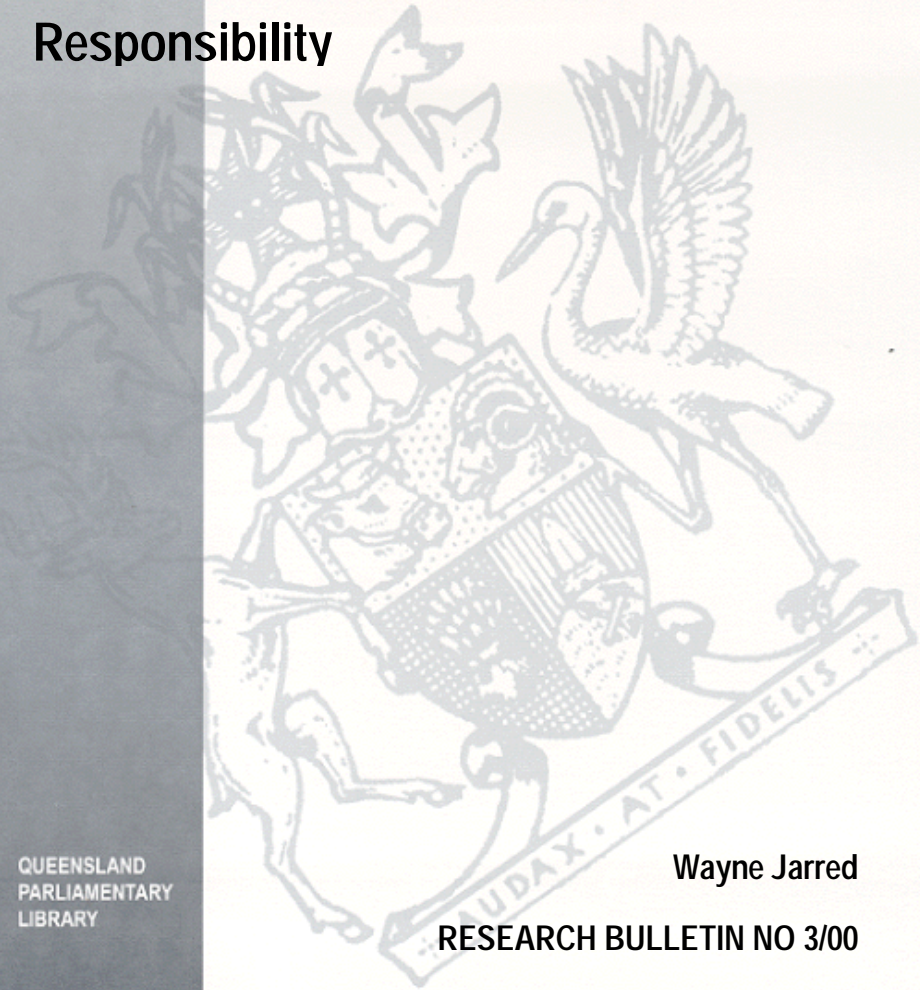


# Charter of Social and Fiscal Responsibility

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# **CHARTER OF SOCIAL AND FISCAL RESPONSIBILITY**

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**WAYNE JARRED**

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## **ABSTRACT**

*The Queensland Government's Charter of Social and Fiscal Responsibility is a 'philosophical statement' that focuses on the interactive relationship between the provision of government services, economic management and regulation to facilitate economic and social outcomes. The Charter of Social and Fiscal Responsibility has been enacted as a legislative requirement under Part 1A of the Financial Administration and Audit Act 1977.*

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## 1 INTRODUCTION

A charter is a statement of objectives that a particular organisation seeks to achieve. It defines the relationship between itself and its clients. In the case of government the relationship being defined is between itself and the general community. A charter states what the government intends to do and how it intends to do it.

A charter will also state how the government will keep the general community informed of its progress toward its stated objectives. At this level, a Charter will tend to be stated in whole of government terms – the **macro** level. On the other hand, a charter produced by a government service provider, whilst similar to an organisational mission statement, goes further than such a statement and is pitched at the client service level – the **micro** level.

In 1999 the Queensland Government introduced an amendment to the *Financial Administration and Audit Act 1997* which provided for the establishment of a Charter of Social and Fiscal Responsibility. This Charter was released in August 1999.

Such Charters between governments and their citizens are relatively recent phenomena that are aimed at contributing to principles of good governance. For instance, the Commonwealth government and the New Zealand government have enacted legislation for fiscal charters. The Hon Premier Peter Beattie described the Charter as a unique statement that contains both a social and a fiscal dimension.<sup>1</sup>

The Charter of Social and Fiscal responsibility is not only concerned with a strong financial position but also with a wider range of other policies essential for the advancement of the prosperity, welfare and quality of life of the community.<sup>2</sup>

## 2 QUEENSLAND CHARTER OF SOCIAL AND FISCAL RESPONSIBILITY

The Queensland Commission of Audit recommended that the Queensland government enact a Charter of Fiscal Responsibility.<sup>3</sup> The Commission of Audit

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<sup>1</sup> Hon P D Beattie MLA, Premier, Ministerial Statement, 'Charter of Social and Fiscal Responsibility', *Queensland Parliamentary Debates*, 26 August 1999, p 3576.

<sup>2</sup> Queensland. Government, *Charter of Social and Fiscal Responsibility*, August 1999, p 2.

<sup>3</sup> Queensland. Commission of Audit, *Report of the Queensland Commission of Audit*, vol 1, June 1996, p xxvi, para [3.2].

was concerned with what government could do to adopt “a leading edge public sector management framework”<sup>4</sup> (ie a framework that would provide high quality services in an efficient manner with finite resources<sup>5</sup>). Such a framework has been described as:

- Beginning with a strategic vision for the economic and social development of the State that was to be established at the highest level of government; and
- Recognising that the State’s key responsibility is to ensure that service provision within this vision would be equitable and efficient.<sup>6</sup>

Within the Commission’s Report there were a number of recommendations that were adopted by the government. For instance there is now a greater emphasis by government on:

- providing funding against outputs or results;
- providing a framework of accountability;
- providing a transparent system of accountability and reporting;
- providing fiscal responsibility;
- embracing accrual accounting; and
- allocating capital funding based on financial, economic and social assessment.

