



Australian Capital Territory

2002-2003 Budget Consultation

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Introduction

The Government and the Budget

The Budget is the primary political document of government. The Budget determines Government priorities as to service delivery and asset capacity in the ACT given its available resources.

The Budget should signal a Government's capacity to responsibly manage its finances coupled with a high appreciation and willingness to service the needs of its citizens.

The Stanhope Labor Government has made an undertaking to increase transparency and openness in the decision making process. Budget consultation is a suitable avenue for the Canberra community to communicate with the Government prior to the Budget's completion.

Your Invitation

Therefore, in line with its commitment to citizens of Canberra, the Government invites input from the public to ensure it considers the views of the wider community.

By committing itself to this consultative process, the Government aims to use the views of the ACT community to:

- guide the government in the direction of the priorities of the people of Canberra;
- improve the quality of decisions by drawing on the knowledge and experience of both users and providers of government services; and
- promote awareness of the real choices facing citizens and thus stimulate participation in local democracy.

The purpose of this document is to promote improved information about the major issues currently facing the ACT, and thereby assist Government to develop relevant and timely policy which best reflects the overall needs and interests of the Territory. It is intended that the feedback from this document will contribute to the general direction of the 2002-2003 Budget.

What is the Government About?

The role of Government is not confined solely to economic management of a balance sheet. The Government is also endeavouring to obtain the highest possible degree of community participation in the decision making process in order to achieve equitable outcomes for all members of the ACT community.

Our vision for Canberra is a strong, confident and prosperous community asserting its place in Australia's affairs as the national capital. The Government's vision is of a community as a whole that is:

- inclusive of all Canberrans;
- prosperous, progressive, skilled and creative;
- cohesive, fair, tolerant and optimistic;
- committed to protecting the vulnerable and supporting those in need; and
- that gives its children every chance to realise their potential.

The Government's Agenda

In approaching the first Labor budget for Canberrans in six years, we will have regard to what we consider to be the requirements of good government. Government that:

- is open, honest, measured and responsible;
- addresses participation and engagement for all, including the most disadvantaged;
- establishes equal access;
- provides effective, efficient and committed services;
- is financially responsible;
- frames sustainable economic growth; and
- plans and builds a sustainable future.

In developing this budget, the Government will focus on its key priority areas such as Education, Health, Planning, Economic Growth, Community Safety and Public Service capacity. The Government is conscious of the need to provide a responsible budget which is in tune with the Community's needs and focused on delivering better services.

Your Say

In line with the Government's commitment to open, honest and inclusive governance, you as the ACT community are asked to identify what you regard as priority issues for the Territory. Your input and views will be used to assist the Government in its Budget deliberations.

In particular, we would like to know your views in relation to the following issues:

- What should our spending and service delivery priorities be?
- Should more funding be spent on certain services?
- Are there any particular services where the government should spend less?
- Do you feel any existing services could be provided more efficiently? If so, which and how?
- Do opportunities exist to improve services?
- Do you believe current levels of Rates and Taxes are reasonable given the mix of services and quality of service delivery government currently provides? If not, why not?
- What should be the Government's objective in terms of budgeted operating result, and why?
- Can you suggest methods for funding any new initiatives, for example:
 - additional revenue measures?
 - areas where government expenditure could be reduced, and/or productivity increased?
 - savings resulting from a change to the priorities of services?
 - changes to the mix of outputs government seeks to achieve
- Should we continue to put aside funds to offset the Territory's accumulated unfunded superannuation liability?
- Should we focus on repaying borrowings in order to reduce the Territory's overall debt, or instead just refinance?
- Should borrowings be increased to finance other activities?
- Should the Government be more innovative in terms of the types of services we provide, and also the way we go about finding the money to provide them?
- Should capital investment in the Territory's asset base be increased, and if so, in what areas?

Information on the Territory's current financial position is provided to assist you in providing your views. We look forward to receiving your submissions.

ACT's Economy

The economic forecasts underpinning the 2002-03 Territory Budget, along with the figures detailed in last year's Budget, are summarised below.

ACT Economic Forecasts

	2001-02			2002-03			2003-04			2004-05		
	2001-02 Budget Est.	Budget Update 2 Oct 01	Revised Est	2001-02 Budget Est.	Budget Update 2 Oct 01	Revised Est	2001-02 Budget Est.	Budget Update 2 Oct 01	Revised Est	2001-02 Budget Est.	Budget Update 2 Oct 01	Revised Est
GSP	4.6	3.1	3.0	4.4	3.9	3.1	4.4	3.9	3.0	4.4	3.9	3.0
SFD	3.0	3.3	4.1	2.7	2.2	2.8	2.7	2.2	2.9	2.7	2.2	3.6
Emp	1.3	0.0	0.0	2.5	1.2	1.0	2.5	1.2	1.2	2.5	1.2	1.0
CPI	2.25	2.0	2.75	2.25	2.5	2.5	2.25	2.5	2.5	2.25	2.5	2.5
Pop	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.8	0.9	0.9	0.8	0.9

State Final Demand

State Final Demand (SFD) represents expenditure in the ACT economy. It includes expenditure on goods and services sourced from outside the ACT (imports) and changes in the level of inventories. It is a measure of demand rather than production. SFD is composed of Household Final Consumption, Public Final Consumption, and Private and Public Investment.

In 2000-01, ACT SFD grew by 1.5% – the highest of all Australian states and territories. Growth in Public Final Consumption was 0.7%, while Household Final Consumption grew at 5.4%. Household Final Consumption was the main driver of SFD growth during 2000-01, contributing 1.9% points to the 1.5% growth in SFD. This was followed by Public Final Consumption which contributed a further 0.3% points. The result was offset by a decline in investment of 0.8% points.

SFD is forecast to grow by 4.1% in 2001-02, above the 3.0% forecast in last year's Budget. There are a number of factors that have contributed to this upward revision.

