CHAPTER 8

ASSETS AND LIABILITY MANAGEMENT

8.1 NET DEBT AND NET FINANCIAL LIABILITIES

The ACT continues to maintain a strong balance sheet and the key indicators, measured as a portion of Gross State Product (GSP) using most recent budget documentation, compare positively with other jurisdictions.

Table 8.1.1 provides a summary of the key balance sheet measures for the General Government Sector (GGS).

Table 8.1.1
GGS Key Balance Sheet Measures

	2013-14 Est. Outcome $m	2014-15 Budget $m	2015-16 Estimate $m	2016-17 Estimate $m	2017-18 Estimate $m
Net Financial Liabilities	3,677.5	4,435.6	4,857.8	4,997.5	5,111.1
Net Debt (excluding super)	527.3	1,227.5	1,614.7	1,705.0	1,799.0
Net Worth	16,951.8	16,730.7	16,764.3	16,978.5	17,283.8

Comparative details to other jurisdictions can be found in Fiscal Strategy (Chapter 2.2).

Net Financial Liabilities

Net Financial Liabilities are a broad measure of GGS liabilities, including Net Debt and superannuation liabilities. Table 8.1.2 below presents Net Financial Liabilities and Net Financial Liabilities to GSP for the GGS.

Table 8.1.2
General Government Sector Net Financial Liabilities

	2013-14 Est. Outcome $m	2014-15 Budget $m	2015-16 Estimate $m	2016-17 Estimate $m	2017-18 Estimate $m
Net Financial Liabilities	3,677.5	4,435.6	4,857.8	4,997.5	5,111.1
Net Financial Liabilities to GSP	10.0%	11.6%	12.1%	11.9%	11.6%

Over the budget and forward estimates, Net Financial Liabilities are forecast to increase as further borrowings are undertaken to secure the ACT's economic future by investing in major infrastructure. This estimate includes provisions the Government has made for future investment in commercially sensitive projects.

The ratio of Net Financial Liabilities to GSP provides an indicator of the sustainability of a jurisdiction's debt. The ACT's ratio is broadly in line with other AAA rated jurisdictions. While this ratio is subject to volatility (Net Financial Liabilities in particular can fluctuate, sometimes substantially, depending on the condition of financial markets), it is desirable that it remains broadly stable over time while maintaining sustainable levels of borrowings.

Net Debt

Net Debt is a key balance sheet measure taking into account gross debt liabilities as well as financial assets (such as cash reserves and investments). Table 8.1.3 below presents Net Debt and Net Debt to GSP for the GGS.

Table 8.1.3
General Government Sector Net Debt

	2013-14 Est. Outcome $m	2014-15 Budget $m	2015-16 Estimate $m	2016-17 Estimate $m	2017-18 Estimate $m
Net Debt (excluding super)	527.3	1,227.5	1,614.7	1,705.0	1,799.0
Net Debt to GSP	1.4%	3.2%	4.0%	4.1%	4.1%

Net Debt over the budget and forward estimates period is positive indicating that GGS cash reserves and investments are lower than gross debt liabilities. Compared to the 2013-14 Budget, Net Debt has increased reflecting a net increase in borrowings over the budget and forward years.

The Government will continue to finance its investment in high quality infrastructure assets through borrowings to ensure a stable construction sector and the development of assets that help to increase the productive capacity of the economy. These assets will continue providing benefits to the community over a long period of time.

Net Worth

Net Worth reflects the broadest measure of the balance sheet taking into account the value of all assets less liabilities. The ACT maintains strong positive net worth. Table 8.1.4 below presents Net Worth and Net Worth to GSP for the GGS.

Table 8.1.4
General Government Sector Net Worth

	2013-14 Est. Outcome $m	2014-15 Budget $m	2015-16 Estimate $m	2016-17 Estimate $m	2017-18 Estimate $m
Net Worth	16,951.8	16,730.7	16,764.3	16,978.5	17,283.8
Net Worth to GSP	46.2%	43.9%	41.9%	40.4%	39.2%

Net Worth is forecast to slightly increase from $17 billion to $17.3 billion over the forward estimates.

With Net Worth to GSP at 43.9 per cent, the ACT is among the top three jurisdictions against this measure.

