

**REVIEW OF THE REPORT  
OF THE COMMITTEE OF INQUIRY  
INTO THE ASSETS AND PUBLIC DEBT  
OF THE AUSTRALIAN CAPITAL TERRITORY**

Report Number 4 of the Standing Committee on Public Accounts

April 1991

## **RESOLUTION OF APPOINTMENT**

On 23 May 1989 the ACT Legislative Assembly established a Standing Committee on Public Accounts with the following terms of reference:

- (1) Examine –
  - (a) the accounts of the receipts and expenditure of the Australian Capital Territory Executive;
  - (b) the financial affairs of authorities of the Australian Capital Territory; and
  - (c) all reports of the Auditor-General which have been laid before the Assembly.
- (2) Report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them to which the committee is of the opinion that the attention of the Assembly should be directed; and
- (3) Inquire into any question in connection with the public account which is referred to it by the Assembly and to report to the Assembly on that question.

## **MEMBERSHIP**

Ms Rosemary Follett (Presiding Member)

Mr Norm Jensen

Ms Carmel Maher

Secretary: Ms Karin Malmberg

## **INQUIRY TERMS OF REFERENCE**

That the Committee:

inquire into and report on the Report of the Committee of Inquiry into the Assets and Public Debt of the ACT.

## RECOMMENDATIONS

The Committee recommends that:

- . the Government provide the Public Accounts Committee with an update of action taken and progress made towards implementing the findings and recommendations of the Else-Mitchell Report by 30 June 1991 and thereafter on a regular, 12 monthly basis. (paragraph 2.18)
  
- . the Government advise the Legislative Assembly of an indicative timetable for the process of assessing the appropriateness of accrual accounting in administrative units; and
  
- . at the conclusion of that assessment process advise the Legislative Assembly of its results. (paragraph 3.25)
  
- . the Government advise the Legislative Assembly of an indicative timetable for the process of identification and declaration of public land and the granting of executive leases. (paragraph 3.29)
  
- . the Government continue to strongly raise outstanding financial issues with the Commonwealth Government. (paragraph 5.4)

## CONTENTS

|  |    |
|--|----|
| <b>1 Introduction</b>                                  | 1  |
| Background to Else–Mitchell Report                     | 1  |
| Conduct of inquiry                                     | 2  |
| <b>2 Inquiry and Report</b>                            | 5  |
| General comments                                       | 5  |
| Methodology  | 7  |
| Timing of inquiry                                      | 8  |
| <b>3 Assets</b>  | 9  |
| Background   | 9  |
| Definition   | 10 |
| Accountability   | 11 |
| Condition of assets                                    | 15 |
| <b>4 Public debt and other non–current liabilities</b> | 17 |
| Public debt  | 17 |
| Other non–current liabilities                          | 18 |
| <b>5 Intergovernmental financial relations</b>         | 21 |

## 1 INTRODUCTION

### Background to Else-Mitchell Report

1.1 On 28 September 1989 the ACT Legislative Assembly agreed to the following motion of the then Leader of the Opposition:

That—

- (1) this Assembly requires the Government to commission an independent audit to determine the assets transferred to the Territory on self-government and the public debt associated with those assets;
- (2) the report be provided to the Assembly no later than the first sitting day of 1990; and
- (3) the report be referred to the Public Accounts Committee for consideration.

1.2 The date of reporting by the independent committee was later amended to be no later than 7 June 1990.

1.3 On 22 November 1989 the then Chief Minister announced the formation of an independent committee to carry out the inquiry and announced the inquiry's terms of reference.

1.4 The Committee comprised The Honourable Rae Else-Mitchell (Chairman), Dr Brian Galligan and Mr Ian Mackintosh.

1.5 On 31 May 1990 the Chief Minister tabled in the Assembly the Report of the Committee. The Assembly agreed to the Report of the independent committee being referred to the Public Accounts Committee for inquiry and report.

### **Conduct of inquiry**

1.6 When the Assembly referred the report of the Committee of Inquiry into the Assets and Public Debt of the ACT (known as the Else-Mitchell Report) to the Public Accounts Committee, detailed terms of reference were not given. However, the Committee was asked to inquire into and report on the Else-Mitchell Report.

1.7 In carrying out the inquiry the Public Accounts Committee:

- . examined the methodology used by the Else-Mitchell Committee as outlined in its Report;
  
- . examined the findings and recommendations of the Else-Mitchell Committee; and
  
- . reviewed the Government's response to the Report.

