

SUPERANNUATION PROVISION ACCOUNT

Objectives

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.

2009-10 Priorities

Strategic and operational issues to be pursued in 2009-10 include:

- reviewing the magnitude and timing of further capital injections to achieve the objective of fully funding the superannuation liability;
- managing an investment portfolio of approximately \$1.8 billion in assets;
- continuing to monitor and review as necessary the investment portfolio;
- continuing with the implementation, monitoring and reporting of the Government's policy in relation to the application of environmental, social and governance issues and risks in the Territory's investment practices; and
- completing the annual actuarial review of the defined benefit employer superannuation liabilities of the Territory.

Estimated Employment Level

2008-09 Budget		2008-09 Est. Outcome	2009-10 Budget
8	Staffing (FTE)	9	9

Strategic Indicators

Strategic Indicator 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 Indicator 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 Indicator 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 2009, superannuation liabilities are estimated to be only 47 per cent funded, a reduction from the 65 per cent funded at 30 June 2008. This reduction is due to the fall in the value of financial assets as a result of poor performance of the financial market.

Based on current projections, further capital injections will be required to meet the target of 100 per cent by 2030. Alternatively, higher investment returns would need to be realised.

Treasury will undertake a review during 2009-10 to assess the magnitude and timing of further capital injections to achieve the objective of fully funding the liability.

Output Classes

	Total Cost		Government Payment for Outputs	
	2008-09 Est. Outcome \$'000	2009-10 Budget \$'000	2008-09 Est. Outcome \$'000	2009-10 Budget \$'000
EBT Class 1:				
Superannuation Provision Account	713,562	373,182	3,469	5,221
EBT 1:				
Superannuation Provision Account	713,562	373,182	3,469	5,221

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 2009-10 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 annual actuarial review of the Territory's CSS/PSS defined benefit employer superannuation liabilities;
- continuing to implement, monitor and report the Government's policy in relation to the application of environmental, social and governance issues and risks in the Territory's investment practices; and
- preparation of annual Member Information Statements for the Members of the Legislative Assembly Superannuation Scheme.

Accountability Indicators

	2008-09 Targets	2008-09 Est. Outcome	2009-10 Targets
1.1 Superannuation Provision Account			
a. Ratio of the investment earnings return divided by the established benchmark ¹	> 1.0	>1.0	n/a
The ratio of the actual annual portfolio investment earnings rate divided by the established benchmark is a measure of the relative performance of the Territory's fund managers.			
b. Annualised long-term return of 5 per cent real	> 5%	3.9%	> 5%
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.			
c. Liability funding percentage	63%	47%	49%
The percentage of superannuation liabilities that are covered by the investment assets is a measure of the level of liability funding			
d. Difference between the net investment earnings rate and the benchmark is to be ≥ 0 ²	n/a	n/a	≥ 0
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.			

Notes:

1. Discontinued measure.
2. New measure.

Changes to Appropriation

Changes to Appropriation - Territorial					
	2008-09	2009-10	2010-11	2011-12	2012-13
Payment for Expenses on Behalf of Territory	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2008-09 Budget	7,736	4,249	-	-	-
FMA Section 16B Rollover from 2007-08					
Totalcare Superannuation Liability	970	-	-	-	-
2009-10 Budget Technical Adjustments					
Rollover - Totalcare Superannuation Liability	(1,692)	1,692	-	-	-
Reduced - Totalcare Superannuation Liability	(3,545)	-	-	-	-
Reduced - Australian International Hotel School Superannuation Liability	-	(720)	-	-	-
2009-10 Budget	3,469	5,221	-	-	-

Changes to Appropriation - Territorial					
	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Injections	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2008-09 Budget	133,763	137,107	140,534	144,047	144,047
2009-10 Budget Technical Adjustment					
Revised Indexation Parameters	-	-	-	-	3,602
2009-10 Budget	133,763	137,107	140,534	144,047	147,649

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

2008-09 Budget \$'000		2008-09 Est.Outcome \$'000	2009-10 Budget \$'000	Var %	2010-11 Estimate \$'000	2011-12 Estimate \$'000	2012-13 Estimate \$'000
Income							
Revenue							
7,736	Payment for Expenses on behalf of Territory	3,469	5,221	51	0	0	0
26,787	Interest	34,663	19,742	-43	13,453	14,538	15,555
0	Dividend Revenue	69,395	35,782	-48	44,101	47,662	50,996
148,180	Other Revenue	19,460	94,087	383	100,040	107,604	114,888
182,703	Total Revenue	126,987	154,832	22	157,594	169,804	181,439
Gains							
0	Other Gains	12,133	5,221	-57	0	0	0
0	Total Gains	12,133	5,221	-57	0	0	0
182,703	Total Income	139,120	160,053	15	157,594	169,804	181,439
Expenses							
683	Employee Expenses	669	701	5	728	757	787
344,856	Superannuation Expenses	321,790	356,248	11	365,474	396,440	407,691
6,184	Supplies and Services	5,638	5,512	-2	5,650	5,791	5,935
5,200	Other Expenses	385,465	10,721	-97	5,800	6,100	6,400
356,923	Total Ordinary Expenses	713,562	373,182	-48	377,652	409,088	420,813
-174,220	Operating Result	-574,442	-213,129	63	-220,058	-239,284	-239,374

