

SUPERANNUATION PROVISION ACCOUNT

Objectives

The Superannuation Provisional Account (SPA) was established in 1991 for the Government to set funds aside to meet future unfunded employer superannuation obligations for its employees who are members of the Australian Government's Commonwealth Superannuation Scheme (CSS) and Public Superannuation Scheme (PSS) defined benefit superannuation schemes.

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 SPA is not a superannuation scheme or fund for ACT Government employees. The SPA does not hold any employee (member) superannuation contributions or employer productivity contributions. The Government pays employee superannuation contributions and employer productivity contributions directly to Comsuper as they accrue.

The funds held in the SPA are invested with external institutional investment managers according to an asset allocation strategy that takes into account the long-term nature of the projected CSS/PSS defined benefit employer superannuation liabilities and projected cash flow requirements. Treasury utilises the services of an investment adviser, an actuary and the Investment Advisory Board to provide advice in respect of the superannuation assets and 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.

2007-08 Priorities

Strategic and operational issues to be pursued in 2007-08 include:

- managing an investment portfolio of approximately \$2.1 billion in assets;
- undertaking an investment manager and strategic asset allocation review, and implementing changes to the investment portfolio as required; and
- undertaking policy research and development for the implementation of value-adding investment strategies for the investment portfolio.

Estimated Employment Level

	2006-07 Est. Outcome	2007-08 Budget
Staffing (FTE)	5	6

Output Classes

	Total Cost		Expenses on Behalf of the Territory	
	2006-07 Est. outcome \$'000	2007-08 Budget \$'000	2006-07 Est. outcome \$'000	2007-08 Budget \$'000
EBT Class 1: Superannuation Provision Account	330,861	358,078	1,500	15,780
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Description

This output involves the management of the Territory's net employer superannuation liabilities.

The key outputs to be delivered in 2007-08 include:

- managing the investment assets set aside to meet the CSS/PSS defined benefit employer superannuation liabilities of the Territory by developing, implementing, monitoring, reviewing and reporting on a strategic asset allocation;
- delivering an average investment return of five per cent real (net of inflation and 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 an annual actuarial review of the Territory's defined benefit CSS/PSS superannuation liabilities;
- implementing the outcomes, where appropriate, of the *Review of the Application of Environmental, Social and Governance Issues to Territory Investment Practices*; and
- implementing the changes to the Legislative Assembly Members' superannuation arrangements.

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

Accountability Indicators

	2006-07 Targets	2006-07 Est. Outcome	2007-08 Targets
1.1 Superannuation Provision Account			
a. Ratio of the investment earnings return divided by the established benchmark	> 1.0	= 1.0	> 1.0
b. Average long-term return of 5% real	> 5%	> 6%	> 5%

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.

The average real return of the portfolio (net of inflation and fees) achieved over time is updated annually.

Changes to Appropriation

Changes to Appropriation - Territorial

	2006-07	2007-08	2008-09	2009-10	2010-11
Payment for Expenses on Behalf of Territory	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2006-07 Budget	17,280	-	-	-	-
2006-07 Budget Technical Adjustments					
Totalcare Superannuation Liabilities	(15,780)	15,780	-	-	-
2007-08 Budget	1,500	15,780	-	-	-

Changes to Appropriation - Territorial

	2006-07	2007-08	2008-09	2009-10	2010-11
Capital Injections	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2006-07 Budget	107,000	109,675	112,417	115,227	115,227
2006-07 Budget Technical Adjustments					
Revised Indexation Parameters	-	-	-	-	2,881
Funding Plan 100% by 2030	-	20,825	21,346	21,880	22,426
2006-07 Budget	107,000	130,500	133,763	137,107	140,534

