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Treasurer's Message

The 2009-10 Budget was developed in the context of an unprecedented fiscal shock to the Territory's budget flowing from the events in global financial markets.

The Government has adopted a longer term approach to returning the budget to surplus. This is an appropriate strategy given the magnitude of the shock, our commitment to preserving services in priority areas, and the strength of the Territory's financial position, which means we are able to absorb temporary deficits. This is also the approach adopted by many other governments, including the Commonwealth and other Australian jurisdictions.

The Government has a strong commitment to returning the budget to surplus over its target period to ensure sustainability of priority services. The 2009-10 Budget shows how the ACT Government is tightening its belt as it incorporates internal savings to be achieved through an efficiency dividend and wage restraint. Those savings, however, would not be sufficient, and the budget highlighted the need for further progressive savings in the coming years.

In presenting the budget, I committed to engaging the community in a conversation about achieving these savings – indeed, this is a very important element of the Government's Budget Plan.

Every year, the Government invites the community to make submissions and provide input to the budget process. For the 2010-11 Budget, this process is being commenced significantly earlier to provide sufficient time for this conversation.

I would like to take the opportunity to invite interested community and business groups, unions, individual Canberrans and other stakeholders to share their views and suggestions for future priorities and savings the Government may consider in framing the 2010-11 Budget.

The savings task identified in the budget update is \$21 million for 2010-11, \$71 million for 2011-12, and \$122 million in 2012-13, in addition to the savings achieved through the efficiency dividend and wage restraint. While the budget will continue to grow, albeit, at a slower rate, these are substantial adjustments, which require some tough decisions in the coming years, either through savings, the consideration of new revenue options, or a combination of both.

The Government is committed to ensuring that the community is involved throughout this process. We all need to work together to ensure that limited resources are put to their most efficient and effective use and identify where possible savings could be made.

I want to know what Government services Canberrans value, and what ideas they have for achieving savings to return the budget to surplus. Interested parties may provide submissions to the Government, which will consider these options in determining future budgets.

I look forward to working with all Canberrans in developing a plan to return the budget to a sustainable footing in the future so we can continue to invest in valuable community services.

Katy Gallagher MLA
Treasurer

Introduction

The 2009-10 Budget was developed in an environment of unprecedented economic turmoil. Since the end of last year, global financial markets and the global economy have seen the sharpest decline in economic activity since the Great Depression. These factors have put the budget into deficit.

However, the Government's strong financial management over the years has allowed the Territory to withstand the worst of many of the economic shocks associated with the downturn.

While the Government remains committed to funding its election promises and developing solutions to stabilise the economy and protect the long term budget position, we need to be responsible about the level of new expenditure the Territory can afford.

The Government made a considered decision that a sharp adjustment now in the form of an expenditure reduction or tax increase would be irresponsible economic management. This is not the year to pull back on our expenditure, instead it is the year to ensure that local jobs are protected.

In order to return the budget to surplus, the Government has developed a plan which sustains service delivery and is flexible to changing circumstances. In implementing this plan, the Government will work with the community, industry, unions and business to develop the right approach to return the budget to surplus in the medium term.

We are therefore starting consultation with the community early this year, to allow the community adequate time to develop proposals they believe will assist in moving towards returning the budget to surplus by 2015-16.

This paper provides information about the budget position and the magnitude of the savings task. It highlights major revenue and expenditure lines of the budget and indicates how the ACT is performing relative to other jurisdictions across a range of indicators. The Government is seeking the views of the community on the Government services people value and any ideas for achieving savings to return the budget to surplus.

In framing your advice to the Government, it is important to bear in mind that while the forward estimates have been significantly impacted, the ACT's fiscal and economic fundamentals are sound. We have a strong balance sheet, low unemployment levels and low interest rates to boost consumer sentiment.

We have also committed to unprecedented capital spending over the coming years to increase the productive capacity of the economy in the long term, and support economic activity and jobs in the short term.

ACT Community Profile

The ACT's estimated resident population at 31 December 2008 was around 348,000, representing 1.6 per cent of the national total.