Firstly, household consumption has been stronger than originally thought as consumers have taken advantage of lower real interest rates and substantially increased their use of revolving credit. In the first six months of the current financial year, use of revolving credit in the ACT has increased by 8.7% in year to date terms.

Secondly, public consumption, which is predominantly Commonwealth Government expenditure, is also forecast to increase. In the November 2000 Mid-Year Economic and Fiscal Outlook (MYEFO), Commonwealth outlays were forecast to increase by 2.2% in 2001-02. In the November 2001 MYEFO, this figure has been revised upward to 3.1%.

Finally, private investment is expected to rebound, strongly supported by dwelling investment as a consequence of lower interest rates and the First Home Owners Scheme. Building approvals are up 68% in year to date average terms while the value of housing finance commitments is up 24% in year to date average terms.

In 2002-03, growth in SFD is forecast to slow to 2.8% as higher interest rates and reduced public expenditure impact on demand.

Economic Growth

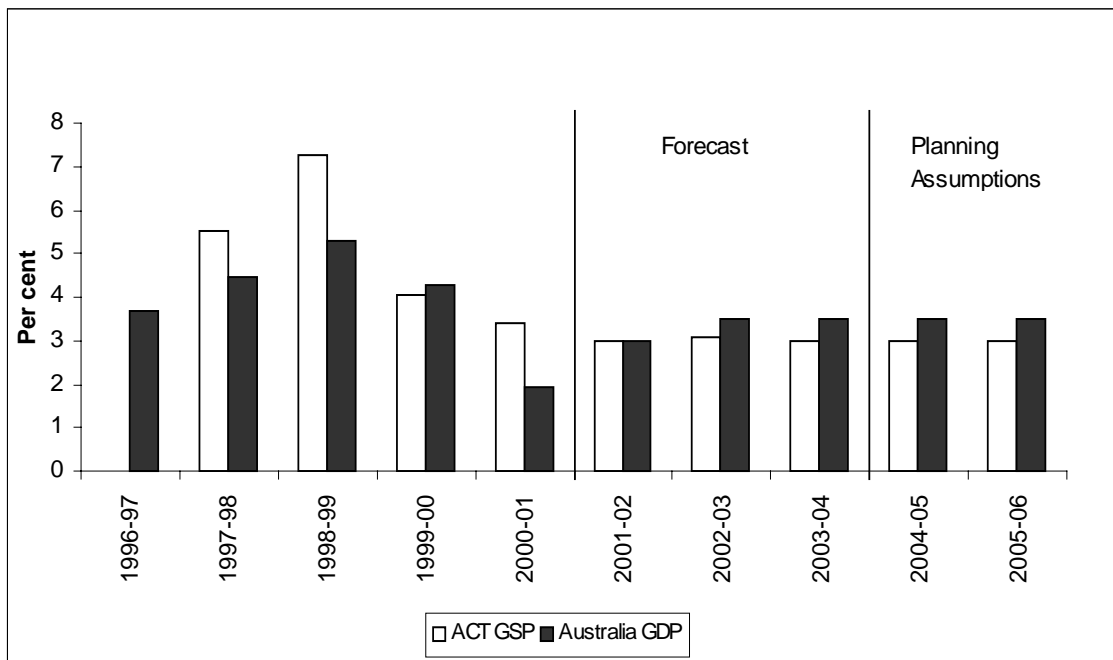
Gross State Product (GSP) is an income-based measure of economic activity that is produced by summing household income and profits from businesses. Growth in ACT GSP has been volatile due to the relative narrowness of the ACT economic base compared to the national economy.

Over the 12 months ending June 2001, ACT GSP grew by 3.4%, while nationally Gross Domestic Product (GDP) grew by 1.9%. The outlook for GSP remains positive with GSP forecast to grow by 3.0% in 2001-02. This is down on the 4.6% forecast in last year's Budget.

The reduced forecast GSP growth from last year to this year is primarily a consequence of slower growth in income of wage and salary earners, which accounts for over 60% of GSP.

The primary cause for the downgraded forecast is lower than expected employment growth during 2001-02. The 2001-02 Budget forecast for employment was growth of 1.3% however, based on data to January 2002, employment is expected to remain unchanged on a year-on-year average basis. Real wages are expected to increase by 1.5% in 2001-02 and, consequently, compensation to wage and salary earners is expected to rise by approximately 1.5% in real terms, thereby contributing 0.9% points to the growth of GSP.

Change in GSP/GDP, ACT and Australia



The prospects for profits, which make up the rest of GSP, remain sound in the ACT. Business expectations reveal that a majority of businesses remain positive about the ACT economy, employment, sales and profits. It is therefore expected that business profits will contribute approximately 2% points (which equates to approximately 5% growth in profits) to GSP resulting in an overall growth in GSP of 3.0%.

The outlook for GSP is for growth of 3.1% in 2002-03 and then 3.0% annual growth out to 2005-06. These figures have been revised downwards from last year's Budget in accordance with current employment trends. The less optimistic outlook reflects reductions in employment in the accommodation, transport and storage, and construction sectors.

