

2011-12

BUDGET CONSULTATION



A Budget Overview prepared for the
2011-12 Budget Consultation Process

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Treasurer's Message

The ACT Government is committed to supporting the needs of a growing city, by investing in essential services and valuable infrastructure to support jobs and the growth of our city, while continuing to be mindful of the need to return the Budget to surplus.

Despite improved economic performance across Australia, risks remain for the Territory, and the underlying budget is forecast to be in deficit by around \$173 million in 2010-11, with some improvement across the forward estimates.

To address this challenge, the Government has adopted a Budget Plan, taking a measured approach to addressing the deficit while maintaining essential services to priority areas and allowing for adequate growth to meet the needs of the community.

The Budget Plan is designed to be flexible and responsive to changing circumstances, and adjust to external factors as necessary. The Plan targets a return to surplus by 2013-14.

The Plan foreshadows additional savings (in addition to those introduced in the 2010-11 Budget) of \$25 million in 2011-12 and a further \$25 million in 2012-13.

Looking to the future, we will continue to invest in vital infrastructure and services and look for opportunities to become more efficient and effective in the provision of services to the community, a better and more productive public service, while ensuring that expenditure remains targeted to areas of priority to support a growing city.

The Government is committed to engaging the community on these issues. Indeed, this is a fundamental component of our budget process.

I would like to invite the community to participate in framing the Budget by sharing their views on how ACT resources are allocated, where services should be targeted and identify where possible savings and efficiencies could be made. All submissions will be considered in determining the upcoming and future budgets.

I look forward to working with all ACT residents in returning the budget to a sustainable platform in the future in maintaining priority services and investing in the necessary infrastructure to cater for the needs of our growing city.

Katy Gallagher MLA
Treasurer

Introduction

The 2010-11 Budget is a responsible budget which invests in the growth of the community whilst continuing to respond to revenue losses, and the outcomes of the GST carve-up by the Commonwealth Grants Commission.

Economic circumstances have improved. The extent of the economic slowdown both nationally and locally has not been as severe as originally anticipated. In part, this has been due to the fiscal stimulus measures of the Commonwealth Government to support the economy, and the Territory's continued investment in infrastructure to support jobs and the local economy.

The Budget maintains fiscal restraint in an environment of moderate growth in underlying revenue whilst providing new spending towards meeting the needs of a growing city, its population and new policy initiatives.

The Budget Plan targets a return to surplus in 2013-14, two years earlier than originally projected. The Plan incorporates around two-thirds of the total savings required to return the Budget to surplus. The plan foreshadows additional savings necessary in future years of \$25 million in 2011-12 and a further \$25 million in 2012-13. This is in addition to efficiency targets that have been applied to most agency budgets.

In 2011-12, the Government will also continue its commitment to capital investment to increase the productive capacity of the economy in the future, and support economic activity and jobs in the short term.

This paper is designed to assist the community in developing submissions by providing information on the budget position and the magnitude of the savings task.

The Government values this discussion, as it enables the community to share what they believe will assist in moving towards returning the Budget to surplus by 2013-14.

In framing your advice to the Government, 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 a Budget Plan. The Territory has a strong balance sheet, low unemployment levels and relatively low interest rates to boost consumer confidence.

The Government is seeking the views of the interested stakeholders on how ACT resources could be better used, where priorities should be targeted and where possible savings and efficiencies could be achieved.

Table 1: General Government Sector Net Operating Balance

	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m	2013-14 \$'m
2010-11 Budget				
Headline Net Operating Balance	-83.9	-135.8	-95.5	-50.3
<i>Less: Impact of Stimulus Initiatives</i>	<i>-88.8</i>	<i>-16.2</i>	<i>-2.0</i>	<i>0.0</i>
UNDERLYING NET OPERATING BALANCE	-172.7	-152.0	-97.5	-50.3

FISCAL STRATEGY

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

Economic circumstances have improved and the Budget has been developed in the context of an improving national economy, recovering financial assets and values, lower GST returns and an underlying deficit. It has reduced the effects of the global downturn and assisted in sustaining services.

The Government's fiscal strategy from previous years remains sound.

