CHAPTER 1

ECONOMIC PERFORMANCE, OUTLOOK AND STRATEGY

1.1 OVERVIEW

The ACT economy continues to perform well compared to other jurisdictions. The latest data from the Australian Bureau of Statistics indicate that economic activity increased at around the national rate over the 2013 calendar year. Moreover, the ACT labour market compares favourably to other jurisdictions, with the Territory recording the lowest unemployment rate and the second highest participation rate as at April 2014.

The ACT economy's major challenge is the compounding effects of the Commonwealth Government's policy to reduce spending.

Commonwealth Government fiscal restraint and downsizing remain the key down-side risks to the Territory's economic outlook. Over the short term, economic growth will be challenged by direct budget and staffing cuts to Commonwealth Government departments and the consolidation of a number of agencies.

The cuts to spending and employment by the Commonwealth Government are expected to spill-over to other parts of the ACT economy. Concerns over job security could limit consumption and consumer confidence, while business hiring and investment decisions could be delayed.

Despite these challenges, a number of positives will continue to support economic growth in the Territory, albeit at a slower rate. A low interest rate environment will help to balance the fiscal pressures from the Commonwealth Government, while investment in the pipeline appears to have stabilised – encouraged by the ACT Government's taxation reform agenda and economic stimulus initiatives. In addition, the ACT Government's own infrastructure and capital program will support growth through the short and medium term.

National economic conditions remain challenging with the domestic economy expected to continue to grow at below trend level over the short term. Key risks include the rate at which mining investment slows and the strength of fiscal consolidation at the state and Commonwealth levels. The terms of trade will also determine the speed of structural adjustment and its impact on economic growth.

These challenging conditions have been balanced by accelerated resource exports over the latter half of 2013 with more production coming on-line, improved household consumption due to the low interest rate environment and strong house price growth at the national level.

Dwelling investment is gaining momentum and is anticipated to be a key driver of domestic growth as the national economy transitions away from the once-in-a-century mining boom. However, non-mining business investment remains subdued. The Reserve Bank of Australia and Commonwealth Treasury liaison programs indicate that the business community remains hesitant to commit to capital investment until stronger economic conditions become apparent.

The International Monetary Fund notes that global economic activity has broadly strengthened and is expected to improve further in 2014-15. Advanced economies are expected to provide much of the momentum for growth. On the whole, a reduction in fiscal tightening and still highly accommodative monetary conditions are expected to drive growth. Emerging markets and developing economies are forecast to grow, but at a slower pace than advanced economies in 2014 due to tighter financial conditions flowing through to the real economy.

1.2 GLOBAL AND NATIONAL ECONOMIC OUTLOOK

World Economy

Global economic growth strengthened in the second half of 2013 and is forecast to improve over 2014-15. Advanced economies are expected to provide most of the momentum, however, growth remains uneven. The broad settings of economic growth in advanced economies are supportive monetary conditions and an easing in fiscal consolidation.

Recovery in the **United States** continues to gain momentum, largely due to private sector activity. Rising house prices have led to greater housing construction activity and an increase in consumer sentiment, improving the outlook for the US economy.

Overall, risks in **Europe** remain on the downside, with high debt and volatile financial markets weighing on growth. Despite this, the worst of the impact from austerity measures appears to have passed, as household and business sentiment slowly show signs of improvement along with the recapitalisation of Europe's banks, albeit at a slow pace.

The economic outlook in **Japan** has improved over the past 6 months. However, Japan faces risks to economic growth, including its ageing population and rigid labour market policies. Moreover the rise in Japan's consumption tax, from 5 per cent to 8 per cent from 1 April 2014, risks dampening its recovery path in the short term.

Emerging and developing economies are forecast to grow, albeit at a gradual pace, assisted by stronger external demand from advanced economies. Financial conditions have tightened and are expected to dampen economic growth due to higher cost of capital.

Growth in **China** is expected to be around its 7.5 per cent target in 2014, with the task of rebalancing its economy likely to weigh on economic growth. However, export growth is lifting and credit remains at a sustainable level. There are signs of weakness in China, which pose risks for Australian economic growth in the form of a gradual decline in the terms of trade.

Asia will continue to play an integral part in Australia's growth prospects. In 2012 the Commonwealth Government set out its commitment to broadening and deepening Australia's relationship with Asia – in particular China – with the release of the *Australia in the Asian Century* White Paper. This was reaffirmed by an historic agreement for a strategic partnership between Australia and China and direct trading between the Australian dollar and the Chinese renminbi. In March of this year, a trade mission comprised of almost 600 companies secured commercial agreements in areas such as dairy exports, technology and financial services.

It is expected that Australia's enhanced relationship with Asia will secure greater bilateral communication and promote Australian tourism, trade and investment opportunities to the rapidly growing Asian markets. The ACT also stands to benefit from economic and business opportunities through education, government and community services, and tourism export links with China and South East Asia.

Australian Economy

The Australian economy grew at below trend pace in 2013 due to a decline in mining and non-mining investment, subdued growth in consumer spending, and the high level of the Australian dollar. However, despite the challenges faced by the Australian economy, real economic growth has remained uninterrupted for more than two decades and is expected to continue to do so.

Over the past six months economic growth has strengthened. While most of the improvement was due to resource exports, the low interest rate environment and strong house price growth has stoked domestic economic activity, with leading indicators pointing to robust household consumption and residential building activity in the coming quarters.

A key positive of the transition to more balanced domestic economic growth is the strength seen in leading indicators of dwelling investment. However, non-mining business investment remains subdued. The Reserve Bank of Australia and Commonwealth Treasury business liaison programs indicate a reluctance to commit to capital investment until more concrete signs of stronger future economic conditions emerge.

Household consumption is expected to remain robust overall, underpinned by low interest rates, solid population growth and improved household net worth. However, consumer confidence fell sharply ahead of the 2014-15 Commonwealth Government Budget, which is anticipated to constrain household consumption.

Resource exports will remain a key contributor to economic growth, but leaves the Australian economy vulnerable to external shocks including to the terms of trade and the economic performance of key trade partners.

Despite the positive outlook, national economic conditions remain challenging with domestic economic growth expected to continue to grow at below trend pace until mid-2015 as the transition away from mining-related investment continues. Key risks include the rate at which mining investment slows and the strength of fiscal consolidation at the state and Commonwealth level.

The Organisation for Economic Cooperation and Development, in its latest global economic outlook, states that deep cuts to Government spending in Australia should be avoided given near-term uncertainties in the rebalancing of the economy away from investment in the natural resources sector.

1.3 ACT ECONOMIC OUTLOOK

Recent Economic Developments

A sharp slow-down in economic growth in the ACT occurred in 2012-13. Commonwealth Government consumption decelerated abruptly, investment activity contracted as major projects were brought to completion and residential construction activity slowed.

Economic growth has improved slightly in the first half of 2013-14 from this low base. Commonwealth Government spending, while subdued, increased throughout most of 2013 and the contraction in investment growth slowed in the final quarter of the year. Household consumption remained relatively strong, but has steadily declined after reaching a cyclical peak in the June quarter 2013.

Leading indicators suggest these trends have continued into the second half of 2013-14. Accordingly, State Final Demand growth in 2013-14 is forecast to increase by 1¾ per cent after growing by only 0.4 per cent in 2012-13, the slowest growth in 24 years.

Employment growth is estimated to moderate to ¾ per cent in 2013-14. Employment in the private sector has remained subdued over the year to the February quarter 2014, driven by job losses in the professional services and construction-related industries.

