



UNIVERSITY OF
CANBERRA



INSTITUTE FOR
GOVERNANCE
& POLICY ANALYSIS

PROSPECTS FOR THE ACT'S FINANCES

Institute of Governance and Policy
Analysis Public Lecture Series

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Scope

- Public Financial Management: Principles and Objectives
- Budget Position
- Budget Trends
- Budget and Forward Estimates: Policy Challenges and Choices

Public Financial Management

Objectives and Framework

Objectives of Public Financial Management

- Fiscal Sustainability
- Inter-Sectoral Allocation
- Efficiency of Services
- Transparency and Accountability

Financial Management Act 1996

Responsible financial management

- Budget must be prepared having regard to principles of responsible financial management.
- Any departure must be temporary.
Statement required on:
 - Reasons for departure;
 - Approach to return to the principles; and
 - Timing of the return.

Financial Management Act 1996

Transparency, Accountability and Value for Money

- Forward Estimates:
 - Estimates of revenues and costs of services for the next three years.
 - Essentially 4 year forecasts of the cost and revenue under current policy.
- Specification of outputs, performance measures and targets.
- Consistency between budgets and financial statements.

Budget Position

ACT and Other Jurisdictions

Budget Position

2016 Pre-Election Budget Update

General Government Sector Headline Net Operating Balance

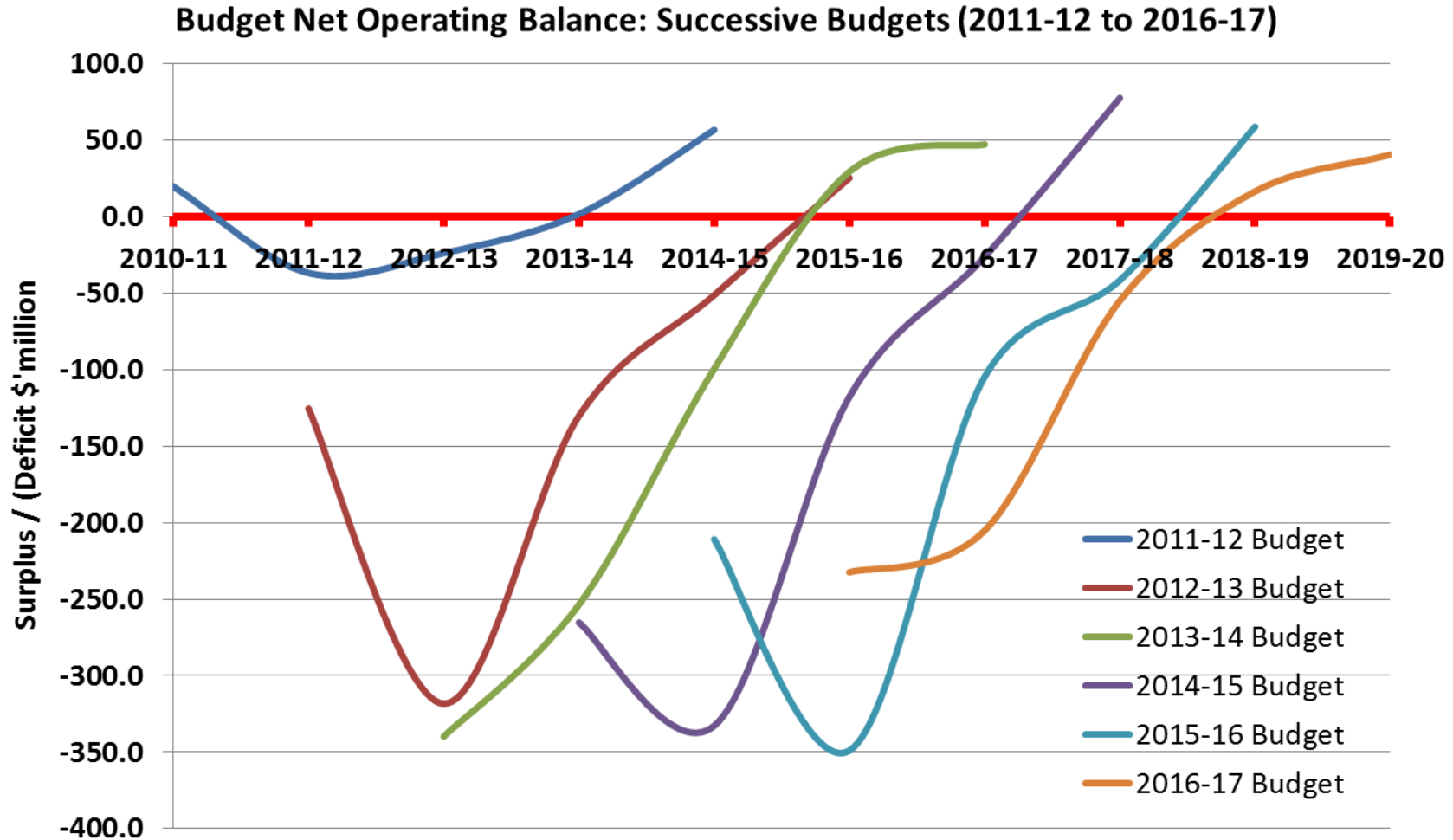
	2016-17	2017-18	2018-19	2019-20
	\$'m	\$'m	\$'m	\$'m
Revenue	5,048	5,100	5,380	5,583
Expenses	5,424	5,336	5,554	5,746
Superannuation Return Adjustment	171	182	190	204
Headline Net Operating Balance	-205	-55	16	41
Net Debt (excluding superannuation)	1,916	1,987	2,835	2,539
Net Financial Liabilities	5,216	5,423	6,221	6,058

