

Australian Capital Territory

Budget Consultation

2012-2013



ACT
Government

A Budget Overview prepared for the
2012-13 Budget Consultation Process

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Treasurer's Message

The 2011-12 Budget created a strong platform for the Government's Budget Plan to return the budget to surplus in 2013-14.

The improved operating result will be achieved through shifts in Government expenditure, by managing the operating costs of the public service through prioritising high need services and addressing the cost of living pressures on Canberra families.

The Government is committed to ensuring that services and community safety are maintained to the high standard expected. We are committed to engaging the community on expenditure and revenue priorities.

The ACT Government has a demonstrated record of sound and sustainable economic and financial management and the fundamentals of our economy remain strong.

State Final Demand increased by 4.3 per cent in 2010-11, the second strongest growth rate in the country (apart from Western Australia). We have the lowest trend unemployment rate in Australia, at 3.9 per cent in November 2011.

Further, Standard and Poor's have reaffirmed the ACT's AAA credit rating, and endorsed the ACT Government's strong budgetary performance and sound financial management.

Our housing market also continues to perform well. Current housing indicators point to stabilising growth, after the peaks which occurred following the Commonwealth Government's stimulus measures.

Ongoing financial market volatility, however, is creating uncertainty and instability across world economies. Australian consumers continue to be cautious and this weighs on national household consumption, as evidenced by further reductions in the GST Pool and lower revenue returns to the Territory.

A review of the Territory's taxation system is currently underway with the final report to be delivered to Government in late 2011. The Government would release the report and its response in early 2012.

I invite the community to contribute to the development of the 2012-13 Budget by sharing views on how our financial resources are allocated, where services could be enhanced and where efficiencies could be made. This document provides contextual information to guide the development of submissions and comments.

I encourage you to participate in planning the Territory's resource and expenditure priorities. I look forward to working with all ACT residents to return our budget to surplus while maintaining high quality essential services and delivering the infrastructure required for the future needs of our Territory.

Andrew Barr MLA
Treasurer

Introduction

The Government is on track to return the Territory to surplus in 2013-14, consistent with the Budget Plan developed in response to the global financial crisis. A modest improvement in revenues and the fiscal restraint exercised in the 2011-12 Budget and previous Budgets have supported the Territory's return to surplus.

New policy initiatives in last year's 2011-12 Budget targeted areas of high need – health, education, services for people with disability, ambulance services, and supporting low income families in dealing with increasing utility costs. These were largely funded through a significant reallocation of Government resources to reduce the operating costs of the public service, allowing benefits to be passed on to the community.

The Government continues to release more residential land. The residential land supply program has set a target for the release of 18,500 dwelling sites across the budget and forward estimates period. The commercial and industrial programs also have considerable release targets over the forward estimates.

The Government plans to increase investment in the Territory's infrastructure significantly, with new investment of \$885 million during 2011-12 to 2014-15. This will deliver high quality assets to improve the economy's efficiency and productive capacity, and support effective service delivery to the community.

Borrowings of \$650 million will assist to fund infrastructure investments such as the Majura Parkway, and further development of health infrastructure.

No new taxes were introduced in the 2011-12 Budget. Instead, it provided targeted tax subsidies to achieve environmental and social policy objectives, and transitional assistance to industry through the reform of the lease variation change system.

The economy continues to perform well, benefiting from a strong demographic base and an economic structure that is robust and well managed.

Strong population growth is also supporting our economy. The ACT's resident population increased by 1.8 per cent in the year ending 31 March 2011.

Public sector employment is a solid and stable driver of skilled employment in the ACT, delivering job security and a stable income source. It is a driver of population growth and reduces uncertainty, allowing local businesses to invest with confidence and contribute to employment growth.

However, the ACT is not immune to the emerging risks such as recent international economic events and the further reductions in GST revenue that were announced in the Commonwealth Mid Year Economic and Fiscal Outlook (MYEFO).

Other risks to the budget include lower investment returns for both our superannuation investments and the Territory's cash balances, and higher superannuation liability and expenses. This means available funding for new proposals remains constrained.

