1.1 BUDGET OUTLOOK

The Context of the 2011-12 Budget

The context of the 2011-12 Budget, like the previous two Budgets, remains the global financial crisis, and its effects on the economies and budgets.

While the national as well as the Territory's economies performed better than envisaged, structural deficits emerged and were accepted on a temporary basis.

The Federal Government committed to fiscal consolidation once the national economic growth reaches trend. Expenditure by the Commonwealth Government has quite a significant impact on the Territory's economy. Its commitment to returning the national budget to surplus in 2012-13 is a significant context for the 2011-12 Budget and its forecasts.

The ACT Government had adopted a target of returning the Territory budget to surplus in 2015-16. In an uncertain economic environment, the focus was to stabilise the economy. Sharp adjustments to follow revenue contraction were avoided to preserve services, and support consumer and business confidence. In view of the earlier recovery of revenues, the target was advanced by two years to 2013-14.

The Territory's economy has performed remarkably well through the global financial crisis, and in particular over the last year, compared to other jurisdictions. While the Federal Government's fiscal consolidation is expected to have an impact on the economic activity in the Territory, the prospects for the economy remain positive.

The forecast for output as measured by the Gross State Product (GSP) for 2010-11 is now growth of 2¾ per cent, compared to the 2010-11 Budget forecast of 1 per cent. Likewise, consumption, as measured by State Final demand (SFD) has shown considerable improvement, estimated at 4 per cent for the year compared to the original budget forecast of 1 per cent.

2011-12 Budget

The 2011-12 Budget forecasts a return to surplus in 2013-14 as planned.

The Budget makes a significant reallocation of resources – from the operating costs of public service to increasing services to the community in areas of high need, and to addressing the cost of living concerns.

Since the 2010-11 Budget, there have been some further improvements in revenues, largely relating to the strength of the activity in the housing market.

The Territory's strong economic performance has affected its Commonwealth's Grants Commission relativity for the share of GST revenue. The national GST Pool has also grown below expectations. The forward estimates for Commonwealth revenues reflect below trend growth.

The strength of the housing market, and the “pull forward” of activity has provided a modest increase in the revenue base. The net improvement in revenue assists in returning the budget to surplus.

Returning to surplus is but one of the objectives of the Plan the Government adopted in response to the global financial crisis. The Government also committed to ensuring that in restoring the surplus, core services, community safety, and risk mitigation and protection are maintained to the high standard the community expects; and that there is 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.

Accordingly, the Government has sought significant savings – improvements in efficiency – in addition to the savings measures incorporated in the previous Budgets, to reinvest in priority services to the community.

New policy initiatives in this Budget total around $266 million over four years. A significant proportion of this expenditure relates to high need areas, such as, services for the disabled – both in schools and at homes – ambulance services, health and education, and supporting low income families in meeting the cost of living expenses.

The Budget has maintained fiscal restraint in an environment of growing need for services, and below trend growth in Commonwealth revenues. New policy initiatives are largely offset by savings of around $217 million over four years.

The Government has also sought to limit the growth in the size of the public service. The efficiency measures are targeted at both the non-staff as well as staff expenditures. New policy initiatives by themselves would have increased staffing by around 320 Full Time Equivalent (FTE) staff. The net increase is estimated at 110 FTEs. The Budget reflects a significant reallocation of staffing.

The resource reallocation task will be measured, and largely dependent on the normal staff turnover. Targeted redundancies will be available. There will be no involuntary redundancies.

Supply of adequate affordable residential, commercial and industrial land has been a central element of Government’s social and economic strategy. The Budget focuses on accelerating land supply across the Territory, and developing an inventory of planning ready land to meet the needs of households, businesses and industry. The land supply program sets a target of 18,500 dwelling sites for release across the budget and forward estimates period.

The Budget has significantly increased investment in the Territory’s infrastructure, with new investment of $885 million over four years, to deliver high quality assets in order to improve the efficiency and increase the productive capacity of the economy, and support effective service delivery to the community.

Table 1.1.1
General Government Sector – Headline Net Operating Balance

	2011-12 $m	2012-13 $m	2013-14 $m	2014-15 $m
Headline Net Operating Balance[1]	**-36.9**	**-23.9**	**1.6**	**56.6**
Net Impact of Stimulus Initiatives	16.0	0.0	0.0	0.0
Underlying Net Operating Balance[1]	-52.9	-23.8	1.6	56.6

Note:
1. 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.

The Headline Net Operating Balance returns to surplus by 2013-14 due in part to the saving measures and revenue recovery to longer run growth.

The savings measures in this Budget along with the measures adopted in the previous Budget lower the underlying expenditure trajectory by around ¾ per cent per annum (compound) over the budget and forward estimates period.

