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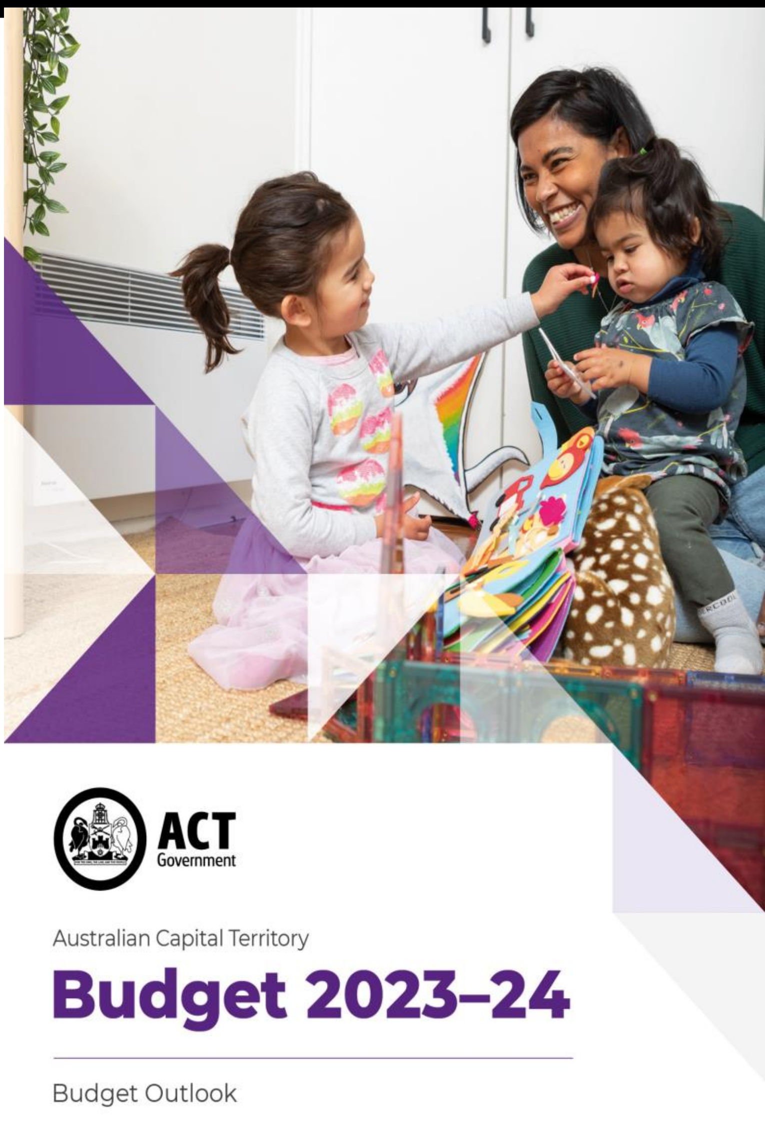
Review of the ACT Budget 2023-24



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Pegasus Economics

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Pegasus Economics is a boutique economics and public policy consultancy firm that specialises in strategy and policy advice, economic analysis, trade practices, competition policy, regulatory instruments, accounting, financial management and organisation development.

This report has been commissioned by the ACT Legislative Assembly's Select Committee on Estimates 2023-2024 to assist the Committee in its deliberations in relation to the 2023-24 ACT Budget.

The views and opinions expressed in this report are those of the authors.

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Photograph on the front cover is taken from the front cover of *Australian Capital Territory Budget 2023-24: – Budget Outlook* from the 2023-24 ACT Budget.

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Executive Summary

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The population forecasts and projections presented by the ACT are on the high side based on forecasts for the Commonwealth Government by the Centre for Population.

The main risk to the economic outlook is if the Australian economy goes into recession, dragging the ACT economy with it, a risk that is acknowledged by the ACT Government.

The Budget forecasts an improving fiscal outlook, with a headline net operating deficit of $492.0 million in 2023-24 moving over the forward years to a surplus of $212.1 million by 2026-27.

The ACT has a strong balance sheet, and its position compares favourably with other States and Territories, but that position is deteriorating over time. Despite the forecast return to surplus in 2025-26, net debt and net financial liabilities are continuing to grow through the forecast period while net worth is falling.

The Budget forecast for revenue in 2023-24 is expected to be $332 million higher than forecast at the time of the 2022-23 Budget. In the three years to 2025-26, revenue is now expected to be over $1.7 billion higher than was previously forecast at the time of the 2022-23 Budget.

In the 2012-13 Budget, the ACT Government committed itself to rebalancing its tax base by reducing and eventually eliminating stamp duty over a 20-year period and replacing the shortfall through an increase in the general rates system.

The phasing out of stamp duties and the phasing in of the new general rates system over the course of 20 years is being implemented through a series of four separate stages. We are currently up to stage 3 of the tax reform that commenced in 2021-22 and will go until 2025-26.

However, it appears that the reduction in revenue from commercial and residential conveyances will far exceed the increase in general rates as an overall percentage of ACT Government own-source taxation revenue going out to 2026-27, the first putative year of stage 4 of tax reform.

Revenue from payroll tax is now forecast to increase from 28.8% of ACT Government own-source taxation revenue in 2022-23 to 34% by 2026-27 – an overall increase of 5.1 percentage points. This is now more than 8 times the increase in the percentage of ACT Government own-source taxation revenue expected to be collected from general rates over the same period. It would appear the ACT Government is not increasing rates sufficiently to make up for the reduction in stamp duty. Instead, the difference appears to be made up through an increasing reliance on payroll tax.

Forecast expenses for 2023-24 of $8.4 billion are some 4.6% higher than the expected 2022-23 outcome. Expenses are forecast to grow over the period by12.9% on the estimated outcome for 2022-23; an annual growth rate of 3.1%. Expenses are, however, still expected to fall as a proportion of GSP over the Budget and forward estimates period.

Much of the growth is due to increases in employee expenses, reflecting the full year effect of the 2022 enterprise agreement and policy decisions. Major new initiatives that have contributed to growth in expenses include additional ACT police, a new residential care provider for children, cost of living supports and increased pay and conditions for teachers and school-based staff.

The 2023-24 Budget presents new initiatives in terms of a Wellbeing framework that allocates initiatives across twelve result areas, or domains. Ongoing activities of Government, which represent the bulk of the Budget, are not included in the Wellbeing Statement.

The Wellbeing framework supplements traditional economic measures with broader measures of the quality of life. In its present form, the Wellbeing framework gives an indication of how new resources are being allocated to particular quality of life domains.

The Budget includes almost 300 Wellbeing initiatives that include a mix of expense, capital and revenue components, and some off-sets, that are primarily directed to the Housing, Health, Environment and Education domains.

While the Wellbeing Statement provides some useful indications of the proportion of new initiatives directed to well-being priorities, it does not yet allow for informed assessments of actual improvements in well-being achieved as a result of past initiatives or the future improvements in well-being expected to be achieved through the various spending and revenue measures.

The ACT Government has indicated that it is continuing to strengthen the linkages between the Wellbeing framework, policy development and the budget.

The Budget includes a substantial major projects, infrastructure and capital works program across the Budget and forward years. The program is over five years out to 2027-28. The ACT government intends to invest $1.6 billion in 2023-24 and approximately $8.2 billion out to 2027-28.

Key projects include hospitals, schools, public housing, urban renewal, transport and roads, community and services, and climate action.

Net debt and net financial liabilities are increasing across the Budget and forward years in absolute terms and as a proportion of GSP. Net worth is falling slightly in absolute terms but shows a marked decline across the forward years when measured as a proportion of GSP.

The ACT Government continues to make progress in building up a pool of assets to cover its superannuation liability but on present trends is unlikely to achieve its goal of fully funding the liability by 2030.

The ACT Women's Budget Statement contains references to many generic ACT Government programs that have been presented as relevant to women. In terms of new policy announcements, we could only find a few that primarily related to women.

The available evidence suggests the stock of public housing in the ACT has not kept pace with ACT population growth, and has remained stagnant and even slightly declined since 2018 while the ACT resident population has grown by just over 24% between 2011 and 2022. Even if the ACT Government is successful in adding another 400 public homes, it would only be raising the public housing stock back to where it was in 2018.

There are questions about the transparency of some elements of the Budget. Only limited information is available on the dividend payments expected from the ACT's trading enterprises, and on technical adjustments that appear to indicate changes to previous decisions relating to the funding of programs and projects.

Whilst the underlying bases of accounting adopted in preparing the Budget financial statements are disclosed, enhancements to include accounting policies adopted for significant assets and liabilities could be made. There is no disclosure in the Other General Government Sector Statements of key assets such as work-in-progress, investments and loans, investments in other public sector entities, and produced and non-produced property plant and equipment, or key liabilities such as advances received, borrowings, superannuation and employee compensation. Pegasus would also have expected a breakdown of key financial statement items. By way of comparison, some other jurisdictions disclose significant accounting policies and forecast assumptions and include disclosure of the likely impact of new or amended accounting standards applicable in the future.

1. Introduction

1.1 Purpose

This report has been produced to assist the Select Committee on Estimates 2023-2024 in its consideration of the 2023-24 Budget.

The purpose of the report is to identify major features of the Budget that the Committee may wish to explore in its consideration of the Budget. The report does not express any judgement on the appropriateness of individual decisions reflected in the document. The focus of the report is on reasonableness of assumptions used in construction of the Budget and the consistency and transparency of the presentation of the Budget aggregates.

Additional comment has been provided in the report on issues specifically identified by the Committee, including on Wellbeing and consideration of issues through a woman's lens.

1.2 Approach

The report is based on a desk-top review of the ACT Budget documentation presented to the Assembly on Tuesday 4 July 2023. We have also consulted other documentation in the public domain including Commonwealth Government Budget Papers, the Budget Papers of other States and the Northern Territory, and economic statements, previous ACT Budget documents, reports of the ACT Auditor-General, various Ministerial statements, Departmental reports and other research literature.

Pegasus was also given access to ACT Treasury officials at a meeting on 29 June 2023. ACT Treasury provided the opportunity to discuss aspects of the Budget and subsequently provided written answers to questions. Pegasus wishes to thank the ACT Treasury officials for making this opportunity available to us and for their prompt response to questions. Our report is better for this engagement. Information provided by ACT Treasury in response to questions at this meeting is noted in the text.

1.3 Limitation of scope

In preparing advice for the Select Committee, Pegasus has relied on details contained in the Budget Papers, our independent research and analysis and other public sources.

Work was undertaken within a week of the presentation of the Budget to the Legislative Assembly. These matters have limited Pegasus' ability to perform a full and complete review of the Budget.

2. Economic Forecasts

Most of the ACT Budget economic forecasts appear reasonable. There may be some risk attached to the forecast for the Canberra CPI in 2022-23 which is lower than the most recent national forecasts from the Commonwealth Government and the Reserve Bank of Australia.

The population forecasts and projections presented by the ACT are on the high side based on forecasts for the Commonwealth Government by the Centre for Population.

The main risk to the economic outlook is if the Australian economy goes into recession, dragging the ACT economy with it, a risk that is acknowledged by the ACT Government.

2.1 Overview

A summary of current economic trends alongside the economic estimates and forecasts contained in the 2023-24 ACT Budget are provided in Table 1 below.

Table 1: Current outcomes and economic estimates and forecasts in the 2023-24 ACT Budget, percentage change

Indicator	Current outcomes	2022-23 Forecasts	**2023-24 Budget Forecast**	2024-25 Projection	2025-26 Projection	2026-27 Projection
Gross State Product[1]		3¼	2¼	3	3¼	3½
State Final Demand[1,2]	3.7	2¾	1¼	2¼	2½	3
Employment[3,4]	4.9	2¾	2	2	2	2
Wage Price Index[2,3]	3.7	4	3¾	3½	3½	3¼
Consumer Price Index[2,3]	6.2	5	3¼	2¾	2½	2½
Population[3,5]	1.8	2¼	2¼	2	2	2

1. In year average terms.
2. Outcome to the end of March 2023.
3. Through the year.
4. Outcome in trend terms to the end of May 2023.
5. Outcome to the end of December 2022.
Sources: ACT Government (2023), Australian Bureau of Statistics (ABS) (2023, 2023a, 2023b, 2023e, 2023f).

2.2 ACT Gross State Product and final demand

Gross domestic product (GDP) measures the value of goods and services that an economy produces in a period (Li & Gao, 2021, p. 2). Gross state product (GSP) is the equivalent of GDP for a region of a national economy (Australian Bureau of Statistics, 2021b). This measure can be produced for a region of any size whether a state, territory, or district. In the Australian context, it is compiled for the six states and two territories.

The Australian Bureau of Statistics (ABS) publishes the Australian GDP quarterly, however, GSP is only available on an annual basis (Li & Gao, 2021, p. 2). Also, GSP estimates are only published annually with a significant time delay following the end of the financial year. The best and most immediate indicator of economic activity within the ACT is final demand. Final demand contains most of the components of GSP and is highly correlated with GSP.

The most recent national accounts released by the ABS (2023) relate to the March quarter 2023. ACT final demand grew by 0.5% in the March quarter 2023. A large drag on ACT final demand during the March quarter was private investment which contracted by 3.1%. While business investment actually grew by 2.9% during the March quarter, this was more than offset by a 9.6% fall in private investment in dwellings. There was an 8.7% fall in investment in new and used dwellings along with a 12.4% fall in alterations and additions. This suggests the tightening of monetary policy through the raising of the official cash rate by the Reserve Bank of Australia (RBA) is beginning to impact on dwelling investment in the ACT.

Offsetting the fall in private investment were a 2.1% increase in public sector investment, a 1% increase in household consumption, and a 0.6% increase in public sector consumption.

Growth in final demand (in year average terms) for the year ending March 2027 was 3.7%, which is somewhat higher than the Budget estimate for an increase in ACT final demand of 2¾% for 2022-23, although not incompatible as it appears growth for both the national and Territory economy is beginning to moderate. In relation to the national economy, the Commonwealth Government (2023a, p. 58) is forecasting GDP growth of 1½% and demand growth of only 1% in 2023-24.

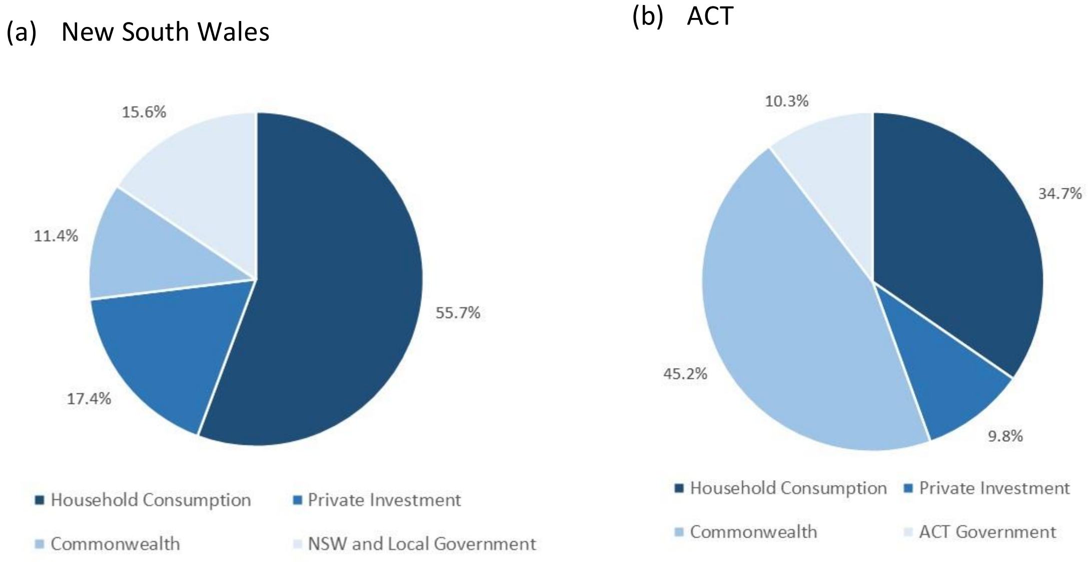
The main risk to the economic outlook is if the Australian economy goes into recession, dragging final demand in the ACT down with it. This risk is acknowledged by the ACT Government (2023, p. 355):

> *The ACT economy continues to be exposed to uncertainty and risk from the Australian economy, particularly rising interest rates and persistent inflation. High inflation and rising interest rates may weigh on aggregate demand more than expected. …*
>
> *The risks to the outlook are skewed to the downside, given the significant uncertainty around the path of inflation and monetary policy.*

Pegasus has no reason to query the forecasts of ACT final demand of growth of 1¼% in 2023-24, and projections of 2¼% in 2024-25, 2½% in 2025-26 and 3% in 2026-27. Nor do we question the forecast for GSP in 2023-24 and the projections in the out-years.

As the seat of the Commonwealth Government, the ACT is heavily dependent on the consumption and investment decisions of the Commonwealth Government. This can be seen in Figure 1 below, which compares the four main components of the New South Wales (NSW) and ACT economies.

Figure 1: Components of Final Demand for the New South Wales and ACT economies, year ended March 2023

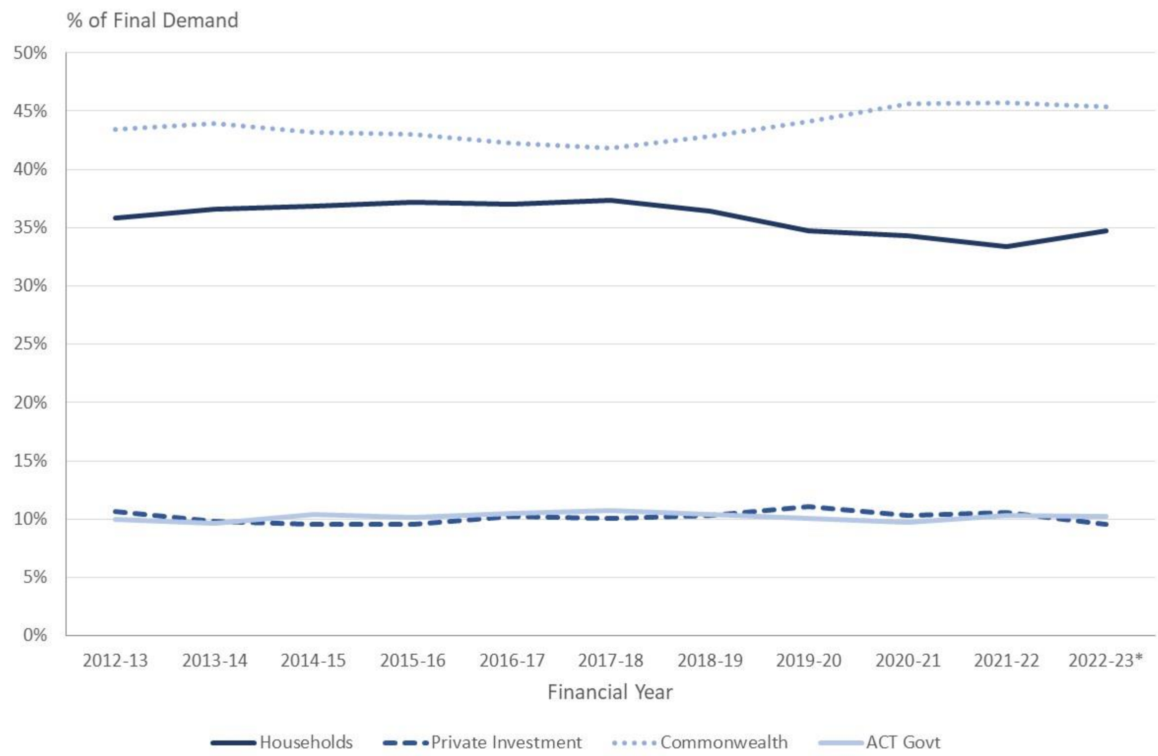


Source: ABS (2023).

In the year to the end of March 2023, the Commonwealth represented 45.2% of total demand in the ACT economy while household consumption represented 34.7%, private investment 9.8%, and 10.3% for the ACT Government.

The historical relative shares of ACT final demand are provided in Figure 2 below.

*Figure 2: Relative shares of ACT Final Demand – 2012-13 to 2022-23**



Source: ABS (2023).

* 2022-23 only includes the September and December quarters 2022, and the March quarter 2023.

