

## **SUPERANNUATION PROVISION ACCOUNT**

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### **Objectives**

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 Superannuation Provision Account (SPA) is a banking account established to recognise the investment assets and defined benefit employer superannuation 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.

### **2008-09 Priorities**

Strategic and operational issues to be pursued in 2008-09 include:

- managing an investment portfolio of approximately \$2.3 billion in assets;
- implementing changes to the investment portfolio, as required, as a result of the strategic investment review completed in 2007-08;
- continuing with the implementation of the outcomes of the *Review of the Application of Environmental, Social and Governance Issues to Territory Investment Practices*; and
- completing of the triennial actuarial review of the defined benefit employer superannuation liabilities of the Territory.

## Estimated Employment Level

2007-08 Budget		2007-08 Est. Outcome	2008-09 Budget
6	Staffing (FTE)	6	8

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

### Strategic Indicator 3

Superannuation liability funding percentage

The Government is committed to the effective management, and eventual extinguishment, of unfunded CSS/PSS defined benefit employer superannuation liabilities. A target of 100% funding of defined benefit employer superannuation liabilities by 30 June 2030 has been established. 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.

## Output Classes

	Total Cost		Expenses on Behalf of the Territory	
	2007-08 Est. outcome \$'000	2008-09 Budget \$'000	2007-08 Est. outcome \$'000	2008-09 Budget \$'000
<b>EBT Class 1: Superannuation Provision Account</b>	523,235	356,923	1,637	7,736
<b>EBT 1: Superannuation Provision Account</b>	523,235	356,923	1,637	7,736

### *Description*

This output involves the management of the Territory's defined benefit employer superannuation liabilities and investment assets.

The key outputs to be delivered in 2008-09 include:

- managing the investment assets set aside to meet the CSS/PSS defined benefit employer superannuation liabilities of the Territory by monitoring the investment strategy;
- 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 the major triennial actuarial review of the Territory's CSS/PSS defined benefit employer superannuation liabilities;
- implementing the Government's decisions in response to the report on the *Review of the Application of Environmental, Social and Governance Issues to Territory Investment Practices*;
- determination of benefit entitlements for Members of the Legislative Assembly Superannuation Scheme; and
- preparation of annual Member Information Statements for the Members of the Legislative Assembly Superannuation Scheme.

## Accountability Indicators

	2007-08 Targets	2007-08 Est. Outcome	2008-09 Targets
<b>1.1 Superannuation Provision Account</b>			
a. Ratio of the investment earnings return divided by the established benchmark	> 1.0	>1.0	> 1.0
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.			
b. Annualised long-term return of 5% real	> 5%	> 5%	> 5%
The annualised real return of the portfolio (net of inflation and fees) is a measure of the average annual compounded return achieved over time. This measure is updated annually.			
c. Liability funding percentage <sup>1</sup>	n/a	65%	63%
The percentage of superannuation liabilities that are covered by the investment assets is a measure of the level of liability funding.			

**Note:**

1. New measure.

## Changes to Appropriation

### Changes to Appropriation - Territorial

	2007-08	2008-09	2009-10	2010-11	2011-12
Payment for Expenses on Behalf of Territory	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2007-08 Budget</b>	<b>15,780</b>	-	-	-	-
<b>FMA Section 16B Rollover from 2006-07</b>					
Totalcare Superannuation Liability	1,500	-	-	-	-
<b>2008-09 Budget Technical Adjustments</b>					
Rollover - Totalcare Superannuation Liability	(11,985)	7,736	4,249		
Reduced - Totalcare Superannuation Liability	(3,658)	-	-	-	-
<b>2008-09 Budget</b>	<b>1,637</b>	<b>7,736</b>	<b>4,249</b>	-	-

### Changes to Appropriation - Territorial

	2007-08	2008-09	2009-10	2010-11	2011-12
Capital Injections	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2007-08 Budget</b>	<b>130,500</b>	<b>133,763</b>	<b>137,107</b>	<b>140,534</b>	<b>140,534</b>
<b>2008-09 Budget Technical Adjustments</b>					
Revised Indexation Parameters	-	-	-	-	3,513
<b>2008-09 Budget</b>	<b>130,500</b>	<b>133,763</b>	<b>137,107</b>	<b>140,534</b>	<b>144,047</b>

