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 ACT Government in managing its superannuation liabilities. The SPA is not a superannuation scheme, but an ACT Government account that receives appropriations and makes payments in connection with the ACT 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.

2002-03 Highlights

Strategic and operational issues to be pursued in 2002-03 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 full review of all external fund managers and make new appointments (where required) to complement the review of the investment strategy;
- implementing new investment strategies; and
- refining and documenting administrative policies and procedures for investments and the superannuation liability.

Budgeted Financial Targets

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 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 2003 being 71%; and
- developing and implementing a strategic asset allocation sufficient to deliver an average investment return of 5% 'real' over the period to 2039-40, including 5% for the 2002-03 financial year.

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

2001-02 Budget $'000		2001-02 Est.Outcome $'000	2002-03 Budget $'000	Var %	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
	Revenue						
33 400	Payment for Expenses on behalf of Territory	33 400	39 169	17	43 340	1 924	96
19 632	Interest	25 789	6 853	-73	7 940	9 126	10 168
57 188	Other Revenue	26 718	85 958	222	96 884	108 772	119 111
110 220	**Total Ordinary Revenue**	**85 907**	**131 980**	**54**	**148 164**	**119 822**	**129 375**
	Expenses						
306	Employee Expenses	306	305	..	277	274	278
146 523	Superannuation Expenses	177 395	180 086	2	194 897	209 399	227 456
3 445	Administrative Expenses	3 445	3 295	-4	3 114	3 183	3 257
0	Other Expenses	50 789	0	-100	0	0	0
150 274	**Total Ordinary Expenses**	**231 935**	**183 686**	**-21**	**198 288**	**212 856**	**230 991**
-40 054	**Operating Result**	**-146 028**	**-51 706**	**65**	**-50 124**	**-93 034**	**-101 616**
-538 983	**Total Equity From Start of Period**	**-524 023**	**-620 051**	**-18**	**-602 957**	**-584 281**	**-604 472**
50 000	Capital Injections	50 000	68 800	38	68 800	72 843	75 393
-529 037	**Total Equity At The End of Period**	**-620 051**	**-602 957**	**3**	**-584 281**	**-604 472**	**-630 695**

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

Budget as at 30/6/02 $'000		Est.Outcome as at 30/6/02 $'000	Planned as at 30/6/03 $'000	Var %	Planned as at 30/6/04 $'000	Planned as at 30/6/05 $'000	Planned as at 30/6/06 $'000
	Current Assets						
1 109	Receivables	2 938	3 016	3	3 095	3 180	3 265
1 109	**Total Current Assets**	**2 938**	**3 016**	**3**	**3 095**	**3 180**	**3 265**
	Non Current Assets						
1 056 436	Investments	990 947	1 149 035	16	1 319 354	1 470 149	1 629 829
1 056 436	**Total Non Current Assets**	**990 947**	**1 149 035**	**16**	**1 319 354**	**1 470 149**	**1 629 829**
1 057 545	**TOTAL ASSETS**	**993 885**	**1 152 051**	**16**	**1 322 449**	**1 473 329**	**1 633 094**
	Current Liabilities						
137	Payables	88	173	97	267	371	485
56 582	Employee Entitlements	56 312	59 801	6	55 116	60 116	67 067
56 719	**Total Current Liabilities**	**56 400**	**59 974**	**6**	**55 383**	**60 487**	**67 552**
	Non Current Liabilities						
1 529 863	Employee Entitlements	1 557 536	1 695 034	9	1 851 347	2 017 314	2 196 237
1 529 863	**Total Non Current Liabilities**	**1 557 536**	**1 695 034**	**9**	**1 851 347**	**2 017 314**	**2 196 237**
1 586 582	**TOTAL LIABILITIES**	**1 613 936**	**1 755 008**	**9**	**1 906 730**	**2 077 801**	**2 263 789**
-529 037	**NET ASSETS**	**-620 051**	**-602 957**	**3**	**-584 281**	**-604 472**	**-630 695**
	REPRESENTED BY FUNDS EMPLOYED						
-529 037	Accumulated Funds	-620 051	-602 957	3	-584 281	-604 472	-630 695
-529 037	**TOTAL FUNDS EMPLOYED**	**-620 051**	**-602 957**	**3**	**-584 281**	**-604 472**	**-630 695**