Note: Numbers may not add due to rounding.

The HNOB incorporates the impact of long term superannuation investment earnings to provide an accurate assessment of the longer-term sustainability of the budget position.

Return to Surplus

Forecasts in successive budgets



Budget Position

Inter-State Comparisons

New South Wales	2016-17	2017-18	2018-19	2019-20
Expenses	73,292	75,622	76,097	79,043
Net Operating Balance (\$million)	3,713	1,326	1,382	1,613
% of Budget Expenditure	5.1%	1.8%	1.8%	2.0%

Victoria	2016-17	2017-18	2018-19	2019-20
Expenses	57,501	59,212	60,522	62,147
Net Operating Balance (\$million)	2,869	1,797	2,082	2,471
% of Budget Expenditure	5.0%	3.0%	3.4%	4.0%

Budget Position

Inter-State Comparisons

Queensland	2016-17	2017-18	2018-19	2019-20
Expenses	52,582	54,123	54,775	55,934
Net Operating Balance (\$million)	867	1,225	321	741
% of Budget Expenditure	1.6%	2.3%	0.6%	1.3%

Western Australia	2016-17	2017-18	2018-19	2019-20
Expenses	29,596	29,565	30,502	31,394
Net Operating Balance (\$million)	-3,914	-1,893	-197	1,086
% of Budget Expenditure	-13.2%	-6.4%	-0.6%	3.5%

Budget Position

Inter-State Comparisons

South Australia	2016-17	2017-18	2018-19	2019-20
Expenses	18,009	18,502	18,509	18,923
Net Operating Balance (\$million)	254	415	464	466
% of Budget Expenditure	1.4%	2.2%	2.5%	2.5%

Tasmania	2016-17	2017-18	2018-19	2019-20
Expenses	5,496	5,489	5,546	5,567
Net Operating Balance (\$million)	77	8	-61	18
% of Budget Expenditure	1.4%	0.1%	-1.1%	0.3%

