

Review of ACT 2009-10 Budget for  
ACT Legislative Assembly Select Committee  
on Estimates 2009-10

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## Introduction

Formulating budgets during these difficult economic times is a fraught exercise. For a start, forecasting - never an exact science - is more difficult when the direction of the economy is changing significantly. Trying to determine accurately the timing and extent of a turning point - in this instance from recession to recovery - makes the task harder. The atypical nature of this recession, in its depth and its causes, added to problems of forecasting revenues and expenditures (1). These uncertainties probably made the 2009-10 Budget significantly harder to frame than most.

The ACT government also had to take into account and properly reflect in its budget the significant distortions of temporary Commonwealth fiscal stimuli as well as its own responses to the recession.

The unique nature of the ACT budget also means that approaches used in analysing budgets of other Australian jurisdictions cannot be simply applied to the ACT budget. In particular, the ACT government's reliance on its almost unique superannuation arrangements has to be carefully considered.

(1) An example of forecasting difficulties is the ACT Budget's forecast of GST revenues. The ACT government based its estimates on estimates provided by the Commonwealth. These were revised downwards significantly in the Commonwealth's budget released on Tuesday, 10 May, with important consequences for the integrity of the ACT budget. The matter is further considered below.

Fortunately, the ACT government has recognised these issues and has provided sufficient information to assist in preparing this analysis.

The paper does not question particular budget spending or revenue decisions. It provides an analysis of the ACT general government's overall fiscal policy, including on its spending and revenue growth and on its operating and fiscal balances. It also comments on the structure of the general government's financial position. The analysis relies on - and does not audit - material published in the ACT budget documents. It also draws on some data contained in this week's Commonwealth budget.

## Integrity of Estimates

Appendix A considers the robustness of the estimates contained in past ACT budgets. It concludes that there are no important biases which would adversely affect the integrity of those budgets. There is a natural conservatism in the estimates for revenue, but the differences between budget estimates and actuals are not so marked as to distort budgets. There is a tendency to overstate the estimates for the purchases of non-financial assets, but this is a common habit of those formulating state and territory budgets.

Importantly, unlike some other jurisdictions, the ACT government does not typically embark on spending any unbudgeted, additional revenues which flow into the treasury accounts from time to time.

## Revenues

In response to the impending recession and its adverse impact on budgets, some state governments, in particular the NSW government introduced a number of savings measures and revenue increases in an attempt to limit the size of a projected increase in the state deficit.

A number of economists argued that these measures merely ensured that adverse implications of the recession would be transferred from the state sector to the private sector.

According to Table 2.2 (page 27) of Budget Paper Number 3, Budget Overview for 2009-10, the ACT government did not adopt this approach. No new revenue policy measures were made after the 2008-09 Budget and those new revenue measures introduced in the 2009-10 Budget were modest.

In part, the ACT government did not have to introduce urgent revenue measures because of its robust fiscal position. The strong net deposits held by the general government sector, even excluding assets held for superannuation purposes (see Appendix A where net debt is canvassed) meant the government could ride out the immediate consequences of the recession until it set the 2009-10 Budget.

The Budget does provide for some new revenues. These are modest. They are estimated to provide a total of \$30.4 million over the budget year and the three forward estimates years. This represents about one-fifth of one per cent of total revenues for that period.

Although revenue measures were modest, the budget still foreshadows revenue growth over the four years it covers. The nominal increases - five per cent in 2009-10 and two, four and five per cent for the following three years respectively - are not large but they are atypical for economies suffering from a severe recession.

The five per cent growth in 2009-10 is explained by a \$200 million (14 per cent) budgeted increase in Commonwealth grants and a \$46 million (five per cent) growth in ACT taxation. These increases more than compensate for quite large budgeted falls in some non-taxation territory revenues.

Not all of the increase in Commonwealth grants is permanent. As the budget documents explain, nearly \$200 million of the Commonwealth's \$1.6 billion in grants for the ACT for 2009-10 is from the federal stimulus package. This program ceases in 2012-13. In the intervening period the amount provided declines.

The Commonwealth budget for 2009-10 contained a lower estimate for total GST distributions than had been assumed by the ACT budget. The reduction comes from changes in the Commonwealth's own estimates. GST revenues of \$888.4 million for the ACT for 2009-10 were already \$63 million lower than the forward estimate contained in the ACT's 2008-09 Budget. The ACT calculated its 2009-10 share of GST (\$888.4 million) using a total pool figure of \$42.2 billion. The most recent figure, however, in the Commonwealth's budget documents, is \$900 million smaller at \$41.3 billion.

