



# annual report

Commonwealth Superannuation Scheme

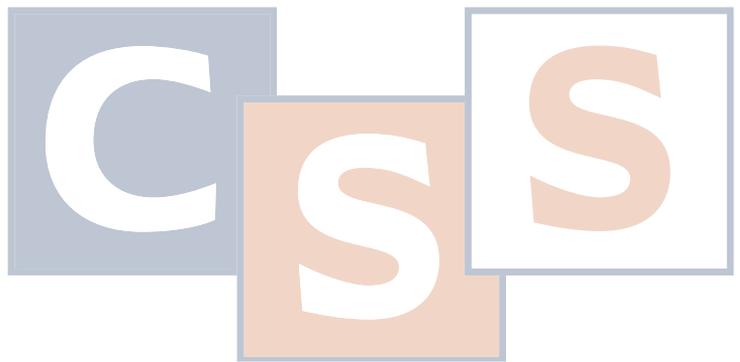
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The CSS Board



COMMONWEALTH  
SUPERANNUATION SCHEME

**The Commonwealth Superannuation Scheme (CSS) is a superannuation scheme for employees of the Australian Public Service and other participating Commonwealth and Territory agencies. The CSS is administered by the CSS Board under an Act and Regulations with administrative support provided by the Chief Executive Officer and the staff of ComSuper. The CSS Board of Trustees is responsible for the overall management of the CSS and the direction of investment. The Board is appointed to represent both employers and employees. There is a chairman and six other Board Members.**



**The CSS Board**

**Annual Report 2002–03**

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CSS Fund ABN:	19 415 776 361
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Note: All statistics are derived solely from records available to the CSS Board and the Commissioner for Superannuation as they stood at the time these statistics were compiled. Where statistics for earlier financial years are quoted, these may vary from those previously published due to the application of retrospective adjustments that are now reflected in this report. For similar reasons statistical information in this report may also vary from that presented by other agencies.



## Letter of transmittal

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Senator the Hon. Nick Minchin, 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 Act), the CSS Board is pleased to present to you the annual report on its operations during 2002–03. 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 2003.

Subsection 162(2) of the CSS Act requires you to cause a copy of the report to be laid before each House of Parliament within 15 sitting days after you receive it.

Yours sincerely

A handwritten signature in blue ink that reads 'S. Doyle'.

Susan Doyle  
Chairman  
CSS Board  
1 October 2003





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## Chairman's report

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The period covered by this report predates my term as Chairman, which commenced 28 July 2003, and I wish to acknowledge the achievements of my predecessor Peter Reynolds who has been a member of the CSS Board since 1997, Chair of the Board since 1999 and Chair of the Board's Investment Committee since 2001. Under Peter's leadership, the CSS Board has evolved from being a body largely reliant on external service providers to an independent organisation supported by the specialist knowledge of a professional team.

With this more effective structure in place, the Board was able to drive progressive and positive change in the Scheme's investment strategy, administration, stakeholder communications and governance. Of particular note was the major investment review, conducted in 2002, which resulted in the development of a new investment strategy, including revised asset allocation, and improved investment arrangements. The results have enabled the Fund to withstand the volatility of the 2001–02 year to make a strong recovery in the 2002–03 year with a net earning rate of 3.0%.

The Board continues to demonstrate its leadership in the area of governance. In 2002–03, the Board was one of the first Australian super funds to take the step of directly casting proxy votes and, in March 2003, extended this programme with the appointment of an international proxy voting service.

I thank our major partners ComSuper, Chase Manhattan Bank, JANA Investment Advisers Pty Ltd, Towers Perrin Australia Pty Ltd, and Wilshire Australia Pty Ltd for their work throughout the year.

I also commend the work of CSS Chief Executive Officer Steve Gibbs and his executive team—in August 2003, Steve received the 2003 Fund Executive of the Year Award.

On behalf of the Board, I would like to thank Cathy Manolios, who on 24 July 2003 retired from the Board which benefited greatly from her knowledge of the life insurance and superannuation industry.

I look forward to working with the Board, its executive team, major partners and the Commonwealth Government to continue to fulfil our commitment to manage the Scheme in the best interests of our members.

A handwritten signature in blue ink that reads 'S. Doyle'.

Susan Doyle  
Chairman  
CSS Board





# Executive summary

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## Investment results

The 2002–03 financial year has been a turbulent one for financial markets. Terrorism, war, a global economic stall, reduced earnings prospects and the exposure of questionable corporate governance practices all combined to take a substantial toll on world stock markets.

The worst of this occurred in the early months of the year and, as a result, the Fund lost about 4% in the September quarter. I am pleased to say that over the subsequent nine months the Fund has recovered all of that loss and delivered a net earning rate of 3.0%.

World share markets were down by about 19% in the first three months of this financial year. Over the subsequent nine months they recovered about two-thirds of this loss. Furthermore, for \$A-based investors, the recovery in world equity markets has been largely offset by the negative impact on returns of the rise in the value of the \$A. However, the CSS Fund has been mostly protected against this currency impact by being largely hedged against the rise in the \$A.

Australian share markets have largely mirrored international markets but have been significantly less volatile.

Bond returns have been solid over this period as the prospects of weaker economic growth and some fears of deflation, particularly in the US, have increased market expectations of lower interest rates. The Fund's exposure to high yield debt has also boosted bond returns this financial year.

The Fund's property investments and its small investment in hedge funds have delivered positive returns for the year.

To take advantage of the opportunities offered by individual asset classes and balance the different return cycles of each, the Fund diversifies investments across a wide range of asset classes. This strategy resulted in the Fund achieving an average real return of close to 5% per annum after tax and fees over the last ten years.

The CSS is precluded by legislation from declaring a negative crediting rate, even when the investment return is below zero. As a result, the CSS operates a reserving mechanism that assists in smoothing out fluctuations in annual crediting rates. The negative investment return in 2001–02 had a significant impact on the Fund's reserve. As at 30 June 2003, the CSS reserve was around minus \$157 million or minus 3.0% of the net assets of the Fund. This is an improvement on the reserve of minus \$301 million or minus 5.6% of the net assets of the Fund as reported at the end of the 2001–02 year.

Until reserves are restored, the CSS continues to maintain a zero crediting rate and exit rate. However, the long-term performance of the CSS is still strong with a 5-year average crediting rate of 5.8% and a 10-year rate of 7.5%, significantly above inflation.

The CSS remains in a strong financial position with around \$5 billion funds under management and over 51,000 members.

## **Strategic investment review continued**

The Board conducted a review of its investment strategy in 2002–03. Major reviews generally are conducted once every three years (the last being in 2001–02). In intervening years an interim review is undertaken.

The interim review this year endorsed the appropriateness of the Board's investment objectives for the Fund and the investment strategy to meet those objectives that was set in the previous year's major review.

Over the long term, the CSS Board expects to achieve an average real return of 4.5% per annum after tax and fees, which derives from a nominal return of 7% per annum. In developing an investment strategy to achieve that objective, and recognising that the average person might have a working life of around 30 years, the Board has adopted the following constraints in order to manage the level of any short-term market volatility:

- on average, nominal fund returns are expected to be positive 24 years out of 30; and
- on average, the crediting rate is expected to exceed the Bank Interest Rate by 1% or more in 18 years out of 30.

These criteria define the 'tolerable' level of volatility specified in the Fund's objective.

Furthermore, for prudential reasons, not more than 25% of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.

## Investment arrangements

The Board has completed the establishment of an internal Investment Team responsible for providing investment advice to the Board, implementing Board investment decisions, and monitoring, reviewing and reporting on investment performance to the Board.

During the year, the Board made some adjustments to its appointed external investment advisors. It decided to appoint JANA Investment Advisers Pty Ltd as its principal external investment advisor. It also decided to retain Towers Perrin Australia Pty Ltd to provide investment advice. Wilshire Australia Pty Ltd continues to provide advice on Australian private equity.

## Alternative investments

The Board continued to build the Fund's exposure to alternative investments during the year. Commitments were made to a new Australian private equity fund and, at the end of the 2002–03 year, the size of the alternative investments program was \$403 million, around 7.7% of the total Fund.

## Major events and developments

### Investment governance

The CSS continues to be at the forefront of investment governance, actively managing risk through its proactive proxy voting programme and ground-breaking Governance Advisory Service which recognises that poor environmental, corporate and social practices can lead to a decline in investment values as much as financial risks can.

In November 2002, the Board decided to itself cast proxy votes in the Australian companies in which it invests, becoming one of the first Australian super funds to take this proactive step which was extended in March 2003 with the appointment of an international proxy voting service.

In 2003, the Board's external governance adviser Westpac Investment Management changed its name to BT Financial Group (BT). BT is responsible for managing the Scheme's Governance Advisory Service which: actively researches and monitors potential environmental, social and corporate governance risks in the Fund's Australian companies which represent around \$3 billion (in combination with the Public Sector Superannuation Scheme); makes recommendations to the Board on constructive means of diminishing or eliminating such risks; and, on behalf of the Board, actively engages with companies to improve governance practices.

Also during the year, the Board called on Australian companies to improve:

- public reporting of environmental risks (August 2002);
- public reporting of Workplace Health and Safety risk management (April 2003); and
- the governance and disclosure of Energy use, including Greenhouse Gas Emissions (July 2003).

The Board welcomed two new partners to the Governance Advisory Service: Catholic Super Fund in November 2002 and Northern Territory Government Super in March 2003.

In March 2003, BT reported that two thirds of Australian companies had changed audit governance practices. This news was well received by the Board as the issue of 'audit independence' had been the first focus of its Governance Advisory Service activities which included a submission to Treasury in response to the Ramsay Report and engagement with Australian companies throughout 2002.

Following the positive results of this initiative, the Board will continue to engage with companies and increase market and public awareness of governance issues to raise standards and create sustainable investment value for members. Issues currently being researched include the extent to which executive remuneration is aligned with the Fund's interest as a shareowner, and whether companies have appropriate customer risk management and reporting processes in place in relation to gaming.

## Regulatory environment

The Financial Services Reform Act (FSRA) two-year transitional period will be completed in March 2004. The new FSRA legislation introduces a number of changes that affect superannuation funds such as licensing, communications and advice to members. The CSS is already largely compliant and welcomes the opportunity to increase clarity of reporting for members. The Board has established a project team to review current practices and expects to lodge an application for an Australian Financial Services Licence in September 2003.

In 2002–03, Australian Prudential and Regulation Authority (APRA) issued details of a new licence the Board will require. Industry consultation is currently underway regarding this new licence, and the Board is confident that it is well placed to meet any new requirements which will result.

## Custodian services

The Board is currently reviewing its custodian arrangements. The Fund's master custodian is Chase Manhattan Bank (trading as JP Morgan). Its 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 on the instruction of the Investment Team, to investment managers in accordance with the mandates set down by the Board. Chase Manhattan Bank also holds (but does not own) the assets which comprise the Fund; collects and disburses dividends; maintains consolidated accounts and tax records for the Fund; and reports to the Board on individual fund manager and aggregated investment returns.

## Committee initiatives

The Audit and Risk Management Committee continues to work with the Board's internal and external auditors to advise the Board on accountability, audit and overall tax policy, risk management and related matters. This year, the Committee's diligence has resulted in continued improvements in key areas such as Internal Audit and Review Systems, FMA Processes, Internal Investment Operations Policies and Procedures, Internal Audit Operations and the Management of IT Risk by Service Providers.

The Administration Committee continues to work on future directions and administration issues such as policy and operational matters relating to the operation of the Executive Unit and the contracting and performance of service providers to the Board. It also deals with invalidity applications (in conjunction with the invalidity assessment panel), claims made against the Board and other administrative matters affecting the Board's Executive Unit. This year, the Committee has driven improvements in areas such as the Board's Administrator Services and oversight of the application of legislative changes such as Family Law and Financial Services Reform.

The Investment Committee advises the Board on investment issues and related matters central to the Board's functions of managing and investing the funds. It is also the primary contact between the key external advisors on investment matters and the Board. The Committee has had a full year in 2002–03 with reviews of the Board's asset consultant arrangements, investment strategy, alternative investment program and the manager lineup for Australian and International equities.

The Governance Committee reviews and advises the Board on governance matters on two broad fronts: Board governance and investment governance. The Committee oversees the development, implementation and review of corporate and investment governance policy for the Board, and is the point of communication between the Board and external parties with respect to investment governance and proxy voting matters. In 2002–03, key issues for the Committee included the incorporation of Financial Services Reform requirements into the Board's governance program, the introduction of proxy voting on a national and international level, and the further development of the Governance Advisory program.

The Communications Committee continues to develop the Board's information and education resources for members and other stakeholders, supported by extensive stakeholder consultation and research. In 2002–03, the focus was on developing and extending channels of information to more effectively reach members. Significant initiatives included a major member research study conducted in November 2002, the development of an online tool for members to provide feedback to the Boards, the conversion of brochures to more user-friendly online fact sheets and improvements to the Annual Report and Member Statements to members. The Committee is currently focused on developing an online tool to educate younger members about the importance of adequacy of funds for retirement and will also be looking at the further development of the CSS website.

## Service provision

The Board works closely with ComSuper to improve customer services overall. The Board subjects ComSuper to an annual effectiveness review, which will be conducted in October 2003.

ComSuper also participates in an international benchmarking service which allows the Board to compare its services to those of peers both in Australia and overseas. The Board is very supportive of ComSuper's participation in this benchmarking service and has noted that ComSuper continues to rate very well in a number of key service areas.

In August 2002, Leo Bator took over leadership of ComSuper from Christine Goode who had departed in March 2002 having been the driving force behind significant improvement of client services to the CSS Board and CSS members. We look forward to continuing to work closely with Leo and his team at ComSuper to ensure the best possible service for our members.

## Financial Management and Accountability Act

Since 1 July 2002, the CSS Board has been subject to the Financial Management and Accountability Act. This has enabled the Board to establish its own banking arrangements, separate from those of the Fund. Financial Statements for the Board are included in this Report.

## SIS compliance

The CSS is a complying fund under 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.

## Future directions

Over the next twelve months, a key focus for the Board will be compliance with the new regulatory environment to ensure the best possible outcome for our members.

Our efforts will also be directed to continuing our proactive risk management programmes such as the Governance Advisory Service, proxy voting and the ongoing review of Fund investments and Scheme administration.

We will also continue to work closely with members and other key stakeholders to ensure we meet their information and education needs.



Steve Gibbs  
Chief Executive Officer  
CSS Board





# The 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).

## CSS Board membership

The Board consists of seven members appointed by the Minister for Finance and Administration under Section 27F of the CSS Act. Membership comprises all five 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, and knowledge of, the administration of one or more bodies or authorities established for a public purpose by or under a law or laws of the Commonwealth, while the other is nominated by the ACTU.

The chairman 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 at 30 June 2003 or who have been subsequently appointed are:



### **Ms Susan Doyle—appointed Chairman on 28 July 03 to 27 July 06.**

On 28 July 2003, Ms Susan Doyle was appointed Chairman of the CSS Board until 27 July 2006. Susan has many years experience in the area of superannuation and investments. She worked for Commonwealth Funds Management for twenty years and was, more recently, Manager Equities and Fixed Interest Suncorp Insurance and Finance and Chief General Manager NRMA Asset Management Pty Ltd. She is currently a Director of SA Water Corporation and Chairman of its Audit Committee. She is also Chairman of the PSS Board.



**Mr Peter Reynolds—appointed Chairperson on 28 July 99 to 27 July 03 (retired).**

Mr Reynolds was Chairperson of both the PSS and CSS Boards, during the year and also Chairperson of the Boards' Investment Committee. He was replaced by Ms Susan Doyle on 28 July 2003. Mr Reynolds is a Director of State Super Financial Services Ltd and Chairman of the Local Government Financial Services Pty Ltd. He was Chairman of the NSW State Authorities Superannuation Board and has wide experience in business and financial management through various positions in the public and private sectors.



**Ms Winsome Hall—appointed 1 July 96, reappointed to 30 June 05.**

Ms Hall is a member of both the CSS and PSS Boards, and is also Chairperson of the Board's Audit and Risk Management Committee. Ms Hall is a Director of Colonial First State Private Equity Limited, a listed venture capital investment company. Ms Hall has had extensive experience in superannuation policy as a Senior Advisor in the Department of the Prime Minister and Cabinet. She is also a member of the CPSU. The Minister has appointed Mr David Irons of the Communications Workers Union, Melbourne, to act in this position during a time of vacancy in the office of Ms Hall.



**Mr David Connolly AM—appointed 19 September 02 to 18 September 05.**

Mr Connolly is a member of the CSS and PSS Boards. Mr Connolly is a Director of Superannuation Strategy with Rice Walker Actuaries and serves as a part-time member of the Refugee Review Tribunal. He was a career diplomat for a number of years and held the post of Australia's High Commissioner to South Africa. Elected to the Australian Parliament (1974–1996), he served as Chair of the Public Accounts Committee and held various shadow portfolios, including superannuation and retirement incomes. The Minister has appointed Ms Sandra Wilson, Branch Manager, Superannuation Branch, Department of Finance and Administration to act in this position during a time of vacancy in the office of Mr Connolly.



**Ms Joy Palmer—appointed 1 July 96, reappointed to 30 June 05.**

Ms Palmer is a member of the CSS Board, and Chairperson of the CSS and PSS Boards' Governance Committee. Ms Palmer is the Deputy Chair of Statewide Superannuation Trust, Deputy Chair of Statewide Financial Management, a Director of the AGEST Superannuation Fund, and a member of the (SA) Public Transport Standards Committee. The Minister has appointed Mr Paul Smith, Bureau of Meteorology, Melbourne to act in this position during a time of vacancy in the office of Ms Palmer.

**Ms Cathy Manolios—appointed 25 July 00 to 24 July 03 (retired).**

Ms Manolios was a member of both the CSS and PSS Boards, and was Chairperson of the Administration Committee during 2002–03. Ms Manolios is General Counsel with Zurich Financial Services Australia Limited. She has extensive experience in the life insurance and superannuation industry. The Minister has appointed Ms Sandra Wilson, Branch Manager, Superannuation Branch, Department of Finance and Administration to act in this position during a time of vacancy in the office of Ms Manolios.

**Mr Des Moore—appointed 9 September 03 to 8 September 06.**

Mr Des Moore has been appointed to replace Ms Cathy Manolios.

**Ms Sally O'Loughlin—appointed 1 July 01, reappointed to 30 June 05.**

Ms O'Loughlin is a member of both the CSS and PSS Boards. Ms O'Loughlin worked in the Australian Public Service in various agencies between 1971 and 1983. In 1983 she was elected Assistant Secretary, then Secretary of the WA Branch of the CPSU, and from 1991 until 2000 was Assistant National Secretary based in the Union's head office in Sydney where she was spokesperson on public service superannuation. She was also an employer nominated Trustee of the CPSU Superannuation Fund. She is a Director of NRM Pty Ltd and a Director of the AGEST Superannuation Fund. The Minister has appointed Mr John Flitcroft (a member of the CPSU and a Board member from 1990 to 2001) to act in this position during a time of vacancy in the office of Ms O'Loughlin.

**Mr Richard Balderstone—appointed 17 June 98 to 16 June 04.**

Mr Balderstone is a member of the CSS Board and Chairperson of the CSS and PSS Boards' Communications Committee. Mr Balderstone has had over 20 years' experience in stockbroking, investment banking and funds management. After 10 years with ABN AMRO (and BZW), in July 2000 Richard moved to Jardine Fleming Capital Partners where he was a Founding Director. He is also a Director of the Australian Railtrack Corporation. The Minister has appointed Ms Sandra Wilson, Branch Manager, Superannuation Branch, Department of Finance and Administration to act in this position during a time of vacancy in the office of Mr Balderstone.

## Mission and operating principles

### Charter 2002–03

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
- 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

In the operation of the CSS, the aims of the trustees are to:

- identify and capture the best investment opportunities for increasing the real value of the Scheme's assets, keeping in mind the need to protect their future integrity;
- ensure that all administrative transactions are carried out in accordance with relevant legislation;
- provide members with appropriate services so that their interaction with the Scheme will be as satisfactory as the best of their experiences as a client elsewhere;
- continuously seek ways to improve the efficiency and effectiveness of the Board's activities and those of its delegates;
- ensure the assets of the Scheme and the interests of its beneficiaries are properly safeguarded at all times;
- keep all relevant parties informed of the condition, conduct, benefits and services of the CSS, according to the interests of each party; and
- maintain proper records and accounts in respect of operational and financial activities.

### 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 page 42);
- collection, recording and maintenance of member information (see page 47);

- collection, banking, recording and maintaining contributor remittances (see page 48);
- communications with members (see page 53);
- benefit payments (see page 63);
- invalidity claims processing (see page 65);
- pension payments and variations (see page 68);
- distribution of pension increase advice (see page 68);
- accounts, records and funding of benefit payments (see page 68);
- reconsideration of cases (see page 71);
- review of cases (see page 71);
- complaints and enquiries processing (see page 72).

In addition, on an annual basis, the Board reviews the effectiveness of all aspects of its administrator's performance in a thorough evaluation.

## Board Executive

The Executive Unit is responsible for providing advice to the Board, for implementing Board decisions and for the ongoing management of the Board's functions and responsibilities. Specifically, the Executive Unit is responsible for:

- the development and implementation of corporate strategies and plans;
- the management of the relationships between the Board and service providers;
- the management of the Board's financial affairs in relation to the administration of the CSS;
- ensuring the Board's responsibilities to maintain appropriate records are met;
- playing an active role in the management of relationships with external investment advisers and providing input into the analysis behind recommended courses of action;
- coordinating advice from external advisers and overseeing the recommendations which go to the Board;
- ensuring compliance with SIS and scheme rules and legislation;
- member communications generally and in particular the preparation and production of annual reports to members and Parliament, and member statements; and
- comprehensive administrative and executive support services to the Board.





# Administrative arrangements

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## Fund administrator

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 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.

## Human resources

During 2002–03, the number of staff employed jointly by the CSS and PSS Boards increased to nineteen as the Boards expanded their internal investment and communications teams, and staff previously seconded from ComSuper became direct employees of the Boards from 2 January 2003.

Staff employed directly by the Board are engaged on fixed term contracts and are not employed under the *Public Service Act 1999*.

Statistics on Board staff by gender and employment category are provided in Appendix I.

## Professional development

All Board staff had access to a range of continuing professional development activities including attendance at major industry conferences such as CMSF, ASFA and IFS Equities.

## Occupational health and safety

Under the *Occupational Health and Safety (Commonwealth Employment) Act 1991* and the *Safety, Rehabilitation and Compensation Act 1988*, the CSS Board has a general duty of care which must be met by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Staff employed by the CSS Board are covered by Workers' Compensation which is managed by Comcare.

### During the year:

- there were no dangerous occurrences under section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*;
- there were no workplace inspections carried out by Comcare; and
- there were no remedial Provisional Improvement Notices issued.

## Financial resources

### Board administration costs

The CSS Board is responsible for the administration of the CSS and the management and investment of the CSS Fund. Costs of the CSS Board which are related to its responsibilities for the management of the CSS Fund and the investment of its monies 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 met from revenues generated through user charging arrangements with employer agencies and the Department of Finance and Administration. Under current administrative arrangements, ComSuper has been commissioned to, on behalf of the Board, recover the Board's administration costs from employer agencies, together with their costs of administering the CSS. ComSuper then transfers, to the Board, the Board's share of those monies.

### New funding arrangements from 1 July 2002

The current CSS legislation only allows the Board to hold monies belonging to the CSS Fund. The legislation does not provide any capacity for the Board to hold monies in respect of its administration of the CSS.

In the absence of changes to the CSS legislation that would enable the Board to hold monies other than monies belonging to the CSS Fund, the Board obtained approval from the Minister for Finance and Administration to have the CSS Board prescribed as an agency under the *Financial Management and Accountability Act 1997* (FMA Act). Regulations to prescribe the CSS Board as an FMA agency were made in June 2002 and took effect from 1 July 2002.

The effect of obtaining 'FMA agency' status is that the CSS Board is now able to receive its agreed share of the revenues recovered by ComSuper from employer agencies as Commonwealth public monies, and is directly accountable for the expenditure and management of those public monies. For the 2002–03 financial year, the Board is therefore required to prepare financial statements in respect of both the monies held in the CSS Fund and the Board's administration monies. Prior to July 2002, details of the Board's administration revenue and expenses were included in the financial statements of the Commissioner for Superannuation.

