



Australian Government

Commonwealth Superannuation Corporation

DFRDB

Defence Force
Retirement & Death
Benefits Scheme

CSC Annual Report to Parliament 2011-12

DFRB Scheme, DFRDB Scheme & DFSPB





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Superannuation Schemes (covered in this report)

DFRB Scheme Website: www.csc.gov.au
 Annual report: www.csc.gov.au/reports-and-information/annual-reports/
DFRDB Scheme Website: www.dfrdb.gov.au
 Annual report: www.dfrdb.gov.au/forms-and-publications/publications

Note: All statistics are derived solely from records available to CSC and ComSuper as of the time these statistics were compiled. Where statistics for earlier financial years are quoted, they may vary from those previously published due to the application of retrospective adjustments now reflected in this report. For similar reasons statistical information in this report may also vary from that presented by other agencies.

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**letter of
transmittal**

1 letter of transmittal

The Hon Warren Snowdon MP
Minister for Veterans' Affairs
Minister for Defence Science and Personnel
Minister for Indigenous Health
Minister Assisting the Prime Minister on the Centenary of Anzac
Parliament House
Canberra ACT 2600

Dear Minister

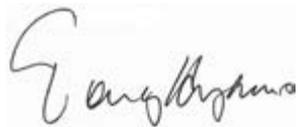
I am pleased to present to you, in accordance with section 30 of the *Governance of Australian Government Superannuation Schemes Act 2011*, the annual report on the operations of Commonwealth Superannuation Corporation (CSC) for the 2011/12 financial year.

This report details the performance of CSC functions and the administration of the Defence Forces Retirement Benefits Scheme (DFRB Scheme), the Defence Force Retirement and Death Benefits Scheme (DFRDB Scheme) and the Defence Force (Superannuation) (Productivity Benefits) Scheme (DFSPB). This report also includes audited financial statements in respect of the management during the year of CSC. This report is one of three CSC reports for 2011/12. CSC's other reports cover, first, the Military Superannuation and Benefits Scheme (MilitarySuper), and second, the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the Public Sector Superannuation accumulation plan (PSSap), the 1922 Scheme and the Papua New Guinea Scheme (PNG Scheme).

From 1 July 2011, Commonwealth Superannuation Corporation (CSC) became responsible for the investment and management of the military and public sector superannuation Schemes. CSC is trustee of CSS, MilitarySuper, PSS and PSSap, and administers the 1922 Scheme, DFRB Scheme, DFRDB Scheme, PNG Scheme and DFSPB.

Subsection 30(4) of the *Governance of Australian Government Superannuation Schemes Act 2011* requires you to cause a copy of this report to be laid before each House of Parliament within 15 sitting days after you receive it.

Yours sincerely,



Tony Hyams, AM
Chairman, Commonwealth Superannuation Corporation

12 October 2012

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chairman's report

3 chairman's report

I am pleased to present Commonwealth Superannuation Corporation's (CSC) Annual Report to Parliament 2011/12 for the DFRB Scheme, the DFRDB Scheme and DFSPB. CSC's reports for MilitarySuper and the public sector Schemes are presented separately.

2011/12 was CSC's first year as trustee of the Australian Government's regulated Schemes for Australian Defence Force personnel and public sector employees. The implementation of the merger of the trustees of the military and public sector Schemes in accordance with the legislation passed by Parliament in June 2011 has been completed. A new Board was established to replace the previous DFRDB Authority, MSB Board and ARIA.

Significant achievements in 2011/12 included:

- > a smooth transition of responsibilities to the new Board
- > the establishment of Board committees including an Audit and Risk Management Committee and a Human Resources Committee
- > an equitable integration of MilitarySuper Fund assets with those of CSS, PSS and PSSap into one pooled superannuation trust
- > the transfer of the custody of all MilitarySuper Fund and ARIA assets now managed by CSC to a new custodian, The Northern Trust Company
- > the appointment of Peter Carrigy-Ryan as the inaugural Chief Executive Officer of CSC
- > the continuing work on superannuation reforms including preparation of a MySuper product
- > working with our scheme administrator on implementation of the government's decision to transition PSSap administration from ComSuper to Pillar Administration
- > preparing for the introduction of pension and salary sacrifice enhancements to the PSSap.

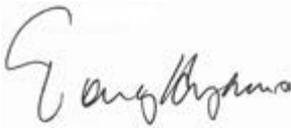
All of these 'merger' and other targets were achieved within the first 12 months with minimum disruption to everyday business activities.

The CSC Board has a depth of skill, knowledge and experience that has underpinned this year of achievement. The commitment and contribution from all directors in 2011/12 has been outstanding. It is a privilege to work with such capable people.

I acknowledge and thank CSC employees for their hard work and dedication during this year of change. Our major service providers including custodians, fund managers and scheme administrators have made a valuable contribution.

CSC now manages Schemes and invests \$24.7 billion in superannuation savings on behalf of more than 600 000 members and pensioners. We expect that the scale created by the merger will enable CSC to improve long-term investment performance, reduce cost, strengthen already strong governance practices and enhance services to members.

CSC operates in an increasingly sophisticated, regulated and competitive superannuation market. To meet these challenges the Board has embarked on a major planning exercise, the results of which will define our key success targets and govern our priorities. Amongst other activities, the Board is reviewing CSC's investment and member service offerings, and all governance policies and practices, with the aim of achieving the highest possible standards.



Tony Hyams, AM
Chairman, Commonwealth Superannuation Corporation

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executive summary

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4 executive summary

This report details the performance of CSC functions and the administration of the DFRB Scheme, the DFRDB Scheme and DFSPB during the year ended 30 June 2012.

This report also includes audited financial statements in respect of the management during the year of CSC. This report is one of three CSC reports for 2011/12. CSC's other reports cover, first, MilitarySuper, and second, CSS, PSS, PSSap and the 1922 Scheme and PNG Scheme. All reports for 2011/12 can be viewed on CSC's website at www.csc.gov.au/reports-and-information/

CSC finished the 2011/12 financial year with over \$24.7 billion funds under management and 600 000 members and pensioners after integrating military and public sector superannuation Scheme assets during the year. The DFRB Scheme and the DFRDB Scheme comprised over 60 000 members and pensioners at 30 June 2012.

Performance in CSC's inaugural year focused on successfully integrating assets into a single investment vehicle and merging trustee boards and employees into one operating entity. CSC's objective will continue to be helping members to make informed decisions about their superannuation Scheme and retirement planning needs.

The 2011/12 financial year provided a challenging mix of merger and business-as-usual objectives. CSC achieved these objectives during the year with minimal disruption.

During the year, CSC appointed The Northern Trust Company as provider of custodial services and enhanced the DFRDB Scheme website, increasing user accessibility and achieving early compliance with federal government web content accessibility guidelines (WCAG) 2.0.

Successful trustee board merger and asset integration

CSC was established on 1 July 2011 as trustee of CSS, MilitarySuper, PSS, PSSap, and administers the 1922 Scheme, DFRB Scheme, DFRDB Scheme, PNG Scheme and DFSPB, under legislation enacted on 21 June 2011, including the *Governance of Australian Superannuation Schemes Act 2011*.

The former trustee arrangements of the Defence Force Retirement and Death Benefits Authority (DFRDB Authority), the Military Superannuation and Benefits Board (MSB Board) and the Australian Reward and Investment Alliance (ARIA) were consolidated into one trustee entity. Superannuation Scheme rules, benefits and entitlements did not change.

CSC is now responsible for one of Australia's largest pools of superannuation assets, providing scale to enable the delivery of more personalised, helpful and high-quality member services. CSC does not invest funds on behalf of DFRB Scheme or DFRDB Scheme members (with the exception of ancillary contributions described on page 37).

CSC has a Board of 11 directors with Mr Tony Hyams AM appointed CSC's inaugural Chairman.

Ten directors (including the Chairman) commenced on 1 July 2011 and one director commenced on 13 September 2011. All CSC directors are appointed by the Minister for Finance and Deregulation; three directors are nominated by the President of the Australian Council of Trade Unions (ACTU) and two directors are nominated by the Chief of the Defence Force. CSC's Chairman is independent. Peter Carrigy-Ryan was appointed Chief Executive Officer of CSC on 14 September 2011.

You can read more about CSC directors and employees in section 5.

Major 2011/12 events

New member and employer websites

During the year, CSC refreshed and enhanced its six superannuation Scheme websites for members and employers, including the DFRDB Scheme website. Websites and communication materials were renamed to reflect the trustee entity change to CSC, while website enhancements were introduced to make it easier for members to quickly find the information they need online and to comply with federal government WCAG 2.0 guidelines.

You can read more about member services and communication in section 7 on page 27.

New custodian – The Northern Trust Company

During the year, CSC appointed The Northern Trust Company as provider of its custodial services. CSC remains responsible for all aspects of its investments including strategy, administration and member communication. Custodial arrangements transitioned from National Australia Bank to The Northern Trust Company as at 11 May 2012.

Corporate governance

The CSC Board has embarked on a review and update of its corporate governance framework. Its Operating Policy (available on CSC's website) explains this framework, covering:

- > CSC's Code of Conduct
- > CSC's Board of directors, director responsibilities and meeting processes
- > Board delegated authority
- > Board committees
- > Risk management and corporate responsibility, and
- > CSC's Board Renewal Policy.

This corporate governance framework review and update will assist CSC to comply with APRA's new prudential standards, due to take effect by 30 June 2013.

4 executive summary

Federal Budget 2012

Changes to superannuation were announced in the Federal Budget 2012:

- > The concessional super contributions cap, which includes Superannuation Guarantee (SG) and before-tax salary sacrifice contributions, is to be \$25 000 per annum for all Australians; this concessional contributions cap also includes employer productivity contributions (which are generally 3%) for defined benefit scheme members.
- > Individuals who have annual income over \$300 000 will pay tax on their concessional super contributions at the rate of 30% instead of 15%; 'income' for the purpose of this measure includes taxable income, concessional super contributions, adjusted fringe benefits, total net investment loss, target foreign income, tax-free government pensions and benefits, less child support.

Future directions

Major changes to superannuation regulations and policy will take effect in 2013, with the introduction of MySuper and other recommendations first made in the Super System Review. A key focus for CSC will be to introduce a MySuper product in 2013.

In 2012/13, CSC's strategic objectives will focus on three areas:

- > implementation of the enhancements to member products and services
- > corporate governance, compliance and risk management
- > continuing to improve long-term investment performance for CSS, MilitarySuper, PSS and PSSap Scheme members.

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CSC

CSC – single trustee authority

the CSC Board

Board and Board Committees

professional development and performance review

CSC’s employees

CSC’s resources

CSC’s financial management

ecologically sustainable development and environmental performance

CSC’s internal governance

outcomes and program structure

CSC – single trustee authority

Commonwealth Superannuation Corporation (CSC) was established as a single trustee body on 1 July 2011 following the merger of the DFRDB Authority, the MSB Board and ARIA. CSC was established by the *Governance of Australian Government Superannuation Schemes Act 2011* and is a body corporate, subject to the *Commonwealth Authorities and Companies Act 1997*.

CSC is trustee of CSS, MilitarySuper, PSS and PSSap, and administers the 1922 Scheme, DFRB Scheme, DFRDB Scheme, PNG Scheme and DFSPB. Four superannuation Schemes are regulated (CSS, MilitarySuper, PSS and PSSap) and five Schemes are unregulated (1922 Scheme, DFRB Scheme, DFRDB Scheme, PNG Scheme and DFSPB).

This report details the performance of CSC functions and the administration of the DFRB Scheme, the DFRDB Scheme and DFSPB during the year ended 30 June 2012.

This report also includes audited financial statements in respect of the management during the year of CSC. This report is one of three CSC reports for 2011/12. CSC's other reports cover, first, MilitarySuper, and second, CSS, PSS, PSSap, and the 1922 Scheme and PNG Scheme.

CSC is licensed under the *Corporations Act 2001* and the *Superannuation Industry (Supervision) Act 1993*. CSC administers the DFRB Scheme and the DFRDB Scheme in accordance with provisions of the *Defence Forces Retirement Benefits Act 1948* (the DFRB Act) and *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act). See CSC's functional chart in Appendix C.

The CSC Board

The principal responsibility of the CSC Board is to manage and invest the superannuation Schemes and funds, and administer the Acts, in the best interest of members. This involves:

- > administering the DFRB Act and DFRDB Act
- > reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct, and legal compliance
- > monitoring senior executive performance and strategy implementation
- > appointing and setting key performance indicators of CSC's Chief Executive Officer
- > approving and monitoring financial and other reporting.

CSC's 11 directors are appointed by the Minister for Finance and Deregulation. Three directors are nominated by the President of the Australian Council of Trade Unions (ACTU) and two directors are nominated by the Chief of the Defence Force. CSC's Chairman is independent.

Directors are responsible for all aspects of Scheme management, including investment strategy, administration and stakeholder communication. All CSC's directors are non-executive directors.

CSC directors are appointed for periods not exceeding three years (but are eligible for reappointment). A list of directors holding office between 1 July 2011 and 30 June 2012 is set out below. Ten directors' terms commenced on 1 July 2011 and one director's term commenced on 13 September 2011.



Mr Tony Hyams, AM
Chairman

Appointed 1 July 2011 to 30 June 2014

Mr Hyams was appointed as the inaugural Chairman of CSC on 1 July 2011. He is also Chairman of the Board's Human Resources Committee. Mr Hyams was Chairman of the predecessor organisations, ARIA and the MSB Board. He was previously the Deputy Chairman of the Australian Maritime Safety Authority and a director of the Australian Government Employees Superannuation Trust and other companies. Mr Hyams is an Independent Adviser to the Credit Suisse Group and is a Governor of WWF Australia. He has degrees in law and commerce from the University of Melbourne.



Mr Anthony (Tony) Cole, AO

Appointed 1 July 2011 to 30 June 2013

Mr Cole is a member of the Board's Human Resources Committee. He is a former executive director and investment consulting business leader of the global consulting, outsourcing and investment company, Mercer. Before joining Mercer in 1996, he was executive director of Life Investment and Superannuation Association of Australia. Mr Cole has also held a number of senior federal government appointments including Secretary to the Treasury. Mr Cole is Chairman of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and a member of the advisory boards of Australian Office of Financial Management and Northern Territory Treasury Corporation. In 1995 he was awarded an Order of Australia for service to government and industry.



