COMMERCIAL IN CONFIDENCE

FINAL REPORT

Review of the 2015-16 ACT Budget

Prepared for
The ACT Select Committee on Estimates 2015-16

June 2015

THE CENTRE FOR INTERNATIONAL ECONOMICS
www.TheCIE.com.au

The Centre for International Economics is a private economic research agency that provides professional, independent and timely analysis of international and domestic events and policies.

The CIE's professional staff arrange, undertake and publish commissioned economic research and analysis for industry, corporations, governments, international agencies and individuals.

CANBERRA

Centre for International Economics
Ground Floor, 11 Lancaster Place
Canberra Airport ACT 2609

GPO Box 2203
Canberra ACT Australia 2601

Telephone +61 2 6245 7800
Facsimile +61 2 6245 7888
Email cie@TheCIE.com.au

Website www.TheCIE.com.au

SYDNEY

Centre for International Economics
Suite 1, Level 16, 1 York Street
Sydney NSW 2000

GPO Box 397
Sydney NSW Australia 2001

Telephone +61 2 9250 0800
Facsimile +61 2 9250 0888
Email ciesyd@TheCIE.com.au

Website www.TheCIE.com.au

Contents

BOXES, CHARTS AND TABLES

Summary

The 2015-16 ACT Budget pushes out a return to surplus due to higher spending commitments on community infrastructure (including asbestos eradication), without the buoyancy of improved economic conditions.

While most economic forecasts seem reasonable, there continue to be downside risks that suggest return-to-surplus expectations might be optimistic without improved local business confidence and a rebound in Commonwealth Government spending in the ACT.

ACT Budget deficit has expanded and the return to surplus delayed

The projected Budget balances for 2014-15 and 2015-16 have deteriorated compared to the 2014-15 Budget by $264 million and $290 respectively (see table 1). The key drivers of this deterioration are:

- expenditure on the Asbestos Eradication Scheme ($387 million in 2014-15 and $59 million in 2015-16)
- a reduction in Commonwealth Government grants due to revisions to GST shares ($138 million in 2015-16)
- a reduction in dividend payments form ICON Water ($10.1 million) due to poorer profit outlook for ActewAGL, and
- a decrease in conveyancing duties ($6.5 million) as a result of continued taxation reform.

The budget balance is forecast to gradually improve from 2014-15 as the economy regathers momentum, and a budget surplus is expected to be achieved in 2018-19 (one year later than previously forecast).

1 The outlook for GGS HNOB ($million)

	2014-15	2015-16	2016-17	2017-18	2018-19
2014-15 Budget	-333	-118	-26	77	
2015-16 Budget	-597	-408	-116	-51	50

Note: GGS HNOB is Headline Net Operating Balance for the General Government Sector

Source: Based on ACT Government (2015) Budget Paper 3, Table 2 and Table 2.1.3

There are downside risks to the return to surplus

The revenue generated by a number of ACT Government taxes (including stamp duty on residential property and payroll tax) are sensitive to economic conditions.

Commonwealth Government employment and expenditure are projected to remain low in 2015-16, which is leading to weak business confidence in the ACT and generally weak economic conditions and growth. The ACT Treasury projects growth to increase (albeit below the national average), but even this is considered somewhat optimistic given the factors driving back growth nationally will not directly impact the ACT.

With downside risks to economic growth, there are also downside risks to the outlook for tax collections. This means it could well take longer for the government to return to surplus than currently expected.

Commonwealth Government activities not yet supporting buoyancy of the ACT economy

With a high proportion of ACT revenue coming from the Commonwealth Government, the ACT Budget position is highly exposed to changes made by the Commonwealth.

The 2015-16 Commonwealth Budget did not include drastic cuts to spending and employment as in the 2014-15 Budget, but spending has not returned to previous levels. As a result, revisions to the ACT Budget in terms of employment and associated spending are not significant in 2015-16.

However, revisions to GST allocations have a substantial impact on ACT revenues. GST revenue for the ACT in 2015-16 is $135.6 million lower than previously projected, and $414.8 million lower over the period between 2015-16 and 2017-18.

Changes to Commonwealth Government funding under the National Health Reform Agreement and the Students First SPP that were made in the 2014-15 Budget were maintained in 2015-16 so major revisions were not required.

Major spending claimed on community infrastructure, although much of this is a transfer of funding to reflect new priorities

The 2015-16 Budget has been publicised as a 'Budget for the Suburbs'. There are significant investments being made in a range of areas to support this statement, not least of all the Urban Renewal Initiative. There are 11 small scale projects announced under the Territory and Municipal Services Directorate to promote community participation. The largest component of the Urban Renewal initiative is the Better Public Housing scheme retiring ageing public housing assets and developing newly constructed assets in replacement.

However, closer examination indicates a degree of transferring of funds from one community asset to another:

- the proceeds of the sale of aging public housing assets are being directed to the construction of the Capital Metro under the Asset Recycling Initiative
- Commonwealth Government incentive payments under the Asset Recycling Initiative, based on the sale of public housing assets are also being directed to the construction of the Capital Metro

- the Better Public Housing scheme is limited to upgrading the current portfolio of public housing assets, without provisions for expanding the construction of public housing assets, and
- it appears that the ACT Government is continuing to rely on the private provision of affordable housing through the development of new estates to meet a growing housing accessibility problem.

The Capital Metro project remains one of the more contentious elements of the Budget. The Commonwealth Government has distanced itself to the project through the ARI publications, bringing into question whether directing the proceeds from the sale of public housing assets towards construction of the Capital Metro is delivering the greatest return to the ACT economy.

Social and small business services are being delivered in a tight fiscal environment

The 2015-16 ACT Budget has been acknowledged to be delivered in a tight fiscal environment. As well as experiencing weakening economy conditions in the Territory due to decisions taken by the Commonwealth Government, the additional pressures placed on the Budget from the Asbestos Eradication Scheme have further limited the flexibility of the ACT Government to extend to meet all priorities.

- Only two new expenditure items reference services for Aboriginal and Torres Strait Islander communities directly. These are the Growing Healthy Families initiative that provides additional resources that support engagement, inclusion and access to culturally informed services by the local Aboriginal and Torres Strait Islander community ($1.2 million) and the Aboriginal and Torres Strait Islander Smoking Cessation Program ($212 000). A further $9.234 million is provided over 2015-16 and 2016-17 for the completion of the Aboriginal Torres Strait Islander Residential Alcohol and Other Drug Rehabilitation Facility. However, $3.5 million of the value of works in progress has been re-profiled from 2014-15 anticipated expenditure.
- Small businesses are not specifically targeted. The ACT Government is relying on the Commonwealth Government's Jobs and Small Business package to provided support and growth within the ACT economy in addition to a number of smaller, new expenditure initiatives announced by the ACT Government. However, with the focus of these measures on tourism and ICT (small direct employers within the ACT), the expected contribution of these initiatives to ACT growth, especially in employment, will be modest.[1]

Revenue initiatives in 2015-16 Budget are generally sound and beneficial in the long term

The ACT Government is continuing its taxation reform, shifting the taxation burden from insurance and conveyance duties to more efficient general rates aimed at reducing

1 ACTCOS (2015) ACT 2015-16 Budget Snapshot, 3 June, p 17

the inefficiency of the Government's taxes. General rates now makes up 28 per cent of ACT taxation revenue (up from 16 per cent in 2010-11).

In dollar terms, the increase in general rates since 2010-11 has been greater than the decrease in insurance and conveyance duties collected. General rates increased by $12.3 million over this period while duties collected declined by $9.8 million.

New revenue initiatives generally contributed to increased costs for ACT residents:

- a 50 per cent increase in the fire and emergency services levy
- a 6 per cent increase in parking fees, and an extension of the application of parking fees, and
- a 5 per cent increase in motor vehicle registration fees.

This is likely to have a negative short-term impact on the cost of living.

The ACT Government has increased general rates, the fire and emergency services levy, transport fees (including drivers licence fees and vehicle registration) and fares on ACTION buses. This is set to add to the cost of living in the ACT. Partially offsetting this, the ACT Government has reduced duties on insurance.

Over time, the cost of living in the ACT should benefit from lower electricity charges, following the decision of the Australian Energy Regulator to cut the revenue ACTEW-AGL can extract from the electricity distribution network.

Outstanding information gaps and uncertainties remain

There are several areas where additional information is likely to be required to enable more fulsome assessment of key Budget measures.

- **There is uncertainty around the costs of the Asbestos Eradication Scheme**, with final costs reliant on revenue from land sales, final costs of demolition and remediation works and the time required to repay the Commonwealth government loan. The ACT Government has reported a net cost of $370 million to the ACT economy of the scheme, but there is insufficient information regarding how this figure has been calculated.
- **There is limited information around the Capital Provisions pool of funding**. There is also some inconsistency in the implication that the entire $1.5 billion will be spent on these high value and commercially sensitive projects over the forward estimates, and the anticipated timing of these capital works projects being undertaken. It may be unlikely that all four will be completed during the forward estimates. Further details are required around the operation of the capital provisions funding pool on a yearly basis.

1 Economic outlook

Economic conditions and growth in the ACT are still relatively weak. Contributing to this weakness is reduced employment in the Commonwealth public service, low business confidence in the ACT and national factors. Weak economic conditions will impact on the revenue collected by the ACT Government, particularly revenue from stamp duty and payroll tax.

The ACT Treasury projects growth to increase (albeit below the national average), but even these may be optimistic with substantive downside risks for the ACT. The ACT should benefit from Commonwealth Government initiatives including the* Jobs and small business package *and* Families package *which will support growth in the ACT. However detail on the extent of this anticipated support for growth is not provided.

Australian economic conditions will put pressure on business confidence in the ACT

Australian economic conditions impact confidence and growth in the ACT. This weak confidence reflects the impact on economic conditions of recent falls in mining investment (from a high peak), the lingering effect of recent highs in the Australian dollar on trade-exposed industries and uncertainty over the state and direction of the Commonwealth Budget.

Table 1.1 shows the Australian economy has been weak (growing by 2.5 per cent in 2013-14) and is expected to stay relatively flat with forecast growth of 2.5 per cent in 2014-15, and moderately improving in 2018-19 with expected growth picking up to 3.5 per cent. These official forecasts (Commonwealth Treasury forecasts which are adopted by the ACT Treasury) are weaker than the outlook of the International Monetary Fund (IMF) for the next two years, but more optimistic than the Reserve Bank of Australia (RBA).

1.1 Economic outlook for the Australian economy

	2013-14 (actual)	2014-15	2015-16	2016-17	2017-18	2018-19
ACT Treasury	2.50	2.50	2.75	3.25	3.50	3.50
Commonwealth Treasury		2.50	2.75	3.25	3.50	3.50
RBA		2.25	2-3	2.5-4		
IMF		2.8	3.0	3.1	3.0	2.9

Source: Based on ACT Government (2015) Budget Paper 3, Table 1.3.1 and Table 1.3.2; Commonwealth Treasury; RBA; IMF (reported calendar activity is converted into financial year forecasts by CIE)

Weak economic conditions are hoped to improve

The 2015-16 Budget attributes weak economic conditions in the ACT to the negative impact of the Commonwealth Government's spending cuts and downsizing in the public service.[2]

The ACT Treasury is forecasting economic conditions to improve and for growth in GSP to increase. According to the Budget Papers,[3] the expected increase in growth is due to the stimulatory effects of:

- a low interest rate environment (which can be expected to support housing construction and consumption)
- the ACT Government's own infrastructure program (which can be expected to support investment)
- the lifting of the Commonwealth Government's hiring freeze (which can be expected to support employment and confidence), and
- the *Jobs and small business package* and the *Families package* in 2015-16 Commonwealth Budget (which should support income, investment and consumption).

If and when it occurs, an improvement in Australian GDP growth should also translate into an improvement in confidence and activity in the ACT.

Table 1.2 shows the changes in key economic variables out to 2018-19. The terminology used by the ACT Government is as follows:

- actual (recorded) growth is shown for 2013-14
- forecasts for growth, developed by the ACT Government are shown for 2014-15 and 2015-16, and
- projections for growth by the ACT Government are shown for 2016-17, 2017-18 and 2018-19 as an indication for future movements, but are not considered to be as rigorous as a forecasts.

Overall, growth in GSP is expected to increase from 0.7 per cent in 2013-14, to 1.25 per cent in 2014-15 and to 1.50 per cent in 2015-16 and then is projected to growth at 2.5 per cent per year thereafter. Growth in State Final Demand (SFD) is also expected to increase.

---

2 Budget Paper Number 3 Section 1.1 pg 7

3 Budget Paper Number 3 Section 1.1 pg 7

1.2 Economic outlook: Australia and ACT

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Forecast	Forecast	Projection	Projection	Projection
Australia						
GDP growth	2.50	2.50	2.75	3.25	3.50	3.50
ACT						
Gross state product (annual growth rate)	0.70	1.25	1.50	2.50	2.50	2.50
State final demand (annual growth rate)	1.90	2.25	2.75	4.00	4.00	4.00
Employment (annual growth rate)	-0.20	-0.25	0.75	1.50	1.50	1.50
Wage price index	2.40	1.75	2.25	3.50	3.50	3.50
Consumer price index	2.20	1.25	2.00	2.50	2.50	2.50
Population (annual growth rate)	1.20	1.25	1.25	1.50	1.50	1.50

Source: Based on ACT Government (2015) Budget Paper 3, Table 1.3.1 and Table 1.3.2

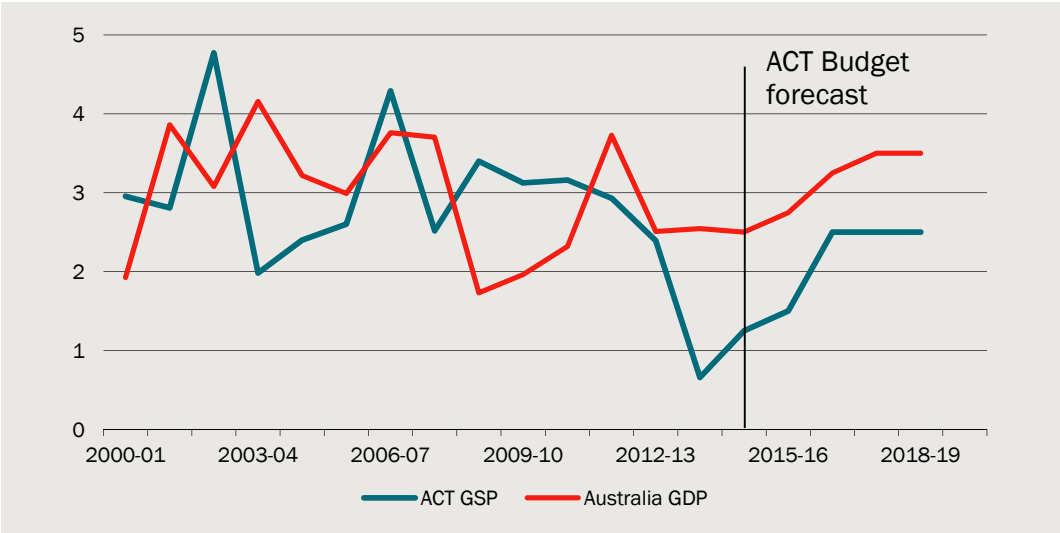
Growth in the ACT has slipped relative to growth in Australia

From the early 2000s to 2012-13 growth in ACT GSP, though volatile, remained at a level broadly consistent with growth in Australia GDP, as shown in Chart 1.3.

Since 2012-13, reduced staffing in the Commonwealth Government (which impacts employment and consumption) and lower confidence amongst Commonwealth Government employees (which impacts consumption and investment) has seen ACT GSP growth drop sharply relative to Australian growth. For example, in 2013-14, Australian GDP grew by 2.5 per cent, while ACT GSP grew by 0.7 per cent.

While the ACT Treasury project ACT GSP growth to increase, it is expected to remain significantly weaker than Australian growth (Chart 4.9). This gap is not explicitly explained in the ACT Budget Papers. However, growth in Australian GDP will be supported by growth in mining exports in coming years, as a natural flow-on from the substantial investment in mining capacity in (especially in Western Australia and Queensland) over the last decade, which the ACT will not directly benefit from.

1.3 Real GSP growth in the ACT and real GDP growth in Australia (per cent)



Data source: Based on ACT Government (2015) Budget Paper 3, Table 1.3.1 and Table 1.3.2; ABS

Change in the outlook for growth

Table 1.4 compares the forward estimates growth rates of ACT GSP from the 2014-15 and 2015-16 Budgets. The current weakness in the ACT economy can clearly be seen. The ACT Treasury projects that this weakness will impact growth 2015-16 and 2016-17, and the outlook for the ACT economy has been downgraded.

1.4 Outlook for growth in ACT GSP (per cent)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
2014-15 Budget	2.7	2.25	1.75	2.5	2.5	2.5	
2015-16 Budget		0.7	1.25	1.5	2.5	2.5	2.5

Note: Forecasts and projections are highlighted in Teal

Source: Based on ACT Government (2015) Budget Paper 3, Table 1.3.1 and Table 1.3.2; ACT Government (2014) Budget Paper 3, Table 1.3.1 and Table 1.3.2

Assessment of the outlook for GSP

Impact of the Commonwealth Government

The Budget Papers note that cuts to Commonwealth Government spending have influenced the ACT economy. An assessment as to when Commonwealth spending will pick up again is not provided. However, the ACT Treasury expect the Commonwealth Government programs *Jobs and small business package* and *Families package* will support growth in the ACT.

The Budget Papers also note that recent downsizing in the Australian public service is a negative influence on growth but that the lifting of the Commonwealth Government's hiring freeze should support an increase in growth.

While the lifting of the hiring freeze could support more hiring in the Commonwealth public service, providing an impetus to the ACT economy in the short term, the overall impact is likely to be small.

To assess the likely scale of impact of Commonwealth hiring, total nominal expenditure on wages and salaries by the Commonwealth Government can be examined, which includes staffing numbers and the wages the government pays. Table 1.5 shows the Commonwealth Treasury's forecast of the Commonwealth Government's total nominal expenditure on wages and salaries.

- Total nominal expenditure on wages and salaries is expected to rebound significantly in 2015-16 after contracting in 2014-15. Such large movements year on year do not support confidence amongst Commonwealth Government employees.
- From 2016-17, the nominal wages bill grows at less than 1 per cent per year. This growth rate is slower than expected growth in consumer price inflation (around 2.5 per cent, see below). Therefore, total expenditure on wages and salaries (the income Commonwealth Government employees derive from their wages) is expected to *fall* in real terms from 2016-17.

1.5 Commonwealth Government, gross operating expenses (nominal)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Wages and salaries ($b)	19.4	19.5	18.9	19.8	19.9	20.0	20.1
Growth (%)		0.9%	-3.0%	4.6%	0.7%	0.1%	0.7%

Source: Commonwealth Treasury (data for 2014-15 onwards are taken from the 2015-16 Commonwealth Budget; data in earlier years are 'actuals' taken from the two previous budgets).

A further impact on the ACT economy is the significant net interstate emigration out of the ACT in the last two years. The ACT Treasury say this reflects Commonwealth Government job cuts.[4]

Overall, a net outflow of workers from the ACT (to date) and an (expected) fall in the income Commonwealth Government employees derive from their wages, point to very weak real growth in expenditure in Canberra and to weak growth in ACT GSP.

However, the usefulness of Commonwealth Government wages and salaries expenditure should not be overstated:.

- Commonwealth Treasury's weak forecasts for wages and salaries paid by the Commonwealth Government could reflect weakness in areas outside the ACT (the Commonwealth Government employees workers all around Australia), and
- workers could leave the Commonwealth Government and enter the private sector in Canberra, where labour demand (and nominal incomes) could grow more strongly.

Keeping in mind these caveats, there are significant downside risks to the projection that real growth in the ACT economy will be 2.5 per cent from 2016-17.

