

2.2 FISCAL AND ECONOMIC STRATEGY

Economic and Fiscal Strategy

In 2013-14 economic growth is forecast to moderate, from around trend levels in 2012-13, due to continued Commonwealth Government fiscal consolidation, uncertainty weighing on household consumption growth and investment growth expected to proceed at a below-trend pace.

In order to maintain its Budget Plan, and to maintain fiscal discipline, the Government has more than offset the cost of new initiatives in this Budget with savings. The net recurrent cost of new initiatives is \$127.7 million over four years, and savings are \$142.6 million over four years

The Government does however expect a temporary slowdown in revenue growth in the 2013-14 Budget compared to the 2012-13 Budget. Given current economic conditions, and in order to maintain reasonable levels of expenditure and investment, the Government will allow a temporary deterioration in the operating position reflecting the operation of the Budget's automatic stabilizers.

Economic Reform Agenda

The Government has a significant economic reform agenda aimed at supporting economic growth, promoting business activity and setting the ACT on a path of fiscal sustainability to ensure that high quality services can continue to be provided to the community in the long term.

The Government's nation leading Taxation Reform is a bold plan that will stimulate economic activity by removing transaction taxes that create disincentives to invest, live and work in the ACT. Taxation Reform will attract business and skilled labour by improving the mobility of resources.

Taxation Reform is focused on the long term and will help to create a strong, vibrant and diverse business community that attracts and retains skilled labour.

By distancing revenue sources from volatile cyclical movements in the economy, the Government can build a more sustainable fiscal environment for the long-run and provide greater certainty in planning and provision of services.

The ACT Business Development Strategy (BDS) is a long term plan that promotes business activity by encouraging innovation, supporting investment and fostering the right business environment.

The BDS is especially important today in light of current high levels of economic uncertainty and downside risks to the economic outlook.

With the short term economic forecasts pointing to a challenging time ahead for the small to medium business community in Canberra, support from the BDS is timely in helping to keep business owners confident of their future in the ACT.

As part of the BDS the ACT Government has convened a Red Tape Reduction Panel (RTRP), which aims to identify regulations that impose unnecessary burdens, costs or disadvantages on business activity, and to recommend ways to remove and improve outdated, unworkable and illogical regulations.

Other relevant initiatives under the BDS include: increasing the payroll tax threshold; adding a new small business criterion to Requests for Tenders putting a weight against whether the tenderer is a local SME; a 'listening to small business' consultation program to be delivered in partnership with Canberra Business Council and Chamber of Commerce; and establishing InvestACT – a dedicated service responsible for coordinating and facilitating investment across Government.

Canberra has a strong, growing economy, supported by an efficient and sustainable taxation system. The attraction of business and skilled labour drive regional economic growth. The Government is investing in initiatives that make Canberra a progressive, modern city with a sustainable economy that can respond effectively to change.

Initiatives in this budget will specifically target tourism, education and construction sectors.

Fiscal Strategy

The Government remains committed to the principles of responsible financial management.

In the 2013-14 Budget, the Budget Plan target of returning to surplus in 2015-16 has been maintained. The surplus is also maintained in 2016-17.

The Government continues to maintain its fiscal strategy which has been successful in ensuring that priority services are sustainable.

The financial objectives and key measures of this strategy are to:

- achieve a General Government Sector Net Operating Surplus;
- maintain operating cash surpluses;
- maintain an AAA credit rating;
- manage debt prudently and maintain net financial liabilities within the range of all AAA rated jurisdictions;
- fully fund the Territory's unfunded superannuation liability by 2030;
- maintain quality services and infrastructure;
- make targeted investments to achieve strategic objectives of economic growth, reducing future costs and addressing chronic disadvantage; and
- maintain taxation revenues at sustainable levels.

In recognition of the current fiscal environment and the need to maintain reasonable levels of expenditure and investment, the Government has added two new objectives to this strategy:

- to deliver more efficient and productive public services, within tight financial constraints; and
- to build a more productive and competitive economy.

