5.1 THE 2002-03 BUDGET AND FORWARD ESTIMATES

This chapter provides a summary of the 2002-03 Budget and forward estimates for the following three years for the General Government Sector. Information presented for the 2002-03 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 2002-03 Budget strategy is the:

- maintenance of a balanced budget over the economic cycle (from 2002-03 to 2005-06);
- 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.

2002-03 Budgeted Operating Result and Forward Estimates

The 2002-03 Budget highlights that the General Government Sector will achieve a surplus in 2002-03. The Territory is also expected to achieve a surplus position.

The budgeted operating surplus is $5.712m in 2002-03 for the General Government Sector.

Total General Government Sector revenues in 2002-03 are expected to be $2.203 billion, an increase of $14.704m (0.7%) from the estimated outcome for 2001-02.

The major variations and movements in revenues mainly relate to a 1% or $8.969m increase in Commonwealth grant revenues, and an increase in other revenue of $39.8m mainly attributable to a gain on the value of superannuation investments. These losses experienced in 2001-02 have been shown in the estimated outcome as an expense, while the expected gain in 2002-03 is shown as a revenue.

Expenses in 2002-03 are expected to be $2.197 billion. This is a $6.6m increase or 0.3% higher than the projected 2001-02 outcome.

The operating result is relatively constant across the budget and forward estimates. This is a result of the increases in revenues being re-invested back into the budget for increased service delivery.

Table 5.1.1 below provides the operating result for the 2001-02 estimated outcome, 2002-03 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 $21m.

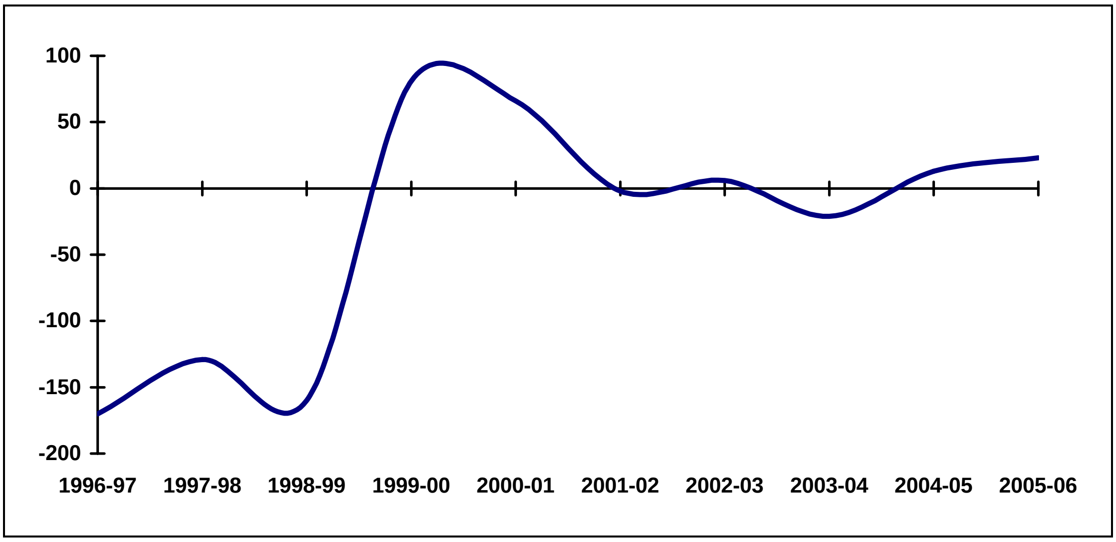
Table 5.1.1 - General Government Sector
2002-03 Budget and Forward Estimates

2001-02 Budget $m		2001-02 Est.Outcome $m	2002-03 Budget $m	Var %	2003-04 Estimate $m	2004-05 Estimate $m	2005-06 Estimate $m
2 043	Revenue	2 188	2 203	1	2 231	2 328	2 402
2 030	Expenses	2 191	2 197	..	2 251	2 315	2 379
12	**Operating Result**	**-2**	**6**	**340**	**-21**	**13**	**23**
	4 Year Aggregate Operating Result						**21**

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
2002-03 Budget and Forward Estimates Operating Result



2002-03 Initiatives

Government initiatives have been provided to the community under the broad headings of Education and Training, Health, Planning, Community Engagement and Safety, Sustainability, Economic Growth and Public Service Capacity.

The 2002-03 Budget allows for initiatives totalling $115.614m. This includes $86.912m of recurrent funded initiatives and $28.702m of capital funded initiatives. Chapter 6.1 provides a summary of these initiatives by broad themes and by Portfolio, while Chapter 6.2 provides greater detail with descriptions of each initiative.

Financial Position

Total General Government Sector assets are expected to be $7.876 billion at the end of 2002-03, an increase of $121.5m over the estimated opening balances for the year. Total General Government Sector liabilities are anticipated to be $2.912 billion, an increase of $105.7m from the estimated opening balance.

The net assets of the General Government Sector are budgeted to be $4.964 billion as at 30 June 2003.

These are further discussed in Chapter 5.4 - The Financial Position.

Appropriations

Appropriations in 2002-03 of $1.964 billion have increased from the 2001-02 Appropriations of $1.939 billion. Appropriations for 2001-02 include the amendments to the Appropriation Bill included in the 2001-02 Budget Papers and the *Appropriation Bill (No. 2) 2001-02* and *Appropriation Bill (No. 3) 2001-02*.

Principles of Responsible Fiscal Management

The *Financial Management Act 1996* includes a set of principles of responsible fiscal management (Sections 4(5) and 4(6)). 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 5.1.4
Financial Ratios
General Government Sector

	2001-02 Est.Outcome	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Working Capital Ratio	1.93:1	1.46:1	1.35:1	1.43:1	1.59:1
Debt Ratio %	18%	17%	17%	17%	17%
Equity Ratio %	82%	83%	83%	83%	83%

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 2002-03 Budget and the forward years' current ratio is relatively stable between **1.35:1** to **1.46:1**. 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 2002-03 Budget and the forward years is consistent at approximately 18% 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 82%, 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 2002-03 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.