LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION (INCORPORATING THE PUBLIC ACCOUNTS COMMITTEE)

REPORT ON

DRAFT 2000-01 BUDGET FOR THE CHIEF MINISTER'S DEPARTMENT

DRAFT 2000-01 BUDGET FOR THE DEPARTMENT OF THE TREASURY AND INFRASTRUCTURE

DRAFT 2000-01 TOTAL TERRITORY FINANCIAL POSITION

Finance Committee Report No 5
March 2000

RESOLUTION OF APPOINTMENT

The Standing Committee for the Chief Minister's Portfolio was appointed by the Legislative Assembly on 28 April 1998 to examine any matter under the responsibility of the Chief Minister's portfolio. The Assembly also resolved that the committee perform the duties of a public accounts committee, specifically:

(a) to examine:

(i) the accounts of the receipts and expenditure of the Australian Capital Territory;

(ii) the financial affairs of authorities of the Australian Capital Territory; and

(iii) all reports of the Auditor-General which have been laid before the Assembly;

(b) to report to the Assembly, with such comments as it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed; and

(c) to inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question.

On 26 November 1999, the Assembly retitled the committee as the Standing Committee on Finance and Public Administration (Incorporating the Public Accounts Committee), omitted reference to matters under the responsibility of the Chief Minister's portfolio and included reference to women's affairs, Aboriginal and Torres Strait Islander issues, asset management, gaming and racing and any other related matter.

MEMBERSHIP OF THE COMMITTEE

Mr Ted Quinlan MLA Committee Chair

Mr Trevor Kaine MLA Deputy Committee Chair

Mr Greg Cornwell MLA

Secretary: Bill Symington

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1. TERMS OF REFERENCE

1.1. On 9 December 1999 the Assembly resolved *inter alia* that:

(i) the draft 2000-01 Budget for each appropriation unit be referred to the relevant general purpose standing committee, to consider the expenditure proposals, revenue estimates and the capital works program for each portfolio and make recommendations that maintain or improve the operating result;
(ii) the draft total Territory financial position be referred to the Standing Committee on Finance and Public Administration (incorporating the Public Accounts Committee);
(iii) the relevant draft budget documents be provided to the standing committees by 17 January 2000; and
(iv) the committees report by 28 March 2000.

2. BACKGROUND AND OVERVIEW

2.1. The Chief Minister wrote to all Members of the Assembly on 21 July 1999 advising that the Government proposed to trial a new process for the preparation of the 2000-01 budget in line with recommendations of the Assembly Select Committee Report of the Review of Governance.

Role of the Executive

2.2. The Chief Minister's letter pointed out that several MLAs had previously discussed the possibility of preparing a draft budget that could give all non-Executive Members a much greater say in the policy direction of individual portfolios. A counter view held by a significant number of MLAs, but not acknowledged in the Chief Minister's letter, is that under the Westminster system of parliamentary government it is the role of government to make executive decisions such as the preparation of the budget and it is the role and function of government to articulate its decisions to the wider community and to defend them within the parliament.

2.3. Significant philosophical and other quite practical issues are inherent in the Westminster system. Foremost is the respective roles of the Executive and the Assembly in relation to accountability and scrutiny of government. To the layperson these may seem somewhat esoteric concepts but they are, in fact, vital components in the fabric of representative democratic government. In other words, governments are elected to govern, to manage the economic and social welfare of the community and to be answerable to the community through the parliament for its managerial performance.

2.4. By seeking to draw the broader Assembly into the preparation of the budget the government's prime responsibility of accountability for budget outcomes becomes substantially blurred, with the Assembly appearing to assume some executive responsibility for the budget.

2.5. In the event Assembly committees were severely constrained by the resolution of the Assembly which fixed portfolio budgets at the net operating surplus/deficit included in the Draft Budget.

2.6. The draft budget documents were available to the committee and the community by 17 January. Committees were required to report by 28 March. Between those dates there were four weeks of Assembly sittings leaving limited time for analysis or feedback on the budget provisions.

2.7. While the government initiative in referring the draft budgets to committees was taken in accord with a recommendation of the Select Committee on Governance, the particular recommendation was not unanimous. Furthermore the substance of the committee's report has not been debated by the Assembly.

2.8. It is highly likely that different committees will have adopted different strategies with their inquiries in this first attempt at involvement. Time limitations have severely limited interaction between committees on matters of mutual interest.

Community consultation

2.9. In formulating the 1999-2000 budget the government made a point of its commitment to consultation with the community as part of its formulation of the budget. For that budget, brought down on 4 May 1999, the government advertised its invitation for community input beginning 18 January 1999, supported by various media announcements.[1]

2.10. In developing the 2000-10 draft budget conflicting messages have been promulgated in relation to the respective roles of government and the committees in receiving public submissions.

2.11. There are compelling reasons why the committee review process presents a less than optimal channel for input for the public and other stakeholders:-

(i) every interested party has the right to, at least, apply for a direct hearing

(ii) committees, even with the best intent in the world, could do nothing other than act as filters on the process of consultation. They must necessarily place their own interpretation on what is submitted

[1] Budget Paper No 3 1999-2000, p71

(iii) committees, being comprised of cross-party representation, will find it necessary to provide consensus, compromise views. In practice, not every member can submit a minority report on every matter

(iv) stakeholders will often have views and submissions that transcend portfolio boundaries. The government has, by the Assembly resolution, restricted the breadth of view any given committee can take

(v) stakeholders may feel constrained to make submissions which “alter the bottom line”, the further proscription imposed by the Government and supporters of the resolution.

2.12. The Committee considers the review process must not be seen as a replacement for direct access to government by any interested party.

2.13. For their own part, Committees placed two sets of advertisements in the ACT print media inviting community input to the committee processes and advising that the draft budgets were available from the Department of Treasury and Infrastructure, in libraries and through the government website.