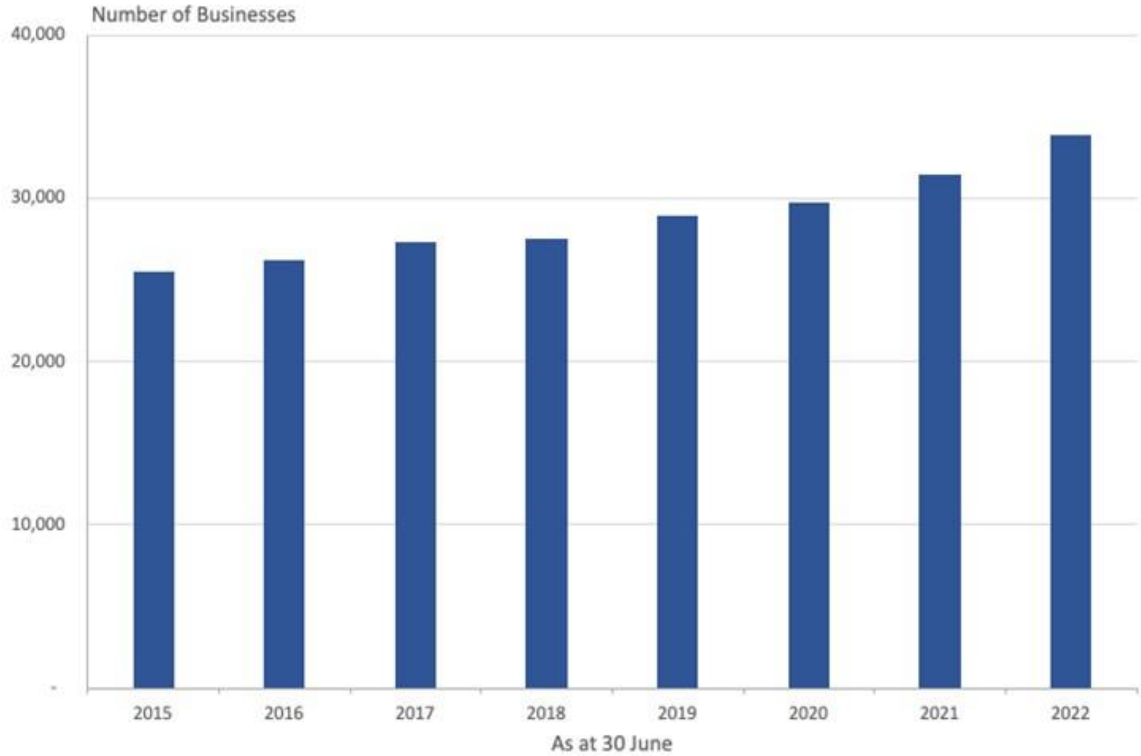
Between 2019-20 and 2021-22 with the onset of COVID-19 pandemic, there was a contraction in household consumption that was largely offset by an expansion in expenditure by the Commonwealth Government. So far during 2022-23, household consumption has started to grow once more while there has been a slight contraction in expenditure of the Commonwealth Government. The contribution of the ACT Government to final demand has been hovering at around 10.2% on average over the past decade, while private investment has averaged slightly higher at 10.1% over the same period.

Since the onset of the economic disruption caused by the COVID-19 pandemic, the ACT economy has generally become less diverse and more dependent on the public sector, with the Commonwealth and ACT governments' accounting for around 56% of final demand.

2.2.1 Businesses in the ACT

Since coming out of the COVID-19 pandemic, the ACT has enjoyed some of the strongest growth in new businesses in the country. In 2020-21 the number of new businesses operating in the ACT grew by 1,732 for a total of 31,499, an increase of 5.8% which was the largest percentage growth in any state/territory for that year. In 2021-22 the number of new businesses operating in the ACT grew by 2,419 for a total of 33,918, an increase of 7.7% which was the second largest percentage growth in any state/territory. This is outlined in Figure 3 below.

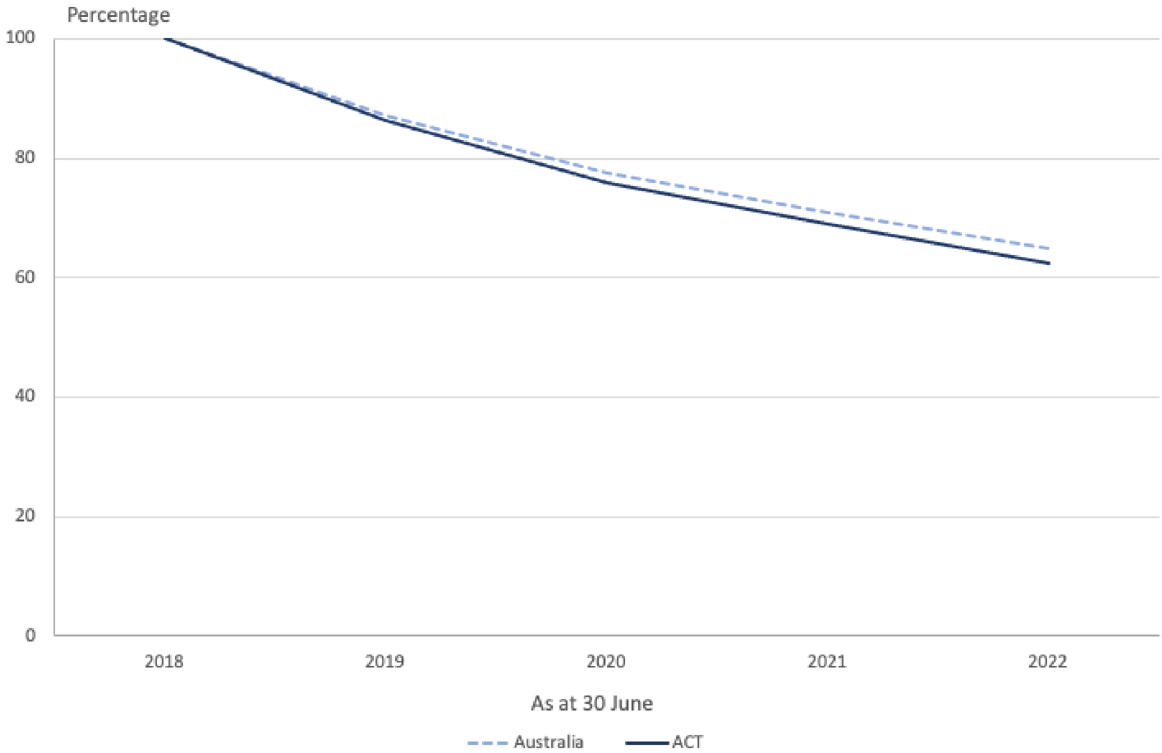
Figure 3: Number of Businesses Operating in the ACT – June 2015 to June 2022



Source: ABS (2022).

For all businesses that were operating at 30 June 2018, the survival rate in the ACT is running slightly worse than the national average. This is outlined in Figure 4 below.

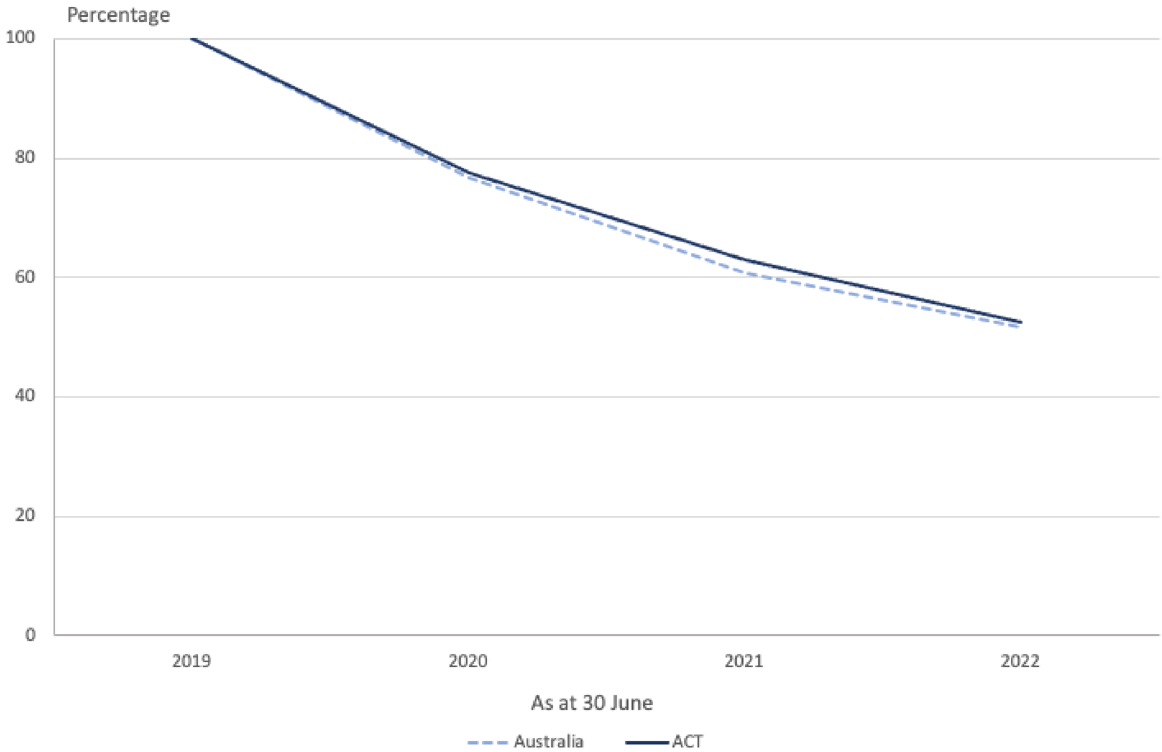
Figure 4: Business Survival Rate for All Businesses Operating at 30 June 2018



Source: ABS (2022).

On the other hand, for new business start-ups in 2018-19, the survival rate in the ACT is running slightly better than the national average. This is outlined in Figure 5 below.

Figure 5: Business Survival Rate for New Business Start-Ups in 2018-19



Source: ABS (2022).

The available evidence suggests that conditions conducive for business survival in the ACT are similar to those across the rest of the country.

2.3 Employment

Employment growth through the year to the end of May 2023 for the ACT was running at 4.9% in trend terms (Australian Bureau of Statistics, 2023b). In the year to the end of May 2023, an additional 12,500 jobs have been added.

In the 2023-24 ACT Budget, the ACT Government is estimating employment growth of 2¾% in 2023-24, moderating to grow by 2% in 2023-24, with projections for growth of 2% in the out-years. Unless around 5,500 jobs are lost during June 2023, employment growth in 2022-23 is likely to far exceed the current budget forecast. A decline in employment growth appears reasonable in the context of moderating demand and economic activity. Given employment by the Commonwealth Government (2023, p. 164) is expected to increase in 2023-24 by in excess of 10,000, and 38.3% of all Commonwealth Government employees are located in the ACT (Australian Public Service Commission, 2022, p. V), the employment forecast for 2023-24 looks reasonable.

2.4 Wage price index

The Wage Price Index (WPI) is currently running at 3.7% through the year to the end of the March quarter 2023 (Australian Bureau of Statistics, 2023f), which is broadly consistent with the ACT Budget estimate of 4% growth for 2023-24.

The ACT Government (2023) is forecasting growth in the WPI of 3¾% in 2023-24, with projections of growth for the out-years of 3½%. The forecast for 2023-24 is consistent with the Commonwealth Government (2023a, p. 58) budget forecast of growth in the WPI for the nation in 2023-24 of 4%, reducing to growth of 3¼% in 2024-25. It also consistent with the most recent enterprise bargaining pay offer by the Commonwealth Government across the entire Australian Public Service (APS) of a 4% pay increase in year 1, 3.5% pay increase in year 2, and a 3% pay increase in year 3 (Riordan, 2023), given the APS makes up around one quarter of the ACT workforce (Australian Public Service Commission, 2022; Australian Bureau of Statistics, 2023b).

On this basis, forecasts and projections for wages growth appear reasonable.

2.5 Consumer price index

The Budget forecasts for Consumer Price Index (CPI) growth in Canberra in 2023-24 and 2024-25 appear reasonable. However, we have some reservations regarding the CPI forecast for 2022-23.

The percentage change for in the Consumer Price Index (CPI) for Canberra through the year to the end of the March quarter 2023 was 6.3% (Australian Bureau of Statistics, 2023a). The ACT Government is forecasting the CPI for Canberra to come in at growth of 5% through the year for 2022-23. We note that this is lower than recent forecasts for the national CPI by the Commonwealth Government (2023a, p. 58) of 6% growth in 2022-23 and by the RBA (2023, p. 70) of 6¼% growth in 2022-23. While there is evidence of some moderation in growth in the CPI across the country, as evidenced by the monthly CPI result for May 2023 (Australian Bureau of Statistics, 2023d), it would be unwise to place too much reliance on a single monthly figure. Overall, we believe there is some risk around this Budget estimate.

The ACT Government is forecasting CPI growth for Canberra of 3¼% through the year to the end of June 2024, moderating to a projected increase of 2¾% in 2024-25, with projected growth of 2½% in the further out-years. The ACT Budget forecast is consistent with the Commonwealth Government (2023a, p. 58) budget forecast for national CPI growth of 3¼% in 2023-24, moderating to growth of 2¾% in 2024-25. On this basis, the ACT Budget forecast for CPI growth in Canberra in 2023-24 and its projection for 2024-25 appear reasonable.

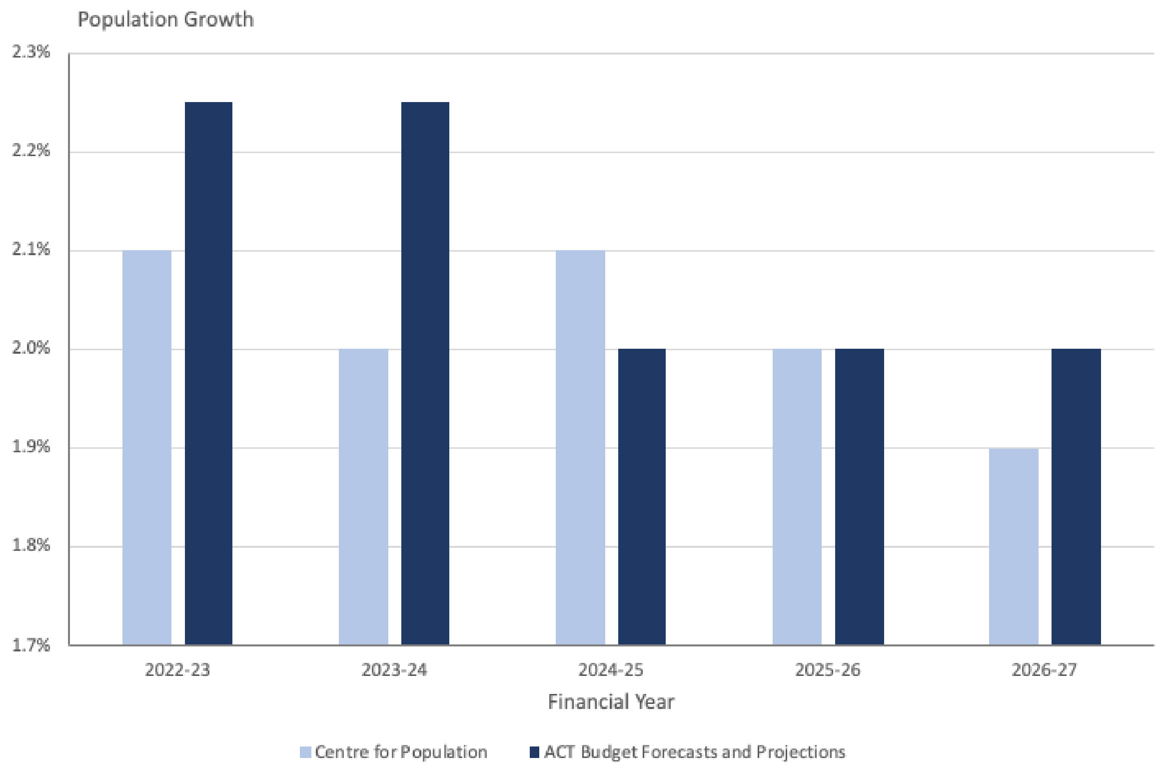
2.6 Population growth

Population growth for the ACT is currently running at 1.8% through the year to the end of December 2022 (Australian Bureau of Statistics, 2023e), which is below the ACT Government (2023) budget forecast of population growth of 2¼% in 2022-23. It is also slightly above the latest Commonwealth Government population forecast of growth of 2.1% in the ACT during 2022-23 (Centre for Population, 2023).

The ACT Government (2023) is forecasting the ACT population to continue to grow at 2¼% in 2023-24, before moderating with projected ACT population increases running at 2% in the out-years.

The ACT Government (2023, p. 30) has revised up its forecast for population growth in the ACT upwards because of the Commonwealth Government's policy decision to enable higher net overseas migration over 2022-23 and 2023-24. The outlook for population growth presented by the ACT Government is generally slightly higher than those prepared for the Commonwealth Government by the Centre for Population (2023, p. 6). The difference between ACT Government and the Centre for Population ACT population growth forecasts is outlined in Figure 6 below.

Figure 6: ACT Government and Centre for Population ACT Population Growth Forecasts: 2022-23 to 2026-27



Sources: ACT Government (2023) and Centre for Population (2023, p. 6).

While the population forecasts presented by the ACT Government may not be unreasonable, they may be on the high side based on forecasts by the Centre for Population.

3. Fiscal Position

The Budget forecasts an improving fiscal outlook, with a headline net operating deficit of $492.0 million in 2023-24 moving over the forward years to a surplus of $212.1 million by 2026-27.

The ACT has a strong balance sheet, and its position compares favourably with other States and Territories, but that position is deteriorating over time. Despite the forecast return to surplus in 2025-26, net debt and net financial liabilities are continuing to grow through the forecast period while net worth is falling.

3.1 Operating Statement - Headline Operating Balance

The Budget Papers present a headline net operating deficit of $492.0 million in 2023-24, improving over the forward years to a surplus of $212.1 million by 2026-27.

Table 2: General Government Sector Headline Net Operating Balance

	2022-23 Est. outcome $m	2023-24 Budget $m	2024-25 Estimate $m	2025-26 Estimate $m	2026-27 Estimate $m
Revenue	7,324.4	7,691.4	8,162.1	8,630.8	8,960.2
Expenses	7,988.5	8,353.2	8,559.2	8,742.4.	9,020.8
Superannuation return adjustment	172.1	219.1	235.7	253.6	272.8
HEADLINE NET OPERATING BALANCE	**-492.0**	**-442.7**	**-161.5**	**141.9**	**212.1**

Source: ACT Government (2023, p. 10).

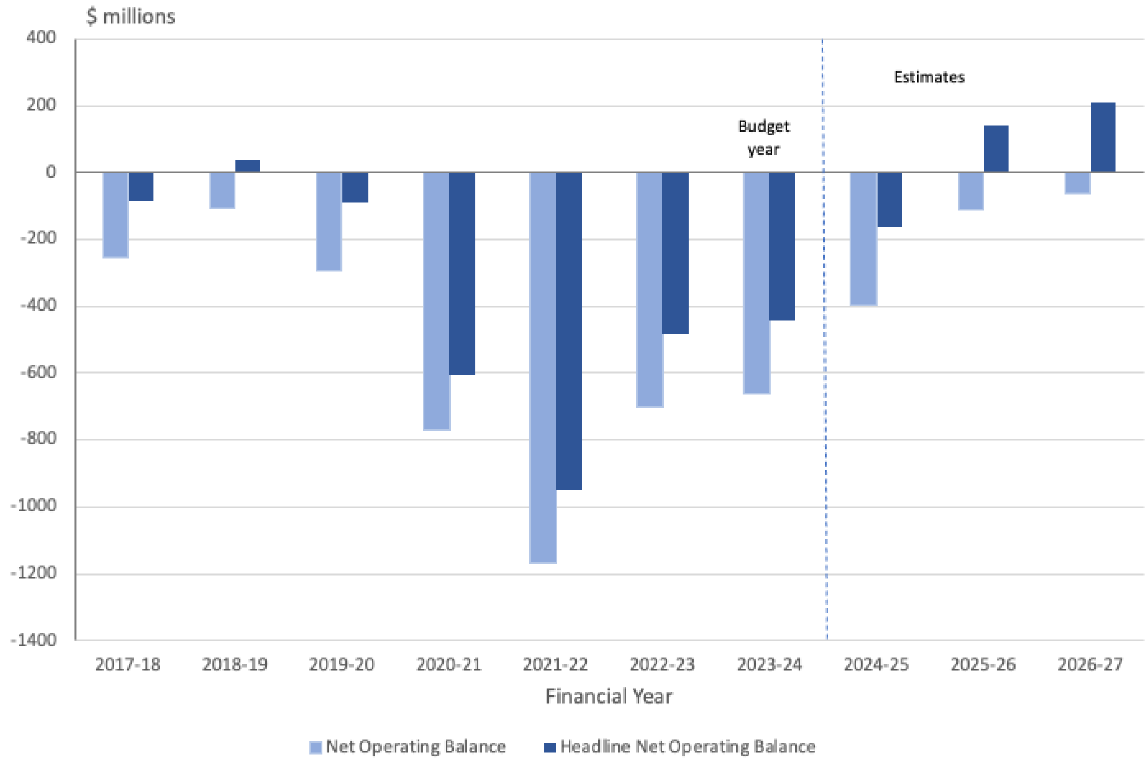
The Headline Net Operating Balance is slightly worse than forecast in the 2022-23 Budget for the 2023-24 Budget year but is better across each of the forward years.

Expenses are now forecast to be higher across the Budget and forward years than forecast in last year's Budget, reflecting new policy initiatives, growth in staff numbers and the full-year effect of the 2022 Enterprise Bargaining Agreement. At the same time, revenue is forecast to be some $150 million higher in 2023-24 than forecast for the same year in the 2022-23 Budget. In the three years to 2026-27, revenue is now expected to be almost $1.6 billion higher than was forecast at the time of the 2022-23 Budget.