There are a number of other downside risks to the GSP forecasts beyond 2001-02. These include the possibility of fiscal tightening by the Commonwealth, market expectations of real interest rate increases, and the likelihood of a decline in dwelling construction, both as a result of increasing interest rates and the phasing out of the First Home Owners Grant for newly constructed dwellings

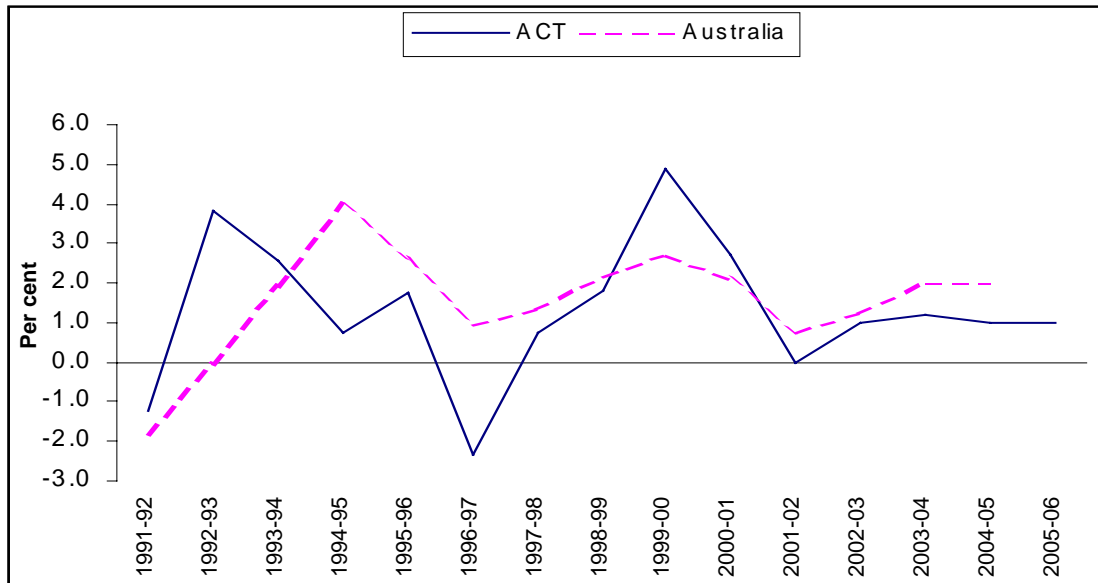
Employment

Employment in the ACT grew by 2.7% in 2000-01 in year average terms, reaching record employment levels in the process. The first seven months of 2001-02 have seen employment decrease by 1.9% in average terms. While the general employment outlook remains positive, the extent of the year-to-date decline means that employment levels are not expected to grow in year average terms this financial year.

The 0.0% forecast is a considerable downward revision on last year's budget estimate of 1.3% although there have been a large number of unforeseen events impacting on the ACT employment market in the last seven months. The collapse of Ansett and HIH, as well as the events of September 11 and the associated downturn in the global economy have all played a part in destabilising ACT employment. This is highlighted in the November 2001 Employment by Industry figures which show considerable reductions in employment in the accommodation, cafes and restaurants sector (-13.8%) as well as the transport and storage sector (-6.5%). These events coincided with a Federal Government election which usually results in a period of subdued activity as well as less business trips to the ACT.

Employment in 2002-03 is expected to recover and grow at 1.0%, and is forecast to remain at or around this rate of growth for the next few years.

Annual Employment



Population

Over the next few years interstate migration to Canberra is expected to return to positive levels due to an expanding and more diversified economy and labour market which encourages more people to move to Canberra, and fewer to leave. Population growth improved in 2000-01 (1.0%), due mainly to the return of slightly positive net migration to Canberra. This was much higher than the 0.6% growth experienced in 1999-00.

The ACT population is expected to increase by 0.8% in 2001-02 and 2002-03, compared with national growth of 1.0%.

Housing

The housing market has shown remarkable activity during 2001-02. This is a direct consequence of lower real interest rates and the First Home Owners Grant (FHOG) Scheme. The latter in particular has contributed to higher than expected price rises. Median house prices rose 22% over the 12 months to September quarter 2001.

Prices are expected to level off and possibly reduce further out as the FHOG is reduced for newly constructed dwellings, real interest rates increase and the supply of dwellings absorbs current demand.

Current Financial Position

Pre-Election Published Estimates

An update of the 2002-03 Budget and forward estimates was released to the public by the previous Government on 2 October 2001, prior to the election. The update provided a list of known and agreed adjustments to the 2001-02 estimated outcome and forward estimates.

Table 1 provides a summary of the movement from original estimates.

Table 1	2001-02 \$'000	2002-03 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000
Original GGS Operating Result - as published in 2001-02 Budget Papers	12,285	20,285	12,968	10,703	10,703
Technical changes	32,346	28,691	28,478	26,212	42,421
Government decisions	-4,673	-2,733	-7,198	-6,960	-6,971
Pending / Possible impacts	-1,170	-6,770	-9,163	-8,477	-8,393
GGS Operating Result - 2 October 2001	38,788	39,474	25,086	21,478	37,760

Commission of Audit

The Commission of Audit was established in 15 January 2002 to undertake a review of the state of the Territory's finances as at 31 October 2001, to inquire into the reasonableness and completeness of the financial aggregates and projections, and was to concentrate on what were seen to be major issues and risks facing the Territory at the time.

The Commission has released its findings. In relation to the estimates for the Territory, the Commission made the following adjustments to reflect items impacting on the results to 31 October 2001.

Table 2 provides a further update to the operating result and forward estimates and details the impact as a result of the Commission of Audit outcome.

Table 2	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Revised Operating Result - at 2 October 2001	38,788	39,474	25,086	21,478	37,760
Comm Grant - GST revenue and Budget Bal Assist	10,000	-2,700	-3,200		
First Home Owners' Scheme	-2,200				
Non Govt School Enrolment	-2,600	-2,300	-2,300	-2,300	-2,300
Superannuation Investment adjustment	-63,000				
Land Revenue - recognition of past year infrastructure	12,400	8,700			
Totalcare - revised estimates	-645	-405	-421	-429	-429
Kerbside Waste Collections	-800				
Substitute Care	-1,500				
Nurses Payrise	-676	-419	-3,670	-5,970	-5,970
ACTEW Dividend	5,400	3,800			
Revised Operating Result – after Commission of Audit	-4,833	46,150	15,495	12,779	29,061

With the inclusion of the Commission of Audit outcome, the revised 2001-02 operating result is estimated to be a deficit of \$4.833m, the 2002-2003 budget and forward surpluses are as follows: \$46.150m for 2002-2003, \$15.495m for 2003-2004, \$12.779m for 2004-2005 and \$29.061m in 2005-200.

