

# INTRODUCTION

---

## Budget Strategy

Since taking office in 2001, the Government has managed the public finances in a prudent and fiscally responsible manner. Through sustained operating surpluses and targeted investments, the Government has built a strong balance sheet and provided scope to reduce the effect of economic shocks, such as the global financial crisis, on the ACT. Over this time, the ACT economy has grown strongly, with our output increasing by an annual average of 3.2 per cent in real terms, notably higher than for Australia as a whole.

The Government is continuing this record of sound financial management in the 2014-15 Budget. The Government has designed its budget strategy around the key principles of:

- sustaining a strong operating balance over the medium term;
- using its strong balance sheet to invest in important city transformation projects; and
- supporting the Territory economy in the short term following the significant contraction in the Commonwealth public service.

Designing the fiscal strategy around achieving an operating balance over the medium term provides the Government with the necessary flexibility to manage economic shocks. The ACT Government does not borrow funds to pay for the operating costs associated with the necessary services it provides to the public. The Government is continuing to forecast cash operating surpluses throughout the forecast period. Moreover, the new expense initiatives in this Budget are largely offset by savings and revenue initiatives.

The Government has invested heavily in infrastructure in recent years to provide better services, support economic growth and improve our city. The ACT Government will use its strong balance sheet to continue to invest in transformational infrastructure projects.

These infrastructure projects will maintain our record levels of investment over the next four years – a strategy designed to create jobs and keep our economy strong. In the wake of the Commonwealth fiscal contraction, there has never been a more important time to invest.

General government sector net debt will increase as a result of funding these projects – but our debt levels will remain both responsible and comparable with other States and Territories. Importantly, the increase in debt will be used to fund important infrastructure that will continue to deliver benefits over time.

Net Financial Liabilities as a share of Gross State Product will also start to decline in the forward years as the budget returns to balance and as the Government begins to divest assets that are no longer appropriate, or efficient, for the Territory to operate.

## Overview of the 2014-15 Budget

The 2014-15 Budget is about investing in Canberra. Never before has it been more important that the ACT Government invest in our economy, invest in our people and invest in jobs.

This budget has been framed in the context of significant uncertainty flowing from the progressive contraction of spending and a significant reduction in employment by the Commonwealth Government. The Commonwealth Government Budget states that there will be an estimated 16,500 job losses over the four years to 2016-17. It is estimated that 6,500 jobs will be lost in the ACT over this period.

The actions by the Commonwealth are having a significant negative effect on our economy. Accordingly, the ACT Government is forecasting subdued economic growth in the Territory with State Final Demand now expected to grow at 1¼ per cent in 2014-15 and year on year employment growth expected to be ½ per cent, well below its long-term trend of around 1¾ per cent. These movements are illustrated in Table 1 below.

**Table 1**  
**Economic Forecasts, Year Average Percentage Change**

ACT	Actual	Forecasts	
	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	3.7	2¾	2½
Population	1.7	1½	1½
<b>Australia</b>			
Gross Domestic Product	2.6	2¾	2½

As a result of the decisions of the Commonwealth Government to significantly reduce the size of the Australian Public Service and the subsequent impacts, the ACT Government has written down the overall size of its Indicative Residential Land Release Program by 3,000 dwelling sites across the next three years.

To continue its commitment to build and transform the ACT economy and provide some stability in an uncertain economic environment, the ACT Government is investing in Canberra in its 2014-15 Budget.

The Government's 2014-15 Budget makes provision for \$2.5 billion of capital works. This investment will stimulate economic activity and generate employment as well as build the infrastructure Canberra needs to prosper in its second century. Key investments include health and education infrastructure, a new courts facility, public transport, local shopping centre upgrades, road construction and emergency services improvements. Work in relation to the transformational projects initiated in the 2013-14 Budget, namely City to the Lake, Capital Metro and associated urban renewal will continue, with the Government considering delivery and design options.

The Government is also continuing to invest in providing essential services to the people of Canberra. The new expense and capital policy initiatives announced in this Budget – worth \$182.7 million (net of the health funding envelope) and \$415.2 million over one and four years respectively – will support the transition to the National Disability Insurance Scheme (NDIS), expand the health service to make Canberrans even healthier and meet growth in demand, improve the delivery of social services, reduce recidivism and enhance the capacity of our courts system. The Government will also invest in improving our public amenity, parks and city services, promote the ACT as an innovative business centre, and invest in a strong digital future.

The Government is maintaining its prudent approach to managing the public finances. The net operating balance is expected to be in deficit by \$332.8 million in 2014-15, but that deficit is forecast to progressively fall over the forward estimates until a surplus is achieved in 2017-18.

This return to balance reflects the fact that the Government has largely offset the financial impact of its new spending initiatives by savings and revenue initiatives over the next four years. As a result, the increase in the deficits over the forward estimates period has largely arisen from factors outside the Government's direct control.

The Government will generate savings through improving the efficiency of service delivery across government by making greater application of online technology, digital innovation, and red tape reduction.

As noted, the increase in the deficit in 2014-15 largely reflects a combination of factors outside the Government's direct control, including the reduction in expected Commonwealth health grants and the reduction in revenue from the land release program as a result of falling Commonwealth employment. These two factors alone have added over \$80 million to the net operating deficit in 2014-15.

The Government continues to maintain a strong balance sheet. At the end of 2014-15, Net Worth is expected to be \$16.7 billion. Reflecting the Government's investment in Canberra, Net Financial Liabilities is forecast to be \$4.4 billion and net debt \$1.2 billion. Key fiscal aggregates associated with the 2014-15 Budget are presented in Table 2 below.

**Table 2**  
**General Government Sector Headline Net Operating Balance**

	2013-14 Est. Outcome \$m	2014-15 Budget \$m	2015-16 Estimate \$m	2016-17 Estimate \$m	2017-18 Estimate \$m
Revenue	4,245.1	4,411.9	4,653.7	4,912.1	5,177.6
Expenses	4,586.2	4,858.3	4,894.7	5,070.7	5,242.4
Superannuation return adjustment <sup>1</sup>	75.8	113.7	123.2	132.4	142.2
<b>HEADLINE NET OPERATING BALANCE</b>	<b>-265.3</b>	<b>-332.8</b>	<b>-117.8</b>	<b>-26.3</b>	<b>77.5</b>
<b>Net Cash from Operating Activities</b>	449.9	189.9	393.3	561.1	622.7
<b>Net Debt (excluding superannuation)</b>	527.3	1,227.5	1,614.7	1,705.0	1,799.0
<b>Net Financial Liabilities</b>	3,677.5	4,435.6	4,857.8	4,997.5	5,111.1

**Note:** Table 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 Chapter 2.

