

2020

**THE LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY**

ACT ECONOMIC RESPONSE TO COVID-19

MINISTERIAL STATEMENT

**Presented by
Mr Andrew Barr MLA
Treasurer
18 June 2020**

Madam Speaker,

When I handed down the 2019-20 Budget Review in February, the Orroral Valley Bushfire, smoke haze and a freak hailstorm were at the forefront of our minds.

Today, we are months into a public health emergency and rolling, global health and economic crisis. The COVID-19 pandemic is the biggest challenge the ACT has ever faced in the self-government era.

In the 2019-20 Budget Review, we had identified COVID-19 as an emerging risk to our economic growth – but – it is fair to say, few of us could have contemplated how quickly and profoundly COVID-19 would change the world.

As we learnt more about the virus and listened to the advice of health experts, there were dramatic changes to the way we all had to live our lives.

The speed of change was so great that before the *Appropriation Bill 2019-20 No. 2* was debated and passed, it was amended to include additional funding to respond to the COVID-19 pandemic.

At this stage, it is impossible to quantify the full impact of the continuing pandemic, but the economic ramifications and personal toll are immense.

The pain has been felt by everyone.

Here in the ACT, we are in one of the strongest positions around the world, due to our decisive early steps to reduce the risk of transmission, while supporting our economy and protecting jobs.

The Government acted quickly to support our health system, our businesses, our jobs, and our community.

The restrictions and measures recommended by the AHPPC and agreed by the National Cabinet have been evidence-based and aimed at minimising the health crisis.

We are only in a relatively strong economic position because we listened to and implemented expert public health advice and acted to ensure our hospitals and healthcare services were equipped to deal with COVID-19.

These times require an absolute focus on public health, jobs and economic recovery. There is more to do. Our objectives are to keep people in jobs, and reduce unemployment, underemployment and underutilisation.

Pre-COVID 19 - ACT Economy

Before COVID-19 struck, the ACT was in a robust and stable economic position.

In 2018-19, our economy was one of the strongest economic performers in Australia, with economic growth of 3 per cent, well above the national growth rate.

We had the lowest unemployment rate in the country, at 2.9 per cent per cent, the fastest rate of employment growth at 4.3 per cent, and a record level of employment, with 240,000 jobs, representing 13,700 jobs created in the Territory over the year to March.

In per capita terms, the ACT had grown to be Australia's leader in services exports, increasing by 24.1 per cent since 2015-16, with the international education sector alone contributing almost \$1 billion annually to our economy.

The ACT had also diversified its economic base, with the establishment of almost 1,500 new businesses in the 2018-19 financial year.

We have built a strong foundation upon which we have confronted the challenges of the past few months, and this Government is leading the pathway back as we implement Canberra's Recovery Plan.

There will be no greater priority for the ACT Government in the months and years ahead – if we are granted the opportunity by Canberrans – than the delivery of our clear Recovery Plan.

Economic impacts of COVID-19 so far

The full extent of damage from COVID-19 will be revealed in data releases in coming months, and as this data becomes available, we will use it to ensure that we target Government support where it is needed most.

Economic Indicators

Nationally economic growth contracted by 0.3 per cent in the March quarter as bushfire and the early signs of COVID-19 impacts hit activity in Australia.

The outcome nationally has been viewed positively, in light of much more significant contractions experienced across OECD economies.

However, Australia is now in a recession, as a further and more significant contraction will occur in the June quarter.

The ACT economy remained resilient as domestic final demand in the ACT economy increased, up by 2.1 per cent in the March quarter to be 4.2 per cent higher over the year.

Of course, much of this was driven by spending associated with the series of unprecedented events the ACT community and economy have faced since the beginning of the year. In the June quarter, activity in the ACT will likely contract.

Noting that at 11.30 today, the Australian Bureau of Statistics will release the May Labour Force Statistics, I'll provide a brief overview of what we observed in the ACT in April.

The unemployment rate in the ACT rose by 1 per cent in April to 4.2 per cent. The underemployment has also risen, from 5.3 per cent in March to 9.3 per cent in April.

