AUSTRALIAN CAPITAL TERRITORY

ACT Government

Budget Consultation 2014–15

A BUDGET OVERVIEW PREPARED FOR THE 2014-15 BUDGET CONSULTATION PROCESS

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Treasurer's Message

The 2014-15 Budget will continue the ACT Government's focus on growing the economy, improving liveability and opportunity, better health and education outcomes, and urban renewal.

These four priority areas will guide the Government's policies and spending priorities.

The coming Budget will help strengthen the ACT economy and create opportunities for all Canberrans. In continuing to support our economy, employment and provide quality services, we have accepted temporary deficits with the aim of returning the Budget to balance over the medium-term.

The Government will continue our reform of the Territory's taxation system, to make taxes fairer, simpler and more efficient. We will also continue with the planning and delivery of major infrastructure projects within the Territory to meet the economic, social, and environmental challenges of Canberra's second century.

The City to the Lake and Capital Metro projects are two transformational initiatives that will not only revitalise but also redefine the City and Canberra more broadly. Implementation of transformative reforms such as DisabilityCare and the National Education Reform Agreement will also continue.

Not only will these initiatives change the way we interact with our city and provide key services that the Territory's population expects and deserves, they will create thousands of jobs.

The Budget will also invest heavily in health, to ensure Canberrans continue to enjoy a world-class health system, and in municipal services, to provide the important services our community needs.

The Government's fiscal position is solid. The Territory has low net debt, a Triple-A credit rating, and a clear path to return to a balanced budget. Our economy is performing well compared with other non-mining states. The ACT has a low unemployment rate, high participation rate, low inflation, and strong population growth.

However the outlook remains uncertain. It is clouded by short-term risks including significant fiscal consolidation by the new Commonwealth Government, the potential for further changes in spending and hiring decisions following the commission of audit, and uncertain global economic and financial conditions.

In the short term the outlook for taxation revenue remains soft, in line with weaker economic conditions. The softening labour and property markets, relatively slow wage growth and fragile consumer and business confidence are expected to moderate ACT taxation revenue.

With this in mind, the ACT Government will approach the 2014-15 Budget with a mindset of continued measured spending that is offset to the fullest extent possible by responsible savings. This will ensure our fiscal position remains strong, that we can continue to fund high quality services and infrastructure, and that Canberra maintains its status as a great place to live, work, study and do business.

I invite the community to contribute to the development of the 2014-15 Budget by sharing your views on how our financial resources are allocated, where services could be enhanced and where efficiencies and savings could be made to offset increasing costs within the ACT Government.

Andrew Barr MLA
Treasurer

Introduction

The ACT economy and the Government's fiscal position are solid. In general terms, the Territory's economy is characterised by:

- low unemployment;
- strong population growth;
- a skilled and productive workforce;
- a Triple-A credit rating; and
- low net debt.

The Budget Plan (considered further on page 11) forms the basis of the Government's financial planning and strategic thinking. The Budget Plan provides for a balanced response to changing economic and fiscal conditions, whilst still allowing for flexibility to respond to shifts in circumstances. Guided by the Plan, the Government has accepted temporary deficits while maintaining strong levels of expenditure and investment. In addition, the ACT continues to maintain a solid and resilient balance sheet.

The Government has continued to build upon the substantial infrastructure investments over the past four Budgets. In the 2013-14 Budget, the Government has delivered an infrastructure investment program with a total value of $1.27 billion over four years.

Standard & Poor's in September 2012 confirmed the Territory's 'AAA' long term and 'A-1+' short term credit ratings (the highest ratings assigned by Standard & Poor's). This rating is presently under review, with the outcomes to be known shortly.

Despite this, our economy faces risks in the years ahead, and expenditure restraint will be a feature of the 2014-15 Budget and beyond.

Locally, the housing market is currently facing short-term challenges related to the Commonwealth Government's fiscal consolidation and post-election uncertainty. Despite this, there are a number of positive factors for the housing market going forward in relation to strong population growth and low interest rates. The Government continues to support the property market through its housing affordability initiatives that encompass the increase in First Home Owner Grant, expanding the Home Buyer Concession Scheme and retargeting the Land Rent Scheme. The commercial and industrial land programs also have considerable release targets over the forward estimates, which will support the needs of the growing ACT economy.

