Andrew Barr MLA
Chief Minister
Treasurer
Minister for Climate Action
Minister for Economic Development
Minister for Tourism

Member for Kurrajong

Mark Parton MLA
Chair of the Select Committee on Estimates 2023-2024
ACT Legislative Assembly

Email: LACommitteeEstimates@parliament.act.gov.au

Dear Mr ~~Parton~~ Mark

Government Response to the Specialist Budget Advisor (Pegasus Economics) Report: *Review of the ACT Budget 2023-24*

The Government welcomes the report on the 2023-24 Budget by Pegasus Economics, following its commissioning by the Select Committee on Estimates 2023-2024. I would like to acknowledge the time and effort taken by Pegasus Economics in providing its independent review and assessment.

For the Committee's information, attached is a copy of the Government's response to the Pegasus Report.

Yours sincerely

Andrew Barr MLA
Treasurer
18 July 2023

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Government Response to Pegasus Economics Report:

Review of the ACT Budget 2023-24

Andrew Barr MLA

Treasurer

July 2023

Introduction

In its *Inquiry into Appropriation Bill 2023-2024 and Appropriation (Office of the Legislative Assembly) Bill 2023-2024*, the Select Committee on Estimates 2023-2024 commissioned Pegasus Economics (Pegasus) to review the ACT's 2023-24 Budget[1], consistent with the Committee's resolution of establishment[2] (paragraph 4). Pegasus produced the *Review of the ACT Budget 2023-24* (the Pegasus Report) for the Committee's consideration, and a copy of the report can be found on the Legislative Assembly website[3].

The Pegasus Report provides a range of assessments regarding the 2023-24 Budget. As stated by Pegasus (p. 1), the report has been prepared "... to assist the Select Committee on Estimates 2023-2024 in its consideration of the 2023-24 Budget … identify[ing] major features of the Budget that the Committee may wish to explore". Pegasus further notes (p. 1) that its report is based on a desk-top review of ACT Budget documentation as presented to the Assembly on Tuesday 4 July 2023, supplemented by additional details provided through a meeting with ACT Treasury officials on 29 June 2023.

The Government remains committed to open, transparent and accountable practices in its management of the Territory's public finances, ensuring that service delivery levels are appropriate to community standards and supported through sustainable taxation revenues. The independent review of the 2023-24 Budget undertaken by Pegasus provides a number of important observations regarding these activities, which are welcomed. The Government wishes to present this response to the matters raised by Pegasus' assessment for the Committee's consideration.

[1] https://www.treasury.act.gov.au/budget/budget-2023-24

[2] https://www.parliament.act.gov.au/parliamentary-business/in-committees/committees/select-committee-on-estimates-2023-2024#tab2223415-1id

[3] https://www.parliament.act.gov.au/parliamentary-business/in-committees/committees/select-committee-on-estimates-2023-2024#tab2223415-3id

Pegasus Economics Review of the ACT Budget 2023-24

Economics Assumptions

Pegasus considers most of the economic forecasts included in the 2023-24 Budget appear reasonable. Pegasus has, however, identified some concerns, including that:

- employment growth in 2022-23 appears low;
- Consumer Price Index growth in 2022-23 appears low; and
- population growth in 2022-23 appears slightly high.

Response:

Employment growth

- The ACT Government forecast of 2¾ per cent for employment growth in 2022-23 is well above its long-run average 1¾ per cent. It is also higher than the population growth rate of 2¼ per cent for the same period, and the Commonwealth Treasury's national employment growth forecast of 2.5 per cent for the same period.
- While the ACT has experienced a significant increase in employment over the past 12 months (partly driven by the return of international migrants and students), the Budget forecasts that this growth will moderate over 2023 and 2024 in response to the impact of increased interest rates on demand in the economy.
- The employment estimates are balanced, with risk factors around the forecast. Due to these uncertainties, the Budget Outlook included upside and downside scenarios based around ACT Treasury's best central estimates at the time.

CPI Growth

- There is consistency across the ACT, Commonwealth Treasury, and the RBA on the expected path for inflation – annual CPI growth is expected to moderate after having peaked in late 2022.
- Through the year growth in the CPI for the ACT (at 6.2 per cent) is now running 0.8 percentage points lower than that for Australia (7.0 per cent). Consistent with this, the estimate for ACT inflation in 2022-23 is around 1.0 percentage point lower than the national forecasts prepared by the Commonwealth Treasury.
- Rents are considered to be one of the main drives of inflation in the near term[4,5]. The ACT is the only jurisdiction in Australia that regulates rent increases while also recording one of the

[4] https://www.rba.gov.au/media-releases/2023/mr-23-07.html

[5] https://www.rba.gov.au/media-releases/2023/mr-23-08.html

highest vacancy rates[6]. Both factors suggest that inflationary pressures in the ACT will be subdued in comparison to the rest of the country consistent with recent trends (see Table 1 below).