The Charter was created within a legislative framework that recognised the essential relationship between the fiscal and social objectives of the government.<sup>7</sup> Mention of the Charter was made by the Treasurer in the Budget Speech for 1998/1999 where social goals were stressed equally with fiscal goals.<sup>8</sup> The State budget for 1999/2000 was the first budget prepared in accordance with the requirements of the Charter of Social and Fiscal Responsibility.<sup>9</sup>

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<sup>4</sup> Queensland. Commission of Audit, vol 1, Preface.

<sup>5</sup> Peter Crossman, *Plus CA Change: Problems Faced by the Queensland Government Economic Advisor*, University of Queensland, Department of Economics Discussion Papers, No 207, August 1996, p 32.

<sup>6</sup> Crossman, p 32.

<sup>7</sup> Hon P D Beattie MLA, *Queensland Parliamentary Debates*, 26 August 1999, p 3576.

<sup>8</sup> *State Budget 1998-1999*, delivered 15 September 1998 by the Honourable David Hamill, Treasurer: *Budget Paper No.1*, p 9.

<sup>9</sup> Hon P D Beattie MLA, Premier, Second Reading Speech, Appropriation Bill, *Queensland Parliamentary Debates*, 14 September 1999, pp 3820-3829 at p 3828.

The introduction of the Charter brings into clearer focus the connection between social policies and economic policies. Basically, the perception that social policies are best served by concentrating on fiscal policy alone is questioned.<sup>10</sup>

This is in contrast to the federal government's Charter of Budget Honesty that has an underlying assumption that fiscal policy that maintains on-going economic prosperity will maximise the welfare of the Australian population.<sup>11</sup>

The legislative authority for the Queensland Charter is by way of an amendment to the *Financial Administration and Audit Act 1997*. The 1999 amending Act<sup>12</sup> inserted **Part 1A (sections 6A to 6D)**.

**Section 6B** prescribes that the purpose of the Charter is to state the government's broad social and fiscal objectives and to establish a framework for assessing the government's performance in achieving those stated objectives. **Section 6E** empowers the Treasurer to amend, withdraw or replace an existing charter.

In accordance with the legislation, the first Charter of Social and Fiscal Responsibility was released in August 1999 by Hon P Beattie, the Premier and Acting Treasurer.<sup>13</sup>

The Charter states that the government will link fiscal policy objectives to a full range of policy objectives for which the government is responsible, such as health, education, justice and employment growth policies.

Policy priorities listed in the charter are:

- jobs growth;
- sustainable regional economic growth;
- opportunities in education and workplace training;
- sustainable communities through social justice strategies;
- improved quality of life;
- clean environment; and
- government leadership.

These policy priorities are linked in the Charter with the fiscal strategy that contains the following elements:

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<sup>10</sup> Queensland. Government, *Charter of Social and Fiscal Responsibility*, August 1999, p 5.

<sup>11</sup> *Charter of Budget Honesty Act 1998* (Cth), Section 4(1).

<sup>12</sup> *Financial Administration Legislation Amendment Act 1999* (Qld).

<sup>13</sup> Queensland. Government, *Charter of Social and Fiscal Responsibility*, August 1999.

- competitive tax environment;
- affordable service provision;
- capital funding;
- management of financial risk; and
- increasing the net worth of the State.

The Charter states that the government will release an annual report on the efficiency and effectiveness of its activities in achieving the stated objectives. This report will be on a whole-of-government basis.

### **3 PRINCIPLES UPON WHICH THE CHARTER IS BASED**

**Section 6C** of the Financial Administration and Audit Act prescribes the principles on which the Charter must be based:

- transparency and accountability in the development, implementation and reporting of the social and fiscal objectives;
- efficient and effective allocation of resources in achieving the objectives of the charter;
- equity in revenue raising, delivery of government funded services and the allocation of resources between present and future generations; and
- prudent management of risk.

#### **3.1 TRANSPARENCY AND ACCOUNTABILITY**

In the development, implementation and reporting on the social and fiscal objectives established by government, it is essential that the elements of transparency and accountability be adhered to.

Transparency of the development, implementation and reporting stages of the Charter is important in order that accountability be applied. Accountability can only be applied when the full process is in open view. Transparency allows the various institutions that are involved to be identified. With the identification of institutional players, the elements of responsibility and accountability can then be utilised as an integral part of the process.

Traditionally, accountability at government level has been associated with the Westminster system of government. Under this system, accountability is

concentrated in the Ministers who are responsible to the parliament.<sup>14</sup> The process of being accountable entails the provision of information as to how responsibilities have been performed.<sup>15</sup>

In support of the argument that the parliament has a right to know what the government is doing, a former Auditor-General of New South Wales pointed to the case of *Egan v Willis*,<sup>16</sup> a case that went as far as the High Court.<sup>17</sup> It is through the process of accountability that government provides the parliament with information as to its progress and achievements.

### **3.2 THE EFFICIENT AND EFFECTIVE ALLOCATION AND USE OF RESOURCES**

The Annual Premier's Conference of 1993 agreed to establish a Steering Committee to review service provision at both the Commonwealth and State level. The first report of the Steering Committee, published in 1995, indicated that any assessment of government service provision must include a measure of both effectiveness and efficiency. The effectiveness of government programs in achieving desired policy outcomes that are established by government is important. The efficient provision of services is also important due to the large share of the nation's resources employed in such endeavours. The recognition that government services are to be provided effectively and efficiently is an integral part of performance monitoring aimed at improving performance levels.<sup>18</sup>

The use of resources can be efficient without being effective. There may be little waste of resources but the established goals may still not be attained. This is efficiency without effectiveness. Alternately, a program may well attain its goals but do so with an inefficient use of resources.

The overriding goal in any program, whether it is the public or private sector, is the attainment of the stated goals or objectives via the efficient use of the resources

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<sup>14</sup> Richard Mulgan, 'The Process of Public Accountability', *Australian Journal of Public Administration*, 56(1), March 1997, pp 25-36 at p 25.