8.2 UNFUNDED SUPERANNUATION LIABILITY

Introduction

ACT Government employees ("employees") are members of a number of different superannuation schemes as arrangements have changed over time. A large proportion of current full time employees are members of defined benefit superannuation schemes that are closed to new employee members, and where the liabilities are unfunded. All superannuation liabilities incurred for new employees since 1 July 2005 are fully funded through defined contribution scheme arrangements.

Managing the defined benefit superannuation liability over time remains one of the key financial objectives of the Government. Unlike other jurisdictions, the Government does not operate a superannuation fund for employees. The Government has established a Superannuation Provision Account (SPA) for the purpose of holding and investing financial assets set aside to meet the Government's ongoing employer superannuation benefit obligations (emerging cost payments) to the Commonwealth Government.

ACT Government Employee Superannuation Arrangements

Superannuation arrangements for employees vary due to the type of superannuation scheme available at the time of commencing employment. The superannuation arrangements applicable to permanent employees are outlined below.

Defined Benefit Superannuation Schemes

The defined benefit superannuation schemes are the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The CSS has been closed to new members since 1 July 1990 and the PSS closed since 30 June 2005.

The CSS and PSS are types of defined benefit superannuation schemes, in which some or all of the benefits payable to members are defined in advance according to a set of formulas which are linked to factors such as years of service, final average salary and level of individual member contribution over time. With the exception of employer productivity contributions, the employer financed component of entitlements is unfunded and is not required to be paid until a member takes their benefit entitlement.

The CSS and PSS are administered by the Commonwealth Government agency, ComSuper, with all benefits paid to employees by ComSuper. The Government reimburses ComSuper for the annual cost of superannuation benefits paid in respect of current and former employees that reflects the period of service with the ACT Government.

Public Sector Superannuation Accumulation Plan (PSSap)

From 1 July 2005, all new employees were required to become members of the PSSap, a defined contribution plan (accumulation) arrangement where the employer (ACT Government) is required to contribute 15.4 per cent of an employee's salary. Existing CSS and PSS members were not able to transfer to the new superannuation scheme. The PSSap closed to new employees on 6 October 2006.

Post 6 October 2006 – Fund of Choice Arrangements

From 6 October 2006, the Government introduced superannuation fund of choice arrangements for all new employees. Employees can elect to join a superannuation fund of their choice. If an employee does not elect a fund, he or she becomes an automatic member of the Government's appointed default superannuation fund.

The fund of choice arrangement is one where employees must join a defined contribution (accumulation) fund into which the employer (ACT Government) is required to contribute at a minimum, the prevailing superannuation guarantee percentage rate as set by Commonwealth Government legislation. The current employer contribution rate is 9.25 per cent and will increase to 9.50 per cent on 1 July 2014. The Government will contribute an additional 1 per cent for employees who contribute 3 per cent or more of their salary to their chosen fund.

Members of the Legislative Assembly (MLAs)

There are two superannuation arrangements for Members of the ACT Legislative Assembly. Members who were elected before the 2008 general election and have a relevant period of service, and no discontinuance, are members of an unfunded defined benefit superannuation arrangement (DB Scheme), prescribed under the *Legislative Assembly* (*Members' Superannuation) Act 1991*.

Those Members elected at or after the 2008 general election, and who were not an existing member of the DB Scheme prior to the election, assume membership of a choice of fund accumulation scheme. The employer (ACT Government) is required to contribute the equivalent of 14 per cent of the Member's eligible salary. The Government will contribute an additional 1 per cent for Members who contribute 3 per cent or more of their salary to their chosen fund.

Defined Benefit Unfunded Superannuation Liabilities

The value of accrued defined benefit employer superannuation liabilities is calculated as the present value of the future payment of benefits that have actually accrued in respect of service at the calculation date. This approach is in accordance with *AASB 119 Employee Benefits* and the requirement to use a projected unit credit valuation approach.

Table 8.2.1 sets out details on the estimation and calculation of the liability.

