



Speech by

Dr DAVID WATSON

MEMBER FOR MOGGILL

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FINANCIAL ADMINISTRATION LEGISLATION AMENDMENT BILL

Dr WATSON (Moggill—LP) (Leader of the Liberal Party) (3.21 p.m.): I rise again to indicate that the Opposition will be supporting the Financial Administration Legislation Amendment Bill 1999. In some respects, this Bill has had an extraordinarily long gestation period. I recall that, when I first came into this Parliament quite a number of years ago and was a member of the Public Accounts Committee, of which Ken Hayward, the member for Kallangur, was the chairman, the introduction of accrual accounting into the budgetary process of the State Government was first being discussed. That must have been during my first term here in 1990 or 1991.

The introduction into the budgetary process of accrual accounting or, as Treasury is calling it these days, Managing for Outcomes is one of the two objectives of this particular Bill. I am going to return to that in just a moment. The second objective of this Bill—in fact, the one that is mentioned first—is the introduction of a charter of social and fiscal responsibility. On a number of occasions we have heard the Treasurer's announcement of a charter of social and fiscal responsibility. I could not help noting that the Treasurer first identified this—and I had to go back and check the records—in an article in the Courier-Mail of 11 July 1998, which indicated that—

"The Beattie Government would enact a charter of social and fiscal responsibility, Treasurer David Hamill promised last night in his first public speech since taking over the portfolio."

Lo and behold, when the Budget was brought down in September of that year, again the Treasurer indicated the first step in the fiscal sector would be the implementation of a charter of fiscal responsibility. Earlier this year, the Treasurer announced it yet again. In fact, in April this year he got George Lekakis from the Australian Financial Review to announce that—

"The Beattie Government"—

according to the Treasurer—

"will announce a plan today to implement a charter of fiscal responsibility that will commit future Queensland governments to ongoing budget surpluses."

That statement was repeated on a number of occasions in The Bottom Line in the Courier-Mail. Dennis Atkins picked up on the point that it was finally going to be implemented—or potentially implemented. In fact, he put it in a nice way—

"In politics, if something is worth saying once it's worth saying again and again. Treasurer David Hamill has obviously learnt this basic lesson of announcing initiatives well."

Lo and behold, on 15 April, there was a media release from the Treasurer saying that "today" he had actually—

"... introduced key amendments to the State's Financial Administration and Audit Act that will provide for Governments to prepare and table in Parliament charters of social and fiscal responsibility."

The Bottom Line said—

"There is no stopping Treasurer David Hamill. Yesterday he sought to take another bite of the cherry with his much-announced charter for social and fiscal responsibility."

Mr Hamill: I honour my promises.

Dr WATSON: I understand that. When the Treasurer was introducing this Bill and indicating that he was actually going to have a charter of social and fiscal responsibility, after the long lead-up period of it being announced in July last year and it being repeated a number of times since then, I was a little surprised when I actually looked at this Bill and what did I see? I saw an outline of the proposed principles of a charter of social and fiscal responsibility, but no, there was no charter of social and fiscal responsibility yet. So we are going to have to wait yet again.

Mr Hegarty: Another announcement.

Dr WATSON: Yes, for another announcement, another media opportunity.

Mr Fouras: You're being extremely generous today. I don't think you could let him go all day.

Dr WATSON: I could not help the member for Ashgrove by making this comment, because I have been intrigued by the way that this is coming out. At some stage I am sure that we are actually going to see this charter of social and fiscal responsibility.

Mr Schwarten: All will be revealed.

Dr WATSON: Everything will be revealed in the fullness of time.

I was a little surprised to see an article in the Queensland Times on 17 April with the headline "State charter close to reality". I think that was probably a little presumptuous on the part of the Queensland Times.

Mr Hamill: The QT knows these things.

Dr WATSON: Maybe they have a good reporter there.

Mr Hamill: They have good sources.

Dr WATSON: The Treasurer says that they have good sources. But that was six weeks ago, and we are still waiting. So the reality is still some steps away.

The question is: why do we need a charter of social and fiscal responsibility? Why do we need such a charter? Of course, the need for such a charter arises because of the record of the Labor Party when in Government. That is particularly true of the former Federal Labor Government. When the coalition took over federally, it found, to its surprise, a \$10.5 billion deficit which had not been disclosed by the former Prime Minister or the former Minister for Finance, now the Federal Opposition Leader, Mr Beazley. That deficit had been hidden throughout that period of Government, despite questions being asked. Of course, the Howard Government had to do something about that situation, and that is why this charter came to the fore. In 32 years of coalition Government in Queensland, such a charter was not necessary.

Mr Hamill: It was highly desirable.

Dr WATSON: It was not necessary at all, because the record spoke for itself. Right from the word go, we in the coalition made sure that Queensland was in a fiscally strong position. We recognised the liabilities—the contingent liabilities or the superannuation liabilities—up front. That was always part of our budgetary process. We did not run this State into the ground like Labor Governments did in Victoria, South Australia, New South Wales and Western Australia—and, of course, in the Federal sphere. Labor Governments in each and every State of Australia and in the Commonwealth have been profligate when it comes to the issue of spending money, and they have reneged on their responsibility to ensure that we have a fiscally sound Government in this country and in this State.

