

# The PSS Board

Annual report 2003–04



PUBLIC SECTOR  
SUPERANNUATION SCHEME  
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Note: All statistics are derived solely from records available to the PSS 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

Senator the Hon. Nick Minchin  
Minister for Finance and Administration  
Parliament House  
Canberra ACT 2600

Dear Minister

In accordance with section 28 of the *Superannuation Act 1990* (the PSS Act), the PSS Board is pleased to present to you the annual report on its operations during 2003–04. The Report details the Board's activities in respect of the administration of the Public Sector Superannuation Scheme and includes audited financial statements in respect of the management of the PSS Fund during the year ended 30 June 2004.

Subsection 28 (3) of the PSS 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". The signature is written in a cursive style with a large, looped 'S' and a long, sweeping tail.

Susan Doyle  
Chairman  
PSS Board  
28 September 2004

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## Chairman's report

The 2003–04 financial year was characterised by strong investment markets after the relatively weak conditions experienced in the immediately preceding two financial years. The PSS posted an excellent 14.2% return on its investments over the 2003–04 financial year which was above our benchmark and above the median returns of superannuation funds.

The Board continues to review its investment strategy in order to identify any new opportunities which may exist. The strategy in accordance with the Board's statutory obligation is designed to maximise returns over the long term, subject to an acceptable level of risk.

In August 2004, the Board announced changes to the way that fund earnings are distributed to members. The Board will no longer declare annual crediting rates but will distribute earnings by way of an exit rate when members claim their benefit. This change has been made to facilitate the introduction of a cash investment option for preserved benefit members in December 2004 and as part of a transition to the introduction of a fuller range of member investment choice at some time in the future. This does not have any impact on contributing members.

In October 2003, the PSS (in conjunction with the CSS and our investment governance advisor, BT Financial Group), was awarded a United Nations Royal Award for Responsible Investment in recognition of its investment governance program. This was only one of three awards made internationally.

The Board's responsibilities cover a wide range of activities and I thank our major partners, ComSuper, JPMorgan, JANA Investment Advisors, Wilshire Australia, all of our fund managers and other service providers for their work throughout the year.

I also acknowledge the work of the Board's Executive team, who have performed very well during a year when there were substantial challenges.

A handwritten signature in blue ink that reads "S. Doyle". The signature is written in a cursive style with a large, looped 'S' and a clear 'Doyle'.

Susan Doyle  
Chairman  
PSS Board

## Executive summary

Investment results

Major events and developments

Administration service provision

Financial Management and Accountability Act

SIS compliance

Future directions

## Investment results

It is important to know that for PSS contributing members, investment performance is not a critical issue because their final benefit is largely unaffected by investment returns. However, for PSS preserved benefit members, investment returns are relevant as the funded components of a preserved benefit grows in accordance with the net earnings of the Fund.

After three years in which financial markets were buffeted by the bursting of the technology bubble, terrorism, war, a global economic stall, and the exposure of questionable corporate governance practices, financial markets settled down in 2003–04 and delivered the best returns since 1999–2000. As a result I am pleased to say that the Fund earned 14.2% on its investments in 2003–04.

World share markets rose by about 20% in local currency terms this financial year. For \$A-based investors, the recovery in world equity markets was partly offset by the negative impact on returns of the rise in the value of the \$A, particularly in the first half of the year. However, the PSS Fund has mostly been protected against this currency impact by being largely hedged against the rise in the \$A.

Australian share markets have largely mirrored international markets and rose by 22% over the year.

Bond returns have been modest over this period as stronger economic growth and some anticipation of rising interest rates particularly in the US, weighed on markets. The Fund's exposure to high yield debt, which performed well in the year, mitigated somewhat the impact of flat bond markets on the Fund as did the decision taken late in 2003 to move 10% of the Fund from bonds to cash.

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

The Fund's longer term investment performance remains very sound and is at or near top quartile over most periods when compared with surveys of performance of other superannuation funds.

The PSS remains in a strong financial position with around \$6 billion funds under management and over (225 000) members.

## Strategic investment review

The Board conducted an interim review of its investment strategy in 2003–04. 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 and broad strategy for the Fund while foreshadowing some changes to the strategy at the margin.

The investment objectives of the Fund comprise a return objective and a volatility (risk) objective. Over the long term, the PSS 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 a volatility objective that on average, nominal fund returns are expected to be positive 24 years out of 30.

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 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.

The Board also has a principal external investment advisor, JANA Investment Advisers Pty Ltd, and retains Towers Perrin Australia Pty Ltd to provide additional investment advice. Wilshire Australia Pty Ltd continues to provide advice on Australian private equity.

## Major events and developments

### New Board members

Ms Susan Doyle was appointed Chairman of the PSS Board by the Minister in July 2003. Ms Doyle has extensive professional and executive experience in investment and fund management. She is also Chairman of the CSS Board. She worked for Commonwealth Funds Management for 20 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.

Mr Des Moore was appointed to the PSS and CSS Boards in September 2003. Mr Moore has had considerable experience and training in analysing economic issues. After graduating in law from Melbourne University, and in economics from the London School of Economics, he worked for 28 years in the Commonwealth Treasury, including five years as one of three Deputy Secretaries. He is currently Director of the Institute for Private Enterprise in Melbourne, and before that was Senior Fellow, Economic Policy at the Institute of Public Affairs. Mr Moore is also a Council Member of the Australian Strategic Policy Institute.

## Regulatory environment

The Board applied for its Australian Financial Services Licence under the Corporations Act in late 2003 and commenced operating under its terms on 20 January 2004. The Board is licensed to provide general advice on the Scheme and its benefits/features to members. The majority of its face-to-face dealing with members is undertaken by the Board's administrator, ComSuper. The licensing process and implementation have been a valuable opportunity to review and revise process and procedures, including compliance, disclosure documents and reporting.

The PSS Board must be licensed by APRA by 1 July 2006 and the PSS must be registered with APRA also from 1 July 2006.

Work is already underway (by the Board's compliance team) to identify the requirements and commence the preparation of the appropriate documentation. We expect to lodge our APRA licence application in the second half of 2005.

## Costs

The Board's operating costs have increased in the past year. Additional staff have been required to meet demands placed on the Board, particularly in relation to compliance, where the regulatory requirements are increasing dramatically. This trend will not change in the foreseeable future.

## Family Law

New Family Law rules came into force from December 2002 whereby superannuation can be split between spouses upon a marriage breakdown. The PSS legislation required specific changes and factors to calculate defined benefits for members and 'non-member spouses' at the various stages of accumulation, preservation or pension payments.

Our administrator, ComSuper, carries out all Family Law administration. There has been a significant increase in the workload to perform these functions, including providing information to the two parties prior to the split, calculating the benefit payments and establishing separate accounts for the member and non-member spouse after the split.

## The PSS Accumulation Scheme

In October 2003, the Minister announced that PSS defined benefit arrangements would be closed to new members from 1 July 2005, from which time new Australian Government employees would become members of the PSS accumulation arrangements.

## Investment governance

The PSS Board takes the view that, if environmental, corporate and social policies are judged to be having, or are likely to have adverse effects on investment performance, it should use its proxy voting rights to protect the interest of members. To this end, the Board employs BT Financial Group who is responsible for managing the Board'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 \$3.4 billion (in combination with the Commonwealth 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 and industry groups to improve governance practices.

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

- governance and reporting of executive remuneration arrangements; and
- governance and reporting of energy use, including greenhouse gas emissions.

The Board welcomed a third new partner to the Governance Advisory Service: VicSuper joined Catholic Super Fund and Northern Territory Government Super.

In October 2003, the PSS and its governance partner BT Financial Group were jointly awarded the United Nations Royal Award for Responsible Investment—an inaugural citation developed by The United Nations Environment Programme Finance Initiative.

Following the positive results achieved so far 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:

- further work on executive remuneration;
- energy use in a number of industry sectors; and
- workplace health and safety in the construction sector.

## Custodian arrangements

The Board completed a review of its custodian arrangements in 2003–04 and decided to retain Chase Manhattan Bank (trading as JPMorgan) as the Fund's master custodian. Its custodial function in relation to investment management includes settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation.

## 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.)

During 2003–04 the Board decided to abolish all other Board committees. Functions previously dealt with by these committees are now being dealt with by the full Board.

## Administration service provision

The Board works closely with its administrator Commonwealth Superannuation Administration (ComSuper) to improve customer services overall.

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 strongly supports ComSuper's participation in this benchmarking service.

## Financial Management and Accountability Act

Since 1 July 2002, the PSS 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.

## **Superannuation Industry (Supervision) Act 1993 compliance**

The PSS is a complying fund under *Superannuation Industry (Supervision) Act 1993* (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%.

## **Future directions**

In August 2004, the Board made a change to the way earnings are allocated to facilitate the introduction of a cash investment option for preserved benefit members in December 2004. This is the first step in a transition phase to introducing a suitable range of investment choices for members whose benefit is affected by investment performance, and to ensure the PSS is in line with industry standards.

If the new PSS accumulation arrangements proceed as proposed by the Government, a key focus for the Board over the next 12 months will be preparations for the introduction of the new PSS accumulation arrangements. The Board will also continue to focus on compliance with the new regulatory environment to ensure the best possible outcome for our members.

