1.2 FINANCIAL POLICY OBJECTIVES AND STRATEGIES STATEMENT

The presentation and preparation of the Territory's Budget is provided for in sections 11 and 11A of the *Financial Management Act 1996* (the Act).

The purpose of the financial policy objectives and strategies statement is to make transparent the Government's financial strategies and to establish a benchmark for evaluating the Government's conduct of financial policy. The statement is also consistent with section 11(1)(a) of the Act.

Strategic Priorities and Financial Policy

In this budget, the Government continues its commitment to the principles of responsible financial management.

The financial objectives and the key measures below outline the Government's financial policy. Strategic priorities, as they relate to the Territory's Budget, are summarised as:

- maintain a balanced budget over the economic cycle;
- maintain low levels of debt;
- provide the highest possible standard of government services;
- service delivery which focuses on people, the environment and building prosperity;
- maintain a triple A credit rating; and
- effective integration of economic and environmental considerations to promote sustainability of service delivery.

The 2005-06 Budget and Forward Estimates have been prepared taking into account the need to provide sustainable social and economic services and infrastructure to the community and the objective of ecologically sustainable development, as required by the Act. Future Budgets will over time, as these principles become more firmly integrated with decision making processes, demonstrate stronger linkages with these principles.

The Budget is economically sustainable. The Budget provides an aggregate surplus over four years. Short and long-term financial indicators are sound. Cash reserves are reducing through to 2006-07 but are forecast to grow in 2008-09, and notably, general government borrowings have not increased.

The Budget is socially responsible. Considerable resources are directed into key service delivery areas, such as health, education, child and family support. In many cases, these resources are dedicated to meeting the increasing demand of a growing and ageing population; for example, hospital waiting lists, dental services, and provision of traineeships and apprenticeships to meet skill shortages. In other cases, resources are targeted at those most vulnerable and in need; for example, provision for children with disability, family violence intervention and complex needs, child protection, and pensioner concessions.

Finally, the Budget supports community welfare and development. Investments are made with both short and long-term objectives in mind. Various projects associated with implementing the *Shaping Our Territory* plan and ACT Energy Wise Program are provided for, while the *Asbestos Assessment Task Force* helps communicate the risk of asbestos and educates to raise confidence in managing asbestos issues in the community.

Financial Objectives and Key Measures

The following table provides the short-term and long-term financial objectives of the Government.

Table 1.2.1
Financial Objectives and Measures

Short Term Financial Objectives	**Long Term Financial Objectives**
Maintain a Triple A credit rating	Maintain Territory infrastructure
Maintain low levels of debt	Make adequate provision for long-term liabilities
Strategic approach to the capital works program	Minimise risk to Territory finances and assets
Provision of the highest possible standard of Government services, and maintain service levels, having regard to growth and monetary inflation	
Key Measures	**Key Measures**
Maintain a balanced budget over the economic cycle of the current budget estimates from 2005-06 to 2008-09	90% coverage of accrued superannuation liabilities by 2039-2040
Maintain the capital infrastructure of the Territory	Maintain or reduce GGS debt
Maintain net interest cost as a proportion of total own-source revenue for the GGS less than zero	Adequate systems and processes in place to recognise and mitigate risk
Maintain levels of taxation as a proportion of GSP	
Maintain or increase the Territory's Net Assets	

Maintain a Balanced Budget over the economic cycle

The balanced budget financial objective is measured by the operating result of the General Government Sector (GGS). A four-year planning horizon recognises that it is not always necessary to deliver surpluses every year without any regard to the broader context of the economy and the service and infrastructure requirements of the community. What is important is that a surplus is delivered over the economic cycle.

The Government's forecast operating result is presented in the following table.

Table 1.2.2
General Government Sector
2005-06 Budget and Forward Estimates

	2002-03 Actual $m	2003-04 Actual $m	2004-05 Est. Out. $m	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
GGS Operating Result	154.6	70.5	52.2	- 91.5	0.9	39.3	73.3
Aggregate Result 2002-03 to 2005-06				185.7			
Aggregate Result 2005-06 to 2008-09							22.0

While the 2005-06 Budget is in deficit, the Government has introduced significant measures included to return the Budget to surplus, such as savings measures aimed at improved efficiency.

Maintain the Capital Infrastructure of the Territory

The capital infrastructure objective of the Territory is measured through the value of current and non-current works in progress, and the value of property, plant and equipment in the Balance Sheet of the Territory.

The Government's target for this measure is to demonstrate and provide for the maintenance of the existing level of physical assets (as at 30 June 2005).

Table 1.2.3
General Government Sector
Capital Infrastructure

	2004-05 Est. Out. $m	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
Non-Current Capital Works in Progress	136	218	263	63	41
Property, Plant and Equipment	9 905	10 205	10 437	10 847	11 034
Sub Total	**10 040**	**10 423**	**10 701**	**10 910**	**11 075**

Maintain net interest cost as a proportion of total own-source revenue for the General Government Sector less than zero

Net interest is the difference between interest earned on investments and interest paid on debt. Total own-source revenue is the difference between Total Revenue and Commonwealth Grants in the Operating Statement.

