



## **UPDATE TO THE 2009-10 ACT BUDGET**

---

The Commonwealth released its 2009-10 Budget on 12 May 2009, one week after the release of the ACT Budget.

This paper provides an update to the ACT Budget estimates of the Net Operating Balance, taking into account revisions to GST Revenue and other grants revenue provided to the ACT by the Commonwealth. The paper also updates the Budget Plan targets.

### **Economic Forecasts**

The Commonwealth Budget forecast higher than expected Commonwealth Government consumption expenditure (principally on wages for public servants).

The ACT Budget economic forecasts were based on information contained in the Commonwealth Government's MYEFO and UEFO. The contribution of Government consumption expenditure to the ACT's growth in 2009-10 had been expected to be weak. However, the Commonwealth Budget contains a significant rise in outlays in 2009-10 to administer increased Commonwealth spending on a range of programs. At this stage it is unclear to what extent these increases in outlays will occur in the ACT. It would also appear likely that public investment by the Commonwealth in the ACT will be subdued.

ACT economic forecasts will be updated in the Mid Year Review following a review of all assumptions underpinning potential changes.

## Update to the 2009-10 Budget Estimates

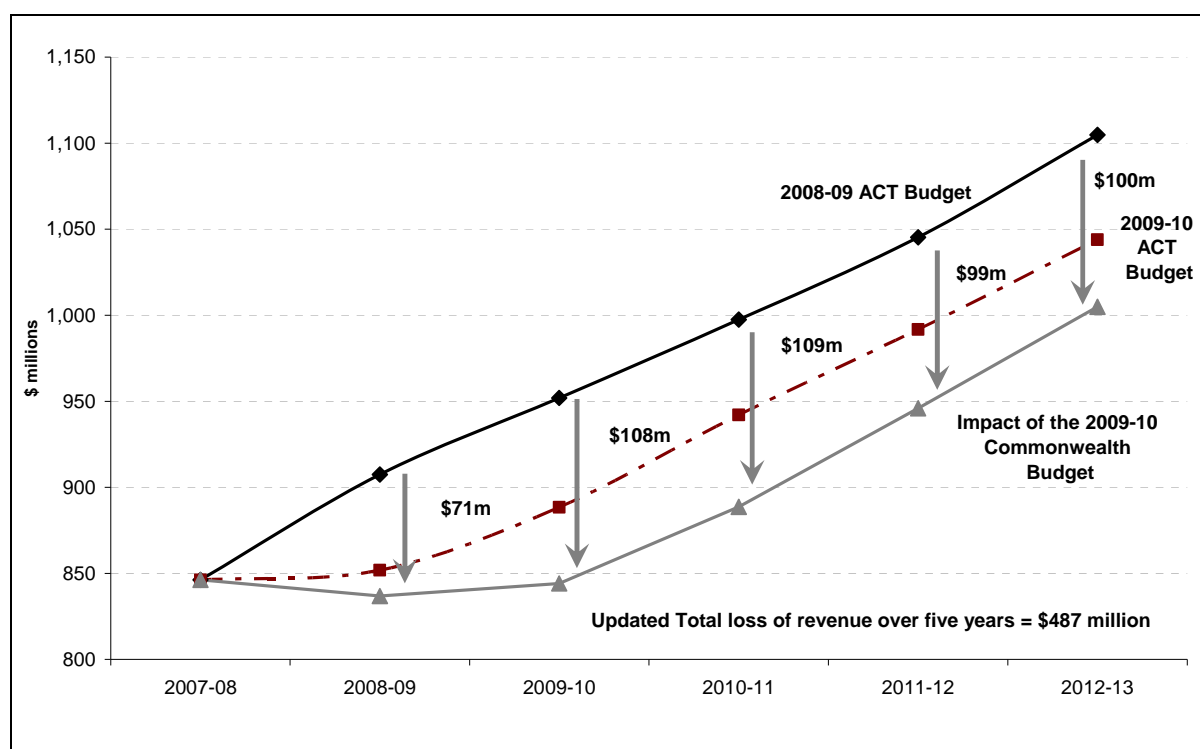
### GST Revenue

Based on the underlying parameters published in the 2009-10 Commonwealth Budget, Treasury has estimated the ACT's share of the GST revenue pool in 2008-09, and in 2009-10 and the forward years, will drop further by around \$200 million.