Our efforts will also be directed to continuing to provide competitive investment returns while staying within the risk and volatility constraints that the Board sees as appropriate. We will also continue our proactive risk management programs such as the Governance Advisory Service, proxy voting and the ongoing review of Fund investments and the administration of the PSS.

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  
PSS Board

## The PSS Board

PSS Board membership  
Mission and operating principles  
Board and Board Committee meetings

The PSS Board administers the Public Sector Superannuation (PSS) Scheme in accordance with the provisions of the *Superannuation Act 1990* (the PSS Act), the Trust Deed and the Scheme Rules. It is also responsible for the management and investment of the PSS Fund.

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

## PSS Board membership

The Board consists of five members; two with experience in the formulation of government policy and public administration; two nominated by the ACTU and an independent chairman. All are appointed to the Board by the Minister for Finance and Administration under section 23 of the PSS Act.

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 2003 to 27 July 2006**

On 28 July 2003, Ms Susan Doyle was appointed Chairman of the PSS Board until 27 July 2006. Ms Doyle has many years experience in the area of superannuation and investments. She worked for Commonwealth Funds Management for 20 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 CSS Board.



### **Mr Peter Reynolds—appointed Chairperson on 28 July 1999 to 27 July 2003 (retired)**

Mr Reynolds was Chairperson of both the PSS and CSS Boards during the year and also Chairperson of the Boards' Investment Committee (which ceased to exist in March 2004). 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 1996, reappointed to 30 June 2005**

Ms Hall is a member of both the PSS and CSS 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—appointed 19 September 2002 to 18 September 2005**

Mr Connolly is a member of both the PSS and CSS Boards and a member of the Board's Audit and Risk Management Committee.

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 Cathy Manolios—appointed 25 July 2000 to 24 July 2003 (retired)**

Ms Manolios was a member of both the PSS and CSS Boards, and was Chairperson of the Administration Committee during 2002–03. (This Committee ceased to exist in March 2004.)

Ms Manolios is General Counsel with Zurich Financial Services Australia Limited. She has extensive experience in the life insurance and superannuation industry. The Minister 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 2003 to 8 September 2006**

Mr Moore is a member of both the PSS and CSS Boards. Mr Moore has had considerable experience and training in analysing economic issues. Mr Moore worked for 28 years in the Commonwealth Treasury, including five years as one of three Deputy Secretaries. During his time in the Treasury, Mr Moore headed most of the main policy areas before he left in 1987. He is currently Director of the Institute for Private Enterprise in Melbourne, and before that was Senior Fellow, Economic Policy at the Institute of Public Affairs. Mr Moore is also a Council Member of the Australian Strategic Policy Institute. The Minister has appointed Ms Sandra Wilson, Branch Manager, Superannuation Policy Branch, Department of Finance and Administration to act in this position during a time of vacancy in the office of Mr Moore.



### Ms Sally O'Loughlin—appointed 1 July 2001

Ms O'Loughlin is a member of both the PSS and CSS 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.

## Mission and operating principles

### Charter 2003–04

The Board's charter is to:

- administer the Public Sector Superannuation Scheme in accordance with the PSS Act and Trust Deed; and
- manage and invest the PSS 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 PSS, the aims of the trustees are to:

- identify and capture the best investment opportunities for increasing the real value of the Fund'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 PSS 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 Fund 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 PSS, 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 in the SLA tables on the following pages:

- page 37 The investment performance of the Fund relative to appropriate benchmarks
- page 46 Collection, recording and maintenance of member information
- page 48 Collection, banking, recording and maintenance of contribution remittances
- page 49 Employer support
- page 58 Contact Centre
- page 64 Member payments
- page 65 Invalidity processing
- page 67 Pension variations
- page 68 Pension increase advice
- page 68 Accounts, records and funding of benefit payments
- page 72 Internal review
- page 74 External review
- page 75 Complaints and enquiries.

In addition, the Board annually 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 developing and implementation of corporate strategies and plans;
- the managing of the relationships between the Board and service providers;
- the managing of the Board's financial affairs in relation to the administration of the PSS;
- 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;
- communicating with members and in particular, preparing and producing annual reports to members and Parliament, and member statements; and
- providing comprehensive administrative and executive support services to the Board.

## Board and Board Committee meetings

The Board has constituted an Audit and Risk Management Committee and may from time to time constitute other Board committees.

The Audit and Risk Management Committee comprises Ms Winsome Hall, Chairperson; Ms Joy Palmer, Member; Mr David Connolly, Member; and Mr Richard Balderstone, Member (until his retirement on 16 June 2004)

In March 2004 the Board resolved that the Administration Committee, Governance Committee, Investment Committee and Communications Committee cease to exist. The decision was made on the basis that the Board, meeting monthly, would manage directly the major issues previously considered by these committees.

There is also a Reconsideration Advisory Committee comprising an independent member and two senior ComSuper officers.

In September 2003 the Board resolved that the Committee comprise:

- either Ms Ann Forward or Mr Bill Gray as the independent Member; and
- any two of the four nominated ComSuper representatives.

**Table 1: Board and Board Committee meeting attendance 2003–04**

	Board	Invest	Admin	A&RM	Comms	Governance
Susan Doyle	13/13	1/1	1/1	1/2	2/2	1/1
David Connolly	12/13	1/1	1/1	5/5	NA	NA
Des Moore	11/12	0/1	NA	NA	NA	NA
Winsome Hall	13/13	1/1	NA	5/5	3/3	2/2
Sally O'Loughlin	12/13	1/1	1/1	NA	3/3	NA
Peter Reynolds	0/0	NA	NA	NA	NA	NA
Cathy Manolios	0/0	NA	NA	NA	NA	NA
John Flitcroft	1/1	NA	NA	NA	NA	NA
Sandra Wilson	2/2	NA	NA	NA	NA	NA

- NA: Not applicable as this Board member is not a member of the Committee.
- John Flitcroft and Sandra Wilson attended meetings in their capacity as acting members.

## Overview

Description of the Scheme  
Actuarial review

## Description of the Scheme

The PSS is a defined-benefit superannuation scheme. The final benefit is calculated as a multiple of final average salary over the period prior to leaving the PSS. A member's accrued benefit multiple depends on the rate at which contributions are made to the scheme and the period of membership. Members may contribute between 2% and 10% of salary. The employer contribution rate varies with the member contribution rate, subject to a cap in any ten years of total membership.

Retirement benefits can be paid as lump sums with the option to exchange the lump sum (or part of it) for an indexed pension. The benefits are generally made up of two components:

### 1. A member-financed component

This part comprises the contributions paid by the member into the Fund plus accumulated interest. Interest is credited at rates determined by the Board, in line with the earnings of the Fund.

### 2. An employer-financed component which includes two parts:

- The first part comprises the superannuation productivity contributions paid by the employer into the Fund plus accumulated interest.
- The second part of the employer component is the 'benefit balance', which is determined at the time the member exits from the PSS. The amount is the balance after the member and productivity components are deducted from the (defined) total lump sum benefit.

## SIS compliance

The PSS 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%.

## Actuarial review

The most recent actuarial review of the PSS scheme was completed by Mercers Human Resource Consulting Pty Ltd during 2002–03. The PSS 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 over the page.

**Table 2: Results of actuarial reviews**

<b>PSS Actuarial review as at:</b>	<b>30 June 2002</b>	<b>30 June 1999</b>	<b>30 June 1996</b>
Net assets	\$4.5b	\$3.5b	\$2.1b
Unfunded liability	\$9.1b	\$5.8b	\$4.3b
Notional Commonwealth employer contribution rate (including 3% productivity contribution) as a percentage of superannuation salaries	15.4%	14.2%	13.1%

The notional employer contribution rates are the employer contribution rates necessary to ensure that employer financed benefits payable from the PSS would remain fully funded in three years time, if they were fully funded at the time of the actuarial review.

The Australian Government's outlay on the PSS 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 Australian Government to the PSS Fund.

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

**Table 3: Actuarial projections**

<b>Year ending 30 June</b>	<b>Estimated Australian Government PSS costs \$m</b>
2005	342
2006	354
2007	367

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

# Administrative arrangements

Fund administrator  
Human resources  
Financial resources

## Fund administrator

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

The Board's administrator'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 2003–04, the number of staff employed jointly by the PSS and CSS Boards increased from 18 to 21 as the Boards expanded their finance, compliance and communications teams.

Staff employed directly by the Board are engaged on fixed term contracts.

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

## Professional development

Ongoing staff training and development is an important component of the Board's human resource management as well as a specific requirement for the Board in maintaining its Australian Financial Services (AFS) licence. During 2003–04, 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 PSS 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 PSS 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 PSS Board is responsible for the administration of the PSS Scheme and the management and investment of the PSS Fund. Costs of the PSS Board which are related to its responsibilities for the management of the PSS Fund and the investment of its monies are a charge against the Fund. Fees paid to the Chairman of the PSS Board and a proportion of those paid to the Trustees are also a charge against the Fund.

All other costs incurred by the PSS 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 PSS. ComSuper then transfers to the Board the Board's share of those monies.