The Commonwealth has budgeted \$874 million for total general revenue assistance for the ACT in 2009-10. Of this about \$35 million is for special purpose municipal payments. The balance of \$839 million comprises GST payments. Thus, before the ACT budget is a week old, it has suffered a nearly \$50 million GST revenue shortfall for the first year. Similar reductions are to occur in the forward estimates period.

This revenue adjustment will, unless offsetting steps are taken, reverberate through the budget and the forward estimates. It will increase deficits on operations, and worsen fiscal balances. As discussed below, all else equal it will add to budgeted borrowings and thus reduce the ACT's cash holdings.

Later sections consider whether the ACT's fiscal position suggests that additional measures are needed to remedy its budgetary position.

According to the Commonwealth Grants Commission (2009 Update Report – Supporting Tables: Table E-1, Attachment E, Revenue and Expenses Ratios) the ACT is the second highest of the eight states and territories in the use of its capacities to raise tax. This does not mean that it should not aim to raise taxation further. The ACT population might prefer higher taxation to the alternatives. But the ACT government does have to be careful in increasing taxation. For example, it appears to be the highest payroll taxer of the eight jurisdictions.

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## Expenses

An admitted feature of the ACT's budget is the relative expensiveness of its services. Page 57 of Budget Paper No 3 for 2009-10 says "actual expenditure in the ACT continues to be well above the national average, at around 21 per cent above its assessed level of need". One can see this in Commonwealth Grants Commission documents which examine state and territory expenditures and compare these to the costs of providing a similar service across the nation.

The higher actual expenditure in the ACT does not come about because of higher needs or higher costs. According to the ACT budget documents (see page 57) "ACT expenditure needs, assessed by the Commonwealth Grants Commission ... are near average relative to other jurisdictions". The Grants Commission (see Table E-2, *op cit*) found that if the average cost of all jurisdictions for all net expenses of government were 100, the range for all jurisdictions - bar Western Australia and the Northern Territory - ranged between 92.02 for Victoria and 105.06 for Tasmania. The ACT cost level was 99.06 – about average.

But there if there are similar needs and costs across Australia, there is still a great disparity in the level of services provided in Australian jurisdictions. The ACT provides its citizens with the highest level of service of all jurisdictions, about 16 per cent higher than the average and about 20 per cent higher than the levels provided by governments of our state neighbours, Victoria and NSW.

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And the budgeted increase in expenses in the ACT is also not modest: for 2009-10, expenses are slated to grow seven per cent in nominal terms. (The largest area of spending, education, receives an increase of more than seven per cent.) Growth rates in the out-years are three, five and four per cent for 2010-11, 2011-12 and 2012-13 respectively, assuming that the government will not introduce any new spending measures and that it can deliver the savings it is seeking.

According to budget documents, government decisions to approve new spending account for nearly half of the growth in spending for 2009-10. Of the \$108 million in increased expenses, the net cost of new measures in that year amounts to \$51 million.

## Spending Savings

Expense savings used to offset new measures amounted to nearly \$4 million in 2009-10 and less than \$20 million over the four years to 2012-13. For 2009-10, savings amount to about one-tenth of one per cent. This means that in any expenditure package of \$100, the government could find 10 cents worth of savings to fund new programs. Alternatively, no savings were found in 99.99 per cent of all spending for 2009-10.

The near absence of savings measures for the coming year might have been ascribed to the recession. Such an argument might suggest that no savings should be made because that would worsen the effects of the recession by reducing demand. An alternative argument is that more savings would have allowed abandoned new measures to be

funded. In other words, savings need not just be about reducing the government's borrowings from the rest of the economy. They can be about improving government efficiency and effectiveness or reducing complacency.

In addition to these offsets, the government has announced its intention to find savings of over \$300 million in the three years from 2010-11. None is planned for 2009-10. The absence of savings in the coming year has been put down to a need to consult with the community about saving priorities and to give the public service time to adjust to the need to find savings from efficiency dividends. These are budgeted to provide \$55 million of the planned reductions. A tighter wages policy is to provide \$97 million and unallocated savings total \$154 million.