Table 8.2.1
Defined Benefit Superannuation Liability

	2013-14 Budget $'000	2014-15 Budget $'000	2015-16 Estimate $'000	2016-17 Estimate $'000	2017-18 Estimate $'000
Opening Liability	**6,777,340**	**5,437,181**	**5,716,572**	**5,989,951**	**6,255,125**
Service Cost	203,652	142,643	137,973	133,165	128,821
Interest Cost	299,563	334,958	351,456	367,587	383,253
Benefit Payments	-165,248	-198,209	-216,051	-235,578	-254,593
Actuarial Gain [1]	-1,678,126	0	0	0	0
Closing Liability	**5,437,181**	**5,716,572**	**5,989,951**	**6,255,125**	**6,512,607**

Notes:
This table may not add due to rounding.
1. The actuarial gain/loss is the change in the present value of the superannuation liability resulting from a change in the discount rate assumption. The liability valuation at 30 June 2014 and forward years utilises a long term discount rate assumption of 6 per cent. The actual discount rate at 30 June 2013 was 4.29 per cent. A lower discount rate leads to a higher liability valuation estimate.

The defined benefit superannuation liability is estimated to grow to approximately $6.513 billion by 30 June 2018. The service cost associated with the accrual of new employee superannuation benefits is forecast to decrease over time as ACT employee members leave the schemes through resignation or retirement. The interest cost is forecast to increase due to past benefits accrued by ACT employee members becoming one year closer to payment.

Apart from the annual changes to the discount rate, which is required by Australian accounting standards, the annual actuarial review incorporates updated annual salary and membership data.

Every three years the actuary undertakes a more comprehensive review of the defined benefit employer superannuation liability by also incorporating a review of all financial and demographic assumptions, following a comprehensive review of actual outcomes and membership experience over time. The outcomes from this analysis form the basis for the financial and demographic assumptions adopted for the annual reviews of the liability and emerging cost projections. The next triennial actuarial review will utilise salary and membership data as at 30 June 2014 with the results to be incorporated into the 2015-16 Budget estimates.

The 2014-15 Budget estimates for the SPA incorporate the latest annual actuarial review of the defined benefit employer superannuation liabilities using salary and membership data as at 30 June 2013.

Table 8.2.2
ACT Employee Defined Benefit Scheme Membership

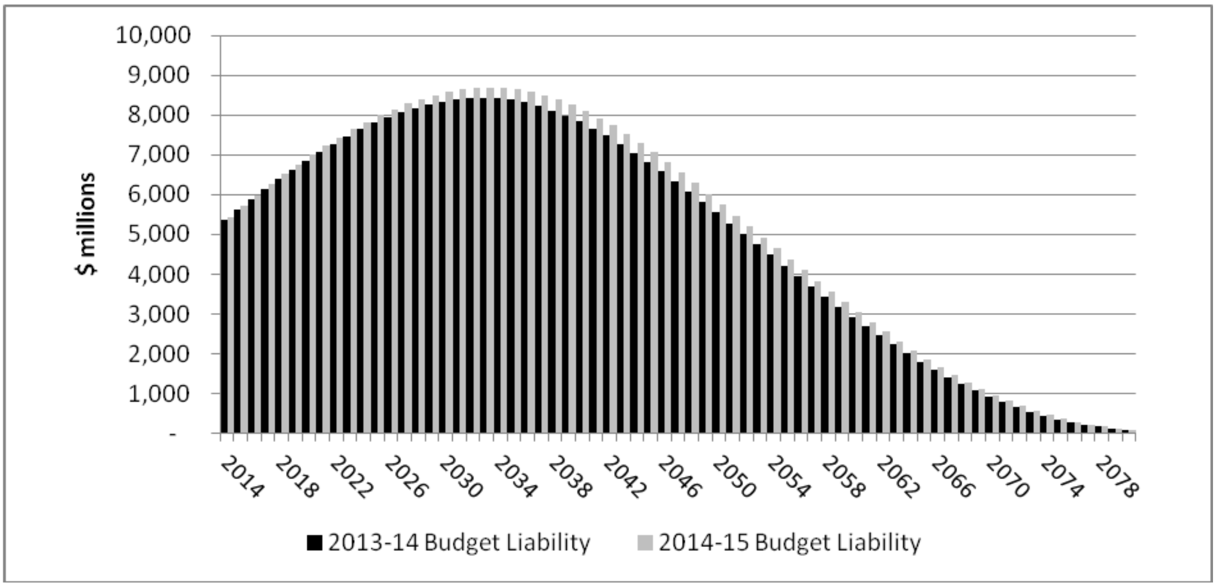
	Contributors	Deferred Beneficiaries	Current Pensioners	Dependent Pensioners	Total
Group A Members [1]					
CSS	915	329	5,363	359	**6,966**
PSS	8,632	9,912	3,107	144	**21,795**
Group B Members [2]					
CSS	416	141	829	22	**1,408**
PSS	3,763	2,060	829	23	**6,675**
Total	**13,726**	**12,442**	**10,128**	**548**	**36,844**