### Funding arrangements

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

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

As a result of obtaining 'FMA agency' status, the PSS Board is required to prepare two sets of financial statements—first, in respect of the monies held in the PSS Fund (the Scheme financial statements) and secondly, in respect of the Board's administration monies (the Board financial statements).

## **Purchasing**

In 2003–04, the PSS 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 PSS Fund, were recorded and managed in accordance with the Board’s Chief Executive Instructions.

## **Ecologically sustainable developments and environmental performance**

In conducting its operations, the PSS Board makes every effort to minimise the environmental impact of its activities by ensuring that:

- all waste paper and cardboard are recycled;
- lighting and energy use are minimised;
- the Board’s offices, where practicable, use recycled paper and other products in its activities.

## **Fraud control**

The Board issued a revised Fraud Control and Fraud Risk Assessment Plan in September 2003. This plan, prepared in accordance with the Commonwealth Fraud Control Guidelines, forms an important part of the Board’s governance of the PSS. 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.

## Governance

Board governance statement

Principal duties

Governance matters outside the Board's control

General governance principles

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## Board governance statement

The Board's Governance Statement is produced below:

'The PSS Board (hereafter referred to as 'the Board') is constituted under the *Superannuation Act 1990* (the PSS Act). Accountable to the members of the Scheme under the PSS Act, under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act), the Corporations Act and under the general law, the principal responsibility of the Board is to manage and invest the Fund to maximise the benefits to members.

## Principal duties

The Board's principal duties are to:

- manage and invest the monies to meet the purposes of the Scheme;
- cause the payment of monies in and out of the Scheme to occur as prescribed;
- safeguard the assets of the Scheme and the interests of the beneficiaries;
- inform all relevant parties of the Scheme's condition and conduct; and
- 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 in keeping with the fiduciary duties owed to the members.

The following statement sets out the principles that 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 PSS Act, subject to consultations specified in the PSS 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 the Board 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 Board members.

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 gifts 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 an Audit and Risk Management Committee and may from time to time constitute other 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 Board committees include formal risk management and reporting arrangements that reinforce the commitment of the Board to scrutinise its own processes to ensure transparency in identification of conflicts and separation of functions. 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 meets as required to discharge its duties and reviews regularly the nature and extent of the reports and papers submitted to it. Staff and advisors provide briefings to the Board and major service providers make presentations to the Board from time to time.

The Board's agenda is settled by the Chairman in consultation with the CEO. Any Board member has the opportunity and right to have items placed on the agenda for consideration.

## Professional development

Board members and staff engage in continuing professional development 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.

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 its 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 Chairman 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. It coordinates advice from external advisors, and undertakes independent analysis of recommendations brought to the Board by those advisors.

Where the external advisors and the internal investment team have differing views on any investment issue, these differences 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 and Risk Management 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, 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. '

## PSS investment governance

**Table 4: 2003–04 investment governance milestones**

Oct 2003	May 2004
<p>PSS calls on Australian companies to ensure that executive remuneration packages align with shareholder interests</p> <p>The PSS and CSS Boards and the BT Financial Group are jointly awarded a Royal Award for Responsible Investment by the United Nations Environment Program Finance Initiatives (UNEP-FI) Unit</p>	<p>VicSuper joins Governance Advisory Service</p>

## The Board's approach to investment governance

The PSS 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.

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

### **Governance Advisory Service**

The objective of the PSS 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 to actively communicate those risks to relevant stakeholders.

In December 2001, the PSS 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 \$3.4 billion, in combination with the Commonwealth Superannuation Scheme (CSS). 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 PSS 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 PSS 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.

## Fund investment

Investment management

Events during the year

Fund performance

Performance by asset class

Crediting rate, exit rate and reserving policy

## Investment management

### Investment structure

The Board has adopted a modular approach to funds management, dividing the portfolio up into asset classes and appointing professional fund managers to invest those assets. In most cases the funds allocated to an asset class have been split further and divided between a number of specialist managers.

### Investment arrangements

The internal 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 uses JANA Investment Advisers Pty Ltd as its principal external investment advisor and retains a senior investment person from Towers Perrin Australia Pty Ltd to provide investment advice. Wilshire Australia Pty Ltd continues to provide advice on Australian private equity.

### Custodian services

The Fund's master custodian is JPMorgan. Its custodial function in relation to investment management includes settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation. JPMorgan 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. JPMorgan 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.

### 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 2004**

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*
<b>International Shares</b>	
Index	Vanguard Investments Australia Ltd
Active	AXA Rosenberg Investment Management Asia Pacific Limited BIAM Australia Pty Ltd Marathon Asset Management (Australia) Limited Marvin & Palmer Associates Inc. Rexiter Capital Management Limited 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>	
Active	BlackRock Financial Management, Inc Bridgewater Associates, Inc Delaware International Advisors Ltd Other*
<b>Market Neutral Funds</b>	
Active	Financial Risk Management Limited Harris Alternatives LLC Mesirow Advanced Strategies Inc
Currency Overlay	State Street Global Advisors Limited
<b>Property</b>	
Active	Colonial First State Property Limited AMP Life Limited Deutsche Asset Management (Australia) Limited
Alternative	Various*
<b>Cash</b>	
Index	Colonial First State Investments Limited
Active	Colonial First State investments Limited. Macquarie Investment Management Limited Other*

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

## Investment objectives

The total benefit payable to members is set by the rules and methodology embodied in the legislated constitution of the PSS. It does not depend on the earning rate of the Fund.

The difference between the total benefit payable to a member and the accumulated member and productivity contributions (including interest) invested in the Fund, is paid by the employer from Consolidated Revenue. The call on Consolidated Revenue will depend on the investment performance of the Fund. The better the investment performance of the Fund, the smaller the call on Consolidated Revenue. In these circumstances, it is the employer that bears the investment risk arising from the investment of the Fund.

If the call on Consolidated Revenue is to be minimised, achieving a good return over the long term is of vital importance. This is explicitly recognised by the Fund's investment objective which is: to maximise the long-term real return of the Fund.

Fundamentally, the Fund has a long-term perspective (maximising real returns in the accumulation fund), but managing shorter-term volatility (variations in annual crediting rates) is also an imperative. 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 annum after tax and fees, which derives from a nominal return of 7.0% per annum over the longer term.

## Strategic review

During the year, the Board conducted an interim 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, but some fine tuning was made to the investment strategy to meet those objectives

The Fund's return objective is to provide an average real return of 4.5% 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 constraint 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.

This criterion defines 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, one change was made to the strategic asset allocation adopted at the end of June 2002 and two further 'in principle' changes were flagged. The change made was to move to a fully exchange rate hedged benchmark for international equities. Previously the Fund had a 40% hedged/60% unhedged benchmark.

In addition, two further 'in principle' changes were made; these were as follows:

- First, it was decided to increase the Fund's allocation to market neutral investment strategies from its previous 5% weight to 10%. This move was, however, subject to the identification of appropriate managers and will be funded from the Fund's bond allocation.
- Secondly, it was decided to invest 5% of the Fund in long/short equity funds. These are equity funds that as well as buying stocks that are expected to rise in value, also sell equities that they do not own and whose prices are expected to fall. This move was subject to the identification of appropriate managers and will be funded from the Fund's equity allocation.

The following table sets out the strategic asset allocation, which has applied since July 2002 and which will apply going forward until the two 'in principle' changes mentioned above are implemented, together with the strategic asset allocation that will apply after they are implemented.

**Table 6: Strategic asset allocation**

Asset class allocation	Interim SAA	'in principle' SAA
Australian Shares	30%	30%
International Shares	25%	20%
Long/short Shares	0%	5%
Australian Bonds*	10%	8%
International Bonds*	13%	10%
Market Neutral Funds	5%	10%
Property	15%	15%
Cash	2%	2%

\* Includes Government and corporate bonds

## 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 two new Australian private equity funds in 2003–04. Also some of the funds previously committed to Australian private equity, Australian infrastructure, overseas private equity and overseas property were drawn down during the year and some investments were realised and the proceeds returned to the Fund. The net result of these flows was that the Fund's investments in these assets were static during the year. At years end the Fund's exposure to these assets was \$323.5m.

### Market Neutral Funds

During the year the Board further raised its investments (to approximately 5% of the Fund) in market neutral (or hedge) funds. The existing two hedge fund of funds vehicles were provided with more funds and a third hedge fund of funds manager was appointed. The Board continued to focus on investments at the more market neutral, lower risk end, rather than the higher risk end. As noted earlier the Board has decided to further increase its allocation to market neutral strategies to 10% of the Fund once suitable managers are identified.

The Board also decided to no longer classify market neutral funds as 'alternative' investments but instead to treat them as a separate stand alone asset class.

### International Bonds

The Board completed a review of international bonds in 2003–04 and decided to appoint three new active investment managers (see table 5). Previously, apart from a small exposure to international high yield debt, the Fund's exposure in this asset class was managed passively.

Midway through the year the Board decided to temporarily move 5% of the Fund's total assets out of international bonds and into cash because of concerns with the valuation of the market. The Board also decided to move to a benchmark that excluded Japanese bonds during the year. This reflected particular concerns with the low yields on offer in Japan.

The Fund's high yield debt exposure was eliminated late in 2003–04.

### Australian Bonds

Midway through the year the Board decided to temporarily move 5% of the Fund's total assets out of Australian bonds and into cash because of concerns with the valuation of the market.

