



Queensland
Council of Unions
**Review of the
Costello Report**
2012
Summary

Dear Fellow Queenslanders

The Queensland Council of Unions has commissioned a review of the Costello report erroneously entitled the "Queensland Commission of Audit." The Costello report has been used by the Newman LNP Government to justify attacks on its own workforce and slashing important services to Queenslanders.

Eminent academics Professor Bob Walker and Dr. Betty Con Walker have undertaken this review on behalf of the Queensland Council of Unions.

The review demonstrates that the Costello report:

- Was not an audit
- Used incorrect and very selective measures to justify findings
- Largely ignored the fact that the major reason for the increased size of the public sector was the demand for Government services caused by population growth
- Glossed over the impact of the Global Financial Crisis (GFC) and recent disasters on the Queensland Government finances
- Grossly exaggerated the future level of Government debt.

In short, there is no justification for the attack on Government services and public sector workers and services. Whilst the Costello report blames the growth of the public sector as the source of recent operating deficits, the review commissioned by the QCU finds that "...since 2008, write-downs of non-current assets were the main source of the operating deficits recorded by Queensland after the GFC – not excessive employment in the public sector."

The review is a lengthy document; however we would commend it for those with an interest.* After all if it is your job or a service that you rely upon that is being axed, you deserve to know the truth.

The Newman Government and in particular the Premier have proved themselves to be increasingly adverse to any sort of criticism or even discussion. It is for this reason that we have provided this alternative analysis. The claims in the Costello report (many without foundation) are the excuse used by the Queensland Government to attack the public sector. This approach is now unsustainable and the Government needs to step back and reassess its fiscal strategy.



John Battams
QCU President
Queensland Council of Unions

Ron Monaghan
QCU General Secretary
Queensland Council of Unions

*For more information, go to www.standforqld.com.au

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QUEENSLAND

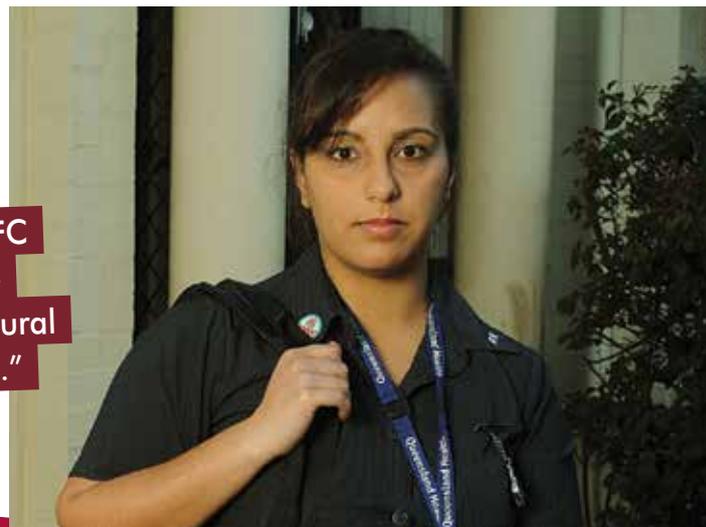
This review demonstrates that the Costello report:

Was not a real audit:

The review the QCU commissioned has identified that the Costello report has not complied with basic accounting standards. The report fails to use consistent and established definitions and instead uses measures and methodology that would appear to justify their findings and misrepresent the state of the economy.

Used incorrect and very selective measures to justify predetermined findings:

Our review reveals a selective use of "cash accounting" methods that do not delineate between expenditure for recurrent expenses and capital expenditure. This means that a cash accounting method treats payment of wages the same as an important piece of infrastructure that will last for generations. It's also important to note the conflicting messages that are being delivered to varying audiences by the Costello report on one hand and comments rightly made by the Treasurer in order to attract investment.



"The operating deficits recorded after the 2008 GFC can be attributed in the main to a downturn in the economic cycle, and the devastating impact of natural disasters – widespread flooding and Cyclone Yasi."



