2011-12 ACT Budget Briefing Note

May 2011

KEY ISSUES

The ‘headline’ operating loss for 2011-12 is forecast to be $37 million but, when the temporary effect of the special stimulus programs is removed, the underlying operating loss is $53 million.

The Government is forecasting a Budget surplus in 2013-14. However past budgets have revenue errors (forecast versus actual) of over $200 million on average.

The most serious problem revealed in the Budget is the slide into negative fiscal balances, which represents living standards forgone.

The fiscal balance measures both the health of the Government’s operations and the impact of its budget on the ACT economy by taking account of the effect on the community of **all** the Government’s activities, including transactions in financial assets and capital items such as plant and equipment as well as the operating surplus or loss.

For 2011-12, the fiscal balance is expected to be -$592 million, a considerable difference from the ‘Headline Net Operating Balance’ of -$36 million used by Government. The negative fiscal balance shows that, in 2011-12, $592 million will no longer be available for the rest of the community to spend.

The Government is seeking savings of $150.7 million in agency expenses such as back office functions, travel, accommodation electricity usage and greater efficiencies in land development. It is also asking departments for an efficiency dividend of $66.6 million. While efficiencies are welcome this is ultimately not the most effective way to reduce government spending. Instead, the Government should cut lower priority programs.

The outlook for the ACT economy as a whole is sound but clouded by the prospect of Commonwealth Government cuts to the ACT of about 2 per cent as it is forced to bring its own budget into balance. The ACT’s Gross State Product increased by only 0.9 per cent in 2009-10 but is forecast to rise by 2.25 percent in 2011-12, compared with an increase of 3.75 per cent in Australia’s Gross Domestic Product.

Revenue

Overall, the Commonwealth contributes about 40 per cent of ACT budget revenue and ACT taxation brings in about 31 per cent of the total.

The property industry carries an unreasonable taxation burden in the ACT. 54 percent of the Government’s taxation revenue will come from property in 2011-12.

Government tax revenue is expected to increase by $440 million from 2009-10 to 2014-15, the major contribution coming from a projected $239 million increase in property taxes. That is, property taxes are expected to contribute 58 per cent of the increase in total taxes.

Lease Variation Charge

A new lease variation charge (LVC) will apply in 2011-12 to replace the previous Change of Use Charge.

Recognising that the impact of the new lease variation charge will undermine investment in developing medium and high density accommodation, the Government will phase the LVC in over 5 years, beginning in 2011-12. The Government is referring to the phase-in as a ’subsidy’ to property developers.

Phase-in of lease variation charge

Year	Percentage of lease variation charge payable
2011-12	25
2012-13	35
2013-14	45
2014-15	60
2015-16	75

The proportion payable of the lease variation charge will stay at 75 per cent after 2015-16.

The LVC will increase Government revenue in 2011-12 by 57 per cent to $22.4 million, making clear that its purpose is to raise more revenue.

Overall, there are no new categories of taxes and the tax take in 2011-12 is expected to be unchanged from the previous year:

- General rates up 6 percent $198 million;
- Land tax up 5 percent to $115 million;
- Stamp duty on land transfers up 4 percent to $294 million;
- Change of Use Charge (LVC) up 57 percent to $23 million;
- Fire and Emergencies Service Levy up 7 percent to $28 million; and
- Utilities Tax up 4 percent to $19.5 million.

Expenditure

Total expenditure in 2011-12 is budgeted to increase by 6 percent to $4098 million. The major items affecting the property industry are

- 5,500 residential sites to be released;
- 101,708 m^2 of industrial sites to be released at Hume;
- 110,861 m^2 of commercial sites to be released, mainly in Gungahlin and Central Canberra;
- Funding for a Government office building. A total of $432 million has been earmarked, of which:
  - $0.5 million in 2011-12
  - $1.0 million in 2012-13
  - $21.5 million in 2013-14
  - $101.8 million in 2014-15.

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There appears to be no business case to justify the Government's decision to start spending money on an office block for itself. There are two obvious issues: whether it passes the tests of commercial feasibility and what community services would have to be forgone if public funds were set aside for an office block, or additional taxes raised.

More generally, for 2011-12 the major areas of expenditure are:

- $962 million in new and current capital works, including $144 million over three years for construction of the Majura Parkway;
- $1,147 million on health and community care;
- $527 million on Territory and municipal services;
- $577 million on government schooling;
- $104 million on environment, sustainability and land management; and
- $118 million to subsidise public transport.

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Property Council Advocacy

The Property Council welcomes acceptance by the Government that borrowing to fund infrastructure is in the public interest and notes that an additional $928.5 million is being invested over the next four years.

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