Chapter 7

The Queensland Charter of Social and Fiscal Responsibility

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Fiscal responsibility legislation (FRL) is an attempt to provide an institutional mechanism for the reporting and accountability requirements underpinning public expenditure management. This legislative approach was particularly spearheaded by New Zealand in 1994 and has been implemented in various forms in the United States, Latin America, Europe and Asia (Corbacho and Schwartz, 2007:58; Scott, 1995; Webb, 2004). The idea behind FRL is that a legislated mandate will assist in governments exercising, and being made accountable for, public financial discipline.

Different jurisdictions have relied on unique types of FRL. The first category of FRL embeds procedural rules on the fiscal game (usually demanding the development and transparent reporting of fiscal strategies that will be monitored and assessed) whereas the second category looks to numerical rules to guide fiscal activity (usually setting specific constraints on the fiscal activity that is allowed, including balancing the budget and deficit, borrowing and expenditure limits) (Corbacho and Schwartz, 2007:60). As one would predict, the procedural approach tends to provide greater flexibility in the fiscal process, whereas the numerical strictures usually act with greater effectiveness to actually constrain fiscal action.

Corbacho and Schwartz (2007) have done an admirable job in detailing key lessons learned from the implementation of FRL across the globe. The key advantages associated with FRL – notably improved credibility, predictability and transparency – are set against the challenges which include gaming and weak enforcement and sanctions. Overall, Corbacho and Schwartz (2007:75) conclude that:

> 'FRLs potentially promise better fiscal management and policy outcomes by improving coordination and enforcement mechanisms, but they should not be considered as a magic bullet to improve fiscal performance.'

This case study goes beyond the Corbacho and Schwartz assessment by investigating the political context and drivers associated with the enactment of one such FRL in an Australian state, the Queensland Charter of Social and Fiscal Responsibility (legislated under part 1A of the Financial Administration and Audit Act 1977). The case provides an interesting take on FRL because it challenges the traditional technical policy assessments associated with FRL enactment to look at the political dimensions that underpin its existence and use.

The study presents a number of lessons learned by suggesting six political risk barometers that can help indicate success of such an innovation from a political perspective.

The Queensland Charter of Social and Fiscal Responsibility offers unique innovation in public sector management for a number of reasons:

- It combines social and fiscal responsibility as an intertwined package;
- It establishes a charter approach that, while embedded in legislation, speaks also to the citizen engagement phenomenon sweeping the world of public sector governance; and
- It is set at the secondary tier of government, in this case a state, rather than a country level and therefore raises issues of fiscal federalism as part of its development and enactment.

Context

The Queensland Charter of Social and Fiscal Responsibility was developed while the Queensland Branch of the Australian Labor Party (ALP) was in opposition.

The newly appointed shadow treasurer, David Hamill, became interested in the concept of a charter as a way of developing new policy ideas and shoring up party unity in the aftermath of the surprise 1996 ALP electoral defeat. The ALP had achieved two election wins under Premier Goss after an extremely lengthy period of conservative rule, but an uneasy balancing of unfulfilled progressive social reform with economic managerialism took its toll on the electoral mood.

Several significant factors imposed a context within which Hamill assessed charter concepts. Labour governments across the country were suffering either from questioning of their economic management credentials or criticisms regarding a lack of commitment to social objectives in the name of pursuing financial responsibility. Given that Queensland ALP had worked hard to establish and maintain a strong economic management record under Goss, it could not afford to lose its credibility in reckless pursuit of social programmes. Yet, social policy needed some priority. The electoral loss had thrown open the inevitable ALP review of party leadership and policy platforms in post-election-defeat soul-searching.

One perception of Goss's electoral defeat had been the accusation that social objectives had been 'lost' in favour of economic management (Hamill, 2001).

Concrete policy action was needed at the local level to quell this nationally inspired questioning of ALP credentials on economic management, yet simultaneously to inspire confidence in the community that the ALP retained its commitment to progressive social policy. Bearing in mind that state governments in Australia are relatively limited in their capacity to exercise control of the economy – states are restricted in their budgetary capacities, and with economic levers being stronger at the federal level a 'vision' was needed to unite the party on a social policy framework that concurrently retained as 'hard-nosed' a fiscal policy platform as possible to take to the next election.

The ALP also needed a political response to the conservative government-initiated Queensland Commission of Audit Report that had reviewed the state's financial position and practices and recommended the enactment of a 'Charter of Fiscal Responsibility' (Robinson, 1996). As an opposition convinced of its ability to return quickly to government (the conservative coalition had only a one-seat parliamentary majority by virtue of the support of an independent), the ALP needed to remain on the political offensive with respect to every coalition policy position. Differentiation and policy alternatives were needed to ensure that the electorate was convinced of the desirability of returning the ALP to office. An ALP response to the audit report recommendation was necessary.