The fiscal strategy for the 2010-11 Budget is:

- to achieve a General Government Sector Net Operating Surplus;
- to maintain an operating cash surplus;
- 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 at 31 March 2010 was estimated to be 357,673, representing 1.6 per cent of the Australian population.

Residents of the ACT are characterised as being 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 is 34.7 years, compared to the national average of 36.8 years¹.
- 73 per cent of ACT residents aged 25-64 years have a post-school educational qualification (compared to the national average of 62.5 per cent)².
- Life expectancy of males at birth in the ACT is 80.1 years (compared to the national average of 79.2 years), while female life expectancy at birth is 84 years (compared to the national average of 83.7 years)².

At September 2010, labour force participation in the ACT of 72.4 per cent remained well above the national average of 65.5 per cent. Unemployment in the ACT was well below the national average at 3 per cent, compared to the national average of 5.1 per cent³.

Household income in the ACT is significantly higher than the national average, reflective of our relatively higher educated, healthier and more motivated workforce. In the May quarter of 2010, full time adult average weekly ordinary time earnings in the ACT in trend terms was \$1,469.80, compared to the national average of \$1,256.30⁴.

The rate of poverty among 15-39 year olds fell in the ACT over the period 2001-2006, by 1.6 percentage points to around 6.7 per cent of the ACT population⁵.

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 effort⁶ is higher than the national average supporting the highest level of service provision⁷ of all jurisdictions.

The Commission's latest update of the Relative Fiscal Capacities of the States assesses that own source taxation effort in the Territory is around 161.66 per cent of its assessed capacity⁸.

However, expenditure on government services in the ACT is 30.36 per cent higher than what would be required to deliver an Australian average level of service.

¹ Source: ABS, Cat No. 3101.0.

² Source: ABS, Cat No. 4102.0.

³ Source: ABS, Cat No. 6202.0.

⁴ Source: ABS, Cat No. 6302.0

⁵ Source: Commonwealth Grants Commission, State Finances Inquiries, 2008 Update Report, Volume 3 'Homeless and General Welfare'.

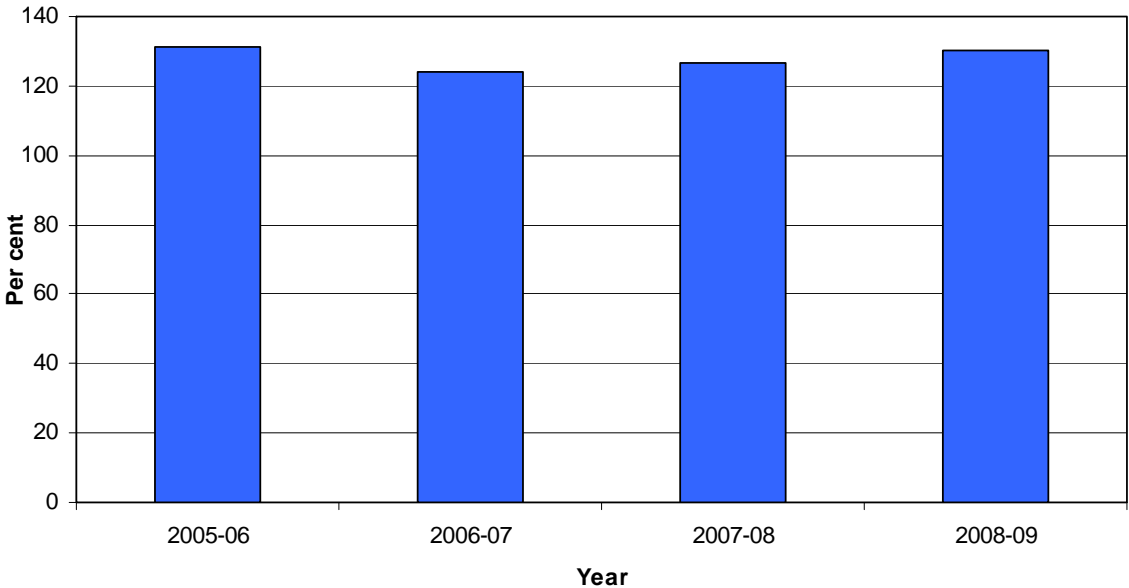
⁶ Taxation effort relative to capacity is the ratio of actual taxation to the assessed capacity taking into account the specific circumstances of a jurisdiction relative to other States, such as absence of specific revenue sources.

