

SUPERANNUATION PROVISION ACCOUNT

Purpose

Treasury assists the Government to effectively manage the defined benefit employer superannuation liabilities of the Territory. This includes the responsibility for the management of the investment funds set aside to meet the defined benefit employer superannuation liabilities of the Territory.

The Superannuation Provision Account (SPA) is a banking account established to recognise the investment assets and defined benefit employer superannuation liabilities of the Territory.

The SPA also recognises the unfunded superannuation liabilities for the superannuation benefits for the Members of the Legislative Assembly.

The SPA operates within the broader Treasury portfolio.

2011-12 Priorities

Strategic and operational issues to be pursued in 2011-12 include:

- managing, monitoring and reviewing, as necessary, the SPA investment portfolio in accordance with the established investment policies;
- implementation of any changes arising out of the Assembly Committee Review of ethical investments;
- completing the triennial actuarial review of the defined benefit employer superannuation liabilities of the Territory; and
- completing a review of the superannuation funding plan.

Estimated Employment Level

2009-10 Actual Outcome	2010-11 Budget	2010-11 Est. Outcome	2011-12 Budget
9 Staffing (FTE) ¹	9	9	9

Note:

1. This includes 6 FTEs associated with the 'employee superannuation entitlements' project.

Strategic Objectives and Indicators

Strategic Objective 1

Achievement of Investment Returns Greater than Benchmark

To maintain a selection of investment managers and a mix of financial investment assets to deliver returns in excess of established performance benchmarks.

Strategic Objective 2

Achievement of an Average Long-Term Investment Return of Five Per Cent 'Real'

To achieve an annualised 'real' rate of return of five per cent (net of inflation and fees) over the life of the investment portfolio.

Strategic Objective 3

Superannuation Liability Funding Percentage

The Government is committed to the effective management, and eventual extinguishment, of unfunded CSS/PSS defined benefit employer superannuation liabilities. A target of 100 per cent funding of defined benefit employer superannuation liabilities by 30 June 2030 has been established. This is to be achieved by improving the coverage of superannuation liabilities with investment assets, over time, through the annual review and monitoring of the long-term funding plan.

As at 30 June 2011, superannuation liabilities are estimated to be 53 per cent funded, an increase from the 44 per cent funded position as at 30 June 2010.

Percentage Funding of CSS/PSS Defined Benefit Liabilities

	Assets \$'000	Liabilities \$'000	% Funded
30 June 2011	2,300,510	4,320,800	53%
30 June 2012	2,463,811	4,570,600	54%
30 June 2013	2,627,491	4,816,300	55%
30 June 2014	2,790,426	5,056,600	55%
30 June 2015	2,951,690	5,289,900	56%

Output Classes

	Total Cost		Payment for Expenses on Behalf of the Territory	
	2010-11	2011-12	2010-11	2011-12
	Est. Outcome \$'000	Budget \$'000	Est. Outcome \$'000	Budget \$'000
EBT Class 1:				
Superannuation Provision Account	521,644 ¹	409,694 ¹	3,921	0
EBT 1: Superannuation Provision Account	521,644	409,694	3,921	0

Note:

1. The variance reflects the return to long term earning assumptions. The estimated outcome reflects actual capital losses included in expenses, which are offset against capital gains in revenue.

Output Description

This output involves the management of the Territory's defined benefit employer superannuation liabilities and investment assets.

The key outputs to be delivered in 2011-12 include:

- managing the investment assets set aside to meet the CSS/PSS defined benefit employer superannuation liabilities of the Territory by monitoring the investment strategy;
- delivering an average investment return of CPI plus 5 per cent (net of fees), within acceptable risk tolerances, over the projected life of the investment portfolio;
- monitoring and reviewing the performance of the Territory's investment managers and investment service providers to achieve an investment return greater than benchmark;
- undertaking the triennial actuarial review of the Territory's CSS/PSS defined benefit employer superannuation liabilities;
- completing a review of the superannuation funding plan; and
- preparation of annual Member Information Statements for the Members of the Legislative Assembly Superannuation Scheme.

