

# Titles Registry Trickery



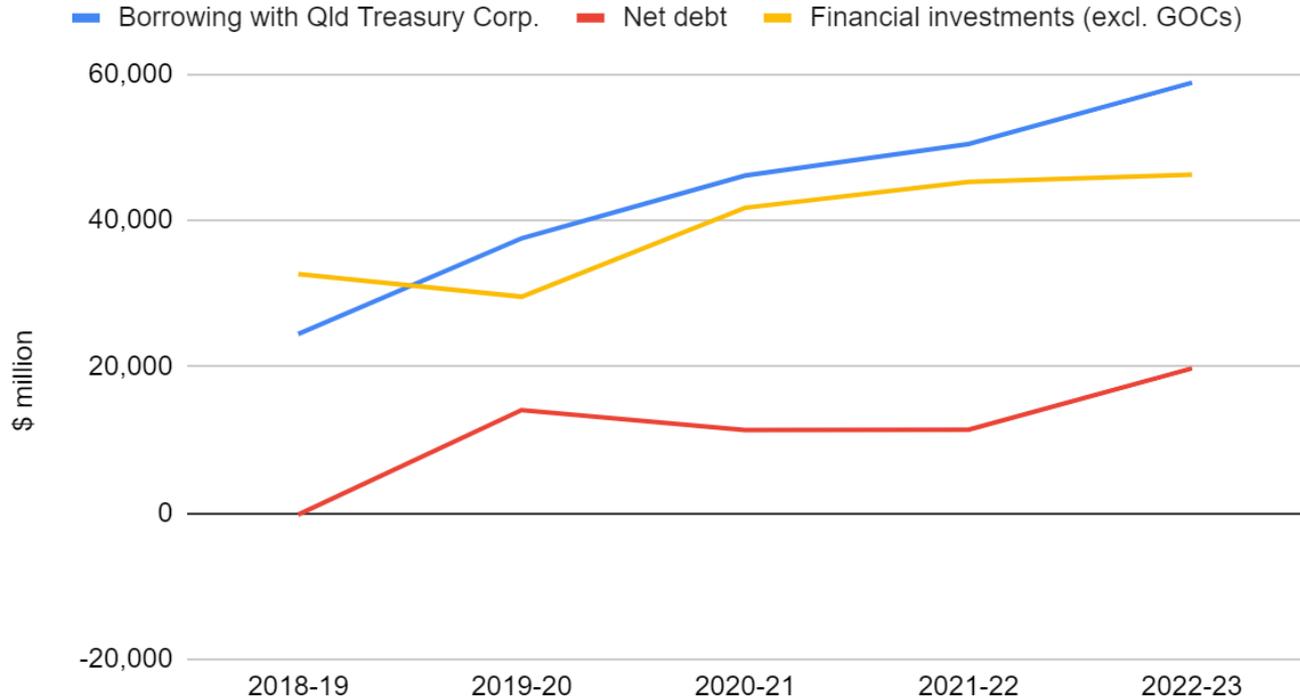
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# What's going on?

