AUSTRALIAN CAPITAL TERRITORY GOVERNMENT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED 30 JUNE 2021

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

The ongoing impacts of COVID-19 have continued to challenge the Territory in 2020-21. The Territory has provided significant financial support to the community and business in response to the pandemic, resulting in increases in expenses as compared to 2019-20. Further information can be found in the Expenses section below.

The Territory's key fiscal measures have 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 $658.2 million, which is $221.0 million (25.1 per cent) lower than the Budget estimate deficit of $879.2 million and $303.3 million (31.5 per cent) lower than the 2019-20 deficit of $961.5 million. More detailed information on these variances can be found below.

Administrative Changes

The ACT Public Cemeteries Authority was renamed to the Cemeteries and Crematoria Authority on 10 September 2020 as part of the Financial Management (Territory Authorities) Guidelines 2020 (No 2) Disallowable Instrument (DI2020-273). This change reflected the enactment of the *Cemeteries and Crematoria Act 2020* which commenced on 23 August 2020.

On 1 July 2020, the Office of the Work Health and Safety Commissioner (known as WorkSafe ACT) established a new governance structure for the regulator under the *Work Health and Safety Act 2011* as amended by the *Work Health and Safety Amendment Act 2019* (A2019-38) commencing on 5 December 2019. The Financial Management (Territory Authorities prescribed for Outputs) Guidelines 2020 prescribed WorkSafe ACT as a Territory Authority.

Table 1.1: Total Territory Operating Result 2020-21

	2020-21 Actual $'000	2020-21 Budget $'000	2019-20 Actual $'000
Total revenue	6,675,698	6,439,098	5,849,981
Total expenses	7,333,914	7,318,258	6,811,472
UPF net operating balance	**(658,216)**	**(879,160)**	**(961,491)**
Economic inflows/(outflows)	780,852	469,591	(5,853)
Operating surplus/(deficit)	**122,636**	**(409,569)**	**(967,344)**

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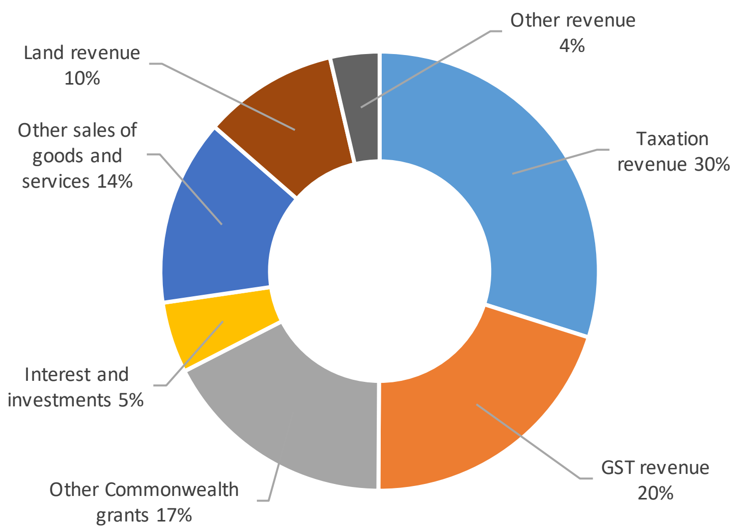
Revenue

Total revenue of $6,675.7 million for the 2020-21 financial year was $236.6 million above the 2020-21 Budget estimate of $6,439.1 million. This variance is mainly due to increased GST revenue from stronger national consumption driving growth in the GST pool. This is also due to higher taxation revenue largely due to stronger than expected property market activity, reflecting higher transaction volumes and prices across the established property market, increased payroll tax attributable to improved labour market outcomes in the first half of the financial year and higher motor vehicle registration revenue.

Total revenue in 2020-21 was $825.7 million (14.1 per cent) higher than the 2019-20 financial year result of $5,850.0 million. These variances are mainly due to higher levels of land sales relating to a record volume of land releases and settlements in Molonglo, Gungahlin and West Belconnen, an increase in Commonwealth grants and GST revenue associated with stronger national consumption spending and some new National Partnership agreements for local roads and community infrastructure. The increase is also attributed to higher own-source taxation revenue reflecting stronger than expected property market activity and recoveries from reinsurers for claims against property.

Chart 1.1 below demonstrates 37 per cent of the Territory's revenue is from Commonwealth grants, including GST, followed by 30 per cent from own source taxation revenue. This is broadly consistent with 2019-20.