4 Budget Paper Number 3 Section 1.3 pg 18

Several downside risks have been identified in the Budget

The downside risks mentioned in Budget Paper 3 include:

- slower world growth and slower growth in Australia than expected, which could have flow-on impacts for the ACT Treasury
- the prospect of lower than expected Commonwealth Government spending and continued Commonwealth Government wage restraint despite the risk of further job cuts having appeared to have fallen (this will affect income and associated household spending in the ACT)
- other potential risks to the ACT economic outlook are slower than anticipated population, employment and price growth in 2015-16, and
- uncertainty as to the extent and pace with which business confidence will improve. A similar comment could be made in respect of consumer sentiment.

Overall, the ACT Treasury has identified more downside risks than upside risks. This is consistent with the observation that there is significant downside risks to the outlook for economic growth in the ACT.

Employment is a weak spot for the ACT

The labour market in the ACT is weak, as soft economic conditions have resulted in weak demand for labour. Total employment contracted by 0.2 per cent in 2013-14 and ACT Treasury expects total employment to contract again, by 0.25 per cent, in 2014-15.

According to the Commonwealth Budget, the average staff level of the Commonwealth Government (general government sector, excluding military and reserves) fell from 177.3 thousand in 2013-14 to 167.4 thousand in 2014-15. It is expected to remain broadly steady at 167.3 thousand in 2015-16.

The ACT Treasury expect economic conditions to improve and growth in ACT GSP to increase. With this, it expects labour demand to improve. Employment growth is thus expected to pick-up to 0.75 per cent in 2015-16 and be 1.5 per cent after that.

The prospects for employment in other states are stronger, due to the stronger outlook for activity. Partially, this reflects a strong pick-up in mining exports as well as wider trade exposure and the ability to take advantage of exchange rate movements. The Commonwealth Treasury expect national employment growth to be 1.5 per cent in 2015-16 and 2 per cent after that.

Some positive signs in the private sector

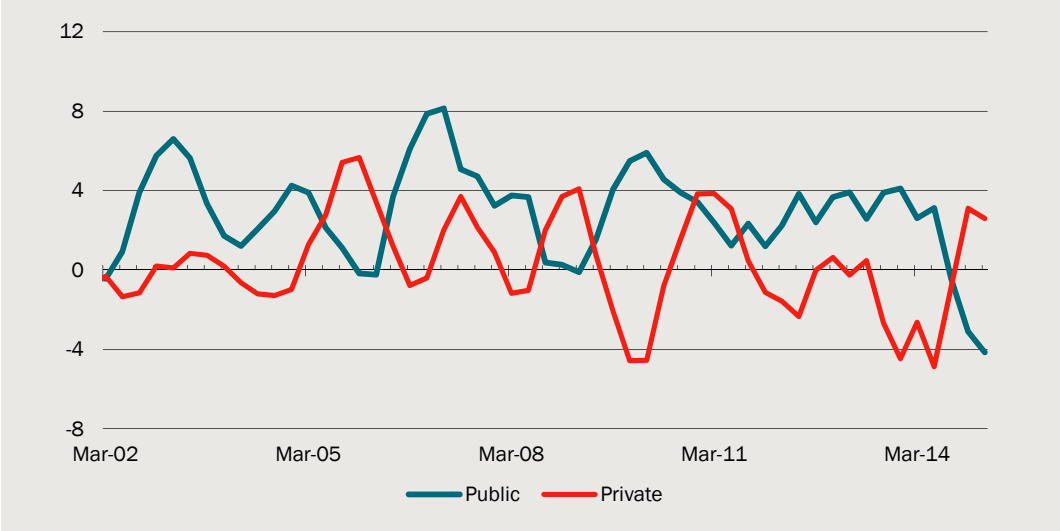
In 2015-16 Budget Paper 3, the ACT Treasury makes the point that employment has been weak recently because of reduced employment in the Commonwealth Government. However, this has been partially offset recently by slightly stronger employment in the private sector[5]. This is shown in Chart 1.6.

---

5 Budget Paper Number 3 Section 1.3 pg 15

Included in the private sector is construction. According to the ABS data behind Chart 1.6, on average, in the four quarters from June 2014 to March 2015, average employment in the ACT construction industry was 14.4 thousand workers. In the preceding four quarters, average employment in the ACT construction industry was 14.0 thousand workers.

1.6 Employment growth, year average (per cent)



Note: 'Public' employment is total employment in 3 ANZSIC industries: public administration and safety, education and training and healthcare and social assistance. 'Private' employment is total employment in all other industries

Data source: Based on ACT Government (2015) Budget Paper 3, Figure 1.3.5

Unemployment

According to ABS Labour market data,[6] the trend unemployment rate in the ACT has fallen from 5.0 per cent (October 2014) to 4.3 per cent (April 2015). Partially, this fall in the unemployment rate reflects a fall in trend participation rate has fallen from 70.7 per cent (October 2014) to 70.2 per cent (April 2015).

Outlook for employment and the ACT Government's economic strategy

There are downside risks to the outlook for GSP growth in the ACT. This means there are also downside risks to the outlook for employment. If these downside risks eventuate, it will make it difficult for the ACT Government to continue to support jobs (in line with its stated aim).

According to the government's economic strategy the government 'will continue to use this Budget to safeguard jobs for Canberra and grow our economy in 2015-16'.[7] For example, as noted, the ACT Treasury expect the ACT Government's capital works program to support employment.

---

6 ABS Cat 6202

7 Budget Paper Number 3 Section 1.4 pg 23

However, if the downside risks outlined above eventuate, and growth is slower than expected, it will be difficult for the government to safeguard jobs indefinitely. A smaller economy will support fewer jobs.

Further, capital works spending must be justified on the merits of the infrastructure provided, rather than merely on the employment generated by the program. Capital works spending is only suitable stimulatory spending if the employment generated by the program is aligned to sectors where there is excess capacity, with benefits of spending potentially leaking to the states.

In the case of the ACT, where the employment downturn is focussed on Commonwealth Government public servants, it is not clear how a capital works program would align closely with the excess capacity in this sector.

Outlook for inflation and wages also soft

Weak demand in the economy has seen growth in prices slow. Table 1.2 (above) shows CPI inflation in the ACT was 2.2 per cent in 2013-14 , and is expected to be 1.25 per cent in 2014-15. Further inflation is expected to pick-up over time to the middle point of the RBA target band, which is a reasonable forecast.

In the short-term, growth in wages should reflect the state of the labour market. Table 1.2 (above) shows that consistent with the weak labour market (as evidenced by weak employment growth), Wage Price Index (WPI) growth slows to 1.75 per cent in 2014-15 and remains weak at 2.25 per cent in 2015-16.

From 2016-17, WPI growth is 3.5 per cent. This is consistent with implied growth in productivity (the difference between growth in GSP and in employment) and growth in prices (measured with CPI inflation). Given the other forecasts, this is a reasonable forecast. However, if the downside risks to activity eventuate, wage growth could be weaker too.

Outlook for population continues mild contractionary trend

The outlook for population growth is an important underlying driver for economic growth.

The ACT Treasury has adopted population forecasts that are different to those in the latest Australian population projections released by the ABS, as shown in table 1.7.

1.7 Population growth in the ACT (per cent)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
ABS Population projections (pub. 2013)	2.0	2.0	2.0	1.9	1.9	1.8
ACT Budget	1.2	1.25	1.25	1.5	1.5	1.5

Source: ACT Government (2015) Budget Paper 3, Table 1.3.1 and Table 1.3.2; ABS

There are certainly downside risk to the ABS's forecasts in table 1.7. In each of the years shown, the ABS assumes net interstate migration into the ACT of 1 000 people per year. In contrast, according to the Australian demographic statistics (also published by the ABS), in the year to September 2014 the ACT lost around 1 100 people to net interstate migration. In the year to September 2013, the ACT lost close to 900 people to net interstate migration. This trend is noted in the ACT 2015-16 Budget Papers, and is linked to weaker economic conditions (which is reasonable as the key driver is weaker demand for labour by the Commonwealth Government). This suggests the forecasts for population in the ACT 2015-16 Budget are reasonable.

2 Budget aggregates

The General Government Sector Headline Net Operating Balance (GGS HNOB) is estimated to have posted a larger deficit in 2014-15 than previously forecast. The two key drivers of this deterioration in GGS HNOB are new expenditure for the* Asbestos Eradication Scheme *and cuts to Commonwealth grants. The GGS HNOB is now projected to return to surplus in 2018-19 (previously a surplus was projected in 2017-18).

The General Government Sector net headline operating balance

According to the Budget Papers, the Headline Net Operating Balance for the General Government Sector (GGS HNOB) is the key measure of government finances. It incorporates the impact of long-term superannuation investment earnings to provide an accurate assessment of the longer-term sustainability of the budget position.

Table 2.2 (below) shows that in 2014-15, the GGS HNOB is estimated to be a deficit of $597 million. In 2015-16, the GGS HNOB is forecast to be a deficit of $408 million. The GGS HNOB is expected to improve. In 2017-18 it reaches a deficit of $51 million. In 2018-19 it reaches a surplus of $59 million.

This improvement in the GGS HNOB is driven by projected growth in revenue and an increase in the *Superannuation return adjustment*. These gains are partially offset by growth in costs.

2.1 Summary table: key ACT Government metrics ($m)

	2014-15	2015-16	2016-17	2017-18	2018-19
	Est. outcome	Budget	Estimate	Estimate	Estimate
Flows associated with GGS HNOB flows					
Revenue	4492	4610	4870	5057	5259
Expenses	5217	5149	5140	5287	5402
Superannuation return adjustment	129	131	154	180	194
GGS HNOB	-597	-408	-116	-51	50
GGS HNOB (excluding the Asbestos Eradication Scheme)	*-211*	*-349*	*-105*	*-42*	*59*
Other flows					
Net cash from operating activities	-15	6	353	420	647

	2014-15	2015-16	2016-17	2017-18	2018-19
	Est. outcome	Budget	Estimate	Estimate	Estimate
Stocks					
Net debt (excluding superannuation)	1348	2426	2849	3130	2867
Net financial liabilities	4642	5664	6141	6432	6248

Source: ACT Government (2015) Budget Paper 3, Table 2.1.1

Financial position of the ACT Budget has deteriorated over the past 12 months

Since the last budget, GGS HNOB for 2014-15 and the outlook for the GGS HONOB for 2015-16 and beyond has deteriorated significantly.

A deterioration in GGS HNOB in 2014-15

Table 2.2 (below) shows that in 2014-15, the estimated GGS HNOB deficit has deteriorated from $333 million (expected in the 2014-15 Budget) to an estimated deficit of $597 million (estimated in the 2015-16 Budget). This deterioration is mostly due to new expenditure associated with the *Asbestos Eradication Scheme*, which has cost the 2014-15 GGS HNOB $387 million (in net terms, over the 2014-15 Budget update and 2015-16 Budget).

A short-term deterioration in GGS HNOB (2015-16)

Table 2.2 shows that in 2015-16, the forecast GGS HNOB deficit has deteriorated from $118 million (expected in the 2014-15 Budget) to a deficit of $408 million (expected in the 2015-16 Budget, as noted above). This deterioration in 2015-16 between the two budgets is principally due to:

- cuts to Commonwealth Grants, which reduced revenue by $138 million
- new expenditure on the *Asbestos eradication scheme*, costing the 2015-16 GGS HNOB $59 million (in net terms, across the 2014-15 Budget update and 2015-16 budget)
- other policy decisions on the expenses side, which have seen expenses increase in net terms by $124 million, and
- technical adjustments on the expenses side, which have seen expenses increase by $48 million.

A medium term deterioration in GGS HNOB (2017-18)

Table 2.2 shows that in 2017-18 the forecast GGS HNOB has deteriorated from a surplus of $77 million (expected in 2014-15 Budget) to a deficit of $51 million (expected in the 2015-16 Budget, as noted). This is mainly due to cuts to Commonwealth grants.

A net deterioration between 2014-15 and 2017-18

Instead of focusing on individual years, to get a sense of the total change contained in ACT Budget 2015-16, we can sum the GGS HNOB that is forecast for each of the four forecast years (2014-15, 2015-16, 2016-17 and 2017-18), and compare this to the last budget.

In the 2015-16 Budget, over these four budgeted years (2014-15 to 2017-18), the sum of the forecast GGS HNOBs is a deficit of $1 172 million. The right hand column of table 2.1 shows this.

This sum has deteriorated by $773 million since the 2014-15 Budget (where the sum of the forecast GGS HNOBs across the four years was $399 million). This deterioration is principally due to two things:

- the *Asbestos eradication scheme* is driving a deterioration of $466 million over the four years (in net terms, across the 2014-15 Budget Review and 2015-16 Budget), and
- cuts to Commonwealth grants are driving a deterioration of $406 million over the four years.

Changes in other items partially offset these two changes.

2.2 GGS HNOB: level and change across budget announcements ($m)

			2014-15	2015-16	2016-17	2017-18	*Sum*
Level of GGS HNOB							
2014-15 Budget			-333	-118	-26	77	*-399*
2014-15 Budget Review			-770	-250	-23	80	*-963*
2015-16 Budget			**-597**	**-408**	**-116**	**-51**	**-1172**
Changes to CCG HNOB announced in 2014-15 Budget review							
Single items	Asbestos eradication scheme		-385	-142	-5	1	*-531*
	Super. return adjustment		-4	-8	1	2	*-9*
Sum of other items		Revenue	33	35	15	2	*85*
		Expenses	-82	-18	-8	-1	*-109*
Total change: sum of single and other items			**-438**	**-132**	**3**	**3**	**-563**
Changes to GGS HNOB announced in 2015-16 Budget							
Single items	Commonwealth Grants		1	-138	-133	-136	*-406*
	Asbestos eradication scheme		-2	83	-6	-11	*65*
	Super. return adjustment		19	16	20	36	*91*
Sum of other items	Technical adjustments	Revenue	50	38	23	-76	*35*
		Expenses	105	-48	48	50	*154*
	Policy decisions	Revenue	0	14	22	32	*67*
		Expenses	0	-124	-67	-25	*-216*
Total change: sum of single and other items			**173**	**-158**	**-93**	**-132**	**-209**

Note: GGS HNOB is 'General Government Sector, Headline Net Operating Balance'

Source: Based on ACT Government (2015) Budget Paper 3, Table 2.1.3

Smaller items impacting the outlook for GGS HNOB

This section covers the 'sum of other items' panel in table 2.2 (above). Apart from the cuts to Commonwealth Grants and the *Asbestos eradication scheme*, the Budget papers provide some details on other issues: policy decisions and technical adjustments that have caused changes in the forecast for GGS HNOB.

Policy decisions relating to expenses

Table 2.2 (above) shows that policy decisions relating to expenses taken by the ACT Government in the 2015-16 Budget are causing a deterioration in GGS HNOB by $124 million in 2015-16 and by $216 million (in net terms) over the four years between 2014-15 to 2017-18. The deterioration is driven by policy decisions that add to (or increase) expenses.

The Budget papers note the following policy decisions that have added to expenses.[8]

- There are $124 million in new expenditure items in 2015-16.
- Supporting operational capacity within ACTION is adding $17.2 million to expenses in 2015-16.

The Budget Papers note the following additions to expenses over the four years.[9]

- 'Additional investment in health services' are adding $101.2 million to expenses over the four years. These include: managing demand for acute services, boosting community mental health services, expanding access to elective surgery and medical treatment and the improved integration of hospital and community services.
- Boosting capacity for government agencies such as the Emergency Services Agency is adding $15.6 million over the four years.

The Budget Papers also note savings (reductions in expenses) of $45.2 million over the four years, mainly arising from the benefits of procurements and administrative efficiencies across the ACT Public service.[10]

Policy decisions relating to revenue

Table 2.2 shows that policy decisions relating to revenue taken by the ACT Government are causing an improvement in GGS HNOB by $14 million in 2015-16 and by $67 million (in net terms) over the four years between 2014-15 to 2017-18. The improvement reflects policy decisions that add to (or increase) revenue.

---

8 Points are taken from Budget Paper Number 3 Section 2.1 pg 33

9 Points are taken from Budget Paper Number 3 Section 2.1 pg 33

10 Points are taken from Budget Paper Number 3 Section 2.1 pg 33

Technical adjustments relating to expenses

Table 2.2 shows that technical adjustments made to expenses in the 2015-16 Budget are causing a deterioration in GGS HNOB by $48 million in 2015-16. Table 2.3 (below) shows this deterioration is mostly due to changes to 'funding profiles and rollovers for government agency expenses', which should add $58 million to expenses in 2015-16, after $46 million was withdrawn from expenses in 2014-15. The net effect of other technical adjustments see an improvement in GGS HNOB by around $10 million in 2015-16.

Table 2.2 shows that technical adjustments made to expenses in the 2015-16 Budget are causing an improvement in GGS HNOB by $154 million in in the four years between 2014-15 to 2017-18. Table 2.3 shows this mostly reflects adjustments made to estimates for 2014-15 and smaller adjustments in later years.

Technical adjustments relating to expenses

Table 2.2 shows that technical adjustments made to revenue in 2015-16 budget are causing an improvement in GGS HNOB by $38 million in 2015-16 and by $35 million (in net terms) over the four years between 2014-15 to 2017-18. Table 2.3 shows this mostly reflects:

- an upwards adjustment of $47 million to ACCTAB licence fees in 2014-15
- an upwards adjustment of $45 million to the LDA dividend in each of 2015-16 and 2016-17
- upward adjustments to payroll tax parameters in each of the four years which, according to the budget papers reflect 'growth in employment and wages in relevant sectors of the ACT economy and the payroll tax harmonisation initiative',[11] and
- other smaller adjustments.

These upward adjustments are partially offset by downward revisions to conveyance duty parameters and 'other parameter and technical adjustments' (which are not explained).

2.3 Impact of technical adjustments between 2014-15 Budget Review to 2015-16 Budget: impact on GGS HNOB ($m)

	2014-15	2015-16	2016-17	2017-18
Technical adjustments to revenue: impact on GGS HNOB				
ACTTAB Licence fees	47	0	0	0
Conveyance duty parameters	-4	-6	-11	-14
ICON Water dividend and income tax equivalent	-3	-10	-1	-16
LDA dividend, income tax equivalent and contributed assets	1	45	45	0
Payroll tax parameters	5	12	10	9
Superannuation provision and territory bank account earnings	-2	2	-7	-10
Other parameters and technical adjustments	5	-4	-13	-45
Total revenue technical adjustments	**50**	**38**	**23**	**-76**

11 Budget Paper Number 3 Section 2.1 pg 32

	2014-15	2015-16	2016-17	2017-18
Technical adjustments to expenses: impact on GGS HNOB				
ACTIA liabilities - actuarial update	41	-11	2	5
Revised funding profiles and rollovers for government agency expenses	46	-58	-6	-4
Treasurer's advances	-12	0	0	0
Other parameter and provision adjustments	22	31	51	57
Other technical adjustments	7	-10	1	-8
Total expenses technical adjustments	**105**	**-48**	**48**	**50**

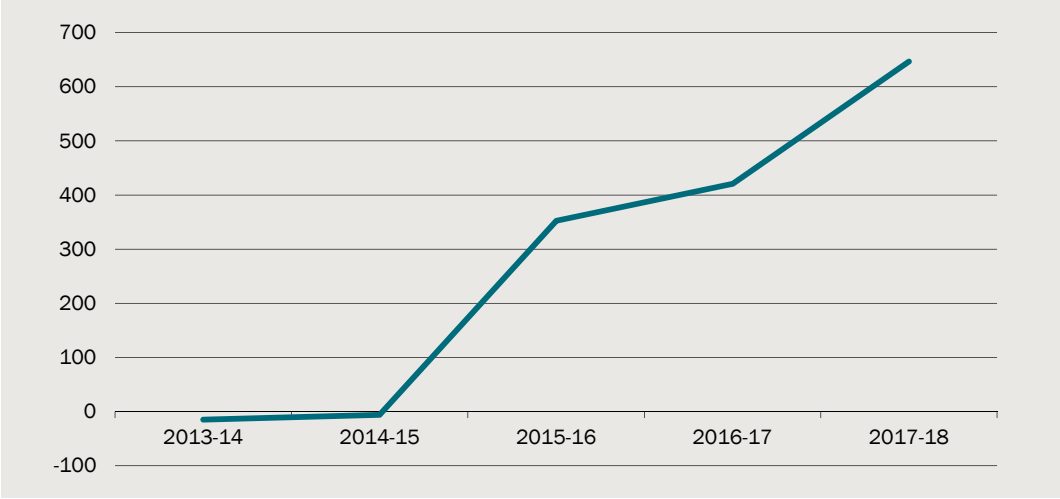
Source: ACT Government (2015) Budget Paper 3, Table 2.1.4

Net cash from operating activities

Net cash from operating activities measures cash receipts from operations (including 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). Maintaining a positive cash balance ensures there is sufficient cash from operations to cover the net cash outlays for capital investment, debt repayment and to save cash to address unfunded superannuation liabilities.

