



THE **CSS** BOARD

COMMONWEALTH SUPERANNUATION SCHEME



Annual Report

The **CSS** Board

Commonwealth Superannuation Scheme

Annual Report
1997–98

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Note: All contribution, benefit and membership and exit statistics are based on events related to the annual reporting period as reflected in the records of the Commissioner for Superannuation at the time these statistics were compiled. As such, the statistics may vary from the records of these events as recorded by departments and authorities. Where historical statistics are quoted, these may vary from previously published statistics due to the application of retrospective adjustments that are now reflected in this report.

Letter of **Transmittal**

The Hon. John Fahey, MP
Minister for Finance and Administration
Parliament House
Canberra ACT 2600

Dear Minister

In accordance with section 161 of the *Superannuation Act 1976*, the CSS Board is pleased to present to you the annual report on its operations during 1997–98. The Report details the Board's activities in respect of the administration of the Commonwealth Superannuation Scheme and includes audited financial statements in respect of the management of the CSS Fund during the year ended 30 June 1998.

Subsection 161(6) of the *Superannuation Act 1976* requires you to cause a copy of the report to be laid before each House of the Parliament within 15 days after you receive it.

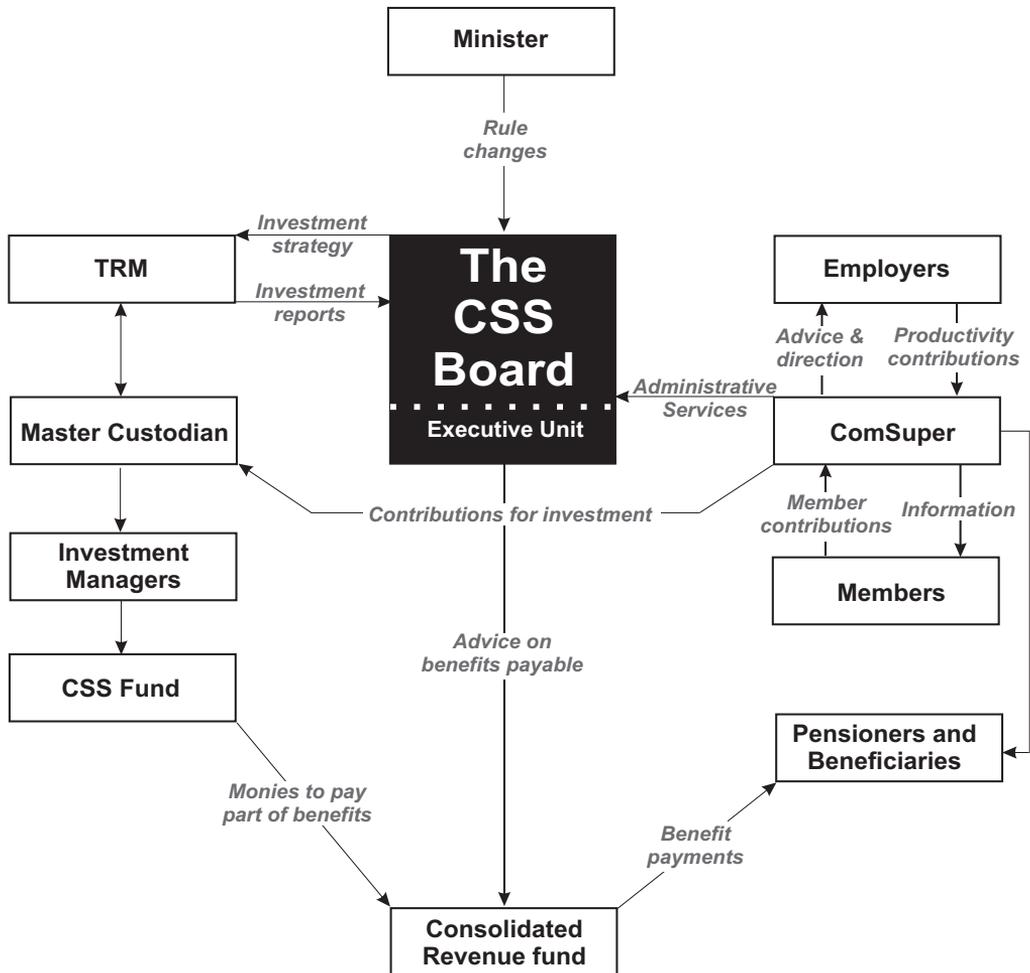
Yours sincerely



Ron Brown
Chairperson
CSS Board

2 October 1998

There are a considerable number of entities involved in scheme administration and fund investment.
This chart shows the more significant interrelationships.



The CSS Board
Its responsibilities and administrative arrangements

Year in brief

During the year, in addition to the management and investment of the Fund and administration of the Scheme, the Board's attention also focused on:

- the set of changes announced by the Government in November 1997, particularly the formation of the Commonwealth Superannuation Board;
- the relationship between the Board and the Administrator, ComSuper (the Board will purchase services from ComSuper and charge employers for superannuation administration);
- the enhancement of corporate governance including, among other actions:
 - establishing additional Board committees;
 - furthering Trustees' education; and
 - enhancing reporting arrangements for the Board to effectively monitor the performance of the scheme administrator.

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From the Chairperson

Annual results

The Fund's investment strategy produced a return of 11 per cent for the 1997–98 year. This return not only compared most favourably with the returns reported by most other superannuation funds but given the low inflation rate of 0.7 per cent during the year, it produced a significant increase in the real value of the Fund.

This enabled the Board to declare a crediting rate for the year of 10.8 per cent after making provision to maintain the reserves of the Fund at their maximum policy level of 5 per cent.

It is of some comfort that the reserves are at this level given the uncertainties that have emerged in the world's markets. The Board follows a long-term strategy and does not attempt to forecast short-term market movements but it nonetheless views the immediate future with lower expectations for investment returns.

Major events and developments

It was a year of substantial change for the Board. External events presented significant challenges, but more importantly, the Board's own determination to continue to enhance its own capacities and self-governance framework also encompassed the prerogative to manage strategically into the new millennium.

Some events required a fundamental change in the Board's operations. Policy changes redirecting the cost of Scheme administration from Consolidated Revenue to a user-charge imposed on employer agencies places a significant new duty on the Board. Policy initiatives proposed by the Government, but still pending legislative approval, make the Board more directly accountable for the monitoring of ComSuper, the Scheme's administrator.

The Board's investment program entered its final phase of the transition from the tied investment arrangements that had been in place with Commonwealth Funds Management up until 1995. This involved a review of the core Australian and international equities management of the Fund and a renegotiation of the management arrangements applicable to the property investment. Investment administration had to take into account the fact that over 5000 CSS members left their employment as a result of APS-wide redundancy programs. As well, the Board's own policy guidelines require annual review of the key assumptions on which the Fund's investment strategy is based. And of course it was a year of market tremors arising out of the Asian downturn.

Communication challenges arose on several fronts in addition to the Board's own goals to enhance the regular communications activities associated with the annual reports, website and newsletter. The surcharge required much effort to communicate its status and its intricacies and the determination of Notional Surcharge Contribution Factors has taken Board time. During that process, debts totalling \$5,020,050 were applied to 6728 CSS records. The Government policy initiative of fund choice (and the proposed closure of the PSS) required advance planning of a communications strategy.

General administration matters required attention. Oversight of the Scheme's Year 2000 risks has been a necessary agenda item at Board meetings. The ANAO changed its outsourcing arrangements this year requiring a new auditing relationship to be initiated.

It is pleasing to report success in dealing with all of these changes. In particular, a number of enhancements to the Board's governance framework were made.

1) The Board acted to improve its own capacity through the establishment of an Administration Committee and a Communications Committee (in addition to Board's existing Audit and Reconsideration Committees). Terms of reference have been established for all committees. An Executive Officer was appointed. The Board developed a revised operating plan to manage the preparations for transition to the new structure and duties of the Board. The Board's first total business budget was developed to underpin the Board's accountability for the new user charging arrangements.

- 2) The Board rewrote and upgraded its agreement with ComSuper on the performance standards to apply to the administration services provided by ComSuper to the Board and the Scheme members. We are presently negotiating a formal contract of service with ComSuper. An annual effectiveness review was initiated with ComSuper, matching the review done each year with the Board's investment adviser.
- 3) A continuing education and training program has been put into place for Trustees and members of the Executive Unit (formerly referred to as the Secretariat).
- 4) A Member Satisfaction Survey program was introduced that provides the Trustees with quarterly feedback from its members based on their experiences dealing with the Scheme.

Future directions

Our investment strategy will require constant supervision in the coming year as the market boom of the past several years becomes more uncertain. We are already witnessing global setbacks in the markets. Apart from this priority, the Board expects that two areas will require special attention over this next year.

The Board will need to act to ensure the continued smooth transition to its new administration accountabilities. Already a workplan is being formulated to enhance the compliance function of the Board.

The Board intends to act to attempt to mitigate an emerging risk to its operations from the rapidly changing payroll systems of employer agencies. In the past, most agencies have used the Department of Finance and Administration's central payroll service. This service incorporates specific components to convey the necessary superannuation monies and data to our administrator. As agencies become more autonomous, there has been some movement away from this central service due to costs and concerns associated with non-compliance of this system with Year 2000 standards.

The problem for the Board is that many of the replacement payroll systems do not meet the administration protocols we require for timely and accurate processing. Further we are concerned about the Year 2000 impact on these systems and their data management.

SIS compliance

The CSS remains a complying Fund under the SIS legislation and so continues to be eligible to have tax payable on net income of the Fund assessed at the concessional rate of 15 per cent.

Thank you

I would like to thank the Trustees for their hard work and cooperation throughout the year, and in particular those trustees who contributed to the working of the Board's Administration Committee, Audit Committee, Communications Committee and Reconsideration Advisory Committee.

Also I want to thank our Executive Unit and service providers for all their energies and efforts this past year. Everyone has contributed to our success.

One of our Trustees left the board during the year. Mr Angus McKenzie's appointment expired on 1 June 1998 and his contribution to the Board has been greatly valued. Also, the Board Secretary, Ms Michele Dawson took early retirement in July. I here record the appreciation of the Board as a whole to each of them.

Mr McKenzie has been replaced by Mr Richard Balderstone who was formally appointed to the Board on 17 June 1998.



Ron Brown
Chairperson
CSS Board

Scheme Overview

CSS Board

The CSS Board is a body corporate, by virtue of Section 27B of the *Superannuation Act 1976* (the CSS Act). The Board administers the Commonwealth Superannuation Scheme (CSS) in accordance with the provisions of the CSS Act and is responsible for the management and investment of the CSS Fund.

The Board has delegated the bulk of its general administration powers and responsibilities to Commonwealth Superannuation Administration (ComSuper).

Board members

The Board consists of seven members appointed by the Minister for Finance under Section 27F of the CSS Act. Membership comprises all of the members of the PSS Board and two additional members. Of the two additional members one is required to be a person with experience in the formulation of government policy and public administration, while the other is nominated by the ACTU.

The chairperson and the ACTU nominees are appointed for periods not exceeding three years (but are eligible for reappointment), and the other members hold office for such period as the Minister determines.

Members holding office during the year were:

Mr Ronald L. Brown (independent chairperson)—*appointed 25 July 1990, reappointed to 30 June 1999.*

Mr Brown is a consultant to both State and Federal governments and is a member of a number of government and semi-government boards and commissions. He was Secretary of DILGEA and Chief Executive of SBS. Mr Brown is also chairperson of the PSS Board.

Mr Graham Kelly—*appointed 25 July 1997 to 24 July 2000.*

Mr Kelly is a Director of a number of bodies including the TAB Ltd and the Colonial State Bank. He has had vast experience in government service, the diplomatic service, business management and private legal practice. Mr Kelly is also a part time consultant with a legal firm and a member of the PSS Board.

Mr John A. Flitcroft—*appointed 1 July 1990, reappointed to 30 June 1999.*

Mr Flitcroft is a member of the CPSU, and is Manager, Compensation Reviews (NSW) at the Department of Veterans' Affairs. He is also a member of the PSS Board. His alternate is Mr John Murphy, Public Service and Merit Protection Commission.

Ms Winsome Hall—*appointed 1 July 1996, reappointed to 30 June 1999.*

Ms Hall is a Senior Adviser with the Office of the Status of Women in the Department of Prime Minister and Cabinet. She is a member of the CPSU and also a member of the PSS Board. Her alternate is Mr David Irons of the Communications Workers Union, Melbourne.

Mr Angus J. McKenzie—*appointed 1 July 1990; ceased 1 June 1998.*

Mr McKenzie is Group Manager, Superannuation, with Australia Post. He is also Chief Executive Officer of PostSuper Pty Ltd, the trustee of the Australia Post Superannuation Scheme.

Ms Joy Palmer—*appointed 1 July 1996, reappointed to 30 June 1999.*

Ms Palmer is a Director of the AGEST Superannuation Fund and Statewide Superannuation Trust, a board member of WorkCover Corporation, Independent Chairperson of the CPSU Super Fund, and a Panel Review Officer with the PSMPC. Her alternate is Mr Paul Smith, Bureau of Meteorology, Melbourne.

Mr Peter Reynolds—*appointed 7 May 1997 to 6 May 2000.*

Mr Reynolds is a Director of a number of local and state government bodies in NSW. He was the Chairman of the NSW State Authorities Superannuation Board and has wide experience in business and financial management through various appointments and positions in the public and private sectors. He is also a member of the PSS Board.

Mr Richard T Balderstone—*appointed 17 June 1998 to 16 June 2001.*

Mr Balderstone is the Institutional Equities Adviser and a Director of BZW (Australia) Ltd. Mr Balderstone has responsibility for coordination of BZW's overall advisory service and product distribution to major corporations, including BHP and the Federal and Victorian governments.



The Board of Trustees: [Seated L to R] W Hall, R Brown, M Dawson (Board Secretary); [Standing L to R] P Reynolds, A McKenzie, J Flitcroft, G Kelly and J Palmer. **Not in picture:** R Balderstone (as no board meetings were held between his appointment and the end of the financial year, he did not attend any meetings and has not been included in the photograph). Ms Dawson retired in July 1998 and Ms H Kain has been appointed as Board Secretary.

Board and Board committee meetings

The Board has four committees—the Audit Committee (W Hall, P Reynolds, A McKenzie*); the Communications Committee (J Flitcroft, P Reynolds); the Administration Committee (G Kelly, J Flitcroft, J Palmer) and the Reconsideration Advisory Committee (C Goode, P Skinner, R Whithear). Trustees may attend any committee meeting. The members of the Reconsideration Advisory Committee are senior ComSuper officers.