## Cash

When the Fund's cash holdings were increased by 10% of the Fund's total assets as a result of the move out of bonds described above the Board decided to place 5% of the Fund's assets with two active cash managers (see table 5). Previously the Fund's cash had been invested passively.

## Fund performance

The past financial year was the best for the Fund in four years and the Fund was able to post a net return of 14.2%. This return was driven by strong equity returns and by solid returns from property and hedge funds. Bond returns were subdued but the impact of this on the Fund was mitigated somewhat by some exposure to high yield debt, which performed well, and by a decision taken during the year to move 10% of the Fund out of bonds into cash. 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 of the rise in the \$A on foreign asset returns.

The Fund's longer term investment performance remains solid. Over the last five years the Fund has returned an earning rate of 5.3% p.a., compared with the average inflation rate of 3.4% p.a. over this period.

Over 10 years the Fund has returned an earning rate of 8% p.a. compared with average inflation of 2.7% 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 strong throughout most of the year, increasing by 22%. This increase reflected the economy's sound performance which more than offset any dampening effect from some further rises in Australian short term interest rates. The strong performance from international equity markets also underpinned the domestic market.

The Fund's Australian equity investments did better than the market generally to return 23.5%. 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 2003–04 financial year was a very good one for international equity markets, which were buoyant throughout most of the year, pausing only temporarily in March and April when some uncertainties arose associated with the prospects of some rise in US short term interest rates. In hedged Australian dollar terms international equities rose by 24%.

For \$A based investors, the recovery in world equity markets was partly offset by the negative impact on returns of the rise in the value of the \$A. The currency movement cost \$A investors about 5% for the year. The PSS was protected against this currency impact by being largely hedged against the rise in the \$A.

## Australian Bonds

A pick-up in Australian economic growth together with some rises in short-term interest rates weighed on the Australian Bond market in 2003–04. The Fund's investments returned 2.7%, just above the market return of 2.3%. The Board decided to move 5% of the Fund from Australian bonds into cash during the year.

## International Bonds

A recovery in the international economy combined with some movement of capital back into international equities and, later in the year, more immediate prospects of a rise in short-term US interest rates, saw international bond markets post only modest 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 4.7% compared to the market's return of 3.3%. The Board also decided to protect Fund returns by moving 5% out of international bonds into cash and by eliminating very low yielding Japanese bonds from the Fund's benchmark.

## Market Neutral Funds

The Fund increased its exposure to 5% of its assets to this asset class in the December quarter of 2003. For the year as a whole these investments returned a healthy 10.7%.

## Property

The Australian property market, as measured by the Mercer Australian Unlisted Property Index, returned a solid 12.3% in 2003–04. The Fund's property investments did not do as well as this, returning 10.6%.

**Table 7: PSS Fund investments 2003–04**

<b>INVESTMENTS</b>	<b>Holdings at 30 June 03</b>	<b>Holdings at 30 June 04</b>	<b>Proportion of Scheme</b>
<b>Sector</b>	<b>\$m</b>	<b>\$m</b>	<b>%</b>
Australian shares	1 506.4	2 068.7	32.9%
International shares	1 333.4	1 628.9	25.9%
Australian bonds*	491.7	478.2	7.6%
International bonds*	638.2	328.9	5.2%
Market neutral (Hedge) funds	96.4	333.4	5.3%
Property	756.1	655.0	10.5%
Cash	198.3	785.7	12.6%
<b>Total Fund Investments</b>	<b>5 020.5</b>	<b>6 278.8</b>	<b>100.0%</b>

**Table 8: PSS Fund performance 2003–04**

<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>Sector</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Australian shares	23.5	22.1	6.4	4.3	9.4	7.4
International shares	22.6	20.2	-0.2	-5.6	1.8	-2.3
Australian bonds*	2.7	2.3	6.1	6.1	6.4	6.4
International bonds*	4.7	3.3	5.2	4.0	N/A	N/A
Market neutral (Hedge) funds	10.7	8.6	N/A	N/A	N/A	N/A
Property	10.6	12.3	9.9	11.1	10.6	10.9
Cash	5.5	5.3	4.9	5.0	5.3	5.3
<b>Total Fund</b>	<b>14.2</b>	<b>14.6</b>	<b>3.5</b>	<b>1.4</b>	<b>5.3</b>	<b>3.6</b>

Notes:

\* Includes Government and corporate bonds

1. Individual asset classes are post fees and pre tax

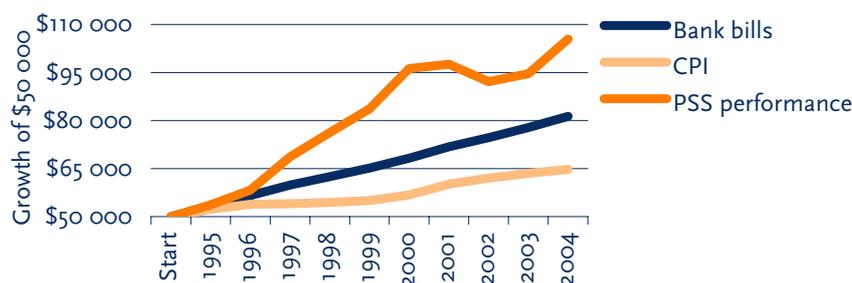
2. Total Fund is after tax and fees

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—Warburg Composite Bond Index
- International Bonds—Lehman Global Aggregate Index fully hedged into Australian Dollars
- Property—Mercer Australian Unlisted Property Index
- Hedge—Bank Bill Index + 3.2% per annum
- Cash —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.pss.gov.au](http://www.pss.gov.au)  
Post: Executive Unit, PSS 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, exit rate and reserving policy

In October 2003, the PSS Board amended its exit rate policy to allow for the declaration of at least a weekly exit rate. This better reflects the current investment performance of the Fund than the previous monthly declarations. Exit rate history for the 2003–04 year can be found at [www.pss.gov.au](http://www.pss.gov.au).

In August 2004, the Board made a change to the way earnings are allocated to facilitate the introduction of a cash investment option for preserved benefit members in December 2004, and provide a foundation for a fuller range of investment choices in the future.

The subsequent amendments to the exit rate and crediting rate policies, with effect from 13 August 2004, are as follows:

'As part of a transition towards the introduction of Member Investment Choice within the PSS for PSS members who have a preserved member component and/or productivity component, the Board resolves:

1. Not to declare a crediting rate for all PSS members for 2003/2004 and to declare its intention that crediting rates not be declared for future financial years.

2. To amend the exit rate policy for all PSS members as follows:
  - i. 'The exit rate shall be the net investment earnings of the Fund from 1 July 2003, where net investment earnings are determined as earnings after tax, fees and after replenishment of the negative reserve that existed at 30 June 2003.
  - ii. This exit rate will fluctuate. Members are guaranteed never to exit the Fund with less than their account balance as at 30 June 2003, plus contributions since that date.
  - iii. Exit rates will be determined on a Tuesday, based on the estimated net investment earnings of the Fund as at the end of the previous Friday. They will be published on the next business day to apply to benefit payments from that day.
  - iv. A determined weekly rate will be varied where market movements have an estimated 0.5% or greater effect on the Fund's investment performance.'
3. That from 1 December 2004 (or other date as the Board may determine - referred to as the 'transfer date'), PSS preserved benefit members who have a preserved member component and/or productivity component may choose to transfer those components to a cash investment option which will guarantee that the transferred balance will never be reduced so long as they remain in the cash option.
4. That all preserved benefit members with a preserved member component and/or productivity component who do not choose to transfer to the cash investment option would remain invested under the investment strategy as determined by the PSS Board. Future exit rates for members in this investment strategy will reflect the net investment return of this strategy from 1 July 2003. Members' balances will not be reduced below that as at 30 June 2003 plus contributions since that date.
5. That the option for preserved benefit members with a preserved member component and/or productivity component to transfer to cash would be available on the transfer date and thereafter at such times and subject to such conditions as determined by the Board. If at any time the Fund has a negative reserve the option for preserved benefit members with a preserved member component and/or productivity component to transfer to a cash investment option would be suspended until the negative reserve was replenished. Members can transfer back from cash to the default strategy but restrictions on the frequency of switching will apply, and interest earned from 1 July 2003 again becomes at risk.
6. To retain the right to change the timing of the exit rate determinations and/or the methodology used to calculate the rate as appropriate to the circumstances of the Fund at any particular time.

The Board further resolves to advise the Minister of these decisions and seek support from the Government for amendments to the relevant legislation to remove any impediments to the introduction of member investment choice into the PSS for PSS preserved benefit members with a preserved member component and/or productivity component.'

## Reserving mechanism

Up until 2003–04, the PSS Board’s investment policy included a reserving mechanism, which gave effect to the legislative requirement that members never exit the Fund with less than what they have contributed, even when the investment performance has been below zero. Reserves were limited to no more than 5% of the Fund’s assets and were used to smooth annual returns. If the value of reserves was not sufficient to offset completely any negative investment returns then, because the Boards cannot determine a negative interest rate for members, a negative reserve was created. This negative reserve was replenished out of future earnings.

