AUSTRALIAN CAPITAL TERRITORY GOVERNMENT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED 30 JUNE 2022

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

The Territory has provided significant financial support to the community and business in response to the COVID-19 pandemic, resulting in increases in expenses as compared to 2020-21. Further information can be found in the Expenses section below.

The Territory's key fiscal measures have also been affected 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 $922.6 million, which is $340 million (26.9 per cent) lower than the Budget estimate deficit of $1,262.6 million and $264.3 million (40.1 per cent) higher than the 2020-21 deficit of $658.2 million. More detailed information on these variances can be found below.

Table 1.1: Total Territory Operating Result 2021-22

	2021-22 Actual $'000	2021-22 Budget $'000	2020-21 Actual $'000
Total revenue	7,376,679	6,920,700	6,675,698
Total expenses	8,299,241	8,183,279	7,333,914
UPF net operating balance	**(922,562)**	**(1,262,579)**	**(658,216)**
Economic inflows/(outflows)	(297,650)	202,295	780,852
Operating surplus/(deficit)	**(1,220,212)**	**(1,060,284)**	**122,636**

Revenue

Total revenue of $7,376.7 million for the 2021-22 financial year was $456 million higher than the 2021-22 Budget estimate of $6,920.7 million. The variance is mainly due to higher than expected GST grant revenue in 2021-22 and early payment of three quarters of the 2022-23 Commonwealth Financial Assistance Grant to assist in managing the ongoing impact of the COVID-19 pandemic. Other increases in Commonwealth grants reflect new funding for the Healthcare and Community Infrastructure National Partnership Payment (NPP) and the Commonwealth's contribution to COVID-19 Business Support Payments, partially offset by a decrease in the National Health Innovation Fund due to the timing of payments.

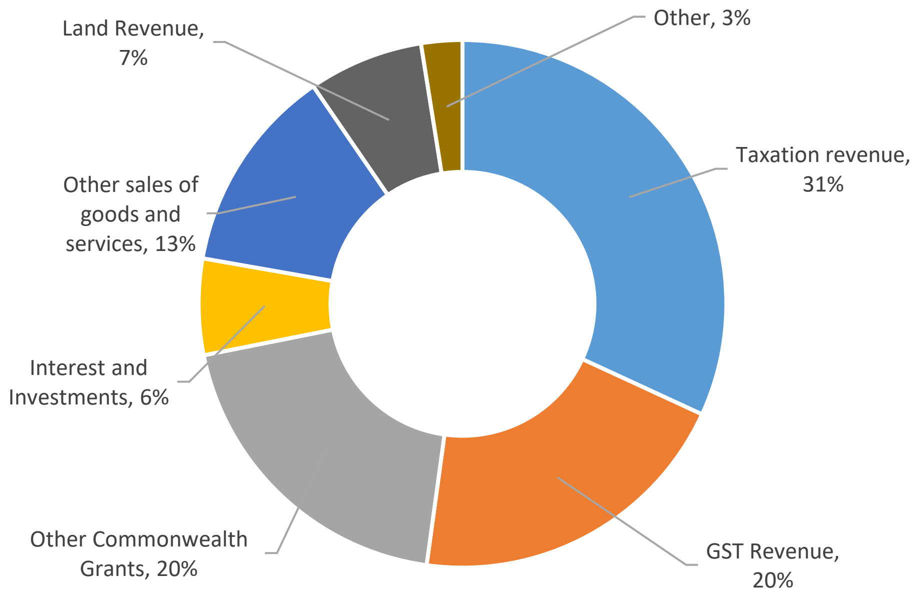
Residential conveyance duties were also higher than expected due to higher volume and value of transactions throughout the year associated with stronger market demand, as were commercial conveyance duties due to a higher volume of transactions.

Revenue continued

Total revenue in 2021-22 was $701 million (10.5 per cent) higher than the 2020-21 financial year result of $6,675.7 million. The actual result has increased mainly due to higher GST grant revenue and higher conveyance duty associated with stronger market demand resulting in a higher value and volume of transactions.

Chart 1.1 below demonstrates 40 per cent of the Territory's revenue is from Commonwealth grants, including GST, followed by 31 per cent from own source taxation revenue. This is broadly consistent with 2020-21.

Chart 1.1: Total Territory Revenue Sources 2021-22



Expenses

Total expenses in 2021-22 of $8,299.2 million is broadly in line with the 2021-22 Budget estimate of $8,183.3 million.

Total expenses increased by $965.3 million (13.1 per cent) from the 2020-21 outcome of $7,333.9 million. The variance is mainly due to COVID-19 business support grants and an increase in wages and salaries associated with the Government’s continuing response to COVID-19 pandemic, including increases in staff in Canberra Health Services, ACT Health Directorate and the Education Directorate.