Under the Goss government, treasurer Keith DeLacy had successfully promoted and implemented the so-called 'financial management trilogy' which advocated:

- Fully funding long-term liabilities such as superannuation and worker's compensation;
- Funding social infrastructure such as schools and hospitals from recurrent revenues and borrowing only for economic assets that could generate an income stream sufficient to service the debt; and
- Maintaining Queensland as the 'low-tax state' (Queensland Government, 1995:13).

This trilogy was hailed as having helped the Queensland budget consistently operate in structural surpluses throughout the 1990s, a record unmatched by other states (Queensland Government, 1995:13). However the trilogy also helped promote an aura of stigmatism around any public sector debt-raising, especially given the financial scandals experienced in southern states such as Victoria and South Australia regarding state bank collapses. Over time, the debt-raising strictures enforced by the trilogy had increasingly limited the expenditure programmes of the Queensland ALP. Greater flexibility was needed on the trilogy policy position so as to allow for more generic capital expenditure debt-raising to be viewed as a viable and financially defensible policy tool (Hamill, 2001).

Political risk

For Hamill as shadow treasurer, the political risk posed by this context was both personal and policy-based in nature. His personal and party credentials as an economic manager were at stake; he had to prove that he and his party were serious about social objectives as well as fiscal responsibility. Political risk also emerged from a sensitive policy change concerning debt-raising that was needed if the ALP was to pursue its intended social policy spending. He had to increase flexibility in debt-raising policy within the context of an existing 'no-debt' mentality, without raising the concern of the business sector or the electorate.

Policy response

Taking his cue from implementation of charters in New South Wales, the United Kingdom and New Zealand, Hamill's policy response was to proactively develop the unique idea of a Charter of Social and Fiscal Responsibility. Jarred (2000) has noted that Queensland is the only jurisdiction with a charter elevating social concerns to equal status with fiscal responsibility.

The idea matched the contextual factors that drove Hamill's political risk position. To start, it repositioned the party with a new agenda and signalled Hamill's political skills as a treasurer-in-waiting. It also responded in a philosophically and pragmatically attractive manner to the Queensland Commission of Audit Report by publicly promoting the ALP as a responsible economic manager as well as a defender and guardian of the social cause (Hamill, 2001). Such a response was necessary to appease community perceptions that questioned ALP economic credentials, yet promote internal party unity that increasingly necessitated strengthening of the ALP's social policy commitments.

The Charter of Social and Fiscal Responsibility also loosened what the ALP now felt were restrictive fiscal parameters previously held in DeLacy's 'financial management trilogy' so as to allow a future labour government to manoeuvre the previously stringent no-debt position to a more flexible policy as necessary (Hamill, 2001). The commitment to responsible economic and financial management clearly established in the charter would thus prevent fiscal analysts from criticising a labour government for slack financial management should it wish to pursue debt financing as a policy tool. The charter would also act to progress the wider debate on debt financing so as to establish acceptability of the position that public sector debt-raising can be fiscally responsible (Drabsch, 2001).

Conscious of his shadow treasurer responsibilities, Hamill was provided by the Charter of Social and Fiscal Responsibility with a neat tactical method for curbing the potential budgetary extravagances of fellow party members who were busily hatching election commitments and arming themselves with social policy ideas to be launched at treasury by departments when government was regained. As one player described it: '... it was actually a strategy around how to manage all of the optimism of all the ministerial colleagues who had great ideas about how to spend money. It was a way of actually getting them all to sign up to a policy framework which caused them to discipline themselves' (Senior treasury bureaucrat, 2003).

The ALP has often grappled with marrying its enthusiasm for social change with economic responsibility.

The beauty of the charter election commitment was that it set in place, before office, a stringency for curbing 'excess' enthusiasm in order to achieve a social agenda of which to be proud. Quoting a key senior treasury bureaucrat (2003):

> '... coming on the heels of the Borbidge [conservative] government, where there had been a fair loosening of the fiscal parameters, internally within government people knew 'Heh, we need to get this thing under control and we need to actually, right at the very start of the process of government sign up to some clear policy parameters here that we're going to stick to. If we don't keep the budget under control then we'll lose our way on our social agenda.'

