

The broad parameters of the 2001-2002 ACT budget

Select Committee on the 2001-2002 Budget

December 2000

Legislative Assembly for the Australian Capital Territory



Committee membership

Mr Paul Osborne MLA, Chair

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Terms of reference

Inquire into and report on the broad parameters of the 2001-2002 budget with particular reference to:

- (a) spending priorities;
- (b) changes to the mix of outputs;
- (c) the surplus/deficit operating position and strategies for ageing assets;
- (d) unfunded liabilities; and
- (e) any other related matter.¹

¹ *Minutes of Proceedings*, No 104, p 1018.

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Summary of recommendations

Recommendation 1

2.8. The committee recommends that if the Assembly decides to continue with a draft budget process, Phase 2 of the budget consultation process involving standing committees should not be optional.

Recommendation 2

2.14. The committee recommends that the Government promote the fact that community groups have an opportunity to consult directly with Government in addition to providing input to Assembly standing committees.

Recommendation 3

2.19. The committee recommends that the Government improve its communication about the budget consultation process by:

- writing directly to all community organisations advising them of the opportunities for budget consultation and time frames for each stage for the 2001-02 budget; and
- in future years hold information sessions for community groups about the budget consultation process at the earliest opportunity.

Recommendation 4

2.21. The committee recommends that the Government actively seek community suggestions about how the budget consultation process can be improved.

Recommendation 5

3.25. The committee recommends that in the budget papers, the Government incorporate an analysis of what effects it considers Commonwealth Government expenditure and policies will have on the ACT economy.

Recommendation 6

3.39. The committee recommends that either a Cash Flow Statement, or information about expected cash position, be provided whenever changes are made to estimated operating results.

Recommendation 7

3.50. The committee recommends that the Government investigate the reasons for the history of volatility of actual operating results in relation to budgeted results, with a view to articulating identified factors, and to allow these factors (including sensitivity analysis) each to be considered when formulating future budgets.

Recommendation 8

3.52. The committee recommends that the draft budget documentation include sensitivity indicators in relation to parameters such as interest rates, CPI and economic growth.

Recommendation 9

3.59. The committee recommends that the Government explore approaches, such as supplementary reports or even a changed reporting structure which will allow the impacts of superannuation movements (changes in investment value or emerging employee superannuation liability), which distort the operating result, to be isolated.

Recommendation 10

3.60. The committee recommends that at a minimum, supplementary information should be provided as part of the budget documentation, so that the operating result and cash position, adjusted to remove superannuation, can be more clearly understood and promulgated.

Recommendation 11

3.61. The committee recommends that in the medium-term the Government investigate whether an arrangement, such as a superannuation trust, can be made to allow separate budget reporting on superannuation including information on all superannuation impacts

arising from changes in valuations of investments; emerging employee liabilities; and a cash flow statement.

Recommendation 12

3.66. The committee recommends that the Government continue to maintain a prudent working capital ratio, at a minimum of 1:1.

Recommendation 13

3.80. The committee recommends that a reconciliation be provided to explain how the level of planned balance sheet borrowings decreases while the cash flow statement shows inflows of borrowings being greater than repayment of borrowings.

Recommendation 14

3.84. The committee recommends that the Government provide information on how much cash it proposes to make available to retire debt in 2000-2001 and for the future, and when the debt retirement is planned to occur.

Recommendation 15

3.85. The committee recommends that the Government explore whether there are any financial advantages, even after consideration of penalties, to be obtained by refinancing certain of the higher interest borrowings which are due further in the future.

Recommendation 16

3.86. The committee recommends that any debt reduction strategy not be to the detriment of funding urgent emerging community needs.

Recommendation 17

3.87. The committee recommends that the Government consider the committee's view that interest savings arising through early repayment of debt, and through not having to refinance debt, be made available to fund some community recurrent needs.

Recommendation 18

3.88. The committee recommends that if necessary refinancing on more favourable terms be undertaken where possible.

Recommendation 19

3.89. The committee recommends that the Government benchmark its interest expense as a percentage of Own Source Revenue against other jurisdictions, and make this information available to the community in order to provide a further reference point on the health and strength of Territory's financial position.

Recommendation 20

3.90. The committee recommends that the Government provide information to explain why the level of borrowings received appears to be increasing at a greater amount than the amounts of repayments and the increase in cash and investments.

Recommendation 21

3.100. The committee recommends that the Government review the way waivers and grants of land are currently managed, with a view to ensuring they appear on the face of the Territory's financial statements, through the operating statement.

Recommendation 22

3.101. The committee recommends that the Auditor General's views and advice be sought on an appropriate methodology for recording waivers and grants of land through the financial statements.

Recommendation 23

3.105. The committee recommends that the Government budget for a balanced budget over the longer term, and that the cash position always be taken into consideration, particularly when service purchasing or funding non-capital items.

Recommendation 24

4.8. The committee recommends that the Government report to the Assembly on how unmet need is currently assessed, and any proposals for developing and improving the methodology.

Recommendation 25

4.15. The committee recommends that the Government improve the transparency of the process for allocating funding for social capital in response to concerns raised by community organisations.

Recommendation 26

4.49. The committee recommends that the Government engage the community in discussion about new revenue raising measures.

Recommendation 27

5.6. The committee recommends that Government departments provide a report showing, for all assets which are held or which are being used by Territory authorities and corporations, the values and the valuation method being used for each of the assets, along with reasons for adoption of the valuation method.

Recommendation 28

5.11. The committee recommends that the ACT Government identify appropriate circumstances where an investment manager can be engaged with the specific mandate of ensuring that ACT investments are made in companies incorporating both values and best of sector environment approaches.

Recommendation 29

5.16. The committee recommends that the ACT Government, provide, as part of its annual reporting, clear and specific disclosure, for all private sector provision of public infrastructure which has not yet been transferred to the Government. The information should allow identification, along with details of when such transfers to the Government are expected to materialise.

Recommendation 30

5.19. The committee recommends that when undertaking assessments of the private provision of infrastructure the Government require that a full and rigorous risk assessment (of which financial assessment is an element), be undertaken.

Recommendation 31

5.24. The committee recommends that the Government undertake a strategic review of the ageing infrastructure, with a view to developing a management plan for maintenance and upgrade, and that community consultation occur as part of priority setting, and the approach also include regular review and progress reports to the ACT community.

Recommendation 32

6.10. The committee recommends that the Finance and Investment Advisory Board be asked for advice on what it regards an appropriate rate of return on superannuation investments should be, and reasons for this, and that this be considered as a benchmark by the Government when formulating the Territory's budget.

Recommendation 33

6.11. The committee recommends that a sensitivity analysis be undertaken, particularly using returns achieved by the Superannuation Provision Account, and highly rated private sector long-term investment vehicles.

Recommendation 34

6.13. The committee recommends that research be undertaken to determine whether it is possible to implement an accounting policy to assist with smoothing of investment returns, particularly if a benchmark approach is taken to expected level of returns.

Recommendation 35

6.17. The committee recommends that:

- the Government state a specific time at which it would like to achieve a level of funds which will attain a target of 90% funding of accrued liabilities at the end of a 40 year projection period;
- an analysis be undertaken to determine the additional annual investment amounts required for periods beyond 2004-2005, at an appropriate benchmarked rate of return; and
- a sensitivity analysis be undertaken using different benchmarks for rate of return.

Recommendation 36

6.18. The committee recommends that the setting of additional amounts to fund the superannuation liability take into consideration sensitivity analysis and benchmarked rates of return on investments.

Recommendation 37

7.5. The Committee recommends that the Government provide information to allow a clear understanding to be gained by the community about how the Territory's interest in ActewAGL will be reported and disclosed, and whether there is likely to be any flow on benefit through the production chain to the ACT because of the linkage between the price of oil and gas.

Recommendation 38

7.8. The committee recommends that the 2000-2001 budget be recast using the same presentational standards which will be required in the annual report financial statements for 2000-01.

Recommendation 39

7.17. The committee recommends that the Auditor General conduct a performance audit of the performance measures included in the budget papers and that the audit include an evaluation of how well the performance measures meet the information needs of Members of the Legislative Assembly.

Recommendation 40

7.19. The committee recommends that marginal costings be provided for classes of staffing in each of the major service delivery portfolios.

1. Introduction

Background

1.1. The Select Committee on the 2001-2002 Budget was formed on 18 October 2000.

1.2. In moving the motion to establish the committee the Treasurer advised the Assembly that his motion was in response to criticisms of the draft budget process conducted early in 2000.²

1.3. In December 1999, the Government had initiated a draft budget process which, for the first time, gave Assembly committees a role in the development of the budget.³ Prior to this, non-Executive Members did not have the opportunity to provide formal input into the budget. The majority of cross-bench members welcomed this opportunity to contribute to the development of the budget.

1.4. After going through the draft budget process, committees had a mixed response, with most committees having difficulty with the restrictive terms of reference which required that spending recommendations could only be made if equivalent savings or revenue could be found within the portfolio area. Committees also raised concerns about the lack of resources and expertise to carry out this work and about the limited time for community consultation. The other major concern of committees, and some community groups, was the lack of opportunity for broad overview.

1.5. The Government has addressed the concern about the need for overview this year with the creation of the Select Committee on the 2001-2002 Budget.

Conduct of the inquiry

1.6. Advertisements detailing the inquiry's terms of reference and inviting input were placed in *The Canberra Times* and *The Chronicle* in

² *Debates of the Legislative Assembly for the Australian Capital Territory*, 'Weekly Hansard', 10, 18 October 2000, p 3175.

³ Standing committees were provided with a draft budget for the 2000-01 financial year and were required to report to the Assembly on their consideration of 'the expenditure proposals, revenue estimates and the capital works program for each portfolio and make recommendations that maintain or improve the operating result.' (Legislative Assembly for the ACT, Minutes of Proceedings, No.73, 9 December 1999, pp677-8)

late October and early November 2000. In addition, letters advising of the inquiry and inviting input were sent to organisations known to have an interest in the matter.

1.7. In response, the committee received 21 submissions and heard from 27 witnesses at public hearings. A list of submissions received is at Appendix 3 and of witnesses appearing at public hearings at Appendix 4. In addition to the public hearings the Treasurer and officials provided the committee with a briefing on the issues on 9 November 2000.

1.8. The committee employed a specialist adviser, Ms Jenny Aked, to assist with the analysis of the material.

1.9. The timeframe for the inquiry was extremely restrictive. This limited the committee's ability to examine in detail the full range of the terms of reference, including a detailed analysis of the Government's underlying principles and parameters and key result areas. Therefore the committee does not necessarily endorse these. The committee's deliberations on some issues were further restricted as it did not receive some of the information requested from the Government in time for consideration.

Acknowledgement

1.10. The committee wishes to thank all those who participated in the inquiry, which was required to be undertaken in a very short time frame.

2. The budget development process for 2001-2002

2.1. The establishment of a select committee to inquire into the broad parameters of the 2001-2002 budget has given Members the opportunity to consider Government expenditure and revenue proposals at a very early stage of the budget development process. Through this process, some Members have learnt more about how the Government develops a budget.

2.2. However, there have been some teething problems with confusion felt by Members of the Legislative Assembly and the community about the budget consultation process.

2.3. It was only after the initial Government briefing (held on 9 November 2000) that committee members realised that the Government intended that the involvement of standing committees to consider budget priorities within their respective portfolio areas would be optional. This was a different approach to last year where all standing committees were required to examine budget priorities for their portfolio area.

2.4. When announcing the establishment of the Select Committee on the 2001-02 Budget in the Assembly on 18 October 2000, the Treasurer did not make it clear that the second phase of the budget consultation process for the 2001-02 budget would be optional for standing committees.

2.5. When challenged that he had not made the optional part clear in this speech, the Treasurer admitted it may not have been clear in this speech but the process was clearly outlined in a press release issued on 16 October 2000.⁴ This press release states:

Phase 1: to be completed by December 2000, conducted through a Select Committee, where the broader parameters and principles for the 2001-02 budget would be considered.

Phase 2: in which interested portfolio committees would comment on draft initiatives and the capital works programs, provided that each committee accepts that the 'bottom line' is already determined and cannot be altered. The committees would report to the Assembly by mid March.⁵

⁴ Uncorrected Proof Transcript, 23 November 2000, p 3.

⁵ Mr Gary Humphries, Treasurer, *'Liberals Support Two-Phase Budget Process'*, 16 October 2000.

2.6. The committee is of the view that an announcement through media release is an inadequate approach and that this matter should be debated in the Assembly.

2.7. The committee has concerns about the optional involvement of standing committees. Phase 2 is the part of the process which considers detailed budget submissions. If only some standing committees elect to be involved early next year, then community groups in that portfolio area will be disadvantaged. For example if the Standing Committee on Health and Community Care decided not to participate in the draft budget process, health-related groups would be deprived of a significant opportunity to convince Government of their need for more resources. Giving standing committees the option to participate in Phase 2 is inequitable for community groups and therefore undesirable. Some members of the committee do not believe that this is a practical process.

Recommendation 1

2.8. The committee recommends that if the Assembly decides to continue with a draft budget process, Phase 2 of the budget consultation process involving standing committees should not be optional.

Consultation with the community

2.9. Before the draft budget process was initiated for the 2000-01 budget, the Government had an established process for consulting with the community. The Government would invite community groups and individuals to make submissions to the budget. Summaries of these submissions would appear in the budget papers, together with a Government response to each submission, thus promoting transparency. Community groups clearly understood this process and each year were prepared to make their budget submissions at a particular time of the year.

2.10. With the establishment of the draft budget process in December 1999, community groups were given the opportunity to make submissions to standing committees in addition to making direct submissions to Government.

2.11. Unlike previous years, the 2000-01 budget papers did not include a summary of community submissions. In the opinion of some members,

the responsibility for consulting with the community appeared to have shifted from Government to Assembly committees.

2.12. The committee sees a danger in the Government transferring full responsibility to Legislative Assembly committees for community consultation about the budget. Community groups must have the opportunity to provide budget submissions and representations directly to Government without having to go through a 'middleman'. Furthermore, committees may not have the expertise or resources to properly consider budget proposals put forward by the community. The committee makes the point that its recommendations will reflect its interpretations of the issues raised by community groups.

