# 1.1 BUDGET OUTLOOK

## The Context of the 2012-13 Budget

The Territory's budget continues to be shaped by the events and responses related to the global financial crisis.

The economy has performed remarkably well over the past few years due to its strong fundamentals, and the Federal Government's stimulus measures.

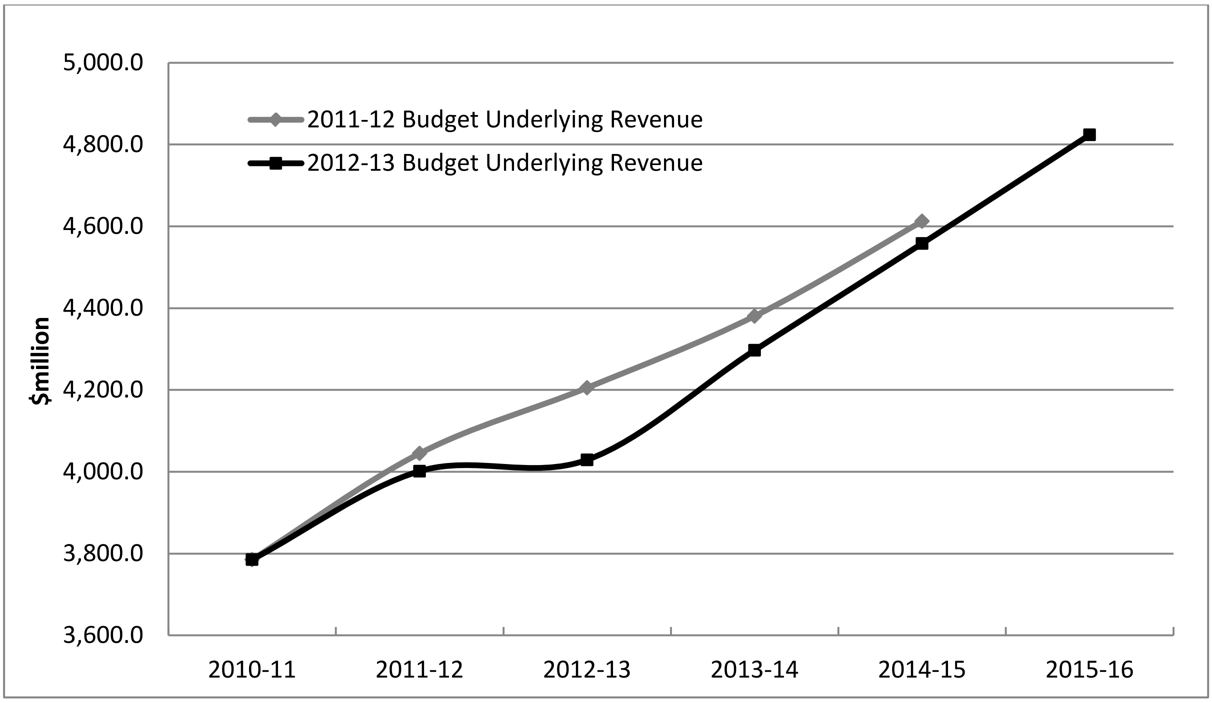
A moderation in the economy was envisaged as the Federal Government constrained its expenditure growth to 2 per cent in real terms as part of its planned withdrawal of fiscal stimulus.

The Commonwealth Government needed to resort to stronger fiscal consolidation measures due to its weaker than expected revenues in 2011-12 and 2012-13.

The Territory's economy is forecast to continue to moderate. Own source revenues are forecast to soften, due to the moderation of the housing market and commercial activities mainly related to land supply and development.

Revenues will be lower than the 2011-12 Budget forecasts.