<sup>15</sup> Mulgan, p 27.

<sup>16</sup> *Egan v Willis* (1996) 40 NSWLR 650; *Egan v Willis* [1998] HCA 71.

<sup>17</sup> Tony Harris, 'Information: The Foundation of Accountability', *Agenda*, 6(4), 1999, pp 291-307.

<sup>18</sup> Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision*, 1995, p iii.

involved. In other words, once the goal or objective has been established, it is important to attain that goal or objective through minimising inputs and maximising outputs. This is an integral part of the perception that the goal of government should be to provide the greatest good for the greatest number.

Concern with outcomes is being driven by a need to restrain government expenditure.<sup>19</sup>

### **3.3 EQUITY IN REVENUE RAISING, SERVICE DELIVERY AND RESOURCE ALLOCATION**

Equity equates to fairness. The principle that there must be fairness with respect to the raising of government revenue, the delivery of services and the allocation of resources is directly related to the established objectives. The expectation that this should also apply as between present and future generations is a new expectation on the part of government. In Australia and overseas, intergenerational equity considerations are gaining prominence in the discussion and conduct of government policy.

Intergenerational concerns have fuelled the concern with the perceived effect of high public debt as a tax burden on future generations. This concern has resulted in calls for the limiting of government expenditure in order to minimise budget deficits.<sup>20</sup> It is argued that the best way of preserving intergenerational equity is to adopt supporting fiscal and monetary policies.<sup>21</sup> In essence, the intergenerational equity argument states that the generation that consumes the services should generally pay for its provision.<sup>22</sup>

In Australia, monetary policy is the province of the federal government but fiscal policy is central to State government budgets. Fiscal policy refers to the use of revenue raising powers along with government expenditure in order to regulate the aggregate level of economic activity.

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<sup>19</sup> DP Doessel and S Schwartz, *Quality of Life: An Annotated Bibliography*, University of Queensland, Department of Economics Discussion Papers, No 68, July 1991, p 2.

<sup>20</sup> John Ablett, 'Intergenerational Accounting and Saving in Australia', *The Economic Record*, 72 (218), September 1996, pp 236-245 at p 236.

<sup>21</sup> I J Macfarlane, Deputy Governor of the Reserve Bank of Australia, *The Inter-Generational Dimension to Economic Policy*, Talk to Australian Investment Managers' Association/ Securities Institute of Australia Investment Management '96 Conference, Melbourne, 20 May 1996, p 7.

<sup>22</sup> Queensland. Commission of Audit, vol 1, p 24.

There is an economic perception that intergenerational equity is at the heart of both fiscal and monetary policy. Borrowing to finance long-lived assets from which future generations will benefit is not viewed as being detrimental to those future generations. However, the financing of recurrent expenditure in that way is viewed as placing a burden on the next generation.<sup>23</sup>

Generational accounts are currently used as part of government budget papers in the United States, Italy, Norway and by the Australian government.<sup>24</sup> From an economic perspective, the purpose of any activity is individual utility and intergenerational equity is considered in terms of the distribution of utility over time.<sup>25</sup>

### 3.4 RISK MANAGEMENT

The need for accountability exists throughout the administrative and political framework:

*The path of risk management does not come with the sign post saying “you will no longer be held to account”. In fact the reverse is the case. The further the path of risk taking is travelled, the larger will be the signs saying “You must account to the legislature and the taxpayer for your actions”.*<sup>26</sup>

In a governmental perspective, risk management is about planning, managing and protecting the taxpayers’ dollars and the maximisation of the benefits received from the deployment of those dollars.<sup>27</sup>

Comprehensive data on capital expenditure by government through departments and agencies allows for the monitoring of investment trends within the bank of capital stock that is held by government. The existence of capital plans allow for longer-term projections of this investment trend that can be used by government for future planning decisions. A system of capital planning enhances the transparency

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<sup>23</sup> Macfarlane, p 3.

<sup>24</sup> Ablett, p 237.

<sup>25</sup> Mick Common, ‘Equity and the Environment’, *Background Paper*, Environmental Economics Seminar Series, Department of the Environment Sport and Territories, 1996. [http://www.erin.gov.au/portfolio/dest/eeu/eeu\\_home.html](http://www.erin.gov.au/portfolio/dest/eeu/eeu_home.html) downloaded 8 June 2000.

<sup>26</sup> Cleaver Elliott, ‘Balancing Risk Management with Accountability – The Role and Impact of the Legislature and Parliamentary Committees in the Process of Public Accountability’, *Admin Review*, No 49, November 1997, p 10.

<sup>27</sup> Elliott, p 11.

of the process to both the government and the taxpayers, enabling the trend in investment patterns to be monitored.<sup>28</sup>

At the level of agencies and departments, risk management has been actively encouraged by government. A framework has been established by way of subordinate legislation known as Public Finance Standards under s 46L of the *Financial Administration and Audit Act 1977*. The Public Finance Standards require that adequate risk management policies and practices are in place within each public sector entity.

## 4 CONTENTS OF THE CHARTER

**Section 6D** prescribes that the Charter must include the following:

- government objectives for the community and the outcomes desired to be achieved;
- financial objectives of the government linked with the prudent management of the State's net worth;
- arrangements for regular reporting to the community on the efficiency and effectiveness in meeting the objectives and desired outcomes;
- regular updating of the State's financial position; and
- information on the general economic position of the State.

### 4.1 OBJECTIVES AND OUTCOMES

Under the Charter released in August 1999, the Government established its social and fiscal objectives under the heading of the following policy priorities:

- the creation of more sustainable jobs;
- sustainable regional economic growth;
- training opportunities for a State workforce that will cope with industry demands and needs into the future;
- the building of communities that are safer, more supportive and sustainable;
- improvement in the quality of life for community members;
- protection of the environment and its biodiversity for the good of current and future generations; and
- the provision of strong government leadership.

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<sup>28</sup> Australia. Department of Finance, *Improving Asset Management in the Public Sector: A Report from the Management Improvement Advisory Committee*, Discussion Paper, July 1990, p 15.