General Peter Cosgrove, AC, MC, CNZM

Appointed 1 July 2011 to 30 June 2014

General Cosgrove is a retired Australian Army Officer and Chairman of the Board's Defence Force Case Assessment Panel. He was Chief of the Defence Force from 3 July 2002 to 3 July 2005, when he retired from full-time service after a long and distinguished career. He has numerous board appointments, principal among which is the Qantas Board. He is also on the Board of Trustees of Qantas Superannuation Limited. General Cosgrove is a nominee of the Chief of the Defence Force.



Mr Peter Feltham

Appointed 1 July 2011 to 30 June 2012
(reappointed from 1 July 2012 to 30 June 2015)

Mr Feltham is a member of the Board's Audit and Risk Management Committee. He is also a senior industrial officer with the Community and Public Sector Union (CPSU), responsible for superannuation policy within the CPSU. He has worked for the CPSU and its predecessor organisations for more than 25 years in a range of capacities at state and national level as an employee and official. Before the CPSU, Mr Feltham worked for 10 years in the federal public service. Mr Feltham is a nominee of the President of the ACTU.



Ms Nadine Flood

Appointed 1 July 2011 to 30 June 2014

Ms Flood is a member of the Board's Human Resources Committee. She is also National Secretary of the Community and Public Sector Union (CPSU), and a member and director of a number of other bodies, including the ACTU Executive. Ms Flood is a nominee of the President of the ACTU.



Ms Lyn Gearing

Appointed 13 September 2011 to 12 September 2013

Ms Gearing has business experience in superannuation, funds management, corporate finance and management consulting. She is currently a Director of Queensland Investment Corporation (QIC), IMB Limited, Garvan Research Foundation and Global Mining Investments Limited.



Ms Peggy Haines

Appointed 1 July 2011 to 30 June 2014

Ms Haines is a member of the Board's Human Resources Committee. She is a former partner with one of Australia's top law firms specialising in superannuation and financial services law and continues to act as a consultant to Lander & Rogers, Melbourne. Ms Haines also serves as a director of other companies in the financial services sector as well as the Richmond Football Club. She is a fellow of the Australian Institute of Company Directors and an emeritus member of the Law Council of Australia Superannuation Committee.



Ms Winsome Hall

Appointed 1 July 2011 to 30 June 2013

Ms Hall is Chair of the Board's Audit and Risk Management Committee. She is also Chair of Zurich Australian Superannuation Pty Limited and a trustee director of various commercialisation funds as a nominee of AustralianSuper. Ms Hall has previously been a director of listed company Colonial First State Infrastructure and Private Equity, the Financial Industry Complaints Scheme and State Super Financial Services. She has provided best practice advice to the Association of Superannuation Funds Australia and was previously a Senior Advisor in the Department of the Prime Minister and Cabinet and Secretary of the ACT Branch of the CPSU from 1989 to 1993. Ms Hall is a nominee of the President of the ACTU.



Mr John McCullagh

Appointed 1 July 2011 to 30 June 2013

Mr McCullagh is a member of the Board's Audit and Risk Management Committee and Defence Force Case Assessment Panel. Mr McCullagh formerly held the position of CEO of the Military Superannuation and Benefits Board and was part of the transition team which implemented the government's reforms affecting Australian Government super schemes. Mr McCullagh is a nominee of the Chief of the Defence Force.



Mr Gabriel Szondy

Appointed 1 July 2011 to 30 June 2014

Mr Szondy is a member of the Board's Audit and Risk Management Committee. He has extensive experience in the taxation and superannuation industries and was a senior partner in one of Australia's top accounting firms. He is a former member of the Military Superannuation and Benefits Board. Mr Szondy holds a number of other appointments including independent director, CARE Super, Director (representative of AustralianSuper) Frontier Investment Consulting Pty Ltd and special advisor to the Chairman of the Centre for Investor Education (CIE).

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Dr Michael John Vertigan, AC
Appointed 1 July 2011 to 30 June 2013

Dr Vertigan is a member of the Board's Audit and Risk Management Committee. Dr Vertigan has experience in the public, higher education, philanthropy and business sectors. He is the former Chairman of the AGEST Super Board and former Secretary of the Victorian and Tasmanian Departments of Treasury and Finance. He also held a number of academic appointments. Dr Vertigan currently holds a number of appointments to government and private sector bodies.

Board and Board Committees

CSC has the following Board Committees:

- > APS Scheme Reconsideration Advisory Committee
- > Audit and Risk Management Committee
- > Defence Force Case Assessment Panel
- > Human Resources Committee
- > Military Superannuation and Benefits Scheme Reconsideration Committee.

CSC may also establish other Board committees from time to time.

The Human Resources Committee comprises:

Mr Tony Hyams, AM, Chairman
 Mr Tony Cole, AO, Member
 Ms Nadine Flood, Member
 Ms Peggy Haines, Member

The Audit and Risk Management Committee comprises:

Ms Winsome Hall, Chair
 Mr Peter Feltham, Member
 Mr John McCullagh, Member
 Mr Gabriel Szondy, Member
 Dr Michael Vertigan AC, Member

The Defence Force Case Assessment Panel comprises a Chairperson, a director of CSC who has been nominated by the Chief of the Defence Force, a person nominated by the Chief of the Air Force, a person nominated by the Chief of the Army, and a person nominated by the Chief of the Navy. It can also include up to two other persons as CSC determines. See page 42 for more.

Table 1: Board & Board Committee meeting attendance in 2011/12

	Board meetings (10)		ARM Ctte meetings (7)		HR Ctte meetings (5)	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Tony Hyams	10	10	0	0	5	5
Tony Cole	10	10	0	0	5	5
Peter Cosgrove	9	10	0	0	0	0
Peter Feltham	10	10	7	7	0	0
Nadine Flood	7	10	0	0	3	5
Lyn Gearing	6	7	0	0	0	0
Peggy Haines	10	10	0	0	4	5
Winsome Hall	10	10	7	7	0	0
John McCullagh	10	10	7	7	0	0
Gabriel Szondy	9	10	7	7	0	0
Michael Vertigan	10	10	6	7	0	0

Professional development and performance review

Professional development

The CSC Board has a professional development program in place for all directors and undertakes regular individual and collective fitness and propriety assessments. Individual training objectives cover a three year timeframe to provide uniform and comprehensive professional development.

Performance review

Directors report to the Chairman against their three year rolling training and development objectives. Each year directors must complete a Trustee Fit and Proper Certification, undertake a self-assessment rating and declare any related party transactions. In addition, CSC's Human Resources Committee conducts a Board skills audit to compare the current skill mix to skills identified as being required. This review identifies any areas to be improved. CSC's Chairman liaises with the Minister and other sponsors regarding the required director skill base. These processes help to ensure the CSC Board comprises directors who hold the necessary knowledge and experience in a range of fields including the financial services and superannuation industry, investment governance and management, government, the defence force and legal services.

CSC's employees

CSC employees are responsible for providing advice to the CSC Board, for implementing Board decisions and for the ongoing management of CSC's functions and responsibilities.

Specifically, CSC employees are responsible for:

- > advising the Board on investment strategy
- > implementing Board approved strategies and plans
- > managing the relationships with service providers
- > managing CSC's financial affairs
- > ensuring CSC meets its responsibilities to maintain correct records
- > coordinating advice from external advisers
- > ensuring compliance with all relevant legislation and law
- > communicating with members and, in particular, preparing and producing annual member statement packs and parliamentary reports
- > providing comprehensive administrative and executive support services to the Board.

CSC’s resources

Human resources

The combined MilitarySuper Board and ARIA staff at 1 July 2011 was 62. CSC had 61 staff at 30 June 2012.

Employee profile

Table 2: Employee numbers at 30 June 2012

Employment category	Male	Female	Total
Full-time employees	25	28	53
Part-time employees	2	6	8
Total	27	34	61

Performance pay

During the 2011/12 financial year, CSC paid a total of \$1 188 323 as performance bonuses to 47 employees (paid in July 2011, for performance in the previous financial year, 2010/11). The average performance bonus paid was \$25 283.

Non-salary benefits

CSC offers its employees a variety of salary packaging benefits. These are individually negotiated and benefits available for packaging include leased motor vehicles, professional membership fees and extra superannuation. Benefits that employees may include in a salary package are those that attract either no fringe benefits tax (FBT) or a concessional rate of FBT.

Professional development

Ongoing employee training and development is an important part of CSC’s human resource management. In addition, it helps CSC meet the ‘adequacy of resources’ requirement of its APRA licence (see CSC’s internal governance on page 19). During 2011/12, CSC employees participated in a range of continuing professional development activities, including specialised courses in investment, finance, and business operations.

5 CSC

Work health and safety

Under the *Safety, Rehabilitation and Compensation Act 1988* and the *Work Health and Safety Act 2011* (this latter Act came into effect January 2012, effectively replacing the *Occupational Health and Safety (Commonwealth Employment) (OH&S) Act 1991*), CSC has a general duty of care that it must meet by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Workers' compensation, provided by Comcare, covers CSC employees.

During the 2011/12 financial year there were:

- > no dangerous incidents under section 37 of the *Work Health and Safety Act 2011*
- > no workplace inspections carried out by Comcare
- > no remedial provisional improvement notices issued.

Activity location

CSC has two offices; one is located in Canberra and the other is located in Sydney.

Indemnities for officers

CSC has the benefit of an indemnity in the *Governance of Australian Government Superannuation Schemes Act 2011*. In addition, CSC has trustee liability and comprehensive crime insurance which complies with section 912B of the *Corporations Act 2001*.

CSC's financial management

Financial resources

CSC is responsible for management and investment of its members' superannuation contributions (with the exception of DFRDB Scheme member contributions which are paid to the Australian Government's Consolidated Revenue Fund). CSC also oversees the provision of scheme administration services for its Scheme members. Costs relating to the investment and management of the funds are recovered proportionately from the invested funds in accordance with the Schemes' underlying legislation. Costs incurred by CSC in supporting member administration services of the military Schemes are met through an administration fee paid by the Department of Defence for this specific purpose. Costs incurred by CSC in supporting member administration services of the public sector Schemes are met through a fee arrangement with employer agencies whereby CSC receives fee income on a per-member or other negotiated basis.

CSC is a Commonwealth authority subject to the *Commonwealth Authorities and Companies Act 1997 (CAC Act)*. The financial management of CSC is carried out in accordance with the requirements of that Act, the *Governance of Australian Government Superannuation Schemes Act 2011* and Scheme legislation. CSC operates under a Board approved budget that covers the total costs of CSC performing its functions. Performance against budget is reviewed regularly by the Board. Delegations to staff relating to incoming expenses, including entering into contracts for supply of goods and services, are formally issued and reviewed by the Board.

Financial performance

CSC incurs various costs in managing and investing the Funds for which it is trustee. These include investment manager fees, custodian fees, advisor fees and tax. Part of the CSC expenses are referred to as 'corporate expenses'; these expenses (see paragraph below) do not reflect the total costs of managing and investing the Funds. Details of investment costs for each of the Funds are provided in the financial statements included in CSC's other two reports.

Revenue and expenses were within budget for the 2011/12 financial year with CSC recording a surplus of \$0.23 million. CSC's business expenses were \$21.6 million, of which \$6.7 million was met by the administration fee on the employer agency and extra government funding to meet merger costs. Expenses balance of \$14.9 million was proportionately met from investment assets of MilitarySuper, CSS, PSS and PSSap.

Director remuneration is set by the Remuneration Tribunal.

Consultants

During the 2011/12 financial year, CSC entered into 20 new consultancy contracts involving total actual expenditure of \$238 181. In addition, 12 ongoing consultancy contracts were active during the year, involving total actual expenditure of \$1 167 409.

Ecologically sustainable development and environmental performance

CSC is a signatory to the UN Principles for Responsible Investment which aim to act as a framework for global best practice in responsible investment and include commitments to address environmental, social and governance issues in the policies and practices of investors.

CSC is a member of the Investor Group on Climate Change Australia/New Zealand and an investor signatory to the Carbon Disclosure Project. These collaborative industry initiatives address the business and shareholder value implications of climate change.

CSC is also a founding investor in Regnan, which provides governance research and engagement services to CSC and its other institutional investors and clients. Regnan focuses on a constructive engagement process that aims to reduce portfolio risk exposures, including those relating to environmental risk.

CSC's internal governance

CSC is accountable to members of the Schemes it manages under Scheme legislation, the Superannuation Industry Supervision Act and Regulations (SIS), corporations legislation and the general law. Its principal responsibility is to act in good faith, with prudence and in the members' best interests in respect of the administration and investment of the funds.

Directors are required by SIS to meet a 'fit and proper' standard. This means that they must satisfy both propriety and competency requirements on appointment and thereafter.

In addition to these requirements on individual directors, CSC has a Code of Conduct which guides the exercise of its wide range of discretions.

5 CSC

In performing its functions and duties, CSC will:

- > carry out its duties in good faith, prudently and in accordance with the relevant legislation so that the best interests of members are served
- > act ethically and impartially at all times.

CSC's Code of Conduct is available on its website.

In conjunction with its governance principles, CSC's responsibility for the funds is supported by comprehensive risk management strategies, plans and compliance programs.

Licences

CSC has both a Registrable Superannuation Entity (RSE) licence (administered by the Australian Prudential Regulation Authority) and an Australian Financial Services (AFS) licence (administered by the Australian Securities and Investments Commission).

Risk management

As an RSE licensee, CSC has a comprehensive risk management framework in place. This covers a range of business, operational and governance risks and outlines risk minimisation strategies and controls for all identified risks. Regulatory requirements include having a current Risk Management Plan and Risk Management Strategy.

CSC's risk management framework is kept under review by CSC's Executive Risk Management Committee and its Audit and Risk Management Committee. This framework is reviewed annually in conjunction with CSC's strategic business plan and updated or amended as required to meet emerging risk or new business requirements.

Compliance

CSC's compliance program meets CSC's AFS licence requirements and underpins CSC's risk management framework. Employees and service providers are required to provide positive certification that they have complied, or details of any non-compliance, with legislative requirements, contractual provisions, regulatory policy and service standards, in addition to licence conditions. This is done regularly – either monthly or quarterly. CSC's Audit and Risk Management Committee oversees compliance reporting, remediation where breaches have occurred and any necessary regulatory reporting.

Consistent with CSC's Breach and Compliance Policy, breach reports are required within a timeframe that enables CSC to make timely regulatory reports, if required.

Fraud control

To ensure all reasonable measures are taken to minimise the incidence of fraud, CSC maintains a current fraud risk assessment and fraud control plan in accordance with the Commonwealth Fraud Control Guidelines and has effective fraud risk controls in place. No instances of fraud arose during the reporting period.

