

# **APPENDIX B**

## **STATEMENT OF SENSITIVITY OF BUDGET ESTIMATES**

## STATEMENT OF SENSITIVITY OF BUDGET ESTIMATES

This statement of sensitivity is made pursuant to Section 11(1)(c) of the *Financial Management Act 1996*.

### Sensitivity of Budget Estimates

The following sensitivity analysis has been applied to economic parameters used in the formulation of the revised forward estimates.

Territory revenues are sensitive to changes in economic conditions, both in the ACT and nationally, for example, through GST revenues.

Territory expenses are less sensitive to economic conditions. However, over time, changes in demographic variables may affect the demand for government services. In response, policy decisions may be taken to vary expenditure levels to accommodate the change in demand.

### Sensitivity of Economic Assumptions

#### *Consumer Price Index*

A change in the Consumer Price Index (CPI) will affect the forecast for revenues such as general insurance, life insurance, leases, Commonwealth Government grants and sales. CPI changes have not been factored into the sensitivity analysis for conveyance as there is not a direct relationship between it and property turnover or property price.

If the CPI were to increase by 1 percentage point more than the forecast in each year (e.g. from 2 to 3 per cent) of the budget period, forecast revenue would increase by the amounts shown in Table B.1. General rates and regulatory fees are indexed by the Wage Price Index (WPI).

CPI increases generate cost increases for agencies. It is expected that agencies would adjust mid-year expenditure plans to absorb immediate cost increases within the 2011-12 year. However, in forward years, budgets would change and be adjusted according to the revised CPI. An estimate for the impact of a 1 percentage point increase in CPI is shown in Table B.1.

**Table B.1**  
**Impact of 1 percentage point increase in CPI on GGS revenues and expenses**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
Taxation Revenue	453	949	1,489	2,076
Sales of Goods and Services, Commonwealth Government Grants <sup>1</sup> and Other Revenue	0	7,265	15,011	23,396
Expenses	0	17,455	36,125	57,349

**Note:**

1. Refers to Specific Purpose Payments only.

## Wage Price Index

General rates and various fees are indexed to WPI in future years. If WPI increased by 1 percentage point more than the forecast in each year of the budget period, forecast revenue would increase by the estimates shown in Table B.2. However, the revenue in 2010-11 is not expected to vary, as the 2010-11 estimate is based on the December 2010 result.

**Table B.2**  
**Impact of a 1 percentage point increase in WPI on GGS revenue**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
Taxation Revenue	0	2,471	5,214	8,246
Sales of Goods and Services, and Other Revenue	0	4,528	9,394	14,567

## Interest

Interest on cash investment portfolios held by the Territory Banking Account (TBA) and the Superannuation Provision Account (SPA) are affected by interest rate variations. The impact of a 1 percentage point variation in the estimated interest returns as forecast in the Budget estimates for interest revenue is shown in Table B.3.

**Table B.3**  
**Impact of a 1 percentage point (+/-) interest rate change on interest revenue**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
TBA	+/- 9,373	+/- 8,756	+/- 9,644	+/- 11,503
SPA	+/- 1,081	+/- 5	+/- 5	+/- 5

The impact of a 1 percentage point variation in the assumptions used to calculate the interest costs on the floating rate borrowings by the Territory is shown in Table B.4

**Table B.4**  
**Impact of a 1 percentage point (+/-) interest rate change on borrowing costs**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
TBA – Total Borrowings	+/- 10,127	+/- 10,115	+/- 10,365	+/- 10,984

### Note:

1. A 1 percentage point increase in interest rates will lead to increased expenses and accordingly, a corresponding reduction in the budgeted operating result and vice versa.

## Currency

The estimated impact on international asset valuations from a 1 per cent variation in the Australian dollar against all unhedged international currency holdings, with everything else constant, is shown in Table B.5.

**Table B.5**  
**Impact from a 1 per cent (+/-) movement of the Australian dollar on valuations**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
SPA	+/- 3,697	+/- 3,942	+/- 4,187	+/- 4,429

**Note:**

1. A negative outcome represents an appreciation of the AUD relative to other currencies.

## Equity Valuation

Table B.6 outlines the impact to the SPA equity portfolio valuation from a 1 per cent variation in equity security valuations.

**Table B.6**  
**Impact of a 1 per cent (+/-) change in equity valuations**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
SPA	+/- 14,787	+/- 15,769	+/- 16,748	+/- 17,716

## Superannuation Liabilities

Table B.7 outlines the impact to the CSS/PSS defined benefit superannuation liability from a 1 per cent increase in the discount rate from the budgeted discount rate of 6 per cent.

**Table B.7**  
**Impact of a 1 per cent increase in the liability discount rate**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
SPA	- 619,000	- 644,000	- 666,000	- 687,000

Table B.8 outlines the impact to the CSS/PSS defined benefit superannuation liability from a 1 per cent decrease in the discount rate from the budgeted discount rate of 6 per cent.

**Table B.8**  
**Impact of a 1 per cent decrease in the liability discount rate**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
SPA	+ 739,000	+ 766,000	+ 791,000	+ 813,000

Table B.9 outlines the impact on CSS/PSS defined benefit superannuation expense from a 1 per cent increase in the discount rate from the budgeted discount rate of 6 per cent.

**Table B.9**  
**Impact of a 1 per cent increase in the discount rate on superannuation expense**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
SPA	- 24,000	- 22,000	- 20,000	- 18,000

Table B.10 outlines the impact on CSS/PSS defined benefit superannuation expense from a 1 per cent decrease in the discount rate from the budgeted discount rate of 6 per cent.

**Table B.10**  
**Impact of a 1 per cent decrease in the discount rate on superannuation expense**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
SPA	+ 27,000	+ 24,000	+ 22,000	+ 19,000

**Note:**

1. AASB119 'Employee Benefits' requires the defined benefit employer superannuation liabilities to be valued, at 30 June each year, using a discount rate equivalent to an Commonwealth Government long-term bond rate (in practice, the annualised ten year Government bond rate).

## Sensitivity of Other Assumptions

### *Employee Wage Negotiations*

Wages make up the single largest cost in providing government services. As a result, the budget estimates are sensitive to the outcome of enterprise bargaining negotiations. The 2011-12 Budget and forward estimates make provision for a moderate level of wages growth.

### *Residential Conveyance Volume and Price*

Table B.11 shows the revenue increases that would result from:

- the volume of residential transactions growing by 1 per cent more than the forecast in each year of the Budget period; and
- the average residential price growing by 1 per cent more than the forecast in each year of the Budget period.

**Table B.11**  
**Impact of a 1 per cent change in volume and price on conveyance revenue**

	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000
Residential Transaction Volume	2,471	5,036	7,693	10,443
Residential Price	3,269	6,592	9,970	13,405