Chart 1.1: Total Territory Revenue Sources 2020-21



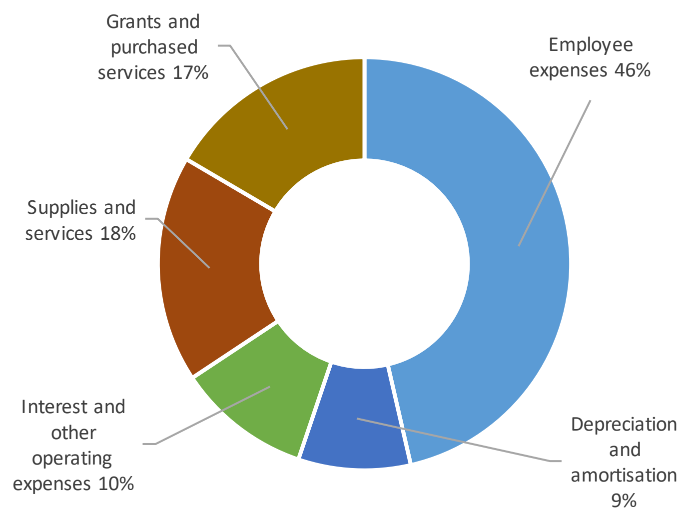
Expenses

Total expenses in 2020-21 of $7,333.9 million is broadly in line with the 2020-21 Budget estimate of $7,318.3 million.

Total expenses increased by $522.4 million (7.7 per cent) from the 2019-20 outcome of $6,811.5 million. This variance is largely due to higher cost of goods sold expense reflecting the higher level of land sales mentioned above and higher employee expenses associated with growth in services across the Territory in response to the COVID-19 pandemic including the public health response and Jobs for Canberrans program. The increase also includes expenses for the creation of a provision to surrender future large-scale generation certificates to meet the Government’s renewable energy targets.

Chart 1.2 demonstrates the largest proportion of the Territory's expenses is for employee related costs (46 per cent) which is consistent with 2019-20.

Chart 1.2: Total Territory areas of expenditure 2020-21



Financial Position

Table 1.2: Total Territory Key Balance Sheet Measures 2020-21

	2020-21 Actual $‘000	2020-21 Budget $‘000	2019-20 Actual $‘000
Financial assets	10,460,137	9,454,070	9,164,851
Non-financial assets	29,049,382	27,955,554	27,098,517
Total assets	39,509,520	37,409,625	36,263,368
Total liabilities	25,270,1817	20,243,584	22,686,198
Net assets	**14,239,3381**	**17,166,041**	**13,577,170**
Net financial liabilities	**15,777,988**	**11,836,965**	**14,565,118**
Net debt	**6,184,297**	**6,696,141**	**5,233,773**

Financial Position – continued

Net assets at 30 June 2021 of $14,239.3 million were $2,926.7 million (17.0 per cent) lower than the 2020-21 Budget estimate of $17,166.0 million, and $662.2 million (4.9 per cent) higher than the 2019-20 result of $13,577.2 million.

The variance to the 2020-21 Budget is mainly due to an increase in the defined benefit superannuation liability valuation. The valuation increased due to the use of a lower discount rate (2.26 per cent) compared to the forecast long-term discount rate assumption of 5 per cent. The use of a lower discount rate assumption increases the present value estimate of the superannuation liability. This was partially offset by an increase in the valuation of the Housing ACT and the ACT Property Group portfolios.

The increase in net assets from 2019-20 to 2020-21 is largely due to the property revaluations mentioned above. This is partially offset by a change in the defined benefit superannuation liability valuation as a result of the latest triennial actuarial liability valuation review using the latest salary and membership data and the use of increased inflation and salary growth financial assumptions, offset by a higher discount rate assumption of 2.26 per cent, compared to 1.73 per cent at 30 June 2020.

Net financial liabilities at 30 June 2021, were $15,778.0 million. This is $3,941.0 million (33.3 per cent) higher than the 2020-21 Budget estimate of $11,837.0 million and $1,212.9 million (8.3 per cent) higher than the 30 June 2020 result of $14,565.1 million.

The increase compared to the 2020-21 Budget estimate largely reflects the increase in the defined benefit superannuation liability valuation described above.

The increase compared to the 30 June 2020 result mainly reflects a change in the defined benefit superannuation liability valuation as a result of the latest triennial actuarial liability valuation review as described above.

Net debt at 30 June 2021 was $6,184.3 million. This is $511.8 million lower than the 2020-21 Budget estimate of $6,696.1 million, but $950.5 million higher than the 30 June 2020 result of $5,233.8 million.