The efficiency dividend was introduced, at least in the Commonwealth, in the knowledge that there were only weak incentives in the public service to identify savings from increased efficiencies. At the same time, the Finance/Treasury departments did not have the detailed knowledge of department activities to propose savings options in management matters.

Because staff costs - including superannuation costs - constitute nearly half of the ACT general government total expenses, efficiency dividends are often likely to involve reduced labour input. If these costs were excluded, managers would need to find twice the savings from non-labour costs.

The ACT government has a program of consultation in the lead up to the budget. This consultation is supported by media advertisements calling for submissions from ACT residents. Seventy-nine were received for this budget. There seems to be nothing to stop these consultations raising savings issues or calling for submissions to identify suspected waste or government extravagance or inefficiency. If that had been undertaken, savings could have been brought forward a year.

## Composition of Expenses

Table F18, at page 250 in Budget Paper No. 3, provides an itemised dissection of total expenses by function. Some areas with above-average increases for 2009-10 include superannuation costs, police services, primary and secondary education, university education, mental health. Areas with below-average increases include social security, housing and community amenities and recreation and culture.

The presentation of expenses under Government Finance Statistics and Generally Applied accounting Principles, at page 227, provides another dissection. This shows employee expenses growing by a modest four per cent which is to cover wage price increases and increased staff. The Whole of government staffing figures, provided at page 553 of Budget Paper No. suggest that there is to be an increase of 371 full time equivalent staff for 2009-10. Most seem to be for the general government sector. This represents an increase in numbers alone of over two per cent. If these new staff have an average wage, wage

increases across the service are thus meant to be held to no more than two per cent.

## Capital Spending

The budget for purchases – and sales – of non-financial assets is a vexed budgetary area. Many governments have under-invested in this area, presumably constrained by the need to prefer recurrent spending over capital spending. On the other hand, as shown earlier, the ACT has a habit of under-spending this budget.

The ACT general government budget provides for more than \$2.2 billion in non-financial asset purchases over four years. On a per capita basis, this is equivalent to around \$7000 – about \$140 per week per family of four.

Table F.19 at page 253 of budget Paper No. 3 identifies the functions of general government which benefit from these purchase. The education function accounts for over \$0.5 billion, the health function also receives a similar amount. Public order and safety (\$120 million) and transport and communications (\$440 million) are other large beneficiaries of this spending.

Because of depreciation and asset sales, this spending does not have an equivalent impact on the total value of non-financial assets recorded in the balance sheet of the general government sector. (Sales of non-financial assets are budgeted to amount to about \$10 million over the next four years and depreciation costs are to total over \$1billion over the same period.) The value of assets increases by only \$1.2 billion - from \$9.1 billion at 30 June 2009 to \$10.3 billion at 30 June 2013.

Similar spending by the Public Trading Sector over the same period amounts to nearly another billion dollars.

## Balance Sheet Balances

There are several measures to assess whether general governments are managed in a fiscally responsible way. These measures can be seen in the balance sheet or the operating statement of general governments. This section deals with balance sheet concepts.

The broadest and most reliable measure is the net worth of general government – the difference between total assets and total liabilities. This measure has the advantage of being all-encompassing: it picks up movements that can be made between different classes of assets and liabilities, as will be seen latter.

As Appendix A showed, there has been strong and consistent growth in the ACT general government net worth except for 2008-09, a year affected by the international financial crisis. Over the last four years it increased by \$3.4 billion – equivalent to \$11,000 per resident.

Another measure from the balance sheet is net financial liabilities. This concept captures changes in debt and non-debt financial liabilities such as vested but unpaid superannuation. This has only been reported in the ACT in recent times. It is projected to increase by \$536 million in the next four years. Because this concept includes debt, it captures attempts by governments to shuffle liabilities out of debt into other

financial liabilities. It thus reflects transactions aimed at avoiding increased debt at the cost of increased financial leases.

Net financial liabilities are projected to increase by nearly \$540 million in the next four years as the government borrows to fund its capital program.

Net debt, a much abused concept in government, is the narrowest of the measures taken from the balance sheet. It essentially measures the difference between financial borrowings by the government and the government's advances (such as deposits with banks) to others. Policies which concentrate on reducing debt - as exemplified by the NSW Debt Elimination Act – can lead to perverse results. It provides an incentive for governments to enter more expensive finance leases instead of increased government borrowings.