The compound annual average growth rates of underlying revenue and expenditure are 5.3 per cent and 4.4 per cent respectively, in line with the Budget Plan parameters of 5¼ per cent and 4½ per cent respectively.

Economic Outlook

The ACT economy outlook in 2011-12 remains generally positive, with the Territory having experienced some of the highest levels of economic growth in the country over the last year. The ACT economy is expected to continue to grow, although at a moderate level, due to the strong labour market conditions, solid population growth and a robust housing market.

The better than expected economic growth prospects in the ACT, since the time of the 2010-11 Budget, are primarily due to stronger investment expenditure and public consumption, but Commonwealth fiscal consolidation is expected to weigh on economic activity in 2011-12.

Commonwealth Government consumption expenditure plays a key role in the Territory's economic performance. A moderation in the Territory's State Final Demand (SFD) growth is expected in 2011-12, as the Commonwealth repairs its budget position and possibly diverts expenditure to re-building efforts following the recent natural disasters.

Notwithstanding the above, the local residential property market is expected to continue to perform at a high level, with turnover remaining at the current levels, and price growth moderating following strong growth.

While the outlook for economic activity both globally and nationally are marked by elevated uncertainty, national and global economic growth is expected to proceed at an above-trend pace in 2011-12.

The medium-term outlook for national Gross Domestic Product (GDP) growth remains positive, underpinned by prospects of strong growth in mining investment and continuing high commodity prices. However, recent natural disasters will slow this growth in 2010-11, with stronger growth expected in 2011-12 as rebuilding gets underway. The key economic aggregates for the ACT are summarised in Table 1.1.2.

Table 1.1.2
Economic Forecasts, Year-Average Percentage Change

	Actual	**Forecasts[1]**	
	2009-10	**2010-11**	**2011-12**
ACT			
Gross State Product	0.9	2¾	2¼
Employment	1.2	2½	¾
State Final Demand	1.4	4	1¾
Consumer Price Index	2.1	2½	3
Wage Price Index	3.5	3¾	3½
Population[2]	1.8	1½	1½
Australia			
Gross Domestic Product[3]	2.3	3¼	3¾

Notes:

1. Forecasts are rounded to a ¼ of a percentage point to reflect the relative level of accuracy used in forecasting economic parameters. This is standard forecasting practice used by governments throughout Australia.
2. The population forecasts reflect Chief Minister's Directorate estimates. The forecasts are based on the rate of growth from the June quarter compared to the June quarter of the previous year, rather than 'year average' as with all other forecasts. Previous ACT Budget papers used a 31 December estimate to represent the average population for the financial year.
3. Commonwealth Government 2010-11 Mid-Year Economic and Fiscal Outlook (MYEFO) forecasts for 2010-11 and 2011-12.

Overview of the 2011-12 Budget

The 2011-12 Budget includes:

- A forecast General Government Sector Headline Net Operating Deficit of $36.9 million in 2011-12.
- The Budget is forecast to return to surplus in 2013-14, largely due to the savings measures incorporated in this and past budgets, along with revenue recovery to longer run growth.
- The 2011-12 Budget incorporates savings of around $217 million over four years, including:
  - the efficiency dividend introduced in the 2010-11 Budget comes into effect on 1 July 2011. This will deliver savings of $66.6 million over four years; and
  - further savings of $150.7 million in agency expenditures. These savings will be achieved through a mix of administrative and employee costs, improving the efficiency of back office functions, and leveraging commercial operations.
- A strong General Government Balance Sheet, with:
  - Net Worth of $17.1 billion;
  - Net Financial Worth of $3.2 billion;
  - Net Financial Liabilities of $2.5 billion; and
  - Net Debt of *negative* $104.6 million (excluding superannuation related investments).
- Maintenance of Operating Cash Surpluses across all years.
- The Budget provides for new policy initiatives with a net impact of $266.5 million across 2011-12 and the forward estimates.
- Significant capital investment capacity with new infrastructure programs and projects of $884.9 million over four years. Specifically, the new capital works program and projects include:
  - new construction works of $745.1 million across the Budget and forward estimates;
  - feasibility and forward design projects of $92.5 million;
  - capital upgrades expenditure of $46.3 million in 2011-12; and
  - capital grants totalling $1 million in 2011-12.
- New information and communication technology (ICT) initiatives with a total of $34.8 million.
- New plant and equipment of $8.8 million.
- An estimated $668 million of capital works achieved in 2010-11, exceeding the record expenditure in 2009-10 of $580 million.
- Estimated general government borrowings for capital of $350 million in 2011-12 and a further $300 million in 2012-13; an increase of $200 million from the previous budget.