



ACT
Government

MINISTERIAL STATEMENT

AUGUST 2020 ECONOMIC AND FISCAL UPDATE

Chief Minister, Treasury and Economic
Development Directorate

August 2020

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THE LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN
CAPITAL TERRITORY

**August 2020 Economic
and Fiscal Update**

MINISTERIAL STATEMENT

**Presented by
Mr Andrew Barr MLA**

Treasurer

27 August 2020

Madam Speaker,

The Economic and Fiscal Update, and Jobs and Economic Recovery Package I announce today, are structured with two goals in mind: to protect and create local jobs and ensure Canberra recovers from this once-in-a-century economic downturn.

I thank Canberrans for their strength and community spirit through these exceptionally difficult times. We have truly been stronger, together.

By working together, we have reduced the risk of the coronavirus spreading in our community, avoiding the terrible repercussions we have seen around the world and close to home.

We have changed the way we work and live.

Our public health response has, and always will, take precedence in how the ACT Government continues to support the community.

It is our effective health response to the pandemic that gives every employer, and every employee, confidence in our steps toward economic recovery.

Now, we need to display resilience and agility in how we rebuild our economy, to restore growth and protect local jobs.

The Government's initial economic survival measures have helped the Territory manage the first stages of the pandemic and have kept many in work.

We have bolstered our health system and stepped in to provide hundreds of millions of dollars of direct financial support to households and local businesses.

However, the next stage of economic recovery has to go further, and it has to be bigger.

We have determined to align our fiscal policy (the Territory Budget) with the monetary policy settings of the Reserve Bank of Australia (record low interest rates) to boost aggregate demand in our economy and create jobs.

Our Plan demonstrates how the Government will drive a strong economic recovery over the next five years – **and sets an ambitious target for the Territory of having over 250,000 people in work by 2025.**

Because we understand that stable, secure employment means more than affording the groceries and being able to pay the rent or mortgage. It provides meaning, structure, connection and opportunity in people's lives.

So our job, as a Labor Government, is to protect local jobs.

Last week the Reserve Bank Governor called on all States and Territories to invest another \$40 billion over the next two years in the infrastructure and jobs essential to our national recovery. For the ACT, that would amount to around \$800 million of additional infrastructure and business investment.

Today, through this Update and Plan, I am announcing that we are exceeding this expectation and will maintain that level of funding into the middle of the decade, through a \$4.9 billion jobs and economic recovery package.

This pandemic isn't over – we understand that.

In these uncertain times, the Government is delivering the right plan to support our economic recovery and protect local jobs.

Role of Government to step in and fund recovery

Through record low interest rates, monetary policy has played an important role at a national level to support the economy. The Reserve Bank Governor Phillip Lowe has been clear that this approach will continue for many years into the future.

Governor Lowe has indicated very clearly that the Reserve Bank will do what it can with its policy instruments to support the journey back to full employment.

Complementing this, it is expansionary fiscal policy that will accelerate the recovery of the Territory and national economies.

This is a change from how fiscal policy has operated in Australia over recent decades. This requirement to exercise expansionary fiscal policy represents a new phase of economic management.

In this context, we are acting on the principles that:

- By investing today to support the economy we are avoiding an even bigger loss of economic output and jobs that would damage our economy and community for years to come, which would put a larger ongoing strain on our budget.
- The Territory's public finances are in strong shape and public debt here is much lower than in most other states and territories and at the Commonwealth level.
- The overall Territory balance sheet is also in a strong position after decades of good economic performance.
- The ACT Government's financing costs have never been lower, with interest rates being the lowest since Federation.

The message from the Reserve Bank is clear - the right thing to do now is to use our borrowing capacity now to help people during this once-in-a-century crisis, keep them in jobs and boost public investment at a time when private investment is very weak.

Interest rates are the lowest since Federation, letting us use our balance sheets to build sustainable, productivity-improving and growth-enabling infrastructure to prepare our city for the future.

Through this plan, we are sending a very clear message: **our decision to invest in Canberra will give businesses the confidence to invest and keep employees working.**

The role of every government in Australia will be to drive aggregate demand through increased expenditure. It requires us to be bold and take on more risk. Locally, we will continue to create and shape markets to encourage job creation in emerging industries.