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

<b>2007-08 Budget \$'000</b>		<b>2007-08 Est.Outcome \$'000</b>	<b>2008-09 Budget \$'000</b>	<b>Var %</b>	<b>2009-10 Estimate \$'000</b>	<b>2010-11 Estimate \$'000</b>	<b>2011-12 Estimate \$'000</b>
<b>Income</b>							
<b>Revenue</b>							
15,780	Payment for Expenses on behalf of Territory	1,637	7,736	373	4,249	0	0
25,437	Interest	30,150	26,787	-11	19,023	20,861	22,674
143,013	Other Revenue	83,088	148,180	78	169,293	180,599	195,760
<b>184,230</b>	<b>Total Revenue</b>	<b>114,875</b>	<b>182,703</b>	<b>59</b>	<b>192,565</b>	<b>201,460</b>	<b>218,434</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>184,230</b>	<b>Total Income</b>	<b>114,875</b>	<b>182,703</b>	<b>59</b>	<b>192,565</b>	<b>201,460</b>	<b>218,434</b>
<b>Expenses</b>							
447	Employee Expenses	657	683	4	710	738	768
343,215	Superannuation Expenses	337,661	344,856	2	356,615	368,389	405,428
4,516	Supplies and Services	5,624	6,184	10	6,339	6,497	6,659
9,900	Other Expenses	179,293	5,200	-97	5,500	5,800	6,100
<b>358,078</b>	<b>Total Ordinary Expenses</b>	<b>523,235</b>	<b>356,923</b>	<b>-32</b>	<b>369,164</b>	<b>381,424</b>	<b>418,955</b>
<b>-173,848</b>	<b>Operating Result</b>	<b>-408,360</b>	<b>-174,220</b>	<b>57</b>	<b>-176,599</b>	<b>-179,964</b>	<b>-200,521</b>

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

Budget as at 30/6/08 \$'000		Est.Outcome as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Var %	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000
	<b>Current Assets</b>						
23,112	Cash and Cash Equivalents	500	500	-	500	500	500
<b>23,112</b>	<b>Total Current Assets</b>	<b>500</b>	<b>500</b>	<b>-</b>	<b>500</b>	<b>500</b>	<b>500</b>
	<b>Non Current Assets</b>						
2,288,044	Investments	2,117,836	2,344,129	11	2,578,243	2,819,668	3,047,779
<b>2,288,044</b>	<b>Total Non Current Assets</b>	<b>2,117,836</b>	<b>2,344,129</b>	<b>11</b>	<b>2,578,243</b>	<b>2,819,668</b>	<b>3,047,779</b>
<b>2,311,156</b>	<b>TOTAL ASSETS</b>	<b>2,118,336</b>	<b>2,344,629</b>	<b>11</b>	<b>2,578,743</b>	<b>2,820,168</b>	<b>3,048,279</b>
	<b>Current Liabilities</b>						
71,628	Employee Benefits	70,959	78,703	11	87,473	120,779	133,428
<b>71,628</b>	<b>Total Current Liabilities</b>	<b>70,959</b>	<b>78,703</b>	<b>11</b>	<b>87,473</b>	<b>120,779</b>	<b>133,428</b>
	<b>Non Current Liabilities</b>						
3,402,708	Employee Benefits	3,177,012	3,643,525	15	3,908,361	4,155,910	4,427,846
<b>3,402,708</b>	<b>Total Non Current Liabilities</b>	<b>3,177,012</b>	<b>3,643,525</b>	<b>15</b>	<b>3,908,361</b>	<b>4,155,910</b>	<b>4,427,846</b>
<b>3,474,336</b>	<b>TOTAL LIABILITIES</b>	<b>3,247,971</b>	<b>3,722,228</b>	<b>15</b>	<b>3,995,834</b>	<b>4,276,689</b>	<b>4,561,274</b>
<b>-1,163,180</b>	<b>NET ASSETS</b>	<b>-1,129,635</b>	<b>-1,377,599</b>	<b>-22</b>	<b>-1,417,091</b>	<b>-1,456,521</b>	<b>-1,512,995</b>
	<b>REPRESENTED BY FUNDS EMPLOYED</b>						
-1,163,180	Accumulated Funds	-1,129,635	-1,377,599	-22	-1,417,091	-1,456,521	-1,512,995
<b>-1,163,180</b>	<b>TOTAL FUNDS EMPLOYED</b>	<b>-1,129,635</b>	<b>-1,377,599</b>	<b>-22</b>	<b>-1,417,091</b>	<b>-1,456,521</b>	<b>-1,512,995</b>