The ALP regained office in 1998. Once in government, the charter provided now treasurer Hamill with some additional unintended benefits (Bradley, 2001). It married with the newly established managing for outcomes (MFO) agenda that had moved the Queensland budget to an accrual basis and promoted the gathering of information and implementation of performance standards (Smyth et al., 2004). Because MFO required departments to budget by formulating 'inputs' and 'outputs' that would achieve the government's specified community 'outcomes', the charter's social objectives could be linked with the outputs and outcomes (Reddel and Woolcock, 2004). Performance measures established by MFO could measure progress on social policy success. The charter furnished a useful piece of propaganda with which to persuade and comfort international investors and ratings agencies as to Queensland's financial credibility.

Further, the charter proved a handy tool for assuaging the sensitive topic of treasury costings of election commitments (Flavell, 2001). As part of the 1998 election campaign, a public row between the ALP and the Coalition had erupted regarding the use of treasury to cost election promises (Australian Broadcasting Corporation, 1998). Treasury had been required to cost the election promises of the major parties and this had placed political pressure on the department to produce certain outcomes. The treasury assessments were disputed, causing parties to seek competing figures from accounting firms. The result was a costings war that caused confusion and compromised the independence of treasury department.

The charter was used by the ALP to set out specific financial information that was to be made freely available by treasury prior to an election. This avoided treasury having to provide different advice to different parties and its being 'used as a political football' (Beattie, 1999). By removing treasury from electoral platform costings, the charter furnished a useful tool for the ALP to further promote itself as 'keeping government honest' (Queensland Government, 1999).

The Government publicised itself as a responsible economic guardian concerned with the gravity and independence of its financial responsibilities.

The charter was constructed carefully because politicians, bureaucrats and advisers were all aware that making public commitments tied to clearly enunciated standards could potentially lock in the Government to future principles that might limit its flexibility (Senior treasury bureaucrat, 2003; Bradley, 2001; Davis, 2001; Drabsch, 2001; Flavell, 2001; Hamill, 2001). A significant amount of attention was paid to this issue when framing the charter principles so as to provide the Government with enough 'outs', yet still provide a reasonably rigorous set of commitments.

For example, the charter required that 'The Government will ensure that its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in Government Finance Statistics terms' (Queensland Government, 1999). This principle is rigorous and accountable, using credible measurement sources as part of the performance measurement criteria. However, the requirement is less stringent than a first glance suggests. The term 'general government' allows for a sufficient degree of definitional flexibility and 'creative accounting', where necessary, in terms of inclusion or exclusion of specific public sector enterprises and trading activities to achieve the requisite operating surplus.

This is not to say that the charter is open to manipulation at will. Rather, as this example indicates, careful and prudent attention was paid to the terms and obligations that were incorporated into charter requirements so as to provide for unforeseen circumstances facing future governments. If anything, the premier and treasurer and their respective advisers were the most aware of the need to provide these 'outs' in the charter. They were the least forthcoming in trying to make performance information truly transparent and publicly available (Senior treasury bureaucrat, 2003).

Overall, then, the charter was a tool for providing both public perceptions of economic management and actual fiscal discipline over party and governmental policy initiatives. As one observer commented: '… it was certainly government itself putting a framework around how it was going to manage its own political and policy agenda over that term of government' (Senior treasury bureaucrat, 2003).

Yet the charter attracted almost no attention from the media when it was introduced in August 1999. Commentators did not regard it as particularly newsworthy and only an interested local academic took any pains to debate the financial aspects of the initiative and its contents (Robinson, 1996).

What did occupy the media and general public's attention at the time was the so-called NetBet scandal embroiling treasurer David Hamill (Franklin, 2000; Thomas and Whittaker, 1999). Instead of preparing the inaugural presentation of his charter to Parliament, Hamill had stepped down from the treasurership on 1 August pending investigation into his role in the granting of an internet gaming licence to a company linked to three ALP figures. One of the ALP figures was Member of Parliament Bill D'Arcy who was later convicted of child sex offences.

While Hamill was later cleared of any wrongdoing, his absence meant that the charter was introduced by premier and acting treasurer Peter Beattie. The delicate situation demanded that Beattie tread warily. His government only had a one-seat parliamentary majority and the NetBet scandal was dominating the media and generating government unpopularity. The charter could not be introduced with fanfare as originally hoped, but instead was downplayed because of its association with Hamill. Without its protagonist, the charter idea sat quietly behind the scenes as a framework document to be cited only casually and infrequently in the esoteric chambers of bureaucratic financial circles.

How would traditional policy analysis evaluate this policy?