1.8 As an initial step, the Committee met with Dr B Galligan, Mr I Mackintosh and the Inquiry Secretary, Mr B Bryant, to discuss the Else-Mitchell inquiry and Report.

1.9 The Committee also wrote to the Chief Minister seeking advice as to the action that may have been taken, or is proposed, on the findings and recommendations contained in the Else-Mitchell Report. The Committee was particularly interested in those aspects of the Report that fell within the ambit of accounting policy and strategies for overcoming the backlog of repairs to assets.

## 2 INQUIRY AND REPORT

### General comments

2.1 The Committee is of the view that the Else-Mitchell inquiry and subsequent report was valuable and informative in drawing together in one document the position regarding the assets transferred to the ACT on self-government and the public debt associated with those assets.

2.2 The Committee believes that the terms of reference of the inquiry were comprehensive. The Else-Mitchell Committee was asked to:

1. determine a definition of 'assets' for the purpose of this inquiry, having regard to the criterion of materiality;
2. satisfy itself that there is an adequate register of assets which have been transferred from the Commonwealth to the Territory including assets which have been vested in statutory authorities of the Territory;
3. assess a level of public debt if any which, in the opinion of the Committee, should be assigned to the ACT in relation to transferred assets;
4. having regard to the functions transferred from the Commonwealth, identify any assets which, in the Committee's opinion, should have been transferred to the ACT but are being retained by the Commonwealth;

5. comment as desired on the proposal contained in a letter of 23 August 1989 from the Chief Minister to the Prime Minister relating to the debt to be assumed by the ACT; and
6. comment as desired on the condition of assets transferred to the ACT, in particular the state of repair of the assets compared to those of the States and the Northern Territory and levels of expenditure in the next five years to maintain the assets in a satisfactory working condition.

2.3 The Committee notes, however, that the Else-Mitchell Committee went further in its Report than the terms of reference specified. In addition to assessing the condition of assets transferred from the Commonwealth, the Else-Mitchell Report contained a number of findings and recommendations regarding asset management and the rationalisation of Territory assets, including the sale of certain assets.

2.4 The Else-Mitchell Committee concluded that, after considering the information sought and supplied, its function extended beyond the compilation of an inventory of assets, their value and a list of debts. The Else-Mitchell Committee considered that it should take account of the manner in which assets were being used, their management and the extent to which assets were being economically and effectively employed.<sup>2</sup>

2.5 The Public Accounts Committee believes, however, that to comment on issues concerning the rationalisation of assets would necessitate a detailed and public inquiry on each proposal which is considered to be outside the scope of this particular inquiry.

2.6 Instead, the Committee focuses its remarks on the findings and recommendations that address the terms of reference plus those that relate to asset management. The Committee considers that such issues relate to basic principles of accounting and assets management plus aspects of financial relations with the Commonwealth.

2.7 The Committee notes that the Chief Minister, during his statement whilst tabling the Report in the Assembly, indicated that he had asked the Treasury to give priority to those recommendations contained in the Else-Mitchell Report that fell within the ambit of accounting policy and to the development of a budgetary strategy for overcoming the backlog of repairs to our assets.

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<sup>1</sup> Committee of Inquiry into the Assets and Public Debt of the Australian Capital Territory, May 1990, p 1 (the Else-Mitchell Report).

<sup>2</sup> Ibid, p 2.

2.8 The Chief Minister also stated that he had written to the Prime Minister concerning financial relations with the Commonwealth.

2.9 The Chief Minister provided the Committee with information on these matters (see chapter 3).

## Methodology

2.10 The methodology employed by the Else-Mitchell Committee was outlined in Chapter 1.2, The Inquiry Process, of its Report.<sup>3</sup>

2.11 The Committee notes that appended to the Report were details of information sought from departments and authorities of the ACT Government, seminars held, officials who met with Else-Mitchell Committee and dates of Else-Mitchell Committee meetings.<sup>4</sup>

2.12 The Committee believes that the approach adopted by the Else-Mitchell Committee in developing procedures for the recognition and valuation of assets, outlining the steps in the process of reporting assets etc to provide for consistency across departments and authorities was valid.

2.13 The Committee notes that no consultants were used during the inquiry and that the Secretariat was staffed by the ACT Government Service.

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<sup>3</sup> Ibid.