COVID-19 has seen the ACT lose 8,700 jobs in April. As at early June almost 15,000 people were receiving Job Seeker payments, while around 10,700 ACT businesses had enrolled in the Commonwealth Jobkeeper package.

This Government understands that the loss of each of these jobs is devastating; which is why we are devoted to getting every person back into work as quickly as possible.

But, we anticipate unemployment will continue to rise in the short term, noting that there will be a shorter lag between reductions in activity and employment due to the nature of the economic crisis we face.

We know that the affect of this crisis aren't evenly distributed. Some industries have been far more affected than others, and certain demographics have been disproportionately impacted relative to others.

Supermarkets were booming while hotels sat empty. Tourism and education are likely to see the largest impacts in the medium term, given the likelihood that borders will need to remain closed for an extended period.

The burden of unemployment related to the COVID-19 health crisis has fallen disproportionately on women and younger people.

36 per cent of the 8,700 job losses caused in April in the ACT were young people aged between 15-24. Therefore, increased investment in skills and education will be more important than ever.

Through both our own policies and reduced economic activity, we have seen our main own-source taxation revenue collections declining by around 6 per cent relative to the *2019-20 Budget Review*.

Payroll tax and conveyance duty make up around 40 per cent of own-source tax revenue in the ACT.

Property prices for attached dwellings declined by 2.4 per cent in the March quarter and property transactions have slowed, declining by 3.8 per cent in April.

In May, conveyance duty is cumulatively down by around 20 per cent relative to the *2019-20 Budget Review*.

ACT Government – Budget Outlook

The impact on the ACT's fiscal position from the COVID-19 health emergency will obviously be significant.

Of course, like every other government around Australia and the world, our Headline Net Operating Balance position will deteriorate, and Net Debt will rise.

This will reflect major reductions in national GST revenue, further reductions in our own-source taxation revenue, and the increased expenditure to support the COVID-19 response.

National GST collections, around 25 per cent of the ACT revenue base, have declined sharply as household consumption has contracted. National household consumption expenditure declined by 0.7 per cent in March 2020 which has led to a 2.4 per cent reduction in GST collections reported in the national accounts over the same period. This is before the significant anticipated reductions in April and May.

The fall in GST collections is in addition to the Commonwealth Grants Commission five-yearly methodology review that reduced the ACT's GST share by \$100 million in 2020-21 and \$433 million across the Budget estimates.

As we foreshadowed in the 2019-20 Budget Review, we're going to be getting a smaller slice of a smaller pie.

ACT Economic Survival Package

The economic impact of COVID-19 has been lessened by the monetary and fiscal policy responses announced to date, reducing its direct impact on activity and the labour market.

The first tranche of the ACT Economic Survival Package was announced on 22 March 2020, followed by a further package on 2 April 2020.

Additional announcements over the last two months have included the expansion of programs, targeted support for industries and communities suffering the most and our significant stamp duty reductions.

The Economic Survival Package is the largest support package in the ACT's history, significantly eclipsing measures announced during the Global Financial Crisis.

The Government's focus has been on measures to support households, businesses and jobs.

The economic survival initiatives provide assistance to all Canberrans, particularly targeting industries most impacted.

Support for businesses includes payroll tax waivers and deferrals, waivers of licence fees, residential and commercial rates rebates, and utilities bill rebates.

Initiatives, such as *Jobs for Canberrans*, have created hundreds of essential jobs and provided opportunities for employment to those who are ineligible for Commonwealth Government assistance due to residency or citizenship status.

And our Fast-track Infrastructure Program has provided varied opportunities to local companies, many of them small to medium businesses, with over 1,000 local workers engaged since April 2020.

We have always said that our response will be multi-staged and targeted, and we will continue that approach. There is still more to do, and we will make further announcements in the weeks and months ahead.

Infrastructure and Construction

We will continue to support the construction industry, and prioritise the long-term needs of the Territory, by delivering key productivity-improving, job-creating infrastructure projects.

In October last year we released the multi-billion dollar Infrastructure Plan for the ACT, and this has now become a key part of our recovery plan.

This means that we will be proceeding with the major expansion of the Canberra Hospital – the largest healthcare infrastructure project in the ACT Government’s history.