2.13. While this select committee has attempted to involve as many community groups as possible in Phase 1 of the process, it is noted that many community organisations did not participate in this process. For example, no submissions were received from business groups or indigenous-specific groups and very little input was received on urban design issues, despite urban infill being a highly topical and contentious issue.

Recommendation 2

2.14. The committee recommends that the Government promote the fact that community groups have an opportunity to consult directly with Government in addition to providing input to Assembly standing committees.

Confusion about the process

2.15. Evidence received through submissions and public hearings indicates that community groups are confused about the current budget consultation process. For example the Youth Coalition expresses concern that:

the processes for comment have again changed and have not been well communicated to the community, thereby restricting the contributions of many stakeholders within the community sector. The Youth Coalition believes it is important that this process be encouraged to be as inclusive as possible, and therefore it is essential that the community is fully informed of the processes.⁶

⁶ Submission 13, Youth Coalition of the ACT.

2.16. ACTCOSS also highlighted the confusion in the community about the process with its comment:

the changed process has not been well communicated to the community, thus restricting the contributions of many stakeholders. Further, the introduction of this early stage of the process, while welcomed, has placed an additional burden on many organisations in the sector at the time of year their services are most in demand.⁷

2.17. Some were not clear on whether they still had the opportunity to make budget submissions directly to Government. Others were confused about what level of detail to include in submissions to the select committee. Many were unaware that the involvement of standing committees in Phase 2 would be optional.

2.18. The Government, while responding to community and committee concerns about the need for a ‘big picture’ consideration, has failed to adequately communicate the draft budget process for 2001-02 budget. The implications are that some community groups will have missed the boat for this first stage of the process. Others have made hastily prepared submissions and have not had time to fully consult with their members.

Recommendation 3

2.19. The committee recommends that the Government improve its communication about the budget consultation process by:

- **writing directly to all community organisations advising them of the opportunities for budget consultation and time frames for each stage for the 2001-02 budget; and**
- **in future years hold information sessions for community groups about the budget consultation process at the earliest opportunity.**

2.20. In light of criticisms about the consultation process, it would be valuable for the Government to formally seek the views of community organisations on the positive and negative aspects of the two different draft budget processes (for the 2000-01 and 2001-02 budgets) and to encourage their suggestions for improving the consultation process.

⁷ Submission 15, ACTCOSS, p16.

Recommendation 4

2.21. The committee recommends that the Government actively seek community suggestions about how the budget consultation process can be improved.

3. The surplus/deficit operating position

Recent economic reviews

3.1. Recent economic reviews bear out the view that the Australian economy will continue to record a good performance during 2000-2001. This, however, is tempered by some business surveys that show a sharp deterioration in confidence.

3.2. The ACT outperformed the Australian economic parameters in 1999-2000, and shows strong indications that reasonable performance will continue into 2000-2001, though at a lower level than the 1999-2000 level, which is not sustainable beyond the short term.

3.3. Business confidence, as mentioned above, is well down. The Dun and Bradstreet *Business Expectations October 2000 Survey* shows that across Australia, business confidence fell at a greater rate than in the lead up to the 1991 recession. Dun and Bradstreet pose the question whether the economy is facing a full-blown recession or merely a slowdown. Negative factors on business confidence include the pressures of BAS requirements, the weakening dollar, the interest rate uncertainty and the high cost of fuel, along with the cash flow squeeze arising from the changed GST environment. The next survey, however, should provide some pointers as to whether the significant uncertainties, worry or trepidation about the BAS and GST have abated, or reduced, once these have become more routine for business.

3.4. The positives for business, however, are quite clear—the employment rate continues to grow, the unemployment rate is lessening (although at a lower rate than in 1999-2000), and interest rates have continued to flatten, with inflationary pressures also lessening.

3.5. *The Yellow Pages Business Index Survey of Small and Medium Enterprises* echoes business concerns about a marked slowdown in the economy. It reports though, that ACT small and medium businesses performed better than the national average, although the confidence level is lower than that of the previous survey. ACT businesses report increases in profitability in October above the national increase, although these are down on the quarter November 1999 to January 2000. Therefore, the indications are that confidence levels in the ACT are still up, although not as high as previously.

3.6. Some business pessimism is understandable, given that growth is not as high as previously, and given the extreme factors which have affected business over the last few months. However, the degree of pessimism is not borne out by the economic indicators, and this phase may just reflect a ratcheting of the levels back to one of reasonable, steady growth, rather than the previous spurt of extremely high growth.

3.7. The ACT cannot be considered in isolation, but rather is affected by changes in the Australian economy. The Commonwealth's *Mid-Year Economic and Fiscal Outlook 2000-01*, released in November 2000, forecasts that Australian economic growth will remain robust at 4% in 2000-01. The Commonwealth budget cash surplus was revised upward from \$2.8 billion to \$4.3 billion, while in accrual terms the estimated fiscal surplus moved up from \$3.0 billion to \$8.4 billion⁸, reflecting stronger economic and employment growth and stronger than anticipated revenue outcome for 1999-2000. For 2000-01, the Commonwealth forecasts employment to increase by 3%, a decline in the Commonwealth's current account deficit, and a downward trend in unemployment. In 2001-2002, economic growth is forecast at around 3.75%, based on solid growth in employment of around 2% and a further decline in the unemployment rate, and headline CPI is forecast to increase by just 2% through the year to 2002.

3.8. The Reserve Bank of Australia's November bulletin⁹ also bears out an acceptable picture for the coming year, stating that the Australian underlying rate of growth of GDP is over 4%. It associates this with fast growth in employment over much of the year, and a significant further decline in the unemployment rate. It also states that domestic demand in Australia is slowing from its earlier exceptionally rapid pace to a more moderate pace over the next year. This, it says, reflects a fall in spending on dwelling investment, and some moderation in the pace of growth of public spending. The bulletin also notes an apparently smaller than anticipated impact of the GST, and that because monetary policy is finely balanced, there is no need to change interest rates. It forecasts that underlying inflation could be around 3% at the end of next year.

⁸ *Mid-Year Economic and Fiscal Outlook 2000-01*, Statement by The Honourable Peter Costello, MP, Treasurer of the Commonwealth of Australia, and the Honourable John Fahey, M.P. Minister for Finance and Administration, November 2000.

⁹ Reserve Bank of Australia Bulletin, *Statement on Monetary Policy*, November 2000 pp 1-52.

3.9. The Reserve Bank discussion on the recent rise in oil prices and the impacts on the Australian economy makes for interesting reading. It points out that:

the recent rise in oil prices is smaller, in proportionate terms, than those which occurred in the mid and late 1970s episodes.¹⁰

3.10. It further points out that:

In Australia's case, the effects of rising oil prices are likely to be less contractionary than for most other advanced countries. While Australia has in recent years been a small net importer of oil, it is a substantial net exporter of natural gas, the price of which is linked to the price of oil...All other things equal, this would tend to impart a stimulus to the Australian economy, though the transfer within Australia from energy consumers to producers might be a dampening influence in the short term.¹¹

3.11. The National Bank of Australia's *September 2000 Economic Commentary* is generally representative of the current views in economic literature. It sees little change in the broad thrust of the forecasts at the aggregate level, with most change being in the 'drivers of growth'. The key features of its forecasts include: a fall-out in the construction industry, a slowing in private consumption expenditure after the Olympics as tighter monetary policy progressively bites, generally flat business investment, and some slowing of the rapid rates of growth in public sector demand, (noting that there are some upside risks to this in an election year).

3.12. St George Bank's November 2000 *Economic Outlook* states that business activity appears to be easing, although it is difficult to be certain because of distortions caused by GST and Olympic data. It indicates that growth is subdued in employment, consumer confidence and credit, while a flat cash rate is forecast for interest over the next six months. It abstracts that Australian economic growth seems to be above average (+4%), but could slow to 3%.

3.13. St George also provides commentary on the ACT¹², indicating a fairly rosy outlook and satisfying statistics:

¹⁰ Reserve Bank of Australia Bulletin, *Statement on Monetary Policy*, November 2000, p 10.

¹¹ Reserve Bank of Australia Bulletin, *Statement on Monetary Policy*, November 2000, p 11.

¹² St George Bank, November 2000, 'ACT Population trends – People Come, People Go', *Trends: A bulletin of economic developments in the Australian Capital Territory*, p15.

The ACT economy is currently as strong as it has been in the past decade...employment is back, spending is back, and growth is high...

Economic growth has remained consistently strong since the end of 1997 with acceleration witnessed in the first half of 1999.

Residential construction activity has also been strong recently...

Retail growth surged in a pre-GST rush. The poor results for July appear to have been a brief pause, with consumers splurging again in August, while motor vehicle buyers came out in force to celebrate the removal of sales taxes in July.

Even more impressive have been the employment statistics with unemployment rate of 4.6% the lowest since the middle of 1986.¹³

3.14. St George raises two main areas of concern. It points out that the leading indicators of construction demand, (housing finance and building approvals) have slumped during 2000, and that the outlook for construction in 2001 is uncertain, and this fall in construction investment is likely to flow through to lower overall growth rates. It raises the question of whether the fall in construction demand has been exacerbated by higher interest rates and higher inflation.¹⁴ This, however does not mean all is gloom:

There is still a considerable amount of building work still to be done. The concern for builders is what they will do once this backlog is cleared.¹⁵

3.15. Large non-residential projects also affect the figures, and their completion (e.g. the National Museum of Australia) will cause pressure in the ACT construction industry.

3.16. The St George report points out that the ACT has the strongest labour market in the country, although there has been little real increase in population. The ACT's population is affected mainly by a loss of people to other states, and population growth is presently driven solely by natural increase. The rate of population growth itself is gradually declining, and is now around 2,800 a year.

¹³ St George Bank, November 2000, 'ACT Population trends – People Come, People Go', *Trends: A bulletin of economic developments in the Australian Capital Territory*, p 15.

¹⁴ St George Bank, November 2000, op cit, p 15.

¹⁵ St George Bank, November 2000, Statistical Section, from *Trends: A bulletin of economic developments in the Australian Capital Territory*, p 18.

3.17. The ACT population is relatively mobile, with 15,000-20,000 arrivals in any given year, with a similar number leaving. The Canberra profile is that

roughly one person in eight has lived in Canberra for less than a year or will leave within twelve months. In comparison the figure is only 1 in 20 in Queensland and 1 in 30 in New South Wales...

The ACT has also suffered from a slump in migration from overseas...the local result has seen net overseas migration dry up almost completely.

The current low unemployment rate and strong growth in output and employment would appear to be tempting more people to stay in Canberra, although high mobility levels mean that many people are still leaving Canberra each year.¹⁶

3.18. St George also reports that the composition of the Canberra population is expected to change significantly, with the number of people aged 55 and over forecast to rise from 49,000 in 1999 to 130,000 in 2049. This change will require changes to the types of community services. For example, an ageing population will have health implications, such as a rise in demand for nursing home care, more treatments for health problems afflicting older people, and more demand on the hospital system. Housing needs will also change.

3.19. The effect on the primary school education system, however, over the same period 1999-2049, is forecast to be slower and less significant, falling from 28,000 to 22,000.¹⁷

3.20. The committee notes that this is the St George Bank view but there are other factors such as emerging social factors that need to be considered.

3.21. The St George research overall backs up the view of the Government, that the ACT will continue to have strong economic growth, albeit at a lower level than the high levels achieved in 1999-2000.

The ACT economy

3.22. The ACT Government uses year on year average changes to determine its economic parameters.¹⁸ This methodology provides a

¹⁶St George Bank, November 2000, 'ACT Population trends – People Come, People Go', *Trends: A bulletin of economic developments in the Australian Capital Territory*, p16.

¹⁷ ibid

measure of average growth over a financial year, and the results are conservative, yet realistic.

3.23. The ACT experienced the strongest economic growth of all States in 1999-2000, with State Final Demand (SFD) at 11.8%. It is unrealistic to expect this record level of growth to continue. That said, there are very clear signs that there will be ongoing growth in ACT, but at a lower level. The latest rate of economic growth has been revised up to 4% of SFD. It was previously 2.3%. These year on year average changes provide the base from which revenues and expenditures are estimated by the Government.

3.24. The committee notes that in its submission received on 9 November 2000, the Government said:

The forecast SFD at Budget time was expected to slow appreciably to 2.3%. There are reasons to expect that a significant slowdown in the economy may occur during the course of 2000-01 and beyond. A major driver of growth in SFD in the ACT has been Commonwealth Government expenditure. Notwithstanding the diversification of the ACT economy and the growth of the private sector the Government sector still represents well over half of SFD. While many private companies have benefited from outsourcing by the Commonwealth Government most remain dependent on the Commonwealth for their core activity. Consequently, the future outlook for SFD remains heavily dependent upon future levels of Commonwealth spending. For example, the current freeze on new Defence procurement is harming many high technology suppliers in the ACT.

Moreover, there are a number of one-off 'shocks' which contributed to SFD during 1999-00 but will not be repeated in 2000-01. The Australian Taxation Office substantially expanded its staff in the lead up to the introduction of the new taxation arrangements, Commonwealth departments' expenditure on IT increased in response to the perceived Y2K problem and construction has been boosted by the National Museum.¹⁹

¹⁸ Uncorrected Proof Transcript, 23 November 2000, p 25.

¹⁹ Submission 2, ACT Government, p 3.

Recommendation 5

3.25. The committee recommends that in the budget papers, the Government incorporate an analysis of what effects it considers Commonwealth Government expenditure and policies will have on the ACT economy.

Operating results

3.26. To assist its deliberations on the broad economic parameters for the 2001-2002 budget, the Government provided the committee with estimates that reflect the revised economic growth rate.²⁰ They also incorporated known changes due to past events for the General Government Sector (GGS), into the 2000-01 budget and forward estimates. The operating result (profit) was initially revised upwards by the new estimates from \$4.171 million to \$35.507 million for 2000-01, with the outyears each rising by about \$50 million above estimates in the budget.