With the changes to the Fund’s crediting and exit rate policies, effective 13 August 2004, the Board has decided to limit the use of the reserving mechanism to those situations, should they occur, where members’ credited balances exceed the assets of the Fund. In such a situation, a negative reserve would again be created and would need to be replenished from future earnings.

Because the Fund is no longer determining annual crediting rates but is instead allocating members their share of the Fund’s assets when they exit, the Fund may have a notional balance which represents unallocated earnings. This balance is invested in exactly the same way it would be if it were allocated to members, and members earn a return on this balance in exactly the same way they would if it were allocated to them.

**Table 9: Reserve balance**

	Value
Reserve opening balance at 30 June 2003	(\$109.4m)
Unallocated earnings at 30 June 2004	\$630.4m

## Account maintenance

Entry medical requirements

Additional death and invalidity cover

Collection, recording and maintenance of member information

Collection, banking, recording and maintenance of contributions remittances

Surcharge

Family Law

The maintenance of PSS contributor accounts is a major function provided by the Board’s administrator. Through the mechanism of service level agreements (SLAs) the Board 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.

## Entry medical requirements

During the year, ComSuper staff assessed 6 167 CMAPS with only 226 being accorded limited benefit status. The number assessed with limited benefits status represents 3.66% of the total CMAPS assessed over the year.

## Additional death and invalidity cover

At 30 June 2004 there were 3 676 members paying premiums for additional death and invalidity cover, compared with 3 051 at 30 June 2003. The gross amount of cover has grown from \$266m to \$317m. The average value of additional cover was \$82 515 per member.

## 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.

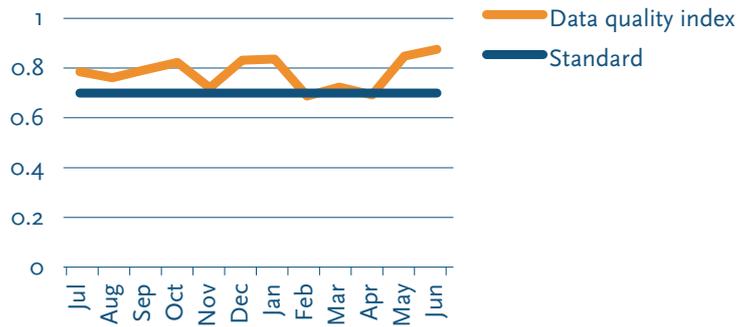
The Board requires its administrator to maintain records of scheme contributors, preserved benefit members and pensioners to facilitate, among other things, accurate and timely communications, accurate and timely payment of benefits, various reporting requirements, and reconciliation against Fund accounts.

In relation to this activity the following standards were applied:

**SLA table 1: Collection, recording and maintenance of member information**

Standard	Outcomes
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.	Standard met
Accuracy and timeliness as assessed by a data quality index (DQI) score of 0.7 or greater.	Standard met 10/12 months (see chart 2)

**Chart 2: Data quality index (DQI) 2003–04**



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 DQI index was not met on two occasions during the year. This was due to delays in data transmission because some employers encountered some teething problems with the newly installed file assurity (data encryption software). The situation has now stabilised.

## Collection, banking, recording and maintenance of contributions remittances

The basic rate of member contribution to the PSS is 5% of salary for superannuation, although members can elect to contribute from 2% to 10% of salary. The employer benefit is, for the most part, unfunded except for the employer productivity superannuation contributions, which are paid into the Fund by the member’s employer.

Total contributions to the Fund during 2003–04 were \$656 million, of which member contributions comprised \$453 million. Employer funded contributions amounted to \$203 million. The net appropriation for benefits for the year was \$165 million (\$310 million in gross benefits paid from Consolidated Revenue less \$145 million transferred from the Fund to Consolidated Revenue for the Fund’s share of benefit costs).

**SLA table 2: Collection, banking, recording and maintenance of contribution remittances**

Standard	Outcomes
Contribution remittances to be deposited into the Board's bank accounts on the date of receipt.	Standard met
Daily reconciliations will be undertaken to ensure that all moneys received are banked.	Standard met
Posting of member contributions to ComSAS database to be completed within 10 days of receipt	Standard met
Monitor timeliness of contribution receipts from major employers to ensure contribution remittances are received by due date.	Standard met
Unallocated money accounts: Entries—all accounts not to exceed 2 000; Balance—not to exceed \$2 million	Standard met

**Table 10: Contributors and contributions for past five years**

year	Contributors at end of year	Member contributions	Employer funded contributions	Net contribution inflow
	No	\$m	\$m	\$m
1999–00	112 436	274	127	25
2000–01	121 078	319	134	116
2001–02	130 283	367	151	314
2002–03	141 545	421.5	178	428
2003–04	146 786	453	203	491

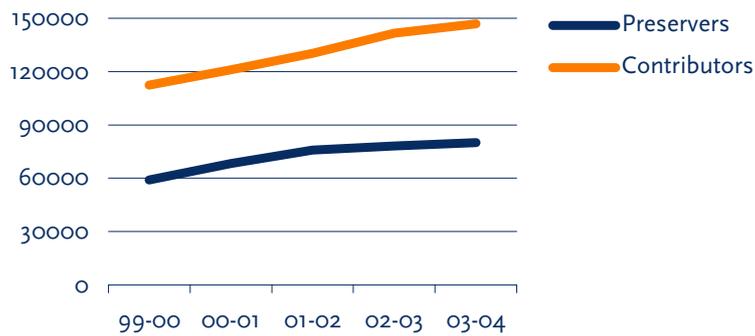
**Table 11: Contributor membership 2000–04**

Year ending	Male	Female	Total
30 June 2000	48 110	64 326	112 436
30 June 2001	51 088	69 990	121 078
30 June 2002	55 270	75 013	130 283
30 June 2003	60 009	81 536	141 545
30 June 2004	62 284	84 502	146 786

**Table 12: Preserved membership 2000–04**

Year ending	Total
30 June 2000	58 959
30 June 2001	68 305
30 June 2002	75 803
30 June 2003	78 156
30 June 2004	79 945

**Chart 3: Contributor and preserver membership five-year trend**



### 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. The Board requires employers to submit accurate data to ComSuper on behalf of their employees. 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 met.

**SLA table 3: Employer support**

Standard	Outcomes
Annual employer surveys and internal surveys of accuracy of data submitted to ComSuper.	Standard met

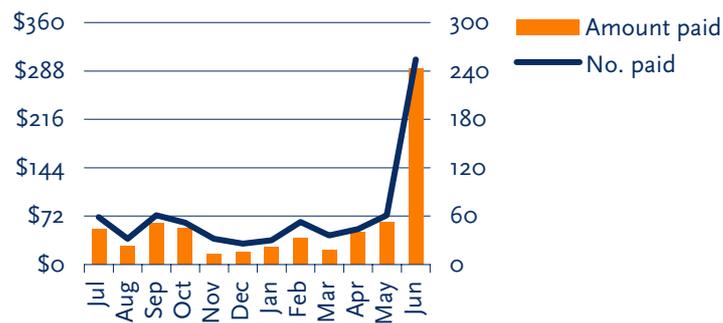
## Surcharge

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 PSS 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. It is 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.

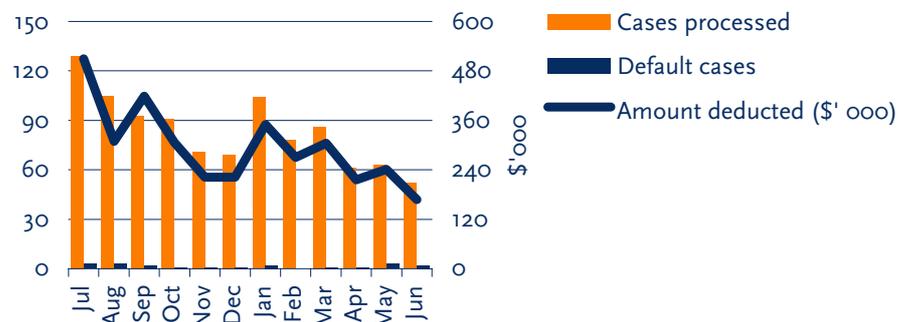
On receipt of surchargeable contributions information, the ATO matches the data with taxable income. If the taxpayer's adjusted taxable income exceeds the threshold, the ATO determines the amount of surcharge debt applicable to the member and reports this to ComSuper and the member.

During the year 488 members used the BPay facility to pay their debts directly. This facility has proven popular with members.

**Chart 4: Surcharge receipting**



**Chart 5: Surcharge cases processed**



**Table 13: Summary of surcharge activity undertaken by the Board during 2003–04**

	Number	\$
Applied surcharge debts reported by the ATO to members' accounts	8 703	*6 631 307
Received surcharge debt payments from members	613	798 458
Recovered debts from member benefits	269	1 115 377
Applied interest to surcharge debts that remained outstanding as at 30 June 2004		1 396 101

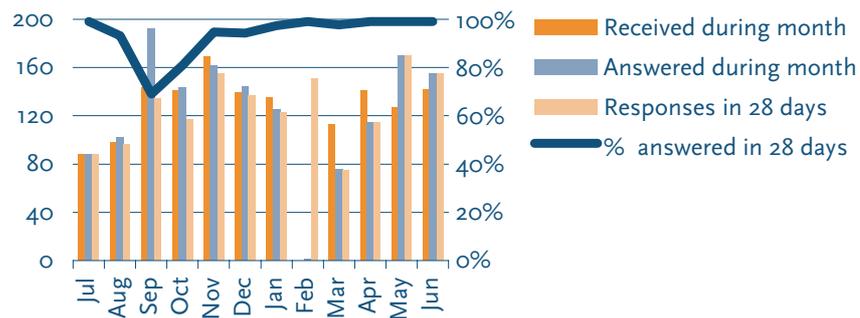
\* In respect of 7 228 members

## Family Law

During the year there were amendments to the PSS Scheme legislation which enable the creation of accounts for non-member spouses in Family Law splitting situations.