## **Purchasing**

In 2002–03, the CSS Board complied with the purchasing principles and policies outlined in the Board's Chief Executive Instructions. These instructions are consistent with the key principles set out in the Commonwealth Procurement Guidelines: value for money; open and effective competition, promoting national competition and developing industry; supporting other Commonwealth policies; ethics and fair dealing; and accountability and reporting.

## **Assets management**

The Board's assets, not including the investments and other assets of the CSS Fund, were recorded and managed in accordance with the Board's Chief Executive Instructions. On 1 July 2002, assets with a book value of \$365 267 were transferred from ComSuper to the CSS Board.

## Ecologically sustainable developments and environmental performance

In conducting its operations, the CSS Board makes every effort to minimise the environmental impact of its activities by adopting the following guidelines:

- All waste paper and cardboard will be recycled;
- Lighting and energy use will be minimised;
- The Board's offices, where practicable, will use recycled paper and other products in its activities; and
- All Board publications will be produced in accordance with best environmental practice.

## Fraud control

In August 2002, the Board issued its initial fraud control plan and fraud risk assessment prepared in accordance with the Commonwealth Fraud Control Guidelines. During 2002–03, the Board's internal audit advisors, Ernst & Young, undertook a review of the Board's initial Fraud Control Plan. That review identified a number of areas in which the Fraud Control Plan could be improved. As at 30 June 2003, the Board, in conjunction with Ernst & Young, was in the process of developing a revised Fraud Control Plan and Fraud Risk Assessment Plan. The revised plans are to be finalised by mid-September 2003.

During the year, the Board had appropriate fraud prevention, detection, investigation and reporting procedures and processes in place and annual fraud data has been collected and reported in accordance with the Commonwealth Fraud Control Guidelines.



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## Description of the Scheme

The Commonwealth Superannuation Scheme (CSS) is a split-benefit superannuation scheme, with benefits generally being made up of two components:

1. **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
2. **An employer-financed component, which 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.

## SIS compliance

The CSS is a complying fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) 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.

## Actuarial Review

During the year Mercers Human Resource Consulting Pty Ltd completed the three yearly actuarial review of the CSS scheme as at 30 June 2002. The CSS results were included in the PSS and CSS Long Term Cost Report tabled in Parliament on 25 June 2003 (a copy of the actuarial review is available at [www.finance.gov.au/super/pss\\_and\\_css\\_scheme\\_costs.html](http://www.finance.gov.au/super/pss_and_css_scheme_costs.html)).

The results of the 2002 review and the previous two reviews are summarised below:

**Table 1: Results of Actuarial reviews**

CSS Actuarial review as at:	30 June 2002	30 June 1999	30 June 1996
Net Assets	\$5.3b	\$5.6b	\$4.9b
Unfunded Liability	\$49.3b	\$40.2b	\$37.4b
Notional Commonwealth employer contribution rate (including 3% productivity contribution) as a percentage of superannuation salaries	28.3%	21.9%	21.9%

The notional employer contribution rate represents the cost to the Commonwealth of the superannuation benefits that are accruing for CSS contributors in Commonwealth employment at the time of the actuarial review.

The Commonwealth's outlay on the CSS in any year is equal to the total benefit paid to existing members in that year less the accumulated balance of member and productivity contributions of those members plus actual productivity superannuation contributions made by the Commonwealth to the CSS Fund.

The 2002 review provided the following actuarial projection of the Commonwealth's estimated costs for the CSS over the five years to 30 June 2007 (adjusted to 2002 dollars using a discount rate of 6%):

**Table 2: Actuarial projections**

Year ending 30 June	Estimated Commonwealth CSS Costs \$m
2003	2,535
2004	2,419
2005	2,356
2006	2,293
2007	2,121

Further projections estimated costs are included in the Long Term Cost Report.



## Governance statement

The CSS Board (hereafter referred to as "the Board") is constituted under the *Superannuation Act 1976* (CSS Act) and the attendant regulations to the Act. Accountable to the members of the Scheme under the CSS Act, under the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and under general corporate legislation, the Board stands independent of the government of the day and independent of any other constituency. The principal responsibility of the Board is to act in good faith, with prudence and in the members' best interests in respect of the investment and administration of the Scheme.

## Principal duties

The Board's principal duties include:

- To manage and invest the monies to meet the purposes of the Scheme;
- To cause the payment of monies in and out of the Scheme to occur as prescribed;
- To safeguard the assets of the Scheme and the interests of the beneficiaries;
- To inform all relevant parties of the Scheme's condition and conduct; and
- To cause proper records and accounts to be maintained about the operation and financial activities of the Scheme.

In undertaking these duties, the Board has wide discretions. This factor, together with the reliance the members have on the Board for the value and delivery of their retirement benefits, makes it essential that the Board, its officers, employees and delegates act at all times in a manner that is appropriate to the fiduciary duties owed to the members.

The following Statement sets out the principles which the Board, its officers, employees and delegates are intended to uphold as they each carry out their duties. In some instances specific conduct is stipulated, reflecting the particular importance of the action for the Board's proper governance.

The Board does not intend this Statement to be read as a set of rules, where each word is scrutinised for its legal meaning. It intends to convey in plain words the obligations placed on, and the behaviour expected of, both trustees as individuals and those other persons covered by this Statement.

The Board will review this Statement annually, and update or expand it as appropriate to ensure it remains effective and current.

## **Governance matters outside the Board's control**

The Board does not control its own composition or its own remuneration. The power to appoint Board members is vested in the Minister for Finance and Administration under the CSS Act, subject to consultations specified in the CSS Act.

The Remuneration Tribunal sets the remuneration of Board members, including their remuneration for committee representation and expense reimbursement.

## **General governance principles**

The Board's own behaviours reflect its overriding general governance principles, and, where appropriate, mirror the behaviour that the Board expects from companies in which it invests.

The Board's duties shall be carried out in good faith, prudently, and in accord with the relevant legislation so that the best interests of the members are served.

The Board will at all times act ethically and impartially. No person covered by this Statement may place their own interests above that of the members in respect of the fiduciary duties owed to the members.

The Board's responsibilities for the Fund and the Scheme are supported by business planning, business risk assessment, management reporting, and arrangements for audit, internal control and compliance, all conducted on a regular basis. The Board's appointments and delegations are in writing and the Board regularly reviews its own activities and the activities of the persons through whom it works, to ensure that a clear and proper set of accountabilities remains in effect.

The Board will undertake an annual review of its performance.

## Board's own conduct

### Continuing qualifications and disclosure of interests

Board members will lodge annually a Disclosure of Interests Statement and a Declaration of Related Party Transactions.

Board members will advise no later than the start of the next Board or committee meeting:

- If any event has changed their continuing compliance with the trustee qualification requirements set out in the *Superannuation Industry (Supervision) Act 1993*; or
- If any agenda item requires a disclosure of interest; or
- If any change in their business relationships has occurred that might have a connection with the Board's duties or activities.

Where a Board member has a conflict of interest in respect of any matter, that member will not engage in discussion on the matter unless the Board agrees otherwise. A Board member with a conflict of interest will not participate in any decision on that matter.

### Confidentiality

Board members will keep confidential all information or material provided or made available to them, dealing with or related to their functions as Board members, except where such information or material is publicly available or is required by law to be disclosed.

Board members will continue to be bound by this obligation of confidentiality after they cease to be a Board Member.

In this context, "Board members" include persons appointed to the Board, staff employed by the Board, service providers to the Board, and any person to whom Board papers, documents or information is made available.

Communications, contracts or arrangements between the Board and service providers will generally be entered into on a "commercial-in-confidence" basis.

### Legal professional privilege

The general policy of the Board is that legal advice provided to the Board for the performance of its functions and duties will not be made available or disclosed.

## Securities dealing

The Board is mindful of its obligations under the law to not misuse non-public information of which it becomes aware in the course of carrying out its duties. Board members will maintain appropriate records of their dealings in securities and will provide a copy of these records to the Board Secretary if requested by the Board.

This requirement applies to the Board's staff, and any other persons connected with the Board who have access to the investment information of the Board.

## Gifts and entertainment

Board members should decline or disclose instances of repeated or significant entertainment or gift from any service provider. Board member contact with current and potential service providers is recognised as useful to enhance the knowledge and understanding of the Board. It is recognised that service providers to the Board provide modest entertainment and small gifts from time to time. Board members will maintain a record of instances of any entertainment or gift provided by any service provider, which may be made available if requested by the Board.

## Insurance

The Board will maintain insurance in respect of its own actions and in respect of past Board members in order to protect the interests of Scheme members.

## Board committees

The Board has constituted several Board committees to increase its own efficiency and to provide a means of more detailed consideration of matters important to the running of the Scheme. The governance structures and processes of the Board's committees include formal risk management and reporting arrangements, which reinforce the commitment of the Board to scrutinise its own processes to ensure transparency in identification of conflicts and separation of functions. Board committees are subject to written terms of reference and care is taken to ensure the activities of the committees remain consistent with the Board's duty of governance over the Scheme's activities.

Each committee will review its performance annually and the Chair of each committee will report to the Board following each review.

## Meetings and agenda

The Board will meet at least six times each year and will ensure that it receives appropriate and reliable reporting on the condition of the Scheme and the actions of its staff, delegates and other service providers.

Although the Board's agenda is initiated by the Chief Executive Officer on behalf of the Board, the Board or any Board member may require a matter to be brought before the Board at its next or any subsequent meeting.

## Professional development

The Board's policy is that Board members and staff should engage in continuing professional activities relevant to the operation of the Board as a whole and their individual Board member or staff duties. The Board provides organisational and financial support for such professional development activities.

Professional development activities may include local and international conferences, seminars and workshops, training courses and study tours on specific matters relevant to the Board's functions.

Once a year the Board will consider the major industry conferences (both in Australia and overseas) to be held over the forthcoming year. The Board will determine attendance based on the relative value to the Board's performance. These conferences are CMSF, ASFA, IFS Equities, CIE (Major Market Players), CIE (International), CEM - International Benchmarking. Attendance at other conferences shall be determined by the Chairman and Chief Executive Officer.

Board members and staff who undertake professional development activities are expected, where appropriate, to provide reports to the Board and to distribute relevant papers to other Board members and staff.

The Board also encourages Board members to be members of relevant professional bodies such as the Australian Institute of Superannuation Trustees and the Australian Institute of Company Directors and will meet the costs of such memberships.

## Financial controls

### Financial budgeting

The Board prepares an annual financial budget in respect of the whole of its and the Scheme's activities each year. Financial results are reported regularly to the Board against this budget.

### Appointment of auditor

The Board is required by legislation to use the Auditor-General as its auditor. The Auditor-General's Office, in turn, contracts an external, independent party to conduct the audit.

The Board provides a written brief to the auditor in respect of the annual audits and ensures that all advice from the Auditor is given due consideration, which is documented through committee or Board minutes. The process meets the requirements of all relevant legislation.

### Financial management framework

From 1 July 2002, in respect of its administration activities, the Board is accountable to Parliament and must comply with the provisions of the *Financial Management and Accountability Act 1997* (FMA Act). Accordingly, the FMA Act requires the Board to prepare annual audited financial statements in respect of its administration activities.

The Chairperson of the Board has issued policies, known as Chief Executive Instructions, regarding the Board's financial management. These instructions, which are mandatory for the Board and its staff, are also supported by financial delegations and detailed accounting procedures.

## Appointment, supervision and evaluation of service providers

### Adequacy of resources

The Board regularly considers the resources required for the effective and proper running of the Scheme and acts to ensure that its available resources align with those requirements. Outsourcing arrangements are designed to ensure that external service providers operate in accordance with all relevant legislation and the Board's governance standards and that the critical powers and functions of the Board remain under the Board's control.

## Written appointments

All appointments, delegations and arrangements with service providers are recorded in writing and with adequate and proper description of the terms of the appointment. Where required by law or appropriate to the circumstances, such appointments take the form of formal contracts. Selection processes are required for all outsourced services that are not legislatively mandated and involve, as appropriate, public or select tenders, reviews of providers and direct appointment.

The Board encourages its staff, delegates and service providers to advise the Board of any lack of clarity in the terms of their delegated authority or accountability, or of any impediment in their ability to carry out their duties to the standards expected by the Board.

## Periodic reporting and reviews

The Board ensures that it receives adequate, reliable and relevant reports on the activities of all those appointed by it. Contracts and agreements with the Board include requirements to disclose all relevant information to the Board and to report regularly on performance, including on breaches of, or non-compliance, with any standard. The Board is concerned to use resources of appropriate quality and capacity to its needs, at a reasonable cost. For this reason, all appointments are periodically reviewed, and where the Board concludes that it is appropriate, such reviews will include market testing.

## Working relationships between the Board, the internal investment team and external advisors

In carrying out its duty to manage and invest the monies to meet the purposes of the Scheme, the Board has both an internal investment team and a number of external advisors at its disposal. The internal investment team is the Board's primary investment advisor. The investment team is assisted in this task by several external advisors who provide advice for the Board's consideration on strategic asset allocation and investment policy, risk monitoring, investment research and performance reporting, and investment manager selection and monitoring across all asset classes including alternative investments.

Under this arrangement, the internal investment team plays an active role in managing the Scheme's investments by coordinating advice from external advisors according to an annual work plan presented to the Board that includes all the investment related work that is envisaged for the year ahead, and undertaking independent analysis of recommendations brought to the Board by those advisors.

In the case of differences in views between the external advisors and the internal investment team on any investment issues, these will be made transparent to the Board in any papers and/or discussion. There will always be a recommended course of action from the internal investment team. This process ensures that the Board makes informed investment decisions.

## **Risk management**

### **Business risk**

The Board regularly reviews its business risks and its protection against the risks identified. Consideration of these reviews is documented through committee or Board minutes.

### **Compliance program**

The Board has a systematic compliance program carried out under the direction of the Audit Committee, with a report provided to the Board annually. Breaches of compliance are reported to the Board as these occur but following consideration by the Audit Committee or, if appropriate, another committee.

It is the Board's policy to encourage any person connected with the Board, who may know or suspect a breach of compliance, to report this to the Chief Executive Officer to the Board, the Chair of the Audit Committee or the Chair of the Board.

### **Fraud control**

The Board has in place detailed fraud control plans that set out the Board's policies and strategies for the control, prevention and detection of fraud as well as control over the mismanagement or abuse of resources. The Board is required to ensure, and then certify in its annual reports to the Minister; that fraud risk assessments and fraud control plans have been prepared in accordance with the Commonwealth Fraud Control Guidelines; that appropriate fraud prevention, detection, investigation and reporting procedures and processes are in place; and that annual fraud data has been collected and reported that complies with the Commonwealth Fraud Control guidelines.

## Internal audit and internal controls

The Board has completed a detailed analysis of compliance and risks. The Board has engaged an Audit Advisor as an additional control mechanism to advise on financial, systems and related matters.

## CSS Investment Governance

**Table 3: 2002–03 investment governance milestones**

<b>Aug 2002</b>	<b>Nov 2002</b>	<b>Mar 2003</b>	<b>April 2003</b>	<b>July 2003</b>
CSS calls on Australian companies to improve public reporting of environmental risks	CSS sends clear signal to Australian companies that it will actively vote on behalf of its members; and Catholic Super Fund joins Governance Advisory Service	CSS extends proxy voting program internationally; and Northern Territory Government Super joins Governance Advisory Service	CSS calls on Australian companies to improve public reporting of Workplace Health and Safety risk management	CSS calls on Australian companies to improve governance and management of Energy Use risks

## The Board's approach to investment governance

The CSS Board's investment governance focuses on managing risk and is driven by the Board's primary investment objective to maximise long-term real returns whilst minimising short-term risks in order to safeguard the long-term interests of members.

The Board believes it has a responsibility to ensure the Fund is not exposed to undue risk because of poor governance behaviour and as such it actively pursues the principles of good governance in its own operations, service providers and the companies in which it invests.

Investment governance is considered to be the next frontier in risk management. It recognises that poor environmental, corporate and social practices can lead to a decline in investment values as much as financial risks can.

CSS investment governance is undertaken through a number of programs including:

### **Governance Advisory Service**

The objective of the CSS Governance Advisory Service is: to protect and enhance shareholder value for members through identification of environmental, social and corporate governance risks of present and future investments; and active communication of those risks with relevant stakeholders.

In December 2001, the CSS Board appointed Westpac Investment Management (now called BT Financial Group 'BT') to actively research governance risk in the Fund's Australian equities investments and make recommendations to the Board on constructive means of diminishing or eliminating such risks. BT actively researches and monitors potential environmental, social and corporate governance risks in our Australian company investments which represent around \$3 billion, in combination with the Public Sector Superannuation Scheme (PSS). This initiative is a first for Australia and has raised the bar for standards across the corporate sector.

### **Proxy voting**

The Board values good governance in its own operations, service providers and the companies in which it invests.

In keeping with this principle, the CSS Board decided to exercise its right to cast proxy votes in the companies in which it invests. This more active role for the Board underscores its commitment to ensure long-term shareholder value for members and sends a clear signal to company management groups that the Board, as a shareholder, will vote on every resolution in the best interests of its members.

The CSS is one of the first Australian super funds to take this proactive step which commenced in Australia in November 2002, and was extended in March 2003 with the appointment of an international proxy voting service.



# Board committees

## Board and Board Committee meetings

The Board has five standing committees of Board Members:

- the Investment Committee comprising all Board members with the Chair of the Committee being Mr Peter Reynolds, the Chairperson of the Board (retired);
- the Audit and Risk Management Committee comprising Ms Winsome Hall, Chairperson; Ms Joy Palmer, Member; Mr Richard Balderstone, Member and Mr David Connolly, Member;
- the Administration Committee comprising Ms Cathy Manolios Chairperson (retired); Ms Sally O'Loughlin, Member; Ms Joy Palmer, Member and Mr David Connolly, Member;
- the Communications Committee comprising Mr Richard Balderstone, Chairperson; Ms Winsome Hall, Member and Ms Sally O'Loughlin, Member and
- the Governance Committee comprising Ms Joy Palmer, Chairperson; Ms Winsome Hall, Member; Ms Cathy Manolios, Member (retired) and Mr Richard Balderstone, Member.

There is also a Reconsideration Advisory Committee comprising senior ComSuper officers Mr Trevor Dockett, Mr Michael Carberry and Mr Hugh Major.

**Table 4: Board and Board Committee meeting attendance 2002–03**

	Board	Investment	Administration	Audit and Risk Management	Governance	Communications
Peter Reynolds	7/7	5/5	NA	NA	NA	NA
Joy Palmer	7/7	5/5	6/6	6/6	6/6	NA
Winsome Hall	7/7	5/5	NA	6/6	6/6	6/6
Cathy Manolios	6/7	5/5	6/6	NA	6/6	NA
Sally O'Loughlin	7/7	5/5	5/6	NA	NA	6/6
Richard Balderstone	7/7	5/5	NA	~4/5	~5/5	6/6
David Connolly	#5/6	#3/3	#4/4	#4/4	NA	NA

\* NA: Not applicable as this Board member is not a member of the Committee.

#David Connolly was appointed to the Board in September 2002.

~Richard Balderstone became a member of the Committee in October 2002.

## Investment Committee

### Purpose

The purpose of the combined CSS/PSS Investment Committee is to advise both Boards on investment issues and related matters that are central to the Boards' functions of managing and investing the funds. It is the primary contact between the key external advisors on investment matters and the Boards.

### Functions

The functions of the Committee are to:

- consider and review the Funds' investment objectives;
- consider and review the Funds' investment strategies;
- consider specific strategic investment proposals;
- review investment manager performance;
- review the performance of the Funds' custodian;
- review and evaluate the performance of asset consultants and other investment related service providers;
- evaluate appropriate investment structures for the holding of the Funds' assets;
- consider investment manager mandates;
- consider reports from internal and external advisors on investment issues;
- review and evaluate the Boards' brokerage recapture and securities lending programs;
- review and evaluate the investment performance of the Funds;
- assess and review the overall investment taxation strategy, including the taxation issues in relation to specific strategic investments; and
- report and make recommendations to the Boards on all investment matters.

### Decisions

The Committee is not a decision-making entity. However, if all members of both Boards are present at a Committee meeting, they may agree to decide a matter as an out of session decision of the Boards by signing a resolution made available to them. In this case, the existing practices and procedures of the Boards will apply in relation to the reporting and recording of out of session decisions.

## Meetings

The Committee will meet as required to perform its functions. The Committee may meet in person, or by utilising telephonic or video-conferencing facilities. A quorum for a meeting of the Committee is four members, including at least one employee member and at least one employer member of the Boards.

## Membership

The Investment Committee comprises all members of the CSS and PSS Boards. The Chair of the Committee is Mr Peter Reynolds, the Chairperson of the Boards (retired). In the absence of that person, members present at a meeting of the Committee may appoint one of their number as Chair for that meeting.

## Remuneration

Members of the Investment Committee are not separately remunerated.

## Review

The Committee's performance will be reviewed annually and reported to the Boards.

## Audit and Risk Management Committee

### Purpose

The combined CSS/PSS Audit and Risk Management Committee is to advise both Boards on accountability, audit, overall tax policy, risk management (including compliance) and related matters. It is to operate as a check on the management practices of its own operations, the scheme administrator (ComSuper), fund investment managers, and master custodians.

The Committee is to assure the Boards that their financial statements are based on appropriate accounting concepts, systems and techniques. It is to assure the Boards that the audit arrangements within service providers (ComSuper, fund managers, master custodians) and its internal functions are operating effectively, and that appropriate fraud control strategies are in place.

The Committee is to report annually to the Boards on its operations.

## Functions

The Audit and Risk Management Committee is to be the point of communication between the Boards and the Internal Audit Committee of ComSuper, its own internal audit and with the Australian National Audit Office (ANAO).

The Audit and Risk Management Committee is to establish internal and external audit plans and review:

- financial statements with both internal and external auditors prior to their approval by the Boards;
- accounting policies adopted or any changes which are made or contemplated by ComSuper, and which affect the Boards' 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;
- interim financial information; and
- procedures and policies established under the Financial Management and Accountability Act, including advising the Boards' Chairperson on relevant matters.

The Committee will assess and review the Boards' risk management processes, including:

- the risks and management strategies for the operation of the business of the Boards;
- key service provider risks and management;
- compliance management, including the review of compliance reports provided by management and services providers; and
- business continuity plans.

The Committee is to provide regular reports to the Boards 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.

The Committee is responsible for the oversight of the management of the Boards' taxation matters, including the preparation and lodgement of returns.

With the agreement of the Boards, the Committee may initiate specific audit investigations.

## Meetings

The Committee meets as necessary (but in any event, not less than twice per year).

## Membership

The Audit and Risk Management 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 Audit and Risk Management Committee is at the discretion of the Boards.

The Audit and Risk Management Committee currently comprises: Ms Winsome Hall, Chairperson; Ms Joy Palmer, Member; Mr Richard Balderstone, Member; and Mr David Connolly, Member.

## Remuneration

Members of the Committee are paid an allowance in accordance with the applicable Remuneration Tribunal Determination as amended from time to time.

## Administration Committee

### Purpose

The combined CSS/PSS Administration Committee is to advise both Boards on policy and operational matters relating to the operation of the Executive Unit and the contracting and performance of service providers to the Boards.

The Administration Committee is to become familiar with the policy activities of service providers and the Department of Finance (Finance). It should supervise such activities of service providers and monitor those of Finance to enable it to respond or influence as necessary.

The Committee is to assure the Boards of adequate governance and that processes are established and followed to ensure compliance with legislative requirements and the Boards' policies.

The Committee is to report annually to the Boards on its own operations.

The Committee will also monitor legislative and industry activity which may impact on the operation of the schemes.

## Functions

The Committee will undertake the following responsibilities:

### Service Providers

Establish contracts, performance agreements and reporting arrangements with service providers;

- Monitor the performance of providers other than auditor; and
- Ensure that all providers, excluding investment related service providers, activities are carried out in accordance with Board policy.

### Legislative/Parliamentary

- Advise the Boards of implications of legislative changes; and
- Advise and assist the Boards with parliamentary submissions.

### Invalidity

Monitor and review invalidity arrangements.

### Legal

Review and make recommendations to the Boards with respect to legal claims.

### Administration

- Consider and make recommendations to the Boards as appropriate on matters with respect to pricing (charges to employers) and billing;
- Examine and recommend to the Boards the annual budget and monitor expenditure;
- Monitor Business Plan activities; and
- Oversight the Executive's:
  - organisation and in particular be responsible for the decision as to whether to contract out a service or provide it through internal resources;
  - accommodation arrangements including business continuity arrangements and make recommendations to the Boards; and
  - remuneration, including staff performance appraisal.

