

March Quarterly Management Report

for the financial quarter
and year to date ending
31 March 2003

Australian Capital Territory Government



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Executive Summary

The operating result of the General Government and Public Trading Enterprise Sectors is outlined below.

Operating Result by Sector (after extraordinary)	2001-2002	2002-2003	March YTD		2002-2003 Est. Outcome \$'000	
	Actual \$'000	Annual Budget \$'000	Budget \$'000	Actual \$'000		Variance \$'000
General Government Sector	28,652	5,712	40,639	79,295	38,656	60,609
Public Trading Enterprise Sector	93,948	73,733	55,665	66,086	10,421	85,589
Total Territory Sector	75,128	27,935	90,952	143,353	52,402	97,107

2002-03 Year to Date

The Territory's operating result for 31 March 2003, after net extraordinary expenses of \$86m, is a surplus of \$143m. This result is an increase of \$52m from the 2002-03 year to date budget.

The better than expected result in comparison to the 2002-03 year to date budget is due to a combination of factors including increases in revenue:

- non ACT Government user charges of \$14m;
- taxes, fees and fines of \$12m;
- other revenue of \$6m which includes lease sales of \$3m and revenue of associates and joint ventures of \$4m; and decreases in expenses including
- supplies and services expenses of \$11m;
- employee expenses of \$8m;
- grants and purchased services of \$5m; and
- depreciation and amortisation of \$3m.

The above improvements are offset by increases in other expenses of \$8m, largely relating to negative superannuation investment returns of \$12m compared to year to date budget, and cost of goods sold of \$5m.

Bushfire Impact

The total cost of the January 2003 bushfire across five years is \$34.1m. Of this, the immediate response and subsequent recovery initiatives are estimated to cost \$52.5m. These costs will be partly offset with funding under the Natural Disaster Recovery Arrangements (NDRA) of \$17m and the Fire Reconstruction Levy of \$10m. Most of the other costs will be covered by insurance, including the restoration or replacement of \$21m of general government assets.

The impact of the January 2003 bushfire for the General Government Sector for 2002-03 only is illustrated in the table below.

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	March YTD* \$'m	2002-03 Estimated Outcome \$'m
Revenue		
Insurance Revenue	105.7	105.7
NDRA Revenue	0	11.0
Total Revenue	105.7	116.7
Expenditure		
Insurance related expenses	0	3.9
Insurance payment to PTE	79.0	81.7
Bushfire Initiatives	15.9	29.7
Total Expenditure	94.9	115.3
Less: Asset Writeoff	18.7	21.1
Net Expenditure	7.9	19.7

* March year to date actuals represent best estimates at this point in time. There will also be a further \$26.4m capitalised, from insurance refunds, across 2002-03 and 2003-04.