Compared to the national average, the ACT population is characterised by being relatively younger, better educated and healthier.

- Life expectancy for males at birth in the ACT is 80.0 years (compared to the national average of 78.7 years), while female life expectancy at birth is 83.9 years (compared to the national average of 83.5 years)¹.
- The ACT's population is relatively younger than the rest of Australia, with more than half of our total population aged under 35 years, compared to the national average of just 49 per cent². The median age of ACT residents is 34.7 years (compared to the national average of 36.9 years).
- 71.5 per cent of ACT residents aged 25-64 years have a non-school educational qualification (compared to the national average of 61 per cent).

The rate of labour force participation in the ACT is high, while the unemployment rate remains lower than the national average. The current participation rate in the ACT is 71.9 per cent, well above the national average of 65.4 per cent (June 2009). The unemployment rate in the ACT is 3.6 per cent (June 2009), well below the national average of 5.8 per cent.

Household income in the ACT is significantly higher than the national average, reflecting a relatively highly educated, healthy and motivated workforce. Full Time Adult Average Weekly Ordinary Time Earnings in the ACT was \$1,379, in trend terms in the three months to February 2009, compared to the national average of \$1,183.

The rate of poverty among 15-39 year olds has fallen in the ACT over the period 2001-06, by 1.6 percentage points to around 6.7 per cent of the ACT population.³

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 effort⁴ is higher than the national average (although not the highest), which supports the highest level of service provision⁵ 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 108 per cent of its assessed capacity.

However, expenditure on government services in the ACT is 21 per cent higher than what would be required to deliver an Australian average level of service.

¹ Source: ABS, Cat No 4102.0

² Source: ABS, Cat No 4102.0

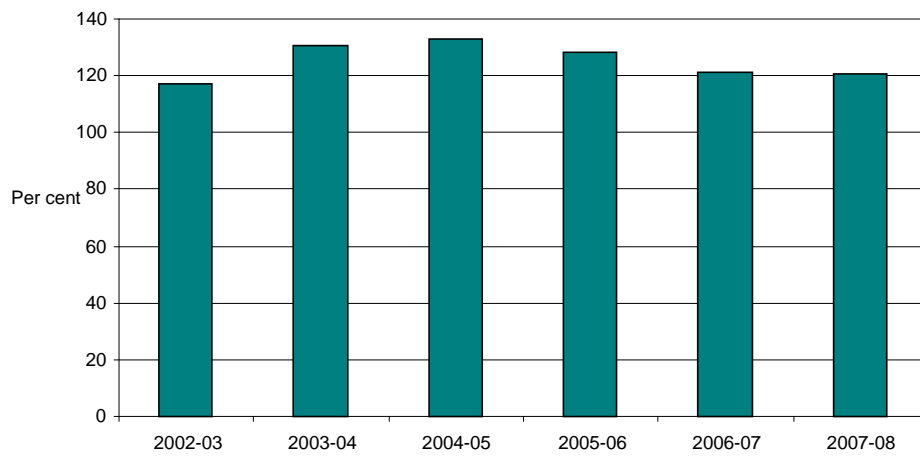
³ Source: Commonwealth Grants Commission, State Finances Inquiries, 2008 Update Report, Volume 3 'Homeless and General Welfare'.

⁴ 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.

⁵ 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.

The following chart highlights the level of service provision over the recent years.

Chart 1: Assessed level of service provision, ACT⁶



⁶ Source: Commonwealth Grants Commission — Relative Fiscal Capacities of the States, 2009.

