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## Financial Management (Pre Election Budget Update) 2004 (No 1)

**Notifiable instrument NI2004— 358**

**made under the**

*Financial Management Act 1996*, s20C Pre-election budget update

I, Megan Smithies, Acting Chief Executive, Department of Treasury, do hereby exercise my authority under section 20C of the *Financial Management Act 1996* to present the Pre‑Election Budget Update.

As required under section 20C I have provided a Pre-Election Budget Update that includes the following information.

1. Updated financial statements for the 2004-05 financial year.
2. Updated budget estimates for the financial year 2004-05 and each of the next three years for the:
   1. General Government Sector;
   2. Public Trading Enterprise Sector; and
   3. Territory.
3. Statement of Economic and Other Assumptions used in preparing the statements and estimates.
4. Statement of Sensitivity of the statements, estimates and assumptions.
5. Statement of Risk, quantified where possible, affecting economic or other assumptions including:
   1. contingent liabilities; and
   2. public announced government commitments not yet included in the updated statements and estimates.

This update takes account of government decisions and other circumstances that may have a material effect on the statements and estimates.

This update is current as at 10 September 2004.



Megan Smithies

A/g Chief Executive

ACT Department of Treasury

15 September 2004

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## Background

Section 20C of the *Financial Management Act 1996* (FMA) requires a Pre-Election Budget Update be provided to the Parliamentary Counsel for notification, at least 30 days before the polling day of an ordinary election.

The purpose of the Pre-Election Budget Update is to give the electorate an accurate picture of the Territory's financial position before the election, and to allow the assessment of the government's performance against its financial policy objectives and strategies as set out in the 2004‑05 Budget Papers.

## Principles of the Pre-Election Budget Update

The Pre-Election Budget Update incorporates Government decisions and announcements, technical changes and impacts of known external factors where they are certain and quantifiable. Where significant issues have been identified, but are not certain or unable to be quantified with reasonable certainty, they have been identified as potential risks.

Known and advised changes in the Commonwealth Budget, and the impact of agreed and signed intergovernmental agreements are included in the Pre-Election Budget Update forecasts, where they impact the financial position of the Territory.

This Statement includes any material updates as a result of the Australian Government’s Pre‑Election Economic and Fiscal Outlook (PEFO) released on Friday 10 September 2004. Timing constraints have, however, precluded a full analysis of the impact of the Commonwealth PEFO. In short, estimated Goods and Services Tax (GST) receipts have been revised to take into account the Commonwealth Government’s latest estimates.

Certain information that remains unchanged from that presented within the 2004‑05 Budget Papers may not be reproduced in this report. A statement has been made where the information has remained unchanged.

The Pre-Election Budget Update incorporates information up to 10 September 2004.

## Update to the 2004-05 Budget Estimates

The Territory’s economic outlook and financial performance remains largely unchanged from the position outlined at the time of the 2004‑05 Budget.

The General Government Sector (GGS) operating result for 2004‑05 and the forward estimates have improved, largely due to increased revenue, of which Goods and Services Tax (GST) revenue is the largest contributor. The Territory’s Unencumbered Cash (TUC) position also remains strong with improvements in forecasts for the budget and forward estimates.

Economic conditions in the ACT remain sound and the outlook positive. The forecast for ACT Gross State Product growth in 2004‑05 is unchanged from Budget (3.0%). The forecast for average annual employment growth in 2004‑05 has been revised down one quarter of a percentage point from 1.0% at Budget to 0.75%, following a weaker than expected employment outcome in 2003‑04 in the face of strong labour demand (as measured by job vacancies), and the continuing tight labour market (unemployment rate below 4%).

The following table provides a summary of the update to the 2004-05 Budget and the Forward Estimates.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2004-05 Budget Pre-Election Update** | **2004-05**  **$m** | **2005-06**  **$m** | **2006-07**  **$m** | **2007-08**  **$m** |
|  |  |  |  |  |
| General Government Sector | 20.9 | -6.6 | 28.1 | 76.6 |
| Public Trading Sector | 60.7 | 62.1 | 55.8 | 62.0 |
| Total Territory | -15.1 | -7.4 | 22.7 | 73.3 |
|  |  |  |  |  |

Revised financial statements are at **Attachment B** to this statement.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |

### Reconciliation to Budget position - GGS Operating Statement

Changes to the General Government Sector (GGS) operating result from the 2004‑05 Budget are listed and explained below. These changes have been split between policy and parameter changes.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2004-05** | **2005-06** | **2006-07** | **2007-08** |
|  | **$m** | **$m** | **$m** | **$m** |
|  |  |  |  |  |
| **GGS Operating Result - 2004-05 Budget Papers** | **7.9** | **-25.9** | **7.1** | **53.4** |
|  |  |  |  |  |
| **Policy Impact - Amendment to Appropriation Bill 2004-2005** |  |  |  |  |
| Commitment to Child Protection | -5.7 | -5.9 | -6.0 | -6.2 |
| ***Sub-Total*** | **-5.7** | **-5.9** | **-6.0** | **-6.2** |
|  |  |  |  |  |
| **Policy Impact** |  |  |  |  |
| Wage Negotiations | -6.4 | -5.6 | -3.6 | -6.1 |
| ACTION - Funding | -1.5 | -1.0 | -1.0 | -1.0 |
| Cost of Hire Car Licences # | -0.2 | -2.2 | -0.0 | 0.0 |
| ***Sub-Total*** | ***-8.1*** | ***-8.8*** | ***-4.7*** | ***-7.2*** |
|  |  |  |  |  |
| **Parameter Impact** |  |  |  |  |
| Adjustment to GST Revenue | 24.9 | 21.3 | 19.1 | 23.6 |
| Superannuation - Actuarial Review Reserve | 2.3 | 2.3 | 2.3 | 2.3 |
| Superannuation - Investment Returns | 2.6 | 3.0 | 3.2 | 4.0 |
| Taxes, Fees and Fines | 4.0 | 4.3 | 4.7 | 5.0 |
| Interest Revenue | 2.9 | 3.0 | 2.4 | 1.6 |
| Commercialisation Investment Fund | -10.0 | 0.0 | 0.0 | 0.0 |
| ***Sub-Total*** | ***26.8*** | ***34.0*** | ***31.8*** | ***36.6*** |
|  |  |  |  |  |
| **Revised Operating Result - Pre-Election Budget Update** | **20.9** | **-6.6** | **28.1** | **76.6** |

*GGS – General Government Sector*

*# Figures in 2006-07 and 2007-08 round down to $0m*

*Figures may not add due to rounding*

**Amendment to Appropriation Bill 2004-2005**

*Commitment to Child Protection*

The Appropriation Bill 2004‑2005 was amended after presentation of the bill to provide additional funding to the Office for Children, Youth and Family Support, for the implementation and delivery of improvements to child protection services recommended within ***The Territory as Parent****– Review of the Safety of Children in Care in the ACT and of ACT Child Protection Management (*Vardon Report).

**Policy Impact**

*Wage Negotiations*

The Pre-Election Budget Update includes the impact of finalised wage negotiations above original estimates provided for in the 2004‑05 Budget estimates. The adjustment includes upward revisions for negotiations relating to Teachers, Nurses, Clerical, Firefighters and Bus Drivers.

*ACTION - Funding*

The additional funding reflects the Government's decision to reduce the existing savings targets for ACTION. The new targets are derived from a revised benchmarking study into ACTION's efficiency as a public sector bus operator.

*Cost of Hire Car Licences*

This represents the updated cost of introducing a reform program, giving effect to the Government response to the Independent Competition and Regulatory Commission review of the taxi and hire car industries. Since the initiative was announced in the 2003‑04 Budget, the Government has decided not to sell additional taxi licences and instead to buy back twenty‑two hire car licences.

**Parameter Impact**

*Adjustment to GST Revenue*

Commonwealth Grants have been updated by the ACT to reflect adjustments to Goods and Services Tax (GST) revenue pool announced in the Commonwealth PEFO on 10 September 2004. The adjustments to GST revenue since the 2004‑05 Budget include the impact of revised GST pool estimates, GST deferral compensation payments and revised population estimates.

*Superannuation – Actuarial Review Reserve*

This adjustment reflects the impact of a change in the superannuation policy regarding the treatment of actuarial gains and losses. Since 1 July 1998, the ACT has accumulated the actuary’s annual revision of the superannuation liability in a liability reserve, which is brought to account over multiple periods. The Government announced a change to this treatment in the June Quarterly Management Report, advising that the balance of the reserve as well as the outcome of the 2003‑04 actuarial review would be brought to account in 2003‑04. The adjustment reflects the reversal of the expensing of this reserve over the budget and forward estimates.

*Superannuation ‑ Investment Returns*

Investment returns on superannuation assets have been revised to reflect the impact of improved investment returns in 2003-04, and the subsequent larger balance of investment funds. The interim outcome published in the June Quarterly Management Report for superannuation investment returns represented an improvement of $45.4m for 2003‑04 from the estimated outcome presented in the 2004-05 Budget Papers.

*Taxes, Fees and Fines*

Tax estimates have been revised to reflect the update in economic parameters and flow on effects of interim results for 2003‑04. The major impact is the increase in payroll tax.