Cash

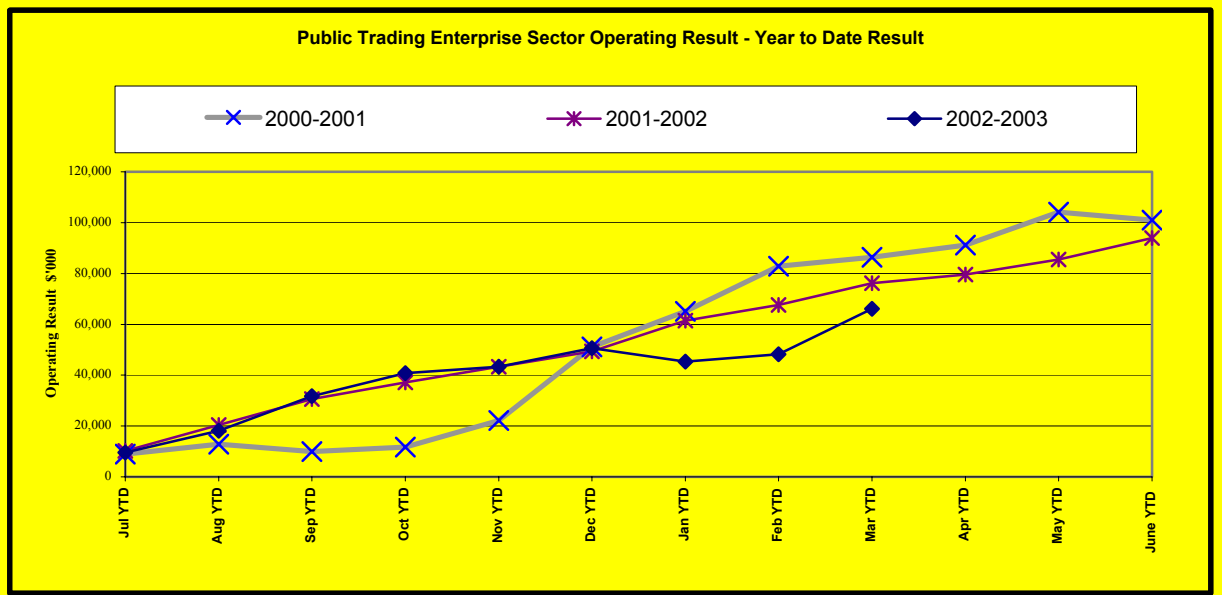
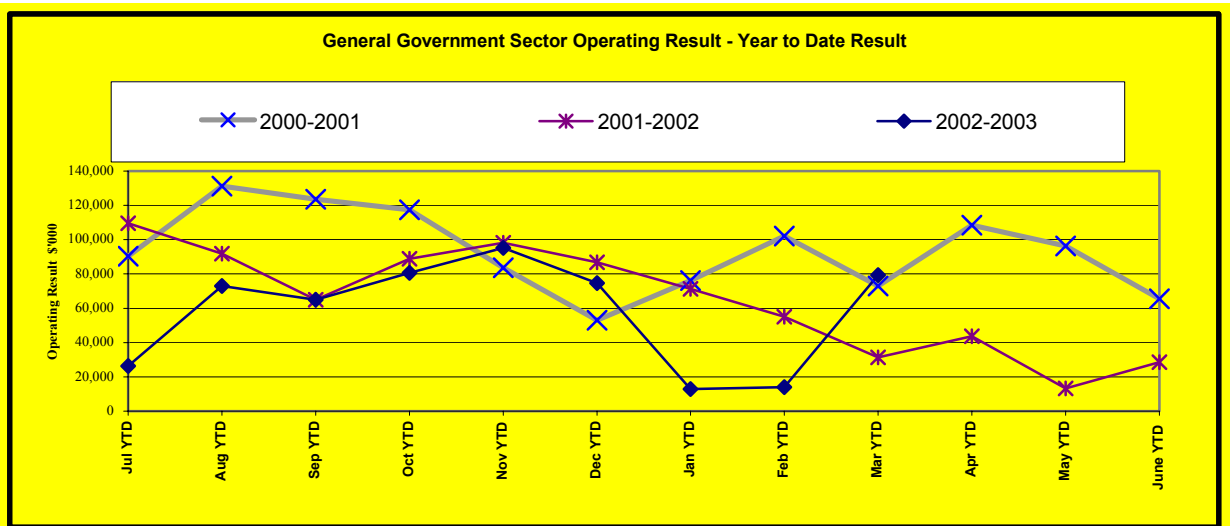
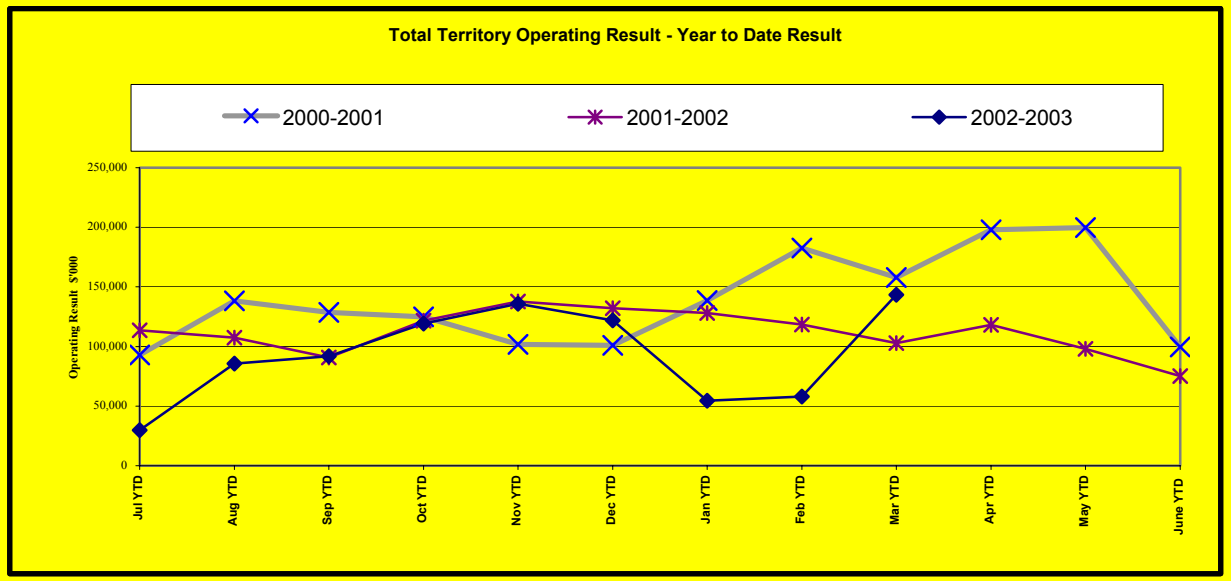
The Territory's cash position was sound. The Territory's Unencumbered Cash (TUC) - cash which is excess cash that has not been formally allocated to a spending need - at 31 March 2003 was \$389m.