Accountability Indicators

	2010-11 Targets	2010-11 Est. Outcome	2011-12 Targets
1.1 Superannuation Provision Account			
a. Difference between the net investment earnings rate and the benchmark is to be ≥ 0 ¹	≥ 0	≥ 0	≥ 0
b. Annualised long-term return of 5 per cent real ²	>5%	4.6%	>5%
c. Liability funding percentage ³	53%	53%	54%

Notes:

1. The difference between the actual annual portfolio investment earnings rate and the established benchmark is a measure of the relative performance of the Territory's fund managers to the benchmark.
2. The annualised real return of the portfolio (net of inflation and fees) is a measure of the average annual compounded return achieved over time. This measure is updated annually.
3. The percentage of superannuation liabilities that are covered by the investment assets is a measure of the level of liability funding.

Changes to Appropriation

Changes to Appropriation - Territorial

	2010-11 Est. Out. \$'000	2011-12 Budget \$'000	2012-13 Estimate \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000
Payment for Expenses on Behalf of Territory					
2010-11 Budget	5,272	-	-	-	-
2011-12 Budget Technical Adjustment					
Totalcare Superannuation Liability	(1,351)	-	-	-	-
2011-12 Budget	3,921	-	-	-	-

Changes to Appropriation - Territorial

	2010-11 Est. Out. \$'000	2011-12 Budget \$'000	2012-13 Estimate \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000
Capital Injections					
2010-11 Budget	140,534	144,047	147,649	151,341	151,341
2011-12 Budget Technical Adjustment					
Revised Indexation Parameters	-	-	-	-	3,783
2011-12 Budget	140,534	144,047	147,649	151,341	155,124

Superannuation Provision Account
Statement of Income and Expenses on Behalf of the Territory

2010-11 Budget \$'000		2010-11 Est.Outcome \$'000	2011-12 Budget \$'000	Var %	2012-13 Estimate \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000
Income							
Revenue							
5,272	Payment for Expenses on behalf of Territory	3,921	0	-100	0	0	0
27,918	Interest	42,000	29,154	-31	29,410	31,298	33,171
44,322	Dividend Revenue	105,446	66,999	-36	68,114	72,486	76,825
96,713	Other Revenue	229,961	82,259	-64	93,024	98,879	104,680
174,225	Total Revenue	381,328	178,412	-53	190,548	202,663	214,676
Gains							
0	Total Gains	0	0	-	0	0	0
174,225	Total Income	381,328	178,412	-53	190,548	202,663	214,676
Expenses							
721	Employee Expenses	718	736	3	753	772	791
371,883	Superannuation Expenses	396,542	400,044	1	411,007	421,917	432,247
5,251	Supplies and Services	5,263	5,552	5	5,689	5,795	5,911
8,550	Other Expenses	119,121	3,362	-97	3,573	3,785	3,993
386,405	Total Ordinary Expenses	521,644	409,694	-21	421,022	432,269	442,942
-212,180	Operating Result	-140,316	-231,282	-65	-230,474	-229,606	-228,266
-212,180	Total Comprehensive Income	-140,316	-231,282	-65	-230,474	-229,606	-228,266

Superannuation Provision Account
Statement of Assets and Liabilities on Behalf of the Territory

Budget as at 30/6/11 \$'000		Est.Outcome as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000	Var %	Planned as at 30/6/13 \$'000	Planned as at 30/6/14 \$'000	Planned as at 30/6/15 \$'000
Current Assets							
500	Cash and Cash Equivalents	500	500	-	500	500	500
286	Receivables	87	87	-	87	87	87
786	Total Current Assets	587	587	-	587	587	587
Non Current Assets							
2,274,984	Investments	2,299,923	2,463,224	7	2,626,904	2,789,839	2,951,103
2,274,984	Total Non Current Assets	2,299,923	2,463,224	7	2,626,904	2,789,839	2,951,103
2,275,770	TOTAL ASSETS	2,300,510	2,463,811	7	2,627,491	2,790,426	2,951,690
Current Liabilities							
867	Payables	0	0	-	0	0	0
147,649	Employee Benefits	149,478	164,472	10	180,685	197,808	215,028
148,516	Total Current Liabilities	149,478	164,472	10	180,685	197,808	215,028
Non Current Liabilities							
4,134,033	Employee Benefits	4,176,200	4,411,742	6	4,642,034	4,866,111	5,083,297
4,134,033	Total Non Current Liabilities	4,176,200	4,411,742	6	4,642,034	4,866,111	5,083,297
4,282,549	TOTAL LIABILITIES	4,325,678	4,576,214	6	4,822,719	5,063,919	5,298,325
-2,006,779	NET ASSETS	-2,025,168	-2,112,403	-4	-2,195,228	-2,273,493	-2,346,635
REPRESENTED BY FUNDS EMPLOYED							
-2,006,779	Accumulated Funds	-2,025,168	-2,112,403	-4	-2,195,228	-2,273,493	-2,346,635
-2,006,779	TOTAL FUNDS EMPLOYED	-2,025,168	-2,112,403	-4	-2,195,228	-2,273,493	-2,346,635