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

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

Table 1: General Government Sector Net Operating Balance as per the 2011-12 Budget

	2011-12 \$'m	2012-13 \$'m	2013-14 \$'m	2015-16 \$'m
2011-12 Budget				
Headline Net Operating Balance	-36.9	-23.9	1.6	56.6
<i>Less: Impact of Stimulus Initiatives</i>	16.0	0.0	0.0	0.0
UNDERLYING NET OPERATING BALANCE	-52.9	-23.8	1.6	56.6

Fiscal Strategy

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

In the 2011-12 Budget, the Government continued its plan to return the Budget to surplus by 2013-14 whilst maintaining high quality services to meet the needs of the ACT Community.

The Government is continuing its fiscal strategy, which has been successful in cushioning the effects of fiscal shocks experienced in preceding years.

The Government's fiscal strategy as published in the 2011-12 Budget is:

- to achieve a General Government Sector Net Operating Surplus;
- to maintain operating cash surpluses;
- to maintain a AAA credit rating;
- to manage debt prudently and maintain net financial liabilities within the range of all AAA rated jurisdictions;
- to fully fund the Territory's unfunded superannuation liability by 2030;
- to maintain quality services and infrastructure;
- to make targeted investments to achieve strategic objectives of economic growth, reducing future costs and addressing chronic disadvantage; and
- to maintain taxation revenues at sustainable levels.

ACT Community Profile

The ACT's resident population was 363,834 (March Quarter 2011), representing 1.6 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 34.6 years as at 30 June 2010, compared to the national average of 36.9 years¹.
- 74.6 per cent of ACT residents aged 25-64 years have a post-school educational qualification (compared to the national average of 63.2 per cent)².
- Life expectancy of males at birth in the ACT is 80.5 years (compared to the national average of 79.3 years), while female life expectancy at birth is 84.3 years (compared to the national average of 83.9 years)².

At November 2011, labour force participation in the ACT of 72 per cent remained well above the national average of 65.6 per cent, and the second highest in the country (behind Northern Territory). Unemployment in the ACT was below the national average at 3.9 per cent in trend terms, compared to the national average of 5.3 per cent³.

Household income in the ACT is higher than the national average. In the August quarter of 2011, full time adult average weekly ordinary time earnings in the ACT in trend terms were \$1,525.30, compared to the national average of \$1,322.60⁴.

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 effort⁵ is higher than the national average supporting the highest level of service provision⁶ of all jurisdictions.

The Commission's latest report on GST Revenue Sharing Relativities – 2011 Update, assesses that own source taxation effort in the Territory is around 142.57 per cent of its assessed capacity for 2009-10⁷.

However, expenditure on government services in the ACT is 22.02 per cent higher in 2009-10 than that which would be required to deliver an Australian average level of service⁷.

¹ Source: ABS, Cat No. 3235.0.

² Source: ABS, Cat No. 4102.0.

³ Source: ABS, Cat No. 6202.0.

⁴ Source: ABS, Cat No. 6302.0

⁵ 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.

⁶ 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.

⁷ Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2011 Update*. Data downloads for 2011 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 the significant portion of economic activity 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 relied upon by other States. However, the large public sector does provide relatively greater labour force 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 (39 per cent) and own source taxation (31 per cent). In recognition of its geographic position, the ACT endeavours to maintain competitive taxation rates with New South Wales, where possible.

Total revenue for the ACT in 2011-12 is estimated to grow to \$3,982.3 million compared to 2010-11.

