

5.1 2003-04 BUDGET AND FORWARD ESTIMATES

This chapter provides a summary of the 2003-04 Budget and forward estimates for the following three years for the General Government Sector. Information presented for the 2003-04 Budget is based on generally accepted accounting principles.

Consolidated financial statements for the General Government Sector, Public Trading Enterprise Sector and the total Territory public sector are provided in Chapter 5.5.

Financial Strategy

The Government's 2003-04 Budget strategy is the:

- maintenance of a balanced budget over the economic cycle (from 2002-03 to 2005-06) as announced in the 2002-03 Budget;
- adequate provision for long-term liabilities;
- provision of the highest possible standard of government services, and maintenance of service levels having regard to growth and monetary inflation;
- a strategic approach to capital works programs;
- relative conservatism in investment policies;
- maintenance of a low level of debt; and
- retention of a high international credit rating.

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.

This strategy is complemented by the Government's vision 'Shaping Canberra's Future', which is at Part 2 of Budget Paper No. 3.

2003-04 Budgeted Operating Result and Forward Estimates

The 2003-04 Budget highlights that the General Government Sector will achieve a budgeted operating deficit of \$7.667m for the General Government Sector. This is an improvement of \$13.3m from the estimated deficit last budget.

The Total Territory is budgeted to achieve a surplus of \$16.8m in 2003-04.

Total General Government Sector revenues in 2003-04 are expected to be \$2.360 billion, a decrease of \$130.329m (5%) from the estimated outcome for 2002-03.

The major variations and movements in revenues relate to a 32% or \$127.259m decrease in other own source revenues. This is mainly attributed to the expected January 2003 bushfire related recoveries of \$106m received from the Territory's reinsurers during 2002-03.

Expenses in 2003-04 are expected to be \$2.368 billion. This is a \$62.053m decrease or 2.6% lower than the projected 2002-03 outcome.

The operating result initially drops, reflecting the impact of the January 2003 bushfire recoveries on the 2002-03 estimated outcome and gradually increases across the forward estimates. This increase across the forward years is a result of expenditure restraint and the increases in revenues beyond the growth in expenses attributed to revenue initiatives and growth in grants from the Commonwealth.

Table 5.1.1 below provides the operating result for the 2002-03 estimated outcome, 2003-04 Budget and forward estimates. The table also demonstrates the achievement of the Government's Budget Strategy target of maintaining a surplus budget over the economic cycle (from 2002-03 to 2005-06), with the 4-year aggregate operating result of \$66m.

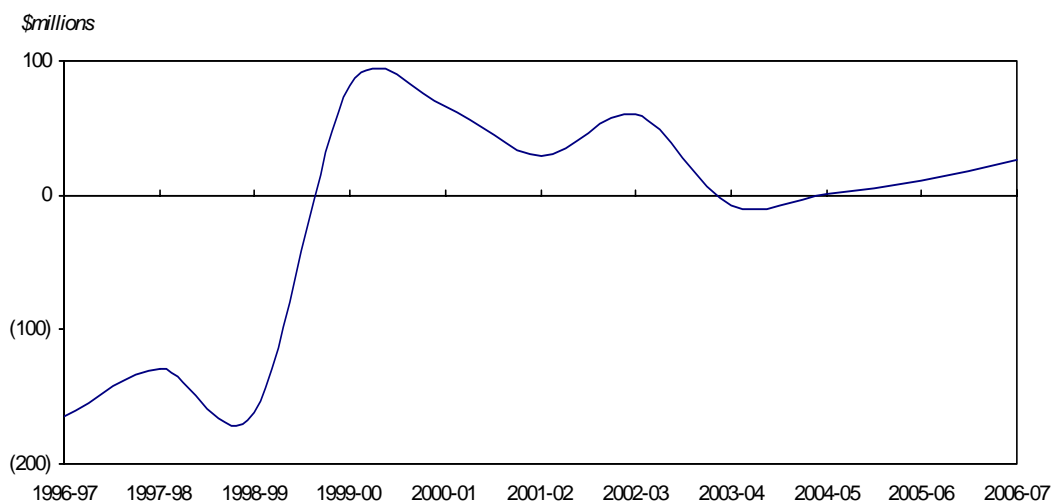
**Table 5.1.1 - General Government Sector
2003-04 Budget and Forward Estimates**

2002-03 Budget \$m	2002-03 Est.Outcome \$m	2003-04 Budget \$m	Var %	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
2 203 Revenue	2 491	2 360	-5	2 400	2 488	2 545
2 197 Expenses	2 430	2 368	-3	2 399	2 477	2 518
6 Operating Result	61	-8	-113	2	11	26
4 Year Aggregate Operating Result					66	

NB. Tables may not add due to rounding

Figure 5.1.1 shows the movement of the forecast operating result for the Budget and forward estimates.

