

An Overview of the Territory's Budget

**prepared for the
2005-06 Budget Consultation**



ACT Government

Department of Treasury

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Your 2005-06 Budget

In line with its commitment to Canberrans, the Government invites input from the public to ensure it considers the views of the wider Canberra community. To facilitate this consultation, this document provides details of the ACT's budgetary position and highlights what the Government has already delivered to the Canberra community. Your views on the priorities and goals to be pursued in the 2005-06 Budget are now sought.

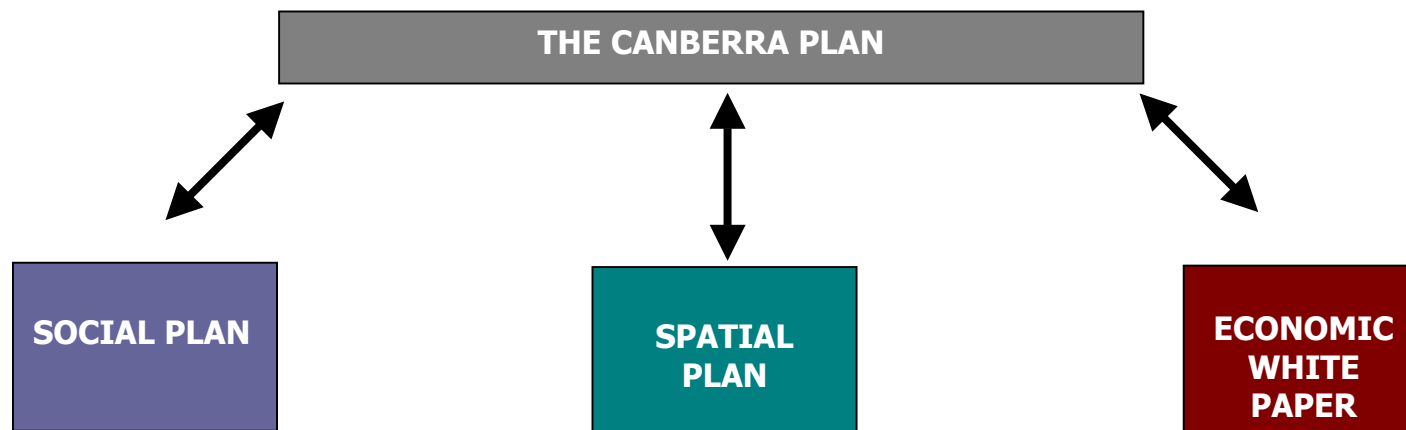
Your time in making a submission will be highly valued and may assist the Government to develop relevant and timely policies that best reflect the overall needs and interests of the ACT. It is intended that the feedback sought in this document will provide additional information to the Government that will be considered during the 2005-06 Budget process.

The 2005-06 Budget will be the first since the 2004 Legislative Assembly election and provides the Government with the opportunity to continue to implement the Canberra Plan, deliver on commitments made during the election, and address emerging issues over the next four years. Along with this opportunity, there is also a responsibility to continue to seek the views and expectations of Canberrans.

Delivering on the Canberra Plan

This ACT Government has committed to developing and implementing a comprehensive long-term plan for the three key areas of community life: the Canberra Plan. The Canberra Plan outlines the economic, social and spatial future of Canberra and its people.

Figure 1: The Canberra Plan



The Canberra Plan is available on the web at: www.cmd.act.gov.au/canberraplan/

Sustainability

The ACT Government's sustainability policy, *People Place Prosperity: a policy for sustainability in the ACT* describes the sustainability principles that the ACT Government will incorporate into its systems and operations.[#] This commits the ACT Government to:

- embedding sustainability within its decision-making processes,
- promoting sustainability to the wider community,
- developing partnerships for sustainability with the ACT community, and
- developing indicators and reporting regularly on progress.

The Government released, as part of the 2004-05 Budget Papers, a discussion paper *Framework for Future Budget Presentation*.[†] The purpose of the paper was to initiate a discussion and a consultation process to assist in the development of a framework to incorporate Triple Bottom Line (TBL), or Sustainability, into the presentation of the future ACT budgets.

The paper also highlighted the scope of the project, which extends well beyond the 'format' of Budget Papers to decision-making, resource allocation, strategic planning and organisation of the public sector.

This is an ambitious project. The discussion paper identified the engagement of stakeholders, not only as the most important aspect of incorporating sustainability in government operations, but also as a very important path towards defining a sustainability framework.