The Payroll tax projections have increased from $189.914m to $195.827m for 2004‑05. This is primarily the result of higher payroll tax revenue collections in 2003‑04 (than estimated in the 2004‑05 Budget), increasing the estimate by $5.153m, and the impact of revised State Final Demand (SFD) estimates for 2004‑05 (2.6% to 2.9%), increasing the estimates by $0.759m.

Estimates of conveyancing revenue remain largely unchanged from the 2004‑05 Budget, while the increase in payroll tax forecasts is offset by reductions in general insurance and lease duties flowing from the 2003‑04 results.

*Interest Revenue*

The improvement largely reflects an increase in Territory Unencumbered Cash at the end of 2003‑04, and the corresponding increases across the Forward Estimates as a result of other influences identified in the Pre-Election Budget Update.

*Commercialisation Investment Fund*

This represents expenditure on the Commercialisation Investment Fund which was deferred from 2003‑04 to 2004‑05. The appropriation was provided for in Appropriation Act 2003‑2004 (No.3) and will be used to establish an ACT focused venture capital fund. A contract has been signed committing the Government to the provision of the funds. Expenditure is contingent on suitable investment opportunities arising.

**Territory Unencumbered Cash (TUC)**

The Territory’s Unencumbered Cash (TUC) is the measure of the Territory’s cash balance, which is not allocated to an operating or investing requirement at that point in time, and therefore is a measure of liquidity.

The Pre-Election Budget Update forecast for TUC in outlined is the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **TUC** | **2004-05**  **$m** | **2005-06**  **$m** | **2006-07**  **$m** | **2007-08**  **$m** |
| **2004-05 Budget Papers** | 300 | 166 | 133 | 176 |
| **2004-05 Pre-Election Budget Update** | 318 | 197 | 179 | 239 |

**Net Assets**

The Pre-Election Update forecast of net asset position for the General Government Sector (GGS) at the end of 2004-05 is $5,443m compared to the budget forecast of $5,661m. The deterioration in net asset position is mainly the result of the flow on effect of the interim results reported in the June Quarterly Management Report for 2003‑04, offset by improvements in revenues in 2004‑05. The deterioration in net assets reflects a change in accounting treatment for the recognition of land inventory (which recognises the value of land at ‘nil’ until sold, rather than its recognition upon receipt of valuation), and an update to the revaluation of stormwater and streetlight assets as previously shown in the estimated outcome.

For the total Territory, net assets at the end of 2004-05 are forecast at $9,473m compared to the published budget of $9,437m.

## Statement of Economic and Other Assumptions

The following updates have been made to key economic and other assumptions for 2004‑05, since publication in the 2004‑05 Budget Papers:

* + the forecast for ACT employment growth in 2004‑05 is revised down from 1.0% to 0.75%;
  + the forecast for ACT State Final Demand (SFD) growth in 2004‑05 is revised up from 2.6% to 2.9%; and
  + 2003‑04 actual results available have also been updated from forecasts in the 2004‑05 Budget.

**Economic Assumptions**

The economic forecasts underlying the 2004–05 Pre-Election Update (summarised in the table below) are largely unchanged from those forecast in the 2004-05 Budget.

**Economic Assumptions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2002–03** | **2003–04** |  | ***2004–05*** | **2004-05** | **2005–06** | **2006–07** | **2007–08** |  |
|  | (Actual) | (Forecast) |  | (Budget Paper) | (Forecast) | (Forecast) | (Forecast) | (Planning) |  |
|  | **(Average annual growth)** | | | | | | |  |  |
|  | Percentage change on previous yeara | | | | | | |  |  |
| Gross State Product | 2.9 | 2.3 |  | ***3.0*** | 3.0 | 3.0 | 2.9 | 2.9 |  |
| Gross Domestic Productb | 2.8 | 3.6 | f | ***3.5*** | 3.5 | 3.5 | 3.5 | 3.5 | c |
| Employment Growth | 2.9 | 0.0 | f | ***1.0*** | 0.75 | 1.2 | 1.0 | 1.0 |  |
| Consumer Price Indexb | 2.6 | 2.9 | f | ***2.0*** | 2.0 | 2.5 | 2.5 | 2.5 |  |
| State Final Demand | 4.8 | 3.9 | f | ***2.6*** | 2.9 | 2.9 | 2.8 | 2.8 |  |
| Interest Ratesd | 4.75 | 5.0 | f | ***5.5*** | 5.5 | 5.5 | 5.5 | 5.5 |  |
| Populatione | 0.4 | 0.9 |  | ***0.9*** | 0.9 | 0.9 | 0.9 | 0.9 |  |

1. Based on seasonally adjusted and original data currently available, with financial data expressed in real terms. Percentage changes are expressed in year average or year total terms unless otherwise indicated.
2. 2004–05 Commonwealth Budget estimates.
3. ACT Treasury planning assumption.
4. Reserve Bank of Australia, average cash rate target. The cash rate is the rate charged on overnight loans between financial intermediaries. It has a powerful influence on other interest rates and forms the base on which the structure of interest rates in the economy is built.
5. As at 30 June each year.
6. Actual result for 2003–04.