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 State, such as socio-demographic profile, geographic dispersion and scale of service delivery.

⁸ Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2010 Review*.

The following chart highlights the assessed level of service provision in the ACT since 2005-06.

Chart 1: Assessed Level of Service Provision, ACT⁹



⁹ Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2010 Review*.

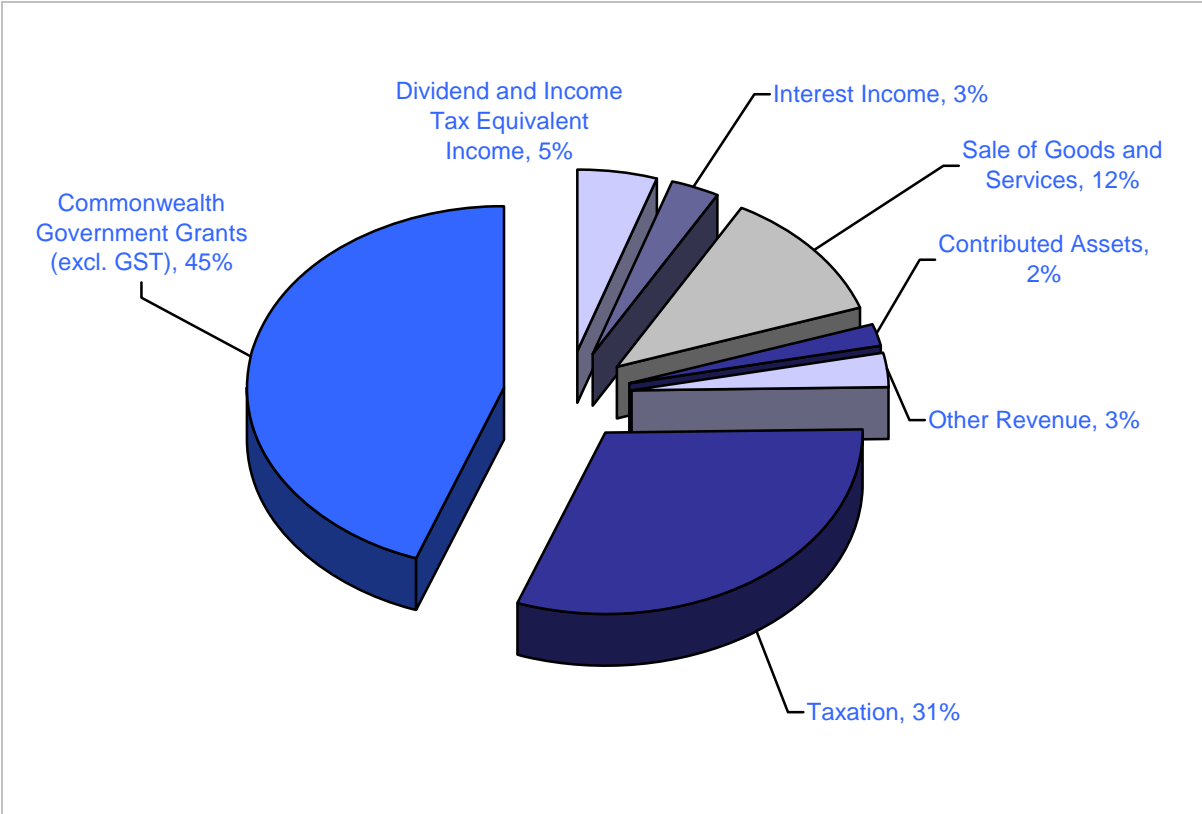
Where Does Our Money Come From?

The revenue raising capacity in the ACT is relatively lower in comparison to the national average due to a significant portion of 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 normally relied upon by the States. However, the large public sector does provide stability in the labour force compared to other jurisdictions.

The majority of the Territory's revenue is from Commonwealth Government grants (44 per cent). Own source taxation accounts for 31 per cent of our revenues. The majority of own source taxation revenue is derived from payroll tax, conveyances and general rates. In recognition of its geographic position, the ACT generally endeavours to maintain competitive taxation rates with New South Wales.

Total revenue for the ACT is estimated at \$3,668 million in 2010-11, the components of this revenue are shown in the chart below.