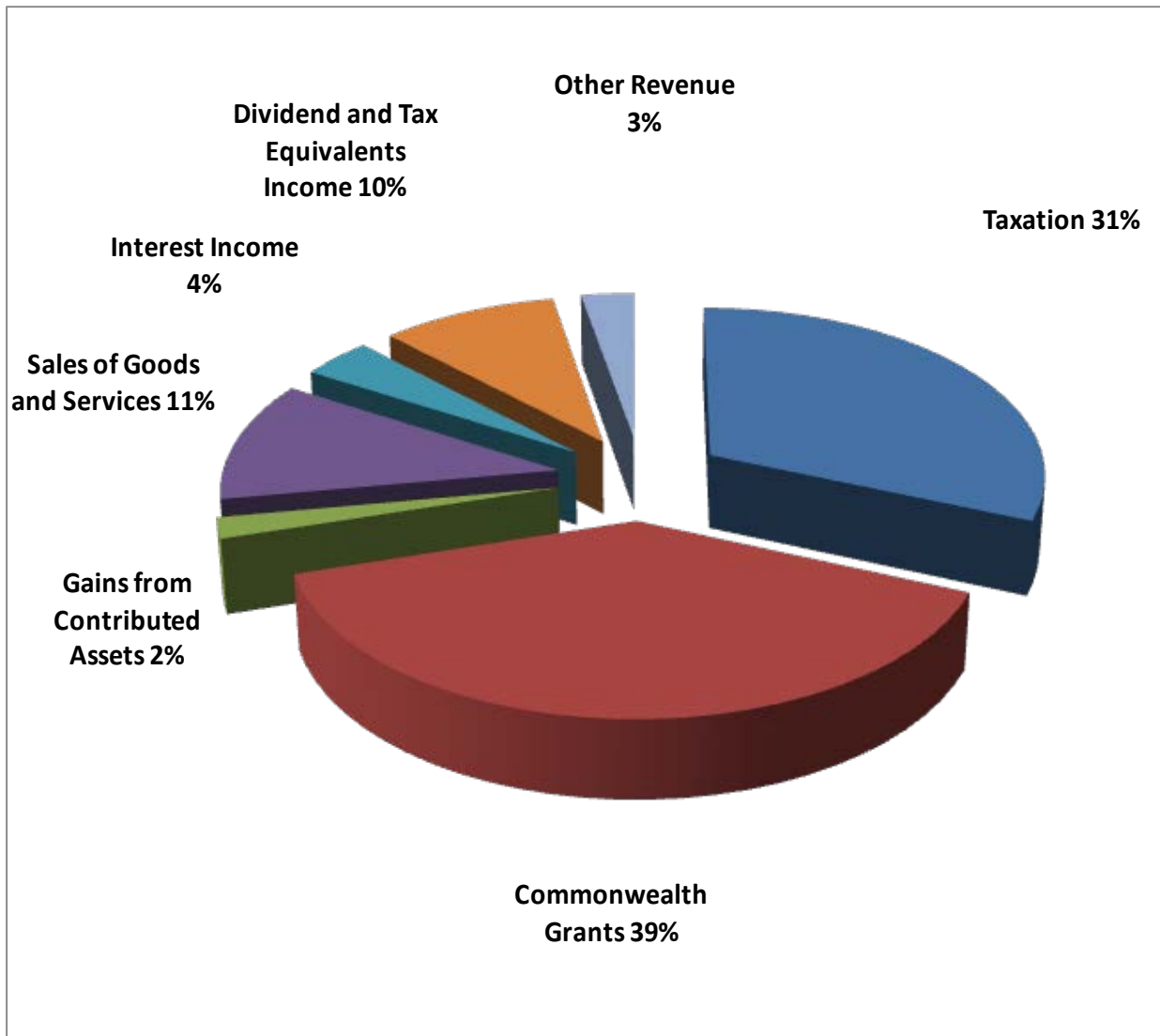
- General Government Revenue is projected to increase by 2.5 per cent in 2011-12.
- The majority of GGS revenue is from grants from the Commonwealth Government (39 per cent) and own source taxation (31 per cent).
- Commonwealth Government grants revenue is expected to decrease to \$1.543 billion. This is mainly attributed to reduced funding for the Nation Building and Jobs Plan during 2011, further reductions in GST Revenue associated with the Commonwealth Grants Commission's adjustment to the ACT's GST relativity from 1.15295 in 2010-11 to 1.11647 in 2011-12 and the lower National GST Pool.
- Taxation revenue in 2011-12 is estimated to increase slightly from the 2010-11 outcome to \$1.249 billion.

There were no new taxes in the 2011-12 Budget. However, tax subsidies are provided to support transition through the reform of the lease variation charge system.

A Review of the ACT Taxation System is currently underway, with the final report expected to be delivered in late 2011.

The components of General Government revenue for 2011-12 are shown in the chart below.

Components of 2011-12 General Government Revenue



What Does Your Money Deliver?