While the Commission of Audit noted that Treasury, in October, expected a nil return on superannuation investments for 2001-02, the Government notes that positive returns on investment continue to sustain the operating position through the forward years, 2002-03 to 2005-06 (see Table 3). The Government considers that it is important to also disclose an operating result that does not incorporate returns on superannuation, as movements in these are independent of government policy and control. This is especially so as these returns are of such a magnitude that without them, as Table 3 shows, the operating surplus cease to exist. A government can not control the market driving the returns on its investments. In Table 3, these revenues have been removed from the Government's 'bottom line'.

Table 3	2001-02	2002-03	2003-04	2004-05	2005-06
	\$'000	\$'000	\$'000	\$'000	\$'000
Revised Operating Result – after Commission of Audit	-4,833	46,150	15,495	12,779	29,061
Budgeted Superannuation Returns	-	80,000	90,000	100,000	110,000
Adj Operating Position (Net of Superannuation)	-4,833	-33,850	-74,505	-87,221	-80,939

Appropriation Act 2001-2002 (No. 2)

The Appropriation Act 2001-02 (No. 2) was passed in the Assembly on 13 December 2001. The Bill provided additional funding of \$32.139m: the impact on the operating result was \$5.894m, as the majority of items impact were included in the 2 October 2001 release. Appropriation was provided for commitments that were inherited from the previous Government, which were announced prior to the election, and election commitments that this Government would be implementing in this financial year.

The revised operating result with the inclusion of the impact of Appropriation Act 2001-02 (No. 2) is a deficit of \$10.727m in 2001-02 and a surplus of \$36.613m in 2002-03.

Table 4	2001-02	2002-03	2003-04	2004-05	2005-06
	\$'000	\$'000	\$'000	\$'000	\$'000
Revised Operating Result – after Commission of Audit	-4,833	46,150	15,495	12,779	29,061
PALM Planning Initiatives	-950	-1,830	-1,830	-1,830	-1,830
Nature Conservation	-250	-500	-500	-250	
Solar Hot Water Rebate	-100	-373	-373	-373	
Canberra Hospital	-2,970	-3,750	-3,300	-3,300	-3,300
KBE Board	-50	-50	-50	-50	-50
Knowledge Bank	-1,500	-1,500	-1,500	-1,500	-1,500
Economic White Paper	-250	-250	0	0	0
Impact of EBA negotiations	-500	-1,703	-6,430	-10,307	-10,307
Total Operating Statement Impact	-6,570	-9,956	-13,983	-17,610	-16,987
<i>less: items provided for in Commission of Audit Release</i>					
Nurses Payrise	676	419	3,670	5,970	5,970
Revised Operating Result - Appropriation Act 2001-02 (No. 2)	-10,727	36,613	5,182	1,139	18,044

Additional Estimates Bill - Appropriation Bill 2001-2002 (No.3)

Further cost pressures and election commitments for 2001-02 required appropriation through a 3rd Appropriation Bill.

Table 5 provides a complete list of the cost pressures included in the 3rd Appropriation Bill, and their impact on the general government sector operating result.

Table 5	2001-02 Budget \$'000	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2004-05 Estimate \$'000
Revised Operating Result - Appropriation Act 2001-02 (No. 2)	-10,727	36,613	5,182	1,139	18,044
<i>Chief Minister's Department</i>					
CMD – Independent Inquiry into Disability Services	-702				
CMD - Office of Sustainability	-184	-375	-381	-388	-394
CTEC – current year pressures	-1,000				
<i>Department of Urban Services</i>					
ACT Forests – redundancy program	-300	300			
DUS – interim payments to community groups under SACS award	-97	-98	-99	-101	-102
DUS – fire suppression	-1,325				
DUS Kerbside Recycling	-850				
ACTION – bus door safety	-3	-130	-130	-130	-130
ACTION – operational funding	-540				
<i>Department of Treasury</i>					
Low Alcohol Subsidy	-700				
<i>Department of Education and Community Services</i>					
Non-Government schools enrolment adjustment	-2,603	-2,510	-2,573	-2,637	-2,703
Substantive care: 27% demand increase	-1,507	-1,545	-1,583	-1,623	-1,663
<i>Department of Justice and Community Safety</i>					
Overtime Remand Centre	-600				
Bushfire Costs	-633				
Emergency Services – logistics support	-300				
DPP extraordinary cases	-737				
Total Operating Statement Impact	-12,081	-4,358	-4,766	-4,879	-4,992
<i>less: items provided for in 2 October release</i>					
ACTION Operational Funding	540				
CTEC - cost pressures	630				
ACT Forests Business Restructure (cash only impact)	200	-300			
<i>less: items provided for in Commission of Audit Release</i>					
Non Gov't enrolment adjustment	2,600	2,300	2,300	2,300	2,300
Substitute Care	1,500				
Kerbside Waste Collections	800				
Revised Operating Result - Appropriation Bill 2001-02 (No. 3)	-16,538	34,255	2,716	-1,440	15,352

The revised operating result after the impact of the proposed items is a deficit of \$16.538m in 2001-02 and a surplus of \$34.255m in 2002-03.

Other Influences on Budget

There are a number of items across the forward estimates which will influence the financial position. These include, amongst other things, revised economic parameters, performance of revenue and grants from the Commonwealth.

Table 6 provides the impact of revised parameters and other influences.