The ACT’s State Final Demand (SFD) rose 3.9% in 2003‑04, well above the 2.6% forecast at Budget. In part, this higher than expected result reflects strong growth in Commonwealth Government consumption and investment.

SFD growth in 2004‑05 has been revised from 2.6% at Budget up to 2.9%, reflecting the upward revision to Commonwealth Government outlays contained in the 2004‑05 Commonwealth Budget (up from 3.0% to 3.6%). In the longer term, the rate of growth of SFD is forecast to remain steady at a little under 3%, as slower growth in Commonwealth Government outlays (mid‑election cycle) are offset by increasing household consumption and a return to a more normal pattern of investment growth.

The 2004‑05 Budget forecast for 2003‑04 growth in GSP of 2.7% was predicated on employment growth of 0.7%, growth in real wages of 1.5%, and growth in business profits of around 3.5%.

Although real wages are known to have grown by around 1.5% and the forecast for growth in business profits remains at 3.5%, actual employment growth in 2003‑04 was 0.0%. Due to the lower than expected employment growth, the forecast for GSP growth in 2003‑04 has been revised down from 2.7% at Budget to 2.3%.

The lower than expected employment growth during 2003‑04 reflects, in part, strong national jobs growth and a consequent difficulty in attracting interstate migrants to the ACT.

Looking forward, the growth rates for GSP are unchanged from the 2004-05 Budget. The slightly lower forecast for employment growth in 2004‑05, down a quarter of a percentage point from 1.0% to 0.75%, has been offset by a quarter of a percentage point upward revision to the real wage forecast in 2004-05. In line with business expectations, the prospects for business profits in the ACT remain sound.

The PEFO economic projections have amended the 2004‑05 Commonwealth Budget forecasts for employment, CPI and wages. Employment growth is expected to be 0.5% higher (2.25%), CPI for 2004‑05 only is 0.5% higher (2.5%) and wages (wage cost index) are forecast to be 0.25% lower (3.5%). Of these changes, only CPI has a direct influence on the Budget. It has not been possible to model the impact of the changed CPI on the Budget in the short time since its release. A guide to the impact of a change in CPI on Budget estimates is available in the Statement of Sensitivity of Budget Estimates section of this statement.

ACT economic growth is expected to lag that of the national economy throughout the Budget period. In part, this reflects the fact that the national economy will benefit more than the ACT from a strengthening global economy.

The inflation forecast for the out‑years is 2.5%, the mid‑point of the Reserve Bank of Australia’s target range of 2 to 3%.

**Other Assumptions**

*Wage Negotiations*

Public sector estimates have been updated and reflect the outcome of all wage negotiations for the current round of bargaining. A planning provision exists from 2006‑07 and beyond for future wage increases.

*Superannuation Liability*

Access to the defined benefit Public Superannuation Scheme (PSS) will be closed to new entrants by 30 June 2005. From 1 July 2005 all new permanent employees of the ACT Government will be required join the new fully funded accumulation PSS operated by the Commonwealth Government. The impact of this change has not yet been determined by the Territory’s actuary, but as it applies to new employees only, the impact on superannuation liabilities and cash flows during the budget period will be minimal. As such, access to the PSS scheme is assumed to continue past 30 June 2005, for the purpose of the Pre-Election Budget Update forecasts.

*Revenue Assumptions*

Taxes, fees and fines, and other own source revenues are largely based on the economic assumptions discussed earlier in this Statement.

Commonwealth Grants have been updated to reflect adjustments to Goods and Services Tax (GST) revenue announced in the 2004‑05 Commonwealth Budget and for material changes in the Commonwealth’s Pre-Election Economic and Fiscal Outlook, released on 10 September 2004.

The outlook for conveyancing revenue remains consistent with the 2004‑05 Budget which was for a soft landing of the market. The assumptions were for the activity to continue to drop in 2004‑05 from the high level of 2002‑03. From 2005‑06 onwards, modest increases in activity and prices were assumed. The outlook for the property market remains unchanged in the light of 2003‑04 actual results.