In the ACT, net debt is measured with or without relevant assets held in the general government's superannuation account. This account, which is not a superannuation fund, was established as part of the government's decision to fund its superannuation liabilities by 2030. It makes sense to concentrate on net debt excluding superannuation assets because superannuation liabilities are, by definition, not counted as debt.

The ACT general government has no net debt (with or without superannuation). In other words, its gross borrowings are more than offset by its cash and other financial holdings. It is described, clumsily, as having negative net debt.

Negative net debt including superannuation for the ACT general government is foreshadowed to increase (improve) by \$246 million over the next four years after suffering declines this year and in 2009-10.

Negative net debt excluding superannuation is projected to decline (deteriorate) by about \$240 million over the next four years as the government reduces its cash and deposits to fund its capital program. These increased borrowings (reductions in deposits are classed as increased borrowings) would lead to increased non-financial assets. And the increased borrowings and increased non-financial assets would be reflected in net worth calculations.

At the end of the forward estimates period, ACT general government negative net debt (excluding superannuation) is projected to be about \$240 million. At that time, the ACT government is estimated to be one of the few Australian jurisdictions with no net debt.

## Operating and Fiscal Balances

The measures discussed above help users to analyse the health of the government's financial position. The concepts covered here examine the financial health of the government's operations. These concepts are drawn from what the private sector used to call profit and loss statements or from the cash statement.

The key concept concerns the result of the general government's day-to-day operations – whether the revenues obtained to fund these activities are sufficient to cover the costs of those operations.

When these costs and revenues are measured only in cash terms, we can see the cash operational surplus or cash operational deficit. It is considered fiscally prudent that governments ensure that its cash costs are covered by cash revenues; otherwise there will be a decline into financial crisis.

At the same time, a cash surplus does not mean that the government has covered all of its costs for the year. It could deliver a cash surplus by not paying creditors and by not paying all of its accrued superannuation costs. Because this concept is open to manipulation, it has to be used with care.

The ACT general government has budgeted and projected cash surpluses on operations ranging from \$340 million in 2009-10 to \$237 million in 2012-13.

It is better still if the cash and non-cash costs of operations are offset by the cash and non-cash revenue flows. This means that depreciation and superannuation expenses are added to the costs side of the equation (and uncollected revenues are added to the receipt side). This is a preferred measure to cash surpluses and deficits because operations consume non-financial assets (for example, plant and equipment) which have to be replaced if the government is to continue operating.

Using the uniform presentation of finances agreed by Australian governments, the ACT general government has budgeted and projected operational losses ranging from \$171 million in 2009-10 to \$267 million in 2012-13. This means its accrual-based revenues are insufficient to

meet all expenses accrued during the year including non-cash costs such as depreciation. (Depreciation costs, ranging from \$231 million in 2009-10 to \$285 million in 2012-13 are only partly met by accrual-based revenues.)

The government's budget documents explain this deficit outcome by pointing to a fall in expected revenues over the period as a consequence of the recession, and a desire not to cut services as a response to the deficit.

Finally, the uniform presentation of finances has another concept to help analyse the health of government operations. It takes the operating result discussed above and adds back the (non-cash) depreciation costs to determine whether the government has sufficient economic resources to fund its net acquisitions of non-financial assets (eg plant and equipment). This concept is called fiscal balance. If the balance is negative, it means that the government has effectively or actually borrowed from the rest of the community to fund its operations and capital spending.

The ACT general government has budgeted and projected negative fiscal balances for the next four years. The result ranges from a negative balance of \$568 million in 2009-10 to \$71 million in 2012-13. As we saw earlier, much of this is caused by spending on capital for which the government will be borrowing (reducing its cash assets) over these four years.

## GAAP and Other Operational Results

The above discussion is based on the uniform presentation of finances agreed by all Australian governments. That presentation accords with Government Finance Statistics used by the ABS and international bodies. It is also called the UPF, uniform presentation of finances.

Under recent developments, the financial statements have been harmonised - and augmented - with GAAP, Generally Accepted Australian Accounting Principles which embrace Australian accounting standards.

The changes arising from GAAP mean that the operating result reported for the ACT general government for 2009-10 improves from an operating deficit under GFS/UPF of \$171 million to an operating surplus of \$92 million. The \$263 million improvement occurs mainly because changes in asset values which the GFS record in the balance sheet have been migrated to the operating statement.

