

Under Treasurer

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The Hon Adam Giles MLA
 Chief Minister
 GPO Box 3146
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Dear Chief Minister

RE: ASSESSMENT OF CLP GOVERNMENT ELECTION COMMITMENTS

I have assessed whether the Country Liberal Party's (CLP) 2016 election commitments could be undertaken within the parameters of the Budget and forward estimates as outlined in the 18 August 2016 Pre-Election Fiscal Outlook (PEFO) Report.

The tables below outline the estimates provided of your capital and recurrent commitments for the Budget and forward estimates period from 2016-17 to 2019-20.

Capital

The financial statements presented in the PEFO assume that the 2016-17 Capital Works Program will continue as approved and that the capital spending over the forward estimates will be consistent with the estimates in the 2016-17 Budget, adjusted for timing differences that have occurred since May 2016. The PEFO outlined that, in addition to the capital and forward works projects approved in the 2016-17 Budget, there was capacity across the forward estimates to support new or expanded projects to the value of \$300 million.

The CLP's capital commitments are set out below and total \$321.95 million across the Budget and forward estimate years.

	2016-17 \$M	2017-18 \$M	2018-19 \$M	2019-20 \$M	Total \$M
Capital		80.15	110.75	131.05	321.95

The estimated cost of the proposed projects appear reasonable, with the new projects not commencing before 2017-18 and therefore providing sufficient time for planning and development requirements to be met. It is appropriate that where recurrent funding associated with capital projects has been identified, these amounts have been included in the recurrent funding tables. I also note a number of the capital projects will commence in the forward estimate period, but will not be completed until after 2019-20.

Although the total cost of the CLP's capital commitments exceeds available capacity by \$21.95 million, I acknowledge that in the costings table provided, the CLP has allocated a notional capacity of \$100 million per year for 2017-18 to 2019-20 and has recognised that the excess spending will be an additional cost to the forward estimates. On that basis, I have shown the additional capital expenditure in the table below to demonstrate the net cost to the budget and forward estimates.

Net Cost to the Budget and Forward Estimates

Consistent with the 2016-17 Budget, the PEFO outlined that the forward estimates include a contingency reserve of around 1 per cent per annum of operating expenses which incorporates \$30 million ongoing per annum for new and expanded recurrent initiatives.

The table below sets out the total cost of the CLP's election commitments associated with additional capital spending, recurrent initiatives and savings measures.

	2016-17 \$M	2017-18 \$M	2018-19 \$M	2019-20 \$M
Additional Capital Expenditure		-19.85	10.75	31.05
<i>plus</i>				
Recurrent Initiatives		40.55	43.35	47.21
<i>less</i>				
Savings Measures		2.11	3.36	3.36
Total cost		18.59	50.74	74.90
<i>less</i>				
Contingency Capacity		30.00	60.00	90.00
<i>Equals</i>				
Net Cost		-11.41	-9.26	-15.10

In regards to the CLP's recurrent initiatives, the costing for individual commitments and the savings identified have been generally accepted and there are no items that require specific comment.

If the commitments and savings can be achieved as outlined, in each forward year the costs can be contained within the contingency amount included in the forward estimates. There will also be either some limited capacity for additional new initiatives across the forward estimates or an ability to improve the projected outcomes, equating to \$11.41 million in 2017-18, \$9.26 million in 2018-19 and \$15.10 million in 2019-20. Although outside the forward estimates, I note that the ongoing cost to the Budget of the recurrent commitments will be \$43.85 million.

Effect of Commitments on Fiscal Balance and Net Debt

The table below sets out the Fiscal Balance and Net Debt projections presented in the PEFO, compared to the indicative projections that would result from the CLP's commitments, presuming no other non-policy changes occur and if the improvement is taken as an improvement to the projected outcomes.

	2016-17 \$M	2017-18 \$M	2018-19 \$M	2019-20 \$M
PEFO Fiscal Balance Deficit	-875.59	-430.98	-154.37	0.89
<i>less</i>				
Net Cost of Commitments		-11.41	-9.26	-15.10
<i>Equals</i>				
Revised Fiscal Balance Deficit	-875.59	-419.57	-145.11	15.99
PEFO Net Debt	2 664.73	3 023.07	3 117.92	3 094.29
<i>plus</i>				
Effect of Commitments		-11.41	-20.67	-35.77
<i>Equals</i>				
Revised Net Debt	2 664.73	3 011.66	3 097.25	3 058.52

As outlined in the comments above, and demonstrated by the potential to reduce net debt by \$35.77 million in 2019-20, the net effect of the CLP's election commitments can be managed within the unallocated funding available in the Budget and forward estimates, without affecting the projections presented in the 2016 PEFO.

As I advised on 8 and 18 August 2016, a copy of this letter will be available on Treasury's internet website approximately two hours after it is provided to you and by 1:00pm Thursday, 25 August 2016.

Yours sincerely



JODIE RYAN

Under Treasurer

25 August 2016