

Analysis of Canberra Liberals Election Commitments

Summary

This report has been commissioned by UnionsACT to test the veracity and assumptions underpinning analysis by the ACT Government of the budget impact of Canberra Liberal Party policies.

The Canberra Liberal Party has made numerous statements regarding the ACT budget returning to surplus.

The ACT Government released detailed costings of the estimated financial impact of Canberra Liberal Party's policy commitments on 3 August 2016, outlining a potential impact of \$401.8 million over four years.¹

Our analysis indicates that this would appear to be a conservative estimate, and the impact of the Canberra Liberal Party policies lies between a low end estimate of \$404.0 million and a high end estimate of \$497.4 million over four years. The range in estimates is due to ambiguity about the status of some commitments made in parliament by the Canberra Liberal Party and assumptions on the costs of some policies.

In order for the Canberra Liberal Party to deliver a budget surplus over the forward estimates they would require savings of between \$434.0 million and \$527.4 million.² In terms of potential job losses this equates to between 1000 and 1200 FTE. Alternatively a wage freeze for all public servants across the forward estimates would save approximately \$400 million over four years.

Findings

The analysis has checked and verified each of the claimed policy commitments made by the Government in the 3 August 2016 press release on Canberra Liberal Spending Commitments (see attached spreadsheet for details).

Financial Impact

A comparison of the impact of Canberra Liberal Policies (\$m over four years):

	2016-17	2017-18	2018-19	2019-20	Total
Government Estimate	-53.3	-150.2	-100.3	-98.0	-401.8
Unions ACT Estimate (low)	-71.1	-151.5	-107.2	-74.1	-404.0
Unions ACT Estimate (high)	-76.3	-176.9	-141.7	-102.5	-497.4

¹ Chief Minister Andrew Barr Media Release 'Liberals to fire 2000 Canberrans to fill their \$400m black hole' 3 August 2016

² Increase is due to small projected deficit of \$30 million over the forward estimates

There are some major variations between the Government estimates and our analysis:

- The cost of cancelling the contract to build light rail is estimated to be at least \$261 million over four years, consistent with the advice from ACT Treasury to the Government and based on the more realistic assumption that given the timing of the ACT election the earliest it could be cancelled is November 2016 (+\$41.0 million over four years).
- Reduced cost of additional funding for Auditor General consistent with Canberra Liberal Party announcement capping increase to \$3 million over four years (-\$2.1 million over four years).³
- Increased cost of the ACT Liberals Rapid Bus Network consistent with their own statements that the ACTION operating budget will be increased by \$20 million per annum (+\$7.0 million over four years).⁴
- Increased cost associated with the establishment of an Autistic School consistent with Treasury 2012 Election Costing updated for current prices (+2.4 million over four years).
- We estimate that the Canberra Liberal Party's commitment to a domestic violence court will not have a financial impact given that a family violence court already exists in the ACT (-\$2.0 million over four years).

Given the degree of ambiguity surrounding the Canberra Liberal Party's policies the analysis includes high and low estimates. This ambiguity stems from the Canberra Liberal Party choosing not to publish detailed costings of their policy announcements and makes this type of analysis prudent. The high end estimate of the Canberra Liberal Party policy costings includes the following financial impacts that are not included in the low end estimate:

- The cost of cancelling the contract for light rail of \$279 million over four years (\$261 million over four years included in the low end estimate - \$18 million difference over four years).
- Cost to the ACT of running additional hospital beds is assumed to be 100 per cent, due to 6 per cent annual growth cap in Commonwealth funding likely to be reached within existing capacity (\$16.3 million difference over four years)
- Commitments made by the Canberra Liberal Party in parliament but not reiterated in further policy documents (\$47.2 million difference over four years).

Jobs and Wages

UnionsACT also requested analysis of the estimated impact on public sector jobs and wages due to the projected budget shortfall faced by the Canberra Liberal Party.

Assuming average salary and on costs per FTE of approximately \$115,000 in 2016-17⁵ the shortfall in the Canberra Liberal Party budget projections equates to between 1000 and 1200 FTE positions. The analysis assumes that the job cuts would be evenly spread across the forward estimates, rather than matching the projected budget shortfalls in each year of the forward estimates.

³ Note that we do not consider this will be adequate resourcing for the AG to double the number of performance audit.

⁴ Inclusion of this figure does not represent validation of costing for fully implementing the Canberra Liberal Bus Policy. It is likely that the stated policy will cost more than \$20 million per annum.

⁵ Source: ACT Government Budget Paper 3, page 309 and 453. Total salary expense for 2016-17 divided by total FTE, average superannuation expense of 15.4 per cent and 10 per on costs added to reach average cost per FTE of \$116,577. This is then uplifted by 2.5 per cent per year to reflect recent public sector wage outcomes in other jurisdictions.

Alternatively, the Canberra Liberal Party may choose to freeze wages across the forward estimates. Using the 2016-17 salary costs as a base and including average superannuation costs, a wages freeze would save between \$330 million and \$400 million over four years. The difference in estimates is due to uncertainty around the level of wage increases built into the current ACT Budget,⁶ and assumes no change in current public service numbers.

This analysis assumes that the Canberra Liberal Party would seek to offset the entire cost of their election commitments either through job cuts or a wage freeze.

It is likely however that they will use a variety of additional measures, including tax increases and reduced community grants.

Conclusion

This analysis finds that the projected budget impact of the Canberra Liberal Party policies over the forward estimates is between \$404.0 million and \$497.4 million.

In order to reduce expenditure to cover this gap over the forward estimates and deliver a promised surplus, the Canberra Liberal Party would have to reduce the number of public servants in the ACT Government by between 1000 and 1200. Alternatively the shortfall could be partially met by a wage freeze for ACT public servants across the forward estimates, saving approximately \$400 million over four years.

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⁶ The low end estimate assumes 2.5 per cent annual wages growth which is in line with recent public sector wage outcomes around Australia. The high end estimate assumes 3.0 per cent annual wage growth which is consistent with the current ACT Public Service Enterprise Agreement which expires at the end of 2016-17.