

3 BUDGET AND FINANCIAL PROJECTIONS

This chapter provides a summary of the 2006-07 Budget and forward estimates for the General Government Sector.

Since 1996-97, budget information has been presented on Australian Accounting Standards (AAS) basis. In this Budget, the Government has adopted Government Finance Statistics (GFS) as the headline budget reporting measure. For comparability purposes, this chapter also provides AAS operating result.

Detailed financial statements are provided in Appendix D.

Highlights of the 2006-07 Budget

- The 2006-07 Budget adopts GFS as the headline budget reporting measure.
- The forecast Net Operating Balance for 2006-07 is a deficit of \$80.3 million, improving to a surplus of \$67.7 million in 2009-10.
- The 2006-07 Budget delivers a major program of structural reform.
- The reform includes revenue measures aimed at expanding the revenue base, revenue alignment with other States and improved cost recovery. Revenue measures totalling \$63.2 million in 2006-07, increasing to \$85.1 million in 2009-10 are being introduced.
- Expenditure savings include streamlined administrative and service delivery structures, reducing duplication and overlap, and improving efficiency.
- Savings of \$30 million in 2006-07, increasing to \$55.6 million in 2009-10 are to be achieved through a range of measures to reduce the cost of administration. In addition, savings from improved productivity and efficiencies within agencies total \$35.2 million in 2006-07, increasing to \$74.6 million in 2009-10.
- Together, the revenue and saving measures represent an adjustment of around \$215 million to the budget—approximately 7 per cent of the total budget.
- The Budget delivers targeted new spending to address high priority needs. Recurrent initiatives total \$56.9 million.
- This Budget delivers on the Government's commitment to responsible budget management.
- There are no new general government borrowings.
- The General Government Balance Sheet remains strong.
- The Budget also provides for significant operating cash surpluses.

2006-07 Budget Net Operating Balance and the Forward Estimates

Table 3.1 below provides the Net Operating Balance for the 2005-06 forecast outcome, and 2006-07 Budget and the forward years.

Table 3.1
GFS Budget Operating Deficit / Surplus

	2005-06 \$'m	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m
GFS Revenue*	2,634.6	2,798.8	2,926.5	3,099.1	3,269.7
GFS Expenses	2,796.9	2,879.2	2,967.2	3,080.8	3,202.0
Budget Net Operating Balance	-162.3	-80.3	-40.7	18.3	67.7

* Includes expected long-term capital gains on superannuation investments.

Over the past several years, the Territory has recorded large GFS deficits, while achieving operating surpluses under the AAS measure. This is because land sales revenue, a uniquely large revenue source for the ACT is not included in the GFS measure. Likewise, unexpected changes in the value of superannuation investments are excluded in the GFS measure.

In order to reduce the reliance of budget on land revenues, and its exposure to stock market movements, the Government is making a major structural adjustment to its budget. This is to be achieved through a package of reforms introduced in the 2006-07 Budget.

The reforms include both revenue and expenditure measures. These measures total \$215 million in 2009-10, or around 7 per cent of the total budget. These measures put the budget on a path to GFS surplus. The reform package is outlined in Chapter 2.

Revenue measures include an expansion in the revenue base, alignment of revenue with other jurisdictions and increased cost recovery. Overall revenue grows strongly at an average annual rate of 5.6 per cent across the forward years. Details of revenue initiatives are provided in Chapter 4.

Expenditure measures involve significant changes to administrative structures to achieve economies of scale and scope, reducing costs towards national benchmarks, improved utilisation of resources (such as vehicles and accommodation), and improvements in productivity.

For 2006-07, growth in expenditure is curtailed at 3.1 per cent. This is accomplished in large part through a growth in employees expenses of only 1.8 per cent in 2006-07 over the 2005-06 forecast outcome.

Across the forward years, total expenses grow at an average annual rate of 3.7 per cent, less than the growth in revenue. The Budget, however, provides for a sustainable growth in areas of growing need and excess inflation – the expenditure envelope for health includes an average annual growth rate of 6.4 per cent per annum.

Australian Accounting Standard Results

The following table provides the 2006-07 Budget and forward estimates on Australian Accounting Standards – the basis on which the previous Territory Budgets have been presented.

Table 3.2
AAS Budget Operating Deficit / Surplus

	2005-06	2006-07	2007-08	2008-09	2009-10
	\$'m	\$'m	\$'m	\$'m	\$'m
AAS Revenue	2,919.3	2,870.3	2,997.4	3,172.2	3,351.2
AAS Expenses	2,798.8	2,886.7	3,009.0	3,099.0	3,203.8
AAS Operating Result	120.5	-16.4	-11.7	73.2	147.4

The forecast outcome for 2005-06 is a surplus of \$120.5 million compared to the original budget estimate of a deficit of \$91.5 million.