**Table 1: GST Revenue**

	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m
<b>2009-10 ACT Budget<sup>1</sup></b>	851.8	888.4	942.1	991.7	1,043.9
2009-10 Commonwealth Budget	836.8	844.1	888.6	946.0	1,004.9
<b>Variation</b>	<b>-15.0</b>	<b>-44.3</b>	<b>-53.5</b>	<b>-45.7</b>	<b>-39.0</b>

**Figure 1: Total GST Revenue Reduction**



<sup>1</sup> Treasury's estimates differ from the Commonwealth's calculations from 2010-11 onwards due to the application of local assumptions on GST revenue sharing relativities. Across the Budget period this makes a difference of \$0.8 million.

## SPP Revenue

The variations in the National SPPs primarily reflect the Commonwealth's forecast of a slightly lower ACT population share (over the forward years) and reductions in the growth rates used to index the grants<sup>2</sup>.

The National Healthcare SPP growth factor has been revised down from 7.3 per cent to 6.7 per cent, primarily due to a decreased estimate of the health-specific cost index.

The National Schools SPP growth factor has been revised down from 6.3 per cent to 6.1 per cent, reflecting lower expected growth in average government schools recurrent costs.

The National Skills and Workforce Development SPP growth factor has been revised down to 1.9 per cent from 2.5 per cent, mainly due to a reduction in the wage price index.

The National Disability SPP growth factor has been revised down from 6.2 per cent to 5.0 per cent, reflecting lower than anticipated growth in national gross domestic product.

The National Affordable Housing SPP growth factor has been revised down to 1.9 per cent from 2.1 per cent to reflect lower anticipated growth in the wage cost index.

### National Schools SPP

The Commonwealth revised down the ACT's expected funding under the National Schools SPP by \$12.8 million. This primarily reflects a \$12.5 million reduction in the funding for non government schools. The non government schools component of the SPP is a payment through the government and therefore has no impact on the Territory's Net Operating Balance.

**Table 2: Variation to SPP Revenue**

Specific Purpose Payments	2009-10 \$'m	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m	Total \$'m
National Healthcare SPP	0.0	-1.1	-1.9	-2.7	-5.7
National Schools (Government) SPP	0.0	-0.3	-0.1	0.2	-0.2
National Affordable Housing SPP	0.0	-0.1	-0.1	-0.1	-0.3
National Skills and Workforce SPP	0.0	-0.1	-0.1	-0.2	-0.3
National Disabilities SPP	0.0	-0.1	-0.3	-0.5	-0.9
<b>Total Government Variation</b>	<b>0.0</b>	<b>-1.7</b>	<b>-2.5</b>	<b>-3.3</b>	<b>-7.4</b>
National Schools (Non Government) SPP	-3.6	-1.8	-5.8	-1.3	-12.5
<b>Total SPP Variation</b>	<b>-3.6</b>	<b>-3.4</b>	<b>-8.4</b>	<b>-4.6</b>	<b>-19.9</b>

\* Table may not add due to rounding

<sup>2</sup> The individual components comprising the growth factors are outlined in Chapter 6.2 of the 2009-10 Budget Paper No. 3.

## Financial Assistance Grants

The Financial Assistance Grants for local government (FAGS) are broadly in line with ACT expectations, with the exception of the Commonwealth bringing forward one quarter's payment from 2009-10 to 2008-09, in an effort to stimulate economic activity and support employment.