Even the Commission of Audit indicated that if the Goss Government had continued in the way of the southern State Labor Governments we would have run into financial problems, in an accrual accounting sense, in this State. The Labor Government is putting forward a charter for social and fiscal responsibility in order to mimic what the Federal Government did, but it is a pale imitation.

The Federal Treasurer put on record what he meant by fiscal responsibility. I refer to his Charter of Budget Honesty which was included in an Act of the Federal Parliament last year. The Federal Treasurer said—

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

He went on and said—

"The Government's fiscal strategy is to be based on the principles of sound fiscal management."

Then he outlined in some detail what were those principles of sound fiscal management. He said that they involved the following: management of the financial risks of the Commonwealth; the

Commonwealth acting prudently, having regard to the economic circumstances; the Commonwealth ensuring that its fiscal policy contributes to adequate national savings; moderating cyclical fluctuations in economic activity; pursuing spending and taxing policies that are consistent with a reasonable degree of stability and predictability of the level of the tax burden; maintaining the integrity of the tax system; and ensuring that policy directions have regard to the financial effect on future generations.

He was quite definite as to the financial risks that had to be taken into account. These included: risks arising from excessive debt; commercial risks arising from ownership of public trading enterprises and public financial enterprises; risks arising from the erosion of the tax base; and risks arising from the management of assets and liabilities.

When I compare what the Commonwealth has put forward with what is contained in the Bill before this Parliament, I have to say that the explicit nature of the Federal Government's legislation is not replicated in this Bill. It certainly picks up some of the aspects of the Federal legislation. This Bill speaks about prudent management of risk, but we cannot find the types of financial risk that are meant to be taken into account.

The thing that strikes me about this legislation is that there is a juxtaposition between social and fiscal responsibility. Unfortunately, while that may be a laudable objective, traditionally Labor Governments have used it as an out for getting away from strong fiscal responsibility. The thing that concerns me about this Government's proposals is that, by having a trade-off in the budgetary process between what one might call fiscal responsibility and social responsibility, this Government is provided with a mechanism by which it can abrogate its fiscal responsibilities.

That is the history of Labor Governments. That is the type of mechanism or rationale that was put forward by Kirner and Cain and by Bannon and Burke. These types of arguments were put forward by Keating, Beasley and others at the Federal level.

Mr Swarten: I thought we had Labor Governments for 50 years in Queensland. Fifty years of Labor Governments in Queensland we had. You haven't talked about them.

Dr WATSON: As I said, the thing that stood out about Queensland was the fact that we had a strong economy and strong financial management, but that only became a reality when the coalition came to Government in 1957. Before then, Queensland was not going anywhere. Queensland was labouring under Labor. That was the problem. Coalition Governments established in Queensland a strong fiscal base which recognised our future liabilities. We planned for those liabilities and took them into account and took Queensland to the strong position that it has since enjoyed.

That is the reality. Thirty-two years of non-Labor Government in Queensland ensured that Queensland was fiscally strong. Coalition Governments did not leave it for future generations to pick up the tab. Look at Victoria. Talk about social responsibility! Ten years of Labor Governments in Victoria have left that State a basket case. Victorians will be paying off the debt for the next 100 years. Labor has burdened future generations with these debts.

In the Federal sphere, in the five years before the coalition Government came to office the Labor Party increased Australia's debt to something of the order of \$70 billion or \$80 billion. That is the legacy of Labor. Labor spends now and leaves it for future generations to pick up the tab. That is not only fiscally irresponsible, it is socially irresponsible. That is the type of attitude that scares future generations of Labor Governments. The point that I made earlier still stands—

Mr Swarten: What point was that?

Dr WATSON: One has simply to look at the fiscal history of the Commonwealth and each of the States I have mentioned. The point is proved by empirical facts.

Government members interjected.

Dr WATSON: It does not matter how much those opposite shout and rave and rant across the Chamber—the fiscal facts are not altered one iota.

I want to move on to the other section of the Bill which deals with accrual accounting. Perhaps this aspect will generate less heat on the other side of the House. I must admit that I enjoy the rantings and ravings of those opposite because it only helps to reinforce some of the points that I raised earlier.

Mr Hamill: If you say accrual accounting is exciting, you should become an auditor.

Dr WATSON: Accrual accounting has been a long time coming. I do not recall precisely when the idea of introducing accrual accounting into the public sector first appeared in the literature, but it was certainly back in the sixties or something like that.

Mr Hamill: Probably when you were an undergraduate.

Dr WATSON: Yes, probably when I was an undergraduate—maybe even before that. I can certainly remember reading about it.

Mr Welford: Before you embarrassed your father by joining the Liberal Party.

Dr WATSON: No, he is proud of his son. He has less to say these days about his local member. The idea of accrual accounting developed when we had joint stock companies for raising equity and debt capital back in the early part of the 19th century. Before that time, most significant business undertakings were done by some kind of venture operation and there was a distinct beginning and end to most of the ventures. However, once joint stock companies were created, they were continuous and there had to be some method of accounting developed that allowed those who lent money, in terms of debentures or whatever to the company, and those who actually owned shares in the company, to receive a report from time to time both on the value of the entity and what may have been earned during a particular period.