Gross State Product is forecast to grow by 2¼ per cent. The decline from 2.7 per cent in 2012-13 is expected to be driven by a contraction in output from the two largest industries in the ACT, *Public Administration and Safety* and *Construction*.

The ACT's economic fundamentals have been tested recently. Population growth has slowed, predominantly due to a net outflow in interstate migration, while structural weakness in the labour market has intensified with a decline in the participation rate and a significant contraction in hours worked.

Despite this, the ACT labour market compares favourably to other jurisdictions. The unemployment rate is the lowest in the country, while the participation rate is the second highest, behind the Northern Territory.

Economic Outlook for 2014-15

Economic conditions are forecast to deteriorate in 2014-15. The key economic aggregates for the ACT are summarised in Table 1.3.1.

Table 1.3.1
Economic Forecasts, Year-Average Percentage Change

	Actual	Forecasts[1]	
ACT	**2012-13**	**2013-14**	**2014-15**
Gross State Product	2.7	2¼	1¾
Employment	1.9	¾	½
State Final Demand	0.4	1¾	1¼
Consumer Price Index	1.9	2¼	2¼
Wage Price Index[2]	3.7	2¾	2½
Population[3]	1.7	1½	1½
Australia			
Gross Domestic Product[4]	2.6	2¾	2½

Notes:

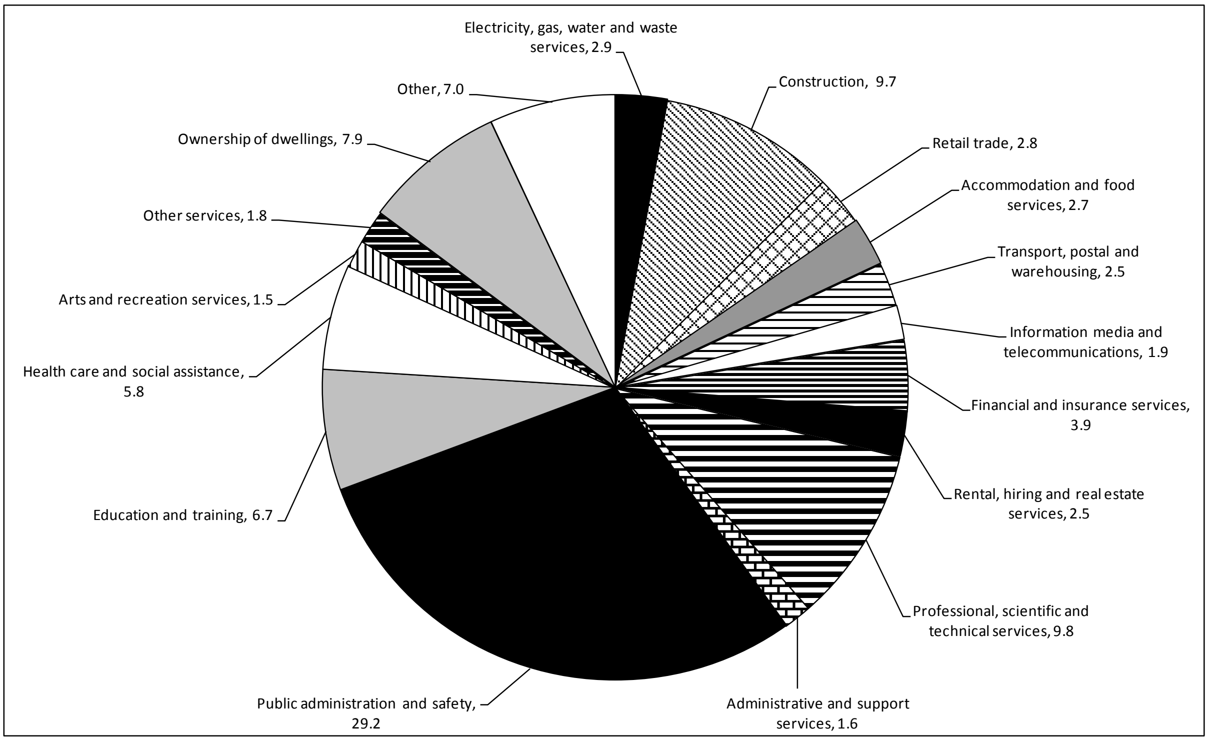
1. Forecasts are rounded to ¼ of a percentage point to reflect the relative level of accuracy used in forecasting economic parameters.
2. Total hourly rates of pay excluding bonuses.
3. The population forecasts are based on the rate of growth from the June quarter compared to the June quarter of the previous year, rather than 'year average' as with all other forecasts.
4. 2014-15 Commonwealth Budget forecasts for 2013-14 and 2014-15.

The Territory's economic growth in 2014-15 is expected to be significantly constrained by the level of Commonwealth Government spending and uncertainty weighing on household consumption growth.

Gross State Product (GSP), the Australian Bureau of Statistics headline measure of the ACT economy, is forecast to grow by 1¾ per cent in 2014-15. Reduced output growth is expected to be driven by the public sector, which accounts for around one third of GSP (Figure 1.3.1). Subdued household consumption growth is also expected to weigh on GSP growth.

From an income perspective, compensation of employees, which comprises approximately 70 per cent of total income generated in the Territory, is expected to remain weak due to subdued wage growth and slowing employment growth. Business profits are also expected to grow at below average rates due to subdued demand, while a forecast decline in real unit labour costs is expected to relieve pressure on business operating expenses.

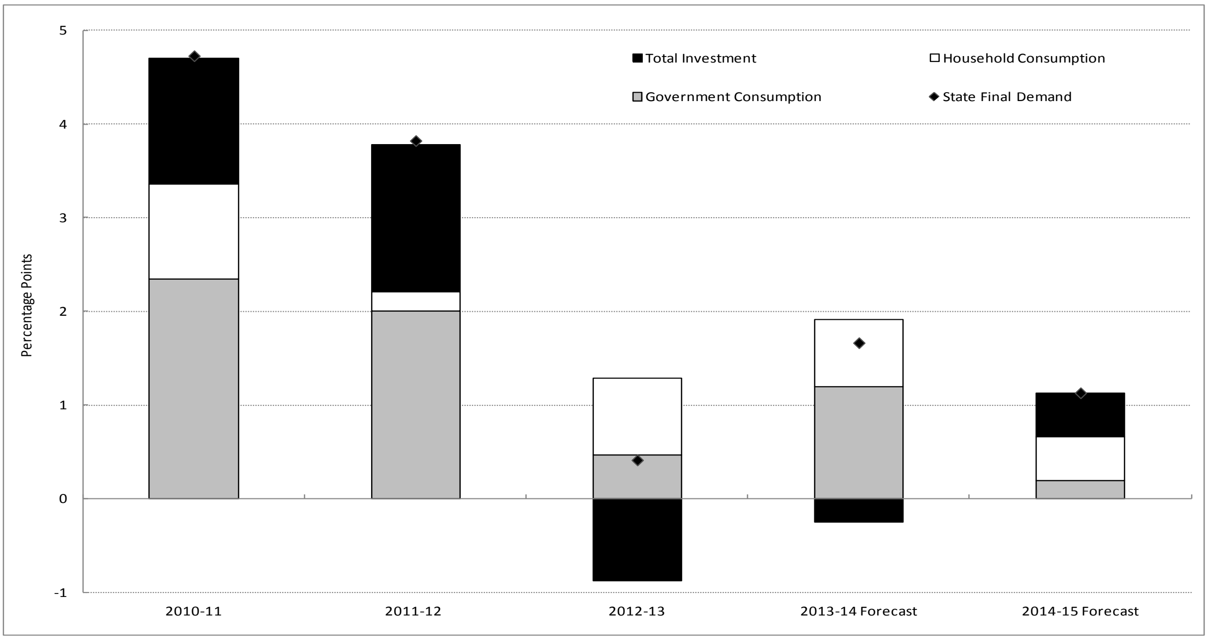
Figure 1.3.1
Share of ACT Gross State Product 2012-13 Current Price Industry Value Added



Source: ABS Cat No. 5220.0.
Notes: 'Other' includes Agriculture, Forestry and Fishing, Mining, Manufacturing, Wholesale trade and Taxes less subsidies on products.