3.27. Since this interim information was provided the Government has provided the committee with a further set of variations within the Superannuation Provision Account. The superannuation estimates have been completely reconstructed from base data and the Territory's actuary has independently confirmed the new data. The information provided to the committee is as follows.

In terms of the superannuation expense amounts, the figures published in the 2000-01 Budget documents are (understated)/overstated as follows:

2000-01	2001-02	2002-03	2003-04
\$0.3m	(\$8.2m)	(\$16.1m)	(\$21.1m)

These variations have a direct impact on the total Territory operating result by the same amount in each of the financial years. In the 2001-

²⁰ ACT Government, *Amendment Revised Forward Estimates and Sensitivity Analysis*, Paper presented on 23 November 2000.

02 and the forward years the Territory operating result has been overstated.

In terms of the Superannuation Liabilities recorded in the Balance sheet, the figures published in the 2000-01 Budget documents are (understated)/overstated as follows:

Planned as at 30.6.00	Planned as at 30.6.01	Planned as at 30.6.02	Planned as at 30.6.03	Planned as 30.6.04
\$3.1m	\$2.6m	(\$6.2m)	(\$22.3m)	(\$43.4m)

3.28. The committee has factored these changes into the revised operating results, and understands the latest revised operating results, (before factoring in the spending initiatives recently announced for a new remand centre and increases in nurses' salaries), are in the order of \$35.8m for 2000-01, \$66.3m for 2001-02, \$99.7m for 2002-03, and \$102.4m for 2003-04. These results are after the provision for superannuation of \$5m in 2000-01, \$15m in 2001-02, and \$50m in each of 2002-03 and 2003-04.²¹

3.29. The revised information is not a formal update of the 2000-01 budget and forward estimates, because emerging cost pressures and issues, (which cannot yet be quantified) will continue to arise, particularly in relation to accrual items.

3.30. The Government also provided the committee with an interim 1999-2000 operating result for the GGS, showing line by line, the significant changes that occurred between the estimated outcome published in 2000-01 budget papers (a loss of \$3.079 million) and the interim operating result for 1999-2000 (a profit of \$86.568 million)—that is, a turnaround of more than \$89 million. These results were still being audited, so were not final.

3.31. The movements which the Government has signalled are significant and further point to the considerable volatility in the Territory's GGS operating result. Over the last few years, there has been a clear pattern of volatility between the budgeted operating result and the

²¹ 2000-2001 Budget Paper No 4, p 87.

actual result (and in this case interim result), and this is reflected in the table at Appendix 1.

3.32. The net increase in profit arose from a variety of causes. Overall, revenues rose by almost \$103 million, in part because of pre GST activity and higher levels of economic activity during 1999-2000 (approximately \$31 million). Some land sales occurred late in the financial year (\$6.5 million), but a significant element, \$33.122 million, arose because of an increase in the value of superannuation investments—a largely paper profit.

3.33. Expenses were reduced by almost \$27 million, but a large element of this relates to deferral of projects in Health and the capitalisation of InTACT modernisation costs, and these will flow through as negative impacts in the future. These will be taken into account in the Government's revised 2000-01 budget forward estimates.

3.34. Abnormal and extraordinary items resulted in further write-offs (treated as expense) of almost \$40 million net – with the bulk of this being paper transactions and not cash in nature. The major elements here were the decrease in valuation of assets, through revaluations²² downwards of \$20 million (for Macarthur House, Kingston Foreshore, Gold Creek sales, and AGPS Building).

3.35. A write off of Central Financing Unit (CFU) investments of \$31 million was also made, to reflect a revised valuation policy between the GGS and Private Trading Enterprises (PTE). This change arose because investments that the Government had previously made in the PTE for capital works were recorded in the GGS as an investment, not as an expense. The Auditor General questioned whether the GGS actually has the ability to value those investments in the PTE sector, and this triggered the write off.²³

3.36. Revaluations, also, can have substantial impacts on the operating result, and cause distortion and reduce clarity when information is being sought about the 'normal', revenue raising and the price paid for service provision to the community from the GGS.

3.37. Actuarial revaluation gains have a significant impact on the Operating Statement results. The actuarial revaluation gain of \$99.960m

²² Revaluations must be undertaken and reported in accordance with the Australian Accounting Standards.

²³ Uncorrected Proof Transcript, 23 November 2000, p 49.

in 1998-99 is being recognised as revenue in the operating statement over a twelve year period, commencing in 1998-99, (ie \$8.33m will be brought to account each year for twelve years as revenue). However, a further actuarial revaluation gain of \$209.601m was recognised in 1999-2000, and this also is being amortised (that is, being brought to account as revenue) over a twelve year period, from 1999-2000, with \$17.467m being brought to account each year.²⁴ Thus, amortisation revenue of \$25.797m (\$8.33m + \$17.467m) is included in the operating results of the Territory, through the GGS, for 1999-2000, and will be included each year for the next ten years, while in the eleventh year the amount which is included will be \$17.467m. Future revaluations, when done, will result in adjustments being done in the same way, and will thus affect the amount brought to account as revenue. Therefore, the superannuation gains which have already occurred in 1998-99 and 1999-2000 will continue to have a positive effect on the Territory's operating results for quite a number of years. This needs to be clearly understood when determining an appropriate quantum of surplus, particularly when the Government is considering what funding should be provided to new recurrent service provision.

3.38. The committee notes that changes of the types discussed above can be expected to continue to occur in future years, as often they cannot be foreseen or accurately quantified. Other influences on the results include changes in policies or other issues coming to the attention of the Auditor General. This means that the budgeted operating result and the actual outcome can vary significantly, as circumstances arise. Neither budget nor actual results may reflect the cash position. The cash position can be seen from the cash flow statement, this should always be used as a tool when determining whether or not a budget surplus is actually available for spending.

Recommendation 6

3.39. The committee recommends that either a Cash Flow Statement, or information about expected cash position, be provided whenever changes are made to estimated operating results.

²⁴ Treasurer, correspondence dated 7 December 2000.

Sensitivity analysis

3.40. The committee was provided with a sensitivity analysis on economic parameters which were used in the formulation of the revised forward estimates. Each economic parameter, which was applied to the revised forward estimates, was subject to sensitivity analysis of plus and minus 1%.²⁵ The information was provided at major summary levels for each parameter in isolation. While the Government's policy decisions affect the revenue raising, the amount collected is largely driven by the economic parameters.

3.41. Employment growth affects the level of payroll tax received, and a 1% growth per year in employment (that is, a year on year effect) would see revenue rise by \$.781 million for the full year 2001-2002, rising by a similar, but slightly increasing amount in each of the out years, to \$3.701 million in 2003-2004. Reductions in employment growth of 1% per year would see similar negative impacts on the operating result.

3.42. Gross State Product (GSP) changes affect the level of payroll tax and duties received, and a 1% rise each year would increase revenue and the revised 2000-2001 operating result by \$1.6 million, cumulatively rising each year by slightly higher amounts, to around \$7.676 million in 2003-2004. A reduction in GSP of 1% across each year will have similar negative impacts on the operating result.

3.43. Population growth changes affect the level of duties and gambling taxes that the Territory receives. A 1% increase in 2000-2001 and each of the outyears would result in operating result being revised upwards by \$.023 million in the first year, with cumulative effects in each of the outyears, rising to around \$.102 million in 2003-04. Similar reductions occur in operating result if the population growth declines by 1% year on year.

3.44. A change in the Consumer Price Index (CPI) affects both the Territory's revenue and expenses, and a 1% increase to the forecast CPI in 2000-01 would be expected to increase revenues and the operating result, by \$3.061 million according to the table supplied. Expenses would lag and not increase until 2001-02, and would be incorporated into agencies' funding bases in the 2001-02 budget development process, and would increase 2001-02 expenses by \$10.8 million, although revenue

²⁵ ACT Government, *Amendment Revised Forward Estimates and Sensitivity Analysis*, Paper presented on 23 November 2000.

would increase by over \$17 million, resulting in around \$6.6 million increase in that year's operating result. The Government's commitment to Government School Education to maintain and fund employee expenses in real terms (CPI), means those specific employee expenses would rise by approximately \$1.958 million in 2001-02, rising slightly above cumulative, to \$6.373 in 2003-04. Overall, the net increases in operating revenue for each of the outyears from 2001-02 to 2003-04 would rise fairly evenly from around \$6.6 million to \$7.2 million. A 1% reduction in CPI would cause similar but slightly smaller reductions in the operating result.

3.45. Interest rates also affect the interest revenue received. The majority of the Territory's GGS borrowings are at fixed interest rate. The only significant GGS borrowing at a floating interest rate is \$250 million borrowed by the GGS on behalf of ACTEW, but ACTEW offsets the increased interest payments. A 1% increase in interest rates in the forecast interest rate in 2000-01 would increase the 2000-01 operating rate by \$11.4 million, and of this, \$7.4 million would relate to the increases in the market value of superannuation investments which are quarantined in the Superannuation Unit and which are used to offset the Territory's accrued superannuation liabilities.²⁶ Excluding superannuation impacts, the effect of a 1% rise in interest rates over the forecast rate for 2000-01 would increase the GGS operating result by \$4 million, increasing to around \$7 million in 2003-04, if perchance a year on year rise also continues. Similar reductions would occur in the operating result for year on year 1% reductions in interest rates.

3.46. Impacts on operating results from land sales are not included in the sensitivity analysis as land sale revenue is set in the annual budget process.

3.47. The sensitivity analysis therefore shows that population growth has a very minor impact on the Territory's operating result, while employment growth has an impact, but it is not overly significant. The biggest influence on the Territory's operating result is the CPI, with interest initially having a bigger influence than an increase in GSP, although the GSP influence outstrips interest effect in outyears.

²⁶ ACT Government, *Amendment Revised Forward Estimates and Sensitivity Analysis*, Paper presented on 23 November 2000.

3.48. What the sensitivity analysis appears to show is that while the various economic parameters affect the bottom line, other factors beyond these, or else higher swings in the parameters than the 1% sensitivity, or else combinations or larger swings in the parameters, could be the cause of the large variations in the operating results, (particularly those experienced in the past, when budgeted and actual results varied significantly). Alternatively, it is very unclear whether this is an indication that the methodology and bases on which sensitivity analysis is undertaken could benefit from further critical examination.

3.49. The committee noted in the previous section the volatility in the GGS and Whole of Territory budgeted and actual results illustrated by the tables at Appendix 1.

Recommendation 7

3.50. The committee recommends that the Government investigate the reasons for the history of volatility of actual operating results in relation to budgeted results, with a view to articulating identified factors, and to allow these factors (including sensitivity analysis) each to be considered when formulating future budgets.

Sensitivity analysis in draft budget papers

3.51. The committee considers that a sensitivity analysis should be included as part of the draft budget documentation to enable Members and the community to be better informed. However, the committee recognises the complexity of economic modelling and the difficulty of reducing it to a simple format.

Recommendation 8

3.52. The committee recommends that the draft budget documentation include sensitivity indicators in relation to parameters such as interest rates, CPI and economic growth.

Distortions to operating result and relationship to cash

3.53. The committee notes that it is difficult to clearly focus on the operating result when it is distorted by large accrual adjustments,

especially for superannuation and revaluations of non-current fixed assets.

3.54. Superannuation is of particular concern, as significant accrual adjustments arise not only from movements in the value of superannuation investments, but also from movements in the liability for emerging employee entitlements. The committee notes that triennial actuarial reports are undertaken to value the liability for emerging employee entitlements. It further notes that the Government has taken a sensible approach in implementing an accounting policy²⁷ to spread over the relevant period of time, the often significant windfall gains or losses which arise as a result of an actuarial report every three years. There was a significant reduction in the value of emerging employee entitlements at the last actuarial valuation, and rather than this being a ‘big positive hit’ on the operating result in the year of the revaluation, the resulting gain (non cash) has been spread, and flows through the operating statements over a period of years. As previously discussed, the Territory currently has the benefit of \$25.797m being recognised as revenue in the operating statement of 2000-01 and also in each of the three forward estimates. Further, it is apparent that additional disclosure about the specific major accrual impact of this would be beneficial to the community in understanding more clearly the extent to which surpluses can or should be used, and in particular to meet recurrent new initiatives for the community.

3.55. Having an operating profit result does not mean that there is immediate cash of that amount. This is because a profit (e.g. increase in value of superannuation investments) may reflect a paper transaction only, while an expense (e.g. write down of assets) may also be a paper transaction. On the other hand, cash may be used to acquire assets or to reduce liabilities, or to pay expenses as and when they occur. Cash may be earned, but not received. Having sufficient cash available to pay all bills as and when they fall due is important to any business, and is also important to a government.

3.56. The Government submission discussed the Territory’s cash position. The views expressed in that are indisputable—if more cash is spent on non-capital items than the projected operating surplus, and, if all other parameters remain unchanged, the GGS will move into a deficit position.²⁸

²⁷ Based on International Accounting Standard 19.

²⁸ Submission 2, ACT Government, p 7.

3.57. The committee agrees with this view. The Government submission goes on to say:

the level of cash spent on non-capital items is therefore constrained by what is considered to be the appropriate projected surplus or deficit.

It is also important to consider the level of working capital of the Territory. Working capital is important to ensure that the Government has sufficient funds to cover its immediate liabilities.

A working capital ratio above 1:1 suggests that the General Government Sector assets are sufficient to cover short term liabilities. A ratio of 1:1 should be considered a minimum when developing options for the budget.²⁹

3.58. There are a number of issues relating to the reporting of the operating result particularly concerning superannuation and revaluations of non-current fixed assets that need addressing. The committee makes the following recommendations on these matters.

Recommendation 9

3.59. The committee recommends that the Government explore approaches, such as supplementary reports or even a changed reporting structure which will allow the impacts of superannuation movements (changes in investment value or emerging employee superannuation liability), which distort the operating result, to be isolated.

²⁹ ibid

Recommendation 10

3.60. The committee recommends that at a minimum, supplementary information should be provided as part of the budget documentation, so that the operating result and cash position, adjusted to remove superannuation, can be more clearly understood and promulgated.

