

## 1.1 BUDGET OUTLOOK

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The 2008-09 Budget outlook is positive. A strong economy and the past structural adjustment have positioned the Budget well to make significant investment in high priority services, and the Territory's infrastructure to expand the productive capacity of the economy and support growth of the city.

The ACT's economy has performed well over recent years, with State Final Demand, population, and employment recording strong growth in 2006-07.

In 2007-08, the economy is forecast to grow modestly, at 1¾ per cent, easing from the previous very high rate. The level of economic activity, however, remains high. Unemployment has remained around the lowest recorded level of all the States and Territories at 2.6 per cent. Participation rate has remained close to its record high, at 72.4 per cent. Net interstate migration is at record level since the early 1990s.

The Budget position is strong following the structural reform undertaken in 2006-07, and from the strength of the economy.

Looking forward, the interest rate rises in the current year and the foreshadowed slowdown in the Commonwealth Government's spending are likely to soften demand for labour. Skill shortages, however, continue to pose challenges for employers. State Final Demand is forecast to grow at a solid rate of 3¾ per cent. The forecast expansion in the economy is underpinned by growth in government consumption, household consumption and investment. Employment is forecast to grow at ¾ per cent.

This is the context in which the 2008-09 Budget has been formulated.

The Budget maintains fiscal restraint while providing for strategic investment in high priority service areas. The Budget capacity is significantly targeted at infrastructure investment.

The Budget includes a five-year, \$1 billion *Building the Future* program of investment in the Territory's infrastructure. This will expand the productive capacity of the economy, reduce future costs, and support the growth of the city and its economy. The investments will go towards health infrastructure, the transport system, urban amenities, climate change initiatives and augmentation of the capital works program to support growth of the city.

The Budget forecasts surpluses in the order of 1.7 per cent per annum, on average, across the budget and forward estimates period.

**Table 1.1.1**  
**General Government Sector – Net Operating Balance**

	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m	2011-12 \$'m
<b>Net Operating Balance*</b>	<b>84.9</b>	<b>71.2</b>	<b>53.7</b>	<b>33.7</b>

\*The budget net operating balance incorporates the impact of long term superannuation investment earnings to place it on a consistent basis with the GFS estimates presented by state governments. Further details are provided later in this chapter.

## Highlights of the 2008-09 Budget

Consistent with the Government's fiscal strategy, the 2008-09 Budget includes targeted and strategic recurrent initiatives, and a major program of investment in the Territory's infrastructure.

The Budget highlights include:

- A surplus in 2008-09 of \$84.9 million, an improvement on the surplus expected a year ago, demonstrating a continued commitment to the principles of prudent and responsible financial management.
- An unprecedented investment in the Territory's future, through the *Building the Future* Infrastructure Investment Program.
- *Building the Future* will provide \$1 billion over the next 5 years, which, along with the annual capital works program, provides for a total capital investment program of almost \$1.5 billion.
- The 5-Year \$1 billion *Building the Future* program provides for:
  - \$300 million investment in establishing a health system for the future;
  - \$250 million investment in the Territory's transport system;
  - \$100 million for improving urban amenities;
  - \$100 million for climate change initiatives;
  - \$50 million investment in Information and Communication Technology (ICT) infrastructure; and
  - a \$200 million boost to the existing capital works program.
- Around \$700 million of the investment will be funded from past surpluses and around \$300 million will be funded from the current and future budget capacity.
- Specific capital programs and projects, with a total value of \$713.6 million over 4 years, are detailed in the Budget, including:
  - new construction works of \$532.2 million across the Budget and forward estimates;
  - feasibility and forward design projects of \$31.5 million;
  - capital upgrades expenditure of \$42.5 million in 2008-09;
  - capital grants totalling \$13.1 million;
  - the continuation of the whole of government capital improvement program of \$3 million in 2008-09;
  - the establishment of a \$4 million contingency fund for the capital works program;
  - new plant and equipment initiatives with a total value of \$62.6 million; and
  - new Information and Communication Technology (ICT) initiatives with a total value of \$24.6 million.
- Additionally, provisions of \$726 million, over 5 years, have also been detailed in the Budget for future programs and projects relating to climate change, transport, improving the urban amenity and other capital works to support the economic growth of the City.

- Works in progress from previous years will carry through into the Budget, projects with expenditure totalling \$372.5 million are to be completed over the next 3 years.
- Delivery of a responsive and forward reaching program of recurrent expenditure initiatives, totalling \$403.6 million over four years, across a number of priority areas.
- A significant investment in addressing climate change, with funding of \$242 million over the period 2007-08 to 2012-13.
- Targeted tax concessions for pensioners and first home buyers.
- An increase to the Payroll Tax Threshold from \$1.25 million to \$1.5 million directly benefiting small to medium businesses.
- A strong General Government Balance Sheet, with the asset base growing by more than 10 per cent.
- Four major initiatives alone will reduce CO<sub>2</sub> emissions by 9,300 tonnes, equivalent to removing 3,200 cars from the Territory's roads.
- Significant operating cash surpluses across the Budget and forward estimates.

## Economic Outlook

Economic growth in the ACT is forecast to be solid in 2008-09 after moderating in 2007-08.

The economy is forecast to expand on the basis of growth in government consumption and government and private investment, although growth is expected to be below the recent high rates. The ACT unemployment rate is expected to remain low despite a forecast easing of employment growth in 2008-09. Recent labour supply constraints are likely to ease to some extent as supply and demand move closer to balance in 2008-09, although they may still impose some dampening effect on employment growth.

The key economic aggregates for the ACT are summarised in Table 1.1.2.

**Table 1.1.2**  
**Economic Forecasts, Year-average percentage change**

	Actual	Forecasts <sup>(a)</sup>		Projections <sup>(b)</sup>		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>ACT</b>						
State Final Demand	5.7	1¾	3¾	4¾	4¾	4¾
Employment	3.8	1	¾	1½	1½	1½
Population	1.2	1	1	1	1	1
Consumer Price Index	2.9	3¼	3	2½	2½	2½
Wage Price Index	4.1	4¼	4¼	4	4	4
Gross State Product	5.0	1½	2½	3	3	3
<b>Australia</b>						
Gross Domestic Product <sup>(c)</sup>	3.3	4¼	3½	3	3	3

### Notes:

- Forecasts and projections are rounded to a ¼ of a percentage point to reflect the relative level of accuracy used in forecasting economic parameters. This is standard forecasting practice used by governments throughout Australia.
- Projections are based on long-run averages and are provided for planning purposes only. They do not reflect an expectation (forecast) of actual outcomes.
- Commonwealth Government forecast published in the 2007-08 Mid Year Economic and Fiscal Outlook released in October 2007.