

INTRODUCTION

The 2016-17 Budget is a budget for Canberra.

In recent years, the ACT has weathered the storms of the global financial crisis, fiscal consolidation by the Commonwealth, and the challenges posed by asbestos remediation. Through all this, the ACT Government has remained committed to supporting jobs and growth in the ACT.

This strategy is paying off. The ACT economy has bounced back from the deep Commonwealth Public Service job cuts of the past few years, and the improved outlook for economic growth has been accompanied by a pickup in the labour market.

The Government has remained committed to a fiscal strategy that achieves a strong operating balance over the medium term, offsetting temporary deficits with surpluses in other periods. This year's budget strategy therefore continues to build on the principles of job creation, the delivery of high quality services to the community, and investing in transformational capital projects for the long term.

This budget confirms the Government's planned path to surplus, and emphasises the strength of the Government's fiscal management. This is borne out by the improvement – across all four years – of the Territory's Headline Net Operating Balance since the 2015-16 Budget Review. As forecast in recent budget papers, the Government expects to deliver balanced budgets in 2017-18 and 2018-19 with a strong surplus in 2019-20.

The effective implementation of these economic and fiscal strategies has also been confirmed through the reaffirmation of the Territory's AAA long-term stable and A-1+ short-term credit ratings by Standard & Poor's in September 2015.

Reflecting the Government's infrastructure program, general government net debt will increase in 2017-18 and 2018-19, peaking in 2018-19 before declining. Net financial liabilities will decrease in 2016-17 from a peak in 2015-16, increasing until 2018-19 then declining in 2019-20.

Through this budget, the Government is delivering a better future for all Canberrans. New initiatives will improve existing services, provide new services, implement policies that will keep our community safer, and oversee a capital works program that will build the infrastructure to connect the Territory and generate long-term benefits for its residents.

Overview of the 2016-17 Budget

The 2016-17 Budget has been framed in the context of a recovering ACT economy, emerging from the impact of past Commonwealth Government cuts.

The key economic aggregates are set out in Table 1 below.

Economic growth, represented by Gross State Product, is forecast to reach 2¼ per cent in 2016-17, before returning to longer-term trend growth of 2½ per cent from 2017-18 onward. The improvement in the economic outlook is being accompanied by solid labour market outcomes – over 2,000 net new jobs are expected to be created in 2015-16 and the unemployment rate is now at 4.1 per cent – the lowest in Australia.

State Final Demand, which measures economic activity in the Territory, is forecast to stay at 2015-16 levels and is then projected to increase to the long-term trend rate of 4 per cent in the out years.

The ACT's population is anticipated to grow by 1½ per cent from 2015-16 onward, slightly higher than the 1.4 per cent growth rate in 2014-15.

Table 1: 2016-17 Budget Economic Forecasts, percentage change¹

	Actual	Estimate	Forecasts	Projections		
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
ACT						
Gross State Product ²	1.4	2 (+¼)	2¼ (+¼)	2½	2½	2½
State Final Demand ³	1.5	2½ (+½)	2½	4	4	4
Employment	0.0	1 (+¾)	1¼ (+¼)	1½	1½	1½
Wage Price Index ⁴	1.9	1¾ (-¼)	2 (-¼)	3½	3½	3½
Consumer Price Index	0.8	¾ (-¾)	1 (-1)	2½	2½	2½
Population	1.4	1½	1½	1½	1½	1½
Australia						
Gross Domestic Product ^{3,5}	2.2	2½	2½ (-¼)	3	3	3

Sources: ABS Cat. No. 3101.0, 5206.0, 5220.0, 6202.0, 6345.0, and 6401.0; CMTEDD; 2016 Pre-election Economic and Fiscal Outlook.

Notes: Numbers in brackets represent the change to forecast numbers since the 2015-16 Budget Review. Forecasts and projections are rounded to a ¼ of a percentage point, reflecting an appropriate level of accuracy in forecasting economic parameters. Projections are based on long-run trend assumptions.

1. Forecasts are on a through the year basis, unless otherwise specified.
2. Gross State Product is forecast on a real basis.
3. Year average basis.
4. Total hourly rates of pay excluding bonuses.
5. These are 2016 Pre-election Economic and Fiscal Outlook forecasts. Comparisons are to the Commonwealth's 2015-16 Mid-Year Economic and Fiscal Outlook.

Overall, the recovery is being supported by the end of the Commonwealth Government's hiring freeze on 1 July 2015, and the positive effects of a lower Australian dollar, low interest rates and the ACT Government's policy framework in encouraging economic diversification and growth in the Territory. The Government's significant program of infrastructure investment, including the light rail project, the University of Canberra Public Hospital, and the ACT Law Courts, is also expected to support growth over the short to medium term.

