LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS
ALISTAIR COE MLA (CHAIR), MICHAEL PETTERSSON MLA (DEPUTY CHAIR), ANDREW BRADDOCK MLA

Inquiry into referred 2019–20 Annual and Financial Reports and Budget Estimates 2020-21
ANSWER TO QUESTION ON NOTICE

Asked by Peter Cain MLA on 10 March 2021:

Ref: CMTEDD Annual Report 2019-20 Vol 2.1, Superannuation Provision Account (SPA), Superannuation Liability

In relation to:

The Superannuation Provision Account (SPA) audited financial statement shows that non-current superannuation liabilities at the end June 2020 are reported at approximately $11.747 billion. The original budget estimate shown for comparison is approximately $7.755 billion.

1. What is the reason for the almost $4 billion increase from budget to the audited figure?

2. Is the ACT Auditor-General's office concerned that the budget presents a picture of the liability to the Canberra community that is vastly – several billion dollars – lower than what you consider is the actual liability?

3. A discrepancy in the order of $3 billion has occurred in the past several years. Has Treasury held any discussions with the you, your office or any former Auditor-Generals to reach an agreed position on what would be an appropriate basis or discount rate for estimating the liability to ensure that the budget presents as accurate picture of Territory's finances as possible?

   a. If so, what were the outcomes of these discussions?

Michael Harris, ACT Auditor-General: The answer to the Member's question is as follows: –

1. Note 12 'Budgetary Reporting' of the SPA's financial statements (page 288 of Volume-2.1-CMTEDD-Annual-Report-2019-20) provides reason for this variance as follows:

Superannuation Liabilities Non-Current	$11.747b	$7.755b	$3.992b	51%	The Budget estimate for the present value of the defined benefit superannuation liability used a long-term average discount rate assumption of 5 per cent. Australian Accounting Standards require the use of a discount rate assumption at financial year end that is referenced to the yield (interest rate) on a suitable Commonwealth Government bond.

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The increase in the liability valuation is mainly due to the use of a lower discount rate assumption at 30 June 2020 of 1.73 per cent. The use of a discount rate assumption that is lower than 5 per cent will increase the liability valuation estimate.

2. The Audit Office does not audit the development of the budget by agencies and therefore did not audit any numbers presented in the budget papers for SPA.

   In accordance with the requirements of the Australian Accounting Standards agencies are required to publish in the notes to their financial statements any significant variations between actual and budget numbers as reported in the Budget Papers. For SPA this is disclosed in Note 12 as discussed in answer to question 1 above.

   The financial statements of SPA under Note 2.8 Significant Accounting Judgements and Estimates (page 291 of Volume-2.1-CMTEDD-Annual-Report-2019-20) also discloses the key assumptions and judgements made when estimating the superannuation liability.

3. The Audit Office publishes a summary report on the results of agencies each year. Report No 10/2020 titled '2019-20 Financial Audits - Financial Results and Audit Findings' was tabled in the Assembly on 21 December 2020. This report can be found at this link - 2019-20-Financial-Audits-Financial-Results-and-Audit-Findings.pdf. Financial results of SPA are discussed on pages 95 to 100 of this report.

   On pages 97 and 98 the Audit Office makes the following observation in relation to the superannuation liability and use of discount rate including the response provided by SPA (Treasury) in relation to this matter.

   > 4.192 The superannuation liability is valued to present value using a Commonwealth Government bond (discount) interest rate at the end of the financial year. This valuation is sensitive to changes in the discount rate due to the long-term settlement period of the liability. Therefore, the rate used to calculate the present value of the superannuation liability has a significant impact on its estimated value. A lower discount rate increases the estimated superannuation liability and a higher rate decreases the estimated superannuation liability.
   >
   > 4.193 The unfunded superannuation liability at 30 June 2020 ($7 734 million) was substantially higher than budgeted ($3 634 million) by $4 100 million (113 percent) mainly due to the lower discount rate (1.73 percent) used to estimate the present value of the superannuation liability than the rate used to prepare the budget estimate (5 percent).

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4.194 The Superannuation Provision Account uses a long-term average discount rate in the budget and forward year estimates to remove significant valuation volatility resulting from changes in the Commonwealth Government bond (discount) interest rate from year to year.

4.195 The unfunded superannuation liability at 30 June 2020 ($7 734 million) increased from the unfunded position at 30 June 2019 ($7 537 million) by $197 million (3 percent) mainly due to the lower discount rate (1.73 percent) used to estimate the present value of the superannuation liability compared to the rate used at 30 June 2019 (1.92 percent).

4.196 The unfunded superannuation liability position has fluctuated significantly in recent years mostly due to the changes in the Commonwealth Government bond (discount) rate.

4.197 The Superannuation Provision Account advised that:

> The unfunded superannuation liability position has been impacted by domestic interest rates trending down over the last four years to be at historic lows. Australian Accounting Standard AASB 119 requires that the discount rate used to value defined benefit obligations for public sector funds be based on the prevailing market yield on a Commonwealth Government bond with matching (similar) duration. The actual discount rates have been trending lower than the long-term budget interest rate assumption (5 percent) to estimate the superannuation liability. The historical actual discounts rates since 2016 have been:

30 June 2016	30 June 2017	30 June 2018	30 June 2019	30 June 2020
2.69%	3.51%	3.11%	1.92%	1.73%

> The long-term budget discount rate assumption used to estimate the superannuation liability was reduced from 6 percent to 5 percent from 1 July 2018. The superannuation liability valuation estimate is sensitive to changes in the discount rate. The level and volatility of domestic interest rates in the future will continue to significantly impact the estimated superannuation liability valuations.

Approved for circulation to the Standing Committee on Public Accounts

Signature: M. L. Harris Date: 23 March 2021

By the ACT Auditor-General, Michael Harris