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

Budget as at 30/6/09 \$'000		Est.Outcome as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Var %	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000	Planned as at 30/6/13 \$'000
Current Assets							
500	Cash and Cash Equivalents	500	500	-	500	500	500
500	Total Current Assets	500	500	-	500	500	500
Non Current Assets							
2,344,129	Investments	1,790,620	1,968,391	10	2,144,821	2,300,967	2,456,289
2,344,129	Total Non Current Assets	1,790,620	1,968,391	10	2,144,821	2,300,967	2,456,289
2,344,629	TOTAL ASSETS	1,791,120	1,968,891	10	2,145,321	2,301,467	2,456,789
Current Liabilities							
78,703	Employee Benefits	97,196	109,462	13	144,995	160,581	178,403
78,703	Total Current Liabilities	97,196	109,462	13	144,995	160,581	178,403
Non Current Liabilities							
3,643,525	Employee Benefits	3,708,620	3,950,147	7	4,170,568	4,406,365	4,635,590
3,643,525	Total Non Current Liabilities	3,708,620	3,950,147	7	4,170,568	4,406,365	4,635,590
3,722,228	TOTAL LIABILITIES	3,805,816	4,059,609	7	4,315,563	4,566,946	4,813,993
-1,377,599	NET ASSETS	-2,014,696	-2,090,718	4	-2,170,242	-2,265,479	-2,357,204
REPRESENTED BY FUNDS EMPLOYED							
-1,377,599	Accumulated Funds	-2,014,696	-2,090,718	4	-2,170,242	-2,265,479	-2,357,204
-1,377,599	TOTAL FUNDS EMPLOYED	-2,014,696	-2,090,718	4	-2,170,242	-2,265,479	-2,357,204

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

2008-09 Budget \$'000		2008-09 Est.Outcome \$'000	2009-10 Budget \$'000	Var %	2010-11 Estimate \$'000	2011-12 Estimate \$'000	2012-13 Estimate \$'000
	CASH FLOWS FROM OPERATING ACTIVITIES						
	Receipts						
7,736	Cash from Government for EBT	3,469	5,221	51	0	0	0
26,787	Interest Received	34,665	19,742	-43	13,453	14,538	15,555
57,996	Other Revenue	75,217	41,283	-45	44,381	47,942	51,276
92,519	Operating Receipts	113,351	66,246	-42	57,834	62,480	66,831
	Payments						
679	Related to Employees	664	695	5	722	751	781
71,019	Related to Superannuation	96,668	97,257	1	109,527	145,063	160,652
6,184	Related to Supplies and Services	5,764	5,512	-4	5,650	5,791	5,935
12,936	Other	9,791	10,721	9	5,800	6,100	6,400
90,818	Operating Payments	112,887	114,185	1	121,699	157,705	173,768
1,701	NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES	464	-47,939	#	-63,865	-95,225	-106,937
	CASH FLOWS FROM INVESTING ACTIVITIES						
	Payments						
135,464	Purchase of Investments	133,877	89,168	-33	76,669	48,822	40,712
135,464	Investing Payments	133,877	89,168	-33	76,669	48,822	40,712
-135,464	NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES	-133,877	-89,168	-33	-76,669	-48,822	-40,712
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
133,763	Capital Injection from Government	133,763	137,107	2	140,534	144,047	147,649
133,763	Financing Receipts	133,763	137,107	2	140,534	144,047	147,649
133,763	NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES	133,763	137,107	2	140,534	144,047	147,649
0	NET INCREASE/ (DECREASE) IN CASH HELD	350	0	-100	0	0	0
500	CASH AT BEGINNING OF REPORTING PERIOD	150	500	233	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

Budget as at 30/6/09 \$'000		Est.Outcome as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Var %	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000	Planned as at 30/6/13 \$'000
-1,129,635	Opening Balance	-1,098,358	-2,014,696	83	-2,090,718	-2,170,242	-2,265,479
	Accumulated Funds						
-207,507	Superannuation Actuarial Movement	-475,659	0	-100	0	0	0
-174,220	Operating Result for the Period	-574,442	-213,129	-63	-220,058	-239,284	-239,374
	Reserves						
-381,727	Total Income And Expense For The Period	-1,050,101	-213,129	-80	-220,058	-239,284	-239,374
	Transactions Involving Equity Holders Affecting Accumulated Funds						
133,763	Capital Injections	133,763	137,107	2	140,534	144,047	147,649
-1,377,599	Closing Balance	-2,014,696	-2,090,718	4	-2,170,242	-2,265,479	-2,357,204