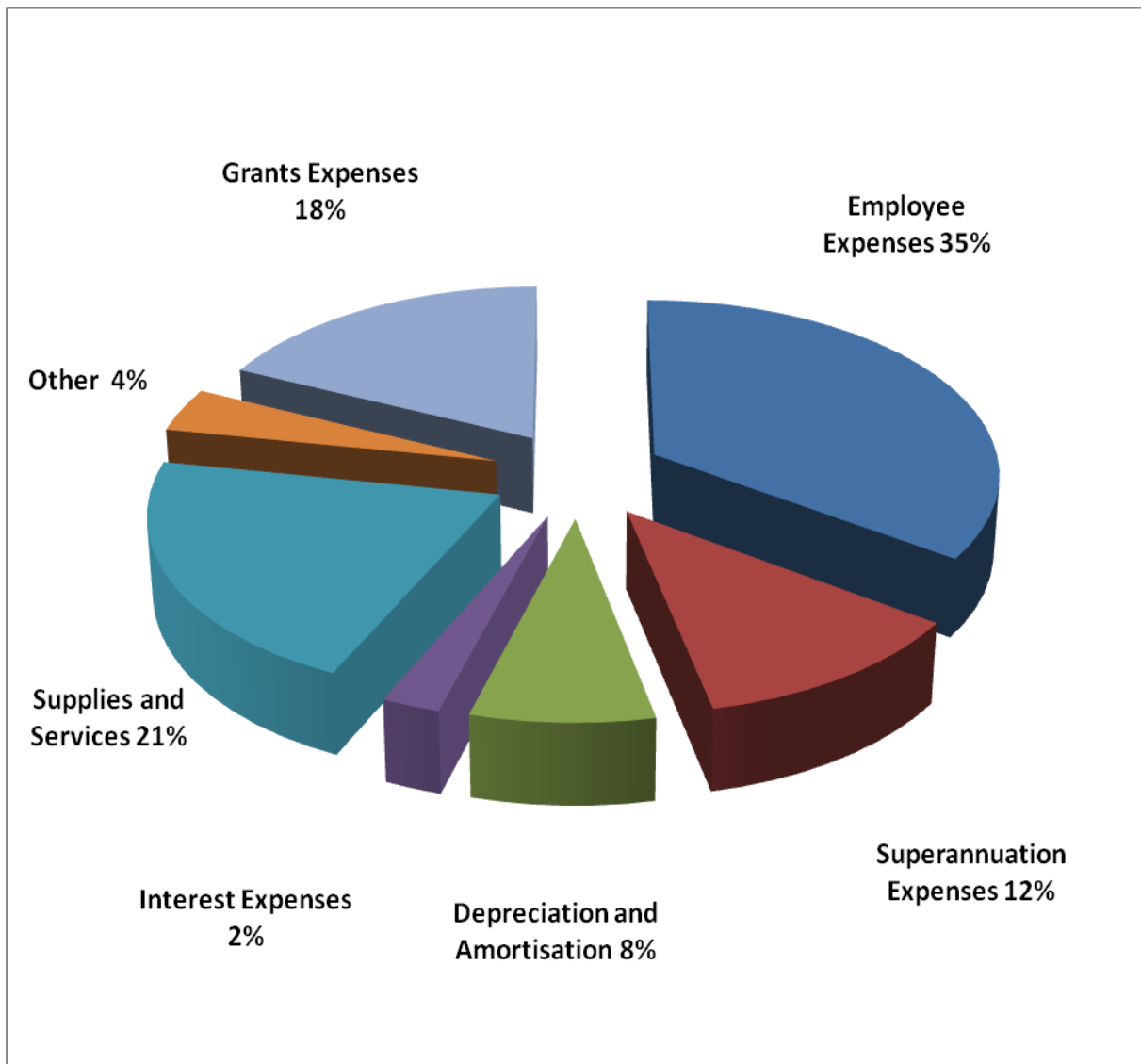
Total expenditure in the GGS is estimated at \$4.098 billion in 2011-12. Approximately 47 per cent of 2011-12 expenditure relates to employees' wages and superannuation.

Health and education represent the majority of government expenditure at 52 per cent of total expenditure. Territory and municipal services constitute approximately 13 per cent of total expenditure.

The following table provides a break-down of expenditure by service area, and the successive chart shows the breakdown of the components of Government expenditure.

Area of Expenditure	2011-12 \$ million	2011-12 per cent
Health and Community Care	1,147.1	28.0
Government Schooling (including Early Childhood and Preschool Education)	576.6	14.1
Territory and Municipal Services	526.6	12.9
Disability and Community Services	258.9	6.3
Non Government Schooling	200.8	4.9
Vocational Education and Training	145.7	3.6
Justice and Community Safety	170.1	4.2
Housing	142.8	3.5
Policing	142.0	3.5
Treasury	96.0	2.3
Public Transport	118.3	2.9
Emergency Services	108.0	2.6
Environment, Sustainability and Land Management	103.8	2.5
Planning	58.0	1.4
Sport and Recreation	42.3	1.0
Chief Minister's Department	39.7	1.0
Tourism	33.2	0.8
Land and Property Service	24.8	0.6
Legislative Assembly	14.1	0.3
Business and Industry Development	8.3	0.2
Executive	6.6	0.2
Auditor General	5.8	0.1
Other	128.3	3.1
Total	4,097.9	100

