Deloitte Access Economics

Net Fiscal Impact of Cross-Border Development at West Belconnen

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The questions addressed

- what is the net fiscal cost to the ACT Government of a typical cross-border development?
- are there aspects of the West Belconnen cross-border development that give rise to a net fiscal cost that is materially *lower* than that associated with other cross-border developments, and what is the likely size of these reductions?

Not examined are ...

- the economic, social or environmental impacts on the ACT
  – only the fiscal ones
- the net fiscal impact of the proposed West Belconnen development in its entirety, and so the in-border component in particular
  – just its cross-border component.

Preceding studies

- In 2004, Access Economics published a study for the Village Building Company comparing the impact on the ACT Government's finances of an in-border development at Palmerston with that of a cross-border development at Jerrabomberra
  - uplifted to the equivalent of 2014-15 prices, this study estimated that the "ongoing annual net fiscal cost" of a conventional cross-border development was in the order of $2,000 per resident.
- In 2010, Access Economics developed and documented estimates of the impact on the ACT Government's finances of in-border and cross-border components of a residential development then proposed by Riverview at West Belconnen
  - uplifted to the equivalent of 2014-15 prices, this study estimated that the "ongoing annual net fiscal cost" of a conventional cross-border development at West Belconnen would be in the order of $3,500 per resident or $145,000 in NPV terms
  - which after allowance for the unique features of the conventional cross-border development at West Belconnen fell to less than $20,000 in NPV terms.

The updated estimates ...

- present preliminary estimates
  - to be finalised once the ACT's 2014-15 Budget is brought down
- update the economic and budgetary data populating the model developed earlier by Access Economics in 2010
- incorporate material changes since 2010 relating to:
  - inter-governmental financial arrangements, and the level and structure of Commonwealth grants to the States and Territories
  - the Commonwealth Grants Commission assessments and methodology as they impact on the distribution of GST revenue among the States and Territories
- extend the modelling to account for:
  - the fiscal impacts also on the NSW State Government
  - the option that may be available by moving the ACT border to incorporate the present cross-border area into the ACT, and to exorcise it from NSW (and the Yass Valley Shire).

Residential development assumptions

- Key data about the West Belconnen development itself is as provided by Riverview.
  - In-border dwellings without the cross-border development 4,211
  - Additional in-border dwellings with the cross-border component 6,877
  - Cross-border blocks 4,746
  - Average sale value per dwelling $217,000
- Advice from Riverview is that when the cross-border phase commences, it is expected that about 300 dwellings would be developed and sold each year.
- Riverview estimates that the average number of residents both in border and cross border will be 2.6 per dwelling.