2002-03 Estimated Outcome

The estimated operating result for the General Government Sector (GGS) for 2002-03 is a surplus of \$61m. This represents a \$55m improvement compared to the original 2002-03 budgeted operating surplus of \$6m. Further details of these adjustments can be found on page 8.

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1 General Government Sector Financial Performance

1.1 Summary of operating performance

The operating result for the General Government Sector (GGS) for the quarter ending 31 March 2003 was a surplus of \$79m, after net extraordinary expenses of \$25m. This was above the March year to date budget by \$39m.

Significant variations within this result include increases in:

- taxes, fees and fines of \$11m;
- non ACT Government user charges of \$8m;
- other revenues of \$7m reflecting lease sales of \$3m and increments arising from the revaluation of assets of \$4m; together with decreases in:
 - employee expenses of \$8m;
 - supplies and services expenses of \$9m; and
 - grants and purchased services of \$7m.

The above are offset by the increase of \$12m in the net negative market value of superannuation against the year to date budget and cost of goods sold of \$3m.

	2001-2002	2002-2003	March YTD		2002-2003	
	Actual \$'000	Annual Budget \$'000	Budget \$'000	Actual \$'000		Variance \$'000
Revenue	2,225,151	2,202,998	1,821,644	1,849,460	27,816	2,490,613
Expenses	2,196,499	2,197,286	1,756,282	1,745,443	(10,840)	2,384,751
Extraordinary Expense	0	0	24,722	24,722	-	45,253
OPERATING RESULT	28,652	5,712	40,639	79,295	38,656	60,609

A detailed Statement of Financial Performance can be found in the attachments.

1.2 Revenue for the quarter ending March 2003

Revenue to the end of March was \$1,849m, up \$28m or 1.5% from the year to date budget.

Material variances from the year to date budgeted operating result are as follows:

Taxes, fees and fines were \$11m or 2.1% above the year to date budget, mainly as a result of the following:

- increased payroll tax of \$9m due to higher than expected employment growth and a large one-off voluntary disclosure received in March in the ACT; and
- increased conveyance duties of \$7m due to the sustained growth in residential conveyancing, static interest rates, historically low levels of the rate of unemployment together with a number of unbudgeted large one-off commercial sales; offset by

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- decreased marketable securities of \$4m due to interim assessments that have been prepared by clients pending finalisation of transaction documentation.

Non ACT Government user charges were \$8m or 6.5% above the year to date budget mainly as a result of the following:

- increased Cross Border health receipts of \$2m due to a favorable acquittal of cross border arrangements;
- increased non-inpatient fees of \$2m due to additional receipts from Department of Veterans Affairs; and
- increased service receipts for various departments of \$4m.

Lease sales increased by \$3m due to the higher sales within the Land Group.

Increments arising from the revaluation of assets increased by \$4m for the Department of Disability, Housing and Community Services.

1.3 Expenses for the quarter ending March 2003

Expenses, including net extraordinary expenses of \$25m, to the end of March were \$1,770m, down \$10m or 0.6% from the year to date budget. The major variations in the year to date performance are outlined below.

Employee expenses were \$8m below the year to date budget, mainly due to delays in the Enterprise Bargaining Agreements in addition to vacancies within a number of agencies.

