



ACT
Government

AUSTRALIAN CAPITAL TERRITORY

BUDGET CONSULTATION 2015-16

A BUDGET OVERVIEW PREPARED FOR THE
2015-16 BUDGET CONSULTATION PROCESS



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Treasurer's Message

In its 2014-15 Budget, the ACT Government continued to invest in the services and infrastructure necessary to support the Canberra community in challenging times and encourage growth in the future. And we created capacity in our budget to deliver key infrastructure projects over the medium term. The Government intends to continue this focus in developing the 2015-16 ACT Budget.

In the past few years, we have seen massive cuts in general Commonwealth Government spending and payments to the ACT, causing job losses and challenging economic circumstances for the Territory.

The Government's response saw record investments in health, education, community services and infrastructure to offset the impacts of the Commonwealth's contraction. This investment was only possible because the Government has adhered to its fiscal strategy of achieving an operating balance over time. It was the Territory's strong balance sheet that allowed this level of investment in the ACT's economy, acting as a buffer against the changes in Commonwealth spending.

Similarly, the 2015-16 Budget will be developed in a time of economic challenge for the Territory's community. The Commonwealth's cuts have jeopardised our long-term growth and the health of our community, impacting upon our vulnerable, our businesses, our households and our economy.

Commonwealth government departments are continuing to shed staff, dampening economic growth, with flow-on effects to consumption and consumer confidence. Time will tell as to what the Commonwealth's Mid-Year Economic and Fiscal Outlook update and 2015-16 Budget hold in store for the Territory.

The additional expenditure required to invest in Canberra has given rise to increased deficits in the short term. These temporary deficits over the next three years reflect the Government's investment in jobs and services. Importantly, through sound economic management, the Government is forecasting a return to a balanced budget from 2016-17. This reflects the fact that sustainable public finances are a necessary factor for the long-term economic growth and stability in the Territory.

In preparing for the 2015-16 Budget, the Government will be considering the sale of assets under the Commonwealth's Asset Recycling initiative. Under this initiative, the Commonwealth will provide financial incentives to State and Territory governments to divest assets and reinvest the proceeds in additional productive infrastructure. The ACT's participation in this initiative could create capacity on the Territory's balance sheet and help to deliver the Government's priorities.

The Government will continue to build and transform our city for a prosperous and sustainable second century. In developing the 2015-16 Budget, the Government will prioritise and fund the services and infrastructure needed to realise this vision. We will again invest in four key areas:

- making Canberra healthy and smart;
- growing the economy;
- enhancing liveability and opportunity; and



- investing in urban renewal.

The Government remains committed to ensuring that the community is involved in developing the 2015-16 Budget. Working together, we can ensure that limited resources are put to their most productive and efficient use and identify where possible savings could be made. I am keen to learn how the Government's current levels of service delivery meet the needs of the Territory's population, and where refinements could be made. Please consider sharing your views on these topics through the ACT Government's 2015-16 Budget consultation process.

Andrew Barr MLA
Treasurer



Introduction

A growing economy is vital to maintaining our standard of living and supporting our community – a growing economy creates jobs and allows the Government to fund important services and infrastructure. The ACT economy is facing a number of challenges – in particular, tightening in Commonwealth Government spending and downsizing of its workforce. Solid economic fundamentals have allowed the Territory to remain in a strong economic position. However, the fundamentals have been tested recently.

Direct budget cuts to government departments have wider economic consequences that are being felt through a significant reduction in employment opportunities in the Territory, the outflow of interstate migration, and weak local discretionary spending. Concerns over job security have the potential to limit consumption and consumer confidence, while business hiring and investment decisions could be delayed.

The Territory's economic growth in 2014-15 is expected to be significantly constrained by the level of Commonwealth Government spending and uncertainty weighing on household consumption growth. Gross State Product (GSP), the Australian Bureau of Statistics headline measure of the ACT economy, is forecast to grow by 1¾ per cent in 2014-15 (down from a forecast outcome of 2¼ per cent for 2013-14, and further reduced in comparison to actual growth of 2.7 per cent in 2012-13).

In response to the change in the Territory's economic circumstances, the 2014-15 ACT Budget was framed around the key principles of growing the economy, encouraging job creation, improving the competitiveness of the ACT and supporting the community. The Government is implementing a range of policy reforms to achieve its economic strategy, including through improving the efficiency and fairness of the ACT taxation system.