Internal audit

Each year, CSC’s Audit and Risk Management Committee agrees an internal audit plan which takes into account previously identified risks, the results and recommendations of previous audits, legislative and regulatory change and any anticipated Scheme or business changes.

This plan is additional to audits that can be initiated at any time by CSC’s Audit and Risk Management Committee or the Board to address changed business priorities or risk profile.

Outcomes and program structure

Outcome 1: Retirement benefits for past, present and future Australian Government employees and members of the Australian Defence Force through investment and administration of their superannuation Funds and Schemes.

Table 3: Outcomes & program structure

Key performance indicator	2011/12 target	2011/12 results
Compliance with the <i>Defence Force Retirement and Death Benefits Act 1973</i> and the <i>Defence Forces Retirement Benefits Act 1948</i>	Compliance with all relevant Scheme and regulatory requirements	CSC continued to meet its obligations under the relevant legislation
Administration quality as reflected in the satisfaction level of members, other beneficiaries and employers with the service provided through ComSuper, as CSC’s delegate, to standards set by CSC	Implement and monitor industry standard service requirements with ComSuper	Continued overall improvement of member service

6

Scheme overview

DFRB Scheme

DFRDB Scheme

SIS compliance

6

Scheme overview

CSC is trustee of CSS, MilitarySuper, PSS and PSSap, and administers the 1922 Scheme, DFRB Scheme, DFRDB Scheme, PNG Scheme and DFSPB. Four Schemes are regulated (CSS, MilitarySuper, PSS and PSSap) and five are unregulated (1922 Scheme, DFRB Scheme, DFRDB Scheme, PNG Scheme and DFSPB). This report details the performance of CSC functions and the administration of the DFRB Scheme, the DFRDB Scheme and DFSPB. This report also includes audited financial statements in respect of the management during the year of CSC.

This report is one of three CSC reports for 2011/12. CSC's other reports cover, first, MilitarySuper, and second, CSS, PSS, PSSap and the 1922 Scheme and PNG Scheme.

DFRB Scheme

DFRB Scheme is a closed Scheme. Established in 1948 by the *Defence Forces Retirement Benefits Act 1948* (the DFRB Act), this Scheme was closed to new contributors on 30 September 1972. It continues to provide for the benefit entitlements of those members who ceased to be contributors before 1 October 1972 and for reversionary benefits to their eligible spouses and children.

Members who were contributors to the DFRB Scheme on 30 September 1972 were compulsorily transferred to the DFRDB Scheme on 1 October 1972.

DFRDB Scheme

The DFRDB Scheme is an unfunded defined benefit superannuation Scheme. Established by the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act), the Scheme closed to new entrants with the commencement of MilitarySuper on 1 October 1991.

The DFRDB Scheme provides superannuation for Australian Defence Force (ADF) members who became contributors on or after 1 October 1972, and for members who were contributors to the DFRB Scheme on 30 September 1972 and were compulsorily transferred to the DFRDB Scheme on 1 October 1972. There is no investment fund and all benefits are paid from the Australian Government's Consolidated Revenue Fund (CRF).

DFRDB Scheme members had the opportunity to transfer to MilitarySuper. All new ADF members since 30 September 1991 have automatically joined MilitarySuper with the exception of former ADF members in receipt of a DFRDB Scheme benefit who completed a valid formal election to remain in the DFRDB Scheme before any re-entry to the ADF. DFRDB Scheme members contribute at the rate of 5.5% of the highest incremental salary for rank. Contributions are paid directly to the Australian Government's CRF every fortnight.

Benefit entitlements do not depend on investment fund earnings, except for members who have an ancillary account in MilitarySuper.

The DFRDB Scheme differs from most other defined benefit superannuation Schemes in that retirement age plays only an incidental part in calculating benefit entitlements. Length of service is the primary factor: total full-time contributory service, plus any periods of past service that may have been brought back. Members who retire from the ADF after 20 years of effective service (or after 15 years of service at retirement age for rank) are entitled to a pension based on

a percentage of their annual pay on retirement. Members retired from the ADF on invalidity grounds may be entitled to an invalidity pension. Benefits may also be payable to any surviving eligible spouse and children on the death of a member or pensioner.

DFRDB Scheme members who have less than 20 years of service but have not reached their compulsory retiring age for rank are entitled to:

- > a refund of their contributions, a Superannuation Guarantee amount and a productivity benefit (described below)
- > if applicable, a gratuity based on completed years of service.

DFRDB members are also entitled to a productivity benefit under the *Defence Force (Superannuation) (Productivity Benefit) Determination* (issued under the *Defence Act 1903*). The amount of this productivity benefit varies according to the circumstances under which an individual member has left the ADF. It is paid at the same time as when DFRDB Scheme benefits are paid.

SIS compliance

The DFRB Scheme, DFRDB Scheme and DFSPB are not complying superannuation schemes.

7 members and services

Scheme membership

**member
communication
and services**

7 members and services

Scheme membership

DFRDB Scheme members fall into one of the following categories:

- > contributors
- > deferred benefit members (DFRDB preservers)
- > pensioners (including those receiving a pension under the DFRB and DFRDB legislation).

The DFRB Scheme comprises pensioners only.

Table 4: Membership summary 2011/12 & 2010/11

	DFRDB contributors	DFRDB preservers	DFRDB pensioners		DFRB pensioners
			Re-entered recipients*	Other pensioners	
30 June 2012	3 243	3	945	52 403	3 566
30 June 2011	3 743	6	967	53 253	3 763

*DFRDB pensioners who re-enter for less than 12 months do not contribute to the Scheme, continue to receive a pension and are not eligible for invalidity. DFRDB pensioners who re-enter for greater than 12 months become contributing members, their pension is suspended and they are eligible for invalidity.

Pensioners

Table 5: DFRB Scheme & DFRDB Scheme pensions by type at 30 June 2012

	DFRB	DFRDB	Total
Retirement	783	43 013	43 796
Invalidity	649	2 505	3 154
Reversionary			
spouse	2 130	6 588	8 718
children and orphan	3	258	261
Redundancy	1	984	985
Total pensions	3 566	53 348	56 914

* Includes reversionary pensioners and reduced pensions due to commutation.

Note: Average pension amounts are set out on page 40.

Contributors

Table 6: DFRDB Scheme contributors age profile by service type at 30 June 2012

	Navy	Army	Air Force
30-34	0	0	0
35-39	28	111	18
>39	896	1 541	649

Note: DFRB Scheme has no contributing members.

Table 7: DFRDB Scheme contributors breakdown for five years to 30 June 2012

	2007/08	2008/09	2009/10	2010/11	2011/12
Navy					
Male	1 434	1 201	1 119	980	886
Female	48	44	42	40	38
Total	1 482	1 245	1 161	1 020	924
Army					
Male	2 821	2 317	2 139	1 903	1 593
Female	101	83	74	67	59
Total	2 922	2 400	2 213	1 970	1 652
Air Force					
Male	1 165	956	849	733	652
Female	31	29	23	20	15
Total	1 196	985	872	753	667
All services					
Male	5 420	4 474	4 107	3 616	3 131
Female	180	156	139	127	112
Total	5 600	4 630	4 246	3 743	3 243

7 members and services

Member communication and services

CSC aims to give all members information, education and advice to help them make the right decisions about their superannuation and retirement planning.

CSC provides clear, concise and tailored communications and delivers national education programs. Information and support is also provided to members and employers over the phone and via correspondence from customer information centres.

Website enhancements

In 2011/12, the DFRDB Scheme website and CSC's corporate website were fully redeveloped, providing increased functionality and accessibility for all users, including early compliance with federal government web content accessibility guidelines (WCAG) 2.0.

These improvements were completed as part of a wider member and employer communication 'renaming' project which followed the establishment of CSC on 1 July 2011.

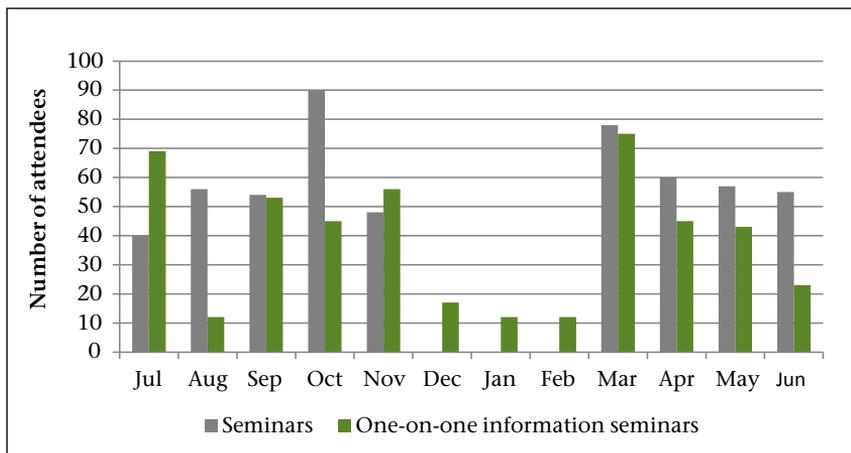
Information seminars

Members of the DFRDB Scheme can attend free information seminars at transition seminars which are held at bases and units around Australia. Medical discharge seminars are also run for members who expect to be discharged on medical grounds. In 2011/12, 26 information seminars were presented to 538 DFRDB Scheme members (see **Chart 1** for a breakdown across the year). Medical discharge seminars were presented to 47 DFRDB Scheme members.

One-on-one information services

Members of the DFRDB Scheme can speak to an information officer one-on-one in Canberra and at some transition seminars held at bases and units around Australia. In 2011/12, 462 one-on-one information sessions were held with DFRDB Scheme members.

Chart 1: Seminars & one-on-one sessions in 2011/12



Customer Information Centre

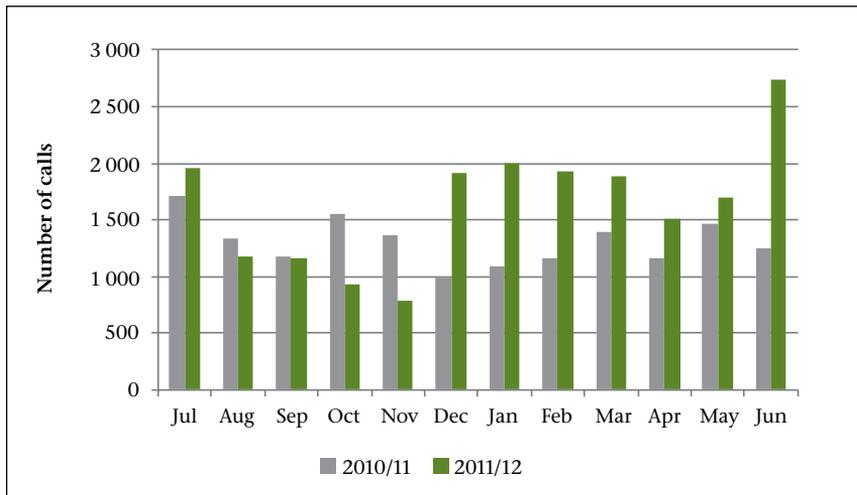
In the 2011/12 financial year, 75% of all calls to the Customer Information Centre (CIC), run by the administrator, ComSuper, were answered within 60 seconds which is the service level standard outlined in the Service Level Agreement (SLA). Technology improvements, including email queuing and pooling resources, helped to achieve this standard.

CIC service delivery to DFRB Scheme and DFRDB Scheme members for phone and email and written correspondence is outlined on the following pages.

Phone

Telephone is the preferred method of CIC contact for DFRB Scheme and DFRDB Scheme members. In 2011/12, an average of 387 telephone calls was received each week. During the year, calls to the CIC from DFRB Scheme and DFRDB Scheme members totalled 19 706.

Chart 2: Calls received comparison 2011/12 & 2010/11



7 members and services

Email and written correspondence

Members can email and write to the CIC. In 2011/12, the CIC responded to 4 495 emails and 1 235 written enquiries from DFRB Scheme and DFRDB Scheme members.

Chart 3: Emails received comparison 2011/12 & 2010/11

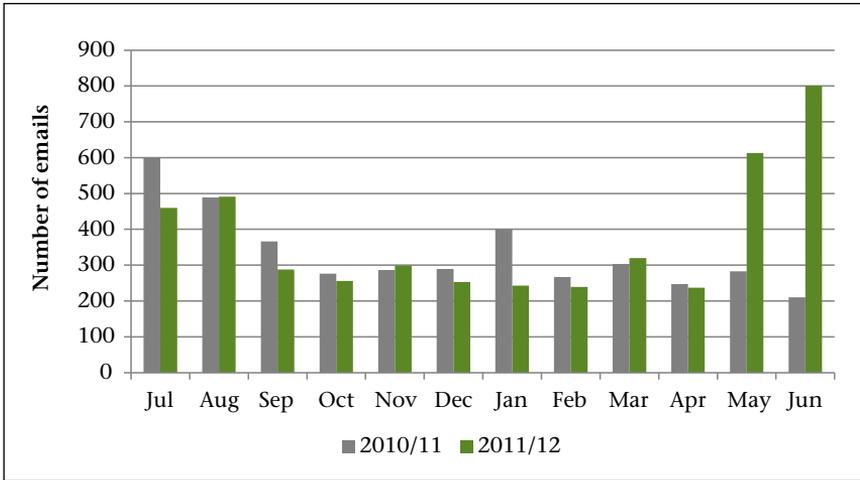
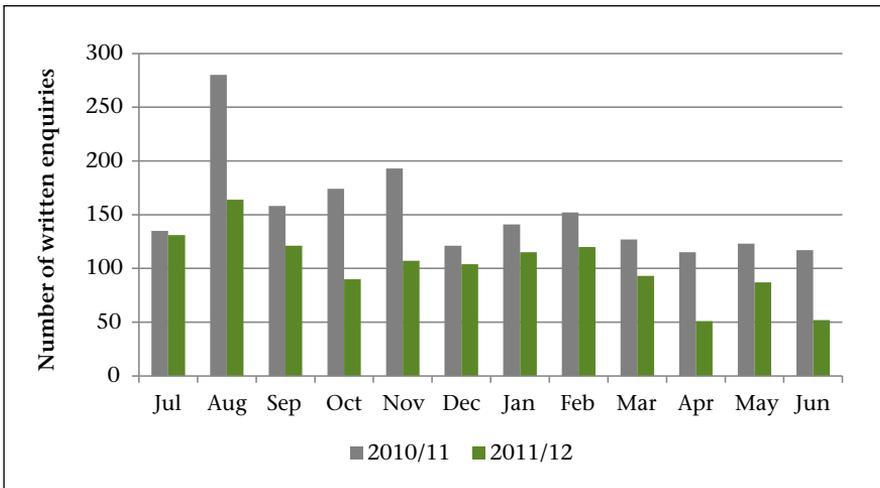


Chart 4: Written correspondence received comparison 2011/12 & 2010/11



2011/12 projects

Annual member statements

In 2011/12, 3 665 DFRDB Scheme statements were issued with routine statements available online on 27 September 2011 and printed copies posted to members from 26 August 2011. Non-routine statements were posted to members by 27 September 2011.

