The 2016-17 Management Discussion and Analysis represents the consolidated ACT Government's Total Territory financial results.

Risk Management
The ACT economy will always have a degree of uncertainty as a result of the future policy settings of the Federal Government.

ACT Economy in 2016-17
The ACT economy has performed well across a range of key economic measures, and is on track in meeting the 2017-18 Budget estimate of 3¼ per cent growth in Gross State Product in 2016-17.

The strength of the ACT economy has been demonstrated by recent outcomes of economic activity, as indicated by State Final Demand (SFD). The most recent data shows that in year average terms, SFD in the ACT grew by 5.1 per cent in 2016-17 – consistent with the estimated outcome of 5 per cent in the 2017-18 Budget. The strong 2016-17 outcome was broadly-based, with all components of SFD contributing positively to growth.

In 2016-17, the labour market improved, with employment growth reaching 1.2 per cent, in line with the estimated outcome of 1¼ per cent in the 2017-18 Budget. The unemployment rate remained low at 4.4 per cent in June 2017.

The ACT’s population also continued to rise, increasing by 6,825 people over the year to December 2016 (up 1.7 per cent from December 2015).

The Economic Outlook
Looking forward, the ACT economy is expected to continue to expand, with economic growth forecast to reach 2¼ per cent in 2017-18.

Administrative Changes
There have been no administrative changes in 2016-17 that affect the Total Territory.
Management Discussion and Analysis
for the Financial Year Ended 30 June 2017

Highlights
The Uniform Presentation Framework (UPF) Operating Result for the Total Territory is a deficit of $237 million, which is lower than the Budget deficit of $371 million by $134 million (36.1 per cent) and lower than the 2015-16 deficit of $373 million by $136 million (36.5 per cent).

Total revenue for 2016-17 of $5,436 million was $323 million (6.3 per cent) higher than the 2015-16 result of $5,113 million. This was mainly due to an increase in taxation and Commonwealth grants.

Total expenses for 2016-17 of $5,673 million was $187 million (3.4 per cent) greater than the 2015-16 outcome of $5,486 million. This was mainly attributable to an increase in employee related expenses, and higher grants and purchased services.

Net Financial Liabilities for 2016-17 of $8,697 million were lower by $2,516 million (22.4 per cent) compared to the 30 June 2016 result of $11,213 million, predominantly due to a change in the estimation of the defined benefit superannuation liability.

The Total Territory's Net Debt (excluding superannuation investments) at 30 June 2017 of $2,781 million was broadly in line with the 30 June 2016 outcome of $2,849 million.

Future Trends
In 2017-18 and across the forward estimates, the Territory will continue its focus on mitigating financial risks by maintaining expenditure levels within budget in an environment where pressures on the net cost of service delivery are significant.

The ACT Government's commitment is to a fiscal strategy that achieves an operating balance over time, offsetting temporary deficits with surpluses in other periods.

Across the forward estimates period, the UPF Operating Result is estimated to decline from a peak deficit of $331 million in 2017-18 to a deficit of $214 million in 2020-21.

The Territory's Balance Sheet remains strong across the forward estimates. Net Debt (excluding superannuation investments) is expected to peak at $4,575 million in 2019-20, driven largely by the inclusion of lease liabilities associated with the ACT Law Courts Facilities and Canberra Light Rail Stage 1 Public Private Partnership projects.

Net Financial Liabilities are estimated to peak at $8,536 million in 2020-21 due to forecast growth in the superannuation liability and the inclusion of lease liabilities associated with the two Public Private Partnership projects.
Australian Capital Territory Government
Management Discussion and Analysis for the Financial Year Ended 30 June 2017

Total Territory

Financial Performance

Table 1.1 shows the Territory has a UPF Operating Result deficit of $237 million for 2016-17, which is lower than the Budget deficit of $371 million by $134 million (36.1 per cent) and lower than the 2015-16 deficit of $373 million by $136 million (36.5 per cent). Major variations in total revenue, expenses and economic inflows/(outflows) are explained below.

Table 1.1
Total Territory - Operating Result

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>5,436</td>
<td>5,113</td>
<td>5,384</td>
<td>5,649</td>
<td>5,912</td>
<td>6,153</td>
<td>6,354</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>5,673</td>
<td>5,486</td>
<td>5,755</td>
<td>5,980</td>
<td>6,033</td>
<td>6,374</td>
<td>6,568</td>
</tr>
<tr>
<td>UPF Net Operating Balance</td>
<td>-237</td>
<td>-373</td>
<td>-371</td>
<td>-331</td>
<td>-121</td>
<td>-221</td>
<td>-214</td>
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<tr>
<td>Economic Inflows/(Outflows)</td>
<td>332</td>
<td>2</td>
<td>257</td>
<td>303</td>
<td>181</td>
<td>224</td>
<td>245</td>
</tr>
<tr>
<td>Operating Result</td>
<td>95</td>
<td>-371</td>
<td>-114</td>
<td>-28</td>
<td>60</td>
<td>3</td>
<td>31</td>
</tr>
</tbody>
</table>

As shown below in Chart 1.1, total expenses have exceeded total revenue for the past five financial years.