State Final Demand and Gross State Product growth in 2013-14 are forecast to moderate to ¼ per cent and 1¾ per cent, respectively, reflecting Commonwealth fiscal consolidation, combined with moderating investment growth.

The ACT labour market has softened and employment growth is expected to moderate to ¼ per cent in 2013-14. Wage growth is expected to be well below trend in 2013-14 at 3 per cent.

Consumer price inflation is expected to be contained at 2¼ per cent, due to the subdued outlook for economic growth.

In the short term, the outlook for taxation revenue remains soft given the continuing challenging economic conditions.

Other risks include lower investment returns for our superannuation investments and the Territory's cash balances, higher superannuation liabilities and expenses, with the potential for increasing borrowing costs going forward.

In the longer term, the growth in the national GST revenue pool is expected to be weak. The pool is not likely to recover to previously projected levels and the growth rates have slowed considerably. An ageing population, coupled with increases in the demand for services and technological changes all place increased demands on government outlays.

We have challenges before us, but the Government is committed to ensure that in restoring a balanced budget, core services, community safety, and risk mitigation and protection are maintained to the high standard the community deserves and expects.

To do this, we are looking at new ways of working to identify more efficient, innovative and productive work practices. We are looking at where we can get the best value for money in benefits and returns for the community in the dollars we invest. And we would like your feedback and suggestions of how to do this.

This paper is designed to assist the community in developing submissions by providing information on the ACT's budget position.

Unfunded and partially-funded election commitments (including items contained in the Parliamentary Agreement for the 8th Legislative Assembly for the ACT) are likely to represent the bulk of initiatives delivered through the 2014-15 Budget. Similar to last year, the unfunded and partially-funded election commitments and Parliamentary Agreement items will be delivered progressively, not all at once, with a clear focus on the most critical items to suit the needs of the Territory.

The Government would appreciate receiving feedback from the ACT community in terms of which Election Commitments or Parliamentary Agreement items it should focus its attention on during 2014-15 Budget deliberations.

In framing your input, it is important to note that while the Budget is in deficit in the short term, the ACT's fiscal and economic fundamentals are positive, supported by the Budget Plan. The Territory has a strong balance sheet, low unemployment rate and a stable economic platform to boost consumer and business confidence.

The 2014-15 Budget Consultation is an opportunity to provide views in the development of the Territory's revenue and expenditure priorities, rather than a process designed for organisations to request funding assistance.

General Government Sector Headline Net Operating Balance

	2013-14 $'m	2014-15 $'m	2015-16 $'m	2016-17 $'m
2013-14 Budget Headline Net Operating Balance	-253.6	-99.5	29.3	47.1

Fiscal Strategy

The Government remains committed to the principles of responsible financial management.

The 2013-14 Budget saw the Government remain on target of returning to a balanced budget by 2015-16 while maintaining high quality services to meet the needs of the ACT community. A balanced budget is maintained in 2016-17.

The Government continues to maintain its fiscal strategy which has been successful in ensuring that priority services are sustainable.

The Government's fiscal strategy objectives are to:

- achieve a balanced budget for the General Government Sector;
- maintain operating cash surpluses;
- maintain a AAA credit rating;
- manage debt prudently and maintain net financial liabilities within the range of all AAA rated jurisdictions;
- fully fund the Territory's unfunded superannuation liability by 2030;
- maintain quality services and infrastructure;
- make targeted investments to achieve strategic objectives of economic growth, reducing future costs and addressing chronic disadvantage;
- maintain taxation revenues at sustainable levels;
- deliver more efficient and productive public services, within tight financial constraints; and
- build a more productive and competitive economy.

This strategy will be reviewed and updated as part of the 2014-15 Budget, taking into consideration such factors as the impact of the outcome of the Commonwealth election on the ACT. It is likely that updated post-election Commonwealth economic statements will have a strong bearing on the Territory's economy, and elements of the budget, such as the land release program, may require further scrutiny.