Annual member report

An annual member report for contributing members is published on the DFRDB Scheme website to provide a summary of Scheme activities during the financial year. The report for the 2010/11 financial year was published on 30 September 2011.

Pension update and Consumer Price Index

Retired DFRDB Scheme members receive two Pension Update newsletters each year detailing areas of interest and any significant changes impacting their entitlements.

It is mailed to members with an income tax Payment Summary (in the July mail-out only) and a letter advising them of the biannual Consumer Price Index (CPI) movement and the impact that movement will have on their DFRDB Scheme pension.

Issues released in 2011/12 were Issue 18 (July 2011) and Issue 19 (January 2012).

8

Scheme administration

Scheme administrator

Service Level Agreement

administrator
performance

account maintenance

contributions

benefit payments

pension payments

reversionary benefits

invalidity process,
classification and
review

family law

dispute resolution

complaints and
representations

legal claims

8

Scheme administration

This section of the report details the administration of the DFRB Scheme and DFRDB Scheme during the year ended 30 June 2012. This is one of three CSC reports for 2011/12. CSC's other reports cover CSS, MilitarySuper, PSS, PSSap and the 1922 Scheme and PNG Scheme.

Scheme administrator

ComSuper is the provider of scheme administration services for the DFRB Scheme and DFRDB Scheme. ComSuper's main responsibilities are to:

- > maintain records for contributing and deferred benefit members and pensioners
- > receive and account for contributions from the Department of Defence
- > calculate and pay benefits (including invalidity benefits)
- > make decisions on entitlements under delegation from CSC
- > provide information and assistance to members.

ComSuper provides information and assistance to members at Scheme seminars, in one-on-one information sessions and through the Customer Information Centre. These services are explained in the Members and services section of this report.

Service Level Agreement

A Service Level Agreement (SLA) is in place between CSC (the trustee), the Department of Defence (the employer) and ComSuper (the administrator). This SLA is for the military superannuation Schemes including the DFRB Scheme and DFRDB Scheme. It establishes the services to be provided and service standards in relation to scheme administration and reflects a shared understanding of the commitments each party is to provide under the SLA.

Administrator performance

As administrator, ComSuper reports monthly to CSC against the performance standards set out in the SLA. CSC reviews and monitors ComSuper's performance, which includes assessing ComSuper's service delivery against agreed standards.

Account maintenance

An online interface is used to receive contributions and information directly from the Department of Defence. This interface enables over 99% of DFRDB Scheme contributions to be processed directly into ComSuper's administration system.

Contributions

Table 8: DFRDB Scheme contributions in 2011/12

Contributions received 2011/12	\$20 725 581
--------------------------------	--------------

Ancillary contributions

Current DFRDB Scheme contributing members can make ancillary contributions to MilitarySuper. Ancillary contributions include pre- and post-tax contributions such as salary sacrifice contributions, personal contributions and transfer amounts.

These contributions form part of a separate benefit for members called an ancillary benefit. It accrues as a separate accumulation interest within MilitarySuper Fund, fluctuating in line with returns earned by the Fund. Ancillary contributions do not attract or detract from the employer benefit and are reported separately to member benefits in the DFRDB Scheme.

Table 9: DFRDB Scheme contributors with ancillary payments at 30 June 2012

Type	Number of contributors
Additional personal contributions	0
Co-contributions	1 697
Superannuation guarantee	3 637
Salary sacrifice	264
Transfers in	130
Spouse contributions	22

Note: All ancillary contributions are paid into MilitarySuper Fund.

Benefit payments

All benefit applications are processed in accordance with relevant legislation and in line with agreed service levels set out in the SLA. Service levels cover all benefit payment events including resignation, retirement, invalidity, reversionary pensions, reconsideration and death.

DFRDB Scheme benefit payments also include a productivity benefit under the *Defence Force (Superannuation) (Productivity Benefit) Determination* (issued under the *Defence Act 1903*). It has accrued on behalf of all ADF members since 1 January 1988.

This productivity benefit is paid for by the Department of Defence and is separate to the benefits listed in **Table 10**. Its amount varies according to the circumstances under which a member leaves the ADF and is paid at the same time as DFRDB Scheme benefits are paid.

8

Scheme administration

Table 10: DFRB Scheme & DFRDB Scheme benefit payments for five years to 30 June 2012

Benefit type	2007/08	2008/09	2009/10	2010/11	2011/12
	\$'000				
Pension payments (including invalidity)	1 202 874	1 260 072	1 285 457	1 375 488	1 372 474
Refunds of contributions	462	0	3 040	0	0
Lump sum (commutation) payments	118 385	155 905	95 492	102 189	115 411
Total benefit payments	1 321 721	1 415 977	1 383 989	1 477 677	1 487 885

Average processing times for routine benefit applications are set out in **Chart 5**.

Processing time for benefit applications begin once the administrator, ComSuper, has received all the required information. Members can, however, have to wait a further two or three working days to receive their entitlement due to the banking process.

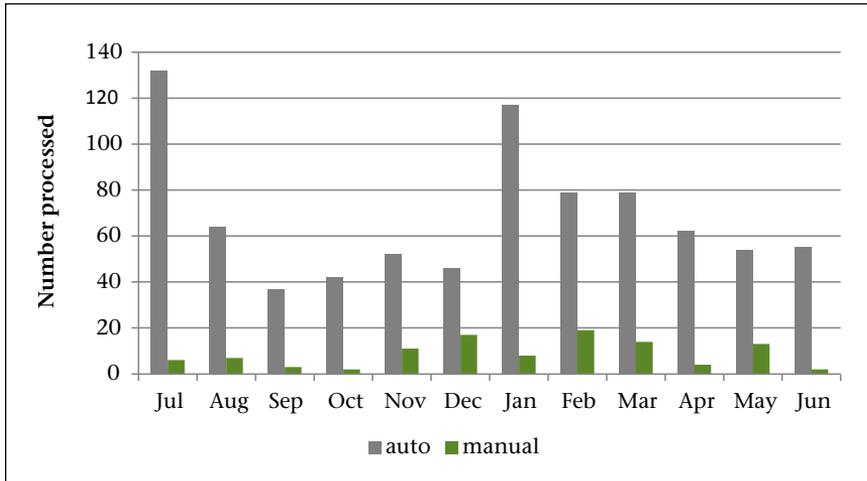
DFRDB Scheme members with an ancillary account in MilitarySuper (see ancillary contributions above) cannot be processed any faster than two days. This is because ComSuper must wait for MilitarySuper Fund unit prices to be declared to pay these benefits.

Chart 5: Average processing time for routine benefit applications in 2011/12



Benefit applications must be processed manually on occasions. This is due to the complex nature of the calculations involved. Complex calculations can involve an adjustment to salary information, re-entering the ADF, and family law splits.

Chart 6: DFRDB Scheme & DFRDB Scheme benefit applications processed in 2011/12



Gratuities

Certain members who leave the Australian Defence Force (ADF) with no entitlement to a pension are entitled to a refund of their contributions plus a gratuity. A gratuity is a sum of money paid in the form of a one-off bonus. Gratuities are usually only payable to ‘other rank’ members, but some officers are also entitled to receive them. Members are not entitled to a gratuity once they become entitled to a retirement or invalidity benefit.

No gratuities were paid from the Australian Government’s Consolidated Revenue Fund to members who exited the ADF in 2011/12.

Commutation and pension affect

Members retiring from the ADF can commute part of their benefit to receive early payment of their retirement pension as a lump sum. In this case, their retirement pension is permanently reduced irrespective of how long they live. Retiring members can receive a maximum commutation lump sum of up to five times the value of their pension. In 2011/12, 441 members elected to commute part of their pension (compared to 414 in 2010/11).

Early release of preserved benefits

In certain circumstances, a compulsorily preserved benefit may be paid before retirement. In 2011/12, two preserved benefits were paid in full or in part and there were none released on total and permanent incapacity (TPI), severe hardship or compassionate grounds.

8

Scheme administration

Preservation of rights

Under certain circumstances, DFRDB Scheme members who exit the Scheme without a pension entitlement can defer their benefit or transfer it to another eligible superannuation scheme, rather than electing to receive a refund of their contributions. Members who elect to transfer must choose a superannuation scheme declared 'eligible' by the Minister for Finance and Deregulation. Eligible schemes are generally linked to government employment. A benefit is determined solely by the eligible scheme once it has been transferred to that scheme.

If a member elects to defer their benefit, they must enter full-time public sector employment within 90 days of their exit date from the ADF. That member becomes eligible to a reduced DFRDB Scheme pension once their combined ADF and government service equals 20 years.

In 2011/12, no members elected to defer their DFRDB Scheme benefit.

Pension payments

The total amount paid as DFRDB (including DFRB) pensions during the year was \$1 372 million. Average pension amounts and total pensions paid are set out in **Table 11**.

Consumer Price Index increases in 2011/12 were 2.0% in July 2011 and 1.5% in January 2012.

Table 11: DFRB Scheme & DFRDB Scheme pensions comparison 2011/12 & 2010/11

	2010/11	2011/12
Total pension payments	\$1 375 million	\$1 372 million
Average annual pension amount		
- DFRB Scheme	\$16 061	\$16 817
- DFRDB Scheme	\$24 386	\$24 603
Total pensions at 30 June	57 016	56 914

Reversionary benefits

In the event of the death of a contributing or deferred benefit member, or a pensioner, their dependants and/or Estate may be entitled to a superannuation benefit. Benefits can be paid to an eligible spouse, child or the Estate. If an eligible spouse is paid their reversionary benefit as a pension, it will be paid for life in most but not all cases.

ComSuper processed all applications for reversionary benefits in a timely manner and in accordance with the SLA and relevant legislation.

Invalidity process, classification and review

Classification process

ComSuper assesses invalidity claim applications from DFRDB Scheme members who have been medically discharged from the ADF. The classification process is to first, assess a member's invalidity benefit eligibility according to legislative criteria. Second, if the member is assessed as eligible for an invalidity benefit, the percentage of incapacity in relation to appropriate civilian employment is determined based on:

- > an independent medical assessment
- > information about the member's capacity for civilian employment based on their skills, employment history and injury or illness
- > other information provided by the Department of Defence.

Invalidity classifications are Class A, B or C. Class A requires significant incapacity. Class B requires moderate incapacity. Class C reflects comparatively low incapacity and there is no entitlement to an invalidity pension.

Third, after the invalidity classification has been determined, the member is advised in writing and informed of their right to request a reconsideration of the decision. The DFRDB Scheme's reconsideration process is outlined on page 42.

Invalidity classification

Table 12: Initial invalidity classifications & invalidity pensions granted

	2010/11	2011/12
Initial invalidity classifications	47	50
Invalidity pensions granted		
- Class A or B	22	32
- Class C	25	18

Invalidity classification review

If an invalidity recipient believes their retiring impairment has deteriorated, they can initiate a review of their invalidity classification level. Recipients classified as Class C must make their reconsideration request within 30 days of when the initial classification was determined. The DFRDB Scheme's reconsideration process is outlined on page 42.

If the classification review determines the recipient's degree of incapacity to undertake appropriate civilian employment has either deteriorated or improved, the rate of invalidity pension that is payable to that invalidity recipient will be altered.

In 2011/12, one DFRDB Scheme invalidity recipient requested a review of their classification, and as a result, the classification of that person was changed.

Periodic medical reviews of DFRDB invalidity recipients have been reduced to zero. This was announced in the Federal Budget 2010.

8

Scheme administration

Family law

In the case of a superannuation family law split, associate accounts are created as separate accounts such as where an associate account is created for the ex-spouse of a member following their divorce. If a contributing or deferred benefit member is subject to a family law splitting court order, ComSuper creates a MilitarySuper associate account for the eligible former spouse or same sex partner of that member. If a pensioner is subject to a family law splitting order, a DFRDB Scheme associate pension is created.

Table 13: Family law DFRB Scheme & DFRDB Scheme comparison 2011/12 & 2010/11

	2010/11	2011/12
Splits implemented	76	70
Responses to member enquiries	418	258
Contributor accounts affected	136	146
Preserved accounts affected	0	0
Associate preserver accounts maintained	0	0
Associate pensioner accounts maintained	440	487

Dispute resolution

Decisions of CSC and its delegates are subject to both internal review (the reconsideration process) and external review (review by other bodies). A formal complaints process is also in place which is outlined in 'Complaints and representations' on page 45.

Internal review – the reconsideration process

A person affected by a decision of CSC or a delegate may apply in writing to have it reconsidered. Most requests in relation to the DFRB Scheme and the DFRDB Scheme focus on invalidity classifications and the related amount of invalidity benefit which is payable, and on subsequent invalidity classification reviews. Other common reconsideration subjects are late elections to contribute, recovery of overpayments, early access to superannuation on hardship grounds and spouse entitlements.

Following the completion of any internal reconsideration investigations, cases are prepared for review by the Defence Force Case Assessment Panel (DFCAP).

The role of the Panel during the year was to:

- > consider requests for reconsideration of a delegate's decision made under the DFRDB Act and to either affirm the decision, vary it or set it aside and substitute another decision for it, or
- > make recommendations to CSC on requests for reconsideration of decisions.

As at 30 June 2012, DFCAP comprised:

- > General Peter Cosgrove – Chief of Defence Force nominated CSC director (DFCAP Chairman)
- > Mr John McCullagh – Chief of Defence Force nominated CSC director (DFCAP Deputy Chairman)
- > GPCAPT David Richardson – Chief of Air Force nominated member
- > COL Anthony Hambleton – Chief of Army nominated member
- > CMDR Stephen Cornish – Chief of Navy nominated member.

DFCAP met on seven occasions during the year.

Table 14: DFRB Scheme & DFRDB Scheme reconsideration requests for three years to 30 June 2012

	2009/10	2010/11	2011/12
Carried over from the previous year	18	15	11
Requests received	37	26	28
Requests finalised	39	30	21
Requests confirmed	12	18	12
Requests varied in favour of applicant	15	5	2
Requests lapsed/withdrawn	12	7	7
Requests still under investigation	16	11	18

Note: These decisions were made by the DFRDB Authority until 30 June 2011 when the function was taken over by the Defence Force Case Assessment Panel.