Chart 1.1
Total Territory - Operating Result
Revenue
Total Territory revenue for the 2016-17 financial year was $5,436 million. As demonstrated below in Chart 1.2, the majority of the Territory’s revenue is from Commonwealth Government Grants (38 per cent) followed by taxation (30 per cent).

Total revenue of $5,436 million for the 2016-17 financial year was broadly in line with the 2016-17 Budget estimate of $5,384 million.

Total revenue in 2016-17 was $323 million (6.3 per cent) higher than the 2015-16 financial year result of $5,113 million. This was mainly due to higher Commonwealth grants of $164 million associated with increased GST revenue due to population growth and the timing of finance assistance grants payments that were brought forward from 2017-18. Taxation revenue also increased by $118 million, associated largely with general growth in the ACT’s taxation base.
Expenses
Total expenses for the 2016-17 financial year was $5,673 million. As shown below in Chart 1.3, the largest percentage of the Territory’s expenses is employee related costs (50 per cent).

Chart 1.3
Total Territory - Areas of Expenditure

Total expenses in 2016-17 of $5,673 million was $82 million (1.4 per cent) less than the 2016-17 Budget estimate of $5,755 million. This mainly reflects lower supplies and services and the slippage of capital projects and the associated expenditure into future years.

Total expenses was $187 million (3.4 per cent) higher than 2015-16 expenses of $5,486 million. This is due to:
* an increase in grants and purchased services of $95 million relating to growth in services for intensive and critical care, emergency department, trauma and stroke services and the Dhulwa Mental Health unit. The increase is also due to higher National Disability Insurance Scheme payments and an increase in the number of children in Out-of-Home-Care; and
* an increase in other superannuation expenses of $92 million due to the annual discount rate used to estimate the present value of the superannuation liability increasing to 3.51 per cent from 2.69 per cent.
Economic Inflows/(Outflows)
The total operating result, which includes economic inflows/(outflows) of $332 million for the 2016-17 financial year was a surplus of $95 million, which is $466 million higher than the 2015-16 deficit of $371 million. This is mainly due to net gains on financial assets arising from an increase in recognised and unrealised gains on superannuation investments driven by the performance of the Australian and international share investments over the financial year. A net loss was recorded in the prior period.

Financial Position

<table>
<thead>
<tr>
<th>Table 2.1</th>
<th>Total Territory - Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Assets</td>
<td>$7,134</td>
</tr>
<tr>
<td>Non-Financial Assets</td>
<td>$23,809</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$30,942</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$14,855</td>
</tr>
<tr>
<td>Net Assets</td>
<td>$16,087</td>
</tr>
<tr>
<td>Net Financial Liabilities</td>
<td>$8,697</td>
</tr>
<tr>
<td>Net Debt (excluding Superannuation related Investments)</td>
<td>$2,781</td>
</tr>
</tbody>
</table>

Net Assets at 30 June 2017 of $16,087 million was $1,365 million (7.8 per cent) lower than the 2016-17 Budget estimate of $17,452 million, and $3,205 million (24.9 per cent) higher than the 2015-16 result of $12,882 million.

Net Financial Liabilities, which include net debt and superannuation liabilities at 30 June 2017, were $8,697 million which is $1,263 million (17 per cent) higher than the 2016-17 Budget estimate of $7,434 million and $2,516 million (22.4 per cent) lower than the 30 June 2016 result of $11,213 million. These variances are mainly due to the change in the estimated defined benefit superannuation liability at 30 June 2017. This estimate is based on a discount rate of 3.51 per cent, compared to 2.69 per cent at 30 June 2016, and a long-term assumption of 6 per cent in the 2016-17 Budget.

Net Debt takes into account gross debt liabilities as well as financial assets (such as cash reserves and investments). Net Debt is calculated as the sum of deposits held, advances received and borrowings, less the sum of cash and deposits, advances paid, investments, loans and placements. Superannuation investments assets and liabilities have been excluded in determining Net Debt.
Financial Position - Continued

Net Debt at 30 June 2017 of $2,781 million was broadly in line with the 30 June 2016 result of $2,849 million, and was $741 million (21 per cent) lower than the 2016-17 Budget estimate of $3,522 million. This was mainly due to higher level of investments and loans associated with higher level of funds held within the Territory Banking Account as a result of end of year timing of capital works expenditure.

Chart 2.1 below demonstrates the Territory's Balance Sheet over time.

![Chart 2.1 Total Territory - Balance Sheet](chart1.png)

Assets

Total assets at 30 June 2017 was $30,942 million. As can be seen from Chart 2.2 below, the majority of the Territory's assets are produced assets (53 per cent) - specifically property, plant and equipment.

![Chart 2.2 Total Territory - Asset Types](chart2.png)
Assets - Continued

Total assets at 30 June 2017 of $30,942 million was $458 million (1.5 per cent) higher than the 2016-17 Budget estimate of $30,484 million. This was mainly due to higher level of investments and loans as discussed previously.

