AUSTRALIAN CAPITAL TERRITORY GOVERNMENT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

The Management Discussion and Analysis reflects the consolidated Total Territory financial results.

Administrative changes

From 1 October 2018, the Health Directorate separated into two distinct organisations with the Canberra Health Services responsible for ACT Health's clinical operations and the ACT Health Directorate responsible for strategic policy and planning.

The Public Sector Workers Compensation Fund (PSWC fund) was established under the *Public Sector Workers Compensation Fund Act 2018* (the Act) and commenced operations on 1 March 2019. The PSWC fund ensures effective management of the Territory's workers' compensation assets and liabilities.

Total Territory financial performance

Table 1.1 shows the Uniform presentation framework (UPF) net operating balance for the Total Territory is a deficit of $236.9 million, which is $105.5 million higher than the 2018-19 Budget forecast deficit of $131.4 million and $194.4 million higher than the 2017-18 deficit of $42.5 million.

The 2018-19 net operating balance outcome was influenced by a number of non-cash related impacts including a reduction in the superannuation liability discount rate and the recognition of expenses that were forecast to be capitalised. These impacts are discussed further at expenses below.

Table 1.1: Total Territory operating result

	2018-19 Actual $'000	2018-19 Original Budget $'000	2017-18 Actual $'000
Total revenue	6,034,410	6,077,179	5,692,041
Total expenses	6,271,307	6,208,551	5,734,488
UPF net operating balance	**-236,897**	**-131,372**	**-42,447**
Economic inflows/(outflows)	34,437	233,984	289,777
Operating surplus/(deficit)	**-202,460**	**102,612**	**247,330**

Major variances in the Territory's operating result are explained below.

Revenue

Total revenue of $6,034.4 million in 2018-19 was $42.8 million (0.7 per cent) lower than the 2018-19 Budget estimate of $6,077.2 million. The reduction in revenue is primarily due to a decrease in the value of Large-scale generation certificates and lower gains from contributed assets from private developers related to a decline in property market conditions. The lower revenue was also attributed to a decrease in land revenue, predominantly due to a decline in market conditions impacting settlements for single residential blocks.

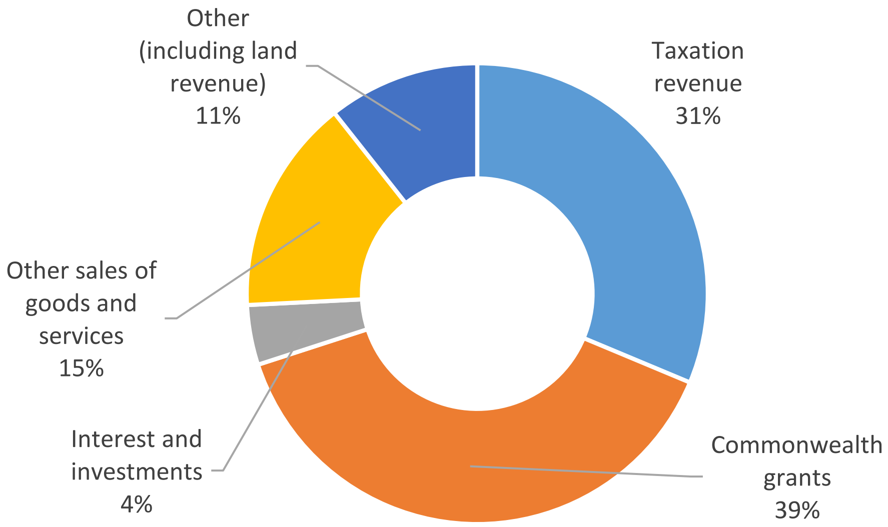
These decreases were partially offset by an increase in taxation revenue of $36.9 million associated with higher payroll tax driven by growth in the payroll tax base.

Revenue – continued

Total revenue in 2018-19 was $342.4 million (6 per cent) higher than the 2017-18 result of $5,692.0 million. This was mainly due to an increase in payroll tax, primarily due to growth in the payroll tax base, and higher general rates revenue, largely due to tax reform which is working towards replacing conveyance duty with general rates over the long-term.

Chart 1.1 below demonstrates the majority of the Territory's revenue is from Commonwealth grants (39 per cent) followed by taxation (31 per cent).

Chart 1.1: Total Territory revenue sources



Expenses

Total expenses in 2018-19 of $6,271.3 million was $62.7 million (1 per cent) higher than the 2018-19 Budget estimate of $6,208.6 million. The increase in expenditure was mainly due to higher other operating expenditure as a result of the recognition of expenses totalling $99.9 million for underground utilities diversions for Light Rail Stage 1 and costs such as landscaping, demolition and planning relating to other projects which were budgeted to be capitalised.

