SUPERANNUATION UNIT

Objectives

The Superannuation Unit is responsible for the management of the funds set aside to meet liabilities of the Territory and its agencies relating to employer superannuation.

The Superannuation Provision Account (SPA) was established in 1991 to assist the Government in managing its superannuation liabilities. The SPA is not a superannuation scheme, but a Government account that receives appropriations and makes payments in connection with the Government's superannuation liabilities.

The SPA receives appropriations and contributions from the ACT Budget and 'off-budget' government agencies and complies with the *Territory Superannuation Provision Protection Act 2000*.

The funds held in the SPA are invested through external fund managers according to an asset allocation strategy that takes into account the long-term nature of the liabilities and projected cash flow requirements.

The Superannuation Unit utilises the services of a Finance and Investment Advisory Board established to provide advice in respect of the assets and liabilities of the Territory Superannuation Account.

2003-04 Highlights

Strategic and operational issues to be pursued in 2003-04 include:

- continuing the budget strategy to achieve a 90% funding level of the superannuation liability by 2039-40. Integral to this strategy, the Government continues to review its investment strategy to optimise returns to the Superannuation Provision Account;
- completing a review of all external fund managers and make new appointments (where required) to complement the review of the investment strategy that commenced in 2002-03;
- implementing new investment strategies; and
- refining and documenting administrative policies and procedures for investments and the superannuation liability.

Budgeted Financial Results

In accordance with Section 31 of the *Financial Management Act 1996* (FMA), following are the key budgeted results for the Department:

- developing and implementing an investment strategy that will result in the total assets of the SPA being equal to 90% of the total liabilities of the SPA by 2039-40 with the result at June 2004 being 65%; and
- developing and implementing a strategic asset allocation sufficient to deliver an average long-term investment return of 5% 'real'.

Superannuation Unit
Statement of Revenues and Expenses on Behalf of the Territory

2002-03 Budget $'000		2002-03 Est.Outcome $'000	2003-04 Budget $'000	Var %	2004-05 Estimate $'000	2005-06 Estimate $'000	2006-07 Estimate $'000
	Revenue						
39 169	Payment for Expenses on behalf of Territory	39 169	43 968	12	1 832	0	0
6 853	Interest	34 679	37 385	8	42 551	49 606	55 134
85 958	Other Revenue	28 031	39 613	41	55 335	57 593	62 403
131 980	**Total Ordinary Revenue**	**101 879**	**120 966**	**19**	**99 718**	**107 199**	**117 537**
	Expenses						
305	Employee Expenses	146	270	85	276	282	287
180 086	Superannuation Expenses	186 984	200 205	7	215 193	231 935	250 079
3 295	Supplies and Services	3 295	3 464	5	3 309	3 427	3 546
0	Other Expenses	58 793	3 200	-95	3 200	3 200	3 200
183 686	**Total Ordinary Expenses**	**249 218**	**207 139**	**-17**	**221 978**	**238 844**	**257 112**
-51 706	**Operating Result**	**-147 339**	**-86 173**	**42**	**-122 260**	**-131 645**	**-139 575**
-620 051	**Total Equity From Start of Period**	**-650 397**	**-728 936**	**-12**	**-746 309**	**-771 618**	**-803 889**
68 800	Capital Injections	68 800	68 800	-	96 951	99 374	101 859
-602 957	**Total Equity At The End of Period**	**-728 936**	**-746 309**	**-2**	**-771 618**	**-803 889**	**-841 605**

Superannuation Unit
Statement of Assets and Liabilities on Behalf of the Territory

