

## **SUPERANNUATION UNIT**

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### **Objectives**

The objective of the Superannuation Unit is to assist the Government to effectively manage the defined benefit employer 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 investment funds set aside to meet the liabilities of the Territory relating to employee 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 for ACT Government employees, but a Government account that receives appropriations and makes payments in connection with the Government's superannuation liabilities.

The SPA receives appropriations from the Budget and complies with the *Territory Superannuation Provision Protection Act 2000*.

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 liabilities and projected cash flow requirements.

The Superannuation Unit utilises the services of an asset consultant, an actuary and the Finance and Investment Advisory Board to provide advice in respect of the superannuation assets and liabilities of the Territory.

### **2006-07 Priorities**

Strategic and operational issues to be pursued in 2006-07 include:

- managing an investment portfolio of approximately \$1.8 billion in assets;
- undertaking a strategic asset allocation review and implementing changes to the investment portfolio as required;
- undertaking policy research and development for the implementation of continuous value-adding investment strategies for the Territory; and
- undertaking an annual actuarial review of the Territory's defined benefit Commonwealth Superannuation Scheme / Public Superannuation Scheme (CSS/PSS) superannuation liabilities.

## Output Classes

	Total Cost		Expenses on Behalf of the Territory	
	2005-06 Est. outcome \$'000	2006-07 Budget \$'000	2005-06 Est. outcome \$'000	2006-07 Budget \$'000
<b>EBT Class 1: Superannuation Unit</b>	324,869	337,101	0	17,280
<b>EBT 1 Superannuation Unit</b>	324,869	337,101	0	17,280

### *Description*

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

The key outputs to be delivered in 2006-07 include:

- assisting the Government to effectively manage the net superannuation liabilities of the Territory through the operations of the SPA;
- managing the investment assets set aside to meet the superannuation liabilities of the Territory by developing, implementing and monitoring a strategic asset allocation, sufficient to deliver an average investment return of 5 per cent real (net of inflation and fees), within acceptable risk tolerances, over the projected life of the investment portfolio;
- monitoring and managing the performance of the Territory's investment managers and investment service providers; and
- undertaking an annual actuarial review of the Territory's defined benefit CSS/PSS superannuation liabilities.

## Strategic Indicators

### Strategic Indicator 1

Superannuation liability funding percentage

The Superannuation Unit aims to assist the Government with the efficient and effective management, and eventual extinguishment, of employee defined benefit superannuation liabilities. 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.

### Strategic Indicator 2

Achievement of investment returns greater than benchmark

The Superannuation Unit aims to maintain a selection of investment managers and a mix of superannuation assets to deliver returns of greater than established performance benchmarks.

### Strategic Indicator 3

Achievement of an average long-term investment return of 5per cent 'real'

The Superannuation unit aims to achieve an average rate of 'real' return of 5 per cent (5 per cent + CPI, net of fees) over the projected life of the investment portfolio.

## Accountability Indicators

	2005-06 Targets	2005-06 Est. Outcome	2006-07 Targets
<b>1.1 Superannuation Unit</b>			
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 <sup>1</sup>	n/a	> 6%	> 5%
c. Liability funding percentage <sup>2</sup>	60%	62%	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.

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

### Notes

1. New measure.
2. Discontinued measure.

## Changes to Appropriation

### Changes to Appropriation - Territorial

	2005-06	2006-07	2007-08	2008-09	2009-10
Payment for Expenses on Behalf of Territory	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2005-06 Budget</b>	-	-	-	-	-
<b>2006-07 Budget Policy Adjustments</b>					
Totalcare Superannuation Liabilities	-	17,280	-	-	-
<b>2006-07 Budget</b>	-	<b>17,280</b>	-	-	-