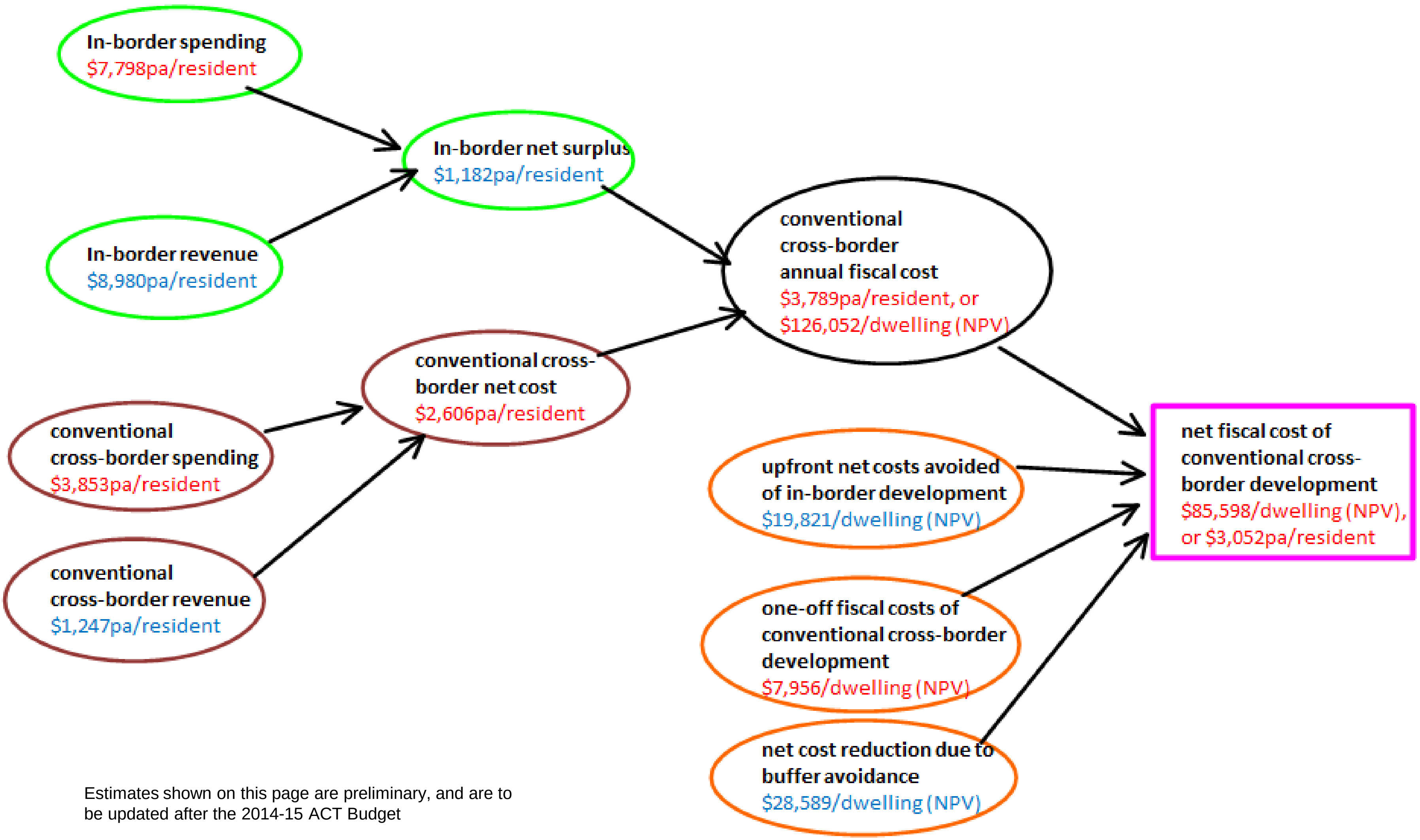
The estimation framework …

- defines the net fiscal cost of a cross-border development as:
  net cost to the ACT Government's finances of a cross-border development
  less net cost to the ACT Government's finances of an in-border development
- applies latest available budgetary data
- uses an NPV approach
  – important for comparing ongoing annual impacts with one-off impacts
- takes into account likely timing differences between spending, revenue and grants impacts
- starts with in-border spending and revenue
- derives conventional (or standard) cross-border spending and revenue
- isolates the impact of any 'unique' features of a particular cross-border development.

The (conventional) cross-border problem

- The ACT Government generates an annual ***net surplus*** (rather than a net cost) from an in-border development – being the difference between:
  - its annual spend to provide government services to residents of the in-border development, and
  - the annual additional revenue raised from or on account of the residents of the in-border development.
- By contrast, a conventional cross-border development involves an annual *net cost* to the ACT Government development – being the difference between:
  - its annual spend to provide government services to residents of the cross-border development, and
  - the limited annual additional revenue raised from the residents of the cross-border development (who also don't attract GST grant payments to the ACT).
- The overall net fiscal cost of a conventional cross-border development also involves the one-off net costs of social infrastructure construction.
- Altogether, these considerations warrant the ACT Government's general stance against cross-border development.

