

ACT Legislative Assembly Select Committee on Estimates 2009-10

Comments on Estimates Hearings for 18 May 2009

The ACT Treasurer advised the Committee that it was inevitable that the ACT would be affected by factors external to the ACT which impact the national economy (see page 97 of the Proof). The Committee might wish to examine – if it has not – the extent of impacts other than Commonwealth revenue sharing from the changes in estimated GDP contained in the Commonwealth budget. These changes which post-date the ACT budget should reduce ACT economic activity overall.

The ACT Treasurer advised, page 98, that the government's recurrent spending is largely offset by the savings program. For this to be accurate, one must use a concept of Net Operating Balance which is unique to the ACT.

The ACT Treasurer, page 99, advised that it would be wrong to presume that because revenue has fallen by \$200 million savings have to increase commensurately. The Treasury update shows that between 2008-09 and 2012-13 the Headline Net Operating Balance deteriorated by a further \$203 million. But it was never the government's goal to balance the operating balance over that period. Rather it intends to balance it by 2016. This extended goal and a post budget increase in GST revenues for 2013-14, 2014-15 and 2015-16 means that the government can claim that its savings target for the period to 2012-13 needs only a \$50 million increase to \$356 million.

At page 101 the ACT Treasurer discusses the 2006 budget and the fall-out which it engendered. The drift is that the savings were too great too fast. That budget also provided some of the fiscal strength which enables the government to embark on a large borrowing program without incurring net debt.

At page 104 the ACT Treasurer discounts job cuts as a consequence of a one per cent efficiency dividend. Given the size of the wages bill – the Treasurer says it accounts for 47 per cent of expenses – it would be hard not to identify savings which do not impinge on reduced staffing – that is more efficient use of staff. If staff are to be excluded from the savings options, a thought repeated at page 106, the burden falls more heavily on other expenses.

At page 114, the ACT Treasurer says that there will be no borrowing to fund the recurrent deficit. Money is fungible and there is no sense in trying to keep revenues separate from borrowing to ensure that borrowings are not used for recurrent spending. Nevertheless, it is reasonable to argue that were it not for infrastructure spending there would be no borrowing.

At page 118 there is a discussion about the ACT's unique accounting for superannuation. One of the difficulties with the Treasury presentation/practice is that it assumes the actuarial, long-run return on funds invested for superannuation is available for spending. Where states have superannuation funds, these returns are not available to the budget except under special circumstances.

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(If actuaries indicate that a superannuation fund is over-funded, there may be a 'holiday' on further contributions. The converse would require additional contributions.) Another problem is that the Treasury may use an approved presentation which takes into account real - rather than hypothetical - movements in the account established to fund superannuation.

At page 130 the Treasurer suggests that growth in staff – apart from Health and Education – is modest. The increase proposed for 2009-10 - over two per cent in full time equivalent staff – will engender significant non-wage costs and comes on top of a nearly four per cent increase in 2008-09. Since 2006-07, the increase in whole of government staff numbers will have been nearly 12 per cent. By any measure this is a large increase. This growth is significantly greater than the one per cent or so growth in ACT employment and population. It is in the nature of government that it will operate inefficiently, because there are no strong incentives to reward efficient management. Policy managers are more highly valued. The first imperative for governments is to control staff numbers.

Tony Harris

21 May 2009

ACT Legislative Assembly Select Committee on Estimates 2009-10

Comments on Estimates Hearings for 19 May 2009

From page 27 there is a discussion about a possible purchase by the government of Calvary Hospital. I have an interest in the issue which arose before my appointment to this task. This interest precludes me from offering advice to the Committee on this matter. If this is an issue for the Committee, I would be happy to discuss the matter.

From around page 63 there is a discussion on the growth of health expenses and budget allocations. This issue is covered in the separate briefing on health requested by the Committee.

There are no other matters in the hearings for this day which require comment.

Tony Harris

22 May 2009

ACT Legislative Assembly Select Committee on Estimates 2009-10

Committee Hearings: Tuesday 26 May

Library (and School) Closures: All or Nothing

The discussion of the proposed Kingston Library and the closed Griffith Library illustrates a more general issue, the problem of performance indicators. Although auditors are required to audit the financial data of government agencies, the growing use of performance indicators suggest that they are the more important measures of government activity. This is especially so for indicators publicly used by governments to account for their programs. These indicators are more useful and more used than the audited financial statements of government agencies. But the relevance of audit could also be applied for some of the indicators publicly used by governments to justify its decisions.

In the case of the Griffith Library, residents were told that its unit costs - the cost per book loan - were too high in comparison with other libraries. While that seemed an appropriate indicator to justify consideration of closure, the indicator's usefulness might be questioned if the government's comments about the age of its stock suggests that Griffith's stocks were older than average. If Griffith's stock was materially older than stock in other libraries, and if that reduced the number of users who would otherwise have used the library - thus increasing unit costs - the unit cost indicator could be discounted.

The use of unaudited indicators allows governments to craft indicators which are inappropriate, to present fraudulent data, or as worryingly, to manipulate the program so that poor performance is a necessary result. However, there is insufficient information to sustain any claim that the Griffith Library suffered from any of these stratagems.

The library issue raises another matter. It seems that all Australian governments have a policy that library services are to be provided free, but if they are relatively costly, the free service is withdrawn. It is all or nothing. There is no capacity for users to offer, or to be invited, to meet above-average costs of typically free services. The same point applies to school closures. If parents are happy to meet above-average costs from having uneconomic, smaller, neighbourhood school, should that opportunity be offered in preference to a mandated closure of a school?

This policy is not as simple. It would require governments to costs their free programs carefully and openly. But it has several advantages, as well as disadvantages.

Tony Harris

29 May 2009