## 4.2 CREATION OF SUSTAINABLE JOBS

Sustainable employment growth is a high priority for all governments. A State comparison of unemployment levels shows that between July 1992 and July 1999 the average State level of unemployment was:

<b>Western Australia</b>	<b>7.57%</b>
<b>New South Wales</b>	<b>8.05%</b>
<b>Queensland</b>	<b>8.96%</b>
<b>Victoria</b>	<b>9.16%</b>
<b>South Australia</b>	<b>9.55%</b>
<b>Tasmania</b>	<b>10.51%.</b>

Queensland's employment growth rate over the period was 2.9%. Queensland, along with Western Australia, recorded a growth rate in employment levels greater than the other States.<sup>29</sup>

Queensland experienced the strongest employment growth of all the States between 1992 and 1999 but at the same time has had more difficulty in reducing the unemployment rate than have South Australia, Tasmania and New South Wales. 'Sunbelt' migration, coupled with high labour force participation rates, has been identified as working against a reduction in Queensland's unemployment level over the period.<sup>30</sup>

Between 1992 and 1999 Queensland was the only State to record a rise in the number of public sector employees and recorded the second highest increase in private sector employment behind Western Australia. The number of State government employees rose by approximately 27,000 between 1992 and 1999 but this was offset to some degree by a decline of approximately 16,000 in Commonwealth government employees employed in the State.<sup>31</sup>

Queensland and Western Australia have been the most successful of all the States in generating new employment since 1992. It has been argued that less reliance by these two States on declining manufacturing industries is one important reason as to why these two States have performed well in employment creation.<sup>32</sup>

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<sup>29</sup> Mark Cully, 'The Booming Australian Labour Market: State Variations', *Australian Bulletin of Labour*, 25 (3), September 1999, pp 205-215 at p 208.

<sup>30</sup> Cully, pp 210- 211.

<sup>31</sup> Cully, pp 212-213.

<sup>32</sup> Cully, pp 213-214.

### 4.3 REGIONAL ECONOMIC GROWTH

The sectoral composition of regional economies is of the utmost importance as it lays or creates the foundations for regional performance.<sup>33</sup> It is generally accepted that regional performance underlies State-wide performance and as such, regions are important from a policy perspective.

Generally, regional cities are wholesaling and retailing centres, community service providers, manufacturers, centres of transportation and storage, providers of recreational and personal services and locations for public administration and defence.<sup>34</sup> Both government policies and an entrepreneurial community spirit can play important part in differentiating between the growth rates of different regional cities.<sup>35</sup>

The growth of non-capital regional cities has been determined by both local and general conditions. Restructuring in both the public and private sectors has altered the distribution of economic activity. The private sector has sought out low cost production centres, and begun producing for both national and international markets, and this process has had an effect on many regional cities.<sup>36</sup>

#### 4.3.1 The Example of Gladstone

The catalyst for the transformation of Gladstone from a small meatworks town and minor port to a heavy industrial centre was government policy. The government of the day imposed an important condition on the mining lease negotiated with Comalco over the exploitation of bauxite reserves at Weipa. This condition was that a Queensland site be chosen for the processing of the mined bauxite.

Gladstone was eventually chosen for a number of reasons. The existence of a deepwater harbour combined with available land, rail access to coal deposits, the availability of electricity from the existing Callide station, and the existence of nearby deposits of limestone were all important factors in choosing Gladstone for the site. There was also an adequate water supply from the Boyne River, the prospect of future natural gas supplies, and an established town with growth potential.

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<sup>33</sup> Dennis Howard, 'Employment Data from Regional Australia: Evidence of Policy Weakness', *Australian Bulletin of Labour*, 25 (1), March 1999, pp 32-43 at p 42.

<sup>34</sup> Australia. Department of Housing and Regional Development, *Beyond the Capitals: Urban Growth in Regional Australia*, AGPS, Canberra, 1994, p 65.

<sup>35</sup> Australia. Department of Housing and Regional Development, p 65.

<sup>36</sup> Australia. Department of Housing and Regional Development, p 88.

Added to these elements is a civic leadership that has been active in seeking industrial growth.<sup>37</sup>

The major private sector employers in Gladstone are Queensland Aluminium and Boyne Smelters. The alumina produced is sold both nationally and internationally. Despite the solid growth experienced between the 1960s and the 1980s there is a continual need for policies that will diversify the local economy by developing smaller firms, and for policies that will expand the social infrastructure that will attract and retain a highly skilled workforce.<sup>38</sup>

Two further studies on Gladstone's future potential indicate there is an air of optimism about the city's future that will contribute heavily to the development of the Fitzroy Region.<sup>39</sup>

The CEDA study predicts an economical and organisational merger with Rockhampton to the north as the two cities are more complementary than competitive. Rockhampton was identified in the study as possessing the workforce, tertiary education institutions, manufacturing industry, and a mature services base whilst Gladstone was identified as having heavy industry, power, resources and development know-how. Future growth of the region was expected to accommodate the establishment of an international airport.<sup>40</sup>

Similar conclusions to the Gladstone / Rockhampton partnership have been drawn with respect to Hervey Bay / Maryborough.<sup>41</sup>

#### **4.4 EDUCATION AND TRAINING OPPORTUNITIES FOR THE STATE'S WORKFORCE**

The State government introduced an initiative aimed at securing jobs and training for the unemployed. The program, called 'Breaking the Unemployment Cycle',

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<sup>37</sup> Australia, Department of Housing and Regional Development, p 226.

<sup>38</sup> Australia. Department of Housing and Regional Development, p 226.

<sup>39</sup> Michael Wilson, *The Importance of Regional Development in Australia: The Gladstone Experience*, Committee for Economic Development of Australia (CEDA) Monograph No M91, September 1990 and J Mangan, *Evaluating the New Industrial Strategy for Gladstone: An Application of Input-Output Analysis over Time*, University of Queensland, Department of Economics Discussion Papers, No 126, August 1993.

<sup>40</sup> Wilson, p 38.