The use of the Headline Net Operating Balance as a measure of the Government's fiscal position is worth some consideration. Heads of State, Territory and Commonwealth Treasuries have agreed a Uniform Presentation Framework for Budget reporting (ACT Government, 2021, p.6). Financial statements consistent with these requirements are provided in Chapter 4 under the heading GFS/GAAP Financial Statements (ACT Government, 2023, pp287-88). They show (on p.288) a UPF Net Operating Balance of -$661.8 million in 2023-24, improving to -$60.7 million in 2026-27.

However, the ACT typically presents its fiscal position in terms of the Headline Net Operating Balance. This measure is derived by adjusting the UPF operating balance to reflect an estimate of expected returns from the Territory's Superannuation Provision Account. The impact of this adjustment on the reported Headline Operating Balance is shown in Figure 7 below.

Figure 7: Contribution of Superannuation Return Adjustment to Headline Net Operating Balance



Sources: ACT Government (2013, 2014, 2015, 2016, 2017, 2018a, 2019, 2021, 2021a, 2022a, 2023).

The superannuation return adjustment tends to reduce the reported headline net operating balance. In the years between 2016-17 and 2019-20 the superannuation return adjustment had the effect of moving the reported deficit to balance or close to balance. The underlying deficits in the years since 2020 were so large that the adjustment did not make a material difference to the reported balance.

However, as the Territory has improved its fiscal position, the superannuation return adjustment has had the effect of producing surpluses in the 2025-26 and 2026-27 years that under the agreed Uniform Presentation Framework net operating balance would be reported as deficits.

If the superannuation return adjustment is to be included in the headline net operating balance, we would argue that it should not lead to a bias in outcomes. This would mean calculating the adjustment on an assumption that the total return on the assets of the Superannuation Provision Account is identical to the long-term discount rate used in valuing the liability. In the Budget year, this would imply a superannuation return adjustment of $92 million.

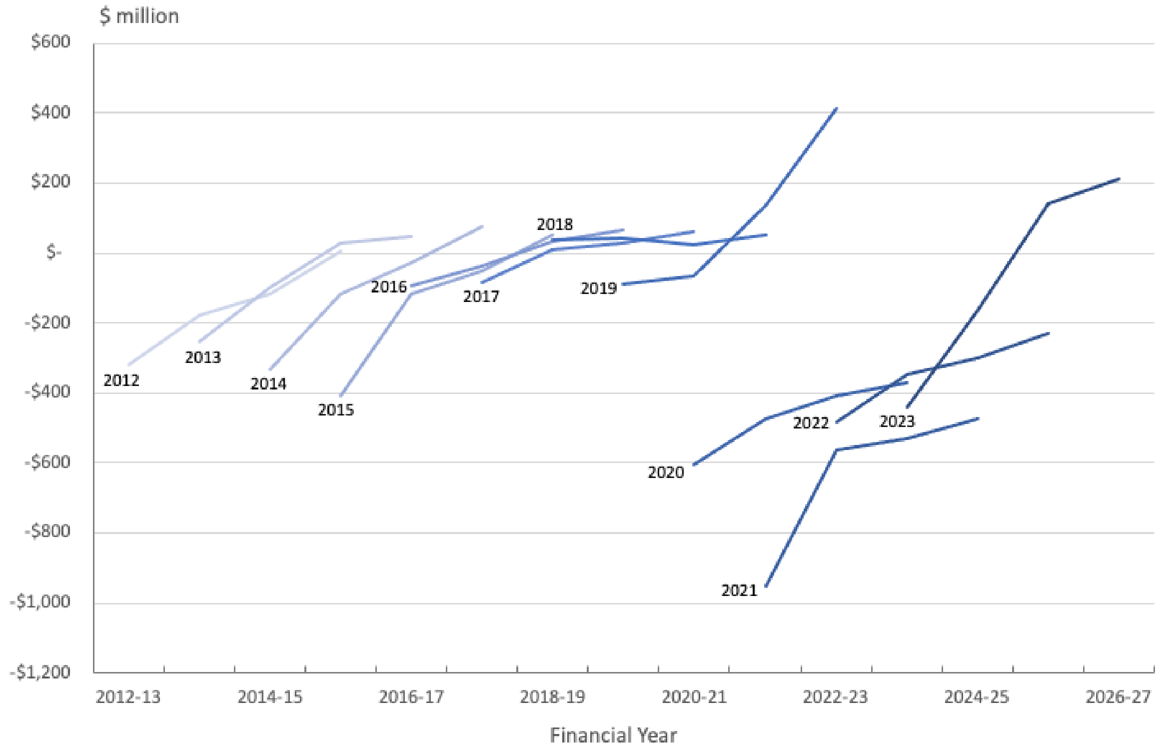
A more detailed discussion of accounting and classification issues in the Budget, including issues around the superannuation return adjustment, is provided at section 9 of this report.

3.2 Medium term forecasts

The medium-term outlook is considerably better than forecast in either of the past three Budgets.

This represents a positive reversal of the trends historically seen in ACT Budgets. The long-term trend in the ACT has been for successive Budgets to set out progressively worse forecasts. Figure 8 below shows the Budget and forward estimates published in each year between 2012-13 and 2022-23. As can be seen, promised improvements in the budget position over the forward years have rarely materialised. In almost all cases, the Budget estimate in any year is worse than had been forecast in previous years.

Figure 8: Forecast returns to surplus



Sources: ACT Government (2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018a, 2019, 2021, 2021a, 2022a, 2023).

The 2022-23 Budget reverses that trend. However, as the past few years have shown, Government Budgets are vulnerable to external events and unexpected shocks. The ACT Budget is particularly dependent on Commonwealth funding and growth in the Australian Public Service. A return to surplus for the ACT Government will require a continuation of favourable economic circumstances and strict fiscal discipline.

3.3 Measures of the ACT Government's financial position

The ACT has a strong balance sheet, but that position is deteriorating over time.

The strength of the Government's finances over the medium term can be assessed in terms of reported levels of net debt, net financial liabilities and net worth.[1] Table 3 below presents movements in these measures for the Budget and forward years.

[1] Definitions and further discussion of the application of these measures are provided in section 8 of this report.

Table 3: General Government Sector Key Balance Sheet Measures

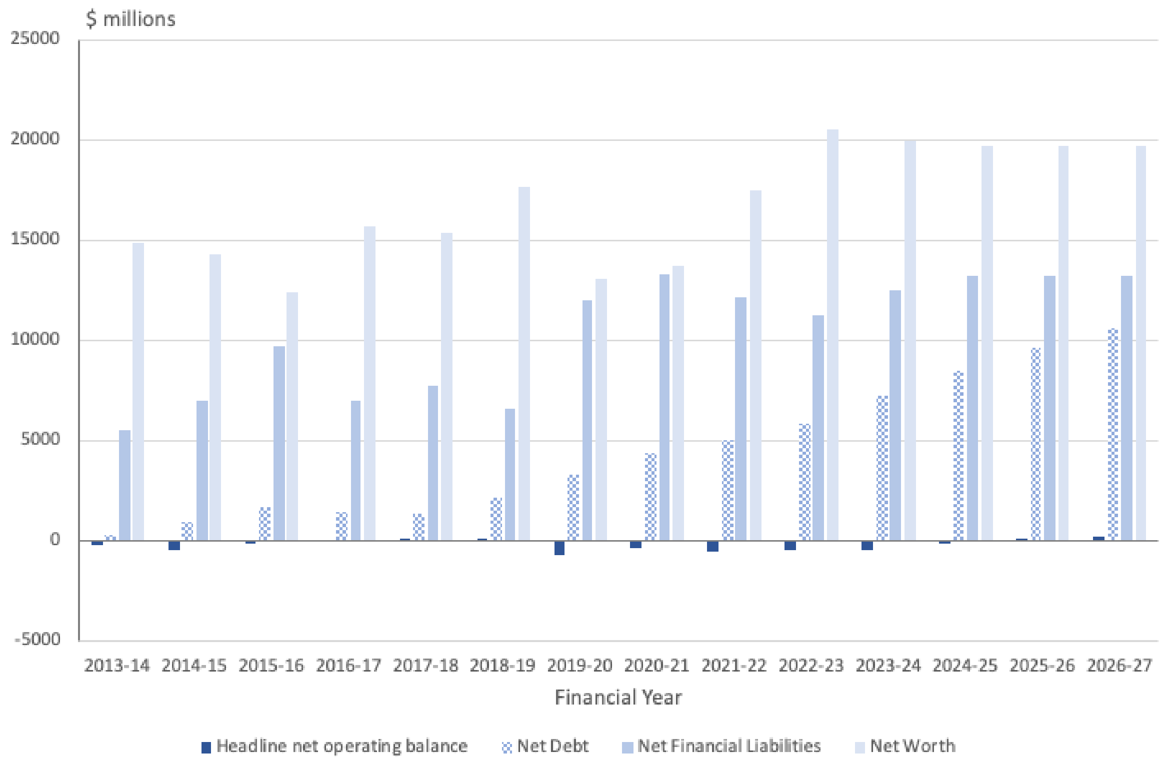
	2022-23 Est. outcome $m	2023-24 Budget $m	2024-25 Estimate $m	2025-26 Estimate $m	2026-27 Estimate $m
Net debt (excluding super)	5,814.2	7,252.1	8,503.0	9,628.7	10,617.2
Net financial liabilities	11,231.8	12,461.7	13,496.1	14,391.1	15,123.9
Net worth	20,548.9	19,979.0	19,694.9	19,688.1	19,724.0

Source: ACT Government (2023, pp. 277-278).

Table 3 shows that the Territory's financial position is becoming more vulnerable over the Budget and forward years. Net debt is forecast to double over the Budget and forward years compared to the expected 2022-23 outcome. After a period of improvement between 2019-20 and 2022-23, net financial liabilities are expected to grow over the Budget and forward years. Net worth, which is the broadest measure of the Territory's financial position, is expected to grow in 2022-23 and then fall slightly in absolute terms over the forward estimates period.

While the key balance sheet measures can vary from year to year with changes in underlying assumptions, the long-term trend shows a deterioration in the Territory's indebtedness and financial obligations. This is illustrated in Figure 9 below.

Figure 9: Key balance sheet measures

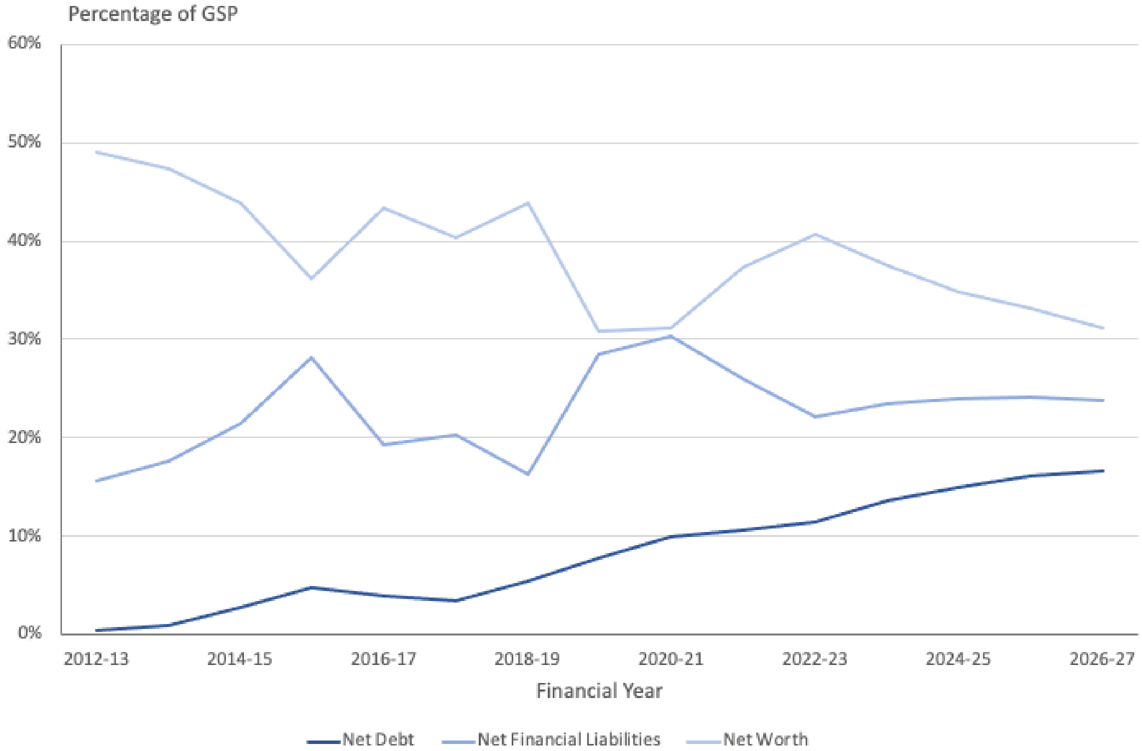


Source: ACT Government (2013, 2014, 2015, 2016, 2017, 2018a, 2019, 2021, 2021a, 2022a, 2023).
Note: From 2019-20, net debt includes the impact of accounting changes in relation to the treatment of leases. The ACT Government has indicated that for this reason net debt from 2019-20 is not directrly comparable to prior years.

Figure 9 shows that net financial liabilities have more than doubled since 2013-14 and will have almost tripled by 2026-27. Over the same time, net debt will have grown from around $312 million in 2013-14 to more than $7 billion in 2023-24 and over $10 billion by the end of the forecast period. Net worth has grown in absolute terms over this period but at a much slower rate.

When expressed as a proportion of Gross State Product, all the Territory's key balance sheet measures are expected to deteriorate over the Budget and forward estimates period, as shown in Figure 10.

Figure 10: Key balance sheet measures as a proportion of Gross State Product



Source: ACT Government (2023, pp.277-278,339).

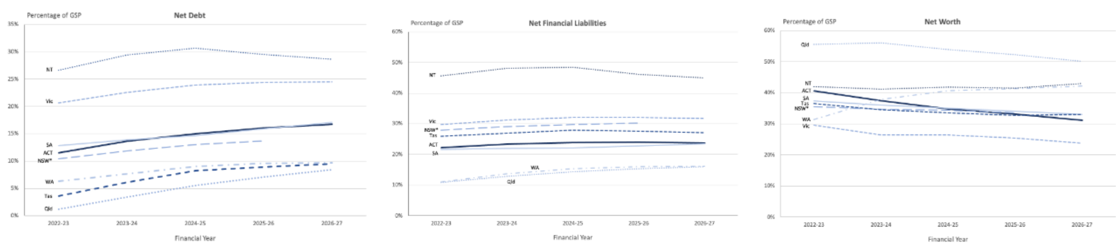
Taken together, these trends suggest a weakening of the ACT Government's balance sheet over time.

3.4 Comparisons with other States and Territories

The ACT's fiscal position generally sits within the range reported by other States and Territories.

Figure 11 shows a comparison of the three key balance sheet measures for the ACT in comparison with other States and Territories.

Figure 11: Net debt, net financial liabilities and net worth comparison across jurisdictions



Sources: 2023-24 State and Territory Budget papers, 2022-23 NSW Budget papers.

Figure 11 shows that the ACT's level of net debt as a proportion of GSP is around the middle of the range reported by other State and Territory governments and that, like other States and Territories, growth in net debt as a proportion of GSP appears to be moderating slightly into the forward years.

The ACT's position on net financial liabilities is at the lower end of the range reported by other States and Territories and compares favourably with the larger States and the Northern Territory.

While the ACT's net worth as a proportion of GSP is also within the range reported by other States and Territories, ACT net worth as a proportion of GSP is declining faster than any other State or Territory, moving from third highest in 2022-23 to second lowest in 2026-27.

The credit rating of all State and Territory debt is assessed from time to time by ratings agencies to provide an indication of each jurisdiction's capacity to meet its financial obligations. The ACT currently enjoys a Standard & Poor's rating of AAA on its long-term debt and a rating of A-1+ on its short-term obligations, with a negative long-term rating outlook (ACT Government 2023, p.45). This means that the ratings agency considers that the ACT has an extremely strong capacity to meet its long and short-term financial commitments.

Table 4 below sets out the credit ratings on long-term debt for all States and Territories. The table shows that the ACT has a level of creditworthiness that is better than or comparable to that enjoyed by other States.

Table 4: Long-term credit rating as reported by States and Territories, 2022-23

Jurisdiction	S&P	Moody's	Fitch
ACT	AAA (Negative)		
NSW	AA+ (Stable)	AAA (Stable)	AAA (Stable)
Vic	AA (Stable)	Aa2 (Stable)	
Qld	AA+ (Stable)	Aa1 (Stable)	
SA	AA+ (Negative)	Aa1 (Stable)	AA+ (Stable)
WA	AAA (Stable)	Aa1 (Stable)	
Tas		Aa2 (Stable)	
NT		Aa3 (Stable)	

Source: State 2023-24 Budget Papers and State treasury websites.

Overall, the ACT's financial position is very strong and is within the range reported by other States and Territories.

3.4 Other measures of sustainability

Additional measures of the Territory's financial position are also available.

In financial audits, the ACT Auditor-General has employed measures such as:

- Assets to liabilities coverage;
- Short term assets to short term liabilities coverage; and
- Financial assets to liabilities coverage.

The benefit of these measures is that they provide an indication of the Territory's capacity to meet its obligations over the short and medium-term.

As part of this review, Pegasus undertook analysis of the capacity of the General Government sector to meets its financial obligations using similar ratios.

The coverage of assets to liabilities falls over the Budget and forward years from about 1.92 times in 2023-24 to about 1.64 times in 2026-27.

The ratio of short-term assets to short term liabilities also deteriorates over the Budget and forward years.

Financial assets are forecast to exceed net financial liabilities by approximately 2.0 times in 2023-24 to approximately 1.7 times in 2026-27.

This analysis reinforces the suggestion that the ACT Government's financial position is deteriorating over the medium term.

Net cash flows from operating activities are forecast to be negative for the Budget year and positive across the forward years, but net cash flows from investments for policy purposes are forecast to be negative across the Budget and forward years.

An overall General Government cash deficit of $989.7 million, and negative net cash from operations of $6.5 million have been forecast for 2023-24.

These positions generally improve over the forward years, with the cash deficit increasing for 2024-25, but reducing across 2025-26 and 2026-27 the forward years. Similarly, net cash from operations is forecast to be positive across each of the out years.

The ACT Government will be able to meet its immediate obligations over the Budget and forward estimates period but the current fiscal trajectory is not sustainable over the long-term.

It would be useful if in future budgets the ACT Government could supplement the information already provided by presenting information on movements in these ratios over time. In particular, it would be useful if future Budget papers were to provide information to allow for a reliable identification of short-term assets and short-term liabilities.

4. Revenue

The Budget forecast for revenue in 2023-24 is expected to be $332 million higher than forecast at the time of the 2022-23 Budget. In the three years to 2025-26, revenue is now expected to be over $1.7 billion higher than was previously forecast at the time of the 2022-23 Budget.

In the 2012-13 Budget, the ACT Government committed itself to rebalancing its tax base by reducing and eventually eliminating stamp duty over a 20-year period and replacing the shortfall through an increase in the general rates system.

The phasing out of stamp duties and the phasing in of the new general rates system over the course of 20 years is being implemented through a series of four separate stages. We are currently up to stage 3 of the tax reform that commenced in 2021-22 and will go until 2025-26.

However, it appears that the reduction in revenue from commercial and residential conveyances will far exceed the increase in general rates as an overall percentage of ACT Government own-source taxation revenue going out to 2026-27, the first putative year of stage 4 of tax reform.

Revenue from payroll tax is now forecast to increase from 28.8% of ACT Government own-source taxation revenue in 2022-23 to 34% by 2026-27 – an overall increase of 5.1 percentage points. This is now more than 8 times the increase in the percentage of ACT Government own-source taxation revenue expected to be collected from general rates over the same period. It would appear the ACT Government is not increasing rates sufficiently to make up for the reduction in stamp duty. Instead, the difference appears to be made up through an increasing reliance on payroll tax.