### **Insurance**

Review and monitor all insurance arrangements including trustee indemnity, group life, travel etc.

### **Other**

- To continuously monitor industry best practice arrangements and make recommendations where necessary;
- Supervise APRA reviews;
- Advise and assist the Boards with industry submissions and participation;
- Deal with any other matters referred to it by the Boards or the Chairperson; and
- Review the Committee's operation and terms of reference.

## **Meetings**

The Committee meets as necessary but at least four times per year.

## **Membership**

The Committee is appointed by the Boards 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 is at the discretion of the Boards.

The Administration Committee currently comprises Ms Cathy Manolios Chairperson (retired); Ms Sally O'Loughlin, Member; Ms Joy Palmer, Member; and Mr David Connolly, Member.

Any Board member may attend meetings.

## **Remuneration**

Members of this committee are not separately remunerated.

## Communications Committee

### Purpose

The combined CSS/PSS Communications Committee advises both Boards on communication related matters.

The Committee ensures that the Boards meet the information disclosure requirements imposed by SIS through clear, timely and accurate reporting to members and ensures that members are informed of Trustee decisions and other developments which may affect members' interests.

The Communications Committee is the point of communication between the Boards, the scheme administrator and other service providers for communications issues.

### Functions

The Communications Committee undertakes the following tasks:

#### Policy and Planning

- develops policy, which defines the strategic direction of Board communications to members and other stakeholders as determined by the Boards;
- develops the budget for Board approval and oversee allocation of funds to communications projects;
- examines and report to the Boards on additional services to members, which the Boards should consider providing.

#### Implementation

- oversees implementation and approves communications service providers to ensure implementation of the Boards' communications strategy;
- ensures all member communications comply with SIS and other compliance requirements;
- approves the content of all communications to members and the annual report to parliament.

#### Evaluation and research

- establishes an evaluation and research program to inform the development of the Boards' communications strategy and specific communications projects.

### **Governance**

- review its terms of reference every 12 months in conjunction with the Communications strategy;
- annually reviews Committee operations and performance.

### **Meetings**

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

### **Membership**

The Communications 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 Communications Committee is at the discretion of the Boards.

The Communications Committee currently comprises: Mr Richard Balderstone, Chairperson; Ms Winsome Hall, Member and Ms Sally O'Loughlin, Member.

### **Remuneration**

Members of this Committee are not remunerated.

## Governance Committee

### Purpose

The combined CSS/PSS Governance Committee ("the Committee") reviews and advises the Boards on governance matters generally.

The Committee addresses governance matters on two broad fronts:

- Board governance; and
- Investment governance.

### Function

#### Board Governance

The Committee is the body that oversees the development, implementation and review of governance policy for the Boards.

The Committee:

- develops policy for consideration of the Boards with respect to the Boards' governance;
- reviews the continuing appropriateness of the Boards' governance policy and recommend any changes to the Boards;
- oversees the implementation of any policies adopted by the Boards with respect to the Boards' governance; and
- reviews the Committee's operation and terms of reference annually.

#### Investment Governance

The Committee is the body that oversees the development, implementation and review of investment governance policy for the Boards.

The Committee is to the point of communication between the Boards and external parties with respect to investment governance and proxy voting matters.

The Committee:

- develops policy for consideration of the Boards with respect to investment governance and proxy voting;
- reviews the continuing appropriateness of the Boards' investment governance and proxy voting policy;

- oversees the implementation of any policies adopted by the Boards with respect to investment governance and proxy voting; and
- oversees the development and conduct of appropriate linkages with other Australian superannuation funds, relevant international pension funds and other relevant organisations with respect to investment governance.

### Decisions

The Committee does not have decision-making powers from a Board policy perspective. All Board policy proposals developed by the Committee are presented to the Boards for consideration and approval.

### Meetings

The Committee meets as necessary (but in any event, not less than quarterly).

### Membership

The Committee is appointed by the Boards and usually comprises:

- at least three members, at least two of whom are members of both the CSS and PSS Boards;
- at least one member representative; and
- at least one employer representative.

The term of appointment of individual members is at the discretion of the Boards. Other Board members are entitled to attend Committee meetings.

The Governance Committee currently comprises Ms Joy Palmer, Chairperson; Ms Winsome Hall, Member; Ms Cathy Manolios, Member (retired) and Mr Richard Balderstone, Member.

### Remuneration

Members of the Committee are not remunerated.





## Investment management

### Investment structure

The Board has adopted a modular approach to funds management, dividing the portfolio up into its component parts, and appointing professional fund managers to invest each component. In some cases the components have been split further and divided between a number of specialist managers.

Where relevant, asset classes are constructed to consist of index tracking and specialist components. The index tracking component 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.

Index tracking portfolios are passively managed (with no active stock selection). Their purpose is to capture market returns by replicating (or tracking) the relevant asset class index. For instance, the index tracking portfolio in the Australian bonds asset class tracks the UBS Warburg Australian Composite Bond Index.

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

Active portfolios, as the name suggests, are actively managed. That is, the specialist fund managers that manage those portfolios must actively operate in the market, buying and selling securities with a view to outperforming the relevant index.

The Board has also made provision for investment of up to fifteen per cent of total assets in non-traditional or alternative investments. Alternative investments include infrastructure, buy-out funds, opportunistic property, venture capital and absolute return funds (hedge funds).

The Fund's exposure to international equities has regard to the inherent limits on return opportunities through investment solely in the Australian equities market and the opportunities provided by investing in the much larger world markets.

## Investment arrangements

During the year, the Board continued to implement revised arrangements for the management of its investments. The Internal Investment team, established during the previous financial year was further expanded with the employment of additional investment professionals and operations staff. The Investment Team is responsible for providing investment advice to the Board, implementing Board investment decisions, and monitoring, reviewing and reporting on investment performance to the Board.

The Board also made some adjustments to its appointed external investment advisors. It decided to appoint JANA Investment Advisers Pty Ltd as its principal external investment advisor. It also decided to retain a senior investment person from Towers Perrin Australia Pty Ltd to provide investment advice. Wilshire Australia Pty Ltd continue to provide advice on Australian private equity.

## Custodian services

The Fund's master custodian is Chase Manhattan Bank (trading as JP Morgan). Its 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 on the instruction of the Investment Team, to investment managers in accordance with the mandates set down by the Board. Chase Manhattan Bank also holds (but does not own) the assets which comprise the Fund; collects and disburses dividends; maintains consolidated accounts and tax records for the Fund; and reports to the Board on individual fund manager and aggregated investment returns.

The Board is currently reviewing its custodial arrangements.

## 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. index tracking or active) employed by each manager.

**Table 5: The Board's investment managers at 30 June 2003**

Sector Type	Investment Manager
<b>Australian Shares</b>	
Index	Colonial First State Investments Limited
Active	Balanced Equity Management Pty Ltd Barclays Global Investors Australia Limited Concord Capital Limited GMO Australia Limited Investors Mutual Limited JB Were Asset Management Limited 452 Capital Pty Limited
Alternative	Various*
Strategic	Various*
<b>International Shares</b>	
Index	Vanguard Investments Australia Limited
Active	AXA Rosenberg Investment Management Limited Bank of Ireland Asset Management Australia Pty Ltd Deutsche Morgan Grenfell Marathon Asset Management Limited Marvin & Palmer Associates Inc Wellington International Management Company Pte Limited
Alternative	Various *
Currency Overlay	State Street Global Advisors Limited
<b>Australian Bonds</b>	
Index	Colonial First State Investments Limited Other*
<b>International Bonds</b>	
Index	State Street Global Advisors Limited
Active(High Yield Debt)	CDC Ixis Asset Management Company Wellington Management Company LLP
<b>Absolute return (hedge) Funds</b>	
Active	Various*
Currency Overlay	State Street Global Advisors Limited
<b>Property</b>	
Active	Colonial First State Investments Limited
Alternative	Various*
<b>Cash</b>	
Index	Colonial First State Investments Limited Other*

\* Managers with less than 1% each of the Fund's assets are not listed.

## Investment objectives

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 the long-term real return of the Fund.

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). The Board expects to achieve an average real return of 4.5 per cent per annum after tax and fees, which derives from a nominal return of 7.0 per cent per annum over the longer term.

## Strategic review

During the year, the Board conducted a review of its investment strategy. Major reviews generally are conducted once every three years (the last being in 2001–02). In intervening years an interim review is undertaken.

The interim review this year endorsed the appropriateness of the Board's investment objectives for the Fund and the investment strategy to meet those objectives that was set in the previous year's major review.

In developing an investment strategy to achieve that objective, and recognising that the average person might have a working life of around 30 years, the Board has adopted the following constraints in order to manage the level of any short-term market volatility:

- on average, nominal fund returns are expected to be positive 24 years out of 30; and
- on average, the crediting rate is expected to exceed the Bank Interest Rate by 1% or more in 18 years out of 30.

These criteria define the 'tolerable' level of volatility specified in the Fund's objective.

Furthermore, for prudential reasons, not more than 25% of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.

## Strategic asset allocation

As a result of the interim review, the strategic asset allocation adopted at the end of June 2002 was re-confirmed. The following table sets out the strategic asset allocation, which has applied since July 2002 and will apply going forward.

**Table 6: Strategic Asset allocation**

Asset class	Asset Allocation
Australian Shares	30%
International Shares	25%
Australian Bonds	13%
International Bonds	15%
Absolute Return (hedge) funds	5%
Property	10%
Cash	2%

## Events during the year

Apart from the interim strategic review and the changed investment arrangements described above, a number of other changes were made during the year.

## Alternative Investments

The Board continued to build the Fund's exposure to alternative investments during the year. Commitments were made to a new Australian private equity fund and some of the funds previously committed to Australian private equity, Australian infrastructure, overseas private equity and overseas property were drawn down. During the year the Board doubled its investments (to approximately 2% of the Fund) in two hedge fund of funds vehicles. The Board continued to focus on investments at the more market neutral, lower risk end, rather than the higher risk end. At the end of the year, the size of the alternative investments program was \$403 million (around 7.7% of the total Fund).

## Fund performance

The past financial year was another difficult one for the Fund. However despite a fall of 18.6% in \$A terms in international equities and 2.6% in Australian equities over the year the Fund was able to post a net return of 3.0%. The negative impact on returns of the Fund's more than 50% exposure to equities was more than offset by strong returns from bonds, property and hedge funds. Furthermore the decision taken in the last financial year to effectively fully hedge the Fund's developed market international equity and bond exposure protected the Fund from the negative impact on foreign asset returns of the rise in the \$A.

Despite the only modest positive return recorded this year, the Fund's longer term investment performance remains solid. Over the last five years the Fund has returned an earning rate of 4.4% p.a. (crediting rate of 5.8%), compared with the average inflation rate of 3.2% p.a. over this period.

Over ten years the Fund has returned an earning rate of 7.5% p.a. (crediting rate of 7.5%) compared with average inflation of 2.6% p.a.

## Performance by asset class

Fund performance figures in the following paragraphs on asset classes are quoted before tax but after fees.

### Australian Shares

The Australian share market was very weak in the early months of the year, falling by 7% in the September quarter. After partially recovering in the latter months of 2002 it weakened again in the early months of 2003 to be nearly 12% lower at the end of February compared to where it started the financial year. It then posted strong gains over the last four months of the year to end the year down only about 2.5%. The direction, though not the magnitude, of these swings largely mirrored movements in international equity markets.

The Fund's Australian equity investments did better than the market generally to return 0.4%. This better than market performance reflected some value added by the Fund's active Australian equity managers, and better performance from the Fund's private equity investments.

### International Shares

The 2002–03 financial year was a turbulent one for international equity markets. Uncertainties ahead of the war against Iraq, together with a global economic stall, reduced earnings prospects and the exposure of questionable corporate governance practices all combined to take a substantial toll on world stock markets. World equity markets were down by about 19% in the first three months of the financial year. Over the subsequent nine months they recovered about two thirds of this loss, although up until the last three months, the recovery was a case of two steps forward, one back.

Furthermore, for \$A based investors, the recovery in world equity markets over this time was largely offset by the negative impact on returns of the rise in the value of the \$A. The currency movement alone cost \$A investors about 14% for the year. The CSS was protected against this currency impact by being largely hedged against the rise in the \$A.

### **Australian Bonds**

Australian economic growth decelerated through 2002–03 and the Australian Bond market delivered solid returns. The Fund's investments returned 9.6%, just below the market return of 9.8%.

### **International Bonds**

A generally weak international economy combined with some movement of capital out of international equities saw international bond markets post strong returns this year. The Fund's investments did better than markets generally, helped by the Fund's exposure to high yield bonds which outperformed over the year. The Fund's investments returned 18.4% compared to the markets return of 12.2%.

### **Absolute Return (hedge) Funds**

The Fund invested 1% of its assets with two hedge 'fund-of-funds' in late January 2002 and doubled that exposure to 2% in July 2002. For the year as a whole these investments returned a healthy 11.1%.

### **Property**

The Australian property market, as measured by the Mercer Australian Unlisted Property Index, returned a solid 11.2% in 2002–03. The Fund's property investments did worse than this in returning 8.1%. This was largely due to weaker returns from the Fund's international property exposure.

**Table 7: CSS Fund investments 2002–03**

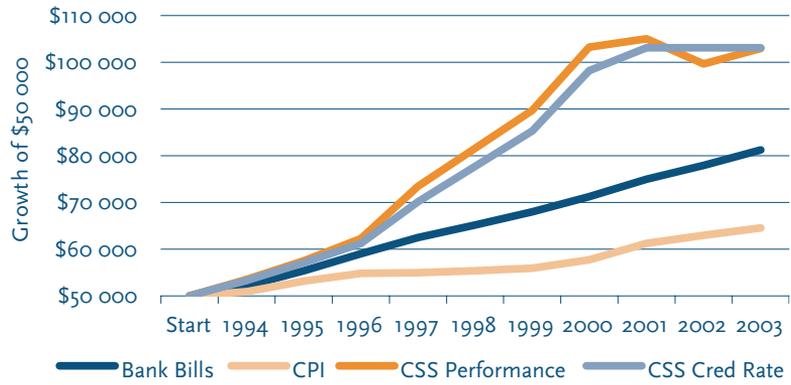
<b>INVESTMENTS</b>	<b>Holdings at 30 June 02</b>	<b>Holdings at 30 June 03</b>	<b>Proportion of Scheme</b>
<b>Sector</b>	<b>\$m</b>	<b>\$m</b>	<b>%</b>
Australian Shares	1 473.3	1 486.2	28.6%
International Shares	2 162.8	1 181.5	22.7%
Australian Bonds	414.9	636.9	12.2%
International Bonds	153.8	736.0	14.1%
Absolute Return (hedge) funds	50.1	90.9	1.7%
Property	895.8	827.3	15.9%
Cash	148.5	249.8	4.8%
<b>Total Fund Investments</b>	<b>5 299.2</b>	<b>5 208.6</b>	<b>100.0%</b>

**Table 8: CSS Fund performance 2002–03**

<b>INVESTMENT PERFORMANCE</b>	<b>One-year performance</b>		<b>Three-year performance</b>		<b>Five-year performance</b>	
	<b>Portfolio</b>	<b>B'mark*</b>	<b>Portfolio</b>	<b>B'mark*</b>	<b>Portfolio</b>	<b>B'mark*</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Sector</b>						
Australian Shares	0.4	-2.6	3.8	0.4	9.0	6.2
International Shares	-2.9	-12.8	-9.3	-14.6	-1.1	-4.2
Australian Bonds	9.6	9.8	7.6	7.8	6.5	6.6
International Bonds	18.4	12.2	0.4	2.2	n/a	n/a
Absolute Return (hedge) funds	11.1	8.3	n/a	n/a	n/a	n/a
Property	8.1	11.2	8.6	10.5	9.8	10.3
Cash	3.6	5.0	4.7	5.2	4.9	5.3
<b>Total Fund</b>	<b>3.0</b>	<b>0.7</b>	<b>-0.1</b>	<b>-3.3</b>	<b>4.8</b>	<b>2.9</b>

Notes:

1. Individual asset classes are post fees and pre tax
2. Total Fund is after tax and fees
3. All benchmark figures are before tax and fees
4. The benchmarks used for the asset classes were:
  - Australian shares—S&P/ASX300 Accumulation Index excluding listed Property Trusts
  - International shares—Morgan Stanley Capital International All Countries index (ex Australia) with net dividends reinvested, in Australian dollars (40% hedged)
  - Australian Bonds—UBS Warburg Composite Bond Index
  - International Bonds—CitiGroup World Government Bond Index (fully hedged)
  - Property—Mercer Australian Unlisted Property Index
  - Hedge—UBS Warburg Bank Bill Index + 3.2% per annum
  - Cash—UBS Warburg Bank Bill Index
  - Total fund—composite of above weighted according to the Strategic Asset Allocation

**Chart 1: Fund performance comparison over 10 years**

## Investment information

Information on investments can be found throughout this report. Further information can be obtained from:

Web: [www.css.gov.au](http://www.css.gov.au)

Post: Executive Unit,  
CSS Board,  
GPO Box 1907,  
Canberra City ACT 2601

Telephone: (02) 6263 6999

Fax: (02) 6263 6900

Email: [secretary.csspss@csb.gov.au](mailto:secretary.csspss@csb.gov.au)

## Crediting rate and reserving policy

### Crediting rate 2002–03

The crediting rate is the rate of interest that is credited to members' contributions and employer productivity contributions. The CSS Board declared a crediting rate of 0% per annum for the financial year 2002–03. The CSS earned 3.0% for the 2002–03 financial year after fees and taxes. The crediting rate of 0% per annum was declared in light of the decision to use earnings to re-build the Fund's negative reserves. These negative reserves arose out of the fact that the Fund earned minus 5.6% last year but credited zero because of a legislative requirement that precludes the declaration of a negative crediting rate.

**Table 9: Annual crediting rates 1999–03**

Financial year	Crediting rate (%)
1998–99	9.8
1999–00	15.1
2000–01	5.0
2001–02	0.0
2002–03	0.0
5 Year Average (annualised)	5.8

### Crediting and exit rate policy \*

The CSS Board's investment policy includes a reserving mechanism, which can be used to smooth fluctuations in crediting rates. The reserve gives effect to the legislative requirement that no negative crediting or exit rates may be declared, even when the investment performance has been below zero.

The reserve is a notional amount only, which reflects the difference between total member equity and actual fund size. In years with high returns, part of the investment earnings are held back thereby reducing the rate credited to members. In years with lower returns, the amount held back is used to top up the interest rate credited to members, thus smoothing crediting rates over time. If returns are negative and there is no reserve available then the Fund declares a zero crediting rate and goes into a negative reserve situation. Future earnings would then be used to bring the reserve back to zero.

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 members' date of exit.

In August 2002, the Board determined that the crediting and exit rate policy would be suspended and that both crediting and exit rates would be set at zero until the negative reserve was replenished. The crediting rate and exit rate policies remained suspended throughout the 2002–03 financial year.

**Table 10: Reserve balance**

	Value
Reserve opening balance at 30 June 2002	(\$301.1m)
Reserve closing balance at 30 June 2003	(\$156.7m)

To ensure fairness for all members, reserves will be replenished as quickly as possible with crediting rates remaining at zero until this is achieved.

## Exit rate \*

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. The crediting rate formula normally applies to exit rates, however, the earning rates used are based on an adjusted rate, which is calculated by using the actual earning rate for the financial year to date plus the target rate for the remainder of the year.

At all times Trustees retain the right to change the timing of exit rate determinations and adjust the methodology used to calculate the rate as appropriate to the circumstances of the Fund at any particular time. The Board exercised this right during the year where, in view of the state of the reserve balance, the Board decided in each month that it was most appropriate to keep the exit rate at 0%.

**note:** \* In August 2002, the Board determined that the crediting rate policy for the CSS Fund would be suspended and that the exit rate be set at zero until the reserve is within the range of  $\pm 1\%$  of the value of the Fund.





## Account maintenance

The maintenance of CSS contributor accounts is a major function provided by the Board's administrator (ComSuper). Through the mechanism of service level agreements (SLAs) 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 by the Board and ComSuper during the course of the financial year.

### Collection, recording and maintenance of member information

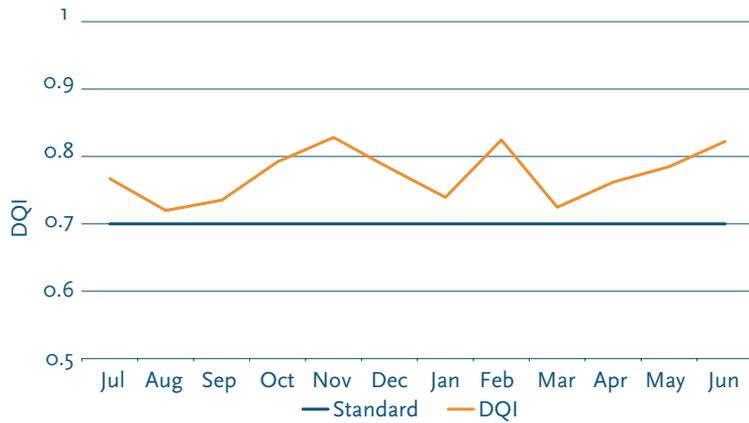
Member information for most employers is reported electronically through interfaces with employer payroll systems or through direct electronic form submission for a number of smaller employers.

The Board requires its administrator to maintain records of scheme contributors, preserved benefit members and pensioners to facilitate, among other things, accurate and timely communications, accurate and timely payment of benefits, various reporting requirements, and reconciliation against Fund accounts.

In relation to this activity the following standards were applied:

STANDARD	OUTCOMES
<p>Auditors to provide a comprehensive report on the adequacy and suitability of the systems used to maintain contributor records, preserved benefit member records and pensioner records.</p>	<p>Standard met</p>
<p>Accuracy and timeliness as assessed by a data quality index (DQI) score of 0.7 or greater.</p>	<p>Standard met (see chart 2)</p>

**Chart 2: Data quality index (DQI) 2002–03**



Note: The data quality index is derived from measures of the number of entries reported that do not produce an error and the number of member transactions received and processed within the standard of ten days of the relevant payday.

The trend of ongoing improvement in the last four months of the year in the DQI index is attributable to improvements in the timeliness of receipt of employer data (as shown in chart 2).

## Collection, banking, recording and maintaining contributions remittances

The basic rate of member contribution to the CSS is 5% of salary for superannuation purposes, although members can elect to contribute at a higher rate. The employer benefit is, for the most part, unfunded except for the employer productivity superannuation contributions, which is paid into the Fund by the member's employer.

Total contributions to the Fund during 2002–03 were \$198 million, of which member contributions comprised \$149 million. Employer funded contributions amounted to \$49 million. The net appropriation for benefits for the year was \$2 302.7 million (\$2 792.2 million in gross benefits paid from Consolidated Revenue less \$489.5 million transferred from the Fund to Consolidated Revenue for the Fund's share of benefit costs).

Member and employer productivity contributions for CSS members are remitted fortnightly and paid by direct credit to the Board's bank account.

The Board sets various standards for the activity on its bank accounts ensuring that:

- Monies are banked on a daily basis;
- Employer contribution remittances are received by the due date; and
- Contribution transactions are posted to member data—bases in a timely fashion.

All standards were met during the year.

**Table 11: Contributors and contributions for past 5 years**

year	contributors at end of year	member contributions	employer funded contributions	net contributions outflow
		\$m	\$m	\$m
1998–99	53 625	174	57	(253)
1999–00	48 552	164	53	(244)
2000–01	43 551	162	53	(278)
2001–02	40 015	153	49	(331)
2002–03	37 316	149	49	(293)

At 30 June 2003 the CSS had 37 316 contributing members. Table 12 shows the number of contributors by gender.

**Table 12: Contributor membership 1999–2003**

Year ending	Male	Female	Total
30 June 1999	37 242	16 383	53 625
30 June 2000	33 524	15 028	48 552
30 June 2001	29 858	13 693	43 551
30 June 2002	27 287	12 728	40 015
30 June 2003	25 396	11 920	37 316

**Table 13: Deferred benefit membership 1999–2003**

Year ending	Total
30 June 1999	11 859
30 June 2000	13 879
30 June 2001	14 079
30 June 2002	13 956
30 June 2003	13 429

## Employer support

The Board requires its administrator to undertake a range of initiatives, including system improvements, training of personnel staff and information dissemination, to improve employers' understanding of the Schemes and their various responsibilities, so that they are reliable sources of superannuation information for their staff and so that data submitted to ComSuper on behalf of their employees is accurate. The effectiveness of these measures is gauged through surveys of employers and through ongoing monitoring of error volumes by ComSuper systems.