Furthermore, the Government is taking an explicit and targeted approach to support the ACT community and grow and diversify – to the extent that it can – the ACT economy. Instead of cutting spending and adding to the negative impact of the Commonwealth's decisions in the ACT, the Government is investing in Canberra to minimise the impact of the Commonwealth Government's spending cuts. The Government has chosen to invest in Canberra, rather than add to economic uncertainty in the ACT by returning to a net operating balance more quickly.

Looking ahead, the 2015-16 Budget will, to the fullest extent possible, continue with the progressive implementation of the remaining Election Commitments and items contained in the Parliamentary Agreement for the 8th Legislative Assembly for the ACT. Forthcoming budget initiatives will aim to support the community and secure the Territory's economic future. However, as the ACT Government comprises less than 10 per cent of the ACT economy, initiatives need to be carefully targeted.

This paper is designed to provide information on the ACT's budget position to assist the ACT community in developing its submissions. In framing input, it is important to note that the ACT economy is facing a major challenge with the compounding effects of the Commonwealth Government's reduction in spending and jobs.

The 2015-16 Budget consultation process is an opportunity for the community to provide views in the development of the Territory's revenue and expenditure priorities, rather than a process designed for local organisations to request funding assistance.



Budget Outlook

The ACT Government manages the ACT's finances prudently and responsibly. We have delivered 10 surplus budgets since being elected in 2001 and invested in future growth. This means we are in a good position to manage the impact of the reduction in Commonwealth Government spending, despite the challenges faced by the ACT economy.

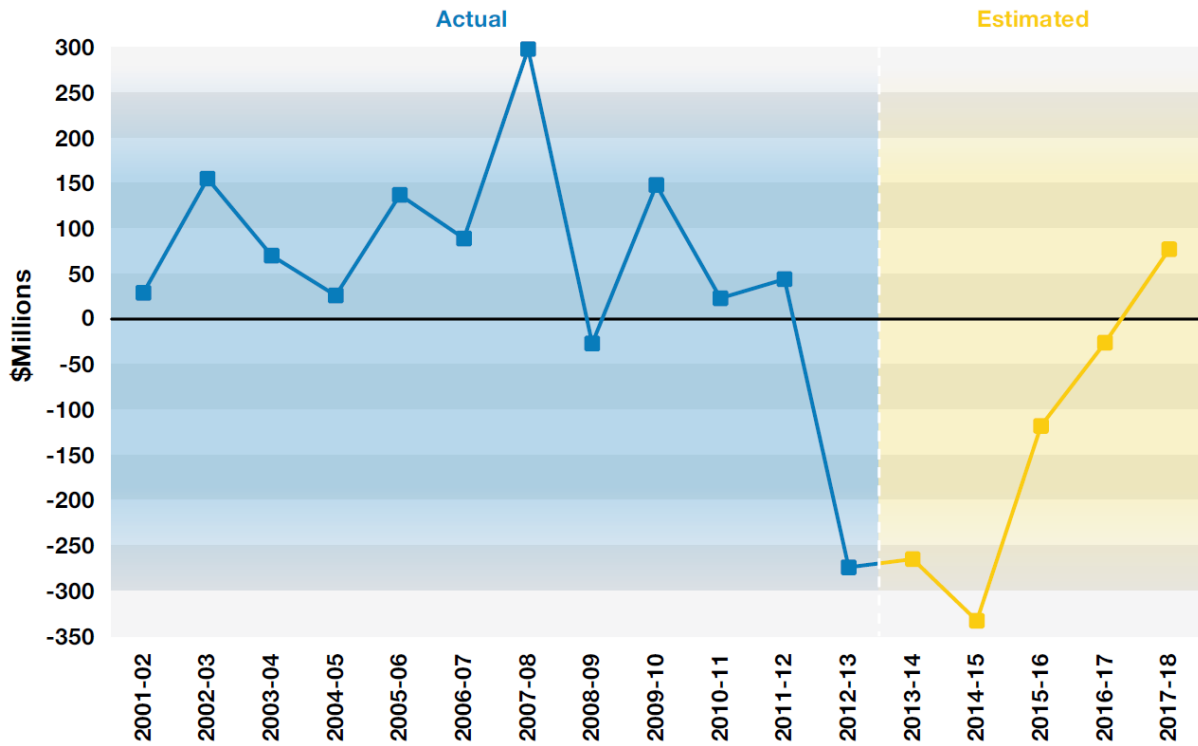
The Government's investment in transformative infrastructure projects will not only help create jobs but will provide the Canberra community with quality facilities now and in the future.

