

APPENDIX B

STATEMENT OF SENSITIVITY OF BUDGET ESTIMATES

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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 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) will affect the forecast for revenues such as general insurance, life insurance, leases, Commonwealth Government grants and sales. CPI changes have not been factored into the sensitivity analysis for conveyance as there is not a direct relationship between it and property turnover or property price.

If the CPI were to increase by 1 percentage point more than the forecast in each year (e.g. from 2.5 to 3.5 per cent) of the budget period, forecast revenue would increase by the amounts shown in Table B.1.

CPI increases generate cost increases for agencies. An estimate for the impact of a 1 percentage point increase in CPI is shown in Table B.1.

Table B.1
Impact of 1 Percentage Point Increase in CPI on GGS Revenues and Expenses

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
Taxation Revenue	575	614	647	67
Sales of Goods and Services, Commonwealth Government Grants ¹ and Other Revenue	0	9,804	21,107	33,211
Expenses	0	19,416	40,327	63,900

Note:

1. Refers to Specific Purpose Payments only.

Wage Price Index

Various fees are indexed to WPI in future years. If WPI increased by 1 percentage point more than the forecast in each year of the budget period, forecast revenue would increase by the estimates shown in Table B.2. However, the revenue in 2012-13 is not expected to vary, as the 2012-13 estimates are based on the March 2013 result.

Table B.2
Impact of a 1 Percentage Point Increase in WPI on GGS Revenue

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
Taxation Revenue	0	3,789	8,154	13,158
Sales of Goods and Services, and Other Revenue	0	4,446	9,205	14,529

Interest

Interest on cash investment portfolios held by the Territory Banking Account (TBA) and the Superannuation Provision Account (SPA) are affected by interest rate variations. The impact of a 1 percentage point variation in the estimated interest returns as forecast in the Budget estimates for interest revenue is shown in Table B.3.

Table B.3
Impact of a 1 Percentage Point (+/-) Interest Rate Change on Interest Revenue

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
TBA	10,551	8,778	10,076	9,058
SPA	1,381	1,483	1,592	1,710

The impact of a 1 percentage point variation in the assumptions used to calculate the interest costs on the Territory's variable rate borrowing exposures is shown in Table B.4

Table B.4
Impact of a 1 Percentage Point (+/-) Interest/CPI Rate Change on Borrowing Costs

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
TBA – Total Borrowings	9,496	11,152	11,932	9,866

Currency

The estimated impact on international asset valuations from a 1 per cent variation in the Australian dollar against all unhedged international currency holdings, with everything else constant, is shown in Table B.5.

Table B.5
Impact from a 1 Per Cent (+/-) Movement of the Australian Dollar on Valuations

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
SPA	5,504	5,911	6,349	6,820

Equity Valuation

Table B.6 outlines the impact to the SPA equity portfolio valuation from a 1 per cent variation in equity security valuations.

Table B.6
Impact of a 1 Per Cent (+/-) Change in Equity Valuations

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
SPA	15,135	16,255	17,459	18,754

Superannuation Liabilities

Table B.7 outlines the impact to the CSS/PSS defined benefit superannuation liability from a 1 per cent increase in the discount rate from the budgeted discount rate of 6 per cent.

Table B.7
Impact of a 1 Per Cent Increase in the Liability Discount Rate

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
SPA	-680,000	-710,000	-730,000	-750,000

Table B.8 outlines the impact to the CSS/PSS defined benefit superannuation liability from a 1 per cent decrease in the discount rate from the budgeted discount rate of 6 per cent.

Table B.8
Impact of a 1 Per Cent Decrease in the Liability Discount Rate

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
SPA	870,000	900,000	920,000	940,000

Table B.9 outlines the impact on CSS/PSS defined benefit superannuation expense from a 1 per cent increase in the discount rate from the budgeted discount rate of 6 per cent.

Table B.9
Impact of a 1 Per Cent Increase in the Discount Rate on Superannuation Expense

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
SPA	-23,000	-21,000	-19,000	-16,000

Table B.10 outlines the impact on CSS/PSS defined benefit superannuation expense from a 1 per cent decrease in the discount rate from the budgeted discount rate of 6 per cent.

Table B.10
Impact of a 1 Per Cent Decrease in the Discount Rate on Superannuation Expense

	2013-14	2014-15	2015-16	2016-17
	\$'000	\$'000	\$'000	\$'000
SPA	26,000	24,000	21,000	18,000

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 2013-14 Budget and forward estimates make provision for a moderate level of wages growth.