Objective: Achieve a General Government Sector Net Operating Surplus

The Government's objective is to achieve a net operating surplus: temporary deficits must only occur if they are offset by surpluses at other times.

The Government adopted a Budget Plan in the 2009-10 Budget to return the Budget to surplus by 2015-16. In 2011-12, the Plan was updated to target a surplus by 2013-14. Due to changes in the economic and financial circumstances, the Government reverted back to the original target in the 2012-13 Budget.

The objectives of the Budget Plan remain in the 2013-14 Budget with a return to surplus in 2015-16 which is maintained in 2016-17. Surpluses allow the Government to invest in increased infrastructure assets.

The Government's primary fiscal measure of the Budget's position is the Headline Net Operating Balance, which includes an adjustment for long term expected superannuation investment earnings (consistent with the long term expected return objective of CPI plus 5 per cent).

The Headline Net Operating Balance is estimated to be in deficit of \$253.6 million, with a forecast deficit position until 2015-16.

The Headline Net Operating Balance is expected to return to surplus by 2015-16, largely due to expenditure growth constrained at 3.5 per cent per annum and forecast growth in revenues at 5.8 per cent per annum.

**Table 2.2.1
The Budget Operating Surplus/Deficit**

	2012-13	2013-14	2014-15	2015-16	2016-17
	Est.Outcome	Budget	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m
UPF Net Operating Balance	-424.5	-340.6	-193.9	-71.9	-61.8
<i>Plus:</i> Investment Return Differential	84.7	87.0	94.4	101.2	108.9
Adjustment on Superannuation Investments ¹					
Headline Net Operating Balance	-339.8	-253.6	-99.5	29.3	47.1

Note: Table may not add due to rounding.

1. This component of the Territory's overall returns from superannuation assets varies with assumed changes in the strategic allocation of assets held in the Superannuation Provision Account (SPA). However, in all years this adjustment, together with interest and dividend revenues, provides for expected returns on the total superannuation asset portfolio of 7.5 per cent per annum (CPI plus 5 per cent per annum (net of fees)).

The Headline Net Operating Balance has been consistently presented in this way in the ACT Government’s Budget Statements since 2006-07. The continued use of the Headline Net Operating Balance ensures that comparable, comprehensive and informed assessments can be made of the Territory’s financial performance over time.

The measure takes into account the full impact of the long term expected earnings on assets dedicated to fund and support the accruing costs associated with servicing the Government’s long term defined superannuation obligations. Superannuation expenses will be paid over the next 40 to 60 years. The objective of the Government’s superannuation investments held in the Superannuation Provision Account (SPA) is to fund these future cash payments. The inclusion of the full amount of the long term investment earnings is necessary to provide an accurate assessment of the longer term sustainability of the budget position.

Changes to Australian Accounting Standard AASB 119 *Employee Benefits*, effective from 1 July 2013, will effect how other jurisdictions calculate superannuation net interest expense; specifically the amount of the offset arising from assets held in their public sector superannuation schemes. Due to the way the ACT’s superannuation arrangements are structured, the changes to the accounting standard do not have the same effect on the Territory’s expense calculation. As a result, the Headline Net Operating Balance will generally not be directly comparable to the Net Operating Balance of other jurisdictions¹. However, it will be consistent with the previous figures.

The Government considers that the Headline Net Operating Balance provides the most relevant and meaningful information to users for making long term budget and resource allocation decisions.

Objective: To Maintain an AAA Credit Rating

The current ACT Government credit rating provided by Standard & Poor’s Rating Services is a ‘AAA’ (Triple A) long term credit rating and a ‘A-1+’ short term credit rating, in both local and foreign currencies.

The ‘AAA’ and ‘A-1+’ ratings are the highest ratings assigned by Standard & Poor’s. Standard & Poor’s assessed the outlook for the ACT’s finances as continuing to be ‘Stable’. Only Victoria and the ACT hold this outlook.