The new amendments have brought a steady increase in the number of members making use of the super-splitting arrangements and a subsequent increase in workload for the Legal Family Law section.

**Chart 6: Family law processing**



## Member communications

Overview

Annual Report Pack

Regulatory requirements

Performance indicators

Contact Centre

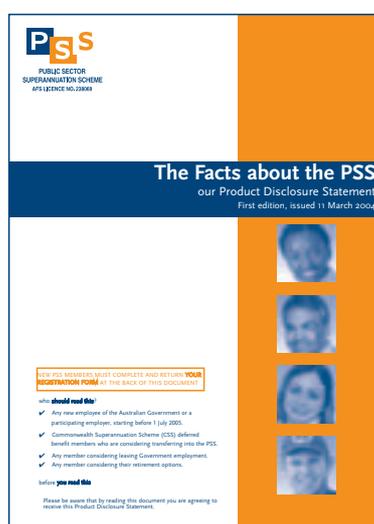
Internet services

## Overview

Communications efforts during the 2003–04 year were focused on managing the introduction of new or changed legislation.

To ensure information for members was compliant with the Board's new Australian Financial Services Licence conditions (introduced in March 2004) and the revised *Spam Act 2004* (introduced in April 2004), a complete audit of existing information sources for members was undertaken and new communications vehicles, such as a Product Disclosure Statement and Financial Services Guides, were created. Communications with employers were also undertaken (December 2003) to ensure they understood the new requirements on information they provide to members on behalf of the Board.

### Illustration 1: Product disclosure statement



The Board also prepared information to assist members understand and make informed decisions about:

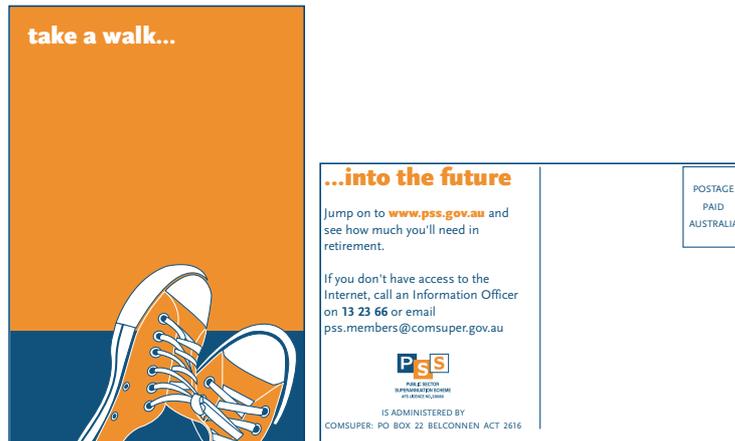
- changes to the Family Law Act;
- the Australian Government Super Co-contribution;
- the *Superannuation Legislation (Commonwealth Employment Repeal and Amendment) Act 2003* and 18th Amending Trust Deed to the PSS Rules.

The Board continued to develop its information and education resources for members and other stakeholders in accordance with its 2002–04 Communications Plan, delivering the following initiatives:

- A new 'New member welcome process' was designed to establish more direct contact with members, to ensure they know where to go for information and minimise the need for employers to distribute information in the future.
- Regular briefings were held for those stakeholders who are also seen, by members, as sources of information.

- A mini report online pilot, in response to member feedback asking for more frequent information and greater use of electronic methods of communications. The pilot encouraged members to assess how much income they might need in retirement, and allowed the Board to test the use of a predominately online communication method, supported by postcards and workplace posters.

### Illustration 2: Mini report—Postcard



Over the next year, Board communications activities will be focused on:

- the introduction of new accumulation arrangements;
- the development of the member seminar program; and
- further development of the PSS website to ensure it continues to meet members' information needs.

## Annual Report Pack

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

The 2002–03 Annual Report Pack received a positive response from members and was recognised with a silver award at the Conference of Major Superannuation Funds in 2004.

The 2003–04 Annual Member Statement Pack will be issued to members in October 2004.

SIS legislation requires the Board to distribute annual member statements by 31 December each year.

## Regulatory requirements

As a regulated superannuation fund under the *Superannuation Industry (Supervision) Act 1993* (SIS), the PSS 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 members, giving assurance that the superannuation industry operates in a fair, honest and open manner.

Member communications are also compliant with the *Spam Act 2004*, the *Privacy Act 1988* and Parliamentary and Australian Government publishing standards.

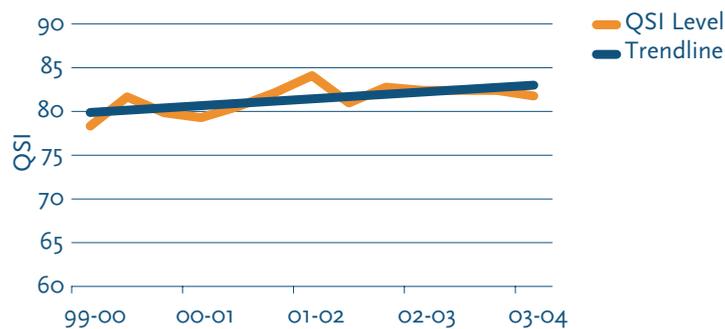
The Board also obtained its Australian Financial Services Licence. The new licensing regime introduces a number of changes that affect superannuation funds with respect to communications and advice to members.

## Performance indicators

Overall satisfaction with ComSuper's services declined marginally in Semester 14 but remains around the levels recorded over the last three survey cycles. The current survey results are consistent with high levels of satisfaction among a large majority of ComSuper's clients in relation to:

- timeliness and quality of service;
- skills and knowledge of ComSuper staff; and
- relevance and readability of information products.

Chart 7: 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 PSS members.

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

Communications Manager  
PSS Board  
GPO Box 1907  
Canberra City ACT 2601  
Telephone: (02) 6263 6999  
Fax: (02) 6263 6900

## Contact Centre

Telephone call numbers have remained relatively stagnant over the period for both contributors and pensioners. However, with the introduction of the Financial Services Reform legislation (FSR) it has meant that the duration of the call and the call wrap up requirements have increased significantly. This, along with turnover of staff and training requirements (FSR), has made the achievement of the service standards an extremely difficult task. There is, however, significant focus currently being placed on this area to ensure we can consistently meet the required levels.

There has been a slight increase in volume of written correspondence and emails over the period for both contributors and pensioners. This increase along with the channelling of resources towards the phones has seen the standards not being met.

The Family Law enquiries have been steady over the period, however with the introduction of the scheme specific legislation, the resources that were devoted to handling the queries have been seconded to help out on the Family Law Project. The Contact Centre has undertaken a significant cross skilling of staff in this area, but due to the complexities it takes numerous months for staff to become competent.

In relation to the seminars the same program has now been running for a number of years. We have seen a significant number of members attend these seminars and have received numerous compliments on the information provided. Over the period there was a real increase in the number of requests for one-on-one counselling sessions both locally and interstate. This has tied up significant resources of the Contact Centre in order to provide this service.

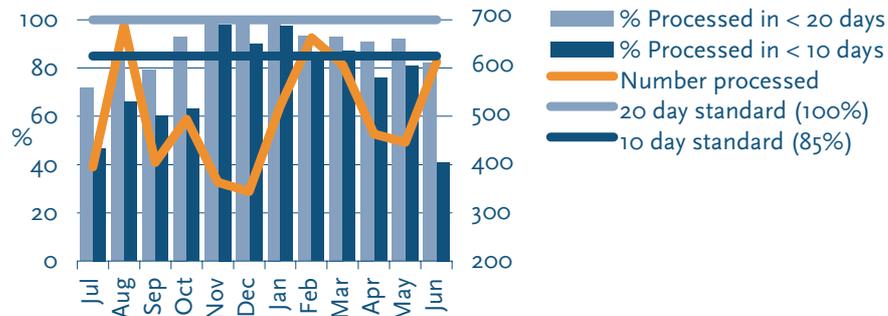
The Contact Centre has been working for a number of months on a review of the area and the services it provides. Phase 1 dealt with task identification and volume as well as resourcing of the centre. This has seen an increase in staff by around 14 people who will begin to come on line in July/August. The second phase of the review looks at structure and the service offering and this phase is currently underway. This review will allow the Contact Centre to provide extra services as well as meet the service and quality measures currently in place.