STAND FOR QUEENSLAND

Ignores the impacts of population growth:

Our review found that *"The confected crisis in Queensland's finances presented by the Costello Report may fit in nicely with the new government's goal of reducing the size of the public sector – by sacking public servants.... Queensland's borrowings have not been used for recurrent expenditure but have been associated with major investments in infrastructure"*.

The Costello report neglects to take account of demand for services because of population growth and other demographic factors including the health needs of an ageing population.

Ignored the GFC, Yasi and the floods:

In 2008, the world and Queensland were shocked by the GFC. Since then, our state also had to contend with the most extraordinary and expensive natural disasters for generations.

The facts are that government operating deficit recorded during that period can be attributed to the downturn in the economic cycle and the devastating impact of natural disasters including widespread flooding and Cyclone Yasi.

Queensland had a choice to make after the natural disasters and it decided to rebuild. This review finds that the debt incurred in that process, would, in many cases actually be less than if it had been delayed.

"It is concerning that the Costello Report reflects a fundamental misunderstanding of some basic financial concepts and relationships. For example, its assumption that a reported deficit in the state's Operating Statements meant that the government had to 'borrow' to fund that deficit – when the fact was that, in the years in question, the state had experienced cash surpluses on operations."

Page 112, Review of the Costello Report

"The proposition that Queensland has been 'living beyond its means' would only make sense to those who believe that one should never borrow to acquire assets except out of one's current annual income. If the wider community took this stance, no one would ever take out a mortgage to buy a house, and no business would borrow to invest in new equipment."

Page 16, Review of the Costello Report

Grossly overstated future debt:

By failing to recognise existing audited financial statements, the Costello report has deliberately attempted to overstate the level of government debt.

In creating its debt forecasts the report provided no detail on how it actually applied its calculation methods to determine debt.

What the review does reveal is that significant aspects of government finances were not considered in the Costello report, in particular our Public Financial Corporations such as the Queensland Investment and Queensland Treasury corporations that hold many billions of dollars of assets.

Despite repeated assertions, there is no \$100 billion debt. *"The projections of future levels of gross debt were not supported by any explanations of the components of the forecasts."*





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'Review of the Costello Report' authors

Prof. Bob Walker

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Prof Bob Walker was a Professor of Accounting at the University of Sydney until 2011. He is the author or joint author of six books and monographs and more than 70 articles in academic or professional journals. He was a foundation member of the Accounting Standards Review Board. In the public sector he has consulted for the National Companies and Securities Commission (NCSC), the Australian Securities Commission, the Australian Stock Exchange, Treasury Departments in NSW and the Northern Territory, and Public Accounts Committees in NSW, Victoria and the Northern Territory. His work with the NCSC led to the most fundamental change in the regulation of corporate disclosure requirements since the 1940s. He was a member of the Companies and Securities Advisory Committee to the Commonwealth Attorney-General, and a member of the advisory committee to the Commonwealth Auditor-General. From 1995-99 he served as Chairman of the NSW Council on the Cost of Government. He served as a director of a Commonwealth statutory authority, and later as chairman of the Superannuation Administration Corporation.

Dr Betty Con Walker

BEd (Sydney) Dip Ed (Sydney) PhD (Sydney)

Dr Betty Con Walker is an economist with vast experience. She has been nominated for the 'Business Woman of the Year Award' and taught part-time at the University of Sydney. She has served on various government advisory agencies, including the Centennial Park Board of Advice, the Australian Council on Population and Ethnic Affairs, the National Committee on Discrimination in Employment and Occupation, and the Australian Institute of Multicultural Affairs. She joined the NSW Premier's Department followed by the NSW Treasury. She has worked with various governments on policy and legislative development, and the preparation of NSW State Budgets. She was a financial adviser and spokeswoman for a former NSW Premier and Treasurer. She then set up Centennial Consultancy, which provides advice to government and various industries. Her publications include joint authorship of *Privatisation: Sell off or sell out?* Her most recent book *Casino Clubs NSW: Profits, tax, sport and politics* was published in October 2009.