Budget as at 30/6/03 $'000		Est.Outcome as at 30/6/03 $'000	Planned as at 30/6/04 $'000	Var %	Planned as at 30/6/05 $'000	Planned as at 30/6/06 $'000	Planned as at 30/6/07 $'000
	Current Assets						
0	Cash	1 000	1 000	-	1 000	1 000	1 000
3 016	Receivables	36	31	-14	42	31	39
0	Investments	281 120	292 445	4	327 314	366 032	406 396
3 016	**Total Current Assets**	**282 156**	**293 476**	**4**	**328 356**	**367 063**	**407 435**
	Non Current Assets						
1 149 035	Investments	749 962	877 334	17	981 943	1 098 094	1 219 189
1 149 035	**Total Non Current Assets**	**749 962**	**877 334**	**17**	**981 943**	**1 098 094**	**1 219 189**
1 152 051	**TOTAL ASSETS**	**1 032 118**	**1 170 810**	**13**	**1 310 299**	**1 465 157**	**1 626 624**
	Current Liabilities						
173	Payables	156	21	-87	0	0	0
59 801	Employee Benefits	59 922	63 885	7	61 759	67 850	75 950
59 974	**Total Current Liabilities**	**60 078**	**63 906**	**6**	**61 759**	**67 850**	**75 950**
	Non Current Liabilities						
1 695 034	Employee Benefits	1 700 976	1 853 213	9	2 020 158	2 201 196	2 392 279
1 695 034	**Total Non Current Liabilities**	**1 700 976**	**1 853 213**	**9**	**2 020 158**	**2 201 196**	**2 392 279**
1 755 008	**TOTAL LIABILITIES**	**1 761 054**	**1 917 119**	**9**	**2 081 917**	**2 269 046**	**2 468 229**
-602 957	**NET ASSETS**	**-728 936**	**-746 309**	**-2**	**-771 618**	**-803 889**	**-841 605**
	REPRESENTED BY FUNDS EMPLOYED						
-602 957	Accumulated Funds	-728 936	-746 309	-2	-771 618	-803 889	-841 605
-602 957	**TOTAL FUNDS EMPLOYED**	**-728 936**	**-746 309**	**-2**	**-771 618**	**-803 889**	**-841 605**

Superannuation Unit
Budgeted Statement of Cashflows on Behalf of the Territory

2002-03 Budget $'000		2002-03 Est.Outcome $'000	2003-04 Budget $'000	Var %	2004-05 Estimate $'000	2005-06 Estimate $'000	2006-07 Estimate $'000
	CASH FLOWS FROM OPERATING ACTIVITIES						
	Receipts						
39 169	Cash from Government for EBT	39 169	43 968	12	1 832	0	0
0	Interest Received	5 090	0	-100	0	0	0
15 240	Other Revenue	14 498	15 084	4	15 258	15 432	15 612
54 409	**Operating Receipts**	**58 757**	**59 052**	**1**	**17 090**	**15 432**	**15 612**
	Payments						
39 402	Related to Employees	40 051	44 275	11	50 649	45 087	51 183
3 297	Related to Supplies and Services	3 295	3 464	5	3 309	3 427	3 546
42 699	**Operating Payments**	**43 346**	**47 739**	**10**	**53 958**	**48 514**	**54 729**
11 710	**NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**	**15 411**	**11 313**	**-27**	**-36 868**	**-33 082**	**-39 117**
	CASH FLOWS FROM INVESTING ACTIVITIES						
	Receipts						
207 332	Proceeds from Sale/Maturities of Investments	1 826	2 000	10	52 335	46 766	52 856
207 332	**Investing Receipts**	**1 826**	**2 000**	**10**	**52 335**	**46 766**	**52 856**
	Payments						
467 473	Purchase of Investments	276 045	82 113	-70	112 418	113 058	115 598
467 473	**Investing Payments**	**276 045**	**82 113**	**-70**	**112 418**	**113 058**	**115 598**
-260 141	**NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES**	**-274 219**	**-80 113**	**71**	**-60 083**	**-66 292**	**-62 742**
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
68 800	Capital Injection from Government	68 800	68 800	-	96 951	99 374	101 859
68 800	**Financing Receipts**	**68 800**	**68 800**	**-**	**96 951**	**99 374**	**101 859**
68 800	**NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES**	**68 800**	**68 800**	**-**	**96 951**	**99 374**	**101 859**
-179 631	**NET INCREASE/(DECREASE) IN CASH HELD**	**-190 008**	**0**	**100**	**0**	**0**	**0**
190 711	**CASH AT BEGINNING OF REPORTING PERIOD**	**191 008**	**1 000**	**-99**	**1 000**	**1 000**	**1 000**
11 080	**CASH AT THE END OF THE REPORTING PERIOD**	**1 000**	**1 000**	**-**	**1 000**	**1 000**	**1 000**