Notes to the Budget Statements

Significant variations are as follows:

Statement of Income and Expenses on Behalf of the Territory

- payment for expenses on behalf of Territory:
 - the decrease of \$4.267 million in the 2008-09 estimated outcome from the original budget is mainly due to the reassessment of the liabilities associated with the entitlements of former Totalcare employees; and
 - the increase of \$1.752 million in the 2009-10 Budget from the 2008-09 estimated outcome reflects the estimated amount of payments of entitlements to former Totalcare employees in the 2009-10 financial year;
- interest:
 - the increase of \$7.876 million in the 2008-09 estimated outcome from the original budget is due to maintaining a higher exposure to cash and fixed interest investments; and
 - the decrease of \$14.921 million in the 2009-10 Budget from the 2008-09 estimated outcome is due to lower levels of interest rates and the projected reallocation of cash assets to other investment asset classes;

- dividend revenue:
 - the increase of \$69.395 million in the 2008-09 estimated outcome from the original budget is due to the reclassification of dividend revenue as a separate revenue item. Dividend revenue was included with other revenue in the original budget; and
 - the decrease of \$33.613 million in the 2009-10 Budget from the 2008-09 estimated outcome is a flow on effect of a one-off distribution from the pooled indexed hedged international equity trust in 2008-09 and an estimated fall in dividend returns from all equity investments;
- other revenue:
 - the decrease of \$128.720 million in the 2008-09 estimated outcome from the original budget is mainly due to the reclassification of dividend revenue as a separate revenue item, as well as the decrease in capital gain earnings as a result of the significant falls in domestic and international equity markets; and
 - the increase of \$74.627 million in the 2009-10 Budget from the 2008-09 estimated outcome reflects the investment earnings assumption that the long term average portfolio return estimate will be CPI plus 5 per cent (net of fees) compared with the estimated lower actual return in 2008-09;
- superannuation expenses:
 - the decrease of \$23.066 million in the 2008-09 estimated outcome from the original budget has been determined from the 2007-08 financial year end update to the actuarial review of superannuation liabilities and reflects the impact of the increased discount rate of 6.55 per cent as at 30 June 2008; and
 - the increase of \$34.458 million in the 2009-10 Budget from the 2008-09 estimated outcome is due to the estimated growth in superannuation liabilities following the recent actuarial review;
- supplies and services:
 - the decrease of \$0.546 million in the 2008-09 estimated outcome from the original budget is due mainly to a decrease in the cost of administration by the Commonwealth Government (Comsuper) in relation to the defined benefit superannuation schemes; and
 - the decrease of \$0.126 million in the 2009-10 Budget from the 2008-09 estimated outcome is due to an estimated decrease in the administration costs associated with the Totalcare superannuation liability investigation;
- other expenses:
 - the increase of \$380.265 million in the 2008-09 estimated outcome from the original budget is due mainly to the recognition of unrealised capital losses as a result of the falls in the domestic and international equity markets; and
 - the decrease of \$374.744 million in the 2009-10 Budget from the 2008-09 estimated outcome reflects the investment earnings assumption that the long term average portfolio return estimate will be CPI plus 5 per cent (net of fees) compared with the estimated lower actual return in 2008-09.

Statement of Assets and Liabilities on Behalf of the Territory

- non current investments:
 - the decrease of \$553.509 million in the 2008-09 estimated outcome from the original budget is due to a decrease in capital gain earnings as a result of the reduced domestic and international equity market returns; and
 - the increase of \$177.771 million in the 2009-10 Budget from the 2008-09 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 \$18.493 million in the 2008-09 estimated outcome from the original budget is due to the latest actuarial review and the estimated increase in annual employee benefit payments; and
 - the increase of \$12.266 million in the 2009-10 Budget from the 2008-09 estimated outcome is due to the estimated growth in annual employee benefit payments.
- non current employee benefits:
 - the increase of \$65.095 million in the 2008-09 estimated outcome from the original budget reflects the results of the latest actuarial review that incorporates membership data as at 30 June 2008; and
 - the increase of \$241.527 million in the 2009-10 Budget from the 2008-09 estimated outcome reflects the results of the latest actuarial review that incorporates the most recent and projected membership demographic experience.

Statement of Changes in Equity

Variations in the statement are explained in the notes above.