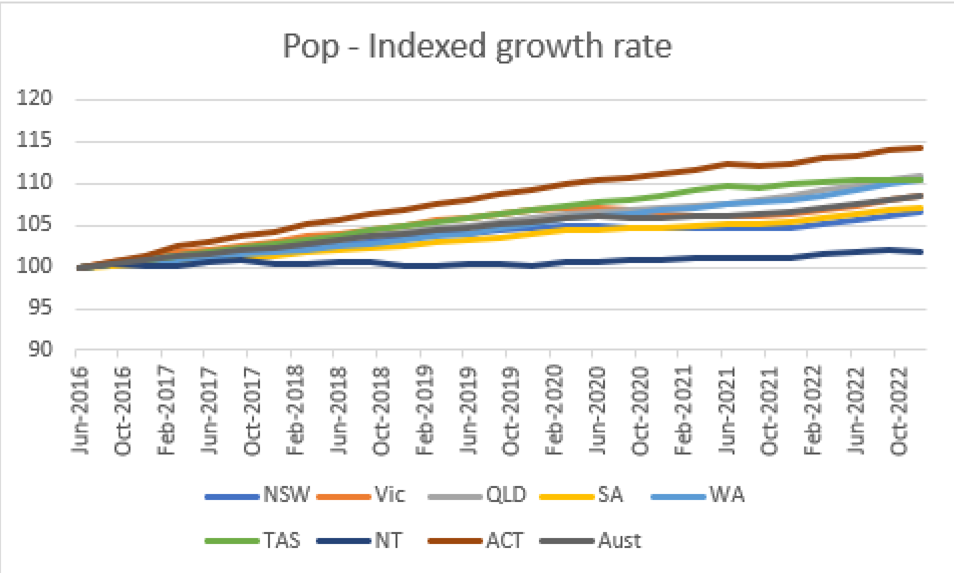
Table 1. Consumer Price Index, percentage change through the year

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-2021	4.1	2.9	4.9	2.8	4.2	3.6	6.1	4.8	3.8
Sep-2021	2.9	2.9	3.9	2.5	3.2	3.0	5.9	3.7	3.0
Dec-2021	3.1	2.5	4.3	3.3	5.7	4.5	6.0	4.0	3.5
Mar-2022	4.4	4.5	6.0	4.7	7.6	5.8	5.5	5.4	5.1
Jun-2022	5.3	6.1	7.3	6.4	7.4	6.5	6.6	6.3	6.1
Sep-2022	7.0	7.4	7.9	8.4	6.0	8.6	7.0	6.9	7.3
Dec-2022	7.6	8.0	7.7	8.6	8.3	7.7	7.1	7.1	7.8
Mar-2023	7.3	6.8	7.4	7.9	5.8	6.9	6.2	6.2	7.0

- Due to uncertainties with the inflation environment, the Budget Outlook included upside and downside scenarios, noting the forecasts reflect ACT Treasury's best central estimates at the time. The outcomes in the scenarios are consistent with Commonwealth Treasury and RBA expectations on the expected path for inflation.

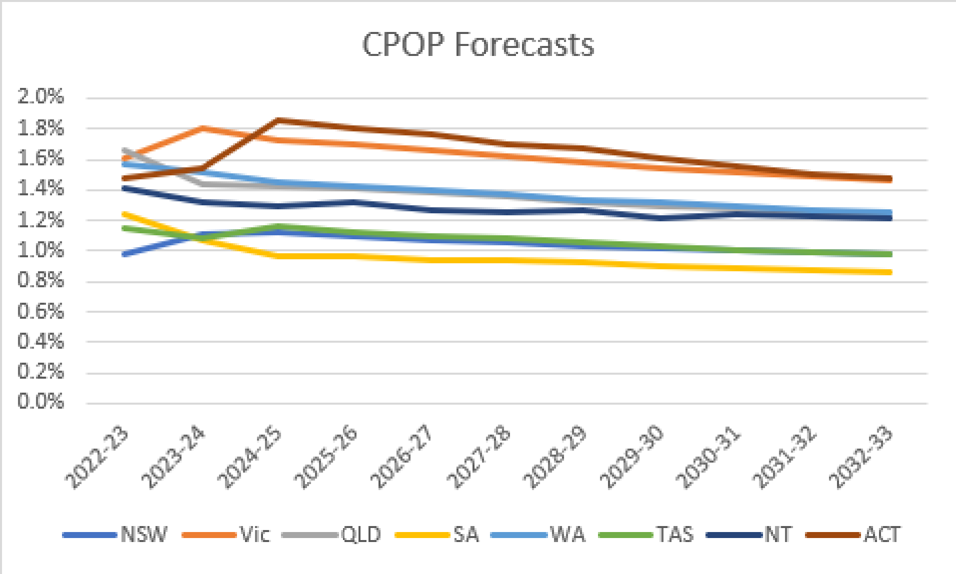
<u>Population growth</u>

- The ACT was the fastest growing population from the 2016 Census (June 16) through to the 2021 Census (June 21).



- The Commonwealth Treasury's Centre for Population (CFP) expects the ACT to be the fastest growing population from 2024-25 onwards.

[6] https://content.corelogic.com.au/l/994732/2023-07-05/z2tcd/994732/1688600749Ly8lv9wt/202306_CoreLogic_RentalReview_July_2023_FINAL.pdf



- The latest outlook for net overseas migration (NOM) from the Commonwealth is the key driver of the ACT's population estimates and reflect the continuing return of international students.
    - NOM is a major contributor to the ACT population growth.
    - The implementation of Commonwealth Government's Migration Program is expected to further boost the ACT population.
        - The NOM estimates used in the ACT population forecasts are consistent with the ACT's share of the national population.
- While ACT Treasury and CFP population growth estimates differ slightly in some years, the cumulative increase is largely consistent over the five-year period 2022-23 to 2026-27.

Fiscal position and metrics

Pegasus considers the ACT to have a strong balance sheet, with a fiscal position that compares favourably with other States and Territories. Nonetheless, Pegasus has raised concerns including:

- the long-term trend shows a deterioration in the Territory's indebtedness and financial obligations;
- a suggested weakening of the Government's balance sheet over time;
- declining net worth as a proportion of Gross State Product;
- growing net financial liabilities and net debt;
- a projected future decrease in net worth; and
- sustainability of the Government's debt.