State Final Demand (SFD) growth is forecast to moderate to 1¼ per cent in 2014-15. The decline in demand is expected to be driven by falling national government consumption and subdued private demand. Contributions to SFD growth from the various components are shown in Figure 1.3.2.

Figure 1.3.2
Contributions to Growth in ACT State Final Demand



Source: ABS Cat No. 5206.0 and Chief Minister and Treasury Directorate.

Public Final Demand

Commonwealth Government fiscal restraint and downsizing remains the key down-side risk to the Territory's economic outlook.

The Commonwealth Government's commitment to a smaller public service and the effect of successive tightening of departmental budgets is expected to translate into a reduction of 16,500 jobs nationally over the next four years. A significant proportion of Commonwealth downsizing is anticipated in the ACT, in 2014-15.

The ACT Government has committed to expansionary fiscal initiatives to counter, to some extent, the effects of contractionary fiscal policy at the Commonwealth level. A forecast increase in ACT Government investment, in particular, will directly contribute to growth while the stimulatory nature of the investment is anticipated to support demand across other sectors of the economy. The ACT Government's continued taxation reform agenda and recently announced (6 March 2014) economic stimulus package are other policy levers that are anticipated to support investment activity in 2014-15.

The announced stimulus package has four elements: the release of at least four civil contracts for estate works in Moncrieff; changes to lease variation charges; a reduction in extension of time commence and complete development fees; and measures to facilitate major projects across the ACT.

Furthermore, the ACT Government remains committed to the delivery of its capital works program to support economic growth and jobs. This includes significant upgrades to transport infrastructure, education, health and community-based facilities across the Territory.

Due to the small size of the ACT Government and fiscal tightening from the Commonwealth Government, public demand is expected to make a significantly smaller than average contribution to overall growth in 2014-15.

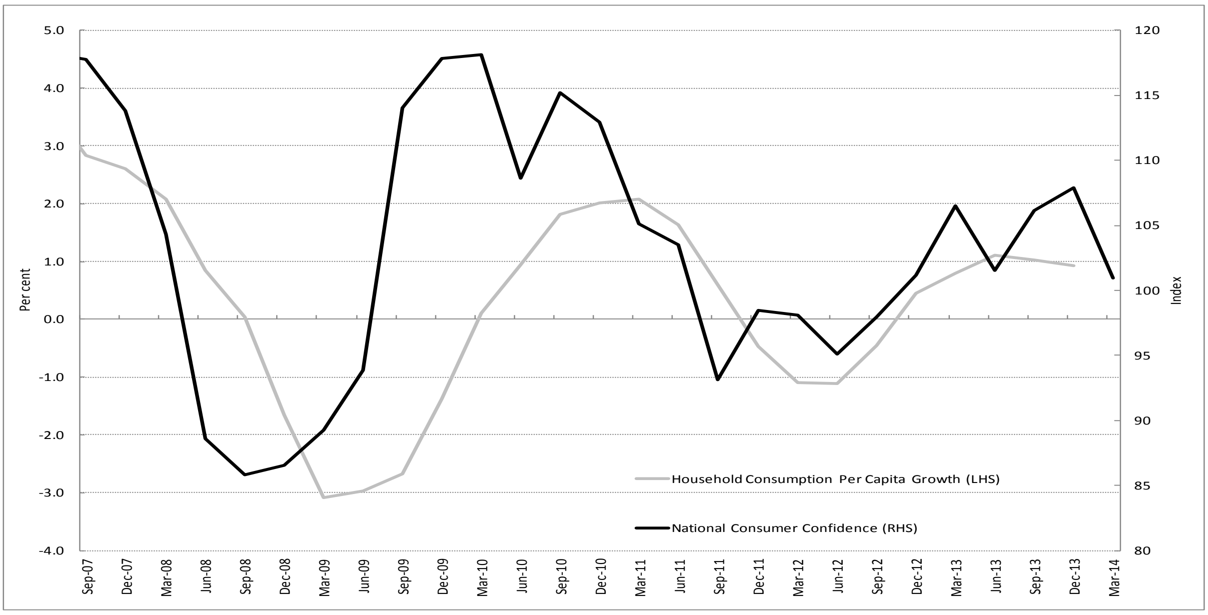
Household Consumption

Household consumption growth is forecast to slow in 2014-15, despite low interest rates. Private spending in 2014-15 will be limited by weak consumer confidence and job security concerns, weak house price growth, and an outflow of interstate migration.

National consumer confidence has fallen sharply in response to the 2014-15 Commonwealth Government Budget, which points to likely softening in consumer spending in the ACT (Figure 1.3.3). Job security is expected to be a major influence on consumer confidence in the ACT as the Commonwealth Government aims to reduce the Australian Public Service (APS) by 16,500 staff nationally.

Household consumption is expected to grow at around household income growth, which is expected to remain subdued due to soft employment and wage growth. Commonwealth Government Budget measures aimed at removing social benefits, imposing a deficit levy and indexing the fuel excise to Consumer Price Index (CPI) are also expected to put pressure on household consumption.

Figure 1.3.3
Consumer Confidence and ACT Household Consumption Per Capita



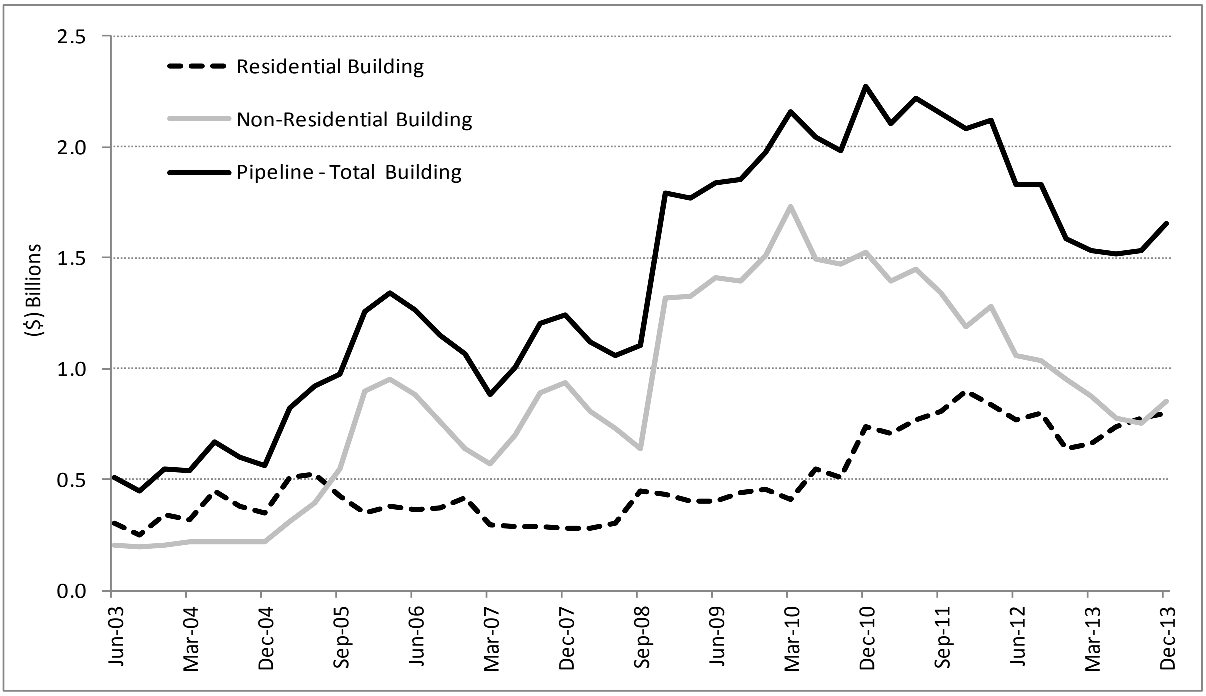
Source: ABS Cat No. 5206.0, 3101.0, Westpac-Melbourne Institute Survey of Consumer Sentiment and Chief Minister and Treasury Directorate.

