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SUBMISSION ON THE 2018-2019 BUDGET CONSULTATION

The ACT branch of the Liberal Democratic Party welcomes this opportunity to comment on the 2018-2019 Budget Consultation.

The ACT Liberal Democrats note that:

- the ACT's net public debt and deficit are the worst in Australia and the ACT Government is a relatively high taxer, overly-dependent on property taxes;
- the ACT Government's budget forecasts are serially too optimistic; and
- the ACT is too dependent on the public sector – and the Government is doing too little to allow the private sector to flourish.

The ACT Government needs to get its own finances under control by better managing its resources and not looking to the private sector for increased taxes. The ACT Government also needs to adopt a more business-friendly approach. This approach to reform would involve:

- holding a Commission of Audit into the business of government to find efficiencies and lay out the appropriate role of the government and the private sector;
- appointing a Red Tape Reduction Commissioner to receive submissions from the non-government sector to direct a thorough review of processes and practices to reduce the administrative burden on businesses, and to reduce the cost of government;
- using the initial success of its ridesharing reforms to expand opportunities in the transport sector and apply lighter touch regulation in other areas of the ACT economy;
- creating a real a one-stop shop for businesses in dealing with government rules and regulations;
- reforming the culture of the ACT Public Service by encouraging staff to go out and to start their own business or work in the private sector;
- routinely include a sunset clause in legislation and only allow longer lasting legislation to proceed without a sunset clause if it is agreed by a super-majority of the Legislative Assembly; and
- helping reduce costs by halting the rise in rates for residential properties across the ACT. Long-term stability in residential property rates can be achieved by reducing the expenses of the ACT Government.

THE ACT'S PUBLIC DEBT AND DEFICIT ARE THE WORST IN AUSTRALIA - AND IS A HIGH TAXER OVERLY-DEPENDENT ON PROPERTY TAXES

The Australian Capital Territory has a poor budgetary situation compared to the other Australian states. The most recent comparable data from the Australian Bureau of Statistics shows that in 2015-16 the ACT had the highest debt as a share of gross state product and a worse deficit than any other state or territory (Figures 1 and 2 refer). The ACT's net debt is forecast to grow from $1.7 billion in 2016-17 to $ 2.8 billion in 2020-21.

Figure 1: Net debt as a share of Gross State Product, per cent, 2015-16[(a)]

sources: ABS (2017) Government Finance Statistics, 2015-16; ABS (2017) Australian National Accounts: State Accounts, 5220.0
(a) includes state and local government

Figure 2: Surplus or deficit as a share of Gross State Product, per cent, 2015-16[(a)]

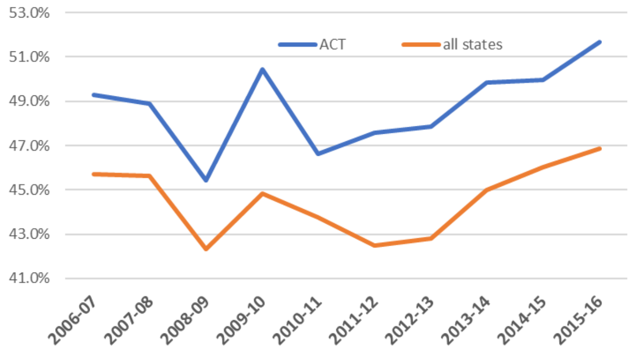
sources: ABS (2017) Government Finance Statistics, 2015-16; ABS (2017) Australian National Accounts: State Accounts, 5220.0
(a) includes state and local government

For what is essentially a small city-state, the ACT is also a relatively high taxing jurisdiction and is also highly dependent on rates, land taxes and stamp duty on conveyancing compared to the other states (Figure 3 refers). Despite the rebalancing between rates and stamp duties the ACT is becoming more dependent on these sources of revenue compared to other states (Figure 4 refers).