**SLA table 4: Contact Centre**

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>Email 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>Family law enquiries:                             <ul style="list-style-type: none"> <li>respond to 100% of enquiries within 28 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>Favourable client survey and/or benchmarking results.</li> <li>Quality (i.e. fitness for purpose) of generated correspondence is assessed via six-monthly audits.</li> </ul>	<p>Standard met 5/12 months Standard met 2/12 months</p> <p>Standard met 2/12 months Standard met 8/12 months</p> <p>Standard met</p> <p>Standard met 3/12 months</p> <p>Standard met Standard met</p> <p>Standard met 7/12 months Standard met</p> <p>Standard met Standard met Standard met</p> <p>Standard met</p> <p>Standard met</p>

\* In combination with CSS members

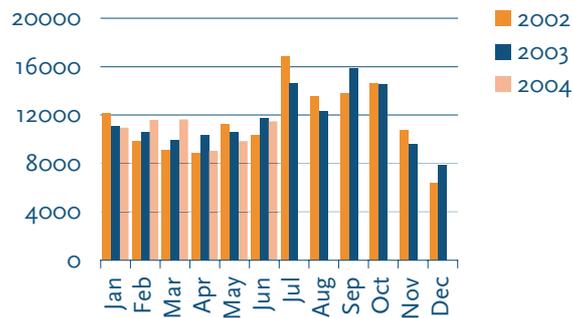
**Chart 8: Contributor written estimates**



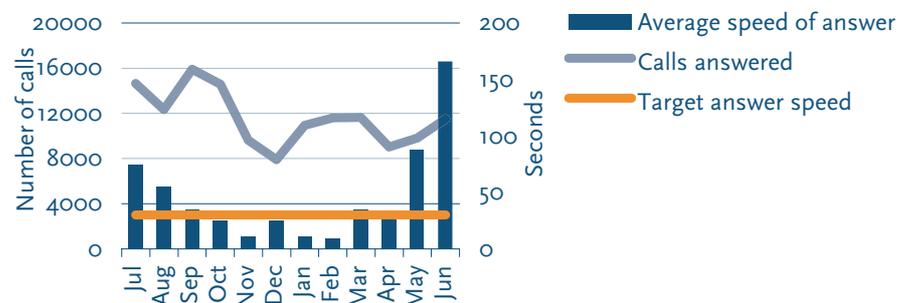
**Chart 9: Contributor emails processed within 24 hours**



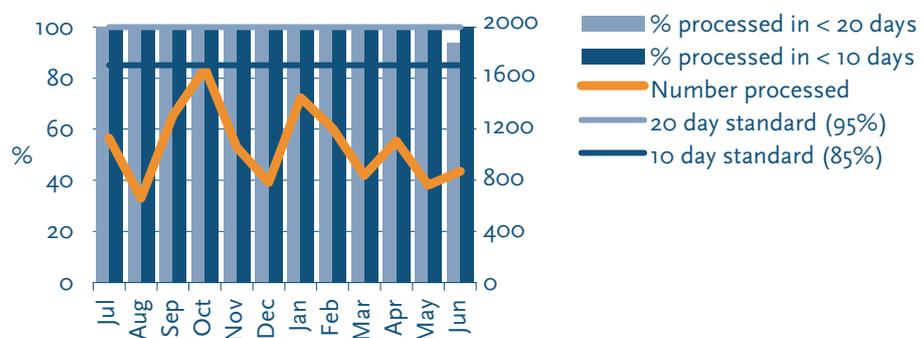
**Chart 10: Contributor—comparison of monthly call volumes**



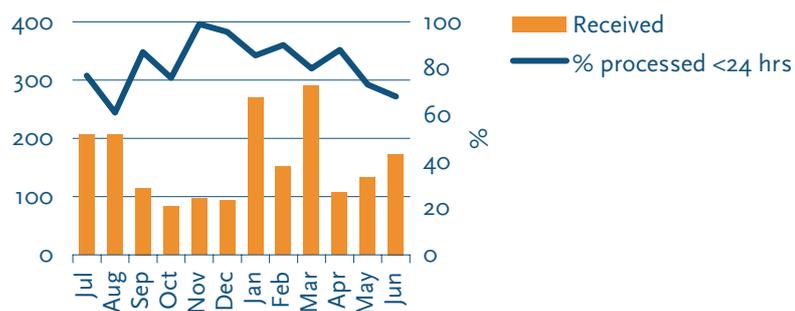
**Chart 11: Contributor telephone calls**



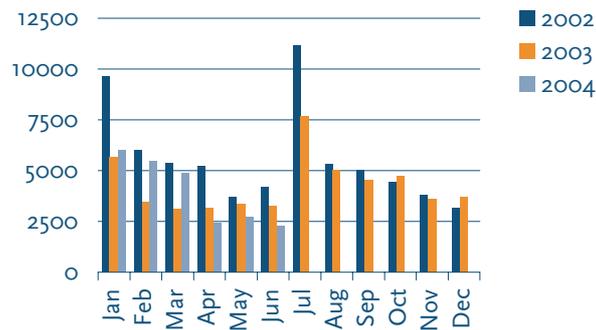
**Chart 12: Pensioner correspondence**



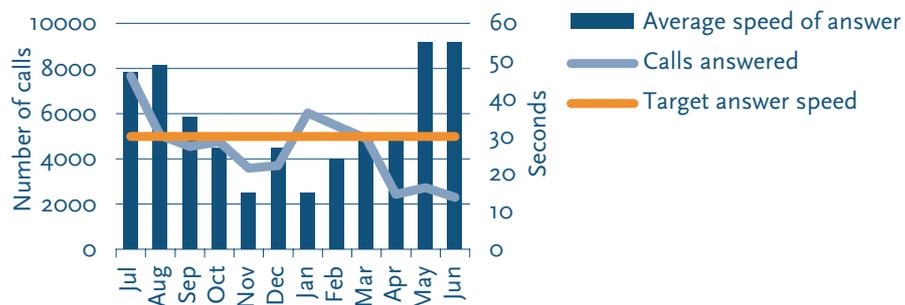
**Chart 13: Pensioner emails processed within 24 hours**



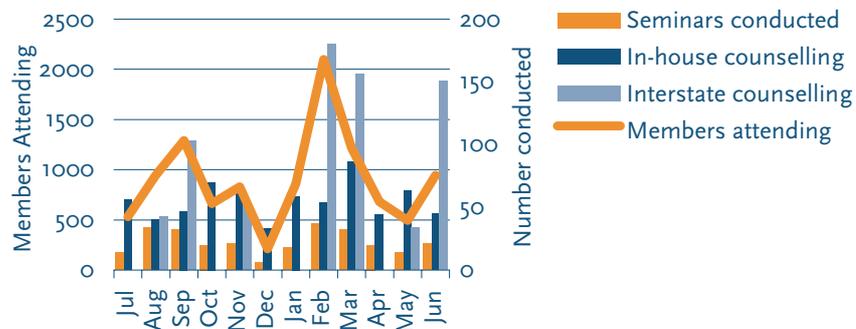
**Chart 14: Pensioner—comparison monthly calls volumes**



**Chart 15: Pensioner telephone enquiries—average speed of answer**



**Chart 16: Information seminars and personal counselling**



## Internet services

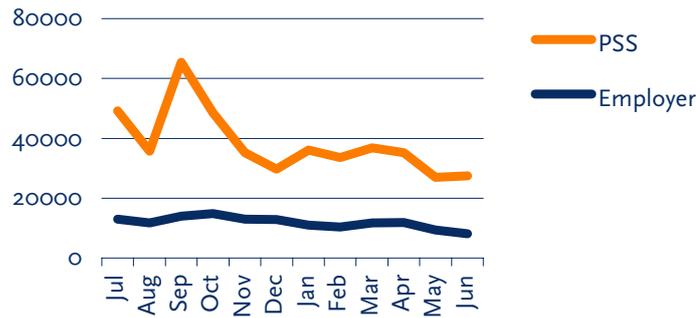
The PSS website ([www.pss.gov.au](http://www.pss.gov.au)) continues to be a primary communications channel between the Board and members, particularly in relation to investment matters.

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 17: PSS website hits 2003–04**



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 46 822 statements were accessed and 44 265 benefit estimates produced online. Another 19 050 transactions took place.

## **Benefit payments**

Processing of invalidity claims

Pensions

Accounts, records and funding of benefit payments

ComSuper processed 12 919 benefit applications during the year (compared with 12 982 in the previous financial year), representing more than 1 000 applications per month throughout the year.

During 2003–04, the bulk of benefits processed were resignations (8 352 or 64%). The number of retrenchment benefit applications decreased slightly from 875 (6.7%) in 2002–03 to 840 (6.4%) in 2003–04. The types of exits are shown in Tables 14 and 15.

