

INTRODUCTION

Budget Strategy

The 2015-16 Budget is for Canberra – for our suburbs, our people, our businesses and our economy.

This Budget is a clear statement about continuing to stand up for all Canberrans. The Government will continue to use the budget to safeguard jobs for Canberra and grow our economy.

The Government is proud of its longstanding history of making decisions and delivering budgets that are appropriate for the circumstances facing the Territory. When economic conditions have allowed, the Government has built up sustained surpluses. When the ACT has been buffeted by external shocks, such as the Global Financial Crisis or Commonwealth fiscal consolidation, it has used the budget to support jobs and people.

The 2015-16 Budget continues that tradition in finding a balance between supporting our economy, maintaining sound public finances, and investing in our future.

Accordingly, the Government's 2015-16 Budget strategy is based on the following principles:

- supporting and boosting the ACT economy in the short-term, with particular focus on creating jobs and continuing to deliver appropriate services to the community;
- sustaining a strong operating balance over the medium term; and
- continuing to invest in important infrastructure projects to allow the Canberra community to enjoy the benefits of these assets in the longer-term.

The Government's immediate focus is restoring confidence in the people and businesses of the ACT as the economy recovers from the Commonwealth's fiscal consolidation and job cuts. This shorter-term priority does not detract from the Government's commitment to return to a net operating balance in the longer term.

General government sector net debt will increase across the forward estimates, peaking in 2017-18 before declining. Similarly, net financial liabilities, as a share of Gross State Product, will also rise until 2017-18 before declining in 2018-19 when the budget is forecast to return to surplus.

Importantly, the Government is keeping its debt at responsible levels and is not borrowing to meet running costs. The long-lasting infrastructure projects funded by borrowing will provide benefits to the Canberra community well into the future.

Overview of the 2015-16 Budget

As occurred in 2014-15, this Budget has been framed in an uncertain environment with further funding reductions from the Commonwealth. Last year, the Commonwealth Government announced a program of fiscal consolidation and the loss of 16,500 jobs nationally, which has resulted in the loss of 5,378 in Canberra so far, both of which had substantial negative impacts on the ACT economy. The Commonwealth also significantly reduced the Territory's expected National Health Reform Agreement funding.

In its 2015-16 Budget, the review of the Commonwealth Grants Commission relativities resulted in a cut to the ACT's share of Goods and Services Tax (GST) revenue by approximately \$560 million over four years. Together with the Asbestos Eradication Scheme, announced by the ACT Government as part of its 2014-15 Budget Review, these two matters have and will put pressure on our public finances.

Notwithstanding the negative impact of the Commonwealth's decisions on the ACT in 2014-15, a number of factors will help boost the ACT economy. These include the end of the Commonwealth Government's hiring freeze, low interest rates, the *Jobs and Small Business Package* and *Families Package*, and ACT Government measures, including infrastructure spending and business support. That said, the ACT economy has been subdued as a result of previous Commonwealth Government decisions. As a result, we are likely to see moderate levels of growth in 2015-16.

As set out in Table 1, Gross State Product is forecast to increase slightly, from the 0.7 per cent recorded in 2013-14 to 1¼ per cent in 2014-15 and 1½ per cent in 2015-16.

Employment is also expected to grow by ¾ of a percentage point in 2015-16, following a fall of ¼ of a percentage point in 2014-15 as a result of larger than expected Australian Public Service job cuts.

State Final Demand, which measures economic activity in the Territory, is expected to pick up slightly in the second half of 2014-15 to record growth of 2¼ per cent for the financial year. It is then forecast to increase slightly to 2¾ per cent in 2015-16.

Table 1
Economic Forecasts, Year Average Percentage Change

ACT	Actual	Forecasts	
	2013-14	2014-15	2015-16
Gross State Product	0.7	1¼	1½
Employment	-0.2	-¼	¾
State Final Demand	1.9	2¼	2¾
Consumer Price Index	2.2	1¼	2
Wage Price Index	2.4	1¾	2¼
Population	1.2	1¼	1¼
Australia			
Gross Domestic Product	2¾	2½	2¾

Given the significant headwinds facing the local economy, the ACT Government has decided to provide significant support to the Canberra community by expanding existing services and introducing a range of new initiatives in the 2015-16 Budget. This approach, while necessitating deficits in the short term, aims to boost employment and bolster the economy through targeted spending initiatives.