	Local Currency Long Term	Local Currency Short Term	Foreign Currency Long Term	Foreign Currency Short Term
Standard & Poor’s	AAA	A-1+	AAA	A-1+

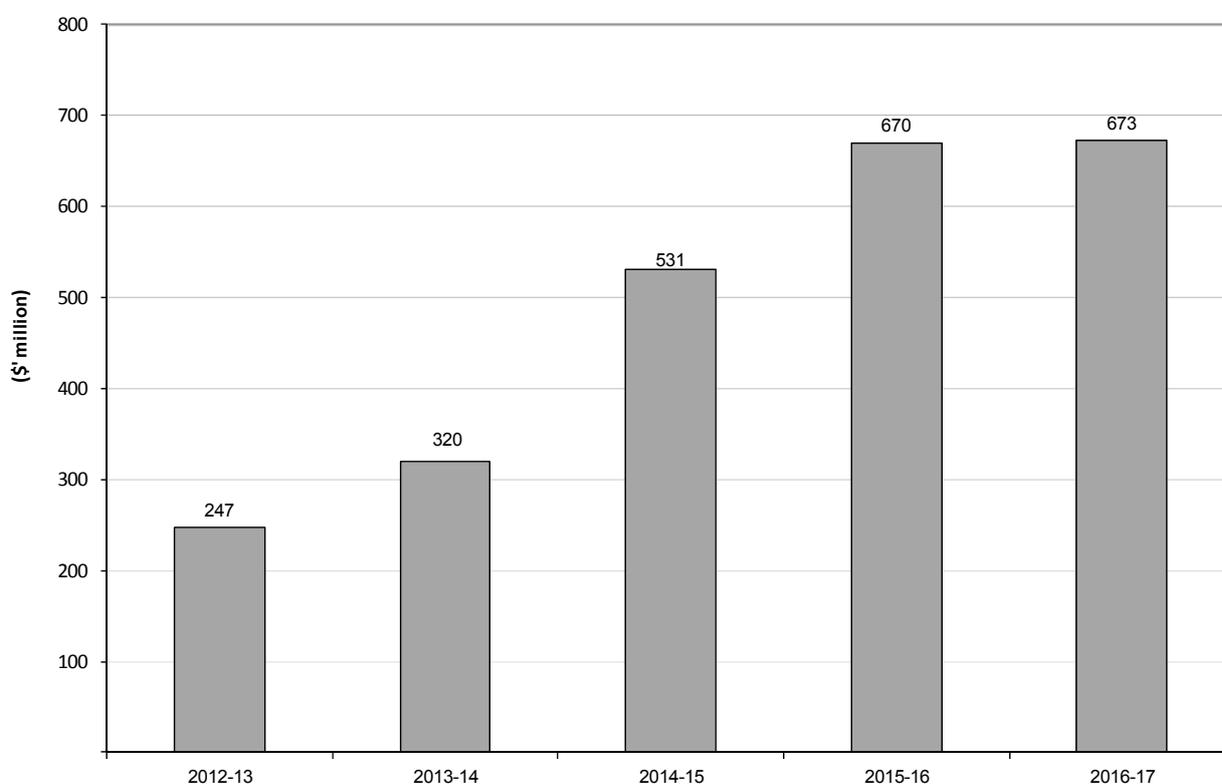
¹ The Government Fiscal Result published by the Victorian Government, which includes an adjustment for the impact of the accounting standard, will be comparable to the Headline Net Operating Balance.

Objective: Maintain Operating Cash Surpluses

The Government's objective is to maintain operating cash surpluses in the General Government Sector at all times. The operating cash balance measures all operating cash receipts each year (for example, taxes, fees and fines, and operating grants from the Commonwealth Government) less all operating cash payments (including wages and salaries, cash superannuation payments and payments for goods and services).

