

AUSTRALIAN CAPITAL TERRITORY GOVERNMENT

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

The Management Discussion and Analysis (MD&A) reflects the consolidated Total Territory financial results.

2019-20 has been a very challenging year for the Territory, starting with the Orroral Valley bushfire, smoke haze, the worst hailstorm to hit an urban Australian area this century; and COVID-19. The Territory has provided significant financial support in response to these events and experienced significant reductions in own source revenue. The Territory's key fiscal measures have been impacted and will be discussed throughout this MD&A.

Total Territory financial performance

Table 1.1 shows the Uniform Presentation Framework (UPF) net operating balance for the Total Territory is a deficit of \$961.5 million, which is \$543.3 million (129.9 per cent) higher than the Budget deficit of \$418.2 million and \$724.6 million (305.8 per cent) higher than the 2018-19 deficit of \$236.9 million.

Administrative changes

On 1 July 2019 Major Projects Canberra was established as part of Administrative Arrangements 2019 (No 1) Notifiable instrument NI2019-424 for the purposes of procuring and delivering infrastructure projects designated by the Chief Minister into Major Projects Canberra.

ACTION was renamed to Transport Canberra Operations on 1 July 2019 as part of the Financial Management (Directorates) Guidelines 2019 (No. 2) Disallowable instrument DI2019-73 to reflect the amalgamation of light rail and bus operations.

On 1 December 2019 the ACT Integrity Commission was established as an independent officer of the Legislative Assembly to investigate any alleged corruption in the ACT Public Service.

On 31 January 2020 CTP Regulator ceased as an entity and on 1 February 2020 the Motor Accident Injury Commission (MAIC) was established to replace it. The MAIC is responsible for the ongoing management of the new Motor Accident Injuries Schemes in the Australian Capital Territory.

Table 1.1: Total Territory Operating Result

	2019-20 Actual \$'000	2019-20 Annual Budget \$'000	2018-19 Actual \$'000
Total revenue	5,849,981	6,119,537	6,034,410
Total expenses	6,811,472	6,537,720	6,271,307
UPF net operating balance	-961,491	-418,183	-236,897
Economic inflows/(outflows)	-5,853	272,276	34,437
Operating result	-967,344	-146,907	-202,460

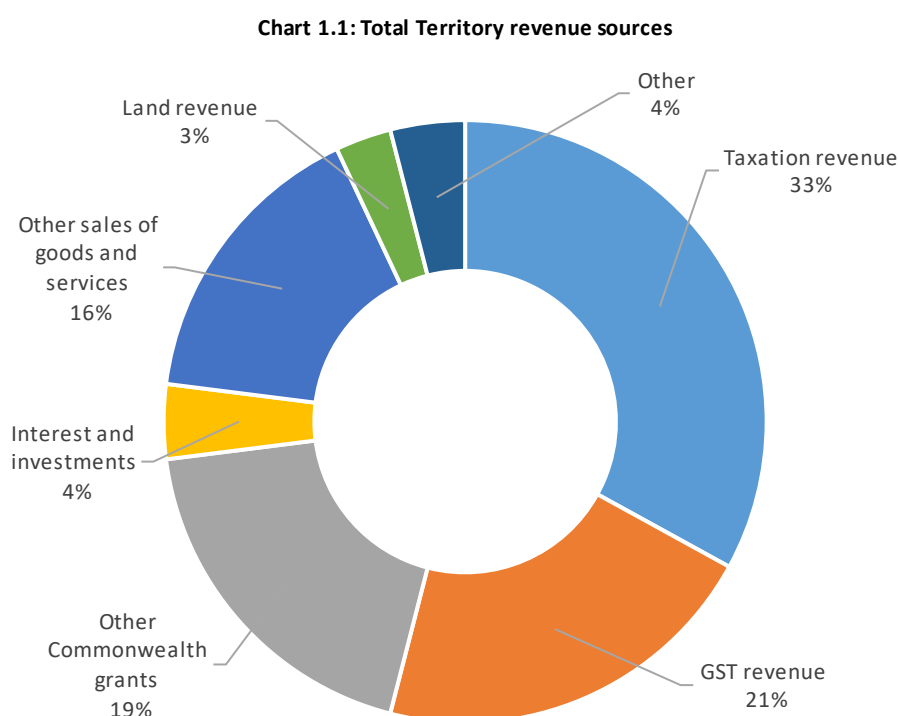
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Revenue

Total revenue of \$5,850 million for the 2019-20 financial year was \$270.4 million below the 2019-20 Budget estimate of \$6,119.5 million.