Response:

- Historically the Territory's net worth has increased, as evidenced in Appendix F to the ACT 2023-24 Budget Outlook (p. 342[7]), which shows the General Government Sector (GGS) – Key Aggregates History. GGS net worth has increased by $7.6 billion between 2006-07 and 2021-22 as the non-financial assets of the Territory have grown, reflecting significant infrastructure investment and revaluations of the Territory's property, plant and equipment (including buildings and infrastructure assets) and land revaluations (including land under roads).

- Key measures of the balance sheet including net financial liabilities and net worth are sensitive to changes in assumptions, the most sensitive of which being the discount rate used to value the superannuation liability.

- Growth in the Territory's indebtedness, which has a direct impact on all three key balance sheet metrics, has increased over time reflecting significant infrastructure investments to meet the needs of a growing population. This includes large infrastructure projects such as Light Rail, a new Northside Hospital, and Canberra Theatre.

    - General Government Sector Net Debt can be seen to largely increase across all Australian jurisdictions (Table 2), generally associated with infrastructure investment (for example, the New South Wales 2022-23 Half-Yearly Budget Review[8] notes that its net debt to Gross State Product percentage has increased primarily due to flood responses, and investments in health and public transport).

Table 2: Net Debt jurisdictional comparison

		GGS Net Debt ($m)				
State/ Territory	**Source document**	**Estimated Outcome 2022-23**	**Budget 2023-24**	**2024-25 Estimate**	**2025-26 Estimate**	**2026-27 Estimate**
ACT	2023-24 Budget	5,814.2	7,252.1	8,503.0	9,628.2	10,617.2
NSW	2022-23 Half Yearly Budget Review *(2023-24 Budget expected September 2023)*	78,403.0	96,201.0	107,444.0	116,505.0	N/A
VIC	2023-24 Budget	116,693.0	135,411.0	151,181.0	162,202.0	171,433.0
QLD	2023-24 Budget	5,852.0	16,190.0	28,074.0	37,648.0	46,934.0
SA	2023-24 Budget	17,859.0	20,293.0	22,488.0	25,433.0	28,579.0
WA	2023-24 Budget	19,085.0	22,060.0	25,527.0	26,704.0	27,073.0
TAS	2023-24 Budget	2,282.9	3,497.2	4,592.8	5,135.7	5,596.0
NT	2023-24 Budget	6,600.9	7,484.4	7,970.5	8,019.9	7,833.3

- While these investments may require borrowings to meet upfront construction costs, the wellbeing and economic benefits generated by these investments will extend for many years, during which a growing tax base will support the Government's ability to meet its debt obligations.

[7] https://www.treasury.act.gov.au/__data/assets/pdf_file/0007/2244436/Budget-Outlook.pdf

[8] https://www.budget.nsw.gov.au/sites/default/files/2023-02/2022-23-Half-Yearly-Budget-Review.pdf

Budget estimates

Pegasus considers that improvements in the budget position over the forward years are rarely materialised, and that, in almost all cases, the Budget estimate in any year is worse than had been forecast in previous years.

Response:

- The Government continues to focus on strengthening our fiscal position over time, while continuing to invest prudently to meet the needs of our community. Consistent with previous budget updates, the Government's investment decisions appropriately balance the need to continue to improve our fiscal position while providing necessary services for a growing Canberra.
- Forward estimate projections are subject to increased uncertainty the further into the future they are presented, due to a combination of factors, such as new Government decision-making, or the impact of factors outlined as economic or fiscal risks as presented in Appendix I to the ACT 2023-24 Budget Outlook[9] (p. 355). Some risks noted for 2023-24 include interest rates and persistent inflation, with potential flow-on impacts to own-source revenue and GST grants from the Commonwealth.
- In terms of significant risk impacts, the COVID-19 pandemic represented the biggest economic shock the Territory has faced in more than a century. In response, the Government elected to support the Canberra community by protecting local jobs, maintaining business confidence, and injecting cash into our economy.
    - Similar to many other jurisdictions in Australia, and around the world, these expenditures led to a significant erosion of our fiscal position.
- With pandemic-related shocks now largely diminished and coupled with the Government's continued focus on strengthening our fiscal position over time, the Territory's Headline Net Operating Balance (HNOB) position is now forecast to return to a surplus position for 2025-26 and 2026-27.
    - It should also be noted that in recent years, actual outcomes for the budget year have been better than originally predicted – for 2020-21, the predicted deficit of $603 million was revised down to $373 million, while for 2021-22, the predicted deficit of $952 million was subsequently revised to $537 million.
- Should circumstances necessitate, the Government will again opt to invest in Canberra to protect our economy and maintain standards of living and wellbeing. A focus on maintaining balanced budgets over the medium term will, however, be retained.

[9] https://www.treasury.act.gov.au/__data/assets/pdf_file/0007/2244436/Budget-Outlook.pdf

Accounting assumptions, presentation, and disclosure

Pegasus has raised a number of matters in terms of how the ACT Government has opted to present a range of financial matters in the Budget Papers. These considerations may be seen to extend to:

- transparency in the presentation and explanation of the flows expected from dividends;
- accounting policies and assumptions that relate to Service Concessions and Concessional Loans and standardising their presentation against other significant assets and liabilities and other Australian jurisdictions (including the Commonwealth);
- the usage of notes accompanying the financial statements to outline bases of accounting, key accounting policies and a disaggregation of key assets and liabilities;
- clarity associated with term arrangements for Light Rail – Stage 1 contracts and the schedule for taking these assets and liabilities on to the Territory's balance sheets is not clear from the Budget documentation;
- the level of technical adjustments, which Pegasus considers to be substantial; and
- the nature of the discount rate that has been applied to the long-term service concession contracts liabilities.