Notes to the Budget Statements

Significant variations are as follows:

Statement of Revenue and Expenses on Behalf of the Territory

- payment for expenses on behalf of Territory: the increase of $4.799m in the 2003-04 Budget from the 2002-03 estimated outcome is due to the increase in the annual emerging cost payment made to ComSuper. From 2004-05 this funding will be met through capital injections into the SPA. The $1.832m in 2004-05 represents the estimated MLA emerging cost requirements coinciding with the Legislative Assembly elections;
- interest: the increase of $27.826m in the 2002-03 estimated outcome from the original budget is due to the poor global economic environment and the resultant equity market performances. The SPA delayed the implementation of a more growth-oriented investment asset allocation strategy and all new inflows into the SPA were instead applied to cash. Therefore, investments in cash and fixed interest in the 2002-03 financial year were much higher than anticipated in the original budget. The increase of $2.706m in the 2003-04 Budget from the 2002-03 estimated outcome is due to budgeted higher balances in cash and fixed interest as well as a small increase in the estimated interest rates;
- other revenue: the decrease of $57.927m in the 2002-03 estimated outcome from the original budget is due mainly to the negative equity market performances, both locally and internationally. This has resulted in lower market values for the SPA's equity investments which are expensed. The increase of $11.582m in the 2003-04 Budget from the 2002-03 estimated outcome is mainly due to the SPA budgeting for small increases in the market values of these equity investments;
- superannuation expenses: the increase of $6.898m in the 2002-03 estimated outcome from original budget is due to the latest actuarial review conducted by the ACT Government's actuary using the latest salary data as at 30 June 2002. The increase of $13.221m in the 2003-04 Budget from the 2002-03 estimated outcome is due to the projected increase in the superannuation liability; and
- other expenses: the increase of $58.793m in the 2002-03 estimated outcome from the original budget is mainly due to the expensing of the fall in equity investment values. The decrease of $55.593m in the 2003-04 Budget from the 2002-03 estimated outcome is due to the SPA budgeting for a positive investment return, including increases in the values of equity investments. These increases are recorded as revenue.

Statement of Assets and Liabilities on Behalf of the Territory

- cash: the increase of $1.000m in the 2002-03 estimated outcome from the original budget is due to the SPA holding sufficient working capital to meet day-to-day administration commitments without the need to access invested funds;
- receivables: the decrease in receivables of $2.980m in the 2002-03 estimated outcome from the original budget is due to:
  - through 2002-03 the SPA moved the cash assets from CFU to an external fund manager, this has resulted in the SPA no longer receiving any interest payments directly. Any interest earned is automatically reinvested into the cash fund and any

receivables due at a point in time are included by the Master Custodian through the valuations for each fund;

- through the appointment of the Master Custodian, dividends from the property investments no longer come directly into the SPA but are received by the Custodian. Again, any receivables are included in the fund valuations reported by the Custodian;