Extensive consultation on the development of the framework will be undertaken with the Legislative Assembly, business and community groups, peak bodies, and the wider community in the lead up to, and beyond, the 2005-06 Budget. A series of further discussion papers are to be released for comment and input from the Legislative Assembly and the community. Individual Government agencies will also consult with their stakeholders and service users to determine their information needs and performance measures.

While the project has a timeframe longer than a single budget cycle, it is expected that the ACT's 2005-06 Budget Papers will be significantly improved, with a specific focus on performance information that meets stakeholders' needs.

[#] This is available at: www.sustainability.act.gov.au.

[†] 2004-05 Supplementary Budget Paper: *Framework for Future Budget Presentation*. This is available at: www.treasury.act.gov.au/budget/budget_2004/.

Economic Position

Economic Assumptions

The economic forecasts presented for the 2005-06 Budget Consultation are based upon those provided in the 2004-05 Pre-Election Update. These forecasts incorporate revised information provided in the Australian Government's Pre-Election Economic and Fiscal Outlook (PEFO). The forecasts are largely unchanged from those forecast in the 2004-05 Budget.

Figure 2: Key Economic Forecasts

	2002-03	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	(Actual)	(Forecast)	(Budget Paper)	(Forecast)	(Forecast)	(Forecast)	(Planning)
(Average annual growth)							
Percentage change on previous year ^a							
Gross State Product	2.9	2.3	3.0	3.0	3.0	2.9	2.9
Gross Domestic Product ^b	2.8	3.6	^f 3.5	3.5	3.5	3.5	3.5 ^c
Employment Growth	2.9	0.0	^f 1.0	0.75	1.2	1.0	1.0
Consumer Price Index ^b	2.6	2.9	^f 2.0	2.0	2.5	2.5	2.5
State Final Demand	4.8	3.9	^f 2.6	2.9	2.9	2.8	2.8
Interest Rates ^d	4.75	5.0	^f 5.5	5.5	5.5	5.5	5.5
Population ^e	0.4	0.9	0.9	0.9	0.9	0.9	0.9

- (a). Based on seasonally adjusted and original data currently available, with financial data expressed in real terms. Percentage changes are expressed in year average or year total terms unless otherwise indicated.
- (b). 2004-05 Commonwealth Budget estimates.
- (c). ACT Treasury planning assumption.
- (d). Reserve Bank of Australia, average cash rate target. The cash rate is the rate charged on overnight loans between financial intermediaries. It has a powerful influence on other interest rates and forms the base on which the structure of interest rates in the economy is built.
- (e). As at 30 June each year.
- (f). Actual result for 2003-04.

The above assumptions will be used in framing the ACT's 2005-06 Budget. They represent the ACT's expected economic position over the budget period. Any variation from these economic assumptions may effect the budgetary position of the ACT.

The Statement of Sensitivity of Budget Estimates provides information on the effect of variations from these assumptions on the forward estimates. The Statement is included in the Pre-Election Update which is available on the web at: www.treasury.act.gov.au/documents.html

Economic Overview

The ACT economy is expected to grow at around 3.0% per annum to 2007-08. This is lower than the 3.5% per annum forecasts for the national economy over the same period. While nationally the economy is likely to continue to benefit from the global recovery, the lack of export-orientated industries, such as agriculture and mining, is likely to limit the positive impact upon the ACT economy.

Government Administration and Defence continues to be the largest industry in the ACT, accounting for 26.1% of the Gross State Product (GSP) of the Territory in 2003-04. Construction increased its share from 5.8% in 2000-01 to 8.1% of GSP in 2003-04, reflecting the surge in the property market in recent years.

State Final Demand

State Final Demand (SFD) represents expenditure in the ACT economy. It is a measure of demand rather than production, capturing the level of investment and the consumption of goods and services by the public and the private sectors.

State Final Demand grew 3.9% in the year to the June quarter 2004, above the Budget forecast of 2.6%. Nationally, Domestic Final Demand (DFD) grew 5.4% for the year to the June quarter 2004.

The ACT's SFD is projected to grow 2.9% in 2004-05, and the growth rate is expected to continue to grow at around this level for the years to 2007-08.