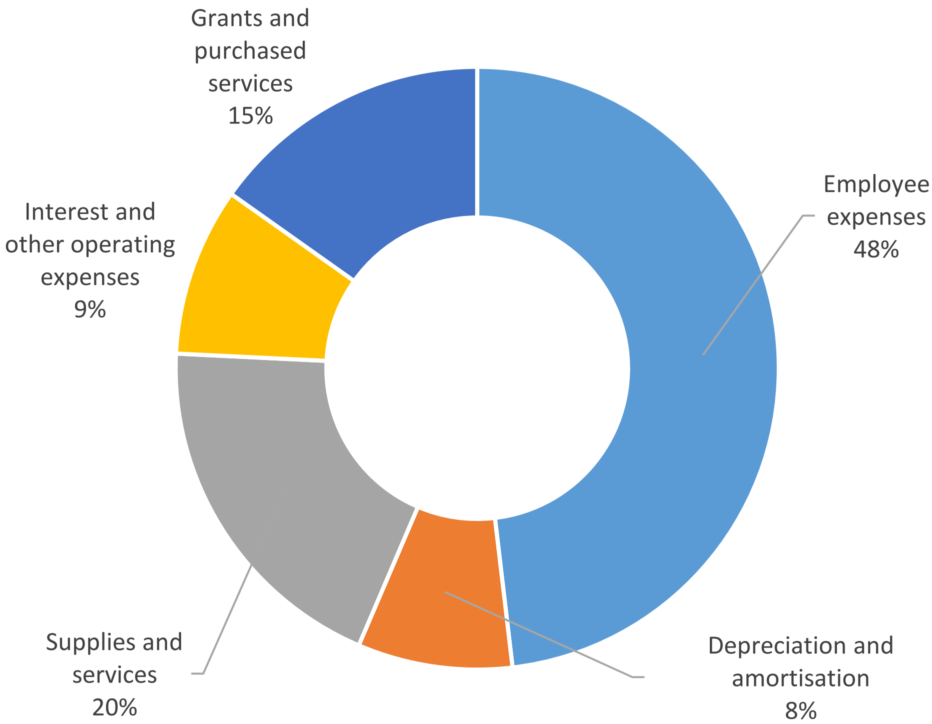
Total expenses increased by $536.8 million (9.4 per cent) from the 2017-18 outcome of $5,734.5 million. This increase was impacted by the higher other operating expenses described above.

The increase compared to 2017-18 was also impacted by higher employee expenses ($118.1 million) and supplies and services expenses ($92.0 million) associated with growth in health services, combined with higher superannuation expenses ($55.8 million) mainly due to a reduction in the superannuation liability discount rate from 3.11 per cent at 30 June 2018 to 1.92 per cent at 30 June 2019.

Chart 1.2 shows the largest percentage of the Territory's expenses is employee related costs (48 per cent).

Expenses – continued

Chart 1.2: Total Territory areas of expenditure



Financial position

Table 1.2: Total Territory key balance sheet measures

	2018-19 Actual $'000	2018-19 Original Budget $'000	2017-18 Actual $'000
Financial assets	8,416,511	6,871,205	7,209,579
Non-financial assets	26,009,704	25,649,655	24,354,186
Total assets	34,426,215	32,520,860	31,563,764
Total liabilities	19,816,179	14,575,302	15,760,065
Net assets	**14,610,035**	**17,945,558**	**15,803,699**
Net financial liabilities	**12,431,385**	**8,728,014**	**9,552,799**
Net debt (excluding superannuation related investments)	**3,692,927**	**3,743,778**	**2,804,365**

Net assets at 30 June 2019 of $14,610.0 million was $3,335.5 million (18.6 per cent) lower than the 2018-19 Budget estimate of $17,945.6 million, and $1,193.7 million (7.6 per cent) lower than the 2017-18 result of $15,803.7 million. This variation is largely due to the movements in net financial liabilities and net debt explained below.

