

## **1.4 STATEMENT OF THE SENSITIVITY OF BUDGET ESTIMATES**

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This statement of sensitivity is made in line with Section 11(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.

While the Territory's revenue raising results from the policy decisions of Government, the quantum collected is largely driven by the Territory's economic parameters.

The Territory's expenses, on the other hand, are largely driven by Government policy decisions. As a general rule, Agency Budgets have recently been funded by the cost of wage growth.

However, changes in parameters, such as the population's age profile or other demographic data, may bring to light some significant unmet need for government services in the ACT Community. Such changes may result in a policy decision by Government.

### **Sensitivity of Economic Assumptions**

#### *Gross State Product*

A change in the Gross State Product will affect the level of general insurance and life insurance stamp duties that the Territory receives. Generally an increase of 1% to forecast Gross State Product in 2004-05 would increase revenue and revised 2004-05 operating result by \$0.170m.

#### *Consumer Price Index*

A change in the Consumer Price Index parameter will affect the Territory's revenues such as general rates, debit tax, conveyance, etc. Generally an increase of 1% to the forecast Consumer Price Index in 2004-05 would decrease the revised 2004-05 operating result by \$2.5m. It is expected that CPI increases would generate price increases in outward years for agencies budgets. It is expected that agencies will adjust mid-year expenditure plans to absorb immediate price increases within the 2004-05 year, but in forward years budgets should change for adjustments in the Consumer Price Index.

#### *Interest*

A change in the interest parameter will affect the Territory's revenues such as conveyance (because interest is a major cost of financing large property transactions). Generally an increase of 1% to the forecast interest rate in 2004-05 would increase net revenue and the revised 2004-05 operating result by \$1.1m.

The impact of a change in interest rates on earnings on the general government sector investment portfolio and on borrowing costs on floating rate borrowings is presented within Table 8.4.1 and Table 8.4.2 of Chapter 8 respectfully.

### *State Final Demand*

A change in the State Final Demand (SFD) parameter will affect the Territory's revenues such as payroll tax. Generally an increase of 1% to the forecast interest rate in 2004-05 would decrease the revised 2004-05 operating result by \$5m.

### **Sensitivity of Other Assumptions**

#### *Employee Wage Negotiations*

Wages make up the single largest cost in providing government services, significant funding was provided through the 2003-04 Appropriation Bill No.3 for wages growth. The 2004-05 Budget was based on negotiating positions where these negotiations area significantly advanced. A position has also been made for planning processes, where negotiations have not commenced.

Notwithstanding this, should the outcome of wage negotiations vary from those assumed in this Budget, there will be some impact on the estimates presented.

#### *Conveyancing Revenue*

A 1% change in activity level will translate into a revenue impact of approximately \$1.4m. A 1% change in average price will have a corresponding effect on revenue of approximately \$1.5m.