**Table 3: Financial Assistance Grants for local Government**

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
ACT Budget	39.3	41.0	42.7	44.5	46.3	213.8
Commonwealth Budget*	49.4	30.2	42.3	43.8	45.6	211.3
<b>Variation</b>	<b>10.1</b>	<b>-10.8</b>	<b>-0.4</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-2.5</b>

\* The variation in 2008-09 and 2009-10 reflects the decision by the Commonwealth to accelerate the provision of funding to local government to assist the Commonwealth's strategy of supporting economic growth and jobs.

## ACT Municipal Services SPP

Commonwealth revenue from ACT Municipal Services SPP remains unchanged from ACT Budget estimates.

**Table 4: ACT Municipal Services SPP**

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
ACT Budget	34.2	35.1	35.6	36.3	37.6	178.8
Commonwealth Budget	34.2	35.1	35.6	36.3	37.6	178.8
<b>Variation</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## NPP Revenue

A range of minor variations in relation to the timing of payments and grant extensions (such as the First Home Owners Boost) associated with National Partnership Payments (NPPs) have been included in the Commonwealth Budget. These are generally reconciled throughout the year as payments are made, and largely have no impact on the Net Operating Balance as payments are on-passed through the Budget Appropriation process and are directly expensed in agency financial statements.

The timing of payments for the Nation Building Grants have, however, been recognised as impacting the Net Operating Balance across the forward estimates, due to the capital nature of these projects, with funding being received by the ACT as revenue and then provided to relevant agencies in the form of capital (thus there is no offsetting expense).

The Commonwealth Budget also recognises reward payments for National Partnerships in many of the tables identified in the Budget Papers. The ACT has not accounted for reward payments, as these are contingent upon the achievement of certain targets, deliverables and/or outcomes.

## Borrowings

The 2009-10 Budget originally anticipated new general government sector borrowings for capital purposes of up to \$400 million in June 2011.

Following the release of the Commonwealth Budget, it has been identified that there will be a further \$200 million shortfall in GST revenues. The impact of this may now require additional borrowings above those set out in the 2009-10 Budget of up to \$150 million.

The estimated interest repayments on borrowings of up to \$550 million will be in the order of \$30 million in a full year.

## Net Operating Balance (Original)

The original budget estimates forecast deficits across all the forward years. The underlying Net Operating Balance identified an improvement of around \$95 million over the estimates period.

**Table 3: General Government Sector — Net Operating Balance**

	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m
<b>Headline Net Operating Balance*</b>	<b>-41.3</b>	<b>-82.2</b>	<b>-112.4</b>	<b>-164.9</b>	<b>-152.2</b>
Net Impact of Stimulus Initiatives	12.7	165.1	96.4	5.0	0
Underlying Net Operating Balance*	-54.0	-247.3	-208.9	-169.9	-152.2

\*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.

## Updated Net Operating Balance

The Commonwealth Budget variations to grant funding to the ACT, including General Revenue Assistance (GST), Special Purpose Payment (SPPs) and National Partnership Payment (NPPs) funding has had a negative impact on the Territory's Net Operating Balance.

The Net Operating Balance has been revised to take into account the impacts of declines in Commonwealth Revenue to the ACT. These reductions move the Headline and Underlying Net Operating Balances further into deficit.

The following table highlights the known impact of the Commonwealth Budget variations on the headline and underlying Net Operating Balance.