Employment

In October 2004, in seasonally adjusted terms the Territory's participation rate was 70.8%, higher than the national rate of 63.7%. Unemployment at 4.0% was the lowest of any state or territory. This implies that the level of confidence in the ACT economy remains relatively high. Despite the low unemployment rate, the ACT recorded the second lowest increase in average weekly ordinary-time earnings (up 3.8%) among all jurisdictions in the twelve months to May 2004. The average national increase was 4.9% for the year to May 2004.

Employment growth has been weak since the strong growth of 2002-03, with seasonally adjusted employment in October 2004 recording its first rise since March 2004. The ACT and Federal elections are in part responsible for this result, dampening business tourism into the ACT and delaying public sector recruitment. With job advertisements still at historically high levels and the labour market experiencing skill shortages, employment is forecast to grow by 0.75% in 2004-05 and by around 1.0% per annum in the out years.

Housing

Recent increases in median house prices in capital cities across Australia have caused housing affordability to become a prominent economic and social issue.

Median house prices in the ACT have increased rapidly over the last three years after a lengthy period of relative price stability. According to the Real Estate Institute of Australia (REIA) the median ACT house price in the June quarter 2004 was \$361,500, an increase of 96.5% since the June quarter 2000. However, the median house price fell 2.5% in the June quarter 2004, the first fall since the December quarter 2001. Furthermore, the latest ACT Planning and Land Authority (ACTPLA) data shows the median house price in October 2004 was \$346,750 and had fallen 8.8% from the \$380,000 recorded in July 2004. By contrast the median price of non-house residential properties (apartments, townhouses etc) has risen consistently since March 2004.

This increase in prices over the last few years has been accompanied by a decline in housing affordability. The June quarter 2004 HIA/Commonwealth Bank Housing Report showed that housing affordability in the ACT has reached its second lowest level on record. Another measure of housing affordability, the AMP/REIA Home Loan Affordability Report, shows that home loan affordability in the ACT is at its lowest level on record (i.e. since the March quarter 1995).

Most recently, the ACT housing market is showing signs of easing. This easing reflects the interest rate rises in late 2003 and the expectation of future rises in early 2005. Households are more sensitive to interest rate rises than ever before given the increased size of loans. Also concerns about oversupply, particularly in the apartment segment, and a strong equity market may reduce investor interest in the housing market. Monthly turnover has trended downwards over the past two years and prices for houses are easing. The ACT and federal elections held in October 2004 are also likely to have dampened the property market in the short term, however this should be offset in part by the adjusted scheme of stamp duty concessions for homeowners introduced by the ACT government on 1 July 2004.

Risks and Exposures

The fiscal position of the ACT is subject to various risks that require management into the future. They generally relate to the ACT's exposure to external economic and other impacts, superannuation liabilities and policy commitments made by the Government.

It is the nature of these risks and exposures that they are inherently hard to accurately model or predict, therefore the full financial impact cannot be known at this stage.

Credit Rating

The credit rating agency, Standard & Poor's, reaffirmed the ACT's AAA credit rating in November 2004. This is reflective of the ACT's low level of financial liabilities and strong ongoing budgetary performance. Any downgrading of the ACT's credit rating would constrain the ACT's borrowing capacity and increase debt servicing costs.

Superannuation Liability

The ACT has a significant level of unfunded superannuation liability relating to the ACT's public service. This represents the future benefits that members have accrued for past service which are not covered by the financial assets in the Superannuation Provision Account. The Government is committed to the effective management and eventual elimination of unfunded superannuation liabilities and has adopted a funding plan that is reviewed annually. The funding plan aims to achieve a 90% funding level of the superannuation liability by 2039-40, although this is subject to investment returns and annual appropriations.

In the 2004-05 Budget, the Government committed to increasing the funding level of superannuation liabilities from 58% at the end of 2003-04 to 67% in 2007-08.

Tax Base

The ACT has a narrow tax base compared with the states. The Government's capacity to collect payroll tax is limited compared to the states mostly due to the Commonwealth agencies being exempt from the tax. Also, relative to other jurisdictions, the ACT has a small industry base on which to levy payroll tax. As a result, land and housing based revenues account for around half of the ACT's own sourced revenue.