The land lease revenue estimate for 2004-05 was similarly developed in consideration of the changing property market conditions in the ACT. It is apparent that the anticipated softening in the market conditions is occurring. At this stage there appears no reason to vary current Budget projections for revenue from those incorporated in the Budget.

*Other*

2004‑05 Budget Paper No. 3 (page 12) outlined assumptions relating to Treasurer’s Advance and the capacity for the future capital works program. These remain unchanged.

## Statement of Risk

The risks to Budget estimates are related to Financial Risk, Economic Risk, Guarantees and Contingent Liabilities.

2004‑05 Budget Paper No. 3 outlined a series of general operational risks and policies; and borrowing and investment risks. Those have not changed substantially since budget time.

**Financial Risk**

*Commonwealth Grants*

The Australian Government’s 2004‑05 Budget foreshadowed a decision that the ACT will continue to receive Special Revenue Assistance (SRA) as recommended by the Commonwealth Grants Commission (CGC) in 2003‑04 ($15m) and 2004‑05 ($14.2m). However, from 2005‑06, the ACT’s fiscal needs are to be considered in the same way as other States and Territories, that is, through the CGC’s calculation of GST relativities.

The ACT has interpreted this decision to mean that any future payment of SRA as recommended by the CGC will be funded from the GST pool which effectively cost shifts this liability to the States and Territories.

The ACT has written to the Australian Government objecting to the cost shift. Notwithstanding this in principle objection, the ACT has sought assurance that a clear direction will be included in the terms of reference for the next CGC Report on State Revenue Sharing Relativities (2005 Update) to the effect that the ACT’s fiscal needs will be included in the CGCs assessments. The terms of reference are yet to be issued.

Similarly, the Federal Budget did not include forward estimates for National Competition Policy (NCP) payments (approximately $13m annually) from 2006‑07.

With regards to payments beyond 2005‑06, the Australian Government may cease competition payments to the States and Territories, however, this is unlikely as it could result in a reversal of NCP reforms undertaken by jurisdictions. A more likely Australian Government position is that payments will continue. The Federal budget papers include funding provisions for the out years beyond 2005‑06, although no details are provided as to actual amounts. A Council of Australian Governments review of the NCP program is scheduled to occur before September 2005 and the ACT, along with all other States and Territories, will have the opportunity to discuss the future of funding arrangements in the course of this review.

GST revenue estimates are based on assumptions of strong economic growth nationally, supporting employment generation and company profits. Failure to achieve this level of growth would have a moderating effect on future GST revenues.

At the 2004 Treasurers’ Conference, the majority of the States and Territories, with the support of the Australian Government, agreed to a work program on the CGC’s methodology, which is used to distribute the GST revenue pool between the States and Territories. The work is aimed at simplifying the methodology, which by its very nature could impose considerable risks for the ACT in relation to its existing share of the GST.

*Commitment to Child Protection*

The Government has agreed to implement the recommendations of Vardon Report. Further expenditure will be required to implement this commitment, beyond that provided within the amendment to the Appropriation Bill 2004-2005. The form and scope of this expenditure cannot, however, be quantified at this stage.

*Totalcare Superannuation*

In February 2004 the Treasurer announced that the Government was investigating possible inconsistencies with the application of appropriate superannuation arrangements for Totalcare employees. Employee records are being reviewed and the Government has indicated that all obligations relating to past and current employees will be met.

The current superannuation liability of the Territory incorporates an amount currently estimated at $18 million. Work is, however, continuing on assessing the liability.

*Insurance Claims*

In 2003‑­04 ACT Insurance Authority (ACTIA) increased the provision for insurance claims by $13m, from the provision included in the estimated outcome. This was due mainly to increases in the volume of medical malpractice and non‑bushfire related public liability claims, offset by actuarial discounting of public liability claims relating to the January 2003 Bushfire. This result may impact on future provisions made by ACTIA.

*ACT Government Asbestos Law Reform*

In August 2004 the Dangerous Substances Act 2004 was amended to improve public awareness of the affects of asbestos. The amendments, among other things, included the following:

* + the creation of the Asbestos Assessment Task Force to analyse the extent and impact of asbestos in the ACT and prepare a report of the analysis; and
  + a new public education campaign to increase awareness of the risks of asbestos.

These proposals may have financial implications, which have not as yet been identified or assessed.

*Capital Works*

The Government recently announced that feasibility studies would be conducted into the establishment of a Nature Discovery Centre and Research Centre at Tidbinbilla Nature Reserve. In addition, the Government will be conducting a feasibility study into the establishment of a new Youth Detention Centre to replace the Quamby Youth Detention Centre.

It is too early to estimate what the financial implication of these works will be, if any. It is anticipated that the impact of these initiatives on the capital works program and the provision for capital works within the Budget estimates will be assessed as part of these feasibility studies.