- current investments: the increase of $281.120m in the 2002-03 estimated outcome from the original budget is due to the deferral of the implementation of the more growth-oriented asset allocation strategy. Due to the current investment environment, all new monies into the SPA during 2002-03 were applied to cash. This variance is also due to the 2001-02 audited outcome and the reclassification of the cash fund as a current asset. The increase of $11.325m in the 2003-04 Budget from the 2002-03 estimated outcome is the result of interest earnings and flows into and out of the fund during the year due to portfolio rebalancing;
- non current investments: the decrease of $399.073m in the 2002-03 estimated outcome from the original budget is also due to the above deferral of the asset allocation strategy and reclassification of the cash fund assets, as well as the shortfall in investment balances due to the estimated negative investment return for 2002-03, as compared to the original budget investment earnings. The increase of $127.372m in the 2003-04 Budget from the 2002-03 estimated outcome is due to the projected investment earnings, other cash inflows and outflows of the portfolio and portfolio rebalancing; and
- current and non current employee benefits: the increase of $6.063m in the 2002-03 estimated outcome from the original budget is due to the most recent actuarial review of the ACT Government's superannuation liabilities using salary data as at 30 June 2002. The increase of $156.200m in the 2003-04 Budget from the 2002-03 estimated outcome is due to the projected increase in the superannuation liabilities of the Territory.

Changes to Appropriation

Changes to Appropriation - Territorial

Payment for Expenses on Behalf of the Territory	2002-03 Est. Outc. $'000	2003-04 Budget $'000	2004-05 Estimate $'000	2005-06 Estimate $'000	2006-07 Estimate $'000
2002-03 Budget	**39 169**	**43 340**	**1 924**	**96**	**96**
Superannuation Liability Actuarial Review	0	628	-92	-96	-96
2003-04 Budget	**39 169**	**43 968**	**1 832**	**0**	**0**

Changes to Appropriation - Territorial

Capital Injection	2002-03 Est. Outc. $'000	2003-04 Budget $'000	2004-05 Estimate $'000	2005-06 Estimate $'000	2006-07 Estimate $'000
2002-03 Budget	**68 800**	**68 800**	**72 843**	**75 393**	**75 393**
Superannuation Liability Review	0	0	26 685	26 623	29 173
Superannuation Revised Earnings	0	0	-2 577	-2 642	-2 707
2003-04 Budget	**68 800**	**68 800**	**96 951**	**99 374**	**101 859**

EXPENSES ON BEHALF OF THE TERRITORY PRINCIPAL MEASURES
EBT 1: SUPERANNUATION UNIT
Description: Management of the superannuation provision account and administration of the superannuation scheme for members of the Legislative Assembly.

Measures	2002-03 Targets	2002-03 Estimated Outcome	2003-04 Targets
Quantity			
(a) Monitor and review the investment performance of the Superannuation Investment portfolio.	4	4	4
(b) Actuarial revision of Territory superannuation liability.	1	1	1
Quality/Effectiveness			
(c) Ratio of investment return divided by the financial benchmark	>= 1	>= 1	>= 1
Timeliness			
(d) Investment portfolio performance reported quarterly.	15th business day after end quarter	15th business day after end quarter	15th business day after end quarter
(e) Production of annual member statements for MLA superannuation scheme.	End Oct 2002	End Oct 2002	End Oct 2003
Cost			
(f) Cost of provision of Superannuation Unit functions.[1]	$3 639 000	$3 463 000	$3 769 000
TOTAL COST ($'000)[2]	**$183 686.0**	**$249 218.0**	**$207 139.0**
EXPENSE ON BEHALF OF THE TERRITORY ($'000)[3]	**$39 169.0**	**$39 169.0**	**$43 968.0**

Notes

(1) The main contributors to being under budget in 2002-03 are lower salaries, mainly due to two positions being vacant for most of the financial year and the deferral of costs associated with the transition of the portfolio to the new strategic asset allocation. The major difference between the 2002-03 target and the 2003-04 target are the deferred costs of the portfolio transition.

(2) The main factor for variation in the 2002-03 estimated outcome is the expensing of losses on the market values of equity investments due to the poor global economic environment (mark-to-market). The full year projection for asset revaluations is $55.593m. The original budget did not anticipate any losses on investments for the 2002-03 financial year. The increase in the 2003-04 target is increased superannuation expense due to the increasing superannuation liability.

(3) Variation in the 2003-04 target represents the annual emerging cost.