Superannuation Provision Account
Budgeted Statement of Cash Flows on Behalf of the Territory

2010-11 Budget \$'000		2010-11 Est.Outcome \$'000	2011-12 Budget \$'000	Var %	2012-13 Estimate \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000
	CASH FLOWS FROM OPERATING ACTIVITIES						
	Receipts						
5,272	Cash from Government for EBT	3,921	0	-100	0	0	0
27,918	Interest Received	42,000	29,154	-31	29,410	31,298	33,171
52,374	Other Revenue	111,783	70,836	-37	72,553	77,192	81,796
85,564	Operating Receipts	157,704	99,990	-37	101,963	108,490	114,967
	Payments						
712	Related to Employees	715	727	2	745	764	783
115,567	Related to Superannuation	115,559	149,517	29	164,512	180,727	197,851
5,251	Related to Supplies and Services	5,347	5,552	4	5,689	5,795	5,911
8,550	Other	7,836	3,424	-56	3,640	3,856	4,070
130,080	Operating Payments	129,457	159,220	23	174,586	191,142	208,615
-44,516	NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES	28,247	-59,230	-310	-72,623	-82,652	-93,648
	CASH FLOWS FROM INVESTING ACTIVITIES						
	Payments						
96,018	Purchase of Investments	168,839	84,817	-50	75,026	68,689	61,476
96,018	Investing Payments	168,839	84,817	-50	75,026	68,689	61,476
-96,018	NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES	-168,839	-84,817	50	-75,026	-68,689	-61,476
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
140,534	Capital Injection from Government	140,534	144,047	2	147,649	151,341	155,124
140,534	Financing Receipts	140,534	144,047	2	147,649	151,341	155,124
140,534	NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES	140,534	144,047	2	147,649	151,341	155,124
0	NET INCREASE/ (DECREASE) IN CASH HELD	-58	0	100	0	0	0
500	CASH AT BEGINNING OF REPORTING PERIOD	558	500	-10	500	500	500
500	CASH AT THE END OF THE REPORTING PERIOD	500	500	-	500	500	500

Superannuation Provision Account
Statement of Changes in Equity on Behalf of the Territory

2010-11 Budget \$'000		2010-11 Est.Outcome \$'000	2011-12 Budget \$'000	Var %	2012-13 Estimate \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000
	Opening Equity						
-1,935,133	Opening Accumulated Funds	-2,584,205	-2,025,168	-22	-2,112,403	-2,195,228	-2,273,493
-1,935,133	Balance at the Start of the Reporting Period	-2,584,205	-2,025,168	-22	-2,112,403	-2,195,228	-2,273,493
	Comprehensive Income						
0	Superannuation Prior Year Actuarial Movement	558,819	0	-100	0	0	0
-212,180	Operating Result for the Period	-140,316	-231,282	65	-230,474	-229,606	-228,266
-212,180	Total Comprehensive Income	418,503	-231,282	-155	-230,474	-229,606	-228,266
0	Total Movement In Reserves	0	0	-	0	0	0
	Transactions Involving Owners Affecting Accumulated Funds						
140,534	Capital Injections	140,534	144,047	2	147,649	151,341	155,124
140,534	Total Transactions Involving Owners Affecting Accumulated Funds	140,534	144,047	2	147,649	151,341	155,124
	Closing Equity						
-2,006,779	Closing Accumulated Funds	-2,025,168	-2,112,403	4	-2,195,228	-2,273,493	-2,346,635
-2,006,779	Balance at the End of the Reporting Period	-2,025,168	-2,112,403	4	-2,195,228	-2,273,493	-2,346,635

Notes to the Budget Statements

Significant variations are as follows:

Statement of Income and Expenses on Behalf of the Territory

- payment of expenses on behalf of the Territory:
 - the decrease of \$1.351 million in the 2010-11 estimated outcome from the original budget is due to former Totalcare employee superannuation settlements being below expectations; and
 - the decrease of \$3.921 million in the 2011-12 Budget from the 2010-11 estimated outcome reflects the conclusion of superannuation settlement payments to former Totalcare employees in the 2010-11 financial year due to the completion of the settlement project.
- interest:
 - the increase of \$14.082 million in the 2010-11 estimated outcome from the original budget is due to maintaining a higher allocation to cash and fixed interest investments, as well as the positive revenue impact from higher domestic interest rates; and

- the decrease of \$12.846 million in the 2011-12 Budget from the 2010-11 estimated outcome is due to an anticipated lower level of allocation to cash investments.
- dividend revenue:
 - the increase of \$61.124 million in the 2010-11 estimated outcome from the original budget is due to the receipt of property and private equity asset sale distributions, as well as the receipt of a significant one-off income distribution from the currency-hedged international equity investments due to the strong currency gains from the appreciation of the Australia dollar; and
 - the decrease of \$38.447 million in the 2011-12 Budget from the 2010-11 estimated outcome is due to the removal of the current financial year impacts from the above variance and returning to a regular dividend distribution.
- other revenue:
 - the increase of \$133.248 million in the 2010-11 estimated outcome from the original budget is due to budgeting for investment net capital gains (capital gains less any capital losses) for the 2010-11 year. The actual estimated outcome for 2010-11 will be capital gains, recognised against other revenue, and capital losses recognised against other expenses. Offsetting the other revenue ‘capital gain’ variance with the other expense ‘capital loss’ variance will result in a positive net capital gain of \$22.833 million, mostly due to the strong equity market returns achieved during 2010-11; and
 - the decrease of \$147.702 million in the 2011-12 Budget from the 2010-11 estimated outcome reflects a return to the long-term investment earnings assumption of a portfolio return of CPI plus 5 per cent (net of fees), as compared with the higher estimated actual return achieved in 2010-11. This variance is offset against the other expense variance of \$115.759 million for a net difference of \$31.943 million.
- superannuation expenses:
 - the increase of \$24.659 million in the 2010-11 estimated outcome from the original budget is due to the 30 June 2010 financial year end update to the actuarial review of superannuation liabilities and reflects the impact of the decreased discount rate of 5.16 per cent as at 30 June 2010; and
 - the increase of \$3.502 million in the 2011-12 Budget from the 2010-11 estimated outcome is due to the estimated growth in superannuation liabilities following the recent actuarial review.
- other expenses:
 - the increase of \$110.571 million in the 2010-11 estimated outcome from the original budget is due to the recognition of capital losses in relation to the investment portfolio (see other revenue variance explanation); and
 - the decrease of \$115.759 million in the 2011-12 Budget from the 2010-11 estimated outcome reflects a return to the long-term investment earnings assumption of a portfolio return of CPI plus 5 per cent (net of fees).

Statement of Assets and Liabilities on Behalf of the Territory

- non current investments:
 - the increase of \$24.939 million in the 2010-11 estimated outcome from the original budget is due to the strong investment returns achieved during 2010-11 offset by a closing asset balance as at 30 June 2010 being lower than anticipated; and
 - the increase of \$163.301 million in the 2011-12 Budget from the 2010-11 estimated outcome is due to the reinvestment of projected investment earnings and the net cash inflows to the portfolio.
- current employee benefits:
 - the increase of \$1.829 million in the 2010-11 estimated outcome from the original budget reflects the outcome of the latest actuarial review and the estimated increase in annual employee superannuation benefit payments; and
 - the increase of \$14.994 million in the 2011-12 Budget from the 2010-11 estimated outcome reflects the outcome of the latest actuarial review and the estimated growth in annual employee superannuation benefit payments.
- non current employee benefits:
 - the increase of \$42.167 million in the 2010-11 estimated outcome from the original budget reflects the outcome of the latest actuarial review that incorporates membership data as at 30 June 2010; and
 - the increase of \$235.542 million in the 2011-12 Budget from the 2010-11 estimated outcome reflects the outcome of the latest actuarial review and the estimated growth in annual employee superannuation benefit liabilities.

Statement of Cash Flows on Behalf of the Territory

Variances in the statement are explained in the notes above.

Statement of Changes in Equity on Behalf of the Territory

Variances in the statement are explained in the notes above.