Supplies and services expenses were \$9m below the year to date budget. This variance is mainly due to underspends in professional services and contractor costs largely relating to amended timeframes of projects.

Grants and purchased services were \$7m below the year to date budget. The major variances affecting this are:

- delayed payments by the Department of Disability, Housing and Community Services of \$5m; and
- higher than expected user choice grants paid by VET of \$2m.

Offsetting the above variances are increases in:

- other expenses of \$12m above year to date budget. This was largely the result of the continuing poor performance of global equity markets, which resulted in a net year to date loss on superannuation related equity investment of \$12m against year to date budget; and
- cost of goods sold of \$3m above the year to date budget. This is due to the re-assessment of the allocation of significant infrastructure costs over the Kingston Foreshore Development to ensure that development costs are adequately recognised in the early stages of land release and profits are not over-stated.

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1.4 Projected end of year operating result

The Government, through its budget consultation process, released in December 2002 an operating result in the 2003-04 Budget Consultation paper of -\$43m. The paper provided an update to the general government sector operating result which included negative revisions to Commonwealth GST revenue, taxation revenue, and superannuation investment returns.

Following the release of the paper a number of significant variations have occurred. *Appropriation Act 2002-03 (No. 2)* was passed by the Legislative Assembly. This Appropriation Act provided for \$17m of expenses relating to the Government's immediate response to the January 2003 bushfire. *Appropriation Bill 2002-03 (No. 3)* was introduced, providing for the clerical wage increase of \$12m and further bushfire related expenditure of \$4m.

Land sales of \$86m and additional taxation revenue of \$46m largely contributed to the remaining improvement in the result.

The table below summaries the movements between the 2002-03 original budget and the 2002-03 estimated outcome.

	2002-03 \$'m
GGS Operating Result - 2002-03 Budget Papers	5.7
Taxation Revenue	11.3
Net Commonwealth Grants-GST Revenue and Bal Budget Assistance	0.9
Superannuation Investment Returns	-60.5
Impact	-48.3
GGS Operating Result - Community Consultation	-42.6
Bushfire Impact Costs	
Bushfire Initial Response - Appropriation Act 2002-03 (No. 2)	-17.3
DUS Bushfire Additional Rectification - Appropriation Bill 2002-03 (No. 3)	-4.0
Payment to Housing for Replacement of Rural Housing	-4.4
ACTIA Insurance Revenue	105.7
ACTIA Insurance Payment to PTE Sector	-81.8
Agency Insurance Expense	-3.9
Asset Write-offs	-21.1
Other Impacts	
Taxation Revenue	34.7
NDRA	11.0
Net Commonwealth Grants	-4.5
Superannuation Investment Returns	-27.0
Superannuation Emerging Cost Actuarial Review	-6.9
Clerical Wages - Appropriation Bill 2002-03 (No. 3)	-11.9
Land Revenue	86.0
Actuarial Assessment of Outstanding HIH Liability	17.9
Interest Improvement for the Territory Public Account	12.0
Adjustment to Insurance Provisioning	8.9
Rollover/Deferral of Existing Programs	9.8
Other	0.2
Impact	103.2
GGS Operating Result - 2002-03 Estimated Outcome	60.6

2 Public Trading Enterprise Sector Financial Performance

2.1 Summary of operating performance

The operating result for the Public Trading Enterprise Sector (PTE) to the end of March 2003 was a surplus of \$66m, after net extraordinary revenue of \$18m and income tax equivalent payments of \$19m. This was a \$10m or 18.7% improvement from the March year to date budget.

	2001-2002	2002-2003	Budget \$'000	March YTD	Variance \$'000	2002-2003
	Actual \$'000	Annual Budget \$'000		Actual \$'000		Est Outcome \$'000
Revenue	389,770	385,751	281,384	292,824	11,440	391,388
Expenses	317,216	311,699	228,879	225,465	(3,414)	310,821
Extraordinary Revenue	0	0	79,053	79,053	0	71,763
Extraordinary Expense	0	0	61,011	61,011	0	66,326
Tax Equivalent	647	319	14,882	19,315	4,433	415
Injection for Operations	22,041	0	0	0	0	0
OPERATING RESULT	93,948	73,733	55,665	66,086	10,421	85,589

A detailed Statement of Financial Performance can be found in the attachments.