2.14. This committee also directly invited some 100 business and community organisations to put their views on the budget to the committee and at the time of this report there were 28 responses. A significant number of these submissions were also sent by the organisations to other committees or were copies of submissions sent by the organisations to the government. All submissions received by this committee were copied to the Department of Treasury and Infrastructure for consideration in the development of the final Territory Budget.

2.15. Public hearings were held on two days at which evidence was taken from Ministers, departmental officials, business and community representatives and individuals.

2.16. Many organisations communicated that they had found difficulty in accessing the draft budgets. Others said that they found problems with drawing comparisons between the previous budget and the draft budgets.

3. BUDGET ASSUMPTIONS AND ESTIMATION VARIABILITY

3.1. The Draft Budget estimates, as for any budget estimates, rely heavily on the realisation of economic assumptions. These assumptions relate to the probable movements in State Final Demand, employment, prices and Gross State Product. The projections flow through to growth or contraction in expenditures and revenues where appropriate.

3.2. The committee is concerned about the use of forecasts prepared with so little of the 1999/2000 year accounted for. The extent of the concern is based on the draft budget document, which states "in examining the data in this chapter (Economic Conditions) considerable caution should be exercised, as at this early stage there is only limited data available."[2] Further the report states that all figures will be revised and updated for the final budget.

3.3. The Treasurer, in review hearings, repeated the cautionary qualification, stating that "there is no doubt that the budget parameters will certainly change between now and the date that the budget is handed down."[3] The Treasurer suspects that the changes would not be more than a few percentage points. It should be noted that two percentage points variation in the Government's own source revenue would represent a shift of over $20 million.

3.4. Similarly the committee is uncertain about the impact of 'new' information released since the draft budget, but suspect they could cause substantial changes in the bottom line. An example is the Reserve Bank's announcement of an interest rate increase. The committee has a question on notice regarding the impact of that interest rate movement, but at the time of writing the question had not been answered.

Budget Base Point

3.5. The Draft Budget is based on optimism for continued strong economic activity and growth. Estimated outcomes for the 1999/2000 financial year have been revised upward from the last formal budget to provide additional revenue of some $49 million. This provides a base for further escalation for 2000/2001. There are no substantial increases that are not explained, and it is hoped that these results will be achieved.

Comparative Table of Revenue – Actual & Estimated

	1997/98 Actual	*1998/99 Actual*	*1999/00 Estimate*	*2000/01 Budget*
Revenue				
Taxes, Fees, Fines	*640*	*668*	*678*	*698*
User Charges	*132*	*161*	*168*	*169*

[2] Draft Budget, p97
[3] Treasurer, Trans, p 1

C'wealth Grants	*561*	*593*	*673*	*689*
Interest	*31*	*42*	*62*	*111*
Other	*198*	*166*	*191*	*164*
Total Revenue	***1562***	***1630***	***1772***	***1831***
% of Base Year				
Taxes, Fees, Fines	*100.00%*	*104.38%*	*105.94%*	*109.06%*
User Charges	*100.00%*	*121.97%*	*127.27%*	*128.03%*
C'wealth Grants	*100.00%*	*105.70%*	*119.96%*	*122.82%*
Interest	*100.00%*	*135.48%*	*200.00%*	*358.06%*
Other	*100.00%*	*83.84%*	*96.46%*	*82.83%*
Total Revenue	***100.00%***	***104.35%***	***113.44%***	***117.22%***
Change % - year to year				
Taxes, Fees, Fines	*0.00%*	*4.38%*	*1.50%*	*2.95%*
User Charges	*0.00%*	*21.97%*	*4.35%*	*0.60%*
C'wealth Grants	*0.00%*	*5.70%*	*13.49%*	*2.38%*
Interest	*0.00%*	*35.48%*	*47.62%*	*79.03%*
Other	*0.00%*	*-16.16%*	*15.06%*	*-14.14%*
Total Revenue	***0.00%***	***4.35%***	***8.71%***	***3.33%***

3.6. In general, the committee is cautious about the economic forecasts and the resultant revenue and expenditure forecasts.

4. THE BUDGET BOTTOM LINE

4.1. At the time of publication the Draft budget showed an Operating Surplus of some \$2.1m. Although there have been some significant changes within projections, this is virtually the same bottom line that was shown in Forward Estimates for 2000/2001 in the 1999/2000 Budget. The Treasurer has since explained that he had issued instructions that the revised budget must meet the predetermined target that gave rise to the “back in the black” claims that accompanied the 1999/2000 Budget media release.

4.2. It will never be possible for an Assembly committee to conduct a line-by-line analysis of a complete budget. It is therefore not possible to assess the depth of analysis that has gone into the preparation of the Draft Budget, but on face value it would appear that it does not incorporate the rigorous reviews that are part of the preparation of a conventional budget.

4.3. The Draft Budget is largely a regurgitation of previous Forward Estimates with a small number of adjustments, albeit significant adjustments. The real budget round is yet to take place.

4.4. Since the release of the Draft Budget, the ACT has received indications that it will receive a further increase in Commonwealth Grants of \$21.3m. It is presumed that some or all of that windfall is available to relax expenditure restrictions or to contain taxation increases. The committee believes the government should do its utmost to provide the cash funding to fully provide for the annual superannuation provision.

Recommendation 1

4.5. The committee recommends that the government examine cash flows with a view to fully funding the annual superannuation provision.

4.6. The few significant budget adjustments include accounting for a reduction in the actuarial assessment of the Territory’s superannuation liability. Effectively the new treatment gives a favourable boost to the draft bottom line of \$21.6m. This is discussed in more detail later in this report.

4.7. It is accepted that there are many provisions within an accrual-based budget. However they are generally constructed to give a ‘true and fair view’ of operations for a given period. The changed treatment of reassessments of superannuation liabilities has the effect of overstating the actual operating performance for 2000/2001. It may be technically permissible under evolving accounting standards, but it flatters the end result. It renders comparison with results for previous periods doubtful, and could dilute future budget discipline.