Budget Position

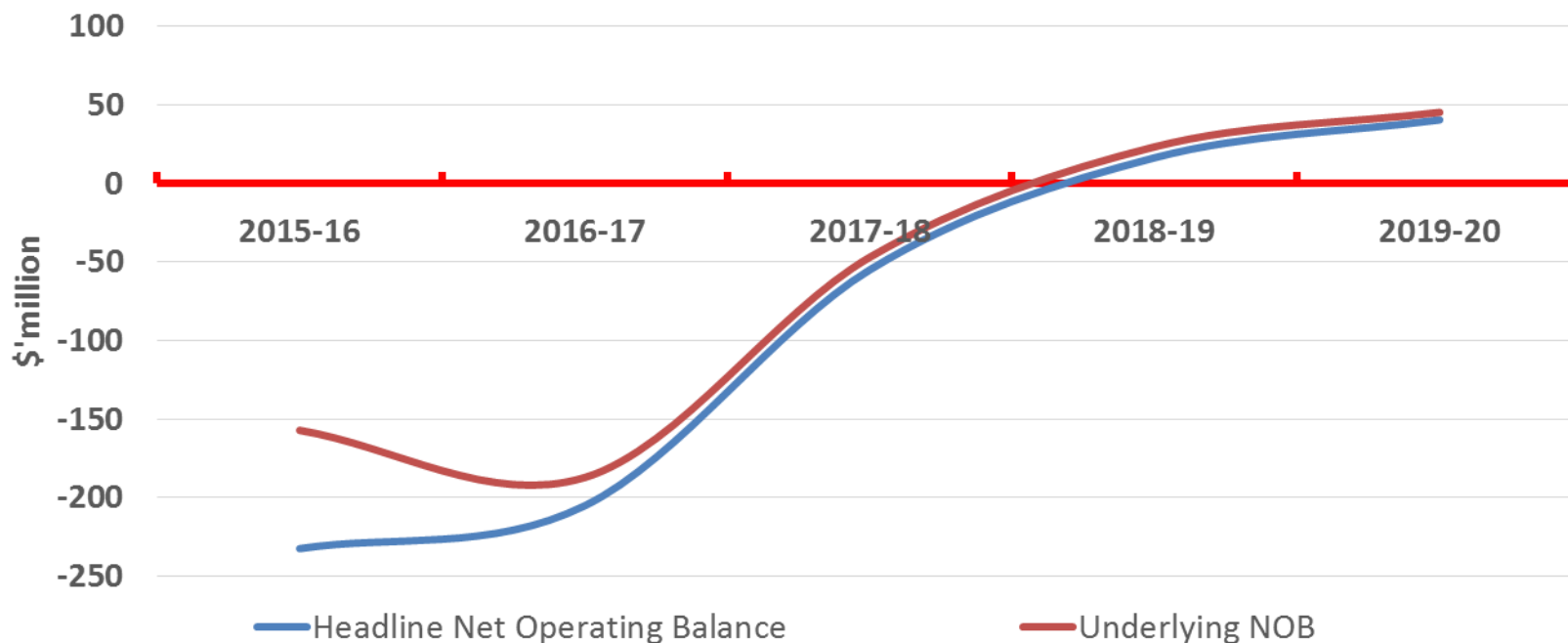
Summary of Inter-State Comparisons

- NSW and Victoria: solid surpluses
- Queensland and South Australia: reasonable buffers against fiscal shocks
- Tasmania: balanced budget
- Western Australia: large deficit – longest period of job losses since 1990
- Australian Capital Territory: ?

	NSW	VIC	QLD	WA	SA	TAS	ACT
2016-17 Surplus/Deficit (\$million)	3,713	2,869	867	-3,914	254	77	-205
2016-17 Surplus/Deficit (% of Budget)	5.1%	5.0%	1.6%	-13.2%	1.4%	1.4%	-3.8%
Average over Forward Estimates	2.7%	3.9%	1.5%	-4.2%	2.2%	0.2%	-1.0%

Budget Position

Impact of Loose-Fill Asbestos Eradication Program



	2015-16	2016-17	2017-18	2018-19	2019-20
Headline Net Operating Balance	-232	-205	-55	16	41
2016-17 Budget Impact	-75	-18	-8	-7	-5
Underlying NOB	-157	-187	-47	23	45

