

MEDIA RELEASE**6 December 2017**

Financial sustainability for the Territory continues to be a challenge

Today, the report **2016-17 Financial Audits – Financial Results and Audit Findings** was tabled in the Legislative Assembly.

Dr Cooper said, ‘The ACT Government’s financial results for 2016-17 are better than predicted in the 2017-18 budget papers. Achievement of its estimated small surpluses for 2018-19 to 2020-21 depends on continued growth in revenue, constraining expenses to forecasted amounts and the generation of sufficient gains from investments. As investment markets are volatile, the Territory’s exposure to deficits in future years remains high.’

‘The capacity of the ACT Government to meet its financial obligations will require, as always, attention to managing risks,’ said Dr Cooper. ‘If unexpected adverse events occur, or forecast deficits significantly increase, then the challenge of meeting financial obligations increases.’

Today’s report, among other things, highlights the financial challenges for the Territory in meeting unfunded liabilities (\$8 697 million at 30 June 2017 mostly comprised of the unfunded superannuation liability).

Annual cash payments to meet superannuation obligations are projected to significantly increase over the next two decades peaking at \$638 million in 2043. These payments reflect mainly the age profile of the Territory’s employees who are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). Most of these employees are expected to retire over the next two decades.

As the Territory’s financial statements and agencies included in these financial statements received unqualified (positive) audit reports, readers can rely on them as presenting a true and fair view of their financial performance.

‘Audit findings have progressively decreased in the last three financial years indicating that governance arrangements, internal controls and reporting practices of agencies are improving. However, agencies need to continue to give attention to addressing previously reported audit findings as only 49 percent were resolved in 2016-17,’ said Dr Cooper.

A summary chapter of this report is attached to this media release.

Copies of **2016-17 Financial Audits – Financial Results and Audit Findings: Report No. 11/2017** are available from the ACT Audit Office’s website: www.audit.act.gov.au. If you need assistance accessing the report, then please phone 6207 0833 or visit 11 Moore Street, Canberra City.

SUMMARY

Understanding the financial statements of the Australian Capital Territory Government (the Territory) is important as these provide essential information to the ACT Legislative Assembly and community about the Territory's financial performance and the state of its finances.

The Territory's financial statements can be used to provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time as well as providing information about the Territory's capacity to meet its financial obligations.

The inclusion of current year, budget and prior year information in the Territory's financial statements shows whether budgeted estimates were achieved and whether the Territory's finances are improving or declining.

The ACT Government's Budget Papers include the budget estimates for the period from 2017-18 to 2020-21 (the forward years). These provide an indication of the Territory's estimated financial performance and the state of its finances over the forward years.

This report contains a discussion of the Territory's and selected reporting agencies' financial results for the year ended 30 June 2017. It also includes details of the progress made by reporting agencies in resolving audit findings.

This is the second of the three audit reports on 2016-17 financial audits. The first audit report '2016-17 Financial Audits – Overview' (Report No. 10/2017) was tabled on 24 November 2017. The third report on 'Computer Information Systems' will be published in early 2018.

Conclusions

THE TERRITORY'S FINANCIAL STATEMENTS

An **unqualified audit report** was issued on the Territory's 2016-17 financial statements, indicating that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

The Territory's operating results for 2016-17 were better than forecast in the budget. The deficit in the net operating balance was less than budgeted and an operating surplus was achieved compared to the budgeted operating deficit. However, the Territory again incurred a net operating balance deficit, as it has done in each of the previous four years, as expenses exceeded revenue.

Small operating surpluses are forecasted from 2018-19 to 2020-21, after a budgeted operating deficit in 2017-18. Achieving the forecasted operating surpluses is contingent on the Territory generating its forecast gains from investments, as expenses are estimated to exceed revenue in the years from 2018-19 to 2020-21. As investment markets are volatile, the Territory's exposure to more deficits remains high.

As mentioned in the 2015-16 Financial Audits – Financial Results and Audit Findings (Report No. 11/2016):

Past deficits and estimated future deficits in the Territory's operating balance mean that the costs of providing public services exceed revenue. These deficits will eventually have to be paid for in the future by higher revenue (for example, by increases in Australian Government grants, land sales and taxes) and/or reductions in costs (for example, through efficiencies or reducing public services).

At 30 June 2017, the Territory had the capacity to meet its liabilities. However, its net assets were lower than anticipated in the budget due to the higher than budgeted unfunded superannuation liability, which accounts for 44 percent of the Territory's total liabilities.

At 30 June 2017, the Territory had a strong capacity to pay its liabilities that were due within 12 months. The Territory estimates that net short-term assets of \$1 142 million at 30 June 2017 to significantly weaken to a net short-term liability of \$460 million by 30 June 2021.

AUDIT FINDINGS

Audit findings have progressively decreased in the last three financial years indicating that governance arrangements, internal controls and reporting practices of agencies are improving. However, agencies need to continue to give attention to addressing previously reported audit findings as only 49 percent were resolved in 2016-17.