Total revenue in 2019-20 was \$184.4 million (3 per cent) lower than the 2018-19 financial year result of \$6,034.4 million. These variances are mainly due to impacts of the COVID-19 pandemic, with a significant write-down in the national GST pool and additional support provided to the ACT community and businesses through taxation relief and waiving of fees and charges.

Chart 1.1 below demonstrates the majority of the Territory's revenue is from Commonwealth grants, including GST (40 per cent) followed by taxation (33 per cent).



Expenses

Total expenses in 2019-20 of \$6,811.5 million was \$273.8 higher than the 2019-20 Budget estimate of \$6,537.7 million.

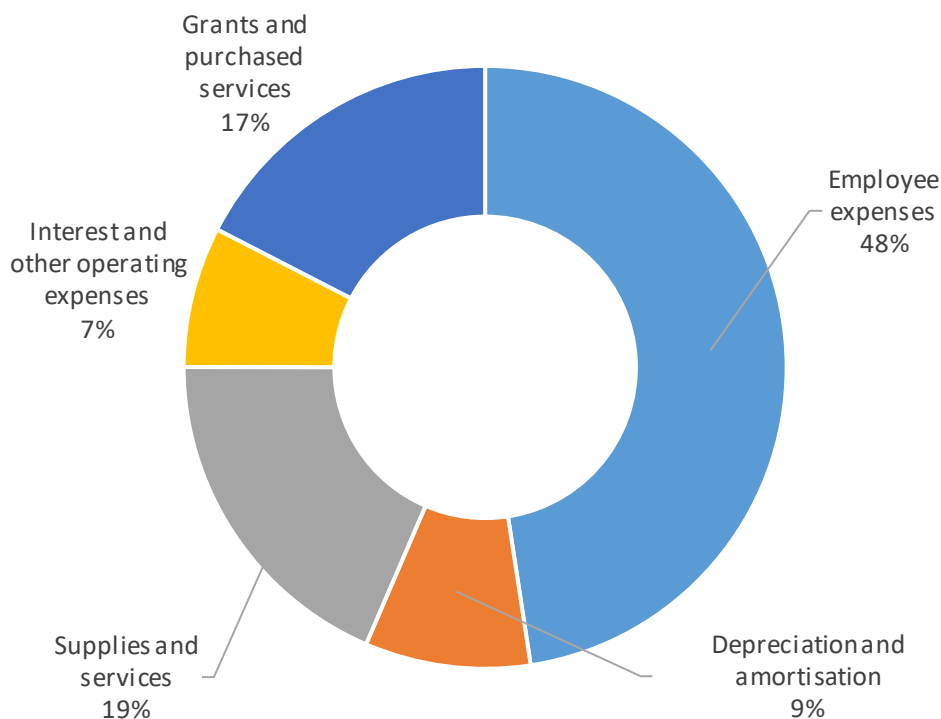
Total expenses increased by \$540.2 million (8.6 per cent) from the 2018-19 outcome of \$6,271.3 million. These variances are largely due to higher employee expenses associated with growth in services across the Territory in response to the COVID-19 pandemic and the ACT Bushfires in January 2020. The increase also includes expenses for the surrender of energy renewable certificates to meet the Government's energy renewable targets.

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Expenses – continued

Chart 1.2 demonstrates the largest percentage of the Territory's expenses is employee related costs (48 per cent).

Chart 1.2: Total Territory areas of expenditure



Financial position

Table 1.2: Total Territory key balance sheet measures

	2019-20	2019-20	2018-19
	Actual	Annual Budget	Actual
	\$'000	\$'000	\$'000
Financial assets	9,164,851	7,821,629	8,416,511
Non-financial assets	27,098,517	26,793,728	26,009,704
Total assets	36,263,368	34,615,357	34,426,215
Total liabilities	22,686,198	16,675,999	19,816,179
Net assets	13,577,170	17,939,358	14,610,035
Net financial liabilities	14,565,118	9,909,329	12,431,385
Net debt	5,233,773	4,663,823	3,692,927

Net assets at 30 June 2020 of \$13,577.2 million was \$4,362.2 million (24.3 per cent) lower than the 2019-20 Budget estimate of \$17,939.4 million, and \$1,032.9 million (7 per cent) lower than the 2018-19 result of \$14,610 million.

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Financial position – continued

These decreases are largely due to the variances in Net financial liabilities described below. The variance in Net assets compared to 2018-19, is partially offset by higher property, plant and equipment associated with the recognition of right of use assets under AASB 16: 'Leases' and the revaluation of education assets.

Net financial liabilities (NFL) at 30 June 2020, were \$14,565.1 million which is \$4,655.8 million (47 per cent) higher than the 2019-20 Budget estimate of \$9,909.3 million and \$2,133.7 million (17.2 per cent) higher than the 30 June 2019 result of \$12,431.4 million.