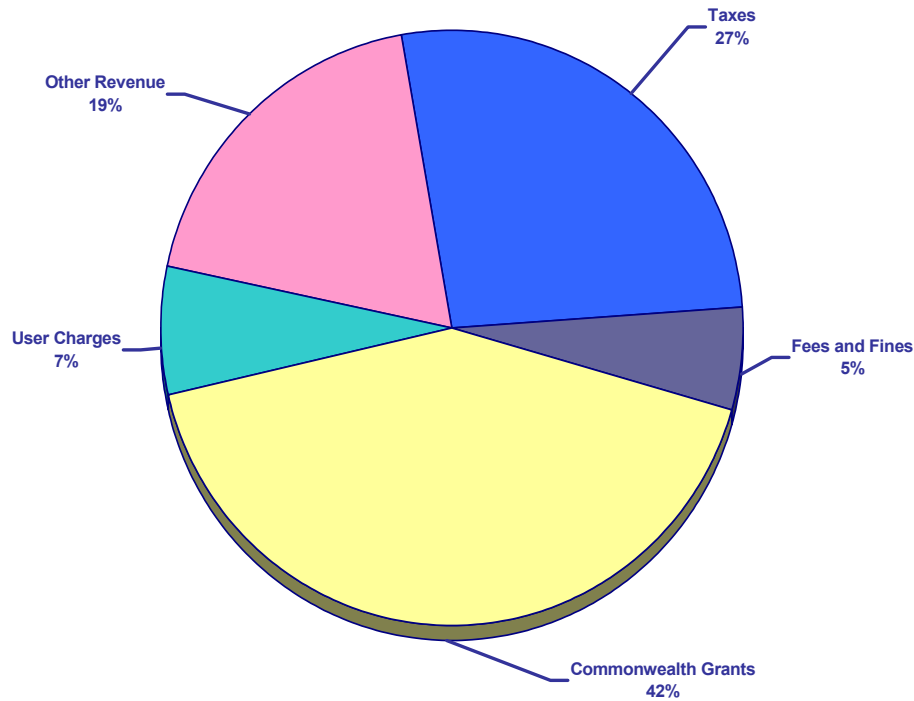
This means the ACT's revenue base is exposed to market fluctuations and, as the supply of land in the ACT is finite, in the longer-term revenue sourced from land sales will also come under pressure.

Revenues

The ACT has several key sources of revenue. These revenues are subject to variability arising from the changes in economic conditions and developments in Commonwealth-State financial relations, as well as other factors.

The composition of the revenues of the ACT is outlined below.

Figure 4: Sources of Revenues



The figure above highlights the relative magnitude of components of General Government Sector (GGS) revenues. It shows that, in 2004-05, 41% of total general government revenue will be derived from Commonwealth Grants, 33% will be derived from taxes, fees and fines, with the remainder derived from user charges and other revenues such as interest received, dividends, and contributions from associates and joint ventures.

Commonwealth Grants

The ACT, like all other states and territories, receives a significant proportion of its revenue from the Commonwealth as both general purpose and specific purpose grants. The ACT may choose how it utilises general purpose grants, however specific purpose grants must be expended within policy parameters determined by the Commonwealth.

Total revenue from grants received from the Commonwealth is expected to be \$1,092.1m in 2004-05, increasing in the outyears. The largest portion of these grants is the GST revenue, which is estimated to be \$676.5m or 62% of all Commonwealth Grants revenue in 2004-05. Other significant grants from the Commonwealth relate to health and education.

Taxes

Total taxes levied by the ACT are expected to contribute \$697.8m in revenue during 2004-05. The composition of the ACT's tax base is outlined below.

Payroll Tax

The payroll tax represents 27% of the taxation revenue. Where Australia-wide wages made by the employer or the employer's group exceed \$1.250m per annum, it is levied on the payroll of that employer at a rate of 6.85% above this threshold.

General Rates

General rates represents 18% of taxation revenue. ACT property owners pay rates to provide funding for a wide range of municipal and other essential services to the ACT community.

Land Tax

Land tax represents 8% of taxation revenue and applies to all commercial land and any residential land that is rented or is owned by a company or a trustee.

Financial Taxes

The ACT levies only one financial tax, Debits Tax, which represents 2% of taxation revenue. Legislation will be introduced in December 2004 abolishing Debits Tax from 1 July 2005 as part of the Inter Governmental Agreement on the reform of Commonwealth-State Financial Relations.

Duties

Duties represent \$239.4m or 35% of taxation revenue in 2004-05. They consist of duties on conveyances, insurance policies, hiring agreements, leases, motor vehicle registrations and transfers, transfers of unlisted shares and marketable securities, and business agreements, as well as other duties.