Figure 2.2.1 below shows that the General Government Sector Operating Cash Surplus is expected to be \$320.4 million in 2013-14, with surplus balances across the forward estimates. A revised operating cash surplus of \$247 million is estimated for 2012-13. A strong operating cash balance ensures that there is sufficient cash generated from operations to cover the net outlay of the capital investment, to repay debt, and to put aside to address unfunded superannuation liabilities.

Figure 2.2.1
Net Cash Flows from Operating Activities: General Government Sector



Objective: Maintain a Strong Balance Sheet

The ACT's Balance Sheet continues to be one of the strongest of any Australian government. The Budget continues to maintain flexibility to support high priority investments.

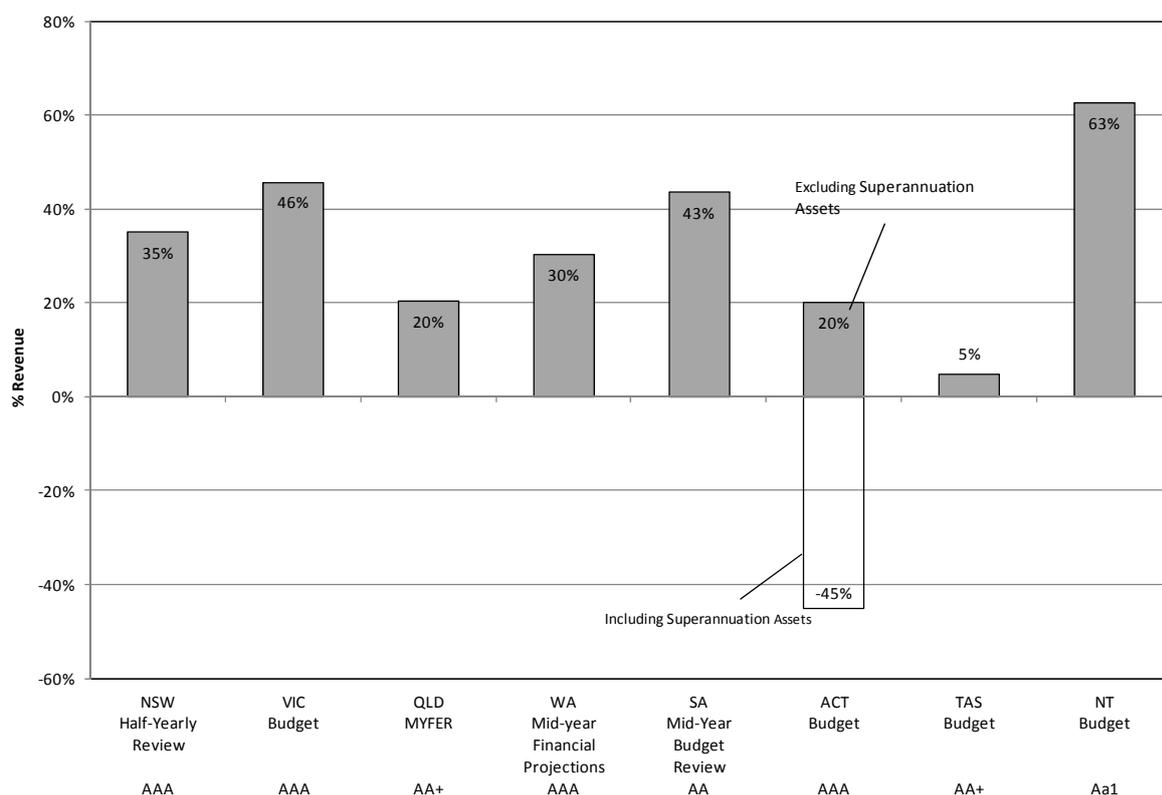
Net Debt

A key balance sheet measure in the GFS framework is the net debt to revenue ratio, which takes into account gross debt liabilities as well as financial assets (such as cash reserves and investments). The Commonwealth Government, for example, highlights net debt as the key measure of government debt.