Table 6	2001-02	2002-03	2003-04	2004-05	2005-06
	\$'000	\$'000	\$'000	\$'000	\$'000
Revised Operating Result					
- Appropriation Bill 2001-02 (No. 3)	-16,538	34,255	2,716	-1,440	15,352
Gambling Estimates	-1,919	-1,909	-1,874	-1,888	-1,877
Taxation Estimates - Revised Parameters	695	767	831	907	869
Taxation Estimates – Trend	19,007	7,775	1,517	-435	-16,856
Revised parameters (revenue and expenditure)	121	-1,285	-2,956	-4,698	-25,608
Commonwealth Grants	700	7,900	8,000	1,300	40,800
Superannuation	-5,824	-3,693	-10,906	-12,672	-18,910
Insurance	43	-7,161	-5,757	-8,051	-11,231
2001-02 various revisions	-13,356	1,432	63	-274	585
Estimate of cost pressures (eg wages, IT)		-31,000	-40,000	-44,000	-48,000
Revised Operating Result – Budget Consultation	-17,071	7,081	-48,366	-71,251	-64,876

The current estimates for the 2002-2003 Budget are a surplus of \$7.081m for 2002-2003, a deficit of \$48.366m for 2003-2004, a deficit of \$71.251m in 2004-2005 and a deficit of \$64.876m.

The above table recognises that there continues to be cost pressures across the budget for which provision broadly need to be made. For example, there continues to be increasing costs to the Government in relation to insurance a phenomenon experienced by all sectors. Another example is the cost of superannuation, due to a number of factors. For example the actuarial review of the Territory's superannuation liability has revised the liability upwards. The previous estimates were also premised on the closure of the PSS and, over time, agency's absorbing the cost of an alternative fund at 6% over a number of years outside the previous forward estimates. More detail on this can be found later in the document.

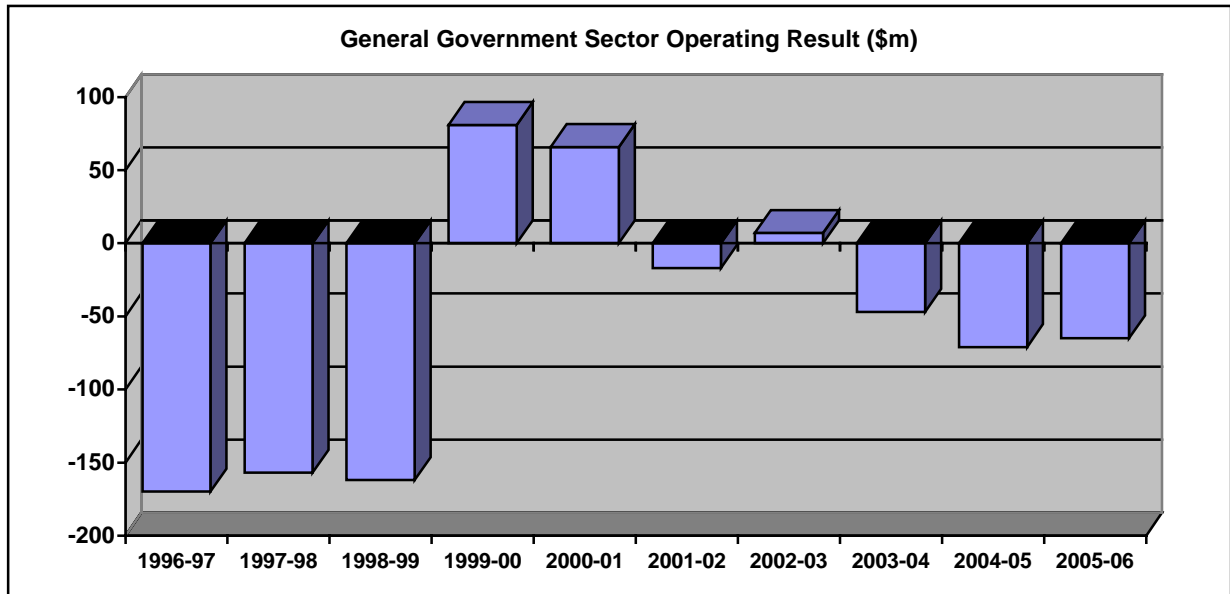
The above table also provides estimates of other general cost pressures which, although broadly identified, have not been finalised in terms of costs and priority. For example, these costs relate to ongoing IT infrastructure, wages and schools enrolment.

General Government Sector - Net Operating Result

The General Government Sector (GGS) reported an audited operating surplus of \$66m for 2000-01. The December Quarter (2001-02 Budget) reported an operating surplus of \$87m.

The current estimated GGS operating result for 2001-02 stands at a deficit of (\$17.1m).

The following chart outlines estimates of the operating result to the end of 2005-06. The 2001-02 Budget and forward estimates have been updated since the time of the 2001-02 Budget, to reflect adjustments outlined earlier in this document.



From the graph the forward estimates indicate a deficit position. With this in mind the Government will be seriously considering a number of revenue and savings proposals in conjunction with a review of existing and proposed expenditure proposals. Your input is valuable to this process.

Liquidity and Debt Management

- **What is our cash position?**

Territory Unencumbered Cash (TUC) is a measure of excess capacity (cash and investments) that has not been formally allocated at a specified date. TUC needs to be considered in the context of its balance over time. It does not include agency balances.

The TUC at the end of December 2001 was \$166m, a decrease from the opening and audited position of \$230m. The 2001-02 end of year TUC is currently estimated to be \$203m.

These estimated results do not mean that during the course of a financial year that TUC is available to spend, as it may be needed to meet future cash requirements. It does, however, when coupled with cash forecasts give an indication of funds available for investment in the immediate short term.

	2001-02 Opening Balance \$'000	December End 2001 \$'000	Estimated 30 June 2002 \$'000	Estimated 30 June 2003 \$'000	Estimated 30 June 2004 \$'000	Estimated 30 June 2005 \$'000	Estimated 30 June 2006 \$'000
Territory Unencumbered Cash	230,490	165,594	202,592	42,547	-60,983	-114,957	-157,092

The major difference between the Territory's Unencumbered Cash Position and cash and investments balances as detailed on the Statement of Financial Position is generally the sum of superannuation investments and agency investments.

Based on the projections above, it is anticipated that borrowings will be required in 2003-2004.