<sup>41</sup> Australia. Department of Housing and Regional Development, p 227.

was introduced in October 1998 and had been attributed with assisting approximately 11,000 Queenslanders by September 2000.<sup>42</sup> By June 1999, over two and a half thousand employers were eligible for State government assistance for employing just over 5,000 apprentices and trainees.<sup>43</sup>

In Australia the importance of apprenticeships as a vocational pathway for school leavers has been in decline for some time. Government programs such as financial subsidies are premised on the assumption that too much of the cost of employing apprentices is borne by the employer.<sup>44</sup> With an acknowledged cost to the employer, it is speculated that employers are influenced by a wider faith in the benefits of investing in training and in supporting the apprenticeship system in order to avoid industry skill shortages.<sup>45</sup>

Economists regards expenditure on education as being a positive determinant of long-term economic growth and high rates of both private and social rates of return of investment in education have long been recognised.<sup>46</sup>

#### **4.5 SAFER AND MORE SUPPORTIVE COMMUNITIES**

The issues identified by the Government in the Charter of Social and Fiscal Responsibility are the physical safety of adults and children, social justice, fair system of justice, access to community networks and infrastructure, and fast and effective responses to emergency situations.

Social planning is designed to both identify and to plan for the satisfaction of social needs of community members. The Department of Families, Youth and Community Care is the central government agency that assists other government agencies, the private sector and communities with social planning and assessment. The ultimate goal of social planners is to ensure that community needs such as education, health, recreation, family services, police and justice are not 'drowned' by purely economic development considerations.

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<sup>42</sup> Hon P Braddy MLA, 'Employment Initiative helps 11,000 Queenslanders into jobs and training', *Baking Business*, August/ September 1999, p 9.

<sup>43</sup> Hon P Braddy MLA, p 9.

<sup>44</sup> A M Dockery, P Koshy, T Stromback and W Ying, 'The Cost of Training Apprentices in Australian Firms', *Australian Bulletin of Labour*, 23 (4), December 1997, pp 255-274 at p 255.

<sup>45</sup> Dockery, Koshy, Stromback and Ying, p 270.

<sup>46</sup> Quiggin, J, 'Human Capital Theory and Education Policy in Australia', *The Australian Economic Review*, 32 (2), June 1999, pp 130-144 at p 130.

Hectic economic development outstripped social development in Gladstone in the late 1970s and early 1980s. This resulted in community discontent. The local council threatened a freeze on development unless the State government and private industry contributed to the cost of service provision. A stop work meeting by 3,500 workers voted to place a ban on construction projects unless better services were provided for the city's residents.<sup>47</sup> Since this period the social needs have been addressed. For instance, in 1995 the Department of Tourism, Sport and Youth conducted a study on the recreation habits and requirements of shiftworkers in Gladstone.<sup>48</sup>

#### 4.6 QUALITY OF LIFE

It is arguable that quality of life has been an implicit goal of public policy in nearly all societies for many centuries.<sup>49</sup> What is meant by quality of life depends upon the perspective taken. Generally a definition should include the essential needs of human beings and other elements that they perceive constitute quality of life.<sup>50</sup> The Premier, when introducing the 1999/2000 budget, identified the delivery of educational, health and family and community services as important services in improving the quality of life in the community.<sup>51</sup>

Even when quality of life is undefined and is subjective, it is still important because it influences choices made by the population when they are confronted with options about where to locate.

The development of relevant policy depends on the identification of quality of life indicators. Community surveys have been conducted for the purpose of ascertaining the regional characteristics that are important to people when deciding where to locate. One such survey recorded the following responses in order of importance:

- low crime rate
- clean water/ air
- low noise pollution
- availability of doctors/hospitals

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<sup>47</sup> Australia. Department of Housing and Regional Development, p 218.

<sup>48</sup> Queensland. Department of Tourism, Sport and Youth, *Gladstone Shiftworker Recreation Study*, 1995.

<sup>49</sup> Kathy Lloyd, 'Planning for Leisure: Issues of Quality of Life,' *Social Alternatives*, 15(2), April 1996, pp 19-22 at p 19.

<sup>50</sup> Compton, D M, 'Person Centred Quality of Life Evaluation,' pp 75-90 in Colin Mercer (ed) *Urban and Regional Quality of Life Indicators*, Institute of Cultural Policy Studies, Faculty of Humanities, Griffith University, 1994, at p 78.

<sup>51</sup> Hon. P D Beattie MLA, *Queensland Parliamentary Debates*, 14 September 1999, p 3824.

- level of health
- good education facilities
- strong State government
- optimistic outlook
- strong economic growth
- cost of living
- good sports facilities
- high average weekly income
- low unemployment
- high affordability of housing
- council charges
- availability of public transport
- close to a capital city
- close to beaches / snowfields.

In the survey, 6 Queensland cities were listed amongst the top 20 most desirable cities to live:

Brisbane	3 <sup>rd</sup> position
Gold-Coast-Tweed	7 <sup>th</sup> position
Toowoomba	9 <sup>th</sup> position
Townsville	16 <sup>th</sup> position
Cairns	19 <sup>th</sup> position
Sunshine Coast	20 <sup>th</sup> position <sup>52</sup>

#### **4.7 ENVIRONMENTAL PROTECTION**

As can be seen by the above survey results, environmental issues are a high concern to people when deciding where to live. All governments in Australia have increasingly adopted environmental policies and enacted legislation over the last 25 years. Caring for the environment makes both social and economic sense and the preservation of the natural environment, wherever possible, is important for the well-being of communities both physically and psychologically.

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<sup>52</sup> Jocelyn Eastway, 'The Best City in Australia', *Personal Investment*, January/ February 1992, pp 34-43.

## 4.8 GOVERNMENT LEADERSHIP

The existence of a strong State government was also identified in the community survey mentioned above. It was given a rating of 7.5 out of 10. For a long time, strong political leadership has been recognised as a positive factor in pre-election opinion polls. Strong State government also encourages or fosters an optimistic outlook on the part of the community which was another important issue identified in the survey.