4.1 Overview

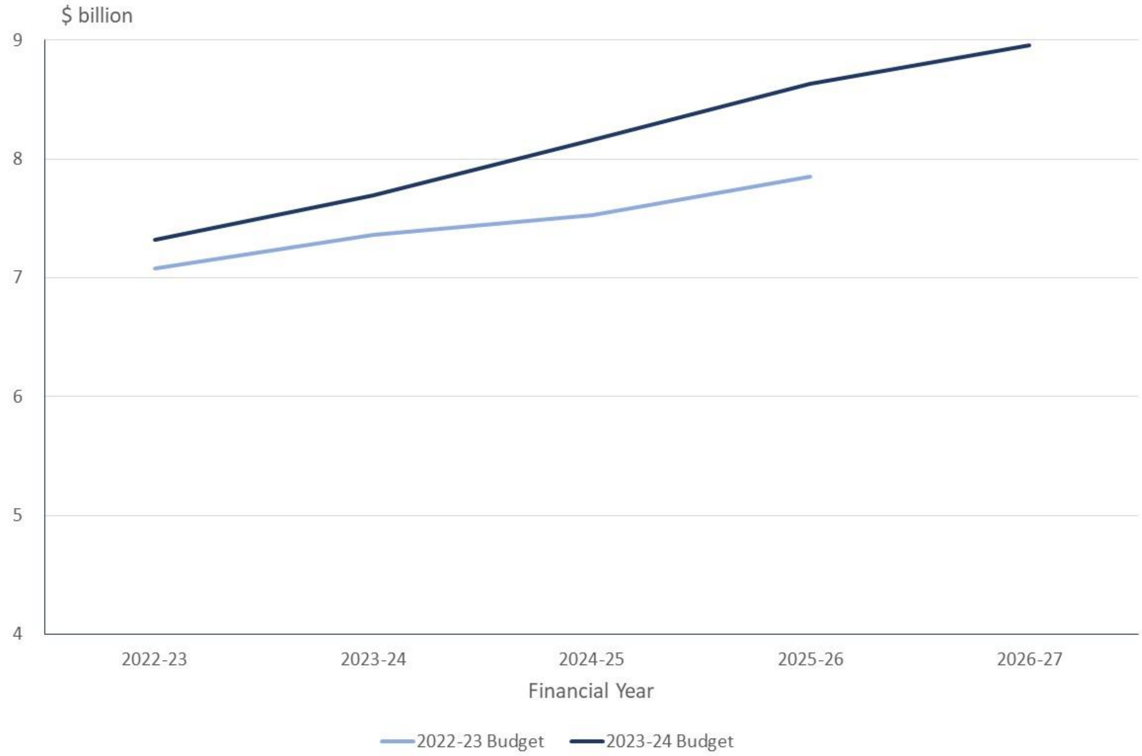
ACT revenue is forecast to be some $245 million higher in 2022-23 than previously forecast in the 2022-23 Budget (ACT Government, 2023, p. 222). The largest contributions to the increase in ACT revenue in 2022-23 over the 2022-23 Budget forecasts have come from:

- $128 million increase in interest income
- $110 million increase in own-source revenue
- $60 million increase in goods and services tax revenue
- $58 million increase in Commonwealth Government grants.

This has been partially offset by an $85 million decrease in the expected revenue in 2022-23 over the 2022-23 Budget forecast from dividend and income tax equivalents income.

ACT Budget revenues are also now forecast to be higher over the forward estimates when compared to the 2022-23 Budget (ACT Government, 2023, p. 221). ACT revenue is expected to be $332 million higher in 2023-24 than previously forecast at the time of the 2022-23 Budget (ACT Government, 2022a, p. 225; 2023, p. 222). In the forward estimates, revenue is now expected to be $637 million higher in 2024-25 than it was in the 2022-23 Budget, and $777 million higher in 2025-26 than it was in the 2022-23 Budget. This is shown in Figure 12 below.

Figure 12: Forecast ACT Budget Revenue in the 2022-23 ACT Budget and the 2023-24 ACT Budget



Source: ACT Government (2022a, p. 225; 2023, p. 222).

In 2023-24, revenue is expected to increase by $367 million over the expected outcome for 2022-23 (ACT Government, 2023, p. 222). The largest contributors to the increase in revenue over the expected outcome in 2022-23 will come from:

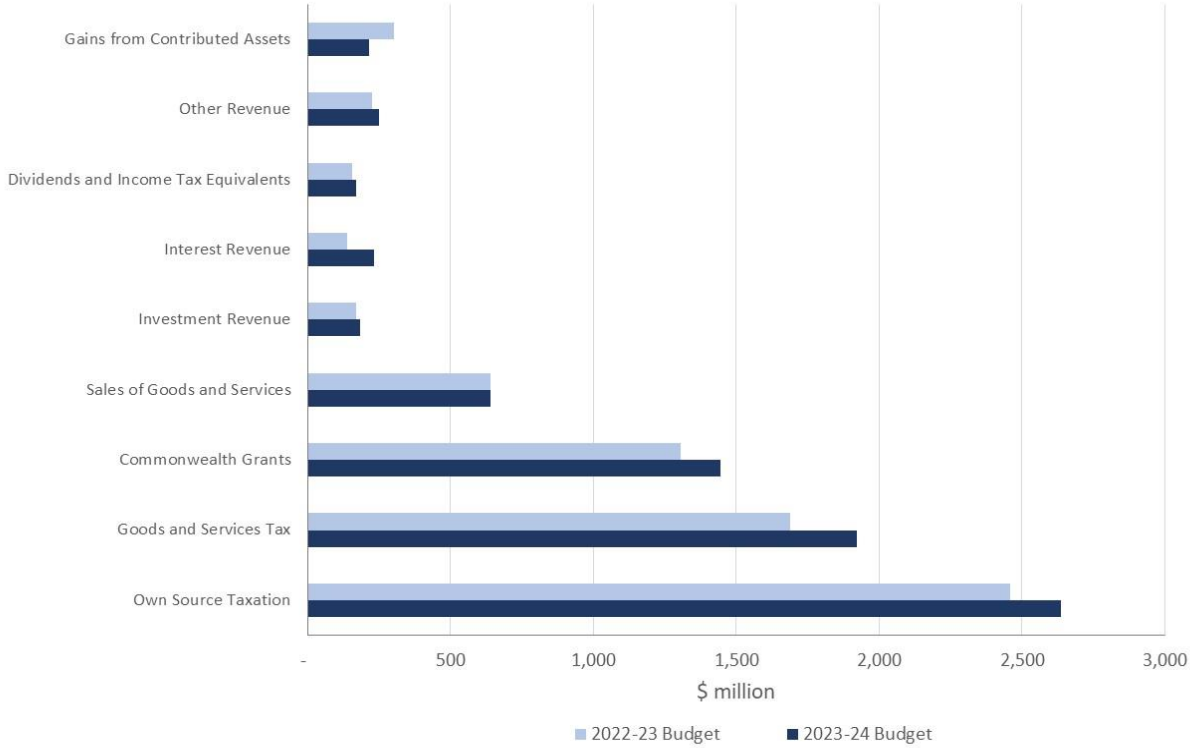
- a $175 million increase in GST revenue
- a $98 million increase in dividend and income tax equivalents income
- an $81 million increase in Commonwealth Government grants
- a $69 million increase in own-source revenue
- a $44 million increase in sales of goods and services.

These increases in revenue are expected to be partially offset by lower revenue from:

- a $94 million reduction in gains from contributed assets

A comparison of the revenue forecast outcome for 2022-23 and the revenue forecast for 2023-24 is provided in Figure 13 below.

Figure 13: Revenue Forecast Outcome for 2022-23 and the Revenue Forecast for 2023-24



Source: ACT Government (2023, p. 222).

4.2 Tax reform and Own Source Revenue

In the 2012-13 Budget, the ACT Government committed itself to rebalancing its tax base through a process of gradually reducing and eventually eliminating various taxes on conveyances (sometimes referred to as stamp duty on the sale of land for residential and commercial purposes) over a 20-year period and replacing the shortfall through an increase in the general rates system. In relation to Conveyance Duty the ACT Government (2012, p. 46) commented at the time:

> *The Government will abolish Conveyance Duty over a 20-year period. Over the next five years, tax rates will be progressively reduced to phase out Conveyance Duty in the longer term.*
>
> *The reduction in the marginal tax rate will focus on the lower tax brackets. …*
>
> *The tax brackets and reduced tax rates will be applicable to both residential and commercial sector transactions.*

In relation to general rates, the ACT Government (2012, p. 47) commented at the time:

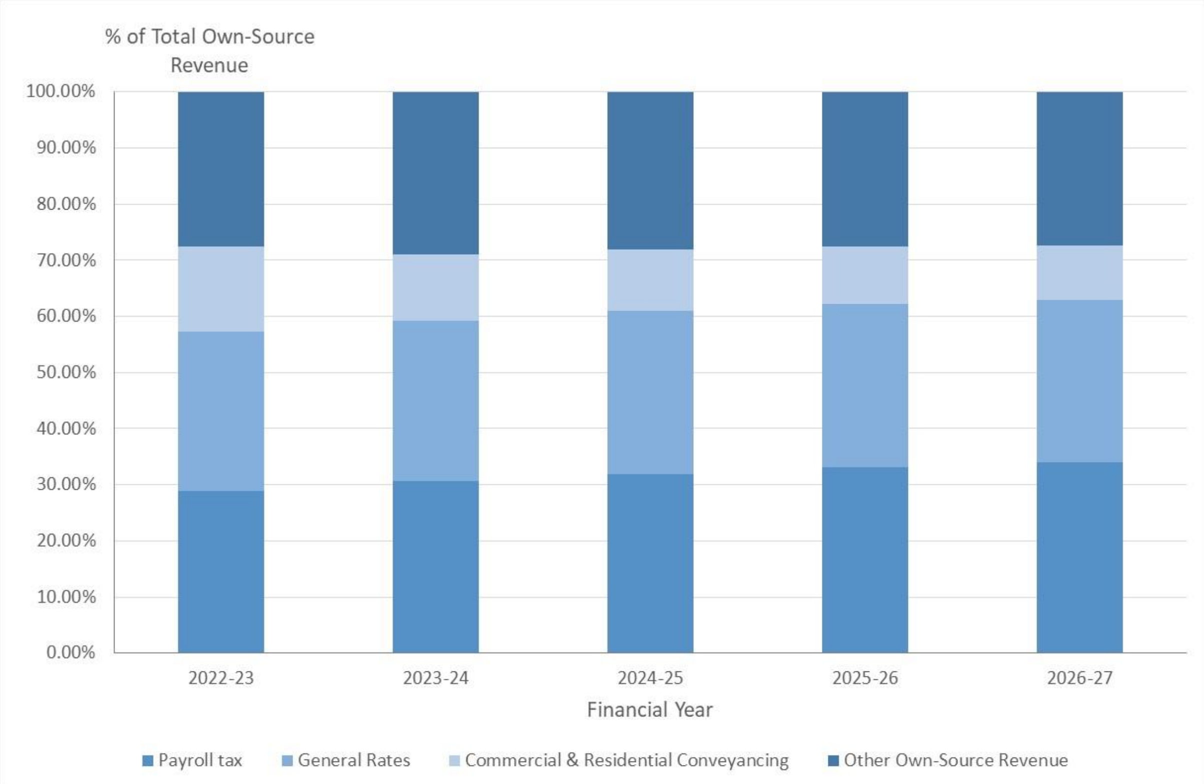
> *The Government will improve the progressivity of the General Rates system with the introduction of a number of tax brackets and increasing marginal tax rates.*

The phasing out of stamp duties and the phasing in of the new general rates system over the course of 20 years is being implemented in four stages to avoid a shock to the property market and to enable the change to be revenue neutral (Reardon & Hopkins, 2018, p. 4). Under stage 3, which commenced in 2021-22 and will run until 2025-26, rates are expected to increase on average by 3.75% per annum (ACT Government, 2021, p. 141).

Consistent with the objectives of the tax reform, the Budget shows own-source taxation revenue from general rates increasing over future years while revenue from commercial and residential conveyances is contracting. In nominal dollars, the increase in rates exceeds the decline in stamp duties. However, this ignores the growth that could have been expected in both revenue sources over the period without the change in policy. Total own-source revenue is projected to grow by 5.5% per annum over the three forward years and were this rate of increase to apply to revenue from rates they would grow to $888 million in 2026-27, implying an increase of only around $8 million when compared with the Budget forecast. Conversely, stamp duties would have been expected to grow to $362 million in 2026-27, so the projected outcome would represent a decline of only around $64 million once expected growth is taken into account.

As a result, when expressed as a percentage of total own-source revenue, the increase in rates is less than the decline in stamp duties as shown in Figure 14 below. Payroll tax is expected to increase by more than the shortfall in both nominal dollars and as a percentage of total own-source revenue. Other own-source revenue, in aggregate, is also forecast to decline as a percentage of own-source revenue.

Figure 14: Composition of ACT Government Own-Source Taxation Revenue



Source: ACT Government (2023, p. 226).

In other words, general rates are not rising quickly enough to replace the amount of revenue lost from changes in commercial and residential conveyance thresholds and rates. The forward estimates now include the first putative year of stage 4 of tax reform, and yet the percentage of ACT Government own-source revenue in 2026-27 collected from general rates is now forecast to remain at 29%, exactly the same level as it is forecast to be in 2025-26 at the end of stage 3. Furthermore, there is only a modest forecast decline in revenue from stamp duties between 2025-26 and 2026-27, falling from 10.2% to 9.6% of ACT Government own-source revenue.

The ACT Government (2022a, p. 225) previously observed in the last year's ACT Budget that from 2023-24 payroll tax was expected to overtake general rates as the largest source of own-source taxation revenue due to the strength in the labour market and wages growth. However, that has now been achieved one year earlier than expected as revenue from payroll tax is forecast to exceed revenue from general rates by around $11 million in 2022-23 (ACT Government, 2023, p. 223).

Revenue from payroll tax is now forecast to increase from 28.8% of ACT Government own-source taxation revenue in 2022-23 to 34% by 2026-27 – an overall increase of 5.1 percentage points.[2] This is now in excess of 8 times the increase in the percentage of ACT Government own-source taxation revenue expected to be collected from general rates over the same period. It would appear the ACT Government is backpedalling to some degree on its tax reform by not increasing rates sufficiently to make up for the reduction in stamp duty. Instead, the difference appears to be made up through an increasing reliance on payroll tax. It is noted the ACT Government (2023, p. 120) has announced the introduction of a payroll tax surcharge for very large businesses from 2025-26.

Payroll tax is levied on employers. Because payroll taxes are generally levied on all components of employee remuneration, they are designed to tax the value-added from labour (Henry, Harmer, Piggott, Ridout, & Smith, 2009a, p. 293). As such, payroll taxes are similar to the labour component of Australia's personal income tax as well as the goods and services tax — they all generate revenue by reducing the real return from working.

Business organisations often assert that payroll tax is an impost on business rather than a payment by workers (Freebairn, Stewart, & Liu, 2015, p. 14). However, the long-term incidence and distributional effects of a selective payroll tax are very different to the statutory incidence. Large businesses pay the tax to government. The adjustment of the wage cost and of employment mean that most of the tax in a long run equilibrium is passed back to employees of both large and small businesses as a lower market wage than otherwise (or lower rate of wage increase over time). That is, all employees, including those employed by small business, bear most of the payroll tax levied on large business.

4.3 Budget impact on cost of living

The ACT Government (2023, pp. 197-208) addresses cost of living issues in its *Cost of Living Statement* contained in its *Budget Outlook*.

The ACT Government (2023, p. 202) indexes most of its taxes and fees each year in line with its forecast for the wage price index (WPI), expected to increase by 3.75% in 2023-24. The ACT Government contends this ensures taxes and fees keep pace with the cost of providing Government services, while remaining affordable. The increase in general rates has previously been separately set to increase by 3.75% per annum under stage 3 of tax reform.

As a measure of consumer inflation, the Canberra CPI is forecast in 2023-24 to be 3¼% through the year. As the Canberra CPI is forecast to be running 50 basis points lower than the forecast increase in the WPI for the ACT, the ACT Government's tax burden imposed on ACT residents is actually being increased during 2023-24 in real terms (or inflation adjusted terms). Based on the ACT Government's economic projections in the out-years, this situation likely to continue to persist.

While on average, ACT residents in the workforce should be able to offset ACT Government tax increases indexed to the ACT WPI through wage and salary increases, ACT residents whose primary source of income is social security benefits indexed to the national CPI could be relatively worse-off in real terms. However, potentially offsetting this additional impost upon such ACT residents is the additional ACT Government (2023, p. 205) support that it provides for vulnerable households with cost-of-living pressures through the provision of a wide range of concessions to assist with living expenses, including the Utilities Concession for electricity, gas and water bills, Pensioner General Rates Rebate, Spectacle Subsidy Scheme, Taxi Subsidy Scheme, driver licence fees, motor vehicle

[2] Discrepancy between the raw figures and the reported number is due to rounding.

registration fees, public transport fares and a one-off $250 booster payment in 2023-24 to households on the priority housing waitlist.

Rather perplexingly, the ACT Government (2023, p. 197) has also included pay increases for ACT public servants as part of its *Cost of Living Statement*:

> *The Government is also addressing the unequal impacts of inflation as an employer for over 27,000 staff – with a pay offer that prioritises increases for lower paid classifications and providing a one-off upfront cost of living payment to all workers.*

Based on the latest labour force survey, ACT public servants represent just over 10% of the Act workforce.[3] We query whether it is appropriate for the ACT Government to laud pay increases for its own employees as part of its policy efforts to ease cost of living pressures. While such pay increases will undoubtedly ease cost of living pressures experienced by individual ACT public servants, it is also the case that part of the financing burden for these pay increase will ultimately fall on all ACT ratepayers, thereby increasing cost of living pressures upon all ACT ratepayers. Rather than easing cost of living pressures in general, pay increases for the ACT public servants appear to be more akin to a zero sum game.

4.4 Dividends and income tax equivalents

Total dividends in 2023-24 are expected to be $144.8 million, an increase of $112.5 million from the 2022-23 Budget. Dividends are expected to increase in 2024-25 to $202.9 million, increasing to $247.5 million in 2025-26, and then decreasing to $204.3 million in 2026-27. The increases in dividends across the years are largely due to land sale settlements from 2021-22 and a renewal of dividends from ICON Water since 2022-23. Further details of these transactions are provided in Table 5 below.

Table 5: Dividends and Tax Equivalents

	2022-23 Est. Outcome $'000	2023-24 Budget $'000	2024-25 Estimate $'000	2025-26 Estimate $'000	2026-27 Estimate $'000
Dividends					
Dividends – Icon Water	0	17,610	37,247	49,891	76,912
Dividends – CIT Solutions	500	500	500	500	500
Dividends – Suburban Land Agency and City Renewal Authority	31,756	126,728	165,140	197,147	126,864
Total Dividends	**32,256**	**144,838**	**202,887**	**247,538**	**204,276**
Total Income Tax Equivalents	**38,643**	**23,976**	**84,872**	**113,344**	**109,974**
Total Dividends and Tax Equivalents	**70,899**	**168,814**	**287,759**	**360,882**	**314,250**

Source: ACT Government (2023, p. 237).

[3] See ABS (2023b).

Tax equivalent revenue is forecast in 2023-24 to be $24 million, a decrease of $14.6 million compared to the updated forecast for 2022-23. It is noted that the forecasts increase significantly for 2024-25 and 2025-26, then taper off slightly for 2026-27.

The major driver of change in relation to dividends and income tax equivalent payments across the out-years is the surge in dividends from the Suburban Land Agency as well as an increase in tax equivalent payments from this same public authority. Specifically, the increases relate to settlements on land sales and the estimated increase in land sales in Gungahlin and Molonglo.

The available evidence suggests that the Canberra residential property continues to remain buoyant, but steadying.

Generally, there is a case for greater transparency in the presentation and explanation of the flows expected from dividends. In this regard, the ACT Government's policy in respect to dividends is unclear.

4.5 Contributed assets

The Budget forecasts revenue from contributed assets of $215.1 million in 2023-24, a decrease of $94.1 million from the 2022-23 Estimated Outcome.

There have been significant changes in the revenue estimates from the 2022-23 Budget through the re-profiling of revenue from contributed assets in the out-years. Gains from contributed assets other than Large-scale Generation Certificates increase significantly in 2024-25 and decrease across 2025-26 and 2026-27. However, gains from Large-scale Generation Certificates taper off over the forward years.

5. Expenditure

Forecast expenses for 2023-24 of $8.4 billion are some 4.6% higher than the expected 2022-23 outcome. Expenses are forecast to grow over the period by 12.9% on the estimated outcome for 2022-23; an annual growth rate of 3.1%. Expenses are however still expected to fall as a proportion of GSP over the Budget and forward estimates period.

Much of the growth is due to increases in employee expenses, reflecting the full year effect of the 2022 enterprise agreement and policy decisions. Major new initiatives that have contributed to growth in expenses include additional ACT police, a new residential care provider, cost of living supports and increased pay and conditions for teachers and school-based staff.

5.1 Overview

Forecast expenses for 2023-24 of $8.4 billion are $364.6 million or 4.6% higher than the expected 2022-23 outcome and $415 million or 5.3% higher than forecast in last year's budget.[4]

Table 6 sets out the forecasts for aggregate expenses for the budget and forward years.

Table 6: Budget and forecast expenses

	2022-23 Est. Outcome $m	2023-24 Budget $m	2024-25 Estimate $m	2025-26 Estimate $m	2026-27 Estimate $m
Expenses	**7,988.5**	**8,353.2**	**8,559.2**	**8,742.4**	**9,020.8**

Source: ACT Government (2023, p.45).

The forecasts show growth over the period on the estimated outcome for 2022-23 of 12.9%, or an annual growth rate of 3.1%. This is almost twice the rate of growth forecast in last year's Budget.

Expenses are still expected to decline over the forecast period as a proportion of GSP (ACT Government 2023, p.213). However, they represent a higher proportion of GSP in each of the forward years compared with last year's forecasts (ACT Government 2022, p.216).

The increase in the forecast level of expenses relative to the last Budget is largely due to new initiatives as set out in the Wellbeing statement, revised funding profiles and roll-overs of established programs, particularly HomeBuilder and JobTrainer, and an increase in superannuation expenses (ACT Government, 2023, Table 3.1.2, p.46 and p.48).