There are new initiatives in the 2015-16 Budget which provide funding for Canberra in each of the four themes: economic growth and diversification for Canberra, enhancing liveability and social inclusion for Canberra, health and education investment for Canberra, and suburban renewal and better transport for Canberra.

Canberra's economic growth will be boosted by the Government's Infrastructure Investment Program, which is at a record level – a total of \$2.8 billion over the next four years. This capital works program includes significant projects in areas including road and urban infrastructure, land development, education, health and community facilities.

This Budget continues the Government's commitment to provide the people of Canberra with high quality health services. In particular, we are providing more acute health services, more women's and children's health services, more elective surgery, improved mental health services, better integrated hospital and community services, and improved palliative care.

We are continuing to invest in our education system to deliver the very best in education outcomes for Canberra. In this budget, the Government is delivering more new schools, upgrades to existing schools, better ICT infrastructure, more support for students with a disability, and is establishing a new Canberra Institute of Technology campus in Tuggeranong.

The Government is continuing to support and diversify the ACT economy to encourage continued growth into the future. In this budget, the Government is making it easier to do business in Canberra by streamlining regulatory processes administered by Access Canberra, developing a single business licensing framework and one stop shop for environmental approvals, establishing innovation and trade investment funds, and providing new and upgraded government ICT to make interactions with the Government easier.

The Government is also supporting growth in our visitor economy through cooperative marketing campaigns and is seeking to attract direct international air services to and from key markets. The Government continues to progress tax reforms that make the Territory's taxation system fairer, simpler and more efficient.

The Government will undertake a significant program of suburban renewal to ensure Canberra remains the most liveable city in the world. In this budget, we are investing in active travel, improving walking and cycling connections around our city centres, boosting municipal services, and enhancing our sporting and arts facilities. The Government is also undertaking a substantial public housing renewal program that will see the redevelopment of Allawah Court, Karuah, Owen Flats and Red Hill housing sites and the construction of replacement public housing properties.

In this Budget we are continuing to provide public transport reforms, including the construction of Capital Metro, in addition to enhancing our roads system and suburban infrastructure.

The Government is investing in ensuring that our city remains safe and fair through providing more funding for police, more funding for emergency services, a better victims of crime financial assistance scheme, justice reforms, and more judicial resourcing.

The development of greater social inclusion is a key commitment for this Government in this Budget with the goal of ensuring that everyone has the opportunity to participate in the Canberra community. To achieve this outcome the Government is constructing a new purpose built respite property, and providing a new client information system for youth protection services, extensions of the One Human Services Gateway and Strengthening Families Programs, more homelessness services, special needs transport, and initiatives to reduce violence against women and children.

Notwithstanding the range and extent of new initiatives in the 2015-16 Budget, the return to surplus from 2018-19 is consistent with the Government's commitment to maintain sound public finances and a strong balance sheet. The Government has to some extent mitigated the effect of recent economic shocks through consistent prudent financial management and considers that sustainable public finances are a necessary factor for long-term economic growth and stability.

The Government is forecasting a headline net operating deficit of \$407.6 million in 2015-16, with progressively declining deficits in each successive year until 2018-19 when the budget is expected to return to surplus. Balancing of the budget will be achieved through targeted savings and revenue initiatives over the next four years.

The Government forecasts are for net debt and net financial liabilities to peak in 2017-18 before declining in 2018-19 as the budget returns to surplus. The balance sheet remains strong and net operating cash is forecast to improve in 2016-17 once the Asbestos Eradication Scheme moves into the next phase of remediation works.

Table 2
General Government Sector Headline Net Operating Balance

	2014-15 Est. Outcome \$'000	2015-16 Budget \$'000	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
Revenue	4,491,504	4,609,541	4,870,140	5,056,550	5,258,508
Expenses	5,217,471	5,148,547	5,140,234	5,287,311	5,401,827
Superannuation return adjustment ¹	128,578	131,440	154,022	179,596	193,660
HEADLINE NET OPERATING BALANCE	-597,389	-407,566	-116,072	-51,165	50,341
HEADLINE NET OPERATING BALANCE (excluding the Asbestos Scheme)	-210,941	-348,994	-104,734	-41,645	58,681
Net Cash from Operating Activities	-14,699	-5,879	352,547	420,415	646,583
Net Debt (excluding superannuation)	1,347,994	2,425,710	2,848,612	3,130,016	2,867,342
Net Financial Liabilities	4,641,805	5,663,926	6,140,969	6,432,291	6,247,858

Notes: 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.