

## 1.3 THE BUDGET PLAN

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### Context

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 from a decrease in the size of the pool due to reduced national consumer spending;
- declines in financial markets impacting on investment returns, including superannuation and other investments;
- the effects of monetary policy response by the Reserve Bank of Australia, 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 housing market.

The decrease in the base for the above four revenue sources is estimated at around 6 per cent of the total revenue from all sources, as highlighted in Table 1.3.1 below. This has emerged over a short period after the 2008-09 Budget and in the lead up to the 2009-10 Budget.

**Table 1.3.1:  
Impact on select revenue bases**

	2008-09	2009-10	2010-11	2011-12	2012-13
2008-09 Budget Total Revenue (\$'m)	3,318	3,456	3,592	3,739	3,888
2008-09 Budget base of selected revenue(\$'m)	1,448	1,503	1,575	1,658	1,757
<i>Proportion of total revenue</i>	<i>44%</i>	<i>43%</i>	<i>44%</i>	<i>44%</i>	<i>45%</i>
<b>Impact on GST revenue, return on investments, interest and conveyancing</b>					
2009-10 Budget (\$'m)	1,281	1,279	1,350	1,443	1,537
Change in revenue bases	167	224	225	215	221
<i>Proportion of total revenue</i>	<i>5%</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>

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.

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, however, is much more substantial.

There is considerable information suggesting that the global economy will be in recession in 2009-10. While Australia is better placed to withstand the effects of the global recession, the national economic outlook is almost certainly for a recession. The ACT economy has performed better compared to other jurisdictions due to the relatively more stable public

sector. Nevertheless, the Territory will not be immune to the global and the national economic circumstances.

In this context, an immediate expenditure side response of the requisite magnitude to return the budget to surplus will have adverse consequences on the economy, consumer confidence and, importantly, on service delivery.

Of necessity therefore, the Government has adopted a longer term approach to respond to the budget fiscal shock. Notwithstanding the significant drop in revenues, service levels will be preserved, and in fact enhanced where necessary, and growth in demand in priority service areas, such as health, will continue to be met.

The Budget is forecast to be in deficit over the forward estimates. While the recovery in the economic cycle will restore revenue growth, a fiscal gap emerges due to the loss of revenue without corresponding expenditure reductions, and in fact expenses continuing to grow over that period.

The Government has developed a longer term plan that extends beyond the forward estimates period, to restore the budget to balanced position.

The plan recognises the magnitude of the task, sets out clear strategies for action, and provides a balanced response to the economic and fiscal circumstances. It also incorporates flexibility for adjustments should circumstances change.

The Budget Plan outlines the strategies the Government is taking to address the decline in the Territory's budget position.

## **The Budget Plan**

### *Objectives*

In view of the considerable uncertainty around the duration of the economic slowdown both internationally and nationally, restoration of the budget to surplus is planned to occur beyond the forward estimates.

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.

## *Planning Parameters*

The Plan is developed on the basis of modelling the aggregate revenue and expenditures under a set of planning assumptions and parameters, as discussed below.

The Commonwealth Government's stimulus initiatives significantly improve the General Government Sector Net Operating Balance for 2009-10 and 2010-11 by providing substantial revenues for investment in infrastructure.

Such initiatives are not expected to form part of the Territory's base budget over the longer term. The Budget Plan modelling, therefore, is based on the underlying revenue and expenditure aggregates excluding the effects of *Nation Building and Jobs Plan* initiatives.

While the 2009-10 Budget incorporates savings and efficiency measures, the modelling is undertaken on aggregates without such measures. The adjustment targets thus determined are in effect partly offset by savings measures incorporated in this Budget.

The forward estimates on revenue and expenditure aggregates reflect parameter changes and policy decisions (with the exception of saving and efficiency measures) in this Budget.

Beyond the forward estimates, over the longer term planning period, aggregate revenues are assumed to grow at an annual rate of 5 per cent. This is considered to be a reasonable growth rate for planning purposes, in view of the ACT's taxation revenue averaging at around this rate over the last decade. By implication, growth in Commonwealth transfers over the longer term planning period is also assumed at 5 per cent per annum.

Over the longer term planning period, expenditure growth of 4.5 per cent is provided for as a planning parameter. This growth rate reflects a measure of expenditure constraint. The reasonableness of this constraint, however, can be gauged by reference to the expenditure growth over the 2009-10 Budget and Forward Estimates, which is 4.9 per cent.

The savings task over the forward estimates is \$51 million in 2010-11, increasing to \$102 million in 2011-12, and \$153 million in 2012-13.

With the savings task completed by the end of the forward estimates period, the expenditure and revenue trajectories are projected to converge (while growing at the rates of 4.5 per cent and 5 per cent respectively) and meet by the target year.

The following diagram provides an overview of the modelling periods and the associated assumptions.

	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>								
<b>Revenue</b>						Growth 5 per cent		
<b>Expenses</b>		Saving Targets 0      \$51 million      \$102 million      \$153 million				4.5 per cent		

## Implementation of the Plan

### *Community Engagement*

The key elements of the adjustment task are achievement of savings over the forward estimates and expenditure constraint over the longer term planning horizon.

Both of these tasks present challenges and difficult choices if the objectives relating to service delivery and growth in needs for priority service areas are also to be met.

The Government has committed to engaging the community in a conversation on the specific measures to achieve the targets under the Plan. This engagement will occur throughout the 2009-10 financial year.

### *Implementation Approach*

Besides identifying saving measures to meet the Budget Plan targets, its implementation will require exercise of fiscal restraint, and budget discipline.

The Budget Committee of Cabinet will meet every two months to consider agencies' budget positions, emerging cost pressures and options to address such pressures.

The Budget Committee of Cabinet will consider, before the commencement of the 2010-11 Budget, implementation plans from each agency on how to achieve the efficiency dividend.

The Budget Committee of Cabinet will consider, before the commencement of the 2010-11 Budget, a submission from government employees on how to achieve the efficiency dividend.

An Expenditure Review and Evaluation Committee to be chaired by the Under Treasurer and the Chief Executive of the Chief Minister's Department is being established. The Committee will report to the Budget Committee of Cabinet with options on efficiencies and targeting resource allocation priorities.

The Budget Committee of Cabinet will receive a report from each department every second month on the progress of the Capital Works Program. The Treasurer will also meet monthly with each department to discuss progress.

The Budget process for the 2010-11 Budget will include consultation with the community on specific savings and prioritisation proposals.

### *2009-10 Budget Measures*

In the current economic environment, the Government has decided not to introduce new taxation measures. However, there are some initiatives included in this budget that have revenue implications, for example, increase in parking fees.

While savings commence in 2010-11 under the Plan, the 2009-10 Budget incorporates a number of policy decisions, and makes significant progress in meeting the adjustment task, through wage restraint and efficiency dividends.

The Budget also incorporates an efficiency dividend of 1 per cent from large agencies, and ½ per cent from agencies with appropriations below \$20 million. The dividend is to be targeted at improving efficiency.

While agencies will have some discretion in delivering the dividend, all the proposals will be considered by the Budget Committee of Cabinet which will meet every two months to consider agency proposals and examine progress against targets.

**Table 1.3.2  
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>51</b>	<b>102</b>	<b>153</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>13</b>	<b>55</b>	<b>97</b>

Further savings will need to be identified in the future Budgets. 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.

The following chart illustrates the Net Operating Balance under the Budget Plan, and the underlying Net Operating Balance in the 2009-10.