Table I: Board and Board committee meetings

	Board	Audit	Communications	Administration
R Brown	7/7			
J Flitcroft	7/7		4/4	2/2
W Hall	7/7	4/4		1/1
A McKenzie*	7/7	3/3		
J Palmer	7/7		1/1	2/2
P Reynolds	7/7	1/1	4/4	
G Kelly	7/7			2/2

* Mr McKenzie's appointment expired on 1 June 1998. Mr Reynolds was appointed as a member of the Audit Committee on 4 June 1998.

Note: Mr Balderstone was formally appointed to the Board on 17 June 1998. No board meeting was held between that date and the end of the financial year.

Mission and Operating **Principles**

Charter | 1997–98

The Board's charter is:

- to administer the *Superannuation Act 1976* (other than section 154 which relates to the reconsideration of decisions made when the Commissioner for Superannuation was responsible for the administration of the scheme); and
- to manage and invest the CSS Fund so as to maximise the real return earned on investments subject to a tolerable level of short-term volatility.

Operating principles

The Board's operating principles in 1997–98 were:

- to implement the Board's investment strategy to maximise the return earned on the Fund for the chosen level of risk;
- to maintain appropriate banking and related administration arrangements for the receipt of monies directed to the Fund and the payment of benefits;
- to maintain appropriate arrangements, including delegation of Board powers and functions under the Act and CSS legislation, for the proper administration of the Scheme;
- to comply with the *Superannuation Industry (Supervision) Act 1993*; and
- to develop a comprehensive strategy for communication, to CSS members, of information relating to the Fund performance and their superannuation entitlements.

Performance indicators

Indicators of performance, other than those relating to investment, are set down in the Service Level Agreement between the Board and ComSuper. Details of performance against the indicators can be found on the following pages:

- the investment performance of the Fund relative to appropriate benchmarks (see *Fund Performance*, page 23);
- the time taken to process benefit payments (see *Member Entitlements*, page 32);
- the time taken to finalise applications for Invalidity Retirement Certificates (see *Invalidity Processing*, page 36);
- the number of appeals against decisions taken under delegation and the outcome of those appeals (see *Reconsideration and Review*, page 38);
- the success of the communications strategies used to inform members of relevant superannuation matters and of the Board's activities (see *Member Communications*, page 44); and
- the monitoring of member service satisfaction (see *Board Governance*, page 50).

In addition, the Board reviewed the effectiveness of all aspects of its administrator's performance in a thorough evaluation. It intends to undertake an effectiveness review annually.

Board executive

Under the supervision of the Board's Executive Officer, the Board Secretary has specific responsibilities in relation to the maintenance of the formal transcript of Board proceedings, the safe custody and control of the Common Seal, and the dissemination of Board decisions. The Board's Executive Officer and General Counsel, Mr Paul Cheever, also oversees the relationships between the Board, the government's policy advisers (Department of Finance and Administration), the scheme administrator (ComSuper), the Board's investment adviser TRM, CSS members, members of parliament and the media.

Scheme **Statistics**

Scheme membership

CONTRIBUTORS AT 30 JUNE	1997	1998
Male	48 533	42 255
Female	20 770	18 452
Total	69 303	60 707

PENSIONS IN FORCE AT 30 JUNE	1997	1998
Age retirement	41 039	41 336
Retrenchment (involuntary)	11 318	12 799
Invalidity	27 289	26 461
Spouses & orphans	25 837	26 327
Total	105 483	106 923

OTHER SUMMARY AT 30 JUNE	1997	1998
Average yearly adult pension	\$20 308	\$20 354
Deferred benefits members	9735	9049

Fund size

FINANCIAL YEAR	VALUE (\$M)	CHANGE (%)
1993-94	4362.4	—
1994-95	4610.6	+5.7
1995-96	4928.4	+6.9
1996-97	5556.0	+12.7
1997-98	5518.0	-0.7

Note: The reduction in the CSS Fund size is largely due to the transfer of \$426m owing to the PSS Fund for former members who had earlier elected to switch schemes.

Addressing priorities

On 20 November 1997 the Minister for Finance and Administration announced a proposal by the government for new arrangements which are to apply to the delivery of superannuation administration services for the Commonwealth's superannuation schemes. Under these arrangements the existing, separate, Boards of Trustees for the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation (PSS) scheme are to be abolished and replaced by a single Trustee Board—the Commonwealth Superannuation Board.

A primary intention of the new arrangements is to place more direct responsibility for scheme administration on the new Board of Trustees and to implement a clearer separation between the Board (as purchaser of services) and ComSuper (as a service provider).

Although still subject to legislation currently before the Parliament, the range of changes proposed in the Minister's announcement included:

- Closure of the PSS to new members (in May 1998 the Minister announced that the closure of the PSS would be deferred until 1 July 1999);
- Existing members of the CSS to have the choice of moving to another Fund from 1 July 2000;
- Establishment of a new Trustee Board—the Commonwealth Superannuation Board and the abolition of the existing CSS and PSS Boards;
- Introduction of elections for member representatives on the new Board; and
- Abolition of the statutory office of Commissioner for Superannuation.

Some proposals not requiring legislative change have already been implemented, namely:

- Establishment of ComSuper as a Business Unit operating along commercial lines; and
- Implementation of user charging with the Board recovering costs of administration from employer agencies and contracting directly with ComSuper and other service providers on the delivery of administration services.

Developing processes

During the course of the year, the Board worked closely with the Department of Finance and Administration and ComSuper on the development of processes and procedures to facilitate a smooth transition of powers and responsibilities to the new Board. Although the delay in the passage of the enabling legislation means that the existing Board and operating arrangements will continue unchanged, the proposed changes to funding arrangements announced in the context of the 1998–99 Federal Budget were implemented from July 1998.

Under the new arrangements, the Board recovers its costs of administration directly from employer agencies. A major task for the Board during 1997–98 was therefore to negotiate with its various service providers on the cost of service delivery and, with assistance of an outside consultant, to develop pricing strategies in relation to its charges to employer agencies.

At the same time, given the change in the nature of the relationship between the Board and ComSuper, the Board is establishing independent arrangements to manage that relationship and to implement appropriate billing and cost recovery programs.

Payroll services

The Board is also aware of Department of Finance and Administration's decision to withdraw from providing payroll services at the end of June 1999.

In recognition of the potential impact of this change on service delivery, the Board, together with ComSuper, is developing strategies to ensure continuity of service both for the reporting of member contributions and for the payment of pensions.

Management and Investment of the Fund

Review of investment sectors

In December 1996 the government announced that CFM had been sold to Commonwealth Financial Services (CFS), and that TRM had been sold separately to the actuarial firm Towers Perrin. At the time of the sale, the Board had partly completed a review of its investment arrangements, with the core international equities, Australian equities and fixed-interest sectors remaining for consideration. The review of these sectors was completed during the 1997–98 financial year.

The result of the review was that:

- Vanguard Investments Australia Ltd was appointed to manage the core international portfolio in place of CFS; and
- CFM continues to manage the core Australian equities portfolio, and CFS the core fixed-interest portfolio and cash allocation.

Total Risk Management (TRM)

TRM continues to be the Board's strategic adviser and its principal adviser on investment issues. TRM has been appointed by the Board as its agent and provides practical day-to-day management of the investment portfolio, including asset/liability modelling, strategic asset allocation, investment style research, portfolio construction, selection of investment managers, negotiation of investment management fees, mandates and contracts, selection of fund custodians and performance reporting and mandate compliance.

Custodial services

The Fund's master custodian is the Chase Manhattan Bank. Their custodial function in relation to investment management includes settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation. Chase Manhattan Bank receives all monies available for investment from ComSuper, and allocates them to the investment managers in accordance with the mandates set down by the Board.

They also hold (but do not own) the assets which comprise the Fund; collect and disburse dividends; maintain consolidated accounts and tax records for the Fund; and report to the Board on individual fund manager and aggregated investment returns.

Investment managers

All investment managers are paid a fee which is generally based on the value of assets under their control. The fee reflects the investment costs applicable to each particular sector, and the investment style (i.e. active or passive) employed by each manager. The investment managers appointed by the Board for the 1997–98 financial year are presented below.

Table 2: Investment managers at 30 June 1998

ASSET CLASS	INVESTMENT MANAGERS
AUSTRALIAN EQUITIES	
Core	CFM
Specialist	AMP Investments Australia Ltd Balanced Equity Management Pty Ltd First State Fund Managers Ltd HSBC Asset Management Australia Ltd
Direct	Various (2 managers)
Alternative	Various (6 managers)
INTERNATIONAL EQUITIES	
Core	Vanguard Investments Australia Ltd
USA (Specialist)	American Express Asset Management Ltd Brinson Partners Inc Sasco Capital Inc Westpeak Investment Advisors
Alternative	Wilshire Associates Inc
Japan (Specialist)	Acadian Asset Management Inc JP Morgan Investment Management Inc Schroder Investment Management (Australasia) Ltd
UK/Europe (Specialist)	Dresdner Bank AG Mercury Asset Management Plc Schroder Investment Management (Australasia) Ltd
Hong Kong/M'sia/S'pore (Specialist)	American Express Asset Management Ltd
Emerging Markets (Specialist)	Blairlogie Capital Management Emerging Markets Management Morgan Grenfell Funds Management Paribas Asset Management Ltd
AUSTRALIAN FIXED-INTEREST	
Core	CFS
Specialist	BT Funds Management Ltd Citicorp Investments Ltd
Core (Indexed Bonds)	CFS
CASH	CFS
CURRENCY OVERLAY	Pareto Partners
PROPERTY	CFM

Investment objective

With the accumulation part of members' total benefits tied to the investment performance of the Fund, achieving a good return over the long term is clearly of vital importance. This is explicitly recognised in the objective that the Board has set for the Fund, which is:-

To maximise real returns on members' accumulation fund subject to a tolerable level of shorter-term volatility.

The objective refers to both a long and a short term perspective. Members' interests are best served by seeking to maximise real returns over the long term. However, managing shorter-term volatility (that is, reducing the variation in annual crediting rates) is also important, particularly for members exiting from the scheme.

The investment objectives of the Fund specify the target, or acceptable levels of portfolio risk and return. They are distilled from the characteristics of the scheme (including benefit design, reserving/crediting rate policy and liability position). These are also captured in the Fund objective which is to maximise the long-term real rate of return subject to:

- a less than 20 per cent probability that fund returns will be negative in any given year;
- a more than 60 per cent probability that the crediting rate will exceed CPI by three per cent in any given year; and
- a more than 70 per cent probability that the crediting rate will exceed CPI in any given year.

The above three criteria define the 'tolerable' level of volatility specified in the Fund objective.

Investment strategy

The investment strategy of the Fund is guided by a set of principles about the nature of investment management to which the Board subscribes.

Those principles include:

- i) attention to both the short and long term (multiple time horizons) with emphasis on the long-term behaviour of asset classes;
- ii) a global view of investment opportunities;
- iii) broad diversification of investments; and
- iv) a portfolio structure designed to capture market returns with confidence.

Asset allocation is the most critical factor in deciding the investment strategy. It is the primary determinant of both the investment risk and investment return of the Fund. Two main decisions are involved in this process:

- asset composition—deciding the types of assets in which the Fund will invest; and
- asset weighting—deciding how much to invest in each asset type.

The investment strategy, through which the investment objectives of the Board are met, also encompasses the identification and management of all the risks associated with a portfolio of investments. These risks are:

- specific risks (those attached to individual assets);
- factor risks (those broader influences that attach to groups of related individual assets); and
- systemic risks (those attached to the whole of a particular investment market).

The Total Risk Manager's job is to identify the risks, quantify them as far as possible and manage them in combination to produce the Fund's required investment return.

The primary focus on risk (the essential component of total risk management) identifies:

- what risks exist within the investment structure;
- where those risks reside within the structure;

- how great the risks are; and
- what effect the combination of the parts has on diversifying those risks.

By applying the principles of total risk management the Board aims to achieve the following outcomes:

- to increase investment returns by taking greater risks, where those risks can be shown to be appropriately rewarded;
- to reduce risk (by diversification and other means) without decreasing return; and
- to combine investments in such a way (using options, derivatives and other means) to minimise downside risk (risk of falling prices or returns) while maximising upside return potential.

Strategic target

The Board's policy is to review the continuing effectiveness of its strategic asset allocation each year. A review was carried out in early April 1998 in conjunction with TRM. The Board has decided that a major review of strategic policy will be carried out every three years (the last being in 1996) with annual reviews in the intervening years of the key assumptions underlying the strategic asset allocation.

As a result of the April 1998 review, the allocation to Australian equities was reduced from 33 per cent to 28 per cent, and the allocation to international equities was raised from 40 per cent to 45 per cent. The Board considered that the current mix of growth and defensive assets remain appropriate.

Table 3: Strategic asset allocation and benchmark portfolio

Asset Class	Type	Asset allocation	Range	Benchmark
Shares	Domestic	28%	25–31%	ASX All Ordinaries Accumulation Index
	International	45%	42–48%	MSCI All Countries Free World Index (ex Australia)
Debt	Domestic	12%	9–14%	SBC Warburg Dillon Read Australia Composite Bond Index & Bank Bill Index
Property	Domestic	15%	12–18%	Mercer Australian Unlisted Property Index
Total Fund		100%		

Each asset class except property consists of core and specialist components. The core is constructed so as to provide a high probability of capturing market return whereas the specialist component allows for controlled diversity through a range of specialist active managers with different, yet complementary management styles.

Core assets are passively managed (with no active stock selection). Their purpose is to capture market returns by replicating—or tracking—the relevant sectoral index. For instance, core holdings in the Australian shares sector track the ASX All Ordinaries Accumulation Index.

The composition and weightings of the items that make up the index change slightly over time. The core asset managers must mirror those changes by adjusting the composition of their core portfolio. In that way, the earnings (or losses) on core assets over any period will mirror the increase (or decrease) in the index over the same period.

Generally, core assets make up the bulk of a fund’s investment holdings.

