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 discussed below.

ACT Economy – the ACT economy is expected to continue to grow due to the strong labour market conditions, solid population growth and a robust housing market. Economic growth, however, is forecast to moderate in 2011-12.

The economic forecasts in the budget assume fiscal consolidation by the Commonwealth Government to return its budget to surplus in 2012-13. Any further savings in the Commonwealth budget and their incidence (on employment and consumption) in the Territory could have an adverse impact on the economic forecasts.

The pace of monetary policy tightening also poses a risk to the forecasts. If interest rates rise faster than expected – in response to heightened inflationary pressures, for example – then the dampening effect on interest rate sensitive components of State Final Demand and the broader economy could be larger than forecast.

Commonwealth Government Funding – Commonwealth Government funding is the largest contributing factor to ACT Government revenues, accounting for approximately 39 per cent of total revenue in 2011-12. A significant proportion of this is the 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.

Financial Investments – the Budget is susceptible to risks 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 – 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 Australian Capital Territory Consolidated Annual Financial Statements.

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 and the associated superannuation expense and emerging cost benefit payments.

Insurance – Insurance liabilities are determined, taking into account a number of assumptions and variables relating to the future cost of claims. Small changes in the risk and economic variables underpinning the actuarial calculation of the liability can lead to large impacts on the total liability estimate for the Territory and the associated insurance expense.

Taxation Revenue – taxation revenue is exposed to risk associated with economic factors such as employment, wages and property market activity stemming from the uncertainty about the extent of fiscal consolidation by the Commonwealth Government and the pace and timing of any increases in interest rates.

Enterprise Bargaining Negotiations – Employee expenses are the largest expense incurred by the Territory. The majority of the Government's enterprise agreements are due to expire in June 2011. These have the potential to impose increased financial pressure if the outcomes exceed the amounts currently provided for in the Budget.