Investment

Despite the contraction in investment in 2012-13, it remains an important driver of economic activity in the ACT, with investment as a share of SFD remaining above long-run average levels.

Investment is forecast to rebound slightly in 2014-15, driven by both dwelling and non-dwelling investment. Leading indicators point to additional construction work, which is expected to flow through to positive growth in 2014-15. Figure 1.3.4 shows that total building in the pipeline has stabilised, with an increase in both residential and non-residential work.

Figure 1.3.4
Real Value of Construction Work in the ACT Pipeline



Source: ABS Cat No. 8752.0 and 8782.0.65.001 and Chief Minister and Treasury Directorate.

A number of large residential building projects are yet to be completed and demand for detached dwellings remains as construction continues and is set to commence in suburbs including Lawson, Moncrieff, Wright, Coombs and Jacka. However, the rebound in residential construction is expected to be short-lived due to a lack of fundamental drivers in the medium term. While low interest rates are expected to support demand, population growth has slowed, median house prices remain subdued and the Commonwealth Government's downsizing plans are expected to reduce demand.

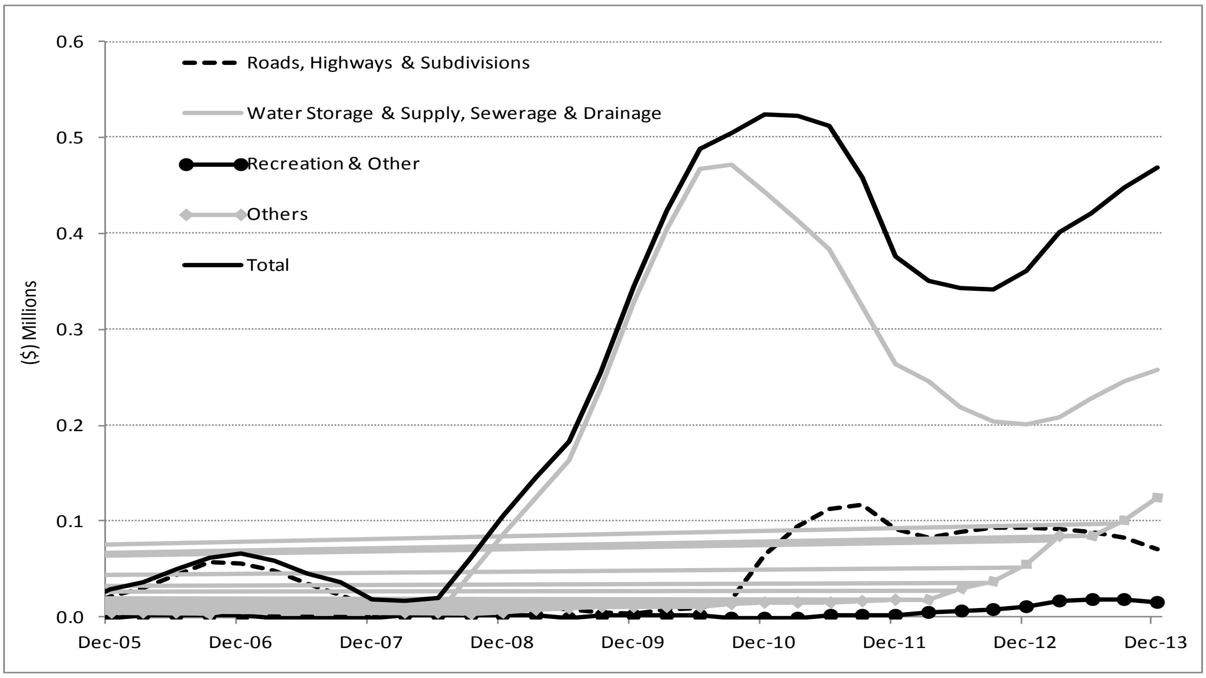
New commercial building construction contracted over 2012-13 in year average terms. This was anticipated to some extent due to the decline in the value of work in the pipeline and the completion of projects such as the Ben Chifley (ASIO) Building. The outlook for commercial construction in the short-to-medium term is tempered by the downsizing of the Commonwealth public service, including organisational restructures, and an already high office vacancy rate.

Engineering activity has become an increasingly important component of non-dwelling investment. The short-term prospect for engineering activity is positive according to the value of work yet-to-be done (Figure 1.3.5). However, project delays will remain a risk over the short term. The ACT Government's stimulus measure to accelerate construction work at Moncrieff is also forecast to add to non-dwelling investment and to bring-forward residential construction.

The ACT Government's 2014-15 Infrastructure Investment Program provides for a record level of investment across the next four years of $2.5 billion. The stimulus effect of this Program will help to lessen the impact on our economy and community from recent Commonwealth Government budget announcements.

Figure 1.3.5

ACT Nominal Value of Engineering Construction Work Yet-to-be Done (Four-quarter Moving Average)