## 4.9 FINANCIAL OBJECTIVES

The Queensland Government's financial objectives are incorporated within the fiscal strategy that centres on:

- the creation of a competitive tax environment;
- the provision of affordable services;
- the borrowing of capital funds, but only where such borrowings can be serviced within the operating surplus;
- prudent management of future liabilities; and
- the maintenance of or an increase in Total State Net Worth.<sup>53</sup>

### 4.9.1 Competitive Tax Environment

The Government has estimated that the average per capita tax expenditure for Queenslanders in 1999/2000 will be \$ 1,599 compared with an average for the other States of \$2,016.<sup>54</sup> Australian Bureau of Statistics estimates show that Queensland consistently recorded the lowest rate of taxation per head of mean population between 1990/1991 and 1996/1997.<sup>55</sup>

Some commentators argue that the States are restricted in revenue raising from their own tax bases and that even this is further restricted through falling values of property and assets.<sup>56</sup> The Commission of Audit reported that the State's deficit by

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<sup>53</sup> Queensland. Government, *Charter of Social and Fiscal Responsibility*, p 4.

<sup>54</sup> Hon DJ Hamill MLA, Treasurer, 'State Government Performance', *Queensland Parliamentary Debates*, 2 December 1999, pp 5860-5861 at p 5860.

<sup>55</sup> Australian Bureau of Statistics, *Taxation Revenue Australia*, ABS Catalogue No 5506.0.

<sup>56</sup> Denis James, *The Australian Loan Council (2<sup>nd</sup> edition)*, Background Paper No 29, November 1993, Commonwealth Parliamentary Research Service, p 24.

the financial year 2005 / 2006 would be in the vicinity of \$2.7 billion. This estimation was based on the continuation of existing policies, practices and planning assumptions.<sup>57</sup>

The Commission of Audit submitted that there is an obligation on the State government to ensure that its tax structure remained competitive with those of other jurisdictions. The Audit Report stated that this did not preclude the striking of new taxes or increases in existing tax rates. However, a competitive environment will require that taxes be evaluated for their impact not only relative to other States but also for their impact across regions and products within Queensland. Queensland's narrow tax base requires more emphasis on user charges and private sector service provision.<sup>58</sup>

The Commission of Audit found that the tax base is narrow and inefficient and, even if Queensland's taxation level was raised to the level of the other States, the additional revenue raised would still not be sufficient to meet service demands in the medium to longer term.<sup>59</sup>

It was a recommendation of the Commission of Audit that the State government conduct a review of the State's tax base to assess the efficiency, equity and administrative costs of each State tax on business and households in order to ascertain whether or not they could continue to be justified.<sup>60</sup>

#### **4.9.2 Service Provision**

The Government indicated in the Charter that the State's level of service provision would be contained within the general government operating surplus.<sup>61</sup> In keeping with this operating surplus position, it has been pointed out that Queensland has for some time been providing service levels below that of the other States. Between 1985/1986 and 1995/1996 there were variations between the States in relation to the level of service provision. Victoria and South Australia recorded service provision ratios consistently above the national average. New South Wales, Tasmania and Western Australia fluctuated above and below the national average

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<sup>57</sup> Queensland. Commission of Audit, vol 1, p 125.

<sup>58</sup> Queensland. Commission of Audit, vol 1, p 39.

<sup>59</sup> Queensland. Commission of Audit, vol 1, p 157.

<sup>60</sup> Queensland. Commission of Audit, vol 1, p 157.

<sup>61</sup> Queensland. Government, *Charter of Social and Fiscal Responsibility*, August 1999, p 7.

over the same period. Service provision in Queensland for the period remained below the national average to a significant degree.<sup>62</sup>

#### **4.9.3 Capital Funding And Management Of Future Liabilities**

The Government has stated that its capital fund raising will be maintained at a level where the repayments can be made within the budget surplus. No borrowings are allocated for the provision of social infrastructure, only for the formation of capital infrastructure.<sup>63</sup> The general sound rule of thumb is that debt should only be raised in order to fund capital projects that promise an economic return of sufficient magnitude to cover the repayment of the loan amount and interest charged.<sup>64</sup>

A major component of capital funding is loans obtained through the Australian Loan Council. In 1990 it was agreed by the Loan Council members that the various States and Territories would gradually take over the responsibility for outstanding debt issued on their behalf by the Commonwealth. Under the 1990 Agreement the States and Territories have been making additional payments to the National Debt Sinking Fund in order to redeem the outstanding Commonwealth debt raised on their behalf. It is estimated that the debt should be fully taken over by the States and Territories by the financial year 2005 – 2006.<sup>65</sup>

Under this agreement the States and Territories are expected to be more accountable in financial markets for their capital raisings.<sup>66</sup>

#### **4.9.4 Management Of Future Liabilities**

Public sector superannuation liabilities account for the largest unfunded liability of most State governments.<sup>67</sup> Across Australia public sector debt has been falling. This is due to the sale of government assets and fiscal containment policies.

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<sup>62</sup> Richard Gow and Alan Duhs, 'VFI, GST and Queensland's Low Tax Status', *Queensland Economic Forecasts and Business Review*, 7(2), October 1998, pp 54-74 at p 69.

<sup>63</sup> Hon. D J Hamill MLA, *Queensland Parliamentary Debates*, 2 December 1999, p 5860.

<sup>64</sup> Queensland. Commission of Audit, vol 1, p 25.

<sup>65</sup> Denis James, *The Australian Loan Council*, Issues Brief Number 21, 1992, Commonwealth Parliamentary Research Service, p 6.

<sup>66</sup> Denis James, p 7.

As part of its terms of reference, the Queensland Audit Commission was required to examine the State's major risks and contingent liabilities. The Report of the Commission listed the following major financial risks for the State government:

- Reductions in Commonwealth funding;
- Progressive decline in the performance of business enterprises;
- Cost of new infrastructure;
- Professional liability claims;
- Unfunded workers' compensation claims;
- Exposures arising under financial arrangements (eg. credit, interest rates, currency risks etc);
- Natural disasters; and
- Public liability claims.<sup>68</sup>

These risks were included by the Audit Commission as they each had the ability to adversely affect the budget in excess of \$50 million in any financial year.<sup>69</sup>

#### **4.9.5 Maintain Or Increase State Net Worth**

State net worth is defined as the difference between the value of the assets owned and the value of liabilities held.<sup>70</sup>

The expectation that public sector net worth should be preserved and/or improved is based on the principle of intergenerational equity as discussed above (Section 3.3). For the intergenerational principle to be satisfied, the timing of the provision of services is to be matched with their cost to the community. If this is done, there will be at least maintenance of, and perhaps an increase in, public sector net worth.

