

# ACT Legislative Assembly Select Committee on Estimates 2009-10

Transcript: Friday 15 Mat, 2009

Property Council of Australia: ACT Division.

## Expenses Discipline

There are a number of sources for budget data for general governments. Most of the data used in the brief prepared for the Committee on 12 May were from the Australian Bureau of Statistics. Because the ABS compiles it reports some time after governments have brought down their budgets and because it is collected on a consistent, Australia-wide basis, it is seen as a reliable source. That data show quite small variations - an average overspend of \$26 million, less than one per cent - between budgeted and final expenses for the ACT General Government. For two years, expenses were less than budgeted; for three years they were more.

On the other hand, the Property Council evidence states that over the seven years since 2002-03, the average overspend amounted to \$105 million a year. A review of budget data, at least for the five years from 2004-05, cannot replicate that figure. Information provided in budget documents includes estimates of the outcome for current years (perhaps based on spending up to March) and is thus capable of change. That data showed an average overspend of \$60 million a year. That is less than two per cent of budgeted expenses. There were two years of under-expenditure and three years of over-expenditure.

The Council rightly points out that the government will need to restrain spending, and that recent year-on-year increases of over 8 per cent have to be avoided. But the increase spending in 2006-07 was held to less than two per cent and the prior year's increase was less than six per cent.

## Debt

At page 53, the Property Council appears to argue that the government will struggle to service the debt that will arise from five years of operating deficits and to return the budget to surplus.

It is true that using the uniform presentation, the ACT general government sector is projected to accrue a \$1 billion operating deficit over the five years to 2012-13. The government's preferred presentation nearly halves this figure. But when you take into account revenue from land sales and other asset gains and losses, the accumulated result is a small surplus (about \$70 million). And the use of the comprehensive result produces a small deficit (of around \$166 million). These complexities suggest that analysts should not take a simplistic view of the ACT's fiscal position, or of the policies needed as a response.

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It is also important to consider the government's financial position before crafting responses to its operating results. As the budget documents present, the financial position of the general government sector is sound. It never falls into net debt (although its net financial liabilities grow quickly). There is some value in using some of that financial strength to cushion the response otherwise needed to adjust to the international economic and financial crisis.

#### Revenue

The Property Council is concerned at the narrowness of the ACT's revenue base. There are grounds for criticising taxes on property transactions. In at least some cases they prevent economic activity. It would be a great achievement if the government could re-shape its own revenue sources to reduce the incidence of transaction taxes. It would also be useful to broaden the tax base so that high indirect taxation rates could be reduced.

But there should be no concern that the ACT revenues relies more on Commonwealth grants than do some states. The grants system is partly a function of the cessation to the Commonwealth of state income taxing powers. Moreover, the ACT is particularly disadvantaged by the Commonwealth's non-tax status, which is the reason for a larger than average grant allocation.

#### Growth Rate

The Property Council disputes the 4 ½ per cent growth which the Commonwealth has projected for its later out-years and prefers its own estimate of 3 per cent –which it thinks might also be too high. The earlier brief which compared IMF with Commonwealth forecasts covered some of this argument.

But you could also make a case that the March quarter results for Australia's GDP (available early June) might not be too bad. We have seen that household consumption has been holding up –partly because of the Commonwealth's transfer payments. We have also seen that the contribution of net exports will be positive because we have dropped our imports while maintaining exports (including to China). The work force grew in the period – although there are problems about the quality of this data. And government investment is likely to start to contribute. Finally, the drop in the December quarter accounts could be entirely explained by a massive decrease in inventories. It is unlikely that that will re-occur.

In short, you might assume that the Treasury - whose forecasts were said to be incorporated in the Commonwealth 2009-10 Budget - was not overly optimistic. In the past it had under-estimated growth and revenues on a regular basis. It might not have followed the same path this time, but its forecasting is better than is seen from commercial economists.

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