### Changes to Appropriation - Territorial

	2005-06	2006-07	2007-08	2008-09	2009-10
Capital Injections	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2005-06 Budget</b>	<b>125,236</b>	<b>128,367</b>	<b>131,576</b>	<b>134,866</b>	<b>134,866</b>
<b>2006-07 Budget Technical Adjustments</b>					
Revised Indexation Parameters	-	-	-	-	3,372
Funding Plan 90% by 2040	-	(46,467)	(47,628)	(48,820)	(50,041)
Funding Plan 100% by 2030	-	25,100	25,727	26,371	27,030
<b>2006-07 Budget</b>	<b>125,236</b>	<b>107,000</b>	<b>109,675</b>	<b>112,417</b>	<b>115,227</b>

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

2005-06 Budget \$'000		2005-06 Est.Outcome \$'000	2006-07 Budget \$'000	Var %	2007-08 Estimate \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
<b>Income</b>							
<b>Revenue</b>							
0	Payment for Expenses on behalf of Territory	0	17,280	#	0	0	0
500	Interest	23,863	27,810	17	23,660	18,897	20,575
120,649	Other Revenue	246,412	119,112	-52	137,386	158,641	164,638
<b>121,149</b>	<b>Total Revenue</b>	<b>270,275</b>	<b>164,202</b>	<b>-39</b>	<b>161,046</b>	<b>177,538</b>	<b>185,213</b>
<b>Gains</b>							
<b>0</b>	<b>Total Gains</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>121,149</b>	<b>Total Income</b>	<b>270,275</b>	<b>164,202</b>	<b>-39</b>	<b>161,046</b>	<b>177,538</b>	<b>185,213</b>
<b>Expenses</b>							
382	Employee Expenses	400	412	3	422	271	278
286,569	Superannuation Expenses	316,150	322,944	2	324,934	336,172	345,821
3,630	Supplies and Services	4,019	4,145	3	4,125	4,227	4,332
3,000	Other Expenses	4,300	9,600	123	9,900	12,480	5,500
<b>293,581</b>	<b>Total Ordinary Expenses</b>	<b>324,869</b>	<b>337,101</b>	<b>4</b>	<b>339,381</b>	<b>353,150</b>	<b>355,931</b>
<b>-172,432</b>	<b>Operating Result</b>	<b>-54,594</b>	<b>-172,899</b>	<b>-217</b>	<b>-178,335</b>	<b>-175,612</b>	<b>-170,718</b>

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

Budget as at 30/6/06 \$'000		Est.Outcome as at 30/6/06 \$'000	Planned as at 30/6/07 \$'000	Var %	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000
	<b>Current Assets</b>						
1,533	Cash	2,500	2,500	-	2,500	2,500	2,500
154	Receivables	0	0	-	0	0	0
<b>1,687</b>	<b>Total Current Assets</b>	<b>2,500</b>	<b>2,500</b>	<b>-</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>
	<b>Non Current Assets</b>						
1,626,868	Investments	1,799,255	1,995,021	11	2,183,360	2,381,595	2,589,037
<b>1,626,868</b>	<b>Total Non Current Assets</b>	<b>1,799,255</b>	<b>1,995,021</b>	<b>11</b>	<b>2,183,360</b>	<b>2,381,595</b>	<b>2,589,037</b>
<b>1,628,555</b>	<b>TOTAL ASSETS</b>	<b>1,801,755</b>	<b>1,997,521</b>	<b>11</b>	<b>2,185,860</b>	<b>2,384,095</b>	<b>2,591,537</b>
	<b>Current Liabilities</b>						
17,384	Payables	0	0	-	0	0	0
66,005	Employee Benefits	61,271	67,893	11	74,663	82,746	91,883
<b>83,389</b>	<b>Total Current Liabilities</b>	<b>61,271</b>	<b>67,893</b>	<b>11</b>	<b>74,663</b>	<b>82,746</b>	<b>91,883</b>
	<b>Non Current Liabilities</b>						
2,645,014	Employee Benefits	2,846,316	3,101,359	9	3,351,588	3,604,935	3,858,731
<b>2,645,014</b>	<b>Total Non Current Liabilities</b>	<b>2,846,316</b>	<b>3,101,359</b>	<b>9</b>	<b>3,351,588</b>	<b>3,604,935</b>	<b>3,858,731</b>
<b>2,728,403</b>	<b>TOTAL LIABILITIES</b>	<b>2,907,587</b>	<b>3,169,252</b>	<b>9</b>	<b>3,426,251</b>	<b>3,687,681</b>	<b>3,950,614</b>
<b>-1,099,848</b>	<b>NET ASSETS</b>	<b>-1,105,832</b>	<b>-1,171,731</b>	<b>-6</b>	<b>-1,240,391</b>	<b>-1,303,586</b>	<b>-1,359,077</b>
	<b>REPRESENTED BY FUNDS EMPLOYED</b>						
-1,099,848	Accumulated Funds	-1,105,832	-1,171,731	-6	-1,240,391	-1,303,586	-1,359,077
<b>-1,099,848</b>	<b>TOTAL FUNDS EMPLOYED</b>	<b>-1,105,832</b>	<b>-1,171,731</b>	<b>-6</b>	<b>-1,240,391</b>	<b>-1,303,586</b>	<b>-1,359,077</b>

