

1.1 BUDGET OUTLOOK

The 2007-08 Budget builds on the disciplined and focused approach to financial management that underpinned the Government's strategy in the 2006-07 Budget. It continues the program of putting the Territory's finances on a sustainable footing to maintain capacity for investment in physical and social infrastructure, preserve the high quality services and outcomes they deliver in priority areas, and provide a buffer against fiscal shocks.

The Budget delivers an operating surplus of \$103 million, one year ahead of predicted.

The Budgeted forward estimates broadly maintain the surpluses, as forecast in last year's Budget.

Table 1.1.1
General Government Sector – Net Operating Balance

	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m
Net Operating Balance*	103.0	51.6	64.3	101.5

*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 2007-08 surplus has largely been achieved due to the continued strength in the Territory's property market, the additional activity due to the accelerated land release program – a response to concerns about housing affordability – and returns from some significant one-off commercial developments. These factors have added just over \$90 million to the surplus.

The size of the 2007-08 surplus has allowed for significant, yet prudent investments in infrastructure to support the growth of the city, the residential land release program, and social infrastructure such as schools, roads, parks, paths, and health facilities.

The 2007-08 Budget also provides for a modest program of new spending, aimed at high priority areas of disability services, housing affordability, ambulance services and municipal services.

The Budget also allocates \$66.8 million across four years, for growth in health spending. This funding was prudently built into last year's Budget.

This Budget is underpinned by the significant structural reforms that were started in the 2006-07 Budget. The program of expenditure and revenue reforms continue, providing the basis for the sustainable operating surpluses budgeted this year and across the forward estimates.

Highlights of the 2007-08 Budget

Consistent with the Government's commitment to responsible financial management, the 2007-08 Budget includes targeted and strategic initiatives. The key highlights are:

- A surplus in 2007-08 of \$103 million, one year ahead of schedule.
- This Budget delivers on the Government's commitment to responsibly manage expenditure to ensure future surpluses with a continued focus on service delivery.
- The 2007-08 Budget delivers a significant capital program, including a focus on the upgrade, improvement, repair and maintenance of the Territory's existing asset base. Features of the Government's Capital Works Program and other capital related expenditure include:
 - new capital infrastructure works with a total value of \$288.7 million, incorporating:
 - new infrastructure expenditure of \$242.2 million across the Budget and forward estimates;
 - capital upgrades expenditure of \$32.050 million in 2007-08;
 - an additional one-off program of capital improvements worth \$12.2 million; and
 - an additional investment of \$2.3 million in new public art, with a provision for future works of \$0.480 million per annum; and
 - a continuing program of works with expenditure totalling \$281.2 million in 2007-08;
- Combined, the capital improvements and upgrade program (outlined above) provides \$44.250 million to invest in upgrading the Territory's existing asset base, in social infrastructure such as parks, walking trails, bus stops, schools, childcare facilities, and community facilities.
- The Budget delivers targeted new recurrent initiatives spending of \$38.5 million in 2007-08 or \$158.1 million across the Budget and forward estimates.
- The Budget and forward estimates provide for the current round of public sector collective agreements including provision for those agreements still under negotiation.
- An additional investment of \$5 million for repairs and maintenance in 2007-08.
- New plant and equipment initiatives with a total value of \$21.4 million.
- New information and communication technology (ICT) initiatives with a total value of \$12.4 million.
- There are no new general government borrowings.
- The General Government Balance Sheet remains strong.
- The Budget continues to provide for significant operating cash surpluses across the Budget and forward estimates.

Economic Outlook

The ACT economy is expected to continue to experience positive conditions throughout the forecast period.

In 2007-08 the economy is forecast to expand on the basis of solid growth in both household consumption expenditure and Australian Government expenditure. The level of private investment in the Territory is forecast to remain high in 2007-08, but a lower rate of growth is expected compared to the record high rate recorded in 2005-06. The ACT unemployment rate is expected to remain around record low levels and employment growth in 2007-08 is forecast to ease. Labour supply constraints are likely to persist into 2007-08.

Table 1.1.2
Economic Forecasts, Year-average percentage change

	Actual	Forecasts ^(a)		Projections ^(b)		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
ACT						
State Final Demand	5.3	4	4	4¾	4¾	4¾
Employment	1.6	3	1½	1½	1½	1½
Population	0.9	1 ¼	1 ¼	1	1	1
Consumer Price Index	3.6	2 ¾	2 ¾	2½	2½	2½
Wage Price Index	4.1	4	4	4	4	4
Australia						
Gross Domestic Product ^(c)	2.9	2½	3 ¾	3	3	3
Memorandum item^(d)						
ACT Gross State Product	3.4	2½	2½	2½	2½	2½

Notes

- (a) 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.
- (b) Projections are based on long-run averages and are provided for planning purposes only. They do not reflect an expectation (forecast) of actual outcomes.
- (c) Australian Government forecast, 2007-08 Budget, May 2007.
- (d) 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.