As shown in Chart 2.4, net cash from operating activities is expected to be negative in 2014-15 and 2015-16. According to the Budget Papers, this cash deficit largely reflects outlays associated with the *Asbestos Eradication Scheme.*[12] Once the direct costs of the Asbestos Eradication Scheme are finalised, the net cash from operating expenses are expected to increase over the forward estimates.

2.4 Net cash from operating activities ($m)



Data source: ACT Government (2015) Budget Paper 3, Table 2.1.1

12 Budget Paper Number 3, Section 2.2 pg 39

How do we judge the financial health of the ACT Government?

We can judge the overall financial health of the ACT Government by evaluating two things:

- the credibility of the path back to surplus, and
- the strength of the government's balance sheet.

How credible is the path back to surplus?

Table 2.1 (above) shows the ACT Treasury forecast the GGS HNOB to improve from a substantial deficit of $408 million in 2015-16 to a surplus of $50 million in 2018-19. As noted, this time-frame for the return to surplus has been pushed back by a year (from 2017-18 to 2018-19).

There is a significant risk it will take longer than currently projected for the GGS HNOB to return to surplus. This reflects the assessment that there are significant downside risks to the outlook for economic growth. If economic growth is weaker than expected, this could cause collections from taxes that are sensitive to economic activity (like payroll tax and stamp duty) to be less, causing the GGS HNOB to deteriorate.

Weaker economic conditions could see expenses grow more weakly too (as wage growth is a big driver for government expenses).

If the economy is weaker than expected it is likely this would cause a deterioration in the GGS HNOB relative to what is currently projected.

Balance sheet items

According to the Budget Papers, the ACT continues to maintain a strong balance sheet. It is noted that key indicators (net debt, net financial liabilities and net worth), when measured as relative to GSP, remain in line with other jurisdictions.[13]

Net debt

Net debt is the balance of gross debt liabilities and financial assets (such as cash reserves and investments). It does not include accrued superannuation liabilities.

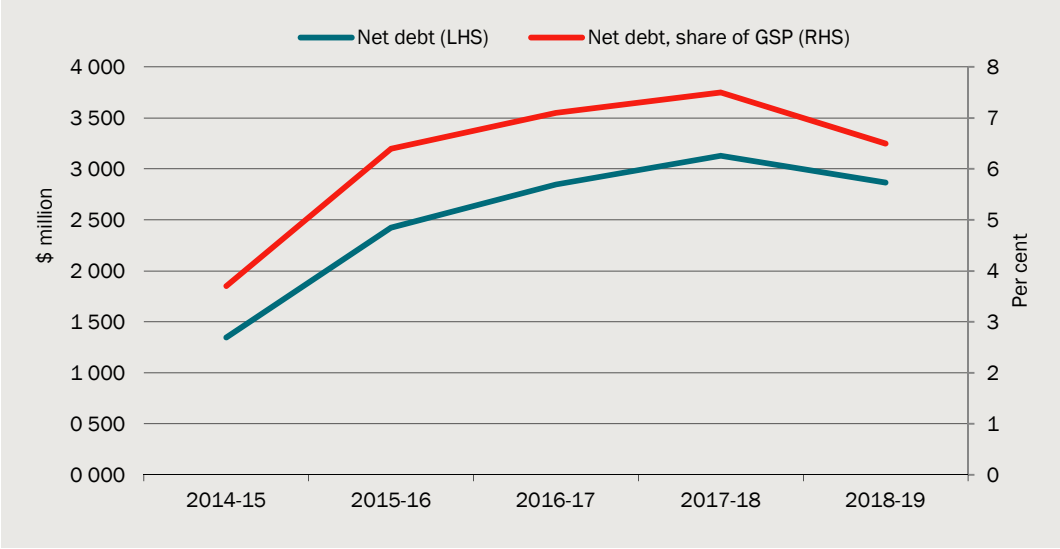
Chart 2.5 (below) shows that forecast Net Debt is positive, which means gross debt liabilities are greater than financial assets. Net debt is forecast to rise, and peak in 2017-18 before declining in 2018-19 (when the budget returns to surplus). According to Section 8.1 of Budget Paper Number 3, net debt increases by $1 078 million in 2015-16, due a loan from the Commonwealth Government for the *Asbestos Eradication Scheme* and borrowing to support the Government's Capital Works Program.

---

13 Budget Paper Number 3, Chapter 8.1, Page 251

The Budget Papers explain that the net debt measure includes a provision for Capital Metro. However, the ACT Government intends to fund the project with a public-private partnership. If this funding arrangement is achieved, there will no requirement for the government to use debt to fund the project.[14]

2.5 ACT Government net debt



Data source: ACT Government (2015) Budget Paper 3, Table 8.1.2

Net financial liabilities

Net financial liabilities is a broader measure (than net debt) of the net financial obligations of the ACT Government. It includes net debt and superannuation liabilities. According to the Budget Papers, net financial liabilities expressed as a ratio (or share) of state GSP provides an indicator of the sustainability of the ACT's debt.[15]

As shown in Chart 2.6, net financial liabilities is forecast to rise and peak in 2017-18, at 15.3 percent of GSP. According to section 2.2 of Budget Paper 3, borrowing for capital purposes (which excludes a loan from the Commonwealth for the *Asbestos Eradication Scheme*) adds around $1 200 million to borrowings (and therefore to net financial liabilities) out to 2018-19.[16] Section 8.1 of Budget Paper number 3 also notes the government's superannuation liability is expected to increase too.[17]

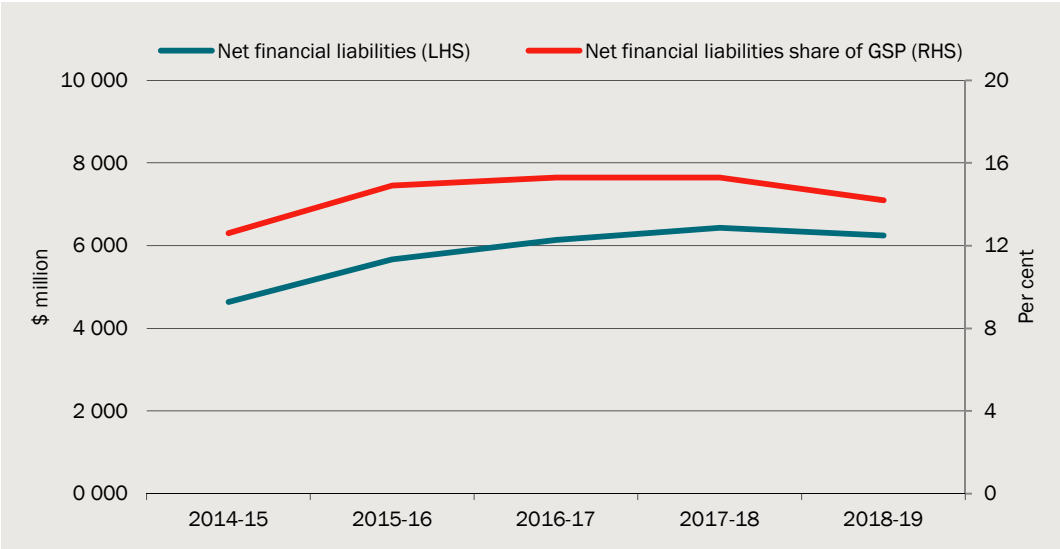
14 Budget Paper Number 3, Chapter 8.1, Page 251

15 Budget Paper 3, Section 8.1, page 252

16 Budget Paper 3, Section 2.2 page 43

17 Budget Paper 3, Section 8.1 page 252

2.6 ACT Government net financial liabilities



Data source: ACT Government (2015) Budget Paper 3, Table 8.1.2

Comparison with other states

Table 2.7 shows the net financial liabilities, as a share of GSP, of State and Territory Governments in Australia and the credit rating of their debt, which shows that the ACT is actually performing reasonably well, maintaining a AAA credit rating and keeping net debt to levels well short of other territories and comparable to the larger states.

2.7 Credit rating of state debt, and net financial liabilities

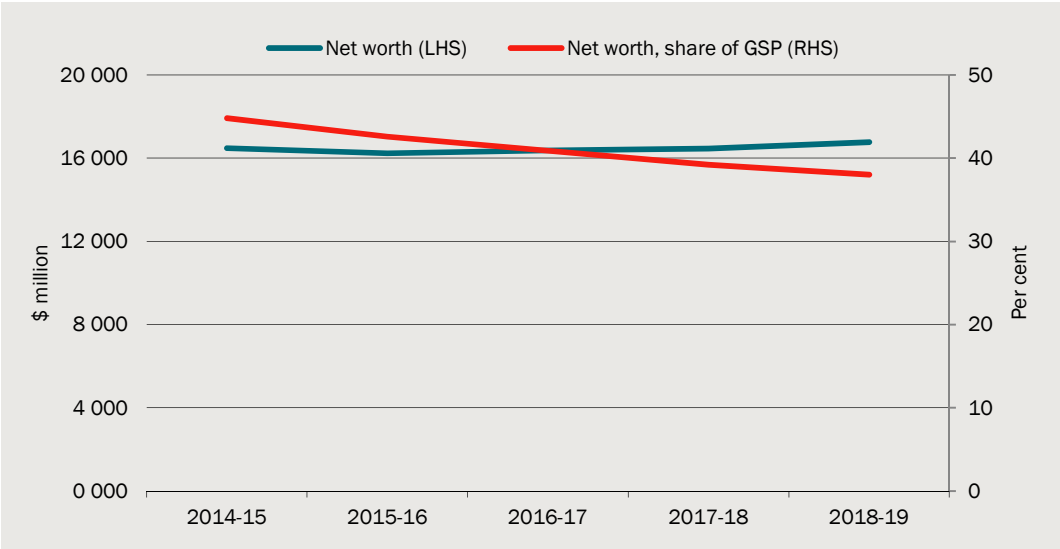
State/territory	Credit rating of debt	Net financial liabilities, share of GSP (per cent, 2015-16)
NSW	AAA	11
VIC	AAA	14
ACT	AAA	15
WA	AA+	9
QLD	AA+	12
TAS	AA+	20
SA	AA	17
NT	Aa1	25

Source: Based on ACT Government (2015) Budget Paper 3, Figure 2.2.3

Net worth

The ACT Government has a positive net worth, meaning that it has more financial and non-financial assets than liabilities. Net worth is expected to decrease out to 2017-18, as net debt increases, before growing again in 2018-19, although in GSP terms, the underlying financial position of the Territory is on a weak downward trajectory.

2.8 Net cash from operating activities and liabilities



Data source: ACT Government (2015) Budget Paper 3, Table 8.4.1

Superannuation liability

The ACT Government has liabilities created by defined benefit superannuation schemes. The government has established a superannuation provision account to hold and invest funds, which are used to meet the Government's ongoing superannuation benefit obligations.

Table 2.9 shows in 2015-16 the government estimates the superannuation liability to be $6.1 billion, and this is expected to grow to $6.9 billion by 2018-19. At this stage, this liability is offset by assets with a value of around $3.6 billion (in 2015-16), and are expected to grow to $4.5 billion in 2018-19. These assets mean that around 41 per cent of the government's liability is unfunded in 2015-16, and this is expected to fall to 35 per cent by 2018-19.

2.9 Superannuation liability of the government

		2014-15	2015-16	2016-17	2017-18	2018-19
Superannuation liability	$ million	5 813	6 095	6 368	6 633	6 889
Investments	$ million	3 359	3 609	3 879	4 169	4 482
Unfunded liability	$ million	2 454	2 485	2 489	2 463	2 407
Funding percentage	Per cent	58	59	61	63	65

Source: ACT Government (2015) Budget Paper 3, Table 8.2.4

It is worth noting that the projected superannuation liabilities are uncertain and sensitive to the assumptions used. The Budget Statement of Risk suggests that the estimated superannuation liability is most sensitive to inflation, wages growth, rates and patterns of retirement and resignation and the proportion of benefits taken in pension form. In addition, the superannuation liability is affected by the assumed discount rate, which

reflects the estimated average timing of the benefit payments and the time value of money.

Superannuation liability vs other government liabilities

The superannuation liability makes up around 50 per cent of the total liabilities of the ACT Government.

2.10 General Government Liabilities of the ACT Government

Liabilities	Level	Share of liabilities
	$m	Per cent
Superannuation	6 098	49
Borrowings	3 849	31
Other	2 377	19
Total liabilities	**12 324**	

Source: ACT Government (2015) Budget Paper 3, Table 9.2

Superannuation is incorporated into the Budget in several areas:

- The Government established a Superannuation Provision Account (SPA) for the purpose of holding and investing financial assets set aside to meet the emerging cost payments associated with the Government's employer superannuation benefit obligations[18]. Interest earned on the SPA is incorporated into the interest income component of revenue.
  - In order to smooth out the returns over the long run, the Budget bottom line utilises an adjustment to interest income on the superannuation account to bring interest levels in line with the long run expectations. A small amount of revenue is also received by the PTE sector and external sector (ActewAGL) which are based on annual actuarially determined employer contribution rates.
- Superannuation expenses that are incurred in each period are also contained in the expenditure items of the Budget.
- Accrued superannuation liabilities are factored into the Budget through the reporting of Net Financial Liabilities. The total value of accrued superannuation liabilities is calculated as the present value of the future payment of benefits that have actually accrued in respect of service at the calculation date.

[18] These obligations are from superannuation owing under the Defined Benefit Superannuation Schemes and the Public Sector Superannuation Scheme whereby the benefit is unfunded by the employer and the benefit is not required to be paid until a member takes their benefit entitlement.

3 Revenue

The 2015-16 Budget sees a decline in the contribution from the Commonwealth both for 2015-16 and over the forward estimates compared to what was expected in the 2014-15 Budget. As Commonwealth Government funding represents 40 per cent of the ACT revenue stream, both the size of the decline along with the significance of the funding source lead to a substantial impact on ACT revenues.

The 2015-16 Budget forecast expect revenues are expected to be 1 per cent (or $44 million) lower than was anticipated in 2014-15.

The Government continues to pursue its taxation reform agenda, shifting the source of tax revenue from inefficient taxes on transactions (duties on insurance and conveyancing) towards and broad-based land tax – general rates.

ACT Government revenue is projected to increase from $4.5 billion in 2014-15 to $5.3 billion in 2018-19. Chart 5.9 shows the projected tax revenue over the forward estimates. It also shows the changes in revenue from various sources over time to illustrate the key drivers of increasing revenue over the coming years.

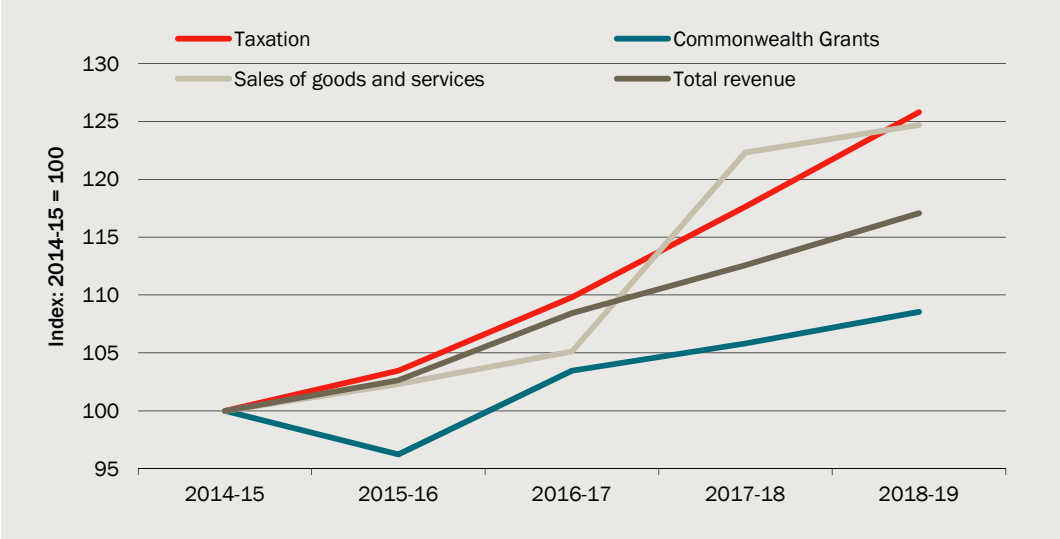
The chart clearly shows that growth in revenue sourced from the Commonwealth is significantly lower than ACT taxation and the sale of goods and services. Taxation revenue is projected to see strong growth, driven by:

- indexation of many taxes, duties and levies
- increases in taxes and levies outlined in the initiatives above, and
- increases in general rates (which is more than offsetting the decline in insurance duties).

The significant increase in sales of goods and services in 2017-18 is driven by the change in Commonwealth Government health funding arrangements for cross border health services and the need for the ACT to recover expenses from the NSW Government.

Despite the revisions relative to the previous Budget, GST revenue is projected to increase over the forward estimates. However, this increase is mostly offset by a decline in National Partnership Payments from the Commonwealth.

3.1 Growth in key revenue components



Data source: Based on ACT Government (2015) Budget Paper 3, Table 6.1.1

ACT Budget 2015-16

Revenue projections relative to 2014-15 Budget

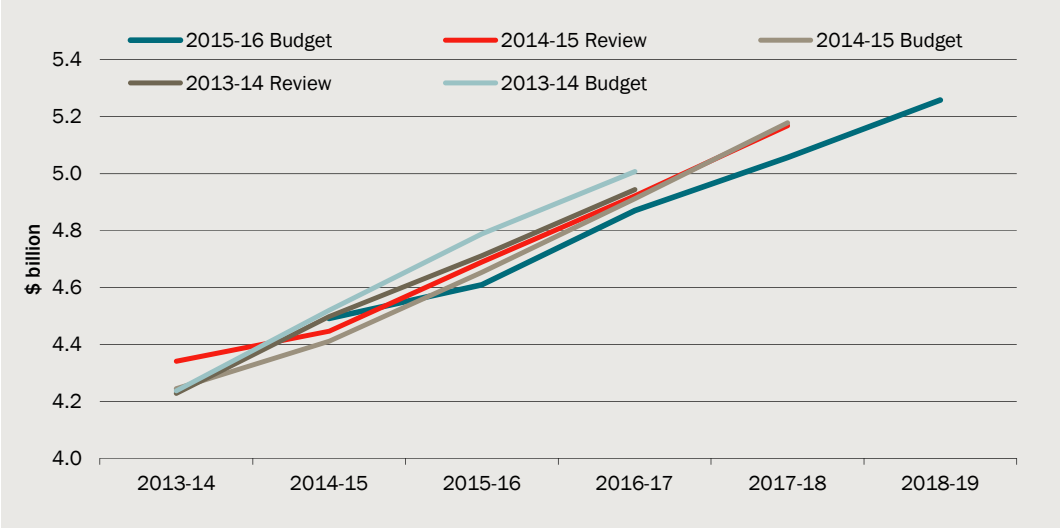
The revenue projections over the forward estimates in the 2015-16 Budget have been revised down again, a continuation of a trend in downward revisions since the 2013-14 Budget (see chart 3.2).