Expenses continued

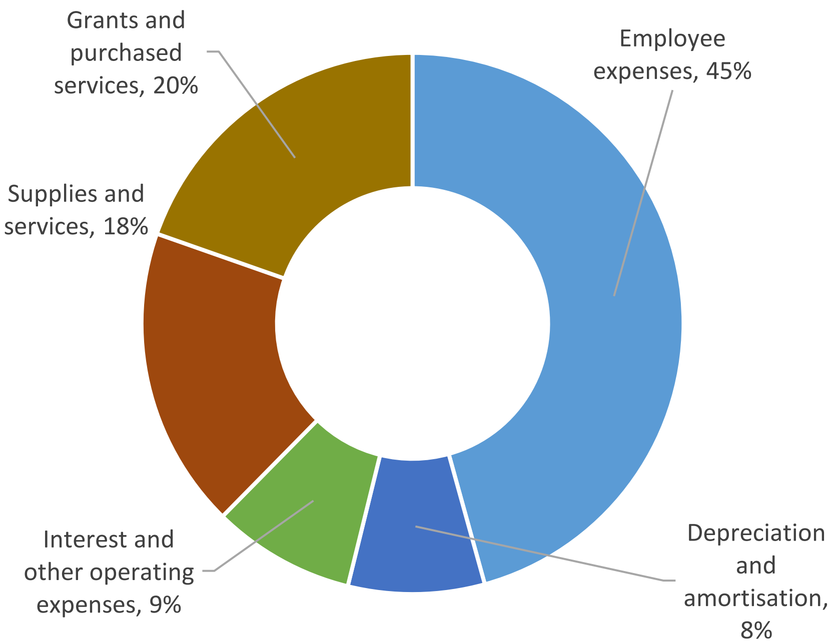
Higher interest expenses are mainly due to the impact of higher inflation rates on inflation-linked bonds and a higher balance of outstanding fixed rate nominal bond borrowings compared with the previous year.

These increases have been partially offset by a decrease in the cost of land sold due to fluctuations in the program of land settlements when compared to 2020-21. The high value of land sales achieved in 2020-21 reflected the settlement of a significant volume of inventory held from previous financial years.

Expenses associated with superannuation were also lower than in 2020-21 due to an increase in the discount rate assumption used to value the superannuation liability from 2.26 per cent in 2020-21 to 3.9 per cent in 2021-22.

Chart 1.2 demonstrates the largest proportion of the Territory's expenses is for employee related expenses (45 per cent) which is consistent with 2020-21.

Chart 1.2: Total Territory Areas of Expenditure 2021-22



Financial Position

Table 1.2: Total Territory Key Balance Sheet Measures 2021-22

	2021-22 Actual $'000	2021-22 Budget $'000	2020-21 Actual $'000
Financial assets	10,848,449	10,562,414	10,460,137
Non-financial assets	32,808,923	29,869,239	29,049,382
Total assets	43,657,372	40,431,653	39,509,520
Total liabilities	24,195,817	23,983,258	25,270,181
Net assets	**19,461,555**	**16,448,395**	**14,239,338**
Net financial liabilities	**14,339,549**	**14,414,451**	**15,777,988**
Net debt	**6,517,307**	**7,752,671**	**6,184,297**

Net assets at 30 June 2022 of $19,461.6 million were $3,013.2 million (18.3 per cent) higher than the 2021-22 Budget estimate of $16,448.4 million, and $5,222.2 million (36.7 per cent) higher than the 2020-21 outcome of $14,239.3 million.

The variance to the 2021-22 Budget is mainly due to revaluations of the Territory's property, plant and equipment including the public housing portfolio, infrastructure assets which also includes new stormwater assets in Denman Prospect, Taylor, Throsby, Majura and Gungahlin, as well as land under roads due to an increase in the value per square metre of this land.

This increase is partially offset by changes in the financial assumptions used to value the defined benefit superannuation liability which used a lower discount rate of 3.9 per cent and higher salary growth and inflation assumptions compared to the 2021-22 Budget assumptions.

Net financial liabilities at 30 June 2022, were $14,339.5 million. This is broadly in line with the 2021-22 Budget estimate of $14,414.5 million and $1,438.4 million (9.1 per cent) lower than the 2020-21 outcome of $15,778 million.

The decrease compared to the 2020-21 outcome is mainly due to a lower superannuation liability as a result of the latest annual actuarial liability valuation review and the use of a higher discount rate assumption of 3.9 per cent (2.26 per cent in 2021), partially offset by the use of increased salary growth and inflation financial assumptions, as compared to the previous valuation.

Net debt at 30 June 2022 was $6,517.3 million. This is $1,235.4 million (15.9 per cent) lower than the 2021-22 Budget estimate of $7,752.7 million, but $333 million (5.4 per cent) higher than the 2020-21 outcome of $6,184.3 million.

