

# **APPENDIX A**

## **Statement of Sensitivity of Budget Estimates**



## STATEMENT OF THE SENSITIVITY OF BUDGET ESTIMATES

This statement of sensitivity is made pursuant to Section 11(1)(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.

Territory revenues are sensitive to changes in economic conditions, both in the ACT and nationally (for example, through GST revenues).

Territory expenses are less sensitive to economic conditions. However, over time, changes in parameters such as population, the age profile of the population or other demographic variables may affect the demand for government services. In response, policy decisions may be taken to vary expenditure levels to accommodate the change in demand.

### Sensitivity of Economic Assumptions

#### *Consumer Price Index*

A change in the Consumer Price Index (CPI) parameter will affect the forecasts for revenues such as conveyance, general insurance, hiring duty, leases, Commonwealth grants, user charges and various other duties and revenues. If the CPI was to increase by 1 per cent more than the forecast in each year of the budget period, forecast revenue would increase by the amounts shown in Table A.1. It should be noted that the future projection of general rates and regulatory fees are indexed by the Wage Price Index (WPI).

It is expected that CPI increases would generate cost increases for agencies'. It is also expected that agencies would adjust mid-year expenditure plans to absorb immediate cost increases within the 2006-07 year, but in forward years budgets should change for adjustments in CPI. An estimate for the impact of a 1 per cent increase in CPI is shown in Table A.1.

**Table A.1**  
**Impact of CPI on General Government Sector Revenues and Expenses**

	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
<b>Taxation Revenue +1%</b>	1,173	1,729	2,393	2,866
<b>Fees, user charges, Commonwealth grants* and other revenue +1%</b>	0	9,501	19,858	31,377
<b>Expenses + 1%</b>	0	15,639	32,255	50,235

\* refers to Specific Purpose Payments only.

## Interest

In regard to the General Government Sector and the Superannuation Provision Account (SPA) cash investment portfolios, the impact of a 1 per cent variation in the estimated interest returns as assumed in the Budget estimates for interest revenue is shown in Table A.2.

**Table A.2**  
Impact of an interest rate change on Interest Revenue

+/- 1%	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
<b>General Government</b>	+/- 3,889	+/- 2,654	+/- 3,154	+/- 4,836
<b>SPA</b>	+/- 2,656	+/- 1,506	+/- 229	+/- 248

The impact of a 1% variation in the assumptions used to calculate the interest costs on the floating rate borrowings by the Territory is shown in Table A.3.

**Table A.3**  
Impact of interest rate change on borrowing costs

+/- 1% <sup>1</sup>	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
<b>General Government</b>	+/- 1,708	+/- 2,108	+/- 2,608	+/- 2,958

<sup>1</sup>A 1% increase in interest rates will lead to increased expense and, accordingly, a corresponding reduction in the budgeted operating result and vice versa.

## Currency

The estimated impact on international asset valuations from a 1 per cent variation in the Australian dollar against all international currency holdings, holding everything else constant, is shown in Table A.4.

**Table A.4**  
Impact from the movement of the Australian dollar on valuations<sup>1</sup>

+/- 1%	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
<b>SPA</b>	+/- 4,100	+/- 4,400	+/- 4,800	+/- 5,300

<sup>1</sup>A negative outcome represents an appreciation of the AUD relative to other currencies.

## Equity Valuation

Table A.5 outlines the impact to the SPA equity portfolio valuation from a 1 per cent variation in equity security valuations.

**Table A.5**  
Impact of a change in equity valuations

+/- 1%	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
SPA	+/- 13,500	+/- 15,400	+/- 16,900	+/- 18,400

## Superannuation Liabilities

A 1 per cent variation in the discount rate, used in the valuation of superannuation liabilities, results in an estimated change to the current liability of approximately \$450 million (actuarial gain or loss), with approximate annual variation estimates in superannuation related expenses (accruing liability) outlined in Table A.6.

**Table A.6**  
Impact on liability valuations from variation in discount rate

+/- 1.0%	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
SPA	+/- 37,300	+/- 34,000	+/- 31,500	+/- 29,100

## Wage Price Index (WPI)

General rates and various fees are indexed to WPI in future years. If WPI increased by 1 per cent more than the forecast in each year of the budget period, forecast revenue would increase by the amounts shown in Table A.7. The revenue in 2006-07 is not expected to vary as the indexation is expected to be based on the WPI result in December 2005.

**Table A.7**  
Impact of WPI on General Government Sector Revenue

	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
Taxation Revenue +1%	0	1,636	3,433	5,402

## Sensitivity of Other Assumptions

### *Employee Wage Negotiations*

Wages make up the single largest cost in providing government services. As a result, the budget estimates are sensitive to the outcome of enterprise bargaining negotiations. The 2006-07 Budget and forward estimates make provision for a moderate level of wages growth.

### *Residential conveyance volume and price*

Table A.8 shows the revenue increases that would result from:

- the volume of residential transactions growing by 1 per cent more than the forecast in each year of the Budget period; and
- the average residential price growing by 1 per cent more than the forecast in each year of the Budget period.

**Table A.8**  
**Impact of change in volume and price on Conveyance Revenue**

	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000
<b>Residential transaction volume +1%</b>	1,342	2,950	4,848	7,084
<b>Residential price +1%</b>	2,135	4,596	7,422	10,652