That said, the estimated outcome for 2014-15 revenue is $4.5 billion, 1.8 per cent (or $79.7 million) higher than was anticipated in the 2014-15 Budget. Most of the difference came through higher than expected taxation revenue and Commonwealth grants, partly offset by smaller gains from contributed assets and other revenue.

In the forward estimate years, revenue is estimated to be lower than in the 2014-15 Budget and 2014-15 Review. This is driven by lower than expected revenue from the Commonwealth – revisions to expected GST receipts are explained below. Total cumulative revenue across 2015-16 and 2017-18 is estimated to be $207.2 million lower in the 2015-16 Budget than was outlined in the 2014-15 Budget:

- $44.1 million lower in 2015-16
- $41.9 million lower in 2016-17, and
- $121.1 million lower in 2017-18.

3.2 Revenue projections over time



Data source: Based on ACT Government (2015) Budget Paper 3, Table 6.1.1; ACT Government (2014) Budget Paper 3, Table 6.1.1; ACT Government (2015) Budget 2014-15 Investing in Canberra Budget Review, Table 2.1.1; ACT Government (2014) Budget 2013-14 Budget Review, Table 2

The downward revision in expected revenue from the previous Budget is mainly due to lower revenue expected from the Commonwealth. GST payments to the ACT were revised down by 7 per cent in the Budget year and by around 11 per cent for each of the forward years (accounting for around $135-140 million each year) as a result of a revision of the GST allocation between states. Other significant changes from the previous Budget include:

- slightly higher taxation revenue due to higher payroll tax revenue from employment and wages growth in relevant sectors of the ACT economy (taxation revenue is estimated to be $7.4 million higher in 2017-18);
- an upward revision of contributed assets revenues (which mainly refers to the transfer of land development infrastructure assets to the General Government Sector from the Land Development Agency) for 2016-17 and 2017-18 due to revisions in the land release program[19] (gains from contributed assets is estimated to be $11.0 million higher in 2017-18);
- an increase in expected revenue from the sale of goods and services in 2017-18 as the ACT Government will be required to fully recover Cross Border Health Receipts from other jurisdictions from 2017-18 when federal funding arrangements change (sales of goods and services is estimated to be $14.5 million higher in 2017-18);
- a downward revision of interest income and dividend and tax equivalents. Part of this is driven by a poorer profit outlook for ActewAGL as a result of the Australian Energy Regulator's decision to lower energy distribution charges, however there is limited information on these movements (interest income is estimated to be $7.9 million lower in 2017-18).

19 Gains in contributed assets are not a cash flow and therefore care should be taken when discussing it as a source of revenue.

Overall, upward revisions to taxation revenue, contributed assets and sales of goods and services are not sufficient to cover the reduction in Commonwealth Government funding resulting in a net decline in revenue compared to the previous Budget.

Impact of Commonwealth Government decisions

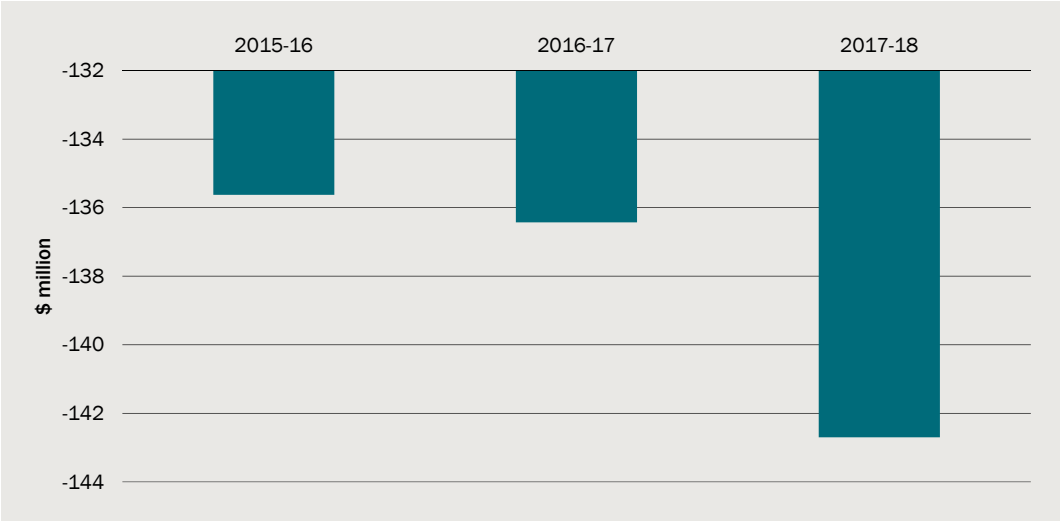
In the 2014-15 Commonwealth Budget significant cuts in spending and employment had substantial implications for the ACT Budget and economy. The 2015-16 Commonwealth Budget did not include similar cuts but spending has not returned to previous levels. As a result, revisions to the ACT Budget in terms of employment and associated spending are not significant in 2015-16. The more significant impact of Commonwealth finances on the ACT in 2015-16 come through revisions to GST allocations between the states.

Revisions to the ACT share of GST

In 2014-15 the ACT received 44.1 per cent of its revenue from the Commonwealth, of which more than half was GST funding (25.4 per cent of ACT revenue). Compared to other states and the Northern Territory, the ACT has a reasonably high reliance on GST revenue but this is offset by a lower reliance on National Specific Purpose Payments and National Partnership Payments from the Commonwealth (overall reliance on Commonwealth funding is lower in only WA and NSW).

The Commonwealth Treasurer released the Commonwealth Grants Commission's 2015 review on GST revenue sharing relativities in May. The ACT's GST relativity was reduced from 1.23600 to 1.10012. This revision has led to a decline in expected GST revenue in the Budget and forward years (compared to the ACT Budget Review 2014-15) of $414.8 million (cumulative between 2015-16 an d 2017-18). This is shown in chart 3.3.

3.3 Change in GST revenue from 2014-15 Budget to 2015-16 Budget



Data source: Based on ACT Government (2015) Budget Paper 3, Table 7.1.2

The GST relativities were adjusted due to:

- an increase in payroll tax in the ACT (indicating a greater revenue raising capacity)
- changes in methods of assessment (covering treatment of public transport expenses, support for private sector health services, implication of the size of a city on public transport requirements)
- adjustments for Commonwealth contributions to the Majura parkway project, and
- a slowing of ACT population growth compared to the national average.

While the GST revision in per capita terms is the highest in the ACT compared to all the states and territories, the ongoing GST allocation system still remains more favourable for the ACT than an allocation based purely on per capita terms. Furthermore, the change sees a return to the long term average share of GST the ACT has historically received.

Other changes in Commonwealth funding

In addition to GST revenue, the ACT receives Commonwealth funding in the form of ACT Municipal Services funding, National Specific Purpose Payments (SPPs), National Partnership Payments (NPPs) and other Commonwealth Government payments (including Financial Assistance Grants, Legal Assistance Services, Provision of Fire Fighting Services and Developing Demand-Driver Infrastructure for the Tourism Industry).

ACT Municipal Services funding is provided to compensate for costs associated with Canberra's role as the National Capital. This funding has been revised downward in response to lower wage growth (the payment is indexed to wage growth and inflation).

National Specific Purpose Payments

National Specific Purpose Payments (SPPs) are to support health, education, workforce, disability and affordable housing outcomes, with funding allocated between states and territories on a per capita basis. A summary of the value of NPPs in the 2015-16 Budget is provided in table 3.6.

- There were major changes to the allocation of funds under the National Health Reform Agreement and the Students First SPP in 2014-15 but the 2015-16 Commonwealth Budget made no further changes and continued with the arrangements introduced in 2014-15.
- Compared to the previous Budget, ACT funding under the Health related SPP is greater in 2015-16 and 2017-18 but lower in 2017-18 when the National Health Reform Agreement ceases. From 2017-18, Commonwealth payments to the ACT for health services provided to NSW residents will cease. The ACT will seek reimbursement of the cost of these services from the NSW Government (revenue for this is recorded under sale of goods and services).
- The ACT will continue to receive payments under the National Disability SPP which will be paid to the National Disability Insurance Scheme (NDIS) as ACT clients transition to the NDIS.

- Similarly, the funding for National Schools SPPs and National Education Reform Agreement (Students First) Funding is greater in 2015-16 and 2016-17 but lower in 2017-18.
- Commonwealth funding of the National Affordable Housing SPP, National Disability SPP National Skills and Workforce Development SPP is slightly lower under the current Budget than the previous.

3.4 Commonwealth National Specific Purpose Payments to the ACT

	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
National Health Reform funding/ Public Hospitals funding	304.6	321.4	343.9	296.1	308.4
Students First funding	253.4	268.4	285.7	298.6	313.5
National Skills and Workforce Development SPP	23.5	23.9	24.2	24.6	25.0
National Disability SPP	22.9	23.6	24.5	25.4	26.4
National Affordable Housing SPP	21.4	21.7	22.0	22.4	22.7
Total National Specific Purpose Payments	**625.9**	**659.0**	**700.3**	**667.1**	**695.9**

Source: ACT Government (2015) Budget Paper 3, Table 7.1.3

National Partnership Payments

National Partnership Payments (NPPs) support specific projects in line with the Commonwealth Government's reform agenda. Key developments since the 2014-15 Budget are summarised here.

- Four NPPs due to expire, worth a total $8.8 million annually, have been extended.
- The ACT has entered into agreement with the Commonwealth under the Asset Recycling Initiative to receive incentive payments for the sale of assets to contribute to investment in productive infrastructure. $7.8 million was received under the agreement in 2014-15, the ACT has made provisions for a total of $59 million in payments over 5 years under the agreement (see table 5.10).

3.5 Provisional revenue from Asset Recycling Initiative

	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Asset Recycling Initiative	7.8	3.6	20.6	12.9	13.9

Source: ACT Government (2015) Budget Paper 3, Table 7.1.6

Overall, funding in most areas has increased. For example,

- in housing due to an extension of the homelessness program by one year
- in community services due to payments from the DisabilityCare Australia Fund
- in education driven by an extension of the Universal Access to Early Childhood Education program

- in infrastructure due to the Asset Recycling Initiative and delaying payments for Majura Parkway and Constitution Av. This outweighs declines in payments for the Black Spot program, Roads to Recovery and investment in roads, and
- in environmental services for disaster resilience and bushfire mitigation.

Funding for health, however, declined compared to the previous budget mostly due to a possible discontinuation of the Adult Public Dental Services program[1]. Previously these program was funded to 2017-18 but in the 2015-16 Budget funding was only provided for 2015-16. Funding in the forward estimates will be considered as part of the White Paper on Reform of the Federation.

New revenue initiatives

New revenue initiatives introduced in the 2015-16 Budget are expected to raise $106.4 billion over four years to 2018-19. The most significant initiatives (or areas of reform) are summarised in table 3.6 and discussed below.

3.6 Impact of revenue initiatives

	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m
Emergency Services Agency funding	9.1	16.0	22.3	28.7
Fire and Emergency Services Levy	*6.3*	*12.5*	*18.8*	*25.0*
Ambulance Levy	*0.5*	*1.0*	*1.1*	*1.1*
Road Rescue Fee	*2.3*	*2.4*	*2.5*	*2.6*
Broad-based land taxes	-2.1	-6.2	-4.8	-4.5
General Rates	*-3.8*	*-9.6*	*-10.3*	*-12.4*
Land Tax	*1.7*	*3.5*	*5.5*	*7.9*
Motor Vehicle Registration	0.3	3.0	5.0	7.4
Parking initiatives	2.0	2.3	2.3	2.4
After Hours Paid Parking in Civic	*1.1*	*1.3*	*1.3*	*1.4*
Parking Fee Revenue	*1.0*	*1.0*	*1.0*	*1.1*
Other initiatives	5.0	6.6	6.8	5.0
Total impact	**14.2**	**21.6**	**31.6**	**38.9**

Source: Based on ACT Government (2015) Budget Paper 3, Table 3.4.2

Funding of the ACT Emergency Services Agency

The government is changing funding arrangements for the Emergency Services Agency so that it is more financially sustainable, with 75-80 per cent of the costs of delivering emergency services is funded through emergency services charges – the Fire and Emergency Services Levy (FESL), Road Rescue Fee and Ambulance Levy.

[1] The figures are listed as 'not for publication' in the 2015-16 Commonwealth Budget as negotiations are yet to be finalised

The FESL is applied to all rateable properties in the ACT. Currently residential and rural properties are charged a fixed fee of $130 per property and commercial properties charged a progressive rate based on unimproved value. From 2015-16 the charge for residential and rural property will increase to $196, an increase of over 50 per cent. In the subsequent years the levy is estimated to increase by around $40 per year per property, which would lead to a levy of around $316 per property in 2018-19. The increase in revenue in 2015-16 due to this adjustment is $6.3 million.

The Ambulance Levy is charged to private health providers. The rate charged will increase from 1 January 2016 to $131.56 per year for individuals and $263.12 for families. This represents an increase of just under 5 per cent. The increase in 2015-16 revenue driven by this initiative is $0.5 million.

The Road Rescue Fee, applied to vehicle registrations, will increase from $16.60 in 2014-5 to $25 in 2015-16, an increase of over 50 per cent. In 2015-16 this initiative will raise $2.3 million.

Together, these three levy increases account for over 70 per cent of the net increase in revenue from new initiatives over the forward estimates (the FESL alone accounts for nearly 60 per cent).

Transition to a broad-based land tax

Following the recommendations of the Quinlan review, the ACT Government is shifting its revenue base away from inefficient transaction taxes (on insurance and conveyances) towards a more broad-based land tax. This process was started in the 2012-13 Budget by abolishing and phasing out identified inefficient taxes and increasing general rates.

In the 2015-16 Budget the ACT Government revised down the required increase in general rates. In 2015-16 general rates will increase on average, by around 9 per cent. This downward revision (compared to the estimate in the 2014-15 Budget) is shown in the Budget as an initiative with a negative revenue impact (of $3.8 million in 2015-16). Previous years since the taxation reform program was launch had seen rates increase by 10 per cent. The increase in rates reflects indexation as well as revenue replacement under the taxation reform program.

Land tax revenue is also projected to increase in 2015-16 and in the forward years as the government introduces a five per cent annual indexation to the fixed charge component of land tax. Land tax indexation will raise an additional $1.7 million in revenue in 2015-16.

Parking revenue

The government will aim to raise revenues from extending paid parking times and by increasing parking fees. Paid parking will be extended from 5:30pm to 10:30pm on weekdays and from 9:00 am to 10:30pm on weekends in selected city car parks from 1 September 2015. This is estimated to raise an additional $1.1 million in 2015-16 and a total of $5.0 million over four years to 2018-19.

The government will also extend pay parking to the Phillip trade service area, effective from July 2016. While the capital expenditure for this initiative is included in the budget, there is no specifically reported associated revenue.

The Budget papers state parking fees will be increased by 6 per cent a year from 2015-16, which is expected to increase parking revenue by $1 million in 2015-16 and $4 million over 4 years. While listed as a new revenue initiative, indexation of parking fees and fines by 6 per cent annually was announced in the 2014-15 Budget.

ACT budgets have consistently over estimated parking fee revenues, including in 2014-15 where the estimate was 13 per cent higher than realised parking fee revenue.

Motor vehicle registration

Motor vehicle registration fees are set to increase 5 per cent a year from 2015-16 to 2018-19. Motorists choosing to pay quarterly or half yearly will receive a reduction in administrative fees of $10-15 per transaction. Incentives are in place, through offering of a 2 per cent discount, to encourage motorists to pay annually. Currently registration fees range (depending on the weight of the vehicle) from $106.7 for a motor cycle to between $252.50 to $712.30. This initiative is expected to raise a total of $15.6 million over 4 years.

An assessment of tax initiatives

Tax initiatives can be assessed on the basis of[20]:

- Stability – revenue source that is predictable and expected to be maintained over time providing certainty for service delivery
- Efficiency – measures that do not distort activity or influence consumer and producer behaviour unnecessarily
- Equity – horizontal and vertical equity ensures taxes apply equally to people in comparable financial circumstances, and taxes increase with income and therefore an individual's capacity to pay.
- Simplicity – ideally, taxes should be simple, transparent, practical and enforceable, with minimal administration and compliance costs.

The revenue initiatives in the 2015-16 Budget are generally in line with the recommendations of the Quinlan Review. By continuing to reduce reliance on conveyance and insurance duties, the tax system is becoming more efficient and stable.

The most significant revenue initiative is the FESL. This is a broad-based levy on an immobile resource (property) making it a relatively efficient tax. The Quinlan review noted the emergency service levies were not financially sufficient to fund the cost of providing emergency services. Increasing the FESL (along with the Ambulance Levy and Road Rescue Fee) is working towards improving the stability of funds for emergency services.

---

20 Based on Quinlan (2012) ACT Taxation Review

3.7 Progress in reforming the taxation system

In 2012, a comprehensive review of the ACT taxation system was undertaken – the Quinlan Review. In response, the ACT Government started the Taxation Reform Program with the objective to rely increasingly on general rates as a broad based land tax and less on inefficient transactions taxes. The key areas of reform are to abolish duty on insurance, abolish conveyance duty and increase general rates to recover revenue lost through removing the duties.

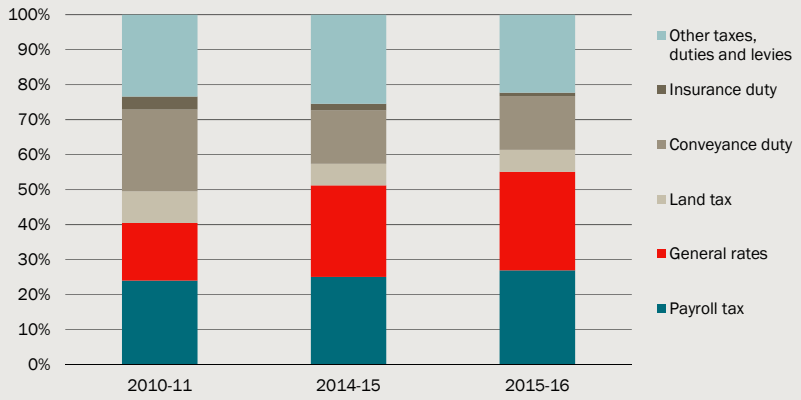
In line with the recommendations of the Quinlan Review, 2015-16 will be the last year that duties on general and life insurance apply.

Conveyance duty is being progressively lowered over a 20 year time frame. The long timeframe was recommended in the Quinlan Review to ameliorate the impact of the change on households. The Review also recommended that a proportionate credit in reduced rates should be given for conveyance duty previously paid to address transitional equity concerns for people who have recently moved. It is unclear that the government has undertaken this action.

General rates were initially slated to increase by around 10 per cent a year (on average) to make up for the lost revenue from removing the other taxes. In the 2015-16 the increase was revised to 9 per cent. The use of general rates to raise this revenue is more efficient than duties on insurance and conveyance as it has a broad base, is not levied on transactions and is therefore less distortionary.

Chart 3.8 shows how the composition of ACT tax revenues has changed since 2010-11. The revenue base has shifted significantly from inefficient insurance duties, and conveyance duties, towards the broad-based, stable source of general rates. In dollar terms, the increase in general rates since 2010-11 has been greater than the decrease in insurance and conveyance duties collected. General rates increased by $12.3 million over this period while duties collected declined by $9.8 million.

3.8 Sources of ACT taxation revenue over time



Data source: Based on ACT Government (2015) Budget Paper 3, Table 6.1.2, ACT Government (2011) Budget Paper 3, Table 3.1.2

Risks to future revenue projections

Commonwealth funding

With significant revenues coming from the Commonwealth, and the ACT economy in general closely tied to Commonwealth employment and activities, the ACT is perpetually exposed to changes in the Commonwealth Budget.