Notes:
1. Group A membership data includes CSS and PSS contributors who were employees of the ACT Government at 30 June 2013 and CSS and PSS deferred beneficiaries and pensioners who were employees of the ACT Government when their employment ceased.
2. Group B membership data includes CSS and PSS contributors who were not employees of the ACT Government at 30 June 2013, but were so previously, and CSS and PSS deferred beneficiaries and pensioners who were not employees of the ACT Government when their employment ceased, but were so previously.

The 2014-15 Budget estimates for the liability and emerging cost payments have been affected by actual member salary growth being higher than assumed, investment returns on member and productivity accounts being higher than assumed (member account balances are managed by Commonwealth Superannuation Corporation), and a membership base being higher than assumed at the end of the 2012-13 financial year.

The impact on the estimates for the projected defined benefit employer superannuation liabilities is illustrated in Figure 8.2.1, with the impact on the benefit payment estimates illustrated in Figure 8.2.2.

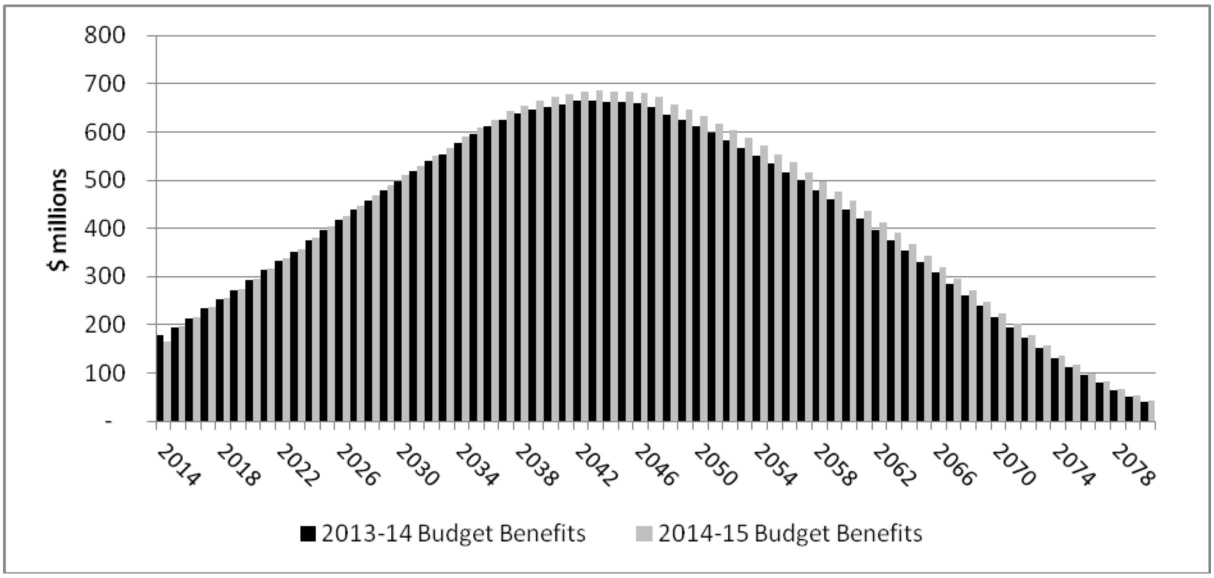
Figure 8.2.1
Annual Actuarial Revision to the Estimated Employer Superannuation Liability



The defined benefit superannuation liability is projected to peak, in nominal terms, at approximately $8.7 billion by 2033.

The impact on the estimates for the Territory's projected emerging cost payments is illustrated below in Figure 8.2.2.

Figure 8.2.2
Actuarial Revision to Estimated Employer Emerging Cost Payments



The annual cash (employer component of employee superannuation benefit) payments (in nominal terms) made to the Commonwealth to extinguish the liabilities are projected to increase over time from approximately $165 million in 2013-14 to a peak of $685 million by 2043.

The total expected retirement benefit payments across the 2014-15 Budget and forward years are projected to be approximately $904 million.

