2.3 SUMMARY OF MAJOR RISKS

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

The Territory faces a numbers of risks, particularly in regard to the economy, Commonwealth Government funding, financial investments, contingent and superannuation liabilities and insurable risk. These are summarised in turn below:

ACT Economy — the uncertainty surrounding the severity and duration of the global financial crisis poses the greatest risk to the ACT economy, in particular how this impacts on household wealth and business and consumer confidence. The economy is also susceptible to changes in Commonwealth Government outlays and interest rate variations.

Taxation Revenue — economic risk extends to taxation revenue with payroll, duties, rates and land tax exposed to risk associated with employment and wages stemming from the uncertainty surrounding the global financial crisis. Cuts to Commonwealth expenditure could also adversely impact property-related taxation as confidence in the market drops.

Commonwealth Government Funding — the largest contributing factor to ACT Government revenues, accounting for approximately 47 per cent of total revenues in 2009-10 is Commonwealth Government funding, with a significant portion of this being Goods and Services Tax (GST) revenue grants. Deteriorations in the national economy or a downwards changes to the Territory's population impact negatively on the Territory's future GST revenues. The current downturn in the national economy, resulting from the global financial crisis, has resulted in decreased GST revenue to the Territory. Improvements in these areas however, will potentially have a positive impact on revenues received.

Financial Investments — the Budget is susceptible to a variety of risk factors, particularly those associated with the performance of financial markets and interest rates. Interest returns below those estimated will have a negative impact on revenues, and in respect of the Superannuation Provision Account, will reduce the probability of fully funding the defined benefit superannuation liability by 2030. Governance, advisory and consultancy arrangements have been put in place, designed to effectively monitor the Territory's investment strategies and performance.

Contingent Liabilities — reflect claims against the Territory in areas including property damage, contract dispute, economic loss, personal injury and taxation. Further details in relation to these claims are disclosed in the Australian Capital Territory Consolidated Annual Financial Statements.

Superannuation Liabilities — are actuarially determined, taking into account a multitude of variables. Small changes in the demographic and financial variables underpinning the calculation of the liability can lead to large impacts on the total liability estimate for the Territory and the associated superannuation expense and emerging cost benefit payments.

Insurance — following world wide insurance events and other Territory specific insurance events, policies relevant to the ACT Insurance Authority (ACTIA) have become increasingly difficult and expensive to purchase. In line with the Enterprise Wide Risk Management

Framework, ACTIA and Government agencies continue to work towards achieving the best possible risk management outcomes.