Conventional cross-border net fiscal impact

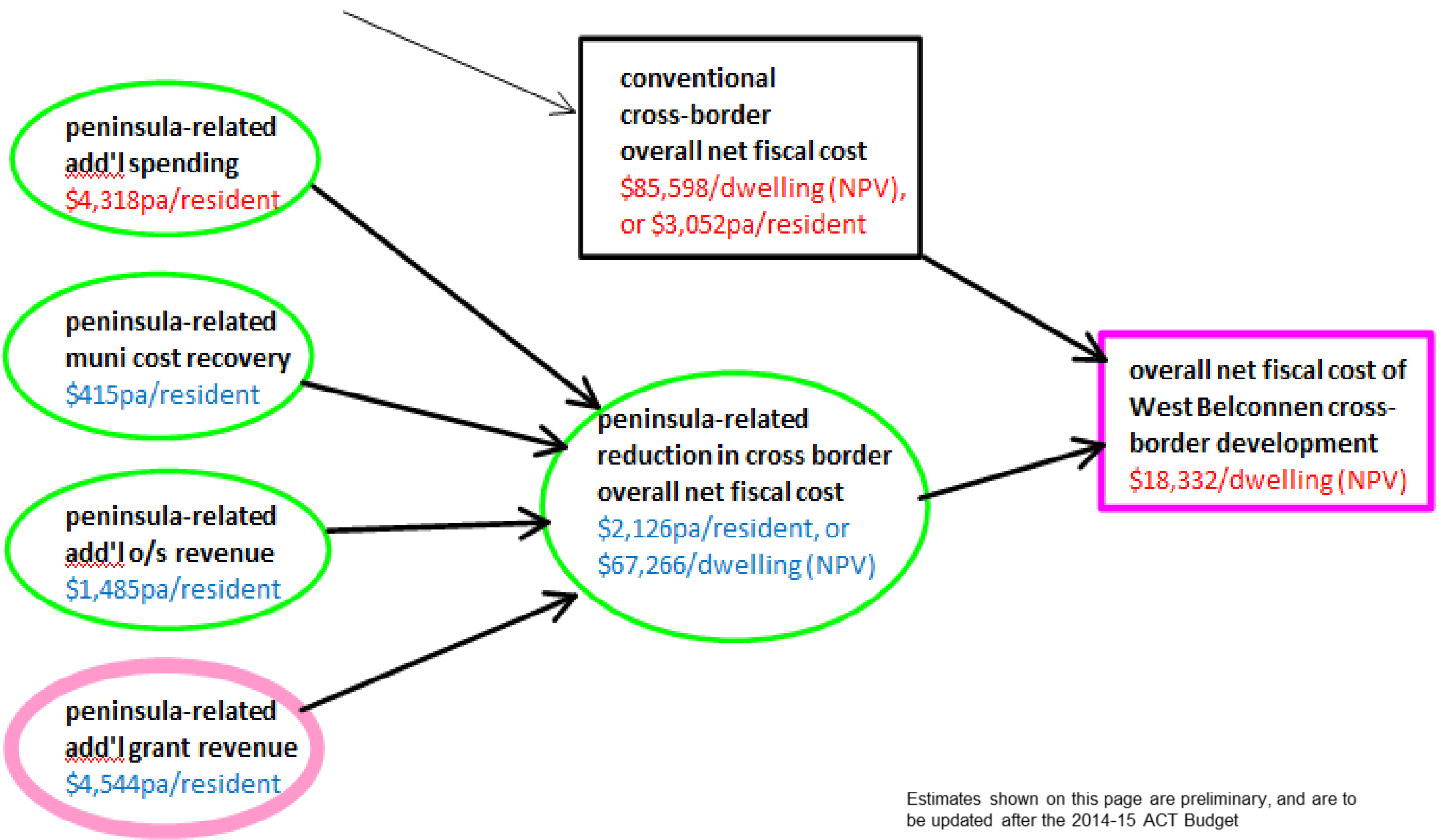


Estimates shown on this page are preliminary, and are to be updated after the 2014-15 ACT Budget

Unique features of West Belconnen

- What’s different about the West Belconnen cross-border location is its ‘peninsula’ nature
  - being bounded in the main by the Murrumbidgee River (and the remainder by Ginninderra Creek) and being situated quite some distance from existing NSW centres, it is practically impossible for the relevant NSW authorities, both State and local, to provide the vast majority of services required in the NSW portion of the development.
- While the peninsula nature of the cross-border land at West Belconnen means that expenditure on services and infrastructure by the ACT Government is relatively greater than for a conventional cross-border development, the additional spend is more than offset by the consequential higher revenues available to the ACT Government.
- The additional revenues are available in the form of:
  - municipal cost recoveries from Yass Valley Shire Council
  - additional own-source revenue raised by the ACT Government from cross-border (NSW) residents
  - additional GST grants from the Commonwealth Government and/or additional reimbursements from the NSW Government.

West Belconnen cross-border net fiscal impact



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Eliminating the net fiscal impact

- The ACT Government could be made indifferent between the ACT and NSW land components of the West Belconnen development were Riverview to meet the estimated net fiscal cost to the ACT Government of $18,000 per cross-border dwelling
  – the total cost could be in the order of $85 million.

- The NSW Government would also be out of pocket in NPV terms by around $8,000 per cross-border dwelling
  – Negating this impact could cost a further $38 million.

- All parties would be better off were the ACT-NSW border instead shifted by agreement between the Governments
  – the NPV of the annual net revenue (or surplus) available to the ACT Government were the entire West Belconnen development of 11,600 new dwellings treated as in border in nature would be around $39,000 per dwelling.

Next steps {not completed}

- Deloitte Access Economics will continue to refine the estimates through to the ACT's 2014-15 Budget being brought down in [June].
- Once the budget details are known for 2014-15, the relevant estimates of ACT spending and revenue will be incorporated into the estimation model.
- As a result, the provisional estimates will be replaced with final updated estimates.
- The key assumptions and methodology underlying these final updated estimates will be documented in an accompanying report by Deloitte Access Economics.

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