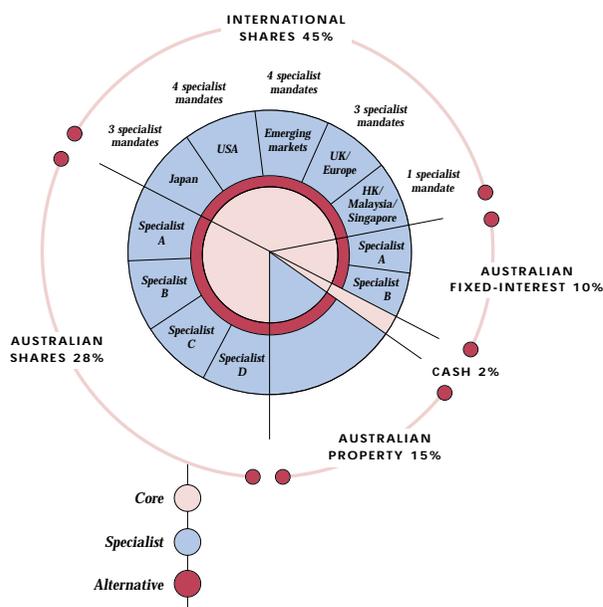
Active assets, as the name suggests, are actively managed. That is, the specialist fund managers that hold these assets must actively operate in the market, buying and selling them with a view to outperforming the sectoral index.

An exposure to emerging markets is included in the portfolio, with the level of exposure to be no more than five per cent of total portfolio assets.

The Board has also made provision for investment of up to five per cent of the total assets in non-traditional or alternative investments. Alternative investments include infrastructure, buy-out funds and venture capital. At the end of the year, the Fund had committed \$101 million across 12 investments (a little less than two per cent of total funds).

The move to increase the Fund’s exposure to international equities had regard to the inherent limits on return opportunities through investment solely in the Australian equities market and the increased opportunities provided by investing in the much larger world markets. These assumptions led to the current strategic asset allocation where around 88 per cent of the Fund’s assets are invested in growth assets such as shares and property, including 45 per cent in overseas shares. The remaining 12 per cent is invested in defensive assets such as bonds and cash.

Chart 1: CSS Fund composition & portfolio construction at 30 June 1998



Market overview

In absolute terms the total assets of the CSS Fund grew by approximately \$37.4 million during the year. However, at the end of the 1997–98 financial year, the value of the Fund's investments stood at \$5.5 billion, about \$38 million less than the previous year. Although the CSS Fund recorded a return of 11 per cent after tax and fees, the dip in the value of funds under investment is attributable to the decrease in contributor numbers, the net outflow through payment of benefits and the transfer of funds to the PSS Fund arising from the second Choice campaign. The overall increase in Fund size is attributable to increases in the value of the Fund's non-investment assets such as outstanding trade settlements and future income tax benefits (see *Statement of Net Assets* at page xx).

Financial markets were dominated throughout the year by the unfolding financial and economic crisis in Asia. The crisis, which began with foreign investors becoming pessimistic about the economic growth outlook for several Asian countries, led to a massive withdrawal of foreign capital and the consequent devaluation of many Asian currencies.

Its effect on Australian shares saw the investment returns on industrial and resource stocks go in different directions. While the former benefited from economic growth and the continuing low inflation and low interest rate environment, resource stocks were hit hard by falling commodity prices posting a negative return of nearly 29 per cent. The lower Australian dollar, which would normally have a positive effect on this sector, was not sufficient to outweigh the negative effects of lower demand brought about by decreased economic activity in Asia. As a result, the return from Australian shares over the year was about three per cent.

For the international sector, the Fund invested mainly in mature markets such as the US, Japan and Europe with a smaller allocation to emerging markets such as Asia, Africa, Eastern Europe and Latin America. Europe provided the best return of 65 percent, slightly ahead of the US which returned 58 per cent. The Japanese market, due to its troubled banking sector, the apparent ineffectiveness of its government to institute effective reforms and an economy moving into recession. Its sharemarket lost 17 per cent. Overall, international shares posted an above average return of about 38 per cent for the year.

The Fund also invested in Australian fixed-interest securities (which benefited from a reduction in official interest rates and a fall in yields of longer term bonds) and the property market during the year. The bond market returned 9.2 per cent while cash returned 4.3 per cent. The market return on property was 8.6 per cent.

Table 4: CSS Fund Performance 1997–98 (after tax and fees)

Asset sector	Value of investment (\$m) ¹		Benchmark portfolio ²	Fund return ³
	30/06/97	30/06/98		
Property	879.3	851.3	8.6	8.3
Australian equities	1718.1	1558.5	2.8	3.3
International equities	2317.9	2442.6	29.9	27.8
Australian Fixed-interest ⁴	640.7	665.6	8.3	8.6
Total	5556.0	5518.0	12.1%	11.1%

- 1 The Value of Investment figures represent the funds under management and differ from the value of investments in the financial statements because of necessary accounting adjustments.
- 2 The investment performance of the Benchmark Portfolio represents the minimum expected performance position for the actual fund or portfolio.
- 3 Fund return figures are after tax and management fees, and reflect income as well as realised and unrealised capital gains and losses.
- 4 Includes cash and indexed bonds.

Performance review

For 1997–98, the Board has declared an annual crediting rate of 10.8 per cent which is well in excess of its target rate of inflation plus 3 per cent.

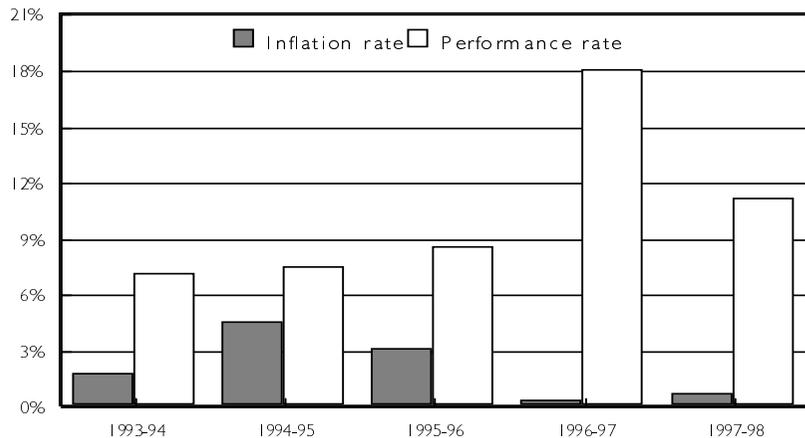
This investment performance has placed the CSS Fund amongst the best performing superannuation funds in Australia for the second year running. As a result, there has been significant real growth in the value of the superannuation investments.

The improved performance of the CSS Fund is a reflection of the decision of the Board in 1994–95 to move from being tied to a single investment manager to a multi-manager approach designed to maximise returns to members. Concurrently, the Board has adopted a more aggressive allocation to growth assets (primarily shares) and increased its holdings of international shares. International shares have been the best performing asset class over the past three years.

The Board supervised a number of activities during the year including:

- A review of the management of its core assets which are passively managed.
- A review of property strategy which resulted in the Board adopting a new strategy that is more focused on maximising returns through opportunistic purchasing and selling of properties.
- The asset allocation of the Fund was returned to its long-term neutral position by reducing the allocation to Australian equities from 33 per cent of the Fund to 28 per cent, with a corresponding increase in the allocation to international equities from 40 to 45 per cent.

Chart 2: Fund performance compared with inflation rate 1994 to 1998



Investment information

During the 1997–98 financial year, the Board issued a more detailed description of the investment policy for the CSS Fund. This document is currently available on request and free of charge in both printed form and from the internet.

Further information on the investment activities of the Fund can be obtained from:

Executive Unit

CSS Board

PO Box 22

Belconnen ACT 2616

Telephone: (02) 6252 7097 Fax: (02) 6252 7965

E-mail: secretary.csspss@comsuper.gov.au

Note on calculations

The Fund earning rates quoted in this report differ from the rates for annual crediting rate purposes. Time-weighted rates of returns are used within the investment management industry as the basis of comparing the performance of different funds in which cash flows can vary considerably. The investment manager usually cannot control the timing or the amount of contributions to the Fund. Because the time-weighted rate eliminates the impact of money flows into or out of the Fund, it is an efficient means of appraising the fund manager's ability to make the Fund's assets perform.

The returns calculated for crediting rate purposes are money-weighted i.e. the return is calculated by reference to the amount and the timing of cash flows during a given time period. This approach gives an effective measure of the Fund's rate of growth, giving full weight to the impact of cash flows on Fund assets.

Annual crediting rates also differ from earning rates because of the working of the Reserve Account and the Deferred Losses Account (page 28).

Crediting rate policy

The key features of the crediting rate policy are:

- the target rate is the June-to-June CPI plus three per cent;
- the Reserve Account bounds are plus/minus five per cent of Fund assets (based on the size of the Fund at the end of the financial year); and
- there are proportional adjustments into and out of the Reserve Account.

At the end of the year, the earning rate for the year is determined and compared to the target rate as follows:

- if the earning rate is *higher* than the target rate, the crediting rate will be reduced in proportion to the reserve but subject to a limit on the amount which can be transferred to the Reserve.
- if the earning rate is *lower* than the target rate, the crediting rate will be increased to the target rate by transferring funds from the Reserve Account.

Transfers to and from the Reserve Account are subject to the restriction that the balance of the Reserve Account cannot exceed five per cent of the balance of the Fund, nor can it be less than minus five per cent of the Fund, at the end of the financial year.

If the Reserve Account is *greater than* five per cent of the balance of the Fund at the end of the financial year, the excess above five per cent is used to raise the crediting rate.

The lower limit on the Reserve Account does not apply if a larger transfer is needed to ensure that the crediting rate is not negative.

Crediting rates

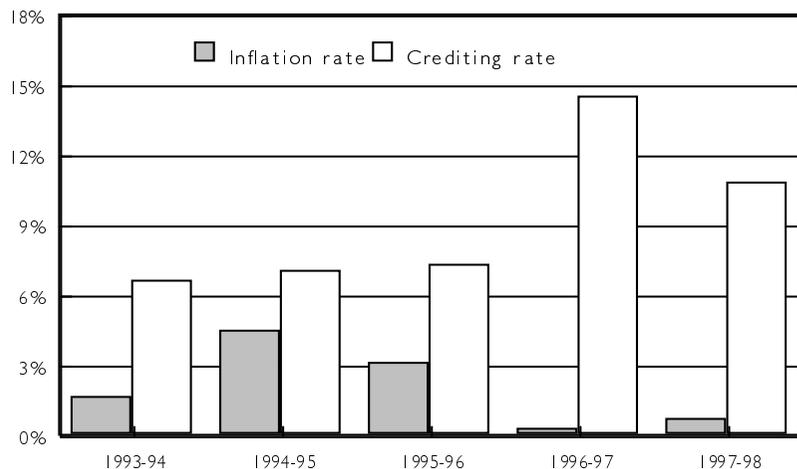
Every year, interest is credited to members' accumulated contributions at rates determined by the Board. Table 5 lists the annual crediting rates for the past five years.

Table 5: Annual crediting rates 1994 to 1998

Financial year	Crediting rate (%)
1993–94	6.6
1994–95	7.1
1995–96	7.3
1996–97	14.5
1997–98	10.8

Over the years, the annual crediting rate has consistently outperformed the rate of inflation, as the following chart shows.

Chart 3: Crediting rates compared with inflation rates 1994 to 1998



Reserve Account

The Board is precluded by legislation from declaring a negative crediting rate. Given this prohibition, the options available to the Board to reduce the volatility of returns and guard against negative returns include:

- investment in conservative products such as cash-based products or capital-stable products with high cash content; or
- investment in capital-protected products (such as capital-guaranteed funds offered by life offices).

In both cases, the expected long-term return is reduced as a trade-off for less volatile returns.

Consequently, the Board has adopted a more growth-oriented, higher expected return investment strategy coupled with a reserve account to smooth out fluctuations in annual crediting rates. Under this approach, the rates credited to members' accounts may differ from the actual rates earned on the Fund's investments. In years when high returns are earned, part of the investment earnings are transferred to the Reserve Account, at the expense of a reduction in the rate credited to members. In years when poor or negative returns are earned, transfers from the Reserve are used to 'top up' the interest rate credited to members.

The advantage of smoothing lies in the limitation of downside risk for those nearing retirement, which allows a higher investment risk profile than might otherwise be the case. A higher risk profile should deliver higher real returns to all members over the long term.

This year, a net \$10.6m was transferred to the Reserve. The balance of the Reserve Account at 30 June 1998 was \$265.9m.

Deferred Losses Account

The annual crediting method also entails transfers from earnings to the Deferred Losses Account (DLA) to continue the process of reducing the balance of that account to zero by 1 July 1999. The DLA was created on 1 July 1984 as a means of spreading over 15 years the effect of a one-off loss in Fund value arising from a change to market-value accounting for determining the value of the Fund's assets.

This year, a net \$7.4m was transferred to the DLA. The balance of the DLA at 30 June 1998 was \$7.4m.

Exit rates

When a member leaves the Scheme, an exit rate of interest is applied to cover the period between the date of the last annual crediting rate and the member's date of exit. Exit rates are determined by the Board quarterly, in a manner consistent with the method for determining annual crediting rates. The exit rates for 1997–98 are shown below.

Table 6: Exit rates declared in 1997–98

Effective Date	Exit rate (annualised)
1 July 1997	13.0%
25 August 1997	10.7%
24 November 1997	5.1%
9 February 1998	5.7%
1 June 1998	11.3%

Each new exit rate replaces the previous one. For example, members who exited on or after 1 June 1998 had an interest rate of 11.3 per cent per annum applied to their accumulated contributions for the period from 1 July 1997 until their date of exit.

Fund investment

ASSET ALLOCATION		30 June 1997		30 June 1998	
Sector	\$m	%	\$m	%	
Property	879.3	15.9	851.3	15.4	
Australian equities	1718.1	30.9	1558.5	28.2	
International equities	2317.9	41.7	2442.6	44.3	
Australian Fixed-interest ¹	640.7	11.5	665.6	12.1	
Total	5556.0	100.0	5518.0²	100.0	
INVESTMENT PERFORMANCE ³		30 June 1997		30 June 1998	
Sector	Benchmark %	Fund %	Benchmark %	Fund %	
Property	4.8	0.4	8.6	8.3	
Australian equities	24.6	27.2	2.8	3.3	
International equities	24.8	22.8	29.9	27.8	
Australian Fixed-interest	12.6	11.6	8.3	8.6	
RETURN ON INVESTMENT	19.0	18.0	12.1	11.1	
ANNUAL CREDITING RATE⁴	14.5 %		10.8 %		

Notes

- 1 Includes cash and indexed bonds.
- 2 This represents the funds under management at 30 June 1998, and will differ from the investments shown in the financial statements because of necessary accounting adjustments.
- 3 Performance figures are after tax and fees.
- 4 Annual crediting rates differ from earning rates because of various adjustments, including transfers to and from the Reserve Account (see also *Note on calculations* on page 26).