Figure 2.2.2 below shows that the ACT is estimated to have positive General Government Sector net debt in 2013-14. This indicates that the Territory's General Government Sector cash reserves and investments are lower than gross debt liabilities.

The figures below have been sourced from other jurisdictions' Budget documentation as indicated.

Figure 2.2.2
Net Debt to Revenue Ratio General Government Sector: 2013-14



Source: The interjurisdictional data utilised in this comparison is taken from each jurisdiction's most current Budget documentation. Differing sources have been employed as not all jurisdictions have released their 2013-14 Budgets.

Net Financial Liabilities

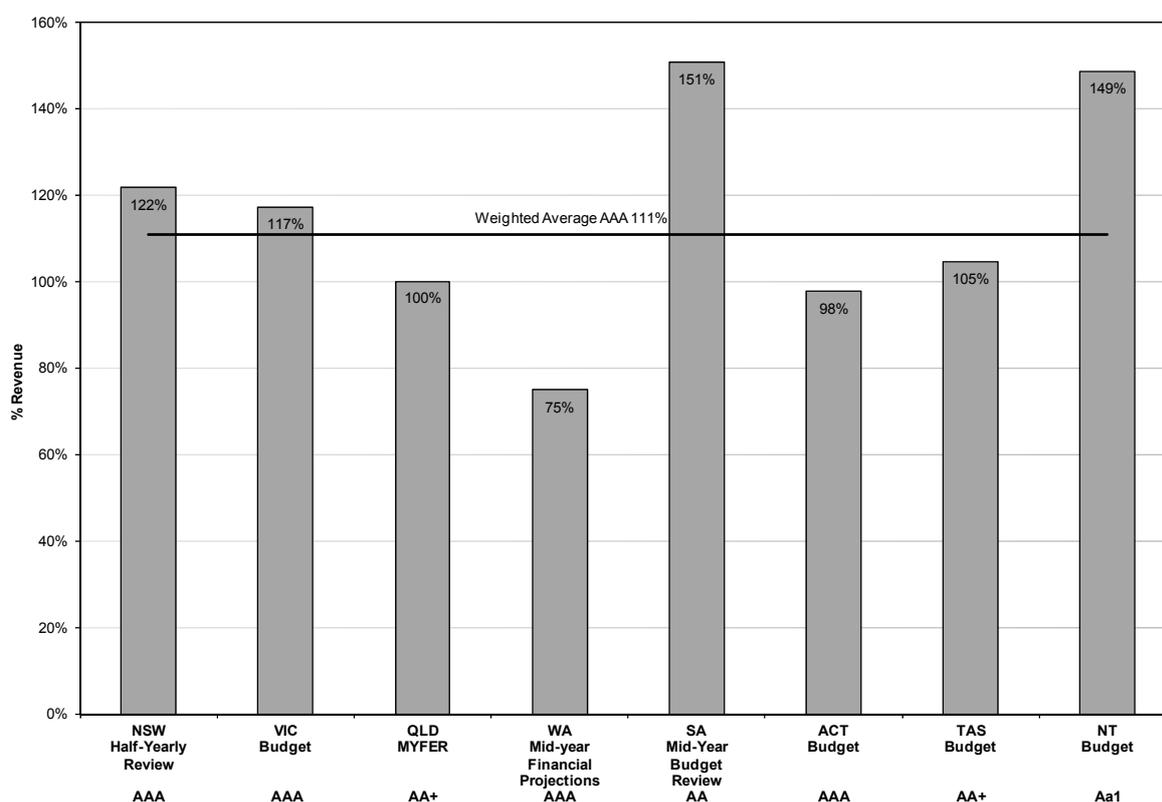
Net financial liabilities are a broad measure of General Government Sector liabilities, including net debt and superannuation liabilities. The net financial liability to revenue ratio has remained stable at 98 per cent compared to the 2012-13 Budget of 97 per cent.