<sup>4</sup> Ibid, pp 70-79.

2.14 The Committee also notes that the Else-Mitchell Committee recommended that the documentary material received and collected by that Committee during the course of its inquiry be separately identified and deposited in an appropriate and accessible place, such as the Central Library of the ACT Library and Information Service, Kingston.<sup>5</sup> The Committee also supports this recommendation and encourages the ACT Government to include this requirement in instructions to subsequent committees or boards of inquiry.

### Timing of inquiry

2.15 The Committee believes that many of the recommendations contained in the Else-Mitchell Report require a change in attitude by managers within the ACT Government Service in relation to public accountability. Other recommendations depend on decisions of the Commonwealth Government.

2.16 The Committee acknowledges that the process of implementation and change will take time. The Committee believes that it is not possible at this stage for it to undertake a fuller inquiry into the implementation of the recommendations of the Report.

2.17 Accordingly, the Committee has decided not to proceed further with the inquiry at this time, but to maintain an active interest in the issues raised by the Else-Mitchell Committee and seek regular updates on progress in implementing the recommendations of the Else-Mitchell Report from the Government.

### 2.18 The Committee recommends that:

**the Government provide the Public Accounts Committee with an update of action taken and progress made towards implementing the findings and recommendations of the Else-Mitchell Report by 30 June 1991 and thereafter on a regular, 12 monthly basis.**

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<sup>5</sup> Ibid, p 2.

## 3 ASSETS

### Background

3.1 The ACT's financial records are maintained using cash based accounting principles, a methodology inherited from the Commonwealth administration of the Territory. The Else-Mitchell inquiry found that these accounting practices did not provide the Government with a capacity to inform the community of the current and prospective financial condition of the ACT.<sup>6</sup> The Committee shares the Else-Mitchell inquiry's concerns at the lack of information available.

3.2 The Committee notes that until some three years ago the Commonwealth Department of Territories attempted to maintain a centralised system to record assets, but that, with devolution of functions to administrative units and program managers, there was a general absence of asset management policies.<sup>7</sup>

3.3 The Committee is concerned that such a system was either not devolved to agency heads or that the function was not considered important enough to be maintained by individual agencies.

3.4 The Committee is concerned that as a result of the lack of accounting records transferred from the Commonwealth, an additional burden has been placed on the ACT Government Service to ensure appropriate financial management practices are in place.

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<sup>6</sup> Ibid, p 4.

<sup>7</sup> Ibid.

3.5 The Committee notes, however, that those agencies that were required to report financial performance using the concepts of accrual accounting and financial worth did maintain reasonable asset registers.

## Definition

3.6 The Committee notes that there was no established or effective working definition of assets that was in common use across the ACT Government Service. The Committee notes that the Else-Mitchell inquiry adopted the definition of assets proposed by the Australian Accounting Research Foundation.<sup>8</sup>

3.7 The definition adopted was:

Assets are service potential or future economic benefits controlled by a reporting entity as a result of past transactions or other events.<sup>9</sup>

3.8 The Committee notes that this definition has been included in the Guidelines for Financial Statements of ACT Entities which have been approved and issued by the Treasurer.<sup>10</sup> These guidelines are applicable to public authorities that are subject to the provisions of Part IX of the Audit Act 1989 and the special operations of administrative units that are required to prepare financial statements under section 58 of the Audit Act 1989.<sup>11</sup>

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<sup>8</sup> Ibid, p 5.

<sup>9</sup> Ibid.

<sup>10</sup> Chief Minister's Submission.

<sup>11</sup> Guidelines for Financial Statements of ACT Entities, September 1990, p 14.

3.9 A separate set of guidelines for administrative units, Unitary Financial Statement Guidelines for Administrative Heads, have been issued. These guidelines, while requiring the disclosure of assets in supplementary financial statements, do not include the same definition of assets as adopted by the Else-Mitchell Committee. Despite the less stringent reporting requirements for administrative units, the Committee considers it may be appropriate to use a uniform definition across all ACT bodies.

3.10 The Else-Mitchell Committee also developed a set of procedures for the recognition and valuation of assets for the purposes of their inquiry.<sup>12</sup>

## Accountability

3.11 The Else-Mitchell inquiry examined a number of issues connected with accountability of assets, namely materiality, valuation, asset registers, accrual accounting and property and land management.