ACT Community Profile

The ACT's resident population of 379,554 (December Quarter 2012), represents around 1.7 per cent of the Australian population.

Residents of the ACT are relatively younger, better educated and healthier when compared to the national average. Data from the Australian Bureau of Statistics indicates:

- the median age of ACT residents was 34.5 years as at 30 June 2012, compared to the national average of 37.3 years[1];
- 76.5 per cent of ACT residents aged 25-64 years had a post-school educational qualification in 2011 (compared to the national average of 64.1 per cent)[2]; and
- life expectancy of males at birth in the ACT is 81 years (compared to the national average of 79.7 years) in 2011, while female life expectancy at birth is 84.8 years (compared to the national average of 84.2 years)[3].

As at July 2013, trend labour force participation in the ACT of 72 per cent remained well above the national average of 65.2 per cent, and is the second highest in the country (behind the Northern Territory). The unemployment rate in the ACT was below the national average at 3.6 per cent in trend terms, compared to the national average of 5.7 per cent[4].

Household income in the ACT is higher than the national average. In the May quarter 2013, full time adult average weekly ordinary time earnings in the ACT in trend terms were $1,704.6, compared to the national average of $1,422.7[5].

The fiscal capacity and expenditure needs of all States and Territories are assessed by the Commonwealth Grants Commission, as part of its distribution of GST revenues.

The Commission's assessments indicate that the Territory's own source taxation effort[6] is higher than the national average supporting the highest level of service provision[7] of all jurisdictions.

The Commission's latest *Report on GST Revenue Sharing Relativities – 2013 Update* assesses that own source taxation effort in the Territory is around 153.19 per cent of its assessed capacity for 2011-12[8].

However, expenditure on government services in the ACT is 20.52 per cent higher in 2011-12 than that which would be required to deliver an Australian average level of service[7].

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[1] Source: ABS, Cat No. 3235.0.

[2] Source: ABS, Cat No. 4102.0.

[3] Source: ABS, Cat No. 3302.0.

[4] Source: ABS, Cat No. 6202.0.

[5] Source: ABS, Cat No. 6302.0.

[6] Taxation effort relative to capacity is the ratio of actual taxation to the assessed capacity taking into account the specific circumstances of a jurisdiction relative to other States, such as absence of specific revenue sources.

[7] This is determined as the ratio of actual expenditure to the expenditure that would be required to deliver an average level of service at an average level of efficiency, taking into account individual circumstances of a State, such as socio-demographic profile, geographic dispersion and scale of service delivery.

[8] Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2013 Update*. Data downloads for 2013 Update, Revenue and Expenses Ratios.

Where Does Our Money Come From?

The ACT's revenue raising capacity is relatively low in comparison to the national average. This is due to a significant portion of the Territory's economic activity being generated by Commonwealth expenditure within the Territory. Commonwealth employment, which drives much of this expenditure, is exempt from payroll tax. This provides the ACT with limited capacity to raise revenue that is relied upon by other States. However, the large public sector does provide relatively greater stability in the labour force compared to other jurisdictions.

The majority of General Government Sector (GGS) revenue is generated by grants from the Commonwealth Government (43 per cent) and own source taxation (31 per cent).

Total revenue for the ACT in 2013-14 is estimated to be $4,237.3 million.

