

1.1 BUDGET OUTLOOK

The 2006-07 Budget defines a path for the future. It provides for significant and deep structural changes to place the Australian Capital Territory's budget on a long-term sustainable footing. It makes investments in critical areas, particularly education, while delivering substantial operating savings.

On an Australian Accounting Standards basis, the Budget confirms that the ACT is expected to achieve a fifth consecutive budget surplus in 2005-06. An estimated surplus of \$120 million is now in prospect, driven by very strong growth in the value of the ACT's superannuation investments in recent months.

However, investment windfalls cannot be expected every year and under AAS, Territory Governments have traditionally included such windfalls as revenues, creating a situation where the underlying reality of the Territory's fiscal position has been less than clear.

The Government has therefore decided to move to the Government Finance Statistics accounting standard and the 2006-07 Budget is the first to be presented on a GFS basis.

GFS provides a better basis for evaluating the budget over the longer term. It is the system used by all other Australian governments. It recognises that operating budgets cannot be sustained indefinitely by asset sales and unexpected investment windfalls.

The 2006-07 Budget positions the ACT to achieve future surpluses on this new basis. Table 1.1.1 shows that a deficit of \$80.3 million is forecast in 2006-07, with the budget expected to be in surplus by 2008-09.

Table 1.1.1

	2006-07	2007-08	2008-09	2009-10
	\$'m	\$'m	\$'m	\$'m
Net operating balance*	-80.3	-40.7	18.3	67.7

*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 2006-07 Budget provides for significant expenditure savings, and establishes sustainable funding envelopes for critical services, including, most particularly, health. The Budget also recognises that the ACT community expects high levels of government services, and that to sustain these services revenues must rise.

Overall, net policy measures in the budget provide for an improvement in the budget position of \$56 million (or 2 per cent of total revenue) in 2006-07, growing to \$97 million (3 per cent of total revenue) in 2009-10. The total savings and revenue measures, before new expenditure, are \$128 million in 2006-07, rising to \$215 million in 2009-10 (or 7 per cent of revenue). Relative to the size of the ACT's budget, this is a very significant fiscal consolidation program.

The Government's approach to the 2006-07 Budget

In framing this Budget, the Government based its decisions on the medium to long term, rather than the short term. Significant longer term challenges exist in relation to:

- increasing health care costs and the needs of an ageing population;
- the continued decline of land revenue as a proportion of the Territory's revenue base; and
- the continued need to set aside funding to cover the Territory's superannuation liabilities.

The Government is determined to strengthen the Budget so that it can meet these future pressures.

- Important public services can only be sustained if the Budget is sound.
- The Budget therefore is framed to remove reliance on land sales receipts and windfall investment returns on superannuation assets.
 - While financial markets have performed exceptionally strongly recently, the Budget is exposed in a market downturn.
 - Land sales are an important source of cash receipts, and while they provide capacity to support operating expenditure in the short to medium term, this cannot be relied on in the longer term.
- Land sales are asset sales, and a government cannot finance its operating budget from asset sales indefinitely. Rather, the proceeds from asset sales should be used to help support capital investments.

Highlights of the 2006-07 Budget

Consistent with the Government's commitment to responsible financial management, the 2006-07 Budget includes significant measures to strengthen the budget to meet future pressures.

- The Budget outlook for 2006-07 is for an operating deficit of \$80.3 million.
- The 2006-07 Budget includes new sources of revenue, and revenue alignment with other jurisdictions.
- Revenue measures totalling \$63.2 million will be introduced.
- The 2006-07 Budget includes measures aimed at improving efficiency and delivering budget savings. These total \$56 million by 2009-10. Broadly, these include:
 - integration of structures to deliver more streamlined services;
 - streamlined grants;
 - rationalisation of accommodation and vehicles; and
 - reform of cash management procedures.
- The budget also includes agency based savings of \$35 million in 2006-07, increasing to \$75 million in 2009-10.