- **Gross Debt @ 30.06.01**

Comprehensive details of the Territory's borrowings are available in the 2001-2002 Budget Paper Number 3 (pages 117-123).

Since self government, the Territory has utilised its borrowing programs to undertake several new money borrowings to meet general government sector budgetary shortfalls, provide funding to ACTEW Corporation and to also refinance maturing borrowings for which there has been limited capacity for retirement.

During the fiscal year ended 2001, total borrowings were reduced by \$20.3m. These repayments were in the main scheduled repayments of Commonwealth related debt.

Total Territory debt at 30 June 2001 (excluding all financing leases) was \$817 million.

Chart 1 illustrates the total Territory debt including a break-up by sector excluding all financing leases).

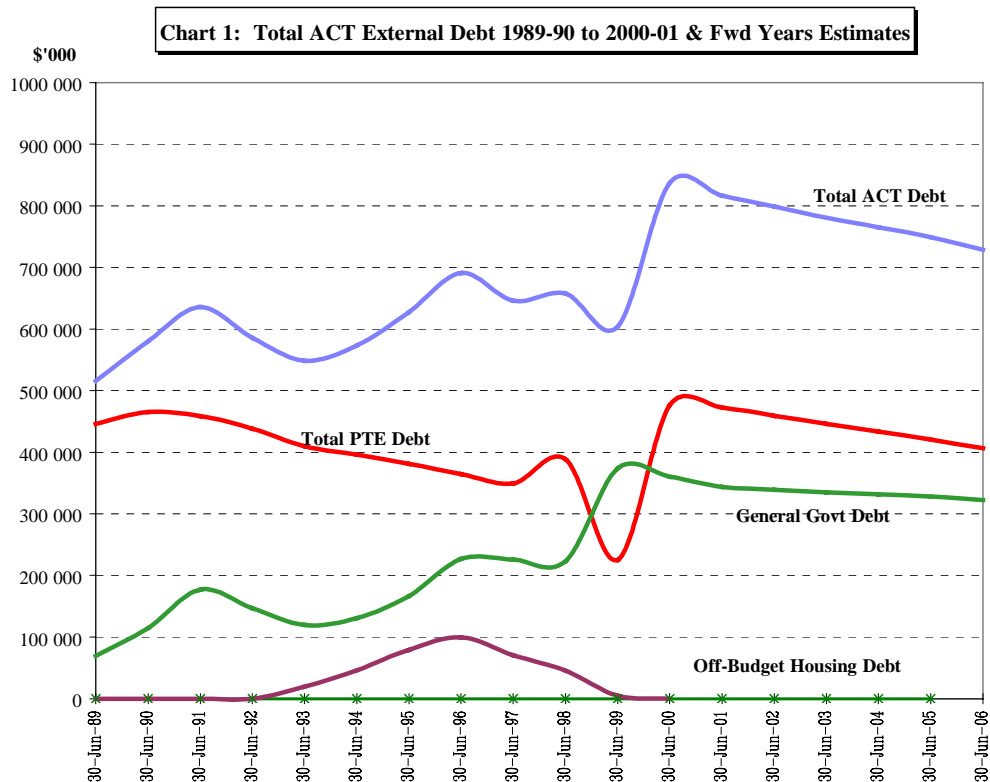
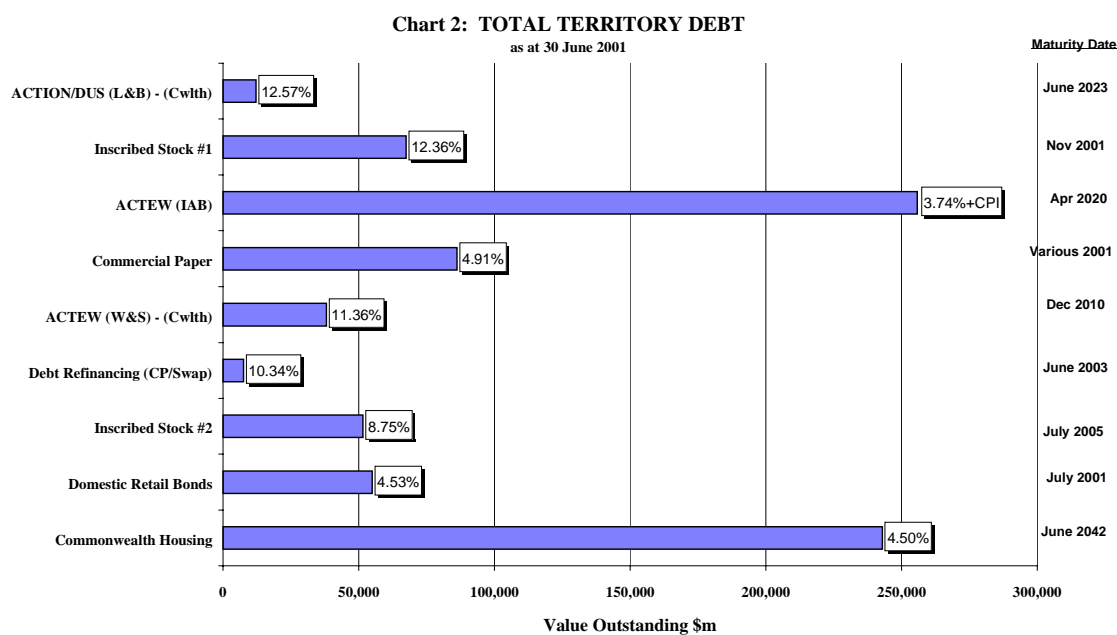


Chart 2 illustrates the debt maturity profile and interest rates applicable to total Territory debt as at 30 June 2001. The estimated weighted average cost of the total Territory debt is 6.50% as at 30 June 2001.



- **Borrowing Program 2001-02**

No new borrowings are forecast during the 2001-02 financial year.

The borrowing program requires the refinancing of debt maturing during the year.