The operating results for 2006-07 and 2007-08 are modest deficits of \$16.4 million and \$11.7 million respectively. These modest operating deficits are largely due to accounting write-offs of surplus school buildings. The operating results improve significantly to a surplus of \$147.4 million in 2009-10 following the full effect of savings and revenue measures.

The net operating result across the Budget and forward years is a surplus of \$192.5 million.

The following table provides a summary of the movement in the operating result from the original estimates as published in the 2005-06 Budget Papers.

Table 3.3
Summary of Movements in AAS Operating Result from 2005-06 Budget

	2005-06 Estimate \$'m	2006-07 Estimate \$'m	2007-08 Estimate \$'m	2008-09 Estimate \$'m	2009-10 Estimate \$'m
2005-06 Original Budget Papers	-91.5	0.9	39.3	73.3	73.3
Superannuation Investment Returns	100.5	6.2	5.0	3.8	3.8
Convention Centre - return of asset to the Territory	23.5	-1.5	-1.5	-1.5	-1.5
Commonwealth Grants	-4.2	3.1	3.1	1.7	1.7
Taxes, Fees and Fines	-8.1	-38.0	-38.1	-41.1	-41.1
Land Sales Revenue	-14.9	-15.9	-13.3	-0.8	-0.8
Other Land Revenue	3.0	0.0	0.0	0.0	0.0
Private Patient Revenue	5.8	5.8	5.8	5.8	5.8
Superannuation - Actuarial Review	-42.3	-48.3	-44.4	-46.5	-46.5
Insurance and Public Liability	-7.5	-5.6	-6.0	-6.2	-6.2
Rollover of Expenditure	8.6	-7.3	-1.3	0.0	0.0
Home Loan Portfolio - Provision for Doubtful Debts	3.1	0.0	0.0	0.0	0.0
West Belconnen School (including asset write-off)	-10.9	0.6	0.6	0.1	0.1
Canberra Central Taskforce (transfer from Convention Centre)	-0.9	0.0	0.0	0.0	0.0
Pacific School Games	-0.6	-0.9	-0.5	0.0	0.0
Extension of tax waiver - January 2003 Bushfire	-0.1	0.0	0.0	0.0	0.0
Other	-1.0	-7.9	-6.2	-5.5	-24.8
Mid Year Review	-37.4	-108.9	-57.5	-16.8	-36.1
Expenditure Initiatives	0.0	-48.6	-58.8	-70.6	-77.3
Health Growth Capacity	0.0	0.0	-11.5	-24.3	-39.8
Across Government Savings	0.0	30.0	49.2	52.1	55.6
Agency Savings	0.0	34.8	62.7	71.3	74.2
School Write Off	0.0	-8.6	-40.5	-16.4	0.0
Restructure Fund	0.0	-14.5	-4.5	-1.5	-0.5
Revenue Measures	0.0	63.2	75.3	79.6	85.1
Net Interest	-4.2	6.5	3.1	2.6	7.4
Land Adjustments	62.5	11.4	-15.4	-6.5	27.0
Taxes, Fees and Fines	-2.8	-3.0	-7.6	-8.4	-14.4
Commonwealth Grants	4.5	20.2	12.9	19.1	61.4
PTE Dividends	0.3	-6.7	-6.4	-4.2	1.1
ACT Forests Reclassification	0.0	-5.2	-5.2	-5.2	-4.9
Superannuation Investment Returns	50.4	5.1	5.1	4.4	3.7
Adjustment to Superannuation Liability	12.7	12.2	11.5	10.9	10.4
Deferrals	11.8	-5.8	-4.1	0.0	0.0
Treasurer's Advance	6.1	-1.5	-1.6	-0.7	-1.3
Revaluation of the Andrew Maconochie Centre Land	3.0	0.0	0.0	0.0	0.0
Other	13.5	3.0	-18.6	-12.3	-4.1
2006-07 Budget Papers	120.5	-16.4	-11.7	73.2	147.4

2006-07 Budget Initiatives

The 2006-07 Budget provides for targeted new spending to address high priority needs. Recurrent initiatives total \$56.9 million. Budget initiatives are outlined in Chapter 5.2.

The value of the 2006-07 New Capital Works Program is \$272.2 million, with cash provided for new works of \$112.3 million in 2006-07. The Capital works Program is outlined in Chapter 6.

