

SUPERANNUATION UNIT

Objectives

The objective of the Superannuation Unit is to assist the Government to effectively manage the superannuation liabilities of the Territory. This objective is supported by a stated funding plan and an investment earnings target.

The Superannuation Unit is responsible for the management of the funds set aside to meet the 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.

2005-06 Highlights

Strategic and operational issues to be pursued in 2005-06 include:

- implementing arrangements pursuant to the closure of the Public Sector Superannuation (PSS) defined benefits scheme and the commencement of the PSS accumulation scheme;
- reviewing the long-term funding strategy for the SPA in the light of the closure of the Commonwealth Superannuation Scheme and PSS defined benefit schemes;
- undertaking a strategic asset allocation review and implementing any changes to the investment portfolio structure as required;
- undertaking policy research and development for the implementation of continuous value-add investment strategies for the Territory; and
- supporting the Government in the consideration of appropriate superannuation arrangements for Members of the Legislative Assembly (MLAs).

Output Classes

	Total Cost		Expenses on Behalf of the Territory	
	2004-05	2005-06	2004-05	2005-06
	Est. outcome \$'000	Budget \$'000	Est. outcome \$'000	Budget \$'000
EBT Class 1				
Superannuation Unit	266 777	293 581	1 351	0
EBT 1 Superannuation Unit	266 777	293 581	1 351	0

Description

Management of Territory Employer Superannuation Liabilities.

The Superannuation Unit will undertake:

- a review of the long-term funding strategy, reflecting the closure of the PSS defined benefit scheme to new employees from 1 July 2005;
- superannuation liability funding by developing and implementing an investment strategy consistent with the outcome of the review of the long-term funding strategy; and
- investment management by developing and implementing a strategic asset allocation sufficient to deliver an average long-term investment return of 5% real within acceptable risk tolerances.

Strategic Indicators

Review of long term funding plan

The Government has a target to achieve a 90% funding level for its superannuation liabilities by June 2040. This long term funding plan will be reviewed in 2005-06 to take account of changes in projected superannuation liabilities following the closure of the defined benefit PSS scheme from 1 July 2005. The review will follow provision of the actuary's report in January 2006, which will update liability estimates based on the data as at 30 June 2005. For further information see Budget Paper No. 3, Part 7.

Achieve average long-term investment return of 5% 'real'

Managing superannuation investments in respect of allocation to investment classes and monitoring of investment manager performance to achieve an average rate of return of 5% 'real' (5%+CPI) over the long-term.

Accountability Indicators

	2004-05 Targets	2004-05 Est. Outcome	2005-06 Targets
1.1 Superannuation Unit			
a. Liability funding percentage	60%	58%	60%
b. Ratio of the investment earnings return divided by the established benchmark	> 1	> 1	> 1

Liability funding percentage outlines, the percentage of superannuation liabilities that are funded by investment assets. The objective of the Government is to improve this funding percentage over time.

Ratio of average investment earnings rate divided by the established benchmark is, a measure of whether investments have outperformed established benchmarks.

Budgeted Financial Results

Section 31 of the *Financial Management Act 1996* (FMA) advises that Chief Executives are responsible for achievement of financial results. For the purpose of Section 31 of the FMA, key budgeted results are specified in the Budget Papers to improve accountability. An outcome of the increased accountability will be the requirement for Chief Executives to explain material variances from specified budgeted results.

In accordance with Section 31 of the FMA, following are the key budgeted results for the Superannuation Unit in 2005-06:

- developing and implementing an investment strategy that will result in the total assets of the SPA being equal to 60% of the total liabilities of the SPA by 30 June 2006, with the long term funding plan to be reviewed during 2005-06; and
- an operating result of better than or equal to \$172.432m deficit.

Changes to Appropriation

Changes to Appropriation - Territorial

	2004-05	2005-06	2006-07	2007-08	2008-09
Payment for Expenses on Behalf of Territory	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2004-05 Budget	1 832	0	0	0	0
2005-06 Budget Technical Adjustments					
MLA Superannuation Benefit Payments	-481	0	0	0	0
2005-06 Budget	1 351	0	0	0	0

Changes to Appropriation - Territorial

	2004-05	2005-06	2006-07	2007-08	2008-09
Capital Injections	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2004-05 Budget	122 182	125 236	128 367	131 576	131 576
2005-06 Budget Technical Adjustments					
Superannuation Liability Review	0	0	0	0	3 290
2005-06 Budget	122 182	125 236	128 367	131 576	134 866