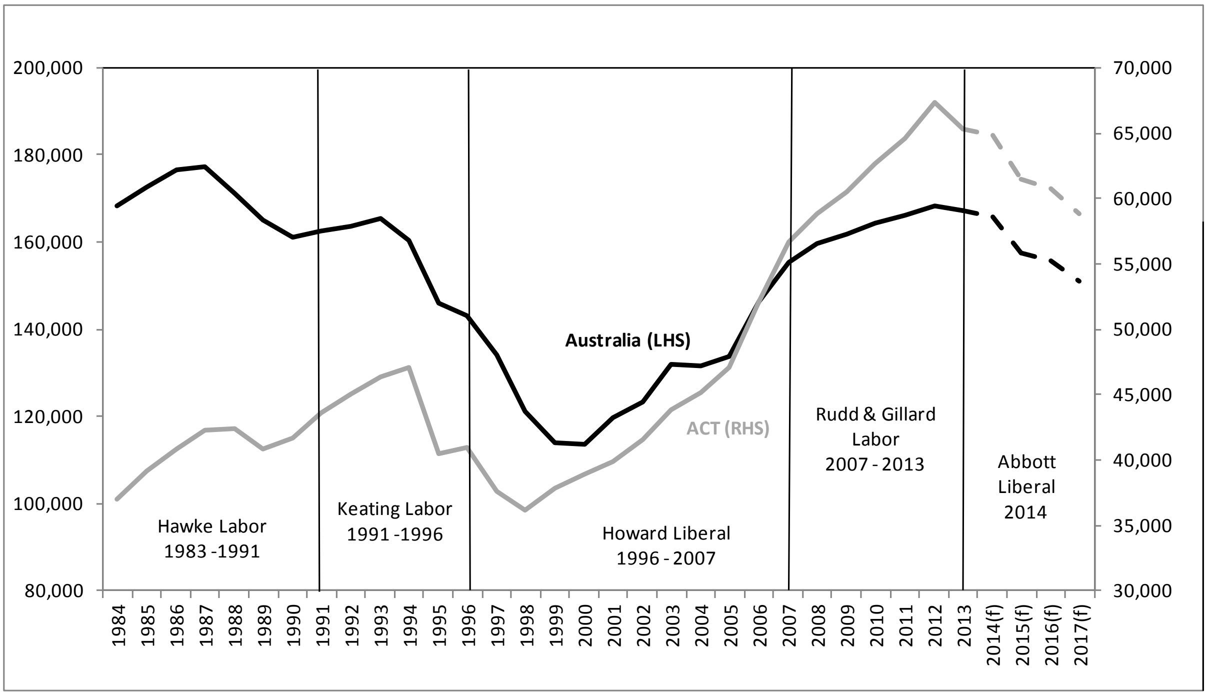
Source: ABS Cat No. 8762.0 and Chief Minister and Treasury Directorate.
Note: The "Others" category includes Bridges, Railways & Harbours, Electricity Generation, Telecommunications and Heavy Industry.

Labour Market

Employment growth is forecast to moderate to ½ per cent in 2014-15, following growth of ¾ per cent in 2013-14. The decline in employment growth is in-line with a slowing economy and an expectation that fiscal tightening has and will continue to reduce APS staffing levels as departments tighten budgets and the role of the Commonwealth Government narrows. APS staffing levels in the ACT have already declined by around 2,000 in 2012-13. Over the six months to the December quarter 2013, approximately 1,500 APS jobs were lost in the ACT, signalling an increase in the pace of job losses at the Commonwealth level.

Current estimates of the impact of the 2014-15 Commonwealth Government Budget are for a reduction of 16,500 jobs nationally from 2013-14 to 2016-17. The ACT Government estimates that this could result in a further 6,500 job losses in the ACT (Figure 1.3.6). Reduced spending from the Commonwealth Government is also expected to impact the wider labour market by influencing business hiring decisions and delaying recruitment plans in the private sector.

Figure 1.3.6
Australian Public Service Jobs – ACT and Australia



Source: Australian Public Service Commission and Chief Minister and Treasury Directorate

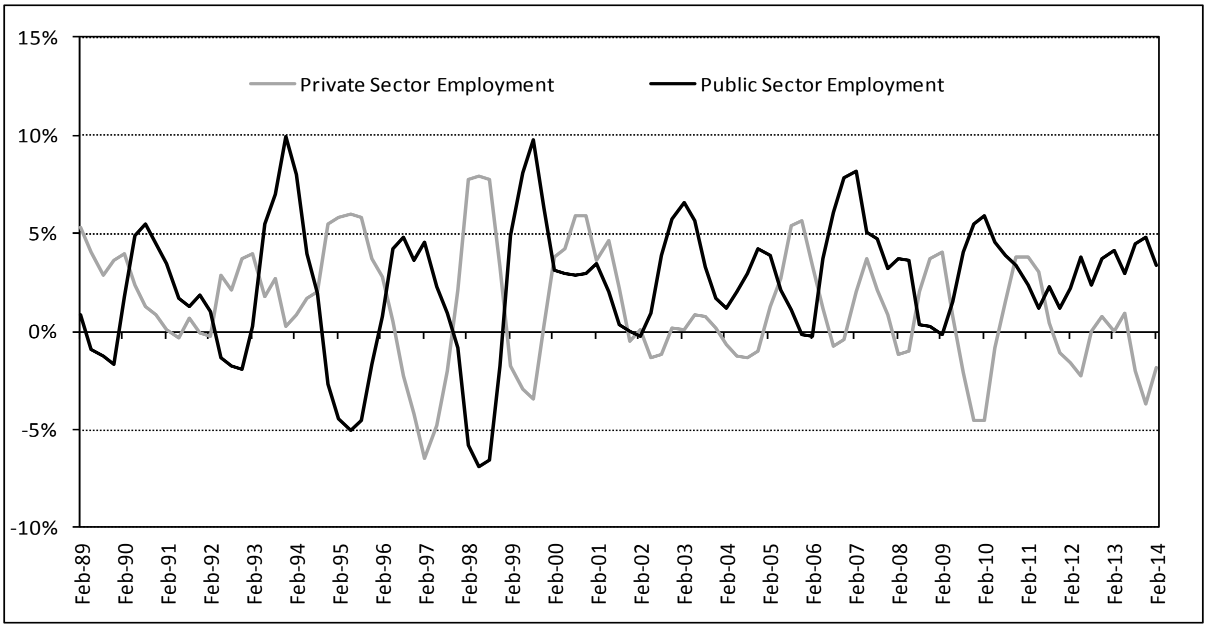
The employment growth outlook in the ACT remains weak. Leading indicators such as job vacancy rates, job advertisements and employment expectation surveys continue to point to very low growth in demand for labour.

Labour market weaknesses are also reflected in the recent decline in trend participation rates. The participation rate is pro-cyclical and tends to decline during slowdowns in the economy as incentives to actively search for a job decline and job vacancies remain weak. The weakness in the labour market is also evident from a contraction in average working hours.

A reduction in APS jobs in 2014-15 is expected to be offset by increases in other areas of government, while private sector employment is also anticipated to increase modestly. Employment in *Construction*, a labour intensive industry, may increase over 2014-15 in line with a modest forecast increase in construction activity and ACT Government stimulus measures. Those business areas with strong upstream linkages to the Commonwealth Government such as *Professional, Scientific & Technical Services* and *Administrative & Support Services* may benefit from Commonwealth Government outsourcing decisions.

Private and public sector employment has proven to be somewhat counter-cyclical in the past (Figure 1.3.7). A decline in public sector employment could be softened by an increase in private employment. However, aggregate employment growth is expected to remain weak.