Superannuation Unit
Budgeted Statement of Cashflows on Behalf of the Territory

2001-02 Budget $'000		2001-02 Est.Outcome $'000	2002-03 Budget $'000	Var %	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
	CASH FLOWS FROM OPERATING ACTIVITIES						
	Receipts						
33 400	Cash from Government for EBT	33 400	39 169	17	43 340	1 924	96
670	Interest Received	10 996	0	-100	0	0	0
14 985	Other Revenue	14 679	15 240	4	15 398	15 544	15 663
49 055	**Operating Receipts**	**59 075**	**54 409**	**-8**	**58 738**	**17 468**	**15 759**
	Payments						
33 493	Related to Employees	36 955	39 402	7	43 547	38 705	41 859
3 445	Related to Administration	3 445	3 297	-4	3 113	3 184	3 258
36 938	**Operating Payments**	**40 400**	**42 699**	**6**	**46 660**	**41 889**	**45 117**
12 117	**NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**	**18 675**	**11 710**	**-37**	**12 078**	**-24 421**	**-29 358**
	CASH FLOWS FROM INVESTING ACTIVITIES						
	Receipts						
113 803	Proceeds from Sale/Maturities of Investments	16 690	207 332	#	53 672	46 018	45 298
113 803	**Investing Receipts**	**16 690**	**207 332**	**#**	**53 672**	**46 018**	**45 298**
	Payments						
175 920	Purchase of Investments	28 272	467 473	#	132 668	92 950	89 857
175 920	**Investing Payments**	**28 272**	**467 473**	**#**	**132 668**	**92 950**	**89 857**
-62 117	**NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES**	**-11 582**	**-260 141**	**#**	**-78 996**	**-46 932**	**-44 559**
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
50 000	Capital Injection from Government	50 000	68 800	38	68 800	72 843	75 393
50 000	**Financing Receipts**	**50 000**	**68 800**	**38**	**68 800**	**72 843**	**75 393**
50 000	**NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES**	**50 000**	**68 800**	**38**	**68 800**	**72 843**	**75 393**

Superannuation Unit
Budgeted Statement of Cashflows on Behalf of the Territory

2001-02 Budget $'000		2001-02 Est.Outcome $'000	2002-03 Budget $'000	Var %	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
0	**NET INCREASE/(DECREASE) IN CASH HELD**	57 093	-179 631	-415	1 882	1 490	1 476
0	**CASH AT BEGINNING OF REPORTING PERIOD**	133 618	190 711	43	11 080	12 962	14 452
0	**CASH AT THE END OF THE REPORTING PERIOD**	190 711	11 080	-94	12 962	14 452	15 928

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 $5.769m in the 2002-03 Budget from the 2001-02 estimated outcome is due to the annual increase in the emerging cost payment to be made to Comsuper. The emerging cost payments will increase annually due to salary increases as benefit recipients retire from the workforce;
- interest: the increase of $6.157m in 2001-02 from the original budget is due to the higher than budgeted investment balance in cash and fixed interest. This was the result of the strategic asset allocation review and the deferring of all allocation decisions until its completion. The decrease of $18.936m in the 2002-03 Budget from the 2001-02 estimated outcome is also due to the current review of the SPA investment portfolio's strategic asset allocation. The amended asset allocation strategy will result in a substantial shift out of defensive assets into growth assets in 2002-03, resulting in income derived from interest being reduced;
- other revenue: the decrease of $30.470 in 2001-02 from the original budget is due to the lower investment allocation to equities than previously budgeted. Combined with this, financial market performance for 2001-02 has been poor, resulting in lower dividend income and lower net market values. The increase of $59.240m in the 2002-03 Budget from the 2001-02 estimated outcome is due mainly to the budgeted increase in equity investments due to the strategic asset allocation review and an improved earnings outlook in global equity markets for 2002-03 as compared to the estimated outcome in 2001-02;
- superannuation expenses: the increase of $30.872m in 2001-02 from the original budget is due to the latest major tri-ennial actuarial review conducted on the ACT Government's superannuation liability which was completed in early 2002. The increase in the 2002-03 Budget of $2.691m from the 2001-02 estimated outcome represents the increase in the projected superannuation liability from 2001-02 to 2002-03 as well as the annual emerging cost payment to be made to Comsuper;

- other expenses: the increase of $50.789m in 2001-02 from the original budget is due to the expensing of equity investment revaluations (revenue) for 2001-02 as returns were negative. It is expected that equity valuations will be positive during 2002-03 due to a more favourable equity market outlook globally and as such are included as part of the other revenue estimate; and
- capital injections: the increase of $18.8m in the 2002-03 Budget from the 2001-02 estimated outcome represents additional cash provisions in line with the 90% funding level strategy.

Statement of Assets and Liabilities on Behalf of the Territory

- receivables: the increase of $1.829m in 2001-02 from the original budget reflects an accrued property dividend that will be paid in 2002-03;
- investments: the decrease of $65.489m in 2001-02 from the original budget is due to the downward revision of investment earnings for 2001-02. The increase of $158.088m in the 2002-03 Budget from the 2001-02 estimated outcome is due to the growth in investment assets from the budgeted investment returns and the planned injections into the fund for 2002-03. With the completion of the strategic asset allocation review in early 2002-03, the portfolio will see substantial restructuring, with a move to 85% growth assets from the current strategic asset allocation to growth of 64%; and
- current and non-current employee entitlements: the increase of $27.403m in 2001-02 from the original budget and the increase of $140.987m in the 2002-03 Budget from the 2001-02 estimated outcome are due to adjustments arising from actuarial advice. The projected accrued liability estimates were updated early in the 2002 calender year by the Territory's actuary and are based on the most recent actual data available, that being data as at 30 June 2001.