Defined Benefit Superannuation Funding

The Government maintains as a key financial objective, a funding plan to extinguish the Territory's unfunded defined benefit superannuation liability by way of accumulating funds in the SPA which are sourced from both annual budget appropriation and investment earnings.

The 2014-15 Budget maintains the defined benefit superannuation funding plan with Budget appropriation to the SPA matching the annual benefit payments. This will allow the SPA financial investment assets to grow with all earnings unencumbered by the management of cash flows associated with benefit payments, supporting the Government's financial objective of fully funding the defined benefit superannuation liability. The Government will review this arrangement once the Budget returns to surplus.

Details on the investment earnings, budget appropriation and benefit payments are set out below in Table 8.2.3.

Table 8.2.3
Defined Benefit Superannuation Assets

	2013-14 Est. Outcome $'000	2014-15 Budget $'000	2015-16 Estimate $'000	2016-17 Estimate $'000	2017-18 Estimate $'000
Opening Assets	**2,615,990**	**3,019,200**	**3,243,529**	**3,484,713**	**3,744,183**
Net Investment Earnings	396,785	229,912	247,006	265,392	285,169
Appropriation	178,216	198,209	216,051	235,578	254,593
Benefit Payments	-165,248	-198,209	-216,051	-235,578	-254,593
Other Payments	-6,543	-5,583	-5,822	-5,922	-6,097
Closing Assets	**3,019,200**	**3,243,529**	**3,484,713**	**3,744,183**	**4,023,255**

Note:
This table may not add due to rounding.

Providing funding for superannuation helps reduce the longer term cost of defined benefit superannuation as investment returns provide a source of funding for future liabilities.

The margin between the liability and assets represents the level of unfunded superannuation liability in the defined benefit schemes. The estimated funding level of defined benefit employer superannuation liabilities over the Budget and forward years is projected to increase as illustrated below in Table 8.2.4.

Table 8.2.4
Superannuation Liability Funding

	2013-14 Est. Outcome $'000	2014-15 Budget $'000	2015-16 Estimate $'000	2016-17 Estimate $'000	2017-18 Estimate $'000
Superannuation Liability[1]	5,437,181	5,716,572	5,989,951	6,255,125	6,512,607
Investments	3,019,200	3,243,529	3,484,713	3,744,183	4,023,255
Unfunded Liability	**2,417,981**	**2,473,043**	**2,505,238**	**2,510,942**	**2,489,352**
Funding Percentage	**56%**	**57%**	**58%**	**60%**	**62%**

Notes:
This table may not add due to rounding.
1. The superannuation liability estimate at 30 June 2014 and forward years assumes a long-term discount rate assumption of 6 per cent.