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

2006-07 Budget \$'000		2006-07 Est.Outcome \$'000	2007-08 Budget \$'000	Var %	2008-09 Estimate \$'000	2009-10 Estimate \$'000	2010-11 Estimate \$'000
Income							
Revenue							
17,280	Payment for Expenses on behalf of Territory	1,500	15,780	952	0	0	0
27,810	Interest	29,842	25,437	-15	19,932	21,795	23,753
119,112	Other Revenue	219,619	143,013	-35	168,020	176,428	192,909
164,202	Total Revenue	250,961	184,230	-27	187,952	198,223	216,662
Gains							
0	Total Gains	0	0	-	0	0	0
164,202	Total Income	250,961	184,230	-27	187,952	198,223	216,662
Expenses							
412	Employee Expenses	463	447	-3	449	474	486
322,944	Superannuation Expenses	316,560	343,215	8	356,274	368,733	381,270
4,145	Supplies and Services	4,238	4,516	7	4,671	4,756	4,880
9,600	Other Expenses	9,600	9,900	3	12,480	5,500	5,500
337,101	Total Ordinary Expenses	330,861	358,078	8	373,874	379,463	392,136
-172,899	Operating Result	-79,900	-173,848	-118	-185,922	-181,240	-175,474

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

Budget as at 30/6/07 \$'000		Est.Outcome as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Var %	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000
	Current Assets						
2,500	Cash and Cash Equivalents	255,274	23,112	-91	25,436	27,884	30,458
2,500	Total Current Assets	255,274	23,112	-91	25,436	27,884	30,458
	Non Current Assets						
1,995,021	Investments	1,820,115	2,288,044	26	2,518,151	2,760,519	3,015,343
1,995,021	Total Non Current Assets	1,820,115	2,288,044	26	2,518,151	2,760,519	3,015,343
1,997,521	TOTAL ASSETS	2,075,389	2,311,156	11	2,543,587	2,788,403	3,045,801
	Current Liabilities						
67,893	Employee Benefits	64,053	71,628	12	79,725	88,872	121,745
67,893	Total Current Liabilities	64,053	71,628	12	79,725	88,872	121,745
	Non Current Liabilities						
3,101,359	Employee Benefits	3,131,168	3,402,708	9	3,679,201	3,959,003	4,218,468
3,101,359	Total Non Current Liabilities	3,131,168	3,402,708	9	3,679,201	3,959,003	4,218,468
3,169,252	TOTAL LIABILITIES	3,195,221	3,474,336	9	3,758,926	4,047,875	4,340,213
-1,171,731	NET ASSETS	-1,119,832	-1,163,180	4	-1,215,339	-1,259,472	-1,294,412
	REPRESENTED BY FUNDS EMPLOYED						
-1,171,731	Accumulated Funds	-1,119,832	-1,163,180	4	-1,215,339	-1,259,472	-1,294,412
-1,171,731	TOTAL FUNDS EMPLOYED	-1,119,832	-1,163,180	4	-1,215,339	-1,259,472	-1,294,412

**Superannuation Provision Account
Budgeted Statement of Cashflows on Behalf of the Territory**

2006-07 Budget \$'000		2006-07 Est.Outcome \$'000	2007-08 Budget \$'000	Var %	2008-09 Estimate \$'000	2009-10 Estimate \$'000	2010-11 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
17,280	Cash from Government for EBT	1,500	15,780	952	0	0	0
250	Interest Received	29,842	25,437	-15	19,933	21,795	23,753
5,360	Other Revenue	49,110	53,740	9	59,956	57,639	62,861
22,890	Operating Receipts	80,452	94,957	18	79,889	79,434	86,614
Payments							
61,728	Related to Employees	60,852	64,546	6	72,133	80,258	89,418
4,145	Related to Supplies and Services	4,238	4,516	7	4,671	4,756	4,880
9,600	Other	9,600	9,900	3	12,480	5,500	5,500
75,473	Operating Payments	74,690	78,962	6	89,284	90,514	99,798
-52,583	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	5,762	15,995	178	-9,395	-11,080	-13,184
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
0	Proceeds from Sale/Maturities of Investments	63,781	0	-100	0	0	0
0	Investing Receipts	63,781	0	-100	0	0	0
Payments							
54,417	Purchase of Investments	186,626	378,657	103	122,044	123,579	124,776
54,417	Investing Payments	186,626	378,657	103	122,044	123,579	124,776
-54,417	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	-122,845	-378,657	-208	-122,044	-123,579	-124,776
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
107,000	Capital Injection from Government	107,000	130,500	22	133,763	137,107	140,534
107,000	Financing Receipts	107,000	130,500	22	133,763	137,107	140,534
107,000	NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	107,000	130,500	22	133,763	137,107	140,534