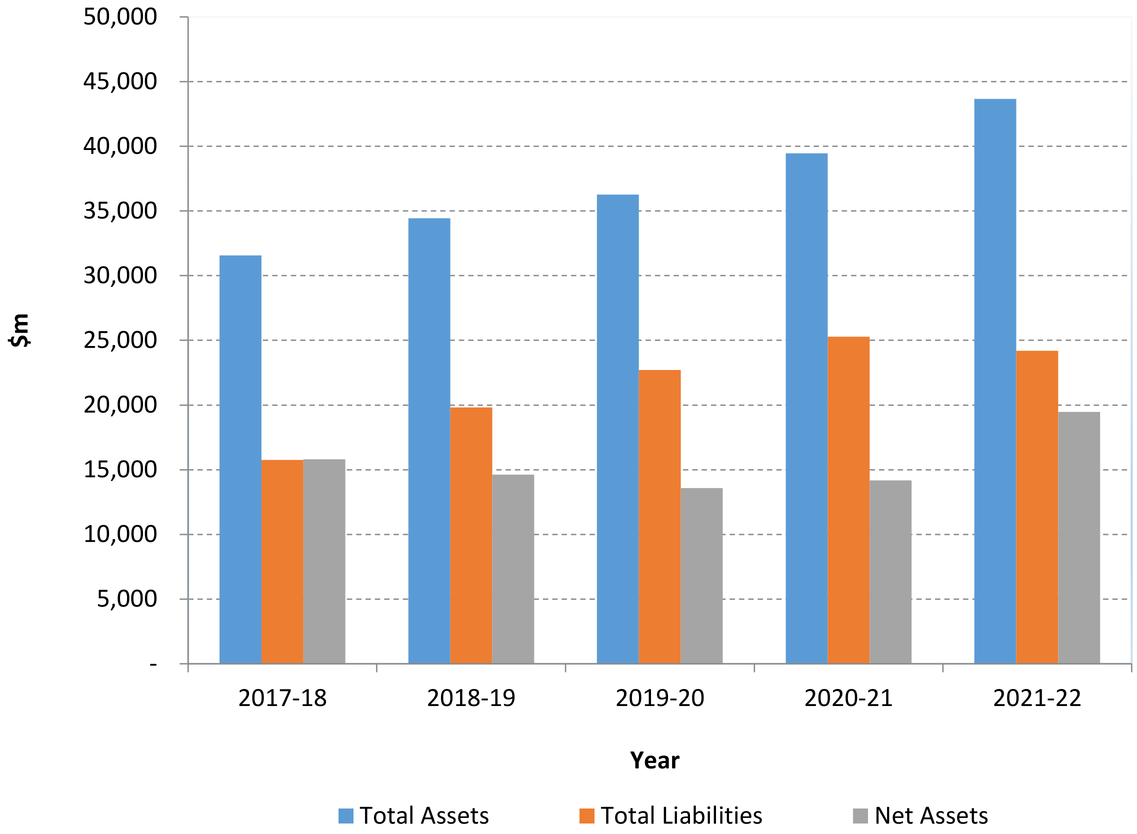
The decrease compared to the 2021-22 Budget estimate is mainly due to revenue being higher than expected as described above and is also attributed to the deferral of capital expenditure from 2021-22 to future years.

The increase compared to the 2020-21 outcome result is largely due to a higher level of borrowings reflecting new fixed rate borrowings issued during the year and prevailing cash flow requirements.

Financial Position continued

Chart 2.1 demonstrates the Territory's assets and liabilities over the period 2017-18 to 2021-22.

Chart 2.1: Total Territory Assets and Liabilities 2021-22



Total Territory – Infrastructure Program

Table 1.3: Total Territory Capital Works Program

	2021-22 Actual $'000	2021-22 Budget $'000	2020-21 Actual $'000
Capital works program	845,534	1,019,386	708,851

The 2021-22 capital works program (the Program) annual budget totalled $1,019.4 million.

Adjustments associated with funding variations, program savings, the impact of 2021-22 Budget Review and capital works reserve advances result in the total funds available for the 2021-22 Program of $946 million.

The outcome of the 2021-22 Program was a total infrastructure spend for the Territory of $845.5 million, or 89 per cent of the total funds available within the Program.

The key drivers of Program underspend are weather delays, environmental and regulatory approval timing and continued constraints in material and labour supply associated with COVID-19.

The capital works reserve (the Reserve) was set at $190 million in 2021-22. The Reserve permits agencies with multi-year budget allocations for capital works to advance their program of works by drawing on their future funding if their capital expenditure exceeds their budgeted program allocation. The 2021-22 capital works reserve was used by Major Projects Canberra ($34.5 million) and Housing ACT ($11.4 million), with advances totalling $45.9 million in 2021-22.

Major infrastructure investments physically completed in 2021-22 included (but were not limited to):

- Delivering a new Primary School at Throsby;
- Upgrading Campbell Primary School;
- Strengthening infrastructure supporting Canberra's new public transport network;
- Transport for Canberra – Real Time Passenger Information System;
- Canberra Hospital Intensive Care Unit Expansion;
- Mental Health Ward 12B Redevelopment; and
- Improved infrastructure for acute aged care and cancer patients.