**Superannuation Unit**  
**Budgeted Statement of Cashflows on Behalf of the Territory**

2005-06 Budget \$'000		2005-06 Est.Outcome \$'000	2006-07 Budget \$'000	Var %	2007-08 Estimate \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
	<b>Receipts</b>						
0	Cash from Government for EBT	0	17,280	#	0	0	0
0	Interest Received	250	250	-	250	250	250
15,882	Other Revenue	13,802	5,360	-61	5,360	7,640	360
<b>15,882</b>	<b>Operating Receipts</b>	<b>14,052</b>	<b>22,890</b>	<b>63</b>	<b>5,610</b>	<b>7,890</b>	<b>610</b>
	<b>Payments</b>						
59,954	Related to Employees	58,537	61,728	5	68,360	74,958	83,048
3,630	Related to Supplies and Services	4,019	4,145	3	4,125	4,227	4,332
0	Other	4,300	9,600	123	9,900	12,480	5,500
<b>63,584</b>	<b>Operating Payments</b>	<b>66,856</b>	<b>75,473</b>	<b>13</b>	<b>82,385</b>	<b>91,665</b>	<b>92,880</b>
<b>-47,702</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>-52,804</b>	<b>-52,583</b>	<b>..</b>	<b>-76,775</b>	<b>-83,775</b>	<b>-92,270</b>
	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
	<b>Payments</b>						
77,514	Purchase of Investments	72,459	54,417	-25	32,900	28,642	22,957
<b>77,514</b>	<b>Investing Payments</b>	<b>72,459</b>	<b>54,417</b>	<b>-25</b>	<b>32,900</b>	<b>28,642</b>	<b>22,957</b>
<b>-77,514</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>-72,459</b>	<b>-54,417</b>	<b>25</b>	<b>-32,900</b>	<b>-28,642</b>	<b>-22,957</b>
	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
	<b>Receipts</b>						
125,236	Capital Injection from Government	125,236	107,000	-15	109,675	112,417	115,227
<b>125,236</b>	<b>Financing Receipts</b>	<b>125,236</b>	<b>107,000</b>	<b>-15</b>	<b>109,675</b>	<b>112,417</b>	<b>115,227</b>
<b>125,236</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>125,236</b>	<b>107,000</b>	<b>-15</b>	<b>109,675</b>	<b>112,417</b>	<b>115,227</b>
<b>20</b>	<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>-27</b>	<b>0</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>1,513</b>	<b>CASH AT BEGINNING OF REPORTING PERIOD</b>	<b>2,527</b>	<b>2,500</b>	<b>-1</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>
<b>1,533</b>	<b>CASH AT THE END OF THE REPORTING PERIOD</b>	<b>2,500</b>	<b>2,500</b>	<b>-</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>