*Superannuation Liabilities*

The Territory’s net superannuation liabilities are sensitive to:

* the level of ACT public sector wages;
* changes in the market value of investments;
* demographic assumptions;
* financial assumptions (e g., the assumed propensity for retiring members to opt for the indexed pension rather than the lump sum payment benefit); and
* forthcoming results from the current investigation of possible inconsistencies with the application of appropriate superannuation arrangements for Totalcare employees.

The actuarial assessment of the superannuation liabilities can result in volatile fluctuations in the valuation of the liability and a corresponding direct impact on the operating result of the General Government Sector.

**Economic Risk**

Any variation from forecasts relating to economic performance or market conditions may impact on the financial projections presented in this statement.

*Risk to Endogenous Revenue*

Economic risk extends to the Territory tax revenue. Payroll Tax, Stamp Duty, Rates and Land Tax, are exposed to risk associated with employment levels and wages in the ACT, which are driven largely by expenditure in the public sector. A decline in Commonwealth public sector expenditure, particularly in the form of ACT based staffing levels would have an adverse affect on the value of property in the ACT, and the resulting decline in the level of economic activity would also be reflected in lower collections of Payroll Tax.

*Interest Rates*

Changes in interest rates will impact on private consumption expenditure. If interest rates rise, households will need to devote more of their income to servicing the interest component of their outstanding mortgage and consumer debt, resulting in less disposable income for discretionary spending. The potential contractionary impact of interest rate rises is likely to be magnified by the recent growth in household debt.

A rise in interest rates is also likely to have a negative impact on investment, particularly private investment in dwellings. The residential construction sector has relatively high multiplier flow-on effects through the economy and, therefore, the negative impact on State Final Demand (SFD) of any downturn in this sector will be magnified.

*Public Sector Expenditure Risk*

While Commonwealth Government expenditure per capita continues to be significantly higher in the Territory than in other jurisdictions, the growth rate of Commonwealth expenditure in the ACT has fallen below the national average. The possibility of the Territory receiving a smaller share of planned increases in Commonwealth Government expenditure in forward years constitutes a downside risk to future economic activity in the Territory.

**Guarantees and Contingent Liabilities**

A summary of the Territory’s guarantees and contingent liabilities as at 30 June 2004 is at **Attachment C** to the Pre‑Election Budget Update.

## Statement of the Sensitivity of Budget Estimates

The sensitivity of the General Government Sector operating result to changes in the budget assumptions presented within this section have been reviewed since they were presented in the 2004‑05 Budget Papers.

**Sensitivity of Budget Estimates to Economic and Other Assumptions**

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 and consumer price index movements in non‑wage costs.

The following table sets out the sensitivity of economic and other assumptions on the General Government Sector operating result. This represents a ‘rule of thumb’ for the magnitude of changes, based on 2004‑05 information.

|  |  |  |  |
| --- | --- | --- | --- |
| **Economic and Other Assumption** | **Key Revenue / Expense Lines Effected (Examples)** | **Movement in Economic Indicator (increase / decrease)** | **Sensitivity ($m)** |
| Consumer Price Index | Revenue (eg. g*eneral rates, conveyancing, general insurance*) | +1% | 1.6 |
| -1% | -1.6 |
| Revenue (*eg. fees and user charges*) | +1% | -3.9 |
| -1% | 3.9 |
| Expense (*eg. supplies and services*) | +1% | -12.5 |
| -1% | 12.5 |
| Conveyance - activity level | Revenue (*eg. conveyance*) | +1% | 1.4 |
| -1% | -1.4 |
| Conveyance - price | Revenue (*eg. conveyance*) | +1% | 2.2 |
| -1% | -2.2 |
| Gross State Product | Revenue (*eg. General Insurance, Life Insurance*) | +1% | 11.5 |
| -1% | -2.4 |
| Interest Rates | Revenue (*eg. conveyance*) | +1% | -12.7 |
| -1% | 34.4 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Economic and Other Assumption** | **Key Revenue / Expense Lines Effected (Examples)** | **Movement in Economic Indicator (increase / decrease)** | **Sensitivity ($m)** |
| Interest Rates | Revenue (*eg. investment earnings*) | +1% | 9.8 |
| -1% | -9.8 |
| Expense (*eg. floating rate borrowing costs*) | +1% | -4.7 |
| -1% | 3.4 |
| State Final Demand | Revenue (*eg. payroll tax*) | +1% | 1.9 |
| -1% | -1.9 |
| Wages | Expense (*total public sector wages*) | +1% | -11.7 |

## Attachment A: Legislative Requirements

The *Financial Management Act 1996* specifies the following requirements for the Pre‑Election Budget Update:

**20C Pre-election budget update**

(1) At least 30 days before the polling day for an ordinary election, the chief executive must prepare a Pre-Election Budget Update, and give it to the parliamentary counsel for notification.