It means building the new CIT campus in the Woden Town Centre, at a time when investment in our vocational skills sector is more important than ever.

And we will continue working on extending our light rail network – creating thousands of new jobs in our city over the coming decade.

Our forward capital program will be in line with the ACT Infrastructure Plan, and we will prioritise projects that will result in a high concentration of local employment, that can be delivered on time, and provide a significant social, environmental and economic benefit to the community.

Targeted Support for Impacted Industries

We will support our hospitality and tourism sector, with renewed focus on domestic and trans-Tasman tourism in the short-term.

As part of the ACT's Recovery plan, the ACT Government is putting our city forward to be a pilot for the return of both international flights and international students.

As restrictions are eased, we have announced a \$6.2 million hotels and hospitality package that have reduced of fees and charges, provided utilities rebates, and established a new national recognised infection control training program for workers.

Despite the recent significant struggles, the resilience and agility of our community and small businesses through this time has been inspiring.

Workers across Canberra have adapted to changed working environments and quickly set up new ways of working and communicating.

Our businesses have innovated, developing new ways of selling and distributing their products and engaging with customers.

To support our local businesses' hard work, the Government has launched a major 'Buy Local' advertising campaign over the coming months, across all media. We want people spending money in the Territory economy, maximising the multiplier effect and helping us to recover quickly.

Tax Reform and Stamp Duty

Yesterday I announced that we will continue our reforms of the tax system, adjusted for the current circumstances we are in.

We are continuing to cut stamp duty. We've removed a significant barrier to homeowner entry, making it easier for Canberrans to buy a home with our reductions in stamp duty and the expansion of the Home Buyer Concession Scheme.

Removing and reducing inefficient and ineffective taxes like stamp duty and insurance duty is why we started the tax reform journey.

Our objective is to continue reducing stamp duty in a measured and targeted way.

On June 4, I announced significant cuts to stamp duty on new land and off-the-plan construction, and important stimulatory measure for the ACT construction and real estate industries.

This means that any owner-occupier purchase for an off-the-plan unit titled property below \$500,000 will be free of stamp duty until 30 June 2021, and those between \$500,000 and \$750,000 will save \$11,400 on their stamp duty bill.

We have also made the decision to deliberately inject more cash into our economy.

Three months ago I announced a \$150 rates rebate for all households, inclusive of the rebate, the average rates increase for houses and units across the city will be 0 per cent for 2020-21.

The average increase for commercial properties with an average unimproved value (AUV) of \$2 million or less will also be 0 per cent for 2020-21.

For residential properties, this means there will be an actual rates reduction for over 110,000 households.

For commercial properties, this means a reduction in the 2020-21 rates bill for 4,600 commercial property owners.

By structuring our economic stimulus in this way, we can ensure that the support is maximised to those properties with the lowest AUV growth, providing the greatest equity – while still reducing inefficient taxes.

Community Support and Recovery

We have provided significant support for community groups with a \$7 million package one of our first announcements to ensure that we were able to best meet the increased service demand for emergency relief.

The Government knows the impact this year has had on the mental health of Canberrans. That is why on 6 May, we announced a \$4.5 million COVID-19 mental health support package to help Canberrans access services at a time of increased stress and hardship.

We provided rental waivers and support for ACT Government tenants, support to ensure the stability of private rental arrangements for both commercial and residential tenants, financial support for public housing tenants, and increased funding for arts organisations and community groups.

Business Confidence to Invest

The recent rises in consumer and business sentiment are all underpinned by one key factor – confidence.

Confidence that the Government is getting the health strategy right through the staged easing of restrictions. And confidence that the Government supporting businesses, jobs and households.

Consumer confidence has rebounded more strongly than business confidence, which is encouraging for household consumption but indicates it may take longer until businesses are prepared to invest. There remains a significant risk to activity and jobs if a return to tighter restrictions is required from a second wave of COVID-19 infections.

In times of economic contraction, a temporary increase to Government spending is an important and powerful tool.

We will continue to ensure that we keep money flowing through the economy with measures like our Jobs for Canberrans fund and fast-tracked minor infrastructure projects.

We will do this while creating the right environment for private investment.