External review

Certain CSC decisions are subject to external review by bodies such as the Superannuation Complaints Tribunal, the Administrative Appeals Tribunal (AAT), the Federal Court, the Commonwealth Ombudsman and the Australian Human Rights Commission.

Administrative Appeals Tribunal

Under the DFRDB Act, reconsideration decisions made by DFCAP in relation to the DFRB Scheme and the DFRDB Scheme can be reviewed by the AAT, established under the *Administrative Appeals Tribunal (AAT) Act 1975* (the AAT Act). If a decision made by DFCAP is adverse to the applicant, information about the applicant's right to apply for review by the AAT is set out in the written statement of reasons which they are sent.

AAT applications are processed according to the procedures and practices of the AAT set out in the AAT Act and the practice directions issued by the AAT President.

8

Scheme administration

Table 15: DFRB Scheme & DFRDB Scheme AAT reviews in 2011/12

	Carried over	Lodged	Resolved	Varied	Carried forward
2011/12	9	14	15 (4 affirmed; 3 dismissed; 4 withdrawn; 3 cases were conceded by CSC prior to hearing; and 1 resolved by mediation)	0	8

Table 16: DFRB Scheme & DFRDB Scheme AAT outcomes for five years to 30 June 2012

	2007/08	2008/09	2009/10	2010/11	2011/12
Decisions affirmed	4	3	5	0	4
Decisions varied	1	2	1	3	0
Decisions set aside	1	1	0	0	0
Decisions conceded	2	2	2	0	4
Applications dismissed/withdrawn	2	3	4	3	7
Total	10	11	12	6	15

Federal Court

Under section 44 of the AAT Act, a party to a proceeding before the AAT may appeal to the Federal Court on a question of law arising from any decision of the AAT in that proceeding.

In the 2011/12 financial year, one matter was appealed from the AAT to the Federal Court. This matter remained outstanding at 30 June 2012.

Judicial review

The *Administrative Decisions (Judicial Review) Act 1977* (the AD(JR) Act) provides another review mechanism for a person aggrieved by an administrative decision taken under Commonwealth legislation. Under the AD(JR) Act, the person can seek, on specified grounds, an order for review of the decision in the Federal Court.

During 2011/12, there were no orders for review and no requests for a statement of reasons under the AD(JR) Act in respect of decisions made under the DFRB or DFRDB Acts.

Commonwealth Ombudsman

During 2011/12, no Ombudsman enquiries were received in relation to the DFRB Scheme or DFRDB Scheme (refer to **Table 17** for all complaints and representations).

Complaints and representations

CSC has put in place formal procedures for member complaints. CSC manages complaints relating to policy and governance. As scheme administrator, ComSuper manages complaints relating to scheme administration including the maintenance of member accounts, recording of contributions, estimating and paying member benefits, issuing member statements and other service enquiries. Complaints handling processes and procedures comply with the Association of Superannuation Funds of Australia (ASFA) Best Practice Guide and reflect the guiding principles of Standards of Australia AS ISO 10002-2006 (Customer Satisfaction – guidelines for complaints handling in organisations).

In 2011/12, 19 complaints were received in relation to the DFRB Scheme and the DFRDB Scheme (see **Table 17**), which was less than the 35 complaints received in 2010/11.

Representations from members of parliament are also outlined in **Table 17**.

Table 17: DFRB Scheme & DFRDB Scheme complaints in 2011/12

Enquiry type	Policy	Service	Total
Complaint	7	12	19
Ministerial	4	0	4
Ombudsman enquiry	0	0	0
Total	11	12	23

Note: The Department of Defence responds to most complaints relating to policy and legislation.

Legal claims

Table 18: Compensation claims in 2011/12

	Carried over	Received	Accepted	Carried forward
2011/12	1	5	2	4

A total of \$16 897 was paid in compensation during the year.

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CSC financial statements

9 CSC financial statements



INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Deregulation

Report on the Financial Statements

I have audited the accompanying financial statements of Commonwealth Superannuation Corporation for the year ended 30 June 2012, which comprise: a Statement by the Chairman and Chief Executive Officer; the Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Contingencies; Schedule of Asset Additions and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Director's Responsibility for the Financial Statements

The directors of the Commonwealth Superannuation Corporation are responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting

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estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

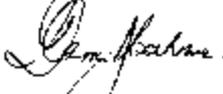
In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Commonwealth Superannuation Corporation:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Auditors and Companies Act 1993*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Commonwealth Superannuation Corporation's financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

AUSTRALIAN NATIONAL AUDIT OFFICE



Warren Crennan
Group Executive Director

Delegate of the Auditor-General

Canberra
14 September 2012

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CSC financial statements

STATEMENT BY THE CHAIRMAN AND CHIEF EXECUTIVE

In our opinion, the attached financial statements for the year ended 30 June 2012 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the Commonwealth Authorities and Companies Act 1997, as amended.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Authority will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the directors.



Signed.....

Tony Hyams
Chairman

14 September 2012



Signed.....

Peter Carrigy-Ryan
Chief Executive Officer

14 September 2012

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STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
EXPENSES			
Employee benefits	3A	12,366	9,862
Supplier	3B	8,403	5,597
Depreciation and amortisation	3C	879	563
Write-down and impairment of assets	3D	-	39
Total expenses		21,648	16,061
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	21,757	16,163
Interest	4B	118	-
Other	4C	3	31
Total own-source revenue		21,878	16,194
Net contribution by services		230	133
Surplus attributable to the Australian Government		230	133
Total comprehensive income attributable to the Australian Government		230	133

The above statement should be read in conjunction with the accompanying notes.

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CSC financial statements

BALANCE SHEET
as at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	4,772	1,992
Trade and other receivables	5B	1,150	1,396
Total financial assets		5,922	3,388
Non-Financial Assets			
Property, plant and equipment	6A	3,758	3,509
Intangibles	6C	393	304
Total non-financial assets		4,151	3,813
Total assets		10,073	7,201
LIABILITIES			
Payables			
Suppliers	7A	(71)	(69)
Other	7B	(2,827)	(2,146)
Total payables		(2,898)	(2,215)
Provisions			
Employee provisions	8A	(1,887)	(1,149)
Other	8B	(240)	-
Total provisions		(2,127)	(1,149)
Total liabilities		(5,025)	(3,364)
Net assets		5,048	3,837
EQUITY			
Contributed equity		2,324	1,343
Reserves		511	511
Retained surplus		2,213	1,983
Total entity		5,048	3,837
Total equity		5,048	3,837

The above statement should be read in conjunction with the accompanying notes.

CSC financial statements 9

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2012

	Retained earnings		Asset revaluation reserve		Contributed equity/capital		Total equity	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance								
Balance carried forward from previous period	1,983	1,850	511	511	1,343	1,343	3,837	3,704
Adjusted opening balance	1,983	1,850	511	511	1,343	1,343	3,837	3,704
Comprehensive income								
Other comprehensive income	-	-	-	-	-	-	-	-
Surplus for the period	230	133	-	-	-	-	230	133
Total comprehensive income	230	133	-	-	-	-	230	133
Transactions with owners								
Distributions to owners								
Returns of capital:								
Restructuring	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Contributions by owners								
Equity injection	-	-	-	-	-	-	-	-
Restructuring	-	-	-	-	981	-	981	-
Other	-	-	-	-	-	-	-	-
Sub-total transactions with owners	-	-	-	-	981	-	981	-
Closing balance as at 30 June	2,213	1,983	511	511	2,324	1,343	5,048	3,837

The above statement should be read in conjunction with the accompanying notes.

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CSC financial statements

CASH FLOW STATEMENT for Not-For-Profit Reporting Entities for the year ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		21,867	15,572
Interest		118	-
Other		2	-
Total cash received		<u>21,987</u>	<u>15,572</u>
Cash used			
Employees		(11,874)	(9,644)
Suppliers		(7,250)	(5,397)
Total cash used		<u>(19,124)</u>	<u>(15,041)</u>
Net cash from operating activities	10	<u>2,863</u>	<u>531</u>
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment		(782)	(2,173)
Purchase of intangibles		(218)	(198)
Total cash used		<u>(1,000)</u>	<u>(2,371)</u>
Net cash used by investing activities		<u>(1,000)</u>	<u>(2,371)</u>
FINANCING ACTIVITIES			
Cash received			
Contributed equity from restructuring		917	-
Total cash received		<u>917</u>	<u>-</u>
Net increase (decrease) in cash held		<u>2,780</u>	<u>(1,840)</u>
Cash and cash equivalents at the beginning of the reporting period		1,992	3,832
Cash and cash equivalents at the end of the reporting period	5A	<u>4,772</u>	<u>1,992</u>

The above statement should be read in conjunction with the accompanying notes.

SCHEDULE OF COMMITMENTS

as at 30 June 2012

	2012	2011
BY TYPE	\$'000	\$'000
Commitments receivable		
Sublease rental income	1,023	-
Net GST recoverable on commitments	823	783
Total commitments receivable	<u>1,846</u>	<u>783</u>
Commitments payable		
Other commitments		
Operating leases	(9,049)	(8,611)
Net GST payable on commitments	(93)	-
Total other commitments	<u>(9,142)</u>	<u>(8,611)</u>
Net commitments by type	<u>(7,296)</u>	<u>(7,828)</u>
BY MATURITY		
Commitments receivable		
Operating lease income		
One year or less	312	93
From one to five years	1,363	490
Over five years	171	200
Total operating lease income	<u>1,846</u>	<u>783</u>
Commitments payable		
Operating lease commitments		
One year or less	(1,754)	(1,019)
From one to five years	(5,512)	(5,390)
Over five years	(1,876)	(2,202)
Total operating lease commitments	<u>(9,142)</u>	<u>(8,611)</u>
Net commitments by maturity	<u>(7,296)</u>	<u>(7,828)</u>

Note: Operating lease commitment will be met by the ARIA Investments Trust from 1st July 2012.

9 CSC financial statements

Note 1: Summary of Significant Accounting Policies

1.1 Objective of the entity

The objective of Commonwealth Superannuation Corporation ('CSC') (ABN 48 882 817 243) is to provide retirement benefits for past, present and future Australian Government employees and members of the Australian Defence Force, as trustee of their superannuation funds and schemes.

On 1 July 2011 the name of CSC was changed from Australian Reward Investment Alliance (ARIA) and CSC became responsible for the administration of Military Superannuation and Benefits Scheme ('MSBS'), the Defence Force Retirement and Death Benefits Scheme ('DFRDB'), the Defence Force Retirement Benefits Scheme ('DFRB'), the Defence Force (Superannuation) (Productivity Benefit) Scheme ('DFSPB'), the Papua New Guinea Scheme ('PNG') and the 1922 Scheme in addition to the Public Sector Superannuation Scheme ('PSS'), the Commonwealth Superannuation Scheme ('CSS') and the Public Sector Superannuation Accumulation Plan ('PSSap') for which ARIA was trustee (collectively, the Schemes).

The Schemes invest solely through the ARIA Investments Trust - a pooled superannuation trust under CSC's trusteeship - which facilitates access to a broad range of underlying securities across various asset classes on an efficient and cost-effective basis.

CSC's sole source of income is from external sources, and therefore no appropriations are included.

CSC's activities are funded in part through a share of the scheme administration charges collected by ComSuper from employers participating in PSS, CSS and PSSap, and in part through negotiated administration charges collected by ComSuper from the Department of Defence. Additional funding may be provided by government to meet specific administration requirements.

In addition, CSC's activities are funded through charges to the ARIA Investments Trust to recover the cost of administering and managing the investment of the schemes.

CSC is structured to meet the following outcome:

Outcome 1: Retirement benefits for past, present and future Australian Government employees and members of the Australian Defence Force through investment and administration of their superannuation funds and schemes.

The continued existence of the entity in its present form and with its present programs is dependent on Government policy and on continuing funding by Parliament for the entity's administration and programs.

Note 1: Summary of Significant Accounting Policies (continued)

1.2 Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by clause 1(b) of Schedule 1 to the Commonwealth Authorities and Companies Act 1997.

The financial statements have been prepared in accordance with:

- a) Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accruals basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the balance sheet when and only when it is probable that future economic benefits will flow to the entity or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the schedule of commitments.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the entity has made the following judgement that has the most significant impact on the amounts recorded in the financial statements: the fair value of Property, Plant and Equipment has been taken to be the market value of similar assets as determined by an independent valuer.

No accounting assumptions and estimates have been identified that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period.

1.4 New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

9 CSC financial statements

Note 1: Summary of Significant Accounting Policies (continued)

The following amending standards that were issued prior to the sign-off date, are applicable to the current reporting period and do not have a future financial impact on the entity.

	Effective	Application Date
AASB 124 'Related Party Disclosures (2009)', AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012

Future Australian Accounting Standard Requirements

The following new standards, revised standards, interpretations or amending standards were issued by the Australian Accounting Standards Board prior to the sign-off date, which are expected to have a financial impact on the entity for future reporting periods:

	Effective	Application Date
AASB 9 'Financial Instruments' and AASB 2009-11 consequential amendments to other accounting standards resulting from its issue and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 2011-3 Amendments to Australian Accounting Standards - Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments (AASB 1049)	1 July 2012	30 June 2013
AASB 13 'Fair Value Measurement' and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	30 June 2014
AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	1 July 2012	30 June 2013
AASB 119 Employee Benefits: AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011) & AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	1 January 2013	30 June 2014
AASB 2011-13 Amendments to Australian Accounting Standards - Improvements to AASB 1049	1 July 2012	30 June 2013
AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities (AASB 7)	1 January 2013	30 June 2014
AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (AASB 132)	1 January 2013	30 June 2014
AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	1 January 2013	30 June 2014

Other new, amending or revised standards and interpretations that were issued prior to the sign-off date and are applicable to the future reporting period are not expected to have a future financial impact on the entity.

Note 1: Summary of Significant Accounting Policies (continued)**1.5 Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Where revenue is received but not earned, it shall be shown as the liability 'unearned revenue'.

Revenue from interest

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

Revenue from rendering of services

CSC receives a share of administration fees collected by ComSuper from participating employer contributors to the Schemes. Any revenue not received by balance date is reflected in the balance sheet as a receivable.

Revenue from Government

CSC may receive supplementary funding from government from time to time to meet specific administration needs.