White Papers

The Commonwealth has announced two White Paper processes that may have implications for the ACT.

A White Paper on Reform of the Federation will clarify the responsibilities and roles of the states and territories. This has the potential to impact on funding arrangements between the ACT and Commonwealth in areas such as health, education and housing. Currently around 35 per cent of Commonwealth funding to the ACT is through SPPs and NPPs tied to specific purposes which may be at risk from changes in responsibilities.

The White Paper on the Report of Australia's Tax System will examine tax bases and rates in the view to maximise economic efficiency and equity. This also may have implications for the ACT's revenue, for example through potential changes to the GST.

Goods and Services Tax

GST revenue is subject to changes in consumer confidence and the general state of the national economy. Changes in the national GST collection flows through to the state and territory allocations. The ACT's share of GST revenue is also subject to revisions in the State and Territory GST relativities by the Commonwealth Grants Commission (CGC). The 2015 revision led to a significant decline in the ACT's share of GST revenue. Its 2016 Update Report, expected in February 2016, with changes to relativities to apply to 2016-17, could potentially change the share again. Changes in 2016 would be expected to be smaller than 2015 as it is an update of the methodologies that were fully revised in 2015.

Specific Purpose Payments

Funding for health and education from the Commonwealth are to be capped, and indexed based on CPI and population growth. These arrangements are consistent with the 2014-15 Commonwealth Budget but undermines the stability and certainty of the SPPs which had been assured by the Intergovernmental Agreement on Federal Financial Relations (IGA FFR). Previously, payments were to be indexed to industry specific cost indicators. There is a major risk that such payments will not keep pace with future increases in cost and demand. As a result, there will be greater pressure on future ACT budgets to implement measures to control costs and to manage demand for these services.

National Partnership Payments

The short-term nature of NPP funding arrangements, and the uncertainty of the Commonwealth's commitment to ongoing funding, pose ongoing risks for the ACT Budget and services beyond the current Budget year. These payments are subject to revisions through the White Paper process and other pressures on the Commonwealth Budget.

The National Disability Insurance Scheme

The NDIS will receive funding from the Commonwealth after full roll out in 2019-20. States and territories will also contribute to the scheme. States and territories also have access to Commonwealth funding to support participation in the scheme. Funding is dependent on the number of clients in the scheme. Full access to the funding will be made available on completion of the trial. In the intervening period, funding is subject to negotiation with the Commonwealth, due to be completed in August 2015. The result of the negotiation represents a risk to the ACT's cash flow.

Land Release Program

Recovery of the ACT economy from the Commonwealth Government's fiscal consolidation presents a risk to the growth of the ACT residential property market and the capacity of the market to purchase land release sites at the prices forecast in the 2015-16 Budget. Lower than expected demand or revenue would negatively impact the Land Development Agency's dividend and the Government's net operating balance.

Other risks to the program include achieving statutory clearances and capacity of industry to deliver infrastructure and estate works, and the capacity of the market to absorb the additional supply offered through the Asset Recycling Initiative.

4 Expenditure

The 2015-16 Budget provides for $244 million of new expense initiatives, net of the Health Funding Envelope. Of the $124 million is new expense initiatives (net of Health Funding Envelope) announced for 2015-16, approximately 10 per cent is allocated to the Urban Renewal initiative and 16 per cent is allocated to ACTION to support operational capacity.

Where the Asbestos Eradication Scheme has had an impact on the estimated expenses from 2014-15, and will continue to affect expenditure levels noticeably in 2015-16. The effect declines over time, as the costs of the program revert to principle and interest repayments on the Commonwealth Government loan.

There are some large new expenditure initiatives for social services, including the $39 million Step up for our kids program. The Urban Renewal initiative has placed an explicit focus on urban interaction and community participation.

While the largest component of the Urban Renewal initiative – Better Public Housing provides for the development of newly constructed public housing assets, this initiative is limited to replacing those housing assets sold under the Asset Recycling Initiative. There appear to be no initiatives within the Budget to increase the supply of Public Housing, and limited support to address homelessness more generally.

General Government Sector expenses are expected to reach $5.149 billion in 2015-16. This is an increase of $255 million (5 per cent) compared to the spending outlined for 2015-16 in the 2014-15 Budget.

A review of expected 2014-15 expenditures shows an estimated expenditure overrun of $359 million (7.4 per cent) compared to a Budgeted figure of $4.858 billion. This overrun was driven exclusively by the Asbestos Eradication Scheme as the expenditure category of Housing and Community Amenities reported an additional $400 million spend in 2014-15 than was accounted for in the 2014-15 Budget.

Continuing expenditure and major areas of change

Table 4.1 provides a summary of continuing expenditure allocations by function over the forward estimates. Over the forward estimates, Health and Education maintain the highest proportion of overall expenditure. While movements in Housing and Community Amenities and Other Purposes (interest repayments) are attributed to activities of the Asbestos Eradication Scheme, other major movements in proportional allocations are as follows.

- Health accounts for 26.9 per cent of expenditure in the 2014-15 Budget, increasing to 29.3 per cent in the estimates for 2018-19. This figure equates to approximately $3,600 of Health expenditure per person in the ACT and is in line with both Victorian per person spend in 2015-16 of $3400 and Tasmanian per person spend of $3300. It is slightly higher than the Western Australian per person spend of $2800.[21]
- Education maintaining constant 21.5 per cent of expenditure allocations across the forward estimates.
- Expenditure on General Public Services has been allocated 20 per cent more in the 2015-16 Budget compared to the level allocated in the 2014-15 Budget ($104 million). This elevated contribution level continues through the forward estimates. There is no direct discussion around this expenditure class and what is driving the uplift but it incorporates:
  - Government superannuation benefits; and,
  - Other General public services.

4.1 General Government Sector Expenses by function

2014-15 Budget		2014-15 Est outcome	2015-16 Budget	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
$'000		$'000	$'000	$'000	$'000	$'000
453 618	General public services	433 016	558 437	540 375	537 270	553 259
414 332	Public order and safety	409 772	407 055	419 252	422 826	421 206
1 035 077	Education	1 035 731	1 093 513	1 112 020	1 139 347	1 175 035
1 308 065	Health	1 340 588	1 388 119	1 442 334	1 522 694	1 581 677
263 228	Social Security	253 969	251 524	251 140	275 985	258 106
196 412	Housing and Community Amenities	599 633	256 392	184 646	176 341	173 685
204 647	Recreation and Culture	222 695	207 042	203 141	202 414	206 948
24 678	Fuel and Energy	26 497	22 747	20 368	20 360	20 885
6 798	Agriculture, Forestry, Fishing and Hunting	2 310	2 463	2 481	2 607	2 791
7 504	Mining and Mineral resources other than Fuels, Manufacturing and Construction	12 244	10 073	11 774	10 918	11 142
322 242	Transport and Communications	316 928	309 086	288 333	290 569	303 468
69 750	Other Economic Affairs	67 550	66 445	62 340	55 400	55 980
551 997	Other Purposes	496 537	575 652	602 030	630 580	637 645
4 858 348	**Total Expenses**	**5 217 471**	**5 148 547**	**5 140 234**	**5 287 311**	**5 401 827**

Source: ACT Government (2015) Budget Paper 3, Table 4.1.1

[21] The CIE estimates based on State Budget Papers and ABS population figures.

Overview of major areas of substantial new spending

The 2015-16 Budget includes $244.3 million worth of new expenses over the forward estimates, net of the Health Funding Envelope. Including the Health Funding Envelope, new expenditure initiatives are worth $372 million over the forward estimates. Just under half of the value of these new expenditure initiatives are allocated in the 2015-16 financial year, with only 14 per cent of the value allocated in each of the 2017-18 and 2018-19 financial years.

Also included are $487.5 million of new infrastructure and capital initiatives and $106.4 million of new revenue initiatives.

Table 4.2 provides a summary of the gross value of new expenditure initiatives, by Directorate as well as an outline of the health funding envelope contribution to expenditure in the Health Directorate.

Net of the Health Funding Envelope, the Chief Minister, Treasury and Economic Development Directorate (CMTEDD) and Territory and Municipal Services (TAMS), account for $140 million of new expenditure, or 57 per cent. This expenditure is heavily focussed in 2015-16.

The Health Directorate has allowances for $139 million of new initiatives, including those funded through the $128 million Health Funding Envelope.

4.2 Gross expenditure on New Initiatives by Directorate

Directorate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	Total Estimate
	$'000	$'000	$'000	$'000	$'000
Canberra Institute of Technology	1 071	1 607	1 607	1 607	5 892
Capital Metro Agency	-7 433	-6 703	-2 025	5 000	-11 161
Chief Minister, Treasury and Economic Development Directorate	48 633	26 792	508	-693	75 240
Community Services Directorate	15 790	13 796	9 879	6 891	46 356
Education and Training Directorate	7 180	6 728	6 354	8 218	28 480
Environment and Planning Directorate	949	967	1 035	1 050	4 001
Health Directorate	42 318	44 990	25 981	26 390	139 679
Health Funding Envelope Offset	*33 949*	*40 090*	*26 927*	*27 503*	*128 469*
Health Directorate net of Health Funding Envelope Offset	8 369	4 900	-946	-1 113	11 210
Housing ACT	1 816	1 668	0	0	3 484
Justice and Community Safety Directorate	14 702	10 007	9,454	8,026	42 189
Legal Aid Commission (ACT)	539	438	0	0	977
Office of the Legislative Assembly	373	413	414	415	1 615

Directorate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	Total Estimate
	$'000	$'000	$'000	$'000	$'000
Territory and Municipal Services Directorate	33 682	11 497	8 634	10 630	64 443
Canberra Institute of Technology	1 071	1 607	1 607	1 607	5 892
Whole of Government Savings	-1 673	-5 188	-9 609	-11 940	-28 410
Total new expense initiatives	**157 947**	**107 012**	**52 232**	**55 594**	**372 785**

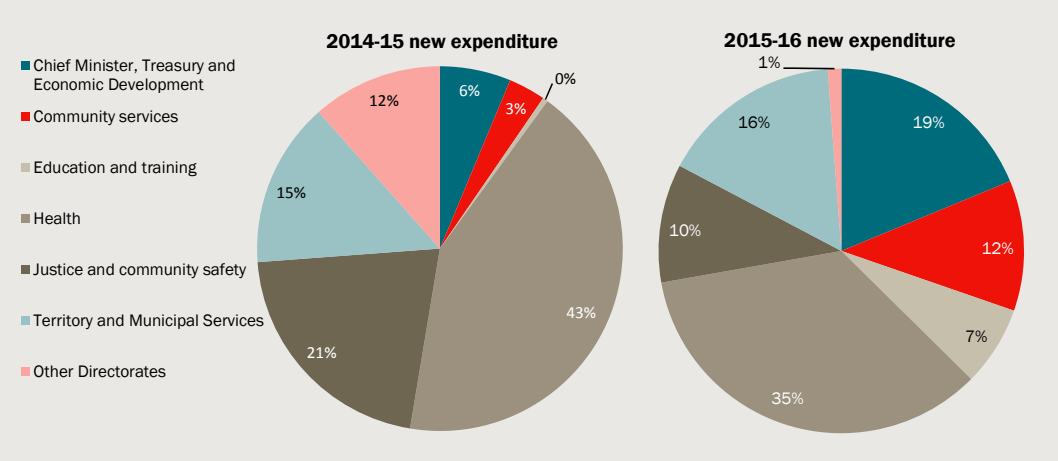
Source: Based on ACT Government (2015) Budget Paper 3, Table 3.2.2

Chart 4.3 provides a comparison of the distribution of new expenditure initiatives across Directorates in the 2014-15 Budget compared to those in 2015-16 Budget.

The largest changes are:

- Increased allocation to Chief Minister, Treasury and Economic Development predominantly due to the Urban Renewal, Better Public Housing initiative as well as funds provided for the transitioning NDIS – which are in part balanced by additional revenue from a reduction in the first home owners grant;
- Increased allocation to Community Services due to the Step up for our kids initiative;
- Increase in allocation to Education due to the Schools for the Future and Support for Students with Disability initiatives;
- Reduction in allocation to Justice and Community Safety due to the large allocation provided in the 2014-15 Budget for the Alexander Maconochie Centre;
- The Capital Metro has $11 million of expenditure allocations from 2014-15 that are being used as an offset for expenditure in 2015-16 which has driven the large change in the 'Other Directorates' category.

4.3 Proportional allocations of new expenditure initiatives 2014-15 and 2015-16



Data source: ACT Government (2014) Budget Paper 3, Table 3.2.2 and ACT Government (2015) Budget Paper 3, Table 3.2.2

Chart 4.4 provides an overview of the 10 largest expenditure based policy announcements, ranked in order of total expenditure over the forward estimates. Together, these initiatives account for $243 million or 65 per cent of new expenditure (including the Health Funding Envelope). In the 2015-16 financial year, Transport for

Canberra, ACTION – Supporting Operational Capacity through TAMS has the highest expenditure of any new initiative, followed by the Urban Renewal program across both CMTEDD and TAMS.

The ACT Government is providing $17 million to ACTION in 2015-16. While the expenditure item is outlined for the single year, the ACT Government will consider additional longer term funding subject to business improvement actions undertaken by ACTION and in line with a broader public transport reform agenda. It is implied here that there are likely to be changes to ACTION's operations and funding in the future due to the Capital Metro program.

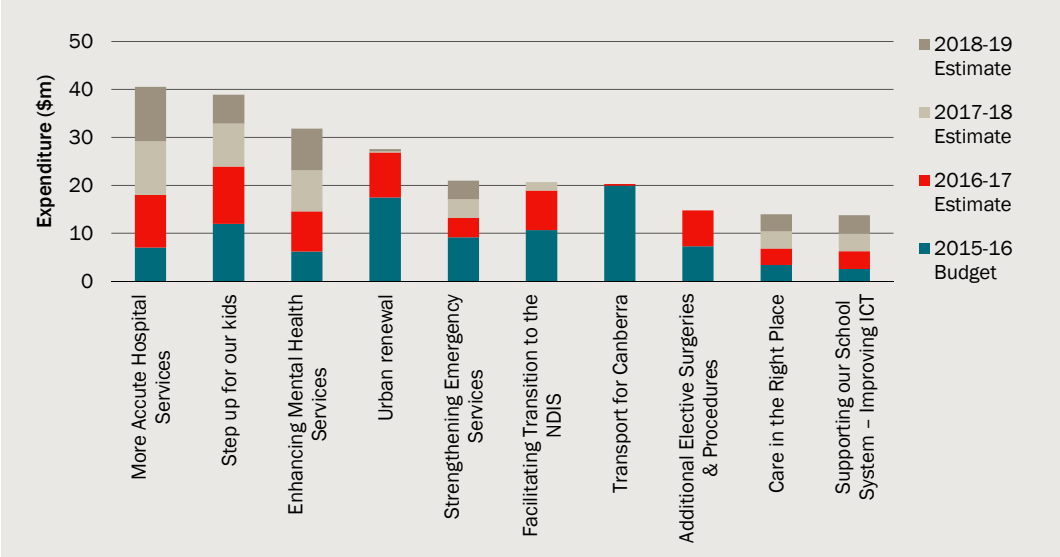
A payment of $6.36 million was also made in the 2014-15 Budget to Support Operational Capacity, with an expense item description as follows.

> The Government will provide $6.360 million in 2014-15 to cover increases in the cost of workers' compensation insurance for ACTION and fringe benefits tax liability associated with the provision of onsite employee parking.[22]

A more equalised approach to spending across the forward estimates is expected for the three large expense initiatives of:

- acute hospital services
- step up for our kids, and
- Enhancing mental health services.

4.4 Largest new expenditure initiatives



Data source: ACT Government (2015) Budget Paper 3, Table 3.2.2

Major initiative for the Community Services Directorate

Within the $46.3 million of new initiatives for the Community Services Directorate, $38.9 million is allocated to the 'Step up for our kids' initiative. This is the second largest

[22] ACT Government (2014) Budget Papers No 3, page 109

valued new expenditure initiative in the 2015-16 Budget. Funding for this initiative was provided for in the 2014-15 Budget Review.

The Step up for our kids initiative is focussed on:

- reducing the flow of children and young people into out of home care
- better support for birth parents in retaining care of their children
- improved outcomes for those in care, and
- where ever possible placing children and young people from care into permanent alternative families on a timely basis.

Significant new expenditure in Health Directorate with relatively small new capital initiatives

Total new expenditure initiatives within the Health Directorate are valued at $139 million over four years which is offset by the $128 million funding envelope. A total of $21.4 million in capital initiatives are included in the Health Directorate.

The larger expenditure initiatives are targeted at the provision of acute hospital services and expansion and improvement in mental health services. The major capital works initiative is $17.3 million towards Sterilising Services – relocation and upgrade.

Table 4.5 provides a summary of the key expenditure and supporting capital works initiatives outlined in the 2015-16 Budget.

4.5 Major Health Directorate expenditure and capital works programs

Expenditure Initiative	Forward estimates	Capital Works	Forward estimates
	$		$
More acute hospital services	40.5	Sterilising services	17.3
▪ General hospital beds	23.2		
▪ Intensive care beds	10.2		
▪ Emergency specialists	5.7		
▪ Hospital in the home	1.5		
Enhancing Mental Health Services	31.9	Canberra Hospital – more beds	2.5
▪ More community services	16.5		
▪ Improved Services	11.7		
▪ Hospital Care	2.3		
▪ Secure mental health staff	0.41		
Additional elective surgeries and procedures	14.8	Critical hospital infrastructure systems – enhancing patient and staff safety	1.6
Care in the right place – more community, outpatient and primary care services	14.0		

Source: Based on ACT Government (2015) Budget Paper 3, Table 3.3.2 and Table 3.3.2

Calvary Hospital funding initiatives of $12.4 million and a Canberra Hospital initiative of $69 000 are the only items funded outside of the funding envelope.

Urban renewal

Covering both the Chief Minister, Treasury and Economic Development and Territory and Community Services Directorates, the Urban Renewal program accounts for $27.5 million in new expenditure and $165 million in new capital initiatives over the forward estimates.

The major new expenditure and new capital works initiatives under the Urban Renewal program are outlined in table 4.6.

4.6 Urban renewal expenditure and capital works initiatives

Initiative	Expenditure component	Capital component	Total over forward estimates
	$m	$m	$m
Better public housing	25.9	133.3	159
City to the Lake, West Basin infrastructure	0.24	10.1	10
Melrose football precinct	0.28	6.7	7
11 smaller projects under TAMS Directorate	1.0	6.2	7

Source: Based on ACT Government (2015) Budget Paper 3, Table 3.3.2 and Table 3.3.2

The Better Public Housing initiative is the largest component of the Urban Renewal program (within the Chief Minister, Treasury and Economic Development and Territory and Community Services Directorates) accounting for 90 per cent of the expenditure and 80 per cent of the capital works budget for the program.

It should be noted that the costs for the Better Public Housing initiative are net costs to the budget. This is because the returns from the sale of land through the retiring of Allawah Court, Karuah, Red Hill Housing Precinct and Owen Flats is to be directed to the Capital Metro under the conditions of the Asses Recycling Initiative agreement made with the Commonwealth Government.

Capital Metro Agency

Due to the effect of an offset from the 2014-15 Budget, the Capital Metro Agency has net new expenses of -$11.161 million over the forward estimates. This is however, in contrast to the $51.78 million in associated new capital expenses that have been allocated over the forward estimates.

Emergency services provided with significant operational capacity

The Justice and Community Services Directorate has been allocated $42.1 million of new expenditure initiatives (10 per cent of the value of new initiatives in the budget). The largest component of which is for Strengthening Emergency Services and in particular:

Supporting Operational Capacity ($15.6 million) and Workers' compensation ($5.1 million).