Recommendation 11

3.61. The committee recommends that in the medium-term the Government investigate whether an arrangement, such as a superannuation trust, can be made to allow separate budget reporting on superannuation including information on all superannuation impacts arising from changes in valuations of investments; emerging employee liabilities; and a cash flow statement.

Working Capital

3.62. The Government submission provided to the committee includes an analysis of current working capital ratios, (i.e. balance sheet items) adjusted to remove those superannuation investments and superannuation liabilities that are expected to mature within twelve months. The analysis shows that the working capital ratio will continue above the minimum benchmark for working capital of 1:1.³⁰

3.63. A further analysis of working capital ratios was provided to show what would happen if budgeted surpluses are fully utilised. This analysis is based on the forward estimates results in the 2000-01 budget papers, and has not been updated for the known changes since the budget..

3.64. The committee was provided with revised operating results (after known flow-ons), revising the results upwards to surpluses of \$74.471 million in 2001-02, and \$108.753 million and \$123.541 million for each of 2002-03 and 2003-04. These reflect increases in the GGS result as follows.

³⁰ Submission 2, ACT Government, p 7.

Table 1 Increases in the GGS

	2001-02	2002-03	2003-04	2004
Budget(a)	\$9.171m	\$41.228m	\$106.696m	\$116.289m
Initial revision(b)	\$35.307m	\$74.471m	\$108.753m	\$123.541m.
Second revision (superannuation)	\$35.807m	\$66.271m	\$92.653m	\$102.441
Change between Budget and second revision(c)	\$26.636	\$25.043	(\$14.043)	(\$13.848)

Notes

(a) 2000-01 Budget Paper No 3 p 47.

(b) *Amendment Revised Forward Estimates and Sensitivity Analysis* provided to the committee 23 November 2000.

(c) Treasurer, correspondence dated 7 December 2000

3.65. At these levels of budgeted surplus, it appears that if all are fully spent on non-capital items – i.e. if additional services are purchased and flow through the operating statement, then the working capital ratio, (adjusted for superannuation impacts) still remains above 1:1 in each of the out years. This is a raw tool, as accrual effects have not been specifically considered, but it provides an indication of capacity if cash is not required for capital items. In reality, the government's policies will be the drivers in determining how available cash is spent.

Recommendation 12

3.66. The committee recommends that the Government continue to maintain a prudent working capital ratio, at a minimum of 1:1.

Borrowings

3.67. The Government provided the committee with a schedule of borrowings,³¹ to assist it to understand how much, and where, cash could be used.³² The committee was told that the ACT has the second lowest level of net debt in comparison to other Australian jurisdictions,³³ but this is an actual dollar figure, not a percentage. Given the relative size of the Territory, however, this result is not unusual and to be expected. There would be cause for concern if were not the case.

3.68. The net debt is made up of financial assets, (comprising investments and cash, less debt.³⁴ The Treasurer told the committee that the ACT has ‘a very good level of debt by comparison with the standards of other governments’.³⁵ The committee also notes that interest expense as a percentage of Own Source Revenue³⁶ was, before the first set of the revised forward estimates was supplied, estimated to be 5.77% for 2000-01, falling to 4.56% in 2003-04.

3.69. The committee is not averse to borrowings, provided these are kept at sensible levels. It recognises that most households and businesses have some debt, and debt is not necessarily a bad thing. It also notes that the Treasurer does not have a problem borrowing money for some specific purposes,³⁷ but that his preference is to use windfalls, particularly cash that arises from the surplus for 1999-2000, to retire some debt.

3.70. The committee explored the possibility of repaying borrowings, and whether the interest expense which was saved could be used to fund initiatives which the community consultation indicated were regarded as important. The committee noted that some debt is expected to mature in 2001, some in 2003, and more in 2005. Other debt does not start to fall due until around 2010-2011, then in 2020-2023, and lastly in 2041-2042.³⁸ Thus, maturity dates are ‘lumpy’.

³¹ Submission 2 ACT Government, p10.

³² There is little variation between this information and the results in the audited *Consolidated Annual Financial Statements* that was tabled in the Assembly in the December sitting period.

³³ *ibid*

³⁴ Uncorrected Proof Transcript, 23 November 2000, p 12.

³⁵ Uncorrected Proof Transcript 23 November 2000, pp12-13.

³⁶ Submission 2 ACT Government, p11.

³⁷ Uncorrected Proof Transcript , 23 November 2000, p14 ‘I don’t have a problem with borrowing money to build a prison. I think the arguments against a public run prison are different to the arguments about running into debt.’

³⁸ Submission 2, ACT Government.

3.71. The committee noted that interest rates are largely fixed, and fixed rates vary from 4.6% for the debt maturing in 2041-2042 for housing, to around 12.57% for debt maturing in 2023, for DUS and ACTION (land and buildings). The committee notes that loans associated with historical borrowings from the Commonwealth apparently attract significant exit costs, and these loans include the DUS and ACTION land and buildings.³⁹

3.72. The committee also noted that inscribed debt of \$67.5 million, at interest rate of 12.36%, is repayable on 15 November 2001, and no provision for its repayment has been made,⁴⁰ Rather the current budget estimates assume that this debt will be refinanced when it matures, by way of commercial paper funding. Had it been planned to repay and not refinance, early repayment would have seen the removal of the interest expense available for new initiatives from the forward estimates already.

3.73. The Government has provided further information⁴¹ to the committee that borrowings funded by way of commercial paper totalling \$97 million could be repaid at the time of their next rollover date, which occurs during the period January 2001 to April 2001, if sufficient cash was available. Of this amount, it appears that about \$78 million relates to the General Government Sector (GGS) and the balance to the Private Trade Enterprises (PTE) sector.

3.74. Additionally, borrowings funded by way of Inscribed Stock (\$67.5 million) on the GGS and Retail Bonds (\$55 million) on the PTE sector mature over the next twelve months, and could also be retired if sufficient cash were available.

3.75. Thus, \$219.5 million, which is 26% of the total Territory borrowings, could be retired over the next twelve months, if cash were available.⁴² In other words, it appears that estimated GGS debt that stood at about \$257 million at 30 June 2000 could be reduced by about \$144 million to \$112 million. PTE debt could be reduced from around \$625 million at 30 June 2000 by about \$76 million to about \$549 million.

3.76. The committee was not provided with specific information about the amount of surplus cash that the Government believes will be available to be used for such a purpose. Nor is the committee aware if the Government expects that \$219.5 million would be available in cash to

³⁹ Submission 2, ACT Government.

⁴⁰ Submission 2, ACT Government, p 10.

⁴¹ Treasurer, response to question on notice, dated 29 November 2000.

⁴² Submission 2, ACT Government, pp 10-11.

retire debt. The committee derived the cash and investment related information in the following table from the 1999-2000 and 2000-01 budget papers⁴³ and the September 2000 Financial Management Report to the Legislative Assembly for the following GGS results:

Table 2 Cash and investment position

	Current: Cash - \$m	Current: Investments - \$m	Non Current: Investments - \$m	Total - \$m
Planned budget as at 30.6 (a)	\$65.812	\$861.965	\$53.649	\$981
Actual Outcome as at 30.6.00 (d)	\$13	\$1,146	\$5	\$1,164
Budgeted Balance 30.6.01 (b)	\$70.085	\$1,045.387	\$72.261	\$1,188
YTD Results as at 30.9.00 (c)	\$16.869	\$1,153.543	\$2.740	\$1,173
Full Year Projection as at 30.6.01 (c)	\$70.085	\$1,045.387	\$72.261	\$1,188

Notes

- (a) 1999-2000 Budget Paper No 3, p 156.
- (b) 2000-2001 Budget Paper No 3, p 48
- (c) *Consolidated Financial Management Report for the Month and Financial Year to date ending 30 September 2000.*
- (d) *ACT Government Consolidated Financial Statements for the Year ended 30 June 2000.*

⁴³ 2000-01 Budget Paper No 3, p 157.

3.77. The committee notes that the investments include those made specifically for superannuation purposes, and such investments should be handled as if ‘quarantined’ from normal investment activity.

3.78. The committee derived the borrowings related information from the same sources.

Table 3 Borrowings

	Current: Borrowings - \$m	Non Current: Borrowings - \$m	Total Borrowings - \$m
Planned budget as at 30.6.00	\$456.123	\$278.782	\$735
Actual Outcome as at 30.6.00	\$167	\$532	\$699
Budgeted Balance 30.6.01	\$166.640	\$515.089	\$682
YTD Results as at 30.9.00	\$160.423	\$530.221	\$691
Full Year Projection as at 30.6.01	\$166.640	\$515.089	\$683

Table 4 Borrowings - Cash Flows

	Cash Flows – Borrowings Received - \$m	Cash Flows – Repayment of Borrowings - \$m	Difference - \$m (money borrowed exceeds money repaid by)
Planned budget as at 30.6.00	\$1,251.411	\$869.889	\$381
Actual Outcome as at 30.6.00	\$1,204	\$824	\$380
Budgeted Balance 30.6.01	\$524.491	\$454.780	\$70
YTD Results as at 30.9.00	\$101.512	\$94.911	\$6
Full Year Projection as at 30.6.01	\$524.491	\$454.780	\$70

3.79. The committee notes that from the information in the tables above, that there is an increase in cash, investments and non-current investments between the planned budget outcome for 30 June 2000 and the actual outcome is \$183 million (\$1,164m - \$981m), with the bulk of the change occurring in current investments. During the year from 1 July 2000 to 30 June 2001, the cash and investments are planned to increase by around \$22 million above the actual outcome. The committee also notes, though, that from cash flow information, the amount of cash flowing in from borrowings is greater than the cash which is flowing out to repay borrowings (some \$381m at 30.6.2000, and about \$70 million at 30.6.2001.) "Thus, it appears to the committee that cash and investments between the planned budget as at 30.6.00 and 30.6.01 are expected to

increase by \$206 million. Planned borrowings, however, are planned to decrease by \$52.176 million, although the Cash Flow information for borrowings does not clearly relate to this decrease in borrowings. For example, the budget information shows that cash from borrowings was planned to exceed repayments by \$382m in 1999-00, and by \$69.711m in 2000-01. It is acknowledged that accrual entries will have an impact and that the movements between the cash flow figures and those in the balance sheet will not necessarily be in accord. Therefore, the committee would find it valuable to have a reconciliation between the budget balance sheet borrowings information and the cash flow information to allow it to understand why the level of borrowings are planned to decrease despite the cash flow information indicating that more cash is being borrowed.

Recommendation 13

3.80. The committee recommends that a reconciliation be provided to explain how the level of planned balance sheet borrowings decreases while the cash flow statement shows inflows of borrowings being greater than repayment of borrowings.

3.81. The committee notes that current budget estimates factor in inscribed stock of \$67.5 million and retail bonds of \$55 million being refinanced by way of commercial paper funding

3.82. The rates of interest on the commercial paper are just over 6% at current rates, and that retail bonds have a current interest rate of 6.24%. On the other hand, inscribed stock attracts an interest rate of 12.36%. On this basis, it appears to the committee that on the face of it, there could be advantage in retiring the \$67.5 million inscribed stock first.

3.83. The committee makes the following recommendations in relation to borrowings.

Recommendation 14

3.84. The committee recommends that the Government provide information on how much cash it proposes to make available to retire debt in 2000-2001 and for the future, and when the debt retirement is planned to occur.

Recommendation 15

3.85. The committee recommends that the Government explore whether there are any financial advantages, even after consideration of penalties, to be obtained by refinancing certain of the higher interest borrowings which are due further in the future.

Recommendation 16

3.86. The committee recommends that any debt reduction strategy not be to the detriment of funding urgent emerging community needs.

Recommendation 17

3.87. The committee recommends that the Government consider the committee's view that interest savings arising through early repayment of debt, and through not having to refinance debt, be made available to fund some community recurrent needs.

Recommendation 18

3.88. The committee recommends that if necessary refinancing on more favourable terms be undertaken where possible.

Recommendation 19

3.89. The committee recommends that the Government benchmark its interest expense as a percentage of Own Source Revenue against other jurisdictions, and make this information available to the community in order to provide a further reference point on the health and strength of Territory's financial position.

Recommendation 20

3.90. The committee recommends that the Government provide information to explain why the level of borrowings received appears to be increasing at a greater amount than the amounts of repayments and the increase in cash and investments.

Other operating statement issues

3.91. Information is not always easily obtained about how much revenue the Territory foregoes because of waivers. It can be important for the community to know how much revenue is being waived when it is forming its opinions about how well the Government is managing the Territory's affairs.

3.92. Waivers of taxes, fees and fines may be granted for a number of purposes—to address inequitable treatment, or, as is more common, as part of a business incentive package to attract business investment to the ACT. In the ACT, the usual method of 'accounting for' waivers which are part of a business incentive package, is to specify in an instrument, the amount of taxes or fees which will be waived or the amount by which they will be reduced. Revenue (for the taxes or fees waived) is not paid to the Territory by the business, and the business only pays the type of taxes or fees after the specified amounts have been reached. The result is that the revenue which normally would have been earned, does not flow through the operating statement of the Territory, nor does the amount which has been foregone as revenue. What effectively happens is that the revenue and expense are netted off. Therefore, the operating statement does not reflect the full amount of revenue which should have been earned, nor does it show the expense (which is the taxes and fees which were waived).

3.93. While there is a requirement for waivers to be disclosed as part of the annual reporting process, the disclosure is embodied in the text in the annual report, and may not be specifically related to the financial statements. Should waivers occur across different departments there can be an issue of lack of ready transparency in knowing the extent of total waivers for the Territory.

3.94. The Australian Accounting Standards require 'grossing up'—that is, disclosing the full amount of revenue and the full amount of the expense in the operating statement. 'Netting off' is only allowed in

certain specific circumstances – and the types of circumstances surrounding waivers are not encompassed by those specific circumstances.

3.95. It could be argued that since generally no money is going to flow when a waiver is given, this is no reason to record waiver transactions for each of revenue earned and revenue foregone in the operating statement. This, however, is inconsistent with what is already happening in another situation where there is no money flowing – resources received free of charge. These are required to be brought to account through the operating statement as revenue for ‘resources received free of charge’ and as an expense against the appropriate expense type.

