

ACT Legislative Assembly Select Committee on Estimates 2009-10

Effects of Commonwealth Funding on ACT Budget

The importance of Commonwealth funding to the ACT Budget can be seen from the following:

ACT Revenue Sources

ACT Budget 2009-10

	2008-09(1)	2009-10(2)	2010-11	2011-12	2012-13
\$ Million					
Commonwealth Grants	1435.1 43.7%	1629.8 47.2%	1618.7 43.6%	1596.4 43.6%	1670.6
ACT Sourced	1851.4	1822.0	1899.5	2062.7	2159.5
Total ACT Revenue	3286.5	3451.8	3518.2	3659.1	3830.1

Typically, Commonwealth grants to the ACT constitute 43 per cent of the Territory's total revenues for the general government sector. It is rather more in 2009-10 because the short-term Commonwealth's fiscal stimulus peaks in that year.

Estimating Commonwealth grants is thus a crucial part of the budgeting process. The ACT Treasury typically draw their estimates from the Mid-Year Economic and Fiscal Outlook published by the Commonwealth some time between September and January. These MYEFO estimates are normally reliable. For 2009-10, however, MYEFO estimates were significantly modified in a subsequent, February publication where the Commonwealth updated economic and fiscal outlook in light of the international financial and economic crises. The ACT Treasury was able to use this February publication, but even these estimates were materially altered when the Commonwealth published its 2009-10 Budget in May.

If the government thought that potential changes to the Commonwealth's budget affecting the ACT were a problem, the ACT Budget could be delayed so it could benefit from later information.

As it happened, the total of Commonwealth grants over the forward estimates - including fiscal stimuli - is not materially different from that assumed by the ACT Government. The table below indicates that the differences over five years amount to a reduction of \$62 million. However, the composition of the change is important because there was a greater reduction in untied, general revenue payments. General revenue payments were estimated by the Commonwealth in its May Budget to be \$203 million lower than that estimated for the ACT Budget .

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Commonwealth Grants to ACT
Commonwealth Budget 2009-10

\$ Million

Commonwealth Grants	1418	1601	1624	1604	1642
Change from ACT Budget	-17	-29	+5	+8	-29

Commonwealth General Revenue Payments

\$ Million

ACT Budget 2009-10	886	924	978	1028	1081
Commonwealth 2009-10	871	874	935	986	1028
Change	-15	-50	-43	-42	-53

The \$141 million or so increase in specific purpose payments (\$203m reduction in general revenue grants less \$62m reduction in total grants) includes the Commonwealth's fiscal stimuli. The increase does not contribute to reducing the ACT bottom line deficit because to receive the revenue the ACT government is obliged to increase its spending to meet the Commonwealth's conditions for its specific purpose grants.

The ACT Government has chosen to respond to the loss of general revenue by increasing its savings target for the non-budget forward estimates years. At the same time, it has accepted the Commonwealth's projections of higher economic growth and higher government revenues for the three years 2013-14 to 2015-16.

While the ACT Government has responded to losses in revenues, especially GST, it has not chosen to adjust for the lower growth rates in the Commonwealth's Budget. We saw, in the briefing note on the difference between IMF and Commonwealth estimates for the Australian economy, that the Commonwealth adopted growth rates which were materially different from those used for Australia by the ACT. Although each set of growth rates resulted in a similar final GDP for Australia, the ACT estimates had higher earlier growth and the Commonwealth had higher end growth rates. The ACT Government has since modified its approach to reflect the higher end growth rates but has not modified its figures to cope with lower growth in earlier years.

The forecasts used by the Commonwealth will need to be fine-tuned in future budgets. There is media speculation that the Commonwealth's projections are overly-optimistic. Yet some economists argue

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that the Commonwealth has been overly pessimistic, especially on its forecasts and projections about final consumption, the issue which most impacts on GST.

A good case can be made that the Commonwealth's estimates for GST in the early years are too pessimistic, in which case, the ACT government should not reduce its savings and spending restraints but should aim to reduce the period over which it aims to restore balance to its operating results.

Tony Harris

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