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ACT Budget 2015–16

On Tuesday 2 June 2015, Chief Minister Andrew Barr MLA delivered the 2015–16 ACT Budget, his first Budget as ACT Chief Minister.

The Budget responds to the challenges presented by the Commonwealth Government's policies to reduce spending. Key features include $5.1 billion in the delivery of services such as health and education, and $825 million for infrastructure. Total capital funding over the coming four years is $2.8 billion.

The Budget, including the Treasurer's speech, is available in full here.

Budget Strategy

The major economic challenge for the ACT in 2015–16 will be responding to the effects of the Commonwealth Government's contined reduction of spending. This reduction includes Commonwealth includes cuts to the ACT's GST revenue share and cuts to health funding. The Commonwealth has also failed to contribute to the costs of the Asbestos Eradication (Mr Fluffy) Scheme.

More broadly, the Commonwealth Government's strategy will also have an indirect effect on the ACT Budget through reductions in the size of the Australian Public Service and the concomitant reduction in employment, economic activity, land sales and, in the longer-term, the Territory's revenue base

The ACT Government is responding to this economic challenge by:

- maintaining a balanced budget over the medium-term;
- leveraging its strong balance sheet to invest in infrastructure and urban renewal, and stimulate economic activity and employment; and
- providing the Territory with assistance and support in the short-term to help counter the impact of job cuts by the Commonwealth Government.

Economic Context

The General Government Sector Headline Net Operating Balance is forecast to be in deficit for the next two years before returning to balance in the 2017 to 2019 period.

The 2015–16 Budget forecasts a $407.6 million deficit. The increased deficits in the short term reflect the ACT Government's efforts to support the economy and jobs through targeted spending initiatives.

The ACT Government's debt level will increase as it borrows fund investments, however it will remain among the lowest of all Australian states and territories.

Consistent with the Government's commitment to maintain sound public finances and a strong balance sheet, the Budget will return to balance in 2018–19.

Table 2

General Government Sector Headline Net Operating Balance

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

Notes: Table may not add due to rounding.

1. The Headline Net Operating Balance incorporates the impact of long term superannuation investment earnings in order to provide an accurate assessment of the longer-term sustainability of the budget position. Further details are provided in Chapter 2.

Revenue

In 2015–16, the ACT Government will receive total revenue of $4.6 billion. Commonwealth Government grants will provide 40 per cent of revenue, while a further 32 per cent will be raised through rates, taxes and charges.

The remaining 26 per cent of revenue in 2015–16 comprises receipts from the sales of goods and services; dividend and income tax equivalent payments from Territory-Owned Corporations and Authorities (such as ACTEW); and interest on investment.

Taxation Reform

Further changes to the ACT’s taxation and transfer system are being introduced in the 2015–16 Budget to form part of the next step towards achieving the long-term objectives of tax reform.

For 2015-16, taxation revenue is forecast to increase by $49.9 million (3.5 per cent), which is mainly due to both indexation and new initiatives such as land tax, motor vehicle registration and the Fire and Emergency Service Levy (FESL).

The 2015–16 Budget aims to support growth in the wider economy by removing the burden of inefficient taxes. Key measures include:

- The rates of conveyance duty will continue to be decreased over a 20 year period as a key part of the ACT tax reform program.
- From 1 July 2015, general insurance premiums will be reduced to a duty rate of 2 per cent of the net premiums received. Duty on insurance will be fully abolished on 1 July 2016.
- The duty rate on life insurance will reduce to 1 per cent from 1 July 2015. Duty on insurance will be fully abolished on 1 July 2016.

The Budget has also introduced a system of fixed and marginal rate charges for the land tax system. This will share the land tax burden more fairly between units and houses.

Other taxation measures include:

- An increase in the Ambulance Levy rate from 1 January 2016.
- An increase in revenue from the Gaming tax to $33.8 million
- Changes to the Fire and Emergency services Levy that include
  - a fixed charge of $196 for residential and rural properties (an increase from $130);
  - a pensioner rebate of 50 per cent; and
  - a valuation-based charge for commercial properties with progressive marginal rating factors applied to the average of the 2013, 2014 and 2015 unimproved land values.

Expenditure

The government's expenses are forecast at $5.2 billion in 2015-16, representing 13.5 per cent of Gross State Product. Health and education functions continue to be the two most significant components of government spending.