4.8. The bottom line includes as Operating Revenue the earnings on funds set aside to provide for the superannuation liability. To accurately assess the real operating performance for the period, this income should not be counted. It is discussed later, but in short, it is income that only serves to maintain the value of funds set aside for future superannuation payouts in real terms. Again, actual operating performance for the period will appear rosier than it is in reality.

4.9. Earnings on invested superannuation funds favourably increase the stated operating result by $52.1m. The combined effect of inclusion of superannuation interest earnings and amortisation of the liability adjustment gives an overall overstatement of as much as $73.8m in the actual operating performance inherent in the budget.

4.10. A favourable general economic environment, increased taxation and public service staff reductions (with service level reductions) have combined to improve the Territory's bottom line steadily since the advent of self-government. However it is too soon to claim that we are genuinely 'back in the black'.

Superannuation Adjustment - Accounting Treatment

4.11. The level of the Territory's superannuation liability has been a moveable feast. During the course of the Actew privatisation debate, the Chief Minister repeatedly quoted a high estimate that supported her case for sale. Since then the Government has been clumsily trying to claw back from that position. We now see a substantial reduction in the overall assessment.

4.12. In budgets past the government has treated periodic adjustments arising out of reassessment of the Territory's superannuation liability as abnormal items for accounting purposes. They were not included in measurement of the operating result of the day, and they did not distort the measurement of operating performance <u>for that period</u>. The 2000/2001 Draft Budget incorporates a departure from this approach.

4.13. In August 1999 the government announced that it had received advice that the gross superannuation liability had reduced significantly. It announced improvement in the budget bottom line as it intended to include this 'gain' as operating revenue and to amortise it over 15 years.

4.14. The committee has been requesting supporting data to this improvement, or any other information regarding the triennial review since the 1999 Estimates hearings and is yet to receive such information.

4.15. In preparing its Draft Budget, aiming at a particular bottom line target, it changed the amortisation period to 12 years. This change demands explanation because, if it was made simply to achieve a specific result, it casts doubt over the veracity of other estimates and provisions in the Draft Budget.

4.16. In previous years superannuation adjustments have been excluded from the Operating Surplus/Deficit and have been treated as ‘Abnormal Items’. This year’s favourable reassessment has been given an altogether different accounting treatment. Effectively the new treatment gives a favourable boost to the draft bottom line of $21.6m - this year and for the following 11 years through a process of amortisation ‘above the line’.

4.17. In response to a query by the Committee the Auditor-General advised that the amortisation process was an adoption of an American accounting standard, selected in the absence of a specific Australian standard. Further, Australian accounting standards were to change from 1 July 2000 and that he was satisfied that the accounting treatment fell within the letter of the new standards.

4.18. The Committee concludes that the chosen accounting treatment shows the projected 2000/2001 operating result in the best possible light. It should not be viewed without the qualification that measurement of Revenues and Expenditures for the actual period, without the influence of adjustments not related to the period, would produce a lesser result.

Superannuation - Treatment of Interest Earnings

4.19. In recent years the government has not set aside any funds against the growing superannuation liability out of operations. Some funds have come from government business enterprises as employer contributions, while others have come from substantial capital amounts removed from Actew. The Draft Budget makes provision for fully funding superannuation for new entrants only.

4.20. When an actuary assesses the level of the overall superannuation, they are in large part saying that the amount stated now is the level of invested funds, which are earning interest, needed to meet projected future claims. The interest earnings merely maintain the real value of the investment. They do not increase the wealth of the Territory. Including them in the declaration of a surplus, without clear qualification, will provide an incorrect picture of actual operating performance.

4.21. To give an example, if a private corporation was to break even in every respect, except for earning interest on its superannuation reserves, it could not declare a dividend or behave in any way like it had made a profit.

4.22. The Auditor-General considers that the treatment falls within prevailing accounting standards.

Recommendation 2

4.23. The committee recommends that the Budget clearly show the Operating Result, net of superannuation interest earnings and retrospective

adjustments to the gross provision, to avoid the probability that incorrect conclusions being drawn from the result published in its current manner.

GST Effects

4.24. The committee recognises that the GST effects on the ACT, that is, the extent of revenue gains through increased fees and charges and revenue losses including unclaimed GST credits by departments and agencies, have yet to be factored into the budget. In the absence of such detail the likely final shape of the budget remains uncertain.

4.25. The Treasurer sought the committee's comments and recommendations on the issues of adjustment to gaming machine taxes post GST and the subsidisation of low alcohol products, noting that these matters had the potential to affect the draft budget results and forward estimates.

4.26. The committee feels that it has effectively been working in something of a vacuum when the government, for the most part, appears to be uncertain about the GST effects upon its own budget.

4.27. There is concern that the work of Assembly committees and their recommendations will be submerged under the confusion of changes dictated by the GST.

Recommendation 3

4.28. The committee recommends that the government inform the Assembly regularly about the development of its GST implementation plan with an emphasis on financial information that is useful in planning for the actual budget, and on the effects of the GST on government when the results become known.

Commonwealth Grants Commission

4.29. The draft budget predates advice of the recommendation of the Commonwealth Grants Commission (CGC) that Commonwealth grants to the ACT be increased. The Treasure advised on 29 February that Commonwealth grants to the ACT would be increased by 4% or $16.8m. [4]

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[4] Treasurer media release 29 February 2000

4.30. On 23 February the Treasurer indicated to the committee that while he was aware of the general thrust of the CGC recommendation he had not seen anything that would suggest there needs to be any fundamental change in the budget direction.[5]

4.31. The Treasurer subsequently advised that the ACT had secured a further $4.5m in Commonwealth funding, the final result being a boost of $21.3m above the estimates in the draft budget.[6]

4.32. The CGC recommendations imply a significant addition to the budgeted $2.1m surplus. In view of this the committee has to presume that committees reviewing 'spending' portfolios will have felt free to make recommendations beyond the bottom line constraint originally imposed.