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

2007-08 Budget \$'000		2007-08 Est.Outcome \$'000	2008-09 Budget \$'000	Var %	2009-10 Estimate \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000
	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
	<b>Receipts</b>						
15,780	Cash from Government for EBT	1,637	7,736	373	4,249	0	0
25,437	Interest Received	30,150	26,787	-11	19,023	20,861	22,674
53,740	Other Revenue	79,710	57,996	-27	63,754	65,224	70,870
<b>94,957</b>	<b>Operating Receipts</b>	<b>111,497</b>	<b>92,519</b>	<b>-17</b>	<b>87,026</b>	<b>86,085</b>	<b>93,544</b>
	<b>Payments</b>						
64,546	Related to Employees	75,357	71,698	-5	79,470	88,272	121,611
4,516	Related to Supplies and Services	5,624	6,184	10	6,339	6,497	6,659
9,900	Other	6,537	12,936	98	9,749	5,800	6,100
<b>78,962</b>	<b>Operating Payments</b>	<b>87,518</b>	<b>90,818</b>	<b>4</b>	<b>95,558</b>	<b>100,569</b>	<b>134,370</b>
<b>15,995</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>23,979</b>	<b>1,701</b>	<b>-93</b>	<b>-8,532</b>	<b>-14,484</b>	<b>-40,826</b>
	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
	<b>Payments</b>						
378,657	Purchase of Investments	154,306	135,464	-12	128,575	126,050	103,221
<b>378,657</b>	<b>Investing Payments</b>	<b>154,306</b>	<b>135,464</b>	<b>-12</b>	<b>128,575</b>	<b>126,050</b>	<b>103,221</b>
<b>-378,657</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>-154,306</b>	<b>-135,464</b>	<b>12</b>	<b>-128,575</b>	<b>-126,050</b>	<b>-103,221</b>
	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
	<b>Receipts</b>						
130,500	Capital Injection from Government	130,500	133,763	3	137,107	140,534	144,047
<b>130,500</b>	<b>Financing Receipts</b>	<b>130,500</b>	<b>133,763</b>	<b>3</b>	<b>137,107</b>	<b>140,534</b>	<b>144,047</b>
<b>130,500</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>130,500</b>	<b>133,763</b>	<b>3</b>	<b>137,107</b>	<b>140,534</b>	<b>144,047</b>
<b>-232,162</b>	<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>173</b>	<b>0</b>	<b>-100</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>255,274</b>	<b>CASH AT BEGINNING OF REPORTING PERIOD</b>	<b>327</b>	<b>500</b>	<b>53</b>	<b>500</b>	<b>500</b>	<b>500</b>
<b>23,112</b>	<b>CASH AT THE END OF THE REPORTING PERIOD</b>	<b>500</b>	<b>500</b>	<b>-</b>	<b>500</b>	<b>500</b>	<b>500</b>

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

Budget as at 30/6/08 \$'000		Est.Outcome as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Var %	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000
-1,119,832	<b>Opening Balance</b>	-851,776	-1,129,635	-33	-1,377,599	-1,417,091	-1,456,521
	<b>Accumulated Funds</b>						
0	Superannuation Actuarial Movement	0	-207,507	#	0	0	0
-173,848	Operating Result for the Period	-408,360	-174,220	57	-176,599	-179,964	-200,521
	<b>Reserves</b>						
-173,848	<b>Total Income And Expense For The Period</b>	-408,359	-381,727	7	-176,599	-179,964	-200,521
	<b>Transactions Involving Equity Holders Affecting Accumulated Funds</b>						
130,500	Capital Injections	130,500	133,763	3	137,107	140,534	144,047
-1,163,180	<b>Closing Balance</b>	-1,129,635	-1,377,599	-22	-1,417,091	-1,456,521	-1,512,995