Scheme Administration

General introduction

The Board has delegated the bulk of its general administrative powers and functions to the Commissioner for Superannuation and to staff of ComSuper.

As the Board's scheme administrator, ComSuper's major areas of activity encompass the calculation and payment of benefits (including the significant area of invalidity benefits), the maintenance of records of contributors and pensioners, the receipt of and accounting for contributions from employing agencies in respect of their employees, the reconsideration and review of decisions on entitlements and the provision of information to the membership.

The Trustees set the standards of performance for ComSuper in its delivery of services to members for these areas of activity, and the Trustees also monitor the administrator's performance through regular reports on all main activities. This process is also facilitated by an effectiveness review undertaken jointly between the Board and ComSuper during the course of the financial year.

A detailed description of all ComSuper's activities is contained in the *Commissioner for Superannuation Annual Report 1997–98*.

Benefit design

The CSS is a split-benefit superannuation scheme, with benefits generally being made up of two parts:

a) **a member-financed component**

This benefit is based on the contributions paid by the member into the Fund plus accumulated interest. Interest is credited at rates determined by the Board, in line with earnings of the Fund; and

b) an employer-financed component

The employer component includes two parts—

- The first part, which in most circumstances is paid as a non-commutable indexed pension out of Consolidated Revenue, is a defined amount. The amount payable depends on the reason for exit and has regard to several factors including final salary, age and length of contributory membership. It does not depend on the earning rate of the fund.
- The second part of the employer component is the superannuation productivity benefit, which comprises employer contributions and accumulated interest.

Members' contributions

Members must pay basic contributions of five per cent of their superannuation salary into the Fund each fortnight. They may also elect to make supplementary contributions (up to a further five per cent of salary) in order to increase their member benefit upon retirement. Contributions are deducted from their salary and are paid on their behalf by employing agencies to ComSuper, which in turn pays them into the Fund. ComSuper is responsible for receiving and recording members' basic and supplementary contributions, as well as their productivity contributions (which are paid by the employer), and for calculating benefits when they become payable.

In 1997–98, ComSuper received contributions totalling \$247.9m, which comprised \$187.1m in member contributions and \$60.8m in productivity contributions. Benefits paid from the Fund during the year totalled \$529.7m giving a net contributions flow out of the Fund for 1997–98 of \$281.8m.

Number of members

The CSS was closed to new members following the introduction of the PSS Scheme on 1 July 1990. Membership for the last five years is shown below.

Table 7: Scheme membership 1994 to 1998

Year ending	Male	Female	Total
30 June 1994	69 037	31 953	100 990
30 June 1995	63 992	29 254	93 246
30 June 1996	54 364	23 195	77 559
30 June 1997	48 533	20 770	69 303
30 June 1998	42 255	18 452	60 707

Pensions in force

At 30 June 1998, there were 106 923 pensions in force, an increase of slightly more than one per cent from the previous year, incurring an annual pension liability of \$2.18 billion. A breakdown of those pensions by type and their annual liability is shown below.

Table 8: Pensions in force at 30 June 1998

Type of pension	Number	Annual Liability
Age retirement	41 336	\$834.110m
Involuntary retirement	12 799	\$372.165m
Invalidity	26 461	\$589.262m
Spouses & orphans	26 327	\$380.747m
Total	106 923	\$2176.284m

Benefit applications

The high rate of benefit applications received in ComSuper in 1996–97 continued into 1997–98 as a result of ongoing retrenchment programs initiated by public sector agencies.

ComSuper received 8218 benefit applications during the year (compared with 8286 in the previous financial year), representing an average of more than 680 applications per month throughout the year.

Benefit processing

The high rate of benefit applications had some impact on benefit turnaround times. ComSuper, in its service level agreement with the Trustees, agrees to process 60 per cent of CSS member benefits within 10 days, and 95 per cent within 20 days, of the later of the date of exit or the date all documentation is received. Generally, ComSuper was able to maintain the 60 per cent standard throughout the year.

Unlike the 1996–97 financial year, there was no decline in the number of benefit applications received in the first half of 1998. However, additional resources devoted to benefit processing in the early part of 1998 saw an improvement in turnaround performance.

Exits by type

During 1997–98, 8218 members left the scheme. The bulk of the exits came from the retrenchment category (66 per cent) as can be seen below.

Table 9: Exits by type 1997–98

Type	Number
Age retirement	1333
Retrenchment (involuntary)	5460
Invalidity	165
Death	52
Resignation and other	1208
Total	8218

Pension and retrenchment uptake

The retrenchment uptake declined between 1994 and 1996, but picked up to its highest level in 1997—the year where public sector redundancies were at their highest level. Similarly, pension uptake reached a peak at 3824 in the 1996–97 financial year.

Table 10: Pension and Retrenchment uptake 1994 to 1998

Financial year	Pension	Retrenchment
1993–94	3465	5092
1994–95	2790	3757
1995–96	2652	3016
1996–97	3824	5503
1997–98	3398	5460

Payment of invalidity benefits

Members who are totally and permanently incapacitated to the extent that they are unlikely to work again in a position for which they are reasonably qualified by education, training or experience (or could become so after retraining), may be retired on invalidity grounds and become entitled to payment of invalidity benefits. The invalidity retirement process is designed to ensure a thorough assessment of a person's condition and to fully consider prospects of rehabilitation and/or retraining before the Board issues an invalidity retirement certificate.

During the year the Board or a delegate approved invalidity retirement for 85 per cent of applications considered.

The legislation provides for pre-assessment payments to be made, to ensure that a person who is (or is likely to become) totally and permanently incapacitated is not left without income while his or her case is assessed.

Pre-assessment payments

Applications for pre-assessment payments and/or the issue of an invalidity retirement certificate are normally made to ComSuper through the applicant's employer. If the applicant wishes to be paid pre-assessment payments, the employer must include a medical report completed by a Health Services Australia medical advisor (or other Board-approved medical practitioner) who has examined the person and considers that the person is, or is likely to become, totally and permanently incapacitated.

During 1997–98, pre-assessment payments were approved in respect of 108 applicants and two applicants were refused pre-assessment payments on the ground that there was little likelihood that he/she would be unable to work again.

Assessment panel

The decision-making process requires the Board to engage an assessment panel, experienced in assessing invalidity claims for superannuation purposes, to help the Board determine whether a person is totally and permanently incapacitated. During 1997–98, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 209 cases considered by ICM, 177 were approved, 15 were refused and 17 cases were deferred for further consideration.

Board decisions

When all the necessary information is available, ComSuper is in a position to place the matter before the Board (or in certain circumstances to approve the invalidity retirement under delegation from the Board). At this time, the Board is required to decide whether to approve the retirement and, if so, to issue a certificate having regard to:

- (a) the advice of the panel; and
- (b) the ‘practicality’ of the person being able to find a job for which he or she is qualified or could become qualified after retraining.

During 1997–98, 177 invalidity retirement certificates were approved. Of those, 17 were fast-tracked by the invalidity assessment panel in less than one week.

The Board is satisfied that ComSuper, in conjunction with the Administration Committee (see page 50), is meeting the standards set for turnaround times in the processing of invalidity benefits.

Reconsideration and **Review**

Role of the Board

Decisions of the Board and its delegates are subject to internal reconsideration and external review. These processes are managed by ComSuper.

Internal reconsideration

A person affected by a decision of the Board or a delegate may apply in writing to have it reconsidered. If the Board took the decision, the application must be supported by evidence not previously known to the Board. A fee of \$150 is payable. If the appeal is successful or withdrawn, the fee is refunded.

Reconsideration Advisory Committee

Decisions are reconsidered on the basis of new evidence provided by the applicant or obtained by ComSuper. A request for reconsideration of a decision is usually referred to the relevant Reconsideration Advisory Committee (RAC¹) for examination. The RAC's recommendation is taken into account by the Board in deciding whether to affirm or vary the original decision. The Board can also refer a decision to the RAC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's decision on reconsideration. Legislative changes designed to streamline the reconsideration process, including removal of provisions prohibiting the Board from delegating their power to reconsider decisions, are currently under consideration by Parliament.

Requests for reconsideration are treated as complaints for purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993*.

¹ From April 1998 the two previously established RACs were collapsed into one Committee to examine both delegates' and Board decisions. It normally consists of any two of the Commissioner for Superannuation, her deputy and another SES officer.

Applications received

Seventy five applications for reconsideration were received, compared with 61 last year. As in past years, most applications (35 compared with 23 last year) concerned late elections to preserve entitlements accruing from a previous period of contributory service. Following concern expressed by the Board to the Minister for Finance and Administration, proposed amendments to section 137 of the *Superannuation Act 1976* currently before Parliament, envisaged to have effect from 5 December 1997, are aimed at confining late elections to circumstances where the applicant was

unable to make an election within the prescribed time period because of physical or mental incapacity or other “exceptional personal circumstances” and where the late election was made as soon as practicable.

Of the remaining cases received, eight concerned late elections to transfer from the CSS to the PSS; five concerned the provisions for reducing invalidity benefit on medical grounds; six concerned benefits payable to spouses or children; five applications concerned the issue of invalidity retirement certificates; with the balance concerning various other entitlement provisions.

The overall ratio of persons seeking reconsideration of adverse decisions was 18 per cent, a figure slightly less than the previous year’s. However, as expected, a higher proportion of applicants sought reconsideration where the decision involved substantial benefits, eg. invalidity, preservation and spouse cases.

From the relatively small number of requests for reconsideration as well as the relatively small number of these cases where it set aside earlier decisions (some 26 per cent), the Board was satisfied of the high standard of decisions taken by delegates.

Cases finalised

Sixty nine cases were finalised during the year, compared to 51 for the previous year. Agreed timeliness standards between ComSuper and the Board, replacing previous measures which simply set processing times for each step of investigation and handling, were introduced to aid visibility of actual and comparative performance achieved in completed cases. Though the service level was not attained in all cases, improvement was evidenced toward the end of the financial year.

Table 11: Reconsideration applications received & outcomes 1997–98

	1996–97		1997–98	
	Delegate's decisions	Board's decisions	Delegate's decisions	Board's decisions
Brought forward	44	17	60	11
Received	56	5	67	8
Withdrawn or lapsed	13	4	14	1
Decisions affirmed	19	4	35	1
Decisions varied	6	2	8	0
Decisions set aside	2	1	10	0
Resolved	40	11	67	2
Carried forward ²	60	11	60	17

² The cases carried forward were under investigation by ComSuper or with the RAC.

External review

Superannuation Complaints Tribunal

As a result of amendments to the CSS Act introduced by the *Superannuation Legislation Amendment Act 1994*, virtually all decisions previously taken by the Commissioner under the CSS Act have, since 1 July 1994, been taken by the Board.

Following the CSS Board's election on 29 June 1995, the CSS became a regulated superannuation fund for SIS purposes. As a regulated fund any decision taken by the CSS Board can be the subject of a complaint before the Superannuation Complaints Tribunal (SCT), which was established under the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act).

However, a decision of the Full Bench of the Federal Court handed down on 12 February 1998 has affected the powers of the SCT to review decisions of superannuation trustees. In *Neil Wilkinson, Tony Tuohey & Marita Hall v Clerical Administrative & Related Employees Superannuation Pty Ltd & Bishop* (1998) 152 ALR 332, the majority of the Court held that the power purportedly conferred by the SRC Act on the SCT (to review trustee decisions) was an exercise of the judicial power of the Commonwealth. Under the separation of powers doctrine enshrined in the Commonwealth Constitution, the functions of the legislature, the executive and the judiciary must be kept separate and only a Court may act judicially. In effect, the majority of the Court held that in every case where the SCT reviews a trustee decision, the SCT purports to act judicially which it cannot do.

Special leave has been granted in June 1998 to appeal the *Bishop* case to the High Court, together with another Federal Court case—*Daniel Nathan Breckler & Ors v Shirley Leshem* (1998) No WAG 60 of 1997. The decision in the latter case raised the same issues as in the *Bishop* case and the judges who constituted the Full Bench in *Bishop* were the same judges which heard the Breckler case.

Complaints lodged with the SCT

During the year, nine complaints were lodged with the SCT against the CSS Board and seven were carried over from the previous year. Of the nine complaints resolved during the year, six complaints were dismissed by the SCT following withdrawal by the complainants, and three complaints were dismissed (one for lack of jurisdiction, and the two others because the trustee's decisions were made before the CSS became a regulated fund). Seven SCT complaints remain outstanding as at 30 June 1998.

Federal Court

Decisions taken in the administration of the CSS are subject to review by the Federal Court under the *Administrative Decisions (Judicial Review) Act 1977* (the AD(JR) Act). Appeals to the Federal Court may be based on any of the legal grounds set out in sections 5, 6 and 7 of the AD(JR) Act, including:

- errors of law;
- improper exercise of power;
- denial of the rules of natural justice;
- failure to observe procedures; or
- unreasonable delay in making a decision.

The ambit of decisions which may be reviewed under the AD(JR) Act includes decisions made by the Board and its delegates. One appeal was lodged with the Federal Court by the applicant, but was subsequently withdrawn.

Claims against the Board

This year the Board analysed all claims for compensation arising from disputes about the value of the benefits decided. It was satisfied from the number of claims accepted and their generally low monetary value that there was not any systemic weakness in the administration of benefit entitlements.

Summary of claims: 1 July 1997 to 30 June 1998

- 12 claims against the CSS Board were finalised.
- 8 claims specified the amount claimed (claiming a total of \$156 223).
- 4 claims sought an unspecified amount.
- Liability was denied in 8 cases, 2 cases were resolved administratively and the Board's final settlement offer was rejected in one case.
- **A settlement payment was made only in 1 claim, which was settled by the payment of \$2494.**

Administration **Committee**

Key function

The combined CSS/PSS Administration Committee is to advise both Boards on those internal policy matters that drive the operational standards of the administrator, ComSuper.

Responsibilities and role

The Administration Committee is to become familiar with the policy activities carried out by the administrator and the Department of Finance and Administration to enable the Boards to supervise these policies.

The Committee is to assure the Boards that adequate processes are followed by the administrator and other service providers to ensure compliance with legislative requirements.

The Committee also monitors any legislative changes which will impact upon the operations of the Schemes.

Terms of reference

The Administration Committee is the point of communication between the Boards, the administrator and other service providers.

Its terms of reference are as follows:

- to establish performance agreements and arrangements for service providers to report regularly to the Trustees;
- to monitor the performance of service providers;
- to ensure all activities of the administrator and service providers are carried out in accordance with Board policy;
- to oversight relationships between the Board and service providers;

- to advise the Boards of the implications arising from legislative changes;
- to take decisions on behalf of the Boards, in accordance with those powers delegated to Trustees in respect of primary decisions on invalidity; and
- to submit copies of all decisions taken in respect of invalidity applications to the CSS and PSS Boards.