3.12 The Committee believes that accountability by all areas and program managers of the public sector is essential. This accountability extends not only to senior management of the departments and agencies, but to Ministers, the Legislative Assembly and the public. The Committee agrees with the Else-Mitchell inquiry's overall thrust in this regard.

3.13 The Committee notes with concern the comments of the Auditor-General in his Report Number 1 1991 concerning the general standard of management practices in the ACT Government Service, particularly in departments. Whilst the comments did not relate specifically to asset management, the Committee believes that accountability is an important issue.

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<sup>12</sup> Else-Mitchell Report, op cit, pp 5, 79, 89.

3.14 The Committee agrees fully with the Else-Mitchell Report when it says "Without proper asset management an organisation will not employ its resources productively and will not be cost efficient."<sup>13</sup>

3.15 The Committee notes that as a result of the early work of the Else-Mitchell inquiry all departments and authorities began the process of establishing or improving asset registers.<sup>14</sup> The Committee believes, however, that these registers should not be a simple list of assets to facilitate stocktaking but should contain valuation information, age, maintenance programs, depreciation information etc.

3.16 The Committee endorses the following conclusions of the Else-Mitchell report:

- the absence of asset registers in many areas of the ACT Government Service is a legacy of prior Commonwealth administration;
- program managers must be responsible for the recording, administration and maintenance of the assets employed in the conduct of their programs;
- risk management, asset protection and liability control policies, including insurance where appropriate, can be improved only where there is a detailed data history that can identify asset or financial losses and their causes, and portray historical trends. Program managers should be responsible for management of assets and held responsible for losses; and
- the [Else-Mitchell] Committee concluded that there is a need for central responsibility for setting asset management policies and for monitoring the performance of agencies in this matter.<sup>15</sup>

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<sup>13</sup> Ibid, p 7.

<sup>14</sup> Ibid, p 7; Chief Minister's submission.

<sup>15</sup> Else-Mitchell Report, op cit, p 9.

3.17 Allied to these conclusions is the recommendation concerning the progressive introduction of accrual accounting and the concept of financial worth as the basis of the reporting of assets and liabilities.<sup>16</sup>

3.18 The Committee has not inquired into the question of extending accrual accounting to non-statutory authorities in the ACT nor the adequacy of the current accrual accounting methodologies used by ACT statutory authorities.

3.19 The Committee does, however, support in principle the move towards extending accrual accounting throughout the public sector and agrees with the Else-Mitchell Committee's recommendation that a timetable be developed to progress the implementation of changed accounting practices over the next five years.<sup>17</sup>

3.20 The Committee was advised by the Chief Minister that the Government is responding to the Else-Mitchell Committee's recommendation at three levels.<sup>18</sup>

3.21 Firstly, corporatised public sector authorities will be required to adopt full accrual accounting through compliance with the Companies Code.

3.22 Secondly, compliance with accrual accounting is also a requirement of statutory authorities and the special operations of administrative units, ie the commercially based Trust Accounts.

3.23 Finally, in respect of administrative units, the Government has identified certain accrual accounting principles as being appropriate and which will be incorporated in the Statements of Supplementary Information. The Chief Minister advised that the Government will assess the value of such reporting with a view to including the information in the body of the audited financial statements in the future.

3.24 The Committee, however, was not advised of a timeframe within which the assessment will take place. The Committee was also advised that the Government will also be monitoring the progress of the introduction of accrual accounting by the New South Wales Government.

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<sup>16</sup> Ibid, p 10.

<sup>17</sup> Ibid.

<sup>18</sup> Chief Minister's submission.

**3.25 The Committee recommends that:**

- **the Government advise the Legislative Assembly of an indicative timetable for the process of assessing the appropriateness of accrual accounting in administrative units; and**
- **at the conclusion of that assessment process advise the Legislative Assembly of its results.**

3.26 In relation to property and land management, the Else-Mitchell Committee found that there was no clear picture of the total property holdings or their value, nor was there any agreed policy in this area. The Else-Mitchell Committee was of the view that a central property group should be established to manage all properties of the ACT Government.<sup>19</sup>

3.27 The Chief Minister advised the Committee that the new land planning and management legislation will provide for the formal identification and declaration of public land and that there will be a program of granting Executive Leases to the ACT Government for land that is used by it for its ongoing operations.<sup>20</sup>

3.28 The Chief Minister did not advise the Committee of the timeframe within which the identification of public land will occur. He did, however, state that additional survey work will be undertaken as required.

