

**TITLE: The budget conundrum**

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**As our population continues to grow rapidly, the government is faced with choices it doesn't like to make**

According to the latest census, Canberra's population has grown by 9.9 per cent (compared to 7.9 per cent nationally) in the past five years - a growth, which among other things, places incredible pressure on the ACT budget.

While private companies are elated when the number of customers grows, our obsession with budget surpluses means that an influx of new taxpayers is typically seen as a big problem. Indeed, a big problem to be solved by reducing the quality of services provided to existing residents.

New residents, not surprisingly, expect to have access to schools, roads and hospitals. They may not think as hard about it, but they also expect to be provided with sewers, clean streets and safety.

Put simply, the cost of providing most services grows as the population grows.

When budgets are announced ministers typically talk up new expenditure for popular services like health and education. Journalists in turn point out that we should pay attention to the real (that is, inflation adjusted) numbers. If we just look at the nominal figures, we are told, we won't be able to tell what's actually happening.

But if we really wanted to know what was happening to the level of support for services we should be looking at the spending per person. That is, if we are told that spending on education has increased in real terms by 1 per cent and we know that the population has risen by 2 per cent then spending per student has declined.

For departments like health or transport a large proportion of the cost of providing their service is related to building big infrastructure projects like hospitals, roads or light rail. So when 33,387 people move to town it is inevitable that we will need to build new hospitals, schools, roads, sewers and everything else that a city dweller needs.

But where does the money come from to fund the upfront cost of these assets that will last 50 years? Typically it comes from the same pool of money that would have otherwise paid for nurses, teachers or bus drivers.

The way that our politicians - state and federal - talk about budgets these days makes virtually no mention of the distinction between capital spending and recurrent spending. They, or we, are apparently too busy to worry about such details. All we need to judge if they are doing a good job is, apparently, the bottom line. But spending \$100 million to build a hospital that will last for decades is quite different from spending \$100 million on shortening waiting lists.

But as the population grows as rapidly as it is in Australia governments are confronted with choices they don't like to make. In order to provide for the infrastructure that 33,387 new Canberrans need our politicians can either reduce spending on existing services, borrow the money and run large deficits or, most commonly, underinvest in new facilities and steadily let the traffic and hospitals become more congested.

When a new road is announced or the ribbon is cut on a new hospital we usually hear about the wonderful new service that we, as residents, should now receive but, as with the budget spending, we rarely hear that on a per capita basis the new investment does little to restore the level of service we once enjoyed.

The problem is that in an environment in which our politicians are so proud of their bottom lines it is too easy for them to imply that the increase in revenue that population growth delivers them has something to do with "good economic management" and similarly, that their willingness to let the per capital level of service steadily decline is further evidence of a "responsible approach" to spending.

Perhaps the most bizarre incarnation of the determination of politicians to use low levels of spending to prove that they are responsible economic managers is the assertion that they cannot afford to spend money on preventative health, programs to reduce criminals from repeat offending or specially trained teachers to help stop high-risk kids from sliding off the rails.

The idea that a government can't afford to invest in prevention this year makes about as much sense as an adolescent saying they can't afford to put oil in their car even though the warning light is flashing. Any CEO who refused to borrow money to maintain a critical asset would be fired, but sadly, most politicians who do the same are likely to be elected.

The ACT government was right to let its budget go into deficit for the coming year. Its revenue has fallen through factors beyond its control and to reduce its spending on services to match the decline in revenue would have been short-sighted and counterproductive.

That said, if Canberra's population is going to continue to grow by 1.9 per cent annually (compared to 1.5 per cent nationally) then expenditure on services needs to increase at an even higher rate if the quality of services is simply to be maintained. More residents need more teachers and more nurses. And because we have to build the hospitals when they arrive, not when they die, a rapidly rising population means we have to spend up big on the assets as well as the staff.

If we are going to make Canberra the best place in the world to live, we need to spend more time thinking about the health of our communities than the health of the ACT budget.

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