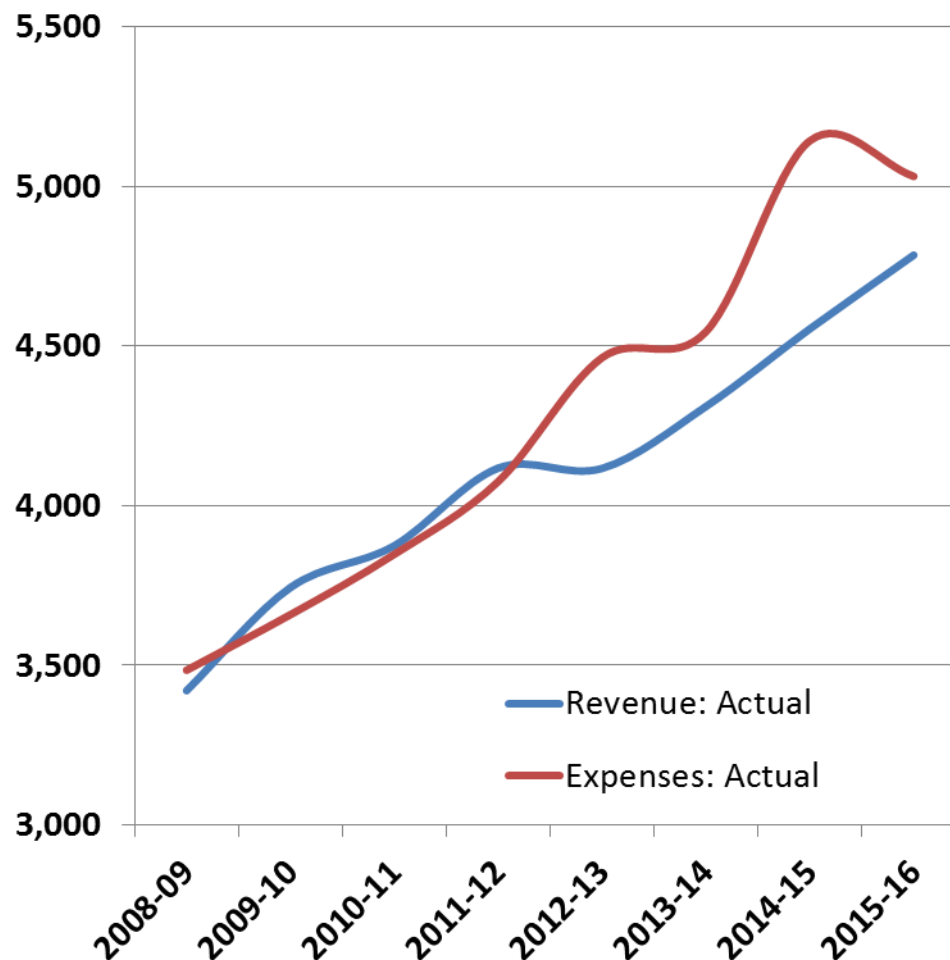
Budget Trends and Forecasts

Operating Budget and Balance Sheet

Revenue and Expenditure Trends

Actual Results 2008-09 to 2015-16

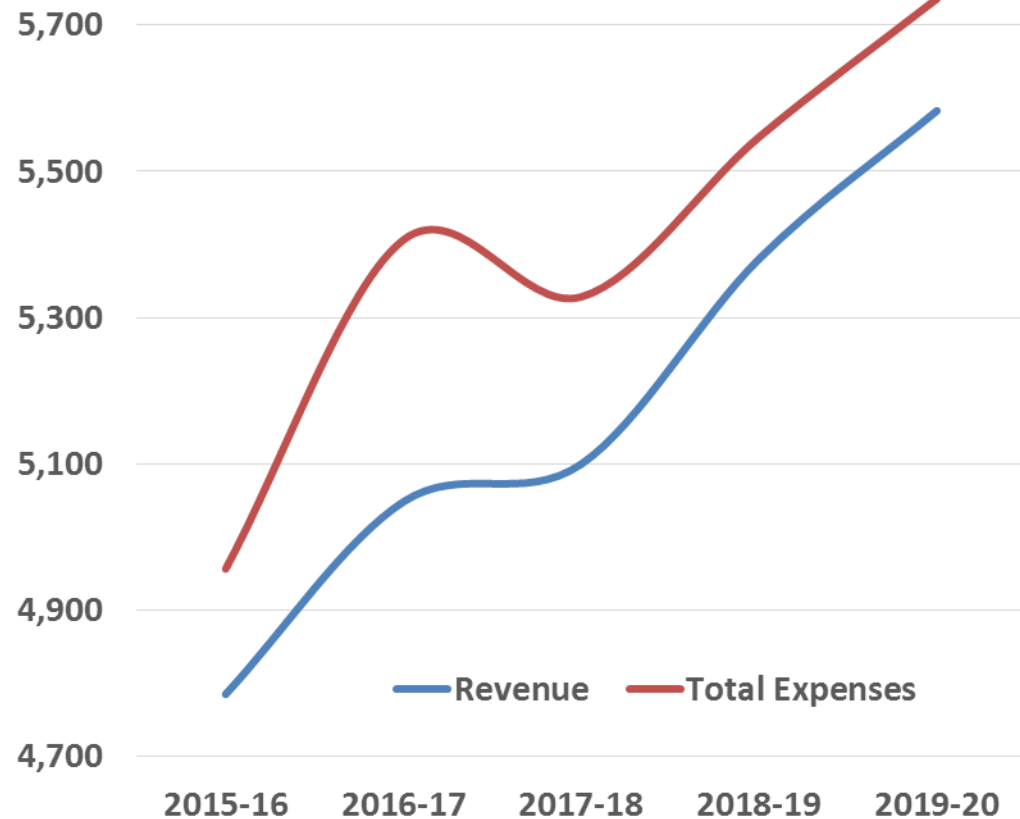
- **Revenue** increase at compound annual growth rate of **4.9%**.
- **Expenditure** growth (excluding the impact of Asbestos Program) at **5.4%** per annum.
- Disparity between revenue and expenditure growth rates due to **divergence in trajectories from 2012-13**.