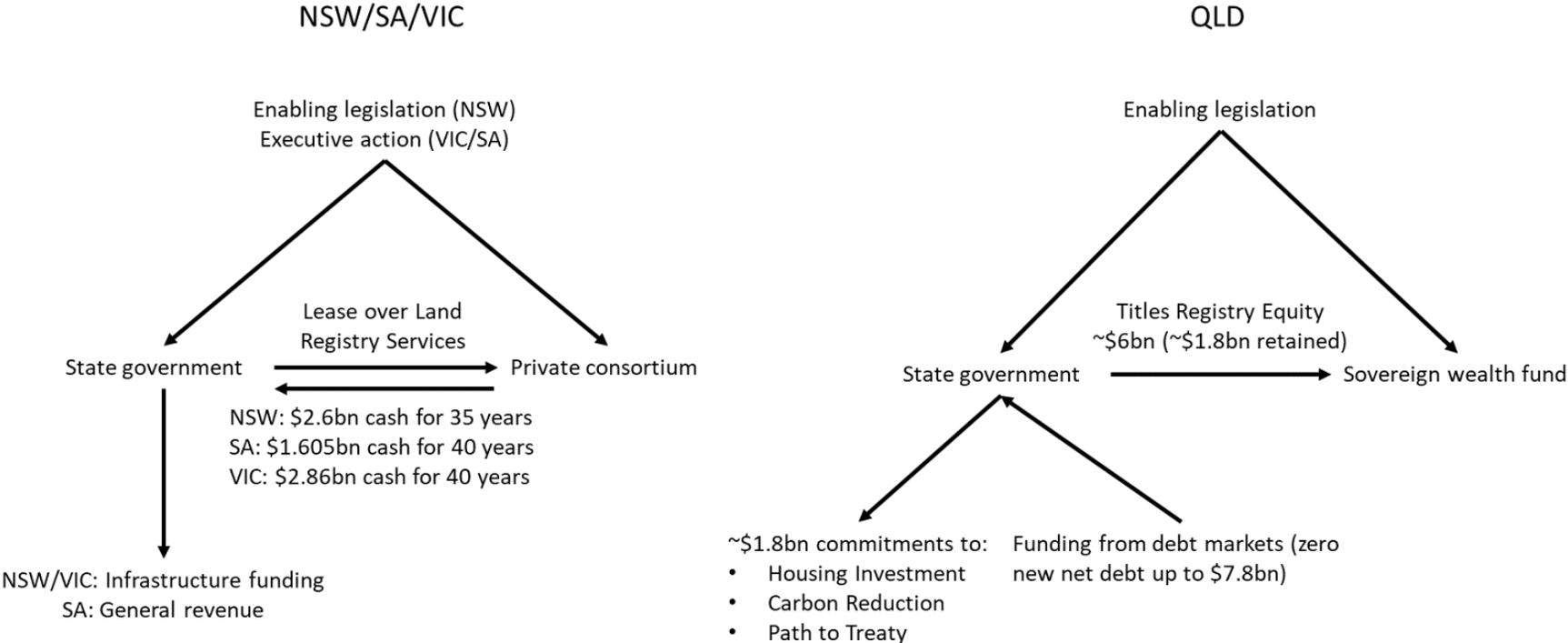
- Case study of public sector accounting shenanigans.
- Pretend privatisation of Titles Registry by Queensland State Government to boost financial assets by \$7.8 billion and reduce net debt.
  - This followed real privatisations in other states.
- The fake privatisation of the Titles Registry in mid-2021 gave the Queensland Government political cover to take on billions in additional debt, while breaching fundamental principles of government budget reporting.
- Gov't did this as a way to pretend it could invest in its Qld Future Fund even though the ready money it thought it initially had vanished during COVID.