5. BUDGET POSITIVES

5.1. With the government finding itself in a comfortable budgetary position, positive budget measures can be expected. And there are some the committee commends, viz:

Easing of Payroll Tax

5.2. The Committee trusts that this initiative will give rise to increased job opportunities in Canberra. It is recommended that the government institute an objective form of monitoring the impact of the change.

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[5] public hearing transcript, p2
[6] Treasure media release 17 March 2000.

Recommendation 4

5.3. The committee recommends that the government develop a system to measure the effects of the payroll initiative on jobs in the Territory and that a report, including detailed data, be provided to the Assembly.

Research and Development Grants Scheme

5.4. This scheme is a modest start to the adoption of a wider view of fostering economic development within the Territory and region.

5.5. More than most cities, Canberra's future lies in the development of a Knowledge Based Economy (KBE). Beyond the conventional view of IT, there is a need to optimise and to retain the benefits of the world standard research that currently takes place here on our own doorstep.

Capital Works

5.6. Obviously the people that have settled Gungahlin deserve to see amenities and services developed to match those elsewhere in Canberra. Progress in capital expenditure for Gungahlin is welcomed.

5.7. Of concern is the government's tardiness in actually constructing capital works that they had committed to. The government only recently published its Capital Works Report for the 1998/99 financial year. The report shows that it did not commence 50% of budgeted new works for the year. It is little wonder that we see repeat announcements/launches/sod turnings for the same project over time.

5.8. It is expected that the Standing Committee on Planning and Urban Services will be seeking confirmation that all promised facilities actually materialise in the budget year.

6. WHEN "INITIATIVES" ARE NOT INITIATIVES

6.1. Many of the 'initiatives' enumerated in the draft budget hardly qualify for that description:

Health and Community Care

6.2. The claimed injections of funds are no more than price indexation. The claimed increase for 2000/2001 is $5.111 million, while price inflation is estimated at $4.259 million. This leaves precious little room for growth in demand, let alone service improvement. Gross Expenditure for the current and the next financial year is virtually the same.

Funding for Apprenticeships

6.3. While not a huge amount of money, this initiative is supported. However detail deep in the back of Budget Paper 2 indicates that this is a requirement of a nationally agreed program of the National Training Ministerial Council.

6.4. Of the total of $510,000 allocated, $210,000 has been taken out of the "Pathways to Employment" program. The Committee finds this type of claim misleading. It brings all other claims into doubt, and there is simply not the time nor resources to examine the whole budget at this level.

Australian Federal Police

6.5. There is a claim of an 'initiative' in providing additional funding for policing. The bulk of this expenditure is required to meet a previously publicised certified agreement that cannot be avoided.

6.6. $500,000 is included to fund security cameras. This is a commitment that the current Treasurer made one or two budgets ago. To nominate it as an initiative in this budget again stretches the credibility of the total document.

Funding for Public Transport

6.7. The Draft Budget describes increased funding of Action as a positive change when it is simply necessary to offset the less-than-hoped-for outcomes of changes to operations already implemented.

First Home Owners Scheme

6.8. It is hardly a Government initiative for the ACT to be abiding by the requirements of the Inter-Governmental Agreement that they had little choice in signing as the Federal Government moved to impose the GST.

Routine Maintenance

6.9. There are several areas of relatively minor expenditure on maintenance that has been flatteringly elevated to the status of ‘initiatives’. These expenditures are clearly part of the normal capital replacement programs and are a basic responsibility of any government.

7. UNDESIRABLE BUDGET PROVISIONS

7.1. There are provisions within the Draft Budget that warrant criticism:-

Hospital and Acute Care Funding

7.2. The Draft budget indicates that funding for hospital and acute care is to be reduced by $25 million over four years, justified by reference to national averages. With regular reports of crises in hospital systems across the nation, the Committee is concerned that national averages may not represent a desirable target. The committee would like to see the method of calculating the benchmarks to ensure they truly reflect the experience of the health sector in the ACT.

General Rates

7.3. The Draft Budget does not include any specifics on General Rates. It indicates that the Government intends to again manipulate the variables within the rating formula to achieve a particular result, yet to be announced. Over the past couple of years it has reworked the formula to spread the impact of rates revisions relatively evenly across ratepayers, compensating for differential changes in land values.

7.4. The fixed proportion of the rating formula has increased by about 18% over two years, placing a heavier burden on the lower end of the market.

7.5. In the past the government has set rate increases to match its budget estimate of CPI increase. When actual CPI increases have been lower than the estimate, it has not made relative allowances in the following year. As a result General Rates have increased by more than CPI over the last few years.

7.6. The Draft Budget is of little assistance in evaluating this area of revenue generation. Its published estimate for the gross General Rates income for the current financial year is less than has been recorded as actually received by the end of November ’99 – only five months of the same year.

7.7. The Committee concludes that some of the budget figures need work, or further explanation. Again, it is an indication that the overall Draft Budget may well change when it is subjected to a full budget round and review.

Recommendation 5

7.8. The committee recommends that the government include in the Budget a statement defining its long-term intentions in relation to the fixed portion of General Rates and also in relation to differential rating according to land values.

Emergency Services Levy

7.9. It is fairly clear that this tax was introduced as a general revenue raising initiative rather than a measure to generate specific funds for a given initiative or increase in a service. Funds raised have not been directed to improving Emergency Services.

7.10. The tax is levied inequitably, falling on those who are sufficiently prudent to insure their property. Not every householder insures, and not every insured householder takes out adequate insurance.

7.11. The current arrangement, overlain with the GST, gives rise to a tax on a tax on a tax. The levy, itself a tax, attracts GST and is then subjected to Stamp Duty.