The argument against restricting debt raising to infrastructure or assets that will provide an economic return is that such a restriction will lead to an environment where social infrastructure is subject to under-investment. However, there is a

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<sup>67</sup> Bankers Trust, KPMG, *Unfunded Superannuation, Accrual Accounting and Public Sector Liabilities*, January 1999, p 17.

<sup>68</sup> Queensland. Commission of Audit, vol 1, pp 133-138.

<sup>69</sup> Queensland. Commission of Audit, vol 1, p 133.

<sup>70</sup> A Makin, *Capital Market Integration and National Net Worth*, University of Queensland, Department of Economics Discussion Papers, No 98, September 1992, p 1.

recognition that there is no clear distinction between infrastructure that is purely economic and infrastructure that is purely social.<sup>71</sup>

#### **4.10 REGULAR REPORTING**

The Treasurer is reporting to parliament by providing a midyear fiscal and economic review. The last such review was presented to Parliament on 16 March 2000. This review contained information on the State's economic outlook, economic growth, trends in household consumption, economic performance compared with other States, forecasts for unemployment, inflation forecasts, interest rate forecasts, forward estimates which included forecasts of surpluses or deficits and estimates of net State worth.<sup>72</sup>

The midyear economic and fiscal review is presented as part of the Charter of Social and Fiscal Responsibility and is in accordance with the Australian Loan Council's uniform presentation framework.<sup>73</sup> The Loan Council's financial uniform presentation framework was agreed to in 1997 and the first mid-year reports were published by the States in the financial year 1998-1999.<sup>74</sup>

The presentation framework is expected to be altered in line with the move from cash based accounting standards to accrual based accounting.

### **5 MEASURING ADVANCEMENT OR PROGRESS**

The argument that governments should aspire to continued economic growth rests upon the assumption that quality of life is enhanced by such economic growth. Generally, it has been an assumption that has underpinned the policies of many governments in the western world.<sup>75</sup>

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<sup>71</sup> Queensland. Commission of Audit, vol 1, p 25.

<sup>72</sup> Hon DJ Hamill MLA, Ministerial Statement, 'Midyear Economic and Fiscal Review', *Queensland Parliamentary Debates*, 16 March 2000, pp 522-23.

<sup>73</sup> Hon DJ Hamill MLA, *Queensland Parliamentary Debates*, 16 March 2000, p 522.

<sup>74</sup> Australia. Government. *Federal Financial Relations 1999-2000: Budget Paper No 3*, p 45.

<sup>75</sup> Richard Eckersley, 'Perspective on Progress; Economic Growth, Quality of Life and Ecological Sustainability', pp 3-34 in Richard Eckersley (ed) *Measuring Progress: Is Life Getting Better?*, CSIRO Publishing, 1998, at p 14.

Gross Domestic Product (GDP) or national income has long been used as a measure of economic activity. An increase in this measure indicates that economic activity has increased. GDP is purely an economic measure that is calculated by way of an income approach, an expenditure approach or an output approach. The Australian Bureau of Statistics uses the average of the three measures as the best indicator of the movement of GDP. The Queensland Government, by comparison, uses the income-based GDP as the preferred measure of estimating aggregate economic activity.

Changes in GDP per capita are constantly used by economists and policy makers as a measure of national well-being.<sup>76</sup> There is now a body of thought that suggests that growth in GDP is not a relevant measure of the well-being of the population. Hamilton and Saddler developed the Genuine Progress Indicator (GPI) as an alternative to the use of GDP as measure of the well-being of the population. These authors base their approach to measurement on the belief that people live in a society, not an economy, and that the society is embedded in a natural environment. The Genuine Progress Indicator is put forward as a better indication of the changes in well-being of the population than GDP.<sup>77</sup>

The range of indicators that are used in the calculation of the GPI are listed in **Appendix A**. The indicators that are used are far more extensive than those used in the calculation of GDP. The incorporation of these indicators result in a complex equation of positives and negatives that are evaluated within a 'ledger' to strike a single figure that represents changes in well-being. GDP as the alternate measure indicates the level of economic activity for a particular period.

Hamilton and Saddler applied their GPI calculations to the period 1950-1996 for Australia and compared this with the GDP figure of economic activity for the same period. During the period 1950-1996 real GDP per person in Australia increased from approximately \$9,000 to \$23,000 which was a reflection of economic growth over the period. Reliance on this GDP figure resulted in the perception that the population was better off. By way of contrast the GPI calculation provided a different picture with GPI figure per capita in 1996 estimated at \$16,000.

Hamilton and Saddler explained the failure of well-being in Australia to rise as sharply as the GDP figure suggested as being due to:

- the unsustainable levels of foreign debt;
- the growing costs of unemployment and overwork;

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<sup>76</sup> Clive Hamilton and Hugh Saddler, *The Genuine Progress Indicator: A new index of changes in well-being in Australia*, Discussion Paper, The Australia Institute, No 14, October 1997, p 1.

<sup>77</sup> Hamilton and Saddler, p 2.

- the combined impact of a number of environmental problems;
- the escalating costs of energy resource depletion and greenhouse gas emissions; and
- a failure to maintain investments in the national capital stocks.<sup>78</sup>

The conclusions drawn by Hamilton and Saddler are:

- (a) that economic growth in Australia is relying ever more heavily on the run-down stocks of built, social and natural capital;
- (b) that the living conditions of Australians are not improving; and
- (c) that the nation is borrowing from the future to prevent current living standards from falling any further.<sup>79</sup>

The Senate Legal and Constitutional References Committee commented that accounting for the well-being and quality of life of the community rests ultimately on the 'whole of government' level. Measuring individual agencies' performances through the effective and efficient provision of services will not provide an accurate picture of the well-being of the population.<sup>80</sup>

The Senate Committee went on to say that it was important that it be clearly understood by both the community and the government that the fundamental focus of governmental activity is the improvement of well-being. Such a focus would then be of importance in the provision of services,<sup>81</sup> as well-being is a concept that involves the consideration of numerous social concerns and there needs to be an understanding of the relationships between those areas of social concerns.<sup>82</sup>

The Senate Committee recommended that the federal government adopt a national system of indicators and benchmarks that were capable of measuring performance in areas of legal, economic, social and cultural significance<sup>83</sup> similarly to the State

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<sup>78</sup> Hamilton and Saddler, p 47.