New expense initiatives for business

While the ACT Government is relying on the Commonwealth Government's Jobs and Small Business package to provided support and growth within the ACT economy, there are a number of new expenditure initiatives announced by the ACT Government. These initiatives are mixed between direct support (Confident and Business Ready) and indirect support through economic promotion (Boosting Tourism) and reduction in administrative burden (One Access Canberra). A summary of these initiatives are as follows.

- Access Canberra – One service, one experience: $2.1 million initiative that is expected to be funded through public service wide efficiencies
- Boosting Tourism – Airline Stimulus Fund, Destination marketing partnerships and Special event fund: $4.1 million provided in indirect support to businesses through promotion of increased tourism
- Confident and Business Ready – Business Development Strategy 2015: $6 million is said to be provided to increase business innovation, trade development and private investment, the initiative includes the establishment of the CBR Innovation Fund and the CBR Trade Investment Fund.

There appears to be validity to the commentary that the small business support provided in the ACT Budget is focussing on Tourism and ICT, which are small direct employers within the ACT economy, and therefore the expected contribution of these initiatives to growth, especially in employment, are uncertain.[23]

New expense initiatives for Aboriginal and Torres Strait Islanders

There are two new expenditure initiatives and one capital works in progress that specifically references Aboriginal and Torres Strait Islander community members. These are as follows.

- Growing Healthy Families: Over 2015-16 and 2016-17, $1.264 million will be provided to expand the Growing Healthy Families Program at the Gungahlin, West Belconnen and Tuggeranong Child and Family Centres to provide resources that support engagement, inclusion and access to culturally informed services by the local Aboriginal and Torres Strait Islander community. It has been noted that future funding will be considered in the context of the 2017- 18 Budget.
- Aboriginal and Torres Strait Islander Smoking Cessation Program: $212 000 will be provided over the forward estimates, this is a continuing program however, funding has only been allocated for the 2015-16 financial year. Following an evaluation of outcomes, future funding will be considered.

---

23 ACTCOS (2015) ACT 2015-16 Budget Snapshot, 3 June, p 17

- Within the Health Directorate capital works in progress, $9.234 million is provided over 2015-16 and 2016-17 for the completion of the Aboriginal Torres Strait Islander Residential Alcohol and Other Drug Rehabilitation Facility. However, $3.5 million of the value of works in progress has been re-profiled from 2014-15 anticipated expenditure.

While these initiatives consider the role of the Aboriginal and Torres Strait Islander communities specifically, wider Community Services in the ACT are heavily utilised by the Aboriginal and Torres Strait Islander community. This is evidenced in the Productivity Commission's recent Report on Government Services that noted that the ACT had:

- the highest overall proportion of Aboriginal and Torres Strait Islander potential population aged 0 to 64 years using the Territory delivered disability services
- the highest proportion of Aboriginal and Torres Strait Islanders using community support services for disability, in 2012-13.[24]

Impact of Asbestos Eradication Scheme

The Asbestos Eradication Scheme has been estimated to cost the ACT Government a net total of $370 million.[25] The exact financial impact of the scheme is acknowledged to be uncertain, relying on a number of factors such as final demolition and remediation costs, disposal costs and land sales forecasts. Both the scale and timing of these factors will affect the net cost of the scheme. Further, it is not clear how this figure of $370 million has been determined however, the figures presented by the ACT Government suggest:

- A total of approximately $1 billion to be spent purchasing properties and remediating land funded through a loan from the Commonwealth Government;
  - $750 million provided in 2014-15 and a further $250 million in 2015-16;
- Net cost to the ACT of approximately $370 million;
- The 2014-15 Budget Review figures reported an expected return of approximately $517 million from the sale of remediated land;
- Repayments to the Commonwealth Government commencing in 2017-18 at a rate of $50 million per year, annual interest costs on the loan are highest in 2017-18 at $27 million on the full $1 billion loan principle.
  - The Budget Papers do not indicate how long the loan is expected to be active based on repayment rates and income from land sales.
- The Government expects that the scheme will negatively impact the HNOB by $457 million over the period 2014-15 to 2018-19.

A summary of these figures is presented in table 4.7.

---

24 ACT Government (2015) Budget Paper No.3, page 365

25 ACT Government (2015) Budget Paper No.3, page 298

4.7 Summary figures on Loose-fill Asbestos Insulation Eradication

	2014-15 Est. Outcome	2015-16 Budget	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	$m	$m	$m	$m	$m
Commonwealth loan interest expense	8.2	26.7	27	27	25.7
Commonwealth loan principal outstanding	750	1 000	1 000	950	900
Headline Net Operating Balance	-597.4	-407.6	-116.1	-51.2	50.3
Headline Net Operating Balance (excluding the Asbestos Scheme)	-210.9	-349.0	-104.7	-41.6	58.7
Deterioration in HNOB due to Asbestos Eradication Scheme	**386.4**	**58.6**	**11.3**	**9.5**	**8.3**

Source: Based on ACT Government (2015) Budget Statements CMTEDD, Table 73

Table 4.8 is the operating statement for the scheme over the forward estimates.

4.8 Loose-fill Asbestos Insulation Eradication Operating Statement

	2014-15 Est. Outcome	2015-16 Budget	Var	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	$'000	$'000	%	$'000	$'000	$'000
Revenue						
Government Payment for Outputs	322 028	123 561	-62	11 622	9 805	8 650
Land Revenue	0	9 572	#	14 358	23 930	23 930
Total Revenue	**322 028**	**133 133**	**-59**	**25 980**	**33 735**	**32 580**
Expenses						
Employee Expenses	4 959	6 663	34	3 284	2 920	2 979
Superannuation Expenses	972	1 181	22	663	631	645
Supplies and Services	11 369	9 706	-15	6 447	6 677	5 748
Depreciation and Amortisation	26	52	100	52	52	26
Grants and Purchased Services	261 004	1 351	-99	898	926	940
Other Expenses	108 592	41 257	-62	2 382	2 071	1 758
Total Ordinary Expenses	386 922	60 210	-84	13 726	13 277	12 096
Operating Result	**-64 894**	**72 923**	**212**	**12 254**	**20 458**	**20 484**

Source: Based on ACT Government (2015) Budget Statements CMTEDD, Table 73

Community Service Obligations

The2015-16 Budget makes allowance for Community Service Obligations (CSOs) to allow Public Trading Enterprises, or Public Non-Financial Corporations to carry out activities with identified public benefit objectives, which it would not elect to do on a commercial basis.

The 2015-16 allowance of $125 million in CSOs is a reasonably stable amount, following on from $129 million allocated in the 2013-14 Budget.

ACTION Buses continue to account for the largest proportion of CSO allowances (76 per cent) with $96 million provided to operate network services.

ACTEWAGL/Origin Energy/ Energy Australia account for the second largest proportion of CSO allocation with $13.5 million allocated to:

- Rebates on energy bills for concession card holders and community groups and
- Remissions provided by the ACAT

A further $11 million is provided to Icon Water Limited for:

- Rebates on water a sewerage charges for concession card holders, schools, churches, hospitals, benevolent and charitable institutions and
- Remissions provided by the ACAT

Savings measures

The savings measures in the 2015-16 Budget are moderate in comparison to previous years — totalling $45.196 million over four years. Almost three quarters of these savings are expected to accrue in the last two years of the forward estimates.

Three Savings Initiatives are outlined:

- Procurement Reform - $24.4 million over forward estimates (82 per cent in last two years)
- First Home Owners' Grant - $16.8 million over forward estimates (73 per cent in last two years)
- Urban Renewal Offsets - $4 million over forward estimates (42 per cent in last two years)

4.9 2015-16 Budget savings initiatives

	2015-16	2016-17	2017-18	2018-19	Total
	$'000	$'000	$'000	$'000	$'000
Whole of Government Savings					
Procurement Reform	373	4 173	8 873	10 973	24 392
First Home Owners' Grant[1]	957	3 543	6 031	6 255	16 786
Urban Renewal Offsets[2]	1 300	1 015	736	967	4 018
Total 2015-16 Budget Savings	**2 630**	**8 731**	**15 640**	**18 195**	**45 196**

Source: ACT Government (2015) Budget Paper 3, Table 4.2.1

Procurement reform is the largest driver of estimated savings in the 2015-16 Budget, with up to $24 million expected to be drawn from the continuing government programs of:

- The Capital Framework – which 'seeks to improve business case development, service and asset planning, a project definition and scope'.
- The Partnerships Framework – which guides 'the Territory's approach to Public Private Partnerships and Design Construct Maintain Operate (DCMO) delivery models. The ACT Law Courts Redevelopment and the Capital Metro Project are the first two PPP projects under the Partnerships Framework.

5 Infrastructure and Capital

Capital expenditure in the 2015-16 Budget is substantive as the ACT Government seeks to offset softness in private sector investment. However more than half of the reported $2.8 billion is allocated to the Capital Provisions fund for which there is very limited detail on both the scale of spend on specific projects or the likelihood of these projected expenditures to eventuate.

The second year of operation of the Capital Provisions within the capital works budget has provided only a small amount of additional information on how this pool of resources is being utilised by the Government, or how it is accounted for in the current and future annual budgets.

The signing of the Asset Recycling Initiative Agreement with the Commonwealth Government is expected to return an additional $59 million in Commonwealth incentive payments from the sale of assets including public housing under the Urban Renewal program. These additional funds (as well as the proceeds of the sale of ageing public assets) will be directed to the Capital Metro. In the 2014-15 Budget, these Commonwealth incentive payments were earmarked for three road infrastructure projects.

The 2015-16 Budget has allowed for an extensive capital and infrastructure spend of $2.8 billion over the forward estimates. This is a continuation of the $2.5 billion investment program announced in the 2014-15 Budget and incorporates:

- $459 million for New Capital Works
- $56 million for New Capital Upgrades
- $513 million for continuing Works-in-Progress
- $443 million in 2016-17 and $1.5 billion over the forward estimates in allocation to Capital Metro, ACT Court Facilities, UC Public Hospital car park and the Australia Forum through the Infrastructure Investment Provision (IIP).

Table 5.1 provides a summary of the infrastructure investment program.

5.1 Budget funded infrastructure investment program

	2015-16 allocation	2016-17 allocation	2017-18 allocation	2018-19 allocation	Forward estimates
	$'000	$'000	$'000	$'000	$'000
New Capital Works[1]	207 699	183 004	50 471	17 452	458 626
Urban Renewal Component	*114 142*	*65 512*	*495*		*180 149*

	2015-16 allocation	2016-17 allocation	2017-18 allocation	2018-19 allocation	Forward estimates
	$'000	$'000	$'000	$'000	$'000
New Capital Upgrades[2]	55 554	0	0	0	55 554
Urban Renewal Component	*15 475*	*0*	*0*	*0*	*15 475*
TOTAL NEW WORKS	263 253	183 004	50 471	17 452	514 180
Urban Renewal Component	129 617	65 512	495	0	195 624
Works in Progress	435 772	65 086	6,737	5 600	513 195
Urban Renewal Component	*37 835*	*500*	*0*	*0*	*38 335*
TOTAL CAPITAL WORKS PROGRAM	699 025	248 090	57 208	23 052	1 027 374
Urban Renewal Component3	167 452	66 012	495	0	233 959
Information and Communication Technology (ICT)	102 497	37 961	16 328	7 253	164 040
Plant and Equipment (P&E)	23 795	23 115	3 880	3 801	54 592
Sub-Total (ICT and P&E)	126 292	61 077	20,208	11 054	218 631
Total Infrastructure Investment Program	825 317	309 166	77 416	34 106	1 246 006
Capital Provisions					
Infrastructure Investment Provision		390 000	524 000	442,400	1 356 400
Capital Upgrades		53 188	54 405	55 725	163 319
Total Capital Provisions		443 188	578 405	498 125	1 519 719
Total Infrastructure Investment Program including provisions	**825 317**	**752 354**	**655 821**	**532 231**	**2 765 724**

1. Includes $12.4 million in Capital Grants to Calvary Hospital.
2. Includes 2015-16 Commonwealth Government funding of $3.2 million for the National Highway Upgrade Program.
3. The Urban Renewal Program includes Urban Improvement Program projects, totalling $3.9 million over four years.

Source: Based on ACT Government (2015) Budget Paper 3, Table 5.1.1

The Urban renewal program accounts for $195 million (38 per cent) of all new capital works projects and $38 million (7 per cent) of work in progress.

Table 5.2 provides a summary of budget funded capital works over the forward estimates by Directorate. These figures exclude the major/sensitive capital provisions. While there is significant construction allocation in the 2015-16 financial year, this allowance declines sharply over subsequent years.

The reason behind the focus of capital works in the early years of the forward estimates is three fold:

- where new capital works are considered and announced each Budget, allocations are made in the more immediate period; and
- unlike expenditure initiatives, capital works are highly focussed cost items in the shorter term and therefore capital payments for a single new initiative are unlikely to

continue for more than a couple of financial year periods even for large scale initiatives;

- in later years of the forward estimates, $1.5 billion from the IIP is anticipated to be allocated to the four announced projects.

5.2 Budget funded capital works program

Directorate	2015-16 Budget	2016-17 estimate	2017-18 estimate	2018-19 estimate	Forward estimates
	$'000	$'000	$'000	$'000	$'000
Capital Metro Agency	16 137	12 771	11 385	11 484	51 777
Canberra Institute of Technology	7 465	2 475	0	0	9 940
Chief Minister, Treasury and Economic Development Directorate	248 101	78 922	792	0	327 815
Community Services Directorate	2 843	28	28	28	2 926
Cultural Facilities Corporation	3 209	1 386	792	0	5 387
Education and Training Directorate	51 626	23 285	18 563	5 940	99 413
Environment and Planning Directorate	2 047	0	0	0	2 047
Health Directorate	153 917	66 026	7 786	0	227 729
Housing ACT	6 451	0	0	0	6 451
Justice and Community Safety Directorate	66 374	1 141	814	0	68 328
Office of the Legislative Assembly	6 419	1 030	0	0	7 449
Territory and Municipal Services Directorate	134 438	61 026	17 049	5 600	218 113
Total New Works	263 253	183 004	50 471	17 452	514 180
Works-in-Progress	435 772	65 086	6 737	5 600	513 195
Total capital works program	**699 025**	**248 090**	**57 208**	**23 052**	**1 027 374**

Source: Based on ACT Government (2015) Budget Paper 3, Table 5.2.1

That said, the capital works outlined in the forward estimates of the 2015-16 Budget are greater than those planned for later years in the 2014-15 Budget, excluding the IIP.

The Schools for the Future – North Gungahlin and Molonglo initiative within the Education and Training Directorate has $19 million of capital allocated as a new initiative in the last two years of the forward estimates. This is the longest lead time of any new capital works announcements beside the Capital Metro allowance.

The Territory and Municipal Services Directorate is also expected to have $5.6 million of Commonwealth funded works in progress remaining in 2018-19, from the Road to Recovery program.

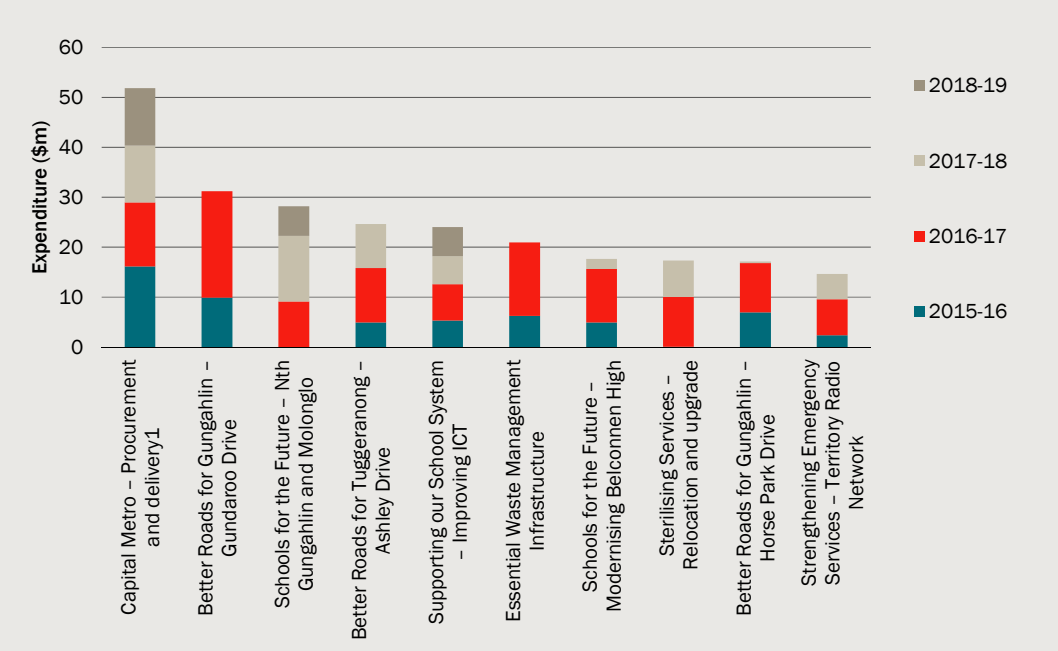
While projects with capital allocations in the later years of the forward estimates could be considered to be more uncertain than those with earlier allowances, the Schools for the Future allocation is for the construction of education facilities in suburbs that are

currently being developed. There is limited scope for these capital works to be undertaken earlier.

The delayed work in progress allocation to the Road to Recovery program however, appears to be a factor of funding from the Asset Recycling Initiative being moved out of this project and towards the Capital Metro project. This topic is further discussed below.

Chart 5.3 provides an overview of the 10 largest new capital initiatives announced in the 2015-16 Budget.

5.3 Largest new capital initiatives – excluding public housing



Data source: Based on ACT Government (2015) Budget Paper 3, Table D.1

Urban Renewal capital works

The 2015-16 Budget allows for a total of $167 million of capital works expenditure in 2015-16 and $$234 million over the forward estimates under the broad heading of Urban Renewal.

Urban Renewal is a label that has been generated as a new category of expenditure and capital works in the 2015-16 Budget to cover a broad range of initiatives focussed on community participation, accessibility and lifestyle. A small portion of capital works ($38 million, or 16 per cent) are continuing works in progress, announced in previous Budgets.

The individual items listed in the Urban Renewal Program in table 5.2.3 in Budget Paper 3 cover a range of projects (72 projects in total), both newly announced and works in progress. They range in scale from small local initiatives such as the Tuggeranong Lakeside Leisure Centre – water play park ($300 000) and the Oaks Estate river corridor heritage walk improvements ($50 000) to the large scale Better Public Housing initiative

($133 million), the West Basin Infrastructure ($10 million) and road infrastructure for Gungahlin ($13 million).

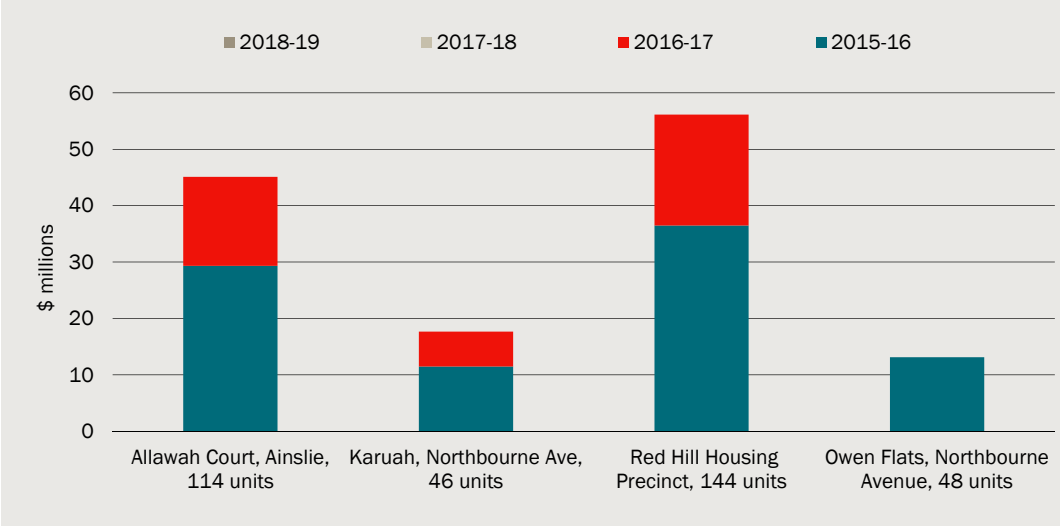
The Better Public Housing initiative, the demolition of current ageing public housing accommodation and the subsequent redevelopment of replacement accommodation (in a new location) accounts for $133 million (57 per cent) of the Urban Renewal capital works program. Chart 5.4 shows how the ACT Government intends to distribute this capital expenditure across the sites, and over time. The works on Owen Flats is scheduled to be completed in 2015-16, but the other three developments are indicated to be completed in 2016-17.