7.12. The Committee believes that this tax should be eliminated, or replaced by a more equitable form of tax. One suggestion put forward would have it merged with General Rates. Another would have it eliminated in the light of improved economic circumstances.

Recommendation 6

7.13. The committee recommends that in the light of improved financial circumstances, the government consider scrapping the emergency services levy which is inequitably levied.

Executive Support & Policy Group

7.14. The total cost of policy support and advice to the ACT Government now stands at $35.8 million to support Ministers. This is roughly $115 per person in the Territory, and over $300 per household. The draft budget contains, as a new expenditure, $6.1 million over four years for an Executive Policy Group designed to coordinate policy development on a whole of Government basis.

7.15. The objectives of the Policy Group, as detailed in the budget are as follows:

(i) provide the Chief Minister with timely strategic advice on portfolio and whole of government policy issue
(ii) strengthen the quality of, and provide a whole of government overlay to policy advice
(iii) support and assist agencies to achieve agreed corporate and government goals
(iv) provide a focus on performance review and reporting on outcomes and priorities
(v) strengthen support for the Assembly committee processes
(vi) deliver major projects.[7]

7.16. The committee considers these objectives to be at best vague, and at worst, an expensive effort in duplicating current processes. Most of the objectives are about 'strengthening' and 'supporting' existing procedures. It is, at the very least, questionable that expenditure of over $6 million across four years is required on top of existing policy assistance and personal support provided to ministers.

7.17. In the context of funding for this particular initiative, the committee notes that this Policy Group received more than twice the new funding that was allocated to Child and Adolescent Mental Health over the same period ($2.484 million).

7.18. The committee believes there is no justification for such a level of expenditure and recommends the government provides the Assembly with a detailed report of what activities and projects the Policy Group has been involved in since August 1999. This report should be provided before the estimates hearings for the final 2000/2001 budget.

7.19. Finally the committee supports calls by ACTCOSS to review the expenditure on this group after the first 12 months of its operation. Should the committee see that the group is unnecessary duplication of expenditures from the first report and the first twelve month review, it will have no hesitation in recommending it be disbanded.

INTACT

[7] 2000 Draft Budget, p. 42.

7.20. The INTACT group experienced a large increase in funding in the 1999-2000 budget, and as the following table illustrates, that funding, after dipping in 2000-20001 remains at considerably higher levels for the out years.

INTACT ($'000)	98-99	99-00	00-01	01-02	02-03	03-04
Expenditure	48 324	63 913	57 898	58 268	58 473	58 153

7.21. The increase in funding has been largely justified as resulting from Y2K compliance costs and the associated modernisation program being rolled out throughout whole of government.

7.22. The Committee questions why the funding level needs to remain at such high levels for so many years. It will be interesting to learn the point at which funding will return to pre-modernisation levels. In any case, this is a great deal of money to be spending on our 'in-house' IT support unit.

Recommendation 7

7.23. The committee recommends the Government ensure procedures are developed and implemented to provide tighter control over expenditure within the INTACT group. The committee would further expect the Government to report to the Assembly on the detail of any procedures developed.

ACTBIS (ACT Business Incentive Scheme)

7.24. The budget includes provision of $3.1 million of new money which will be used as supplemental funding to ACTBIS incentive packages already granted to Telstra, Raytheon Systems and Ansett Australia.

7.25. This budget provision should be evaluated in the light of the last annual report of the Chief Minister's Department where so many businesses who have received support have not, or have not yet, achieved agreed level of job targets.

7.26. It is understood that the government has refined its evaluation processes and is looking to tighten up on provisions in agreements. It is hoped that this review process will resolve the lingering concerns held regarding the evaluation of incentive scheme packages.

7.27. The major point of concern for the committee relates to the question of why a jurisdiction of 310,000 people is providing business assistance packages to very large, sometimes multi-national corporations such as Telstra, Ansett, EDS, Fujitsu, BRL Hardy and Raytheon Systems.

7.28. The assistance package for EDS demands specific focus. EDS is a very large multi-national company with an annual turnover approaching $30 billion (Australian dollars). The project they were contracted to fulfil related to the Australian Tax Office whose headquarters are of course based in Canberra. Given that there was every chance the company would have located in Canberra anyway and the fact that they are an extremely large company, it is at best a questionable proposition to give such a company over $36 million worth of payroll tax and stamp duty exemptions.

7.29. There has been no justification for this level of expenditure and in the context of so many other services and initiatives failing to receive funding because of budget pressure, $36 million for a company like EDS is concerning. It is also indicative of a slap dash process where large amounts of public money is spent on questionable ventures with little or no due process in assessing the original merit of projects and their success and the Territory's value for money. The debacle with Fujitsu stands out as a reminder and warning of what Government shouldn't do.

Recommendation 8

7.30. The committee recommends that the government, wherever possible, avoid the use of cash grants in business incentive packages. Further, the committee recommends that details of packages be submitted to the Assembly immediately upon acceptance, and that they clearly show milestones required to achieve concessions.

8. ISSUES RAISED BY COMMUNITY INTERESTS

8.1. Had community representations been made direct to government as in the past, issues raised by them would have been referred to and assessed by the relevant agencies and, as mentioned above, those issues would have been integrated into agency budgets as appropriate.

8.2. Accessing community views about the draft budget has been delegated to committees. However, this committee is not resourced to make comparisons about competing needs or to undertake a needs analysis. Accordingly, the committee is restricted to noting a selection of the main themes and requests contained in representations made directly to it.

Rates – structure and application

8.3. The Property Owners Association[8] called for the Rates Review Report to be implemented at a faster pace, stating that the rate of progression is too slow and that it will take 20 years to achieve the payment of 50% of rates from a fixed charge and 50% from a variable charge.