Chart 2: 2010-11 Estimated Government Revenue \$3,668 million



The components of our revenue are shown in the table below.

Table 2: 2010-11 Estimated Government Revenue

Total Revenue	2010-11	
	Budget	
	\$'000	%
Taxation Revenue		
- Duties	320,813	8.7
- Payroll Tax	298,628	8.1
- General Rates	197,634	5.4
- Land Tax	105,339	2.9
- Vehicle Registration	86,200	2.4
- Gambling Taxes	51,872	1.4
- Fire and Emergency Services Levy	26,620	0.7
- Utilities (Network Facilities) Tax	18,744	0.5
- Change of Use Charge	14,225	0.4
- Ambulance Levy	13,877	0.4
- Other Taxes	4,236	0.1
- Tax Waivers	1,511	-
Commonwealth Government Grants	1,601,288	43.7
Sale of Goods and Services	430,314	11.7
Interest Income	132,188	3.6
Dividend and Tax Equivalent Income	186,488	5.1
Other Revenue	99,495	2.7
Contributed Assets	78,371	2.1
	3,667,843	100.0

*Totals may not add due to rounding

The 2009-10 Budget forecast a significant drop in revenue, largely associated with the effects of the global financial crisis. The revenue outlook has improved and total revenues are forecast to increase by 7 per cent from the original budget forecast. This increase is largely attributable to Commonwealth stimulus revenues for infrastructure which will not continue across the forward estimates.

In 2010-11, aggregate revenue is forecast to decrease by 0.6 per cent. The decrease, however, is reflective of the partial and planned withdrawal of the *Nation Building and Jobs Plan* funding from the Commonwealth. The underlying revenue (excluding this funding) is forecast to increase by 1.9 per cent – a decrease in real terms.

The 2010-11 revenue growth is also affected by the recent Commonwealth Grants Commission assessment which has significantly reduced the amount of GST revenue received by the Territory.

Beyond 2010-11, growth in underlying revenue is around 6 per cent, close to the long run average growth rate. Across the Budget and forward estimates, the underlying revenue grows at a compound annual average rate of 5 per cent.

What Does Your Money Deliver?

Total expenditure in the General Government Sector is estimated at \$3,841 million in 2010-11. Approximately 47 per cent of this expenditure relates to employee wages and superannuation.

Health and education represent the majority of general government expenditure at 55 per cent of total expenditure. Territory and municipal services constitute approximately 15 per cent of total expenditure.

The following table provides a break-down of expenditure by service area.

Table 3: 2010-11 Budget - General Government Expenditure

Area of Expenditure	2010-11	
	Budget \$'m	%
Health and Community Care	1,069.3	29.8%
Government Schooling (including Early Childhood and Preschool Education)	543.9	15.2%
Territory and Municipal Services (excluding Tourism, Environment, Sustainability and Land Management)	346.2	9.7%
Disability and Community Services	238.9	6.7%
Non Government Schooling	221.7	6.2%
Housing	159.4	4.4%
Environment, Sustainability and Land Management	145.1	4.1%
Vocational Education and Training	143.7	4.0%
Justice and Community Safety	141.9	4.0%
Policing	140.2	3.9%
Public Transport	111.8	3.1%
Emergency Services	96.9	2.7%
Treasury	95	2.7%
Planning	47.2	1.3%
Chief Minister's Department	34.5	1.0%
Legislative Assembly	13.8	0.4%
Tourism	10.9	0.3%
Business and Industry Development	9.9	0.3%
Executive	6.5	0.2%
Auditor-General	5.7	0.2%
Total Expenditure (by Service Area)	3,582.50	100%
Other Expenditure	258.20	
Total Expenditure	3,840.70	

Across the 2010-11 Budget and forward estimates, underlying expenses (excluding the expenditure relating to the *Nation Building and Jobs Plan* program), are forecast to increase at an average annual rate of 4.8 per cent. Underlying expenditure growth has been restrained below underlying revenue growth as part of the Government's Budget Plan to return a balanced budget by 2013-14.

The Budget Plan

The Budget Plan was developed in the 2009-10 Budget in an environment of uncertainty, with the aim of adopting a longer term approach to addressing with the effects of global events on the Territory's budget.