**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 \$14.143 million in the 2007-08 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 \$6.099 million in the 2008-09 Budget from the 2007-08 estimated outcome reflects the estimated amount of payments of entitlements to former Totalcare employees in the 2008-09 financial year.
- interest:
  - the increase of \$4.713 million in the 2007-08 estimated outcome from the original budget is due to maintaining a higher exposure to cash investments, combined with the increases in the official cash rate during the year; and
  - the decrease of \$3.363 million in the 2008-09 Budget from the 2007-08 estimated outcome is due to the projected reallocation of cash assets to other investment asset classes.

- other revenue:
  - the decrease of \$59.925 million in the 2007-08 estimated outcome from the original budget is mainly due to a decrease in capital gain earnings as a result of the reduced domestic and international equity market returns; and
  - the increase of \$65.092 million in the 2008-09 Budget from the 2007-08 estimated outcome reflects the investment earnings assumption that the long term average portfolio return estimate will be 7.5 per cent (5 per cent plus CPI, net of fees) compared with the estimated lower actual return in 2007-08.
- employee expenses:
  - the increase of \$0.210 million in the 2007-08 estimated outcome from the original budget mainly reflects increased staffing requirements in relation to the Totalcare superannuation liability investigation.
- superannuation expenses:
  - the decrease of \$5.554 million in the 2007-08 estimated outcome from the original budget has been determined from the latest actuarial review of superannuation liabilities and reflects the impact of the discount rate of 6.35 per cent as at 30 June 2007, partially offset by emerging cost payments to the Commonwealth Government; and
  - the increase of \$7.195 million in the 2008-09 Budget from the 2007-08 estimated outcome is due to the estimated growth in superannuation liabilities and an increased emerging cost payment to the Commonwealth Government.
- supplies and services:
  - the increase of \$1.108 million in the 2007-08 estimated outcome from the original budget is due mainly to a significant increase in the cost of administration by the Commonwealth Government in relation to the defined benefit superannuation schemes; and
  - the increase of \$0.560 million in the 2008-09 Budget from the 2007-08 estimated outcome is due to indexation and an estimated increase in the administration costs associated with the Totalcare superannuation liability investigation.
- other expenses:
  - the increase of \$169.393 million in the 2007-08 estimated outcome from the original budget is mainly due to a decrease in capital gain earnings as a result of the reduced domestic and international equity market returns; and
  - the decrease of \$174.093 million in the 2008-09 Budget from the 2007-08 estimated outcome reflects the investment earnings assumption that the long term average portfolio return estimate will be 7.5 per cent (5 per cent plus CPI, net of fees) compared with the estimated lower actual return in 2007-08.

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

- cash and cash equivalents: the decrease of \$22.612 million in the 2007-08 estimated outcome from the original budget is due to the reclassification of a portion of investment assets from cash and cash equivalents to investments.

- non current investments:
  - the decrease of \$170.208 million in the 2007-08 estimated outcome from the original budget is due to a decrease in capital gain earnings as a result of the reduced domestic and international equity market returns; and
  - the increase of \$226.293 million in the 2008-09 Budget from the 2007-08 estimated outcome is due to the reinvestment of projected investment earnings and the net cash inflows to the portfolio.
- current employee benefits: the increase of \$7.744 million in the 2008-09 Budget from the 2007-08 estimated outcome is due to the estimated growth in annual employee benefits.
- non current employee benefits:
  - the decrease of \$225.696 million in the 2007-08 estimated outcome from the original budget is due to the update to the estimated superannuation liabilities utilising the discount rate as at 30 June 2007; and
  - the increase of \$466.513 million in the 2008-09 Budget from the 2007-08 estimated outcome is due to the result of the latest actuarial review conducted by the Government's consulting actuary that incorporates a discount rate assumption for the budget of 6 per cent, which for 2008-09 is lower than the actual discount rate that applied at 30 June 2007.

*Statement of Changes in Equity*

Variations in the statement are explained in the notes above.