Gambling Taxes

Gambling taxes consist of ACTTAB Licence Fees, Bookmakers' Turnover Tax, Gaming Tax, Casino Tax, and Interstate Lotteries. They represent 7% of taxation revenue.

Other Taxes

Other taxes consist of the Ambulance Levy, Income Tax Equivalent Payments and Other Taxes. They represent 3% of taxation revenue.

Fees and Fines

Fees and fines are forecast to contribute \$142.4m in revenue to the ACT in 2004-05. The largest contributor to fees and fines is motor vehicle registration, forecast to generate 43% of total fees and fines revenue in 2004-05, followed by fees for regulatory services at 36%. Examples of fees for regulatory services are items such as waste management fees, motor transport regulation fees, building control fees and the Water Abstraction Charge.

Government Commitments and Achievements

Commitments

During the 2004 Legislative Assembly election campaign, the Government committed to delivering increased programs and services to the ACT. Initial costings are outlined below.

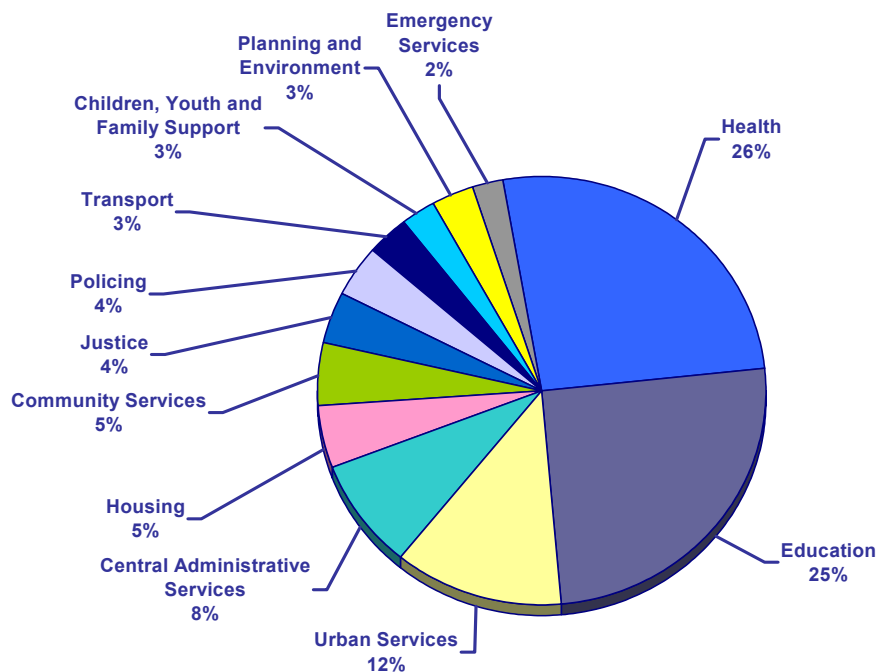
Figure 5: Commitments by function

	04-05	05-06	06-07	07-08	Capital	
Commitments by area ^a	\$m	\$m	\$m	\$m	\$m	
Health	3.4	3.7	4.6	9.6	31.8	
Education and Training	6.0	11.1	13.7	13.7	8.0	
Housing	0.2	-	-	4.0	30.0	
Disability and Community	2.5	2.4	2.4	2.4	0.1	
Children, Youth, Work and Family	0.4	0.9	0.7	0.7	0.3	
Urban Services	-	3.5	4.1	4.2	-	
Justice and Community Safety	-	0.1	-	-	45.0	
Business, Sport and Tourism	0.1	1.0	0.6	0.6	8.0	(a). The financial impact of commitments made since the Pre-Election Update will be clarified during the 2005-06 budget development process. The costings above are based on initial Treasury analysis.
Planning and Transport	-	1.0	0.9	0.9	51.4	
Environment	0.0	0.5	0.1	0.1	7.5	
Building our Community	0.1	1.0	0.9	0.9	12.4	
Total Commitments ^a	12.8	25.3	27.9	37.1	194.4	

The ACT's 2005-06 Budget will incorporate provisions to meet these commitments once full costings are determined.

What Your Money Delivers

Figure 6: What your money delivers



Health

The Health Sector represents 26% of Government expenditure or \$628.9m per annum and delivers a wide range of services to the ACT community through the Canberra Hospital, Calvary Public Hospital, Community Health, Mental Health and Population Health, and the non-government sector. These services include hospital treatment for 65,000 inpatients and 235,000 outpatients, immunisation for 91% of one year old children, 175,000 occasions of service for persons with a mental health condition, and breast cancer screening for 12,000 women.