1.6 GainsResources Received Free of Charge

Resources received free of charge are recognised as gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government entity as a consequence of a restructuring of administrative arrangements (Refer to Note 1.7).

Sale of Assets

Gains from disposal of assets are recognised when control of the asset has passed to the buyer.

1.7 Transactions with the Government as OwnerEquity Injections

Amounts that are designated as equity injections for a year are recognised directly in contributed equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

9 CSC financial statements

Note 1: Summary of Significant Accounting Policies (continued)

1.8 Employee Benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of the end of reporting period are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the entity is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the entity's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2012. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

CSC's staff are members of various superannuation schemes including CSS, PSS and PSSap.

The CSS and PSS are defined benefit schemes for Australian Government employees.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item. CSC makes employer contributions to the defined benefit schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government and accounts for the contributions as if they were contributions to defined contribution plans.

The PSSap is a defined contribution scheme for Australian Government employees.

Any liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

Note 1: Summary of Significant Accounting Policies (continued)

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

1.10 Cash

Cash is recognised at its nominal amount. Cash and cash equivalents includes:

- a) cash on hand; and
- b) demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

1.11 Financial Assets

CSC classifies its financial assets as loans and receivables.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost - if there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

9 CSC financial statements

Note 1: Summary of Significant Accounting Policies (continued)

1.12 Financial Liabilities

Financial liabilities are classified as other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.13 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

1.14 Property, Plant and Equipment

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the balance sheet, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property lease taken up by the entity where there exists an obligation to restore the property to its original condition. These costs are included in the value of the entity's leasehold improvement with a corresponding provision for the 'make good' recognised.

Note 1: Summary of Significant Accounting Policies (continued)

Revaluations

Fair values for each class of asset are

<i>Asset class</i>	<i>Fair value measurement</i>
Leasehold improvements	Depreciated replacement cost
Infrastructure, plant and equipment	Market selling price

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses.

Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to CSC using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2012	2011
Leasehold improvements	Lease term	Lease term
Infrastructure, plant and equipment	3 to 10 years	3 to 10 years

9 CSC financial statements

Note 1: Summary of Significant Accounting Policies (continued)

Impairment

All assets were assessed for impairment at 30 June 2012. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the entity were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.15 Intangibles

CSC's intangibles comprise of purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of the entity's software assets is 4 years (2010-11: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2012.

1.16 Taxation

CSC is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except:

- a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- b) for receivables and payables.

Note 2: Events After the Reporting Period

No matters have occurred since 30 June 2012 that have materially affected, or may materially affect, the operations of CSC, the results of those operations, or the financial position of CSC in the future financial years.

9 CSC financial statements

Note 3: Expenses

	2012	2011
	\$'000	\$'000
Note 3A: Employee Benefits		
Wages and salaries	(10,567)	(8,717)
Superannuation:		
Defined contribution plans	(822)	(618)
Defined benefit plans	(455)	(466)
Leave and other entitlements	(522)	(61)
Total employee benefits	(12,366)	(9,862)
Note 3B: Suppliers		
Goods and services		
Consultants	(1,279)	(610)
Contractor	(4,894)	(3,601)
Other	(559)	(332)
Total goods and services	(6,732)	(4,543)
Goods and services are made up of:		
Provision of goods – external parties	(378)	(226)
Rendering of services – related entities	(583)	(388)
Rendering of services – external parties	(5,771)	(3,929)
Total goods and services	(6,732)	(4,543)
Other supplier expenses		
Operating lease rentals – external parties:		
Minimum lease payments	(1,601)	(1,029)
Workers compensation expenses	(70)	(25)
Total other supplier expenses	(1,671)	(1,054)
Total supplier expenses	(8,403)	(5,597)
Note 3C: Depreciation and Amortisation		
Depreciation:		
Leasehold Improvement	(483)	(328)
Infrastructure, plant & equipment	(267)	(190)
Total depreciation	(750)	(518)
Amortisation:		
Intangibles	(129)	(45)
Total amortisation	(129)	(45)
Total depreciation and amortisation	(879)	(563)
Note 3D: Write-Down and Impairment of Assets		
Asset write-downs and impairments from:		
Other -carrying value of assets disposed	-	(39)
Total write-down and impairment of assets	-	(39)

Note 4: Income

	2012	2011
	\$'000	\$'000

OWN-SOURCE REVENUE

Note 4A: Sale of Goods and Rendering of Services

Rendering of services - related entities	6,839	4,301
Rendering of services - external parties	14,918	11,862
Total sale of goods and rendering of services	21,757	16,163

Note 4B: Interest

Deposits	118	-
Total interest	118	-

Note 4C: Other Revenue

Gain on Sale of Assets	3	31
Total other revenue	3	31

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Note 5: Financial Assets

	2012 \$'000	2011 \$'000
Note 5A: Cash and Cash Equivalents		
Special Accounts	-	1,992
Cash on hand or on deposit	<u>4,772</u>	<u>-</u>
Total cash and cash equivalents	<u>4,772</u>	<u>1,992</u>
Note 5B: Trade and Other Receivables		
Goods and Services:		
Goods and services - related entities	<u>1,150</u>	<u>1,303</u>
Total receivables for goods and services	<u>1,150</u>	<u>1,303</u>
Other receivables:		
GST receivable from the Australian Taxation Office	-	31
Accrued revenue	<u>-</u>	<u>62</u>
Total other receivables	<u>-</u>	<u>93</u>
Total trade and other receivables (net)	<u>1,150</u>	<u>1,396</u>
Receivables are expected to be recovered in:		
No more than 12 months	<u>1,150</u>	<u>1,396</u>
Total trade and other receivables (net)	<u>1,150</u>	<u>1,396</u>
Receivables are aged as follows:		
Not overdue	<u>1,150</u>	<u>1,396</u>
Total receivables (net)	<u>1,150</u>	<u>1,396</u>

Note 6: Non-Financial Assets

2012	2011
\$'000	\$'000

Note 6A: Property, Plant and Equipment

Gross carrying value (at fair value)	4,874	3,875
Accumulated depreciation	<u>(1,116)</u>	<u>(366)</u>
Total property, plant and equipment	<u>3,758</u>	<u>3,509</u>

Note 6B: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment (2011-12)

	Property, plant & equipment \$'000	Total \$'000
As at 1 July 2011		
Gross book value	3,875	3,875
Accumulated depreciation and impairment	<u>(366)</u>	<u>(366)</u>
Net book value 1 July 2011	<u>3,509</u>	<u>3,509</u>
Additions		
By purchase	782	782
From acquisition of entities or operations (including restructuring)*	217	217
Depreciation expense	<u>(750)</u>	<u>(750)</u>
Net book value 30 June 2012	<u>3,758</u>	<u>3,758</u>
Net book value as of 30 June 2012 represented by:		
Gross book value	4,874	4,874
Accumulated depreciation and impairment	<u>(1,116)</u>	<u>(1,116)</u>
Net book value 30 June 2012	<u>3,758</u>	<u>3,758</u>

* Property, plant and equipment with a net book value of \$0.217m were acquired as a result of a merger (see Note 1.1) during the year.

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Note 6B (Cont'd): Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment (2010-11)

	Property, plant & equipment \$'000	Total \$'000
As at 1 July 2010		
Gross book value	3,054	3,054
Accumulated depreciation and impairment	(1,161)	(1,161)
Net book value 1 July 2010	1,893	1,893
Additions		
By purchase	2,173	2,173
Revaluations recognised in the operating result (asset)	(1,161)	(1,161)
Revaluations recognised in the operating result (depreciation)	1,161	1,161
Depreciation expense	(518)	(518)
Disposals:		
Gross book value	(191)	(191)
Depreciation expense	152	152
Net book value 30 June 2011	3,509	3,509

Net book value as of 30 June 2011 represented by:

Gross book value	3,875	3,875
Accumulated depreciation and impairment	(366)	(366)
Net book value 30 June 2011	3,509	3,509

2012	2011
\$'000	\$'000

Note 6C: Intangibles

Computer software:

Purchased	567	349
Accumulated amortisation	(174)	(45)
Total computer software	393	304

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 6D: Reconciliation of the Opening and Closing Balances of Intangibles (2011-12)

	Computer software purchased \$'000	Total \$'000
As at 1 July 2011		
Gross book value	349	349
Accumulated amortisation and impairment	(45)	(45)
Net book value 1 July 2011	304	304
Additions		
By purchase	218	218
Amortisation	(129)	(129)
Net book value 30 June 2012	393	393
Net book value as of 30 June 2012 represented by:		
Gross book value	567	567
Accumulated amortisation and impairment	(174)	(174)
Net book value 30 June 2012	393	393

Note 6D (Cont'd): Reconciliation of the Opening and Closing Balances of Intangibles (2010-11)

	Computer software purchased \$'000	Total \$'000
As at 1 July 2010		
Gross book value	181	181
Accumulated amortisation and impairment	(30)	(30)
Net book value 1 July 2010	151	151
Additions		
By purchase	198	198
Revaluations recognised in the operating result (asset)	(30)	(30)
Revaluations recognised in the operating result (amortisation)	30	30
Amortisation	(45)	(45)
Net book value 30 June 2011	304	304
Net book value as of 30 June 2011 represented by:		
Gross book value	349	349
Accumulated amortisation and impairment	(45)	(45)
Net book value 30 June 2011	304	304

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Note 7: Payables

	2012	2011
	\$'000	\$'000
Note 7A: Suppliers		
Trade creditors and accruals	(71)	(69)
Total supplier payables	<u>(71)</u>	<u>(69)</u>
Supplier payables expected to be settled within 12 months:		
Related entities	(71)	(69)
Total Supplier payables expected to be settled within 12 months	<u>(71)</u>	<u>(69)</u>
Note 7B: Other Payables		
Wages and salaries	(310)	(328)
Prepayments received/unearned income	-	(1,044)
GST payable to ATO	(609)	-
Other - accrued expense	(996)	(305)
Lease incentive liability	(912)	(469)
Total other payables	<u>(2,827)</u>	<u>(2,146)</u>
Total other payables are expected to be settled in:		
No more than 12 months	(2,827)	(2,146)
More than 12 months	-	-
Total other payables	<u>(2,827)</u>	<u>(2,146)</u>

Note 8: Provisions

	2012	2011
	\$'000	\$'000
Note 8A: Employee Provisions		
Leave	(1,882)	(1,147)
Other	(5)	(2)
Total employee provisions	<u>(1,887)</u>	<u>(1,149)</u>
Employee provisions are expected to be settled in:		
No more than 12 months	(805)	(626)
More than 12 months	(1,082)	(523)
Total employee provisions	<u>(1,887)</u>	<u>(1,149)</u>
Note 8B: Other Provisions		
Provision for make good	(140)	-
Provision for surplus lease	(100)	-
Total other provisions	<u>(240)</u>	<u>-</u>
Other provisions are expected to be settled in:		
No more than 12 months	(100)	-
More than 12 months	(140)	-
Total other provisions	<u>(240)</u>	<u>-</u>

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Note 9: Restructuring

	2012	2011
	\$'000	\$'000
FUNCTIONS ASSUMED ¹		
Assets recognised ²		
Cash on hand or on deposit	917	-
Goods and services receivable - external parties	406	-
GST receivable from the Australian Taxation		
Office	99	-
Prepayment	28	-
Property, Plant and Equipment	217	-
Total assets recognised	1,667	-
Liabilities recognised		
Trade creditors and accruals	(1)	-
Wages and salaries	(47)	-
Unearned income	(25)	-
GST payable to ATO	(78)	-
Other - accrued expense	(325)	-
Employee Provisions	(182)	-
Other Provisions	(28)	-
Total liabilities recognised	(686)	-
Net assets/(liabilities) assumed for no consideration ³	981	-

1. Functions assumed as a result of a change in responsibilities of CSC on 1 July 2011 (Note 1.1).

2. The restructure is assumed at 1 July 2012.

3. In respect of functions assumed, the net book values of assets and liabilities were transferred to the entity for no consideration.

Note 10: Cash Flow Reconciliation

	2012 \$'000	2011 \$'000
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash flow statement	4,772	1,992
Balance sheet	4,772	1,992
Difference	<u>-</u>	<u>-</u>
Reconciliation of net cost of services to net cash from operating activities:		
Net contribution by services	230	133
Adjustments for non-cash items		
Depreciation / amortisation	879	563
Gain on disposal of assets	-	39
Changes in assets / liabilities		
(Increase) / decrease in receivables for goods and services	559	(378)
Increase / (decrease) in prepayments received/unearned income	(1,041)	48
(Increase) / decrease in GST receivable	130	(179)
Decrease in accrued revenue	62	67
Increase / (decrease) in employee provisions	556	42
Increase / (decrease) in supplier payables	1	(98)
Increase in accrued expense	366	168
Increase / (decrease) in accrued wages and salaries	(65)	175
Increase in GST payable	531	8
Increase / (decrease) in lease incentive liability	443	(57)
Increase / (decrease) in other provisions	212	-
Net cash from operating activities	<u>2,863</u>	<u>531</u>

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Note 11: Directors Remuneration

	2012	2011
	No.	No.
The number of non-executive directors of the entity included in numbers are shown below in the relevant remuneration bands:		
\$0 to \$29,999	-	2
\$30,000 to \$59,999	1	3
\$60,000 to \$89,999	8	2
\$90,000 to \$119,999	1	1
\$150,000 to \$179,999	1	-
Total	<u>11</u>	<u>8</u>
	\$	\$
Total remuneration received or due and receivable by directors of the entity	<u>930,353</u>	<u>452,707</u>

Note 12: Senior Executive Remuneration

Note 12A: Senior Executive Remuneration

	2012	2011
	\$	\$
Short-term employee benefits:		
Salary	(2,053,195)	(2,054,891)
Annual leave accrued	(62,870)	13,127
Performance bonuses	(480,480)	(649,667)
Motor vehicle and other allowance	(368)	(1,795)
Total short-term employee benefits	<u>(2,596,913)</u>	<u>(2,693,226)</u>
Post-employment benefits:		
Superannuation	(260,759)	(236,605)
Total post-employment benefits	<u>(260,759)</u>	<u>(236,605)</u>
Other long-term benefits:		
Long service leave	(137,022)	(32,805)
Total other long-term benefits	<u>(137,022)</u>	<u>(32,805)</u>
Termination benefits	(123,103)	-
Total employee benefits	<u>(3,117,797)</u>	<u>(2,962,636)</u>

Notes:

- Note 12A was prepared on an accrual basis (so the performance bonus expenses disclosed above differ from the cash 'Bonus paid' in Note 12B).
- Note 12A excludes acting arrangements and part-year service where remuneration expensed was less than \$150,000.