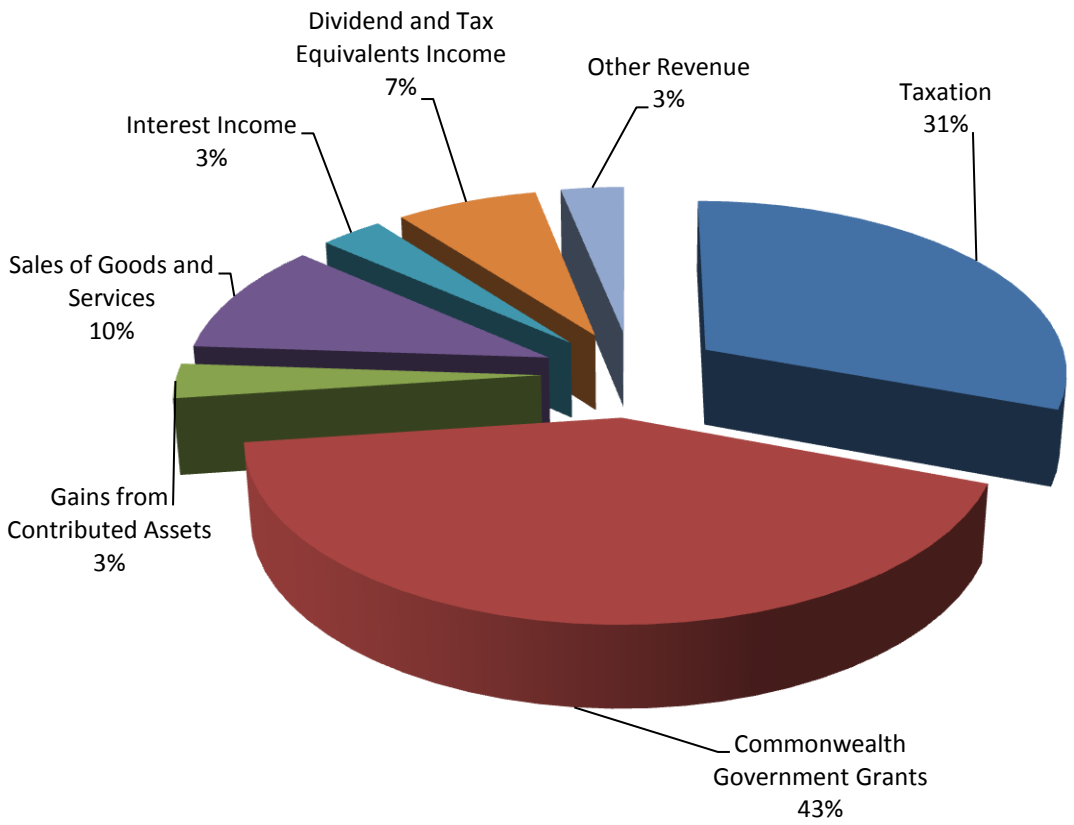
- General Government Revenue is projected to increase by 6 per cent in 2013-14 compared to the 2012-13 estimated outcome.
- The majority of GGS revenue is from grants from the Commonwealth Government (43 per cent) and own source taxation (31 per cent).
- Commonwealth Government grants revenue is expected to increase by $140 million in 2013-14 compared to the 2012-13 estimated outcome. This increase is mainly due to an increase in GST revenue and Commonwealth funding for the Majura Parkway project.
- Taxation revenue in 2013-14 is estimated to increase from the 2012-13 estimated outcome to $1,298.7 million.

Work on taxation reform, commenced in the 2012-13 Budget, continues with further initiatives to make our system fairer, simpler and more efficient. 2013-14 tax reform measures include:

- Continuing to use the General Rates system as the mechanism for revenue replacement;
- Further accelerating the reduction in conveyance duty for properties valued over $1.65 million; and
- Retargeting the First Home Owner grant to new homes only, expanding the Home Buyer Concession Scheme and retargeting the Land Rent Scheme by only offering it to eligible low income households.

The components of General Government revenue as at the 2013-14 Budget are shown in the chart below.

Components of 2013-14 General Government Revenue
(as at time of publication of the 2013-14 Budget)



What Does Your Money Deliver?

Total expenditure in the GGS is estimated at $4.578 billion as at the 2013-14 Budget. Approximately 47 per cent of 2012-13 expenditure relates to employees' wages and superannuation (comprising 35 per cent and 12 per cent, respectively).