The main areas benefiting from increased funding over the budget include education, health, general public services and social protection (ACT Government, 2023, p. 213). Compared with previous years, there are fewer large initiatives in the Budget but many medium-sized

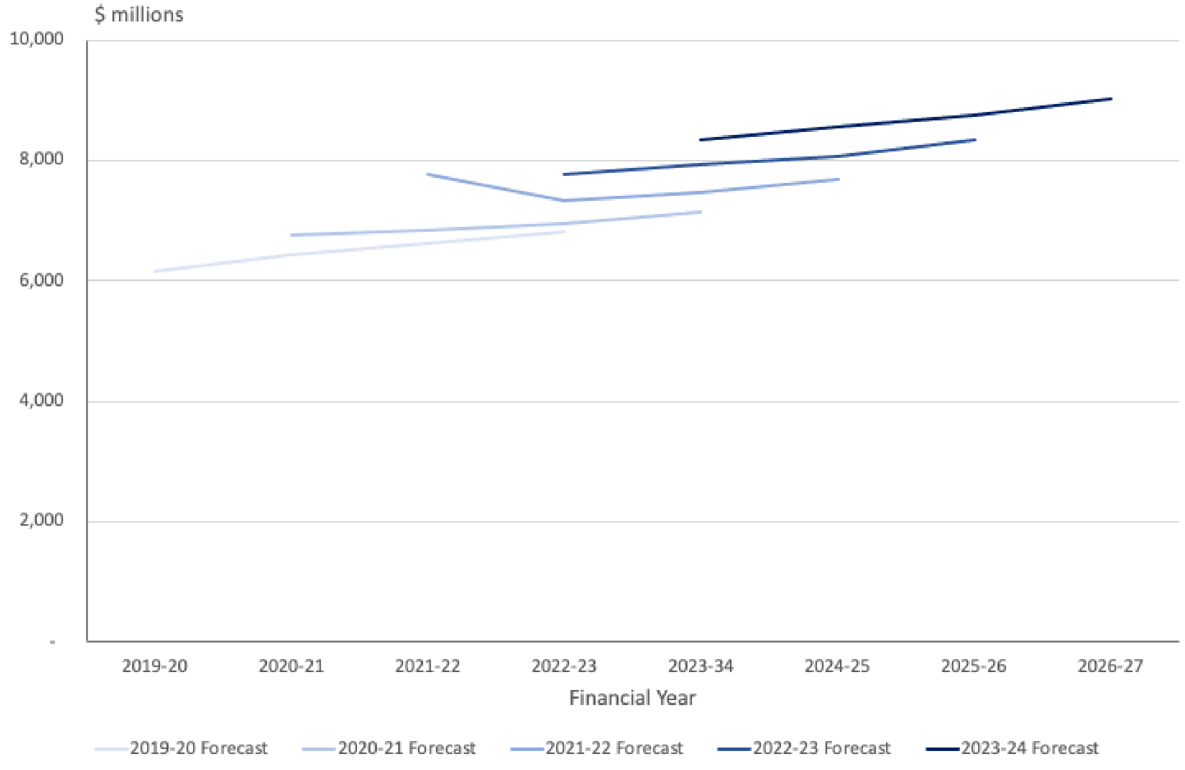
[4] The major contributors to the growth between the 2022-23 Budget and the estimated outcome include policy decisions and technical adjustments already announced in the 2022-23 Budget review.

announcements. Many of the new initiatives are capital projects which have indirect future year effects on expenses. Some of the more significant new initiatives in 2023-24 and beyond include:

- Additional ACT police, $74.3 million over four years
- Establishing a new residential care provider for young people and Chief Practitioner, $65.5 million over four years
- Cost of living supports, $37.8 million over four years
- Increased pay and conditions for teachers and school-based staff, $38.8 million over four years
- Universal access to pre-schools, $28.9 million over four years
- North Canberra Hospital, $20.9 million over four years
- ACT ambulance modernisation $18.3 million over four years. [5]

Caution needs to be exercised when interpreting the aggregate trends for expenses. ACT Budgets have tended to present relatively modest forecasts for expenses that are increased in subsequent Budgets. This is shown in the following chart, in which the forecast series shifts for expenses shifts upward in each successive year.

Figure 15: Expense forecasts – 2019-20 to 2023-24 Budgets



Sources: ACT Government (2019, 2021, 2021a, 2022a, 2023).

Based on this experience, the estimates for expenses in the forward years might be expected to be higher in future Budgets.

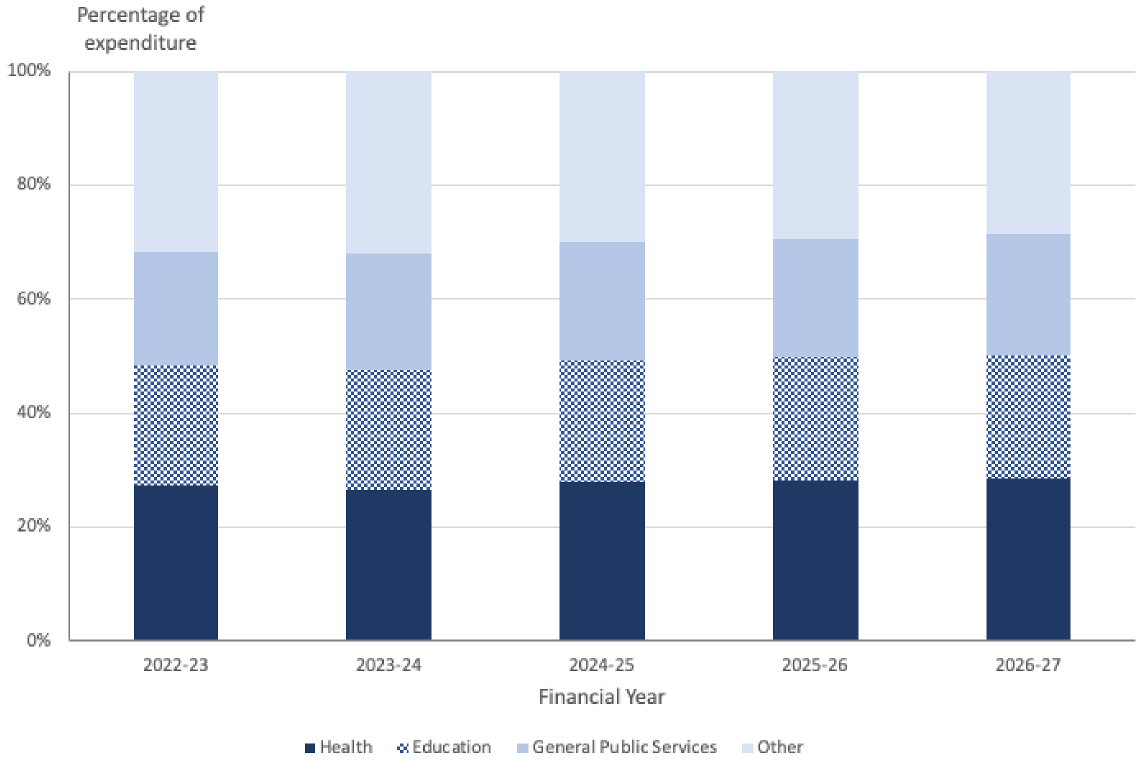
[5] These estimates include expenses (including depreciation) but do not include the capital costs or revenue off-sets identified in the Budget papers for some of these measures.

5.2 Expenses by function

The Budget Papers include a presentation of expenses by the functions through which governments seek to achieve their socio-economic objectives (ACT Government 2022a, p.217). This classification is widely employed in international financial reporting systems and is intended to allow trends in government outlays on functions or purposes to be examined over time (International Monetary Fund, p. 75).

In the ACT, General Government expenses are dominated by spending on health, general public services and education. Together, these functions account for around 68% of all government expenses in the 2023-24 Budget. This is the same as last year and is consistent with traditional patterns of spending in the ACT.

Figure 16: Expenses by function – 2022-23 (est.) to 2026-27



Source: ACT Government (2023).

The major contributions to the growth in expenses across the forward estimates period are in general public services, health and education. Spending on recreation, culture and religion are forecast to be relatively stable.

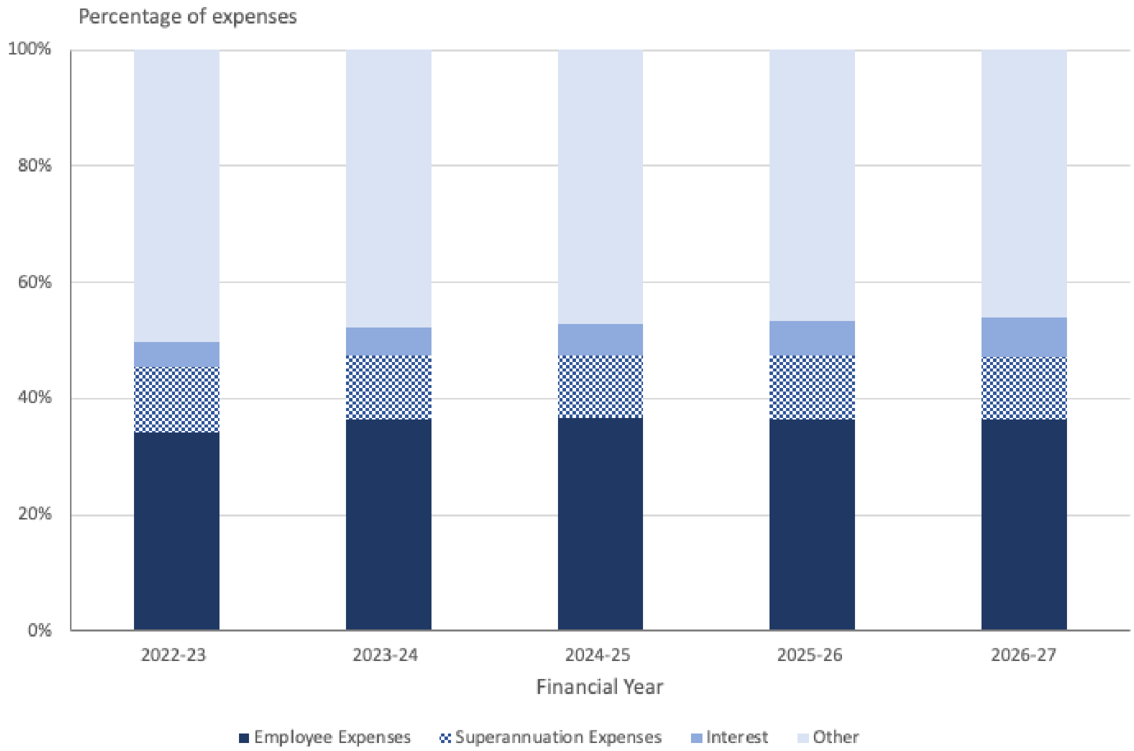
Forecasts for the environmental protection function decline across the forward years. This is mainly due to the surrender of Large-scale Generation Certificates (LGCs) being expected to be lower across the forward estimates period due to reducing forward prices for LGCs, (ACT Government 2023 p.214 and p.357).

5.3 Expenses by economic type

Expenses can also be described in terms of the economic type or purpose of the payment.

Expenses for the ACT Government are dominated by salaries, superannuation and other employee related expenses.

Figure 17: Expenses by economic type – 2022-23 (est.) to 2026-27



Source: ACT Government (2023).

As in previous years, almost half of total expenses relate to employee wages and superannuation (ACT Government, 2023, p. 215). Employee expenses are forecast to grow by 11.5% in 2023-24 over the expected outcome for 2022-23 and by around 4.7% per annum on average over the Budget and forward years. This compares with growth forecast in last year's Budget of 2.2% and around 2.4% per annum across the Budget and forward years.

The 11.5% increase in salary related expenses in 2023-24 represents an increase of $337 million over the expected 2022-23 outcome. This accounts for more than 90 per cent of the total increase in government expenses between 2022-23 and 2023-24.

The Budget papers indicate that this increase reflects forecast employee expenses for the North Canberra Hospital from 2023-24 (which are off-set by reductions in Grants and purchased services), increases in staffing costs associated with Enterprise Bargaining outcomes, and government policy decisions (ACT Government, 2023 p. 215). The Budget papers do not, however, allow for separate quantification of how much these individual components contribute to the overall increase in salary-related expenses.

Interest expenses are the cost of borrowing on public debt. Interest expenses are expected to increase by $57.7 million in the 2023-24 Budget from the estimated 2022-23 outcome and to increase by about 85% over the Budget and forward years, from $323.1 million in 2022-23 to $595.3 million in 2026-27. The growth in interest payments reflects the impact of higher interest rates on higher levels of borrowing and is a direct consequence of the Territory's deficit budgeting. In the last year in which the ACT Budget was in surplus, the interest expense was less than $200 million.

Supplies and services expenses consist of supplies, repairs and maintenance, consultant and contractor expenses and payments for ACT policing. This category is expected to increase by $242.5 million in 2023-24 over the expected 2022-23 outcome. The growth is mainly due to the addition of expenses related to the North Canberra Hospital from 2023-24, the slippage of expenditure from 2022-23 and the impact of government policy decisions including increased expenditure on emergency services.

Growth in the Employee expenses and Supplies and services functions related to the North Canberra Hospital is off-set by the removal of these items from Grants and purchased services, which are expected to decrease by $241 million in 2023-24 compared to the estimated 2022-23 outcome (ACT Government, 2023 p. 216).

The presentation of expenses by economic type illustrates the extent of the challenges in shifting the budget aggregates. Many of the ACT Government's expenses are "locked in" to the extent that they are made up of payments which are to a large extent not discretionary. Employee related expenses represent half of total expenses. These costs are difficult to move in the short to medium-term. Depreciation and amortisation expenses related to capital investment decisions represent another 7% of the total. Interest expenses on the Territory's borrowings are expected to rise to 7% of expenses by 2026-27. These payments are an unavoidable first call for government spending.

Other categories of expenditure are discretionary in a technical sense but as they are more directly related to the level of services provided to the community, there are practical constraints on the extent to which payments can be reduced in the short to medium term. The amount of lock-in limits the scope for governments to reduce the level of public expenditure and improve the broader fiscal position in the short to medium term.

6. Wellbeing statement

The 2023-24 Budget presents new initiatives in terms of a Wellbeing framework that allocates initiatives across twelve result areas, or domains. Ongoing activities of Government, which represent the bulk of the Budget, are not included in the Wellbeing Statement.

The Wellbeing framework supplements traditional economic measures with broader measures of the quality of life. In its present form, the Wellbeing framework gives an indication of how new resources are being allocated to particular quality of life domains.

The Budget includes almost 300 Wellbeing initiatives that include a mix of expense, capital and revenue components, and some off-sets.

While the Wellbeing Statement provides some useful indications of the proportion of new initiatives directed to well-being priorities, it does not yet allow for informed assessments of actual improvements in well-being achieved as a result of past initiatives or the future improvements in well-being expected to be achieved through the various spending and revenue measures.

The Government has indicated that it is continuing to strengthen the linkages between the Wellbeing framework, policy development and the budget.

The ACT Government is working to embed a Wellbeing Framework into the Budget.

As part of this process, the 2023-24 Budget presents the expense, revenue and capital components of new initiatives against each of the prime areas (or domains) within the Wellbeing Framework.

At this stage the Wellbeing Statement focuses on new initiatives. It is not therefore possible to determine the contribution of the Territory's ongoing spending and revenue activities to the Wellbeing domains.

6.1 Value of a Wellbeing statement

The intention behind a Wellbeing budget is that traditional macroeconomic measures should be supplemented by broader measures of the quality of life. The idea behind this approach is that financial outcomes are not the only things that people value and that financial prosperity alone is not an accurate measure of the quality of life.

The Wellbeing statement recognises that economic measures traditionally employed in budget formulation and presentations only provide a partial view of a community's aspirations and living standards. They do not incorporate social or environmental outcomes, or show whether certain groups are getting a fair share of national opportunities and prosperity. They also neglect important social concerns such as the desire for community and connectedness, or the value that people place on the time available to spend the time doing the things that they love with the people that they care about.

Proponents of Wellbeing budgeting have suggested that policy processes that consider well-being factors will support discussions around the type of economy and society that citizens would prefer and that broader measurement of outcomes will provide better evaluations of the impact of decisions on future outcomes (Commonwealth of Australia, 2022, pp. 121-142).

6.2 Different applications of Wellbeing statements

Wellbeing frameworks, or progress frameworks, have been applied in different ways by different administrations.

Most countries use their frameworks to communicate the importance of improving outcomes, and to draw attention to the actions taken by government to achieve these outcomes. Some countries, like Canada and Germany, have used the process of developing a framework to promote a national conversation about progress goals, so have consulted on their frameworks over several years.[6]

A small number of countries, like New Zealand, have also incorporated frameworks into budget and policy-making processes. At this point New Zealand is thought to be the only country that requires all new policy proposals to specify their contribution to well-being and be evaluated on this basis (New Zealand Treasury, 2021).

The frameworks applied by these countries all cover a relatively small number of core policy areas. However, the number of indicators used varies significantly – from 38 indicators in the UK's framework to 153 in Italy's (Commonwealth of Australia, 2022, p. 126).

The ACT stands with a small number of other jurisdictions, including New Zealand, in seeking to incorporate its framework into budget and policy-making processes. ACT Treasury officials have informed us that all new policy proposals are required to indicate the domains to which they will contribute and the impact they are likely to have. They indicated that, to support this, a Wellbeing Impact Assessment (WIA) tool has been created to support Government decision-making by providing an understanding of the impacts of proposals (including both benefits and trade-offs) on well-being in the ACT. They indicated that WIAs are required for all budget proposals to inform the Government through the ERC/Cabinet Budget process. The WIAs are required to specify the well-being impacts of proposals, collaboration in developing proposals, and how success will be measured. Officials also indicated that extensive data is collected through the Living Well in the ACT Region survey delivered by the University of Canberra that assists in shaping priorities and focus areas for the Government to improve well-being outcomes prior to decision-making.

However, officials acknowledged that consistent metrics to measure improvements in well-being domains and the specific contribution of individual initiatives to those domains are still in the process of being developed. Officials indicated that while individual Directorates are expected to evaluate their programs, there is no formal process within the Wellbeing framework for the evaluation of well-being initiatives as a part of the policy formulation and budget decision making processes.

At this point, the presentation of Wellbeing initiatives in the Budget does not allow for assessments of the performance of individual initiatives.

[6] The Commonwealth Treasury (Australian Government The Treasury, 2022) is working towards the development of a stand-alone Wellbeing statement but has not yet indicated the form that its Wellbeing approach might take.

6.3 Wellbeing initiatives

The Budget includes almost 300 Wellbeing initiatives that include a mix of expense, capital and revenue components, and some offsets. Table 7 below sets out a summary of the new initiatives primarily addressing each domain.

Table 7: New initiatives - Budget and forecast years, capital, expenses and revenue ($000)

Wellbeing Domain	Type	2023-24	2024-25	2025-26	2026-27
Access & Connectivity	Capital	46504	38642	-38885	63195
	Expense	18244	5753	6755	39251
	Revenue	435	415	404	1682
Economy	Capital	0	316	2140	5352
	Expense	15780	13758	6649	41843
	Revenue	15593	19909	42323	122262
Education and Learning	Capital	11404	5800	3350	23904
	Expense	9906	23615	26519	90892
Environment and Climate	Capital	60643	44290	16728	143306
	Expense	15808	4689	2439	32212
	Revenue	-8432	-15485	9531	-4445
Governance & Institutions	Capital	2557	659	0	3216
	Expense	47589	32912	25161	128679
	Revenue	37	2035	1958	5557
Health	Capital	58510	47701	25825	137984
	Expense	48333	25883	15768	105975
	Revenue	0	1003	1255	3805
Housing and Home	Capital	72146	41413	85359	244304
	Expense	6393	10475	11570	37060
	Revenue	6700	5000	0	11700
Identity and Belonging	Capital	556	184	0	740
	Expense	2579	2235	53	4923
Living Standards	Capital	356	0	0	356
	Expense	15653	13851	13014	55583
	Revenue	9	9	10	38
Safety	Capital	18934	16495	11594	47482
	Expense	31475	33819	44118	162409
	Revenue	1081	796	4878	15516
Social Connection	Capital	2579	14519	12183	29281
	Expense	888	931	1338	4682

Note: *This table presents an increase in capital, expenses or revenue as a positive number, consistent with general budget conventions. The Wellbeing statement presents revenue as an offset to the cost of services. In addition, some line items are listed as not-for-publication (NFP) or are subsumed within not-for-publication sub-totals. Those items have not been included in the above table.*
Source: ACT Government (2023, pp. 51-197).

The table gives an indication of the relative emphasis in new measures to the various Wellbeing domains.