Response:

- The ACT Government's dividend policy is set out in notifiable instruments published on the ACT Legislation Register and in each entity's Annual Report:
    - Icon Water maintains a dividend policy of 100 per cent distribution of net profit after tax less gifted asset revenue. An interim, fully authorised dividend is declared and paid in June with a provision made for the payment of a final dividend in October (see p. 28 of the 2021-22 Annual Report[10]).
    - The City Renewal Authority pays the Territory a dividend of 100 per cent of net profits after tax (see p. 66 of the 2021-22 Annual Report[11]).
    - The Suburban Land Agency operates under a policy of declaring a dividend of 100 per cent of its net profit after tax to the ACT Government (see p. 80 of the 2021-22 Annual Report[12]).
- The budget statements for each entity also show the estimates for dividends approved and cashflows for payment of dividends.

[10] https://www.iconwater.com.au/Media-Centre/Reports-and-Publications/Annual-Reports.aspx

[11] https://www.act.gov.au/cityrenewal/documents

[12] https://suburbanland.act.gov.au/en/resource-hub

- The ACT 2023-24 Budget Outlook (p. 342[13]) presents a detailed description of accounting for both Service Concession Arrangements and Concessional Loans.

- The discount rate applied to the long-term service concession contract liabilities is the incremental borrowing rate (unless the rate is implicit in the lease in accordance with AASB 9) (for Light Rail Stage 1, see p. 62 of the TCCS 2021-22 Annual Report[14]). The methodology for subsequent recognition of service concession contract liabilities is detailed in the ACT Accounting Policy AAPP109 on the Accounting in the ACT Government[15] website.

- The ACT 2023-24 Budget Outlook (p. 341[16]) contains the basis for financial estimates preparation including the link between the ACT Budget Statements and the ACT Annual Financial Statements, and the use of the Uniform Presentation Framework agreed by the Council on Federal Financial Relations.

    - There is no specific Australian accounting standard or authoritative view for the preparation and presentation of prospective financial statements, including the use of notes. On this basis, the Territory's budget papers have been prepared having regard to applicable Australian Accounting Standards.

    - The Key Financial Concepts Underlying the Budget Papers (and subsequent sections) contained in the Reader's Guide to the 2023-24 Budget[17] (p. 15), provides details of the context within which the ACT's financial statements are presented.

- The assets and liabilities associated with the Light Rail – Stage 1 have been recognised in the 2023-24 ACT Budget in the Public Trading Enterprise Sector (PTE) which then flows through to the Total Territory Budget (Appendix D[18]). As such, they are not recognised in the General Government Sector (GGS).

    - The completed Light Rail – Stage 1 assets and associated liabilities were initially recognised by Transport Canberra and City Services (TCCS) in 2018-19 as leased assets and leased liabilities. The Light Rail – Stage 1 leased assets and associated leased liabilities were transferred from TCCS to Transport Canberra Operations (TCO) in 2019-20.

    - With the introduction of *AASB 1059 'Service Concession Arrangements: Grantor'* in 2020-21, TCO reclassified the Light Rail – Stage 1 leased assets and associated leased liabilities to Service Concession Assets and associated Service Concession Liabilities. TCO is in the Public Trading Enterprise Sector of the ACT Government.

[13] treasury.act.gov.au/__data/assets/pdf_file/0007/2244436/Budget-Outlook.pdf

[14] https://www.cityservices.act.gov.au/about-us/annual_report

[15] https://www.treasury.act.gov.au/accounting

[16] treasury.act.gov.au/__data/assets/pdf_file/0007/2244436/Budget-Outlook.pdf

[17] https://www.treasury.act.gov.au/__data/assets/pdf_file/0004/2244037/2023-24-Budget-Readers-Guide.pdf

[18] treasury.act.gov.au/__data/assets/pdf_file/0007/2244436/Budget-Outlook.pdf

- Technical adjustments by definition reflect those items impacting agencies for material, non-discretionary changes in the net cost (or timing) of expenditure on existing programs or capital projects and revenue and expenses where parameter assumptions have changed.
- As such, technical adjustments are those which are typically outside the ACT Government's control and are not triggered by an explicit decision by Cabinet. Accordingly, the number of technical adjustments within a given budget will vary depending upon external circumstances, such as an increase in GST or other Commonwealth grant revenue.

Cost of living

Noting that a range of initiatives in the 2023-24 Budget target cost of living pressures, Pegasus has raised concerns including:

- that with most taxes and fees indexed in line with forecast WPI, ACT residents whose primary source of income is social security benefits indexed to the national CPI could be relatively worse-off in real terms; and
- the appropriateness of the Government including pay increases for its own employees as part of its policy efforts to ease cost of living pressures, on the basis this cost ultimately falls in ACT taxpayers.

Response:

- Many households whose main source of income is social security benefits are shielded from changes to taxes and fees through the ACT Government concessions and assistance programs.
- In the 2023-24 Budget, the ACT Government has significantly increased support for social security benefit recipients, with the expansion of the Utilities Concession to Commonwealth Health Care Card holders, benefitting an estimated 12,000 households.
- Pegasus notes increases in taxes and fees are offset by a wide range of concessions, including the Utilities Concession, Pensioner General Rates Rebate, Spectacle Subsidy Scheme, Taxi Subsidy Scheme, driver licence fees, motor vehicle registration fees, public transport fares and a one-off $250 booster payment in 2023-24 to households on the priority housing waitlist.
- Pensioners, people suffering hardship, and anyone aged 65 or over may also be eligible to defer their general rates at a low interest rate. This enables households to defer thousands of dollars in general rates each year until a later date when they have funds available, such as when the property is sold, providing immediate and meaningful cost of living relief.
- The ACT Government is an employer of over 27,000 staff, many of whom are in frontline, service delivery positions. This pay rise ensures our employees can keep up with the high cost of living. Fixed dollar increases will provide the greatest immediate cost of living relief to employees at the lower end of the ACTPS pay scale.