Figure 3: Total taxation revenue dollars per capita, 2015-16[(a)]

sources: ABS (2017) Taxation Revenue, Australia, 2015-16, 5506.0; ABS (2017) Australian Demographic Statistics 3101.0
(a) includes state and local government

Figure 4: Land taxes, municipal rates and stamp duties on conveyancing- share of taxation revenue, per cent[(a)]

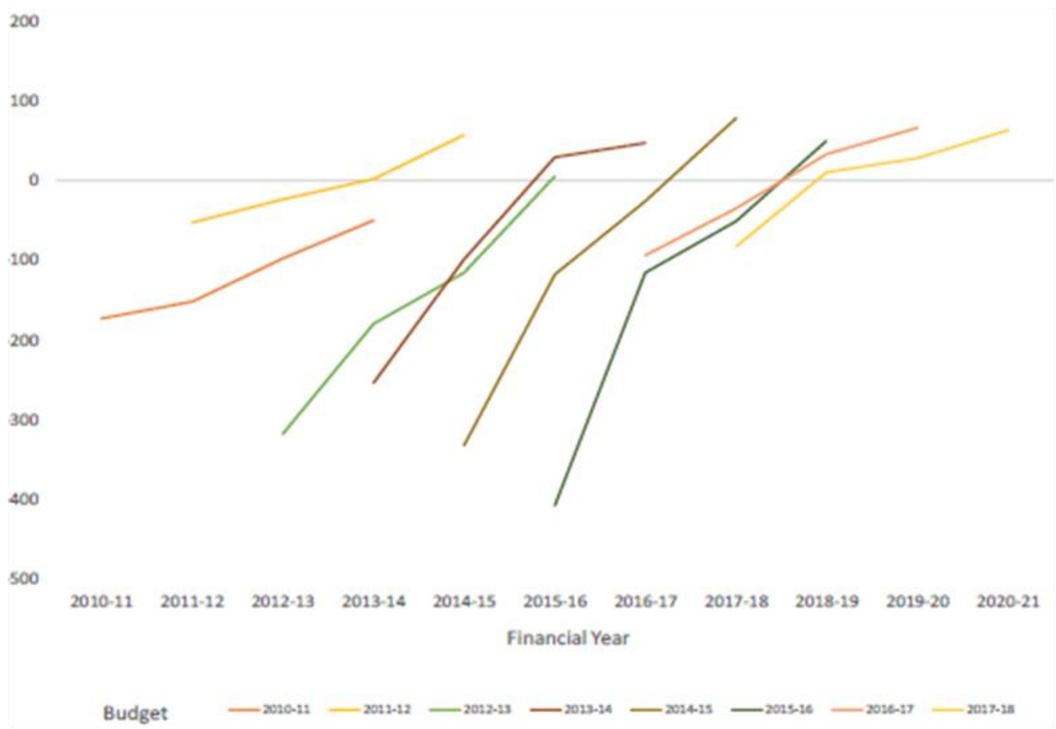


sources: ABS (2017) Taxation Revenue, Australia, 2015-16, 5506.0
(a) includes state and local government

ACT's BUDGET FORECASTS ARE TOO OPTIMISTIC

The ACT Government has a storied history of overly optimistic prediction of returns to budget surplus (Figure 5 refers). Pegasus Economics[1] has highlighted a number of serious problems with key assumptions underlying the ACT's 2017-18 budget. For example, projected increases in final demand, employment, wages, and population are optimistic (see Pegasus pages v, 4, 5 and 6) while the Budget's projection of a steep decline in estimated capital works expenditure in 2020-21 million is difficult to reconcile with historical trends and the ACT Government's commitments to an expanded infrastructure program (see Pegasus page 35).

Figure 5: Forecast returns to surplus ($ million)



source: Pegasus Economics (2017) *Review of the ACT Budget 2017-18*, authors Alistair Davey and Roger Fisher, https://www.parliament.act.gov.au/__data/assets/pdf_file/0005/1074389/Pegasus-ACT-Budget-Report-19Jun17.pdf

Pegasus also raised a number of questions about the lack of transparency and exposure to other risks in the Budget papers. These concerns also make it questionable that the ACT budget is returning to a sustained surplus. For example:

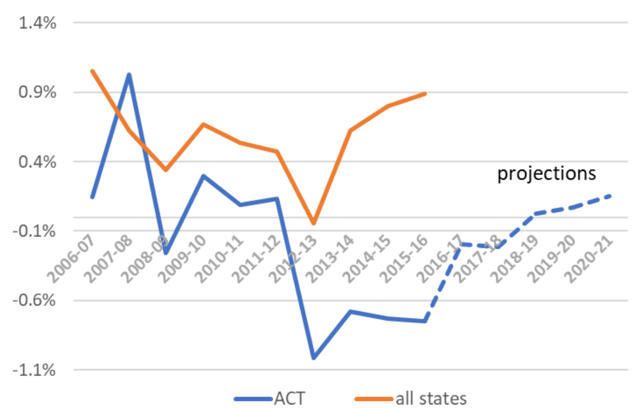
- The drivers underlying variations of expected dividends from the Land Development Agency and its successor agencies are not transparent, and reprofiling this revenue adds $101 to $144 million to estimated revenue in 2017-18 and 2018-19 (see Pegasus page 23).

