FISCAL RESPONSIBILITY BILL 2012

PROOF

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Bill introduced on motion by the Hon. Mike Baird, read a first time and printed.

Second Reading

Mr MIKE BAIRD (Manly—Treasurer) [3.56 p.m.]: I move:

That this bill be now read a second time.

Fiscal responsibility is one of the cornerstones of good government. Fiscal responsibility means governing not only for the immediate needs of the community but also for its future needs. It means ensuring that taxation levels, expenditure and capital investment are sustainable. One need look no further than Europe to see the current havoc that fiscal irresponsibility can wreak on governments and communities. There, prolonged periods of excessive borrowing have led to government services being cut, taxes being increased and social dislocation. In Australia, the community expects its governments to be fiscally responsible. Accordingly, all States and the Commonwealth have legislation that enshrines principles of sound financial management in legislation. New South Wales has had two attempts at such legislation.

Labor did reduce debt levels consistent with the General Government Debt Elimination Act 1995. However, the resultant lower levels of infrastructure spending were not sustainable from the community's perspective, and created long-term legacies that this Government continues to deal with. Labor then introduced the Fiscal Responsibility Act in 2005. However, Labor met only three of the 14 measures. Key failures include net financial liabilities being nearly double the target and net debt levels two and a half times the target in 2010. As revealed in last year's budget papers, the previous Government's fiscal management left the State's finances on a path to losing the triple-A credit rating.

The requirement to review the Fiscal Responsibility Act gives this Government the opportunity to set out what is important to it in managing the State's finances. The lesson from Labor's Act is that, rather than having a range of measures so numerous that they were in essence ignored, it is much better to have a clear objective with a few supporting goals and principles. These provide a much better framework and discipline.

Let me be clear about this Government's primary fiscal objective: to retain the triple-A credit rating. The New South Wales Government is committed to retaining the State's triple-A credit rating. This minimises interest expense and maximises the amount available to spend on services and infrastructure over time. It also provides the best opportunity for New South Wales to raise debt readily in times of financial market uncertainty. Further, retaining the triple-A credit rating provides confidence for business, consumers and the community.

The experience of Queensland under its Labor Government is a salutary lesson for those who say the triple-A credit rating is not important. Queensland lost its triple-A rating a few years ago, and being downgraded even one notch has had a marked impact on the cost and availability of finance. During times of financial market uncertainty, the cost of borrowing for Queensland has been over half a per cent higher than for New South Wales and continues to be volatile in current financial conditions. For New South Wales, such a one-notch downgrade would significantly increase the cost of servicing the State's debt by an increasing amount every year, totalling around $375 million over the first four years. Assuming the triple-A credit rating was regained after 10 years, the cumulative credit cost would be $3.75 billion.

The O'Farrell-Stoner Government is determined that New South Wales will retain its triple-A credit rating and that is why it is the primary objective of the new Fiscal Responsibility Bill 2012. However, as with any family budget, this will require New South Wales to live within its means. New South Wales is not facing the bounty of windfall State revenues that flowed into the State's coffers in the past decade. Indeed, GST revenues have been falling markedly since the start of 2011, with New South Wales losing a further $5.2 billion. Despite the history of windfall revenues, New South Wales has a significant infrastructure backlog—in rail, such as the North West Rail Link; roads, such as the need for a new motorway in Sydney; and in hospitals and schools.

Providing the funding for this infrastructure will require the State to control its spending, and that leads to the proposed Act's first target—that annual growth in general government expenses of the State is less than the long-term average general government revenue growth of the State. Only by ensuring that expense growth is less than average long-term revenue growth can New South Wales generate the surpluses to provide for additional infrastructure investment. This will also provide a buffer for managing overall debt levels and therefore support the triple-A credit rating, particularly at times of economic challenge. Using a long-term measure for revenue growth ensures that variations across the economic cycle are taken into account. Revenue growth, excluding stimulus spending, has been 5.6 per cent over the past 10 years. This will be evaluated with each review of the Act.