The results of employer surveys conducted during the year showed that the relevant standards for this activity were well met.

## Surcharge

The *Surcharge Contributions Tax (Assessment and Collection) Act 1997*, more commonly referred to as 'the surcharge', requires superannuation providers to report surchargeable contributions for all CSS members to the Australian Taxation Office (ATO) on an annual basis. The intention of the legislation is to apply a tax on employer-financed contributions, specifically targeted at high-income earners, and imposes a surcharge of up to 15% on a member's surchargeable contributions, provided the member's adjusted taxable income is greater than the surcharge threshold.

The CSS is classed as an unfunded defined benefit scheme for the purposes of the legislation. In order to have a basis on which to calculate surchargeable contributions, the services of the Australian Government Actuary were employed to develop Notional Surchargeable Contributions Factors .

On receipt of surchargeable contributions information, the ATO matches the data with taxable income. If the taxpayer's adjusted taxable income exceeds the threshold, the ATO determines the amount of surcharge debt applicable to the member and reports this to ComSuper and the member.

During the year 640 Members used the B—Pay facility to pay their debts directly. This facility has proven popular with scheme members.

**Table 14: Summary of Surcharge activity undertaken by the Board during 2002–03**

	<b>Number</b>	<b>\$</b>
Applied Surcharge debts reported by the ATO to members accounts	*10 595	10 980 074
Received Surcharge debt payments from members	1 087	1 972 153
Recovered debts from member benefits	751	2 235 008
Applied interest to members surcharge debts that remained outstanding as at 30 June 2003		2 051 867

\* In respect of 8 395 members.





## Member communications

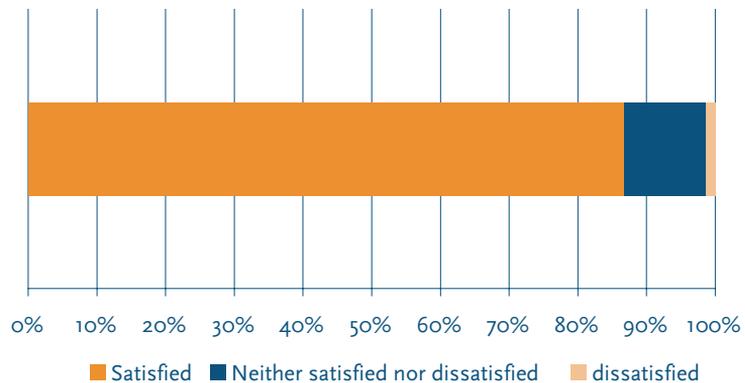
In 2002–03, the Board continued to develop its information and education resources for members and other stakeholders in accordance with its 2002–2004 Communications Plan.

Driven by the vision that 'members have the knowledge they need to make the most of their retirement opportunities', efforts during the year were focused on developing and extending channels of information for members and tailoring information to suit members' requirements.

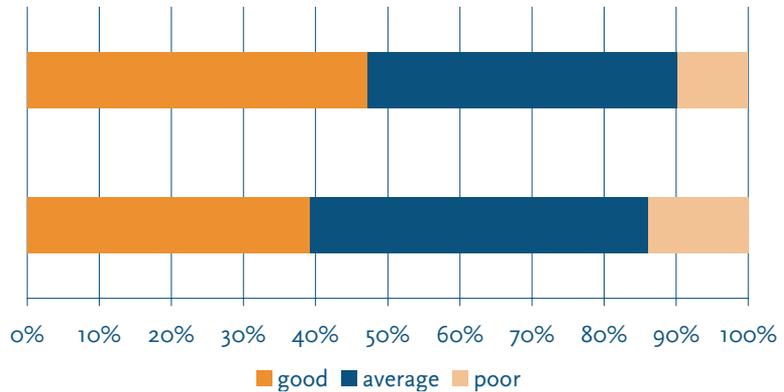
Extensive stakeholder consultation resulted in improved understanding of information requirements and identified opportunities for key stakeholders to work more closely together to improve quality and consistency of member communications. Supporting this, a regular electronic Communications Bulletin was created to keep stakeholders informed of major developments and ensure that information provided to members is consistent and up to date.

A major member research study was conducted in November 2002 and we thank the 720 members (combination of CSS and PSS members), Australia-wide, who participated. Results showed high-satisfaction ratings and provide invaluable information on members' thoughts about their super and how we can continue to meet their information needs.

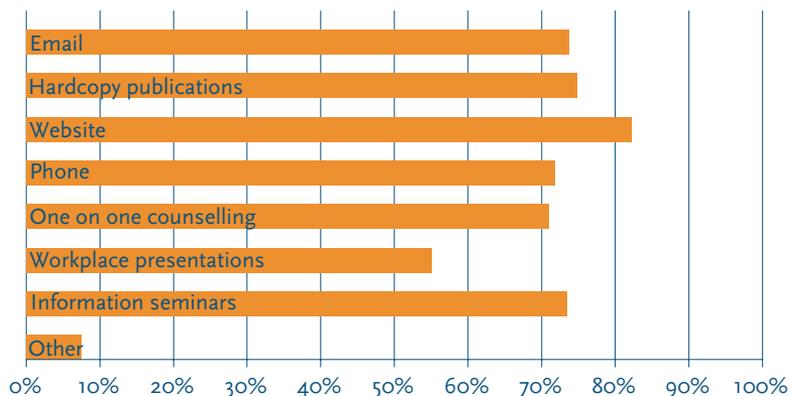
**Chart 3: CSS Members overall satisfaction with their Scheme**



**Chart 4: CSS Members understanding of superannuation and Scheme features**



**Chart 5: CSS members' preferred communications**



Other key initiatives included:

- establishing Member Feedback Online, an online tool members can use to provide general feedback at any time on communications and services;
- establishing a Member Editorial Panel process, to seek input from members on major communications, such as the Annual Report to members, prior to completion; and
- developing an ongoing campaign encouraging members to provide up to date postal and email addresses to ensure they receive important information about their super.

Currently in progress is the development of an online tool to educate younger members about the importance of adequacy of retirement funds and further development of the CSS website to ensure it continues to meet members' information needs.

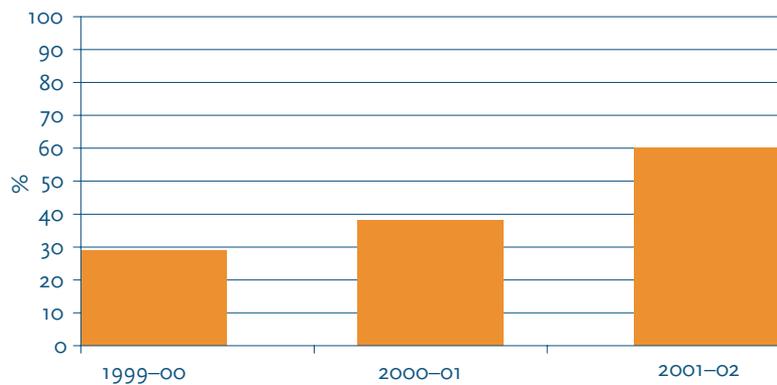
## Annual Report to members

The Board's principal means of communicating with members is through its Annual Report Pack, sent to all contributing and preserved members.

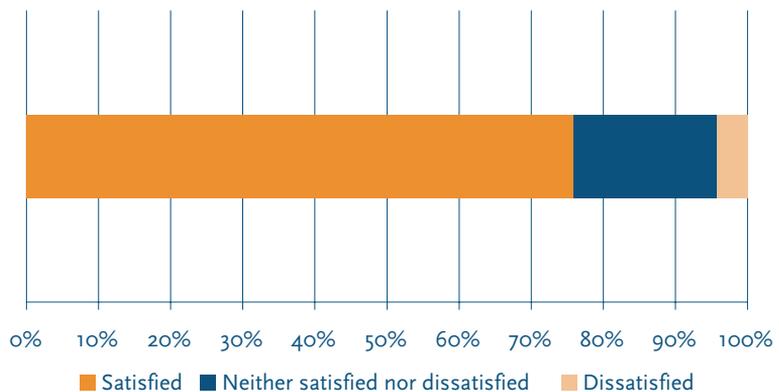
The Pack includes a member statement (providing detailed personalised information about a member's entitlements), annual report, change of address form and access number application. The Board uses the design services of communications consultants Adcorp-Green.

SIS legislation requires the Board to distribute annual member statements by 31 December each year. This year, the 2002–03 Annual Report Pack was distributed in September.

**Chart 6: CSS members' readership of the annual report over time**



**Chart 7: CSS members' satisfaction with the annual report**



## Regulatory 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.

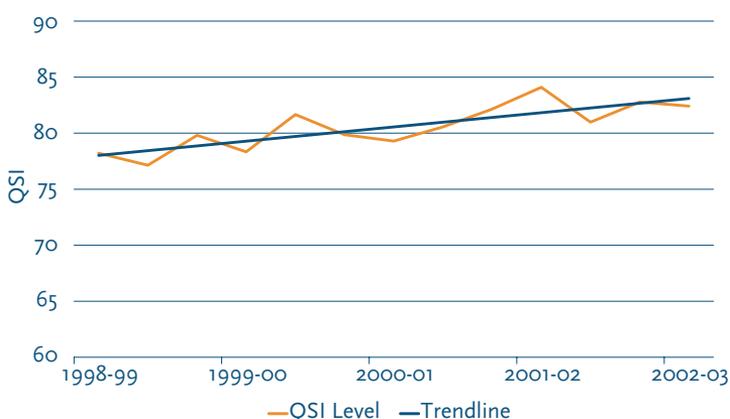
The Board is also expecting to lodge an application for an Australian Financial Services Licence in September 2003. The new FSRA legislation introduces a number of changes that affect superannuation funds with respect to communications and advice to members. The CSS is already largely compliant and welcomes the opportunity to increase clarity of reporting for members.

## Performance indicators

During 2002–03, on the Board's behalf, ComSuper again continued its series of client satisfaction surveys with the assistance of Canberra-based firm Orima Research. Clients who had recent contact with one of ComSuper's services were surveyed throughout the year. In 2002–03 the surveys included services offered to employers.

The Quality Service Index (QSI) for clients, used to measure the survey results and to enable comparison between survey periods, shows a steady improvement in client satisfaction over the year.

Chart 8: Quality Service Index (QSI) scores



As well as the regular client satisfaction surveys conducted by ComSuper specific purpose surveys are also arranged for key communications activities such as annual member statements and the website.

The results of all these surveys and the comparative assessments obtained from key industry forums such as ASFA and CMSF conferences again indicate the high quality of communications material provided to CSS members.

Enquiries about any of the communications mentioned above or the Board's website can be addressed to:

Communications Manager  
CSS Board  
GPO Box 1907  
Canberra City ACT 2616  
Telephone: (02) 6263 6999  
Fax: (02) 6263 6900

## Member contact centre

CSS members are encouraged to seek information about their superannuation benefits. The most popular form of request remains the telephone, although a continued increase in e-mail enquiries was noted during the year. ComSuper's Contact Centre answered 142 179\* telephone calls, responded to 16 458\* emails and prepared 6 861\* written replies to members' enquiries. As well, 96 member seminars were conducted in various locations throughout Australia, which were attended by 3 938 members.

Additionally, the Contact Centre responded to 1 528 requests for information about the superannuation entitlements of CSS or PSS members under the new family law arrangements. All family law requests were responded to within 28 days.

Strict timeliness standards are set for a range of communication activities including the performance of the Contact Centre. Performance against these standards is closely monitored. Outcomes for the key indicators are given below.

\* In combination with PSS members

STANDARD	OUTCOMES
<ul style="list-style-type: none"> <li>• Written enquiries:                             <ul style="list-style-type: none"> <li>– 85% in 10 days</li> <li>– 100% in 20 days</li> </ul> </li> <li>• E-mail enquiries:                             <ul style="list-style-type: none"> <li>– 95% in 1 day</li> <li>– 100% in 5 days</li> </ul> </li> <li>• Member statements and i-Estimator delivered as per project plan.</li> <li>• Telephone average speed of answer:                             <ul style="list-style-type: none"> <li>– Average of 30 seconds or less over a month</li> </ul> </li> <li>• Website changes:                             <ul style="list-style-type: none"> <li>– Critical updates—1 day</li> <li>– Routine updates—100% in 5 days</li> </ul> </li> <li>• Seminars—Provided as required or requested</li> <li>• Personal counselling in Canberra:                             <ul style="list-style-type: none"> <li>– Urgent—immediately</li> <li>– Others—within 5 days</li> </ul> </li> <li>• Benefit estimates and an application form within one day of advice being received of a member’s death.</li> <li>• Quality (i.e. fitness for purpose) of generated correspondence is assessed via six-monthly audits.</li> </ul>	<p>Standard met 7/12 months Standard met 7/12 months</p> <p>Standard met 4/12 months Standard met 7/12 months Standard met</p> <p>Standard met 8/12 months</p> <p>Standard met Standard met Standard met</p> <p>Standard met Standard met Standard met</p> <p>Standard met</p>

Chart 9: Contributor emails processed

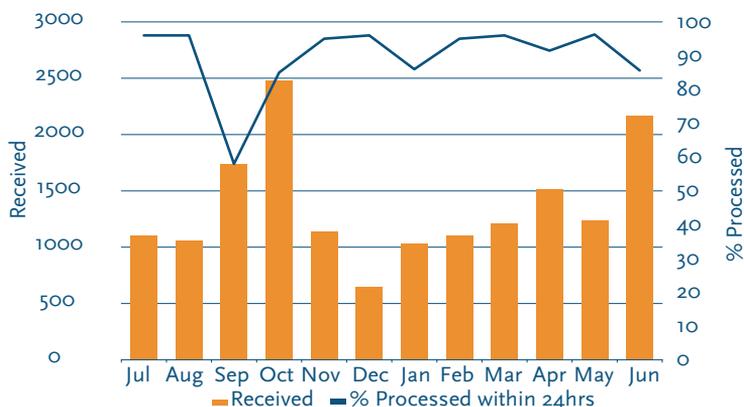


Chart 10: Contributor telephone calls

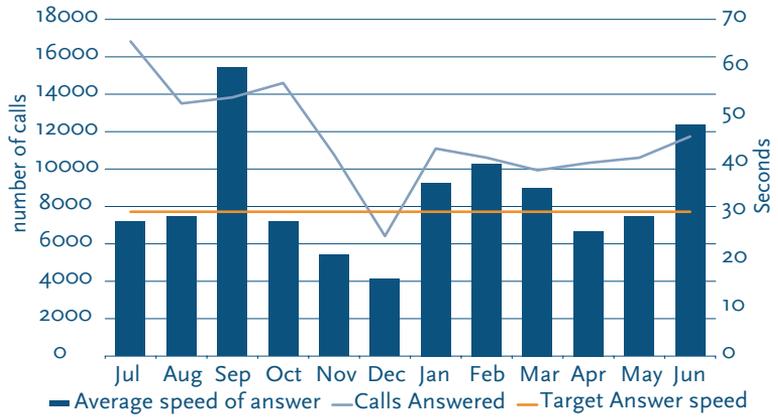
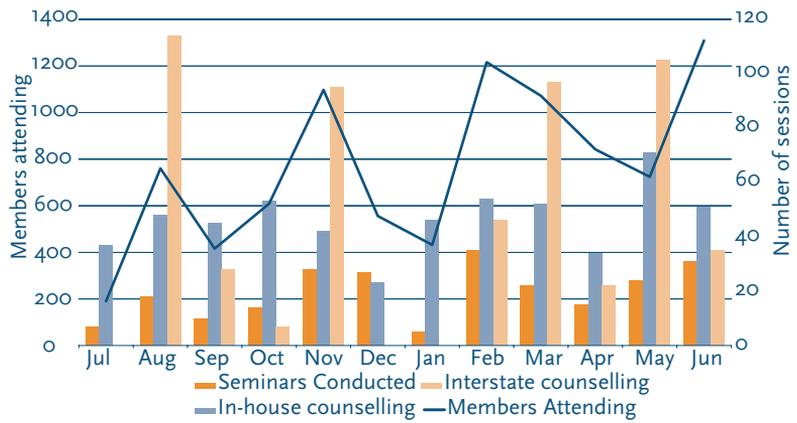


Chart 11: Information seminars and personal counselling 2002–03



## Website

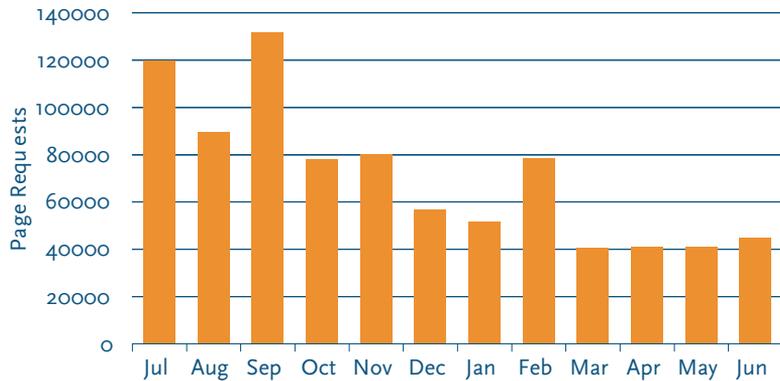
The CSS website ([www.css.gov.au](http://www.css.gov.au)) continues to be a primary communications channel between the Board and scheme members, particularly in relation to investment matters.

Independent assessments of website design and usability obtained through international benchmarking surveys show very pleasing results. This site was also tested as part of ComSuper’s cyclical research. Key findings of this research were:

- 95% of members reported that the website was easy to find;
- 87% of members thought the website was useful to them;
- 74% reported that the website had improved their knowledge of the scheme.

The Board remains committed to further enhancing its web presence and the development of online services.

**Chart 12: CSS website hits 2002–03**



Member access to the website is seasonal in nature, peaking at times when end of year financial information becomes available.

## Secure website access

Member Services Online provides members with a range of secure services including the calculation of benefits and the ability to view their annual statement online. During the year 27 297 statements were accessed and 45 932 benefit estimates produced online. 7 437 other transactions took place.

## Pensioner contact centre

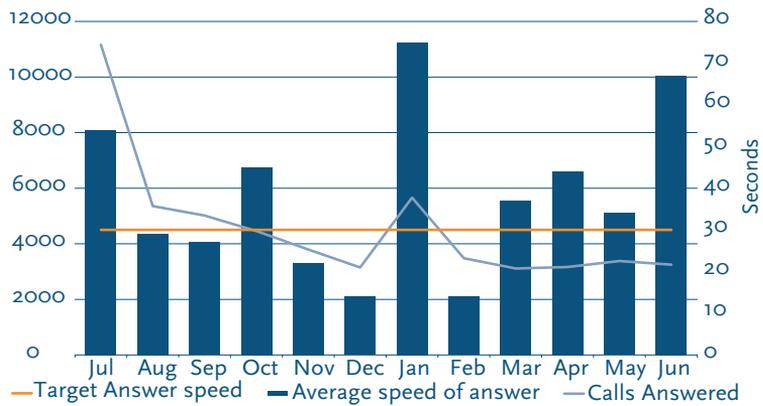
Information officers within the Contact Centre provide information to pensioners about their superannuation entitlements.

Pensioners can contact an information officer by telephone, letter, facsimile, or email. Additionally, pensioners with a hearing impairment can contact an information officer by using a special tele-typewriter (TTY) facility.

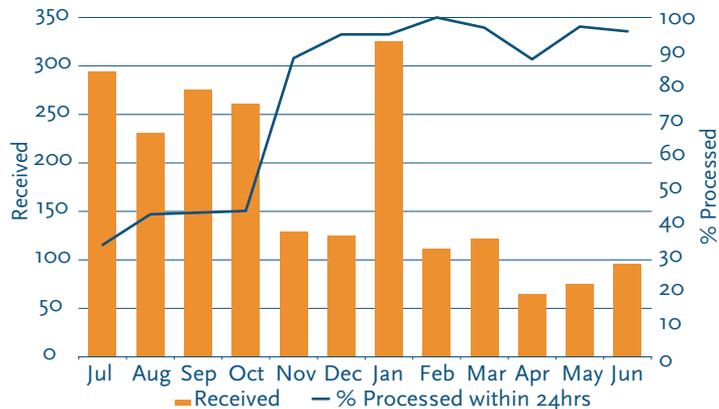
ComSuper's Pensioner Contact Centre answered 54 969 telephone calls, responded to 2 111 emails and prepared 5 984 written replies to member's enquiries.

Additionally, ComSuper responded to 373 requests for information about pensioners under new family law arrangements. All requests were responded to within 28 days.

**Chart 13: Pensioner telephone enquiries—average speed of answer**



**Chart 14: Pensioner emails received and processed 2002–03**







# Benefit payments

The number of benefit applications processed in 2002–03 reduced compared with numbers processed in the previous financial year. ComSuper processed 5 445 benefit applications during the year (compared with 6 738 in the previous financial year), representing an average of around 450 applications per month throughout the year.

**Table 15: Contributor exits by type 2002–03**

Type	Number
Age Retirement	686
Retrenchment (Involuntary and sale of assets)	966
Invalidity	95
Death	37
Resignation and other	1 242
Total	3 026

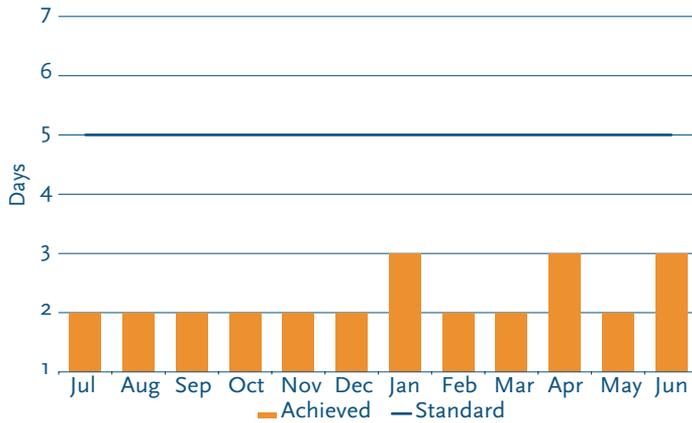
**Table 16: Deferred benefits claimed by type 2002–03**

Type	Number
Age Retirement (including delayed updated pensions and postponed)	2 378
Invalidity (includes preserved Invalidity)	23
Death	18
Total	2 419

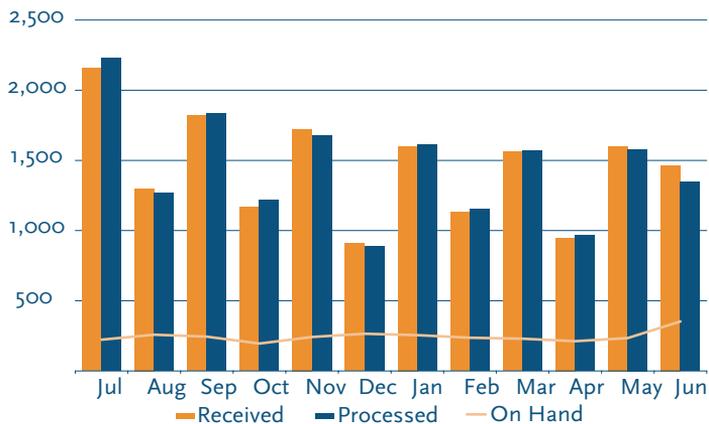
The Board requires all applications for benefits from contributors, preserved benefit members and pensioners to be processed in a timely manner and in accordance with relevant legislation. Requests for release on hardship or compassionate grounds are also given appropriate priority.

STANDARD	OUTCOMES
Benefit application processing:	
• Where all data is available, average processing time of 5 days over a month.	Standard met
• Report to be provided every 6 months for cases which take more than 20 days.	Standard met
• Accuracy as assessed by six-monthly audit.	Standard met
• 100% in 10 days	Standard met

**Chart 15: Average benefit processing time 2002–03**



**Chart 16: Applications received, processed & on hand, 2002–03**



## CSS deferred benefits

The number of CSS members taking deferred age benefits as opposed to normal age benefits continues to be high.

During the 2002–2003 financial year 2,316 members took deferred age benefits; i.e. they resigned or were retrenched, preserved their benefit and then claimed their deferred benefit (based on a multiple of contributions and interest) after reaching age 55.