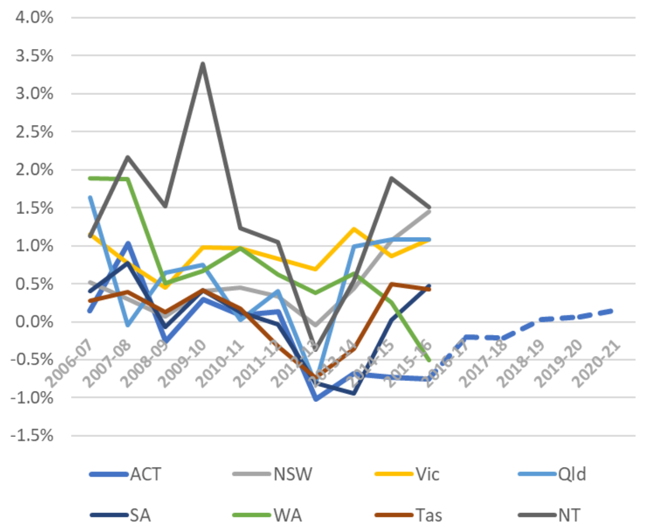
[1] Pegasus Economics (2017) Review of the ACT Budget 2017-18; www.pegasus-economics.com.au; PO Box 449 Jamison Centre, Macquarie ACT 2614

- Treatment of superannuation, including an aggressive assumption on earnings (see Pegasus page 11), and a change in technical assumptions related to superannuation liabilities (see Pegasus pages 12 and 40). The rationale for this change in treatment is not apparent in the budget papers. The effect of this presentational different treatment is to reduce expenses – and hence the operating balance.
- Limited information on the Government's past record in delivering planned savings, with the 2017-18 Budget providing less information on performance in delivering past savings (see Pegasus page 47).

Over the past decade the ACT has run one of the worst net operating balances in Australia (Figure 6 refers). The ACT Liberal Democrats consider that the ACT Government's addiction to an expanding public sector and the lack of transparency and accountability in its budget paper mean that it is unlikely that the Government's projections for improvement will be met.

Figure 6: Net operating balance as a share of Gross State Product[(a)]





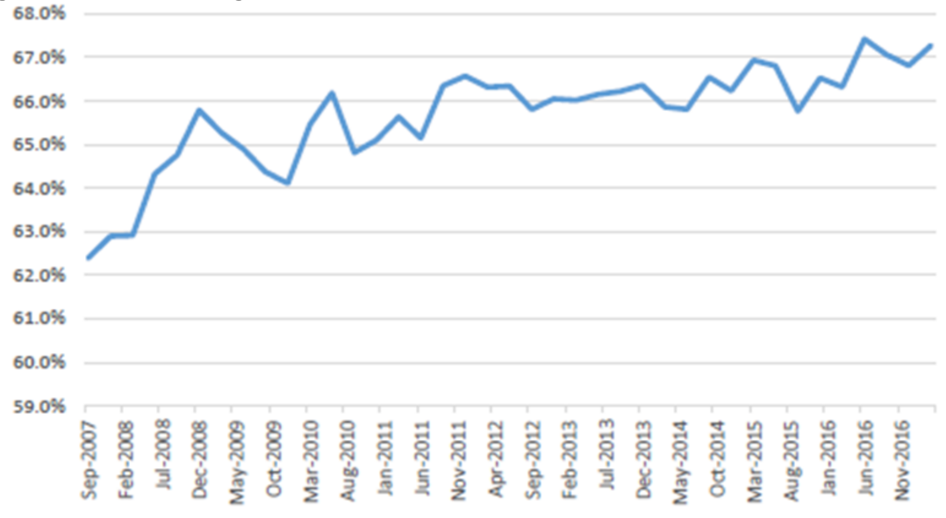
sources: ACT Government (2017) Budget Paper 3; ABS (2017) Government Finance Statistics, 2015-16; ABS (2017) Australian National Accounts: State Accounts, 5220.0