Membership of committee

The Administration Committee is appointed by the Board and usually comprises three members, at least two of whom are members of both the CSS and PSS Boards. The term of appointment of individual members of the Committee is at the discretion of the Boards.

The Committee meets as necessary, but in any event not less than four times a year.

Communications committee

The Board's Communications Committee met during the year to consider a wide range of issues associated with member communications. These issues included:

- communications requirements arising from the foreshadowed scheme choice arrangements;
- the establishment of a new Board to manage both the CSS and PSS schemes;
- the preparation and issuing of client service charters;
- internet developments in electronic publishing;
- surcharge communication needs; and
- preparation and timing of the 1997–98 annual reports—such as this report.

SIS requirements

As a regulated fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) the CSS must comply with all the information disclosure standards set out in the SIS Act and Regulations. One of the major requirements is to maintain ongoing communication with scheme members, giving assurance that the superannuation industry operates in a fair, honest and open manner.

The Board also believes that it is important to keep members informed of developments in superannuation that might affect their future entitlements. A number of different and interrelated communications mechanisms are used to meet these requirements.

Member statements

The Board's principal means of communicating with members is through its Annual Report to Members which is sent to all contributing members and deferred benefit members.

The report provides comprehensive information about the CSS Fund's investment performance and also details changes to scheme rules and changes in the superannuation industry at large, insofar as these are relevant to scheme members.

The Board's Annual Report to Members is packaged with the member statements providing detailed personalised information about each individual's entitlements.

For 1997–98 the Board has made considerable efforts to bring forward the timetable within which this information is normally distributed and also to package the combined information set in a consistent format to ease understanding. These changes were made in line with recent examples of industry best practice.

Scheme publications

A wide range of booklets, pamphlets and leaflets is available to assist scheme members to understand the workings of the CSS Scheme. These publications can be obtained from employer personnel counters, on order from a contracted mailing house, direct from the Board's administrator (ComSuper) or through the internet. Relevant forms are also made available to personnel officers and to scheme members through the same channels.

These publications are updated regularly as the need arises and resources permit. Uncertainty about the timing of foreshadowed changes to the scheme, however, delayed this activity during the year. Nevertheless the collection was added to, with work being done on meeting a specific information need for some categories of contributors having a choice to leave the scheme.

In addition to the above the Board maintains contact with employing agencies through a monthly newsletter. These newsletters contain a combination of information for on-forwarding to contributors, such as poster announcements, and information directed specifically at personnel officers.

Other programs

During the year several communication efforts were made in connection with the surcharge. Initially this effort was directed at the collection of Tax File Numbers (TFNs) to facilitate processing of surcharge debt information. The success rate of this effort was in keeping with general industry trends.

Towards the end of the financial year members who had incurred a surcharge liability were individually advised of their options in regard to discharging that debt.

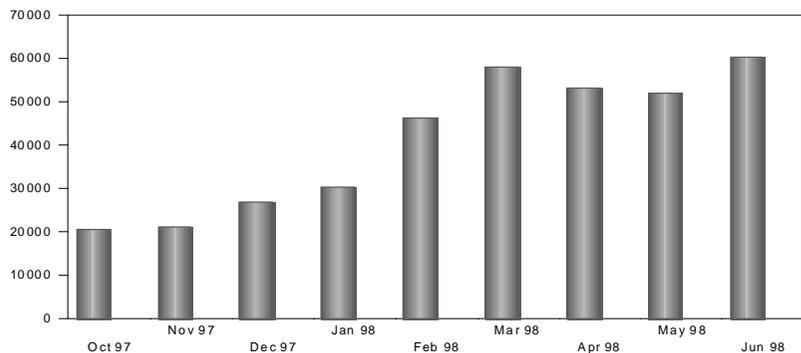
A regular Member Information seminar program is also conducted in capital cities around Australia. During the year this program was expanded to cover surcharge communication issues.

Growing the Web

Through the internet the Board has made available a range of the more significant publications relevant to the CSS scheme, including comprehensive information on the scheme rules. This is done with assistance from the Board's administrator. Usage of this internet material grew by about 300% during the year.

This growth is reflected in the chart below.

Chart 4: Number of website hits per month



The website address is <http://www.comsuper.gov.au>

Performance indicator

The success of the Board's communications strategies can be gauged from the positive feedback received through the member satisfaction surveys (see page 52) where high quality performance was achieved across a range of customer service dimensions eg. member information statements etc.

Inquiries about any of the publications mentioned above or our website can be addressed to:

Schemes Publicity Section

ComSuper

PO Box 22

Belconnen ACT 2616

Telephone: (02) 6252 6274 Fax: (02) 6252 7838

Key function

The combined CSS/PSS Audit Committee advises both Boards of Trustees on accountability and audit-related matters.

Responsibilities and role

The Committee's responsibility is to assure the Board that their financial statements are based on appropriate accounting concepts, systems and techniques; that the audit arrangements within service-providing agencies (ComSuper, TRM, fund managers, master custodian and the Department of Finance and Administration) are operating effectively, and that appropriate fraud control strategies are in place.

Terms of reference

The terms of reference of the Audit Committee are as follows:

- The Audit Committee is the point of communication between the Boards and the Internal Audit Committees of ComSuper and with the Australian National Audit Office (ANAO).
- The Audit Committee reviews:
 - financial statements with both internal and external auditors prior to their approval by the Board;
 - accounting policies adopted or any changes which are made or contemplated by ComSuper, and which affect the Board's areas of responsibility;
 - the annual audit plans of ComSuper where they relate to areas of Board responsibility;

- the audit reports of major audits undertaken;
 - the extent to which internal audit recommendations are implemented; and
 - interim financial information.
- The Committee provides a regular report to the Board as to whether the internal controls employed by ComSuper and other service providers give reasonable assurance that the Boards' objectives and goals are being met efficiently and economically.
 - With the agreement of the Board, the Committee may initiate specific audit investigations.

The Audit Committee participated in the development of ComSuper's forward internal audit program for 1998–99 and monitored the progress of audits undertaken in the course of the 1997–98 program. It is also actively monitoring the Y2K activities of external providers.

Focus on Governance

Continuous improvement

The 1997–98 financial year saw the Board adopt a revised operating plan which focuses on the transition to new legislative arrangements. This plan places greater emphasis on the increasing accountability of the Board and the need to ensure continuous improvement in effectiveness of both the Board and its administrator.

The operating plan also focuses on the need to carry forward a training program for Trustees to ensure their knowledge and competencies are maintained to a high standard relevant to their duties.

Board activities

Committees

During the year two new standing committees, the Administration Committee and the Communications Committee were established. Together with the Audit Committee and the Reconsideration Advisory Committee, there are now four board committees involved in specific areas of scheme-related matters. Their respective roles are outlined below.

Administration Committee: The purpose of the Administration Committee is to advise the CSS Board on internal policy matters which drive the operational standards of the administrator, ComSuper.

Apart from monitoring legislative changes which will impact on the operations of the scheme, the committee also gives assurance to the Board that adequate processes are followed by the administrator and other service providers to ensure compliance with legislative requirements.

During 1997–98, the Administration Committee focused on the transitional arrangements necessary for the new board to carry out its financial and operational duties. It developed new arrangements for the Board to levy and collect charges from employers to fund its purchase of administration services. The committee worked closely with the Board, ComSuper and the Department of Finance and Administration in developing the charging and revenue collection arrangements.

To reduce invalidity assessment turnaround times, the Board delegated the power to decide invalidity claims to the Administration Committee. Claims may be decided by any two members of the Committee.

Communications Committee: The purpose of this committee is to advise the Board on communication-related matters. It concentrates on communication with the scheme members.

Its operational focus is to ensure that the Board meets the information disclosure requirements imposed by SIS through clear, timely and accurate reporting to members and that Trustee decisions and developments which may affect member interests, benefits and rights are promptly disseminated.

During the 1997–98 financial year, the committee met on a regular basis to oversee and direct all general communication to members including the production of annual reports and member information statements.

Audit Committee: The purpose of this committee is to advise the Board on accountability and audit-related matters. It also operates as a check on the management practices of the scheme administrator, fund investment managers and the master custodian.

It also assures the Board that annual financial statements are based on appropriate accounting concepts, systems and techniques. In particular, the committee provides assurance that audit arrangements within service providing agencies are operating effectively and that appropriate fraud control strategies are in place.

Reconsideration Advisory Committee: This committee advises the Board on requests for reconsideration of decisions made by, or on behalf of, the Board. It examines decisions taken by the Board and its delegates which are the subject of requests for reconsideration and after gathering sufficient evidence, makes recommendations to the Board on those reconsideration requests.

Trustee development

During 1997–98, the Trustees attended appropriate industry conferences and seminars held at various capital cities. This method of exposure has been adopted as an effective strategy to further trustee education in the superannuation industry and as a means of maintaining high level awareness of changing trends and new developments.

Delegations and authorisations

To streamline procedures and responsibilities, a comprehensive review was made of all delegations and authorisations issued by the Board. One of the net effects of this review is that it allows faster updating of authorisations to accommodate changes in the organisational structure of ComSuper—especially now that it operates as a commercial business unit.

For more information, please refer to *Appendix A* at page 57.

Member satisfaction surveys

During 1997–98, a comprehensive series of member satisfaction surveys was undertaken. The prime reasons for conducting the surveys were to provide feedback for the Board on ComSuper’s performance and to assist continuous improvement in ComSuper’s processes and procedures.

The key services surveyed at four separate times throughout the year were the telephone advisory service, written estimates, seminars, benefit payments and annual member statements.

A Quality Service Index (QSI) was introduced to measure the survey results and to enable comparisons between survey periods. The QSI is an assessment on a 100 point scale of the services provided by ComSuper and is a measure of client satisfaction.

Quality Service Indexes of 82.9, 80.9, 83.2 and 84.8 for the first, second, third and final quarters respectively suggest that ComSuper has maintained a consistent and very high client satisfaction rating from its clients.

ComSuper will, on behalf of the Board, continue with the client satisfaction survey process in 1998–99.

Appendixes

Appendixes

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Changes to the legislation

Changes to the CSS Act

During 1997–1998, the following Acts were passed to amend the CSS governing rules.

- *Audit (Transitional and Miscellaneous) Amendment Act 1997*

This Act imposes certain accounting and auditing requirements.

- *Superannuation Legislation Amendment (Superannuation Contributions Tax) Act 1997*

Superannuation Contributions Surcharge is payable on a person's employer superannuation contributions when the person's taxable income plus employer superannuation contributions exceed \$70 000 (1996–97). This amount is indexed annually by Average Weekly Ordinary Time Earnings (AWOTE).

Because the CSS is an unfunded defined benefits scheme, payment of Superannuation Contributions Surcharge can be delayed until the member's benefits become payable. Alternatively, the member can elect to make payments of surcharge at any time during their membership.

This Act makes provision for the deduction of superannuation contributions surcharge tax amounts from CSS benefits when surcharge is owing at the time the benefits become payable.

- *Snowy Hydro Corporatisation (Consequential Amendments) Act 1997*

This act removes a reference to the Snowy Mountains Hydro-Electric authority from certain provisions relating to contributions while on leave without pay.

- *Financial Sector Reform (Consequential Amendments) Act 1998*

This act makes minor amendments of a financial nature including replacing references in the Act to the ISC with references to the Australian Securities and Investment Commission.

Statutory rules

The following is a complete list of statutory rules under the CSS which were gazetted during 1997–98:

Superannuation (CSS) Unclaimed Money Regulations makes provision for the payment of certain unclaimed moneys to the Commissioner of Taxation.

Superannuation (CSS) Productivity Contribution (1997–98) Declaration sets the rate at which employers must pay productivity contributions for 1997–98.

Superannuation (CSS) Salary Regulations (Amendment) permits Australian workplace agreements under the *Workplace Relations Act 1996*, agreements certified under Division 4 of Part VIB of the *Workplace Relations Act 1996* and certain flexible remuneration agreements to set a member's CSS salary.

Superannuation (CSS) Approved Authority Declaration (Amendment) declares the Nuclear Safety Bureau to be an Approved Authority for the CSS.

Superannuation (CSS) Continuing Contributions for Benefits Regulation (Amendment) provides for certain employees of the Nuclear Safety Bureau to remain CSS members until 31 December 1996 or a prescribed earlier date.

Superannuation (CSS) Approved Authority Declaration (Amendment) declares Adelaide Symphony Orchestra Pty Ltd, Health Services Australia Ltd, Melbourne Symphony Orchestra and Symphony Australia Holdings Pty Ltd to be Approved Authorities for the CSS.

Superannuation (CSS) Former Eligible Employees Regulations (Amendment) alters a salary CPI adjustment used to calculate delayed updated pension payable to certain former members of the CSS.

Superannuation (CSS) Continuing Contributions for Benefits Regulations (Amendment) makes provision for continued CSS membership for certain employees of the Australian Law Reform Commission, Medibank and Employment National (Administration) Pty Ltd.

Superannuation (CSS) Approved Authority Declaration (Amendment) declares West Australian Symphony Orchestra Holding Pty Ltd to be an Approved Authority for the CSS.

Superannuation (CSS) Productivity Contribution (1998–99) Declaration sets the rate at which employers must pay productivity contributions for 1998–99.

Determinations made

Five determinations were made during the year setting the crediting interest rate for the 1997–98 financial year and the prevailing exit interest rate applicable during the period of scheme membership.

A further determination was made setting, in accordance with advice from the Australian Government Actuary, conversion factors to be used when calculating pension reductions in order to discharge surcharge deduction amounts.

Delegations and authorisations

During the year a thorough review was made of all delegations issued by the Board.

The Board adopted the practice whereby it delegates relevant powers to the Commissioner who then authorises ComSuper staff, and in some instances staff in departments and agencies, to exercise powers, for and on her behalf. This practice streamlines the delegation process and allows faster updating of authorisations to accommodate changes in the organisational structure of ComSuper. A register of instruments authorised by the Commissioner is made available to the Trustees.

In revising its delegations, the Trustees reaffirmed that certain powers are to be exercised by the Trustees themselves and not delegated. Examples are:

- variation of legislation where they produce a result not in the spirit of the rules;
- reconsideration of decisions; and
- appointment of reconsideration advisory committees.

Decisions relating to invalidity assessments where the assessment panel is not of the opinion that the person is totally and permanently incapacitated are taken by the Administration Committee.