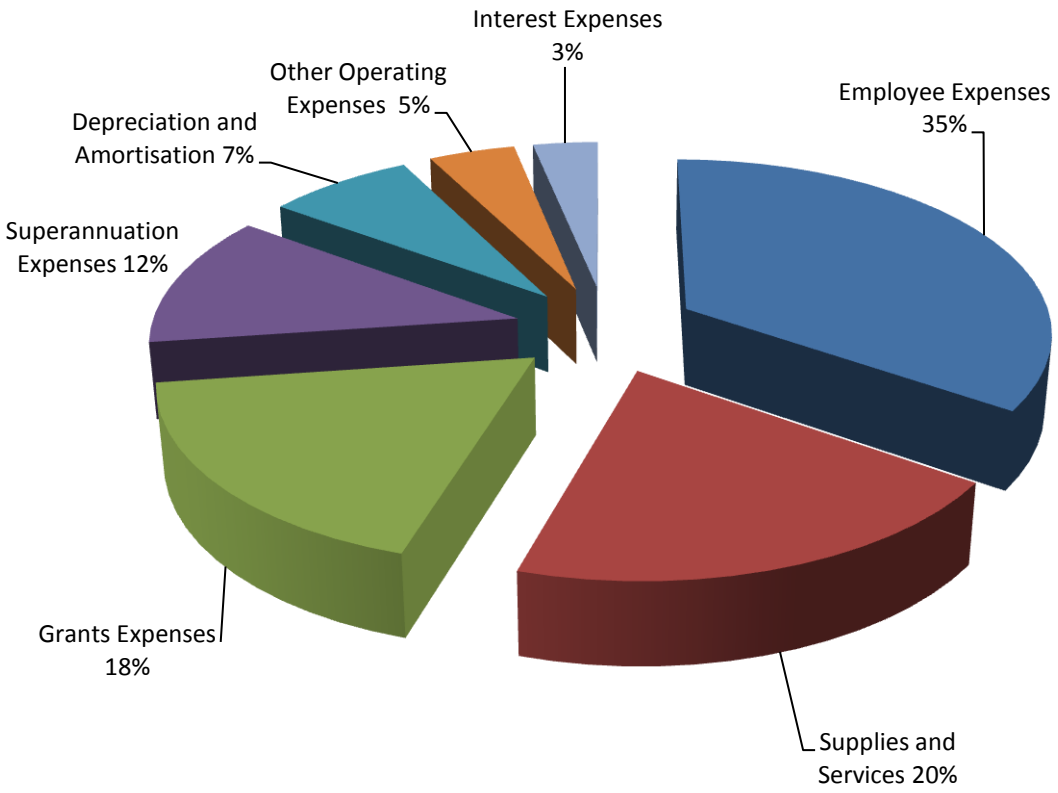
Health and education represent the majority of government expenditure at 53 per cent of total expenditure. Territory and municipal services constitute approximately 10 per cent of total expenditure.

The following table provides details of expenditure by service area, and the successive chart shows the breakdown of the components of Government expenditure.

Area of Expenditure	2013-14 Budget $m	2013-14 Budget per cent
Health and Community Care	1,300.0	29.6
Government Schooling	657.0	15.0
Territory and Municipal Services	444.5	10.1
Disability and Community Services	283.5	6.5
Non Government Schooling	225.9	5.1
Justice and Community Safety	205.7	4.7
Housing	156.7	3.6
Policing	152.3	3.5
Planning and Regulation	149.3	3.4
Environment, Sustainability and Land Management	147.8	3.4
Vocational Education and Training	144.8	3.3
Public Transport	136.7	3.1
Emergency Services	122.7	2.8
Chief Minister and Treasury	81.8	1.9
Sport and Recreation	46.2	1.1
Tourism, Venues and Events	41.3	0.9
Arts, Culture and Heritage	28.2	0.6
Land and Property Services	27.1	0.6
Legislative Assembly	15.5	0.4
Business and Industry Development	10.6	0.2
ACT Executive	7.4	0.2
Auditor-General	6.5	0.1

The components of General Government expenditure as at the 2013-14 Budget are shown in the chart below.