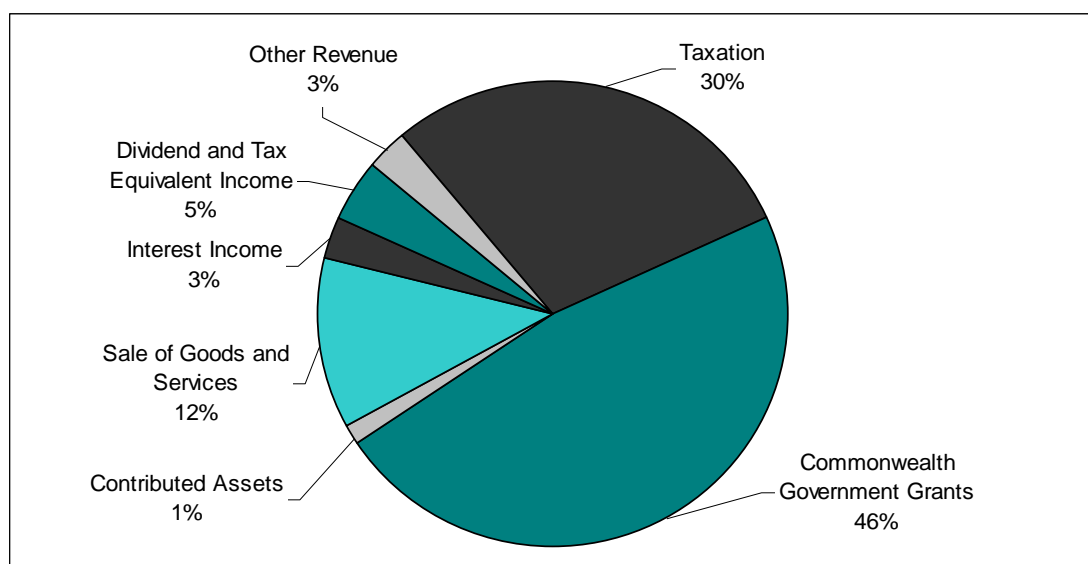
Where our money comes from?

The ACT has a relatively smaller revenue base due to the significant Commonwealth presence, and faces a number of disadvantages due to its limited capacity to raise revenues from sources normally relied upon by the States. On the other hand, however, the relatively larger public sector provides stability in the labour market compared to other jurisdictions.

The majority of the Territory's own source tax revenue comes from three main areas: — payroll tax, conveyance and general rates. In recognition of its geographic position, however, the ACT generally endeavours to maintain competitive taxation rates with NSW.

Total revenue for the ACT is estimated at \$3,399 million in 2009-10. Around 46 per cent of this revenue will be derived from Commonwealth funding and 30 per cent from taxation. The remaining revenue sources include sale of goods and services, interest income, dividends and tax equivalents. This is shown in the chart below.

Chart 2: 2009-10 Estimated Government Revenue \$3.399 billion



The direct and flow-on effects of the global financial crisis have impacted significantly on the Territory's revenues through:

- a reduction in the ACT's share of GST revenue;
- declines in financial markets impacting on investment returns, including superannuation and other investments;
- the effects of monetary policy response, which through the reduction of interest rates has resulted in reduced earnings on cash and investment balances; and
- a reduction in forecast taxation revenue due to the decline in economic activity, particularly in the property market.

Together, these revenue sources constitute around 44 per cent of the total revenue forecast in 2008-09 and a fall in revenue of around \$224 million in 2009-10⁷.

⁷ However, these revenue shortfalls are offset by one off payments relating to stimulus initiatives of the Commonwealth Government, including the *Nation Building and Jobs Plan*. This plan makes major investments in the

Table 1: 2009-10 Estimated Government Revenue (Original and Update)

Total Revenue	2009-10 Original Budget		2009-10 Budget Update	
	\$'000	%	\$'000	%
Taxation Revenue				
- Payroll Tax	267,420	7.7%	267,420	7.9%
- Tax Waivers	5,051	0.1%	5,051	0.1%
- General Rates	185,980	5.4%	185,980	5.5%
- Land Tax	93,379	2.7%	93,379	2.7%
- Duties	275,517	8.0%	275,517	8.1%
- Gambling Taxes	53,354	1.5%	53,354	1.6%
- Fire and Emergency Services Levy	24,566	0.7%	24,566	0.7%
- Utilities (Network Facilities) Tax	17,916	0.5%	17,916	0.5%
- Vehicle Registration	76,928	2.2%	76,928	2.3%
- Ambulance Levy	12,327	0.4%	12,327	0.4%
- Other Taxes	4,063	0.1%	4,063	0.1%
- Change of Use Charge	2,221	0.1%	2,221	0.1%
Regulatory Fees	91,250	2.6%	91,250	2.7%
Other Sales of Goods and Services	322,336	9.3%	322,336	9.5%
Commonwealth Government Grants	1,629,741	47.2%	1,577,141	46.4%
Contributed Assets	45,277	1.3%	45,277	1.3%
Interest Income	92,512	2.7%	92,512	2.7%
Dividends and Tax Equivalent	155,461	4.5%	155,461	4.6%
Other Revenue	96,464	2.8%	96,464	2.8%
	3,451,763	100.0%	3,399,163	100.0%