**Figure 1.1: Underlying Revenue, 2011-12 and 2012-13 Budgets**



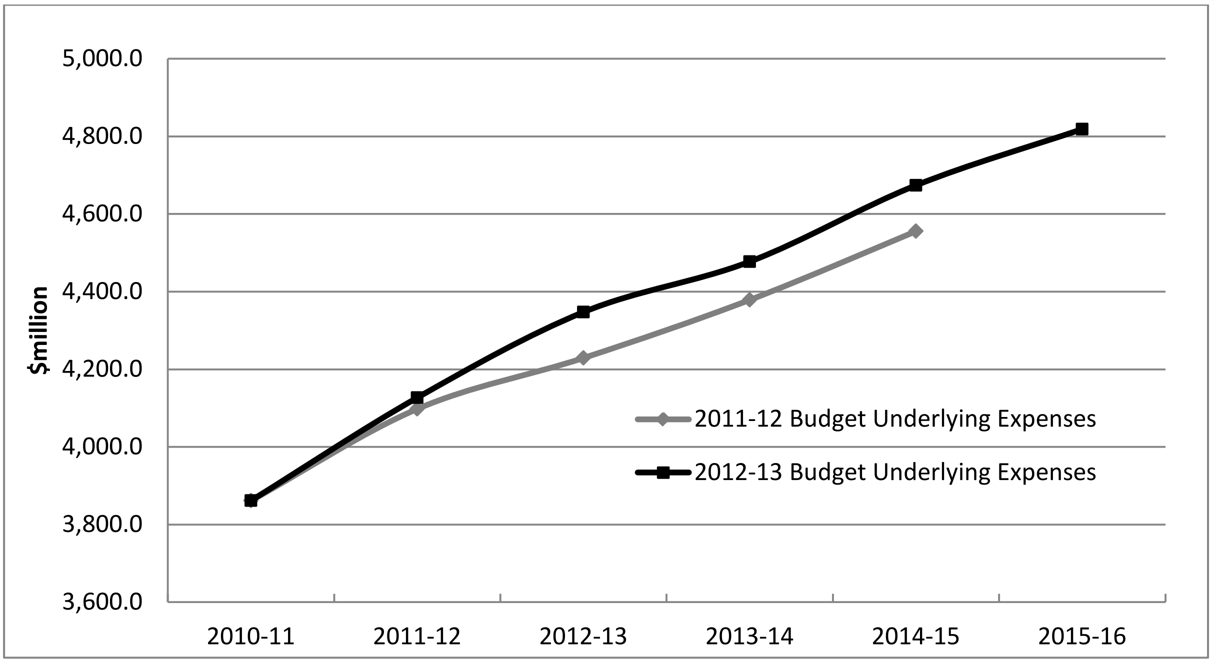

The financial markets remain volatile due to the European debt crisis. This has impacted on the returns on the Territory's superannuation investments and interest earnings.

Together, softening revenues and increasing superannuation liabilities constitute around $500 million impact on revenue and expenses over the budget and forward estimates period.

Forecast expenses over the estimates period are also affected by outcomes of wage negotiations.

As a result, expenses will be higher than the 2011-12 Budget forecasts.

**Figure 1.2: Underlying Expenses, 2011-12 and 2012-13 Budgets**




The Government's Budget Plan, developed following the onset of global financial crisis, originally targeted a return to surplus in 2015-16. This was advanced by two years in the 2010-11 Budget. This Budget reverts to the original target.

## 2012-13 Budget

The Government has accepted the deterioration in the Budget Net Operating Balance.

The Government continues to follow the principles and objectives of its Budget Plan. The Plan provides for a balanced response to economic and fiscal circumstances. It also incorporates flexibility for adjustments should circumstances change.

The change in the economic and financial circumstances of the Territory has been quite substantial.

In the context of contracting Commonwealth consumption, a moderating economy and softening revenue base, the focus of the 2012-13 Budget is to support the economy and support jobs.

The Budget provides for growth in capacity to deliver priority services, through improvements in efficiency.

New expenditure initiatives are fully offset by savings.

The forecast Budget Net Operating Balance in 2012-13 is a deficit of $318 million, and returns to surplus in 2015-16.

**Table 1.1.1**
**General Government Sector – Headline Net Operating Balance**

| | 2012-13 $m | 2013-14 $m | 2014-15 $m | 2015-16 $m |
|---|---|---|---|---|
| **Headline Net Operating Balance[1]** | **-318.3** | **-130.2** | **-51.3** | **25.2** |
| Net Impact of Majura Parkway Commonwealth Funding | 0.0 | 50.0 | 64.5 | 20.0 |
| **Underlying Net Operating Balance[1]** | **-318.3** | **-180.2** | **-115.8** | **5.2** |

**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.

Aggregate deficits over the Budget Plan period remain consistent with the original projections.

Across the Budget and forward estimates period, aggregate revenues grow at around 4¾ per cent, ½ per cent lower than the Budget Plan parameters.

Expense growth across this period is curtailed at 4 per cent against the Budget Plan parameter of 4½ per cent.

In the 2012-13 Budget, the Government commences a major long term reform of the Territory's taxation system.