The Charter of Social and Fiscal Responsibility was an attempt to provide rigour to government's fiscal and social obligations through setting standards and targets that could be measured and made public. From a policy perspective, the initiative was regarded as a token scheme in that it lacked hard-edged mechanisms to tackle the issue of how governments would bind themselves to prescribed fiscal and social targets (Robinson, 1996). The charter's social objectives were nebulous and it espoused principles that could be met by any successive government as political needs and fortunes changed; it did not place strictures on government expenditure patterns that would drive fiscal responsibility. For others, the policy could only ever be 'smoke and mirrors' because of the inability of Australian state governments to control the economy and their ultimate reliance on the federal government to drive budget discipline through fiscal federalism (Robinson, 1996).

Traditional policy analysis would view the Charter of Social and Fiscal Responsibility as aspirational and lacking in concrete policy outcomes. In itself, the charter arguably did not substantially change government policies or activities. Rather, it merely added another level of bureaucratic reporting requirements on treasury and line departments who now had to report to parliament from year to year on adherence to charter requirements.

Political risk analysis

From a political risk perspective, the Charter of Social and Fiscal Responsibility is generally conceived by political players themselves as politically neutral; it was neither a political failure nor a political success (Senior treasury bureaucrat, 2003; Bradley, 2001; Davis, 2001; Drabsch, 2001; Flavell, 2001; Scrivens, 2003).

Hamill's charter was an entirely logical policy to pursue given the political risks he was facing at the time. It was inoffensive to the party, provided a measure of vision and a framework and helped Hamill's own treasurer-in-waiting credentials. It also addressed the ALP's need for a more flexible debt-financing policy, and provided another electoral platform to publish which made labour 'different' from the conservatives (a precious commodity in days of increasing ideological alignment between the major parties). Once in government, the idea also unexpectedly fitted with 'managing for outcomes' and helped the ALP provide a mechanism to assuage the treasury election-costing fiasco and further promote its image as a responsible economic manager.

Furthermore, political risk management associated with the policy was neatly undertaken. Possible policy 'hotspots' that may have caused the government problems, such as having a charter limit the government's fiscal flexibility and potentially exposing poor performance through public scrutiny, were managed by Hamill and his political advisers using the technical expertise of treasury and premier's department officials to frame a suitably 'flexible' charter document. While the charter withered, given Hamill's political exit, the policy legacy of debt flexibility and the usefulness of the charter to Hamill at the time in political risk terms meant, at the very least, the charter was neutral, if not a modest success.

What lessons can be drawn from this case for public sector management? The obvious dominant lesson is that political dimensions to innovations in the world of public finance need to be taken into account when assessing the merits and drawbacks of any particular new policy idea. Reforms and innovations do not exist in a political vacuum but are often driven by political necessity and, indeed, can be heavily influenced in their design and implementation by political agendas. While Hamill neatly drove the Queensland charter with political acumen in its infancy, in the end his own political downfall acted as a stumbling block to the charter's overall success.

There are several motivations inspiring the enactment of FRL. It can provide important accountability functions (see, for example, Santiso, 2005), actual fiscal constraints, improved budget reporting and policy-making over the long term and, as this case especially shows, fulfilment of significant political agendas. Being clear about the objectives behind the FRL is therefore important in assessing the desirability and transferability of any such charter. While some authors are sceptical of the ability of FRL to bring about fiscally responsible behaviour (Robinson, 1996), this case shows that other factors are at play.

At least six political risk barometers can be identified that stand to assess the overall political risk success or failure of any policy (see Althaus, 2008) and which can be used to predict the political risk status of a suggested policy innovation. Three are situational:

- Confronting and reducing policy and political uncertainty;
- Concern for constituent and community impacts; and
- Awareness of policy settings and control over policy levers;

and three are personal:

- Presence of a political champion;
- Potentiality of policies and use of experience; and
- Reliance on politics over policy technicalities.

Together, these political risk barometers form a framework that helps us look at policy innovations with fresh eyes. The Queensland Charter of Social and Fiscal Responsibility was a specific political tool that provided a fresh, innovative approach to joining social and fiscal agendas that was cognisant of the limited scope of action available to a state government in the Australian federal system but which provided enough political flexibility to meet the needs of a newly elected ALP government with specific agendas to communicate confidence in its economic credentials at the same time as providing credibility to the notion that public sector debt-raising can be a socially and fiscally responsible act. This innovation does not necessarily transfer easily from one jurisdiction to another.

The case does offer important ideas concerning the possibilities for FRL and promotion of the idea that the politics of FRL are as important as the technical issues underpinning its development and implementation.

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