

## 2.3 SUMMARY OF MAJOR RISKS

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This chapter provides a summary of the major risks faced by the Territory. Detailed information on the major risks faced by the Territory is provided in Appendix B.

The Territory faces a numbers of risks particularly in regard of economic growth, Australian Government Funding, Investments and Borrowings, Superannuation Liabilities, Insurable Risk, and the impact of the drought and potential Stage 4 Water Restrictions.

**ACT Economy** - the Territory economy, while not immune to risk, tends to be insulated from many of the uncertainties faced by the national economy due to its significant public sector activity. Generally, the main risk factors for the ACT economy relate to changes in public sector expenditure and movements in interest rates. Significant changes in Australian Government public sector expenditure, particularly in the form of ACT based staffing levels, has a flow-on effect on taxation revenue streams from the property market (stamp duties) and private sector economic activity (payroll tax).

Additional risk factors facing the ACT economy are a worsening of the skills shortage and a higher CPI as a result of price increases for drought-affected commodities.

Stage 4 Water Restrictions place an additional risk on the ACT economy and, in particular, to industries dependent on the use of water. If drought-breaking rains are not received, resulting in ongoing and/or tighter restrictions, widespread consequences may occur throughout the ACT economy.

**Water Restrictions** - the introduction of Stage 4 Water Restrictions in the ACT may have a substantial impact on the ACT Budget resulting from reduced distributions from ACTEW and Water Abstraction Charge revenue. The Government and ACTEW will continue to investigate all available options to secure the ACT's water supply and minimise the economic impacts on those groups affected by the restrictions.

**Australian Government Funding** - approximately 42 per cent of the ACT's revenue will be sourced from the Australian Government in 2007-08, with a significant portion of this being Goods and Services Tax (GST) revenue grants. Deterioration in the national economy or the Territory's population estimates could impact negatively on the Territory's future GST revenues. Conversely, improvements could impact positively.

A number of significant specific purpose payments will be due for negotiation in 2007. Amendments to funding levels, matching requirements, or a combination of both, presents a risk of reducing the flexibility of future ACT budgets.

**National Roads** - the recent Australian Government 2007-08 Budget allocated funding for additional roads infrastructure projects within the Territory. At this stage, uncertainty exists in regards to conditions attached to the proposed expenditure, such as the transfer of ownership of assets to the Australian Government and/or matching requirements. As a result, the 2007-08 Budget does not include any impacts associated with this initiative.

**Financial Investments** - investments face market and interest rate risks for which a number of risk management strategies have been implemented.

**Contingent Liabilities** - there are a number of contingent liabilities reflecting claims lodged against the Territory including property damage, contract dispute, economic loss, personal injury and tax related claims which are listed in the Australian Capital Territory Consolidated Annual Financial Statements.

**Superannuation Liabilities** - the level of defined benefit employer superannuation liabilities is actuarially determined. Small changes in the demographic and financial variables underpinning the determination of the liability can lead to large impacts on the total liability estimate for the Territory.

The Australian Government 2007-08 Budget also outlined a package of reforms designed to improve the Public Sector Superannuation Scheme (PSS) and Commonwealth Superannuation Scheme (CSS) with more flexible arrangements and to encourage members to remain in the workforce longer. It is too early to estimate the financial impact on the Territory's superannuation liability.

**Insurance** - since the January 2003 bushfire the ACT Insurance Authority's self-insured retentions have been reviewed to ensure an appropriate balance between risk transferred, the premium paid for this, and risk retained.