Appendix B

Departments and authorities

At 30 June 1998, the following departments and authorities were employers of people who were eligible to contribute to the CSS.

Departments

Attorney-General's
Communications and the Arts
Defence
Employment, Education, Training and Youth Affairs
Environment
Finance and Administration
Foreign Affairs and Trade
Health and Family Services
Immigration and Multicultural Affairs
Industry, Science and Tourism
Parliamentary:
• House of Representatives
• Joint House
• Parliamentary Library
• Parliamentary Reporting Staff
• Senate
Primary Industries and Energy
Prime Minister and Cabinet
Social Security
Transport
Treasury
Veterans' Affairs
Workplace Relations and Small Business

Approved authorities

Aboriginal and Torres Strait Islander Commercial Development Corporation
Aboriginal Areas Protection Authority
ACTEW Corporation Ltd
Adelaide Symphony Orchestra Pty Ltd
Airservices Australia
Albury-Wodonga Development Corporation
Anglo-Australian Telescope Board
ANL Limited
Australia Council
Australian Broadcasting Corporation
Australian Capital Territory
Australian Defence Industries Pty Ltd
Australian Dried Fruits Corporation
Australian Film Commission
Australian Film Television and Radio School
Australian Fisheries Management Authority
Australian Foundation for Culture and the Humanities Ltd
Australian Institute of Criminology
Australian Institute of Family Studies
Australian Institute of Marine Science
Australian International Hotel School
Australian Marine Science and Technology Limited
Australian Maritime College
Australian Maritime Safety Authority
Australian Meat and Livestock Corporation
Australian National Gallery
Australian National Training Authority
Australian Nuclear Science and Technology Organisation
Australian Pork Corporation
Australian Sports Commission
Australian Sports Drug Agency
Australian Trade Commission
Australian Wine and Brandy Corporation
Australian Wool Research and Promotion Organisation
Batchelor College
Calvary Hospital ACT Incorporated
Centralian College
Civil Aviation Safety Authority
Cotton Research and Development Corporation
Dairy Research and Development Corporation

Export Finance and Insurance Corporation
Fisheries Research and Development Corporation
Forest and Wood Products Research and Development Corporation
Grains Research and Development Corporation
Health Insurance Commission
Health Services Australia Ltd
High Court of Australia
Horticultural Research and Development Corporation
Indigenous Land Corporation
Katherine Rural College
Land and Water Resources Research and Development Corporation
Law Courts Limited
Legal Aid Commission (ACT)
Meat Research Corporation
Melbourne Symphony Orchestra
Menzies School of Health Research
National Registration Authority of Agriculture and Veterinary Chemicals
Northern Territory of Australia
Northern Territory Tourist Commission
Northern Territory University
Nuclear Safety Bureau
Pig Research and Development Corporation
Power and Water Authority
Private Health Insurance Administration Council
Private Health Insurance Complaints Commissioner
Rural Industries Research and Development Corporation
Special Broadcasting Service
Sugar Research and Development Corporation
Sydney Symphony Orchestra Holdings Pty Limited
Symphony Australia Holdings Pty Ltd
Totalcare Industries Limited
Trade Development Zone Authority
University College, the college established by the University of New South
Wales within the Australian Defence Force Academy
University of Canberra
West Australian Symphony Orchestra Holdings Pty Ltd

Appendix C

Eligible superannuation schemes

A Transfer Value may be paid to a superannuation scheme which has been declared by the Minister for Finance and the Board to be an eligible superannuation scheme for the purposes of the Commonwealth Superannuation Scheme 1976 (Section 134).

The following schemes have been declared eligible.

- Superannuation schemes established under the following acts:
*Superannuation (State Public Sector) Act 1990 (QLD);
Parliamentary Contributory Superannuation Act 1948; and
Defence Force Retirement and Death Benefits Act 1973.*
- The superannuation schemes known as:

AIDC Executive Superannuation Plan;
AIDC Staff Superannuation Plan;
Army and Air Force Canteen Service Superannuation Scheme;
Australian Wool Corporation Provident Fund;
AUSSAT Superannuation Fund;
AV Super (previously known as the CAA Staff Superannuation Fund);
Gladstone Area Water Board Staff Superannuation Scheme;
Gladstone Port Authority Staff Superannuation Scheme;
Gold Coast Waterways Staff Superannuation Scheme;
Government Officers' Superannuation Scheme (GO Super) (Queensland);
Livestock and Meat Authority of Queensland Superannuation Scheme;
Northern Territory Government and Public Authorities Superannuation Scheme;
Queensland Ambulance Transport Brigade Staff Superannuation Scheme;
Queensland Electricity Supply Industry Superannuation Scheme;
Queensland Industry Development Corporation Superannuation Scheme;
Queensland Local Government Employees Superannuation Scheme;
Queensland Parliamentary Contributory Superannuation Scheme;
Queensland Police Superannuation Scheme;
Queensland State Service Superannuation Scheme;
Suncorp Insurance and Finance Superannuation Plan;
Superannuation Scheme for Australian Universities (SSAU);
Townsville Port Authority Staff Superannuation Scheme; and
University of Newcastle Staff Superannuation Scheme.

Appendix D

Members' complaints

The Board has established formal procedures for dealing with members' complaints received in accordance with Section 101 of the *Superannuation Industry (Supervision) Act 1993*.

During 1997–98, the Complaints Officer received 72 complaints with 11 complaints carried over from the previous year. The complaints covered a wide range of issues and the majority of cases were able to be resolved or satisfactorily answered within the legislative time frame of 90 days.

The following chart shows the volume of complaints received and processed by the Board's administrator, ComSuper, during the 1997–98 financial year.

Month	Received	Processed
July 1997	4	4
August	7	4
September	7	4
October	7	14
November	2	2
December	8	5
January 1998	7	8
February	4	8
March	11	9
April	4	5
May	3	4
June	9	10
Total	72	77

Appendix E

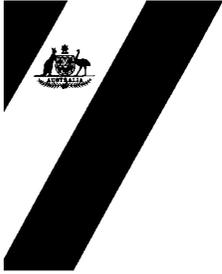
List of abbreviations

AAS	Australian Accounting Standard
ACTU	Australian Council of Trade Unions
AD(JR) Act	<i>Administrative Decisions (Judicial Review) Act 1977</i>
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
CFM	Commonwealth Funds Management Ltd
ComSAS	Commonwealth Superannuation Administration System
ComSuper	Commonwealth Superannuation Administration
CPI	Consumer Price Index
CPSU	Community and Public Section Union
CSS	Commonwealth Superannuation Scheme
CSS Act	<i>Superannuation Act 1976</i>
DILGEA	Department of Immigration, Local Government and Ethnic Affairs
DLA	Deferred Losses Account
DOFA	Department of Finance and Administration
GBE	Government Business Enterprise
ICM	Independent Claims Management Pty Ltd
ISC	Insurance and Superannuation Commission (APRA from 1 July 1998)
MSCI	Morgan Stanley Capital International
PSMPC	Public Service and Merit Protection Commission
PSS	Public Sector Superannuation (scheme)
PSS Act	<i>Superannuation Act 1990</i>
RAC	Reconsideration Advisory Committee
RBL	Reasonable Benefit Limit
SBS	Special Broadcasting Service
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SCT	Superannuation Complaints Tribunal
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
TRM	Total Risk Management Pty Ltd

Appendix F

Financial statements

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INDEPENDENT AUDIT REPORT

To the Minister for Finance and Administration

(A) Financial Statements

Scope

I have audited the financial statements of the Commonwealth Superannuation Scheme (CSS) which includes the CSS Fund, for the year ended 30 June 1998. The financial statements comprise:

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and forming part of the Financial Statements, and
- Statement by the Trustee.

The CSS Board as Trustee is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you, the Minister for Finance and Administration.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view of the Fund and the Scheme which is consistent with my understanding of its net assets and changes in net assets.

The audit opinion expressed in this report has been formed on the above basis.

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Audit Opinion

In accordance with sub-section 161(2) of the *Superannuation Act 1976*, I now report that the statements are in agreement with the accounts and records of the Board, and in my opinion:

- (i) the statements are based on proper accounts and records;
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the CSS for the year ended 30 June 1998 and the net assets of the CSS at that date;
- (iii) the receipt of moneys into the CSS Fund, and the payment of moneys out of the CSS Fund and investment of moneys standing to the credit of the CSS Fund, during the year have been in accordance with the *Superannuation Act 1976*; and
- (iv) the statements are in the form agreed by the Minister for Finance and Administration in accordance with sub-section 161(1A) of the *Superannuation Act 1976*.

(B) SIS Compliance**Scope**

I have conducted tests in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards, as necessary to provide reasonable assurance as to whether the CSS Fund has complied, in all material respects, with:

- (a) the relevant requirements of the following provisions (to the extent applicable) of the *Superannuation Industry (Supervision) Act 1993* and Regulations,

Sections 19(2), 19(3), 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 102, 103, 104, 106, 107, 108, 109, 111, 112, 113, 117, 118, 122, 124, 125, 152, 153, 154, 169;

Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

- (b) the Guidelines issued by the ISC on Risk Management Statements For Superannuation Entities Investing in Derivatives (to the extent applicable),

for the year ended 30 June 1998.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations as specified.

My procedures with respect to the Guidelines consisted of confirming that the relevant Risk Management Statements (where required to be prepared by the Trustee) have been prepared and are broadly consistent with the requirements of the Guidelines. No opinion has been expressed on the appropriateness of the Risk Management Statements or whether the Fund has complied with the procedures set out in the Risk Management Statements.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993* and Regulations and Guidelines apart from those specified. The Fund's trustee is responsible for ensuring compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and Guidelines.

The opinion on compliance expressed in this report has been formed on the above basis.

Opinion

The CSS Fund, in all material respects, has complied with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations specified above for the year ended 30 June 1998.

Australian National Audit Office



Trevor Burgess
Executive Director

Delegate of the Auditor-General

Canberra

29 September 1998

Commonwealth Superannuation Scheme

Statement by the Trustee of the CSS Fund

The Trustee hereby states that in its opinion:

- (a) the attached financial statements of the Commonwealth Superannuation Scheme show a true and fair view of the net assets of the Scheme as at 30 June 1998 and the changes in net assets of the Scheme for the year ended 30 June 1998;
- (b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (c) the financial statements are in a form agreed by the Minister for Finance and Administration and the CSS Board in accordance with sub-section 161(1A) of the Superannuation Act 1976 and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views); and
- (d) the operations of the Fund were conducted in accordance with the Superannuation Act 1976 and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations.

Signed at Canberra this 21st day of September 1998 in accordance with a resolution of members of the CSS Board as Trustee of the CSS Fund.



W. Hall
Member



P. Reynolds
Member

CSS Board

COMMONWEALTH SUPERANNUATION SCHEME

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 1998			
	Note	1998 \$'000	1997 \$'000
Net Assets Available to Pay Benefits at 1 July		5,104,065	4,870,221
CSS FUND			
Investment Revenue			
Interest		25,611	18,878
Dividends		114,731	56,239
Other Investment Income		(1,159)	142
Changes in Net Market Values	2	408,352	815,861
Direct Investment Expenses		(8,034)	(9,560)
		539,501	881,560
General Administration Expenses	3d	(744)	(396)
Interest on Amount due to PSS	5	(17,963)	-
Net Investment Revenue Before Tax		520,794	881,164
Contributions Revenue			
Employee Contributions	3a	187,149	203,886
Employer Contributions	3a	60,768	66,400
		247,917	270,286
Benefits Paid - current financial year	3b,3c	(496,452)	(439,603)
- understatement of prior financial year	3b,3c	(33,307)	-
Net Contributions Revenue Before Tax		(281,842)	(169,317)
Net Investment Revenue and Net Contributions Revenue Before Tax		238,952	711,847
Income Tax Expense	4	(26,107)	(40,962)
Net Investment Revenue and Net Contributions Revenue After Tax		212,845	670,885
Less:			
Withdrawals from the Commonwealth Superannuation Scheme	5	-	(437,041)
Net Investment Revenue and Net Contributions Revenue After Tax and Withdrawals from Scheme		212,845	233,844
CONSOLIDATED REVENUE FUND			
Moneys Appropriated by Parliament	3	2,718,091	2,600,395
Less: Benefits Paid	3b	(2,705,241)	(2,587,426)
Costs of Administering the CSS Act and Rules	3d	(12,850)	(12,969)
Net Assets Available to Pay Benefits at 30 June		5,316,910	5,104,065

The attached notes form part of these financial statements.

COMMONWEALTH SUPERANNUATION SCHEME

STATEMENT OF NET ASSETS
AS AT 30 JUNE 1998

	Note	1998 \$'000	1997 \$'000
CSS FUND			
Investments	1e		
Australian Money Market , Cash and Short Term Money Market		198,798	218,410
Australian Fixed Interest		523,026	169,970
International Fixed Interest		1,728	-
Australian Equity Investments		1,473,405	1,596,480
International Equity Investments		2,233,141	-
Unlisted Property Trusts	6	816,759	-
Pooled Superannuation Trusts	6	327,530	3,668,006
Other Investments		(11,432)	(47,798)
Total Investments		5,562,955	5,605,068
Other Assets	7	121,156	41,650
Total CSS Fund Assets		5,684,111	5,646,718
Less: Liabilities			
Benefits Payable	3c	162,087	24,922
Trade Settlements Payable		15,004	19,397
Sundry Creditors	8	7,881	4,437
Amounts due to Other Superannuation Schemes	5	27,353	437,041
Tax Liability Assumed on Behalf of Other Fund	6	62,187	-
Provision for Income Tax		34,471	10,631
Provision for Deferred Income Tax		58,218	46,225
Total CSS Fund Liabilities		367,201	542,653
CONSOLIDATED REVENUE FUND			
Other Assets			
Sundry Debtors		158,018	114,792
Total Consolidated Revenue Fund Assets		158,018	114,792
Less: Liabilities			
Benefits Payable		158,018	114,792
Total Consolidated Revenue Fund Liabilities		158,018	114,792
Net Assets Available to Pay Benefits at 30 June	10	5,316,910	5,104,065

The attached notes form part of these financial statements.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

These financial statements have been prepared in accordance with the Defined Benefit Plan provisions of AAS 25 "Financial Reporting by Superannuation Plans", other applicable Australian Accounting Standards (AAS) and Urgent Issues Group Consensus Views.

A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on their years of membership and salary levels.

The Scheme has adopted the provisions of paragraph 22(a) of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto.

The form of these financial statements has been agreed by the Minister for Finance and Administration and the CSS Board in accordance with sub-section 161(1A) of the Superannuation Act 1976.