8.3 MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

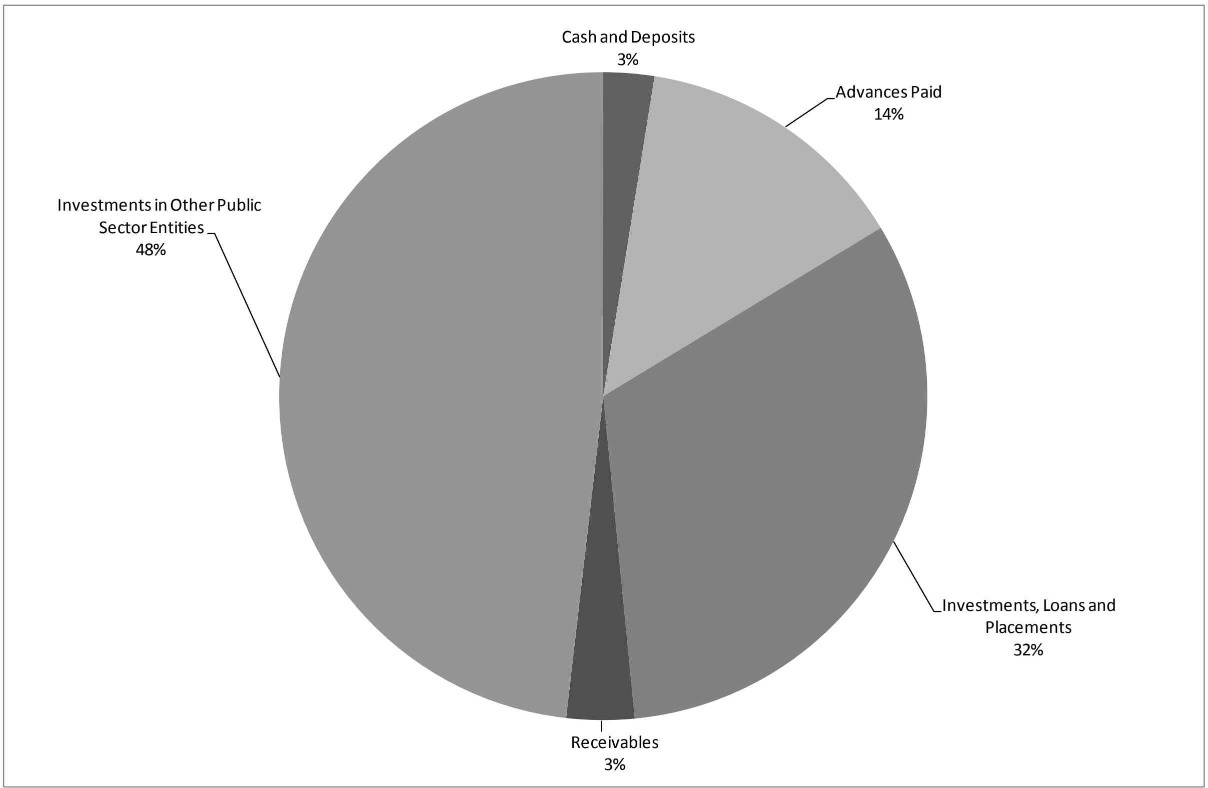
Financial Assets

The Territory's financial assets account for approximately 44 per cent of total assets held by the GGS.

Figure 8.3.1 shows the proportion of these assets by category. GGS investment in other public sector entities (the Public Trading Enterprise (PTE) sector) makes up almost half of the Territory's financial assets.

Investments held to meet future liabilities, such as superannuation, also represent a significant portion of total financial assets at 27 per cent.

Figure 8.3.1
General Government Sector – Estimated Financial Assets



Investments in Other Public Sector Entities

Investments in other public sector entities reflect the GGS investment in the PTE sector as the carrying amount of the net assets held by the sector. Significant assets held by the PTE sector include land, water and sewerage infrastructure and public housing.

Financial Investments

The Chief Minister and Treasury Directorate manages the Territory Banking Account (TBA) and Superannuation Provision Account (SPA) investment portfolios. These investment portfolios comprise the majority of the Territory's financial investment assets.

The purpose and role of the investment portfolios is to derive competitive financial returns, based on prudent financial and portfolio management principles, with an investment structure that is low cost, efficient to manage, and effective in deriving market-based returns. The Government recognises that both financial as well as environmental, social and corporate governance (ESG) performance of companies can impact long term investment value and performance. ESG risks and ownership responsibilities are incorporated in investment decision-making processes, where possible, in order to mitigate investment risk and improve the sustainability of the investments for the long term.

The Government holds significant financial investments. Table 8.3.1 outlines the components of investments held by the GGS including the TBA and SPA.

Table 8.3.1
General Government Sector Investments

Budget 30/06/14 $'000		Est.Outcome 30/06/14 $'000	Estimate 30/06/15 $'000	Var %	Estimate 30/06/16 $'000	Estimate 30/06/17 $'000	Estimate 30/06/18 $'000
307,144	Cash and Deposits	283,755	302,963	7	260,777	262,905	269,263
3,321,133	Investments, Loans and Placements	3,863,031	3,854,957	..	4,150,278	4,403,405	4,684,253
3,628,277	**Total Investments**	**4,146,786**	**4,157,920**	..	**4,411,055**	**4,666,310**	**4,953,516**
	Comprising:						
2,767,179	Superannuation Provision Account	3,016,883	3,241,212	7	3,482,396	3,741,866	4,020,938
45,623	Territory Banking Account	322,877	79,103	-76	104,736	83,400	57,007
11,839	Investments held on behalf of PTE Agencies	42,480	26,739	-37	25,994	11,995	11,496
378,924	ACTIA Investments	347,748	375,020	8	397,934	423,182	451,332
115,639	Home Loan Portfolio	115,825	110,179	-5	106,614	102,865	98,835
309,073	Other GGS Agency Investments	300,973	325,667	8	293,381	303,002	313,908
3,628,277	**Total Investments**	**4,146,786**	**4,157,920**	..	**4,411,055**	**4,666,310**	**4,953,516**

Territory Banking Account Investment Portfolio

The cash of the general government not required for immediate expenditure is invested domestically with exposures to shorter term money markets and fixed interest securities, including cash, bank term deposits, bank bill securities, residential mortgage backed securities and bonds issued by the Commonwealth and State Governments and some corporate investment grade bonds. The investments are made via allocations to three externally managed funds: Cash Fund; Cash Enhanced Fund; and Fixed Interest Fund.