Components of 2011-12 General Government Expenditure



The Budget Plan

In the 2009-10 Budget, the Government developed a Budget Plan in response to the impact of the global financial crisis on the Territory's finances. The objective of the Budget Plan was to return the budget to surplus over a measured time frame, whilst maintaining the flexibility to respond to changing circumstances.

The 2009-10 Budget Plan was to return the Budget to surplus in 2015-16. In the 2011-12 Budget, economic recovery allowed this target was advanced by two years to 2013-14.

Gradual and sustained adjustment is a key feature of the Budget Plan which ensures that no sharp and unnecessary adjustments are made, and that priority services to the community are preserved, and enhanced where necessary.

The Government will continue to adhere to the key principles of the Budget Plan.

The Objectives of the Budget Plan are to:

- adopt a measured approach to addressing the deficit;
- achieve a balanced budget by the target year of 2013-14 (original target 2015-16);
- identify annual saving targets over the forward estimates period that set the aggregate revenue and expenditure trajectories to meet over the planning period;
- ensure that in restoring the surplus, core services, community safety, risk mitigation and protection are maintained to the high standard the community expects; and
- plan for adequate growth in expenditure to meet the needs of a growing population, and in particular, in priority service areas such as health and education.

2011-12 Budget Savings Measures

Under the Plan, the savings task was to be progressively undertaken and completed by 2012-13. Beyond the forward estimates period, the expenditure and revenue trajectories were projected to converge as expenditure growth would be constrained below the revenue growth rate.

The 2011-12 Budget incorporates savings of around \$151 million over four years.

- The efficiency dividend introduced in the 2010-11 Budget which came into effect on 1 July 2011, will deliver savings of \$66.6 million over four years.
- Savings in agency expenditures, achieved through a mix of administrative and employee costs, improving the efficiency of back office functions, and efficiency in land development, will deliver savings of \$150.7 million over four years.

2011-12 BUDGET SAVINGS MEASURES

Saving measures implemented since the 2009-10 Budget include:

Across Government Savings	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
<i>2009-10 Budget</i>				
Wages Policy	25	35	35	35
Efficiency Dividend (commencing 1 July 2010)	18	19	19	19
<i>2010-11 Budget</i>				
Efficiency Dividend ⁸ (commencing 1 July 2011)	8	14	22	22
Treasurer's Advance Reduction	9	8	8	8
Deferral of Tree Planting	4	4	0	0
<i>2011-12 Budget</i>				
Savings Initiative	33	39	38	41
Total Savings	97	118	122	124

The savings introduced in the 2011-12 Budget (totalling \$151 million) broadly involve:

- reducing administrative inputs consumed in delivering outputs and services;
- further streamlining business processes, and improving back office efficiency;
- improving efficiency in land development; and
- limiting growth in staffing numbers.

The savings measures incorporated in the 2009-10 and subsequent Budgets have resulted in the expenditure trajectory being gradually lowered, with the compound annual average growth rate over the Budget and forward estimates period being reduced by around $\frac{3}{4}$ per cent per annum.

⁸ Revised in the 2011-12 Budget

Community Input

The Government invites you to provide input into the 2012-13 Budget development process.

In preparing your budget submission, 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?
- Should the Government maintain its current suite and level of services?
- How can the Government deliver current services more efficiently?
- Are there any services you think the community should make a direct contribution to (a fee for service)?

It is important to note that the 2012-13 Budget Consultation is an opportunity to provide views in the development of the Territory's revenue and expenditure priorities and not a process for organisations to request funding assistance.

The Government would like to hear your suggestions. Submissions close on **24 February 2012**. The contact details for submissions are detailed below.

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

or alternatively:

Written submissions can be emailed to:
budgetconsultation@act.gov.au

or posted to:

ACT Budget Consultation
Treasury Directorate
GPO Box 158
CANBERRA ACT 2601

For further enquires, please call the ACT Treasury Directorate
on 6207 1375

All submissions will be made publicly available on the Budget Consultation Website unless otherwise requested.