Transaction taxes will be phased out over a period of 5 to 20 years. A number of nuisance taxes are removed. General Rates are adopted as a broad and efficient revenue replacement base, with improved progressivity.

## Economic Outlook

Economic growth in the Territory has continued to moderate since 2010-11, reflecting planned withdrawal of fiscal stimulus by the Commonwealth in the current year, and further fiscal consolidation in 2012-13.

The level of economic activity, however, remains high. The ACT economy is expected to continue to grow in 2012-13, but at a slower rate, mainly due to a decrease in public consumption expenditure and below-trend household consumption growth and investment growth.

In the wider economic context, the near term outlook for the global economy has improved, but downside risks remain. Emerging-market economies continue to drive global growth, with their rate of expansion progressing at a much faster pace than those of advanced economies.

The prospects for the Australian economy remain favourable due to the mining boom with Gross Domestic Product (GDP) growth expected to be around trend in 2011-12 and 2012-13. Economic conditions, however, continue to vary significantly across industries as well as jurisdictions.

The ACT economy is likely to face a challenging economic environment in the short term due to Commonwealth Government fiscal consolidation and softening investment activity.

Growth in output as measured by Gross State Product (GSP) will moderate further from the forecast 2½ in 2011-12 to 2 per cent in 2012-13.

State Final Demand (SFD) is forecast to grow at ½ per cent, reflecting contraction in Commonwealth Government expenditure. The nominal growth in SFD is supported by household consumption and the ACT Government's investment in infrastructure.

Employment growth is forecast to ease further to zero in 2012-13 due to the slowdown in economic growth as well as consumer and business caution. However, the unemployment rate is expected to remain well below the national average. Due to the strong fundamentals of the labour market and the environment of low interest rates, residential property market activity is expected to remain at relatively high levels.

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 | |
|---|---|---|---|
| | **2010-11** | **2011-12** | **2012-13** |
| **ACT** | | | |
| Gross State Product | 2.8 | 2½ | 2 |
| Employment | 2.2 | ½ | 0 |
| State Final Demand | 4.3 | 2 | ½ |
| Consumer Price Index | 2.7 | 2½ | 2¼ |
| Wage Price Index | 3.6 | 3½ | 3½ |
| Population | 1.9 | 1½ | 1½ |
| **Australia** | | | |
| Gross Domestic Product | 1.9 | 3 | 3¼ |

## Overview of the 2012-13 Budget

The 2012-13 Budget includes:

- A forecast General Government Sector Headline Net Operating Deficit of $318.3 million in 2012-13.
- A forecast return to surplus in 2015-16, returning to the original target set in the 2009-10 Budget, due to the change in economic and financial circumstances.
- Savings of around $180.5 million over four years, namely:
  - savings in administrative costs of $37.3 million, through continuing to improve the efficiency of back office functions and reducing input costs such as travel, accommodation, fleet, printing, stationery, advertising and marketing expenditure;
  - savings in employee costs of $73.9 million, through the redirection of resources to higher areas of need and new priority initiatives;
  - savings from extending the operating life of ICT Equipment $4.8 million;
  - future agency savings of $45.9 million; and
  - reprioritisation of program expenditures of $18.6 million, achieved through the cessation of lower priority program and initiatives from past budgets.
- A strong General Government Balance Sheet, with:
  - Net Worth of $15.9 billion;
  - Net Financial Worth of $1.9 billion;
  - Net Financial Liabilities of $3.8 billion; and
  - Net Debt of *positive* $417.2 million (excluding superannuation related investments).
- Maintenance of Operating Cash Surpluses across all years.
- New policy initiatives with a net impact of $155 million across 2012-13 and the forward estimates.
- Significant capital investments to support the economy and jobs across the Territory, with a new infrastructure program of $429.5 million over four years. Specifically, the new capital works program includes:
  - new construction works of $253.1 million;
  - feasibility and forward design projects of $14.4 million; and
  - capital upgrades and urban improvements of $88.7 million.
- New information and communication technology (ICT) projects totalling $22.5 million.
- New plant and equipment of $50.8 million.
- An estimated $577.3 million of capital works achieved in 2011-12.
- General government borrowings for capital of $350 million in 2011-12 and a further $790 million over 2012-13 to 2013-14, an increase of $490 million from the 2011-12 Budget. Of this $490 million is forecast to be repaid by the end of 2015-16 reflecting a short term need for additional borrowings.