Economic and fiscal position

In June, I presented to the Legislative Assembly the ACT Economic Response to COVID-19, noting that at this time that I would generally have presented the Budget and 2020-21 Appropriation Bills.

2020 has not been the year we had expected.

We have endured extreme bushfires, a damaging hailstorm and are still facing the very real threat of the COVID-19 global pandemic.

Through the Government's rapid steps, and the community's actions to keep each other safe, we have, so far, managed to avoid the overwhelmed health and aged care systems we have seen in many other parts the world.

That has meant, at this early stage, our community has handled the pandemic well, and our economic recovery has been stronger than other jurisdictions.

In Australia and across the globe, there continues to be a deterioration in economic circumstances and associated impacts on consumer confidence and public finances. There is a clear correlation between the quality of the health response and the impact on the economy.

Through this period, the ACT Government has maintained its commitment to ensuring transparency and accountability by providing financial information and regularly reporting on the measures taken.

We are the first Government in Australia to release forecasts across the forward estimates, a difficult task at the best of times but particularly difficult in the current environment.

We have done so to show the long-term impacts of COVID-19 on the Territory economy and Budget.

The Economic and Fiscal update details the Territory's current economic and fiscal environment and forecast projections until 2023-24 and includes the policy decisions made by Government to implement critical economic survival and recovery measures.

It also outlines our support for local businesses, families and the community during the COVID-19 pandemic; and details the Territory's 2020-21 Infrastructure Investment Program and Indicative Land Release Program.

The magnitude of the current fiscal shock is easily the most significant faced in the Territory's history. These are a set of forecasts that will be repeated around the nation and the world as governments face rapid write downs in revenue, and increase expenditure to support their communities.

For 2020-21, the Headline Net Operating Balance is forecast to be in deficit at \$909.6 million. Across the forward estimates the Government is projecting reducing deficits of \$670.2 million in 2021-22, \$452 million in 2022-23 and \$399.8 million in 2023-24.

These are not the eye-watering numbers we have seen in other jurisdictions, but they reflect significant reductions in GST revenue, primarily due to reduced GST pool receipts; further reductions in our own-source taxation revenue resulting from a downturn in overall economic activity; and significant impacts on expenditure to support the COVID-19 response, including the ACT Government's Economic Survival Package.

Over the comparable period from the 2019-20 Budget Review I released in February, GST revenue is forecast to decline by \$974 million, while own-source taxation revenue is expected to decline by \$563.9 million over four years as a result of the public health and economic measures implemented by governments to address the pandemic.

Our economic outlook shows that under the baseline scenario, the ACT's Gross State Product is expected to slow to 1½ per cent in 2019-20. Economic activity, measured by State Final Demand, is expected to have fallen by around 6 per cent in the June quarter 2020.

Importantly, however, the ACT entered this health crisis with a very strong economy, the lowest unemployment rate in the nation at 2.9 per cent in February and significant fiscal capacity to respond to the crisis. The impact of restrictions in the ACT has been less severe than experienced nationally.

Jobs and Economic Recovery Plan

It is from this strong foundation that we will drive the ACT's economic recovery.

Today I am releasing our \$4.9 billion ACT Jobs and Economic Recovery Plan.

To maximise immediate employment benefits it includes an infrastructure investment program that is varied in financial size and the nature of the work.

Our Plan prioritises building health, education, public transport, public housing, sustainable energy and urban renewal projects, for the long-term benefit of Canberrans.

We will invest:

- more than \$1 billion in transport and active travel projects, including over \$300 million extending light rail,
- more than \$900 million on health care infrastructure including the \$624 million Canberra Hospital Expansion,
- more than \$400 million to build and upgrade our public schools, and
- \$250 - \$300 million in building CIT Woden.

Following an additional investment of \$61 million, we are also halfway through a 10-year, \$1 billion program to build new public housing across Canberra.

We are supporting local jobs and confidence in our construction sector, with a clear pipeline of work over the next decade.

