

APPENDIX B

STATEMENT OF SENSITIVITY OF BUDGET ESTIMATES

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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 parameters such as population, the age profile of the population or other 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 was to increase by 1 per cent more than the forecast in each year of the budget period, forecast revenue would increase by the amounts shown in Table B.1. It should be noted that general rates and regulatory fees are indexed by the Wage Price Index (WPI).

It is expected that CPI increases would generate cost increases for agencies. It is also expected that agencies would adjust mid-year expenditure plans to absorb immediate cost increases within the 2009-10 year. However, in forward years, budgets would change and be adjusted according to the revised CPI. An estimate for the impact of a 1 per cent increase in CPI is shown in Table B.1.

Table B.1
Impact of CPI on General Government Sector revenues and expenses

	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
Taxation Revenue +1%	354	738	1,156	1,611
Sales of Goods and Services, Commonwealth Government Grants ¹ and Other Revenue +1%	0	11,658	22,350	34,755
Expenses + 1%	0	19,210	40,209	63,302

Note:

1. Refers to Specific Purpose Payments only.

Interest

In regard to the Territory Banking Account (TBA) and the Superannuation Provision Account (SPA) cash investment portfolios, the impact of a 1 per cent variation in the estimated interest returns as forecast in the Budget estimates for interest revenue is shown in Table B.2.

Table B.2
Impact of an interest rate change on interest revenue

+/- 1%	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
TBA	+/- 12,943	+/- 7,447	+/- 8,527	+/- 8,977
SPA	+/- 1,754	+/- 206	+/- 223	+/- 229

The impact of a 1 per cent variation in the assumptions used to calculate the interest costs on the floating rate borrowings by the Territory is shown in Table B.3.

Table B.3
Impact of an interest rate change on borrowing costs

+/- 1%	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
TBA – Total Borrowings	+/- 2,604	+/- 2,115	+/- 1,904	+/- 1,904

Note:

A 1 per cent increase in interest rates will lead to increased expense 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 international currency holdings, with everything else constant, is shown in Table B.4.

Table B.4
Impact from the movement of the Australian dollar on valuations

+/- 1%	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
SPA	+/- 2,814	+/- 3,950	+/- 4,303	+/- 4,616

Note:

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

Equity Valuation

Table B.5 outlines the impact to the SPA equity portfolio valuation from a 1 per cent variation in equity security valuations.

Table B.5
Impact of a change in equity valuations

+/- 1%	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
SPA	+/- 12,837	+/- 13,985	+/- 15,002	+/- 16,013

Superannuation Liabilities

A 1 per cent variation in the discount rate, used in the valuation of superannuation liabilities, results in an estimated change to the current liability of approximately \$650 million (actuarial gain or loss), with approximate annual variation estimates in superannuation related expenses (accruing liability) outlined in Table B.6. As a general rule, a 1 per cent variation from the budget estimated discount rate of 6 per cent equates to approximately \$35 million impact on the superannuation expense (positive or negative).

Table B.6
Impact of liability valuations on superannuation expenses from variation in discount rate

+/- 1%	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
SPA	+/- 35,000	+/- 33,000	+/- 31,000	+/- 29,000

Note:

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).

Wage Price Index

General rates and various fees are indexed to WPI in future years. If WPI increased by 1 per cent more than the forecast in each year of the budget period, forecast revenue would increase by the estimates shown in Table B.7. However, the revenue in 2009-10 is not expected to vary, as the 2009-10 estimate is based on the December 2008 result.

Table B.7
Impact of WPI on General Government Sector revenue

	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
Taxation Revenue +1%	0	2,183	4,593	7,247

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 2009-10 Budget and forward estimates make provision for a moderate level of wages growth.

Residential conveyance volume and price

Table B.8 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.8
Impact of change in volume and price on conveyance revenue

	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
Residential transaction volume +1%	1,604	3,550	5,909	8,742
Residential price +1%	2,371	5,141	8,401	12,217