THE ACT IS TOO DEPENDENT ON THE PUBLIC SECTOR – AND IS DOING TOO LITTLE TO ALLOW THE PRIVATE SECTOR TO FLOURISH

While the section above outlines many deficiencies in the ACT's budget management, the ACT Liberal Democrats consider that the real problem is that the ACT economy is too reliant on the public sector (Figure 7 refers) and that the ACT Government has a hostile attitude to the private sector. This situation should be a concern to all Canberrans as the ACT economy, especially as we face the reality of a declining Federal public service and threats to GST revenues.

While some of this dependence on the public sector would be expected because of Canberra being the seat of the nation's capital, the ACT still has too large a footprint and major policies of the ACT Government are likely to worsen the development of private business.

Figure 7: contribution to ACT final demand from the public sector, per cent



source: Pegasus Economics (2017) *Review of the ACT Budget 2017-18*, authors Alistair Davey and Roger Fisher, https://www.parliament.act.gov.au/__data/assets/pdf_file/0005/1074389/Pegasus-ACT-Budget-Report-19Jun17.pdf

The ACT Government's rate increases, new taxes and charges, anti-competitive practices and over-regulation make life too hard for business. Some examples include:

- the relentless pursuit of a 100 per cent renewable electricity policy will put significant costs on business;
- although the green bin pilot appears popular with Canberrans, the ACT Government has shown no regard to the health of private businesses already operating in this space which could face closure as a result. There is no indication that the ACT Government has factored in competitive neutrality when pushing forward this scheme or whether this scheme will cover its costs.
- The ACT's red tape and regulation practices are well behind Australia's leading practice.
    - A 2013 Issues paper from the ACT Treasury[2] showed that the ACT's regulation impact assessment processes were inconsistent with most of leading practices identified by the Productivity Commission[3].
    - The ACT Government does not appear to have responded to this report and nothing has been done to improve practice, particularly in relation to impacts on competition, transparency and consultation. The ACT is one of the few jurisdictions that allows exemptions to the need for a Regulation Impact Statement on any grounds beyond than exceptional circumstances.

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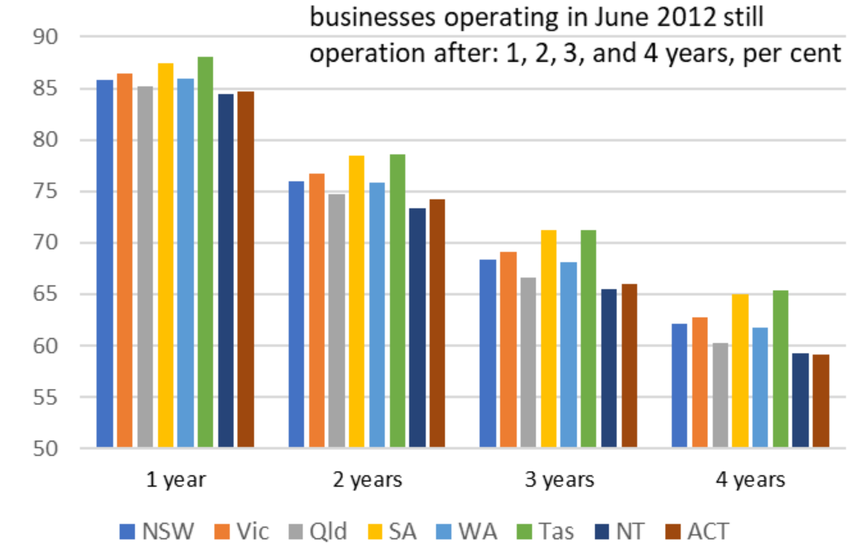
[2] ACT Treasury (2013) *Regulatory Impact Assessment in the Act: Issues Paper*; https://apps.treasury.act.gov.au/__data/assets/pdf_file/0009/494109/Regulatory-Impact-Assessment-Processes-Issues-Paper.pdf

[3] Productivity Commission (2012) Regulatory Impact Analysis: Benchmarking, Research Report, (report for COAG on Benchmarking Regulatory Impact Analysis) https://www.pc.gov.au/inquiries/completed/regulatory-impact-analysis-benchmarking/report/ria-benchmarking.pdf