2.2 Revenue for the quarter ending March 2003

Revenue at the end of March 2003 was \$293m up \$11m or 4.1% from the year to date budget. The increase was mainly due to:

- increased water revenue of \$7m due to a warm and dry winter, compared to average; and
- increased revenue of associates and joint ventures of \$4m due to higher returns from the ActewAGL joint venture in relation to energy sales volume and sales unit prices.

2.3 Expenses for the quarter ending March 2003

Expenses at the end of March 2003, including net extraordinary items and income tax equivalents, were \$227m up \$1m from the year to date budget. The result was mainly due to:

- increased cost off goods sold of \$2m due to increased water abstraction charge with increased consumption in addition to extra remediation work on catchments as a result of the January 2003 bushfire;
- increased tax equivalent from ACTEW of \$4m due to higher profitability; offset by
- decreased other expenses of \$2m resulting from ACT Housing incurring below budget costs associated with property demolition; and
- decreased depreciation and amortisation expenses of \$2m relating to reduced capital works for ACTEW.

3 The Financial Position as at 31 March 2003

3.1 The Financial Position of the General Government Sector

GGS liquidity, as measured by the current ratio (current assets over current liabilities)*, has improved from the audited result of 1.62:1 to 1.66:1. This is largely attributable to the strong year to date net cash inflows from operations.

Financial stability of the GGS is measured by the debt ratio (total liabilities over total assets)*, and indicates the longer-term stability of the GGS to meet its debts from its asset base. The debt ratio percentage for the GGS at the end of March was 19%, consistent with the 2002-2003 opening position of 18%. This relatively low ratio indicates a prudent level of liabilities.

Service delivery assets at the end of March were \$5,503m. This is an increase of 41m from the 2001-02 audited result reflecting increased works in progress.

Total liabilities of the GGS at the end of March were \$3,066m, an increase of \$235m from the 2001-02 audited result. This increase is largely due to the budgeted increased superannuation liability of \$90m and the increase in creditors of \$99m due to insurance monies payable to the PTE sector as a result of the January 2003 bushfire.

Net worth** of the GGS at the end of March was \$5,081m, an increase of \$79m from the 2001-02 audited result, mainly relating to the flow through into equity of the year to date operating surplus.

* It should be noted that when calculating both the current and debt ratios, both investments and liabilities relating to superannuation are excluded as these are not available to meet general debt. Superannuation is discussed separately.

** Net worth equals net assets, that is, total assets less total liabilities.

3.2 The Financial Position of the Public Trading Enterprise Sector

PTE liquidity, as measured by the current ratio (current assets over current liabilities), improved from the 2001-02 audited result of 1.60 : 1 to 3.99 : 1, mostly as a result of the positive operating result which improved the cash and investments balance in this sector. This ratio of 3.99: 1 indicates that the PTE is able to meet its short term debt from short term cash and equivalents. The significant increase in the current ratio for the PTE Sector in March represents the large insurance receivable from the ACT Insurance Authority.

Financial stability of the PTE is measured by the debt ratio (total liabilities over total assets), and indicates the longer-term stability of the PTE to meet its debts from its asset base. The debt ratio percentage for the PTE at the end of March was 20%, consistent with the 2001-02 audited result of 20%. For business entities this is a relatively low ratio and indicates prudent levels of liabilities.

Service delivery assets at the end of March were \$2,806m a slight improvement from the 2001-02 audited result of \$2,800m, is largely due planned capital works.

Total liabilities of the PTE at the end of March were \$609m, a \$3m increase from the 2001-02 audited result. This is largely due to the reductions in provisions offset by an increase in tax liabilities.

Net worth* of the PTE at the end of March was \$2,881m an improvement from the 2001-02 audited result of \$2,809m relating to the flow through into equity of the year to date operating surplus.

* Net worth equals net assets, that is, total assets less total liabilities.

3.3 Short-term outlook – Liquidity

The current ratio is used to indicate an organisation's liquidity and equates to current assets over current liabilities. This ratio indicates the government's ability to meet short-term debt from short-term assets such as cash and cash equivalents.

Superannuation investments and liabilities have been excluded in calculating the current ratio, as these investments are not available for the repayment of any debt other than superannuation liabilities.

The generally accepted ratio for a Government entity is 1:1.