Figure 1.3.7
ACT Private and Public Sector Employment (Year-on-year change)



Source: ABS Cat. No. 6291.0.55.00

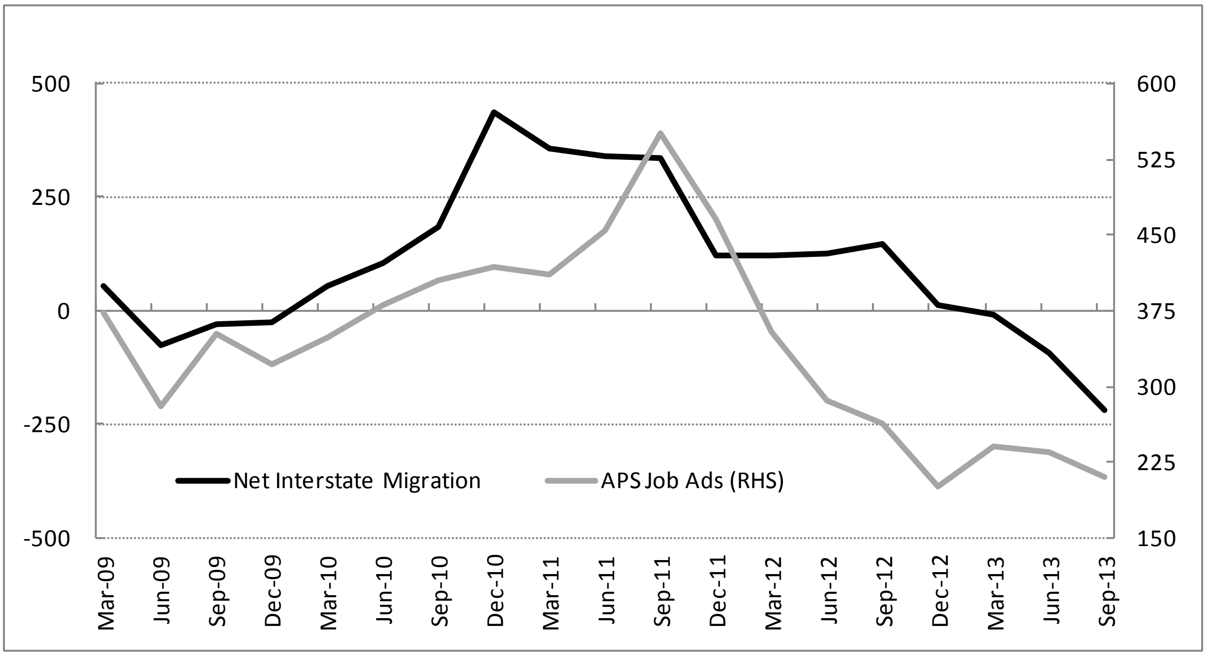
Population

The ACT's population growth has moderated recently, with a slowdown in net interstate migration and net overseas migration. This is in line with the subdued economic environment in the Territory through the Commonwealth Government job cuts. Net interstate migration has recorded four consecutive quarters of outflow from the ACT since the December quarter 2012, consistent with a decline in APS job advertisements in the Territory (Figure 1.3.8).

Net overseas migration has also slowed in line with the national trend. However, a turnaround in international student numbers is expected to maintain some strength in overseas migration over 2014-15. Moreover, natural increases are also expected to continue to contribute positively to population growth.

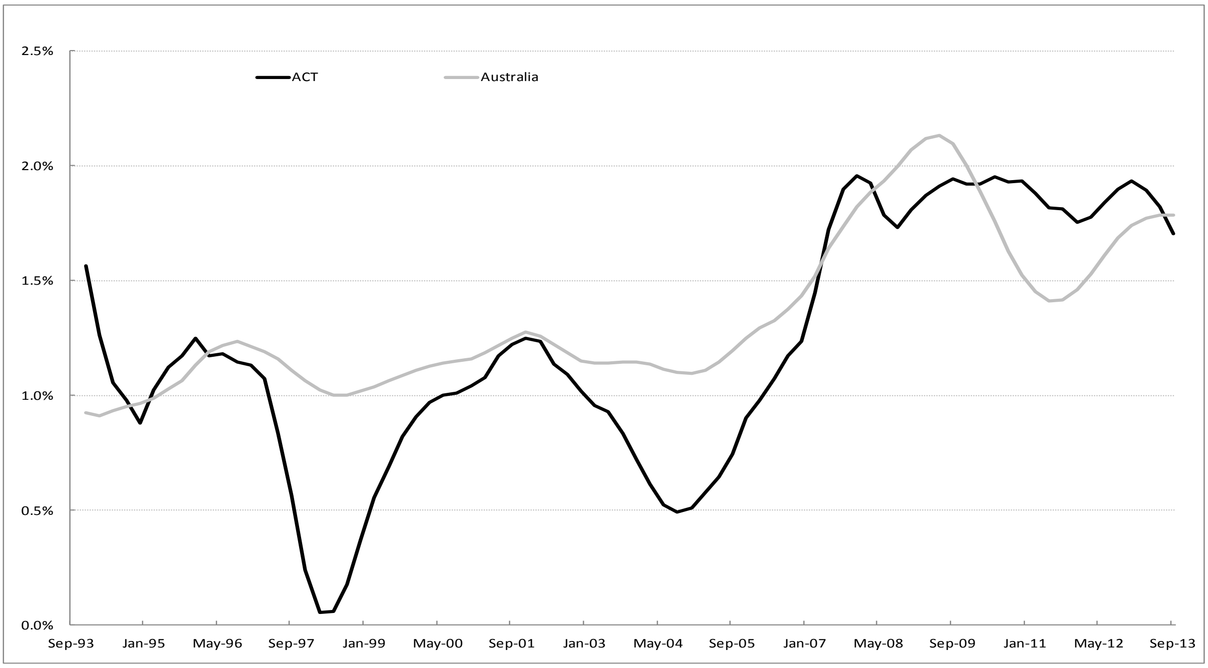
The ACT population is forecast to grow by 1½ per cent in 2014-15. The ACT's population growth will be predominantly influenced by natural increases and net overseas migration, with net interstate migration projected to make little contribution to overall population growth (Figure 1.3.9).

Figure 1.3.8
Net Interstate Migration and APS Job Ads, ACT
Quarterly Original Data



Source: ABS Cat No. 3101.0 and APS Jobs website

Figure 1.3.9
ACT Population, Through-the-Year Growth



Source: ABS Cat No. 3101.0

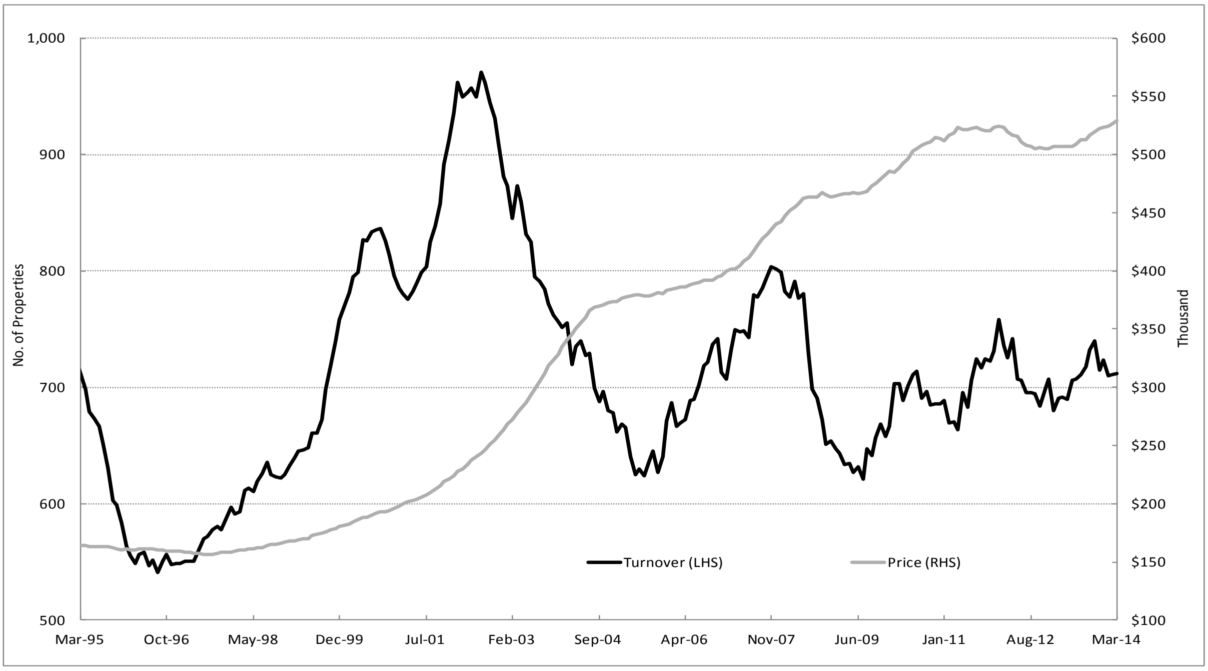
Housing Market

The ACT housing market has experienced strong building activity in recent years, reaching record levels for dwelling investment in 2011-12. While investment remains at high levels, there has been recent softening.