3.96. The committee is of the view that waivers should be accorded as much transparency as possible. A higher degree of transparency may also assist in overcoming the view sometimes expressed that details of ‘waivers’ are not known and that waivers are not always fairly given, or are done on an ad hoc basis.

3.97. The committee suggests that transparency can be enhanced by either requiring waivers to be recorded on the face of the operating statement using the same methodology as is used for ‘resources received free of charge’, or alternatively, by way of appropriation. If handled by way of appropriation, then transparency will be even further enhanced, as the Government’s intentions in relation to waivers are ‘on the table’ as part of the implementation of Government policies, and form part of the budget documents and can be debated as part of the budget. While inclusion as an appropriation could lead to claims that it is just a ‘round robin’ of cash, this is not necessarily so. That said, any funds appropriated for waivers should be able to be restricted to that purpose only.

3.98. The committee suggests also that the views of the Auditor General be sought should the Government seek to move away from the current methodology and towards a more transparent approach.

3.99. Land is sometimes granted as part of a business incentive scheme. Where land is not already recorded as an asset, this type of grant also does not appear on the face of the statements. The current land management account being developed does not appear to meet this need. It can be argued that land is an asset, and if a grant is made of land, then revenue cannot be gained from the sale of the land, while an expense is being incurred for the amount of land which is provided as a grant. Again arguments similar to those for waivers can be mounted.

Recommendation 21

3.100. The committee recommends that the Government review the way waivers and grants of land are currently managed, with a view to ensuring they appear on the face of the Territory's financial statements, through the operating statement.

Recommendation 22

3.101. The committee recommends that the Auditor General's views and advice be sought on an appropriate methodology for recording waivers and grants of land through the financial statements.

Should the ACT budget for a surplus or a deficit?

3.102. One of the committee's tasks included to inquire into and report on the broad parameters of the 2001-2002 budget, with particular reference to the surplus/deficit operating position.

3.103. The committee received very little guidance from the community on this aspect of the terms of reference. ACTCOSS argued for a balanced budget and the Council on the Ageing argued for a balanced budget or a small surplus.⁴⁴ Similar views were put by those who addressed this issue at the public hearings.⁴⁵

3.104. Taking into account the economic outlook, borrowings, the volatility of results, the difficulty of assessing the impacts on the Territory's operating results using sensitivity analysis if extrapolated from current economic parameters, and the changes which have (fortunately) over the years resulted in actual operating results being far better than the budgeted result, the committee is of the opinion that broad direction only can be provided. The broad direction, however, should be that it is prudent for the ACT to achieve a balanced budget over the longer term. This may mean that from time to time during the economic cycle, there may need to be deficits, as well as surpluses in order for the Government to meet its broad social responsibilities. The Government should always consider the cash position when setting its budget. In

⁴⁴ Submission 12, ACT Council on the Ageing, Submission 15 ACTCOSS.

⁴⁵ For example Professor Quiggin, Uncorrected Proof Transcript, 22 November 2000, p 77.

viewing the operating results the impacts on superannuation and any other non cash transactions should be taken into account.

Recommendation 23

3.105. The committee recommends that the Government budget for a balanced budget over the longer term , and that the cash position always be taken into consideration, particularly when service purchasing or funding non-capital items.

4. Budget priorities

How are spending priorities determined?

4.1. One of the key terms of reference of this inquiry requires the committee to consider and report on the spending priorities of the 2001-02 budget.

4.2. Consideration of the Government's spending priorities requires some understanding of how the Government makes decisions to give priority to one area over another.

4.3. When questioned about how the Government sets priorities when developing a budget the Treasurer said:

What happens is that the Government spends the time between the presentation - the time between each time it starts the budget process and the time it starts the next budget process to collect information about what's happening in the ACT.

Ministers do that by looking at the areas of their portfolio, by looking at what happens in other portfolios, by reading newspapers, by talking to people, they collect information about what the needs of the community are. By the time, at the end of that process you can sit down to actually put the budget together, you've got a pretty strong idea of the sort of things that you think might need to be addressed. You don't always follow each of those particular initiatives with a detailed study, there isn't the time and there aren't the resources to do that. And if you did that you'd end up with a Government that was just replete with people writing papers and thinking about things, and not actually making any decisions.⁴⁶

4.4. Still unclear about how the Government links data on unmet need into the budget process, the committee asked the Treasurer in a Question on Notice how Government assesses unmet need and factors it into the budget process.⁴⁷ The committee also asked if the Government had used any objective analysis of unmet need for mental health and sexual assault services in deciding budget allocations for these areas. The Government did not provide a response to either question.

4.5. The Treasurer informed the committee that one way the Government is looking at unmet need is through the Poverty Task

⁴⁶ Uncorrected Proof Transcript, 23 November 2000, p 47.

⁴⁷ Chair, Correspondence to Treasurer dated 27 November 2000.

Group.⁴⁸ This is certainly a step in the right direction but clearly not all social need falls into the poverty category.

4.6. The Youth Coalition when discussing the Government's draft Youth Strategy, during the public hearings, highlighted the lack of associated funding allocations for implementation of the strategies.⁴⁹ This indicates a possible lack of co-ordination between policy and financing parts of the bureaucracy.

4.7. Some areas of unmet need are probably more easily quantified than others, and it is appropriate that some funding decisions will be made based on qualitative evidence of unmet need, rather than hard data. The committee accepts the need for a flexible approach to funding decisions, but still sees a need for more rigorous, systematic, transparent and better co-ordinated collection and analysis of data on unmet need to inform priority-setting in the budget context. While there will always be unmet need, the Government could develop systems to make data on social need more transparent to assist decision-making and evaluation of that decision-making.

Recommendation 24

4.8. The committee recommends that the Government report to the Assembly on how unmet need is currently assessed, and any proposals for developing and improving the methodology.

Social capital

4.9. The Government's social capital initiative, introduced in the last budget, illustrates some of the positive and negative aspects of the Government's current method of deciding funding priorities for areas of unmet social need.

4.10. While most community groups welcomed the funding of social capital projects, some questioned how the funding allocations/decisions were made. ACTCOSS described the Government's approach to social capital as a 'bandaid', 'patchwork approach'.⁵⁰ The Youth Coalition noted they were:

⁴⁸ Uncorrected Proof Transcript, 23 November 2000, p42.

⁴⁹ Uncorrected Proof Transcript, 22 November 2000, p 88.

⁵⁰ Uncorrected Proof Transcript, 22 November 2000, pp7-8.

concerned in regard to the lack of consultation with the youth sector to date in regard to spending priorities for Social Capital funds. Currently there are no clear processes for community organisations to identify needs and projects or access these funds. The Youth Coalition believes that it is essential that the processes of establishing priorities for social capital expenditure are transparent and accessible to the community.⁵¹

4.11. The committee notes that the Government's stated targets and objectives⁵² do not give adequate emphasis to social capital and social equity principles. This leaves the Government vulnerable to criticisms that 'social capital' is only a 'bandaid' initiative.

4.12. Toora Single Wimmins Shelter supports the social capital initiative but has called for full participation by the community to set priorities and promote discussion across the ACT community to ensure the maximum value is obtained for Government and community through this investment. Toora noted that:

since the previous budget announcement there has been limited discussion and transparency of process about this important initiative and any attempts to obtain information from the Government have been unsuccessful.

4.13. On the positive side, the committee notes that some of the initiatives funded as 'social capital', reflected areas of unmet need identified by the community and standing committees in their draft budget reports, presented in March 2000.

4.14. The criticisms and suggestions made by some community groups concerning the social capital funding allocation process should be given serious consideration by the Government.

Recommendation 25

4.15. The committee recommends that the Government improve the transparency of the process for allocating funding for social capital in response to concerns raised by community organisations.

4.16. The committee and the community expects that the second stage of the budget consultation process will provide opportunities to present

⁵¹ Submission 13, Youth Coalition of the ACT, p3.

⁵² Submission 2, ACT Government.

Government with detailed evidence of unmet social need in a wide variety of areas.

Community views

4.17. This section provides a general overview of spending priorities raised by the community. A more detailed summary of suggestions made is at Appendix 2.

4.18. The community consultation process elicited a number of common threads. The forthcoming report of the Poverty Task Group was seen to be of great importance in informing the budget. The SACS award and what some saw as uneven funding for community support services also caused a reasonable level of discussion. Housing was a common theme, especially the need for appropriate types of housing, located to meet the relevant needs of various groups, and the appropriate level of maintenance. Housing was also raised as having many influences - on health and wellbeing, participation in the community, and ‘access’, especially to services such as transport, education, and health.

4.19. On the health side, early discharge from hospital was seen as a major issue and the need for some type of facility—be it a ‘step down’ or other assistance facility—to allow a less traumatic transition from hospital to home - is seen as an important community need.

4.20. The declining availability of nurses, and the lack of resources to provide support so that nurses legitimate absences, be it recreation leave, sick leave, professional development etc, can occur without significant disruption also were raised. The committee notes that the Government has taken steps to address this matter since the public hearings.

4.21. Youth justice and general youth issues also are a major concern, with concerns ranging from the lack of an appropriate post release for those released from Quamby, to youth health and drug related issues. Indigenous-specific issues are arising at a disturbing rate, with drugs and incarceration problems increasing and cross-portfolio strategies and resources inadequate to deal with the emerging problems.

4.22. The ageing population in the ACT will require different approaches and strategies from those in the current model. The continuing

appropriateness of ‘the family home’ in older age, and relocation⁵³ or the ability to stay in a known area, along with declining health due to increasing age, preventative care strategies, transport, and community participation, all need to be addressed in a structured and planned way so that the ACT does not impose a higher than reasonable demand on certain sections of the community when the wave of aged people starts occurring in the not so distant future.

4.23. Education funding was a major issue raised. Evidence was provided indicating that the ACT is beginning to lose its advantage in terms of comparative expenditure. The level of indexation applied to the Government Schooling budget was seen as inadequate given the higher than expected CPI and the claim that education costs increase at a faster rate than general costs.

4.24. Non-government school organisations also put cases about levels of funding, and some were of the view that they should receive amounts per student equal to that provided for public school education for students with disabilities.

4.25. Witnesses all recognised that the size of the pie available for provision of goods, services, infrastructure etc to the community is limited, and that the distribution arises from Government policy decisions, and how it sets its priorities.

Spending priorities

4.26. Money can be used in a number of different ways, which will result in different effects.

4.27. If used to reduce debt (the Government’s preference) – this will cause largely balance sheet effects, as the Asset (cash) and Liability (borrowing) would each reduce. There will be an effect on the operating statement, and the operating result, to the extent that interest expense will not have to be paid on the debt which is paid off.⁵⁴

4.28. If used to acquire capital goods (e.g. infrastructure) again the impact is on the balance sheet, with non-current assets increasing, and the

⁵³ This can be costly and daunting for older people, especially if on fixed or declining incomes. The possibility of a ‘last home owner’ initiative was mentioned, as well as options for borrowing against a family home as a way of providing for retirement. This borrowing concept is apparently an accepted practice in the USA and UK.

⁵⁴ Any penalties for early repayment of a loan will also need to be taken into account, and will reduce the benefit in the Operating Statement.

asset, cash decreasing, to the amount of cash paid, with Liabilities increasing for the amount which was borrowed. Over a period of time depreciation expense will flow through the operating statement as a non-cash item, and will also reduce the amount of the non-current asset in the balance sheet.

4.29. If goods and services for consumption by the community are purchased, the operating statement will be affected, as an expense will be incurred, and on the balance sheet cash will be reduced, and the reduced operating result will flow through to reduce equity. Spending money on goods and services for consumption usually builds in an expectation from the community that such spending will occur in forward years, unless it is clear at the outset that specific sunset clauses are in place.

4.30. Changes can also be made to the mix of outputs to place greater priority on some areas.

4.31. The committee received very little evidence about where the mix could be changed. One area could be to reduce business incentive schemes. The Treasurer raised the question of the emphasis that now needs to be put on further stimulation of business growth through, for example, business incentive schemes, given that unemployment is now at 4.3 %.⁵⁵ Professor Quiggin seriously questioned the need to continue with business incentive schemes.⁵⁶ In his view it is just as important to have a well educated work force and a population that wants to stay in Canberra.

Where should expenditure be directed?

4.32. Current information suggests that there will be a sustainable, 'normal' operating surplus in 2001-2002. The committee considers that at this point the surplus could be directed into funding additional services.

4.33. High quality services are important to the people of the ACT. The evidence before the committee provides a clear case for some additional funding. However, the committee cautions that the evidence before it on unmet need is quite selective and the Government needs to undertake a thorough analysis before finalising priorities.

4.34. The committee urges the Government to give careful consideration to the expenditure suggestions proposed by community organisations.

⁵⁵ Uncorrected Proof Transcript, 23 November 2000, p 34.

⁵⁶ Uncorrected Proof Transcript 22 November 2000, p 77.

Some of these are outlined in Appendix 2. There will be many other suggestions made at the phase 2 stage of the budget development. The committee considers that community organisations are in an ideal position to provide the Government with information relating to funding priorities.

4.35. In proposing funding for new initiatives from the expected surplus, the committee is mindful that consideration needs to be given to the capacity of any such projects to be funded on a recurrent basis.

Funding new initiatives

4.36. A number of additional revenue raising measures were suggested to the committee. These included:

- environmental levies to fund environmental programs;⁵⁷
- income contingent fines;⁵⁸
- capped land tax on owner occupied land;⁵⁹
- car registration fee based on car value, not a flat fee;⁶⁰
- rates based on improved rather than unimproved value of land;⁶¹
- a social capital levy on residential developments to fund housing assistance;⁶²

Environmental levies

4.37. The Conservation Council of the South East Region and Canberra claims that polls over the last few years have indicated that people are happy to contribute to environmental levies provided they can see a direct return on their investment, that is that the money goes into environmental programs. The Council argues that if Canberra is to retain its reputation as a clean green city it will need to increase spending on environmental programs.⁶³

⁵⁷ Submission 18, Conservation Council.

⁵⁸ Uncorrected Proof Transcript, 22 November 2000, p 79.

⁵⁹ Uncorrected Proof Transcript, 22 November 2000, p 77.