These capital works expenditures are assumed to be for the construction of replacement accommodation, and the expenditure items outlined in Chapter 3, under New Initiatives are assumed to be for the demolition works, and preparing the land for sale.

Table 5.5 brings together this information on capital and expenditure items for the Better Public Housing initiative.

As noted previously, these costs are net costs to the ACT as the proceeds from the sale of land for the demolished accommodation is being directed into capital funding for the Capital Metro, under the ARI agreement with the Commonwealth Government. It is not clear whether the funds for the Better Public Housing has been made available from funds previously earmarked for the Capital Metro (for example in the Capital Provisions pool) to take account of the additional funding through the ARI.

5.4 Better Public Housing capital works



Data source: Based on ACT Government (2015) Budget Paper No.3, Table 5.2.3

5.5 Urban Renewal – Better Public Housing, capital works and expenses

Initiative	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	Total Estimate
	$'000	$'000	$'000	$'000	$'000
Urban Renewal Program – Better Public Housing	610	626	0	0	1 236
Expense	2450	2288	0	0	4 738
Allawah Court, capital replacement 114 units	29 322	15 789	0	0	45 111
Allawah Court, expense	541	6 166	0	0	6 707
Karuah, capital replacement, 46 units	11 479	6 182	0	0	17 661
Karuah, expense	3 373	233	0	0	3 606
Red Hill Housing Precinct, capital replacement 144 units	36 496	19 652	0	0	56 148
Red Hill Housing Precinct, expense	9 075	686	0	0	9 761
Owen Flats, capital replacement, 48 units	13 120	0	0	0	13 120
Owen Flats, Northbourne Avenue, expense	1 114	0	0	0	1 114

Source: Based on ACT Budget (2015) Budget Paper No. 3, p 111-112

Re-profiling of capital works over time

The 2015-16 capital works program has $435 million of funding allocated to current works in progress. Of this, $144 million has been re-profiled from the 2014-15 Budget allocation.

Of the re-profiled works, the Health Directorate accounts for the largest share of this figure - $59.6 million – and the Chief Minister, Treasury and Economic Development Directorate accounts for a further $47.8 million.

Health Directorate

A summary of the Health Directorate capital works budget is provided in table 5.6.

5.6 Health Directorate capital works

	2015-16 Budget	2016-17 estimate	2017-18 estimate	2018-19 estimate	Forward estimates
	$'000	$'000	$'000	$'000	$'000
New construction projects	9 250	15 158	7 786		32 193
Capital upgrades	4 844	0	0	0	4 844
Works in progress	139 824	50 868	0	0	190 692
Total	**153 917**	**66 026**	**7 786**		**227 729**
Re-profiled from 2014-15	**23 038**	**36 615**			

Note: Excludes University of Canberra Public Hospital – Car Park but includes $12.4 million in capital grants for new capital works

Source: Based on ACT Budget (2015) Budget Paper No. 3, Table 5.2.1 and Table H.1

The Health Directorate has re-profiled $59.6 million of capital works allocated in the 2014-15 Budget to the 2015-16 ($23 million) and 2016-17 ($36.6 million) years. This represents 54 per cent of the 2014-15 total controlled capital works allowed for the Health Directorate in the 2014-15 Budget.

The single largest movement was for the Calvary Hospital carpark (Grant component) that has been re-profiled $10.2 million from 2014-15 to 2015-16. Completion is now due in 2015-16.

The Clinical Services and Inpatient Unit Design and Infrastructure Expansion has re-profiled $15.5 million of capital, delaying the expected completion of the project one financial year to 2016-17.

A further $9.6 million has been re-profiled over 2015-16 ($6 million) and 2016-17 ($3 million) for the Continuity of Health Services Plan – Essential Infrastructure initiative.

Chief Minister, Treasury and Economic Development

The Chief Minister, Treasury and Economic Development Directorate has 52 projects of varying size that have been re-profiled from the 2014-15 Budget. The largest is $10.1 million for Cravens Creek Water Quality Control Pond to 2015-16.

A further $9.7 million of works in Molonglo has been re-profiled to 2015-16.

Aggregated capital provisions, high value and sensitive projects

Over the forward estimates, $1.5 billion has been set aside for 'high value projects for which budgets are either yet to be settled or which are commercially sensitive'. These projects include:

- The Capital Metro Light Rail Network Project
- ACT Court Facilities
- The University of Canberra Public Hospital Car park
- Australia Forum

Capital expenditure from this allocation is anticipated to be spent in the three years 2016-17 to 2018-19 as outlined in table 5.7.

5.7 Capital provisions, 2015-16 Budget

	2015-16 Budget	2016-17 allocation	2017-18 allocation	2018-19 allocation	Forward estimates
	$'000	$'000	$'000	$'000	$'000
Infrastructure Investment Provision	-	390 000	524 000	442 400	1 356 400
Capital upgrades	-	53 188	54 405	55 725	163 319
Total provisions		**443 188**	**578 405**	**498 125**	**1,519 719**

Source: Based on ACT Budget (2015) Budget Paper No. 3, Table 5.1.1

The capital provisions appear to be in addition to the $51.8 million of new capital works expenditure allocated to the Capital Metro over the forward estimates as well as $14.1 million allocated to the ACT Court Facilities Early Works Package (table 5.2.2 of the 2015-16 Budget). It is unclear how these capital expenditure items are accounted for within the capital provision allowances.

There is the potential that the capital allocations for these items have been taken out of the capital provisions allowed for 2015-16 in the 2014-15 Budget or that the money is from the expected Commonwealth incentive payments from the Asset Recycling Initiative, but this is not made clear.

Changes in Capital Provisions since 2014-15 Budget

Table 2.3 provides a summary of the capital provisions that were published in the 2014-15 Budget that can be compared with table 5.8 with provisions in the 2015-16 Budget.

5.8 Capital provisions, 2014-15 Budget

	2014-15 allocation	2015-16 allocation	2016-17 allocation	2017-18 allocation	Forward estimates
	$'000	$'000	$'000	$'000	$'000
Infrastructure Investment Provision	0	211 117	490 112	459 251	1 160 480
Capital upgrades	0	51 588	52 878	54 200	158 666
Total provisions	**0**	**262 705**	**542 990**	**513 451**	**1 319 146**

Source: Based on ACT Budget (2015) Budget Paper No. 3, Table 5.1.1

While no details are provided on the changes from year to year, the following can be noted:

- the $262.7 million in capital provision expenditure allocated to be used in 2015-16 from the 2014-15 Budget is not expected to go ahead according to the 2015-16 Budget, there is no information on what these funds were allocated to, just as there is no information on what the 2016-17 allocation is ear marked for
- in addition to pushing back capital allocations from 2015-16, capital allocations allowed for in 2016-17 have reduced by $100 million, and
- an additional $200 million is allowed for over the 2015-16 Budget estimates above that allowed for in the 2014-15 Budget forward estimates.

Without any further details provided on the flow of funds into and out of this capital provisions pool or on the estimated allocations to different projects within the pool there are limited conclusions that can be drawn from this information.

Operation of the Capital Provisions

The 2015-16 Budget is the second in which Capital Provisions have been included for high value or commercially sensitive projects which has provided some insight into the operations of the funding allocation. However, there are also additional questions on how the ACT Government calculates inflows and expenditures within the provisions, as

well as how the total value required in the fund is calculated. In relation to the Capital Metro provisions, the following notes can be made.

- The Capital Provisions are expected to be fully utilised across the forward estimates, that is, $1.5 billion has been allocated to be spent across the forward estimates and the listed projects are Capital Metro, ACT Courts, UC Hospital Carpark and Australia Forum;
- The Government has announced $375 million of capital funding for the Capital Metro through the proceeds of the Asset Recycling Initiative (although there appears to be an inconsistency in the revenue expected from the asset sales, $393 million[26] and the allocation to the Capital Metro, $375 million) as well as 'availability payments' payable over 20 years;
- This capital spend (and presumably the availability payments) is reportedly outside of the forward estimates[27] and therefore should not be counted in the $1.5 billion Capital Provisions outlined for the forward estimates.

Given these statements, **it is not clear what payments for the Capital Metro are accounted for in the Capital Provisions**. This lack of clarity is further enhanced by a lack of detail around whether the $51.8 million of capital expenditure for Capital Metro has come out of the Capital Provisions fund.

Where these four large scale and commercially sensitive projects are not expected to have $1.5 billion worth of capital expenditure within the forward estimates to cover the $1.5 billion reserves, it appears that the Capital Provisions are being used as an accounting holding provision to indicate the Government's expected capital expenditure on as yet undetermined capital projects.

Asset Recycling Initiative and the Capital Metro

The Commonwealth's Asset Recycling Initiative provides states and territories with incentives to sell existing assets enabling investment in new productive infrastructure. For approved asset sales, the Commonwealth will contribute funds equivalent to 15 per cent of the sale proceeds to productive infrastructure investments.

The ACT Government entered into negotiations with the Commonwealth Government in 2014-15 to pursue opportunities to participate in the ARI. In February 2015, the Commonwealth Government agreed to a list of assets to be sold and to Capital Metro as the productive infrastructure project to receive investment.

The assets to be sold include ACTTAB, ageing public housing assets, office accommodation, the Visitor Information Centre, and the Dickson Ambulance Station. The Government will be progressing sales under the ARI program until 2018-19. All proceeds of the asset sales and the milestone payments from the Commonwealth will go towards Capital Metro. In total, assets to be sold are worth $392.71 million, potentially

---

26 ACT Budget (2015) Budget Paper No. 3, Figure 5.1.2, page 167

27 McIlroy,T. (2015) ACT Budget 2015: Government signals $375 million contribution to light rail, Canberra Times, June 2.

leading to Commonwealth funding of $58.92 million.[28] The first of these payments is expected in the 2014-15 financial year, with $7.8 million progress payment from the sale of ACTTAB. The second incentive payment from the ACTTAB sale is expected in 2016-17 when construction of the Capital Metro is due to commence.

In the media release announcing the agreement between the Commonwealth and ACT Governments, the Treasurer Joe Hockey acknowledged that the Capital Metro was a controversial investment project. Ultimately, under the ARI the decision of which assets to sell and which infrastructure projects to fund is left to the States and Territories.[29]

ARI differences across the 2014-15 and the 2015-16 Budgets

Provisions for incentive payments from the Commonwealth ARI were made in the 2014-15 Budget as outlined in table 5.9. At that stage, contributions from the ARI were allocated to the Investment in Roads, Roads to Recovery and Black Spots Projects.

Exact amounts expected from the ARI were not individually itemised in the 2014-15 Budget but were identified as outlined in table 5.9.

5.9 Provisional income from asset recycling initiative (ARI) in 2014-15 Budget

	2014-15	2015-16	2016-17	2017-18
	$'000	$'000	$'000	$'000
Investment in roads – inc. ARI	1 405	13 114	2 187	1 117
Roads to recovery – inc. ARI	5 600	11 200	5 600	5 600
Black Spots Project – inc. ARI	966	2 577	2 576	966

Source: Based on ACT Budget (2014) Budget Paper No. 3, Table 7.1.6

In the 2015-16 Budget, ARI incentive payments are explicitly outlined over the forward estimates, but with the intention that this money is now to be diverted into the Capital Metro.

Table 5.10 provides an outline of the new Commonwealth Government infrastructure payments to the three projects previously earmarked for ARI contribution and the separate ARI contributions over the forward estimates.

28 National Partnership Agreement on Asset Recycling, Schedule A – Australian Capital Territory Asset Sales and Projects

29 The Hon Joe Hockey MP (2015) First Asset Recycling Initiative agreement signed today. Media release, 19 February 2015

5.10 Changes to infrastructure revenue from reallocation of ARI to Capital Metro

	2014-15 (Est Outcome)	2015-16 Budget	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	$'000	$'000	$'000	$'000	$'000
Investment - Road component	568	874	566	566	566
Roads to recovery	5 600	5 600	5 600	5 600	5 600
Black spots project	796	966	966	966	966
Asset Recycling Initiative	7 810	3 550	20 630	12 910	13 900

Source: Based on ACT Budget (2015) Budget Paper No. 3, Table 7.1.6

A comparison of tables 5.9 and 5.10 show that:

- over the period 2014-15 to 2017-18 (the forward estimates of the 2014-15 Budget) Commonwealth payments to these three projects has been reduced by $24 million, and
- over these four years the2015-16 Budget has allowed for $45 million of ARI incentive payments which are to be diverted to the Capital Metro.

The notes to table 7.6.1 (the source of table 5.10 above) state that 'additional funding for these [Investment – Roads component, Roads to Recovery and Black Spots] programs is included in the infrastructure growth package – Asset Recycling Fund – New Investments'. However there is no further explanation or detail provided on the amount or timing of these additional funds in the budget papers.

Capital Metro capital spend

Over the forward estimates, $51.8 million of new capital works expenditure has been allocated to the Capital Metro. These funds have been reported to be used for specialised technical, program management, legal and commercial advisory services.[30]

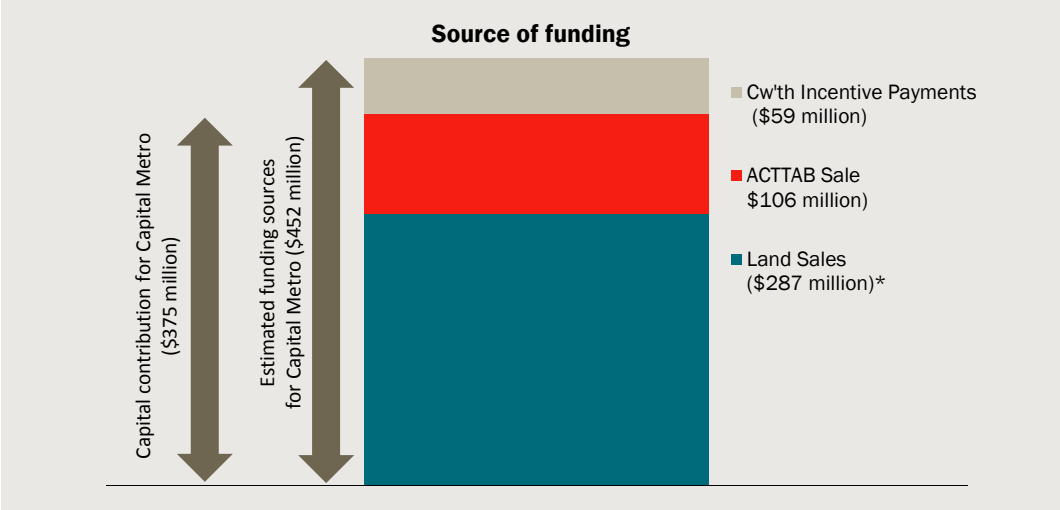
This is 13 per cent of the required minimum capital spend by the ACT Government to the Capital Metro project – as all $393 million of estimated proceeds from asset sales under the ARI must be diverted to Capital Metro.

As illustrated in chart 5.11, under the ARI, land sales (public housing and commercial land) are expected to return $287 million, ACTAB sale returned $106 million and additional Commonwealth Incentive payments of $59 million are also expected. This accounts for approximately $452million in funding sources for the Capital Metro - $393 million funded from the ACT Government asset sales and $59 million from Commonwealth Government ARI incentive payments.

It is not clear how the $452 million is anticipated to be allocated across the forward estimates, nor is it clear how the $452 million relates to the $1.5 billion in the capital provisions allowance.

[30] McIlroy,T. (2015) ACT Budget 2015: Government signals $375 million contribution to light rail, Canberra Times, June 2.

5.11 Summary of Capital Metro Budget Funding Sources for Capital Contribution[31]



Note: * Original estimate of sale proceeds using the valuation method agreed with the Commonwealth Government for the purposes of the Asset Recycling Initiative

Data source: ACT Budget (2015) Budget Paper No. 3, Figure 5.1.2

Expenditure to support land release

Included within the Urban Renewal Program discussion is capital works announcement in support of continued land release in new developments. The Government has allocated $15 million in 2015-16 or $25 million over the forward estimates to enhanced road networks for Gungahlin, Molonglo and Dickson.

This allocation is across a range of new and continuing projects as outlined in table 5.12.

5.12 Capital expenditure to support continued land release – new and infill

	2015-16 Budget	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	Forward estimates
	$'000	$'000	$'000	$'000	$'000
New Works					
Better Roads for Gungahlin – Enhanced Town Centre road network	5 940	8 019	0	0	13 959
Urban Renewal Program – Molonglo 3 infrastructure	1 980	990	0	0	2 970
Works- in-Progress					
Dickson Group Centre Intersections – Upgrade	2 380	500	0	0	2 880
Horse Park Drive Extension from Burrumarra Drive to Mirrabei Drive	1 942	0	0	0	1 942
Horse Park Drive Extension to Moncrieff Group	3 444	0	0	0	3 444

[31] This chart has been replicated from the Budget Papers, and includes the calculation error in the "Capital contribution for Capital Metro). The figures for the ACTTAB sale and Land Sales equate to $393 million in revenue but the summary on the left states a total of $375 million.

	2015-16 Budget	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	Forward estimates
	$'000	$'000	$'000	$'000	$'000
Centre					
Total capital works to support continued land release	**15 686**	**9 509**	**0**	**0**	**25 195**

Source: Based on ACT Budget (2015) Budget Paper No. 3, Table 5.2.3

The majority of the expenditure allocated for the works-in-progress in 2015-16 are re-profiled amounts from the 2014-15 Budget as follows:

- Dickson Group Centre Intersections Upgrade - $1 million
- Horse Park Drive Extension from Burrumarra Drive to Mirrabei Drive - $942,000
- Horse Park Drive Extension to Moncrieff Group Centre - $3 million.[32]

Public Trading Enterprises

As stated in the Budget Papers, the value of Public Trading Enterprises (PTE) new capital works for 2015-16 is $234 million. These works are financed by the PTEs through own-source revenue and/or borrowing. Table 5.13 summarises the capital works anticipated by PTEs over the forward estimates.

5.13 Public Trading Enterprises Works

	2015-16 Budget	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	Forward estimates total
	$'000	$'000	$'000	$'000	$'000
Housing ACT	60 957	39 816	42 867	44 056	187 696
ACT Public Cemeteries Authority[1]	2 400	0	0	0	2 400
Icon Water	87 888	125 731	102 468	81 821	397 908
Land Development Agency	82 572	163 862	122 524	98 366	467 324
Total PTEs	233 817	329 409	267 859	224 243	1 055 328

Source: ACT Budget (2015) Budget Paper No. 3, Table 5.2.6

Housing ACT

The Budget Papers outline that the 2015-16 Housing ACT program focusses on "small scale developments to deliver a range of housing choices to tenants ranging from larger sized housing of four or more bedrooms to small scale multi-unit two bedroom developments of up to 10 units'.

[32] ACT Budget Papers, table H.1

A total of $61 million has been allocated towards capital expenditure in 2015-16 which is in addition to the work being undertaken by the CMTEDD under the Urban Renewal – Better Public Housing program.