8.4. The Association argued that:

(i) general rates should increase by no more than actual CPI rather than the estimated CPI

(ii) land tax calculation should mirror the rates calculation method and be reduced to no more than the average per capita cost in NSW. The ACT land tax was characterised as iniquitous and rapacious and a disincentive to the rental market

(iii) the emergency services levy on insurance premiums should be moved to general rates as the 30% who do not insure would then pay their fair share and those who now pay would pay less on average

(iv) taxes are levied on taxes an example being that for every $100 of insurance premium almost an additional 50% is added by Territory taxes. For example an insurance premium of $300 attracts an Emergency Services levy of $63, will attract a GST of $36.30, stamp duty of $39.93, bank account debits tax of $1.70 leading to a total fee of $440.96

8.5. The committee has questions on notice to Treasury that ask for a model of general rates that applies a different CPI factor. The model proposed suggests that it might be more equitable to set rates at a price level equal to the average CPI for the last three years. This formula would ensure that the rates do not increase more than the average actual price increases realised in the Territory.

8.6. Similarly the committee has asked for modelling that shows what would happen if the ACT Land Tax regime was the same as that for NSW.

[8] ibid, from p5 and submission no 14

Home–based and micro businesses

8.7. The Home Based Business Association[9] called for a commitment by government to a concerted review and improvement of services and policies affecting home and micro businesses, asserting that these businesses (will) bear a higher proportion of tax collection and administration of GST revenues and that payroll tax reductions are a defensive reaction to NSW.

8.8. The Association sought self-help initiatives from government, noting that its businesses are effectively excluded from development programs and that there is a need for improved and expanded synergy groups and mentoring. The claim of exclusion from programs is based on the time pressures that home-based and micro businesses face with low to no additional staffing.

8.9. All current training and assistance programs involve extended hours of training which causes operational down-time and fundamentally affects home based businesses overall.

8.10. The committee was impressed with the representations of the Home Based Business Association and agrees in principle that the micro business sector has difficulty in accessing government sponsored assistance, simply because it cannot often release people for training or seminars.

Recommendation 9

8.11. The committee recommends that funding be considered for the ‘Business Development and Support’ output to begin the development of on line training resources in business management, access to finance/government programs and business control, with content developed in consultation with micro industry groups, to ensure equality of access for businesses of all sizes.

Tourism issues

8.12. The Tourism Council of Australia Canberra Region[10] expressed concern about:

(i) the reduction of funding for tourism marketing by the Tourism Events Corporation post 2001 and that insufficient consideration appears to have been given to what happens post Olympics

(ii) no reference to recurrent funding for the Conventions Assistance Loan Scheme

(iii) no explicit reference to the Corporate Research Centre for Sustainable Tourism

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[9] ibid from p15 and submission no 16

[10] ibid from p20 and submission no 18

8.13. The Council proposed an allocation of $300,000 over three years for a tourism product development fund for innovative products with priority areas being wine tourism, development of smaller attractions and ecotourism.

8.14. The committee was concerned at the possible loss of the Conventions Loans Scheme program, and asks the government to clarify whether the program is still available.

General budget presentation and information

8.15. The North Canberra Community Council[11] sought more factual budget information about the state of the Territory and its finances. The committee pointed them in the direction of the State of the Territory report as a basic, if not flattering, overview of the Territory.

8.16. The Conservation Council for the South East Region and Canberra[12] had difficulty with the draft budget process and in accessing the budget papers. They further expressed the view that there should be a public review as to how the draft budget process worked. The Council asserted the budget pays insufficient attention to the implication of accrual accounting and values natural assets in a way which allows them to be transferred to other uses.

8.17. ACT Shelter[13] expressed concern that it had not had the opportunity to input to the budget at an earlier stage and was uncertain about budget flexibility.

8.18. ACTCOSS[14] noted that GST effects on the budget have not been taken into account and was concerned at the lack of transparency which makes it difficult to determine the impacts of new initiatives and changes in expenditure patterns

[11] ibid from p46 and submission no 3
[12] ibid from p110 and submission no 13
[13] ibid from p54 and submission no 2
[14] ibid from p86 and submission no 17

Public housing

8.19. ACT Shelter[15] asserted that the direct provision of public housing and its substitution, where possible, by the subsidisation of people to enable them to pay rent on the private market is misplaced and was concerned that housing capital works is “off budget”.

8.20. ACT Shelter was unclear as to how the GST compensation package of $5.9m would be expended, noted there were no new funds for public housing while the ACT vacancy rate was at 0.7% and asked that the ACT supplement the matching component of the Commonwealth/State Housing Agreement. Other requests included an expansion of the private leasing scheme, an indigenous housing policy, funding for an adaptable and accessible housing group and a cross-portfolio approach to homelessness.

Youth services

8.21. The Youth Coalition of the ACT[16] recommended that the government pursue or develop a wide range of issues including:

(i) a co-ordinated cross-portfolio response to youth needs and resourcing of associated data bases and models
(ii) guaranteed 2% training funding for organisations
(iii) consistent incremental salary adjustment for service funding
(iv) growth funds to account for operational costs arising from the CPI and implementation of the GST
(v) a campaign to identify indigenous job opportunities
(vi) increased outreach services for young people
(vii) appropriate housing for young people
(viii) extension of the Work to High School program to all high schools
(ix) crime prevention be resourced

8.22. The committtee accepts the submissions from the Youth Coalition as sensible policy, but recognises the future value in (ii) above. The specification of a 2% across the board funding level is not necessarily supported, but the concept is certainly worthy of funding.

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[15] ibid from p54 and submission no 2
[16] ibid from p59 and submission no 5

Volunteer services

8.23. Volunteering ACT[17] saw long-term benefit in a community compact with the government which had been discussed with the Chief Minister's Department and hoped to see something about this in the final budget. Volunteering ACT sought funding for strategic research including benchmarking of services, funding to examine the needs of volunteer management and $50,000 for a school and community involvement program to combat youth suicide and crime.

8.24. Volunteering ACT asked that the $500,000 earmarked for gambling research and support be progressed rapidly, welcomed funding for the Lanyon Youth centre but considered it insufficient and was concerned that tight funding may tempt service organisations to exploit volunteers and to cut paid staff.