Statement of Cashflows on Behalf of the Territory

- proceeds from sale/maturities of investments: the decrease of $97.113m in 2001-02 from the original budget is due to cash equivalent related investments not being reported. The increase of $190.642m in 2002-03 from the estimated outcome is due to the budgeted strategic asset reallocation of the investment portfolio; and
- purchase of investments: the decrease of $147.648m in 2001-02 from the original budget is due to cash equivalent related investments not being reported. The increase of $439.201m in 2002-03 from the estimated outcome is due to the budgeted strategic asset reallocation of the investment portfolio.

Changes to Appropriation

Changes to Appropriation - Territorial

Payment for Expenses on Behalf of the Territory	2001-02 Est. Outc. $'000	2002-03 Budget $'000	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
2001-02 Budget	**33 400**	**36 019**	**31 785**	**0**	**0**
Superannuation liability review - 2001-02	0	3 497	11 881	0	0
Emerging cost adjustment	0	- 347	- 326	1 924	96
2002-03 Budget	**33 400**	**39 169**	**43 340**	**1 924**	**96**

Changes to Appropriation - Territorial

Capital Injection	2001-02 Est. Outc. $'000	2002-03 Budget $'000	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
2001-02 Budget	**50 000**	**50 000**	**50 000**	**50 000**	**50 000**
90% Funding Strategy	0	18 800	18 800	22 843	25 393
2002-03 Budget	**50 000**	**68 800**	**68 800**	**72 843**	**75 393**

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	2001-02 Targets	2001-02 Est. Outcome	2002-03 Targets
Quantity			
(a) Financial and investment performance reports. [1]	17	25	–
(b) Develop guidelines for implementation of revised superannuation arrangements. [3]	1 project	Modified to (b1)	–
(b1) Develop guidelines for implementation of revised superannuation arrangements. [1]	–	May 2002	–
(c) Number of activities in managing the superannuation scheme for Legislative Assembly Members.[1]	19	19	–
(d) Monitor and review the investment performance of the Superannuation Investment portfolio.[2]	–	–	4
(e) Actuarial revision of Territory superannuation liability. [2]	–	–	1
Quality/Effectiveness			
(f) Reports meet relevant guidelines. [1]	100%	100%	–
(g) Quarterly investment returns meet benchmark/follow up action taken. [1]	100%	100%	–
(h) Reviews rated satisfactory according to *ACT Government Policy Performance Measures*. [4]	100%	–	–
(i) Annual report meets relevant guidelines. [5]	100%	–	–
(j) Ratio of investment return divided by the financial benchmark[2]	–	–	>= 1
Timeliness			
(k) Reports completed within specified timeframes. [1]	95%	75%	–
(l) Superannuation investment results analysed within 2 weeks of receipt. [1]	100%	100%	–
(m) Investment portfolio performance reported quarterly. [2]	–	–	15th business day after end quarter
(n) Production of annual member statements for MLA superannuation scheme. [2]	–	–	End Oct 2002
Cost			
(o) Cost of provision of Superannuation Unit functions. [6]	$3,790,000	$3,790,000	$3,639,000
(p) Cost per 1000 head of population. [7]	$12 136	–	–
(q) Cost per ACT Public Service employee. [7]	$214	–	–
TOTAL COST ($'000) [8]	**$150 274.0**	**$231 935.0**	**$183 686.0**
EXPENSE ON BEHALF OF THE TERRITORY ($'000) [9]	**$33 400.0**	**$33 400.0**	**$39 169.0**

Notes

This output class has been reviewed with the result being a significant change to the performance measures.

(1) Measures discontinued. These are activity-based measures that do not adequately reflect output.

(2) New measures. These replace activity-based measures that do not adequately reflect output.

(3) Target modified during 2001-02 to better reflect output.

(4) Measure discontinued during 2001-02. This measure does not adequately reflect output. The Superannuation Unit does not provide any services to public customers.

(5) Measure discontinued during 2001-02. This measure duplicates measure (d).

(6) Variance is due to identified cost savings with early payments to ComSuper and internal administration expenses.

(7) Measure discontinued during 2001-02. This measure is not a meaningful measure of cost of output.

(8) Variance between original budget and estimated outcome for 2001-02 is due to the increase in superannuation expenses following the recent tri-ennial actuarial review of the superannuation liability and the expensing of equity revaluations during the financial year. The variance between 2001-02 estimated outcome and 2002-03 is due mainly to equity revaluations being estimated to be positive and hence included in the revenue estimates.

(9) Variance between the 2001-02 estimated outcome and 2002-03 is due to the superannuation liability actuarial review and the associated increase in the emerging cost payment.