Tax reform

Pegasus has raised concerns around the Government's tax reform program, including:

- that general rates are not rising quickly enough to replace the amount of revenue lost from changes in commercial and residential conveyance thresholds and rates; and
- that Pegasus considers the Government is backpedalling to some degree on its tax reform by not increasing rates sufficiently to make up for the reduction in stamp duty, with the difference appearing to be made up through an increasing reliance on payroll tax.

Response:

- The ACT tax reform program is designed to be revenue neutral in aggregate, over the full transition from insurance and conveyance duty to general rates. The Government remains committed to this program.
- A study released in August 2020 demonstrated the tax switch had been broadly revenue neutral. This study will be updated toward the end of stage 3 of tax reform.
- The Government has set out that during stage 3 of tax reform:
    - Residential conveyance duty tax rates will decrease to offset increases in revenue from residential general rates above the increase in the WPI.
    - The commercial conveyance duty tax-free threshold will increase to reach $2 million in 2025-26 and this revenue loss is expected to broadly offset increases in commercial rates over stage 3.
- Using the share of total own source revenue to measure the revenue neutrality of tax reform is flawed.
    - There are non-tax reform related factors that influence changes in general rates and conveyance duty revenue. In particular, conveyance duty revenue is affected by price and turnover changes. All else being equal, this can change the conveyance duty share of total own source revenue regardless of whether tax reform is revenue neutral.
    - There are other own source revenue streams outside of the scope of the tax reform program. Significant increases in payroll tax revenue, reflecting growth in economic activity and jobs as well as the introduction of a surcharge from 2025-26, have no bearing on the tax reform program.

Superannuation Liabilities

Pegasus has expressed the opinion that:

- if the long-term financial assumptions are changed from one Budget to the next, liabilities are reported both on the new basis and the previous basis; and
- the ACT Government's (and other jurisdictions) commitment to the target of achieving full coverage of superannuation liabilities by 2030 unlikely to be met, with Pegasus estimating it would take 12 years before assets would be sufficient to cover the unfunded liability.

Response:

- Changes in the financial and demographic assumptions are much more material to the estimated liability valuation than the potential impacts to the valuation from changes in the membership experience from year to year being different to what is assumed.
    - The demographic assumptions adopted for the liability valuations are reviewed and updated every three years for the triennial liability valuation reviews. As the annual liability valuation reviews maintain the same demographic assumptions, and incorporate assumptions around membership experience, the annual liability valuations are materially impacted by changes in the financial assumptions.
    - The estimates in the 2023-24 Budget are based on the most recent annual valuation review with the next triennial review to be completed in 2023-24.
- The long-term financial assumptions adopted for the Budget liability valuation projections have remained relatively stable over time, except when under the unprecedented financial conditions experienced during the global pandemic with ultra-low inflation, salary growth and interest rates.
- The annual actuarial liability valuation review reports are published on the Treasury Publications Website[19] following the release of each annual Budget.
    - These reports document all the financial and demographic assumptions, as well as providing a reconciliation of the impacts to the liability valuation results.
- The Government maintains a funding plan to extinguish the Territory's unfunded defined benefit superannuation liability over time. The funding ratio is currently predicted to grow to 71 per cent by 2026-27.
    - The precise date at which full funding will be achieved will be largely dependent on interest rates, investment returns and membership experience, as has always been the case.
    - S&P Global Ratings commented in its most recent Territory credit rating update report "The Territory also has a credible plan to eliminate its unfunded

[19] https://www.treasury.act.gov.au/publications

superannuation liability over time through ongoing appropriations and investment earnings in its Superannuation Provision Account".

- The Government supports the Pegasus finding (p. 45) that there is no indication that the ACT will have any difficulties in meeting its unfunded superannuation obligations.

Superannuation Return Adjustment

Pegasus has suggested that the Superannuation Return Adjustment included in the formulation of the Headline Net Operating Balance should be calculated using the assumption that the total return on the assets of the Superannuation Provision Account is identical to the long-term discount rate used in valuing the liability.

Response:

- The Government supports the Pegasus finding (p. 47) of allowing an offset to the reported interest cost superannuation expense to recognise the fact that the Government is holding significant financial assets in the Superannuation Provision Account (SPA) to meet the superannuation liabilities of the Territory.
- The Government notes the Pegasus recommendation that the offset calculation should be based on using the discount rate used to estimate the liability which would better reflect the calculation of interest cost expense in a partially funded superannuation scheme under *AASB119 Employee Benefits*.
  - The ACT does not administer any superannuation schemes on behalf of employees, with the defined benefit employer superannuation obligation being a liability to the Commonwealth Government, in respect of current and former ACT employees who are members of Commonwealth defined benefit superannuation schemes.
- Under the Uniform Presentation Framework (UPF), only investment income such as interest and dividends are recognised as income in the GGS UPF Net Operating Balance.
  - This means that the GGS UPF Net Operating Balance comprises the gross superannuation expense offset only by the interest and dividend income derived from the SPA's financial investment assets.
  - However, the UPF operating result includes net gains in financial assets as these are classified as other economic flows included in the operating result.
- The total investment returns recognised in the Headline Net Operating Balance ensure superannuation expenses and investment revenue are reported on a consistent basis.
  - Over the past ten years to 30 June 2022 the funds set aside in the SPA have generated approximately $1.3 billion in investment income and $1.6 billion in net gains on financial assets.
  - By comparison, the total superannuation expense over this same period, expensed through the GGS UPF Net Operating Balance, has totalled $5.4 billion.