Residential building commencements increased by 8.9 per cent year-on-year to the December quarter 2013. Year-on-year to March 2014, the number of building approvals in the ACT in original terms increased by 27.6 per cent, driven mainly by units, flats, apartments and townhouses. The pick-up in leading indicators is indicative of new dwelling investment in 2014-15.

Turnover in the established housing market has been driven mainly by owner-occupiers. Year-on-year to March 2014, the number of owner occupier housing finance commitments for established dwellings increased by 12.3 per cent in original terms. Slowing economic activity, driven by Commonwealth Government fiscal tightening and job cuts, is likely to curb the recent momentum going forward. The lack of house price growth may have contributed to weak investor demand.

Figure 1.3.10
ACT Residential Property Turnover and Average Price, 12-Month Moving Average
Original Data



Source: Environment and Sustainable Development Directorate

House prices remain relatively subdued and are expected to remain so over the medium term (Figure 1.3.10). Canberra's rental vacancy rate has increased since late 2012 and was at 5.2 per cent in the December quarter 2013.

The housing market will face short-term challenges as a consequence of the Commonwealth Government's 2014-15 Budget measures. Accordingly, the ACT Government is supporting the property market through its land development activities, capital investment program and housing affordability initiatives.

The ACT Government announced a package of initiatives on 6 March 2014 that provides confidence and economic stimulus for the ACT building and construction industry.

Consumer Price Inflation and Wages

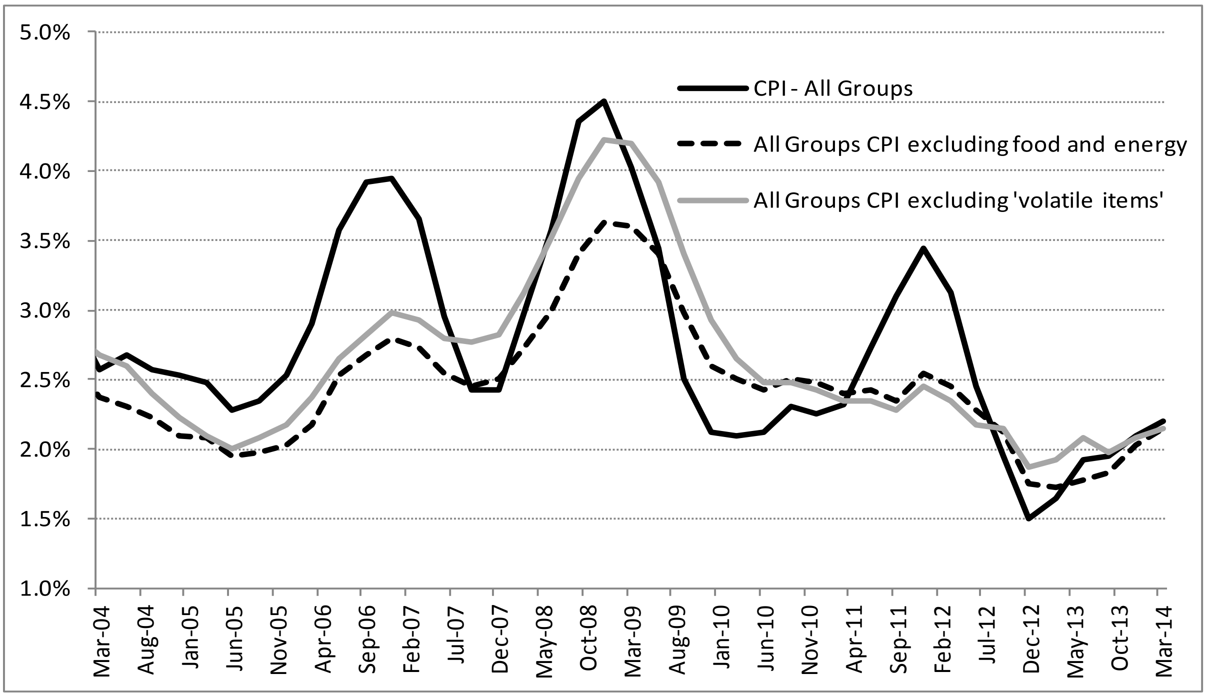
Consumer Prices

The Reserve Bank of Australia expects that national inflation will remain within the 2 to 3 per cent target band over the medium term. Given the outlook for economic growth in 2013-14 and 2014-15, consumer price inflation in Canberra should remain well contained.

Canberra's annual core inflation, as measured by CPI inflation excluding 'food and energy' components and CPI inflation excluding 'volatile items' indicate that price pressures, which were contracting throughout 2012, have increased slightly since the first half of 2013 (Figure 1.3.11).

The forecast moderation in economic activity and wages growth in 2014-15 will keep inflation pressures well contained in 2014-15.

Figure 1.3.11
Canberra's Core Inflation (Year-average growth)



Source: ABS Cat. No. 6202.0

Wages

Wages growth is forecast to moderate to 2½ per cent in 2014-15, consistent with slowing economic activity, spare capacity in the labour market and cost containment by the Commonwealth Government.

Enterprise bargaining at the Commonwealth Government level is also expected to add to subdued wages growth. Concerns over job security and soft inflationary pressures will limit wage negotiations and point to below trend wage growth over the short term. Moreover, the possibility of protracted APS wage negotiations risks pushing potential wage increases for 2014-15 into 2015-16.

While APS associated impacts are expected to be the major inhibitor of wages growth, private sector wage growth is also expected to remain subdued.

Forward Year Projections

Forward year projection parameters are reflected in Table 1.3.2 below. Projections based on these medium-term assumptions are provided for planning purposes only and do not reflect an expectation (forecast) of actual outcomes.

The forward year projection parameters adopted in this Budget reflect reduced average growth rates for the key economic parameters (GSP, SFD, Employment and the Wage Price Index) relative to those used in previous ACT Budgets, in response to the extended period of fiscal tightening indicated by the Commonwealth Government in its 2014-15 Budget.

Table 1.3.2
Economic Projections, Year-Average Percentage Change

	Projections [1]		
	2015-16	**2016-17**	**2017-18**
ACT			
Gross State Product	2½	2½	2½
Employment	1½	1½	1½
State Final Demand	4	4	4
Consumer Price Index	2½	2½	2½
Wage Price Index [2]	3½	3½	3½
Population [3]	1½	1½	1½
Australia			
Gross Domestic Product [4]	3	3	3

Notes:

1. Projections are rounded to a ¼ of a percentage point to reflect the relative level of accuracy used in estimating economic parameters.
2. Total hourly rates of pay excluding bonuses.
3. The population projections reflect Chief Minister and Treasury Directorate estimates. The estimates are based on the rate of growth from the June quarter compared to the June quarter of the previous year, rather than 'year average' as with all other projections.
4. 2015-16 is a forecast year in the 2014-15 Commonwealth Budget.