In 2014-15, we have forecast our Headline Net Operating Balance – the budget bottom line – to be \$332.8 million in deficit. Our current projections (illustrated in Figure 1 below) see these deficits falling through 2015-16, with the budget returning to broad balance in 2016-17 and surplus in 2017-18.

We have a plan to bring the budget back to balance by investing in economic growth; prudently managing ACT taxpayers' dollars, including targeted spending and smart savings; and continuing our tax reform program.

Our debt level will increase as we borrow to invest in transformational and productive infrastructure. It will remain at an affordable level that is among the lowest of all Australian States and Territories. By returning our budget to broad balance from 2016–17, and divesting ourselves of ageing assets, we have a plan to bring down debt. What this means is that we are in a sound position to invest in our economy and in our vision for Canberra at a time when investment is most needed.

Figure 1: General Government Sector Net Operating Balance



Note: The Net Operating Balance is presented on an Australian Accounting Standards (AAS) basis up until 2005-06. From 2006-07, the Net Operating Balance is presented on a Headline basis, the ACT's key fiscal indicator. The Headline Net Operating Balance is not available prior to 2006-07.



Fiscal Strategy

The Government's fiscal strategy focuses on managing the public finances of the Territory in a rigorous and prudent manner, and establishes an objective of achieving an operating balance over time by offsetting temporary deficits with surpluses in other periods.

The key objectives of this strategy are to achieve net operating surpluses over the medium term, prudently manage the ACT's balance sheet, make targeted investments to achieve economic growth, maintain taxation revenues at sustainable levels, and continue to plan for the delivery of high quality services to meet the needs of the ACT community. These factors collectively influence our credit rating – currently assessed as triple-A stable – one of only three States and Territories to hold this rating in Australia.

The strategy for the 2014-15 Budget focused particularly on the principles of:


- sustaining a strong operating balance over the medium term;
- using the strong balance sheet to invest in important city transformational projects; and
- supporting the ACT economy in the short term following the significant economic shock of changes in Commonwealth Government activity levels.

Over recent years, a number of economic and fiscal shocks have negatively affected the ACT's public finances. Of greatest significance are decisions by the Commonwealth Government to reduce the size of the Australian Public Service and, more recently, to reduce funding to the ACT for the provision of health and hospital services.

While the Government remains committed to returning to a net operating balance in the longer term, it sees its priority – given the impact of the Commonwealth contraction – in the shorter term as securing the ACT's economic future.

With a longer-term perspective in mind, the Government's fiscal strategy can be grouped into five high level objectives. These are:

- *sustainable economic growth* – building a productive and competitive economy through targeted investments that support economic growth;
- *sound public finances* – achieving a net operating balance over the medium to long term; temporary deficits must only occur if they are offset by surpluses at other times;
- *quality and efficient public services* – delivering high quality services, with an objective of delivering more efficient and productive public services;
- *sustainable taxation revenue* – ensuring taxation revenue is at sustainable levels, and making the Territory's taxation system fairer, simpler and more efficient for the future; and
- *a strong balance sheet* – the ACT's Balance Sheet continues to perform well compared to other jurisdictions and maintains flexibility to support high priority investments, with levels of debt that are sustainable.



The Government will continue to allow short-term responsiveness to economic conditions, manage debt prudently, and fully fund the Territory's unfunded superannuation liability by 2030. It will strive to maintain a triple-A credit rating in the long term and, while recognising the level of investment currently in the pipeline will lead to an expansion of the Territory's balance sheet in the short to medium term, it will be a catalyst for a better future for our progressive and modern city.



Taxation Reform

The Government's fiscal strategy depends on ensuring taxation revenue is at sustainable levels. In addition, the Government is committed to making the Territory's taxation system fairer, simpler and more efficient for the future.