Wellbeing Framework

The events of 2019-20 have had a stark impact on the wellbeing of our city, affecting our quality of life and testing our resilience.

The ACT Wellbeing Framework, launched in March, will play an important part in telling this story and shaping our recovery going forward. The COVID-19 emergency remains a significant test of our resilience as a community, and we intend to track both our progress and our recovery across each of the twelve wellbeing domains that comprise the Framework.

Motion to delay ACT 2020-21 Budget

As I have already noted, all Australian Governments have decided to defer the delivery of their 2020-21 Budgets.

As a result, pursuant with Section 5 of the *Financial Management Act 1996*, later today I am introducing a motion into the ACT Legislative Assembly to delay the 2020-21 Budget and Appropriation Bills until after the ACT Election.

The delay of the 2020-21 Budget and the timing of the ACT Election has necessitated changes in financial management arrangements for 2020-21.

This includes the need to increase the amount of funding available during the 2020-21 supply period. In normal years, the supply period lasts two to three months and the *Financial Management Act 1996* provides for funding equivalent to 50 per cent of the appropriation provided by appropriation acts in the year immediately prior.

By contrast, the supply period in 2020-21 is likely to last between six to nine months.

Accordingly, on 4 June 2020, I introduced the *Financial Management Amendment Bill 2020* to the ACT Legislative Assembly.

This bill seeks to increase the amount of funding that may be provided during the 2020-21 supply period to 100 per cent of the amount provided by appropriation acts in 2019-20.

This amendment will ensure the ongoing operations of Government services until such time as the Appropriation Bill 2020-21 and the *Appropriation (Office of the Legislative Assembly) Bill 2020-21* is passed by the ACT Legislative Assembly after the 2020 Election.

Although the 2020-21 Budget is delayed until after the election, the business of Government does not stop.

There are some decisions related to existing Government programs and projects, usually made through regular Budget processes, which we have needed to make now to provide surety to workers and the broader community.

Likewise, there are critical infrastructure projects that cannot wait for a delayed Budget – for example, commencing work on the New East Gungahlin High School so that it is ready to accept students in 2023.

Now is not the time for Government to be withdrawing funding from the community, and we will not be doing so.

These decisions will be included in detail in the Economic and Fiscal Update that the Government will release in late August 2020.

This document will also provide whole of government statements and an update on economic conditions, which, due to the rapidly evolving circumstances of past months, has not been possible to date.

As I will outline in the motion later today, there are aspects of the *Financial Management Act 1996* that will not be able to operate exactly as prescribed in coming months.

Many of the provisions of the *Financial Management Act 1996* assume that the Budget is released before or at the start of the financial year, which up until this year, has been the case.

While it may not be possible to meet these requirements exactly as written, their intent – to ensure accountability and transparency – remains as important as ever.

For that reason, the Government will continue to provide financial and performance information.

We will continue to release quarterly financial statements – but in the absence of a 2020-21 Budget, we will include the estimates for 2020-21 from the upcoming Economic and Fiscal Update instead.

We will also ensure accountability to the public remains at the forefront of the public service with performance reporting – an important measure in recognising the effectiveness of Government in delivering much needed services – protected through interim performance targets.

These targets will be aligned to the financial estimates provided in the Economic and Fiscal Update and based on current Accountability Indicators, which will be updated where necessary to reflect Economic Survival and Economic Recovery measures.

Conclusion

The last few months have been very hard. The pain has been felt by everyone.

The COVID-19 pandemic isn't over, and what the future holds is unclear.

But what Canberrans can be clear on is that the ACT Government has a credible, responsible, sustainable plan to weather the economic storm and rebuild our economy.

We will continue to invest in our public health system, in education and training and to create and protect local and secure jobs.

We will keep working with the community sector to ensure vulnerable Canberrans are not left behind, particularly as Federal support is cut back.

Governments have a duty now to step up to support and grow the economy. We will help shape, create and grow markets in a way that lead to greater job creation.

It will not be easy.

But when we look across Australia and overseas, it is clear we are in a better position than most. We have a plan, and we are ready to deliver; creating secure jobs, supporting households and providing the environment for businesses to grow.