Our Plan also includes more immediate support to businesses and Canberra households. Having already injected \$159 million in 2019-20 in initial economic survival measures to protect jobs and support businesses and households, we will invest \$724 million to support and create more jobs and continue to deliver essential services.

This includes a \$200 million investment in making sure our healthcare system is ready for whatever lies ahead.

We are providing \$108 million in fee relief for households and the community and another \$65 million in fee relief for businesses in addition to the \$40 million that was provided in the last quarter of 2019-20.

\$23 million is being allocated to community support programs, additional mental health services and food relief.

The ACT Government is also stepping in to protect jobs in our local community sector when Commonwealth payments for equal remuneration end in November 2021.

Jobs Target

We are setting an ambitious Canberra Jobs target today, because it is essential for all Canberrans to know that our focus is protecting their job, and creating new ones as the city grows.

Under this Labor Government, our policies and investments will support over 250,000 people being employed by 2025.

While public investment will be critical, maintaining confidence in non-government sectors is also important to Canberra's future.

This Plan outlines how the Government intends to support employment growth in areas such as tertiary education, renewable energy, innovation, arts and defence industries.

Before the pandemic and associated global economic crisis, we reached a record level of 238,300 Canberrans employed across the Territory. In April and May

2020, jobs fell by 10,500 to 227,800. By July 2020, the recovery was underway with total employment recovering to 233,400.

While the ACT economy has shown resilience and performed better than most other jurisdictions across Australia, almost all industries in the ACT have been negatively affected to some degree. Our Plan will keep Canberrans employed in the industries most affected by the pandemic, such as hospitality.

It invests in creating more jobs for these sectors by addressing skills-shortages, and focussing on youth employment measures.

We will also establish a **Canberra Economic Recovery Advisory Group**. Priorities for the group will be to identify areas of regulatory reform that will stimulate economic activity and provide advice on how the ACT Government can continue to protect and create local jobs. The group will be made up of economists, industry representatives, unions and community sector partners.

We will support businesses to start and grow through better regulation and easy interactions with Government through Access Canberra.

We will continue our significant investment in skills development and education.

We will engage with industries that will create secure jobs in the future while maintaining high employment standards and rights.

Tax Reform Review

Today I am also releasing four separate reports, following a review into our tax reform program to date – a program that other jurisdictions around the country are now considering.

The key findings of the reform are that under a scenario where tax reform did not occur, there would have been lower economic activity, lower employment, lower investment and lower consumption.

Put simply, our economy, investment levels and employment rate would be in worse shape without these changes.

We have been able to abolish insurance duty, saving Canberrans hundreds of dollars a year, and reduce stamp duty so significantly that more low-income and lower-wealth households now own their own home.

Our stamp duty concessions for pensioners and first home buyers further support increased property activity by removing one of the highest barriers to home ownership.

The reforms have been independently confirmed as revenue neutral – in fact, the Government has collected slightly less tax than if it had left the system as it was.

The tax reform program has also provided greater certainty to the ACT Budget in a time of crisis. While the impacts are still severe, they would have been far worse had a greater percentage of our own source revenue still relied on inefficient and volatile taxes like stamp duty and insurance duty.

We only need to look at NSW and Victoria to see what damage a historic over-reliance on stamp duty can do to a State Budget.

Today I also announce that in order to provide certainty we will bring Stage 3 of tax reform forward by one year to commence in 2021-22, and set average general rates increases for households and over 90 per cent of commercial properties at 3.75 per cent.

This follows from the Government's decision to set average rates at zero for the 2020-21 year, which along with our \$150 rates rebate to every household delivered this quarter, means that around 110,000 households will see an actual rates reduction this year.

We will continue to reduce stamp duty in every budget. The next round of reductions will be targeted at affordable owner-occupier purchases and stimulating affordable housing construction by reducing stamp duty on lower value land, off-the-plan units and lower value properties.

Madam Speaker, this Economic and Fiscal Update, and the Economic Recovery and Jobs Plan I release today, demonstrate our determination to protect Canberra jobs as we recover from the pandemic.

We have a long way to go, but this is another essential step as Canberra emerges stronger, together.

I commend the Update and Plan to the Assembly.