(2) At least 20 days before the polling day for an election mentioned in the Australian Capital Territory (Self-Government) Act 1988 (Cwlth), section 16 (Dissolution of Assembly by Governor-General) or section 48 (Resolution of no confidence in Chief Minister), the chief executive must prepare a Pre-Election Budget Update, and give it to the parliamentary counsel for notification.

(3) A Pre-Election Budget Update is a notifiable instrument.

*Note A notifiable instrument must be notified under the Legislation Act.*

(4) In this section:

*ordinary election*—see the Electoral Act 1992, dictionary.

*polling day*—see the Electoral Act 1992, dictionary.

**20D Purpose and contents of Pre-Election Budget Update**

(1) The purpose of a Pre-Election Budget Update for an election is—

(a) to allow the assessment of the government’s financial performance against the financial policy objectives and strategies set out in the latest financial policy objectives and strategies statement; and

(b) to give the electorate an accurate picture of the Territory’s financial position before the election.

(2) A Pre-Election Budget Update must be based on the latest financial policy objectives and strategies statement.

(3) A Pre-Election Budget Update for an election must include—

(a) updated financial statements required under the financial management guidelines for the financial year in which the election is to be held; and

(b) updated budget estimates for the general government sector, public trading enterprises and the Territory for that financial year and for each of the next 3 financial years; and

(c) a statement of the economic or other assumptions used in preparing the updated financial statements and budget estimates; and

(d) a statement about the sensitivity of the updated financial statements and budget estimates to changes in the economic or other assumptions; and

(e) a statement of the risks, quantified if possible, that may affect the economic or other assumptions, including—

(i) contingent liabilities; and

(ii) publicly announced government commitments that are not yet included in the updated financial statements and budget estimates.

(4) Information in the Pre-Election Budget Update must—

(a) take into account government decisions and other circumstances that may have material effect on the financial statements and budget estimates; and

(b) state the date as at when the updating was done.

(5) However, if particular information required to be included in the Pre-Election Budget Update is unchanged from information set out in full in the latest financial statements, the budget estimates mentioned in section 11 or budget review, the Pre-Election Budget Update may instead summarise the information and state that it is unchanged from that set out in the financial statements, budget estimates or budget review.

## Attachment B: Financial Statements

* General Government Sector Statement of Financial Performance
* General Government Sector Statement of Financial Position
* General Government Sector Statement of Cashflows
* Public Trading Sector Statement of Financial Performance
* Public Trading Sector Statement of Financial Position
* Public Trading Sector Statement of Cashflows
* Total Territory Statement of Financial Performance
* Total Territory Statement of Financial Position
* Total Territory Statement of Cashflows



























## Attachment C: Guarantees and Contingent Liabilities

**Guarantees**

Guarantees are legally binding promises whereby one party undertakes to another party to be responsible for the debt or obligations of a third party, should that third party default in some way.

*Australian Capital Tourism Corporation*

Pursuant to an agreement with the National Capital Authority regarding the use of Commonwealth Park for the 2004 Floriade event, the corporation has given a guarantee to meet the cost of repair of any damage to the park that may be caused by contractors engaged by the Corporation to perform work at the site.

*ACTEW*

ACTEW Corporation Ltd has underwritten a $25m ($25m at 30 June 2003) standby debt facility for TransACT Communications.

*Totalcare Industries Limited*

The company has provided a number of bank guarantees in past years, these have now all be extinguished ($1.095m at 30 June 2003).

*Land Development Agency*

Guarantee for Gold Creek Country Club Pty Ltd, this is a guarantee by the Treasurer under Section 47 of the Financial Management Act 1996 ‘to give a guarantee for the payment of money or the performance of an obligation in accordance with this Act’. The ACT Government guarantees the operations of Gold Creek Country Club Pty Ltd.

The Agency has undertaken to construct major infrastructure works on its Kingston project in future years at an estimated cost of approximately $30m. The construction of these works is required to achieve the paramount objectives of the development described in Variation to the Territory Plan No 113. This undertaking has not been reflected in the financial statements as no relevant development applications have been approved and consequently no contractual commitments have been entered into as at balance date.

**Contingent Liabilities**

Contingent liabilities are possible liabilities that arise from past events, and can only be confirmed by the incidence or non-occurrence of uncertain future events, which are not within the control of the entity.

Due to the nature of the liabilities it is difficult to put an exact value on these claims.