The rationale for the development of accrual accounting was the idea of stewardship. Under this notion of accrual accounting, management was seen as the stewards of the money lent in terms of debt or equity to the company and over a period they reported back to the debt holders and shareholders on their stewardship of that money. A little bit further down the track, although the idea of stewardship remained important, it gave way to the importance of accrual accounting in terms of decision making. I will return to that issue in a moment. The accounting literature suggested that, in evaluating the importance of accrual accounting, it was necessary to evaluate for what types of decisions the information was being provided and the decision-making criteria of a particular financial accounting recommendation. It was recognised that financial accounting was not an end in itself but that it was designed to enable stockholders, bondholders, or whomever, to make decisions and to choose between alternative uses of scarce resources.

More recently, the financial accounting literature has referred to financial accounting as a method of making sure agents, which are the managers of the company, report appropriately to their principals, who are the shareholders. These days, when one considers the development of financial accounting, most of the financial accounting texts consider it from an agency context. However, pages 2 and 3 of the Explanatory Notes outline the kinds of things that one would expect to gain from the introduction of accrual accounting in a Government framework. It is worth while members looking at those points, because I believe that they drive some of the measures that will come out of Managing for Outcomes, and I am not quite sure that I agree with all of them. The Explanatory Notes state that the improvement will—

"promote the achievement of the Government's endorsed policy objectives and outcomes, by translating them into funded services;

promote better management of the State's balance sheet;

encourage an improved focus on results achieved;

increase flexibility for agencies to manage service delivery within agreed accountability frameworks;

give public service managers the tools to manage their core business more effectively;

promote a clearer understanding for public sector managers of what is expected and how success will be measured; and

provide significantly improved financial and non-financial information on:

the services being delivered by agencies;

the total cost of these services;

the net worth of agencies and Government and the impact of Budget decisions on this net worth"——

A Government member interjected.

Dr WATSON: The member usually starts that when he is losing an argument. Further—

"the expenses and revenues, assets and liabilities of individual agencies and the Government as a whole."

One of the things that concerns me is that those points adopt a decision-making viewpoint and an internal, management decision-making viewpoint. I hope that, in the process of getting Managing for Outcomes——

Mr Fenlon: It is also external accountability.

Dr WATSON: It does not actually promote that in the Explanatory Notes.

Mr Fenlon: That's an inevitable consequence.

Dr WATSON: It is not an inevitable consequence at all. The important thing to note about this is that it does not mention the role of the Parliament—in making sure that the information is relevant to the Parliament and also, through the Parliament, to the people of Queensland. This is very much a management orientation, and there has to be a second orientation, that is, the Executive has to be

accountable to the Parliament. The information that is provided in the accounts must be not only satisfactory for the internal operation of the bureaucracy but also it must be acceptable so we in the Parliament can see what is going on in terms of the Executive. This Parliament has to ask the questions and keep the Executive doing the things that it is purporting or supposed to be doing. I make that comment because I note that, in the Explanatory Notes, the importance of accrual accounting, or the importance of reporting to the Parliament, was simply missing. It seems to me that that reporting to the Parliament and, through the Parliament to the people, is one of the critical aspects of any reporting system.

Before concluding I will make another observation. Although accrual accounting is important, it does not by itself improve the decision making within any particular organisation. For example, it does not turn a can't do Government into a can-do Government. It does not ensure that decisions are made on a rational basis or on a non-political basis. It does not include all the information that may be relevant in terms of decision making. For example, even accrual accounting does not include the value of a Government in terms of its current power to tax, which is a fairly important attribute of a Government and its balance sheet. Accrual accounting also does not include the value of community assets created by public expenditure, such as education. It does not include the present value of some legislative commitments in areas such as welfare or income support. Although I know that is not relevant to a State Government—it is relevant to a Federal Government—the State produces a number of welfare services. Accrual accounting does not include the real underlying value of our natural resources. Despite its best endeavours to value land, it does not include the resources that are found in the ground.

I make those comments, because in moving from cash accounting to accrual accounting, one should not think that it is a panacea that will solve all the issues that are related to the Government's policies or decision making. As somebody who has studied accrual accounting and has had a fair bit to do with it, I welcome the move to accrual accounting. Despite what I have said, I believe that it is a significant improvement. It can lead to improved decision making and it can lead to more information being made available to this Parliament and to the people as a whole. Providing this Bill moves in that direction, it is a significant step forward.

I remain sceptical about the way that Labor will use its charter of fiscal and social responsibility. I made that point earlier in this debate. I am waiting to see the full implementation of Managing for Outcomes, to see precisely what kind of information we were given and how that will improve the outcomes for all the people of Queensland.

I received the amendments a little while ago and I have not had a chance to look at them properly. Earlier the Minister indicated to me that the amendments would deal only with transport operations management, but I see that they deal with the Racing Legislation Amendment Bill. I ask: would this have been required if the Government had gone ahead and privatised the racing industry along the lines proposed by the Opposition last year? With those few words, I support the Bill.