Net financial liabilities are calculated as total liabilities less financial assets (such as cash reserves and investments). It takes into account all non-equity financial assets, but excludes the value of equity held by the General Government Sector in public corporations (for example, ACTEW Corporation).

The ratios appearing in Figure 2.2.3 for all other jurisdictions are based on each jurisdiction's most current Budget documentation.

Figure 2.2.3 below compares the ACT's net financial liabilities as a proportion of revenue with other jurisdictions. The ACT also continues to remain below the weighted average for other AAA rated jurisdictions.

Figure 2.2.3
Net Financial Liabilities to Revenue Ratio General Government Sector: 2013-14



Source: The interjurisdictional data utilised in this comparison is taken from each jurisdiction's most current Budget documentation. Differing sources have been employed as not all jurisdictions have released their 2013-14 Budgets.

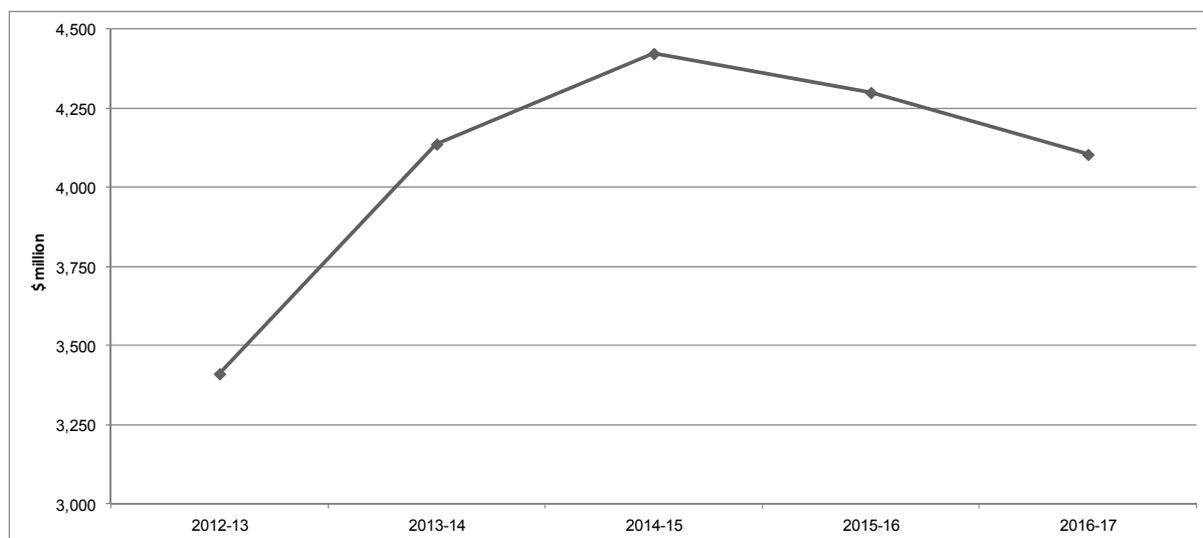
A key question for governments is whether to borrow to invest in new capital assets. It is widely recognised as appropriate for governments with strong balance sheets to incur some debt, provided the debt is used to finance high quality assets in areas of community need. This is because these assets (for example, new roads, schools and hospital facilities) provide benefits to the community over a long period of time.

It is important, however, that the level of debt is sustainable. The ratio of net financial liabilities to revenue provides an indicator of the sustainability of a jurisdiction's debt.

The Government's objective is to maintain this ratio within the range of all AAA rated jurisdictions in Australia. While this ratio is subject to volatility (in particular, net financial liabilities can fluctuate, sometimes substantially, depending on the condition of financial markets), it is desirable that it remains broadly stable over time while maintaining sustainable levels of borrowings.

The 2013-14 Budget and forward estimates anticipates additional new general government sector borrowings for capital purposes of \$192 million by 2016-17. The continued investment in infrastructure funded by debt, as required, will assist the ACT economy, consumer confidence, and enhance service delivery for ACT residents. This trend in debt is a major driver in the level of Net Financial Liabilities as displayed below at Figure 2.2.4.