Financial position - continued

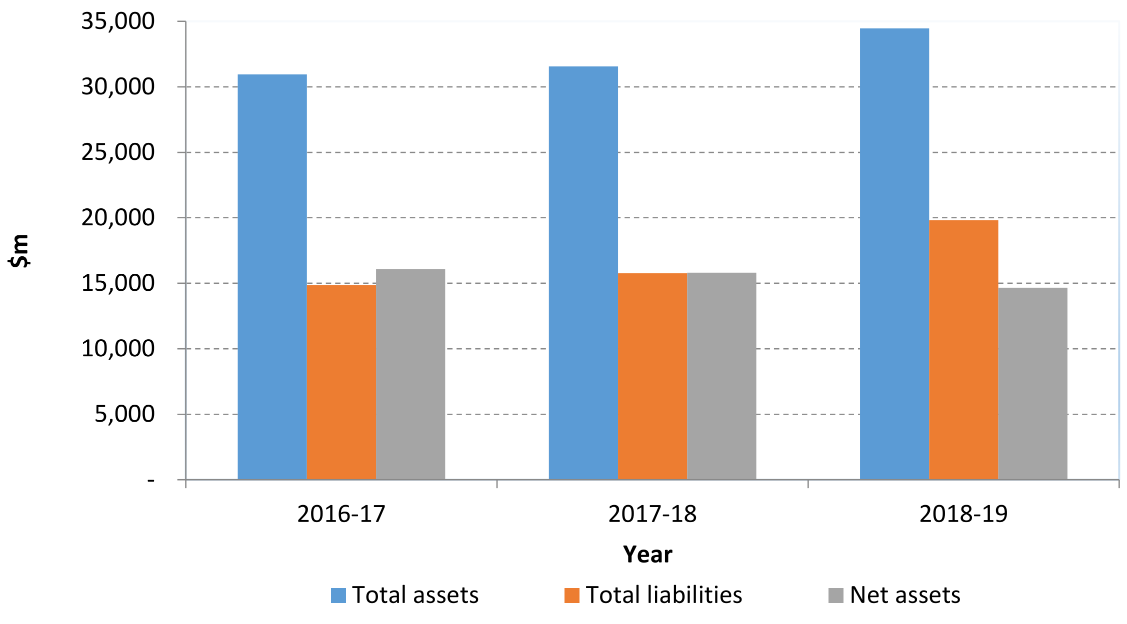
Net financial liabilities (NFL) at 30 June 2019 were $12,431.4 million, which is $3,703.4 million (42.4 per cent) higher than the 2018-19 Budget estimate of $8,728.0 million and $2,878.6 million (30.1 per cent) higher than the 30 June 2018 result of $9,552.8 million. The increase in NFL is mainly attributed to the increase in superannuation liabilities as a result of the discount rate falling from 5 per cent in the Budget estimate and 3.11 per cent at 30 June 2018 to 1.92 per cent at 30 June 2019. The use of a lower discount rate increases the liability valuation[a]. The increase is also attributed to the recognition of lease liabilities for Light Rail Stage 1 ($323.6 million) and the ACT Courts Facilities ($106.6 million) Public Private Partnerships.

Net debt at 30 June 2019 of $3,692.9 million was $50.9 million (1.4 per cent) lower than the 2018-19 Budget estimate of $3,743.8 million. This decrease was influenced by higher cash and investment balances mainly as a result of new borrowings undertaken for the 2019-20 estimated borrowing program. This impact was forecast as part of the updated 2018-19 estimated outcome in the 2019-20 Budget.

Net debt was $888.5 million (31.7 per cent) higher than the 30 June 2018 result of $2,804.4 million. This was mainly due to the increase in lease liabilities as a result of the PPP's described above and higher other borrowings undertaken to fund the delivery of infrastructure initiatives.

Chart 2.1 below demonstrates the Territory's assets and liabilities over time displaying the increase in the liabilities described above.

Chart 2.1 Total Territory balance sheet



Note (a): In accordance with the requirements of AASB 119, the superannuation liability valuation is based on the Commonwealth Government Bond rate. This rate has decreased over the 2018-19 financial year. A lower discount rate increases the present value estimate of the superannuation liability. The superannuation liability valuation estimate uses a long-term set of financial and demographic assumptions, including the use of a long-term discount rate assumption, in order to maintain a consistent approach to the presentation of the superannuation liability estimate.

Total Territory - Infrastructure program

Table 1.3 below shows the capital works program outcome.

Table 1.3: Total Territory capital works program

	2018-19 Actual $'000	2018-19 Original Budget[(a)] $'000	2017-18 Actual $'000
Capital works program	641,795	789,035	656,815

Note (a): The Original Budget includes funding adjustments associated with Section 16B rollovers, Commonwealth Government funding and other program technical movements.

The 2018-19 whole-of-government capital works program (the Program) investment for the Territory was $641.8 million. The 2018-19 Budget included a Capital Delivery Provision of $148 million, which adjusts (i.e. reduces) the forecast spend to align estimates based on historic performance. The Program's performance, taking into account the Capital Delivery Provision, was 100 per cent.

Compared to the 2018-19 Budget estimate, excluding the Capital Delivery Provision, the Program investment was $147.2 million (18.7 per cent) less than the forecast of $789.0 million.

Program underspend is commonly associated with weather delays, site sub-surface risks and regulatory approval timing.

Major infrastructure investments completed in 2018-19 included (but were not limited to):

- Caring for our Environment – Lake Tuggeranong Water Quality Improvement – Stage 2;
- Narrabundah Ballpark Upgrade – Best little ballpark in Australia;
- Better Roads for Gungahlin – Gungahlin town centre road network improvements;
- Better Roads for Gungahlin – Gundaroo Drive duplication – Stage 1;
- ACT Law Courts Facilities (Public Private Partnership) Stage 1; and
- More services for our suburbs – Nicholls Neighbourhood Oval upgrades.

In April 2019, Light Rail Stage 1 also became fully operational and is delivered under a Public Private Partnership arrangement.