

Under Treasurer

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Mr Michael Gunner
Leader of the Opposition
GPO Box 3700
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Dear Mr Gunner

RE: ASSESSMENT OF LABOR ELECTION COMMITMENTS

I have assessed whether the Labor Party's 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 Labor Party's capital commitments are set out below and total \$523.5 million across the Budget and forward estimate years.

	2016-17 \$M	2017-18 \$M	2018-19 \$M	2019-20 \$M	Total \$M
Capital	6.55	139.2	160.5	217.25	523.5

The estimated cost of the proposed projects appear reasonable, with the majority of 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 Labor Party's capital commitments exceeds available capacity by \$223.5 million, I acknowledge that in the preamble to the costings you state that the excess projects will be prioritised ahead of currently approved projects. Given the new Territory-funded projects on the 2016-17 to 2019-20 programs currently total \$425 million, this level of reprioritisation may be difficult to achieve. To the extent that projects cannot be reprioritised or stated timeframes extended to the amount required, the fiscal outcomes will be worsened by that amount.

In addition to the capital commitments discussed above, the Labor Party is committing to utilise an additional \$100 million of the proceeds from the lease of the Darwin Port for an infrastructure stimulus package. The estimated cost and timing of these projects appear reasonable, however, given there is additional expenditure associated with this component of the costings, there will be an effect on the fiscal outcomes and therefore the effect is included in the assessment below.

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 Labor Party's election commitments associated with the infrastructure stimulus, recurrent initiatives and savings measures. The recurrent initiatives that have been identified as being funded from within are not included.

	2016-17 \$M	2017-18 \$M	2018-19 \$M	2019-20 \$M
Infrastructure Stimulus		50.00	50.00	
<i>plus</i>				
Recurrent Initiatives	23.875	72.50	70.70	77.57
<i>less</i>				
Savings Measures	36.50	48.50	48.99	49.53
Total Cost	-12.625	74.00	71.71	28.04
<i>less</i>				
Contingency Capacity		30.00	60.00	90.00
<i>Equals</i>				
Net Cost	-12.625	44.00	11.71	-61.96

In regards to the Labor Party's recurrent initiatives, the costing for individual commitments has been generally accepted and there are no items that require specific comment.

The costs associated with the initiatives that have been identified as being funded from within existing resources equate to \$10.372 million ongoing. Although this is a minimal amount in the context of the total budget, given the level of efficiency and savings measures already factored into agency budgets, these initiatives will only be possible if existing programs are reprioritised.

The savings measures identified have also been generally accepted, but will require ongoing attention and monitoring to ensure they are achieved.

If the commitments can be achieved as outlined and existing capital projects reprioritised, over the four years the total cost can be contained within the contingency amount included in the forward estimates. However, the effect is varied within each financial year, with a small improvement in 2016-17, a worsening in 2017-18 and 2018-19 and an improvement in 2019-20. As a result there will be no capacity for additional new initiatives in 2017-18 and 2018-19 without additional savings measures or higher revenues.

For 2019-20 there will be capacity for additional new initiatives or an ability to improve the projected outcomes. Although outside the forward estimates, I note that the ongoing cost to the Budget of the recurrent commitments will be \$28.04 million.

Effect of Commitments on Fiscal Balance and Net Debt

The table below sets out the Fiscal Balance and Net Debt projections in the PEFO, compared to the projections that would result from the Labor Party's commitments, presuming no other non-policy changes occur and any 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	-12.625	44.00	11.71	-61.96
<i>Equals</i>				
Revised Fiscal Balance Deficit	-862.965	-474.98	-166.08	62.85
PEFO Net Debt	2 664.73	3 023.07	3 117.92	3 094.29
<i>plus</i>				
Effect of Commitments	-12.625	31.38	43.09	-18.88
<i>Equals</i>				
Revised Net Debt	2 652.105	3 054.45	3 161.01	3 075.41

As outlined in the comments above, and demonstrated by the potential to reduce net debt by \$18.88 million in 2019-20, the net effect of the Labor Party's election commitments is within the unallocated funding available across the Budget and forward estimates. However, capacity will be exceeded in 2017-18 and 2018-19. The commitments that are identified to be funded from within and the proposed savings measures will need to be achieved to meet the above outcomes, as will the reprioritisation of the capital works program.

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