⁶⁰ Submission 15, ACTCOSS.

⁶¹ Submissions 5, ACT Shelter and Submission 15, ACTCOSS.

⁶² Submission 5, ACT Shelter.

⁶³ Submission 18, Conservation Council.

4.38. The committee suggests that the Government investigate environmental levies as a means of raising revenue to fund environmental programs.

Income contingent fines

4.39. Income contingent fines are fines based on capacity to pay. Those on higher incomes would be fined more for the same offence than those on low incomes.

4.40. The committee discussed this matter with the Treasurer and officials at a public hearing and was advised that such a move would be unconstitutional.⁶⁴

Capped land tax on owner occupied land

4.41. This suggestion was seen as a long-term initiative. It is essentially a wealth tax whereby a tax is levied once the unimproved value of an owner occupied home reaches a certain level. It was suggested that the cap that is put on the value be high enough not to affect residents in the short term. If initiated now it would take some years before anyone was affected and people would get used to the idea and be able to plan for it. Such a tax applies in New South Wales.

4.42. The Treasurer was of the view that the introduction of such a tax would undo the work that has been done in promoting Canberra as a place to live and could be a disincentive to attracting businesses and new residents to the ACT.⁶⁵

Car registration fee based on the value of the car

4.43. ACTCOSS proposed that car registration be based on car value and not a flat fee. According to ACTCOSS this would be one way of making the tax base more equitable by reducing the burden on low income earners.

4.44. The committee does not support this proposal for a number of reasons. Such a proposal could encourage people to keep or purchase older more polluting and less safe vehicles. The committee questions the assumption that more expensive cars are not purchased by low-income

⁶⁴ Uncorrected Proof Transcript, 23 November 2000, p 33.

⁶⁵ Uncorrected Proof Transcript, 23 November 2000. p 32.

earners. Many young people on low incomes will go into significant debt to purchase a car of their dreams.

Rates based on improved rather than unimproved value of land

4.45. As another suggestion for more equitable revenue raising activities, ACTCOSS and ACT Shelter proposed that rates be based on improved value rather than unimproved value of land.

A social capital levy on residential developments to fund housing assistance

4.46. ACT Shelter suggested that as a result of the need to supplement federal funds to housing assistance a social capital levy be imposed on residential developments.⁶⁶ Any such move would need to be considered in the context of the current Government charges relating to residential developments and the effect of new charges on housing affordability.

Committee's views on revenue raising

4.47. While these suggestions for revenue raising were made, there were strong arguments put for not increasing taxes and charges.⁶⁷ In fact the Treasurer himself told the committee that his general philosophical position is to look at reducing the overall taxation or a least not to increase it, given that the surplus for 2001-2002 is likely to be \$35m and potentially larger in future years.⁶⁸

4.48. The committee is not suggesting that the Government not examine the proposals made. However it considers that, given the expected surplus, the community needs to be involved in broader discussions about any new revenue raising measures.

⁶⁶ Submission 5, ACT Shelter, p 8.

⁶⁷ Submission 12, The Council on the Ageing; Submission 20, North Canberra Community Council.

⁶⁸ Uncorrected Proof Transcript, 23 November 2000, p 32.

Recommendation 26

4.49. The committee recommends that the Government engage the community in discussion about new revenue raising measures.

5. Assets

5.1. Assets and their value comprise an integral part of the ACT's balance sheets for each of the General Government Sector (GGS), Public Trading Enterprise Sector (PTE), and the Consolidated Total Territory. The most significant asset is property, plant and equipment, which is classified as a non-current asset. For example, at 1 July 1999 the value of property, plant and equipment was 87% of total assets in the Consolidated Total Territory financial statements⁶⁹.

5.2. However, where an asset is included, be it in a GGS or PTE entity, it can affect the value that is attributed to the asset, and can therefore impact on the worth of the Total Territory.

5.3. The ACT is required to comply with the Australian Accounting Standards, and these provide guidance on the valuation of assets. The Australian Accounting Standards require assets to be valued at cost or fair value, and to be revalued at regular intervals. As well as this, they also stipulate that the 'recoverable amount test'⁷⁰ is to be applied where appropriate. To illustrate, the 'recoverable amount test' is applied to assets in government-owned entities where there is an intention to provide goods and services to the market with an aim of recovering all or a significant proportion of the entity's operating costs. Under the Australian Accounting Standards, the carrying amounts of non-current assets which are used for community service obligations should not be written down just because the amounts expected to be recovered directly from the goods and services produced by those activities are less than the amount at which those assets are carried. Thus, the 'recoverable amount test' does not have to be applied and is not regarded as appropriate where public sector agencies provide non-market goods and services, and in these cases cost or fair value can be used.

5.4. This could mean that an asset which is held by Infrastructure and Asset Management may not need to have the recoverable amount test applied. This can present a problem—if the asset is used as part of a Government Business Enterprise which is supposed to operate on a commercial basis. However, if the asset were held by certain of the Territory authorities or if services are provided to the market, then it appears that the recoverable amount test would be applied to those assets.

⁶⁹ 2000-01 Budget Paper No 3, p 33

⁷⁰ Also known as 'the RAT'

Thus, a question arises whether the value of an asset can be influenced by the entity in which an asset is recorded. If this is extrapolated, then it appears that it can lead to a situation where for example, a building, which is used by a Territory authority or corporation⁷¹, if recorded in the books of Infrastructure and Asset Management, may not have to have the recoverable amount test applied.

5.5. This can lead to a lack of clarity about whether there is a realistic value, (using the recoverable amounts test) placed on assets used by entities that are expected to operate on a business basis. Alternatively, it can lead to a possible overstatement of the value of the asset in the Territory's balance sheets because the recoverable amounts test does not have to be applied. It may be possible, of course, that the asset has other attributes which warrant that the recoverable amount test should not be applied, and if this is so, then this should be clear.

Recommendation 27

5.6. The committee recommends that Government departments provide a report showing, for all assets which are held or which are being used by Territory authorities and corporations, the values and the valuation method being used for each of the assets, along with reasons for adoption of the valuation method.

Investments

5.7. Investments are, in the main, managed by brokers on behalf of the ACT. The focus on risk and return has delivered good results. The ACT's investments are currently split between short-term and long-term, with longer-term investment strategies being applied as appropriate.

5.8. The Government is claiming to be focussing on building social capital. This approach leads the committee to ask whether the government may wish to revisit its investment approach, and in some cases, support an investment regime that incorporates values and environmental concerns.

⁷¹ For example, property, plant and equipment for the Australian International Hotel School (AIHS) is estimated at \$819,000 in 2000-2001 Budget Paper 4, p337, while the building used by the AIHS is recorded in Infrastructure and Asset Management's books. On the other hand, the recoverable amounts test was applied to the Bruce Stadium and this value was written down accordingly.

5.9. The committee noted that there has been some experience that shows that investments made using an ‘ethical values’ approach can match or better conventional investments,⁷² particularly for longer-term investments.

5.10. In the ACT, financial reporting of environmental issues has not been progressed. Also, an approach of ensuring investments are undertaken with a view to best of sector environmental performers would be new and desirable.

Recommendation 28

5.11. The committee recommends that the ACT Government identify appropriate circumstances where an investment manager can be engaged with the specific mandate of ensuring that ACT investments are made in companies incorporating both values and best of sector environment approaches.

Private provision of public infrastructure – when is it an asset?

5.12. Governments may enter into arrangements for private provision of public infrastructure for many reasons—from the often strong focus of ‘user pays’, such as when toll roads are provided by private sector enterprises, or where there may be a belief that the business is one in which the private sector has expertise and therefore is able to better provide the required services and standards to the community. Reasons can also relate to risk, and the risk can be shared to varying degrees between the private and public sector, recognising that higher levels of risk for the private sector not unreasonably often translate into higher fees for service, and possibly even guarantee requirements are made of the Government.

5.13. The committee notes that generally under Build Own Operate Transfer (BOOT) arrangements, a government has a *right*⁷³ to acquire the infrastructure asset at some future point in time. The vexed question, however, is ‘how’ and ‘when’ to record the value of the ‘*right*’ that

⁷² Uncorrected Proof Transcript, November 2000 p 40, Australian Ethical Investments Ltd paper tabled, 22 November 2000.

⁷³ In the ACT an example of infrastructure that has been provided by the private sector, to be transferred at a future point in time, is The National Capital Private Hospital.

emerges as time passes. In the past, governments have often tended to ignore the issue, and have not specifically disclosed the existence of such rights and the time at which a transfer to the Government is expected to materialise. That said, the Notes to the Budget Statements⁷⁴ for the agency Infrastructure and Asset Management,⁷⁵ however, indicated that non-current other assets comprise the right to receive infrastructure assets provided by developers and returned to the Territory.

5.14. Notwithstanding this, issues of transparency and appropriate accounting treatment can arise where there is private provision of public infrastructure, and it is unclear about how transfers, which are to eventuate in a number of years in the future, are reported or accounted for.

5.15. The committee is aware that the Financial Reporting Council (FRC), which oversees the setting of Australian Accounting Standards, is currently addressing the issue of private provision of public infrastructure. However, pending the issue of an appropriate Australian Accounting Standard, there is no guidance on what reporting is appropriate, nor any guidance on disclosure, such as identification, and information on the expected timing of transfers to government.

Recommendation 29

5.16. The committee recommends that the ACT Government, provide, as part of its annual reporting, clear and specific disclosure, for all private sector provision of public infrastructure which has not yet been transferred to the Government. The information should allow identification, along with details of when such transfers to the Government are expected to materialise.

5.17. The committee also notes that other reasons for governments to enter into such arrangements can encompass balance sheet considerations. When infrastructure is provided by the private sector, it is usual for the private sector provider to report the asset on its own balance sheet, and for nothing to be recorded in the Government's balance sheet. This means that while the Government's balance sheet does not reflect any asset for the infrastructure, and the Government also has not had to incur any borrowings or reduce its available cash to construct the infrastructure

⁷⁴ 2000-01 Budget Paper No 4, p 475.

⁷⁵ 2000-01 Budget Paper No 4, p 471.

asset. The community, however, has the benefit of the infrastructure being provided. ‘Usage’ cost can be either borne by the Government, or the individual users, or a combination of both, depending on the nature of the infrastructure provided. Assessments on whether or not it is appropriate for the private sector to provide infrastructure for the public sector often are based largely on an assessment of the financial impacts, with other risks not being adequately addressed. Broader ranging risk assessments are not always undertaken, or, if undertaken may not have been subjected to stringent risk assessment processes.

5.18. In some cases, it is not possible to shift all risk to the private sector, and the Government can be held responsible if the private provision of infrastructure⁷⁶ does not meet the standards demanded by the community.

Recommendation 30

5.19. The committee recommends that when undertaking assessments of the private provision of infrastructure the Government require that a full and rigorous risk assessment (of which financial assessment is an element), be undertaken.

Ageing assets

5.20. The committee’s view on ageing assets was sought as part of the terms of reference. It was not clear to the committee what the Government meant by ‘ageing assets’. The committee therefore proceeded on the basis that ageing assets include housing, roads and storm water and sewerage infrastructure.

5.21. While the General Government Sector has around \$5.4 billion of fixed assets, such as property, plant and equipment, land and roads (\$3.8 billions is held by Department of Urban Services),⁷⁷ a further \$1.2 billion is held by ACT Housing, which forms part of the Private Trading Enterprise Sector.⁷⁸

5.22. With housing, the committee was told by some witnesses that there is a recognised need to dispose of some housing properties. However, the view was also put that, particularly for inner locations, the land could be

⁷⁶ In the broader service purchasing context, the government can also be held responsible for the goods and services it purchases for the community.

⁷⁷ Submission 2, ACT, Government, p 19.

⁷⁸ 2000-01 Budget Paper No 4, p 193.

used to provide a more appropriate type and mix of housing than is currently the case, particularly to allow residents to remain in their familiar localities.

5.23. The committee notes and supports the Government's view that the ageing infrastructure, including, and not limited to, stormwater and sewerage is of concern, and that while not an immediate problem, it is appropriate to consider a proactive maintenance and upgrade regime to prevent higher costs being passed on to future generations. The committee therefore is supportive of the Government developing a strategic overview of the ageing infrastructure, and for management strategies to be investigated and developed. The committee would like to see a consultative approach taken with the community for setting priorities for maintenance and upgrade, with a regular review process to occur so that progress against a strategic plan can be monitored.

Recommendation 31

5.24. The committee recommends that the Government undertake a strategic review of the ageing infrastructure, with a view to developing a management plan for maintenance and upgrade, and that community consultation occur as part of priority setting, and the approach also include regular review and progress reports to the ACT community.

6. Unfunded liabilities

6.1. The committee was asked to inquire and report on unfunded liabilities. The Territory's most significant unfunded liability has been and still is the Territory's unfunded superannuation liability, which includes not only the liability for people with service in the ACTPS, but also now includes liabilities for Members of the Legislative Assembly.⁷⁹

6.2. The Government Plan specifies at Key Result Area (b) an objective to address the financing and management of the Territory's unfunded superannuation liability. A strategy to address this objective was incorporated into the budget for 2000-01.⁸⁰ The strategy includes not just funding the annual emerging cost of benefits paid by ComSuper to persons with service in the ACTPS, which is already being done, but \$120 million in additional funding has been built into the 2000-01 and the three forward years budgets. The strategy also provides for equalisation payments, estimated at \$120 million from the ActewAGL joint venture partnership to be paid to meet the emerging cost, although, the committee understands this was not factored into the budget. So far \$119 million has been paid. The further \$35 million recently identified as an equalisation payment has not been factored into forward estimates yet, but it would be reasonable to expect that the Government will use this also to fund the superannuation liability, making a total of \$154 million in equalisation payments.

6.3. Legislation has been passed, to require that funds set aside for superannuation may only be used for superannuation, and funds in excess of the amount needed to meet the liabilities cannot be recovered for other Territory purposes without reference to the Legislative Assembly for an amendment.

6.4. A Finance and Investment Advisory Board has been established and provides expert advice in the management of the investments.