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

2004-05 Budget \$'000		2004-05 Est.Outcome \$'000	2005-06 Budget \$'000	Var %	2006-07 Estimate \$'000	2007-08 Estimate \$'000	2008-09 Estimate \$'000
Income							
Revenue							
1 832	Payment for Expenses on behalf of Territory	1 351	0	-100	0	0	0
350	Interest	500	500	-	500	500	500
93 687	Other Revenue	153 777	120 649	-22	145 867	161 314	177 614
95 869	Total Revenue	155 628	121 149	-22	146 367	161 814	178 114
Gains							
0	Total Gains	0	0	-	0	0	0
95 869	Total Income	155 628	121 149	-22	146 367	161 814	178 114
Expenses							
225	Employee Expenses	329	382	16	248	254	260
246 568	Superannuation Expenses	260 036	286 569	10	286 737	291 991	300 655
3 309	Supplies and Services	3 412	3 630	6	3 546	3 675	3 675
3 000	Other Expenses	3 000	3 000	-	3 000	3 000	3 000
253 102	Total Ordinary Expenses	266 777	293 581	10	293 531	298 920	307 590
-157 233	Operating Result	-111 149	-172 432	-55	-147 164	-137 106	-129 476

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

Budget as at 30/6/05 \$'000		Est.Outcome as at 30/6/05 \$'000	Planned as at 30/6/06 \$'000	Var %	Planned as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000
Current Assets							
1 000	Cash	1 513	1 533	1	1 537	1 542	1 548
463	Receivables	154	154	-	154	154	154
1 463	Total Current Assets	1 667	1 687	1	1 691	1 696	1 702
Non Current Assets							
1 359 606	Investments	1 447 094	1 626 868	12	1 829 509	2 042 190	2 266 537
1 359 606	Total Non Current Assets	1 447 094	1 626 868	12	1 829 509	2 042 190	2 266 537
1 361 069	TOTAL ASSETS	1 448 761	1 628 555	12	1 831 200	2 043 886	2 268 239
Current Liabilities							
60	Payables	17 391	17 384	..	17 375	17 361	17 339
45 974	Employee Benefits	59 536	66 005	11	73 746	81 654	90 548
46 034	Total Current Liabilities	76 927	83 389	8	91 121	99 015	107 887
Non Current Liabilities							
2 121 036	Employee Benefits	2 424 486	2 645 014	9	2 858 724	3 069 046	3 279 137
2 121 036	Total Non Current Liabilities	2 424 486	2 645 014	9	2 858 724	3 069 046	3 279 137
2 167 070	TOTAL LIABILITIES	2 501 413	2 728 403	9	2 949 845	3 168 061	3 387 024
-806 001	NET ASSETS	-1 052 652	-1 099 848	-4	-1 118 645	-1 124 175	-1 118 785
REPRESENTED BY FUNDS EMPLOYED							
-806 001	Accumulated Funds	-1 052 652	-1 099 848	-4	-1 118 645	-1 124 175	-1 118 785
-806 001	TOTAL FUNDS EMPLOYED	-1 052 652	-1 099 848	-4	-1 118 645	-1 124 175	-1 118 785

Superannuation Unit
Budgeted Statement of Cashflows on Behalf of the Territory

2004-05 Budget \$'000		2004-05 Est.Outcome \$'000	2005-06 Budget \$'000	Var %	2006-07 Estimate \$'000	2007-08 Estimate \$'000	2008-09 Estimate \$'000
	CASH FLOWS FROM OPERATING ACTIVITIES						
	Receipts						
1 832	Cash from Government for EBT	1 351	0	-100	0	0	0
15 583	Other Revenue	15 331	15 882	4	16 049	16 205	16 385
17 415	Operating Receipts	16 682	15 882	-5	16 049	16 205	16 385
	Payments						
45 467	Related to Employees	61 386	59 954	-2	66 250	74 017	81 932
3 309	Related to Supplies and Services	3 412	3 630	6	3 546	3 675	3 675
48 776	Operating Payments	64 798	63 584	-2	69 796	77 692	85 607
-31 361	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	-48 116	-47 702	1	-53 747	-61 487	-69 222
	CASH FLOWS FROM INVESTING ACTIVITIES						
	Payments						
90 821	Purchase of Investments	73 623	77 514	5	74 616	70 084	65 638
90 821	Investing Payments	73 623	77 514	5	74 616	70 084	65 638
-90 821	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	-73 623	-77 514	-5	-74 616	-70 084	-65 638
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
122 182	Capital Injection from Government	122 182	125 236	2	128 367	131 576	134 866
122 182	Financing Receipts	122 182	125 236	2	128 367	131 576	134 866
122 182	NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	122 182	125 236	2	128 367	131 576	134 866
0	NET INCREASE/(DECREASE) IN CASH HELD	443	20	-95	4	5	6
1 000	CASH AT BEGINNING OF REPORTING PERIOD	1 070	1 513	41	1 533	1 537	1 542
1 000	CASH AT THE END OF THE REPORTING PERIOD	1 513	1 533	1	1 537	1 542	1 548