1. *Domestic Retail Bonds issued in 1997-98 for ACTEW Corporation.*

These bonds (\$55m) matured in July 2001 and were refinanced by way of floating rate commercial paper.

2. *Inscribed Stock issued in 1990-91 for the GGS.*

These bonds (\$67.5m) matured in November 2001 and were refinanced by way of floating rate commercial paper.

During 2001-02 it is anticipated that total borrowings will be reduced by \$13.9m. These repayments will in the main be scheduled repayments of Commonwealth related debt.

- **Superannuation**

Previous government policy sought to vary employee superannuation arrangements for new entrants from 1 July 2002 through the introduction of superannuation choice arrangements. This reflected pending legislative change for the Commonwealth to vary its own employee superannuation arrangements to encompass superannuation choice, similar to arrangements in other public sectors throughout Australia.

The policy provided that new entrants to the ACTPS from 1 July 2002 nominate a superannuation scheme, into which the employer would contribute in accordance with Commonwealth legislation. From 1 July 2002, the employer is required to contribute a minimum amount equivalent to 9% of salary.

The policy also required that Agencies meet the costs of funded employer contributions associated with the new scheme without budget supplementation.

Agencies already fund a 3% employer superannuation productivity contribution (EPSC), and meet employer superannuation contribution requirements for temporary and some casual employees that are members of other superannuation schemes. The 3% EPSC would not be required for employees covered by the new scheme arrangements, leaving 6% to be funded by agencies.

The current budget data outlined previously in this document provides for:

- An actuarial revision of the liability of CSS and PSS members, using salary and membership data at 30 June 2001 (updated from 1998 data).
- Continuation of the current superannuation arrangements for new entrants to the ACTPS after 1 July 2002, and the liability being assumed within the Superannuation Provision Account.
- Additional injection of \$10m per annum over 2002-2003 and the Forward Years to 'recover' the estimated shortfall in investment earnings expected for 2001-2002.

Financial Impacts

Investment Returns

Following a review of investment returns at 31 December 2001, investment returns are currently estimated at \$19.7m - an improvement over the Commission of Audit Revised Operating Result estimate of zero.

In total, investment earnings have increased on previous estimates for 2002-2003 and the Forward Years on the reworking of estimated balances of funds invested and the application of a long term rate of return of 5% real, consistent with earnings forecasts of the Territory's funds managers and investment adviser.

Expenditure

The Actuary has identified an increase of the estimated liability as at 1 July 2001 of \$40m, the expense for which, consistent with existing accounting treatment, is amortised over a 12 year period. This amounts to an increase expenditure of \$3.2m per annum over the full budget period 2001-2002 to 2005-2006.

The Actuary has identified required adjustments to reflect the difference between estimated agreed flow of emerging costs to ComSuper and the actual benefits paid – the adjustments being an additional expense of \$14.3m in 2001-02.

Significant additional annual expenditures provide for the increased movement in year end liabilities, as a result of the actuarial revaluation and from continued access to PSS for new entrants beyond 1 July 2002, as follows:

	Actuarial Revision	New entrants
2001-02	\$9.2m	nil
2002-03	\$8.1m	\$5.2m
2003-04	\$2.8m	\$10.2m
2004-05	\$0.2m	\$15.6m
2005-06	\$11m	\$21.9m

Long Term Funding Position

The published budget targets a 90% funding objective that is, at 2039-2040 assets on hand in the Superannuation Provision Account will be equivalent to 90% of the value of the liability. As a result of the actuarial review and the continued access to PSS, early indication is that funding of approximately \$65m per annum, indexed, would be needed until 2039-2040 to meet the 90% target. The Government is still considering its options in relation to this position.

Sensitivity Analysis

Sensitivity Analysis

The following sensitivity analysis has been applied to economic parameters used in the formulation of the revised forward estimates. Sensitivities of plus and minus 1% for each economic parameter have been applied to the revised forward estimates. The following tables outline only those major summary levels from the operating statement that are affected by the sensitivity analysis.

While the Territory's revenue raising results from the policy decisions of Government, the quantum collected is largely driven by the Territory's economic parameters, as is shown in the sensitivity analysis below.

The Territory's expenses, on the other hand, are largely driven by Government policy decisions. As a general rule, the Government indexes agencies' funding by 1.3% for employee expenses and 2.5% for administrative and other expenses. The exception to this rule is Government School Education funding for employee expenses, which is indexed at 2.5%. Agencies must then make decisions about how best to use their funding to achieve their objectives within budget.

However, changes in parameters, such as the population's age profile or other demographic data, may bring to light some significant unmet need for government services in the ACT Community. Such changes may result in a policy decision by Government.

Employment Growth

A change in the employment growth parameter will affect the level of payroll tax that the Territory receives. An increase of 1% to forecast employment growth in 2002-03 would increase revenue and the revised 2002-03 operating result by \$0.2 million. A further increase of 1% in 2003-04 would increase the revised 2003-04 operating result by \$0.4 million.

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
+1% Employment				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
- Payroll Tax	179	365	566	780
<i>Impact of +1% Employment</i>	179	365	566	780
Revised Operating Result (+1% Employment)	7,260	-48,001	-70,685	-64,096
-1% Employment				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
- Payroll Tax	-178	-365	-564	-777
<i>Impact of +1% Employment</i>	-179	-365	-564	-777
Revised Operating Result (-1% Employment)	6,903	-48,731	-71,815	-65,653

Gross State Product

A change in the Gross State Product will affect the level of general insurance and life insurance stamp duties that the Territory receives. An increase of 1% to forecast Gross State Product in 2002-03 would increase revenue and revised 2002-03 operating result by \$0.1 million. A further increase of 1% in 2003-04 would increase the revised 2003-04 operating result by \$0.3 million.

