

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.

Strategic Priorities and Financial Policy

The Government is committed to the principles of responsible financial management. Like the previous Budgets, this Budget has been prepared taking account of these principles.

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;
- 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 triple A credit rating; and
- effective integration of economic and environmental considerations to promote sustainability of service delivery.

The 2004-05 Budget and Forward Estimates has 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 much stronger linkages with these principles.

The Budget is economically sustainable. It provides a balanced operating result, and an aggregate surplus over four years. Short and long term financial indicators are adequate. Cash reserves are sufficient and sustained, and general government borrowings have not increased. No new taxes are levied. Some existing taxes have changed to reduce financial burden on those most in need.

The Budget is socially responsible. Instead of accumulating surpluses, resources are directed into key service delivery, such as housing, health, education, and safety. In many cases, these resources are dedicated to meeting the increasing demand of a growing or aging population for example, hospital waiting lists, renal services and city services. In other cases, resources are targeted at those most vulnerable and in need, for example, crisis accommodation, child protection, and pensioner concessions. The Budget also focuses on particular target groups, such as the Indigenous, and ageing.

Finally, the Budget reflects environmental sustainability. Investments are made with both short and long term objectives in mind. Strategies such as *Think Water, Act Water*, the Sustainable Transport Plan, and the soon to be released Territory Sustainability Report, all help guide and inform the process of resource allocation.

These priorities are reflected in the key planning documents for the Government, the Economic White Paper, the Social Plan and the Spatial Plan. The Canberra Plan brings these documents together.

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 from 2002-03 to 2005-06 (as announced in the 2002-03 Budget)	90% coverage of accrued superannuation liabilities by 2039-2040
Maintain a balanced budget over the economic cycle of the current budget estimates from 2004-05 to 2007-08	Maintain or reduce GGS net debt
Maintain the capital infrastructure of the Territory	Adequate systems and processes in place to recognise and mitigate risk
Maintain net interest cost as a proportion of total own-source revenue for the GGS less than zero	
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. A four-year planning horizon recognises the fact that it is not always necessary to deliver surpluses every year without any regard to the broader context of the economy and 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
2004-05 Budget and Forward Estimates

	2002-03 Actual \$m	2003-04 Est Out \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
GGs Operating Result	155	93	8	-26	7	53
Aggregate Result 2002-03 to 2005-06				229		
Aggregate Result 2004-05 to 2007-08						42

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 Statement of Financial Position 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 2004).

Table 1.2.3

	2003-04 Est. Outcome \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Current Capital Works in Progress	4	0	0	0	0
Non Current Capital Works in Progress	121	155	154	62	54
Property, Plant and Equipment	9 502	9 832	10 195	10 472	10 605
Sub-Total	9 628	9 987	10 349	10 534	10 659

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 on the Statement of Financial Performance.

This objective measures 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 revenue remains positive.

Table 1.2.4

	2003-04 Est. Outcome	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
	\$m	\$m	\$m	\$m	\$m
Interest Expense	44	46	45	45	43
Interest Revenue	82	74	66	66	60
Net Interest Cost	-37	-29	-21	-21	-17
Own Source Revenue	1 610	1 525	1 541	1 600	1 688
Net Interest Cost as a % of Own Source Revenue	-2.3%	-1.9%	-1.4%	-1.3%	-1.0%

Maintain levels of taxation as a proportion of GSP

The objective of maintaining taxation levels as a proportion of GSP ensures that levels of tax burden on the community do not increase disproportionately to the level of economic activity of the Territory.

The Government's target for this measure is to ensure that proportionally taxation does not exceed 5% of GSP.

Table 1.2.5

	2003-04 Est. Outcome	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
	000s	000s	000s	000s	000s
Taxation	699	698	724	765	810
GSP	15 544	16 010	16 490	16 968	17 461
<i>Taxation as a portion of GSP</i>	4.5%	4.4%	4.4%	4.5%	4.6%

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 Statement of Financial Position.

Table 1.2.6

	2003-04 Est. Outcome	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Total Territory Net Assets	9 396 236	9 436 717	9 515 893	9 638 979	9 824 030

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 current funding strategy for superannuation is targeted towards achieving a position at 30 June 2040 where estimated assets of the Superannuation Provision Account equate to 90% of the actuarially determined liabilities. The Government's forecast for this measure is presented in the table below.

Table 1.2.7
Percentage funding of liabilities

30 June	Assets	Liabilities	% Funded
	\$'000	\$'000	
2004	1 194 795	2 070 594	58%
2005	1 361 069	2 269 569	60%
2006	1 542 948	2 476 368	62%
2007	1 735 622	2 693 331	64%
2008	1 953 371	2 918 318	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*, and 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 revenue 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 revenue 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 balance budget over the economic cycle and the maintenance of low levels of debt and adequate provision for long term liabilities strongly support prudent financial management and the principles of intergenerational equity.

Expenses must be balanced against revenues, borrowings must be within manageable limits and repayments affordable from ongoing revenues, and asset bases must not be left to deteriorate. The financial and economic viability of the Territory is essential to providing high quality services, both now and into the future.

Spreading the aggregate surplus over four years ensures that the Territory does not need to adjust its taxation or spending suddenly or materially in order to protect its financial position against any short-term fluctuations.

The Territory's conservative 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 encompass 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 2004-05 Budget contains an ambitious capital program. There are a number of strategic service delivery projects that will be delivered over a three year timeframe, to enhance services well into the future. Examples of these are the convention centre, the Quamby upgrade, the prison, the continuation of the traffic congestion plan, and forward design on Gungahlin East primary school. The program also has an emphasis on ongoing repairs and maintenance to prolong the life of existing assets.