Watson community issues

8.25. The Watson Community Association and Woodlands and Grasslands Working Group[18] focussed principally upon the appropriateness of the Negus Cres extension and the relationship with a previous development proposal in North Watson. The Association expressed concern about the allocation of $200,000 for the Negus Cres extension and recommended this part of the suburb be subject to an in-depth review.

Trial organic waste bins

8.26. Toms Trash Paks[19] expressed concern about the expenditure of $96,000 on a trial green waste household service and drew attention to the knock-on effect the trial would have upon its business and that of franchisees and others in the waste collection business. It was noted that green waste collection is already in place and efficient, that the private service is cost effective, that a government green waste system will not be financially viable and the closure of business for private operators would impact on tip fees.

8.27. The proprietors made a solid case base on the competitive neutrality dimensions of this initiative. There is a clear line of infringement of the trash pack business operations by this Government initiative. The committee is not charged with suggesting breaches of National Competition Policy. However, the issue could be tested by the newly formed Independent Competition and Regulatory Commission.

Recommendation 10

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[17] ibid from p63 and submission no 8
[18] ibid from p67 and submission no 4
[19] ibid from p75 and submission no 11

8.28. The committee recommends that the trial green waste bin services proposed by the Department of Urban Services is referred to the Independent Competition and Regulatory Commission to ensure there are no major competition policy issues.

Business perspective

8.29. The Canberra Business Council[20] focussed on the emerging budget surplus and the opportunity presented to consider how best to invest the savings so as to improve and maintain the community and business infrastructure. The Council noted areas such as the very fast train which have yet to be budgeted and expressed the view that reductions in taxes would enable ACT business to be more competitive and expand job opportunities.

Social and community issues

8.30. ACTCOSS[21] asserted that the draft budget does not deliver for those most in need and expressed disappointment about the limited time for its consideration and examination across several committees.

8.31. Matters of concern to ACTCOSS included:

(i) GST effects on the budget have not been taken into account and there is a lack of transparency which makes it difficult to determine the impacts of new initiatives and changes in expenditure patterns

(ii) none of the key result areas relate to the achievement of social outcomes and they should be specifically outlined in the budget

(iii) user charges and co-payments across government services are indiscriminate and regressive and should be reviewed

(iv) community service obligations are not sufficiently linked to areas of need and should be reviewed

(v) resources allocated to gambling research and support in the previous budget have yet to be initiated and the funds should expended and maintained

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[20] ibid from p81 and submission no 12

[21] ibid from p86 and submission no 17

8.32. ACTCOSS recommendations included:

(i) a review of the Chief Minister's Department Policy Group after 12 months

(ii) a review of consumer protection mechanisms and funding for monitoring competition policy and consumer protection

(iii) a 10% increase in funding for purchase agreements to account for GST effects

8.33. The Council on the Ageing[22] noted that across the board flat fees are regressive for those on limited incomes and that any proposed increases in fees and charges should be targeted at those able to afford them.

8.34. The Council expressed concern that:

(i) there will be a reduction in acute care expenditure of $25m over 4 years

(ii) energy efficiency ratings will add to costs for older house owners who relocate

(iii) land management does not allow for appropriate land for not-for-profit aged persons housing providers.

8.35. ACTEW rebates for those with pension concession and senior's cards will be adversely affected by the proposed ACTEW/AGL partnership arrangement.

8.36. The Council sought:

(i) a slow stream convalescent facility near The Canberra Hospital

(ii) age balance within those Australian Federal Police attached to the ACT with a view to ensuring older officers are given every opportunity for career development and noting that older officers better understand the needs of older people

8.37. The Mature Aged Clubs Combined[23] sought good housing, quality health care, accessible public transport and safe living areas.

8.38. Vocal ACT [24] sought $100,000 from the savings claimed by government to derive from recent criminal injuries compensation reforms in order to fund a partnership with ACT Community Care for a 24 hour telephone service, advocacy services, research and a newsletter.

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[22] ibid from p103 and submission no 6

[23] submission no 21

[24] submission no 23

Recommendation 11

8.39. The committee recommends that the government promptly survey community service delivery organisations to test whether there is an immediate need to provide expert advice and assistance to help those organisations handle GST changes and impacts.

The Arts

8.40. ArtsVoice ACT[25] recommendations included that:
(i) the budget provide for incentives for business to sponsor the arts
(ii) the base level of funding for the arts be increased to $3.5m
(iii) support for the Institute of the Arts be maintained
(iv) there be a specific funding base and recognition for cultural facilities on the same basis as education and sport
(v) a percentage of Territory income from gaming taxes be directed to the arts
(vi) a proportion of tourism funding be directed to promoting the arts
(vii) all new policy proposals consider the impact upon on, or potential for, the arts
(viii) the impact of the GST on the arts be monitored and direct assistance be provided to individual artists and organisations as required
(ix) all community organisations be reimbursed for the tax component of the GST on grants and sponsorship.

The environment

8.41. The Conservation Council for the South East Region claimed that funding for environmental services had not increased in real terms and the budget did not properly fund maintenance of existing environmental services or provide for longer-term strategies

8.42. The Council noted a reduction in bus services and the likely effect on patronage and increased motor vehicle usage and proposed that the government seek to reduce greenhouse gas emissions and make public transport more attractive by:
(i) integrating public transport pricing policy with an appropriate parking fee policy
(ii) introducing all day car parking at $8 at all town centres
(iii) removing provision of cars from government executive remuneration packages
(iv) avoiding all day parking in [near town centre] residential streets

8.43. The National Parks Association of the ACT[26] sought:
(i) increased funding to restore staff numbers in Environment ACT to the 211 staff it had prior to the business restructure in 1999-2000

[25] transcript from p96 and submission no 9
[26] submission no 19

(ii) increased funding for Environment ACT to cover salary increases, CPI increases, IT modernisation costs, administrative costs and outsourced activities
(iii) increased funding for nature conservation management in Namadgi and in nature reserves
(iv) an increase in the water abstraction charge and the funds allocated to environmental initiatives
(v) funds generated by the pollutant loading fee to be allocated to environmental protection
(vi) a bushfire prevention levy to fund nature conservation management

Health issues

8.44. Murringu Canberra[27] recommended:
(i) a strategic targeting of health resources and co-location of services dealing with mens' health issues
(ii) development of a mens' health centre
(iii) that any proposed increases in fees and charges be targeted at those able to afford them, noting that across the board flat fees are regressive for those on limited incomes.