Significant individual initiatives for the budget year 2023-24 include:

- $67.5 million for growing, renewing, and maintaining of public housing stock (p. 168)
- $60.2 million for extending the Sustainable Household Scheme (p. 110)
- $44.7 million for transitioning North Canberra Hospital from Calvary Health Care to Canberra Health Services (p. 164)
- $28.1 million for continuing work on the Light Rail (Stage 2A and 2B) (p. 183)

Across the budget and forward years, the major initiatives include:

- $177.1 million for growing, renewing, and maintaining the public housing stock (p. 168)
- $74.3 million for recruiting additional ACT Policing personnel and other initiatives involving the ACT Police (p. 181)
- $86.8 million for transitioning ACT Government gas assets to electricity (p. 145)
- $74.1 million for extending the Sustainable Household Scheme (p. 110)
- $65.5 million for establishing a new residential care provider and Chief Practitioner for vulnerable youth (p. 130)
- $59.5 million for building combined emergency services centres in Molonglo and Casey (pp. 180-181)
- $55.9 million for providing additional public housing dwellings (p. 169)
- $50.2 million for redeveloping and expanding the Watson Health Precinct (p. 159).

The Wellbeing Statement uses a concept of 'net cost of services' to measure the overall cost to Government of each initiative. This approach differs from the standard presentation of budget aggregates in directly offsetting revenue against expenses. Examples include Payroll tax on p.120, or Investing in Public Safety on p.186. While normal budget conventions allow expense off-sets (such as expenditure savings measures) to be deducted against expenses, it is not usual to offset revenue against expenses, as these items are normally treated on opposite sides of the operating statement.

ACT Treasury officials have indicated to us that the revenue in question is specifically attached to the measure and that the intention in these tables is to provide an indication of whether a measure represents an overall financial benefit to Government.

Netting off revenue in this way creates issues for readers seeking to interpret the Budget documentation. Caution needs to be exercised in comparing figures in the Wellbeing statement with other figures in the Budget as totals in the Wellbeing statement do not align with the normal Budget conventions. There is a question of whether this presentation provides the most useful way of presenting measures to the public. From a taxpayer's perspective, or in terms of the Budget's impact on the economy, it is difficult to see how an increase in the Emergency Services Levy of $12.8 million over two years (ACT Government, 2023, p.108) or the introduction of a $66.2 million payroll tax over four years (p.120) can be presented as a reduction in the cost of government.

6.4 Issues and comments on the approach

A fully realised Wellbeing Framework has the potential to help direct Government investments towards areas of concern to the community and provide additional information on the success of Government activities in contributing to positive social and economic outcomes.

It is useful, for example, to observe that at a time of high inflation and rising living costs, the Government has allocated some $55.9 million in expenses and $244.3 million in capital over four years to the Living Standards domain area in the 2023-24 Budget compared to a total of $1.5 million in expenses and zero in capital over four years in last year's Budget.

The Wellbeing approach provides a level of transparency that invites further questions about the priorities attached to different quality of life outcomes. For example, the Wellbeing statement shows that no new initiatives were developed in relation to the Time domain. It is not clear why this might be the case when $17.7 million over four years was allocated in last year's Budget. The change in funding might have occurred for many reasons.

Unfortunately, the Wellbeing framework does not yet provide information in form that allows for a clear understanding of the decision-making priorities of the Government to be formed.

Information in the Wellbeing statement is presented in a number of different formats. This is partly a function of the complex way in which the Wellbeing framework maps across the machinery of government and other established forms of reporting on Government activities. Many agencies contribute to the same Wellbeing domains. The Budget Papers also acknowledge that some of the initiatives themselves contribute to multiple domains (ACT Government, 2023, p.53).[7]

Assessment of the priorities reflected in the Wellbeing statement is made more complicated by the accounting for expenses, revenue and the net cost of services noted in the previous section.

The various presentations are useful in themselves, but it can be difficult to reconcile the information that is provided. A cross-walk table that shows the linkages between lead agencies or Directorates, initiatives and wellbeing outcomes would provide a clearer indication of the Government's priorities and improve Budget transparency.

The Wellbeing statement at this stage is focused on new policy initiatives. It is not possible to determine how much of the Territory's ongoing spending and revenue activities contribute to each of the quality-of-life domains or, therefore, the overall priorities that the Government attaches to these outcomes.

Informed assessment of the expected improvements in well-being generated by new policy initiatives, or the actual achievements of initiatives in past statements is also difficult.

There is no indication in the Statement of movements in well-being over time, no indication of the extent to which last year's new initiatives contributed to the well-being of people in the ACT and no indication of the criteria or indicators that will be employed in assessing the contributions that this year's Wellbeing initiatives might make to an improve quality of life in the ACT. While Treasury officials have indicated that new policy initiatives are required to specify their expected contributions to well-being domains, the basis of decision-making against the Wellbeing framework remains obscure.

It is not therefore clear how much of a difference the Wellbeing approach has made to changes in the quality of life experienced in the ACT. With the right indicators, measures of how ACT Budgets have improved well-being over time should be possible. However, as the ACT's well-being framework differs from international standards, such as the OECD Framework for Measuring Well-being and Progress, and from the approach developed in other countries, the potential to compare the success of particular budget measures in improving well-being is very limited.

The Government says that it is continuing to strengthen linkages between the Wellbeing framework, policy development and the budget process (ACT Government, 2023 p.41). The Wellbeing statement includes a $1.2 million measure for joint research with the ANU to improve understanding of the drivers of well-being outcomes (ACT Government, 2023, p. 119). It is possible that future Budgets will provide stronger metrics and more transparency around the selection of Wellbeing initiatives and their contribution to improved quality of life in the ACT.

[7] In addition, there appears to be considerable discretion in attaching new initiatives to the domains. For example, increases in the Emergency Services Levy (p.108) have been attached to the Safety and Economy domains, but the description itself acknowledges that the measure will impact on the cost of living, and therefore the measure might also be reasonably attached to the Living Standards domain.

7. Infrastructure and capital

The Budget includes a substantial major projects, infrastructure and capital works program across the Budget and forward years. The program is over five years out to 2027-28. The ACT government intends to invest $1.6 billion in 2023-24 and approximately $8.2 billion out to 2027-28.

Key projects include hospitals, schools, public housing, urban renewal, transport and roads, community and services, and climate action.

7.1 Overview

The Budget Papers indicate that the ACT Government (2023, p. 262) intends to invest $8.2 billion in infrastructure in the ACT over the next five years to 2027-28. The program is split between the General Government sector (GGS) and the Public Trading Enterprise sector (PTE).

Table 8 below summarises the infrastructure, capital works and investment program.

Table 8: Summary of investment and capital works program – 2023-24 to 2027-28

	2023-24 Allocation $'000	2024-25 Allocation $'000	2025-26 Allocation $'000	2026-27 Allocation $'000	2027-28 Allocation $'000
New Capital Works	271,397	302,461	255,513	164,676	52,932
Better Infrastructure Fund	83,707	70,657	64,775	75,389	77,112
Works-in-progress	1,205,790	951,848	346,896	103,105	104,573
Central Capital Provisions	81,209	465,337	602,404	567,813	603,777
Total Capital Works Program (including provisions)	**1,642,103**	**1,790.303**	**1,269,588**	**910,983**	**838,394**
Capital Delivery Provision	-500,000	-500,000	50,000	450,000	0
Total Capital Program Forecasts (including provisions)	**1,142,103**	**1,290,303**	**1,319,588**	**1,360,983**	**1,338,394**
Public Trading Enterprises	456,418	405.845	306,703	298,127	258,985
Total GGS and PTE Capital Program Forecasts (including provisions)	**1,598,521**	**1,696,148**	**1,626,291**	**1,659,110**	**1,597,379**

Source: ACT Government. (2023, p. 262).

7.2 Capital Works Program – General Government

The Capital Works Program forms the largest component of the Infrastructure Investment Program, with funding of $1.6 billion in 2023-24 and $6.5 billion over the five years to 2027-28. This includes:

- $271 million in 2023-24 and $1 billion over five years for new capital works
- $1.2 billion in 2023-24 and $2.7 billion over five years for works-in-progress

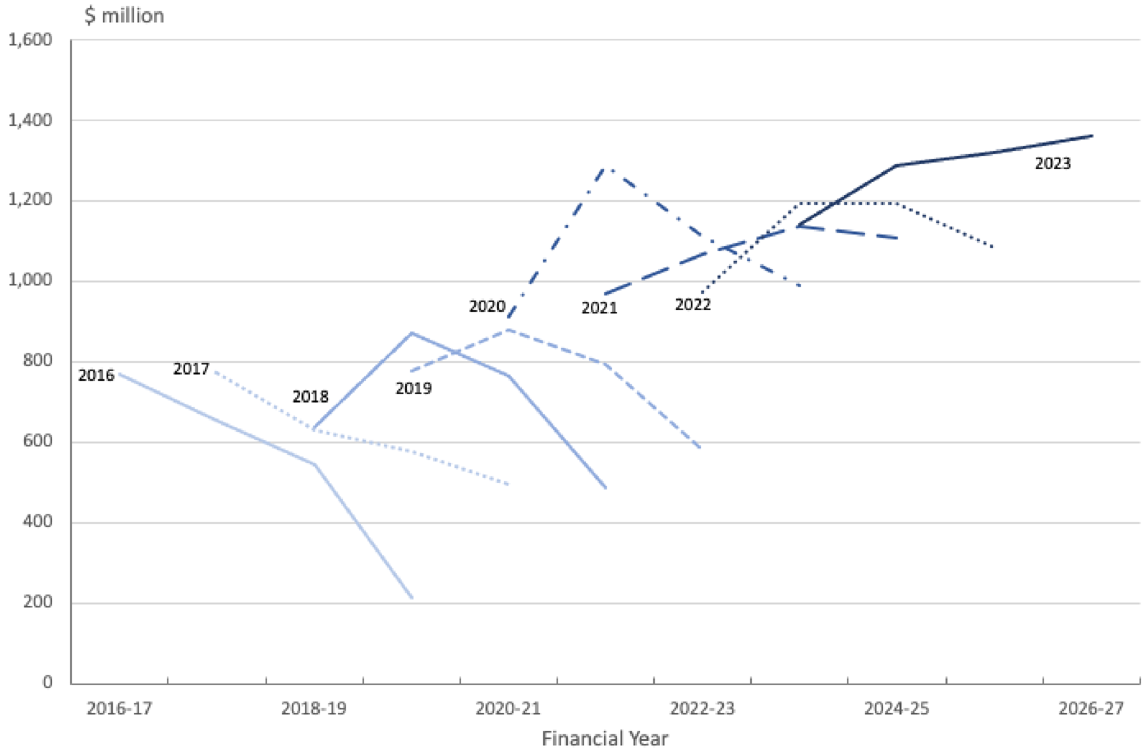
- $84 million in 2023-24 and $372 million over five years for the Better Infrastructure Fund, and
- $2.3 billion over five years for Central Capital Provisions.

These allocations include approximately $2 billion for health, education and skills infrastructure, $1.9 billion for transport and road investments, $650 million for housing infrastructure, $300 million for community support and emergency services, $330 million for climate action and $600 million for community infrastructure.

The Capital Delivery Provision has a net zero impact over the five years to 2027-28.

This Budget reflects an increase in the capital works program, with a total funding envelope of $8.2 billion over the five years. It is noted, however, that the funding tapers off across the last two out years. The ratcheting up of the capital works program forecasts in the last five ACT Budgets is outlined in Figure 18 below.

Figure 18: Capital Works Program Forecasts



Source: ACT Government (2016, p. 210; 2017, p. 194; 2018a, p. 202; 2019, p. 197; 2021. p. 177; 2021a, p. 280; 2022a, p. 269, 2023, p. 262).

It would appear from the Budget papers that some of the initiatives have been brought forward from previous years, such as the Canberra Hospital Master Plan. One consistent pattern in the forward estimates for capital works program forecasts is the eventual decrease in spending across the forward years that is never actually realised. The Committee might wish to inquire of officials how far into the future the planning timeframe for the capital works program extends.

It should be noted, that Infrastructure Provisions increases substantially across the four forward years with a total funding envelope of $2.3 billion (Central Capital Provisions). The Central Capital Provisions sets aside funding for significant capital works projects for which budgets are yet to be settled, or which are commercially sensitive. The Capital Delivery Provision re-profiles approximately 30% of the 2023-24 and approximately 28% of the 2024-25 Capital Works Program to the last three out-years.

The key elements of the Capital Works Program for 2023-24 are (ACT Government, 2023, Chapter 3.2):

Health

- Detailed design of a new Northside Hospital, $64.2 million
- Upgrade and replacement critical equipment at North Canberra Hospital, $2.5 million
- 12 bed palliative care ward for Canberra Hospital over four years, $15.5 million
- Upgrade of critical communications infrastructure across Health Services campuses
- Upgrade of nurse call systems across four years, $3.6 million
- Southside hydrotherapy pool, $8.5 million.

Education

- Modernisation and increased capacity of Telopea Park High School, $49.7 million
- Upgrades across Canberra schools, $21.9 million
- Feasibility work for a new college in the Molonglo Valley, $4.0 million.

Housing

- Social Housing Assistance, $265 million
- Affordable rental and home ownership, $62 million
- Housing choice and quality and land release, $19 million.

Emergency Services

- Molonglo Joint Emergency Centre and planning for a new emergency services site in Casey, $161 million.

Transport

- Monaro Highway upgrades, $230.5 million
- Gundaroo Drive upgrade, $54.7 million
- Light Rail to Woden and William Hovell Drive duplication, $98 million.

Environment and Climate

- Progress toward the Big Canberra Battery, 90 electric buses, environmental friendly appliances, and sustainable housing, $133 million.

Communities

- Community support and social inclusion, and low income housing support, $355 million

Most of this funding is allocated across the Budget and three forward years.

7.3 Better infrastructure fund

The Better Infrastructure Fund provides Government agencies with an annual funding pool for works that extend the useful life or improve service delivery capacity of infrastructure assets. For 2023-24, the Budget provides $83.7 million for projects. In summary, key allocations include (ACT Government, 2023, Appendix B,):

- Health, including Northside Hospital, $5.9 million
- Property upgrades and improved venues, $8.6 million
- CIT, $3.0 million
- Cultural, $461 thousand
- Community Service, $458 thousand
- Education, $22.2 million
- Justice, $2.1 million
- Environment, $1.1 million

- Transport, $28 million.

7.4 Works-In-Progress

A total of $1.2 billion is allocated for 2023-24 and a total of $2.7 billion across the five years. In summary, key components for 2023-24 include (ACT Government, 2023, Appendix C, pp 313 - 325):

- Health, including ACT Health and Canberra Health, $100.5 million
- Chief Minister, Treasury and Economic Development, $75.6 million
- City Renewal, $10.8 million
- Education, $167.3 million
- Environment, $16.7 million
- Housing, $44.0 million
- Justice, $40.3 million
- Major Projects Canberra, $471.0 million
- Transport, $252.3 million.

In summary, key projects include Light Rail phases 2A, CIT Woden Campus and Interchange, Canberra Hospital expansion, Northside hospital development, Healthcare services, Phillip Oval, Digitising Government Services, school upgrades and the Canberra Theatre Centre redevelopment.

7.5 Major Projects

Major Projects Canberra is responsible for delivering major infrastructure projects and to support other Government agencies deliver infrastructure work programs. For 2023-24 the total Infrastructure investment is $499.4 million, including Work-In-Progress of $470.9 million. Over 2023-24 and the out-years, the key projects include those indicated above.

Other major projects include; redevelopment of the Canberra Hospital campus and the new Northside Hospital project, more community based health facilities, Light Rail Stage 2A – raising London Circuit, redevelopment of the Canberra Theatre, new high schools and a new college in Gungahlin, new primary schools in Molonglo, upgrading Garran primary school and Narrabundah college, completing the William Hovell drive duplication and connection to Molonglo, and 400 additional public housing properties and renewal of 1,000 existing properties, (ACT Government, 2023, pp. 260-261).

7.6 Capital Works Reserve

In 2019 the ACT Government amended the *Financial Management Act 1996* to introduce a new mechanism, the Capital Works Reserve, to allow agencies with multi-year allocations to manage their capital program by advancing funds during the financial year should their capital appropriation be exceeded. Funds drawn from the Reserve are deducted from the forward estimates for the project(s) concerned in later years. The 2023-24 Budget has allocated $300 million to the Reserve, with unused funds lapsing at the end of the financial year. The Treasurer is required to provide the Legislative Assembly with a reconciliation of any amounts approved for payment from the Reserve (under section 26 of the *Financial Management Act 1996).*

Whilst Pegasus considers the Reserve to be conceptually sound, the Committee may wish to investigate the operation, including processes for reporting usage of the Reserve. In particular, given that this arrangement is a form of appropriation, normal arrangements would provide the Assembly with a level of control and assurance over the proper use of the mechanism to ensure appropriate accountability and transparency over the use of the funds. In this regard, Pegasus suggests it explores with the ACT Government and officials:

- Criteria established to assess claims on the Reserve
- Authority to approve such claims

- Central control over the usage of the appropriation
- Whether the Auditor-General reviews the use of the Reserve.

7.7 Capital Works Program – Public Trading Enterprises

The Public Trading Enterprises (PTEs) capital works program is outside the Budget as each entity funds their projects from own-sourced revenue and borrowings. New works are projected in 2023-24 totalling $456 million and a total of $1.7 billion across the five years to 2027-28. The programs include:

- Cemeteries and Crematoria Authority, $0.4 million in 2023-24 and $5.6 million over five years
- City Renewal Authority, $11.6 million in 2023-24 and $12.2 million over five years
- Housing ACT, $155 million in 2023-24 and $275 million over five years
- Icon Water, $108 million in 2023-24 and $860 million over five years
- Suburban Land Agency, $178 million in 2023-24 and $573 million over five years.

8. Assets and Liabilities

Net debt and net financial liabilities are increasing across the Budget and forward years in absolute terms and as a proportion of GSP. Net worth is falling slightly in absolute terms but shows a marked decline across the forward years when measured as a proportion of GSP.

The Government continues to make progress in building up a pool of assets to cover its superannuation liability but on present trends is unlikely to achieve its goal of fully funding the liability by 2030.

8.1 Overview

The Budget Papers indicate a broad continuation of existing trends, with increasing levels of net debt and net financial liabilities, and a decline in net worth.

8.2 Net debt

Net debt is a key balance sheet measure in the Government Finance Statistics framework and in the Uniform Presentation Framework agreed by Treasurers in all Australian jurisdictions as the standard for presentation of information in budget papers.

It represents the sum of deposits held, advances received and borrowings less the sum of cash and deposits, advances paid, investments, loans and placements.[8] The measure of net debt employed by the ACT Budget Papers excludes super liabilities.

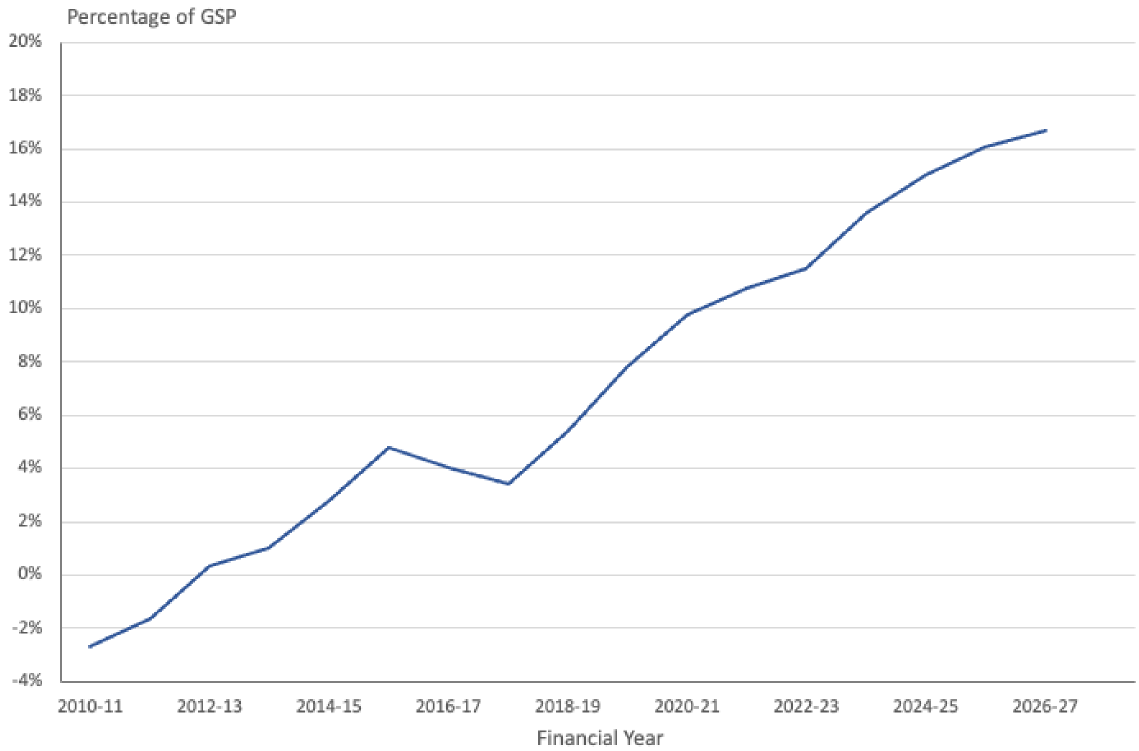
In both absolute and relative terms, the ACT's net debt in 2023-24 is higher than had been forecast in the 2022-23 Budget, and the trend remains persistently upwards: in absolute terms, net debt at the close of the 2026-27 fiscal year is forecast to be approximately double that of the estimated debt for 2022-23.