<sup>79</sup> Hamilton and Saddler, p 47.

<sup>80</sup> Australia. Report by the Senate Legal and Constitutional References Committee, *National Well-Being: A System of National Citizenship Indicators and Benchmarks*, April 1996, p 71.

<sup>81</sup> Australia. Senate Legal and Constitutional References Committee, p 71.

<sup>82</sup> Australia. Senate Legal and Constitutional References Committee, p 20.

<sup>83</sup> Australia. Senate Legal and Constitutional References Committee, p ix.

of Oregon in the United States.<sup>84</sup> This recommendation was however, rejected by the government.<sup>85</sup>

## 6 AUSTRALIAN CHARTER OF BUDGET HONESTY

The idea of formally acknowledging that the federal government had a fiscal responsibility came in 1993 with the introduction of a tax legislation amendment Bill.<sup>86</sup> However, this Bill lapsed. The next attempt was with the introduction of the Charter of Budget Honesty Bill 1996. This Bill also lapsed after the House of Representatives twice refused to agree to a number of amendments twice proposed by the Senate.

The *Charter of Budget Honesty Act 1998* created a Charter of Budget Honesty that pledged the government (and future governments while the Act remained in force) to adhere to a number of obligations. These obligations are:

- adherence to principles of sound fiscal management;
- a publication of fiscal strategy statements;
- regular fiscal reporting;
- production of reports comparing fiscal results with those of previous reporting periods;
- pre-election reports; and
- estimates of election commitments.

During his Second Reading Speech on the Bill, the Federal Treasurer stated that the Charter would hold all future governments accountable for their fiscal and economic policies and, in doing so, would provide the basis for a sounder economic performance and sustainable job opportunities.<sup>87</sup>

As with the Queensland Charter, there is a requirement that a process of fiscal reporting be applied. The Federal Treasurer is to report to the Parliament with each year's budget and a further report is to be released midway through the financial year. The Federal Treasury and the Department of Finance are required to prepare

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<sup>84</sup> Australia. Senate Legal and Constitutional References Committee, p 74.

<sup>85</sup> Australia. *National Well-Being: A System of National Citizenship Indicators and Benchmarks: Report Recommendations and the Commonwealth Government's Response*, November 1996, pp 3-4.

<sup>86</sup> Tax Legislation Amendment (Fiscal Responsibility) Bill 1993 (Cth).

<sup>87</sup> Hon P Costello MHR, Charter of Budget Honesty Bill 1996, *House of Representatives Hansard*, 4 December 1997, pp 12234-12236 at p 12235.

pre-election reports to provide updated information on the fiscal and economic outlook.

The Queensland Shadow Treasurer, Dr David Watson, in comparing the Charter of Budget Honesty legislation with the Queensland legislation creating the Charter of Social and Fiscal Responsibility, argued that whilst the Queensland legislation included some aspects of the federal legislation it did not replicate the explicit nature of the latter legislation.<sup>88</sup>

The framework adopted in the Queensland Charter is similar to the New Zealand *Fiscal Responsibility Act 1994*.

## **7 FISCAL RESPONSIBILITY ACT – NEW ZEALAND**

The New Zealand government enacted the *Fiscal Responsibility Act* in 1994. Under the legislation government is required to pursue policy objectives in accordance with principles of responsible fiscal management. A regime for reporting to Parliament by way of annual fiscal strategy reports, annual economic and fiscal updates, annual economic forecasts, and annual fiscal forecasts is provided for in the legislation. There is also provision in the legislation for half-yearly economic and fiscal updates.

The objectives of the *Fiscal Responsibility Act 1994* are sound fiscal management of the New Zealand economy through:

- reduction of total Crown debt to prudent levels;
- ensuring that over time total operating expenses of the Crown do not exceed total operating revenue;
- the maximisation of Crown net worth; and
- pursuance of policies that are consistent with a reasonable degree of knowledge about future tax rates.

The New Zealand legislation provides for every budget policy statement laid before the House of Representatives to be referred to a Select Committee of the House that is responsible for reviewing the financial management in government departments.

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<sup>88</sup> Hon D Watson MLA, Second Reading Speech, Financial Administration Legislation Bill, *Queensland Parliamentary Debates*, 8 June 1999, pp 2191- 2193 at p 2193.

## **8 CONCLUSION**

The Queensland Charter of Social and Fiscal Responsibility is the only one of its kind in any Australian jurisdiction where social concerns have been given 'equal billing' with fiscal concerns. Through the Charter, the Queensland government is changing its focus from the purely traditional fiscal approach to one that acknowledges the importance of social factors and incorporates them in the planning process.

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**APPENDIX A –INDICATORS USED BY HAMILTON  
AND SADDLER<sup>89</sup> TO CALCULATE  
THE GENUINE PROGRESS INDICATOR:**

- Personal consumption
- Income distribution
- Public consumption other than for defence
- Value of household and community work
- Costs of unemployment
- Costs of underemployment
- Costs of overwork
- Private spending on health and education
- Services of public capital
- Costs of commuting
- Costs of noise pollution
- Costs of transport accidents
- Costs of industrial accidents
- Costs of irrigation water use
- Costs of urban water pollution
- Costs of air pollution
- Costs of land degradation
- Costs of loss of native forests
- Costs of the depletion of energy resources
- Costs of climate change
- Costs of ozone depletion
- Costs of crime
- Net capital growth
- Net foreign lending

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<sup>89</sup> Clive Hamilton and Hugh Saddler, *The Genuine Progress Indicator: A new index of changes in well-being in Australia*, Discussion Paper, The Australia Institute, No 14, October 1997, Table 1.