Revenue and Expenditure Forecasts

Pre-Election Budget Update Excluding the Impact of Asbestos Program

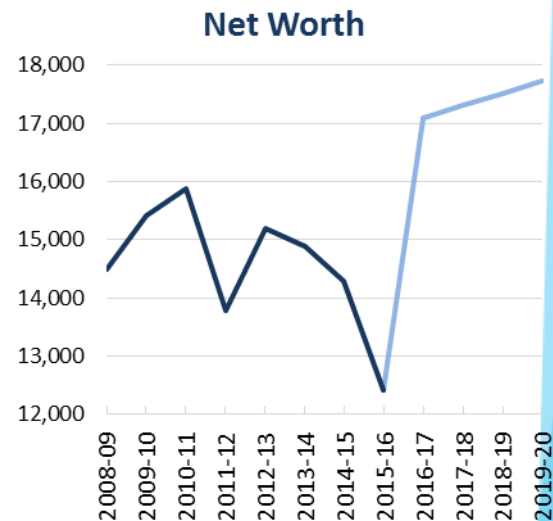
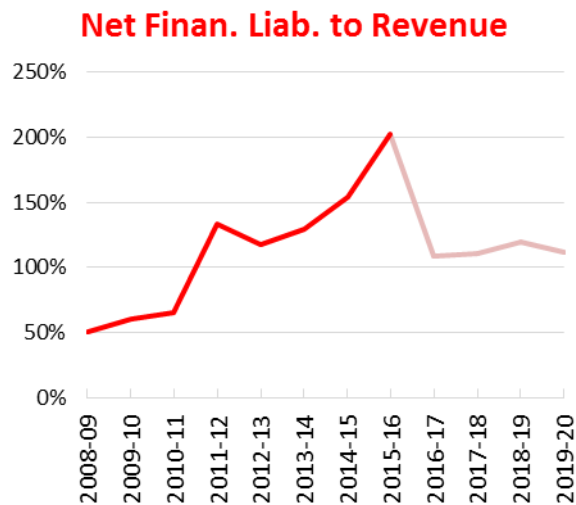
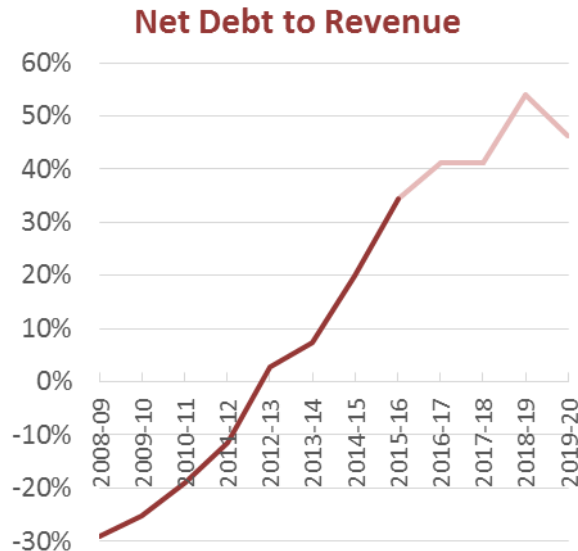
- **Revenue** is forecast to increase at compound annual growth rate of **3.9%**.
- **Expenditure** growth (excluding the impact of Asbestos Program) is forecast to be contained at **3.7%** per annum.
- Growth forecasts **inconsistent with past trends.**