**Superannuation Provision Account
Budgeted Statement of Cashflows on Behalf of the Territory**

2006-07 Budget \$'000		2006-07 Est.Outcome \$'000	2007-08 Budget \$'000	Var %	2008-09 Estimate \$'000	2009-10 Estimate \$'000	2010-11 Estimate \$'000
0	NET INCREASE/(DECREASE) IN CASH HELD	-10,083	-232,162	2,203	2,324	2,448	2,574
2,500	CASH AT BEGINNING OF REPORTING PERIOD	265,357	255,274	-4	23,112	25,436	27,884
2,500	CASH AT THE END OF THE REPORTING PERIOD	255,274	23,112	-91	25,436	27,884	30,458

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

Budget as at 30/6/07 \$'000		Est.Outcome as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Var %	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000
-1,105,832	Opening Balance	-1,099,126	-1,119,832	-2	-1,163,180	-1,215,339	-1,259,472
	Accumulated Funds						
0	Superannuation Actuarial Movement	-47,806	0	-100	0	0	0
-172,899	Operating Result for the Period	-79,900	-173,848	-118	-185,922	-181,240	-175,474
	Reserves						
-172,899	Total Income And Expense For The Period	-127,706	-173,848	-36	-185,922	-181,240	-175,474
	Transactions Involving Equity Holders Affecting Accumulated Funds						
107,000	Capital Injections	107,000	130,500	22	133,763	137,107	140,534
-1,171,731	Closing Balance	-1,119,832	-1,163,180	-4	-1,215,339	-1,259,472	-1,294,412

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 \$15.780 million in the 2006-07 estimated outcome from the original budget is due to the majority of payments associated with the entitlements of former Totalcare employees being projected to be paid in future years; and
 - the increase of \$14.280 million in the 2007-08 Budget from the 2006-07 estimated outcome reflects the rollover of EBT from the 2006-07 financial year to facilitate the payments of entitlements to former Totalcare employees.
- interest:
 - the increase of \$2.032 million in the 2006-07 estimated outcome from the original budget is due to the increase in the official cash rate during the year; and
 - the decrease of \$4.405 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to the projected decrease in cash assets associated with increased investments in other asset classes.
- other revenue:
 - the increase of \$100.507 million in the 2006-07 estimated outcome from the original budget is mainly due to an increase in capital gain earnings as a result of strong domestic and international equity market returns; and

- the decrease of \$76.606 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to budgeting for investment earnings being based on the assumption that the long term average portfolio return estimate will be seven and a half per cent (five per cent plus CPI, net of fees).
- superannuation expenses:
 - the decrease of \$6.384 million in the 2006-07 estimated outcome from the original budget is the result of the latest actuarial review conducted by the Government’s consulting actuary; and
 - the increase of \$26.655 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to the estimated growth in superannuation liabilities and the increased emerging cost payment to the Australian Government.

Statement of Assets and Liabilities on Behalf of the Territory

- cash and cash equivalents:
 - the increase of \$252.774 million in the 2006-07 estimated outcome from the original budget is due to the reclassification of a portion of investment assets as cash and cash equivalents; and
 - the decrease of \$232.162 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to the investment of cash and cash equivalents in other asset classes.
- non-current investments:
 - the decrease of \$174.906 million in the 2006-07 estimated outcome from the original budget is due to the reclassification of a portion of investment assets as cash and cash equivalents, offset by increased 2006-07 investment earnings; and
 - the increase of \$467.929 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to the investment of the cash and cash equivalent assets into other asset classes and the reinvestment of projected investment earnings and the net cash inflows to the portfolio.
- current liabilities:
 - the decrease of \$3.840 million in the 2006-07 estimated outcome from the original budget is due to the latest actuarial review conducted by the Government’s consulting actuary; and
 - the increase of \$7.575 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to the estimated growth in annual benefit payments to the Australian Government.
- non current employee benefits:
 - the increase of \$29.809 million in the 2006-07 estimated outcome from the original budget is due to the latest actuarial review conducted by the Government’s consulting actuary; and
 - the increase of \$271.540 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to the projected increase in the superannuation liabilities of the Territory.

