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 number of risks, particularly in regards to global and national economic conditions, business and consumer caution, Commonwealth Government funding and fiscal consolidation, volatility of financial investments, superannuation liabilities, and contingent liabilities. These are discussed below.

ACT Economy – The ACT economy's growth in 2012-13 is expected to be significantly constrained by Commonwealth Government spending restraint. The main short term risk continues to stem from uncertainty regarding the Commonwealth Government consumption expenditure.

The potential spill flow of effects negative global economic events of the domestic economy also continues to pose a significant risk to the economic outlook. Weak growth in the international economy would inevitably have a negative impact on the ACT.

Commonwealth Government Funding – Commonwealth Government funding is the largest contributing factor to ACT Government revenues, accounting for approximately 40 per cent of total revenue in 2012-13. A significant proportion of this is Goods and Services Tax (GST) revenue grants. The size of the GST pool is dependent on the economic activity nationally that is subject to the tax, and any slowdown in that activity can lead to a smaller pool of funding for distribution to the States. The ACT's share of the GST pool is also dependent on its assessed needs relative to the other States and the rate of population growth.

In addition, the ACT's share of the GST pool could decline due to the method of distributing the pool changing as a result of the Commonwealth Government's GST Distribution Review. This may occur in 2014-15, but is more likely to eventuate in 2015-16.

Financial Investments – A large majority of the Territory's financial investment and borrowing transactions are conducted in global financial markets and accordingly these financial assets and liabilities are susceptible to risks associated with the performance of financial markets, exchange rate fluctuations and interest rates. Interest returns below estimates will have a negative impact on revenues, and in respect of the Superannuation Provision Account (SPA), will reduce the probability of fully funding the defined benefit superannuation liability by 2030. Governance, advisory and consultancy arrangements have been put in place and designed to effectively monitor the Territory's investment strategies and performance.

Superannuation Liabilities – Superannuation liabilities are actuarially determined taking into account a range 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, the associated superannuation expense and emerging cost benefit payments.

The revised Accounting Standard AASB 119 *Employee Benefits* will come in to effect on 1 January 2013 impacting the 2013-14 Budget. It will require the rate used in recognising the expected long term earnings of the SPAs assets be changed from the current long term earning assumption to a market based 10 year government bond rate (currently recognised at 6 per cent over the longer term). This will impact on the future Net Operating Balance for the Territory.

National Carbon Price – The Commonwealth's *Clean Energy Act 2011* sets a price on carbon which will be effective from 1 July 2012. This has financial implications for Government agencies through increased energy costs. The Budget provides for a new $5 million Carbon Neutral Government fund to provide agencies with a loan facility to undertake projects responding to the national carbon price and to meet the ACT Government's commitment to a carbon neutral government by 2020. An ACT Government Carbon Neutral Framework will be released in 2012.

National Disability Insurance Scheme – The National Disability Insurance Scheme (NDIS) is estimated to cost $8 billion in addition to the combined $7 billion that States and Territories and the Commonwealth currently expend. While the Productivity Commission recommended that all of the additional cost of the NDIS be funded by the Commonwealth, cost sharing arrangements with States and Territories are yet to be determined. Significant design issues also remain in relation to the Scheme's governance, structure, eligibility and funding, with the States and Territories working in conjunction with the Commonwealth Government to achieve resolution. Final costs and funding arrangements for the Scheme will be contingent on the outcomes of this work.

Taxation Revenue – Taxation revenue is exposed to risk associated with economic factors such as employment, wages and property market activity. These elements will be impacted by the activities of the Commonwealth Government in relation to fiscal consolidation and the pace and timing of any increases in interest rates.

Contingent Liabilities – Claims against the Territory can exist in some areas including property damage, contract dispute, economic loss, personal injury and taxation. Further details in relation to these claims are disclosed in the ACT Consolidated Annual Financial Statements.