6.5. The committee notes also that investment earnings will be retained and used only for superannuation purposes.⁸¹

⁷⁹ 2000-01 Budget Paper No 3, p 118.

⁸⁰ 2000-01 Budget Paper No 3, 5.2 *Superannuation*, p 115.

⁸¹ 2000-01 Budget Paper No 3, 5.2 *Superannuation*, p 119.

6.6. Current modelling⁸² for superannuation assumes that from 2004-05 until 2006-07, an appropriation of an additional \$80 million per year, followed by one year at \$34 million will allow the fund to equal 85% of accrued liabilities. If earnings of 5.5% are achieved over a forty year projection period, the earnings and investment profile will result in the fund being 90% of accrued liabilities. This compares well with many private sector companies, where funding levels fit the range 90 to 95% of accrued liabilities.

6.7. The actuarial triennial review of superannuation liabilities usually results in a change to the liability reported in the balance sheet. A smoothing mechanism was developed as an accounting policy at 30 June 1999. The policy⁸³ recognises that the unrealised gains or losses arising from changes in the value of emerging superannuation liabilities, are capitalised and amortised over a period which reflects the age retirement profile. The actuary determines the age retirement profile of the members of the CSS and PSS superannuation schemes at the review date. This ‘smoothes’ the profit or loss arising from actuarial revaluations over the age retirement profile rather than causing a ‘one off’ hit at each revaluation point.

6.8. The financial modelling assumes a rate of return on investments of 5.5% over an extended period. This rate appears conservative, given that 7.5% has been achieved since the Superannuation Provision Account was established in 1991-92, and many of the longer term focussed investment vehicles in the private sector have been achieving significantly higher rates of return over a period of time, and even in excess of the 16.5% which the ACT fund earned on investments in 1999-2000.

6.9. The committee therefore suggests that the Finance and Investment Advisory Board be asked to provide comment, and that further modelling, incorporating sensitivity analysis for higher rates of return should be undertaken. The advice from the Board and the modelling results should be considered during the budget process, as this information may influence the amount of extra funding from appropriation which is factored into outyears.

⁸² 2000-01 Budget Paper No 3, p 116.

⁸³ Based on International Accounting Standard 19 and Auditor General agreement.

Recommendation 32

6.10. The committee recommends that the Finance and Investment Advisory Board be asked for advice on what it regards an appropriate rate of return on superannuation investments should be, and reasons for this, and that this be considered as a benchmark by the Government when formulating the Territory's budget.

Recommendation 33

6.11. The committee recommends that a sensitivity analysis be undertaken, particularly using returns achieved by the Superannuation Provision Account, and highly rated private sector long-term investment vehicles.

6.12. The higher than budgeted rate of return on investments saw an unexpected increase of \$33 million in operating result for 2000-01. The committee notes that this type of situation has some similarity to that arising with actuarial reviews before the accounting policy to smooth such spikes was implemented. Accordingly the committee requests that an investigation be undertaken to determine if a similar smoothing mechanism for 'super levels' of return on investment could be used.

Recommendation 34

6.13. The committee recommends that research be undertaken to determine whether it is possible to implement an accounting policy to assist with smoothing of investment returns, particularly if a benchmark approach is taken to expected level of returns.

6.14. The committee is of the opinion that the results of the sensitivity analysis and possible increase in the expected rate of return on investments (to a benchmarked, supportable but conservative rate), the additional slightly higher than expected ActewAGL equalisation payment, and the higher than expected returns in 1999-2000 will all have an effect on the estimates of funding required to achieve a 90% funding of accrued liabilities at the end of the 40 year projection period. The committee also notes that the next triennial actuarial review will have an

impact, but that the smoothing mechanism will assist in the management of this impact over the Territory's results over the longer term.

6.15. The committee further notes that the Government estimates that at earnings rates of 5.5% on investments, the funding requirements are \$80 million per year for 2004-2007, and a follow up of \$34 million in 2007-08, while at earnings rates of 3.5% on investments, funding requirements are \$80 million until 2020-21, followed by \$64 million in 2021-22.⁸⁴ The committee is of the opinion that the further research it has recommended be undertaken could possibly influence these results. It therefore supports the Government's funding of the additional amounts which are provided in the forward estimates to 2003-04, but recommends that estimates and projections for outyears beyond that be formulated by using information which should arise from recommendations made above.

6.16. The committee also notes that at a 5.5% rate of return, the proposed funding levels would see sufficient funding to meet the appropriate level of investment during 2007-08, and at a 3.5% return, in 2021-22—a wide variation in time. The committee suggests that projections be made to determine what funding would be required to achieve funding using a specific future point in time as the driver—for example, in ten years time—2010. Sensitivity analysis should be applied to the rates of return, and should include rates of return at the benchmark (for example, the rate earned by the Superannuation Provision Account), and also at indicative private sector rates of return.

Recommendation 35

6.17. The committee recommends that:

- **the Government state a specific time at which it would like to achieve a level of funds which will attain a target of 90% funding of accrued liabilities at the end of a 40 year projection period;**

⁸⁴ 2000-01 Budget Paper No 3, p 116.

- **an analysis be undertaken to determine the additional annual investment amounts required for periods beyond 2004-2005, at an appropriate benchmarked rate of return; and**
- **a sensitivity analysis be undertaken using different benchmarks for rate of return.**

Recommendation 36

6.18. The committee recommends that the setting of additional amounts to fund the superannuation liability take into consideration sensitivity analysis and benchmarked rates of return on investments.

7. Other matters

7.1. The committee's terms of reference include a reference 'any other related matter'. On this basis, the committee raises the following issues.

ActewAGL joint venture partnership

7.2. The committee notes that:

While ACTEW's current operational responsibilities will be transferred to the joint venture, it will retain important continuing and contingent management and strategic responsibilities including:

- it will continue to own the water and sewerage business and be accountable for oversight of a 50 percent investment in the joint venture;
- it will be responsible for ensuring that ACT interests are protected under the water and sewerage managing contractor alliance agreement and the negotiation of a utilities service agreement (of up to 20 years duration...)
- it will retain the ACTEW northern service centre (Mitchell) property and Fyshwick property and hold ACTEW's investment in TransACT;
- it will hold ACTEW's existing debt and pay interest on this debt and dividends and tax equivalent payments to the ACT Government.⁸⁵

7.3. The committee seeks clarification from the Government how public reporting for the joint venture is proposed to occur, given the enduring nature of the joint venture. The committee notes that the businesses are quite disparate, and in the short term the ownership and revenue relationships will be quite clear. However, as time passes and future businesses intermingle, public reporting challenges may arise.

7.4. The committee also seeks the Government's views about whether there is likely to be any flow on benefit accrue to the ACT, given the 'net transfer of income towards Australian producers from world consumers',⁸⁶ as a result of the relationship between the price of oil and the price of natural gas, noting that the benefit is expected to flow towards Australian

⁸⁵ *Final Report on Proposed ACTEW/AGL Partnership Arrangement*, Standing Committee on Finance and Public Administration (Incorporating the Public Accounts committee), Finance Committee Report No 8, August 2000, pp 14-15.

⁸⁶ Reserve Bank of Australia Bulletin, November 2000, p 11.

producers, and that AGL's role is to contribute its gas distribution and retail businesses in and around the ACT, and other assets to the partnership⁸⁷.

Recommendation 37

7.5. The Committee recommends that the Government provide information to allow a clear understanding to be gained by the community about how the Territory's interest in ActewAGL will be reported and disclosed, and whether there is likely to be any flow on benefit through the production chain to the ACT because of the linkage between the price of oil and gas.

Audit report

7.6. The Auditor General's Report for the year ended 30 June 2000 was not tabled in the Assembly until 7 December 2000. Therefore the committee was unable to consider it in detail as part of this inquiry.

Changes to the accounting standard for reporting

7.7. Financial reports for the year ended 30 June 2001 will be audited and tabled in the Legislative Assembly, and tabling usually occurs in the following September. However, changes to accounting standards are now in place for financial reporting for the year ended 30 June 2001. Consequently the financial statements which form part of the annual reports for the year ending 30 June 2001 will not be directly comparable to the Financial Statements which form part of the 2000-01 budget as the standard changes did not apply when the 2000-01 budget was presented in May 2000. The budget is an *ex ante* document, while the annual report statements are *ex poste*, and changes to standards that encompass the reporting dates will affect comparability. Because the standards also require comparability between statements and budget, a supplementary restatement of the budget, using the new standard format, would assist comparability.

⁸⁷ *Interim Report on Proposed ACTEW/AGL Partnership Arrangement*, Standing Committee on Finance and Public Administration (Incorporating the Public Accounts committee), Finance Committee Report No 7, June 2000, p 8.

Recommendation 38

7.8. The committee recommends that the 2000-2001 budget be recast using the same presentational standards which will be required in the annual report financial statements for 2000-01.

Budgeting for recent announcements

7.9. The committee notes that since it began its inquiry the Government has announced at least two major spending initiatives.

7.10. A new remand centre is to be built in 2002, which will require a significant capital investment.

7.11. On the recurrent side, nurses have been offered a significant pay rise, amounting to \$20 million over the next three years.

7.12. The committee welcomes these initiatives, however questions their impact on the expected surplus.

Quality of information in budget papers

Performance measures

7.13. Each year, the budget papers include performance measures under the categories of Quantity, Quality/Effectiveness, Timeliness and Cost. Every year, Estimates committee reports reveal deficiencies in these measures.⁸⁸ More recently, some of the Standing Committees have criticised the quality of performance measures in their reports on the draft budget.⁸⁹

7.14. The performance measures have been the subject of criticism for not being meaningful, for measuring activity rather than outcomes and for not providing sufficient detail at the sub-program level.

7.15. In response to perceived problems with performance measures in the early 1990s, the ACT Auditor General conducted a performance audit

⁸⁸ For example, Report of the Select Committee on Estimates, 1996-97, pp6-7 and Report of the Select Committee on Estimates 1998-99, p 6.

⁸⁹ For example, the Standing Committee on Justice and Community Safety criticised the quality measures for Youth Justice in its 1999 report, *The 2000/01 Draft Budget of the Department of Justice and Community Safety and Related Agencies*.

of these measures, and made recommendations to improve them, in his 1994 report, *Performance Indicators Reporting*.

7.16. The committee believes it is the right time for the Auditor General to conduct another performance audit on the performance measures. The 1994 audit considered whether performance indicators published in departments' annual reports provide information suitable for assessing performance of agencies, the relationship of performance indicators with SES officers' performance agreements and the adequacy of objectives for preparing indicators. It is suggested that any new audit done by the Auditor General consider these issues as well as evaluating how well the current performance measures meet the information needs of Members of the Assembly in their scrutiny role. It would be particularly useful if the audit could make suggestions for improving the 'quality' measures as these have been the subject of particularly strong criticism.

Recommendation 39

7.17. The committee recommends that the Auditor General conduct a performance audit of the performance measures included in the budget papers and that the audit include an evaluation of how well the performance measures meet the information needs of Members of the Legislative Assembly.

Marginal costings

7.18. The committee would also like to see the budget papers provide more information about marginal costings so that proposed initiatives and changes in expenditure levels can be more meaningfully evaluated. In particular, marginal costings could be useful in determining the amount of extra or changed resourcing needed in known areas of need or shortage. Examples where marginal cost information could be provided include:

- marginal cost of the primary elements of service delivery, such as medical staff, nursing staff, cost per bed by categories (Department of Health and Community Services, Output Class 3: The measure is 'Cost per 1,000 head of population');
- marginal costs for increases or decreases of classes of police officers (Justice and Community Safety, Output Class 4, EBT 2); and

- the marginal cost of teaching staff (Department of Education, Output Classes 1.1, 1.2 and 1.3 currently does not provide this information).

Recommendation 40

7.19. The committee recommends that marginal costings be provided for classes of staffing in each of the major service delivery portfolios.

Paul Osborne MLA
Chair
13 December 2000

Appendix 1 — Changes in actual and budgeted outcomes

The tables are not available in electronic form

Appendix 2 — Suggestions for additional expenditure

Government schooling

The Australian Education Union – ACT Branch (AEU) and the Council of Parents and Citizens Associations (Council of P&Cs) both argued for increased expenditure for government schools. Both these organisations referred to comparative per student expenditure produced by the Productivity Commission that demonstrates that the ACT is losing its comparative advantage in primary school spending. Figures released this year by the Productivity Commission show that the ACT has fallen from second place in 1996-97 to fourth place in 1997-98 on the national scale of primary school funding.⁹⁰

Further, the Council of P&Cs reported that the reason for this loss of advantage is that ACT governments have reduced the expenditure priority given to education while other state and territory governments have increased it. According to information provided by the P&C Council, real expenditure per student in government schools increased by 0.4 per cent a year between 1988-89 and 1997-98 compared with a 1.7 per cent increase for Australia as a whole over the same period.⁹¹

Despite the fact that the current government has increased the priority accorded government school funding compared with previous governments, it is evident that if low growth in expenditure continues the ACT will soon lose its remaining small advantage over other jurisdictions. This has already happened with primary schooling.

Another issue raised by the P&C Council is inadequate indexation. They claimed that the indexation of 2.5 per cent funding for government schools is inadequate as the Commonwealth Treasury has revised the CPI forecast for the 2000-01 financial year to 3.25 per cent.

⁹⁰ Submission 16, ACT Council of P&C Associations, p 2; Uncorrected Proof Transcript, 22 November 2000, p 22.

⁹¹ Submission 16, ACT Council of P&C Associations, p 8, p 17.

The P&C Council also claimed that, based on overseas research, education costs increase faster than the general rate of inflation by about one per cent. Therefore the indexation applied to government school funding should be increased by an additional one per cent above the forecast CPI.

The following specific suggestions for funding were made:

- early intervention programs in literacy and numeracy in primary school;
- a program to support parent involvement in the literacy and numeracy learning of their children;
- student welfare and management programs;
- continuation of the full service schools program (currently funded by the Commonwealth);
- offline programs in high schools;
- support for students with health care needs;
- improved therapy services for students at special schools;
- centralised support for schools by increasing the number of Directors Schools;
- the development of partnerships with parents;
- support to schools for the maintenance of IT equipment;
- the introduction of a pool of permanent contract relief teachers;
- high school development and staffing.⁹²

Based on information provided in submissions, the increased indexation of government school funding and the priorities outlined above are estimated to cost an additional \$25 million.