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Note 12B: Average Annual Remuneration Packages and Bonus Paid for Substantive Senior Executives as at the end of the Reporting Period

2012						
Average annual reportable remuneration ¹	Senior Executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total
Total remuneration (including part-time arrangements):						
\$210,000 to \$239,999	4	147,658	36,487	-	26,046	210,191
\$240,000 to \$269,999	2	194,447	34,247	368	33,322	262,384
\$540,000 to \$569,999	1	379,421	108,899	-	58,262	546,582
\$840,000 to \$869,999	1	550,647	25,000	-	277,437	853,084
Total	8					
2011						
Average annual reportable remuneration ¹	Senior Executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total
Total remuneration (including part-time arrangements):						
\$150,000 to \$179,999	1	130,358	29,512	-	11,929	171,800
\$210,000 to \$239,999	2	152,256	43,667	-	29,723	225,648
\$240,000 to \$269,999	1	174,947	39,058	-	35,097	249,103
\$510,000 to \$539,999	1	344,086	108,294	441	82,166	534,988
\$630,000 to \$659,999	1	467,032	9,227	1,354	165,000	642,614
\$840,000 to \$869,999	1	532,859	25,012	-	296,029	853,901
Total	7					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. 'Reportable salary' includes the following:
 - a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column); and
 - b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits).
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
6. Various salary sacrifice arrangements were available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Note 12C: Other Highly Paid Staff

2012						
Average annual reportable remuneration ¹	Staff No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total \$
Total remuneration (including part-time arrangements):						
\$180,000 to \$209,999	3	161,588	28,957	-	18,777	209,322
\$210,000 to \$239,999	2	189,468	20,705	210	20,142	230,525
\$300,000 to \$329,999	2	240,511	46,601	-	35,983	323,095
\$330,000 to \$359,999	1	262,379	46,759	-	44,945	354,083
\$390,000 to \$419,999	1	319,762	42,332	-	49,271	411,365
\$480,000 to \$509,999	1	295,308	41,257	-	163,108	499,673
Total	10					

2011						
Average annual reportable remuneration ¹	Staff No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total \$
Total remuneration (including part-time arrangements):						
\$180,000 to \$209,999	1	147,235	31,182	-	31,266	209,683
\$300,000 to \$329,999	2	209,390	61,575	-	41,684	312,649
\$390,000 to \$419,999	1	230,313	99,920	-	64,720	394,953
\$450,000 to \$479,999	2	222,810	103,784	-	134,525	461,119
\$510,000 to \$539,999	1	196,123	68,209	-	265,928	530,260
Total	7					

Notes:

1. This table reports staff:

- a) who were employed by the entity during the reporting period;
- b) whose reportable remuneration was \$150,000 or more for the financial period; and
- c) were not required to be disclosed in Tables A, B or director disclosures.

Each row is an averaged figure based on headcount for individuals in the band.

2. 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column); and
- b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits).

3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.

4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.

5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

6. Various salary sacrifice arrangements were available to other highly paid staff including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

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Note 13: Remuneration of Auditors

Financial statement audit services were provided to the entity by the Australian National Audit Office (ANAO) through its contracted service provider Deloitte Touche Tohmatsu (Deloitte). Fees for the service are as follows:

	2012	2011
	\$'000	\$'000
The fair value of the services provided:		
Financial statement audit services - free of charge	-	31
Financial statement audit services	30	-
	30	31

Additional audit services were provided by ANAO through Deloitte relating to the Australian Financial Services Licence to the value of \$7,700 (2011: \$7,095).

No other services were provided to CSC by the ANAO or Deloitte.

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Note 14: Financial Instruments

	2012	2011
	\$'000	\$'000
Note 14A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	4,772	1,992
Trade receivables	1,150	1,303
GST receivable from the Australian Taxation Office	-	31
Carrying amount of financial assets	5,922	3,326
Financial Liabilities		
At amortised cost:		
Supplier payables	(71)	(69)
Lease incentive liability	(912)	(469)
GST payable to the Australian Taxation Office	(609)	-
Accrued expenses	(996)	(305)
Wages and salaries	(310)	(328)
Carrying amount of financial liabilities	(2,898)	(1,171)

The carrying amount of the financial assets and financial liabilities is equivalent to their fair value.

Note 14B: Net Income and Expense from Financial Assets

Loans and receivables		
Interest revenue	118	-
Net gain from loans and receivables	118	-

Note 14C: Credit Risk

CSC is exposed to minimal credit risk as financial assets comprise cash at bank and trade receivables. CSC has exposure to an Australian bank of \$4,771,844 at 30 June 2012 (2011: \$1,991,621). The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of trade receivables (2012: \$1,150,463 and 2011: \$1,303,000). Trade receivables are usually limited to the ARIA Investment Trust and Australian Government agencies. CSC has assessed the risk of the default on payment and has determined there is no credit risk to CSC. CSC holds no collateral to mitigate against credit risk. No receivables are past due or impaired at the balance date (2011: Nil).

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Note 14D: Liquidity Risk

CSC's financial liabilities are payables. The exposure to liquidity risk is based on the notion that CSC will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely as CSC's cash receipts are primarily received from Australian Government agencies and the ARIA Investment Trust. CSC manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, CSC has policies in place to ensure timely payments are made when due and has no past experience of default.

The entity has no derivative financial liabilities in both the current and prior year.

Maturities for financial liabilities 2012

	On demand \$'000	within 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	> 5 years \$'000	Total \$'000
Supplier payables	-	(71)	-	-	-	(71)
Lease incentive liability	-	(156)	(213)	(543)	-	(912)
GST payable to the Australian Taxation Office	-	(609)	-	-	-	(609)
Accrued expenses	-	(996)	-	-	-	(996)
Wages and salaries	-	(310)	-	-	-	(310)
Total	-	(2,142)	(213)	(543)	-	(2,898)

Maturities for financial liabilities 2011

	On demand \$'000	within 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	> 5 years \$'000	Total \$'000
Supplier payables	-	(69)	-	-	-	(69)
Lease incentive liability	-	(282)	(72)	(115)	-	(469)
GST payable to the Australian Taxation Office	-	-	-	-	-	-
Accrued expenses	-	(305)	-	-	-	(305)
Wages and salaries	-	(328)	-	-	-	(328)
Total	-	(984)	(72)	(115)	-	(1,171)

Note 14E: Market Risk

CSC is not exposed to market risk.

Note 15: Assets Held in Trust

Monetary assets

Shown below are the values of gross assets held in trust by CSC in its capacity as trustee of the CSS, PSS, PSSap and MSBS.

	2012 \$'000	2011 \$'000
CSS		
Opening balance	<u>4 619 878</u>	<u>4 789 427</u>
Closing balance	<u>4 227 634</u>	<u>4 619 878</u>
PSS		
Opening balance	<u>12 534 422</u>	<u>11 443 051</u>
Closing balance	<u>13 021 478</u>	<u>12 534 422</u>
PSSap		
Opening balance	<u>2 884 013</u>	<u>2 049 103</u>
Closing balance	<u>3 672 761</u>	<u>2 884 013</u>
MSBS		
Opening balance	<u>3 878 664</u>	<u>-</u>
Closing balance	<u>4 022 194</u>	<u>-</u>

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Note 16: Reporting of Outcomes

CSC receives departmental funding which is to be used solely for the Outcome specified in Note 1.1.

Note 16A: Net Cost of Outcome Delivery

	Outcome 1	
	2012 \$'000	2011 \$'000
Departmental		
Expenses	21,648	16,061
Own-source income	21,878	16,194
Net cost of/(contribution by) outcome delivery	(230)	(133)

Note 16B: Major Classes of departmental Expenses, Income, Assets and Liabilities by Outcomes

	Outcome 1	
	2012 \$'000	2011 \$'000
Expenses:		
Employees	(12,366)	(9,862)
Suppliers	(8,403)	(5,597)
Depreciation and Amortisation	(879)	(563)
Write-down and impairment of assets	-	(39)
Total	(21,648)	(16,061)
Income:		
Sale of goods and rendering of services	21,757	16,163
Other gains	3	31
Interest	118	-
Total	21,878	16,194
Assets		
Cash and cash equivalents	4,772	1,992
Trade and other receivables	1,150	1,396
Property, plant and equipment	3,758	3,509
Intangibles	393	304
Total	10,073	7,201
Liabilities		
Suppliers	(71)	(69)
Other payables	(2,827)	(2,146)
Employee provisions	(1,887)	(1,149)
Other provisions	(240)	-
Total	(5,025)	(3,364)

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Appendix A – Changes to legislation

CSC merger legislation

A legislative package comprising the *Governance of Australian Government Superannuation Schemes Act 2011*, *ComSuper Act 2011* and the *Superannuation Legislation (Consequential and Transitional Provisions) Act 2011* was passed by Parliament on 21 June 2011, which, amongst other things, consolidated the trusteeship of the main Australian government public sector and military superannuation schemes. As a result ARIA, the Military Superannuation and Benefits Board and the Defence Force Retirement and Death Benefits Authority were merged to form a consolidated trustee body, Commonwealth Superannuation Corporation, with effect from 1 July 2011. Various consequential amendments to the Scheme legislation have been made as a result of the trustee consolidation. Scheme rules did not change.

Governance of Australian Government Superannuation Schemes Act 2011

The *Acts Interpretation Amendment Act 2011* updated cross-references to the *Acts Interpretation Act 1901* in the *Governance of Australian Government Superannuation Schemes Act 2011*. This was due to numbering changes of certain sections of the *Acts Interpretation Act 1901*. This amendment had effect from 27 December 2011.

Defence Forces Retirement Benefits Act 1948 (the DFRB Act)

From 1 July, the *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Act 2011* made changes to the DFRB Act consequential to the merger legislation (see above).

Defence Force Retirement and Death Benefits Act 1973 (the DFRDB Act)

The *Financial Framework Legislation Amendment Act (No. 2) 2012* amended the DFRDB Act to insert new provision to establish a framework for addressing overpayments under the DFRDB Scheme. It also amended the DFRDB Act to validate certain invalid elections made regarding re-entered DFRDB recipient members. The new provisions ensure that there is authority to make payments at the time payments are made, but provide for the recovery of these payments as a debt to the Commonwealth. The amendments also provide that the CEO of ComSuper can recover overpayments in circumstances where the obligations to recover those payments under the *Financial Management and Accountability Act 1997* allow. These amendments had effect from 29 June 2012.

There were no changes to the *Defence Force (Superannuation) (Productivity Benefit) Determination 1988*.

Appendix B – CSC organisational chart at 30 June 2012

CSC's Executive Team

At 30 June 2012, CSC's Executive Team comprised the CEO and seven direct reports:

Peter Carrigy-Ryan – Chief Executive Officer

Responsible for management of CSC and implementing the strategy and policies of the CSC Board

Alison Tarditi – Chief Investment Officer

Responsible for management of investments, investment risk, Fund performance and ensuring the CSC Board is provided with impartial investment advice

Helen Ayres – Corporate Secretary

Responsible for the Corporate Secretary function and CSC Board services

Bronwyn McNaughton – Senior Executive Legal & Risk

Responsible for management of legal advice, organisational risk management, and audit and compliance programs

Leonie McCracken – Senior Executive Operations

Responsible for oversight of investment operations, and treasury and tax functions including management of custody arrangements

Kevin Thompson – Senior Executive Finance & Technology

Responsible for financial management, corporate finance and information technology

Christine Pearce – Senior Executive Member & Employer Services

Responsible for oversight of strategies, policies and practices for member and employer services, communications and related functions

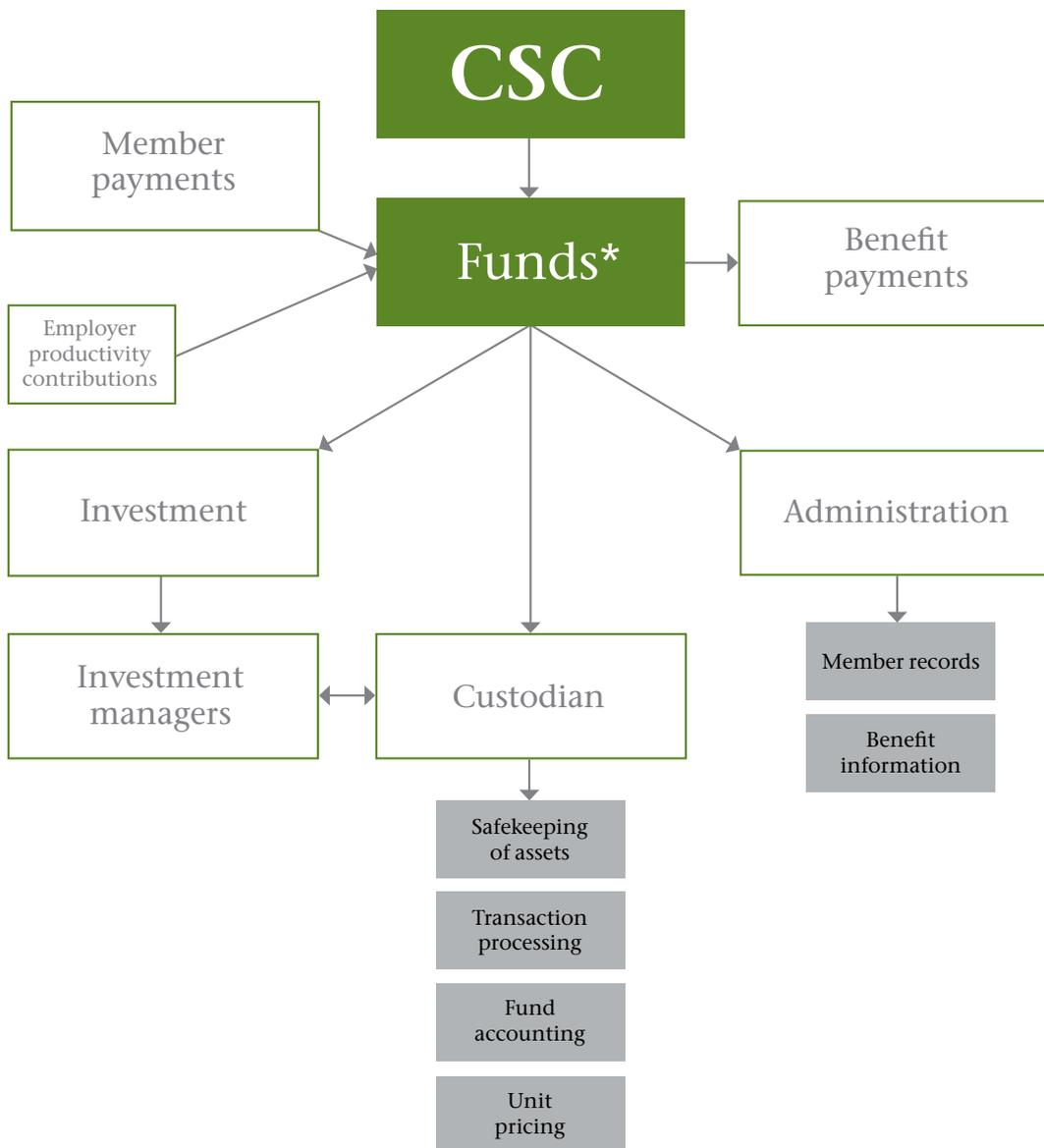
Kim Kirsten – Senior Executive HR & Business Services

Responsible for human resources and business services covering office management

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Appendix C – CSC functional chart

Illustration 1: CSC functional chart



*Benefit payments for CSS, MilitarySuper, PSS, and the 1922 Scheme, DFRB Scheme, DFRDB Scheme, PNG Scheme and DFSPB are paid from the Australian Government's Consolidated Revenue Fund.