The significant reforms to the Territory's taxation system, which commenced in 2012-13, were continued in the 2014-15 Budget. Under this program of reform, the Government is abolishing a number of inefficient taxes, including conveyance duty (over a twenty year period) and insurance duty (over a five year period), and replacing the revenue through the collection of general rates. Other 2014-15 tax reform measures included:

- the introduction of a new rating structure for residential land tax;
- an increase to the payroll tax threshold from \$1.75 million to \$1.85 million; and
- payroll tax harmonisation (removal of the genuine employer exemption).

The revenue lost through the abolition of inefficient taxes will be replaced through the general rates system. This will ensure revenue neutrality overall, while preserving capacity for government services and ensuring future generations do not bear the higher economic costs of an unfair and inefficient tax system. In addition, tax reform will result in significant economic gains in the wider economy due to the improvements in efficiency. Concessions form an important part of tax reform to ensure that low income households are not unduly impacted.

Following the implementation of these reforms, taxation revenue in 2014-15 is expected to be \$1.4 billion, or 3.7 per cent of nominal Gross State Product (GSP). This level of collections is broadly consistent with that in 2012-13 but remains below the long-run average.

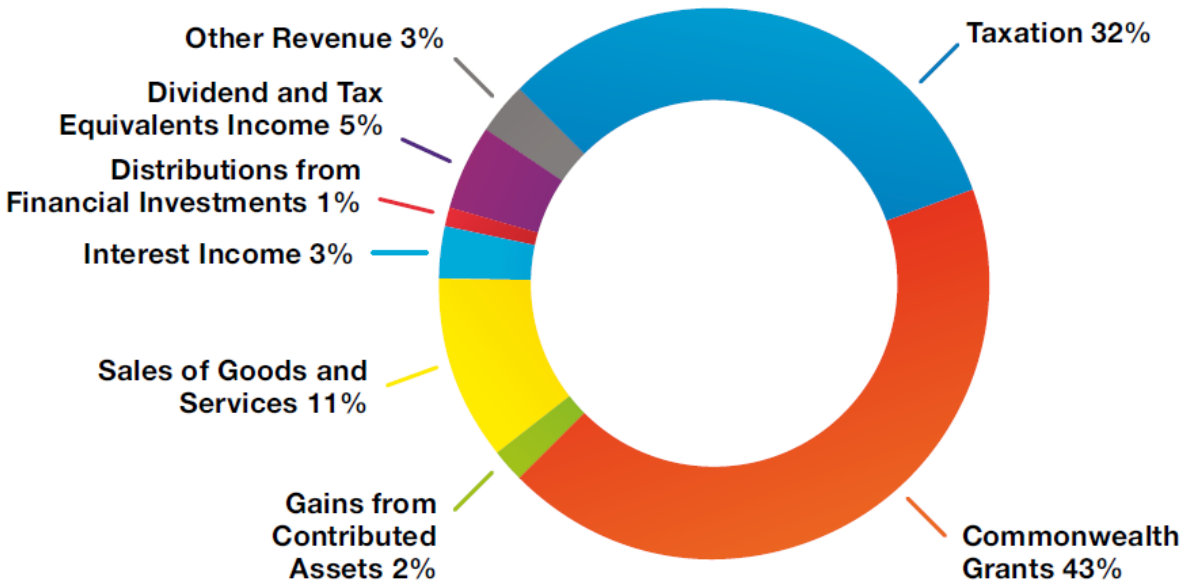


Where Does Our Money Come From?

In 2014–15, the ACT Government will receive total revenue (known as General Government Sector (GGS) revenue) of \$4.4 billion. This money comes mainly from Commonwealth Government grants (43 per cent). A further 32 per cent is raised through rates, taxes and charges. The components of GGS revenue as at the 2014-15 Budget are shown in Figure 2 below.

The remaining 25 per cent of the Government’s GGS revenue in 2014–15 mainly comprises receipts from the sales of goods and services (for example, payments from other states for interstate patients treated in our hospitals); dividend and income tax equivalent payments from Territory-Owned Corporations and Authorities (like ACTEW); and interest received on money that we have invested.

Figure 2: Components of 2014-15 GGS Revenue (as at the time of publication of the 2014-15 Budget)



What Does Your Money Deliver?

In 2014-15, this Government will spend \$4.9 billion¹ in delivering services to Canberra. This does not include our investment in capital infrastructure – \$735 million in 2014-15 and \$2.5 billion over the next four years.

Health and education are our biggest expenditures. Together they amount to around \$2.5 billion a year – 50 per cent of our budget.