At 30 June 2017, total assets increased by $1,027 million (3.4 per cent) from $29,915 million compared to 30 June 2016. This increase is mainly due to a higher value of property, plant and equipment attributed to an increase in public housing properties (11,821 at 30 June 2017, compared to 11,688 at 30 June 2016) and the revaluation of public housing and education assets. The increase is also reflective of a higher level of net investments for the Superannuation Provision Account as a result of the portfolio achieving a net of fees investment return of 10.22 per cent, compared to 2.66 per cent in 2015-16.

Liabilities

Total Liabilities at 30 June 2017 was $14,855 million. As can be seen from Chart 2.3 below, the majority of the Territory's liabilities are related to superannuation (58 per cent).

Chart 2.3

Total Territory - Liability Types
Liabilities - Continued

Total Liabilities at 30 June 2017 increased by $1,823 million (14 per cent) from the 2016-17 Budget estimate of $13,032 million. This was mainly due to a higher than budgeted superannuation liability arising from the use of a lower discount rate of 3.51 per cent used to estimate the present value of the superannuation liability compared to the current long-term average budget estimate of 6 per cent.

Total liabilities of $14,855 million at 30 June 2017 decreased by $2,178 million (12.8 per cent) compared to the 30 June 2016 result of $17,033 million. This was mainly due to an increase in the estimated value of the superannuation liability at 30 June 2017 due to the use of a discount rate of 3.51 per cent which is higher than the 30 June 2016 rate of 2.69 per cent. A higher discount rate results in a lower superannuation liability.

While the unfunded superannuation position is significant, the defined benefit schemes (CSS and PSS) to which the liability relates is closed to new members. All superannuation liabilities incurred for new employees since 1 July 2005 are fully funded through accumulation scheme arrangements.

In relation to the unfunded liability, a key financial objective of the ACT Government is to extinguish these liabilities by accumulating funds in the Superannuation Provision Account, which are sourced from both annual budget appropriation and investment earnings.

Cash Flows

<table>
<thead>
<tr>
<th>Table 3.1</th>
<th>Total Territory - Cash Flow Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Flows from Operating Activities</td>
<td>$596</td>
</tr>
<tr>
<td>Cash Surplus (+) / Deficit (-)</td>
<td>136</td>
</tr>
</tbody>
</table>

Net Cash Flows from Operating Activities was $596 million, which is $251 million (72.8 per cent) more than the 2016-17 Budget estimate of $345 million and $381 million (177.2 per cent) more than 2015-16 outcome of $215 million. This is mainly due to the increase in taxation and grants revenue as discussed above.

Net Cash Flows from Investments in Non-Financial Assets of -$460 million was $264 million (36.5 per cent) lower than the 2016-17 Budget estimate of -$724 million and $342 million (42.6 per cent) lower than the 2015-16 outcome of -$802 million. The lower outflows are mainly due to the deferral of capital works expenditure for projects such as the University of Canberra Public Hospital, Better Health Services - Upgrading and Maintaining ACT Health Assets, lower payments for Light Rail Stage 1, roads infrastructure, Public Housing projects, and the purchase of land for the Land Rent Scheme.
**Table 4.1**

**Total Territory - Infrastructure Program**

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<tbody>
<tr>
<td>Capital Works Program</td>
<td>$513</td>
<td>$513</td>
<td>$752</td>
<td>$888</td>
<td>$503</td>
<td>$196</td>
<td>$121</td>
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</table>

The 2016-17 Whole-of-Government Capital Works Program Investment for the Territory was $513 million; this was $92 million (15.2 per cent) less than the 2016-17 Budget estimate outcome of $605 million.

Major infrastructure investment during 2016-17 included (total funded project value):

- Urban Renewal Program – Better Public Housing ($546 million);
- Better Health Services – Upgrading and maintaining ACT Health assets ($95 million);
- Caring for our environment – Water Quality Improvement – Contributions to the Basin Priority Project ($77 million);
- Better Roads for Gungahlin – Horse Park Drive Duplication (Mulligans Flat Road to the Federal Highway) ($57 million);
- Better Services – Weston Creek and Stromlo swimming pool and leisure centre ($33 million);
- Better Roads for Weston Creek – Cotter Road duplication (Tuggeranong Parkway to Yarralumla Creek) ($29 million); and
- Better Schools – Investment in Gungahlin School infrastructure ($17 million).

Major infrastructure physically completed during 2016-17 included (total funded project value):

- Transport for Canberra – Majura Parkway ($283 million);
- Alexander Maconochie Centre – Detainee Industries and Activities Enhancement Project ($54 million);
- Secure Mental Health Unit (Dhulwa) ($43 million);
- Constitution Avenue ($42 million);
- Emergency Services Agency Station Upgrade and Relocation – Aranda Station ($16 million);
- Ngunnawal Bush Healing Farm ($11 million); and
- Majura Off Road Shared Path ($10 million).

During 2016-17, there was significant progress on the Public Private Partnerships (PPP) for the ACT Law Courts Facilities and the Light Rail Stage 1 Project. These PPPs are long-term contracts entered into between the Territory and a private sector consortium (the operator) to design, finance, construct and operate/maintain these assets over a concessional term.