Across the estimated outcome and forward estimates period, government expenses are forecast to grow by 3.5 per cent per annum. This growth largely reflects an increase in health, education and other purposes expenses, offset by a reduction in housing and community amenities as the Asbestos Eradication Scheme winds down.

Health

In 2011 the ACT Government, along with other the states, signed the National Health Reform Agreement with the Commonwealth government.

The Commonwealth Government in its 2014–15 Budget unilaterally walked away from that agreement, resulting in a $248 million reduction in funding for ACT hospitals over the next four years.

The ACT Government has taken the gap in funding left by the Commonwealth onto the ACT Budget's bottom line.

Key investments in the 2015–16 Budget include:

- $40.6 million over four years in extra funding for more beds and services;
- $14.8 million over two years towards elective surgery, including bariatric surgery;
- $ $31.9 million over four years to boost mental health services
- $5.6 million to Calvary Hospital to refurbish and purchase new equipment for its operating theatre.

The Hawker Britton Occasional Paper on the 2011 National Health Reform Agreement is available here.

Infrastructure investment

The 2015-16 Budget provides for a record infrastructure investment of $2.8 billion over the four years to 2018-19. This maintains the impetus of the $2.5 billion four-year investment program announced in the 2014-15 Budget. Urban Renewal Program (URP) with funding of $167 million in 2015-16 and $234 million over four years. A key feature of the 2015-16 Budget is the Urban Renewal Program (URO). The URP provides for a suite of projects, including to revitalise public infrastructure, improve access to public transport and essential services, and upgrade public amenities to encourage more active living.

The 2016–15 Budget includes new major capital works projects, including:

- $133 million over four years for the Urban Renewal Program – Better Public Housing. Public housing properties will be redeveloped to replace Allawah Court, Karuah, Red Hill Housing Precinct and Owen Flats
- $31 million Better Roads for Gungahlin – Gundaroo Drive duplication
- $28 million Schools for the Future – North Gungahlin and Molonglo
- $25 million Better Roads for Tuggeranong – Ashley Drive duplication – Stage 2 ($25 million);

The Hawker Britton Occasional Paper on the most recent update of the *ACT Government Infrastructure Plan 2011–2021* is available here.

Asset sales

The Government's Infrastructure Investment Program will be supported by the sale of existing assets. This approach is supported by the Commonwealth Government's Asset Recycling Initiative (ARI), which provides financial incentives to state and territory governments to divest assets and reinvest the proceeds in additional productive infrastructure.

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
- 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, making a capital contribution of $375 million after construction is complete.

Land Release

In response to the Commonwealth Government's decision to significantly reduce the size of the Australian Public Service, the ACT Government will reduce the overall size of its Indicative Residential Land Release Program by 3 000 dwelling sites across the next two years.

The 2015-16 Budget makes significant capital investments to support the objectives of the Indicative Land Release Program. Projects supporting developments across the Territory include:

- $10 million Urban Renewal Program – City to the Lake – West Basin infrastructure
- $14 million Construction of a new park and intersections on Commonwealth Avenue to improve access to West Basin and support the re-connection of the city with Lake Burley Griffin; Better Roads for Gungahlin – Enhanced Town Centre road network
- $17 million Construction of the Valley Avenue and Manning Clarke Crescent extensions, as well as an access road off the Manning Clarke Crescent extension to provide access to the east side of Gungahlin Town Centre; and
- Better Roads for Gungahlin – Horse Park Drive duplication– Construction of the first stage of the duplication of Horse Park Drive between Anthony Rolfe Avenue and Well Station Drive and associated infrastructure which will facilitate land release in Throsby

Capital Metro

The Budget reiterates the Government's commitment to investing in the development of the Capital Metro project.

The 2015-16 Budget allocates $55 million to forward design projects over four years, of which $19 million is being invested in 2015-16. Most of this funding is for the procurement of the Capital Metro Light Rail Network project.

The Hawker Britton Occasional Paper on the Capital Metro project is available here.

Further Information

The Hawker Britton Occasional Paper on the ACT 2014–15 Budget is available here.

The Hawker Britton Occasional Paper on the most recent update of the *ACT Government Infrastructure Plan 2011–2021* is available here.

The 2015–16 Budget, including the Treasurer's speech, is available in full here.