All taxation related claims being made against the Territory have been assessed and where the court decision is likely to favour the plaintiff, the amounts in dispute have been provided for as a liability. This amount represents claims against the Territory for which there has been no provision.

Non-taxation related contingencies are largely comprised of pending legal claims. Claims lodged against the Territory include property damage, contract disputes, economic loss and personal injury.

Due to the protracted nature of legal proceedings and the various discoveries that can be made over the foreseeable period, it is not possible, with any degree of accuracy, to make an assessment of liabilities of some legal claims. The contingent liabilities reported by agencies have used this methodology.

*Central Financing Unit*

The ACT Fleet Financing Facility includes a ‘Residual Management Reserve Account’ which is currently in deficit. The balance of this account at 30 June 2004 is $4.598m ($2.944m at 30 June 2004) and reflects mainly the excess of agreed residual values over net sale proceeds. Liabilities for this amount only exist should the facility be terminated prior to the completion of the agreed commitment term.

*ACTEW*

There are a number of public liability claims pending which cannot be measured reliably. Should these claims be successful the Corporation estimates the liability will not be significant. There are also a couple of pending actions against the Corporation. Should these actions be successful, the Corporation estimates the liability will not be significant.

*Department of Treasury*

The Department has contingent liabilities in relation to appeals and objections primarily related to payroll tax and stamp duties.

*Chief Minister's Department*

The Department estimates the total amounts of claims for Non ACT Business Incentive Fund (ACTBIF) waiver to be approximately $24.1m. The amount is contributed from two agreements. The Department has entered into agreement with Canberra Raiders and ACT Brumbies to provide payroll tax exemption in return of certain level of sport activities to be performed by the organisations. The Department has also entered into agreement with National ICT Australia Limited to provide cash grant and payroll tax waiver to this organisation for five years until 2007 for the establishment of an ACT node of the National ICT Australia Centre of Excellence.

*Department of Justice and Community Safety*

The Department has 33 contingent liabilities in respect of criminal injuries compensation and damages cases, with an assessed value of $1.101m (28 claims, of $1.337m, at 30 June 2003).

*Canberra Institute of Technology*

The estimated liability for known damages and injuries is $0.260m ($0.178m at 30 June 2003).

*Department of Education and Training*

The estimated liability for known personal injury litigation cases not settled is $2.899m ($2.750m at 30 June 2003).

*Department of Urban Services*

The Department has claims with a potential liability of up to $15.635m as advised by the ACT Government Solicitor ($10.394m, at 30 June 2003). Estimated insurance claims, in relation to costs resulting form the January 2003 bushfires 2004 is $1.720m.

*ACT Workers’ Compensation Supplementation Fund*

The Fund has a number of claims pending as at 30 June 2004 where the likelihood of a case proceeding to a hearing was significant, with a total of $0.668m ($0.390m at 30 June 2003).

*Land Development Agency*

An organisation has a claim against the Agency relating to documentation provided in the sale of one of its estates, which the Agency is actively defending. A claim for injury has been brought against Gold Creek Country Club Pty Ltd, which the Agency is actively defending. The sum total of exposure for the above claims is estimated to not exceed $0.150m.

The Agency is responsible for Government land development and sales and is therefore responsible for the costs of any remediation work, where this is provided for in a contract for sale. The decision for the Territory to fund such remediation work stems from the difficulty of quantifying the costs of such work and the resultant impact this would have on auction bids. The Territory has chosen to remain liable for such unquantified costs in order to maximise bids for the sale of land.

*ACTION Authority*

The Authority has contingent liabilities relating to third party accident claims prior to the formation of the ACT Insurance Authority. There are 10 long-term claims and liability has not been admitted by the ACTION Authority at this stage. The total value of these claims as assessed by the Government Solicitor’s Office is $1.040m ($1.192m, at 30 June 2003).

*ACT Health*

ACT Health is currently defending 137 actions (last year 210 actions). These actions have an estimated maximum liability of $59.311m ($24.663m, at 30 June 2003).

*Office for Children, Youth and Family Support*

The estimated liability for known litigation cases not settled as at 30 June 2004 is $0.303m.

*ACT Housing*

Contingent liabilities for public liability claims arising from operations expected to settle over the next 12 to 18 months have been assessed by the Government Solicitor’s Office to be $0.760m ($0.896m, at 30 June 2003).

*Department of Disability, Housing and Community Services*

The contingent liabilities reflect several individual contingent claims against the Department where the final financial ramifications are unclear pending legal settlement. The ACT Government Solicitor’s Office had estimated the contingent claims for 2004 as $1.001m ($0.151, at 30 June 2003).