Non-government school services

Major issues raised relating to non-government school services included⁹³:

⁹² Submission 3, Australian Education Union; Submission 7, Koomarri School Board; Submission 16, ACT Council of P&C Associations.

- relativity with New South Wales for funding of non-government schools;
- continued funding for students with disabilities in non-government schools;
- a continuation of the provision of home-to-school student transport services for students with a disability;
- recurrent funding for literacy and numeracy assessments;
- funding for education and training in information and communication technologies;
- the availability of sufficient funds in the interest subsidy scheme to enable all eligible loans to be approved for interest subsidy.

With the exception of funding for students with disabilities and restoring the relativity of funding for non-government schools with New South Wales, cost estimates provided to the committee for new initiatives amount to just under \$1m.

In relation to restoring the relativity in funding for non-government schools in line with New South Wales, in 1998-99, the Government committed an additional \$400,000 in each year over four years for this purpose.⁹⁴ The Catholic Education Commission while appreciating the increase pointed out that in 2000, primary ACT per capita grants are still \$69 lower than the equivalent New South Wales grant and secondary grants \$109 lower. For ACT Catholic schools this represents a shortfall of \$1.37m.⁹⁵ The committee notes that by the end of the four-year period the relativity in funding for non-government schools with New South Wales will not be restored.

The Association of Parents and Friends of ACT Schools claimed that as more families are choosing integration in mainstream schools for their children with disabilities, there is an increasing number seeking enrolment in non-government schools. As in the government school system, these students need much higher levels of support. The ACT Government has recognised this to some extent by providing by 2002,

⁹³ Submission 10, Catholic Education Commission; Submission 14, Association of Parents and Friends of ACT Schools.

⁹⁴ Minister for Education, Press release dated 23 June 1998, *ACT non-government schools' funding increased*.

⁹⁵ Submission 10, Catholic Education Commission, p 2.

\$600,000 in funding for students with disabilities in non-government schools. The adequacy of the funding provided from all sources is being seriously questioned by the non-government sector. That sector is also claiming that as more families enrol their children with disabilities in non-government school, there are savings to the Government Schooling budget.

Vocational education and training services

The AEU proposed that the CIT be funded to develop its capacity in the area of flexible learning/delivery. This would enable the CIT to compete with overseas and interstate agencies providing online learning. The estimated cost is \$3m over three years.⁹⁶

Housing

Submissions from ACTCOSS, the Youth Coalition of the ACT, ACT Shelter, Toora Women's Shelter and the Council on the Ageing called for increased expenditure on housing.

ACTCOSS called for:

- additional low cost housing options for households on low incomes but without an erosion of levels, mix and equity of location of public housing stock;
- increased expenditure on public housing including level and quality of service provision to clients, capital expenditure and expenditure on operation and maintenance; and
- that the location of public housing stock be maintained so public housing tenants have the opportunity to reside in established suburbs.⁹⁷

ACTCOSS commended the Government for its policy of moving away from bedsit accommodation but noted this would require additional resources.⁹⁸ At the public hearing, ACTCOSS noted that some of the housing stock in the inner urban areas does not match the needs of people living there. It was suggested the Government look at redeveloping some

⁹⁶ Submission 3, Australian Education Union, p 14.

⁹⁷ Submission, 15, ACTCOSS, pp 4-5.

⁹⁸ Uncorrected Proof Transcript, 22 November 2000, p 5.

of the stock to provide units for elderly people and single people (who want to live in the inner city) rather than just selling it off.⁹⁹

ACT Shelter highlighted that the ACT private housing market is one of the most expensive in Australia, so people in poverty rely on public housing for their shelter. ACT Shelter has recommended additional expenditure be directed to:

- an increase in the number of public and community housing properties especially for single people and women escaping domestic violence;
- maintenance of public housing stock;
- residential law reform for lodgers, boarders, sharing arrangements and caravan park residents and a review of the Residential Tenancy Tribunal; and
- increase housing expenditure to 1996 levels.

The Youth Coalition of the ACT expressed concern at the reduction in the overall budget for public housing since 1996 and suggest this will impact on expenditure available for maintenance, the number of dwellings available, timeliness of responding to people on waiting lists and location of housing. The Youth Coalition also commended the Government for its commitment to addressing recommendations of the Youth Housing Taskforce and urges funds be prioritised for implementation of remaining recommendations.¹⁰⁰

Toora Single Wimmins Shelter called for more funding for public housing for single people and for outreach workers to support women with mental health issues to help maintain their long term independent housing options.¹⁰¹

The Council on the Ageing suggested reverse equity mortgages be made available and put forward a proposal for a last home-owners scheme to assist older homeowners downsize.¹⁰²

⁹⁹ Uncorrected Proof Transcript, 22 November 2000, p 10.

¹⁰⁰ Submission 13, Youth Coalition of the ACT, pp 5-6.

¹⁰¹ Submission, 19, Toora Single Wimmins Shelter Inc.

¹⁰² Submission 12, The Council on the Ageing.

Health

The Council on the Ageing called for health expenditure to be maintained or improved.¹⁰³

Representations on health were received from ACTCOSS, the Nurses Federation, the Council on the Ageing, the Youth Coalition, ADDINC and Healthcare Consumers.

ACTCOSS identified the need for more resources to be targeted to Aboriginal and Torres Strait Islander peoples in the ACT, in light of the evidence that they have poorer health than the rest of the ACT community. ACTCOSS also sought ACT Government recognition of the need for Aboriginal and Torres Strait Islander self-determination. ACTCOSS also asked that adequate resourcing be made available for consumer participation processes in all health and related services.¹⁰⁴

In relation to mental health, ACTCOSS called for resources for:

- long term accommodation options for people living with a mental illness;
- analysis of the level and type of unmet need for people living with mental health needs in the ACT; and
- for better linkages between GPs and mental health services and government agencies.¹⁰⁵

In relation to sexual assault services, ACTCOSS called for resources:

- to implement the recommendations of the review of services to child survivors of sexual abuse; and
- for at least two Additional Aboriginal sexual assault workers.¹⁰⁶

The Australian Nursing Federation sought additional funding for:

- an additional 100 nurses (costed at about \$6million) to deal with the complex workloads, to cover leave and so nurses do not have to donate their services¹⁰⁷;

¹⁰³ *ibid*

¹⁰⁴ Submission 15, ACTCOSS, pp 8-10.

¹⁰⁵ *ibid*

¹⁰⁶ *ibid*

- fully funded pay increases for nurses;
- information technology to improve systems for clinical records; and
- security.

The Australian Nursing Federation, the Council on the Ageing and the Healthcare Consumers Association expressed concern about the early hospital discharge program and called for funding to establish a 24-hour acute post-transitional care for selected patients who are discharged early.¹⁰⁸

The Youth Coalition of the ACT called for the establishment of a residential youth detoxification facility and resources for a cross-portfolio strategy to address the needs of Indigenous children and young people, particularly in light of the high number of indigenous youth using heroin. The Youth Coalition also sought additional funding for the Child and Adolescent Mental Health Services (CAMHS) so they can establish a multi-staffed outreach service to engage in early intervention and preventative work with young people.¹⁰⁹

The Healthcare Consumers' Association of the ACT sought funding for consumer consultation and seed funding to promote quality and safety in the public health sector. The Association also sought increased funding for the Rehabilitation Program at the Canberra Hospital to alleviate the waiting times for those needing to have their driving assessed.

ADDINC sought funding for a Safe Injecting Place.¹¹⁰

Justice

ACTCOSS sought a review of consumer complaints mechanisms in the ACT, the reopening of a consumer credit legal service and funding for an independent assessment of the needs of ACT consumers for protection in the provision of financial services and related consumer products.

The Council on the Ageing welcomed the increase in funding for police in the last budget and called for increased police visibility.

¹⁰⁷ The committee was advised that nurses, on average donate one shift per week which equates to a \$20 million gift to the Government. (Uncorrected Proof Transcript, November 22, p 19)

¹⁰⁸ Australian Nursing Federation, Uncorrected Proof Transcript, November 22, p 19; Submission 12, Council on the Ageing; Submission 8, Healthcare Consumers' Association of the ACT.

¹⁰⁹ Submission 13, The Youth Coalition of the ACT, pp 6-8.

¹¹⁰ Submission 8, Healthcare Consumers Association ACT Inc.

The Youth Coalition of the ACT called for resources for a post-release program when young people leave Quamby and for indigenous-specific alternatives to detention.¹¹¹ The Youth Coalition suggested young Aboriginals needed more interaction with structured sporting activities as sport is a good deterrent to crime. There is also a need for indigenous-specific alternatives in education with indigenous teachers and tutors. They identified the need for more indigenous drug and alcohol workers and a mobile service.¹¹² The Youth Coalition also sought resources to establish a youth-specific legal service.

The Bar Association of the ACT sought funding for new Supreme Court building to include accommodation for barrister's chambers.¹¹³

The United Firefighters Union sought funding for recruitment of firefighters and additional capital works funding for the Woden JESC.¹¹⁴

Community sector

ACTCOSS, the Youth Coalition and the Australian Services Union called for the ACT Government to commit resources to supporting the community sector to fully meet the obligations to employees under the SACS award. They claimed that if additional funding was not forthcoming in this budget cycle, services to the community would suffer. The Youth Coalition suggested that the need for community services had increased in the past five years with more demand in services but no expenditure increases. ACTCOSS called for increased resourcing for the community sector to ensure occupational health and safety standards are fully implemented. ACTCOSS also called for resources to measure the on-going compliance costs for community sector organisations in relation to the GST and to ensure low-income people are not disadvantaged by the GST.¹¹⁵

The Council on the Ageing identified the need for HACC to do more preventative work which will be cheaper in the long term. They believe the current system is fractured and suggest there should be more information and an amalgamation of different service delivery mechanisms that cater to the same type of client, such as frail, people with a disability and those needing post-operative care.

¹¹¹ Submission 13, Youth Coalition of the ACT.

¹¹² Uncorrected Proof Transcript, 22 November 2000, p 90.

¹¹³ Submission 1, Bar Association of the ACT.

¹¹⁴ Submission 11, United Firefighters Association.

¹¹⁵ Submission 15, ACTCOSS, pp 6-7.

Urban design and environment

The Council on the Ageing noted that older people have appreciated recent improvements in urban design and upgrading around shopping facilities. The Council supports work in this area reflecting crime prevention and urban design principles.¹¹⁶

Mr Mark Dossetter, a resident of Griffith called for improved infrastructure in Griffith and better planning for cycle paths across Canberra.

General issues

ACTCOSS highlighted the uneven spread of services in Canberra, with a concentration of services in the north.¹¹⁷

The Youth Coalition advised that access to the Common Youth Allowance was still a problem for young people in the ACT and that young people are the largest group breached by Centrelink.

The Youth Coalition, ACTCOSS and Toora Women's Shelter recommended that the 2001-02 budget include sufficient funds to implement the recommendations of the Poverty Taskforce report, due to be released in December 2000.

¹¹⁶ Submission12, Council on the Ageing, p 3.

¹¹⁷ ACTCOSS, Uncorrected Proof Transcript, 22 November 2000, p 10.

Appendix 3 – List of submissions received

1. The ACT Bar Association
2. ACT Government
3. Australian Education Union-ACT Branch
4. Assisting Drug Dependents Incorporated
5. ACT Shelter
6. Mr Mark Dossetor
7. Koomarri School Board
8. Healthcare Consumers Association ACT Inc
9. The Law Society of the ACT
10. Catholic Education Commission
11. United Fire Fighters Union of Australia ACT Branch
12. The Council on the Ageing (ACT) Inc
13. Youth Coalition of the ACT Inc
14. Association of Parents and Friends of ACT Schools
15. ACT Council on Social Service Inc (ACTCOSS)
16. ACT Council of P&C Associations Inc
17. ACROD
18. Conservation Council of the South East Region and Canberra Inc
19. Toora Single Wimmins Shelter Inc
20. North Canberra Community Council Inc
21. Peter Golack

Appendix 4 – Witnesses at public hearings

Wednesday 22 November 2000

For the ACT Council on Social Service (ACTCOSS)

Ms Cathi Moore, President

Ms Sascha Surgey, Policy Officer

For the Trades and Labour Council

Mr Jeremy Pyner

Mr Clive Haggart

Ms Fiona MacGregor

Mr Peter Paramore

Ms Colleen Duff

Mr Graham Rodda

For Australian Ethical Investments Ltd

Mr Howard Pender, Director

For the ACT Council on the Ageing

Mr Jim Purcell, Executive Director

Mr Paul Flint, Deputy Executive Director

For the Council of P&C Associations

Mr Grant Battersby, President

Mr Ian Morgan, Treasurer

For the Association of Parents and Friends of ACT Schools (APFACTS)

Mr Eric Chalmers, President

Mr Jim Collins, committee Member

Mr Phil Gibbons, Vice President

For the Catholic Education Commission

Mr Geoff Joy, Executive Secretary

Mr John Barker, Head Finance and Planning, Catholic Education Office

As an individual

Professor John Quiggin

For the Youth Coalition of the ACT

Ms Susan Pellegrino, Policy and Project Officer

Ms Michelle Thorne, Convenor of the Board

Thursday 23 November 2000

Mr Gary Humphries MLA Treasurer

Mr Howard Ronaldson Chief Executive Department of Treasury
and Infrastructure (DTI)

Ms Megan Smithies DTI

Mrs Tu Pham DTI

Mr Roger Broughton DTI

Mr Angel Marina DTI

Appendix 5 - Acronyms

AEU	Australian Education Union
Council of P&Cs	Council of Parent and Citizen Associations Inc
CPI	Consumer Price Index
GGs	General Government Sector
GSP	Gross State Product
MCEETYA	Ministerial Council on Employment, Education, Training and Youth Affairs
PTE	Private Trading Enterprises
SACS	Social and Community Services (Award)
SFD	State Final Demand