Unless otherwise stated, these accounting policies were also adopted in the corresponding preceding reporting period.

(b) Foreign Currency Translation

Foreign currency positions are converted to Australian currency using the currency exchange rate in effect at the point of recognition of each transaction. Foreign currency amounts receivable and amounts payable are converted to Australian currency using the exchange rate as at balance date.

(c) Income Tax

Income tax has been brought to account using the liability method of tax effect accounting. A provision for deferred income tax has been brought to account in order to recognise the timing effect of income earned during the period that is not assessable for taxation purposes in the current period but is expected to reverse in future periods.

(d) Expenses of the CSS Board

Costs of the CSS Board which are related to its responsibilities for the management of the CSS Fund and the investment of its moneys are a charge against the Fund. Fees paid to the Chairman of the CSS Board are also a charge against the Fund. All other costs incurred by the CSS Board are paid from moneys appropriated by Parliament.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**(e) Valuation of Investments**

Assets of the CSS are recorded at net market value as at the reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market values of investments include an amount for selling costs which would be expected to be incurred if the investments were sold.

The bases of market valuations are summarised below.

- (i) Short-term Money Market and Fixed Interest - these securities are valued by marking to market using yields supplied by independent valuers.
- (ii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June by the relevant Futures Exchange.
- (iii) Equities - listed securities, including listed property trusts, are valued based on the last sale price quoted at close of business on 30 June by the relevant Stock Exchange, or last bid where a sale price is unavailable.
- (iv) Exchange Traded Options - options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June by the relevant Stock Exchange.
- (v) Overseas Investments - overseas securities are valued on the basis of last sale price quoted at close of business on 30 June by the relevant securities exchange. In the case of UK securities, the basis of valuation is the average of the bid and offer prices.
- (vi) Units in Unlisted Property Trusts and Pooled Superannuation Trusts - units are valued at their net realisable value, consistent with the methods listed above that are relevant to the underlying assets held by the unit trusts.

(f) Use of Derivatives

The investment managers use a number of financial instruments such as futures, options and forward exchange contracts which are known as "derivatives". The objective of their use is to facilitate increases or decreases in exposures in the equity, bond and currency markets consistent with the investment policy of the Fund.

Derivatives are not used for speculation in any of these markets or for gearing the portfolio.

(g) Contributions Receivable

Employee and employer (productivity) contributions are due and payable on each fortnightly contribution day. The contributions do not accrue on a daily basis. Therefore, employee and employer (productivity) contributions in respect of the fortnightly contribution days that fell within the reporting period have been included in the financial statements.

(h) Comparative Information

The presentation of comparative information may have changed from that shown in the previous financial statements so as to conform with the current year's format.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

2. CHANGES IN NET MARKET VALUES

	1998	1997
	\$'000	\$'000
Changes in Net Market Values of Investments:		
(a) Investments Held at 30 June		
Australian Money Market	394	673
Australian Fixed Interest	4,301	3,641
International Fixed Interest	164	-
Australian Equity Investments	21,430	272,170
International Equity Investments	14,219	-
Unlisted Property Trusts	(16,496)	-
CFM Pooled Superannuation Trust: (Refer note 6(b))		
- CFM International Equities Fund class	-	385,975
- CFM Fixed Interest Trust class	-	38,611
- CFM Rural Investment Fund class	-	(1,302)
- CFM Property Fund class	-	11,168
CFM Australian Equities Fund	(9,660)	27,570
Commonwealth Funds Management Ltd Pooled Superannuation Trust - Emerging Market Fund	(42,163)	50,112
Currency contracts	108,669	(52,727)
Other Investments	2,707	1,014
	83,565	736,905
(b) Investments Realised During the Period:		
Australian Money Market	2,138	2,295
Australian Fixed Interest	4,751	5,585
International Fixed Interest	-	(1)
Australian Equity Investments	(31,307)	37,349
International Equity Investments	(2,915)	-
CFM Unit Trusts	29,786	-
CFM Pooled Superannuation Trust: (Refer note 6(b))		
- CFM International Equities Fund class	420,505	7,693
- CFM Fixed Interest Trust class	23,907	-
- CFM Rural Investment Fund class	2,015	(6,029)
- CFM Property Fund class	44,819	513
CFM Australian Equities Fund	(1,863)	2,660
Commonwealth Funds Management Ltd Pooled Superannuation Trust - Emerging Market Fund	(2,864)	-
Currency contracts	(169,502)	26,529
Other Investments	5,317	2,362
	324,787	78,956
	408,352	815,861

The net loss on foreign currency transactions for the year was \$60.837m (1996-97: \$26.198m). This amount is the net of the realised and unrealised gains and losses on foreign currency contracts identified above. This does not include gains and losses on foreign currency transactions that may have occurred in the Pooled Trust investments.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

3. FUNDING ARRANGEMENTS**(a) Contributions**

Members contribute to the Scheme at optional rates ranging from a minimum of 5 per cent to a maximum of 10 per cent of salary paid to the member. Employers, who do not operate their own productivity schemes, contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3 per cent of salaries paid to the members.

(b) Benefits

Where a benefit that becomes payable under the Scheme can be fully met from moneys held in the Fund, the benefit is paid to the beneficiary from the Fund. Where a benefit that becomes payable under the Scheme cannot be fully met from moneys held in the Fund, all moneys held in the Fund in respect of the member are paid into the Consolidated Revenue Fund and the Commonwealth is responsible for the payment of the benefit to the beneficiary from the Consolidated Revenue Fund.

The following provides a breakdown of benefits payable by both the Fund and the Commonwealth:

	1998 \$'000	1997 \$'000
CSS Fund		
Payments to Commonwealth - current financial year (3(c))	494,545	439,603
- understatement of prior year (3(c))	33,307	-
Lump-sum Benefits	1,907	-
	529,759	439,603
Consolidated Revenue Fund		
Lump-sum Benefits	821,496	765,403
Transfer Values	1,910	971
Pensions	1,880,690	1,819,758
Other	1,145	1,294
	2,705,241	2,587,426

(c) Benefits Payable

Although benefits paid to members were correct, due to a computer programming error there was a shortfall of \$119,784m in payments from the CSS Fund to the Consolidated Revenue Fund during 1996-97 (\$33,307m) and 1997-98 (\$86,477m). The \$119,784m remained outstanding at 30 June 1998 and is included in the "Benefits Payable" shown in the "Statement of Net Assets". Action has been taken to rectify the computer programming error.

(d) Costs of Administration

The Superannuation Act 1976 requires the Commissioner for Superannuation to provide administrative support to the CSS Board to enable the Board to perform its functions under the Act. The cost of the Commissioner for Superannuation and the staff of ComSuper who assist the Commissioner for Superannuation are met from moneys appropriated by Parliament. The amount shown as the Cost of Administering the CSS Act and Rules in the "Statement of Changes in Net Assets" has been calculated on a full accrual basis.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

4. INCOME TAX**(a) Reconciliation**

The taxation liability at 30 June 1998 has been calculated on the basis that the Scheme complies with the standards contained in the Superannuation Industry (Supervision) Act 1993 and Regulations and that tax will be payable at a rate of 15% on net investment earnings, employer contributions and capital gains with deductions allowable for administration expenses.

The aggregate amount of income tax attributable to the period is less than 15 per cent of the 'Net Investment Revenue and Net Contributions Revenue Before Tax' as shown in the Statement of Changes in Net Assets. The difference is reconciled as follows:

	1998 \$'000	1997 \$'000
Prima facie income tax expense on		
Net Investment Revenue and Net Contributions Revenue Before Tax	35,843	106,777
Add/(Less) Permanent Differences		
Employee contributions	(28,073)	(30,561)
Benefits Paid	79,464	65,940
Income from Pooled Superannuation Trusts	(65,205)	(77,546)
Tax Losses Not Brought to Account (Refer note 4(b))	28,314	-
Imputation Credits from Franked		
Dividends Received	3,882	3,556
Other	1,919	(3,175)
	56,144	64,991
Less: Imputation and foreign tax credits	(27,622)	(23,856)
Less: Under (over) provision in prior years	(2,415)	(173)
Income Tax Expense	26,107	40,962

(b) Tax Losses Not Brought to Account on International Investments

At 30 June 1998, the CSS Fund had estimated unrecouped tax losses in respect of International Investments of \$188.8m (1997: Nil) available to offset against future years' taxable income. The benefit of these losses of \$28.314m has not been brought to account in the 1997-98 financial statements as an asset as the Trustee does not believe that their realisation is virtually certain.

5. WITHDRAWALS FROM THE CSS

During the period 1 March to 31 August 1996 members of the CSS were provided with a second opportunity to elect to transfer to the PSS.

Section 248 of the Superannuation Act 1976 provides for the Minister for Finance and Administration to determine such assets and liabilities to be transferred from the CSS to the PSS in respect those members who elected to transfer.

As at 30 June 1997 the Ministerial determination to effect the transfer had not been completed. Therefore, an amount of \$430,845,000 was brought to account, as part of \$437,041,000 due to other superannuation schemes, as a current liability of the Fund.

During 1997-98 the CSS Board, in agreement with the PSS Board made an advance of \$422,300,000 under section 249 of the Superannuation Act 1976 to the PSS Board in respect of the assets that are to be transferred to the PSS.

The amount outstanding at 30 June 1998, including interest (\$17,963,000), was \$27,353,000 and will be paid to the PSS after the Ministerial determination to effect the transfer is finalised.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

6. UNLISTED UNIT TRUSTS**(a) Summary of Holdings**

	1998 \$'000	1997 \$'000
Class of Unit		
Property Fund	798,829	-
Rural Investment Fund	17,930	-
Total Unlisted Property	816,759	-
Emerging Markets	258,181	295,986
Australian Equities Fund	69,349	94,050
Total Pooled Superannuation Trusts	327,530	390,036
CFM Pooled Superannuation Trust		
International Equities Fund	-	2,056,737
Fixed-interest Trust	-	346,095
Property Fund	-	855,610
Rural Investment Fund	-	19,528
Total CFM Pooled Superannuation Trust	0	3,277,970
Total Pooled Superannuation Trusts	327,530	3,668,006

(b) Redemption of Investment Holdings

At the end of March 1998 the Board took the opportunity to restructure its investment portfolio by redeeming its investment holdings in the CFM Pooled Superannuation Trust investment structure. With the exception of the CFM Emerging Markets and CFM Australian Equities Pooled Superannuation Trusts, the Board now holds the underlying assets, formerly held within that trust structure, thus directly allowing the Board to adopt a more flexible and responsive investment approach to that offered by retaining the investments within a trust structure.

As one of only two share holders in the CFM Pooled Superannuation Trust the CSS Board assumed its share of the liabilities (including taxation) of the Trust upon redemption of its investment holdings in the Trust.

7. OTHER ASSETS

	1998 \$'000	1997 \$'000
Bank	10,836	16,454
Trade Settlements Receivable	25,054	10,491
Contributions Receivable	-	371
Accrued Income	62,884	13,226
Future Income Tax Benefit	22,341	1,059
Sundry Debtors	41	49
	121,156	41,650

8. SUNDRY CREDITORS

	1998 \$'000	1997 \$'000
Investment Expenses Payable	5,061	1,619
Contributions Creditors	1,740	-
Accrued Expenses	348	432
Other	732	2,386
	7,881	4,437

9. AUDITOR'S REMUNERATION

The amount paid and payable in respect of external audit services is \$37,520 (1996-97 : \$47,500).

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

10. RESERVE AND DEFERRED LOSSES ACCOUNTS**(a) Reserve Account**

The income allocation policy provides for the determination of an annual crediting rate. The method for determining the crediting rate involves the transfer of amounts into and out of the Reserve Account. Calculation of the amounts for transfer to and from the Reserve Account for allocation is both a function of the level of income and the level of the Reserve Account as a percentage of the Fund. In general, a higher level of income will tend to result in transfers to the Reserve Account and a relatively high level in the Reserve Account will result in transfers from the Reserve Account. Whilst the current policy does have a smoothing effect on income allocation, its principal purpose is to accumulate adequate reserves which enables the Fund to pursue a more active investment strategy. This has actuarially been shown to provide higher level returns to members over the longer term.

	1998	1997
	\$'000	\$'000
Balance at beginning of year	255,203	84,963
Plus: Transfer from Amount Available for Allocation to Contributors	10,642	176,704
	265,845	261,667
Less: Withdrawals from the CSS	-	(6,464)
Balance at end of year	265,845	255,203

(b) Deferred Losses Account

This account exists to provide a mechanism for allocating the loss on revaluation of the assets of the CSS Fund on 1 July 1984 to contributors' entitlements.

	1998	1997
	\$'000	\$'000
Balance at beginning of year	(14,881)	(24,160)
Add: Transfer from Amount Available for Allocation to Contributors	7,441	7,441
	(7,440)	(16,719)
Add: Withdrawals from the CSS	-	1,838
Balance at end of year	(7,440)	(14,881)

11. SUPERANNUATION CONTRIBUTIONS SURCHARGE

The Superannuation Contributions Surcharge was introduced in the 1996 Federal Budget to apply, from 20 August 1996, to the surchargeable superannuation contributions of higher earners whose adjusted taxable income exceed the surcharge threshold. CSS members with adjusted taxable income above the surcharge threshold incur a surcharge liability which is calculated by the Australian Taxation Office (ATO). The surcharge liability is recorded against the CSS member accounts. The surcharge liability may be paid by the member in full or in part during the period of scheme membership. Any surcharge liability remaining at the end of a financial year incurs interest. The scheme rules provide for any outstanding surcharge liability to be recovered from the benefit payable to the member.

The Trustee is responsible for collecting and remitting to the ATO:

- any amounts paid progressively by members, during the term of their CSS membership, in respect of their surcharge liability; and
- the surcharge liability recovered from member benefits.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

11. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)

During 1997-98 the Trustee received, from the ATO, surcharge liability assessments in respect of surchargeable superannuation contributions for the period 20 August 1996 to 30 June 1997. A summary of transactions follows:

	\$'000
Surcharge liability recorded against member accounts in respect of surchargeable superannuation contributions for period 20 August 1996 to 30 June 1997	5,020
Less: Amount paid by members	(1,248)
Less: Amounts deducted from member benefits	(36)
	3,736
Plus: Interest applied to outstanding surcharge liability at 30 June 1998	208
Total Surcharge liability outstanding at 30 June 1998	3,944

The CSS Board has lodged an objection under the Superannuation Contributions Tax (Assessment and Collection) Act 1997 against the superannuation contribution assessment for 1996-97. However, until the outcome of the objection has been determined, the Board has instructed the Scheme continue to be administered in accordance with the superannuation contribution surcharge legislation as it currently stands.