**Table 4: Updated Net Operating Balance — General Government Sector**

	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m
<b>Original Headline Net Operating Balance*</b>	<b>-41.3</b>	<b>-82.2</b>	<b>-112.4</b>	<b>-164.9</b>	<b>-152.2</b>
<i>Commonwealth Budget Variations</i>					
GST Revenue - 2009-10					
Commonwealth Budget	-15.0	-44.3	-53.5	-45.7	-39.0
National Healthcare SPP	-	-	-1.1	-1.9	-2.7
National Schools SPP	-	-	-0.3	-0.1	0.2
National Affordable Housing SPP	-	-	-0.1	-0.1	-0.1
National Skills and Workforce SPP	-	-	-0.1	-0.1	-0.2
National Disabilities SPP	-	-	-0.1	-0.3	-0.5
Lost Interest Revenue	-0.1	-1.3	-1.7	-1.4	-1.3
Additional Borrowing Cost	-	-	-2.3	-8.3	-8.3
ACT Integrated Cancer Care Centre	-	1.4	13.4	13.1	-
Timing of Revenue from Financial Assistance Grants to Local Government	10.1	-10.8	-0.4	-0.7	-0.7
Timing of Revenue from the Nation Building Program	-	2.4	-0.7	-0.6	-0.6
<i>Total Impact</i>	<i>-5.0</i>	<i>-52.6</i>	<i>-46.8</i>	<i>-46.1</i>	<i>-53.1</i>
<b>Updated Headline Net Operating Balance*</b>	<b>-46.3</b>	<b>-134.8</b>	<b>-159.2</b>	<b>-211.0</b>	<b>-205.3</b>
Net Impact of Stimulus Initiatives	12.7	165.1	96.4	5.0	0.0
<b>Updated Underlying Net Operating Balance*</b>	<b>-59.0</b>	<b>-299.9</b>	<b>-255.6</b>	<b>-216.0</b>	<b>-205.3</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.

## The Budget Plan and Savings Targets

The Strategy to return the Budget to surplus was carefully considered in the development of the 2009-10 Budget, and is reflected in the Budget Plan.

The task of returning the budget to surplus by 2015-16 has increased.

- In the published budget, the task was identified as \$51 million in 2010-11, \$102 million in 2011-12 and \$153 million in 2012-13.
- Updated modelling indicates that savings required will be \$59 million in 2010-11, \$119 million in 2011-12 and \$178 million in 2012-13.

	Base Year	Forward Estimates				Longer Term Planning Period		
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Assumptions</b>								
Revenue						Growth  5 1/4 per cent		
<b>Expenses</b>								
		<b>Saving Targets</b>						
		0	\$59.4 million	\$118.7 million	\$178.1 million	 4 1/2 per cent		

The planning assumption on revenue growth for the longer term planning period (2013-14 to 2015-16) has been updated in light of Commonwealth's Budget forecasts. In the original budget this was assumed at 5 per cent per annum. This has been updated to 5¼ per cent.

The update only relates to the assumption on the GST revenue component of the total Territory revenues, and is based on the growth trajectory of the GST Pool, as well as the nominal GDP growth. The assumptions on thofTerritory's own source revenues remain unchanged.

The overall objectives of the Budget Plan remain unchanged, i.e., to:

- achieve a balanced budget by the target year of 2015-16;
- adopt a longer term approach to addressing the deficit;
- 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 Government's longer term approach to returning the budget to surplus took into consideration prevailing economic and financial circumstances, including the possibility of further losses in Commonwealth revenue.

The Commonwealth Budget does not alter the fact that an immediate expenditure side response would have adverse consequences on the economy, consumer confidence and, importantly, on service delivery.

The longer term timeframe for returning the budget to surplus is a measured response that maintains services, responds to growth in service delivery needs, provides flexibility for changing circumstances (as evidenced by the change in Commonwealth Revenue), ensures no over correction is made and allows for community engagement to occur throughout the adjustment process to ensure community needs continue to be met.

The savings will be achieved through a number of targeted actions, including:

- efficiency improvements;
- programs of expenditure reviews to target resources to high priority areas, and to provide offsets for new policy measures; and
- measures that will be identified through community engagement.

**Table 5: Updated Budget Plan Targets and Savings Incorporated in the Budget**

	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m	2011-12 \$'m	2012-13 \$'m
<b>BUDGET PLAN TARGETS</b>	<b>0</b>	<b>0</b>	<b>59</b>	<b>118</b>	<b>178</b>
<b>Measures in the 2009-10 Budget</b>					
Wages Policy	0	11	20	29	37
Efficiency Dividend	0	0	18	18	19
<b>Unallocated Savings</b>	<b>0</b>	<b>-11</b>	<b>21</b>	<b>71</b>	<b>122</b>