The other main source of funding for infrastructure investment is asset sales. This can provide funding in two ways: first, by repaying the debt already owed by the business being sold and enabling the Government to re-borrow that amount for new infrastructure, as happened with the desalination plant; and, secondly, from the additional net proceeds—again, as happened with the desalination plant. The objective of the triple-A credit rating places a limit on the amount of debt that the State can borrow. Accordingly, the Government has to ensure that its valuable capital is invested in the most productive infrastructure priorities for the community. However, managing debt levels by managing expense growth and using targeted asset sales are not the whole story when it comes to maintaining the triple-A credit rating.

New South Wales, like the Commonwealth and many other States, has a significant unfunded

superannuation liability for past and some present employees. It is essential that this liability is eliminated over time rather than ignored, which puts the State's finances at risk. This leads to the Act's second main target: the elimination of the State's unfunded superannuation liability by 2030. We must budget for tomorrow as much as for today. I have long argued that this burden on the State's finances needs to be reduced and in this way we will continue to do so. To recap: The proposed Act will seek to maintain the triple-A credit rating by constraining expense growth below revenue growth so as to provide funds for infrastructure investment, to eliminate the unfunded superannuation liability by 2030 and to ensure that New South Wales' finances are sustainable.

While the Government is willing to commit in legislation to maintain the triple-A credit rating, we of course cannot control all the events that would enable us to maintain the top-tier credit rating. Such events include if Australia was to lose its triple-A credit rating, which would flow on to New South Wales and other States because States cannot have a higher credit rating than the sovereign; if the ratings agencies were to unilaterally lower the levels of debt and other financial liabilities from current levels that are considered consistent with a triple-A credit rating; or if, due to global circumstances, all Australian States were downgraded by ratings agencies, similar to what has happened with Australian banks since the global financial crisis.

The bill includes a mechanism for government to map out plans to rectify any breaches and, should that occur, we would undertake to do just that. The principle is to manage the levers that are within our control. The proposed triple-A objective and the two fiscal targets, while outcome based, are not sufficient to provide a completely responsible fiscal framework. That is why I am proposing three principles of sound financial management. The first is responsible and sustainable spending, tax and investment, which includes pursuing stable and predictable spending and taxation policies and investing in infrastructure that has the highest benefit for the community. The second is effective financial and asset management, which includes policies and processes for performance management, investment funding and risk management. The third is achieving inter-generational equity, which includes the current generation funding, the current cost of its services and ensuring that policy decisions have regard to their financial effects on future generations.

Together, these will require the Government to aim for fiscally responsible outcomes for the community and to ensure that the management of finances occurs in a responsible manner and does not leave the bill for subsequent generations to pay. It is essential that the Government is held to account for meeting the objective, targets and principles. Accordingly, that is why the Treasurer will be required to include the following in the budget papers each year: a statement of the Government's fiscal strategy; a report on the Government's performance against the bill's objective, fiscal targets and principles; an assessment of the impact of the budget measures on the State's long-term fiscal gap; and the reasons for any departure from those targets and principles, together with details of the planned remedial actions.

The long-term fiscal gap is based on the primary balance, which is broadly equivalent to the sum of the budget result and net capital investment before interest. It is calculated for the general government sector on the basis of no policy changes for the period to 2050-51. The long-term fiscal gap is to be reassessed in the budget papers every five years. The Act is also to be reviewed again in five years time. The 2012-13 budget has been developed as the first under the terms of the proposed Fiscal Responsibility Bill 2012. Fiscal responsibility is one of the key expectations that the community has of our Government. The former Labor Government demonstrated little regard for the responsible management of government finances, as shown in the last report on the Fiscal Responsibility Act, where it had met only three out of the 14 targets and principles.

This Government inherited a position where State debt levels are so high and a structural deficit so entrenched that there is only limited flexibility within the State's triple-A credit rating. But it is a challenge we are determined to meet. The proposed objective of the amended Fiscal Responsibility Act is to retain the triple-A credit rating. This will enable the Government to maximise funding for service provision, to retain the flexibility to meet shocks, and to provide the greatest capacity for infrastructure investment over time. By approving this bill Parliament will send an important signal to the community that it supports fiscal responsibility and a Government that is committed to fiscal responsibility. I commend the bill to the House.

Debate adjourned on motion by Mr Michael Daley and set down as an order of the day for a future day.