During the same period only 686 members claimed normal age benefits (i.e. a benefit calculated as a percentage of salary based on age and years of service at retirement).

## Processing of invalidity claims

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 99 per cent of applications considered.

Performance standards, as described below, are set for the processing of claims for invalidity benefits.

STANDARD	OUTCOMES
Very urgent invalidity claims: <ul style="list-style-type: none"> <li>• 100% in 3 days</li> </ul>	Standard met
Normal invalidity claims: <ul style="list-style-type: none"> <li>• 70% in 3 months</li> <li>• 100% in 9 months</li> </ul>	Standard met Standard met 6/12 months
Preserved benefit invalidity claims: <ul style="list-style-type: none"> <li>• 80% in 6 months</li> <li>• 100% in 12 months</li> </ul>	Standard met 11/12 months Standard met

## Pre-assessment payments

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.

Applications for the issue of an invalidity retirement certificate are normally made to ComSuper through the applicant's employer. Eligibility for pre-assessment payments will be routinely determined by ComSuper after consideration of medical evidence which must include a medical report completed by a Health Services Australia Occupation Physician (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 2002–03, pre-assessment payments were approved in respect of 61 applicants. No applicants were refused pre-assessment payments on the ground that there was little likelihood that they 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 2002–03, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 88 cases considered by ICM, 86 were recommended for invalidity retirement, one was recommended to be refused and one case was 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:

- the advice of the panel; and
- 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 2002–03 86 invalidity retirement certificates were approved. Of those, 6 were fast-tracked by the invalidity assessment panel in less than three days.

## Pensions

During 1999–2000 ComSuper undertook an exercise to determine the most effective means of paying pensions into the future. As part of that exercise ComSuper evaluated various alternatives in pension management and payroll systems.

After considerable investigation and analysis it was decided that an off the shelf product called CAPITAL would achieve the desired result for the delivery of this service.

A project was then set-up to develop the product to suit ComSuper's business requirements. As a consequence of this project development, on payday 30 May 2002 ComSuper was able to successfully pay all CSS pensioners in the new CAPITAL environment.

Some of the advantages of having the new system are that running costs and maintenance are cheaper and manual cases, can now be processed by the new system. Additional functionality and reduced lead times for pension cut-offs have also resulted in improved service.

### Pension variations

STANDARD	OUTCOMES
<p>All reversionary pensions are commenced on the next available payday following receipt of application subject to eligibility criteria being clearly met and there being no counterclaims.</p>	<p>Standard met</p>
<p>Changes to pension payment arrangements are made within the first available fortnightly pay cycle following receipt of a request.</p>	<p>Standard met</p>

### Pensions in force

Chart 17: Growth in CSS pensioner population 2002–03



## Pension Increase Advice

STANDARD	OUTCOMES
The January CPI increase is to be processed for payment on the first payday in January.	Standard met
A pension adjustment is provided prior to the payday.	Standard met
The July increase is processed for payment on the first payday in July. A pension adjustment notice and a payment summary is provided prior to the payday.	Standard met

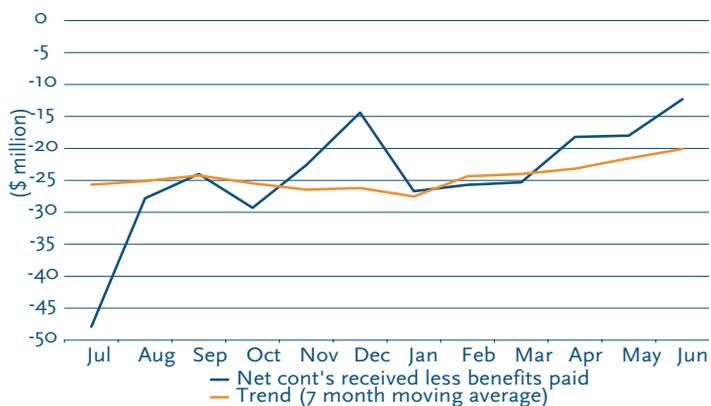
## Accounts, records and funding of benefit payments

The Board requires its administrator to:

- liaise with the Board’s investment custodian and investment staff of the Executive Unit to ensure that funds are available to meet benefits and other payments from the Funds as they fall due; and
- maintain proper accounts and records in respect of benefits paid.

STANDARD	OUTCOMES
Auditors to provide a report on how successful ComSuper was in maintaining the the Boards’ bank accounts and that proper accounts and records have been kept.	Standard met

Chart 18: CSS Fund-contributions received less benefits paid-2002–03





# Dispute resolution

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## Avenues of review

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

## Internal review

A person affected by a decision of the Board or a delegate may apply in writing to have it reconsidered. No fee applies. If a person is still unhappy with the decision, further reconsideration may be sought but the application must be supported by evidence not previously known to the Board and a fee of \$150 is paid. If the appeal is successful or withdrawn, the fee is refunded.

Requests are investigated by ComSuper and then referred to the Reconsideration Advisory Committee (RAC) after examination. The RAC comprises senior ComSuper officers: Mr Peter Skinner; Mr Trevor Dockett; Mr Michael Carberry; and Mr Hugh Major. The RAC makes a recommendation which is considered by the Board along with all the relevant evidence in deciding whether to affirm, vary or set aside the decision. The Board can also choose to reconsider a decision on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's decision on reconsideration.

Requests for reconsideration are treated as complaints for the purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993* (SIS) and should a person be unhappy with the Board's decision, the matter can be referred to the Superannuation Complaints Tribunal.

The Board requires its administrator to investigate requests for reconsideration of decisions in a thorough, objective and effective manner in accordance with any guidelines issued by the Board.

STANDARD	OUTCOMES
<p>The Reconsideration Committee will process reconsideration requests:</p> <ul style="list-style-type: none"> <li>• 60% in 8 months</li> <li>• 100% in 12 months</li> <li>• Average processing time —9 months</li> </ul> <p>ComSuper will process all negligence claims both objectively and expeditiously—as assessed six monthly by audit.</p>	<p>100% in 8 months 100% in 12 months Processing time is 3.4 months Standard met</p>

## Applications received

In 2002–03 twenty applications for reconsideration were received, compared with 36 last year. Late elections, cancellation of elections and requests to vary elections (8) dominated the case types.

Of the remaining cases received, five concerned benefits payable to spouses or children, two concerned provisions for reducing invalidity benefits on medical grounds, with the balance concerning various other entitlement provisions.

In view of the low numbers of requests the Board was satisfied with the high standard of decisions taken by delegates. The number of cases where it set aside or varied earlier decisions in favour of the applicant was 8 per cent and this was as a result of additional evidence rather than any obvious deficiency in the original decision.

## Cases finalised

Twenty five cases were finalised during the year, compared to 56 for the previous year. This reflected the reduced number of cases carried forward to this year and also the reduction in the number of new requests received.

**Table 17: Reconsideration applications received and outcomes 2002–03**

	2001–02		2002–03	
	Delegate's decision	Board's decision	Delegate's decision	Board's decision
Brought forward	30	1	11	0
Received	31	5	20	0
Withdrawn or lapsed	10	0	12	0
Decisions affirmed	34	5	11	0
Decisions set aside	6	1	2	0
Resolved	50	6	25	0
Carried forward*	11	0	6	0

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

## External review

The Board requires its administrator to do all things within its control to facilitate the expeditious processing of matters that go to the Superannuation Complaints Tribunal, the Federal Court and other jurisdictions such as the Human Rights and Equal Opportunity Commission.

The Board is also kept informed of the outcome of external appeals and of their implications.

STANDARD	OUTCOMES
External review cases to be processed both objectively and expeditiously—as assessed by six-monthly audit.	Standard met
Executive Unit to be informed immediately and a full report with a discussion of implications arising from decisions provided to the next appropriate meeting of the Administration Committee. As assessed via six-monthly audit.	Standard met

## Complaints lodged with the SCT

During the year, eight complaints were lodged with the SCT against the CSS Board and twenty one were carried over from the previous year. Twenty one cases were completed during the year. Six decisions of the Board were affirmed and nine decisions were set aside. Two were withdrawn by the complainants; and four complaints were treated by the SCT as withdrawn on the basis that the complaints were misconceived or were lacking in substance. Eight SCT complaints remain outstanding as at 30 June 2003.

## 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. During the year there were two CSS appeals reviewed by the Federal Court under the AD(JR) Act.

## Claims against the Board

During the year, two claims for compensation were considered by a delegate of the Board arising from a dispute about the claimants' benefit entitlements. Liability was accepted and the matters were settled by way of payment to the claimants of \$300 and an indexed pension of \$3 800 per annum, respectively.

## Complaints and enquiries

The Board has established formal procedures for dealing with member complaints received in accordance with Section 101 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act). The following service standards apply:

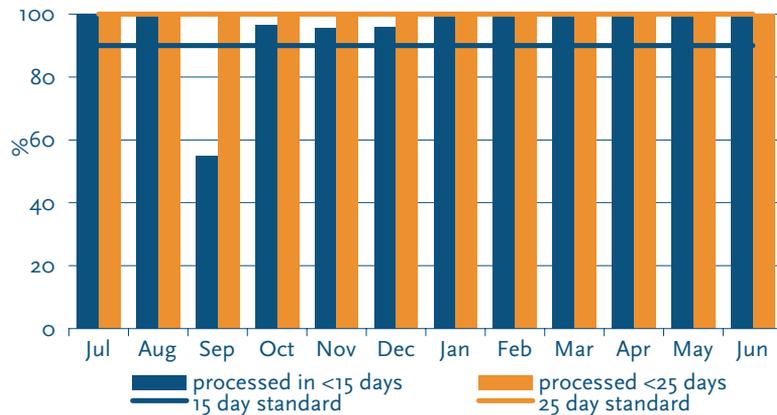
STANDARD	OUTCOMES
<p>Processing time for:</p> <p>SIS Complaints:</p> <ul style="list-style-type: none"> <li>• 90% within 15 days</li>   <li>• 100% within 25 days</li> </ul> <p>Parliamentarian/ Ombudsman representations:</p> <ul style="list-style-type: none"> <li>• 90% within 15 days</li> <li>• 100% within 25 days</li> </ul> <p>Freedom of Information requests:</p> <ul style="list-style-type: none"> <li>• 100% within 7 days</li> </ul>	<p>A substantive response was made to 93% of SIS registered complaints (excluding requests for internal review) within 15 working days.</p> <p>99% within 25 working days.</p> <p>60% within 15 working days 93% within 25 working days</p> <p>Overall one request (7%) fell outside the primary standard. No written Ombudsman representations were received.</p> <p>Service standard met.</p>

## Complaints and representations

During 2002–03, the Complaints Officer received 62 complaints and 15 parliamentary representations. This compared with 47 complaints and 33 representations made last year. Eight complaints were on-hand as at 30 June 2003. Complaints and representations did not have a particular theme and covered issues such as queries about the annual information statement, acceptance as a member, queries about benefit estimates and interest rates. Results of internal audit found no systemic or recurring issues giving rise to complaints. All complaints were able to be resolved within the legislative time frame of 90 days.

ComSuper advised the Board of the shortfall in meeting the service level standards for one complaint and one parliamentary representation. In both cases investigations were unable to be finalised within 25 days due to the complexity of the matters.

**Chart 19: Responses to complaints or ministerial / Ombudsman enquiries**







# Scheme Financial Statements



## COMMONWEALTH SUPERANNUATION SCHEME

### INDEPENDENT REPORT BY APPROVED AUDITOR TO THE MINISTER FOR FINANCE AND ADMINISTRATION

#### *(A) Financial Statements*

##### Scope

I have audited the financial statements of Commonwealth Superannuation Scheme for the year ended 30 June 2003. The financial statements comprise:

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and forming part of the Financial Statements

The superannuation entity's trustee is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to the Minister for Finance and Administration.

My audit has been conducted in accordance with Australian National Audit Office Auditing Standards which incorporate Australian Auditing and Assurance Standards to provide reasonable assurance whether the financial statements are free of material misstatement. My 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 whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with my understanding of the superannuation entity's net assets and changes in net assets.

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

##### Audit Opinion

In my opinion

- (i) The financial statements are in the form agreed by the Minister for Finance and Administration in accordance with the sub-section 161(1A) of the Superannuation Act 1976;

- (ii) the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the net assets of Commonwealth Superannuation Scheme as at 30 June 2003 and the changes in net assets for the year ended 30 June 2003.

***(B) Compliance***

Scope

I have conducted tests in accordance with Australian National Audit Office Auditing Standards which incorporate Australian Auditing and Assurance Standards as necessary to provide reasonable assurance whether the trustee of the Commonwealth Superannuation Scheme has, in all material respects:

- (a) complied with 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), 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 122, 124, 125, 152, 153, 154, 163, 169;

Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

- (b) the relevant requirements of the following provisions (to the extent applicable) of the *Corporations Act 2001* and Regulations:

Sections 1012A, 1012B, 1012C, 1012F, 1012G(3), 1012H(2), 1012I, 1013D, 1013K(1) or (2), 1016A(2) or (3), 1017B(1), 1017B(5), 1017C(2), 1017C(3) or (5), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3) or (4), 1020E(8) or (9); and

Regulation 7.9.32(3); and

- (c) adhered to the Guidelines for preparing risk management statements (“Guidelines”) issued by Australian Prudential Regulatory Authority (APRA) in Circular IL.D.7 on Derivatives (to the extent applicable)

for the year ended 30 June 2003.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and *Corporations Act 2001* and Regulations.

My procedures with respect to Regulation 6.17 of the Superannuation Industry (Supervision) Regulations included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of those regulations. These procedures did

not include testing of the calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My procedures with respect to the Guidelines consisted of confirming whether any Risk Management Statement was to be prepared by the superannuation entity's trustee under the Guidelines contained in APRA Circular I.D.7 at any time during the year of income. These procedures indicated that only a Part A Risk Management Statement should be prepared by the superannuation entity's trustee. This has been prepared and is broadly consistent with the requirements of the Guidelines.

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 or Guidelines or the *Corporations Act 2001* and Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the *Superannuation Industry (Supervision) Act 1993* and Regulations and the *Corporations Act 2001* and Regulations and appropriately applying the Guidelines.

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

#### Audit Opinion

In my opinion the trustee of Commonwealth Superannuation Scheme has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and the *Corporations Act 2001* and Regulations and applied the Guidelines specified above for the year ended 30 June 2003.

Australian National Audit Office



David C. McKean  
Executive Director

Delegate of the Auditor General

Canberra

17 September 2003

## Commonwealth Superannuation Scheme

### Statement by the Trustee of the Commonwealth Superannuation Scheme ("The Scheme")

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 matters required by Australian Accounting Standard, AAS 25, Financial Reporting by Superannuation Plans and Schedule 1 of the Commonwealth Authorities and Companies (Financial statements for reporting periods ending on or after 30 June 2003) Orders to the extent that the latter is not inconsistent with the former;
- (b) 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 2003 and the changes in net assets of the Scheme for the year ended 30 June 2003;
- (c) 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;
- (d) 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; and
- (e) 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 Sydney this 15th day of September 2003 in accordance with a resolution of members of the CSS Board as Trustee of the Scheme.



S Doyle  
Chairman



W. Hall  
Member

CSS Board

## COMMONWEALTH SUPERANNUATION SCHEME

Statement of Changes in Net Assets  
For the Year Ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
<b>Net assets available to pay benefits at the beginning of the financial year</b>		5 336 740	5 963 823
<b>Add:</b>			
<b>Revenue from ordinary activities</b>			
<b>Net investment revenue</b>			
Interest		75 533	45 609
Dividends		148 220	151 152
Other investment income		1 201	801
Changes in net market value of investments	3	(44 434)	(545 468)
Less: Direct investment expenses	4c	(11 363)	(11 609)
		<u>169 157</u>	<u>(359 515)</u>
<b>Contribution revenue</b>			
Member contributions	4a	148 418	152 703
Employer contributions	4a	49 038	48 792
Appropriation from Consolidated Revenue Fund	4b	2 302 725	2 223 126
		<u>2 500 181</u>	<u>2 424 621</u>
<b>Total revenue from ordinary activities</b>		<u>2 669 338</u>	<u>2 065 106</u>
<b>Less:</b>			
<b>Expenses from ordinary activities</b>			
General administration expenses	1k, 4c	(2 417)	(1 795)
<b>Benefits paid</b>			
Benefits paid	4b	(2 793 493)	(2 729 751)
Transfers to the Public Sector Superannuation Scheme	6	(1 138)	(547)
<b>Total expenses from ordinary activities</b>		<u>(2 797 048)</u>	<u>(2 732 093)</u>
<b>Total revenue less expenses and benefits paid before income tax</b>		<u>(127 710)</u>	<u>(666 987)</u>
<b>Income tax (expense)/benefit</b>	5	<u>(20 438)</u>	<u>39 904</u>
<b>Total revenue less expenses and benefits paid after income tax</b>		<u>(148 148)</u>	<u>(627 083)</u>
<b>Net assets available to pay benefits at the end of the financial year</b>		<u><u>5 188 592</u></u>	<u><u>5 336 740</u></u>

The attached notes form part of these financial statements.

## COMMONWEALTH SUPERANNUATION SCHEME

Statement of Net Assets  
As at 30 June 2003

	Note	2003 \$'000	2002 \$'000
<b>Investments</b>	1c		
Cash and short term deposits		97 410	41 097
Australian money market		160 999	135 503
Australian fixed interest		646 173	398 703
International fixed interest		674 921	141 074
Australian equity investments		1 334 694	1 414 020
International equity investments		1 254 095	1 938 221
Unlisted property trusts		765 892	885 535
Pooled superannuation trusts		147 143	296 319
Currency contracts		90 769	82 287
Other investments		2 805	16 936
<b>Total investments</b>		<u>5 174 901</u>	<u>5 349 695</u>
<b>Other assets</b>			
Cash at bank		23 476	3 886
Consolidated Revenue Fund Special Account		48	(74)
Interest receivable		21 171	10 623
Dividends receivable		10 616	11 086
Trade settlements receivable		16 801	20 570
GST recoverable		60	306
Sundry debtors			0 55
Benefits payable to be funded by Appropriation	4b	0	810
Deferred tax assets		<u>5 396</u>	<u>7 210</u>
<b>Total other assets</b>		<u>77 568</u>	<u>54 472</u>
<b>Total assets</b>		<u>5 252 469</u>	<u>5 404 167</u>
<b>Less: Liabilities</b>			
Benefits payable	4b	17 591	19 966
Trade settlements payable		15 920	17 059
Sundry creditors	7	7 274	4 604
Amounts due to other superannuation schemes	6	1 668	530
Current tax liabilities		12 316	2 675
Deferred tax liabilities		<u>9 108</u>	<u>22 593</u>
<b>Total liabilities</b>		<u>63 877</u>	<u>67 427</u>
<b>Net assets available to pay benefits</b>	11	<u>5 188 592</u>	<u>5 336 740</u>

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 2003

#### 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 Commonwealth Superannuation 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) *Revenue*

Investment revenue and contributions are brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue on the date the dividend is declared. Changes in the net market value of assets are recognised in the statement of changes in net assets in the period in which they occur. Transfers from other funds are brought to account when received.

##### (c) *Valuation of Investments*

Assets of the Scheme 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 basis of market valuations are summarised below:

- (i) Short-term Money Market - these securities are valued at the market closing price on 30 June and include accrued interest.
- (ii) Fixed Interest - these securities are valued at their market value on 30 June. Interest is accrued over the period and is recorded as part of other assets.
- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June.
- (iv) Equities - the security prices used for equities are the last sale price of a security on the relevant exchange at close of business on 30 June.
- (v) 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.

## COMMONWEALTH SUPERANNUATION SCHEME

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

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#### 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

##### (c) *Valuation of Investments (Cont.)*

- (vi) Unlisted investments- investments are valued annually in accordance with valuation guidelines agreed by the Board. Guidelines for valuations are set out in the Board's Valuation of Investments policy and the relevant Trust Deed for the investment. Valuations may be completed by an independent qualified valuer, the Investment Manager or the Board. In determining the valuation reference is made to guidelines set by relevant associations (such as Australian Venture Capital Association Ltd), or Australian Accounting Standards as the basis for valuation.
- (vii) Units in Unlisted Property Trusts and Pooled Superannuation Trusts - units are valued at their most recent redemption price as determined by the manager of the relevant trust, consistent with the methods listed above that are relevant to the underlying assets held by the unit trusts.

##### (d) *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. Resulting exchange differences are brought to account in determining the change in market value of investments for the year and hence the net assets available to pay benefits at the end of the financial year.

##### (e) *Use of Derivatives*

The Scheme's investment managers may use a number of derivative securities such as futures, options and forward exchange contracts to facilitate increases or decreases in the Scheme's exposure to different investment markets. Derivative securities are not to be used for gearing the portfolio or for placing the Scheme in a position where it is short an asset class.

Investment mandates granted to investment managers, which permit the use of derivatives, are to reflect the foregoing policy for the Scheme as a whole. Individual mandates may allow some gearing and the capacity to short markets but this must not involve the total fund being geared or being short an asset class. Where the Board's investment managers use derivative securities, the Board's internal investment team and /or investment advisors will monitor that such use is consistent with the Board's policy, and advise the Board of any breaches.

##### (f) *Income Tax*

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Changes in Net Assets is matched with total revenue less expenses and benefits paid before income tax, after allowing for permanent differences. The deferred tax asset relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on net cumulative timing differences is set aside to deferred income tax or deferred tax assets accounts at rates which are expected to apply when those timing differences occur.

##### (g) *Contributions Receivable*

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

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

**(h) Benefits Payable**

Benefits payable represents benefits in respect of members who ceased employment with the employer sponsor prior to year end who are entitled to receive a benefit but had not been paid by that date.

**(i) Liability for Accrued Benefits**

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported at note 13. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note.

The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to the date of measurement.

The present value reported in the notes is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

**(j) Superannuation Contributions Surcharge**

The surcharge is accounted for as and when the amount becomes payable to the Australian Taxation Office.

**(k) 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 Scheme. Fees paid to the Chairman of the CSS Board are also a charge against the Scheme. Fees for other CSS Board members are charged 50% to the Fund and 50% against the CSS Board.

All other costs incurred by the Board are met from revenues generated through user charging arrangements with employer agencies and the Department of Finance and Administration. These revenues and the associated expenditure of the CSS Board have been brought to account in the financial statements of the CSS Board.

**(l) Goods and Services Tax (GST)**

Where applicable GST incurred by the Scheme that is not recoverable from the Australian Taxation Office, has been recognised as part of the expense to which it applies. Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

**(m) Sundry Debtors and Creditors**

Sundry debtors are recognised at the amounts receivable, which approximate net fair value. Sundry creditors represent liabilities for goods and services provided to the scheme prior to the end of the financial year and which are unpaid. The amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 2. NATURE OF SCHEME AND PRINCIPAL ACTIVITIES

(a) The Scheme is a defined benefit scheme which provides benefits to its members under the Superannuation Act 1976 (as subsequently amended).

(b) Member and Employee Numbers

	2003	2002
Number of members		
- Contributors	37 316	40 015
- Deferred beneficiaries/preservers	13 429	13 956
- Pensioners	116 232	111 256
	<u>166 977</u>	<u>165 227</u>
Number of employees directly employed to manage the scheme	<u>18</u>	<u>13</u>

## 3. CHANGES IN NET MARKET VALUES

	2 003	2 002
	\$'000	\$'000

Changes in net market values of investments:

(a) *Investments held at 30 June:*

Australian money market	131	798
Australian fixed interest	13 454	(3 000)
International fixed interest	(60 401)	(20 238)
Australian equity investments	(38 425)	(83 862)
International equity investments	(73 506)	(461 189)
Unlisted property trusts	25 538	4 962
Pooled superannuation trusts	9 905	(2 238)
Currency contracts	7 590	123 820
Other investments	(2 181)	(2 929)
	<u>(117 895)</u>	<u>(443 876)</u>

(b) *Investments realised during the year:*

Australian money market	3 302	3 726
Australian fixed interest	(1 814)	348
International fixed interest	(13 176)	(16 982)
Australian equity investments	(128 458)	(29 362)
International equity investments	(158 065)	(90 658)
Unlisted property trusts	(3 617)	0
Pooled superannuation trusts	(20 536)	11 530
Currency contracts	271 766	32 330
Other investments	124 059	(12 524)
	<u>73 461</u>	<u>(101 592)</u>

(c) *Total changes in net market values of investments*

	<u>(44 434)</u>	<u>(545 468)</u>
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The net gain on foreign currency contracts for the year was \$ 279.4m (2002: net gain \$156.1m). 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 Superannuation Trust investments.