Appendix D – Access to information

Organisation, functions and decision making powers

CSC's functions and powers are set out in section 8 of the *Governance of Australian Government Superannuation Schemes Act 2011*. The general functions and responsibilities of ComSuper, the administrator of the DFRB Scheme and the DFRDB Scheme, are set out in sections 6 and 8 of the *ComSuper Act 2011*, and are described in Section 8 – Scheme administration, of this report and detailed in the ComSuper Annual Report to Parliament 2011/12.

The authority for CSC to delegate its powers and functions is contained in section 36 of the *Governance of Australian Government Superannuation Schemes Act 2011*.

Categories of documents

CSC does not maintain any categories of documents that are open to public access as part of a public register or otherwise. Fact sheets that describe various aspects of the superannuation Schemes, and annual reports, are made available to the public free of charge upon request. These are also available free of charge via CSC's website.

ComSuper keeps and maintains member records.

Facilities for access

Facilities for viewing member records and other documents are provided at the offices of ComSuper, the scheme administrator, in Canberra. Copies of publications may be obtained by writing to ComSuper. Publications may be inspected.

Information about facilities for access by people with a disability can be obtained by contacting the FOI Unit at the address and telephone numbers shown under 'Freedom of information procedures'.

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Freedom of information procedures

Matters associated with the administration of the *Freedom of Information Act 1982* (FOI Act) relating to members and their personal information are dealt with by ComSuper's Information and Complaints Services Team. Enquiries relating to the disclosure of information about members of the DFRB Scheme or the DFRDB Scheme under provisions of the FOI Act should be made in writing to:

Postal address: Information and Complaints Services
ComSuper
GPO Box 2252
Canberra ACT 2601

Phone: 02 6272 9080

Fax: 02 6272 9804

TTY: 02 6272 9827

Email: foi@comsuper.gov.au

Matters relating to the management and investment of the Schemes and investment governance are dealt with by CSC. Enquiries should be addressed to CSC:

Postal address GPO Box 1907, Canberra ACT 2601

Phone (02) 6263 6999

Email secretary@csc.gov.au

Table A1: Freedom of information requests in 2011/12

	DFRB Scheme & DFRDB Scheme
Total number of requests	16
Number fully granted	11
Number partially granted	4
Number refused	0
Number transferred to other agencies	0
Number of requests for internal review under section 15B	0
Number of requests for review by the Information Commissioner (part VII of the FOI Act)	0
FOI requests not finalised – consultation in progress	0
Number withdrawn	1

Agencies subject to the FOI Act are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. CSC's IPS is available at <http://csc.gov.au/reports-and-information/information-publication-scheme/>

Appendix E – Publications

CSC publishes the following communications, publications and fact sheets for the benefit of superannuation Scheme members. We also provide calculators and a wide range of other tools and information for members online on Scheme websites and secure member services areas.

CSC annual report

CSC Annual Report to Parliament – CSS, PSS, PSSap, 1922 Scheme & PNG Scheme

CSC Annual Report to Parliament – MilitarySuper

CSC Annual Report to Parliament – DFRB Scheme, DFRDB Scheme & DFSPB

DFRDB Scheme

Publications

Family law and splitting super booklet

DFRDB Book

Annual Contributor Report

About Your Statement Guide

Newsletters

Pension update – issued twice each year

Fact sheets

About to leave the ADF

Additional personal contributions factsheet

Appeal rights factsheet

Dependant’s benefits factsheet

Government (super) co-contributions factsheet

Invalidity leave factsheet

Marital or couple relationship factsheet

Preserved benefits factsheet

Productivity benefit factsheet

Restoration of reversionary pensions factsheet

Resuming ADF full-time service (former contributors) factsheet

Resuming ADF full-time service (pension recipients and deferred members) factsheet

Retirement benefits factsheet

Retrenchment/redundancy factsheet

Salary sacrifice contributions factsheet

Spouse contributions

Superannuation contributions surcharge factsheet

Tax and your DFRDB benefit factsheet

Tax and your DFRDB pension factsheet

Transfer amounts factsheet

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Appendix F – CSC contact officer

Information relating to CSC and the Schemes it manages is made available on request to members of parliament and members of the public. This report has been designed to provide basic information. Requests for more detailed information should be directed to:

Web	www.csc.gov.au
Postal address	GPO Box 1907, Canberra ACT 2601
Phone	02 6263 6999
Fax	02 6263 6900
TTY	02 6272 9827
Email	secretary@csc.gov.au

Appendix G – List of requirements

CSC has endeavoured where appropriate to comply with the ‘Requirements for Annual Reports’, although this is not a departmental report. Details of the scheme administrator’s operations are provided separately in the ComSuper Annual Report to Parliament 2011/12.

Description	Requirement	Page
Letter of transmittal	Mandatory	iv
Table of contents	Mandatory	vi
Index	Mandatory	102
Glossary	Mandatory	100
Contact officer	Mandatory	92
Internet home page address and internet address for report	Mandatory	ii
Review by Secretary		
Review by departmental secretary	Mandatory	5-8
Summary of significant issues and developments	Suggested	2, 5-8, 10
Overview of department’s performance and financial results	Suggested	2, 5-8
Outlook for following year	Suggested	3, 8
Significant issues and developments – portfolio	If applicable, suggested	Not applicable
Departmental Overview		
Role and functions	Mandatory	9-21, 88
Organisational structure	Mandatory	87
Outcome and program structure	Mandatory	21
Where outcome and program structures differ from PB Statements/PAES or other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	Not applicable
Portfolio structure	If applicable, mandatory	Not applicable
Report on performance		
Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	5-8, 27-33, 35-45
Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	5-8, 27-33, 35-45
Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	Not applicable
Narrative discussion and analysis of performance	Mandatory	5-8, 27-33, 35-45
Trend information	Mandatory	28-32, 35-45
Significant changes in nature of principal functions/services	Suggested	iv, 2, 6, 10
Performance of purchaser/provider arrangements	If applicable, mandatory	35-45

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Description	Requirement	Page
Factors, events or trends influencing departmental performance	Suggested	2, 6, 10
Contribution of risk management in achieving objectives	Suggested	19 -21
Social inclusion outcomes	If applicable, mandatory	Not applicable
Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	Not applicable
Discussion and analysis of the department's financial performance	Mandatory	18-19
Discussion of any significant changes from the prior year, from budget or anticipated to have a significant impact on future operations	Mandatory	3, 8
Agency resource statement and summary resource tables by outcomes	Mandatory	99
Management and Accountability		
Corporate Governance		
Agency heads are required to certify that their agency comply with the Commonwealth Fraud Control Guidelines	Mandatory	Not applicable
Statement of the main corporate governance practices in place	Mandatory	7, 19-21
Names of the senior executive and their responsibilities	Suggested	87
Senior management committees and their roles	Suggested	-
Corporate and operational planning and associated performance reporting and review	Suggested	16-17
Approach adopted to identifying areas of significant financial or operational risk	Suggested	20-21
Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	19-20
How nature and amount of remuneration for SES officers is determined	Suggested	17
External Scrutiny		
Significant developments in external scrutiny	Mandatory	43-44
Judicial decisions and decisions of administrative tribunals	Mandatory	43-44
Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Mandatory	44
Management of Human Resources		
Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	16-17
Workforce planning, staff turnover and retention	Suggested	17
Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and AWAs	Suggested	Not applicable
Training and development undertaken and its impact	Suggested	16-17
Work health and safety performance	Suggested	18
Productivity gains	Suggested	Not applicable
Statistics on staffing	Mandatory	17

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Description	Requirement	Page
Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	Not applicable
Performance pay	Mandatory	17
Assessment of effectiveness of assets management	If applicable, mandatory	Not applicable
Assessment of purchasing against core policies and principles	Mandatory	Not applicable
New consultancy services contracts during the year	Mandatory	19
Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	Not applicable
Contracts exempt from the AusTender	Mandatory	Not applicable
Financial Statements	Mandatory	47-84
Other Mandatory Information		
Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	18
Advertising and market research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Mandatory	97
Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	19
Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	If applicable, mandatory	Not applicable
Grant programs	Mandatory	-
Disability reporting – explicit and transparent reference to agency-level information available through other reporting mechanisms	Mandatory	Not applicable
Information Publication Scheme statement	Mandatory	90
Correction of material errors in previous annual report	If applicable, mandatory	Not applicable
List of requirements	Mandatory	93-95

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Appendix H – New consultancies

CSC engages consultants where specialist skill or expertise is required or where internal resources are unavailable. Consultants are typically engaged to:

- > investigate or diagnose a defined issue
- > carry out defined reviews or evaluations
- > provide independent advice, information or solutions to assist CSC in its decision making.

These consultancies are distinguished from other service provider contracts by the nature of the work performed, which typically involves the application of expert professional skills and the exercising of expert judgement.

CSC administration consultancies

Table A2 provides details of consultancies engaged by CSC during 2011/12 with a contract value, GST inclusive, of \$10 000 or more.

Table A2: New consultancies in 2011/12

Consultant name	Description	Value \$	Selection method	Principle justification
Australian Government Actuary	Actuarial Services	13 895	Direct	B
Exceptional People	Succession Planning and Development Program Advice	19 650	Direct	B
Governance Matters Pty Ltd	Board Performance Evaluations	31 953	Direct	B
GPS Personnel Services	Superannuation Product Advice	34 730	Direct	B
Strategic Renewal Consulting	CSC Audit & Risk Committee Advice	15 091	Direct	B
M H Carnegie & Co Pty Ltd	Analysis & Advice on Investment Fund	71 500	Direct	B
Total new consultancies		186 819		

Selection method categories

Selection methods used for consultancies are categorised as follows:

Open tender	Public tenders are sought from the marketplace using national and major metropolitan newspaper advertising.
Select tender	Tenders are invited from a short list of competent suppliers.
Direct sourcing	Single supplier invited to bid reflecting unique qualifications or circumstances.

Justification categories

A	Need for access to the latest technology.
B	Need for specialised skills.
C	Need for an independent view.

Appendix I – Advertising/research

During 2011/12, expenditure for advertising and market research on contracts individually more than \$11 200 (inclusive of GST) amounted to \$194 860 (inclusive of GST).

The following list contains details of payments, as required under section 311A of the *Commonwealth Electoral Act 1918*. All amounts include GST.

Table A3: Advertising & market research expenditure in 2011/12

Organisation	Purpose	Expenditure \$
Ipsos	Member related research	41 520
GFK Blue Moon Research & Planning	Member related research and market research	153 340
Total		194 860

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Appendix J – National Disability Strategy

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007/08, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. From 2010/11, departments and agencies are no longer required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy which sets out a ten year national policy framework for improving life for Australians with disability, their families and carers. A high level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and will be available at www.fahcsia.gov.au

The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular *How Australia is Faring* report and, if appropriate, in strategic change indicators in agency Annual Reports. More detail on social inclusion matters can be found at www.socialinclusion.gov.au

Appendix K – Summary resource table by outcomes

Outcome 1: Retirement benefits for past, present and future Australian Government employees and members of the Australian Defence Force through investment and administration of their superannuation Funds and Schemes.

Table A4: Summary resource table by outcome

	Budget 2011/12 \$'000	Actual expenses 2011/12 \$'000	Variation \$'000
Price of departmental outputs			
Output Group 1.1 – Superannuation Scheme governance			
Revenue from other sources	24 506	21 648	2 858
Total price of Outputs	24 506	21 648	2 858
Total for Outcome 1	24 506	21 648	2 858

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Appendix L – Glossary

AAT	Administrative Appeals Tribunal
AAT Act	<i>Administrative Appeals Tribunal Act 1975</i>
ADF	Australian Defence Force
AD(JR) Act	<i>Administrative Decisions (Judicial Review) Act 1977</i>
ACTU	Australian Council of Trade Unions
AFS licence	Australian Financial Services licence
AGEST	Australian Government Employees Superannuation Trust
APRA	Australian Prudential Regulation Authority
APS	Australian public service
ASFA	Association of Superannuation Funds of Australia
ASIC	Australian Securities and Investments Commission
ARIA	Australian Reward Investment Alliance
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CPI	Consumer Price Index
CPSU	Community and Public Sector Union
CRF	Australian Government Consolidated Revenue Fund
CSC	Commonwealth Superannuation Corporation
CSS	Commonwealth Superannuation Scheme
DFRB Scheme	Defence Forces Retirement Benefits Scheme
DFRDB Scheme	Defence Force Retirement and Death Benefits Scheme
DFRDB Authority	Defence Force Retirement and Death Benefits Authority
DFSPB	Defence Force (Superannuation) (Productivity Benefits) Scheme
FBT	fringe benefits tax
FOI	freedom of information
FOI Act	<i>Freedom of Information Act 1982</i>
IPS	Information Publication Scheme
MilitarySuper	Military Superannuation and Benefits Scheme
MSB Board	Military Superannuation and Benefits Board
PNG Scheme	Papua New Guinea Scheme
PSS	Public Sector Superannuation Scheme

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PSSap	Public Sector Superannuation accumulation plan
RSE licence	Registrable Superannuation Entity licence
SCOA	Superannuated Commonwealth Officers' Association
SCT	Superannuation Complaints Tribunal
WCAG	Web Content Accessibility Guidelines
WWF	World Wildlife Fund

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