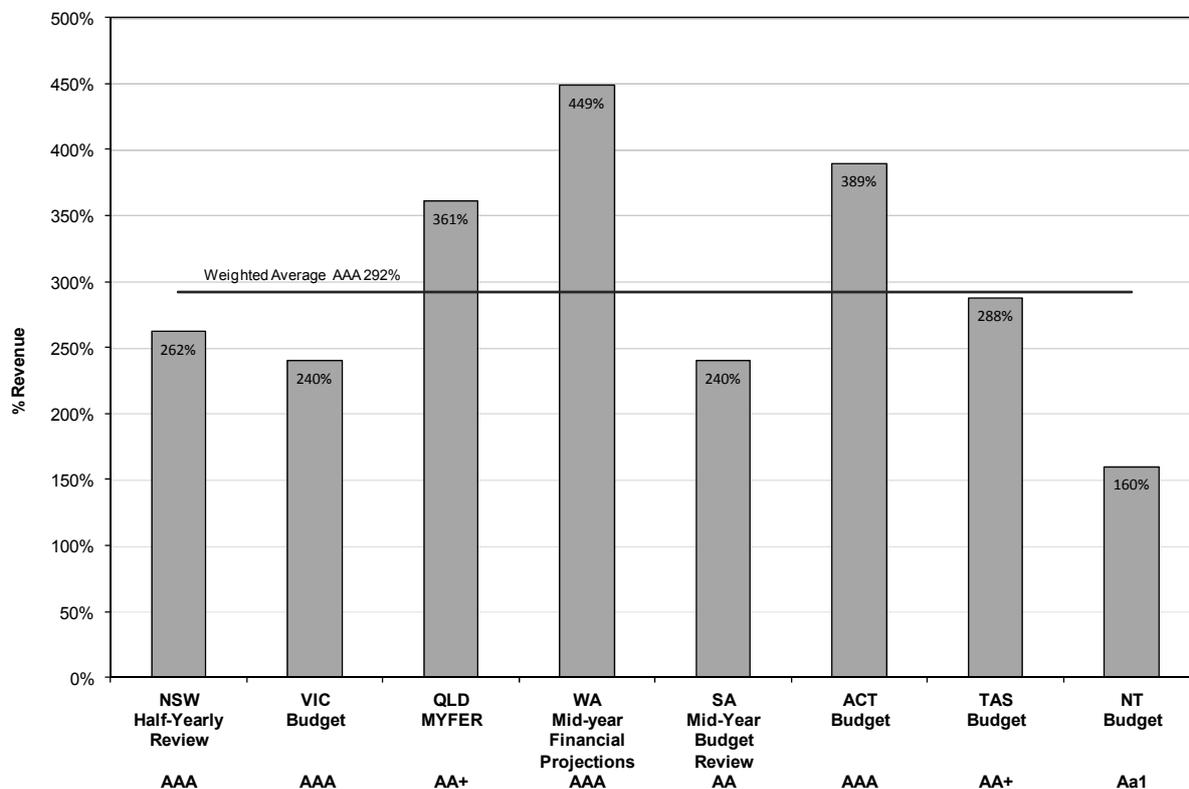
Figure 2.2.4
General Government Sector – Net Financial Liabilities



Net Worth

The broadest measure of a jurisdiction's balance sheet is net worth, which measures the total value of all assets less all liabilities. The ACT has strong positive net worth, and as a proportion of revenue, continues to be one of the strongest of all Australian jurisdictions.

Figure 2.2.4
Net Worth to Revenue Ratio General Government Sector: 2013-14



Source: The interjurisdictional data utilised in this comparison is taken from each jurisdiction's most current Budget documentation. Differing sources have been employed as not all jurisdictions have released their 2013-14 Budgets.