In 2014-15, we will spend \$693 million on our territory and municipal functions and \$968 million on measures to further improve liveability and opportunity, such as community and justice initiatives. A further \$328 million will fund initiatives designed to boost economic growth for the Territory.



¹ General Government Sector (GGS) expenditure in 2014-15. The expenses by key priority area do not equal total GGS expenses as they do not include superannuation and other expenses that do not directly correlate to functions.

The various components of these expenditure categories are detailed in Table 1 below.

Table 1: Key Priority Area Expenditure

Healthy and Smart	Total: \$2,504.3 m
Health and Community Care	\$1,389.4 m
Government Schooling	\$675.0 m
Non Government Schooling	\$237.2 m
Vocational Education and Training	\$148.8 m
Sport and Recreation	\$53.9 m
Growing the Economy	Total: \$328.0 m
Chief Minister, Treasury and Revenue Management	\$104.4 m
Planning and Regulation	\$90.1 m
VisitCanberra, Venues and Events and Innovation, Trade and Investment	\$49.3 m
Executive, Legislative Assembly, Auditor-General and Electoral Commissioner	\$34.1 m
Arts, Culture and Heritage	\$30.3 m
Land and Property Services	\$19.8 m
Urban Renewal	Total: \$692.7 m
Territory and Municipal Services	\$363.5 m
Public Transport	\$166.5 m
Environment, Sustainability and Land Management	\$162.7 m
Liveability and Opportunity	Total: \$967.7 m
Disability and Community Services	\$288.7 m
Justice and Community Safety	\$217.1 m
Housing	\$176.3 m
Policing	\$154.6 m
Emergency Services	\$131.0 m



Infrastructure Investment

The ACT Government continued to invest in a significant infrastructure program in the 2014-15 Budget. Infrastructure investment and delivery remains a key priority to ensure our community is well prepared to meet the economic, social, and environmental challenges of Canberra's second century.

Given the ongoing Commonwealth contraction, it is more important than ever for the ACT Government to invest in our economy, invest in our people and invest in jobs. The Government will continue to invest in Canberra and undertake projects that create jobs, stimulate the economy and help buffer the effects of the Commonwealth fiscal consolidation.

The ACT Government will use its strong balance sheet to continue capital investment during the downturn. Infrastructure investment makes a vital contribution to confidence and job generation. Infrastructure investment by the Government promotes long-term improvements in productivity, which leads to long-term growth and improved living standards for the whole community.

The ACT Government's 2014-15 Budget indicated that the ACT will be considering the sale of assets under the Commonwealth's Asset Recycling initiative. This initiative will provide financial incentives to State and Territory governments to divest assets and reinvest the proceeds in additional productive infrastructure. The potential assets likely to be considered include: ACTTAB; ageing public housing stock; government office buildings; street lights and surface car parks. On 30 July 2014, the ACT Government announced the sale of ACTTAB for \$105.5 million.

The Government has commenced work to develop a schedule of asset sales to propose to the Commonwealth for eligibility under the scheme and hopes to be able to finalise negotiations with the Commonwealth in early 2015.

In its 2014-15 Infrastructure Investment Program, the Government has set out a record level of capital investment across the next four years of \$2.5 billion. The Government is investing in projects to enhance Canberra as a city in which to live and work. The City to the Lake, Civic to Gungahlin Corridor Improvements and the Capital Metro projects are three transformational initiatives that will not only revitalise, but also redefine, the City Centre and Canberra. Planning for these initiatives is continuing in 2014-15 as the Government considers options for implementation.

The Government's investment in major infrastructure is setting the foundation for improving productivity and addressing the shifting needs of our community as we look to diversify our economic base, attract investment, boost growth and create employment for the region.

As part of the Budget consultation process, you are invited to submit your views on which particular infrastructure priorities the Government should consider initiating in the next four years.



Community Input

The Government invites you to share your views as part of the 2015-16 Budget consultation 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 capital infrastructure priorities should the Government consider implementing 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?

This process has been designed as an opportunity to provide views in the development of the Territory's revenue and expenditure priorities, and should therefore not be viewed as a means of seeking funding for particular organisations or services.

The Government welcomes your suggestions. Consultation closes on **13 October 2014**.

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

For further enquiries, please call the
ACT Chief Minister, Treasury and Economic Development 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 provide submissions in a Microsoft Word based format'

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