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	Mar YTD 2002-2003
Current Ratio *						
Current Ratio GGS	1.42 :1	1.12 :1	1.5 :1	1.57 :1	1.62 :1	1.66 :1
Current Ratio PTE	1.36 :1	1.72 :1	1.09 :1	0.89 :1	1.6 :1	3.99 :1
Current Ratio Total Territory	1.48 :1	1.26 :1	1.35 :1	1.39 :1	1.68 :1	1.84 :1

*The current ratio has been calculated **excluding** superannuation investments and liabilities

Although the Territory's liquidity position has been subject to fluctuation over the past five years, it remains strong with a healthy investment balance.

Within the GGS, the level of liquidity has been generally increasing over time. A number of agencies within the sector, however, continue to have current ratios of less than 1:1 and are therefore below the generally accepted benchmark. These are the Department of Justice and Community Safety and ACT Workcover. In addition, a number of agencies, whose current ratio was above the 1:1 benchmark in the December 2002 quarter, are now below the benchmark and these include the Department of Health and Community care, the Department of Urban Services, the Department of Education, Youth and Family Services and the Australian International Hotel School.

The PTE Sector is also sound, with short-term debt being effectively managed through decreased short-term borrowings and an improved current asset base as at 31 March 2003. The significant increase in the current ratio for the PTE Sector in March represents the large insurance receivable from the ACT Insurance Authority.

3.4 Longer-term outlook – Financial Stability

The debt ratio (total liabilities over total assets) is used to indicate an organisation's longer-term stability, in particular its ability to meet debts from its asset base. The lower the percentage, the better the ability to cover debt from assets. This ratio also excludes the total value of equity investments and superannuation investments, as well as the total superannuation liability.

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	Mar YTD 2002-2003
Debt Ratio % *						
GGS						
Debt Ratio %	13	14	17	18	18	19
PTE						
Debt Ratio %	20	13	22	24	20	20
Total Territory						
Debt Ratio %	13	13	15	16	15	15

*The debt ratio has been calculated excluding equity investments, superannuation investments and superannuation liabilities

Since 1996-1997 the Territory's debt ratio percentage has been steadily rising to its current level of 15%, consistent with the 2002-2003 opening position. This remains a low percentage.

This increase has been evident in both the GGS and PTE Sectors, due to a slow reduction in property, plant and equipment values and a steady growth in liabilities.

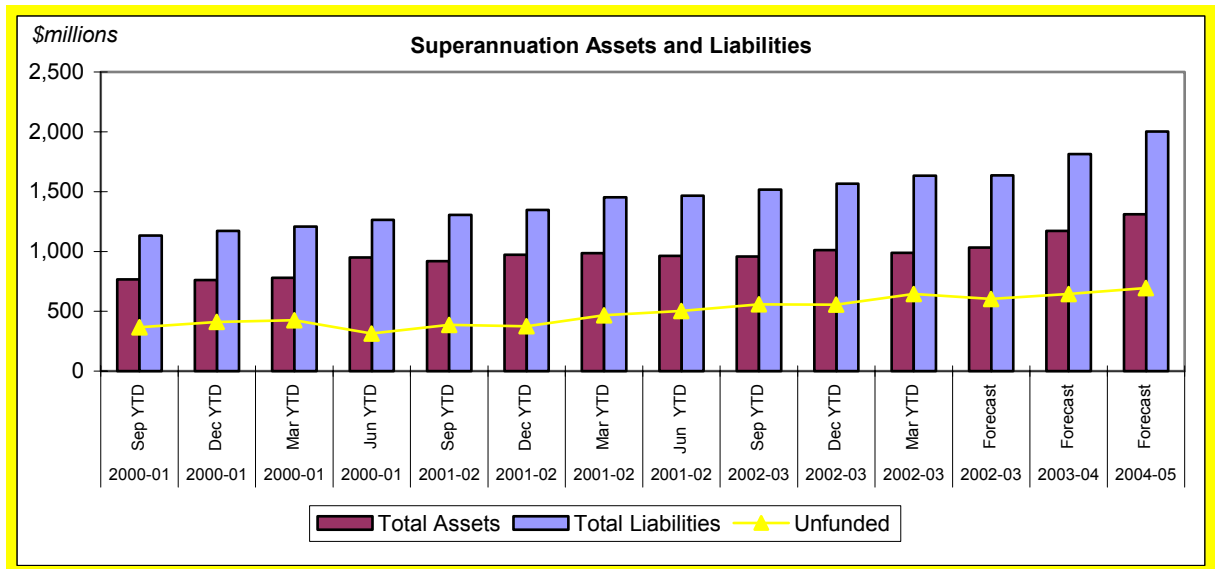
The Territory continues to maintain a manageable financial outlook with a clear ability to meet both short and longer-term debt and maintain its asset base. This relatively low ratio demonstrates a prudent level of liabilities.