**3.29 The Committee recommends that:**

- **the Government advise the Legislative Assembly of an indicative timetable for the process of identification and declaration of public land and the granting of executive leases.**

3.30 The Else-Mitchell Report recommended that agencies and authorities that have title to land holdings be required to pay the full cost of holding those properties by paying the required associated land taxes, rates and charges. The report also stated that where there is no title an imputed rent should be applied to the respective agency at a market value.<sup>21</sup>

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<sup>19</sup> Else-Mitchell Report, op cit, p 10.

<sup>20</sup> Chief Minister's submission.

<sup>21</sup> Else-Mitchell Report, op cit, pp 10-11.

3.31 The Committee has some concerns about agencies and non-commercial authorities paying taxes, rates and other government charges rather than a notional transfer of funds. A notional transfer would provide the full cost of operation of an agency or authority and assist managers.

**Condition of assets**

3.32 The Committee notes with concern the assessed backlog of outstanding repairs and maintenance, assessed by the Else-Mitchell Committee to be some \$26 million.<sup>22</sup>

3.33 The Committee is also concerned that the Else-Mitchell Committee found that adequate information on the required level of expenditure over the next five years to maintain the assets in a satisfactory condition was not always provided to it by agencies and authorities.

3.34 The Committee notes that in general there was no projected five year analysis of the requirements for maintenance of non building items.<sup>23</sup>

3.35 The Else-Mitchell Committee found that if the backlog of maintenance for buildings costs is to be addressed over three years, then normal funding levels plus an additional \$7m in each year needs to be allocated. This is 2% of the replacement value, where the Else-Mitchell Committee understood the normal budgeting practice was to allow between 0.8% to 1.5% of replacement value to allow for adequate maintenance.<sup>24</sup>

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<sup>22</sup> Ibid, p 12.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid, p 13.

3.36 The Committee was advised by the Chief Minister that funding provided in the 1989-90 Budget reduced the backlog from \$26.1 million to \$21.0 million, and that a further \$7.0 million has been allocated in the 1990-91 Budget. The Committee welcomes the Chief Minister's advice that the funds would allow the urgent and high priority works to be undertaken.<sup>25</sup>

3.37 The Committee agrees with the Else-Mitchell Committee, and the Government, that the Commonwealth should accept responsibility for that backlog and provide appropriate financial assistance as an establishment grant.<sup>26</sup>

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<sup>25</sup> Chief Minister's submission.

<sup>26</sup> Ibid; Else-Mitchell Report, op cit, p 13.

#### 4 PUBLIC DEBT AND OTHER NON-CURRENT LIABILITIES

##### Public Debt

4.1 The Committee notes that, prior to the establishment of the ACT Trust Account in 1988-89, there was little effort made to distinguish the ACT component of expenditure on, or receipts from, works and services within the Commonwealth budget. The Else-Mitchell Report notes that at the time of the establishment of the Trust Account, the Commonwealth estimated a level of notional historical debt associated with past capital expenditure on facilities within the responsibility of the ACT Administration for which a firm debt profile did not already exist.<sup>27</sup>

4.2 The Committee notes concerns expressed in the Else-Mitchell Report arising from the absence of a written agreement or documentation of financial arrangements to prevail at the time of transfer of financial responsibilities. This contrasts with the Memorandum of Understanding that was the result of negotiation between the Commonwealth and the Northern Territory Governments prior to that Territory gaining self-government.<sup>28</sup>

4.3 The Else-Mitchell Report concluded that:

- (i) it would be inappropriate for the ACT Government to assume responsibilities for the notional historical Territorial debt or the Municipal and Transport debt; and

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<sup>27</sup> Else-Mitchell Report, op cit, p 45.

<sup>28</sup> Ibid, p 48.

- (ii) the ACT Government should be responsible only for meeting debt servicing costs on new borrowings made, or to be made, for these functions since Self Government.<sup>29</sup>

4.4 The Committee agrees with these conclusions and the following recommendation ie that the Commonwealth Government provide annual adjustments to the ACT general revenue grant to meet debt servicing cost obligations for new Territorial advances.<sup>30</sup>

4.5 The Committee also agrees with the conclusion of the Else-Mitchell Report that it would be beneficial for management planning if the Budget Papers provided information on an accrual basis to disclose current and non-current debt liabilities and the amounts of related debt servicing payments.<sup>31</sup> The Committee notes the advice of the Chief Minister concerning the use of accrual accounting in the presentation of financial statements but believes that the extension of the provision of such information, as recommended in the Else-Mitchell Report, should be given serious consideration.