*Totals may not add due to rounding

'Headline' revenue grows by around 5 per cent in 2009-10. This growth, however, includes funding from the Commonwealth for its *Nation Building and Jobs Plan* stimulus initiatives.

Excluding the *Nation Building and Jobs Plan* funding, total revenues decline by around 1 per cent in 2009-10, and are not likely to recover to 2007-08 levels until 2010-11.

Territory's schools and public housing. It will provide the ACT with an estimated \$220 million in 2009-10 and \$122.5 million in 2010-11 for capital investments in education and public housing.

What your money delivers?

In the ACT, the economic downturn poses particular challenges, with reduced revenue, the potential increased demand for community services and calls for increased government expenditure to offset lower household and private business investment.

Total expenditure in the General Government Sector was estimated at \$3,382 million in 2008-09. Approximately 46 per cent of expenditure relates to employees' wages and superannuation.

Health and education are the main areas of general government expenditure, comprising around 51 per cent of the total budget. Territory and municipal services, public transport, planning, environment, sustainability and land management together constitute around 20 per cent of the total budget.

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

Table 2: 2009-10 Budget - General Government Expenditure

Area of Expenditure	\$'m	(%)
Health and Community Care	980.3	27.1
Government Schooling (including Early Childhood and Preschool Education)	512.9	14.2
Territory and Municipal Services (excluding Tourism, Environment, Sustainability and Land Management)	374.8	10.3
Non Government Schooling	232.4	6.4
Disability and Community Services	224.9	6.2
Housing	137.1	3.8
Environment, Sustainability and Land Management	135.9	3.8
Policing	134.3	3.7
Justice and Community Safety	133.9	3.7
Vocational Education and Training	129.1	3.6
Public Transport	105.6	2.9
Treasury	94.7	2.6
Emergency Services	89.0	2.5
Planning	46.8	1.3
Chief Ministers Department	40.6	1.1
Tourism	28.9	0.8
Business and Industry Development	12.8	0.4
Legislative Assembly	12.8	0.4
Executive	6.4	0.2
Auditor General	5.3	0.1
Other	184.3	5.1
Total	3,622.8	100.0

In 2009-10, expenses are forecast to increase by 7.1 per cent to \$3,623 million. This increase mainly reflects the new policy initiatives contained in the Budget, the recurrent impact of the Commonwealth Government's *Nation Building and Jobs Plan* package and wages growth.

Similar to revenue, in analysing expenditure trends, it is useful to exclude the effects of the Commonwealth stimulus initiatives, which are not part of the Territory's expenditure and service base.