1.4 ECONOMIC STRATEGY

Economic Strategy

The Government's economic strategy is to grow the economy, encourage job creation, improve the competitiveness of the ACT and support the community. The 2014-15 ACT Budget is framed around these key principles.

The Government is implementing a range of policy reforms to achieve its economic strategy, including through improving the efficiency and fairness of the ACT taxation system.

The Commonwealth's contraction of employment and spending poses a significant downside risk to the ACT economy (see section 1.5 below). As a result, the Government is taking an explicit and targeted approach to support and diversify – to the extent that it can – the ACT economy and ACT community. The Government is balancing economic initiatives with social goals, rather than viewing economic goals as an end in themselves.

The Government's fiscal strategy aligns with its economic strategy. The Budget is one lever – perhaps the most vital one – that the Government has to support the economy. As such, this Budget has been framed in the context of the Government's aim to support the community and secure the Territory's economic future. However, as the ACT Government comprises less than 10 per cent of the economy, measures need to be targeted.

Instead of cutting spending and adding to the negative impact of the Commonwealth's decisions in the ACT, the Government is investing in Canberra to minimise the impact of the Commonwealth Government's fiscal consolidation. Rather than add to economic uncertainty in the ACT by attempting to return to a net operating balance more quickly, the Government has chosen instead to invest in Canberra.

Economic strategy – priority areas

Priority areas of the Government's economic strategy are: creating jobs, providing frontline services, providing key infrastructure, and continuing reforms.

These are priorities across the wide range of Government activity, including in this Budget.

Supporting job growth

In this Budget, the Government will maintain the size of the Territory public service, invest in transformational and long term infrastructure, continue to implement the Business Development Strategy and encourage growth. This will keep funds flowing through the economy and support the private sector to maintain and expand its employment base.

Government initiatives will be aimed at stimulating the economy, providing confidence and seeking new investment. These activities include supporting key sectors of the economy which drive growth such as the information and communications technology sector, higher education and tourism (including implementing our Tourism 2020 strategy). The Government is also attracting further investment to Canberra, supporting local businesses and encouraging innovation through a range of measures under the Business Development Strategy. In addition, the Digital Canberra strategy will help local businesses in a range of sectors to access new customers and markets through engaging in the digital economy.

On 6 March 2014, the Government announced a package of initiatives designed to provide confidence and economic stimulus for the ACT building and construction industry. The initiatives include the release of four civil contracts for estate works in Moncrieff, reforms to the lease variation charge (LVC), reforms to extension of time (EOT) commence and complete development fees, and measures to facilitate major projects across the ACT.

The Government is also involved in numerous major projects across the Territory, such as the redevelopment of the Woden Bus Interchange, construction of a new Gungahlin Office Building for the ACT Public Service, improved facilities for Emergency Services and a range of significant capital works to support land release in Molonglo. There are a number of significant estate developments either underway or about to commence, including greenfield estates at Coombs, Denman Prospect, Moncrieff, Throsby and West Belconnen and infill estates at Amaroo, Campbell, Lawson, Greenway and Kingston Foreshore.

Delivery of capital works supporting land release assists in protecting jobs in the ACT by maintaining a program that directly supports design consultancies and engineering construction, as well as providing the infrastructure necessary to facilitate private sector investment and development. The release of land across Canberra also helps the local building and construction sector by providing access to land for new dwellings.

Canberra is also a hub for a large regional economy, with about 800,000 people living within a two-hour drive of the ACT. The Government will continue to work collaboratively with our regional counterparts to pursue opportunities for economic growth.

The Government's infrastructure program of $2.5 billion over the coming four years will further contribute to job growth (refer to Infrastructure and Capital (Chapter 5) for more information). The Government's spending on new and continuing capital works will create direct jobs and contribute to broader flow-on growth in the economy.

Service Delivery

The Government will maintain spending on services. This is a core economic strategy to maintain the Government's level of spending in the economy; to withdraw funding now would compound the Commonwealth's cuts. Further, continuing reform and investment ensures residents receive high quality services, ensuring productivity and growth over the longer term. Further details on initiatives and overall funding for particular areas is located in New Initiatives (Chapter 3).

The Digital Canberra Strategy was announced in March 2014. It outlines the Government's vision to develop and promote Canberra as a modern, dynamic, digital city and is backed by an investment of $4.4 million. The Government is also investing a significant amount into improving the quality and efficiency of services through a wide range of information and communications technology initiatives, such as iConnect, emergency services response capability systems, a courts and tribunal management system, hybrid cloud computing, invoice automation, revenue collection transformation and human resources information management systems upgrades.

Economic reform

The Government is also stimulating activity in the economy through its program of tax reform, particularly the phasing out of conveyance duty.

In this Budget, the Government is announcing an acceleration in the reform agenda for payroll tax, to provide support to local business. The payroll tax threshold will increase from $1.75 million to $1.85 million in 2014-15. The rate of payroll tax of 6.85 per cent will remain.

The Over 60s Home Bonus will provide eligible recipients with the opportunity to benefit from a concession on the conveyance duty associated with the purchase of a house or land. The scheme will run for two years commencing on 4 June 2014.

This expansion will provide assistance to non-pensioners who have previously been unable to access the scheme and who may find conveyance duty an impediment to downsizing and moving to accommodation more suited to their needs. This initiative will also help free up larger housing stock for families, bringing broader flow-on benefits to the property market and in particular to housing affordability.

Tax reform will also bring longer term benefits to the ACT economy. Abolishing inefficient taxes, and replacing them with more efficient means of raising revenue, will deliver significant economic benefits through the reduction in administrative burden and costs associated with their collection.

1.5 RISKS TO THE ECONOMIC OUTLOOK

Commonwealth Government fiscal restraint and downsizing remain the key down-side risks for the Territory's economic outlook. The economic forecasts face the risk of lower-than-expected Commonwealth Government spending, APS job cuts and the possibility of protracted APS wage negotiations that could see a delay in wage increases.

The 2014-15 Commonwealth Budget is expected to suppress economic growth in the short-to-medium term, largely as a result of cuts to spending and jobs in Commonwealth Government departments in the ACT. The 'budget repair strategy' is anticipated to have a disproportionally large impact on the ACT economy as public consumption and investment are significant components of economic growth.

The Australian economy continues to face global risks tilted towards the downside, which could have a significant impact on domestic economic growth, employment and income. Challenges faced by the global economy include the exit of a low inflationary environment in the Euro area, alongside geopolitical uncertainty in the Ukraine and Thailand, slower than expected growth in Asia – specifically in Japan and China – and the gradual tapering of quantitative easing in the United States. Any changes to global economic conditions will impact the ACT through financial, trade, tourism and confidence channels.

The accommodative stance taken by the Reserve Bank of Australia is expected to support domestic economic growth as the economy transitions to more balanced growth. However, the risk of a larger-than-expected fall in mining investment remains. The elevated Australian dollar continues to have an adverse impact on certain areas of the economy, which could limit job growth particularly in export oriented sectors, such as manufacturing and some service sectors, such as international education and tourism. Furthermore, with the release of the Commonwealth Government Budget, lower consumer confidence is expected to place downward pressure on economic growth.