- The savings measures will require some public sector employment reductions. These will be achieved partially through natural attrition, but voluntary redundancies are likely to be required. Additional provision has been made in the Budget to fund the restructuring process.
- The Budget delivers targeted new spending to address high priority needs. Recurrent initiatives total \$56.9 million.
- The value of the 2006-07 New Capital Works Program is \$272.2 million, with cash provided for new works of \$112.3 million in 2006-07.
 - Altogether, the Budget provides for \$337 million to be spent in cash for 2006-07 once the New Works Program is added to existing Capital Works in Progress.
- The *Towards 2020: Renewing our Schools* initiative provides an investment package of \$90 million over four years to upgrade school facilities, in addition to the \$45 million already announced for Ginninderra District High School and \$21 million for a new primary school in Gungahlin. This investment will be accompanied by a major school rationalisation program.
- A further \$20 million is provided over 4 years for information technology upgrades in schools.
- Strategic funding for Health has been provided, with the establishment of a funding envelope with a reasonable level of growth. Funding for Health in the forward estimates has been increased by a total of \$277.3 million over the next four years.
 - This will provide a sustainable funding envelope for Health. However, it will require ACT Health to reduce its hospital cost structure over the next five years towards national benchmarks.
- From 1 July 2006 all new entrants to the public service will have an employer superannuation contribution rate of 9 per cent. This rate will increase by a further one per cent if the employee contributes three per cent.
- The Government has brought forward the target for funding the Territory's accrued superannuation liability. The new target is to fully fund superannuation liabilities by 30 June 2030 - a significant change on the previous strategy, which was to fund 90 per cent of accrued superannuation liabilities by 30 June 2040.
- This Budget delivers on the Government's commitment to responsible budget management.
- There are no new general government borrowings.
- The General Government Balance Sheet remains strong.
- The Budget delivers significant operating cash surpluses.

Economic Outlook

The Territory's economy is expected to continue operating at a high level of activity with the unemployment rate remaining around its current historically low level.

In 2006-07 the economy is forecast to grow solidly but with activity constrained by labour shortages. Household consumption and investment are expected to increase moderately, and Australian Government expenditure is forecast to ease from the strong growth recorded in the previous year.

Business investment is anticipated to grow strongly. Employment prospects are expected to remain positive, while wages growth and inflation remain sustainable.

Table 1.1.2
Economic Forecasts, Year-average percentage change

	Actual	Forecasts ^(a)		Projections ^(b)		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
ACT						
State Final Demand	3.2	3½	3	4¾	4¾	4¾
Employment	1.7	¾	¾	1½	1½	1½
Unemployment	3.6	3¼	3¼	4	4	4
Population	0.3	½	¾	¾	¾	¾
Consumer Price Index	2.3	3	2¾	2½	2½	2½
Australia						
Gross Domestic Product	2.5	2½	3¼	3½	3¼	3¼
Memorandum item^(c)						
ACT Gross State Product	3.0	2	2½	2½	2½	2½

Notes

1. Forecasts and projections 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. Projections are based on long-run averages and are provided for planning purposes only. They do not reflect an expectation (forecast) of actual outcomes.
3. The measure of production in the ACT economy, Gross State Product (GSP), is presented as a memorandum item, consistent with advice from the Australian Bureau of Statistics (ABS) that users should exercise caution when using estimates of real growth in the GSP measure for economic analysis, and consistent with the ABS labelling the real estimates of GSP as 'experimental'. The ABS estimates of real growth in GSP are derived indirectly. The method involves deriving a price deflator from the best possible nominal and real estimates of expenditure (SFD) that encompass as much as possible of GSP. This deflator is then applied to current price income estimates of GSP. Given these measurement issues, the ABS is currently developing estimates of GSP using the production approach. The ABS believes that better quality real estimates of GSP can be produced using this approach. Experimental estimates using the new approach are expected to be released during 2006.