

1.4 STATEMENT OF THE SENSITIVITY OF BUDGET ESTIMATES

This statement of sensitivity is made in line with 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 general rates, conveyance, general insurance, hiring duty, leases, fees, Commonwealth grants, user charges and various other duties and revenue. If the CPI was to increase by 1% more than the forecast in each year of the budget period, forecast revenue would increase by the amounts shown in the table below. General rates, fees and user charges are linked to the actual CPI change in the previous year and therefore a higher than expected CPI increase in 2005-06 would affect rates in 2006-07 rather than in 2005-06.

It is expected that CPI increases would generate cost increases for agencies' budgets. It is expected that agencies would adjust mid-year expenditure plans to absorb immediate cost increases within the 2005-06 year, but in forward years budgets should change for adjustments in the CPI. An estimate for the impact of 1% increase in CPI is shown in the following table.

Table 1.4.2
Impact of CPI on General Government Sector Revenues and Expenses

	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000
Taxes +1%	589	2 544	4 647	6 907
Fees, user charges, grants* and other revenue +1%	0	8 219	17 142	26 656
Expenses + 1%	0	14 950	31 552	49 774

* refers to Specific Purpose Payments only.

Interest

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 below.

In regard to the General Government Sector investment portfolio, the impact of a 1% increase in the estimated interest rate returns assumed in the Budget estimates for interest revenue is shown in the following table.

Table 1.4.3
Impact of interest rate change on General Government Sector investment portfolio:
Interest Revenue

	2005-06	2006-07	2007-08	2008-09
	\$'000	\$'000	\$'000	\$'000
+ 1%	6 673	4 768	4 294	4 692

The impact of a 1% increase in the assumptions used to calculate the interest costs on the 'floating rate borrowings' is shown in the following table.

Table 1.4.4
Impact of interest rate change on borrowing costs

	2005-06	2006-07	2007-08	2008-09
	\$'000	\$'000	\$'000	\$'000
+ 1%	2 724	2 856	2 856	2 856

State Final Demand

A change in the State Final Demand (SFD) parameter will affect the forecasts for revenues, such as payroll tax. If SFD was to increase by 1% more than the forecast in each year of the budget period, forecast revenue would increase by the amounts shown in the following table.

Table 1.4.5
Impact of SFD on General Government Sector Revenue

	2005-06	2006-07	2007-08	2008-09
	\$'000	\$'000	\$'000	\$'000
Total impact +1%	2 061	4 612	7 771	11 674

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 Act No.3* and the 2004-05 *Appropriation Act No.2* for wages growth. The 2005-06 Budget and forward estimates takes into account estimated wages growth.

Residential conveyance volume and price

The following table shows the revenue increases that would result from:

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

Table 1.4.6
Impact of Change in Volume and Price on Conveyance Revenue

	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000
Residential transaction volume +1%	1 322	2 888	4 753	6 957
Residential price +1%	2 082	4 491	7 275	10 478