    - Over the past 26 financial years to 30 June 2022 the SPA's investment portfolio has generated an investment return of CPI + 5 per cent per annum, which exceeds the investment return objective of CPI + 4.75 per cent per annum. The HNOB includes only the target objective return.

- The *Territory Superannuation Provision Protection Act 2000*[20] provides for the protection of funds dedicated to meeting the superannuation liabilities of the Territory.
    - Financial investment assets in the SPA are available to support, and have previously supported, the Territory's ongoing superannuation emerging cost payments to the Commonwealth to extinguish the Territory's defined benefit employer superannuation liability.

- The Government continues to maintain that the Headline Net Operating Balance provides the most relevant and meaningful information for making long-term budget allocation decisions, and the inclusion of the superannuation return adjustment ensures the superannuation expenses and the associated investment revenues are reported on a more consistent basis.
    - This Headline Net Operating Balance presentation has been in place since 2006-07.

- The Government further notes that it publishes both the GGS UPF Net Operating Balance estimates and the Headline Net Operating Balance estimates. It also publishes cash operating statements and the Government takes all measures into account when considering the sustainability of its Budget position.
    - Notably under all of the measures, there is forecast improvements over the forward years.

Superannuation Liability Valuation and Service Costs

Pegasus has commented on the estimated discount rate assumption used for the 2022-23 estimated outcome, indicating:

- that rather than using an estimate of the likely bond yield at 30 June 2023, the liability and associated service costs have been estimated using the long-term discount rate of 5%; and

- while the cash rate has increased significantly over recent months, yields on Commonwealth Government bonds have increased only slightly and are sitting at around 4%.

[20] https://www.legislation.act.gov.au/View/a/2000-21/current/html/2000-21.html

Response:

- Defined benefit superannuation liability valuation projections are sensitive to changes in the financial assumptions, especially the discount rate assumption.
- Domestic interest rates remain volatile, with both short-term and longer-term Australian interest rates increasing materially since late 2020, with interest rates continuing to trend higher over the 2022-23 financial year.
  - The yield on the relevant Commonwealth Government bond was 4.35 per cent on 30 June 2023 and increased to 4.52 per cent on 10 July 2023.
- The use of a long-term average discount rate assumption of 5 per cent remains appropriate and is also consistent with the approach taken by the Commonwealth Government in the preparation of its annual budget estimates.

The Wellbeing Framework

Pegasus has raised a number of concerns around the Government's Wellbeing Framework, including:

- that there is no detail on a formal process for the evaluation of initiatives or the assessment of the success of specific budget initiatives and movements in wellbeing over time;
- that the Wellbeing framework does not yet provide information in a form that allows for a clear understanding of the decision-making priorities of the Government;
- that the Wellbeing statement at this stage is focused on new policy initiatives (and not existing activities) meaning it is not possible to determine the contribution of the Territory's ongoing spending to each wellbeing domain or determine the priority Government attaches to each domain; and
- the inclusion of the 'net cost of services' summary line in initiative descriptions.

Response:

Success of specific budget initiatives and movements over time

- The Government acknowledges that the Wellbeing Framework does not ***yet*** allow for detailed assessments of improvements in wellbeing achieved as a result of past individual initiatives or from future improvements. This is primarily a function of the progressive development of the Framework and its supporting evidence base.
- As noted in the Pegasus report, the 2023-24 Budget includes $1.2 million, with provision for additional resources, to fund a research initiative with the ANU to improve understanding of the drivers of wellbeing outcomes, including the causal relationships that exist between domains of the Framework, this is expected over time to contribute to a greater ability to measure and report on the factors impacting wellbeing across the Territory, including the capacity to more effectively evaluate the impact of individual initiatives intended to improve

wellbeing outcomes. The techniques and the supporting data necessary to assess the impact across portfolios of upstream factors on intended outcomes have been tested in recent work and the strategic relationship with the ANU is intended to develop this capability further.

- Within the ACT Public Service, options are being developed for strengthening performance reporting and accountability arrangements based on wellbeing, and on more formalised data sharing agreements between ACT Government agencies intended as infrastructure to support a broader and deeper wellbeing evidence base.

- We continue to embed Wellbeing Impact Assessments (WIAs) as part of our Budget decision-making process (requiring formation on how the success of initiative will be measured, what evidence is available to support the anticipated impact of the initiative and the timeframe in which wellbeing impacts are expected to be realised).

- The Government recognises that to truly deliver improved wellbeing outcomes for Canberrans, we need to look beyond quick fixes and easy wins, to deliver lasting change. We must avoid falling into the trap of seeing wellbeing as being just about 'today', or expecting to see immediate outcomes from investment categorised and quantified each year.

- The ACT has regularly engaged with other jurisdictions, including Wales and New Zealand, during the process of developing an ACT framework. A lesson learned from these and others is that the development of a wellbeing approach to government takes considerable time to mature and that while the expression of wellbeing domains can vary between jurisdictions, the underlying concepts are very similar. The ACT Wellbeing Framework was developed with the Canberra community and reflects those areas that are significant and meaningful for Canberrans' wellbeing, rather than copying an internationally developed framework that may have limited applicability for our community.