Community Services

The Community Services Sector represents 5% of government expenditure or \$109.8m and is responsible for a wide range of activities such as disability services through government and non-government service providers to meet the accommodation support, community access, community support, respite care and wellbeing needs of people with moderate to severe disabilities; assisting children to the age of 6 years who have a range of developmental problems including physical, intellectual, communication, and other functional difficulties; youth justice; care and protection services; family support services and delivering the Government's commitment to address poverty in the ACT.

Services provided include 23,000 hours of home-based care and 8,000 bed nights of centre-based respite care, 53,500 hours of multidisciplinary therapy services and concessions of \$21.6m to low income earners for core services including public transport, electricity, water and sewerage and rates.

Justice

The Justice Sector represents 5% of government expenditure or \$98.3m per annum and is responsible for a wide range of activities in the areas of justice, the law, commercial practices, and government elections. Services provided include the provision of support and services to the courts and tribunals, crime prevention programs, legal advice and representation to government, legislative drafting, public prosecutions, protection of rights, correctional services and regulatory services.

Housing

Housing represents 5% of government expenditure or \$118.0m including Commonwealth funding and is responsible for the provision of public housing in the ACT. In addition, Housing ACT funds a capital program from property sales of some \$50m each year.

The organisation allocates, manages and maintains more than 11,000 public and community housing properties. It also coordinates comprehensive support services and community participation programs for its tenants.

Central Administrative Sector

The Central Administrative Sector represents 7% of government expenditure or 195.7m and delivers a wide range of services through Chief Minister's Department, Department of Treasury, ACT Legislative Assembly Secretariat, ACT Executive and Auditor General. A large proportion of the expenditure of the central administrative sector, 27%, relates to Territorial administration payments. These payments include items such as Goods and Services Tax administration costs paid to the Australian Taxation Office, recurrent grants paid to external parties including first home owners and non government organisations, and transfer payments to government agencies which include water and sewerage subsidies paid to ACTEW.

This sector also provides services across government including leadership at a whole of government level for key government strategies, whole of government focus on policy and strategic advice to government, promoting the economic development of Canberra and promoting accountability and transparency in the delivery of services to the community.

The Overall Budget

The ACT's 2004-05 original Budget estimates foreshadowed:

- an aggregate surplus of \$42.5m over four years to 2007-08,
- a fiscal position that will assure the continued AAA credit rating for the ACT,
- continuing the budget strategy to achieve a 90% funding level for the superannuation liability by 2039-40,
- an injection of funding into the Superannuation Provision Account of \$367m over the budget and forward estimate period,
- non-capital initiatives totalling \$94.468m, which included revenue initiatives of \$10.730m,
- capital funded initiatives of \$12.1m in 2003-04 and \$89.0m in 2004-05,
- new capital works commitments of \$329.9m, with \$232.8m provided in 2004-05,
- a \$110.0m provision to construct a correctional centre, with \$10m being spent in 2004-05,
- the commencement of the \$40m upgrade to the Convention Centre in 2004-05,
- no new major asset sales, and
- no new General Government Sector (GGS) borrowings.

The 2005-06 Budget will sustain these commitments.

Your Submission

This document has provided a general overview of the context in which the 2005-06 Budget will be presented. The Government now seeks the input from Canberrans on their views for appropriate strategies, directions and priorities for the ACT.

There is no prescribed format for submissions.

Submissions for Government consideration can be forwarded to:

Fay Prowse
Budget Consultation
Department of Treasury
GPO Box 158,
Canberra ACT 2601

or electronically to fay.prowse@act.gov.au.

Alternatively, you can provide your submission directly to the Treasurer, Mr Ted Quinlan, at:

Ted Quinlan MLA
ACT Legislative Assembly
GPO Box 1020
Canberra ACT 2601

or electronically to quinlan@parliament.act.gov.au.

Submissions should be submitted **by 10 February 2005**.

How useful did you find this document?

The Department of Treasury invites you to provide comment on the usefulness of this document and would welcome any suggested improvements that could be made for future publications. This will help to ensure that we are providing relevant information that assists you in preparing your Budget Submission.

Any comments on this 2005-06 Budget Consultation document should be addressed to:

Fay Prowse
Feedback – Budget Consultation Document
Department of Treasury
GPO Box 158,
Canberra ACT 2601

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