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
+1% Gross State Product				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Taxation				
- General Insurance	125	260	408	567
- Life Insurance	4	8	13	18
<i>Impact of +1% GSP</i>	129	268	421	585
Revised Operating Result (+1% GSP)	7,210	-48,098	-70,830	-64,291
-1% Gross State Product				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Taxation				
- General Insurance	-125	-259	-404	-559
- Life Insurance	-4	-8	-13	-17
<i>Impact of -1% GSP</i>	-129	-267	-417	-576
Revised Operating Result (-1% GSP)	6,952	-48,633	-71,668	-65,452

Population Growth

A change in the population growth parameter will affect the level of hiring duties. An increase of 1% to forecast population growth in 2002-03 would increase revenue and the revised 2002-03 operating result by \$0.030 million. A further increase of 1% in 2003-04 would increase the revised 2003-04 operating result by \$0.062 million.

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
+1% Population				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Taxation				
- Duties	30	62	97	134
<i>Impact of +1% Population</i>	30	62	97	134
Revised Operating Result (+1% Population Growth)	7,111	-48,304	-71,154	-64,742

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
-1% Population Growth				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Taxation				
- Duties	-30	-61	-95	-130
<i>Impact of -1% Population</i>	-30	-61	-95	-130
Revised Operating Result (-1% Population Growth)	7,051	-48,427	-71,346	-65,006

Consumer Price Index

A change in the Consumer Price Index parameter will affect the Territory's revenues such as general rates, debit tax, conveyance, etc. An increase of 1% to the forecast Consumer Price Index in 2002-03 would a decrease to the revised 2002-03 operating result by \$6.4 million.

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
+1% Consumer Price Index				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Taxation				
- General Rates	1,100	2,252	3,459	4,722
- Financial Transaction Taxes (Debits Tax)	134	263	386	-
- Duties	1,649	3,206	4,861	6,621
- Regulatory Fees	4	7	11	15
Fees	904	1,860	2,872	3,848
User Charges	1,777	3,490	5,191	7,218
Grants from the Commonwealth				
- Financial Assistance Grants	4	4	4	7
- Indexed Recurrent Commonwealth Grants	2,825	5,810	8,936	11,974
Other Revenue	494	1,495	2,421	3,122
<i>Expenses</i>				
Employee Expenses	1,968	4,114	6,380	8,548
Administrative Expenses	4,564	9,486	14,505	14,910
Cost of Goods Sold	452	964	1,496	2,035
Grants and Purchased Services	4,073	8,220	12,822	17,184
Other Expenses	1,027	1,992	3,119	4,610
<i>Impact of +1% CPI</i>	-3,193	-6,389	-10,181	-9,760
Revised Operating Result (+1% CPI)	3,888	-54,755	-81,432	-74,636

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
-1% Consumer Price Index				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Taxation				
- General Rates	-1,100	-2,230	-3,393	-4,588
- Financial Transaction Taxes (Debits Tax)	-134	-261	-379	-
- Duties	-1,649	-3,173	-4,763	-6,423
- Regulatory Fees	-4	-7	-11	-15
Fees	-904	-1,860	-2,872	-3,848
User Charges	-1,777	-3,490	-5,191	-7,218
Grants from the Commonwealth				
- Special Revenue Assistance	-4	-4	-6	-5
- Indexed Recurrent Commonwealth Grants	-2,825	-5,810	-8,936	-11,974
Other Revenue	-494	-1,495	-2,421	-3,122
<i>Expenses</i>				
Employee Expenses	-1,968	-4,114	-6,380	-8,548
Administrative Expenses	-4,564	-9,486	-14,505	-14,910
Cost of Goods Sold	-452	-964	-1,496	-2,035
Grants and Purchased Services	-4,073	-8,220	-12,822	-17,184
Other Expenses	-1,027	-1,992	-3,119	-4,610
<i>Impact of -1% CPI</i>	<i>3,193</i>	<i>6,446</i>	<i>10,350</i>	<i>10,094</i>
Revised Operating Result (-1% CPI)	10,274	-41,920	-60,901	-54,782

Interest

A change in the interest parameter will affect the Territory's revenues such as conveyance (because interest is a major cost of financing large property transactions). An increase of 1% to the forecast interest rate in 2002-03 would increase net revenue and the revised 2002-03 operating result by \$15.8 million.

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
+1% Interest				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Interest	4,358	4,020	4,287	4,288
Change in Market Value of Investments	10,679	13,136	15,924	18,722
<i>Expenses</i>				
Interest	1,382	1,382	1,382	1,382
<i>Impact of +1% Interest</i>	<i>13,655</i>	<i>15,774</i>	<i>18,829</i>	<i>21,628</i>
Revised Operating Result (+1% Interest)	20,736	-32,592	-52,422	-43,248

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
-1% Interest				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Interest	-4,358	-4,020	-4,287	-4,288
Change in Market Value of Investments	-10,679	-12,923	-15,434	-17,880
<i>Expenses</i>				
Interest	-1,382	-1,382	-1,382	-1,382
<i>Impact of -1% Interest</i>	-13,655	-15,774	-18,829	-21,628
Revised Operating Result (-1% Interest)	-6,574	-64,140	-90,080	-86,504

State Final Demand

A change in the State Final Demand (SFD) parameter will affect the Territory's revenues such as payroll tax. An increase of 1% to the forecast interest rate in 2002-03 would decrease the revised 2002-03 operating result by \$2.4 million.

General Government Sector	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
+1% SFD				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Payroll Tax	1,555	2,369	3,680	5,093
<i>Impact of +1% Interest</i>	1,555	2,369	3,680	5,093
Revised Operating Result (+1% Interest)	-6,574	-64,140	-90,080	-86,504
-1% SFD				
Revised Operating Result (after known flow-ons)	7,081	-48,366	-71,251	-64,876
<i>Revenue</i>				
Payroll Tax	-1,555	-2,351	-3,624	-4,978
<i>Impact of -1% Interest</i>	-1,555	-2,351	-3,624	-4,978
Revised Operating Result (-1% Interest)	5,526	-50,717	-74,875	-69,854