The estimated 2013-14 net nominal return for the total portfolio of invested funds is 3.3 per cent (original budget estimate 2.75 per cent net of fees).

The budgeted full year return (net of fees) for 2014-15 is 2.5 per cent.

Superannuation Provision Account Investment Portfolio

Funds set aside in the SPA are to assist the Government in meeting its long-term defined benefit employer superannuation obligations. These funds are invested in accordance with an established asset allocation strategy that takes into account the long term nature of the superannuation liability and projected cash flow requirements.

The long-term investment return objective for the SPA is CPI plus 5 per cent per annum (net of fees). The investment strategy recognises the risk associated with targeting the long term investment return objective and the asset allocation modelling identifies a risk of negative investment returns once every three to five years.

The long-term strategic asset allocation consistent with this long-term investment objective, currently equates to 70 per cent of the portfolio being invested in growth assets (such as shares and property) and 30 per cent of the portfolio being invested in defensive assets (such as cash and fixed interest investments).

The nominal return of the portfolio for 2013-14 is estimated to be 15.5 per cent (net of fees). The actual return for 2012-13 was 16 per cent (net of fees).

Incorporating the 2013-14 estimated outcome, the SPA portfolio will have generated an annualised net return of CPI plus 5 per cent over the past 18 years (1996-97 to 2013-14), matching the long term strategic target investment return objective. In dollar terms, the SPA portfolio earnings equate to a net gain of approximately $396 million in 2013-14.

Loan Receivables

GGS financial assets include loans provided to ACTEW Corporation, ACTION, Community Housing Canberra and University of Canberra.

- ACTEW Corporation loans are funded by matching external borrowings from the Territory’s debt issuance program. Forms of funding include indexed annuity bonds, capital indexed bonds and fixed rate medium term notes. Loan maturity dates range from June 2018 to June 2048. The total estimated outstanding principal at 30 June 2014 is $1.446 billion.