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 4 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 which 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 (CRF) which assumes responsibility for the payment of the benefit.

Benefits payable by the CRF as at 30 June totalled \$0 m (2002: \$0.8 m). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

The following provides a breakdown of benefits paid by both the Fund and the CRF:

	2003 \$'000	2002 \$'000
Gross Appropriation from CRF	2 792 211	2 728 597
less: Transfers from Fund to CRF	<u>(489 486)</u>	<u>(505 471)</u>
<b>Net Appropriation</b>	<b><u>2 302 725</u></b>	<b><u>2 223 126</u></b>
<b>CSS Fund</b>		
Lump-sum Benefits	<u>1 282</u>	<u>1 154</u>
<b>Consolidated Revenue Fund</b>		
Lump-sum Benefits	468 264	517 805
Transfer Values	0	670
Pensions	2 322 495	2 209 146
Other	<u>1 452</u>	<u>976</u>
	<b><u>2 792 211</u></b>	<b><u>2 728 597</u></b>
<b>Total benefits paid</b>	<b><u>2 793 493</u></b>	<b><u>2 729 751</u></b>

## (c) Costs of Administration

The *Superannuation Act 1976* requires the Commissioner for Superannuation (through ComSuper) to provide administrative support to the CSS Board to enable the Board to perform its functions under the Act. Under the provisions of the Act, the CSS Scheme meets the expenses of the Board in respect to the Board's responsibilities for the management and investment of the Scheme. All other scheme expenses of the Board and the Commissioner for Superannuation/ComSuper are met from administrative fees paid to ComSuper by employing agencies. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the CSS Board and the Commissioner for Superannuation.

## COMMONWEALTH SUPERANNUATION SCHEME

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

#### 4. FUNDING ARRANGEMENTS (Cont.)

The breakdown of administrative expenses of the CSS Scheme (met by the Scheme), the CSS Board (met by the Board) and the Commissioner of Superannuation are as follows:

	2003 \$'000	2002 \$'000
Commonwealth Superannuation Scheme	2 417	1 795
CSS Board	987	1 000
ComSuper Administration	10 629	10 711
Total	<u>14 033</u>	<u>13 506</u>

For administrative simplicity, the PSS and CSS Boards were treated as a single cost centre for scheme administration purposes in 2001-02. As from 1 July, 2002 the PSS and CSS Boards are separate entities under the *Financial Management and Accountability Act 1997* for scheme administrative purposes. The above figures have been calculated using the methodology now in place for sharing of administrative fees between each Board.

Direct investment expenses include charges levied by the Investment Advisors, Investment Managers and Custodian to invest and manage the assets of the CSS Scheme. The Direct investment expenses for 2002-03 are as follows:

	2003 \$'000	2002 \$'000
Investment Advisors	667	1 787
Investment Managers	8 756	8 093
Custodian	1 522	1 404
Other	411	320
	<u>11 356</u>	<u>11 604</u>
GST Expense	7	5
Total	<u>11 363</u>	<u>11 609</u>

#### 5. INCOME TAX

The taxation liability at 30 June has been calculated on the basis that the CSS Scheme is a complying superannuation fund within the meaning of the *Superannuation Industry (Supervision) Act 1993* and that tax will be payable at a concessional rate of 15% on net investment earnings, employer contributions and capital gains with deductions allowable for administration expenses incurred by the Scheme.

The aggregate amount of income tax attributable to the period is not equal to 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:

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 5. INCOME TAX (Cont)

	2003 \$'000	2002 \$'000
Total revenue less expenses and benefits paid before income tax	<u>(127 710)</u>	<u>(666 987)</u>
Prima facie income tax expense calculated at 15%	(19 157)	(100 048)
Add/(Less) Permanent Differences		
Employee contributions	(22 264)	(22 905)
Benefits paid	73 615	75 994
Income from Pooled Superannuation Trusts	2 981	(1 394)
Imputation credits from franked dividends received	3 201	2 447
Indexation/CGT discount on realised capital gains	(9 993)	23 397
Reversal of CGT Discount on unrealised losses carried forward	12 740	0
Other	1 160	618
	<u>42 283</u>	<u>(21 891)</u>
Less: Imputation and foreign tax credits	(21 340)	(17 830)
Less: Over provision in prior years	(505)	(183)
Income Tax (Benefit) Expense	<u>20 438</u>	<u>(39 904)</u>
 Income tax expense comprises:		
Income tax payable current year	12 180	1 681
Amount paid during 2002-03	16 180	7 682
Movement in deferred income tax provisions	(7 417)	(49 084)
Under/over provision in prior year	(505)	(183)
	<u>20 438</u>	<u>(39 904)</u>

## 6. TRANSFERS FROM THE SCHEME TO THE PUBLIC SECTOR SUPERANNUATION SCHEME

Certain former contributors to the Scheme who again become members of the Scheme are entitled to elect to transfer to the Public Sector Superannuation Scheme. During the period 1 July 2002 to 30 June 2003 a small number of returning Scheme members exercised their election to transfer to the PSS.

As at 30 June 2003 the Ministerial determination to effect these transfers had not been completed and \$ 1 133 000 has been brought to account as a current liability of the Scheme.

As at 30 June 2003 an amount of \$534 926 was due to be paid to the PSS for members who elected to move from the Scheme to the PSS during 2001-02. A Ministerial determination to effect the transfer was executed by the Board on 4 June 2003. The transfer was completed on 28 July, 2003.

**COMMONWEALTH SUPERANNUATION SCHEME**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**7. SUNDRY CREDITORS**

	2003 \$'000	2002 \$'000
Investment expenses payable	4 463	2 940
Accrued expenses	351	265
Other	2 460	1 399
	<u>7 274</u>	<u>4 604</u>

**8. AUDITOR'S REMUNERATION**

2003 \$	2002 \$
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Amounts received or due and receivable by the Australian National Audit Office as auditors of CSS:

<u>52 000</u>	<u>43 000</u>
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Deloitte Touche Tohmatsu have been contracted by the Australian National Audit Office to provide audit services on the ANAO's behalf. Fees from those services are included above.

No other services were provided by the Auditor-General during the reporting period.

**9. SUPERANNUATION CONTRIBUTIONS SURCHARGE**

The Superannuation Contributions Surcharge applies to the surchargeable superannuation contributions of members, whose adjusted taxable income exceeds the surcharge threshold. Surcharge liabilities are calculated by the Australian Taxation Office (ATO) and recorded against Scheme 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.

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 9. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)

A summary of transactions recorded during 2002/2003 follows:

	2003 \$'000	2002 \$'000
Total Surcharge Liability Outstanding at start of year	27 476	20 037
Adjustment to prior year balance	6 695	0
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	<u>10 980</u>	<u>9 831</u>
Less: Amount paid by members and CRF	<u>(4 207)</u>	<u>(4 328)</u>
Plus: Interest on outstanding surcharge liability at 30 June 2003	<u>40 944</u>	<u>25 540</u>
Total Surcharge liability outstanding at end of year	<u><u>42 996</u></u>	<u><u>27 476</u></u>

An adjustment of \$6.7m was made to the outstanding surcharge liability as at 30 June 2002. The adjustment reflects the incorrect reporting of assessment amounts in prior years.

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 2002 to 30 June 2003 has not been disclosed because the assessments have not, as yet, been issued 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 financial statements 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 which are funded to a significant extent from Consolidated Revenue Fund.

## 10. FINANCIAL INSTRUMENT DISCLOSURES

The investments of the Scheme (other than cash held for meeting daily administrative and benefit exposures), are managed on behalf of the Board 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 Board has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Board's investment strategy.

**COMMONWEALTH SUPERANNUATION SCHEME**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**10. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**

J P Morgan acts as master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting of investment transactions.

The Board employs the following investment advisors:

- (a) JANA Investment Advisors to provide investment advice for strategic asset allocation and investment policy. JANA also provide:
  - advice on manager selection;
  - monitoring with respect to Australian and International Equities, Fixed Interest, Australian Property and non-Australian Alternative Investments; and
  - risk management, investment research and performance reporting at a total fund level;
- (b) Towers Perrin to provide investment advice; and
- (c) Wilshire Australia to advise the Board on new Australian private equity investments and monitor the Board's existing Australian private equity commitments.

**(a) Use of Derivative Financial Instruments**

The Scheme's investment managers may use a number of derivative securities such as futures, options and forward exchange contracts to facilitate increases or decreases in the Scheme's exposure to different investment markets. Derivative securities are not to be used for gearing the portfolio or for placing the Scheme in a position where it is short an asset class.

Investment mandates granted to investment managers, which permit the use of derivatives, are to reflect the foregoing policy for the Scheme as a whole. Individual mandates may allow some gearing and the capacity to short markets but this must not involve the total Scheme being geared or being short an asset class. Where the Board's investment managers use derivative securities, the Board's internal investment team and /or investment advisors will monitor that such use is consistent with the Board's policy, and advise the Board of any breaches.

At 30 June, the notional principal amounts and the net fair value of derivatives held by the Fund where as follows:

	Notional Principal Amounts		Net Market Value	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Australian Share Price Index Futures	15 392	13 764	(222)	(99)
Australian Exchange Traded Options	(3 115)	536	(1 101)	15 919
International Share Price Index Futures	1 156	2 392	(12)	16
Currency Contracts	1 962 275	2 115 780	90 769	82 287
Total	1 975 708	2 132 472	89 434	98 123

**(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 Scheme'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 \$21.4 m (2002: \$34.6 m). The Scheme does not have significant exposures to any individual counterparty or industry.

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 10. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

## (c) Interest Rate Risk

The Scheme invests in financial investments for the primary purpose of obtaining a return on investments on behalf of its members. As such, the Scheme'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 Scheme's exposure to interest rate movements on investments at 30 June was as follows:

30 June 2003	Floating Interest Rate \$'000	Fixed Interest Rate			Non Interest Bearing \$'000	Total \$'000
		1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000		
<b>Assets</b>						
Cash and short term deposits	92 602				4 808	97 410
Australian money market	160 999					160 999
Australian fixed interest		57 556	302 602	238 076	47 939	646 173
International fixed interest		12 521	275 130	387 270		674 921
Australian equity investments					1 334 694	1 334 694
International equity investments					1 254 095	1 254 095
Unlisted property trusts					765 892	765 892
Pooled superannuation trusts					147 143	147 143
Currency contracts					90 769	90 769
Other investments	3 379				(574)	2 805
Other assets	23 476				48 696	72 172
Deferred tax assets					5 396	5 396
<b>Liabilities</b>						
Benefits payable					(17 591)	(17 591)
Trade settlements payable					(15 920)	(15 920)
Sundry creditors					(7 274)	(7 274)
Amounts due to other schemes					(1 668)	(1 668)
Current tax liabilities					(12 316)	(12 316)
Deferred tax liabilities					(9 108)	(9 108)
<b>Total</b>	<b>280 456</b>	<b>70 077</b>	<b>577 732</b>	<b>625 346</b>	<b>3 634 981</b>	<b>5 188 592</b>
Weighted average interest rate	4.37%	4.12%	3.64%	4.64%		

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

10. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(c) Interest Rate Risk

30 June 2003	Floating Interest Rate \$'000	1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
<b>Assets</b>						
Cash and short term deposits	41 097					41 097
Australian money market	135 503					135 503
Australian fixed interest		39 249	195 480	163 974		398 703
International fixed interest		79	25 055	115 940		141 074
Australian equity investments					1 414 020	1 414 020
International equity investments					1 938 221	1 938 221
Unlisted property trusts					885 535	885 535
Pooled superannuation trusts					296 319	296 319
Currency contracts					82 287	82 287
Other investments					16 936	16 936
Other assets	3 886				43 376	47 262
Deferred tax assets					7 210	7 210
<b>Liabilities</b>						
Benefits payable					(19 966)	(19 966)
Trade settlements payable					(17 059)	(17 059)
Sundry creditors					(4 604)	(4 604)
Amounts due to other schemes					(530)	(530)
Current tax liabilities					(2 675)	(2 675)
Deferred tax liabilities					(22 593)	(22 593)
<b>Total</b>	<b>180 486</b>	<b>39 328</b>	<b>220 535</b>	<b>279 914</b>	<b>4 616 477</b>	<b>5 336 740</b>
Weighted average interest rate	4.67%	5.19%	6.42%	7.76%		

(d) Currency Risk

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

30 June 2003	USD A\$'000	JPY A\$'000	GPB A\$'000	EURO A\$'000	Other A\$'000	Total A\$'000
Gross investment amounts denominated in foreign currency	1 005 245	217 908	126 243	362 307	141 827	1 853 530
Amount effectively hedged	(1 020 955)	(222 140)	(131 535)	(393 014)	(103 862)	(1 871 506)
Net Exposure	(15 710)	(4 232)	(5 292)	(30 707)	37 965	(17 976)

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 10. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

## (d) Currency Risk

	USD A\$'000	JPY A\$'000	GBP A\$'000	EURO A\$'000	Other A\$'000	Total A\$'000
30 June 2002						
Gross investment amounts denominated in foreign currency	1 271 051	158 238	182 535	267 888	154 810	2 034 522
Amount effectively hedged	(1 191 963)	(191 968)	(171 563)	(306 415)	(171 583)	(2 033 492)
Net Exposure	79 088	(33 730)	10 972	(38 527)	(16 773)	1 030

## (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.

## 11. RESERVE

The annual crediting rate is determined after transfers of income into and out of the reserve. The principal purpose of the reserve is to assist in managing short term mismatches between Fund earning rates and crediting rates which arise from the capital guarantee applying to members' accumulated contributions and the smoothing of investment returns.

The reserve is calculated as the difference between the net assets of the Fund and the value of the funded entitlements to be advised to members in their annual information statements. The value of the reserve is affected by changes in the funded entitlements, the exit rates applying at various times during the year and the difference between the earning and crediting rates of the scheme.

The Fund's net earnings rate after tax for the year ended 30 June was 2.96%. Taking the balance of the Reserve into consideration as well as their legislative obligations the Board declared a crediting rate of 0% for the year ending 30 June. The difference of 2.96% between the Fund's net earnings rate and the crediting rate to members accounts has increased the balance of the reserve as reported at 30 June 2002 as follows:

	2003 \$'000	2002 \$'000
Opening Balance of Reserve	(301 053)	12 441
Add: Adjustments for estimates	(9 302)	0
Add: Earnings of Fund for the year	153 659	(313 494)
Less: Earnings allocation to members' accounts	0	0
Closing Balance of Reserve	<u>(156 696)</u>	<u>(301 053)</u>

The closing balance is a negative reserve (i.e. deficiency) and is estimated to represent 3.0% (2002: 5.6%) of the adjusted net assets (net assets plus funded benefits payable) of the Fund as at the 30 June 2003. This deficiency does not represent an "unsatisfactory financial position" under SIS Regulation 9.04 as a consequence of Regulation 9.02 which specifically exempts the Scheme from the provisions of Regulation 9.04.

The Board has determined that the crediting/exit rate policy for the Scheme be suspended and the exit rate be set at zero until the reserve is within the range of -1% to + 1% of the value of the Scheme.

**COMMONWEALTH SUPERANNUATION SCHEME**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**12. 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.

Mercer Human Resource Consulting have advised that the amount of vested benefits at 30 June \$ 56.49 billion (2002: \$54.43 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June and elected the option which maximises their benefit entitlement.

The vested benefits amount is made up of:

	<b>2003</b> <b>\$million</b>	2002 \$million
Funded Component	<b>5 363</b>	5 657
Unfunded Component	<u><b>51 124</b></u>	<u>48 773</u>
	<u><u><b>56 487</b></u></u>	<u><u>** 54 430</u></u>

\*\* The 2002 figure was subsequently revised to \$56.6 billion as a consequence of the triennial actuarial review as at 30 June 2002.

The net assets of the Scheme compared to the vested benefits are:

	<b>2003</b> <b>\$million</b>	2002 \$million
Funded Component	<b>5 363</b>	5 657
Net Assets plus Funded Benefits Payable	<u><b>5 206</b></u>	<u>5 356</u>
Surplus/(Deficiency)	<u><u><b>(157)</b></u></u>	<u><u>(301)</u></u>

**13. 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 Scheme, (ie. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed by the Commonwealth from the CRF at the time the superannuation benefits became payable.

## COMMONWEALTH SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 13. LIABILITY FOR ACCRUED BENEFITS (Cont.)

The amount of accrued benefits in respect of the Fund is calculated on a triennial basis. The most recent valuation of the accrued benefits was undertaken by Mercer Human Resources Consulting Pty Ltd (Mercer) as a part of a comprehensive review as at 30 June 2002 (an extract of Mercer's report is attached). The next valuation of accrued benefits is as at 30 June 2005 and is expected to be completed by June 2006.

Accrued Benefits as at 30 June were:	2002 \$billion	1999 \$billion
Funded component	5.7	5.6
Unfunded component	49.3	40.2
	55.0	45.8

The net assets compared to the liability for accrued benefits as at 30 June are:

	2002 \$billion	1999 \$billion
Funded Component	5.66	5.56
Adjusted Net Assets	5.36	5.59
Surplus/(Deficiency) Reserve	(0.3)	0.03

## 14. SEGMENT REPORTING

The Scheme operates in the superannuation fund investment industry in Australia, however as part of its investment activities, it also maintains significant overseas investments as detailed in note 10(d).

## 15. RELATED PARTIES

## (a) Members of the CSS Board

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

P. Reynolds (Chairman)  
 W Hall  
 J Palmer  
 S O'Loughlin  
 R Balderstone  
 C Manolios  
 L McBride  
 D Connolly  
 P Smith (alternate for J Palmer)  
 J Flitcroft (alternate for S O'Loughlin)  
 D Irons (alternate for W Hall)  
 S Wilson (alternate for R Balderstone, L McBride, C Manolios and D Connolly)

Mr D Connolly was appointed as a member of the Board with effect from 19 September 2002 replacing Ms L McBride whose term expired 27 July 2002.

Since year end the terms of Mr P Reynolds and Ms C Manolios have expired (27 July 2003 and 24 July 2003 respectively). Ms S Doyle has been appointed as Mr Reynolds replacement effective 28 July 2003. Mr D Moore has been appointed as Ms Manolios' replacement effective 9 September 2003.

**COMMONWEALTH SUPERANNUATION SCHEME**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**15. RELATED PARTIES (Cont.)**

**(b) Trustee Related Transactions**

Some members of the CSS Board may, as a result of their current employment, be members of the Scheme and as such would be required to have made contributions to the scheme during the 2002-2003 financial year on the same terms and conditions applicable to all scheme members.

Total fees paid by the scheme in respect of CSS Board members entitled to receive fees during the year amounted to \$150 014 (2002: \$147 000).

**(c) Executive Remuneration**

The number of executive officers whose remuneration is greater than \$100,000 is within the following bands.

	2003	2002
\$280,001 to \$290,000	1	0
\$250,001 to \$260,000	1	0
\$230,001 to \$240,000	1	1
\$200,001 to \$210,000	0	1
\$180,001 to \$190,000	1	0
\$140,001 to \$150,000	1	1
\$100,001 to \$110,000	1	0

**(d) 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 Australian Equities Fund from Commonwealth Funds Management as of 1 February 1999. The Boards appoints directors, who are current nominated members of the CSS and PSS Boards, to manage the company.

**16. CONTINGENT LIABILITIES**

**(a) Investments**

At 30 June the Fund had outstanding investment capital commitments of \$362.4m (2002: \$405.4m). These commitments are expected to be settled as follows:

	2003 \$'000	2002 \$'000
Within 12 months	111 817	110 958
Greater than 12 months but less than 5 years	198 667	235 450
Greater than 5 years	51 902	58 952
	<u>362 386</u>	<u>405 360</u>

**(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 to the Scheme.

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

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**Information Required for Purposes of Australian  
Accounting Standard AAS25 Relating to the Actuarial  
Valuation of the Commonwealth Sector  
Superannuation Scheme as at 30 June 2002**

**Purpose of Report**

The Commonwealth Sector Superannuation Scheme is a plan that provides benefits defined in terms of salary near retirement. It therefore requires periodic actuarial investigation in order to comply with the provisions of the Trust Deed and the requirements of the Superannuation Industry (Supervision) Regulations.

This extract summarises the actuarial valuation of the Plan as at 30 June 2002 carried out by Mercer Human Resource Consulting under the advice of Martin Stevenson, FIAA, FIA and Tony Snoyman, FIAA, FIA. It has been prepared for the purposes of inclusion with the Plan Accounts and is in a form that complies with the Australian Accounting Standard AAS 25.

**Accrued and Vested Benefits**

AAS 25 requires the disclosure of Accrued and Vested benefits at the reporting date.

For the purpose of AAS 25 the following amounts have been determined:

Reporting Date	Accrued Benefits \$b	Vested Benefits \$b
30 June 2002	55.0	56.6

**Accrued Benefits** have been determined as the present value of expected future benefit payments which arise from membership of the CSS up to the reporting date.

**Vested Benefits** are benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the scheme.

The method and assumptions used to determine Accrued and Vested Benefits are summarized in Attachment 1 to this statement.

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Accrued Benefits have been calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by the Institute of Actuaries of Australia.

### Review of Actuarial Report

AAS 25 also requires the notes to the scheme accounts to include a summary of the most recent actuarial report of the CSS. Attachment 2 to this Statement provides a summary of the report dated February 2003 on the Long Term Cost of the Public Sector Superannuation Scheme (PSS) and the CSS carried out as at 30 June 2002. The summary has been prepared in accordance with Professional Standard 401 issued by the Institute of Actuaries of Australia and contains the information required under AAS 25.



**Martin A Stevenson**  
Fellow of the Institute of Actuaries  
of Australia

Principal, Mercer Human Resource  
Consulting Pty Limited



**Tony Snoyman**  
Fellow of the Institute of Actuaries  
of Australia

Principal, Mercer Human Resource  
Consulting Pty Limited

February 2003

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## Attachment 1 to AAS 25 Statement

### Method of Determining Accrued and Vested Benefits

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the CSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit. Benefits were apportioned between past and future membership by reducing the projected benefit by the ratio of membership to the calculation date to membership at the date of exit.

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

Vested Benefits are determined as the value of benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the CSS.

### Assumptions Used to Determine Accrued Benefits

With the exception of the financial assumptions, the other assumptions used to determine Accrued Benefits are the same as those used for the most recent actuarial investigation into the long term cost of the PSS and the CSS as at 30 June 2002.

The financial assumptions adopted for AAS 25 purposes are essentially the same as the assumptions adopted for the long term cost report. Therefore, the Accrued Benefit calculated for AAS 25 purposes is the same as that calculated for the purposes of the long term report.

The financial assumptions used to determine the Accrued Benefits along with those used for the recent actuarial investigation are shown in the table below:

<b>Item</b>	<b>AAS 25</b>	<b>Long Term Cost Report</b>
CPI Increases	2.5% per annum	2.5% per annum
Investment Return	6.0% per annum	6.0% per annum
General Salary Increases	4.0% per annum	4.0% per annum

The discount rate for AAS 25 purposes has been taken as the long term bond rate as at 30 June 2002 of 5.1% per annum, adjusted to take into account investment expenses and anticipated future reinvestment rates. Allowance has not been made for investment tax as the employer financed portion of the benefit is paid as an untaxed benefit and funding of such benefit is not subject to tax.

A summary of the other assumptions used is contained in Appendix B of the long term cost report of the PSS and the CSS dated February 2002.

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## Attachment 2 to AAS 25 Statement

### Summary of the Long Term Cost Report

The latest actuarial investigation into the long term cost of the CSS and PSS was conducted at 30 June 2002 and the results presented in the report dated February 2002.

This attachment provides a summary of that report.

### Membership Data

Data relating to the membership of the PSS and the CSS was provided by ComSuper, on behalf of the PSS and CSS Boards, the schemes' administrator, for the purposes of this investigation.

The table below summarises the total membership of the CSS as at 30 June 2002.