The Plan's objective, the return the Budget to surplus over a longer timeframe, provided flexibility to respond to changed circumstances.

Since this time, economic circumstances have changed with the extent of the economic slowdown not being as severe as originally anticipated. The forecast deficit has reduced since the 2009-10 Budget. However, the underlying 2010-11 Budget is still forecast to be in deficit of around \$173 million (excluding effects of the Commonwealth Government's fiscal stimulus funding).

The Budget Plan targets have been updated to take account of changes in the economy, revenue growth, and new policy initiatives. The 2010-11 Budget Plan now targets a return to surplus in 2013-14, two years earlier than anticipated. All other objectives of the plan remain unchanged and the Government remains committed to preserving and enhancing priority services. The 2010-11 Budget Plan targets are provided below.

Table 4: 2010-11 Budget Plan Targets

	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m	2013-14 \$'m
Budget Plan Targets				
2009-10 Budget Plan Savings	59	118	178	178
2010-11 Budget Plan Savings	48	95	136	140
Savings Incorporated in the Budget	48	70	86	89
Unallocated Savings	0	25	50	51

The updated Budget Plan targets a balanced budget by 2013-14 through additional savings of around \$25 million each in 2011-12 and 2012-13, in addition to savings incorporated into the 2010-11 Budget. A summary of these savings is provided below.

Table 5: Savings in the 2010-11 Budget and Forward Estimates

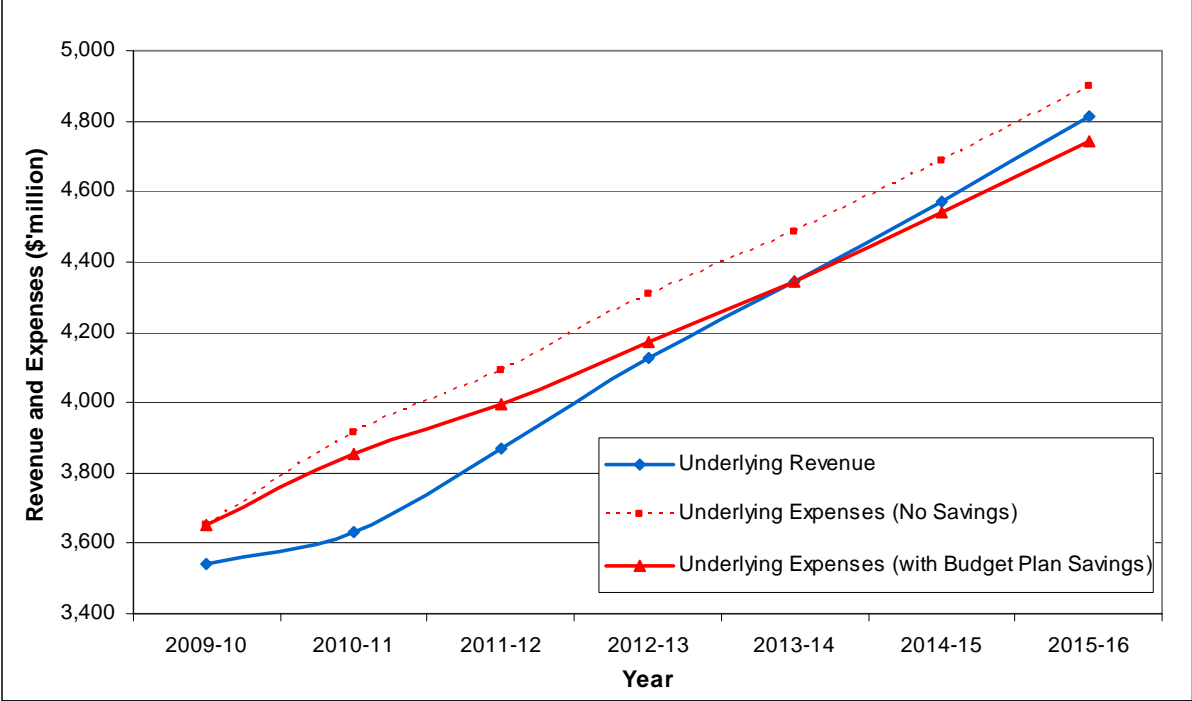
	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m	2013-14 \$'m
Measures in 2010-11 Budget				
Wages Policy	17	25	35	35
Efficiency Dividend	18	18	19	20
Other Savings Measures	13	26	31	34
Total Measures	48	70	86	89