- The ACT Government has a track-record of rushed policy announcements – such as its back-flip in 2016 on liquor regulation and the announcement to ban greyhound racing.
- The ACT Government's disregard for private business extends to running a commercial linen company – the Capital Linen Service – which provides services to public and private hospitals, hotels, restaurants, major tourist attractions. The Liberal Democrats consider that this activity should be examined to see whether it has been acting in a competitively neutral manner, why the service cannot be provided by the private sector, and the rationale for funding provided by the Service to a group representing its customers[4].
- The 2017-18 Budget notes that the ACT Government committed an additional $17.7 million over four years to supporting Canberra businesses to diversify, grow and innovate. However, claims that the ACT economy is diversifying are unwarranted as the share of final demand has increased by 5 percentage points in the last 10 years (Figure 7 refers). Instead of pursuing futile policies of attempting to pick winners, the ACT Government should concentrate on reducing the costs to business of excessive taxation and regulation.

With this record, it is unsurprising that the ACT has one of the worst jurisdictions for business survival (Figure 8 refers). If Canberra had the same business survival rate as Victoria and New South Wales, there would be about 960 more businesses operating in the ACT – about a 6 per cent increase in the number of businesses. Instead of these businesses offering choice and services to the people of Canberra, the result is a less productive and less diverse local economy.

Figure 8: Survival of businesses, by State



source: ABS (2017) Counts of Australian Businesses, including Entries and Exits, June 2012 to June 2016, 8165.0

[4] See Territory and Municipal Services Annual Report 2013-14 Volume 1, page 26. http://www.tccs.act.gov.au/__data/assets/pdf_file/0003/643836/TAMS-Annual-Report-V1-Screen.pdf . The table on Community grants, assistance and sponsorship indicates that Capital Linen Service provided a grant of $3,818.18 to the Australian Hotels Association ACT Branch for promotion and marketing of services.

THE NEED FOR REFORM

To ensure that the ACT has a vibrant and sustainable economy, the ACT Liberal Democrats believe that the ACT Government needs to reduce the footprint of the public sector, reduce taxation and remove unnecessary regulation.

While Canberra is fortunate to be the home of the Commonwealth public sector and has the best and brightest people the nation has to offer, Canberran businesses are under significant pressure from increasingly unfair costs from a government that cannot manage its own budget.

The ACT Liberal Democrats propose a two-part approach.

First, government needs to get its own finances under control by better managing its resources and not looking to the private sector for increased taxes. Second, government needs to adopt a more business-friendly approach.

This would involve:

- holding a Commission of Audit into the business of government with a view to determining whether any efficiencies can be realised and the appropriate role of the government and the private sector;
- appointing a Red Tape Reduction Commissioner to receive submissions from the non-government sector to direct a thorough review of processes and practices to reduce the administrative burden on businesses, and to reduce the cost of government. The Commissioner should:
    - examine how to make the regulation impact system more rigorous, transparent and as consistent with leading practice outlined in the Productivity Commission's 2012 benchmarking report on Regulatory Impact Analysis. This would include full publication of RISs, Ministerial statements in the Legislative Assembly if RIS exemptions are granted, independent evaluation of the quality of RISs and strengthened competition impact tests;
    - review the stock of regulation in line with best practice in the OECD and undertake post implementation reviews of all primary and secondary legislation carried out under the previous government to see if it is meeting its objectives in the least regulatory way possible; and
    - test new regulatory proposals to see whether government regulation is needed or whether new technology- such as rating systems used by Uber - will allow peer to peer assessment, more flexible or community-based responses to problems;
- the ACT Government should use the initial success of its ridesharing reforms to expand opportunities in the transport sector and apply lighter touch regulation in other areas of the ACT economy;
- the creation of real a one-stop shop for businesses in dealing with government rules and regulations;

- reforming the culture of the ACT Public Service by encouraging staff to go out and to start their own business or work in the private sector. This would be achieved by offering flexible leave without pay options for interested public servants;
- routinely include a sunset clause in legislation and only allow longer lasting legislation to proceed without a sunset clause if it is agreed by a super-majority of the Legislative Assembly; and
- help reduce costs by halting the rise in rates for residential properties across the ACT. Long-term stability in residential property rates can be achieved by reducing the expenses of the ACT Government.