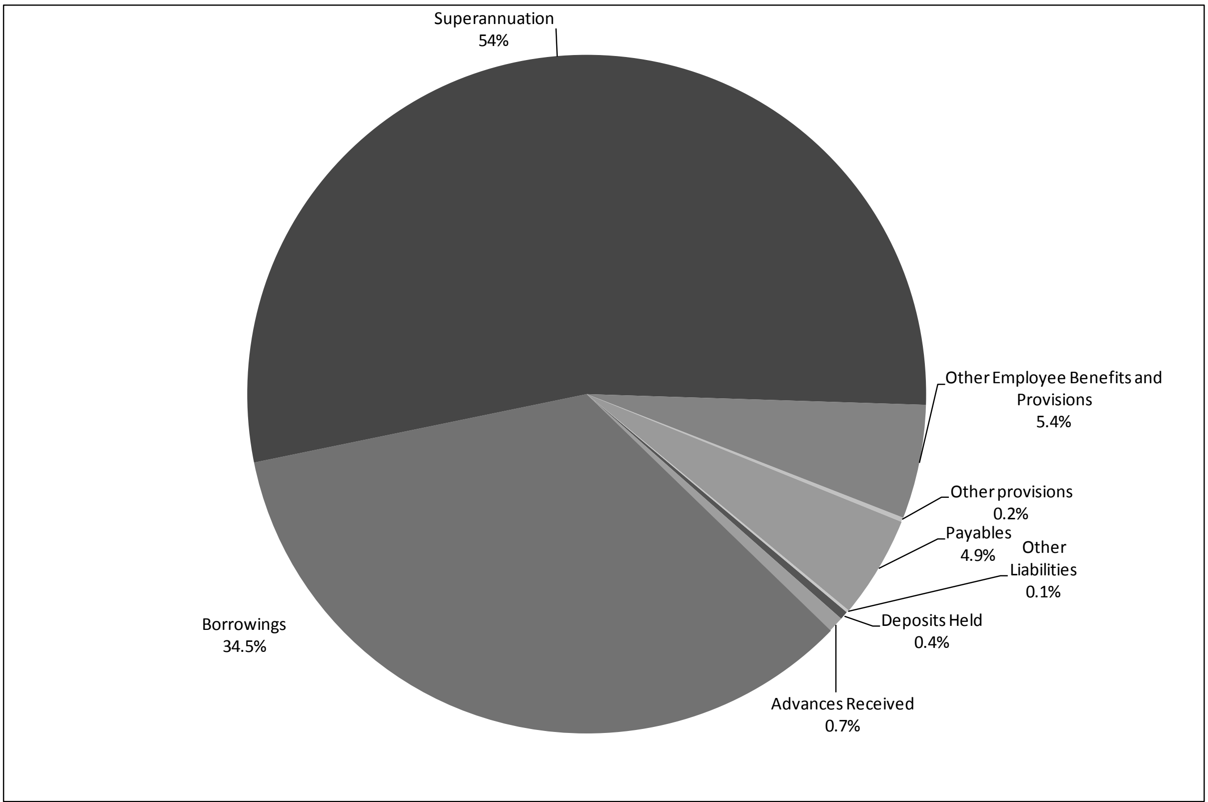
- ACTION loan relates to funding provided from the Commonwealth Government at the commencement of self-government. The loan matures in June 2023. The total estimated outstanding principal at 30 June 2014 is $3.1 million.
- Community Housing Canberra loans have been provided from budget capital injection appropriation. The total estimated outstanding principal at 30 June 2014 is $68.112 million. Appendix F – Summary and Terms of Debt Capital Injection presents additional details in relation to the Community Housing Canberra loans.
- University of Canberra loans have been provided from the TBA from credit facilities established by the relevant disallowable instruments. The total estimated outstanding principal at 30 June 2014 is $69.445 million.

Total Liabilities

Figure 8.3.2 demonstrates the proportion of liabilities by category. The majority of the GGS liabilities comprise superannuation (54 per cent) and borrowings (35 per cent).

Further details regarding the superannuation liability can be found in Unfunded Superannuation Liability (Chapter 8.2).

Figure 8.3.2
General Government Sector Liabilities



Borrowings

The funding and management of the Government's borrowings is undertaken by the Chief Minister and Treasury Directorate. The Government's funding requirements are achieved by the issuance of debt securities in the domestic capital markets, including long-term fixed interest securities and short-term discount securities with a mix of durations under the Government's debt issuance program.

Debt management objectives include: establishing select debt maturity bond lines of volume around $500 million; maximising investor diversification; minimising refinancing risk and managing the Government's liquidity requirements.

General Government Sector

Borrowings for the GGS comprise debt issued in the domestic capital markets (estimated $1.637 billion at 30 June 2014) and historic Commonwealth Government debt (estimated $83 million at 30 June 2014) related to housing and land and buildings.

It is estimated there will be a net increase in GGS borrowings of $505 million in 2014-15. Over the Budget and forward estimates period, the forecast total net increase in GGS borrowings is $1.094 billion to meet budget funding requirements.

The higher borrowings in the forward years are partly due to the future works provision for capital projects, which has been increased to account for some high value projects for which budgets are either yet to be settled or which are commercially sensitive. As planning or procurement progresses, future Territory budgets will contain specific financial details for these projects. However, these projects may be procured as Public Private Partnerships, therefore the direct borrowing associated with the future works provision in the 2014-15 Budget may not eventuate.

Public Trading Enterprise Sector

Borrowings for the Public Trading Enterprise (PTE) sector relate to ACTEW Corporation (estimated $1.445 billion at 30 June 2014) and historic Commonwealth Government debt (estimated $77 million at 30 June 2014) related to housing.

It is estimated there will be a net increase in PTE sector borrowings of $60 million in 2014-15. Over the Budget and forward estimates period, the forecast total net increase in PTE sector borrowings is $347 million.

Total Outstanding Borrowings

Figure 8.3.3 summarises the outstanding levels of borrowings separated between the GGS and the PTE Sector.

Figure 8.3.3
Total External Territory Borrowings