<u>Understanding of the decision-making priorities of the ACT Government</u>

- Similar to the points above, the use in the report of terms such as 'not yet' show that the authors recognise that the Wellbeing Framework is an approach that is not yet fully implemented. There is a planned development pathway for the embedding of the Framework.

- For example, recognising the impact of initiatives on multiple domains is a strength of the Government's wellbeing approach. To deliver improvements to wellbeing for our community, it is vital that decision-making is informed by the way initiatives impact wellbeing in different ways, particularly where initiatives may traditionally be associated with one wellbeing domain but have far-reaching impacts (for example, many initiatives to mitigate the impact of climate change are also likely to have impacts on health).

- Demonstrating how these factors interact with each other over time and across portfolio boundaries will take some time. Projects referred to above, including the causal relationship modelling with the ANU, and projects to explore different approaches to accountability, reporting and planning as well as building evaluation capability, are part of this process. It can be reasonably anticipated that as these wellbeing infrastructure projects develop, the complexities of reflecting wellbeing outcomes over time through a traditional accountability model will diminish.

Contributions to the Territory's ongoing spending to each wellbeing domain and their prioritisation

- The current point in time, or stage, that the report refers to is recognised, and it is intended that the initiatives described above will over time improve the capacity to determine the contribution of the Territory's investment in relation to wellbeing domains, including for those considered high priority.

Inclusion of the 'net cost of services' line for new initiatives

- The ACT Budget presentation of new initiatives is explained on page 97 of the ACT 2023-24 Budget Outlook[21]. The presentation provides a greater level of disaggregation/transparency of the financial impacts of initiatives than any other state or territory. 'Net cost of services' and/or 'net capital' summary lines are also included to assist readers to understand the overall financial impacts of initiatives. This presentation has been used since 2020 and was developed with reference to the approaches taken by other jurisdictions. In particular:
  - the presentation of an increase in revenue or a decrease in expenses as a negative number is consistent with New Zealand's approach (e.g. see B2 Wellbeing Budget 2023, p. 79[22]); and
  - the inclusion of summary 'net cost of services' and 'net capital' summary lines is consistent with the approach taken by various other jurisdictions in their budgets. For example, South Australia includes 'impact of net operating balance' and 'impact on net lending' lines (for new policy decisions at an agency level) and the Commonwealth includes 'net cost of services' information (for total funding including new policy decisions at an agency budget level). 'Net cost of outputs', which is conceptually identical to 'net cost of services' at an output level, is widely used by other jurisdictions and is a well-recognised concept in public sector budgeting.
- With reference to the payroll tax initiative discussed in the Pegasus Report (Pegasus Report p. 31, and ACT 2023-24 Budget Outlook, p. 120[23]), both expense and revenue lines conform to this convention, and are presented separately for clarity purposes. The net cost of services line for this item is thus negative, reflecting that the initiative will reduce costs to Government following its introduction.

[21] https://www.treasury.act.gov.au/__data/assets/pdf_file/0007/2244436/Budget-Outlook.pdf

[22] https://budget.govt.nz/budget/pdfs/wellbeing-budget/b23-wellbeing-budget.pdf

[23] https://www.treasury.act.gov.au/__data/assets/pdf_file/0007/2244436/Budget-Outlook.pdf

Capital Works Reserve

While Pegasus considers the Capital Works Reserve to be conceptually sound, it has suggested that the Select Committee may wish to investigate the operation of the Reserve, including processes for reporting usage.

Response:

- The accountability and transparency over the use of funds from the Capital Works Reserve is governed by the *Financial Management Act 1996* (FMA[24]):
    - the power to authorise payments from the Reserve is vested in the Treasurer under section 18E;
    - the Treasurer must notify the Assembly of details on payments from the Reserve in the quarterly financial statements under sections 18G and 26; and
    - the Territory's financial operations in a year are reported in the annual financial statement prepared by the Under Treasurer and audited by the Auditor General. Both the annual financial statement and the Auditor-General's opinion on the statement are presented by the Treasurer to the Assembly (sections 22 to 25 of the FMA).
- Section 18E empowers the Treasurer to authorise a capital works advance to an entity for an approved capital works project subject to the following conditions:
    - there is an immediate requirement for the capital works advance to be made to the entity;
    - the capital works advance is required in addition to the entity's capital works budget for the financial year; and
    - the capital works advance will not result in total funding for the project exceeding the total amount budgeted for the project:
        - this condition is satisfied through a corresponding reduction, in the same amount as the capital works advance, in future budget funding allocation for the project; and
        - the total amount of capital works advances authorised in a financial year does not exceed the total amount appropriated for the Reserve in that year.
- Section 18G(2) of the FMA requires a reconciliation of the capital works reserve of amounts appropriated, advances authorised, any reductions in advances and the amount of reserve remaining to be included in the Quarterly Consolidated Financial Reports. Quarterly Consolidated Financial Reports are presented to the Legislative Assembly and are available on the Treasury Publications website. To access the latest reporting please refer to

[24] https://www.legislation.act.gov.au/View/a/1996-22/current/html/1996-22.html

Attachment E of the ACT Government's March 2023 Quarterly Consolidated Financial Report[25].

Women's Budget Statement

Pegasus has noted that the 2023-24 ACT Women's Budget Statement contains only a few new policy announcements that primarily relate to women.