This objective provides an indication of the Government's ability to meet its debt obligations without impacting on services, and in the current case for the General Government Sector, a net interest return for the Territory. The Government's target for this measure is to ensure that the level of net interest cost remains negative, indicating the Territory can comfortably meet interest expenses.

Table 1.2.4
General Government Sector
Net Interest Expense as a percentage of Own-Source Revenue

	2004-05 Est. Out. $m	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
Interest Expense	47	49	49	52	54
Interest Revenue	78	69	58	54	55
Net Interest Cost	- 31	- 20	- 8	- 2	- 2
Own Source Revenue	1 617	1 568	1 669	1 763	1 857
Net Interest Cost as a % of Own Source Revenue	**-1.9%**	**-1.3%**	**-0.5%**	**-0.1%**	**-0.1%**

Maintain levels of taxation as a proportion of GSP

The objective of maintaining taxation levels as a proportion of GSP (Gross State Product) ensures that levels of tax burden on the community do not increase disproportionally to the level of economic activity of the Territory.

Table 1.2.5
General Government Sector
Proportion of Taxation Revenue to Gross State Product

	2004-05 Est. Out. $m	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
Taxation	692	729	778	833	889
GSP	16 944	17 637	18 349	19 240	20 214
Taxation as a % of GSP	**4.1%**	**4.1%**	**4.2%**	**4.3%**	**4.4%**

Maintain or increase the Territory's Net Assets

This objective's aim is to budget for an increase (or maintenance) of the level of net assets of the Territory. This represents the difference between Total Assets and Total Liabilities represented on the Balance Sheet.

Table 1.2.6
Total Territory
Maintenance of Net Assets

	2004-05 Est. Out. $m	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
Total Assets	13 340	13 637	14 025	14 446	14 905
Total Liabilities	4 036	4 302	4 555	4 789	5 027
Total Territory Net Assets	**9 304**	**9 335**	**9 470**	**9 657**	**9 878**

90% coverage of accrued superannuation liabilities by 2039-40

This objective is measured by the extent to which the accrued and projected superannuation liability is funded. The Government has a commitment to fund 90% of accrued superannuation liabilities by 30 June 2040. In light of the significantly lower projected liabilities following the introduction of the PSS accumulation scheme, this target date will be reviewed during 2005-06 with a view to determining whether an earlier date should be adopted. The outcome of this process will be reported in the 2006-07 Budget.

Table 1.2.7
Percentage funding of Superannuation Liabilities

30 June	Assets $'000	Liabilities $'000	% Funded
2005	1 447 094	2 480 943	58%
2006	1 626 868	2 707 023	60%
2007	1 829 509	2 927 773	62%
2008	2 042 190	3 146 890	65%
2009	2 266 537	3 365 107	67%

Principles of Responsible Financial Management

The key financial measures established by the Government satisfy various principles of responsible financial management specified within the *Financial Management Act 1996*, these are:

(a) ensuring that the total liabilities of the Territory are at prudent levels to provide a buffer against factors that may impact adversely on the level of total Territory liabilities in the future, and ensuring that, until prudent levels have been achieved, the total operating expenses of the Territory in each financial year are less than its operating income levels in the same financial year;

(b) when prudent levels of total Territory liabilities have been achieved, maintaining the levels by ensuring that, on average, over a reasonable period of time, the total operating expenses of the Territory do not exceed its operating income levels;

(c) achieving and maintaining levels of Territory net worth to provide a buffer against factors that may impact adversely on levels of Territory net worth in the future;

(d) managing prudently the fiscal risks of the Territory;

(e) pursuing spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden; and

(f) giving full, accurate and timely disclosure of financial information about the activities of the government and its agencies.

The key financial objectives outlined earlier in this chapter support the principles of responsible fiscal management.

The objectives of a balanced budget over the economic cycle, the maintenance of low levels of debt and adequate provision for long-term liabilities strongly support prudent financial management and the principles of inter-generational equity.

Expenses must be balanced against revenues, borrowings must be within manageable limits and repayments affordable from ongoing revenues.

The Territory's prudent investment policies are designed to protect the value of the Territory's more liquid assets thus maintaining this asset base for the settlement of future liabilities.

A strategic approach to capital works programs reflects a longer term view of key infrastructure decisions such as the timely delivery of new infrastructure and the timely replacement of infrastructure balanced against the changing demographics and changing service delivery needs.

The 2005-06 Budget contains a significant level of funding for new construction and upgrades of existing infrastructure.

A number of strategic new infrastructure items have been approved for construction or design in the 2005-06 Budget to enhance services for the people of the ACT. These include a major new recreational area at Stromlo Forest Park, a new Primary and Pre-School in East Gungahlin and a replacement for the Quamby Youth Detention Centre. Additional funding for continuing projects such as the Gungahlin Drive Extension and the Alexander Maconachie Centre (Correctional Facility) has also been included.

A base level of funding has also been provided for capital upgrades; that is, works which increase service delivery capacity or extend the useful lives of existing assets. A further provision has been made to finance capital upgrades through a five-year rolling program.