The 2010-11 Budget also applied an additional efficiency dividend effective from 1 July 2011. The dividend will be applied at a rate of 1 per cent in 2011-12, 1.5 per cent in 2012-13 and 2 per cent in 2013-14 for agencies with appropriation greater than \$20 million. Agencies with appropriation under \$20 million will have a dividend of half these amounts applied. The efficiency dividend does not apply to ACT Health, as the review of the Health Funding Plan has taken into account efficiencies.

The Expenditure Review and Evaluation Committee will be continuing its work in conjunction with agencies to develop and assess savings and efficiency measures. The Government welcomes your input through this budget consultation process on how you think these savings and efficiencies could be achieved.

The budget, nevertheless, will continue to grow to maintain services in priority areas. Chart 3 below highlights the effect of the Budget Plan on the trajectory of underlying expenses. The chart also includes Budget Plan projections to 2015-16, indicating a surplus reaching around 1½ per cent of the budget.

Chart 3: 2010-11 Budget Plan Underlying Aggregate Expenditure Growth



Time to Talk – Canberra 2030

The Government is also currently holding a broader conversation with Canberrans on the future look and operation of our city. Time to Talk Canberra 2030 is encouraging as many people as possible to tell the Government about what they love about Canberra now, and what they would like Canberra to be in 20 years time.

This conversation is focussed on the following topics of discussion:

- population;
- environmental sustainability;
- water;
- housing;
- getting around;
- land use and planning;
- liveability and wellbeing;
- city form;
- living in the national capital; and
- who pays?

Suggestions, ideas and comments will be used to inform more detailed work in a range of policy areas in the future.

You can get involved in the Time to Talk Canberra 2030 initiative at <http://canberra2030.org.au/>. The closing date for feedback is Friday, 5 November 2010.

ACT Taxation Review

In August 2010, the Treasurer announced details of the ACT Taxation Review which will be undertaken during 2010-11. This review will be a broad review of Territory revenue streams to assess the overall efficacy and equity of the ACT taxation system. The review will complement the recent Commonwealth review of taxation and place the Territory in a stronger position to respond to potential reforms in this area.

The Review will be conducted by a Panel comprising former ACT Treasurer, Ted Quinlan as Chair, Professor Alan Duncan from the University of Canberra and the Under Treasurer.

The Panel will provide recommendations to the Government on whether ACT taxes are:

- appropriate;
- equitable and effectively distributed; and
- whether they provide the stability and certainty required to continue to deliver important community services to Canberrans.

The final report is expected to be delivered in August 2011 and will be informed by a consultation process. Details of this consultation process are available at <http://treasury.act.gov.au/TaxReview/Index.shtml>.

Community Input

The Government invites your input into the 2011-12 Budget development process.

The Government is interested in your views and suggestions, on how resources could be better used; where priorities should be targeted; and where possible savings and efficiencies could be achieved.

The Government is also interested in any ideas you may have on returning the Budget to surplus over the target period of 2013-14.

It is important to remember that in returning the Budget to surplus, the Government remains committed to preserving and enhancing priority services to the community.

Under the updated Budget Plan, the savings task for 2011-12 is \$95 million. Measures identified and incorporated in the 2010-11 Budget would deliver \$70 million in savings (in 2011-12), leaving unallocated savings for 2011-12 in the order of \$25 million.

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?
- Should the Government maintain its current suite of services?
- Is the Government delivering current services in an effective and efficient way?
- Do you have any ideas about how services could be delivered more efficiently and/or effectively?
- Are there any services you think the community should make a direct contribution to (a fee for service)?
- Are there any services you think could be provided by the private sector rather than by the public sector?
- The Government needs to find additional savings of \$25 million to return the Budget to surplus. Which services could be targeted for reduction or cut?

The Government would like to hear your suggestions. Submissions close on **17 December 2010**. The contact details for submissions are detailed below.

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

or alternatively:

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

or posted to:

ACT Budget Consultation
Department of Treasury
GPO Box 158
Canberra ACT 2601

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

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