Balance Sheet

Trends on key metrics not sustainable

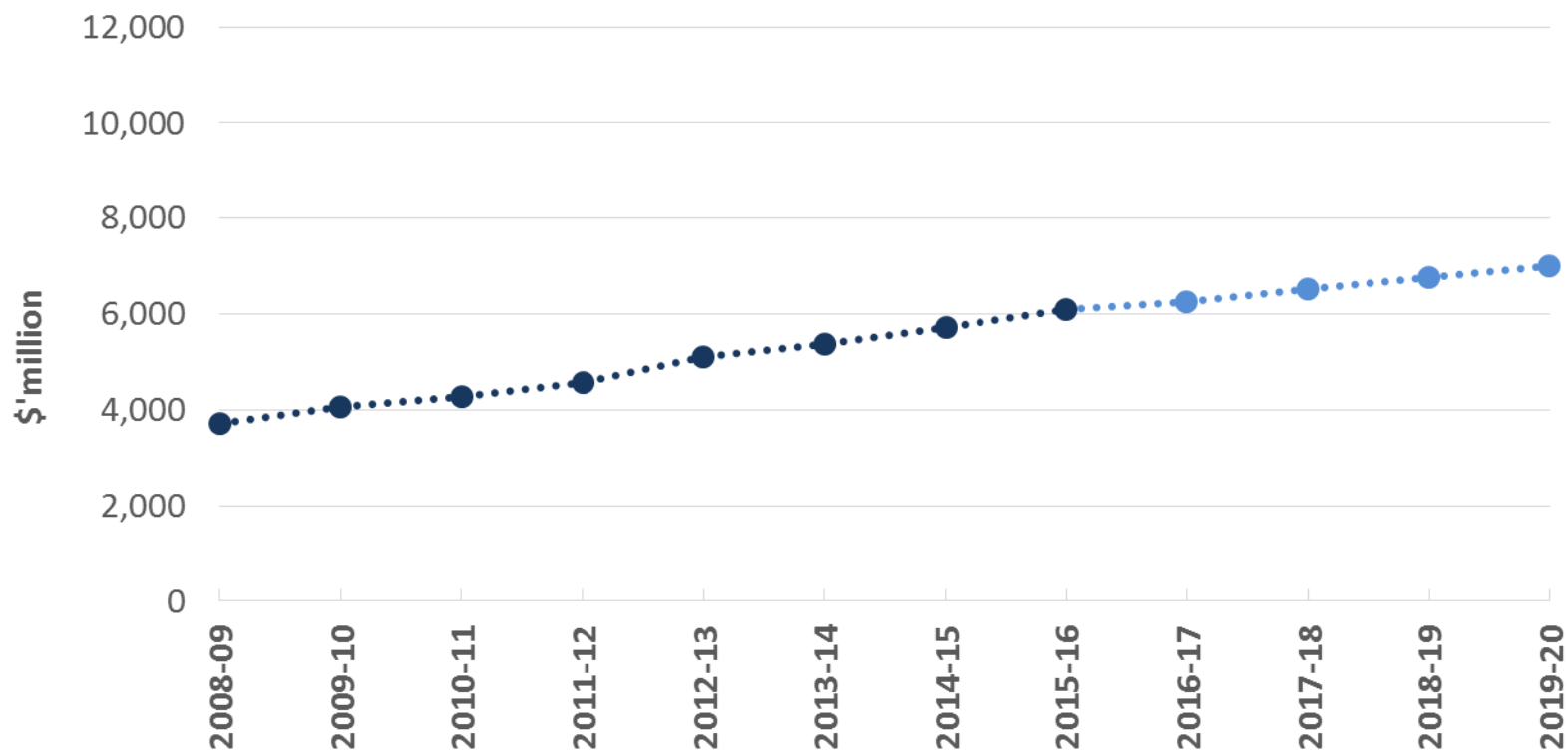
- **Net Debt to Revenue:** increased from **-29%** in 2008-09 to more than **34%** in 2015-16.
- **Net Financial Liabilities to Revenue:** increased from **51%** in 2008-09 to more than **200%** of the revenue in 2015-16.
- **Net Worth:** increased from \$14.5 billion in 2008-09 to \$15.9 billion in 2010-11; decreased to \$12.4 billion in 2015-16.