CSS MEMBERSHIP as at 30 JUNE 2002			
	Male	Females	Total
<b>Number of Contributors</b>	27,263	12,723	39,986
<b>Salaries</b> - Total	\$1,766 m	\$706 m	\$2,472 m
- Average	\$64,754	\$55,505	\$61,811
<b>Number of Deferred Beneficiaries</b>	10,289	3,680	13,969
<b>Number of Age Pensioners</b>	46,152	14,308	60,460
<b>Number of Invalidation Pensioners</b>	17,704	5,206	22,910
<b>Number of Reversionary Pensioners</b>	1,165	26,765	27,930

### Assumptions

The key financial assumptions adopted for this review are shown in the table below. The assumptions adopted for the previous review (which was carried out as at 30 June 1999) are shown for comparison purposes.

Item	Assumption	1999 Investigation
CPI Increases	2.5% per annum	3.5% per annum
Investment Returns	6.0% per annum (nominal) 3.5% per annum (real)	7.0% per annum (nominal) 3.5% per annum (real)
General Salary Increases	4.0% per annum (nominal) 1.5% per annum (real)	5.0% per annum (nominal) 1.5% per annum (real)
GDP Increases	2.1%* per annum (real)	2.5% per annum (real)

\* The GDP increase rate is the average of the annual rates over the period from 2002 to 2042.

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The differences between the key financial assumptions at 2002 are the same as the corresponding differences in 1999. Therefore, the change in assumption relating to CPI increases will not lead to a material change in the results of the investigation.

### Value of Assets

The PSS and CSS are partly funded to the extent that real assets are held in respect of member contributions and productivity superannuation contributions. The realisable value of the CSS assets as at 30 June 2002 was \$5,337 million.

### Accrued Benefits

The value of accrued benefits as at 30 June 2002 was \$55.0 billion.

### Vested Benefits

Vested Benefits of the CSS were not calculated as a part of the Long Term Cost Report as at 30 June 2002 but were calculated separately.

The estimated value of the Vested Benefits of the CSS as at 30 June 2002 is \$56.6 billion.

### Financial Condition

The CSS is a partially funded scheme. Therefore, as would be expected in such a scheme, the value of Accrued Benefits and Vested Benefits is significantly more than the realisable value of scheme assets at the same date.

However, the CSS operates under an underlying guarantee from the Commonwealth Government. Further, the investigation shows that the projected combined Commonwealth costs in respect of the PSS and CSS reduce as a percentage of projected Gross Domestic Product over the next 40 years.



**Martin A Stevenson**  
Fellow of the Institute of Actuaries  
of Australia

Principal, Mercer Human Resource  
Consulting Pty Limited



**Tony Snoyman**  
Fellow of the Institute of Actuaries  
of Australia

Principal, Mercer Human Resource  
Consulting Pty Limited

February 2003





# Board Financial Statements



## INDEPENDENT AUDIT REPORT

### To the Minister for Finance and Administration

#### Scope

I have audited the financial report of CSS Board for the year ended 30 June 2003. The financial report comprises:

- Statement by the Chief Executive Officer and Finance Manager;
- Statement of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments; and
- Notes to and forming part of the financial report.

The agency's Chief Executive and Finance Manager are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the financial report is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Agency's financial position, its financial performance and its cash flows.

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

### **Audit Opinion**

In my opinion the financial report:

- (i) has been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) gives a true and fair view, in accordance with applicable Accounting Standards, other mandatory professional reporting requirements in Australia and statutory requirements and the Finance Minister's Orders, of the financial position of CSS Board as at 30 June 2003, and its financial performance and cash flows for the year then ended.

Australian National Audit Office



David C. McKean  
Executive Director

Delegate of the Auditor-General

Canberra

17 September 2003

## CSS Board

### Statement by the Chief Executive and Finance Manager

In our opinion, the attached financial statements for the year ended 30 June 2003 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.



Susan Doyle  
Chairperson  
CSS Board



Barbara Wilson  
Finance Manager  
CSS Board

15 September 2003

## CSS Board

Statement of Financial Performance  
for the year ended 30 June 2003

	Notes	2003 \$
<b>REVENUE</b>		
<b>Revenues from ordinary activities</b>		
Revenues from government	2A	2 000
Sales of goods and services	2B	3 366 394
Interest	2C	<u>6 521</u>
<b><i>Total Revenues from ordinary activities</i></b>		<u>3 374 915</u>
<b>EXPENSE</b>		
<b>Expenses from ordinary activities</b>		
Employees	3A	1 011 642
Suppliers	3B	1 989 393
Depreciation and amortisation	3C	<u>153 322</u>
<b><i>Total Expenses from ordinary activities</i></b>		<u>3 154 357</u>
<b>Operating surplus/(deficit) from ordinary activities</b>		220 558
<b>Net surplus/(deficit)</b>		<u>220 558</u>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<u><u>220 558</u></u>

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

**CSS Board**  
**Statement of Financial Position**  
**as at 30 June 2003**

	Notes	2003 \$
<b>ASSETS</b>		
<b>Financial assets</b>		
Cash	4A	343 577
Receivables	4B	<u>1 083 630</u>
<b>Total financial assets</b>		<u>1 427 207</u>
<b>Non-financial assets</b>		
Prepayments		25 981
Plant and equipment	5A	164 298
Intangibles	5B	22 550
Leasehold improvements	5C	<u>197 614</u>
<b>Total non-financial assets</b>		<u>410 443</u>
<b>TOTAL ASSETS</b>		<u><u>1 837 650</u></u>
<b>LIABILITIES</b>		
<b>Provisions</b>		
Employees	6A	<u>160 636</u>
<b>Total provisions</b>		160 636
<b>Payables</b>		
Suppliers	6B	872 227
Other	6C	<u>224 300</u>
<b>Total payables</b>		<u>1 096 527</u>
<b>TOTAL LIABILITIES</b>		<u><u>1 257 163</u></u>
<b>EQUITY</b>		
<b>Parent equity interest</b>		
Contributed equity	7	359 929
Retained surpluses or accumulated deficits	7	
Current year results	7	<u>220 558</u>
<b>Total parent equity interest</b>		<u>580 487</u>
<b>TOTAL EQUITY</b>		<u><u>580 487</u></u>
<b>Current assets</b>		1 453 188
<b>Non-current assets</b>		384 462
<b>Current liabilities</b>		1 220 499
<b>Non-current liabilities</b>		36 664

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

## CSS Board

Statement of Cash Flows  
for the year ended 30 June 2003

	Notes	2003 \$
<b>OPERATING ACTIVITIES</b>		
<b>Cash received</b>		
Goods and services		2 989 356
Interest		6 521
Other		<u>294 906</u>
<b>Total cash received</b>		<u>3 290 783</u>
<b>Cash used</b>		
Employees		854 229
Suppliers		1 524 611
Other		<u>395 849</u>
<b>Total cash used</b>		<u>2 774 689</u>
<b>Net cash from operating activities</b>	8	<u>516 094</u>
<b>INVESTING ACTIVITIES</b>		
<b>Cash used</b>		
Purchase of plant and equipment		43 822
Purchase of computer software		15 932
Leasehold improvements		<u>112 763</u>
<b>Total cash used</b>		<u>172 517</u>
<b>Net cash used by investing activities</b>		<u>(172 517)</u>
<b>Net increase in cash held</b>		343 577
Cash at the beginning of the reporting period		–
<b>Cash at the end of the reporting period</b>		343 577

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

## CSS Board

### Schedule of Commitments as at 30 June 2003

	Notes	2003 \$'000
<b>BY TYPE</b>		
<b>Other commitments</b>		
Operating leases		489 267
<b>Total other commitments</b>		<u>489 267</u>
<b>Commitments receivable</b>		<u>(44 479)</u>
<b>Net commitments</b>		<u><u>444 788</u></u>
<b>BY MATURITY</b>		
<b>Operating lease commitments</b>		
One year or less		89 745
From one to five years		355 043
Over five years		<u>—</u>
<b>Net commitments by maturity</b>		<u><u>444 788</u></u>

Operating leases include leases for accommodation and motor vehicles.

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

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### CONTENTS

#### NOTE

1	Summary of Significant Accounting Policies
2	Operating Revenue
3	Expenses from Ordinary Activities
4	Financial Assets
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6	Provisions and Payables
7	Equity
8	Cash Flow Reconciliation
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## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 1 Summary of Significant Accounting Policies

##### 1.1 Objectives of CSS Board

The CSS Board is established under section 27B of the *Superannuation Act 1976* the "CSS Act". The CSS 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. In its capacity as a prescribed agency under the *Financial Management and Accountability Act 1997*, the CSS Board conducts its activities through the CSS Special Account. The objective of the CSS Board is to provide superannuation services that meet the expectations of Government, employers, members and beneficiaries and which comply with the superannuation regulatory environment.

The CSS Board's sole source of income is from external sources and therefore there are no appropriations included.

During 2002-03, the CSS Board's activities were funded through:

- an agreed share of the scheme administration charges collected by ComSuper from employers participating in the CSS scheme; and
- charges to the CSS Fund to recover the cost of administering and managing the CSS Fund.

##### 1.2 Basis of accounting

The CSS Act requires the CSS Board to prepare annual audited financial statements in respect of the CSS Fund and Scheme. These are separate financial statements presented in a form agreed between the Minister for Finance and Administration and the CSS Board.

These financial statements, which represent the CSS Board's scheme administration activities, are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose report.

The statements have been prepared in accordance with:

- the Finance Minister's Orders (being the Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and;
- Consensus View of the Urgent Issues Group.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets, which as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets and liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are however not recognised unless required by an Accounting Standard. Liabilities that are unrecognised are reported in the Schedule of Commitments.

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 1 Summary of Significant Accounting Policies (cont.)

##### 1.3 Comparatives

The CSS Board became a prescribed agency under the *Financial Management and Accountability Act 1997* on 1 July 2002 and therefore there are no comparative figures for 2001-02. Prior to 1 July 2002, the financial transactions of the CSS Board were incorporated in the financial statements of Commonwealth Superannuation Administration (ComSuper).

##### 1.4 Revenue

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services to Commonwealth bodies. The stage of completion is determined according to the services performed to date as a percentage of total services to be performed.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the disposal of non-current assets is recognised when control of the assets has passed to the buyer.

##### Resources Received Free of Charge

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

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements (refer to Note 1.5)

##### 1.5 Transactions With the Government as Owner

###### *Restructuring of Administrative Arrangements*

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

##### 1.6 Employee Entitlements

###### (a) Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 1 Summary of Significant Accounting Policies (cont.)

Liabilities for wages and salaries (including any non-monetary benefits), annual leave and sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of their reporting date are also to be measured at their nominal amount.

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

All other employee benefits liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

#### (b) Leave

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

The leave liabilities are calculated on the basis of employees' remuneration, including employer superannuation contributions to the extent that the leave is likely to be taken during employment rather than paid out on termination.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows made in respect of all employees at 30 June 2003.

#### (c) Separation and Redundancy

Payments for separation and redundancy are made when the CSS Board has formally identified positions as excess to requirements and no suitable alternative position is available to the employee.

#### (d) Superannuation

The trustees and employees of the CSS Board are eligible to participate to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions totalling \$20 906 were paid to the Consolidated Revenue Fund in respect of these schemes.

No liability for superannuation is recognised at 30 June 2003 as the employer contributions fully extinguish the accruing liability that is assumed by the Consolidated Revenue Fund.

Employer Superannuation Productivity Benefit contributions paid to the CSS and PSS Funds and Superannuation Guarantee contributions paid to other complying superannuation funds totalled \$76 862.

#### 1.7 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current lease is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### **Note 1 Summary of Significant Accounting Policies (cont.)**

Where a non-current lease is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis, which is representative of the pattern of benefits derived from the leased asset.

#### **1.8 Cash**

Cash means notes and coins held and any deposits held at call with a bank or financial institution.

#### **1.9 Financial Instruments**

Accounting policies for financial instruments are stated at Note 14

#### **1.10 Acquisition of Assets**

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

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

#### **1.11 Property (Land, Buildings and Infrastructure, Plant and Equipment)**

##### Asset Recognition Threshold

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

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 1 Summary of Significant Accounting Policies (cont.)

##### *Depreciation/amortisation Policy*

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their useful lives to the CSS Board, using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

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

<b>Asset Type</b>	<b>No of years</b>
Computer hardware	3
Office Equipment	5
Furniture and fittings	7-15

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 3C.

#### **1.12 Intangibles**

The CSS Board's intangibles comprise purchased software. These assets are carried at cost.

The carrying amount of each non-current intangible asset is reviewed to determine whether the asset has been impaired. The carrying amount of impaired assets must be written down to the higher of its net market selling price or depreciated replacement cost.

Software is amortised on a straight-line basis over its anticipated useful lives.

The useful life of the CSS Board's purchased software is 3 years.

#### **1.13 Taxation**

The CSS Board, in respect of its administration monies, is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

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

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 1 Summary of Significant Accounting Policies (cont.)

##### 1.14 Insurance

The CSS Board has insured for trustee indemnity risks through insurance policies with American Home Assurance Company; public liability, fire/perils, accidental damage, business interruption and burglary risks through insurance policies with QBEMM Insurance; and business travel and group personal injury risks through insurance policies held with Accident & Health Underwriting (security with Allianz Australia). Workers compensation risks are insured through ComCare.

##### 1.15 Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at the balance date. Associated currency gains and losses are not material.

#### Note 2: Operating Revenues

2003  
\$

##### *Note 2A: Revenues from Government*

Resources received free of charge - audit services	2 000
<b>Total revenues from government</b>	<b>2 000</b>

##### *Note 2B: Sales of Goods and Services*

CSS Board's share of agency fees collected by ComSuper Services to the CSS Fund	987 147
<b>Total sales of goods and services</b>	<b>2 379 247</b>

##### *Note 2C: Interest Revenue*

Interest on deposits	6 521
----------------------	-------

#### Note 3: Expenses from Ordinary Activities

##### *Note 3A: Employee Expenses*

Wages and salary	869 048
Superannuation	97 768
Leave and other entitlements	31 721
Other	10 740
<b>Total employee benefit expenses</b>	1 009 277
Workers compensation premiums	2 365
<b>Total employee expenses</b>	<b>1 011 642</b>

##### *Note 3B: Supplier Expenses*

Goods and services from related entities	463 525
Goods and services from external entities	1 405 085
Operating lease rentals - accommodation	120 783
<b>Total supplier expenses</b>	<b>1 989 393</b>

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 3: Expenses from Ordinary Activities (cont.)

*Note 3C: Depreciation and amortisation*

Depreciation - plant and equipment	65 505
Amortisation of software	17 529
Amortisation of leasehold improvements	<u>70 288</u>
<b>Total depreciation and amortisation</b>	<b><u><u>153 322</u></u></b>

The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:

Plant and equipment	65 505
Computer software	17 529
Leasehold improvements	<u>70 288</u>
	<b><u><u>153 322</u></u></b>

No depreciation or amortisation was allocated to the carrying amount of other assets.

#### Note 4: Financial Assets

*Note 4A: Cash*

Cash on hand and at bank:	
CSS Special Account	<u>343 577</u>

*Note 4B: Receivables*

Goods and services	914 099
GST receivable from the Australian Taxation Office	111 710
Accrued income	<u>57 820</u>
<b>Total receivables</b>	<b><u><u>1 083 630</u></u></b>

All receivables are current assets.

Receivables (gross) are aged as follows:

Not Overdue	1 083 630
Overdue by:	
Less than 30 days	-
30 to 60 days	-
60 to 90 days	-
Over 90 days	<u>-</u>
<b>Total receivables</b>	<b><u><u>1 083 630</u></u></b>

## CSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2003

## Note 5: Non Financial Assets

2003  
\$*Note 5A: Plant and equipment*

At cost	277 046
Accumulated depreciation	(112 748)
<b>Total plant and equipment</b>	<b>164 298</b>

*Note 5B: Intangibles - computer software*

At cost	48 301
Accumulated amortisation	(25 751)
<b>Total intangibles - computer software</b>	<b>22 550</b>

*Note 5C: Leasehold Improvements*

At cost	252 531
Accumulated amortisation	(54 917)
<b>Total leasehold improvements</b>	<b>197 614</b>

*Note 5D: Analysis of property, plant, equipment and intangibles*

Table A: Reconciliation of the opening and closing balances of property, plant, equipment and intangibles

Item	Plant & Equipment	Intangibles	Leasehold Improvements	Total
Gross Value at 1 July 2002	—	—	—	—
Additions:				
Assets transferred	—	—	—	—
Assets purchased	233 224	32 369	192 006	457 599
Write-offs	43 822	15 932	112 763	172 517
	—	—	(52 238)	(52 238)
<b>Gross value at 30 June 2003</b>	<b>277 046</b>	<b>48 301</b>	<b>252 531</b>	<b>577 878</b>
Accumulated depreciation/ amortisation at 1 July 2002	—	—	—	—
Accumulated depreciation on assets transferred	47 243	8 222	36 867	92 332
Depreciation/amortisation charge for assets	65 505	17 529	70 288	153 322
Write-offs	—	—	(52 238)	(52 238)
<b>Accumulated depreciation/ amortisation at 30 June 2003</b>	<b>112 748</b>	<b>25 751</b>	<b>54 917</b>	<b>193 416</b>
<b>Net book value as at- 30 June 2003</b>	<b>164 298</b>	<b>22 550</b>	<b>197 614</b>	<b>384 462</b>
<b>Net book value as at- 1 July 2002</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 6: Provisions and Payables

	2003 \$
<i>Note 6A: Employee provisions</i>	
Salaries and wages	63 369
Leave	86 868
Superannuation	7 801
Other	<u>2 598</u>
<b>Aggregate employee entitlement liability</b>	<b><u>160 636</u></b>
Current	123 972
Non-current	36 664
<i>Note 6B: Trade suppliers - current liability</i>	
Trade creditors - accrued expenses	557 129
Trade creditors - unpaid invoices	<u>315 098</u>
<b>Total trade suppliers - current liability</b>	<b><u>872 227</u></b>
Trade suppliers are represented by:	
Current	872 227
Non-current	<u>-</u>
	<b><u>872 227</u></b>
<i>Note 6C: Other Payables</i>	
GST payable to ATO	172 140
PAYG withholding payable to ATO	<u>52 160</u>
	<b><u>224 300</u></b>

#### Note 7: Equity

##### *Note 7A: Analysis of Equity*

Item	Accumulated Results	Contributed Equity	Total
	2003	2003	2003
	\$	\$	\$
Opening balance as at 1 July	-	-	-
Net Surplus/deficit	220 558	-	220 558
Transactions with owner:			
Contributions by owner:			
Restructuring	-	359 929	359 929
Closing balance as at 30 June	220 558	359 929	580 487
Less: outside equity interests	-	-	-
Total equity attributable to the Commonwealth	220 558	359 929	580 487

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

*Note 7B: Restructuring*

The CSS Board became a prescribed authority under the FMA Act on 1 July 2002. Prior to 1 July 2002, the details of the CSS Board's entire financial activities were included in ComSuper's financial statements.

On 1 July 2002, ComSuper transferred net assets and liabilities to the CSS Board for no consideration. The net book value of those assets and liabilities were:

	2003 \$
Total assets recognised	365 267
Total liabilities recognised	<u>(5 339)</u>
<b>Net assets assumed</b>	<b><u>359 929</u></b>

**Note 8: Cash Flow Reconciliation**

**Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows**

Cash at end of year per Statement of Cash Flows	343 577
Statement of Financial Position items comprising above cash: 'Financial asset - Cash'	343 577

**Reconciliation of net surplus to net cash from operating activities:**

Net surplus (deficit)	220 558
Depreciation/amortisation	153 322
(Increase)/decrease in net receivables	(1 052 719)
(Increase)/decrease in prepayments	(25 981)
Increase/(decrease) in employee provisions	140 687
Increase/(decrease) in supplier payables	853 329
Increase/(decrease) in other provisions	<u>226 898</u>
<b>Net cash from/(used by) operating activities</b>	<b><u>516 094</u></b>

**Note 9: Contingent Liabilities and Assets**

The CSS Board had no contingent liabilities or assets as at 30 June 2003.

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 10: Executive Remuneration

Staff are employed jointly by the CSS Board and PSS Board. The number of executives who received or who were due to receive total remuneration of \$100,000 or more from the CSS & PSS Boards:

\$100 000 to \$109 999	1
\$140 000 to \$149 999	1
\$180 000 to \$189 999	1
\$230 000 to \$239 999	1
\$250 000 to \$259 999	1
\$280 000 to \$289 999	1

The aggregate amount of total remuneration of executives shown above is \$1 208 238

There were no separation and redundancy/termination benefit payments during the year to executives shown above.

2003  
\$

#### Note 11: Remuneration of Auditors

Financial statement audit services are provided free of charge to the CSS Board.  
The fair value of the services provided was:

2 000

Amounts received or due and receivable by the Australian National Audit Office as auditors of the CSS Fund.

52 000

#### Note 12: Average Staffing Levels

The average staffing levels for the CSS Board and PSS Board during the year were:

14.18

#### Note 13: Act of Grace Payments, Waivers and Defective Administration Scheme

No 'Act of Grace' payments were made during the reporting period, and there are no amounts owing as at year end.

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

No payments were made under the 'Defective Administration Scheme' during the reporting period.

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 14: Financial Instruments

*Note 14A: Terms, Conditions and Accounting Policies*

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)
<b>FINANCIAL ASSETS</b>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	<b>4A</b>	Cash is recognised at its nominal amount. Interest on cash at bank is credited to revenue as it accrues.	Monies in the CSS Board's bank accounts are swept into the Official Public Account nightly and interest is earned on the daily balance at rates based on money market call rates. Rates have average 1.9% for the year.
Receivables for goods and services	<b>4B</b>	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms are net 3 days.
<b>FINANCIAL LIABILITIES</b>		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade creditors	<b>6B</b>	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods and services have been received (and irrespective of having been invoiced).	Normal trading terms of settlement are within 30 days.

## CSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2003

## Note 14: Financial Instruments

## Note 14B: Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate	Fixed Interest Rate Maturing In			Non Interest Bearing	Total	Weighted Average Effective Interest Rate
			1 Year or Less	1 to 5 Years	> 5 Years			
			2003	2003	2003			
<b>Financial Assets</b>								
Cash	4A	343 577	–	–	–	–	343 577	1.9%
Receivables for goods and services	4B	1 083 630	–	–	–	–	1 083 630	n/a
<b>Total</b>		1 427 207	–	–	–	–	1 427 207	
<b>Total Assets</b>							1 837 650	
<b>Financial Liabilities</b>								
Trade Creditors	6B	872 227	–	–	–	–	872 227	n/a
<b>Total</b>		872 227	–	–	–	–	872 227	
<b>Total Liabilities</b>							1 257 163	

## Note 14C: Net Fair Values of Financial Assets and Liabilities

Departmental Financial Asset	Notes	2003 \$	
		Total Carrying Amount	Aggregate Net Fair Value
Cash	4A	343 577	343 577
Receivables for goods and services	4B	1 083 630	1 083 630
<b>Total financial assets</b>		<u>1 427 207</u>	<u>1 427 207</u>
<b>Financial Assets</b>			
Trade creditors	6B	872 227	872 227
<b>Total Financial Liabilities</b>		<u>872 227</u>	<u>872 227</u>

The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amounts.

The net fair values for trade creditors and lease incentives are approximated by their carrying values.

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 14: Financial Instruments

##### *Note 14D: Credit Risk Exposures*

The CSS Board's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Performance.

The CSS Board has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

#### Note 15: Special Accounts

2003  
\$

##### CSS Special Account (Departmental)

*Legal Authority: Financial Management and Accountability Act 1997, s20*

*Purpose: For expenditure relating to:*

- the administration of the CSS Scheme by the CSS Board;
- the performance of any other function conferred on the CSS Board under legislation; or
- the management and investment of the CSS Fund by the CSS Board, where a corresponding amount has been or is to be credited to the Account from the CSS Fund in respect of such expenditure.