Response:

- The actions and initiatives highlighted in the ACT Women's Budget Statement are intended to provide an overview of the impact of existing and new funding on women across each of the 12 wellbeing domains.
- To progress gender equality, the Government recognises that it is vital to understand how initiatives may disproportionately impact women even where they are not specifically targeted towards outcomes for women. An example is initiatives that support carers, who may be of any gender but are a group in which women are significantly overrepresented. To this end, the Women's Budget Statement includes initiatives beyond those that are targeted at supporting women only.
- This statement casts a broader lens on the impact of government funding on women and girls and includes initiatives that have a primary, secondary or tertiary effect on women and girls, reporting on both the intersectionality and intended and/or unintended consequences of broader budget initiatives.
- The ACT Government continues its efforts to ensure gender is considered in policy development and budget processes. This extends to application of wellbeing budget practices that incorporate a gender perspective in both initiative planning and in decision-making. Developing a Women's Budget Statement that includes initiatives beyond those directly related to women is one of the steps the ACT Government is taking towards gender responsive budgeting.
- Wellbeing Impact Assessments (WIAs) support a gender perspective on budgeting. WIAs are required for each business case as part of the Budget process. Drafters are required to identify how the proposal will impact the wellbeing of people from the eight specific groups identified in the ACT Wellbeing Framework, including across gender.
- Ongoing work in this area includes the development and promotion of supporting resources for directorates to assist in gender analysis and gender responsive budgeting processes, as a deliverable under the Second Action Plan of the *ACT Women's Plan 2016-26*[26].

[25] https://www.treasury.act.gov.au/__data/assets/pdf_file/0006/2221476/March-2023-Quarterly-Consolidated-Financial-Report.pdf

[26] https://www.communityservices.act.gov.au/__data/assets/pdf_file/0019/1108306/ACT-Womens-Plan_Report_2016_2026.pdf

- The Third Action Plan under the *ACT Women's Plan 2016-26* is under development and will focus on health and wellbeing, safety and inclusion, leadership and workforce participation, housing and homelessness, and appropriate and accessible services for women.
    - As required, the Government's planning and in decision-making processes will be adjusted to incorporate outcomes of the Third Action Plan.

Public housing

Pegasus considers that the stock of public housing in the ACT has not kept pace with ACT population growth and has remained stagnant and even slightly declined since 2018, and that the addition of another 400 public homes, would only be raising the public housing stock back to where it was in 2018.

Response:

- The portfolio dwelling stock number as at 30 June 2018 was 11,903. This was during the period of time in which the Public Housing Renewal Taskforce program and Asset Recycling Initiative were active, and these programs had impacts on the Housing ACT portfolio stock levels.
- As at 30 June 2018, there were dwellings included within the closing stock number which were unavailable for occupation or were to be vacated early in the new financial year, these were a combination of properties along the Northbourne Avenue development corridor and properties in Manuka, Griffith and Lyons. These properties were vacated to decommission the properties for transfer to the Suburban Land Agency as part of the Asset Recycling Initiatives. The majority (71 per cent) of the properties provided to Housing ACT from the Public Housing Renewal Taskforce had already been delivered ahead of disposals. However, Housing ACT's biggest movement to the Suburban Land Agency did not happen until the following year (ending June 30, 2019).
- The portfolio stock levels at the cessation of the Public Housing Renewal Taskforce and Asset Recycling Initiative programs and commencement of the Growing and Renewing Public Housing program was 11,704. This is more representative of the actual stock available to Housing ACT, noting the two programs were non-linear in nature, with properties being required to be delivered in advance of disposal, to enable tenants to have somewhere to relocate to.
- Despite the growth in the ACT's population, the ACT continues to have the highest number of public housing dwellings relative to population of any jurisdiction in Australia (23.31 dwellings per 1,000 people compared to 11.33 nationally)[27] and spends the second highest per capita on social housing after the Northern Territory and over two times the national average.

[27] Productivity Commission 2023 Report on Government Services, Part G: Tables 18A.1 and 18A.3; Australian Bureau of Statistics, 2022 Census data at https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/dec-2022

- Since 2013, the average number of public housing dwellings in Australia has declined by nine per cent with a reduction in the public housing stock in all states and territories (except Queensland) of between one per cent (Victoria) and 55 per cent (Tasmania), with the ACT experiencing a two per cent decline over the past ten years[28].
- However, the number of tenancy units available through community housing has increased from 590 to 958 over that period, leading to a small increase in the total availability of social and affordable housing.
- The 2023-24 Budget provides an addition $55.9 million for the Growing and Renewing Public Housing program to support Government's commitment to increase public housing stock by 400 dwellings from 2019-20 levels, which is also an increase on 2018 stock levels.
- Challenging conditions in the local construction market in recent years have resulted in slower delivery of new dwellings than originally anticipated, in conjunction with the Growing and Renewing Public Housing Program not being a linear program, as Housing ACT is required to sell and demolish dwellings in order to construct or acquire new additional dwellings. However, this is expected to turn around from 2023-24. The Government's strong commitment to providing social housing as part of the Growing and Renewing Public Housing program, will deliver 1,000 renewed public housing properties and 400 new public housing homes added to the portfolio by 2026-27. By the end of 2023-24, it is expected that around half (700 dwellings) would have been delivered via construction and market acquisitions, with the other half well on track for delivery by 2026-27.
- More importantly, the Growing and Renewing Public Housing program deliveries include an improvement in the alignment between newly delivered public housing and expressed demand, improved energy efficiency and more accessible public housing properties to support the broadest range of tenants and aging in place.
- We have now committed $257 million in capital injections and provisions (via the Budget process) to support renewal and growth in social housing over the eight-year program. Another $594 million will be reinvested over the eight-year program from the sale of approximately 700 end-of-life public housing properties.
- This is an unprecedented program of public housing renewal, representing more than a $1.2 billion investment from 2015 to 2027, and the renewal of over 20 per cent of the ACT public housing portfolio.

[28] Productivity Commission 2023 Report on Government Services, Part G: Table 18A.3.