SOUTHERN EXPOSURE

Victorian councils are cranky about hundreds of millions of dollars in unfunded superannuation liability that they can't afford. **Paul Hemsley** explores why.

Salting away sufficient funds for employees' superannuation has proven an enduring challenge for many public sector organisations – and the simmering issue is again threatening to boil over in Victoria.

After years of often difficult financial decisions, councils in the southern state are now increasingly warning that can't pay their superannuation liabilities unless they source funds externally.

It's a big problem for all parts of individual councils because funding super liabilities may ultimately result in cuts to other services and projects that have been promised to ratepayers and the community.

They will also be penalised at a 7.5 per cent interest rate if they are overdue and will have to pay the owing amounts over time.

Councils across the state collectively owe $396.9 million through their superannuation shortfall by 1st July 2013.

The yawning debt is the recurring hangover from a Defined Benefit Plan for local government employees that operated as a compulsory scheme from 1982 and was finally closed off to new members in 1993.

While unfunded liabilities are all too common in the public sector, for the Municipal Association of Victoria the devil is in the detail for its members.

"Unlike other exempt public sector schemes, it must be fully funded to pay the benefits owed to members now and into the future," the peak body says in a statement.

The rub for councils is as they scramble to make ends meet, the Victorian Government has more than $29 billion in unfunded liability while the Commonwealth is sitting on a defined benefits hole of $61 billion – exclusive of the Future Fund.

The latest bother follows an actuarial review that the Australian Prudential Regulation Authority (APRA) requires councils' Local Authorities Superannuation Fund (LASF) to complete every three years.

An actuarial assessment by trustee, Vision Super, completed on 31st December 2011 has blamed the on deteriorating investment performance in global markets, changed actuarial standards, increased longevity of individuals receiving pensions under the scheme and a reduction in the expected earning rate.

Victorian councils were also surprised by the higher amounts they need to pay, and budgeted for significantly lower sums.

The options available to pay the shortfall are unappealing: selling assets, raising rates, payments from cash reserves or borrowing with a fixed interest loan.

MAV does not own or operate Vision Super, which is a regulated industry fund, but it holds two local government positions on the eight-member board.

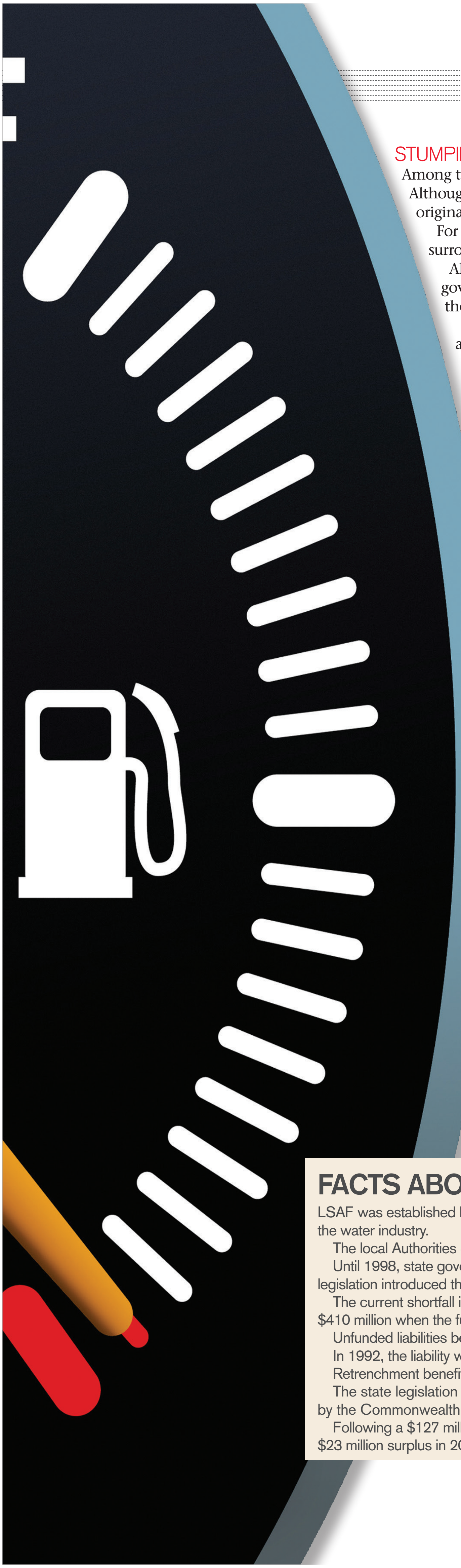
At a meeting in July this year, the group says that its member councils "agreed to unite to fight for legislative reform that puts local government on an equal footing with exempt state and federal schemes."