The Budget Position

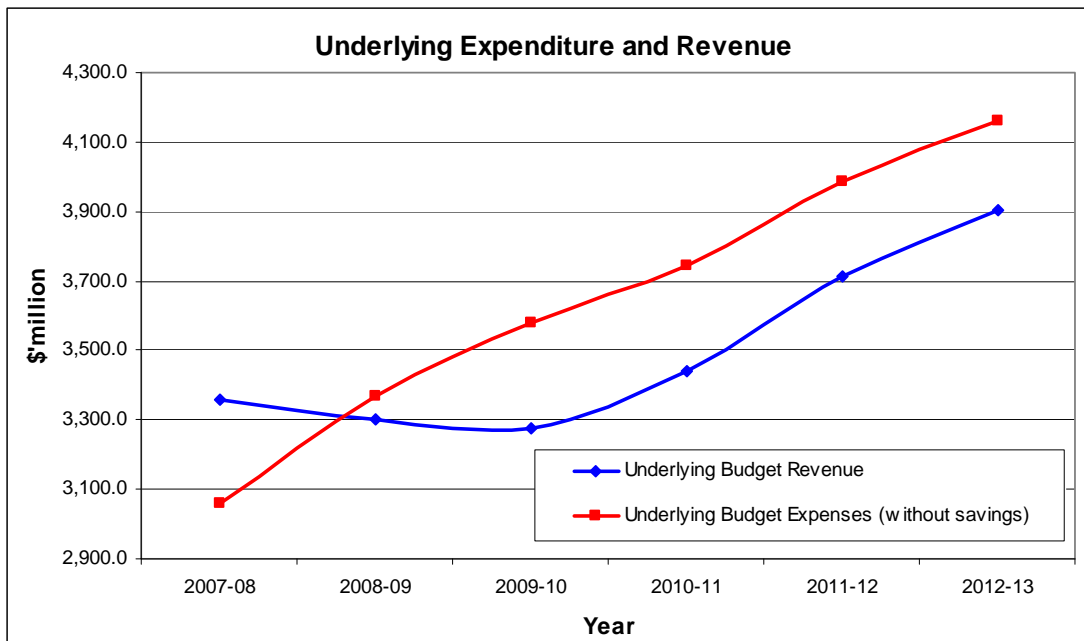
The Government's long term strategy has been to target reasonable surpluses to provide a buffer against unforeseen circumstances and fiscal shocks, and ensure sustainability of high quality services. For example, the 2008-09 Budget provided for surpluses of around \$61 million a year on average, or around 1.7 per cent of the annual budget over the forward estimates.

Such a buffer would have been sufficient to absorb the revenue impacts from changes in the local economic conditions, such as the earlier softening in the housing market. The fiscal shock, from the flow-on effects of the global financial crisis, however, is much more substantial.

The budget is in deficit, which would almost certainly persist if no action is taken. Across the forward estimates period, a divergence has also appeared between the revenue and expenditure trajectories.

Revenues are forecast to grow at an average annual rate of around 4 per cent across the forward estimates period. The underlying expenses, without any savings, are forecast to grow at an annual average rate of 5.4 per cent. The following chart highlights the revenue and expenditure trajectories over the forward estimates period.

Chart 3: Underlying Revenue and Expenditure Trajectories



A Plan to Return the Budget to Surplus

The 2009-10 Budget includes a Plan to restore the budget to surplus by 2015-16, taking into account a gradual economic recovery. The Government will reduce the Territory's deficit over the forward estimates through strong fiscal discipline and the achievement of realistic efficiencies in the delivery of government services.

The objectives of the Budget Plan are to:

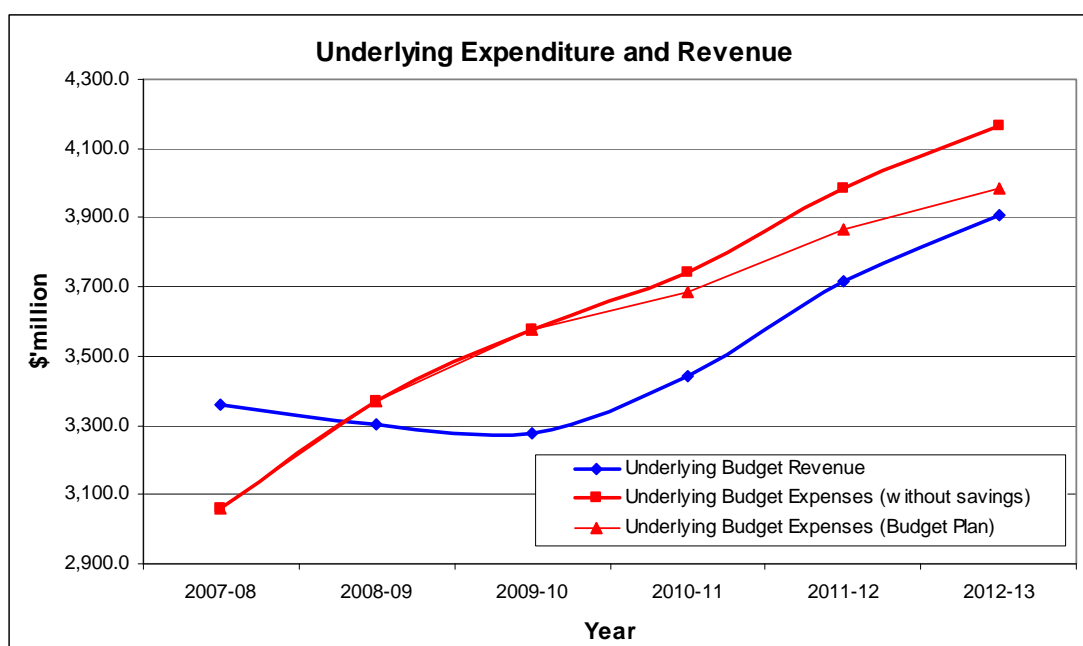
- adopt a longer term approach to addressing the deficit;
- achieve a balanced budget by the target year of 2015-16;
- identify annual saving targets over the forward estimates period that set the aggregate revenue and expenditure trajectories to meet over the planning period;
- ensure that in restoring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

The Plan identified a number of target actions to return the budget to surplus. These include wage restraint, efficiency improvements including savings and programs of expenditure reviews to target resources to high priority areas, and to provide offsets for new policy measures.

Savings required under the Budget Plan over the forward estimates are \$59 million in 2010-11, increasing to \$119 million in 2011-12, and \$178 million in 2012-13. The implementation of these savings will require fiscal restraint, and budget discipline.

The budget, nevertheless, will continue to grow to maintain services in priority areas. The following chart highlights the adjustment in expenditure growth under the Budget Plan.

Chart 4: Budget Plan Adjustment to Expenditure Growth



The 2009-10 Budget already incorporates some savings to be achieved through the implementation of internal savings strategies for agencies (efficiency dividend) and exercising wage constraint. These figures are illustrated below.

Table 3: Budget Plan Savings

	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m
BUDGET PLAN TARGETS	59	119	178
Measures in the 2009-10 Budget			
Wages Policy	20	29	37
Efficiency Dividend	18	18	19
Unallocated Savings	21	71	122

Community Input

The Government is seeking community input into the 2010-11 Budget development process.

The Government is interested in your views on the level and quality of services, the services that are of higher value to you, and how you would see those services delivered in the short to medium term.

Besides the potential new policy initiatives, the Government is also interested in your ideas and suggestions to return the budget to surplus over the target period.

The task of returning the budget to surplus is significant. We will need to find \$59 million of savings next year, rising to \$178 million in 2012-13. In order to achieve this we will need to either reduce or reprioritise our current expenditure, or introduce new revenue measures.

The Government has put in place a strategy to tighten our belt where we can. We have already indicated where we will be restraining expenditure and achieving savings through an efficiency dividend and by exercising wage restraint. Through these measures we have already found \$38 million of savings in 2010-11, increasing to \$56 million in 2012-13.

Through this community consultation process we are looking for your suggestions in relation to revenue measures, where you would be willing to support increased taxation or cost recovery for existing services; or savings through a scale-down of services that you consider are not of a high priority.

In preparing the submissions, the following questions may be of assistance:

- What services do you value most in the Territory?
- What services do you use the most?
- Is the Government delivering these services in an effective and efficient way? Do you have any ideas about how services could be delivered more efficiently?
- Should the Government maintain its current suite of services?
Would you be willing to pay more to maintain this level of services?
- Are there any services you think the community should make a direct contribution to (a fee for service)?
- The Government needs to find savings to ensure budget integrity.
Which government services would you be willing to find savings in?

The Government would like to hear your suggestions. Submissions close on **28 September 2009**. 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 620 70310.

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