Balance carried forward from previous year	—
Costs recovered from non-government sector	
Services - Rendering of services to external entities	2 002 209
Other receipts:	
Services - Rendering of services to related entities	1 028 960
Interest Revenue - Interest on deposits	6 521
GST refunds received	<u>253 093</u>
Amount available for expenditure	3 290 783
Expenditure	<u>(2 947 206)</u>
<b>Balance carried to next year</b>	<b><u>343 577</u></b>
Represented by	
Cash	<u>343 577</u>
<b>Total</b>	<b><u>343 577</u></b>

## CSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2003

#### Note 16: Reporting of Outcomes

##### Note 16A: Net Cost of Outcome Delivery

	Outcome 1	Total
	2003	2003
	\$	\$
<b>Departmental Expenses</b>	3 154 357	3 154 357
<i>Costs recovered from provision of goods and services to the non-government sector</i>	2 379 247	2 379 247
Departmental		
<b>Total costs recovered</b>	2 379 247	2 379 247
Other external revenues	6 521	6 521
Departmental	987 147	987 147
Interest on cash deposits	2 000	2 000
Goods and services revenue from related entities		
Other		
<b>Total other external revenues</b>	995 668	995 668
<b>Net cost/(contribution) of outcome</b>	(220 558)	(220 558)

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

##### Note 16B: Major Classes of Departmental Revenues and Expenses by Outputs

	Output Group 1.1	Outcome 1 Total
	2003	2003
	\$	\$
<b>Departmental expenses</b>		
Employees	1 011 642	1 011 642
Suppliers	1 989 393	1 989 393
Depreciation and amortisation	153 322	153 322
<b>Total departmental expenses</b>	3 154 357	3 154 357
<b>Funded by:</b>		
Revenues from government	2 000	2 000
Sale of goods and services	3 366 394	3 366 394
Other non-taxation revenues	6 521	6 521
<b>Total departmental revenues</b>	3 374 915	3 374 915

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.





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## Appendix A: CSS in brief

### Investment

#### Asset allocation

Sector Type at 30 April 2003	Investment Manager	\$m	%	
<b>AUSTRALIAN SHARES</b>				
Index	Colonial First State Investments Limited	1 486.2	28.5%	
Active	Balanced Equity Management Pty Ltd	153.5	2.9%	
	Barclays Global Investors Australia Limited	274.4	5.3%	
	Concord Capital Limited	66.9	1.3%	
	GMO Australia Limited	208.3	4.0%	
	Investors Mutual Limited	181.1	3.5%	
	JB Were Asset Management Limited	63.2	1.2%	
	452 Capital Pty Limited	204.3	3.9%	
	62.8	1.2%		
Alternative Strategic	Various *	183.8	3.5%	
	Various*	87.9	1.7%	
<b>INTERNATIONAL SHARES</b>				
Index	Vanguard Investments Australia Limited	1 181.5	22.8%	
Active	AXA Rosenberg Investment Management Ltd	112.7	2.2%	
	Bank of Ireland Asset Management Australia Pty Ltd	191.4	3.7%	
	Deutsche Morgan Grenfell	195.3	3.8%	
	Marathon Asset Management Limited	70.5	1.4%	
	Marvin & Palmer Associates Inc	172.0	3.3%	
	Wellington International Management Company Pte Limited	164.6	3.2%	
	236.3	4.5%		
	Various *	38.7	0.7%	
	Currency Overlay	State Street Global Advisors Limited	n/a	n/a
	<b>AUSTRALIAN BONDS</b>			
Index	Colonial First State Investments Limited	636.9	12.2%	
	Other*	606.1	11.6%	
		30.8	0.6%	
<b>INTERNATIONAL BONDS</b>				
Index	State Street Global Advisors Limited	736.0	14.1%	
Active(High Yield Debt)	CDC Ixis Asset Management Company	551.2	10.6%	
	Wellington Management Company LLP	74.8	1.4%	
		110.0	2.1%	
<b>ABSOLUTE RETURN (HEDGE) FUNDS</b>				
Active	Various*	90.9	1.7%	
Currency Overlay	State Street Global Advisors Limited	90.9	1.7%	
		n/a	n/a	
<b>PROPERTY</b>				
Active	Colonial First State Investments Limited	827.3	15.9%	
Alternative	Various*	748.7	14.4%	
		78.6	1.5%	
<b>CASH</b>				
Index	Colonial First State Investments Limited	249.8	4.8%	
	Other*	168.0	3.2%	
		81.8	1.6%	
<b>TOTAL FUND (post fees and pre tax)</b>		<b>5 208.6</b>	<b>100.0%</b>	
Tax and other adjustments		(87.7)		
<b>Total Fund (post fees and post tax)</b>		<b>5 120.9</b>		

\* Managers with less than 1% each of the Fund's assets are not listed.

## Fund Investments

Sector	Holdings at	Proportion	Holdings at	Proportion
	30 June 02	of Scheme	30 June 03	of Scheme
	\$m	%	\$m	%
Australian Shares	1,473.3	27.8	1,486.2	28.6%
International Shares	2,162.8	40.9	1,181.5	22.7%
Australian Bonds	414.9	7.8	636.9	12.2%
International Bonds	153.8	2.9	736.0	14.1%
Absolute Return (hedge) funds	50.1	0.9	90.9	1.7%
Property	895.8	16.9	827.3	15.9%
Cash	148.5	2.8	249.8	4.8%
<b>Total Fund Investments</b>	<b>5 299.2</b>	<b>100%</b>	<b>5 208.6</b>	<b>100%</b>

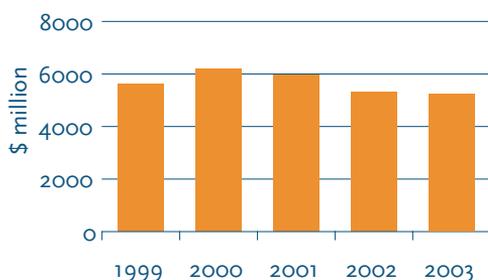
## Fund Performance

Sector	One-year performance		Three-year performance		Five-year performance	
	Portfolio	B'mark*	Portfolio	B'mark*	Portfolio	B'mark*
	%	%	%	%	%	%
Australian Shares	0.4	-2.6	3.8	0.4	9.0	6.2
International Shares	-2.9	-12.8	-9.3	-14.6	-1.1	-4.2
Australian Bonds	9.6	9.8	7.6	7.8	6.5	6.6
International Bonds	18.4	12.2	0.4	2.2	n/a	n/a
Absolute Return (hedge) funds	11.1	8.3	n/a	n/a	n/a	n/a
Property	8.1	11.2	8.6	10.5	9.8	10.3
Cash	3.6	5.0	4.7	5.2	4.9	5.3
<b>Total Fund</b>	<b>3.0</b>	<b>0.7</b>	<b>-0.1</b>	<b>-3.3</b>	<b>4.8</b>	<b>2.9</b>

\* See notes at page 42

## Fund Investments

### Fund size at 30 June for past five years



FINANCIAL YEAR	Value \$m	Change %
1998–99	5 618.3	1.8
1999–00	6 188.0	10.1
2000–01	5 946.7	-3.9
2001–02	5 299.2	-10.9
2002–03	5 208.6	-1.2

## Scheme membership

Contributors at 30 June	2002	2003	Increase / (Decrease)
Male	27 287	25 396	(1891)
Female	12 728	11 920	(808)
Total	40 015	37 316	(2699)
Total Member Contributions	\$153m	\$149m	(\$4m)
Contributor Exits at 30 June	2002	2003	
Age	645	686	53
Retrenchment (Involuntary and Sale of Assets)	1 893	966	(945)
Invalidity	128	95	(35)
Death	49	37	(15)
Resignation / Other	1 578	1 214	(189)
Total	4 293	3 026	(1 131)
Deferred benefit Members at 30 June	2002	2003	
Total	13 956	13 429	(527)
Deferred benefit claims at 30 June	2002	2003	
Age Retirement (Including DUP and Postponed)	2 458	2 378	(80)
Retrenchment (Involuntary and Sale of Assets)	10	–	(10)
Invalidity	14	23	9
Death	15	18	3
Resignation / Other	6	–	(6)
Total	2 503	2 419	(84)
Pensions in Force at 30 June	2002	2003	
Age Retirement	46 221	48 972	2 751
Involuntary Retirement	14 531	14 756	225
Invalidity Retirement	22 979	23 064	85
Spouse and Orphans	27 847	29 440	1 593
Total	111 578	116 232	4 654
Pensions Paid	\$2 202m	\$2 322.5	\$120.5
Average Yearly Pension	\$19 908	\$19 982	\$74

## Appendix B: Changes to legislation

---

### Changes to the CSS Act

There were a number of changes to the Act including:

- To provide for a member's annual rate of salary to be an amount agreed between the member and employer;
- To provide for a pro-rata spouse benefit where marital relationship commenced after retirement and after age 60 and had existed for less than 3 years prior to death ;
- To enable payment of member contributions while on leave without pay provided employer is willing to make employer contributions;
- To provide for certain retirees to opt for a reduction in their entitlement in exchange for increased reversionary benefits payable to their spouse and any children.

### Statutory rules

Amendments were made to

- Set annual increments to productivity contribution rates to reflect changes in the general salary levels of members;
- Provide continuation of membership, subject to certain conditions, for members of the CSS employed by either or both the CSS and PSS Boards

### Determinations made

Three Determinations were made on the following topics:

- Setting the crediting rate for the 2001–02 financial year;
- Transferring of assets from the CSS Fund to the PSS Fund in respect of transferred members;
- setting conversion factors for recovering surcharge liabilities from pensions.

## Appendix C: Departments and approved authorities

---

At 30 June 2003 the following departments and approved authorities were employers of people who were eligible to contribute to the CSS.

### Departments

Agriculture, Fisheries and Forestry  
Attorney-General's  
Communications, Information Technology and the Arts  
Defence  
Education, Science and Training  
Employment and Workplace Relations  
Environment and Heritage  
Family and Community Services  
Finance and Administration  
Foreign Affairs and Trade  
Health and Ageing  
House of Representatives  
Immigration and Multicultural and Indigenous Affairs  
Industry, Tourism and Resources  
Joint House  
Parliamentary Library  
Parliamentary Reporting Staff  
Prime Minister and Cabinet  
Senate  
Transport and Regional Services  
Treasury  
Veterans' Affairs

## Approved authorities

Aboriginal and Torres Strait Islander Commercial Development Corporation  
Aboriginal Areas Protection Authority  
Aboriginal Hostels  
ACTEW Corporation Ltd  
Adelaide Symphony Orchestra Pty Ltd  
Airservices Australia  
Albury Wodonga Development Corporation  
Anglo - Australian Telescope Board  
Australia Council  
Australian Broadcasting Corporation  
Australian Capital Territory  
Australian Dairy Corporation  
Australian Film Commission  
Australian Film, Television and Radio School  
Australian Fisheries Management Authority  
Australia Foundation for Culture and the Humanities Ltd  
Australian Institute of Aboriginal and Torres Strait Islander Studies  
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 National Training Authority  
Australian National University  
Australian Nuclear Science and Technology Organisation  
Australian Pork Corporation  
Australian Sports Commission  
Australian Sports Drug Agency  
Australian Tourist Commission  
Australian Trade Commission  
Australian Wine and Brandy Corporation  
Calvary Hospital ACT Incorporated  
Canberra Theatre Trust  
Centralian College  
Civil Aviation Safety Authority  
Conservation Commission of the Northern Territory  
Commonwealth Scientific and Industrial Research Organisation  
Cotton Research and Development Corporation  
Dairy Research and Development Corporation  
Export Finance and Insurance Corporation  
Film Australia

## approved authorities con't

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)  
Melbourne Symphony Orchestra  
Menzies School of Health Research  
Murray Darling Basin Commission  
Museums and Art Galleries Board established by the Museums and Art  
Galleries Ordinance 1965 (Northern Territory)  
National Gallery of Australia  
National Registration Authority of Agriculture and Veterinary Chemicals  
National Standards Commission  
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  
Queensland Orchestras Pty Ltd  
Rural Industries Research and Development Corporation  
Snowy Mountains Hydro-Electric Authority  
Special Broadcasting Service  
Sugar Research and Development Corporation  
Sydney Symphony Orchestra Holdings Pty Limited  
Symphony Australia Holdings Pty Ltd  
Tasmania Symphony Orchestra 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 D: Eligible superannuation schemes

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

The following schemes have been declared eligible.

- Superannuation schemes established under the following acts:

*Defence Force Retirement and Death Benefits Act 1973;*  
*Parliamentary Contributory Superannuation Act 1948,* and  
*Superannuation (State Public Sector) Act 1990 (QLD)*

- 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 (formerly 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 Officer's Superannuation Scheme (Gosuper) (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;  
UniSuper Investment Choice Plan;  
Townsville Port Authority Staff Superannuation Scheme;  
University of Newcastle Staff Superannuation Scheme.

## Appendix E: Freedom of information

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### Freedom of information

Matters associated with the administration of the *Freedom of Information Act 1982* are dealt with by ComSuper's Corporate Governance and Parliamentary Liaison Unit.

CSS members made 65 requests for access to documents during 2002–03. Fifty two of these requests were granted in full, with partial release granted in three cases. Ten requests were refused. The requests took an average of 3 days to process.

Enquiries relating to the documentary disclosure of information about the personal affairs of clients of the agency under the provisions of the Freedom of Information Act should be directed to:

Corporate Governance and Parliamentary Liaison Unit  
ComSuper  
PO Box 22  
Belconnen ACT 2616  
Tel: (02) 6272 9262  
Fax: (02) 6272 9809  
TTY: (02) 62729827  
Website: [www.comsuper.gov.au](http://www.comsuper.gov.au)

### Freedom of information Act statement

This statement is provided in accordance with section 8 of the *Freedom of Information Act 1982* (the FOI Act).

### Functions of ComSuper

The general functions of ComSuper are described in the main body of this report and in the Commissioner for Superannuation Annual Report 2002–03.

### Decision-making powers

With effect 1 July 1994 the *Superannuation Legislation Act 1994* transferred the Commissioner for Superannuation's decision making powers to the CSS Board. The Commissioner does, however, retain powers for all decisions taken prior to 1 July 1994.

Sections 17 and 17A of the *Superannuation Act 1976* contain the decision-making powers. Section 25 of the 1976 Act contains the authority for the Commissioner to delegate powers.

The decision-making powers of the CSS Board are set out in sections 27C and 27D of the *Superannuation Act 1976*. The authority for the CSS Board to delegate its powers and functions is set out in section 27Q of that Act.

The CSS Board retains full responsibilities in relation to fund investment and invalidity assessment.

## **FOI internal procedures**

All requests for documents held by ComSuper are referred to ComSuper's Corporate Governance and Parliamentary Liaison Unit. Compliance with the application fee provisions of the FOI Act are verified and the request is registered and acknowledged. The documents are then obtained and the request is considered by the Unit.

Decisions to grant access, levy charges, or refuse access are made by an APS Level 5 in the Corporate Governance and Parliamentary Liaison Unit.

Requests for internal review of FOI decisions are also referred to the Unit. They are then forwarded to ComSuper's Reconsideration section where they are investigated prior to submission to the CSS Board for decision under section 54 of the FOI Act.

Officers currently designated to carry out such investigations are executive level 1 officers in the Reconsideration Section. All decisions on internal reviews are made by the CSS Board.

## **Facilities for access**

Facilities for viewing documents are provided only at the ComSuper office in Canberra, as ComSuper has no regional offices. Publications may be inspected at ComSuper's FOI Unit, and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Information about facilities for access by people with disabilities can be obtained by contacting:

Corporate Governance and Parliamentary Liaison Unit  
ComSuper  
PO Box 22  
Belconnen ACT 2616  
Tel: (02) 6272 9262  
Fax: (02) 6272 9809  
TTY:(02) 62729827  
Website: [www.comsuper.gov.au](http://www.comsuper.gov.au)

## **Consultative arrangements**

Informal and ad hoc arrangements exist whereby the national, State and Territory branches of the Superannuated Commonwealth Officers' Association, and those unions whose members are covered by the CSS may make representations relating to the general administration of the Schemes. Representations are also received which relate to the determination of individual contributors' benefit entitlements.

Requests for consultation and/or representations relating to policy aspects of the Schemes and their underlying legislation are referred to the Superannuation Branch of the Department of Finance and Administration which has responsibility for advising the Minister for Finance and Administration on such matters.

## **Categories of documents**

The CSS Board maintains no categories of documents that are open to public access as part of a public register or otherwise, in accordance with an enactment other than the FOI Act, where that access is subject to a fee or other charge. Books and leaflets that describe various aspects of the superannuation schemes, and annual reports, are made available to the public free of charge upon request. They are also available free of charge via the CSS website.

## Appendix F: Publications

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The Board publishes several booklets and a series of leaflets for the benefit of CSS members.

The CSS Book is a general information book that is intended as a reference book for members and personnel officers.

There are three booklets entitled CSS Benefits Tables, CSS Preservation Factors and Taxation of Lump Sum and Pension Benefits provided for the information of members. Also available is ComSuper Service Charter 2001–2003, which sets out the service standards members can expect to receive when they deal with ComSuper.

The Board also publishes a series of leaflets and fact sheets that deal in more depth with a specific topic.

### Leaflets

CSS Benefits Tables

About to leave your job?

Changing from Permanent Full-time to Permanent Part-time

Death Benefits

Invalidity Benefits

Involuntary Retirement (Retrenchment)

Postponement of Benefits

Preservation of Benefits

Service Charter for CSS & PSS Members

Summary of the Scheme

Superannuation Contributions Surcharge

Taxation Concessions - Deductible Amounts & Superannuation Pension Rebates

Thinking of Opting out of the CSS or PSS - Some things you should consider

### Fact sheets

The facts about reasonable benefit limits (RBLs)

Family law and your super

All of these publications can be obtained from Personnel Officers; from National Mailing and Marketing on telephone (02) 6269 1000 or facsimile (02) 6260 2770; or may be ordered online via the CSS website: ([www.css.gov.au](http://www.css.gov.au)).

## Appendix G: Contact officer

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Information available to Members of Parliament, Senators and members of the public on request.

In the interests of timeliness and conciseness, this report has been designed to provide fundamental information. Requests for more detailed information should be directed to:

### The CSS Board

Street address: Suite 2, Level 10  
12 Moore Street  
Canberra City ACT 2600

Postal address: GPO Box 1907  
Canberra City ACT 2601

Telephone: (02) 6263 6999

Facsimile: (02) 6263 6900

Website: [www.css.gov.au](http://www.css.gov.au)

Email: [secretary.csspss@csb.gov.au](mailto:secretary.csspss@csb.gov.au)

## Appendix H: Compliance

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While this report is not a Departmental annual report, the Board has endeavoured to comply with the 'Requirements for Departmental Annual Reports', where applicable. Details of ComSuper's operations are provided in the Commissioner for Superannuation Annual Report 2002–03.

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# Appendix I: Staffing statistics

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## CSS Board staffing statistics for 2002–03

Employment Category	Male	Female	Total
Staff employed jointly by the CSS and PSS Boards	6	13	19

## Appendix J: Consultancies

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The CSS Board engages consultants where a specialist skill or expertise is required or where internal resources are unavailable. Consultants are typically engaged to:

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

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

### Investment and management of the CSS Fund

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses) are managed on behalf of the Board 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.

During 2002–03, the Board also employed three investment advisors: Towers Perrin, JANA Investment Advisors and Wilshire Australia, together with Chase Manhattan Bank (trading as J P Morgan) as their master custodian. The total amount paid to investment managers, advisors and the custodian during the year was \$11.4 million.

## Board administration consultancies

During 2002–03 the CSS and PSS Boards jointly engaged the following consultancies.

Organisation	Service provided	Total 02–03
Adcorp Green	Member statements and annual reports to members	\$192 380
Allens Arthur Robinson	Legal advice	\$6 601
Australian Business Training	Staff development consultancy services	\$4 605
Australian Management Control	Payroll system implementation and support	\$1 358
Arc Architects	Design and project management new accommodation in Sydney	\$20 797
ARUP	Accommodation advice	\$350
Blake Waldron Dawson	Legal advice	\$5 263
Christopher Chenoweth	Legal advice	\$1 350
Corporate Governance International Pty Ltd	Proxy voting advisory services	\$40 000
Cost Effective Measurement	Benchmarking	\$22 000
Department Of Finance And Administration	Legislation and rules administration	\$200 000
Derwent Executive	Recruitment services	\$20 700
Ernst & Young	Investment advisory services	\$66 000
	Internal audit advisory services	\$81 318
Firetail Consulting Pty Ltd	Taxation advisory services	\$10 000
John Flitcroft	Advisory services	\$517
Grant Samuel Corporate Finance	Investment advisory services	\$177 683
KAZ Technology Services (Formerly ASPECT Computing Pty Ltd)	Computing services	\$24 071
	Computer hardware	\$39 124
	Computer software	\$12 061
Cath King & Associates	Taxation advisory services	\$15 230
Longley Stapleton	Accounting System	\$25 263
	System implementation and support	\$8 025
Mallesons Stephen Jacques	Legal advice	\$123 606
John Mccullagh Consulting Services	Advisory services	\$16 239
Mercer Human Resources	Actuarial services	\$81 820
Michael Page International	Recruitment services	\$15 415
Palm Management Pty Ltd	Facilitator services	\$10 000
Peter Carrigy Ryan	Legal and compliance advice	\$118 540
Pricewaterhouse Coopers	Taxation advisory services	\$461 204
Quiggin Cook & Associates	Electrical engineering services	\$8 525
Rainmaker	Benchmarking services	\$3 000
Renzo Tonin & Associates	Construction design services	\$3 136
Roar Creative	Computer software training	\$990
Social Change Media	Communications projects	\$32 022
Social Change Online	CSS/PSS Brochures	\$23 500
Waterman AHW	Annual reports	\$13 600
	Consulting engineering services	\$13 600
<b>Total</b>		<b>\$1 886 293</b>

## Advertising and market research

Payments made jointly on behalf of the CSS and PSS Boards to media advertising and direct mail organisations during 2002–03 were as follows:

### CSS and PSS Boards market research 2002–03

Organisation	Service provided	Total 02–03
ORIMA	Annual report pack research	\$2 727
<b>Total</b>		<b>\$2 727</b>

### CSS and PSS Boards direct mailing organisations

Organisation	Service provided	Total 02–03
Australian Air Express	Special mail out	\$374
Australia Post	Postal account	\$15 642
Hermes Precisa Pty Ltd	Special mail out	\$10 010
<b>Total</b>		<b>\$26 026</b>

## Appendix K: Commonwealth Disability Strategy

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Within the framework of the Commonwealth Disability Strategy, the CSS Board performs the role of 'provider' with performance measured against the following indicators:

providers have established mechanisms for quality improvement and assurance;

providers have an established service charter that specifies the roles of the provider and consumer and service standards which address accessibility for people with disabilities; and

complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised about performance.

In conjunction with its administrator, ComSuper, the CSS Board met all the requirements of the Commonwealth Disability Strategy in its role as provider.

Quality improvement and assurance mechanisms were in place during the year in the form of a client satisfaction survey conducted both by the Board, through independent research firm Orima Research, and by ComSuper which conducts an annual cyclical research program also through independent research firm Orima Research.

The CSS Board provides a website which was developed by contract to comply with Government Online guidelines and the World Wide Consortium (WC3) Web Content Accessibility Guidelines. For example, it is a HTML-based website which allows access to readers for the visually-impaired.

Through ComSuper, CSS members have access to:

a TTY phone line;

a service charter specifying the roles and responsibilities of both ComSuper and its clients; and

a complaints system to address issues and concerns raised by members.

Both the CSS Board Executive Unit offices and ComSuper's offices provide wheel chair access and facilities.

## Appendix L: Glossary

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### List of abbreviations

ABN	Australian Business Number
ACT	Australian Capital Territory
ACTEW AGL	ACT Electricity and Water Corporation Ltd
ACTU	Australian Council of Trade Unions
AD(JR)	<i>Act Administrative Decisions (Judicial Review) Act 1977</i>
AGEST	Australian Government Employees Superannuation Trust
AIA	American International Assurance
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASFA	Association of Superannuation Funds of Australia
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
CAA	Civil Aviation Authority
CEO	Chief Executive Officer
CMSF	Conference of Major Superannuation Funds
ComSuper	Commonwealth Superannuation Administration
CPSU	Community and Public Section Union
CSS	Commonwealth Superannuation Scheme
CSS Act	<i>Superannuation Act 1976</i>
DQI	Data Quality Index
Finance	Department of Finance
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FOI	Freedom of Information
FSR	Financial Services Reform
ICM	Independent Claims Management Pty Ltd
IFS	Industry Funds Services
ISBN	International Standard Book Numbering
ISSN	International Standard Serial Number
NEPC	National Environment Protection Council
PSS	Public Sector Superannuation (scheme)
PSS Act	<i>Superannuation Act 1990</i>
QSI	Quality Service Index
RAC	Reconsideration Advisory Committee
S&P	Standard and Poor's
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SCT	Superannuation Complaints Tribunal
SLA	Service Level Agreement
SPIN	Superannuation Product Identification Number
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
TPD	Total Permanent Disability
TTY	Text Telephone

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