The MAV also wants a 15 per cent contributions tax that councils must pay on shortfall payments scrapped.

Rob Spence, MAV's chief executive is up for the fight and says the present scheme is a volatile and unpredictable model for which councils cannot plan.

"I would expect most councils will go to debt to deal with it if we can get a 10 to 15 year borrowing plan to manage it spread it over time," Mr Spence says.

If councils can't borrow the money, some will have to find internal savings to pay the liabilities down.



STUMPING UP

Among the local governments expected to pay-up is Baw Baw Shire Council.

Although at the lower end of what councils owe, it still didn't expect to pay more than originally projected.

For Baw Baw Shire Council's chief executive officer, Helen Anstis, the uncertainty surrounding the size of the liability is itself an issue.

Although the council hopes the MAV can persuade the state and federal governments to financially assist councils, Ms Anstis says it's "highly unlikely" that the state or federal government will pick up the tab.

"It will always be borne by local government but we need to make a decision about how we fund it," she says.

If borrowing money to cover the shortfall becomes a reality, Ms Anstis says this will mean councils increase their debt ratios for something the wider community sees no benefit from.

"It's not a road, it's not a building, it's not a new playground, it's not an increase in service provision, and it's just $3.6 million to pay into a super fund.

"That's the difficulty, the ratepayers and residents will not see an asset from the [amount] that we're going to be spending," she says.

TASKFORCE TO EXEMPT COUNCILS

Councils are obliged to continually pay their liabilities to the Local Authorities Superannuation Fund (LASF) as they are due. However councils argue that all payments being due at once results in councils becoming stuck in finding adequate cash to cover it.

MAV claims that this contrasts sharply with the position of state and federal governments' superannuation debts which now collectively exceed $100 billion in unpaid liabilities.

In reaction to the recent actuarial review, the MAV has set up a taskforce to address the problem.

The taskforce is made up of MAV, the Eastern Region Libraries Corporation, the Victorian Water Industry Association and other councils.

They want state and federal governments to make the LASF an exempt public sector scheme so councils and the MAV will not have to top-up shortfalls on demand.

Mr Spence says the taskforce will also negotiate with the state government to give councils access to lower borrowing rates through the Treasury Corporation of Victoria to help pay for the shortfall.

MAV president, Bill McArthur says other tiers of government need to help councils reduce the burden on communities bearing the costs.

"To repeal the federal legislation and introduce state legislation is cost neutral to the Victorian Government's budget bottom line and will mean the Australian Government must forgo $68 million in contribution taxes," Mr McArthur says.

He suggests "seizing" upon low lost legislative reforms to exempt councils' superannuation scheme should be the Victorian and Australian Government's first step.

According to Mr McArthur, governments know there is no risk of councils "going broke" so "we should operate under the same rules that apply to state and federal superannuation schemes".

Mr Spence says the scheme has councils operating under a model intended to protect people from an entity financially failing.

"The difficulty with councils is they're not going to go broke… they're in perpetuity," Mr Spence says. GN

FACTS ABOUT VISION SUPER

LSAF was established by an Act of Parliament in 1947 to provide superannuation for Victorian local government and the water industry.

The local Authorities Superannuation Board has been trustee throughout.

Until 1998, state government legislation deemed unfunded liabilities to be 'acceptable', however Commonwealth legislation introduced that year declared that full funding for local government was required.

The current shortfall is the largest case of unfunded liability in the Defined Benefit Plan since 1989 with a deficit of $410 million when the funding plan started.

Unfunded liabilities became the norm, but were not as steep as the current $453 million owed.

In 1992, the liability was wound back to only $314 million and in 1995 to $217 million.

Retrenchment benefits and $1 billion were paid in 1996, followed by a $321 million call in 1997.

The state legislation on acceptable liabilities was repealed in 1998 as the LASF then became regulated by the Commonwealth.

Following a $127 million call due to the so-called 'tech wreck' on the stock market, it managed to rise to a $23 million surplus in 2005 but sank to a $71 million unfunded liability in 2008 after the global financial crisis.