#### Other non-current liabilities

4.6 The Else-Mitchell Committee Report notes that the Commonwealth legislation establishing self-government transferred most rights and benefits associated with self-government. There was, however, no legal transfer of liabilities. Liabilities will either be incurred on or after 11 May 1989 or there will be a negotiated agreement for those liabilities prior to 11 May 1989.<sup>32</sup>

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29 Ibid, p vii.

30 Ibid, pp vii, 53.

31 Ibid, p viii.

32 Ibid, pp 61-62.

4.7 The Committee notes and supports the following recommendations of the Else-Mitchell Report:

- (i) financial responsibility for those liabilities incurred prior to Self Government be settled by a negotiated agreement between the Commonwealth and the ACT; and
- (ii) the ACT Government provide and account for its non current liabilities (superannuation, long service leave and insurance) through accrual accounting practices and develop positive risk management strategies.<sup>33</sup>

4.8 The Committee strongly supports part (i) of the above recommendation. Further comment on this matter is made in Chapter 5.

4.9 The Committee believes that for future planning purposes it is essential for the Government and program managers to have full knowledge regarding future liabilities and have a developed risk management strategy.

4.10 The Committee notes the Chief Minister's advice that the Government is not considering at this stage to separately allocate debt to departments, but that it will continue to be managed and accounted for centrally by Treasury.

4.11 The Chief Minister also advised that Treasury is researching the appropriateness and relevance of calculating and allocating the value of accrued employee entitlements, although the response continues by stating that this is particularly questionable as the Government cannot be wound up and will meet those entitlements from future revenue streams.

4.12 Whilst agreeing that the Government will be a continuing entity and that there will not be a need to pay out all employees at the same time, the Committee believes that such information may be useful for planning and management purposes.

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33 Ibid, p viii.

4.13 The Else-Mitchell Committee expressed concern that the accruing superannuation liability since 1 July 1989 for staff and wages employees covered by the Commonwealth Superannuation Scheme for on-budget functions was unfunded and not accounted for.<sup>34</sup>

4.14 The Else-Mitchell Committee noted Treasury advice that this would be put to the Commonwealth Grants Commission with a view to seeking compensation through the Commission's recommended general revenue assistance from the Commonwealth.

4.15 In relation to long service leave, the Else-Mitchell Report refers to an actuarial study commissioned in 1989 and states that the unfunded liability for accrued long service leave resulting from employment under Commonwealth administration was \$58m as at 1 July 1989.

4.16 The ACT Government sought a capital assistance grant of this amount from the Commonwealth, an approach the Else-Mitchell Committee supported, as does this Committee.

4.17 The Else-Mitchell Committee also examined the insurance policy of the Territory and was of the view that a policy of enhancing or establishing detailed claims information and risk profile data bases should apply throughout the ACT Government as a matter of priority. The Report also stated that there should be appropriate senior management focus on positive risk management for each program of government.

4.18 The Committee generally supports these comments. The Committee notes however that there was no comment on risk management in the Chief Minister's response to the Committee and would encourage the Government to make comment on risk management issues in its response to the Committee's recommendation at paragraph 2.18.

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<sup>34</sup> Ibid, p 62.

## 5 INTERGOVERNMENTAL FINANCIAL RELATIONS

5.1 The Committee fully supports the thrust of the comments made in Chapter 6 of the Else-Mitchell Report. The Committee notes that both the Follett and Kaine Governments have presented the ACT's case to the Commonwealth Government for funding. This funding includes both additional establishment funding in order to provide a sound and equitable basis for self-government plus a transfer of financial capacity to meet responsibilities transferred from the Commonwealth.

5.2 The Committee notes that the Prime Minister has, since the finalisation of the Else-Mitchell Report, responded to the Chief Ministers' correspondence. The Committee, however, believes that the Commonwealth has not treated the ACT in a similar manner to that when the Northern Territory gained self-government.

5.3 The Committee strongly believes that the ACT has been poorly dealt with and does not accept the Commonwealth's response to the Chief Minister as representing a valid and equitable approach.

5.4 **The Committee recommends that:**

- the Government continue to strongly raise outstanding financial issues with the Commonwealth Government.**

Rosemary Follett  
Presiding Member  
10 April 1991