Gay and Lesbian support issues

8.45. [Q]ACT[28] sought $15,000 to oversee and promote gay and lesbian interests including personal development skills, engendering community support and awareness of broader issues affecting the gay and lesbian community.

Education

8.46. The Australian Education Union ACT Branch[29] noted that the budget provides for one possible salary increase of 2.3% for teachers and claimed this will, in fact, be used to fund redundancies in the general public service area and to fund salary increments.

8.47. The Union proposed the appointment of case managers for students at risk, community based counsellors, the integration of students with disabilities, a third high school in central Canberra, itinerant services for schools with aberrant behavioural problems, support for college students at risk of not completing year 12 and a reduction in class sizes.

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[27] transcript from p118 and submission no 7
[28] submission no 20
[29] submission no 22

8.48. The ACT Council of Parents and Citizens Associations[30] asserted that the budget indicates that real expenditure on government schools has declined with an estimated shortfall of more than $9m. The Council recommended that the Standing Committee on Education, Community Services and Recreation arrange an independent audit of the government's commitment to maintain funding in real terms.

8.49. The Catholic Education Office[31] noted that increases in per capita grants have fallen short of the Office's request that government honour its commitment to restore relativity with NSW. The Office expressed concern about the level of funding for the government's Interest Subsidy Scheme for capital projects.

9. SUMMARY OF RECOMMENDATIONS

Recommendation 1

4.5. The committee recommends that the government examine cash flows with a view to fully funding the annual superannuation provision.

Recommendation 2

4.23. The committee recommends that the Budget clearly show the Operating Result, net of superannuation interest earnings and retrospective adjustments to the gross provision, to avoid the probability that incorrect conclusions being drawn from the result published in its current manner.

Recommendation 3

4.28. The committee recommends that the government inform the Assembly regularly about the development of its GST implementation plan with an emphasis on financial information that is useful in planning for the actual budget, and on the effects of the GST on government when the results become known.

[30] submission no 24
[31] submission no 26

Recommendation 4
5.3. The committee recommends that the government develop a system to measure the effects of the payroll initiative on jobs in the Territory and that a report, including detailed data, be provided to the Assembly.
Recommendation 5
7.8. The committee recommends that the government include in the Budget a statement defining its long-term intentions in relation to the fixed portion of General Rates and also in relation to differential rating according to land values.
Recommendation 6
7.13. The committee recommends that in the light of improved financial circumstances, the government consider scrapping the emergency services levy which is inequitably levied.
Recommendation 7
7.23. The committee recommends the Government ensure procedures are developed and implemented to provide tighter control over expenditure within the INTACT group. The committee would further expect the Government to report to the Assembly on the detail of any procedures developed.
Recommendation 8
7.30. The committee recommends that the government, wherever possible, avoid the use of cash grants in business incentive packages. Further, the committee recommends that details of packages be submitted to the Assembly immediately upon acceptance, and that they clearly show milestones required to achieve concessions.
Recommendation 9
8.11. The committee recommends that funding be considered for the 'Business Development and Support' output to begin the development of on line training resources in business management, access to finance/government programs and business control, with content developed in consultation with micro industry groups, to ensure equality of access for businesses of all sizes.
Recommendation 10
8.28. The committee recommends that the trial green waste bin services proposed by the Department of Urban Services is referred to the Independent Competition and Regulatory Commission to ensure there are no major competition policy issues.

Recommendation 11

8.39. The committee recommends that the government promptly survey community service delivery organisations to test whether there is an immediate need to provide expert advice and assistance to help those organisations handle GST changes and impacts.

Ted Quinlan MLA
Chair
28 March 2000

DISCLAIMER

As a member of the Assembly Select Committee which produced the Report of the Review of Governance and as a member of the Government, I supported the 9 December 1999 Assembly motion to refer the draft 2000-01 Budget to relevant general purpose standing committees and further, that the draft total Territory financial position be referred to the Standing Committee on Finance and Public Administration (incorporating the Public Accounts Committee) of which I am a member.

I now believe that the original concept of referring the draft budget to the total Assembly through its various committees to have been a mistake.

In the accompanying Report, the committee has stated that it had inadequate time and resources and, more importantly, inadequate information to carry out the task with which it was charged.

As a result the committee has commented and criticised as it saw fit and has made a number of recommendations. However, much of this process, I submit, is identifying funding areas that the committee found questionable or might have funded differently - and which might not have found their way into the report if further consultation had been possible with government, thus resolving differences.

Inevitably, I believe, political views will surface in commenting upon such a document as the draft Budget (just as they do each year following the presentation of the Budget itself).

While I have no quarrel with this approach, it being a fundamental of the democratic process and the Westminster system itself, I cannot associate myself with everything said in this report.

However, because of the limitations outlined earlier and the absence of feedback the first of these restrictions inevitably imposed, neither am I able to identify those matters and recommendations I might have supported as opposed to those I would not.

Therefore I write this disclaimer disassociating myself from this Report and its recommendations.

In conclusion however, let me state that while I now believe the original idea of referring the draft Budget to Assembly committees was a mistake, I agree that until this **was** done the implications of such an innovation could not have been recognised.

Greg Cornwell MLA
27 March 2000