A third result, called the Comprehensive Result, ensures that changes in net worth are captured in the operating statement. In other words, the Comprehensive Result explains other changes in net worth between the start of a financial year and its conclusion. It imports further changes which under GFS/UPF would be recorded only in the balance sheet.

All of this is confusing to users, although there is merit in capturing movements in net worth. The simpler, plainer GFS version also has its attractions. The table below presents the various results for the current year and the budget year.

| Operating Results            | 2008-09 Estimate | 2009-10 Budget |
|------------------------------|------------------|----------------|
| Net Operating Result UPF/GFS | -\$ 95 m         | -\$171 m       |
| Operating Result             | -\$306 m         | \$ 98 m        |
| Comprehensive Result         | -\$544 m         | \$ 98 m        |

## ACT Operating Result

To add to the confusion, the ACT presents its own version. The government argues that this further figure is required because unlike most jurisdictions, the ACT does not have a government superannuation fund - that is with the Commonwealth government - but it still has a substantial superannuation account.

Because of this anomaly, the ACT presents the UPF/GFS result, shown in the above table, and adds to it "Expected Long Term Gains on Superannuation Investments". The result is captured below:

|                                | 2008-09 Estimate | 2009-10 Budget |
|--------------------------------|------------------|----------------|
| Headline Net Operating Balance | -\$ 41 m         | -\$ 82 m       |

It is excessive that users have four results for government operations from which to choose. Since three of these have been mandated, they must be presented. There is decreasing value in having a fourth for the ACT alone.

## Conclusion

The ACT general government has one of the strongest, if not the strongest, balance sheet of all Australian states and territories. Even though it is embarking on a large capital works and capital investment program, its budget suggested that it would emerge in four years time with no net debt.

This strength enabled the government to bear with operating deficits (at least on some measures) in the budget year and over the forward estimate period without having to take immediate steps to reduce expenses or increase revenues.

That deferral of action might have been justified but recent downward revisions to the estimates of GST collections means that the ACT government is facing a \$200 million loss of revenues over four years. This would further endanger the government's policy of fully funding superannuation by 2030. It would also add to the government's financial liabilities and would imperil the government's no net debt position by the end of 2012-13.

Even after this \$200 million loss in GST revenues, the ACT general government would still have a robust financial position, especially compared to other Australian jurisdictions. However, the government has indicated that it would wish to revisit the budget so that this loss could be accommodated without adding to bottom line pressures.

There would also be value in the ACT adopting a goal, somewhat like that set years ago by the Victorian government, to generate an operating surplus on a GFS/UPF basis each year. In other words, there is merit in ensuring that the recurrent operations of government result in worthwhile surpluses each year, without the help of land sales and the revaluation of assets. Residents should accept the need to pay for recurrent services rather than allowing sustained deficits. Surpluses on operations and such funds as are provided by land sales would help finance purchases of other non-financial assets.

In addition, consideration should be given to a program to improve the efficiency of government on a continuous basis. It would be surprising if an annual budget of \$3.5 billion or so could not provide opportunities to improve value for taxpayers without changing policy. A modest one per cent improvement each year would save \$35 million each year for other purposes. And efficiency dividends should apply to all costs not just non-labour costs. Because labour is a large part of the costs of government, improvements to processes would likely free staff for other tasks.

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## Appendix A

### Robustness of Past ACT Budget Estimates

This appendix compares the outcome (or revised forecast for 2008-09) with the original budget estimate for selected economic forecasts and estimates for the general government sector contained in ACT budgets. The comparison is aimed at determining whether there is any bias in the estimating and forecasting process. If any bias exists, it would need to be taken into account in an analysis of the 2009-10 Budget.

|                   | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|-------------------|---------|---------|---------|---------|---------|
| Revenues          |         |         |         |         |         |
| budget            | \$2438m | \$2461m | \$2732m | \$3039m | \$3318m |
| outcome           | \$2391m | \$2657m | \$2905m | \$3360m | \$3286m |
| Expenses          |         |         |         |         |         |
| budget            | \$2660m | \$2854m | \$2879m | \$3026m | \$3324m |
| outcome           | \$2684m | \$2829m | \$2871m | \$3108m | \$3382m |
| Capital purchases |         |         |         |         |         |
| budget            | \$305m  | \$267m  | \$421m  | \$508m  | \$570m  |
| outcome           | \$189m  | \$217m  | \$251m  | \$348m  | \$453m  |
| Fiscal Balance    |         |         |         |         |         |
| budget            | -\$174m | -\$325m | -\$314m | -\$180m | -\$105m |
| outcome           | -\$169m | -\$141m | \$ 8m   | \$145m  | -\$269m |