Forward estimates outlined in the 2015-16 Budget represent a significant increase in capital works financing anticipated over the forward estimates in the 2014-15 Budget, as shown in table 5.14. However, there is insufficient detail in the Budget Papers to determine the drivers of this increase.

5.14 Comparison of ACT Housing capital forward estimates 2014-15 and 2015-16

	2014-15	2015-16	2016-17	2017-18	2018-19
	$'000	$'000	$'000	$'000	$'000
Works allocated in 2014-15 Budget	55 816	33 375	28 127	13 867	
Works allocation in 2015-16 Budget		60 957	39 816	42 867	44 056
Difference		27 582	11 689	29 000	

Source: Based on ACT Budget (2015) Budget Paper No. 3, Table 5.2.6

Table 5.15 provides a summary of movements in the social housing properties held by Housing ACT and the tenancies managed. While there is a note made that the Urban Renewal – Better Public Housing program is expected to affect the total number of ACT Housing properties in the short term, the Budget Papers do not provide an indication how this shortfall will be addressed.

5.15 Housing ACT accountability indicators

Indicator	2014-15 target	2014-15 estimated outcome	2015-16 targets
Number of social housing properties[1] Includes all Housing ACT properties whether tenanted by public housing tenants or head-leased to community service providers	11 671	11 598	11 681
Number of tenancies managed by registered community housing providers[2] Includes tenants in individual tenantable units such as group shared homes and properties head-leased from Housing ACT	1 225	1 478	1 505

1. The number of social housing properties is lower than expected in 2014-15 due to the transfer of dwellings to the Land Development Agency under the Public Housing Renewal Program and the delay in some construction projects deferring delivery of dwellings until 2015-16.
2. The number of tenancies managed by the registered community housing providers is dependent upon the results of the construction program for CHC Affordable Housing, the impact of any new providers becoming registered and the transfer of dwellings from Housing ACT as well as the vacancy rates at each provider. The increase in tenancies managed by not-for-profit community housing providers is due to the registration of new community housing providers, a reduction in vacancies and the completion of the Common Ground.

Source: ACT Government (2015) Budget Statements, Community Services Directorate and Housing ACT, table 25

Land Development Agency

The Land Development Agency has financing provisions for $467 million of capital works over the forward estimates, $82.5 million of which is allocated in 2015-16.

The Budget Papers state that the majority of this work is to be undertaken for road works, road lines and signs, stormwater, utility connections, data cabling, landscaping, parks and recreational areas, pedestrian paths, driveways and street lighting. The majority of works will be undertaken in new development areas in Gungahlin, Molonglo and Belconnen. Further work will also be undertaken in Campbell, Greenway, Parkes and the Kingston Foreshore.

There does not appear to be a significant change in forward estimates capital works allocations from the 2014-15 Budget.

6 Impact of the budget on the cost of living

Decisions made by the ACT Government: net increase in rates, fees and duties are expected to add to the cost of living of ACT households in 2015-16. This is partially offset by the impact of lower electricity prices, which are the result of a decision made by the Australian Energy Regulator in 2015.

Overall, the Cost of living analysis should be treated with caution, as it is necessarily narrow.

The ACT Budget cost of living statement

The cost of living tables try to show how the cost of the living of five hypothetical households in the ACT community can be expected to change as a result of decisions made by the ACT Government Budget 2015-16 and other factors (including decisions by utilities regulators, discussed below).

Drivers of changes in the cost of living

Decisions by the ACT Government

The ACT Government has increased general rates, the fire and emergency services levy, transport fees (like drivers licences, vehicle registration, etc), and fares for ACTION Buses. Rewards for safe driving are also lower. These decisions have added to the 'cost of living' as measured in tables 2.3.3 to 2.3.7 of the ACT Budget.

Partially offsetting this, the ACT Government has reduced various stamp duties on insurance. These decisions have reduced the 'cost of living' as measured in tables 2.3.3 to 2.3.7 of the ACT Budget.

For example, based on the data provided in table 2.3.6 of Budget Paper 3, household number 4 (a dual income family with two children in high school) will be $433 worse off in 2015-16 due to the net impact of ACT Government decisions. This result is reported in the bottom row of table 6.1 (below). This result is the sum of the following items.

- Higher general rates of $134.93;
- An increase in the fire and emergency services levy of $66.00;
- Reduction in duties insurances: home and contents and life, of $36.39;
- Higher transport fees and fares of $297.77;
- Lower duty on car insurance of $15.44; and
- Rewards for safe driving of $13.70.

Decision by the Australian Energy Regulator on network charges

To prepare the 2015-16 Cost of living tables, The ACT Treasury has assumed electricity prices fall by 7 per cent in 2015-16. ACT Treasury note this is consistent with the 'Australian Energy Market Commission Report',[33] (AEMC) which is probably the report AEMC - Price Trends Report[34] (a full source is not provided in the Budget Papers). AEMC note lower electricity prices for households should flow from the decision by the AER to reduce the revenues earned by electricity distribution businesses.

The final decision of the Australian Energy Regulator (AER) is on the website[35]. In this decision, ACTEW-AGL are able to recover $591 million from its electricity distribution network over the four years from 2015-16, which is a reduction of 32 per cent. According to the AER, this should see the electricity bill for the average household fall by 5.8 per cent.

Direct implications for households in the ACT

Based on the data provided in table 2.3.6 of the ACT Budget, household number 4 (the household considered above) makes a saving on utilities bills of $136 in 2015-16. This improvement reflects the decision by the AER, assumed changes in gas prices (which are unregulated in the ACT) and an assumed reduction in water prices. Table 6.1 shows that all five households get a substantial benefit from lower utilities charges.

Net impact of changes on the cost of living

Overall, based on the data provided in table 2.3.6 (which is repeated in table 6.1 below), household number four is expected to be $297 worse off in 2015-16 as a result of decisions made by the ACT Government and energy regulators. Table 6.1 shows that household number two is worse off by $51 in 2015-16, while household number one is better off by $115. There is little impact on households number three and five.

Note on exclusions in the CIE's analysis

In the ACT Budget 2015-16, the cost of living table for household Two (table 2.3.4) includes items for *Home Buyer Concession Scheme* and *First Home Owner Grant* and the cost of living table for household Three (table 2.3.5) includes items for the *Over 60's Home Bonus/PDCS*. If these households decide not to buy and sell property in 2015-16, they will not benefit from these schemes. In contrast, the other fees and charges in the cost of living tables are (largely) unavoidable. As the nature of the home buyer/seller schemes is different to the nature of the other fees and charges, the CIE has not included the home buyer/seller schemes in table 6.1 (our cost of living table). This means the items in table

---

33 ACT Budget 2015-16 Budget Paper 3 Section 2.3 pg 53

34 This link is: http://www.aemc.gov.au/Major-Pages/Price-trends

35 This link is: https://www.aer.gov.au/node/31954

6.1 are additive, which means the CIE can make a conclusion about the total, net impact of all decisions and factors on the cost of living.

6.1 Estimated impact of ACT Budget and utilities price changes on the cost of living for households (impact for the year 2015-16, $)

Household		One	Two	Three	Four	Five
Description of households						
People		3	2	2	4	1
Annual income ($000)		65	120	Not specified	156	Not specified
Description		Single inc. family	Dual inc. couple	Full pension couple	Dual inc. family	Public hous. tenant
Specific changes in due to decisions made by the ACT Government						
Property	Increase in general rates	0	93	118	135	0
	Increase in fire and em. services levy	0	66	33	66	0
	Reduction in duties on insurance	-8	-36	-33	-36	0
Transport	Increase in fees and fares (ACTION)	39	53	4	298	84
	Reduction in duty on car insurance	-15	-15	-15	-15	0
	Rewards for safe driving	-7	-14	0	-14	0
Specific changes due to decisions made by utilities regulators						
Utilities	Reduction in charges[a]	-124	-96	-113	-136	-94
Total impact on households						
Total cost of living impact (of decisions made by ACT Government) [b]		9	147	106	433	84
Total cost of living impact (of decisions made by ACT Government and utilities regulators)		-115	51	-7	297	-10

[a] Utilities usage charges and fees reflect decisions made by the AER (on electricity network costs) and by the ICRC (on water and sewerage services)

[b] Excludes the impact of reductions in charges and fees

Note: In the ACT Budget 2015-16, the cost of living table for household Two (table 2.3.4) includes items for *Home Buyer Concession Scheme* and *First Home Owner Grant* and the cost of living table for household Three (table 2.3.5) includes items for the *Over 60's Home Bonus/PDCS*. If these households decide not to buy and sell property in 2015-16, they will not benefit from these schemes. In contrast, the other fees and charges in the cost of living tables are (largely) unavoidable. As the nature of the home buyer/seller schemes is different to the nature of the other fees and charges, the CIE has not included the home buyer/seller schemes in table 6.1. (our cost of living table).

Source: Based on ACT Budget (2015) Budget Paper No. 3, Tables 2.3.3, 2.3.4, 2.3.5, 2.3.6 and 2.3.7

How does the current methodology compare with other agencies?

The ACT Government is one of the few governments both domestically and internationally that regularly includes a cost of living statement in their Budget papers. Section 11(1)(f) of the Financial Management Act 1996 states that the Territory is required to provide a statement about the effect of Territory taxes and fees on households

and the concessions that offset these. This is currently achieved through developing a number of case studies that show how households with different characteristics and circumstances are directly affected by changes in taxes, fees, and concessions (as distinct from being indirectly affected by taxes placed on payrolls for example). It is worth noting that it is not particularly clear what the selection process is to ensure that the households featured are in fact 'representative'.

Distributional analysis is one alternative approach to that currently adopted by the ACT Government and is part of the UK Government's Budget reporting practices. The UK approach is more comprehensive than the ACT case study approach. Distributional analysis differs from the use of household case studies in that it analyses the impact of changes to taxes, tax credits, and benefits on household income. The UK methodology looks at the impact of tax and welfare measures in the Budget on the cash flows for each income and expenditure decile of the population, and estimates the changes in access to public spending, community services and support by quintile.

This allows for a more generalised and useful assessment of the impact of Budgetary changes on households and the variation of the impact across households with different income levels and standards of living. Distributional analysis can be applied to any household, not just those approximating the circumstances of the selected case study households. One of the main benefits of this form of analysis is that it enables Budgetary changes to be analysed from a social equity point of view, which is primarily concerned with how income and opportunities are distributed across society. This distributional analysis is a more useful tool than the case studies used in cost of living statement in the ACT Budget Papers; Preparing a similar analysis could be possible for the ACT Budget but is beyond the scope of this review.

The wellbeing of the population can also be assessed in measures that are not based on income or wealth but rather on quality of life. These wellbeing assessments have been prepared in numerous jurisdictions based on surveys of the population. These surveys provide a subjective assessments of people's own wellbeing, including people's experiences of their positive and negative emotions, satisfaction, vitality, resilience, self-esteem and sense of positive functioning in the world.[36] The surveys are conducted over time to construct an index that shows how wellbeing is changing. A similar measure for the ACT would require a significant investment in surveys.

Assessment: does the cost of living analysis give us the full picture?

To keep the 'cost of living analysis' tractable, it has been done in a narrow way. This narrow methodology means that some important factors have not been considered.

For example, lower electricity prices (which benefit most families) are treated (purely) as a benefit. The fact that lower electricity prices will necessarily involve job losses at

36 Morton, A. & Edwards, L. 2012, Community Wellbeing Indicators, Survey Template for Local Government, Australian Centre of Excellence for Local Government, University of Technology, Sydney.

ACTEW-AGL is not considered. These job losses could impose costs on the community. 'Net benefit' analysis (an analysis of benefits less costs) has not been done.

Further, while the ACT Government has (in net terms) increased rates and fees, it has a stated goal of trying to improve the efficiency of the taxes it imposes on the ACT economy. Taken at face value, this goal means that the ACT Government is trying to abolish inefficient taxes and increase efficient taxes. If the government achieves this goal, it would lower the distortion imposed on the economy by taxation, which would see the economy expand (compared to the case where the government did not change the tax mix). This possible expansion in the economy could benefit the households considered in the 'cost of living' analysis. As this possible benefit is not considered in the 'cost of living analysis' it means the analysis is narrow.

The conclusion is that 'cost of living analysis', because of its narrowness, should be treated with caution.

A Triple bottom line analysis of key Budget initiatives

A.1 Triple bottom line analysis of key Budget initiatives

	Financial and economic impact		Environmental impact		Social impact	
Expense Initiatives						
Chief Minister, Treasury and Economic Development Directorate						
Additional Support for the Concessions Program	$6m to improve the targeting of the concession program	●		●	Concessions and reforms assist households most in need	●
Confident and Business Ready – Business Development Strategy 2015	$6m to improve business development outcomes and support economic growth	●		●		●
Facilitating Transition to the NDIS and Creating Efficiencies – Restructure Fund supplementation	$21m to supplement the transition to NDIS	●		●	Improving disability support services	●
Improving Building Quality Regulation	Cost of additional building inspectors fully offset by an increase in the building levy	●		●	Improvements to building quality and safety	●
Whole of Government Software Upgrade	$8m to upgrade software	●		●		●
Community Services Directorate						
A Step Up for Our Kids	$39m in expenses to support in-home child services	●		●	Improving services for children in need	●
Education and Training Directorate						
Schools for the Future – Coombs Primary	$7m to establish a new primary school	●		●	Improving access to primary education	●

Positive	●	No discernible impact	●	Negative	●

	Financial and economic impact	Environmental impact	Social impact
Health Directorate			
Additional Elective Surgeries and Procedures	$15m to increase the number of elective surgeries and other procedures and improve waiting times		Improving health outcomes
Care in the Right Place – More community, outpatient and primary care services	$14m to increase cancer outpatient services		Improving health outcomes
Enhancing Mental Health Services – Improved services	$12m to improve services through increased staffing and efficiency		Improving mental health services
Enhancing Mental Health Services – More community services	$16m to provide more and improved community mental health care		Improving mental health outcomes in the community
More Acute Hospital Services – Emergency specialists	$6m for ongoing support for Emergency Department specialists		Maintaining emergency care
More Acute Hospital Services – General hospital beds	$23m to increase the number of hospital beds		Improving health outcomes
More Acute Hospital Services – Intensive care beds	$23m to increase the number of intensive care hospital beds		Improving health outcomes
More Services – Hospital and community care	$12m to support continued delivery of a range of health services		Improving health outcomes, both in and out of hospital
Women's and Children's Health – Expanding services	$4m to improve outpatient services for women and children		Improving health outcomes for women and children
Women's and Children's Health – Neonatal intensive care	$4m to support an additional neonatal bed		Improving health and social outcomes by enabling treatment close to families

Positive	No discernible impact	Negative

	Financial and economic impact		Environmental impact		Social impact	
Justice and Community Safety Directorate						
Strengthening Emergency Services – Supporting operational capacity	$16m to maintain the quality and effectiveness of emergency services	●		●	Maintaining access to, and quality of, emergency services	●
Strengthening Emergency Services – Workers' compensation	$5m to fund an increase in workers compensation	●		●		●
Territory and Municipal Services Directorate						
Boosting Municipal Services in New Suburbs	$8m to support municipal service delivery in new suburbs	●		●		●
More mowing, weed removal, tree maintenance, lake cleaning and graffiti prevention in our suburbs	$8m to fund increased amenity services across the city	●	Improving maintenance of parks etc	●		●
Reducing the ACT's Vulnerability to Bushfire	$9m to increase active fire management	●	Improving bushfire environmental management	●		●
Transport for Canberra – Supporting operational capacity	$17m in 2015-16 to fund the activities of ACTION, without service improvements	●		●		●
Whole of Government Savings[8]						
Procurement Reform	Net savings of $24m through procurement reform	●		●		●
Infrastructure and Capital Initiatives						
Capital Metro Agency						
Capital Metro – Procurement and delivery[1]	$52m allocated over 4 years for construction of the project	●	Light rail has environmental benefits compared to private vehicles	●	Social equity and inclusion benefits for those on the rail corridor	●
Chief Minister, Treasury and Economic Development Directorate						
Better Roads for Gungahlin – Enhanced Town Centre road network[1]	$14m to enhance traffic management in Gungahlin	●		●		●

Positive	●	No discernible impact	●	Negative	●

	Financial and economic impact	Environmental impact	Social impact	
Better Roads for Gungahlin – Horse Park Drive duplication[1,2]	$17m for the first stage of duplication of Horse Park Drive, linking with the Majura Parkway	●	●	●
Urban Renewal Program – Better Public Housing	$159m (capital and expenses) for the demolition and sale of public housing units and construction of replacement units	●	●	●
Urban Renewal Program – City to the Lake – West Basin infrastructure[1]	$10m for development of West Basin, including construction of a park	●	●	Increases number of public park areas ●
Urban Renewal Program – Melrose football precinct[1]	$7m to construct a sports facility at Melrose High School	●	●	Improving in school and community access to quality sporting facilities ●
Education and Training Directorate				
Schools for the Future – Caroline Chisholm School – Centre for Innovation and Learning[1]	$6m to construct a specialist learning centre at Caroline Chisholm School	●	●	Improving science, technology, engineering and mathematics education in Tuggeranong, and professional development for teachers ●
Schools for the Future – Modernising Belconnen High[1]	$17m to refurbish existing, and construct new, buildings and facilities	●	●	●
Schools for the Future – North Gungahlin and Molonglo[1]	$30m (capital and expenses) for construction of new primary schools in North Gungahlin, feasibility studies for primary and high schools in North Gungahlin and Molonglo	●	●	Improving access to education in new suburbs ●
Supporting our School System – Improving ICT[1]	$38m (capital and expenses) for investing in ICT systems in schools	●	●	●

Positive	●	No discernible impact	●	Negative	●

	Financial and economic impact	Environmental impact	Social impact
Health Directorate			
Sterilising Services – Relocation and upgrade[1]	$17m capital expenditure to replace sterilising services at Canberra Hospital, leading to efficiencies of $3m over 4 years	Positive	No discernible impact
Justice and Community Safety Directorate			
Strengthening Emergency Services – Territory Radio Network upgrade – Phases 2 and 3	$15m investment in upgrading the Territory Radio Network used by the Emergency Services Agency	No discernible impact	Essential for communication during emergencies: Positive
Territory and Municipal Services Directorate			
Better Roads for Gungahlin – Gundaroo Drive duplication – Stage 1[1]	$31m capital investment in duplication of Gundaroo Dr	May reduce traffic congestion and associated emissions: Positive	No discernible impact
Better Roads for Tuggeranong – Ashley Drive duplication – Stage 2	$25m capital investment in duplication of Ashley Dr	May reduce traffic congestion and associated emissions: Positive	No discernible impact
Enhancing the Protection of Endangered Species and Habitat[1]	$11m in capital and expenses to improve sustainability of endangered species and habitat in the Territory	Working to improve and maintain the natural environment in the Territory: Positive	No discernible impact
Essential Waste Management Infrastructure	$21m capital investment to expand the Mugga Lane Resource Management Centre	No discernible impact	No discernible impact
Revenue Initiatives			
Chief Minister, Treasury and Economic Development Directorate			
Fire and Emergency Services Levy	Raising an additional $63m over 4 years through the FESL	Positive	No discernible impact
General Rates	Downward revision of previous rates provisions by $36m over 4 years	No discernible impact	No discernible impact

Positive | No discernible impact | Negative

	Financial and economic impact	Environmental impact	Social impact
Land Tax	Indexation of land tax raising an additional $19m in revenue over 4 years	●	● ●
Motor Vehicle Registration	Increase in motor vehicle registration fees	●	● ●
Road Rescue Fee	50 per cent increase in the road rescue fee, levied on car registrations	●	● ●

Positive	●	No discernible impact	●	Negative	●

THE CENTRE FOR INTERNATIONAL ECONOMICS
www.TheCIE.com.au