Downside risks to the medium-term outlook remain. In particular, the Federal Government's announcement in its 2016-17 Budget of an additional \$1.9 billion in efficiency dividend savings (of which an estimated \$600 million may occur in the ACT) could have flow-on effects to the broader ACT economy.

The Government is forecasting a Headline Net Operating deficit of \$94.3 million in 2016-17, a deficit of \$35 million in 2017-18, and a return to balance in 2018-19 and 2019-20.

In formulating its 2016-17 Budget, the Government decided, for the first time, to foreshadow a variation to the 2016-17 Budget by anticipating the difference between current interest rates and the long-term discount rate used to value our superannuation liabilities.

This technical adjustment has traditionally not been made until the actual outcomes for each year are published and, in recent years, it has reduced the bottom line by a material amount (in 2015-16, it was \$56.2 million). By including the estimated impact of this Superannuation Liability Valuation (\$87.7 million) in its 2016-17 Budget, the Government has revised its Headline Net Operating deficit to \$182.0 million. For the purposes of comparing estimated Headline Net Operating Balances for previous budget years, the appropriate Headline Net Operating deficit for 2016-17 is \$94.3 million.

Net debt and net financial liabilities are expected to increase over the four years to 2018-19, reflecting the Government's investment program, but will stabilise and decline in 2019-20. In all years, net debt and net financial liabilities are consistent with forecasts in the 2015-16 Budget and 2015-16 Budget Review. The balance sheet remains strong, and the net operating cash balance is forecast to increase in 2016-17, largely as a result of the acceleration of the demolition schedule for the Loose-fill Asbestos Insulation Eradication Scheme.

Table 2: General Government Sector Headline Net Operating Balance

	2015-16 Est. Outcome \$m	2016-17 Budget \$m	2017-18 Estimate \$m	2018-19 Estimate \$m	2019-20 Estimate \$m
Revenue	4,732.4	5,058.2	5,103.8	5,379.3	5,581.8
Expenses	5,130.8	5,403.7	5,312.2	5,528.7	5,711.6
Superannuation return adjustment ¹	165.9	163.6	173.3	182.8	195.8
HEADLINE NET OPERATING BALANCE (excluding Superannuation Liability Valuation²)	-232.5	-94.3	-35.0	33.3	66.0
HEADLINE NET OPERATING BALANCE (includes Superannuation Liability Valuation²)	-232.5	-182.0	-35.0	33.3	66.0
Net Cash from Operating Activities	-58.6	269.3	522.6	410.4	667.9
Net Debt (excluding superannuation)	1,832.5	2,080.2	2,103.8	2,902.7	2,581.3
Net Financial Liabilities	8,871.1	5,496.5	5,659.6	6,411.5	6,226.7

Notes: Numbers may not add due to rounding.

1. The Headline Net Operating Balance incorporates the impact of long-term superannuation investment earnings in order to provide an accurate assessment of the longer-term sustainability of the budget position. Further details are provided in Fiscal Strategy (Chapter 2).
2. This adjustment is to reflect the estimated Superannuation Liability Valuation outcome at 30 June 2016 and the flow-on impact to the superannuation expense in 2016-17 based on prevailing interest rates. The final figure is expected to be included in the Pre-Election Budget Update.

In the 2016-17 Budget, the Government will implement a range of new initiatives across its four broad strategic priorities: economic growth and diversification, enhancing liveability and social inclusion, health and education investment, and suburban renewal and better transport.

Specifically, this budget builds on previous investments in our health system, with work currently underway on the University of Canberra Public Hospital. The new Charles Weston School has opened in Coombs and capacity is being added in schools across Gungahlin. Construction will begin this year on the first stage of a city wide network of light rail, and the Government is undertaking an unprecedented renewal of public housing stock, with new houses that are energy efficient, comfortable and fit for purpose to be located across the city.

The Government will also continue to progress its tax reform agenda after having successfully completed the first five years of the program. The next stage will see further reductions in conveyance duty.

Growth in our visitor economy has been stimulated through the recent announcement of direct international flights between Canberra, Singapore and Wellington.

The ACT Government is also committed to tackling the issue of family violence. Family violence crosses socio-economic and cultural boundaries, and imposes a burden on the whole community. The *Safer Families* package in this budget is a whole of government, community-backed response to family violence.

As the ACT economy stabilises and strengthens, the Government is taking the opportunity to transform Canberra for the future and ensure that it is an inclusive and welcoming society.

This is a budget for an even better Canberra.