# The trick stabilised net debt while borrowing soared

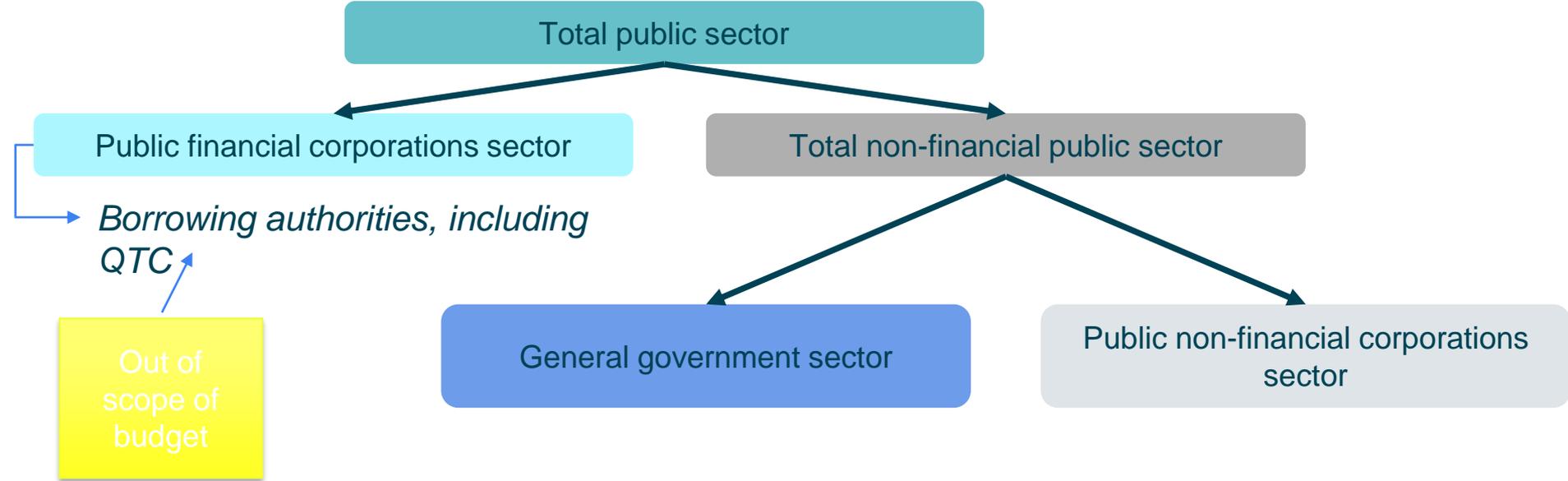
Qld General Gov't: selected financial data, budget estimates



# The mechanism: real and fake privatisations



# Background on public sector structure



# What's the problem?

- \$7.8bn valuation far too high (23x EBITDA)
  - Compare it with NSW and Victorian valuations of \$2-3bn for concession periods of 35-40 years compared with 50 in Qld
  - Based partly on capitalisation of value of a government taxation power
- Violation of spirit and probably the letter of Government Finance Statistics principles codified by IMF and adopted by Australia.
  - Titles Registry is still effectively a government agency exercising an ad valorem taxation power and should remain in General Government Sector.
- To summarise, the Queensland government provided an excessive valuation for their titles registry based on assumptions that simply could not hold, were the government to try and realise the asset value by privatisation.
- The government deliberately inflated the valuation (and thus the respite period it could achieve in running up net debt) by assuming it would allow a private operator to continue to exercise what are effectively taxation powers, and over a time horizon fully a decade longer than any other state, in a state in which privatisation is historically unpopular.

# Questionable valuation

	<b><i>Titles Registry Valuation Scenarios</i></b>					
	<i>NSW concession</i>		<i>VIC/SA concession</i>		<i>QLD concession</i>	
<i>Fee type</i>	<i>No ad valorem</i>	<i>Ad valorem</i>	<i>No ad valorem</i>	<i>Ad valorem</i>	<i>No ad valorem</i>	<b><i>Ad valorem</i></b>
Earnings (\$m)	150	340	150	340	150	<b>340</b>
Concession years	35	35	40	40	50	<b>50</b>
Discount rate	3.62%	3.62%	3.62%	3.62%	3.62%	<b>3.62%</b>
Earnings multiple	20	20	21	21	23	<b>23</b>
Value (\$m)	2,950	6,687	3,144	7,127	3,443	<b>7,800</b>

# Why should economists care?

- Because a variety of budget tricks like this are undermining the integrity of public accounts.
  - They make it difficult for the public and indeed even economists to understand the true financial positions of state governments.
- ABS should pay closer attention to these tricks when compiling its annual Government Finance Statistics reports.
- Broader problem of state governments doing financially clever things as a substitute for improving their budget bottom lines.
- This is a case study of why you need an independent public service and an upper house (or at least a functioning committee system) that can hold governments to account.