Superannuation

Budget forecasts

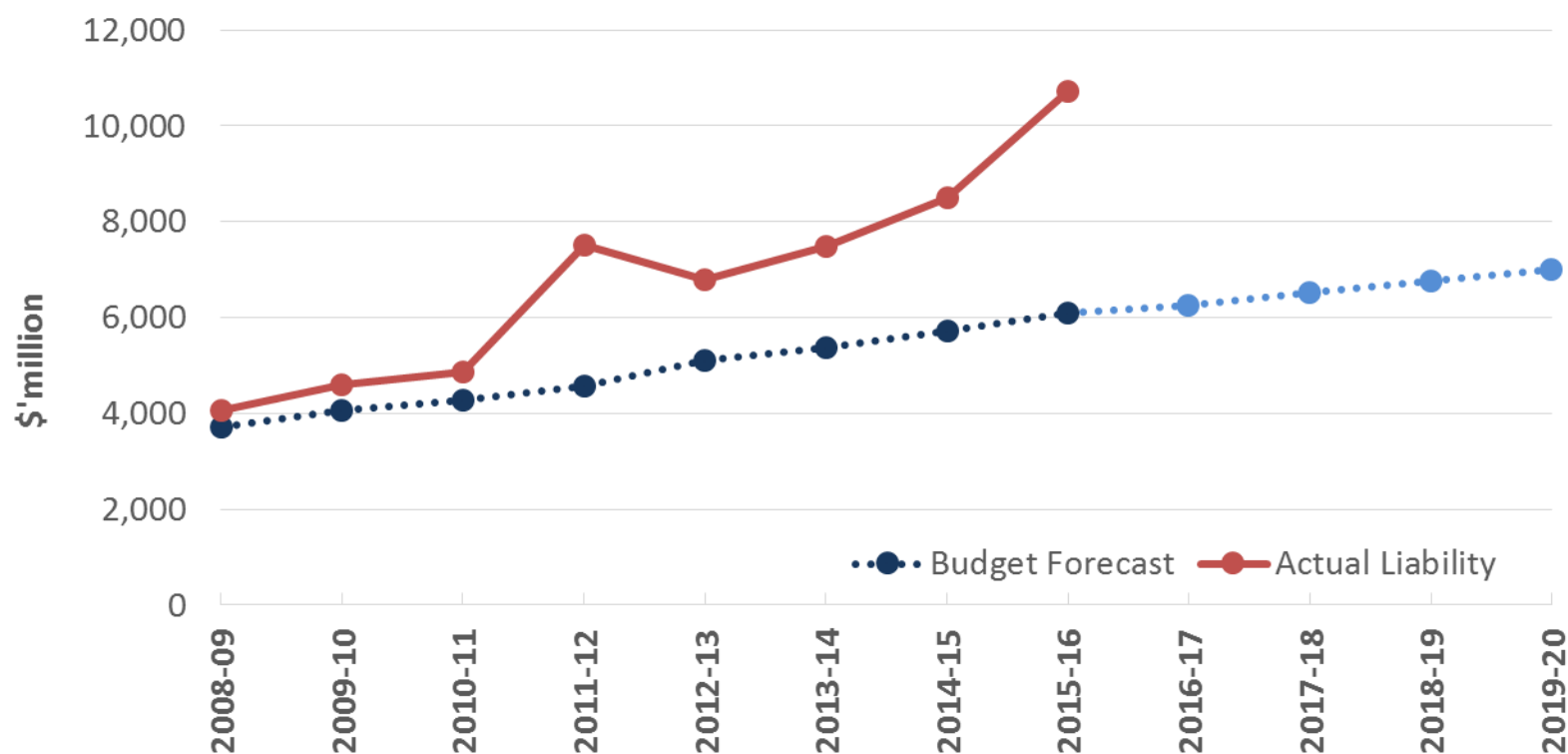
- Steady increase in year on year budget forecasts.
- \$2016-17 forecast is \$6.3 billion.