As a percentage of GSP, net debt increases across the budget and forward years. The ratio of net debt to GSP is a broad indicator of a jurisdiction's ability to meet its debt obligations and its medium-term financial sustainability. The Budget Papers forecast continued growth in this indicator, in line with the trend since 2017-2018, from an estimated value of 11.5% in 2022-23 rising to 16.7% by 2026-27.

Figure 19 illustrates the growth in net debt since 2010-11 as a percentage of the Gross State Product (GSP).

[8] Net debt takes account of gross debt liabilities, which include market and Commonwealth borrowings, and liabilities such as those associated with the impact of public private partnerships such as the Light Rail project, as well as financial assets, such as cash, deposits and investments.

Figure 19: Net debt as a proportion of Gross State Product



Sources: ABS (2021a), ACT Government (2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018a, 2019, 2021, 2021a, 2022a, 2023).

Note: From 2019-20, net debt includes the impact of accounting changes in relation to the treatment of leases. The ACT Government has indicated that for this reason net debt from 2019-20 is not directrly comparable to prior years.

As shown in Figure 19, the ACT Government's net debt has grown steadily over the past decade as a proportion of the Territory's economy, and the ACT has gone from being a net creditor to carrying a substantial debt burden.

The large increase in net debt to GSP in 2015-16 was related to the loan provided by the Commonwealth to support the Asbestos Eradication Scheme and a provision for the Light Rail Stage 1 project. The subsequent reduction in net debt reflected the effect of decisions to procure the Light Rail through a Service Concession arrangement, which removed the requirement to debt fund the capital cost of the project (ACT Government, 2015, p. 251; ACT Government, 2016, p. 288).

However, apart from that adjustment, the ratio of net debt to GSP has consistently increased at a rate of 1-2% a year and is expected to continue to grow up to 2026-27 (ACT Government, 2023, p 277).

The ACT Government's net debt is only partially a consequence of its response to the COVID-19 pandemic: as Figure 19 shows, the change in debt to GSP ratio over the period 2019-2022 is well in line with both prior and projected trends.

A short-term increase in net debt can be a sensible response to adverse economic shocks. However, high levels of continuing debt are undesirable as they impose debt servicing costs and can reduce future budget flexibility.

Australian interest rates are rising. As interest rates continue to rise, the ACT will be faced with higher public debt interest bills.

8.3 Net financial liabilities

Net financial liabilities provide a broad measure of the General Government sector's financial obligations to others.

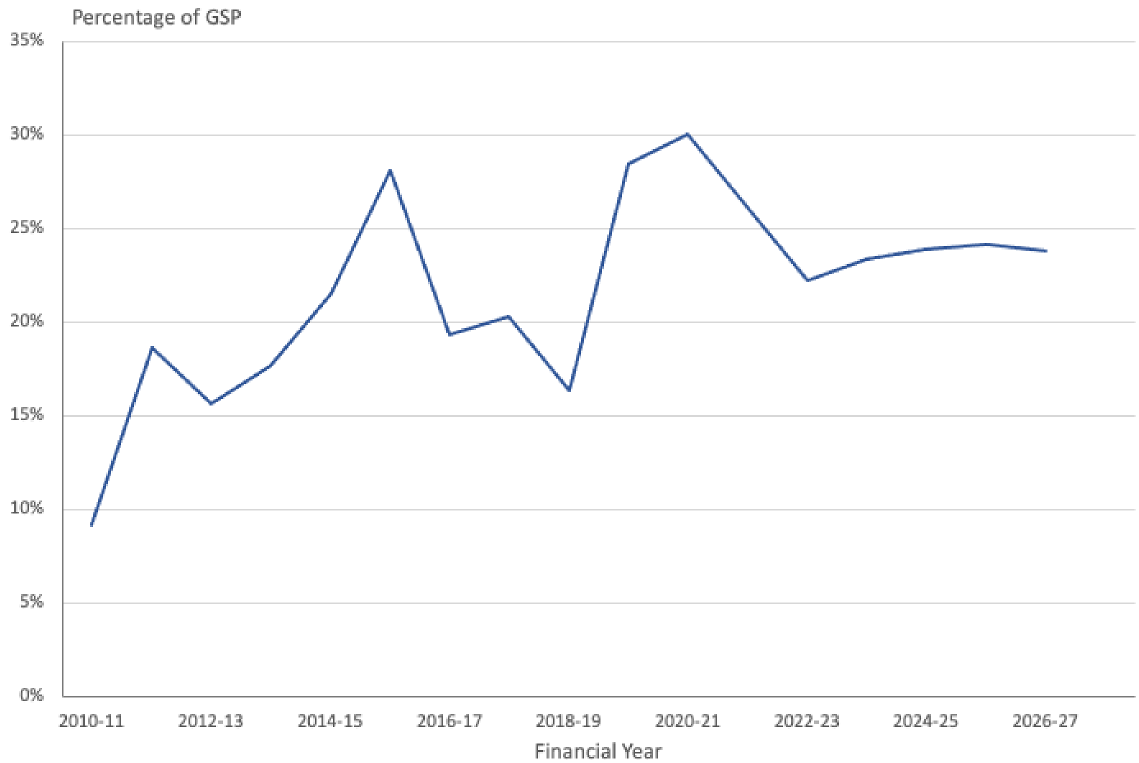
Net financial liabilities are calculated as total liabilities (including net debt and superannuation liabilities) less financial assets (such as cash reserves and investments), excluding the value of equity held by the General Government sector in public corporations. Changes in net financial liabilities are therefore influenced by variations in the net debt figures discussed above.

The Territory's net financial liabilities have increased since the 2022-23 Budget and are projected to continue to grow into the out-years. Net financial liabilities for 2023-24 are estimated at $12.5 billion, an increase of $1.1 billion since 2022-23, and are expected to rise to $15.1 billion by 2026-27.

Relative to GSP, the level of net financial liabilities is forecast to rise gradually into the out-years. The Budget Papers suggest that forecast growth in the ratio of net financial liabilities to GSP over the forward years is related to inflationary trends, variations in net debt and changes in the assumptions relating to the discount rate for measuring the superannuation liability.

Figure 20 below illustrates the growth in net financial liabilities as a proportion of GSP since 2010-11.

Figure 20: Net financial liabilities as a proportion of Gross State Product



Sources: ABS (2021a), ACT Government (2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018a, 2019, 2021,2021a, 2022a, 2023).

Figure 20 shows that while there has been some fluctuation in the ratio of net financial liabilities to GSP over time, the overall trend since 2010 has been upwards.

A spike in 2015-16 was related to a higher forecast superannuation liability and capital provisions to account for some capital projects that were subsequently procured through Service Concession arrangements (ACT Government, 2016, p. 289). A second spike in 2019-20 largely reflected growth in the superannuation liability, higher borrowings and changes in the accounting treatment of operating leases (ACT Government, 2019, p.295).

Continued growth in the ratio of net financial liabilities to GSP is not desirable in terms of the sustainability of the ACT Government's debt. The ACT Government has in the past argued that its borrowings should be looked at in the context of a growing economy and budget, rather than as absolute figures in isolation (ACT Government, 2019, p.295). Considering rising interest rates and the steady growth in net financial liabilities to GSP shown in Figure 20, this may not be sustainable into the medium and longer term.

8.4 Net worth

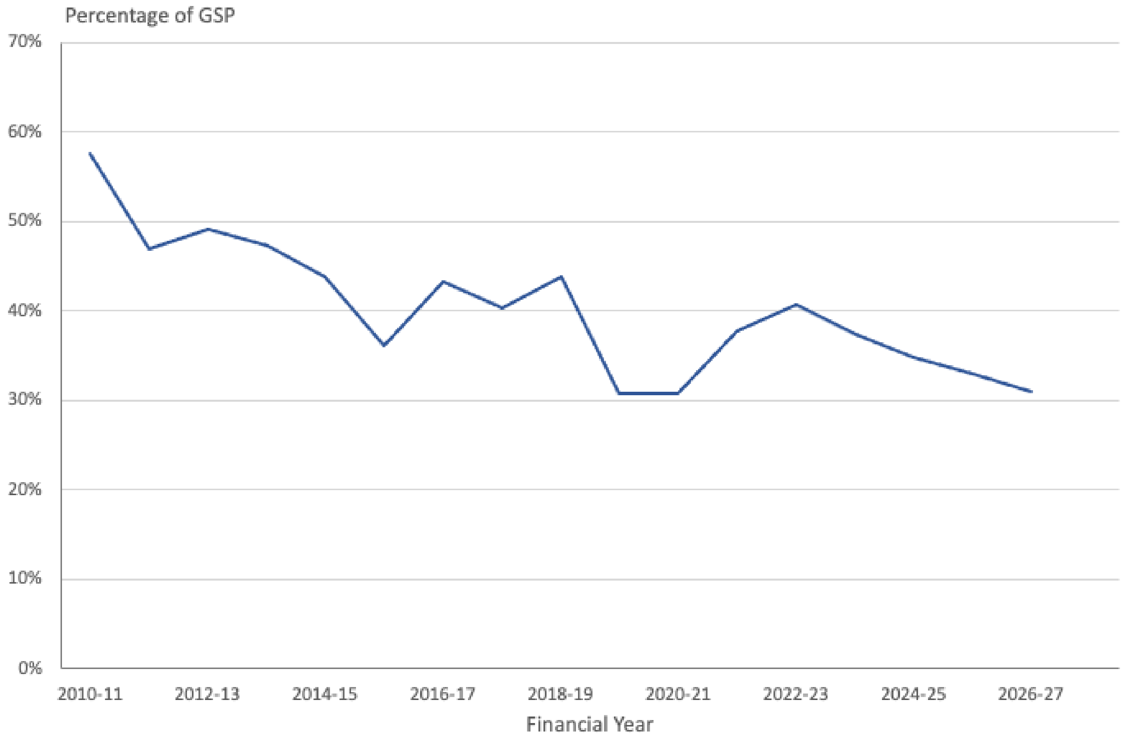
Net worth is an economic measure of wealth that reflects the value of all financial and non-financial assets (such as land, plant and equipment) less liabilities, including superannuation liabilities.

This indicator is often regarded as the best measure of the sustainability and inter-generational equity of a jurisdiction's fiscal position (e.g. Rowles, 1992; AARF, 1995; JCPA, 1995a; Mellor, 1996, cited in Robinson, 1996).

The ACT Government's net worth is positive. While net worth has improved in both absolute and relative terms since 2019-2021, it is projected to decrease into the future.

Figure 21 illustrates the change in net worth as a proportion of GSP since 2010-11.

Figure 21: Net worth as a proportion of Gross State Product



Sources: ABS (2021a), ACT Government (2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018a, 2019, 2021, 2022, 2023).

Figure 21 shows a fairly consistent long-term decline in the ACT Government's net worth expressed as a proportion of GSP. The ACT Government's net worth has fallen from almost 60% of GSP in 2010-11 to 37.5% in 2023-24 and is forecast to fall to 31.1% by 2026-27.

The Territory's absolute net worth remains high: it was $15.9 billion in 2010-11, is estimated at $19.9 billion for 2023-24, and is only predicted to fall slightly to $19.7 by 2026-2027.

While the Territory maintains a strong net worth in absolute terms, there has been a long-term decline in net worth as a proportion of GSP. In the absence of corrective measures to improve the value of the ACT Government's assets or reduce liabilities, that trend is likely to continue.

8.5 Superannuation

For new employees since 2005, the Government has made fortnightly payments to each employee's designated superannuation fund under a defined contribution arrangement. There are no associated unfunded liabilities for these employees. However, the ACT continues to carry a significant liability associated with the superannuation entitlements of past and present employees who are members of the Commonwealth defined benefit superannuation schemes, the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS).

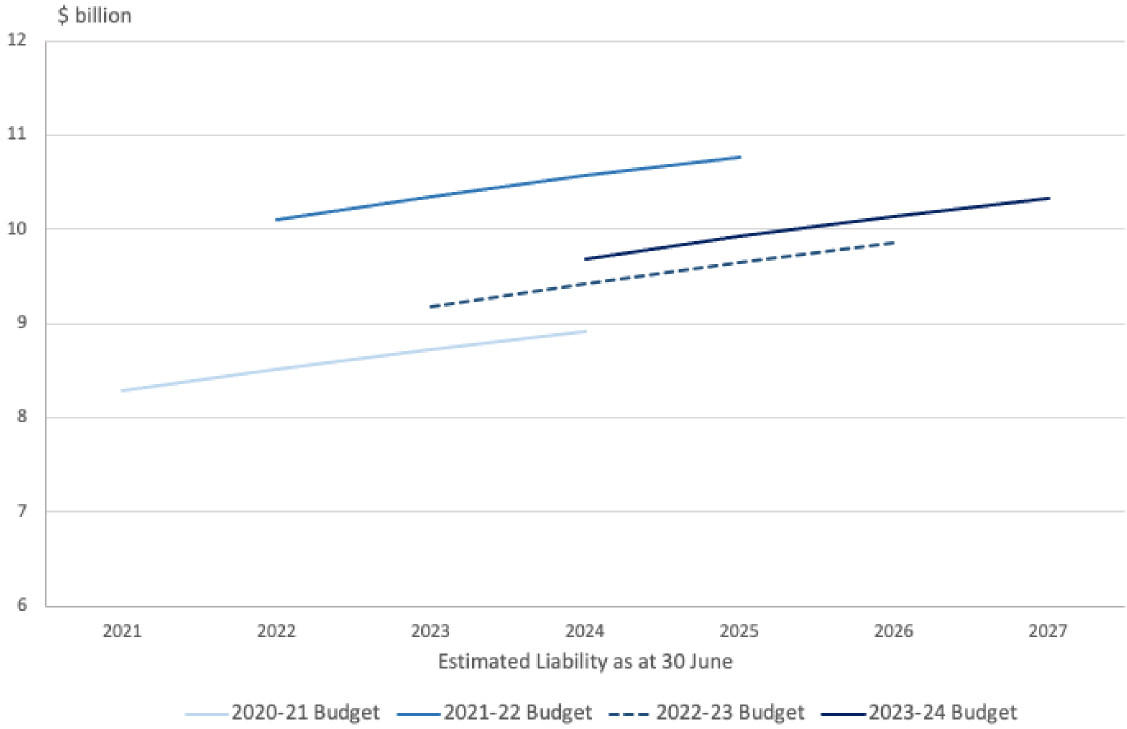
Approximately 5,700 current employees are members of these schemes. In addition, the ACT has liabilities in the two schemes in relation to a further 29,000 former ACT Government employees, including around 16,500 pensioners. Both the CSS and PSS schemes are closed to new members.

The Territory's estimated defined benefit superannuation liability depends critically upon the discount rate used to calculate the present value of superannuation payments in future years and its relativity to the other financial assumptions regarding future salary growth, pension indexation and crediting rates. Demographic assumptions regarding exit rates and mortality will also impact on the estimated liability. For financial statement reporting, the discount rate is prescribed under the accounting standards (AASB 119) to be the market yield on Government bonds on the reporting date. This changes from year to year and leads to volatility in the estimated liability.

For forward estimates, therefore, long term financial assumptions are typically adopted to remove this source of volatility. The Territory Budgets for 2020-21 to 2022-23 used different long term financial assumptions in each year. We commented in our report on the 2022-23 Budget that these changes in assumptions made it impossible to discern the impact of changes in other assumptions or experience as they were swamped by the effect of the financial assumptions.

For the current Budget, the projected liability has been reported using the same financial assumptions as those adopted in the 2022-23 Budget. As a result, the increase in the liability reported for 2023-24 relative to 2022-23 shown in Figure 22 represents a real increase in the Territory Government's obligations, rather than being an artefact of the valuation assumptions. The main factors driving the increase in the liability are higher than anticipated inflation (that increases the value of pensions indexed in line with the CPI) and higher rates of pension take-up in the PSS.

Figure 22: Estimated Defined Benefit Superannuation Liabilities

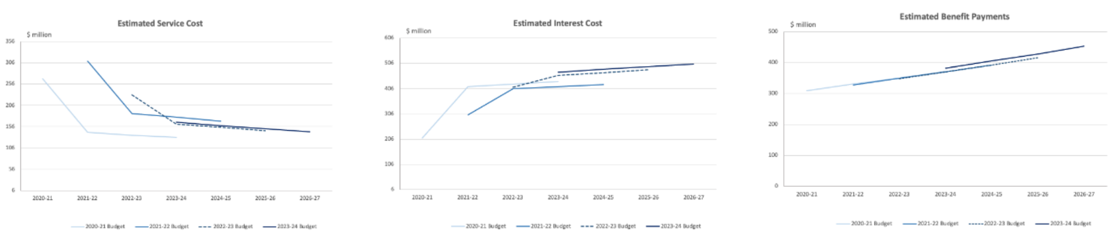


Source: ACT Government (2021a, 2021b, 2022, 2023).

While it is not relevant for the current year, we reiterate our recommendation from 2022 that, if the long-term financial assumptions are to be changed from one Budget to the next, liabilities are reported both on the new basis and the previous basis.

The projected service cost (associated with the accrual of employee benefits) and interest cost (due to the unwinding of the discount rate as accrued benefits come closer to payment) are also sensitive to the financial assumptions and have been similarly volatile in previous years. With the retention of the financial assumptions used in 2022-23 for the current projections, the service cost and interest cost are virtually unchanged. On the other hand, in the absence of changes in experience, projected benefits are expected to change only slowly as was the case for the previous years. For the current year, the real increase in the liability is evident in the increase in the projected benefit payments shown in the right-hand panel of Figure 23.

Figure 23: Estimated Defined Benefit Superannuation Flows

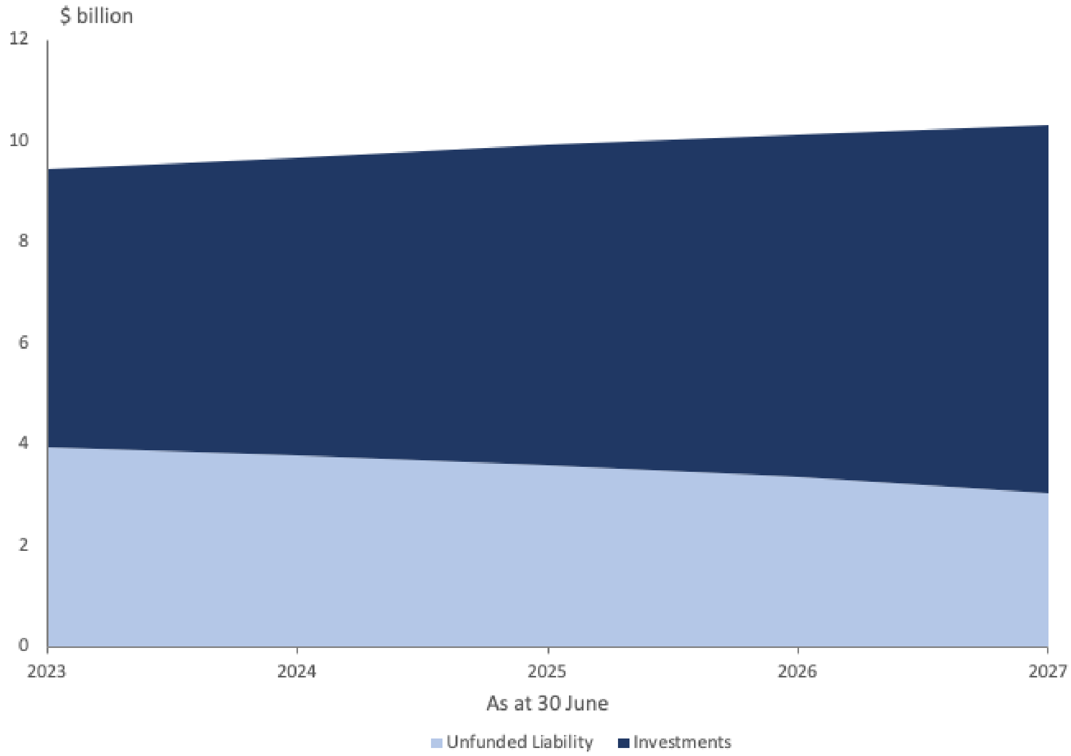


Source: ACT Government (2021a, 2021b, 2022, 2023).

The large change between the first two points in each of the service cost and interest cost series reflects the difference between the discount rate prescribed for financial reporting and the long-term discount rate. A lower discount rate increases the service cost, as future benefit payments are not as heavily discounted, and reduces the interest cost, as the opening liability is unwound using that lower rate.

The ACT Government established a Superannuation Provision Account in 1991 as a vehicle for accumulating funds to meet the Territory's unfunded defined benefit superannuation liability. As at 30 June 2023, the assets in the Account are estimated to cover 58% of the total superannuation liability and this proportion is expected to increase over the forward years as shown in Figure 24.

Figure 24: Defined Benefit Superannuation Unfunded Liability and Investment Assets



Source: (ACT Government, 2023, p.282).