Superannuation Unit
Statement of Changes in Equity on Behalf of the Territory

Budget as at 30/6/05 \$'000		Est.Outcome as at 30/6/05 \$'000	Planned as at 30/6/06 \$'000	Var %	Planned as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000
-770 950	Opening Balance	-849 585	-1 052 652	-24	-1 099 848	-1 118 645	-1 124 175
	Accumulated Funds						
0	Net Effect of Change in Accounting Policy	-214 100	0	100	0	0	0
-157 233	Operating Result for the Period	-111 149	-172 432	-55	-147 164	-137 106	-129 476
	Reserves						
-157 233	Total Income And Expense For The Period	-325 249	-172 432	47	-147 164	-137 106	-129 476
	Transactions Involving Equity Holders Affecting Accumulated Funds						
122 182	Capital Injections	122 182	125 236	2	128 367	131 576	134 866
-806 001	Closing Balance	-1 052 652	-1 099 848	-4	-1 118 645	-1 124 175	-1 118 785

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 \$0.481m in the 2004-05 estimated outcome from the original budget is due to the cost of MLA superannuation benefit payments being less than expected following the ACT elections; and
 - the decrease of \$1.351m in the 2005-06 Budget from the 2004-05 estimated outcome is due to the Superannuation Unit expecting no MLA superannuation benefit payments during the 2005-06 financial year.
- other revenue:
 - the increase of \$60.090m in the 2004-05 estimated outcome from the original budget is due to an increase in the investment earnings estimate for the financial year following the strong returns achieved on Australian equity investments; and
 - the decrease of \$33.128m in the 2005-06 Budget from the 2004-05 estimated outcome is due to budgeting for investment earnings at the long term average portfolio return estimate.
- superannuation expenses:
 - the increase of \$13.468m in the 2004-05 estimated outcome from original budget is the result of the latest triennial actuarial review conducted by the Government's consulting actuary recommending an increase of \$15.8m in the emerging cost payment to the Commonwealth, offset by the reduction of \$2.347m in superannuation amortisation expense; and

- the increase of \$26.533m in the 2005-06 Budget from the 2004-05 estimated outcome is due to the estimated growth in superannuation liabilities and the increased emerging cost payment to the Commonwealth.

Statement of Assets and Liabilities on Behalf of the Territory

- non-current investments:
 - the increase of \$87.488m in the 2004-05 estimated outcome from original budget is due to a higher asset base following the 2003-04 audited outcome and the increase to the current year's investment earnings estimate, offset by the increased emerging cost payment made during 2004-05; and
 - the increase of \$179.774m in the 2005-06 Budget from the 2004-05 estimated outcome is due to the reinvestment of projected investment earnings, and the net cash inflows to the portfolio.
- current liabilities: the increase in \$30.893m in the 2004-05 estimated outcome from the original budget is mainly due to an increase in the emerging cost payment (\$11.220m), the cessation of amortisation of actuarial gains/losses (\$2.347m) and the outcome of the 2003-04 audited outcome which resulted in the recognition of \$17.280m in liabilities associated with Totalcare's employee superannuation entitlements.
- non current employee benefits:
 - the increase of \$303.450m in the 2004-05 estimated outcome from the original budget is due to the increased recognition of superannuation liabilities following the latest actuarial review and the increase in superannuation liabilities following the cessation of amortisation of actuarial gains/losses in the 2003-04 audited outcome;
 - the increase of \$220.528m in the 2005-06 Budget from the 2004-05 estimated outcome is due to the projected increase in the superannuation liabilities of the Territory; and
- accumulated funds: the decrease in the 2004-05 estimated outcome from the original budget is mainly due to the early adoption of international accounting standards in relation to superannuation liabilities (\$214m) and the net effect of the 2003-04 audited outcome.

Statement of Cash Flows on Behalf of the Territory

- payments related to employees:
 - the increase of \$15.919m in the 2004-05 estimated outcome from the original budget is due mainly to the increased emerging cost payment to the Commonwealth of \$15.8m. This comprised an emerging cost payment increase of \$10.483m and an emerging cost deficit of \$5.317m; and
 - the decrease of \$1.432m in the 2005-06 Budget from the 2004-05 estimated outcome is due to the projected increase in the emerging cost payment being offset by no emerging cost deficit estimate.

- purchase of investments:
 - the decrease of \$17.198m in the 2004-05 estimated outcome from the original budget is due mainly to the increased emerging cost payment to the Commonwealth directing funds away from being invested.