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 1997 to 30 June 1998 has not been disclosed because the assessments have not, as yet, been calculated by the ATO and there is no reliable basis on which an assessment of the likely surcharge liability can be made.

No liability is recognised in the "Statement of Net Assets" for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits.

12. FINANCIAL INSTRUMENT DISCLOSURES

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses), are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment mandate. The Trustee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

Chase Manhattan Bank Australia Limited act as master custodian on behalf of the Trustee and as such provide services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting of investment transactions.

The Trustee also employs Total Risk Management (TRM) to oversee the general management of the portfolio on a day-to-day basis, within the overall investment strategy and asset allocation limits set. TRM subsequently provides the Trustee with regular reports on the nature of the investments made on their behalf and the associated risks. Such reports include receipt of formal Risk Management Statements as required by the Australian Prudential Regulation Authority (formerly the Insurance and Superannuation Commission).

(a) Use of Derivative Financial Instruments

The Fund's investment managers use a number of financial instruments such as futures, options and forward exchange contracts to both facilitate increases or decreases in exposures in the equity, bond and currency markets and to reduce risk consistent with the investment policy of the Fund. Derivatives are not used for speculation in any of these markets or for 'gearing' the portfolio. At 30 June, the notional principal amounts and net fair value of derivatives held by the Fund was as follows:

	Notional Principal Amounts \$'000	Net Market Value \$'000
Australian Fixed Interest Futures	7,035	(2)
Australian Share Price Index Futures	11,339	405
Australian Exchange Traded Options	15,099	(5,342)
International Share Price Index Futures	41,446	940
International Exchange Traded Options	13	0
Total	74,932	(3,999)

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

12. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(b) Credit Risk

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represent the Fund's exposure to credit risk in relation to those assets. For derivative positions, the credit risk is equal to the net market value of positive (asset) derivative positions which amount to \$1.345m. The Fund does not have significant exposures to any individual counterparty or industry.

(c) Interest Rate Risk

The Fund invests in financial investments for the primary purpose of obtaining a return on investments on behalf of its members. As such, the Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates. The Fund's exposure to interest rate movements on investments at 30 June 1998 was as follows:

	Fixed Interest Rate					Non Interest Bearing \$'000	Total \$'000
	Floating Interest Rate \$'000	1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 years \$'000			
30 June 1998							
Assets							
Cash and Short Term Deposits	80,548						80,548
Australian Money Market	118,250						118,250
Australian Fixed Interest		13,676	221,904	287,446			523,026
International Fixed Interest			17	1,711			1,728
Australian Equity Investments					1,473,405	1,473,405	
International Equity Investments					2,233,141	2,233,141	
Unlisted Property Trusts					816,759	816,759	
Pooled Superannuation Trusts					327,530	327,530	
Other Investments					(11,432)	(11,432)	
Other Assets	10,836				110,320	121,156	
Liabilities							
Benefits Payable					(162,087)	(162,087)	
Trade Settlements Payable					(15,004)	(15,004)	
Sundry Creditors					(7,881)	(7,881)	
Amounts due to Other Schemes					(27,353)	(27,353)	
Tax Liability Assumed on Behalf of Other Fund					(62,187)	(62,187)	
Provision for Income Tax					(34,471)	(34,471)	
Provision for Deferred Income Tax					(58,218)	(58,218)	
Total	209,634	13,676	221,921	289,157	4,582,522	5,316,910	
Weighted Average Interest Rate	4.24%	5.12%	5.12%	5.26%			

(d) Currency Risk Exposures

The Fund's exposure at 30 June to foreign exchange rate movements on its international investments was as follows:

	US\$ A\$'000	Japanese Yen A\$'000	Pounds Sterling A\$'000	Deutsche Marks A\$'000	Other A\$'000	Total A\$'000
30 June 1998						
Gross investment amounts denominated in foreign currency	1,164,574	235,041	250,424	117,338	467,492	2,234,869
Amount effectively hedged	(812,156)	(163,788)	(177,252)	(339,373)	0	(1,492,569)
Net Exposure	352,418	71,253	73,172	(222,035)	467,492	742,300

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

12. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(e) Net Fair Values of Financial Assets and Liabilities**

The Fund's financial assets, liabilities and derivative instruments are included in the Statement of Net Assets at amounts that approximate net fair value.

13. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their plan membership as at the reporting date.

The Australian Government Actuary has advised that the estimated amount of vested benefits at 30 June 1998 is \$48,000m (1997: \$45,000m).

The value of vested benefits has been estimated from the value of vested benefits at 30 June 1997, which was calculated from membership data as at that date, and the trend shown in a projection of accrued benefits made by the Australian Government Actuary as part of an investigation of the scheme during 1996-97. The value of vested benefits could not be calculated from current membership data as at 30 June 1998 as such data was not available.

The value of vested benefits represents the liability that would have fallen on the Scheme in the unlikely event that all members ceased service on 30 June 1998 and elected the option which is most costly to the Scheme.

14. LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits is the present value of expected future payments which arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component, which will be met from the Fund, (ie. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed, by the Commonwealth, from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

The amount of accrued benefits in respect of the CSS is calculated on a triennial basis by the Australian Government Actuary. The most recent valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review during 1996-97 (a copy of the Australian Government Actuary's report is attached).

Accrued Benefits as at 30 June 1996 were:	\$m
Funded component	4,870
Unfunded component	37,389
	42,259

15. SEGMENT REPORTING

The CSS Scheme operates in the superannuation fund investment industry in Australia however, as part of its investment activities, it also maintains significant overseas investments.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

16. RELATED PARTIES

(a) Members of the CSS Board

The CSS Board, had the following members during the financial year:

- R.L. Brown (Chairman)
- G. Kelly (appointed 25 July 1997)
- J.A. Flitcroft
- W. Hall
- A.J. McKenzie (appointment ceased 1 June 1998)
- J. Palmer
- P. Reynolds
- R.T. Balderstone (appointed 17 June 1998)
- J.P. Murphy (alternate for J.A. Flitcroft) (resigned 3 September 1998)
- P.R. Smith (alternate for J. Palmer)
- D.J. Irons (alternate for W. Hall)
- S. Wilson (alternate for G. Kelly, P. Reynolds and R. Balderstone)

(b) Trustee Related Transactions

Some members of the CSS Board may, as a result of their current employment, be members of the CSS scheme and as such would be required to have made contributions to the scheme during the 1997-98 financial year on the same terms and conditions applicable to all scheme members.

Total fees and associated superannuation contributions paid to, or in respect of, those members entitled to receive fees during the year (the Chairman and ACTU nominated members) totalled \$95,290 (1996-97: fees \$81,000)

(c) Associated Entities

In 1996-97 the CSS and PSS Boards formed a common controlled company, CSS/PSS Pty Ltd for the purpose of taking over trusteeship of the CFM Pooled Superannuation Trust (PST) from Commonwealth Funds Management as of 1 February 1998. The Boards appointed directors, who are current nominated members of the CSS and PSS Boards, to manage the company and act as trustee on the transfer of the assets of the CFM PST. Total Risk Management provide day-to-day administration services for CSS/PSS Pty Ltd. Costs associated with the operations of CSS/PSS Pty Ltd are borne by the CSS and PSS Funds on an equal basis. As at 30 June 1998 the associated entity status between the CSS and CSS/PSS Pty Ltd was

CSS/PSS Pty Ltd			
Total Shares on Issue		2	
CSS Board Shares Held		1	
Holding (%)		50%	
		1998	1997
Total cost incurred by the CSS in relation to CSS/PSS Pty Ltd and related issues for the period to 30 June		\$76,973	\$37,900

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

17. CONTINGENT LIABILITIES

(a) *Investments*

At 30 June the Fund had outstanding investment capital commitments of \$70.680m

(b) *Benefit Entitlements*

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

The Trustee is not aware of any other potential contingent liabilities.



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COMMONWEALTH SUPERANNUATION SCHEME

Accrued Benefits as at 30 June 1996

1. The Australian Government Actuary has been requested by ComSuper to calculate the value of Accrued Benefits for accounting purposes under Australian Accounting Standard 25 (AAS25) as at 30 June 1996 for the Commonwealth Superannuation Scheme.
2. The assumptions used to calculate the value of Accrued Benefits were the same as those used by the Australian Government Actuary, Mr C Thorburn, FIAA in his report on the long term cost of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme as at 30 June 1996. A summary of the assumptions and methods adopted in calculating the value of Accrued Benefits is set out in the attached Notes.
3. The value of Accrued Benefits as at 30 June 1996 was \$39,620 million for active members, former members with deferred benefits and current pensioners. In addition to this amount, there is an accrued amount relating to benefits of former members who have transferred to Government Business Enterprise schemes. This amount was \$2,639 million as at 30 June 1996 and is to be paid to those schemes in a manner approximating the transfer benefit due on exit of transferred members from those schemes. These amounts compare with values of \$38,755 million and \$3,059 million respectively, as at 30 June 1993.
4. Figures have been calculated in a manner consistent with the Institute of Actuaries of Australia Guidance Note 454.

A handwritten signature in cursive script that reads "K.E. Deeves".

K.E. Deeves

Fellow of the Institute of Actuaries of Australia

Deputy Australian Government Actuary

16 August 1996
September

INSURANCE AND SUPERANNUATION COMMISSION

Note 1: Summary of Method of Attributing Benefits to Past Membership

Firstly, total benefits payable:

- on retirement, death, and disability;
- on resignation where a superannuation guarantee top-up benefit is payable; and
- on resignation where a deferred pension option is available,

are projected forward allowing for future salary increases and then discounted back to the valuation date at the valuation rate of interest.

The past membership component for each of these types of benefit is then taken to be the proportion of the discounted projected benefit payable on exit that -

- membership completed at the valuation date; bears to
- membership to the projected date of exit

The past membership component of member financed lump sum resignation benefits and of productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the valuation date.

The method used for calculating the past membership component was considered the most appropriate given the nature of the benefit structure of the Scheme.

Note 2: Summary of the Actuarial Assumptions*Financial Assumptions*

Discount rate:	7.5% pa
Inflationary salary increases:	5.5% pa
Promotional salary increases:	an age and service related scale was used
Pension increases (CPI):	4% pa

The discount rate has been taken as the long term bond rate as at 30 June 1996 of 8.88% pa, adjusted to take into account investment tax, investment expenses and anticipated future reinvestment rates. The result is rounded to the nearer 0.5%pa.

The weighted average term of the liabilities is considerably in excess of 10 years.

It should be noted that the 2% gap between investment earnings and salary inflation assumed at this review is 0.5% greater than that assumed at the 30 June 1993 review.

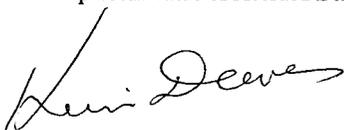
The effect of this change has been to reduce the notional employer contribution rate by about 2.2% and the present value of unfunded liabilities by about \$2.5 billion from what would have been the case if the 1.5% gap had been retained.

Other Assumptions

Assumptions have been made regarding rates at which in service members will leave the Scheme on account of retirement, death, disablement and resignation. Assumptions were also made about pensioner mortality. These rates have been based on the experience of the Scheme. Full details are set out in the report on the long term cost of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme using data to 30 June 1996.

Reasonableness of Assumptions

Taking into account the circumstances of the Scheme, its membership, assets and benefit structure, I believe the assumptions used are appropriate in relation to the determination of the present value of Accrued Benefits for the purposes of AAS25.



K E Deeves

16 September 1997

INSURANCE AND SUPERANNUATION COMMISSION



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**COMMONWEALTH SUPERANNUATION SCHEME
SUMMARY OF THE 1996 LONG TERM COST REPORT**

1. A Long Term Cost Report on the Public Sector Superannuation (PSS) scheme and Commonwealth Superannuation Scheme (CSS) was carried out using data as at 30 June 1996 by the Australian Government Actuary, Mr Craig Thorburn, FIAA. This report was presented to Parliament in June 1997.
2. These schemes are partially funded and both schemes have an underlying Government guarantee. The CSS has been closed to new entrants since July 1990. Projections of the actual annual employer costs of the two schemes combined as a percentage of Gross Domestic Product (GDP) were made over a period of 45 years. These projections showed a progressive fall in costs as the more expensive CSS scheme phased out. The actuary was thus of the opinion that the financial position of the schemes as at 30 June 1996 was satisfactory.
3. The realisable value of assets of the CSS as at 30 June 1996 was \$4,870 million.
4. Vested benefits of the CSS were not calculated as part of the Long Term Cost Report as at 30 June 1996 but were calculated separately. They amounted to \$44 billion.

It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 1996 and elected the option which is most costly to the scheme. The likelihood of such an occurrence is remote in the extreme. The value quoted does not in any way represent the scheme's liability under circumstances which have any reasonable possibility of arising.

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5. The value of Accrued Benefits for active employees who are members of the CSS, former members with deferred benefit entitlements in the CSS and persons receiving pensions from the CSS as at 30 June 1996 was \$39,620 million, being the sum of:
- (i) the present value of the proportion of projected future superannuation guarantee top-up benefit and pension benefit payments that has accrued in respect of membership of the CSS to 30 June 1996;
 - (ii) the value of accumulated member contributions with interest at 30 June 1996; and
 - (iii) the value of productivity superannuation contributions (both funded and unfunded) with interest at 30 June 1996.

In addition to these amounts, there is an accrued amount relating to benefits of former members who have transferred to Government Business Enterprise schemes. This amount was \$2639 million as at 30 June 1996 and is to be paid to those schemes in a manner approximating the transfer benefit due on exit of transferred members from those schemes.

6. As would be expected in a substantially unfunded arrangement, the value of accrued benefits is more than the realisable value of scheme assets at the same date.
7. The report was based on data supplied by ComSuper. In that data, those CSS members who elected to transfer to the PSS during the 1996 period of transfer from the CSS to PSS were recorded as PSS members at 30 June 1996.
8. The major assumptions used in the calculations were as follows:
- Investment earnings rate: 7.5% pa (net of tax and investment expenses)
 - Inflationary salary increases: 5.5% pa
 - Promotional salary increases: an age and service related scale was used
 - Pension increases (CPI): 4% pa

It should be noted that the 2% gap between investment earnings and salary inflation assumed at this review is 0.5% greater than that assumed at the 30 June 1993 review.

The effect of this change has been to reduce the notional employer contribution rate by about 2.2% and the present value of unfunded liabilities by about \$2.5 billion from what would have been the case if the 1.5% gap had been retained.



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