**Figure 5.1.1 - General Government Sector
2003-04 Budget and Forward Estimates Operating Result**



Impact of Bushfires on the General Government Sector

**Table 5.1.2 – General Government Sector
Impact of Bushfires**

	Total Cost (across life of event) \$'000	Capital \$'000	2002-03 Est. Outcome \$'000	2003-04 Budget \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000	2006-07 Estimate \$'000
Impact of Insurance:							
Insurance Revenue	105 717	0	105 717	0	0	0	0
Insurance (GGS)	-32 589	-26 433	-3 959	-2 095	-102	0	0
Insurance (Housing)	-11 761	0	-11 761	0	0	0	0
Insurance (Forests)	-70 000	0	-70 000	0	0	0	0
Total Insurance*	-8 633	-26 433	19 997	-2 095	-102	0	0
Asset Writeoff	0	0	-21 088	0	0	0	0
Bushfire Initiatives	-52 493	0	-29 694	-17 126	-3 714	-1 580	-379
Other non insurance funding sources							
NDRA	17 000	0	11 000	6 000	0	0	0
Fire Reconstruction Levy	10 000	0	0	5 000	5 000	0	0
Total	-34 126	-26 433	-19 785	-8 221	1 184	-1 580	-379

The 2003-04 Budget has included the impact of the January 2003 bushfire. The total cost of the event 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.

2003-04 Initiatives

Government initiatives have been provided to the community under the agency headings.

The 2003-04 Budget allows for non capital initiatives totalling \$47.372m. This represents expenditure on January 2003 bushfire initiatives, initiatives funded from the unallocated \$27m 'Commitment to Education' provision and general initiatives. This expenditure is partially funded by revenue initiatives of \$15.734m.

Financial Position

Total General Government Sector assets are expected to be \$8.243 billion at the end of 2003-04, an increase of \$166m over the estimated opening balances for the year. Total General Government Sector liabilities are anticipated to be \$3.139 billion, an increase of \$129m from the estimated opening balance.

The net assets of the General Government Sector are budgeted to be \$5.104 billion as at 30 June 2004.

These are further discussed in Chapter 5.4 - Financial Position.

Appropriations

Appropriations in 2003-04 of \$2.102 billion have increased from the 2002-03 Appropriations of \$2.005 billion. Appropriations for 2002-03 include the amendments to the Appropriation Bill included in the 2002-03 Budget Papers, the *Appropriation Act (No. 2) 2002-03* and the *Appropriations Bill (No.3) 2002-03*.

Principles of Responsible Fiscal Management

The *Financial Management Act 1996* includes a set of principles of responsible fiscal management (Sections 11(4) and 11(5)). The principles include ensuring that the total liabilities of the Territory are at prudent levels and that, until such levels have been achieved, the Territory must ensure that its operating expenses are less than its operating revenues in the same financial year. The legislation also requires that once prudent levels of total territory liabilities have been achieved, the Territory must ensure that these levels are maintained.

Any departure from the principles must only be temporary. The Treasurer also must lay before the Assembly the reasons for a departure, the approach intended to be taken to return to the principles and the period of time expected to be taken to return to the principles.

Table 5.1.4 illustrates the ratios used to analyse the current level of liabilities for the Territory. The ratios exclude the value of superannuation assets and superannuation

liabilities as, by legislation, superannuation related assets are only available to offset superannuation liabilities and are not available for general budgetary purposes.

**Table 5.1.3
Financial Ratios
General Government Sector**

	2002-03 Est.Outcome	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
Working Capital Ratio	1.55:1	1.52:1	1.37:1	1.4:1	1.52:1
Debt Ratio %	18%	17%	17%	17%	17%
Equity Ratio %	84%	84%	85%	85%	86%

The current ratio is a measure of the Territory's ability to cover its short-term debts from its cash and cash equivalents. A ratio less than 1:1 may indicate an inability to meet short-term debts, while a ratio greater than 2:1 may indicate excessive investment in working capital. The 2003-04 Budget and the forward years' current ratio is relatively stable between 1.37:1 to 1.52:1. This indicates the Territory has a strong capacity to meet short-term debts.

The debt ratio is a measure of the relationship between total liabilities and total assets, and indicates the ability to meet longer-term debts from within its asset base. The lower the ratio, the greater is the asset protection for the Territory and the community. The debt ratio in the 2003-04 Budget and the forward years is consistent at approximately 17% of total assets. This indicates the Territory's secure, low debt position across all forward years.

The equity ratio examines the relationship between total funds employed and total assets. The higher the ratio, the greater is the asset protection for the Territory and the community. With an equity ratio of 84%, the Territory has a low debt exposure. In conjunction with the debt ratio, the equity ratio indicates the Territory's low debt position across all forward years.

With the above ratios in mind, the 2003-04 Budget maintains the principles of responsible fiscal management and has set a strong basis in the forward years for these principles to continue to be met.