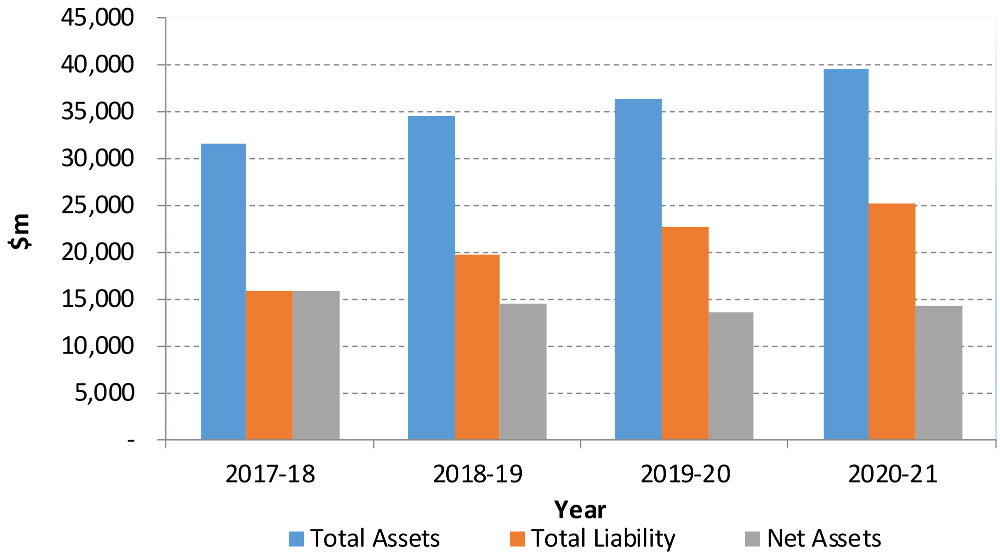
The decrease compared to the 2020-21 Budget estimate is mainly due to actual revenue exceeding the budget estimates as described above and is also attributed to the deferral of capital expenditure from 2020-21 to future years.

The increase compared to the 30 June 2020 result is largely due to a higher level of borrowings reflecting the Territory's COVID-19 response, prevailing cash flow requirements and higher lease liabilities as a result of completion of the Civic office building in January 2021.

Chart 2.1 demonstrates the Territory's assets and liabilities over the period 2017-18 to 2020-21.

Financial Position – continued

Chart 2.1: Total Territory Assets and Liabilities 2020-21



Total Territory – Infrastructure Program

Table 1.3: Total Territory Capital Works Program 2020-21

	2020-21 Actual $'000	2020-21 Budget $'000	2019-20 Actual $'000
Capital works program	708,851	912,243	603,764

The 2020-21, the capital works program (Program) annual budget totalled $912.2 million.

Following formalisation of funding variations, program savings and noting that the rollover of unspent funds from 2019-20 were able to be incorporated into the 2020-21 Budget due to its later release in February 2021 as a result of COVID-19 pandemic, total funds available to spend for the 2020-21 Program totalled $906.4 million.

The outcome of the 2020-21 Program was a total infrastructure spend for the Territory of $708.9 million, or 78 per cent of the total funds available within the Program.

Program underspend is commonly associated with weather delays, utility relocation, environmental and regulatory approval timing. However, the delivery of the 2020-21 Program was further affected by material and labour supply constraints due to the COVID-19 pandemic.

Total Territory – Infrastructure Program – continued

In 2019-20, a Capital Works Reserve was established. This Reserve allows agencies with multi-year budget allocations for capital works to draw on their future funding if their capital expenditure in a budget year exceeds their allocation for that year. For example, if projects can be delivered more quickly than scheduled, agencies may access future years' funding through the reserve to maintain the pace of progress, while staying within the overall project cost envelope. The amount available in the Capital Works Reserve in 2020-21 was $150 million. This reserve was drawn against in 2020-21 to advance specific projects being undertaken by Major Projects Canberra.

Major infrastructure investments physically completed in 2020-21 included (but were not limited to):

- Molonglo Enabling Works – John Gorton Drive 3C design and construction;
- Growing and renewing more public housing – Stage 1;
- Improved Infrastructure for Acute Aged Care and Cancer Inpatients – Ward 14B;
- Community, Health and Hospitals Program – Intensive Care Unit Expansion; and
- Caring for our Environment – Water Quality Improvement – Contributions to the ACT Healthy Waterways Project – Stage 1.