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3.5 Superannuation Assets and Liabilities

The Territory's superannuation liability as at 31 March 2003 of \$1,634m is the Territory's single largest liability. At 31 March 2003 it was 52% of total liabilities.

Superannuation investments of \$981m existed at 31 March 2003, providing funding for 60% of the superannuation liability. This compares to the 2001-02 outcome, where the asset coverage was 60%.



Year to date investment performance remains negative at approximately \$31m.

The following table provides the year to date performance of superannuation related investments.

Superannuation Related Investments	2002-03 Budget \$'000	YTD Budget \$'000	YTD Actual \$'000	YTD Variance \$'000	Revised 2002-03 Budget \$'000
Investment Increments (revenue)	45,164	0	0	0	0
Investment Decrements (expenditure)	0	(55,593)	(66,414)	(10,821)	(58,793)
Dividends and Interest	32,414	36,519	35,624	(895)	48,692
Total	77,578	(19,074)	(30,790)	(11,716)	(10,101)

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4 Cash Management

4.1 The Territory's total cash position

The Territory's Unencumbered Cash (TUC) is the measure of the Territory's cash balance which is not allocated to an operating or investing requirement at that point in time, and is therefore a measure of liquidity.

The TUC at the end of March 2003 was \$389m, a marginal increase from the opening position. The end of year TUC is estimated to be \$403m. This indicates that there is no reason to expect a cash deficiency for the remainder of the financial year.

	2002-03 opening balance \$'000	March End 2002 \$'000	Estimated At end 2002-03 \$'000	Estimated at end 2003-04 \$'000	Estimated at end 2004-05 \$'000
Territory unencumbered cash	323,717	389,060	403,109	347,076	233,368

This does 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.

The Territory also holds significant liabilities in relation to employee entitlements against which reasonable cash balances need to be held.

4.2 The Territory's cash flows

CASH FLOW	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2002-2003
	Actual \$'000	Actual \$'000	Actual \$'000	Actual \$'000	Actual \$'000	Budget \$'000	Mar YTD \$'000
Total Operating Receipts:	1,850,544	1,892,591	2,155,425	2,222,955	2,371,148	2,296,641	1,818,060
Total Operating Payments	1,659,470	1,701,142	1,773,250	1,862,867	1,954,622	2,036,922	1,524,771
Cash Flows from Operating Activities	191,074	191,449	382,175	360,089	416,526	259,719	293,289
Purchase of PP&E*	193,841	174,538	241,435	195,968	201,236	308,312	148,428
Sale of PP&E*	38,241	46,391	64,643	46,023	44,983	48,985	32,117
Net Outflow from capital Activities	(155,599)	(128,147)	(176,792)	(149,945)	(156,253)	(259,327)	(116,312)
Total Net Inflow from Operations and Capital	35,475	63,302	205,383	210,144	260,273	392	176,977

* PP&E = Property, Plant and Equipment

Cash flows from operating activities relate to the general operations of government. They include receipts of taxes, fees, fines, Commonwealth grants and miscellaneous user charges. Outflows include payments relating to service provisions such as education, health and municipal services. Outflows can also be categorised as salary, administrative and interest costs.

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Cash inflows from operations exceed outflows, providing capacity for capital works, debt repayment or investment.

Net cash flows from operating activities and capital purchases have been increasing over time, and were particularly strong in the past three financial years due to strong economic performance and increased Commonwealth funding. The year to date result is in line with the previous three years' trends, indicating that the Territory will achieve its projected cash result.

The March year to date result for the net cash inflow from operations and capital is \$177m.

Net cash inflows from operating activities at the end of March of \$293m, reflects an improvement on the year to date budget of \$33m, largely resulting from increased revenue from taxes, fees and fines and user charges.

Net cash outflows from capital activities at the end of March of \$116m reflects an improvement from the year to date budget by \$143m. This improvement is largely due to the delay in the purchase of property, plant and equipment and in particular, the seasonalised nature of the Government's capital works program.