Superannuation

Divergence between budget forecast and actual liability

- Significant increase in divergence from 2011-12 onwards.
- Liability at June 2015 was \$10.7 billion against forecast of \$6.1 billion.



Inter-Sectoral Allocation Challenges

Policy Change on Services or Revenue

Aggregate Growth in Forward Estimates

All other areas contract after providing for Health, Education and Public Transport

Area of Expenditure	2016-17 Budget \$'million	2016-17 Budget Shares	Annual Growth	2019-20 Projection \$'million	2016-17 Budget Shares
Health	1,553	30.2%	7.8%	1,945	33.9%
Education	1,158	22.5%	6.5%	1,399	24.4%
Public Transport	187	3.6%	9.9%	248	4.3%
Other	2,250	43.7%	-1.5%	2,151	37.5%
Total	5,147	100%	3.7%	5,743	100%

Growth Parameters:

- Aggregate Expenditure: 3.7% as in the 2016-17 Forward Estimates, excluding the impact of Loose-Fill Asbestos Eradication Program.
- Health: Inflation 3.9% (ABS Cat 6401.0 September 2016); Real Expenditure Growth 3.9% (AIHW 2014; ACT 10-Year average).
- Education: Inflation 3.3% (ABS Cat 6401.0 September 2016); Public School Enrolments 3.2% (School Census February 2016).
- Public Transport: no growth except an additional \$61 million budget impact of Light Rail in 2019-20 (Budget Paper No. 3, Appendix C, Page 351).
- All Other Areas: Residual growth within the aggregate expenditure after Health, Education and Public Transport.

Trend Growth in Aggregate Expenditure

Require \$280 million in additional revenue in 2019-20

Area of Expenditure	2016-17 Budget \$'million	2016-17 Budget Shares	Annual Growth	2019-20 Projection \$'million	2016-17 Budget Shares
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Education	1,158	22.5%	6.5%	1,399	23.2%
Public Transport	187	3.6%	9.9%	248	4.1%
Other	2,250	43.7%	2.6%	2,433	40.4%
Total	5,147	100%	5.4%	6,025	100%

Growth Parameters:

- Aggregate Expenditure: 3.7% as in the 2016-17 Forward Estimates, excluding the impact of Loose-Fill Asbestos Eradication Program.
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- All Other Areas: Residual growth within the aggregate expenditure after Health, Education and Public Transport.

Summary

- Deficit is structural – revenue flat in 2012-13 while expenses kept increasing; budget in deficit even after excluding the costs of Asbestos Program.
- Return to surplus is tentative – forecast in successive budgets, but has not eventuated; return to surplus is underlined by a significant decrease in expenditure in expenditure in 2017-18 (not related to phase out of Asbestos Program).
- Budget trends not sustainable – significant weakening of balance sheet; superannuation liability has exceeded \$10 billion; increasing debt; erosion of net worth.
- Current aggregate forecasts will necessitate policy adjustments – they imply contraction (in nominal or at least in real terms) in areas other than health, education and public transport; alternatively, additional revenue raising will be required if past expenditure trends are maintained.

Thank You

Questions