Components of 2013-14 General Government Expenditure
(as at time of publication of the 2013-14 Budget)



The Budget Plan

The Budget Plan was introduced in the 2009-10 Budget in response to the impact of the global financial crisis on the Territory's finances. The objectives of the Budget Plan are to:

- adopt a measured approach to addressing the deficit;
- achieve a balanced Budget by 2015-16;
- identify annual savings over the forward estimates period that align revenue and expenditure trajectories;
- ensure that in returning to surplus government services are maintained to a high standard; and
- plan for adequate growth in expenditure to meet priority services such as health and education and to meet the needs of growing community.

The Budget Plan accepted temporary deficits to allow the flexibility to preserve service levels and meet growth in demand. The Budget Plan adopted a long term approach of constraining expenditure below the revenue trajectory. The 2013-14 Budget recommits to the original target of a return to a balanced budget in 2015-16. It takes a sharper focus on restructuring the Territory's expenditure and revenue base and plan for the future challenges ahead. In the 2013-14 Budget:

- work on tax reform, commenced in the last budget, continues with further initiatives to make our system fairer, simpler and more efficient;
- $142.6 million in additional savings over four years are generated;
- net borrowings of $192 million over the 2013-14 budget and forward estimates are supporting service delivery and key infrastructure projects;
- the focus on services is maintained. Funding for growth has been included for health and government school education at around 7 per cent and 3 per cent respectively; and
- allowance is made for the ACT's participation in the National Education Reform and the National Disability Insurance Scheme (now DisabilityCare Australia).

As per previous years, the Budget Plan will be reviewed and updated as part of the 2014-15 Budget, to take account of the latest economic and financial information for the Territory.

2013-14 Budget Savings Measures

The ACT Government has continued to seek out ways to improve the efficiency of services delivered to the Territory. The 2013-14 Budget introduces a range of savings initiatives totalling $142.6 million over four years. These initiatives focus on reducing input costs, both in staff and non-staff resources consumed, to facilitate a redirection of expenditure to higher priority areas of Government.

Savings measures implemented since the 2009-10 Budget include:

2013-14 and Past Budget Savings Initiatives

Across Government Savings	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m	2016-17 $m
2009-10 Budget					
Wages Policy	35	35	35	35	35
Efficiency Dividend (commencing 1 July 2010)	19	19	19	19	19
2010-11 Budget					
Efficiency Dividend[9] (commencing 1 July 2011)	14	22	22	22	22
Treasurer's Advance Reduction	8	8	8	8	8
Deferral of Tree Planting	4	0	0	0	0
2011-12 Budget					
Savings Initiative	38	38	40	40	40
2012-13 Budget					
Agency Savings	25	37	46	54	54
Ceasing Initiatives	2	4	5	7	7
2013-14 Budget					
Ceasing Initiatives	0	1	2	2	2
General Savings including Whole of Government procurement	0	15	20	27	35
Service Reprofiling	0	6	8	12	14
Total Savings	145	185	205	226	236

Notes:
Savings introduced in Budget Review are included in the totals for the 2013-14 Budget.
Table may not add due to rounding.

[9] Revised in the 2011-12 Budget

Community Input

The Government invites you to provide input into the 2014-15 Budget development process.

In providing your input, the Government asks that you consider the following questions.

- What services do you believe are most important for the Territory?
- What infrastructure priorities should the Government consider initiating in the next four years?
- How can the Government deliver current services more efficiently and productively?
- Are there any new ways to generate revenue and/or services you consider that the community should make a direct contribution to (a fee for service)?
- Could the Government stop providing particular services?

It is important to note that the 2014-15 Budget Consultation is an opportunity to provide views in the development of the Territory's revenue and expenditure priorities, rather than a process for organisations to request funding assistance.

The Government would like to hear your suggestions. Consultation closes on **24 October 2013.**

Input should be submitted directly through the Budget Consultation Website: www.act.gov.au/budgetconsultation

For further enquires, please call the
Chief Minister and Treasury Directorate
on 6207 1375

'In supporting our commitment to online accessibility, if you are attaching a submission to your online input, we encourage you to please provide submissions in a text based electronic format'

All input received (including any attached submissions) will be made publicly available on the Budget Consultation Website unless otherwise requested. The Chief Minister and Treasury Directorate retains the right to withhold the publication of any input received.