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|                       | 2004-05  | 2005-06  | 2006-07  | 2007-08  | 2008-09  |
|-----------------------|----------|----------|----------|----------|----------|
| Net Debt (incl super) |          |          |          |          |          |
| budget                | -\$1831m | -\$2024m | -\$2106m | -\$2770m | -\$3235m |
| outcome               | -\$1988m | -\$2228m | -\$2696m | -\$2957m | -\$2665m |
| Net Debt (excl super) |          |          |          |          |          |
| budget                | -\$381m  | -\$270m  | -\$109m  | -\$459m  | -\$890m  |
| outcome               | -\$514m  | -\$435m  | -\$556m  | -\$933m  | -\$875m  |
| Net Worth             |          |          |          |          |          |
| budget                | \$9312m  | \$9059m  | \$9559m  | \$10859m | \$13514m |
| outcome               | \$9265m  | \$9445m  | \$11182m | \$13305m | \$12654m |
| Employment growth     |          |          |          |          |          |
| budget                | 1.0%     | 1.0%     | 0.75%    | 1.5%     | 0.75%    |
| outcome               | 1.7%     | 1.6%     | 3.7%     | 1.0%     | 0.75%    |
| Gross State Product   |          |          |          |          |          |
| budget                | 3.0%     | 1.8%     | 3.4%     | 2.5%     | 2.5%     |
| outcome               | 3.0%     | 3.4%     | 5.0%     | 2.5%     | 1.0%     |
| State final demand    |          |          |          |          |          |
| budget                | 2.6%     | 3.3%     | 3.0%     | 4.0%     | 3.75%    |
| outcome               | 3.3%     | 4.9%     | 5.7%     | 2.2%     | 0.75%    |

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|                   | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|-------------------|---------|---------|---------|---------|---------|
| CPI               |         |         |         |         |         |
| Budget            | 2.0%    | 2.25%   | 2.75%   | 2.75%   | 3.0%    |
| Outcome           | 2.9%    | 3.6%    | 2.9%    | 3.6%    | 3.5%    |
| Population growth |         |         |         |         |         |
| Budget            | 0.9%    | 0.8%    | 0.75%   | 1.25%   | 1.0%    |
| Outcome           | 0.3%    | 0       | 1.4%    | 1.3%    | 1.25%   |

For Revenues, the first of the four concepts canvassed above which are drawn from Operating Statements (Revenues, Expenses, Purchases of Non-financial assets, and Fiscal Balance) there seems to be a tendency for the Budget estimates slightly to understate actual results. On the other hand, estimates for Expenses are accurate. This is expected: the government has more control over spending than over revenues. Estimates for the purchases of non-financial assets, the third indicator, systematically over-estimate actual purchases. Again this is a typical result for state and territory budgets. It seems most of these governments have trouble implementing their capital plans.

It follows mathematically that, because revenue is slightly underestimated and capital purchases almost always over-estimated, the fiscal balance outcomes tend to be more favourable (deficits are fewer or lower) than budget-time estimates.

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There are three concepts drawn from statements of financial position (balance sheets): net worth, or the net asset position of government; and two expressions of net debt, one with superannuation assets included and one without those assets. There is a slight tendency for net worth estimates to be less than the outcome, although there is a marked reversal in this for 2008-09 when the financial market crunched financial assets, including those held for superannuation purposes. This same tendency, for estimates to understate the outcome, also exists for the two concepts for net debt. The variances, however, are not so large as to distort the proposed budget.

Several economic concepts are used to forecast the macro-economic environment which has significant impact on budget estimates. There appears to be a conservative approach to setting the estimates for these (employment growth, gross state product, state final demand and population growth). This might explain something of the tendency to underestimate revenues.

It is natural for those preparing budgets to underestimate critical factors, especially revenues, because the consequences of over-estimating these factors are more harmful than underestimating them.

Nevertheless, there are no signs of any large bias in the examined data, other than for the budgets to purchases non-financial assets. As explained earlier, this bias is not unique to the ACT government.