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

Budget as at 30/6/06 \$'000		Est.Outcome as at 30/6/06 \$'000	Planned as at 30/6/07 \$'000	Var %	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000
-1,052,652	<b>Opening Balance</b>	-1,029,279	-1,105,832	-7	-1,171,731	-1,240,391	-1,303,586
	<b>Accumulated Funds</b>						
0	Superannuation Prior Year Actuarial Movement	-147,195	0	100	0	0	0
-172,432	Operating Result for the Period	-54,594	-172,899	-217	-178,335	-175,612	-170,718
	<b>Reserves</b>						
-172,432	<b>Total Income And Expense For The Period</b>	-201,789	-172,899	14	-178,335	-175,612	-170,718
	<b>Transactions Involving Equity Holders Affecting Accumulated Funds</b>						
125,236	Capital Injections	125,236	107,000	-15	109,675	112,417	115,227
-1,099,848	<b>Closing Balance</b>	-1,105,832	-1,171,731	-6	-1,240,391	-1,303,586	-1,359,077

### 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 increase of \$17.280 million in the 2006-07 Budget from the 2005-06 estimated outcome is in relation to anticipated superannuation expenses for Totalcare;
- interest:
  - the increase of \$23.363 million in the 2005-06 estimated outcome from the original budget is due to the reclassification of unit trust investment earnings from capital gains to interest, dividends and capital gains;
  - the increase of \$3.947 million in the 2006-07 Budget from the 2005-06 estimated outcome is due to the increase in the cash rate and projected growth in funds under management;
- other revenue:
  - the increase of \$125.763 million in the 2005-06 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;
  - the decrease of \$127.3 million in the 2006-07 Budget from the 2005-06 estimated outcome is due to budgeting for investment earnings at the long term average portfolio return estimate and the receipt of payments from Totalcare relating to its past employee superannuation liability;



- superannuation expenses:
  - the increase of \$29.581 million in the 2005-06 estimated outcome from the original budget is the result of the latest triennial actuarial review conducted by the Government’s consulting actuary; and
  - the increase of \$6.794 million in the 2006-07 Budget from the 2005-06 estimated outcome is due to the estimated growth in superannuation liabilities and the increased emerging cost payment to the Australian Government.
- other expenses:
  - the increase of \$1.3 million in the 2005-06 estimated outcome from the original budget is due to an increase in fund manager fees flowing from an increase in assets under management; and
  - the increase of \$5.3 million in the 2006-07 Budget from the 2005-06 estimated outcome is due to superannuation expenses relating to Totalcare past employees.

#### *Statement of Assets and Liabilities on Behalf of the Territory*

- non-current investments:
  - the increase of \$172.387 million in the 2005-06 estimated outcome from the original budget is due to a higher asset base following the 2004-05 audited outcome and the increase to the current year’s investment earnings estimate;
  - the increase of \$195.766 million in the 2006-07 Budget from the 2005-06 estimated outcome is due to the reinvestment of projected investment earnings, and the net cash inflows to the portfolio;
- current liabilities:
  - the decrease of \$22.118 million in the 2005-06 estimated outcome from the original budget is mainly due to recognition of the Totalcare estimated superannuation liability as a non-current liability;
  - the increase of \$6.622 million in the 2006-07 Budget from the 2005-06 estimated outcome is due to the estimated growth in annual benefit payments to ComSuper;
- non current employee benefits:
  - the increase of \$201.302 million in the 2005-06 estimated outcome from the original budget is due to the recognition of additional superannuation liabilities following the latest actuarial review; and
  - the increase of \$255.043 million in the 2006-07 Budget from the 2005-06 estimated outcome is due to the projected increase in the superannuation liabilities of the Territory.

#### *Cashflow Statement*

- capital injection from Government: the decrease of \$18.236 million in the 2006-07 Budget from the 2005-06 estimated outcome reflects and adjustment to the funding of superannuation liabilities, under the Government’s plan to fund 100 per cent of accrued superannuation liabilities by 30 June 2030. The revised long-term funding plan reflects lower levels of unfunded superannuation liabilities following the closure of the PSS to new entrants from 1 July 2005.