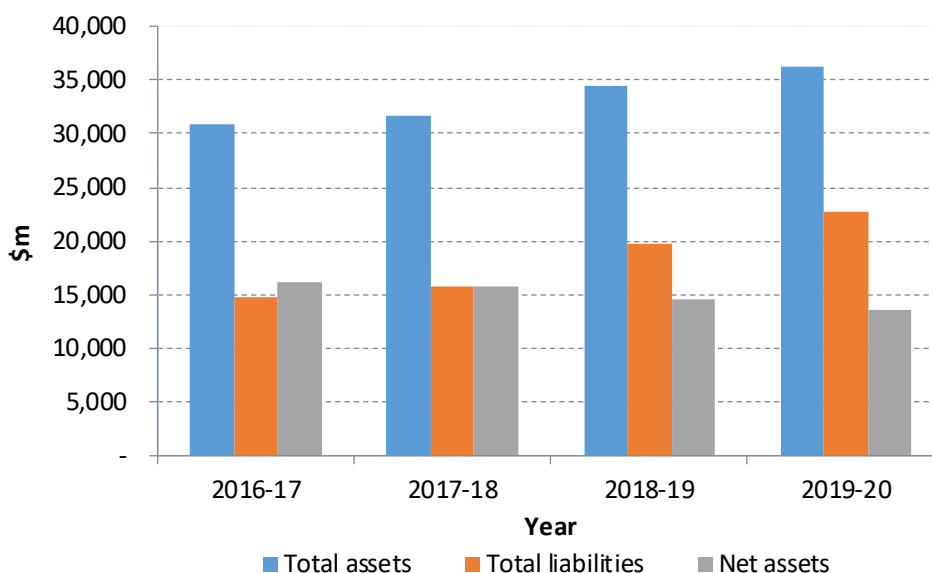
The increase compared to the 2019-20 Budget estimate largely reflects a \$3,991 million increase in the defined benefit superannuation liability valuation. The valuation increased due to the use of a lower discount rate (1.73 per cent) compared to the forecast long-term discount rate assumption of 5 per cent.

The increase compared to the 30 June 2019 result largely reflects a higher level of borrowings to support the Territory's response to the COVID-19 pandemic and the impact of significant reductions in GST and own-source revenues. The increase is also reflective of the implementation of AASB 16: 'Leases' which recognises accommodation, ICT and motor vehicle leases on the Balance sheet which were previously recognised as operating leases on the Operating statement.

Net debt at 30 June 2020 of \$5,233.8 million was \$570 million higher than the 2019-20 Budget estimate of \$4,663.8 million and \$1,540.9 million higher than the 30 June 2019 result of \$3,692.9 million. These variances are largely due to the variations in borrowings and implementation of AASB 16: 'Leases' described above.

Chart 2.1 demonstrates the Territory's assets and liabilities over time.

Chart 2.1 Total Territory balance sheet



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Total Territory – Infrastructure program

Table 1.3: Total Territory capital works program

	2019-20 Actual \$'000	2019-20 Annual Budget \$'000	2018-19 Actual \$'000
Capital works program	603,764	856,413	641,795

The 2019-20 capital works program (the Program) annual budget, post Budget Review, totalled \$856.4 million.

Following the formalisation of funding variations, program savings and the rollover of unspent funds from the 2018-19 Program the total funds available to spend for the 2019-20 Program totalled \$897 million.

The outcome of the 2019-20 Program was a total infrastructure spend for the Territory of \$603.8 million, or 67 per cent of the total funds available within the Program.

Program underspend is commonly associated with weather delays, utility relocation, environmental and regulatory approval timing.

In 2019-20 a Capital Works Reserve was established. This reserve allows agencies with multi-year budget allocations for capital works to draw on their future funding if their capital expenditure in a budget year exceeds their allocation for that year. For example, if projects are able to be delivered faster than scheduled, agencies can access future years' funding through the reserve to maintain the pace of progress, while staying within the overall project cost envelope. The amount available in the Capital Works Reserve in 2019-20 was \$140 million. This reserve was not drawn against in 2019-20.

Major infrastructure investments physically completed in 2019-20 included (but were not limited to):

- Public Housing Renewal Program – Stage 1;
- An E–Healthy Future;
- Alexander Maconochie Centre Detainee Industries and Activities Enhancement Project;
- Better Services – Weston Creek and Stromlo swimming pool and leisure centre;
- University of Canberra Hospital Car Park; and
- Better Roads for Gungahlin – Horse Park Drive duplication (Mulligans Flat Road to the Federal Highway).