Successive Governments have maintained a commitment to the target of achieving full coverage of liabilities by 2030. For example, in the response to our report to the Legislative Assembly on the 2022-23 Budget, the Government noted that:

> *A long-term objective of the Government's fiscal strategy is to maintain a strong balance sheet with an underlying financial objective to fully fund the Territory's unfunded defined benefit CSS/PSS superannuation liability by 2030. (ACT Government 2022a, p 31)*

In practice, however, this goal appears unlikely to be met. Based on the existing trends in the funding percentage, we estimate that it would take around 12 years before assets would be sufficient to cover the unfunded liability (estimated using the long-term financial assumptions and assuming that benefit payments continue to be funded from the Budget rather than the Account). Alternatively, based on the estimates of defined benefit liabilities and the assets in the Superannuation Provision Account as at 30 June 2023 together with projected benefit payments and accrued service costs over the next seven years, the Account would need to achieve total investment returns of CPI plus 7.3 percentage points until 2030 to meet the goal of full funding. This compares with the target rate of return of CPI plus 4.75 percentage points and an achieved return of CPI plus 5.0 percentage points over the past 26 financial years. Thus, the prospect of extinguishing the unfunded liability by 2030 appears remote.

At the same time, and notwithstanding the small increase in the projected benefit payments shown in the right-hand panel of Figure 23, there is no indication that the ACT will have any difficulties in meeting its unfunded superannuation obligations, which will emerge as a requirement to meet benefit payments over a period of more than 50 years.

9. Budget accounting, classification and valuation issues

Valuation effects, accounting treatments and timing issues continue to have large impacts on the budget aggregates and on the reported budget balance.

9.1 Overview

The 2023-24 Budget reflects decisions on a number of accounting, classification and valuation issues.

The following sections provide comment on the budget accounting and classification issues that have material impacts on the Budget aggregates and how they are presented.

9.2 Disclosure of key accounting policies

The Budget financial statements, including the budget deficit, and associated tables, are presented in Chapter 4 of the principal Budget Paper (ACT Government, 2023, pp. 287-299). Section 4.1 relates to the General Government Sector (GGS) and Appendix D includes the financial statements for the ACT's Public Trading Enterprises. Appendix E includes the Total Territory Consolidated Financial Statements, reflecting an accounting consolidation of the GGS and the Public Trading Enterprises. The GGS statements are titled "GFS/GAAP FINANCIAL STATEMENTS" suggesting that Australian Accounting Standards Board (2012) accounting standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* has been adopted as the key basis for the preparation of the statements. The presentation format of the statements suggests this is the case. AASB 1049, which forms the basis for the Australian Heads of Treasuries Uniform Presentation Framework, requires compliance with all other applicable accounting standards in the preparation of the statements.

In accordance with generally accepted budget reporting principles, Section 4.2 sets out revenues and expenses by function. These tables provide details and a level of granularity of the ACT's revenue streams and expenses across the ACT's key directorate functions.

Appendix G – "Basis of financial statement preparation" (ACT Government, 2023, pp. 341-343) sets out the key accounting bases adopted in the preparation of the Budget financial statements. This section confirms the financial statements have been prepared in accordance with AASB 1049, the Heads of Treasuries Uniform Presentation Framework, which is based on AASB 1049, and where applicable, the ABS Government Finance Statistics framework.

It is acknowledged that Appendix G discloses several accounting policies and assumptions that relate to Service Concessions and Concessional Loans. Pegasus considers, however, such disclosures could be enhanced to include accounting policies adopted for other significant assets and liabilities. Such an approach would be consistent with other Australian jurisdictions, including the Commonwealth. In addition, and whilst key revenue streams and key expenses are detailed at sub-section 4.2 Other General Government Sector Statements (ACT Government, 2023, p.295), as indicated above, there is no disclosure of key assets such as investments and loans, investments in other public sector entities, and produced and non-produced property plant and equipment, nor key liabilities such as advances received, borrowings, superannuation and employee compensation.

Although some of these items, such as liabilities associated with Service Concession Arrangements, are described elsewhere in the Budget Papers, typically the financial statements would be accompanied by a series of notes, describing the accounting policies and assumptions adopted and providing a breakdown of key financial statement items. By way of comparison, some other jurisdictions include a statement of the basis of accounting adopted, significant accounting policies and forecast assumptions and include disclosure of the likely impact of new or amended accounting standards applicable in the future.

Such an approach enhances accountability and transparency for the users of the statements.

The Committee may wish to explore with officials a number of issues in relation to the non-disclosure of key accounting policies and assumptions and key balance sheet items, including:

- Why, unlike other Australian jurisdictions, are the bases of accounting, key accounting policies and a disaggregation of key assets and liabilities not disclosed in notes accompanying the financial statement?

9.3 Superannuation return adjustment

As has been the case since 2006-07, the presentation of the headline net operating balance for 2023-24 includes an adjustment for long-term expected superannuation investment earnings.

The Government has argued that a superannuation return adjustment (SRA) is necessary in order to provide a fair measure of its fiscal position. While the Government Finance Statistics (GFS) reporting framework requires the inclusion of superannuation interest costs and other superannuation expenses in the operating balance, it only allows for interest income and dividends to be included as a transactional revenue item in the net operating balance, ignoring the capital growth on the assets in the Superannuation Provision Account (ACT Government, 2016, p. 42). The ACT Treasury has indicated to us that inclusion of the SRA provides a better indication of the sustainability of the headline net operating balance.

We agree that there is an argument for allowing an offset to the reported interest cost to recognise the fact that the Government is holding assets in the Superannuation Provision Account to meet superannuation liabilities. While the assets in the Account do not directly reduce the unfunded liability, they have been accumulated specifically for the purpose of meeting the liability. In these circumstances, it is reasonable that there should be an offset for the interest costs on that component of the liability covered by the assets in the Account. Calculating this offset using the discount rate that has been used to estimate the liability would replicate the treatment of the interest cost in a partially funded superannuation scheme, to which the Territory arrangement is analogous.

However, the Government has gone further than this by assuming a return on the assets that exceeds the discount rate adopted in valuing the superannuation liabilities. Given that the SRA is included in the net operating balance, it effectively biases this key Budget indicator towards a more favourable outcome.

Furthermore, including the SRA in the headline net operating balance gives the impression that this amount is available to meet on-going expenses, whereas it is clear from Government statements that returns will be retained within the Account as part of the strategy to achieve full funding of the liability. In this regard, we note the decision of the Commonwealth Government, when the Future Fund was established, that earnings from the Future Fund would be excluded from the underlying cash balance. The rationale for this decision was stated at the time:

> *Expected Future Fund earnings are excluded from the underlying cash balance. This recognises that these resources are not available for recurrent spending, instead being pre-committed to fund existing liabilities. (Commonwealth of Australia, 2005, p. 1.3)*

This corresponds exactly to the position of the ACT Government and might argue for removal of the SRA from the calculation of the headline net operating balance.

If the SRA is to be included in the headline net operating balance, we would argue that it should not lead to a bias in outcomes. This would mean calculating the SRA on an assumption that the total return on the assets of the Superannuation Provision Account is identical to the long-term discount rate used in valuing the liability. In the Budget year, this would imply an SRA of $92 million. Thus, using the projected long-term investment return rather than the long-term valuation discount rate of 5% per annum reduces the headline net operating balance by around $127 million.

9.4 Superannuation liability valuation and service costs

The discount rate used to calculate the present value of the Territory's superannuation liability has a significant impact on the estimated value of the superannuation liability and related superannuation expenses.

It is also important to note that the Budget forecasts for the superannuation liability and associated expenses are calculated using a different discount rate from that used in reporting for the Territory's financial statements. The Budget forecasts use a long-term discount rate while for financial reporting the prevailing Government bond rate is used.

The long-term discount rate utilised in the 2023-24 Budget is 5 per cent per annum. This is consistent with the rates used by the Commonwealth Government in the two most recent triennial actuarial reviews (as at 30 June 2017 and 30 June 2020) of the defined benefit schemes giving rise to the Territory's liability. The inflation assumption is also consistent with that used for the triennial actuarial reviews.

Reporting at the end of the financial year in the financial statements is required under the Australian Accounting Standards (AASB 119) to be prepared on the basis of the yield on a suitable Commonwealth Government bond. The liability valuation as at 30 June 2022 utilised a discount rate assumption of 3.75% (ACT Government, 2022, p. 288). The Budget documents were prepared prior to 30 June 2023 and rather than using an estimate of the likely bond yields at that date, the liability and associated service costs have been estimated using the long-term discount rate of 5%. Footnote 3 to Table 3.8.5 in the Budget Outlook indicates that a discount rate of 4% has been used. It was apparent from the reported value of the liability that this could not be the case. We have confirmed with ACT Treasury that the discount rate used in calculating the liability as at 30 June 2023 is 5%.

While the Reserve Bank of Australia has increased the cash rate significantly over recent months, yields on Commonwealth Government bonds have increased only slightly and are sitting at around 4%. It would be expected, therefore, that the closing liability reporting in the financial statements for 2022-23 will be higher than that included in the Budget documents.

Table J.6 in the Appendices to the Budget Outlook indicates that a 1 per cent decrease in the discount rate from the long-term budget assumption of 5 per cent would increase the estimated liability by almost $1.6 billion and an adjustment of this order could be expected.

Table 9: Impact of a 1 percentage point decrease in the discount rate on superannuation liability

	2023-24 $'000	2024-25 $'000	2025-26 $'000	2026-27 $'000
Superannuation Liability	**+1,633,301**	**+1,645,400**	**+1,652,674**	**+1,655,194**

Source: (ACT Government, 2023, p. 363)

The lower discount rate will also have an impact on the service cost, which would be expected to be somewhat higher, with an offsetting reduction in the interest cost. Based on the figures reported in the Budget Outlook (ACT Government, 2023, p. 381), the net effect of these adjustments to the service and interest costs is a small increase in the superannuation expense as shown in Table 10 below. The changes in the superannuation expense are not material in the context of the overall liability.

Table 10: Impact of a 1 percentage point decrease in the discount rate on superannuation expense

	2023-24 $'000	2024-25 $'000	2025-26 $'000	2026-27 $'000
Superannuation Expense	**+17,082**	**+12,290**	**+7,672**	**+3,184**

Source: (ACT Government, 2023, p. 363)

The application of a higher discount rate to the Budget estimate of the Territory's superannuation liabilities will generally have the effect of decreasing the estimate of the superannuation liability and service costs. There is thus a trade-off between achieving consistency between budget and forward year figures and the need for a subsequent revision of the estimates when the final outcome for the year is known.

Further discussion of the impact of the changes in the superannuation liability is provided in section 7.5 on superannuation liabilities.

9.5 Service Concession Arrangements

The ACT Government (2023, pp. 342-343) is currently engaged in two Public Private Partnerships (PPP) projects: Light Rail Stage 1 and the ACT Housing Asset Assistance Program (HAAP).

Since the 2020-21 Budget, the ACT Government has adopted the applicable accounting standard, AASB 1059 *Service Concession Arrangements: Grantors*.

AASB 1059 does not treat PPP arrangements as leases, but instead, requires the assets and liabilities to be recognized in the balance sheet and valued at current replacement cost, when the government gains control of these assets and liabilities, generally taken to be when the project becomes operational. Any intangible assets such as intellectual property rights, must be included in the aggregate of project assets. At the end of the construction contracts, the infrastructure will become ACT assets. This is taken to mean that once the projects are operational, the infrastructure is owned by the Territory. It is noted that Light Rail – Stage 1 became operational in April 2019.

Appendix G indicates that in respect to Light Rail – Stage 1, although the Government will make service payments over the life of the long-term contracts with the consortia, the infrastructure will only become ACT assets at the end of these contracts (ACT Government, 2023, p.343). The term of these contracts and the schedule for taking these assets and liabilities on to the Territory's balance sheets is not clear from the Budget documentation.

Treasury officials indicated to Pegasus that the assets and liabilities and associated expenses are recognized in the consolidated financial statements of the ACT's Public Trading Enterprises, (ACT Government, 2023, Appendix D, pp 327 – 332), and are therefore recognized in the Total Territory consolidated financial statements (ACT Government, 2023, Appendix E, pp 333 – 338).

9.6 Light Rail – Stage 2A raising London Circuit and Stage 2B to Woden

Reference is made in the Budget Outlook to Light Rail (ACT Government, 2023, p. 260). In relation to Stage 2A, raising London Circuit, some work has commenced which is being expensed on an as you go basis, and rolling stock is being acquired. Treasury officials have indicated to us that negotiations with the consortia are ongoing, with the expectation that a service concession arrangement will be constituted.

9.7 Acquisition of Calvary Public Hospital and Clare Holland House

The ACT Government has publicly announced it is acquiring the Calvary Public Hospital (Calvary) for nil consideration. In addition, it subsequently announced the acquisition of Clare Holland House through mutual agreement. In respect to Calvary the effective date of acquisition was announced as 3 July 2023.

Pursuant to the Australian Accounting Standards, where an asset is acquired for nil consideration, no revenue is brought to account on initial recognition, but instead, the transaction is treated as a balance sheet only event and as such, an asset is recognized together with a corresponding adjustment to equity. Treasury officials confirmed the date of effect is 3 July 2023, and the acquisition has been recognized in the General Government Sector balance sheet and statement of changes in equity (ACT Government, 2023, pp. 289-290).

Apart from the asset, the transaction also includes the transfer of some staff to the ACT public sector. ACT Treasury indicated that appropriate employee costs including salary and wages, leave entitlements and post-employment compensation (superannuation) have been expensed with corresponding liabilities recognized in the General Government Sector financial statements.

9.8 Technical adjustments

The Budget Papers include technical adjustments that appear to indicate changes to previous decisions relating to the funding of programs and projects. The adjustments appear to move funding across years as well as changes to appropriations across years.

Whilst examples of this practice are not unusual in other jurisdictions, for instance, the re-phasing of appropriations and the movement of previous decision to out years, the level of adjustments appears substantial.

9.9 Discount rates

Whilst a number of public sector and corporate entities issue bonds as a form of debt financing, the key Australian bond market reference is the Australian Government Bond issuance program. Domestically, and unlike the United States, Europe and the United Kingdom, Australia does not have a deep embedded corporate bond market for the purposes of debt financing. Accordingly, the Australian Accounting Standards require the relevant Australian Government Bond spot rate to prevail as the discount rate valuing long term liabilities for financial statement purposes. For the forward years, there is more flexibility about the choice of discount rate. As noted in the discussion of superannuation liabilities, the value assigned to the liability depends upon the relativities between the discount rate, assumed wage growth, inflation and fund crediting rates. For the purposes of transparency, it would be helpful if the assumptions adopted in relation to all these variables, were disclosed.

It is unclear from the Budget Papers what discount rate has been applied to the long-term service concession contracts liabilities, noting as discussed above, that it appears no such liabilities have been brought to account.

9.10 Concessional loans

Concessional loans are arrangements where a lender, typically a government, provides a loan facility on terms and conditions more favorable than the prevailing market. Concessions can include lower or zero interest rates, interest free periods, and/or an extended maturity term. Appendix G indicates the ACT Government (2023, p. 343) is providing concessional loans pursuant to its Sustainable Household Scheme.

The accounting treatment outlined accords with the applicable accounting standard *AASB 9 Financial Instruments*.[9]

[9] See Australian Accounting Standards Board (2010).

10. Women's Budget Statement

The ACT Women's Budget Statement contains references to many generic ACT Government programs that have been presented as relevant to women. In terms of new policy announcements, we could only find a few that primarily related to women.

10.1 Introduction

In a meeting between members of the ACT Legislative Assembly's Select Committee on Estimates 2023-2024 and Pegasus consultants on 29 June 2023, it was requested that Pegasus examine the Women's Budget Statement. This section of the report responds to that request.

10.2 Overall impressions

The ACT Women's Budget Statement (ACT Government, 2023a) contains references to many generic ACT Government programs that have been presented as relevant to women. This was the case in relation to many of the chapter headings and policy areas covered in the statement. In terms of new policy announcements, we could only find a few that primarily related to women, namely:

- $4.5 million for the Ginninderry Women's Housing Initiative, a Build-to-Rent-to-Buy pilot program in the ACT to deliver up to 22 affordable rental dwellings for low-income women in Strathnairn to transition from renting to homeownership (ACT Government, 2023a, p. 4).
- Various new policy initiatives under the heading of domestic, family and sexual violence (ACT Government, 2023a, p. 8):
  - $14.024 million over four years is committed to Victims Support ACT to streamline and improve services for victims in the ACT
  - $6.044 million over four years for the Domestic Violence Crisis Centre to continue the Room4Change program
  - $3.581 million over four years for Legal Aid and the Women's Legal Centre ACT to enhance and expand the Health Justice Partnerships service offering
  - $9.445 million to increase funding over four years to a range of ACT domestic, family and sexual violence frontline services
  - $1.012 million over two years to progress work towards the establishment of a comprehensive, best practice and evidence-based multi-disciplinary centre for victim-survivors of sexual violence.[10]
- $7.425 million over two years in grant funding to Netball ACT to deliver improvements at each of the five district netball associations in the ACT (ACT Government, 2023a, p. 14).[11]

[10] This was classified as primarily related to women on the basis that more women than men experience family, domestic and sexual violence (Australian Institute of Health and Welfare, 2023).

[11] According to the ACT Government (2023a, p. 14), women and girls comprise more than 90% of active netball players in the ACT region.

11. Provision of Public Housing

The available evidence suggests the stock of public housing in the ACT has not kept pace with ACT population growth, and has remained stagnant and even slightly declined since 2018 while the ACT resident population has grown by just over 24% between 2011 and 2022. Even if the ACT Government is successful in adding another 400 public homes, it would only be raising the public housing stock back to where it was in 2018.

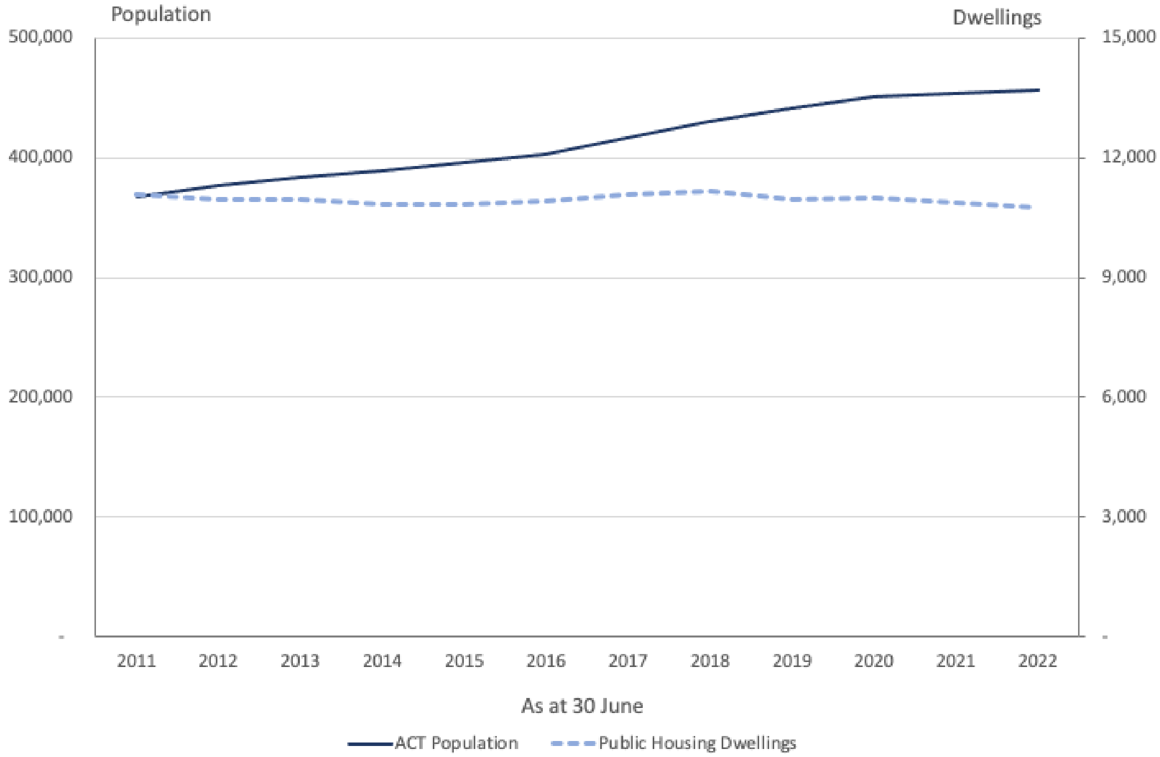
11.1 ACT public housing and population growth

According to the ACT Government (2023, p. 65):

> *The ACT is a leading jurisdiction in responding to public housing need and homelessness. Improving and growing our public housing stock is a key Government priority, supported by commitments and programs of work specifically related to this outcome, including the Growing and Renewing Public Housing Program which will deliver an additional 400 public homes and renew 1,000 public homes, and the recently completed Common Ground in Dickson that provides both affordable rental options and supported tenancies for people who have experienced homelessness with complex service needs.*

The available evidence suggests the stock of public housing in the ACT has not kept pace with ACT population growth, and has remained stagnant and even slightly declined since 2018 while the ACT resident population has grown by just over 24% between 2011 and 2022. Even if the ACT Government is successful in adding another 400 public homes, it would only be raising the public housing stock back to where it was in 2018. This stock of public housing and ACT population is outlined in Figure 25 below.

Figure 25: ACT Population and the Provision of ACT Public Housing Dwellings



Sources: ABS (2023e) and Productivity Commission (2023).

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