**Table 14: Contributor exits by type 2003–04**

Type	Number
Age Retirement	1 300
Retrenchment (Involuntary and Sale of Assets)	840
Invalidity	159
Death	102
Resignation	8 352
Total	10 753

**Table 15: Preserved benefits claimed by type 2003–04**

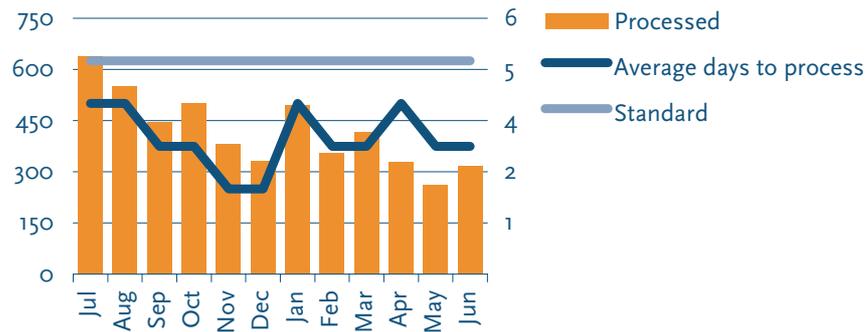
Type	Number
Age	685
Invalidity	15
Death	60
Early Release (financial hardship) and other	1 406
Total	2 166

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

**SLA table 5: Member payments**

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 18: Benefit processing against standards**



## 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 98% of applications considered.

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

**SLA table 6: Invalidity processing**

Standard	Outcomes
Very urgent invalidity claims: • 100% in 3 days	Standard met
Normal invalidity claims: • 70% in 3 months • 100% in 9 months	Standard met Standard met
Preserved benefit invalidity claims: • 80% in 6 months • 100% in 12 months	Standard met 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 Occupational 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 2003–04, pre-assessment payments were approved in respect of 124 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 2003–04, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 165 cases considered by ICM, 161 were recommended for invalidity retirement. The panel recommended that two cases be refused.

## 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 2003–04, 161 invalidity retirement certificates were approved. Of those, 20 were fast-tracked by the invalidity assessment panel and responded to in less than three days.

## Pensions

### Fact of Death File

As part of ComSuper’s ongoing fraud control measures we are provided with data which enables us to identify pensioners who have died but whose pension payments are continuing.

The data ComSuper receives is known as the Fact of Death File. It is a subset of the death registrations of each state and territory in Australia.

The data is provided to ComSuper solely for the purpose of matching and ceasing pensions currently being paid to deceased pensioners. A report is produced each month from this data, which summarises the matches found between the Fact of Death File and current pensioners.

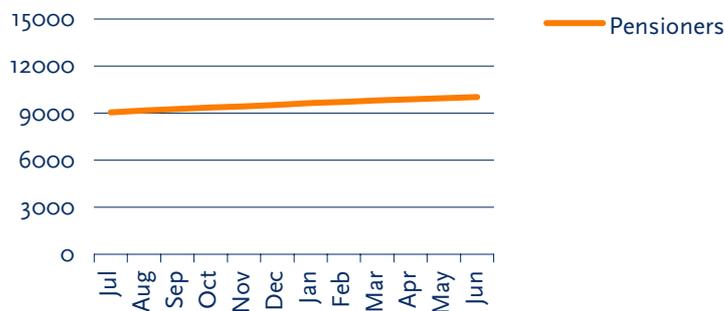
### Pension variations

#### SLA table 7: Pension variations

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

### Pensions in force

#### Chart 19: Growth in PSS pensioner population 2003–04



## Pension increase advice

SLA table 8: Pension increase advice

Standard	Outcomes
The January CPI increase is to be processed for payment on the first payday in January. A pension adjustment notice 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 are provided prior to the payday.	Standard met

## Accounts, records and funding of benefit payments

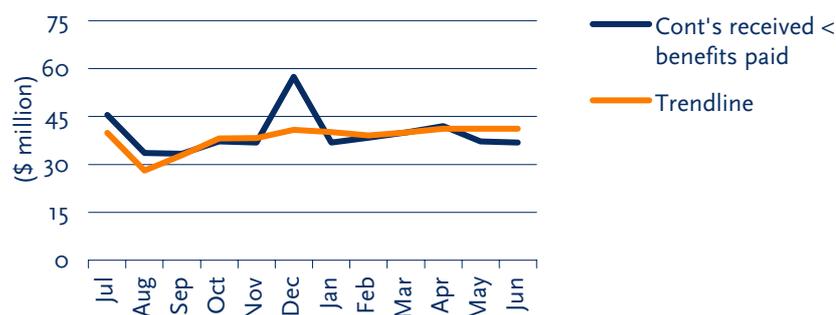
The Board requires its administrator to:

- 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.

SLA table 9: Accounts, records and funding of benefit payments

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

Chart 20: PSS Fund—contributions received less benefits paid 2003–04



## Dispute resolution

Avenues of review

Internal review

External review

Complaints and enquiries

## Avenues of review

Decisions of the Board and its delegates are subject to internal reconsideration and external review.

### Internal review

A person affected by a decision of the Board or a delegate may apply in writing to have it reconsidered by the Board. A fee applies if the Board itself made the primary decision. 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 the fee of \$150 is also applicable. 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 two senior ComSuper officers and two independent members appointed by the Board who alternate monthly. The RAC makes a recommendation that is considered by the Board along with all the relevant evidence in deciding whether to affirm or vary the decision, substitute another decision or set aside the decision. The Board can also choose to reconsider a decision on its own motion. Each applicant receives a 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* (the SIS Act) and should a person be unhappy with the Board’s decision, they may request the Superannuation Complaints Tribunal to review the decision in accordance with the *Superannuation (Resolution of Complaints) Act 1993*.

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.

**SLA table 10: Internal review**

Standard	Outcomes
<p>The Reconsideration Advisory 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 3.2 months</p> <p>Standard met</p>

## Applications received

Twenty applications for reconsideration were received, compared with 33 last year. Ten applications concerned the limited benefits status of members; four concerned spouse's benefits; two concerned payment of transfer values in or out of the fund; one concerned retrospective invalidity retirement; and the remaining three related to a range of miscellaneous issues.

From the relatively small number of requests for reconsideration, the Board was satisfied with the high standard of decisions taken by delegates. While it set aside or varied earlier decisions in favour of the applicant in 44% of cases, this was primarily as a result of additional evidence rather than any obvious deficiency in the original decision.

## Cases finalised

Sixteen cases were finalised during the year, 37 for the previous year.

**Table 16: Reconsideration applications received and outcomes 2003–04**

	2002–03		2003–04	
	Delegate's decisions	Board's decision	Delegate's decisions	Board's decision
Brought forward	9	0	5	0
Received	33	0	20	0
Withdrawn or lapsed	15	0	4	0
Decisions affirmed	14	0	5	0
Decisions set aside	8	0	7	0
Resolved	37	0	16	0
Carried forward*	5	0	9	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.

## SLA table 11: External review

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 PSS Board and three were carried over from the previous year. Seven cases were completed during the year: three decisions of the Board were affirmed, three complaints were withdrawn by the complainant, and one complaint was treated as withdrawn on the basis that it was lacking in substance. Four SCT complaints remain outstanding as at 30 June 2004.

## Federal Court

Decisions of the Superannuation Complaints Tribunal (the SCT) are reviewable by the Federal Court in its appellate jurisdiction under section 46 of the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act). Appeals, on the grounds of an error of law only, must be instituted within 28 days of notification of the SCT decision.

Decisions taken in the administration of the PSS are subject to review by the Federal Court in its original jurisdiction under the *Administrative Decisions (Judicial Review) Act 1977* (the AD(JR) Act). Recourse to the Federal Court in its original jurisdiction 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 no PSS cases reviewed by the Federal Court under the SRC Act or the AD(JR) Act.

## Claims against the Board

During the year, seven claims for compensation were considered by the Board or its delegate arising from a dispute about the claimants' benefit entitlements. Liability was accepted for two matters which were settled by way of lump sum payments to the claimants of \$22 000 and \$1 498 each.

## 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:

SLA table 12: Complaints and enquiries

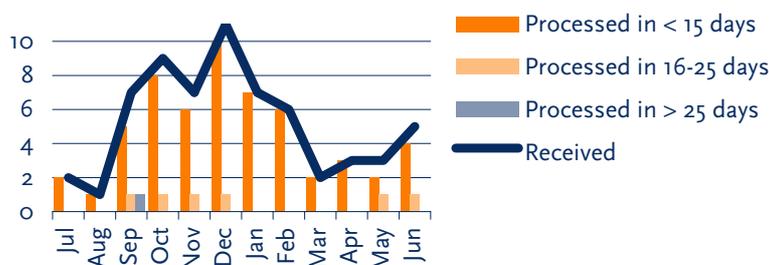
Standard	Outcomes
Processing time for: SIS Complaints: <ul style="list-style-type: none"> <li>90% within 15 days</li> <li>100% within 25 days</li> </ul>	A substantive response was made to 89% of SIS registered complaints (excluding requests for internal review) 99% within 25 working days
Parliamentarian/ Ombudsman representations: <ul style="list-style-type: none"> <li>90% within 15 days</li> <li>100% within 25 days</li> </ul>	
Freedom of Information requests: <ul style="list-style-type: none"> <li>100% within 7 days</li> </ul>	Standard met Standard met Standard met

## Complaints and representations

During 2003–04, 68 complaints and two parliamentary representations were received. This compared with 73 complaints and four representations made last year. Complaints and representations did not have a particular theme and covered issues such as release of the member’s preserved component, queries about the annual information statement and queries about benefit estimates. All complaints were able to be resolved within the SIS legislative timeframe of 90 days.

ComSuper advised the Board that the shortfall in meeting the service level standards for one complaint arose from the need to obtain necessary information for the response from the member’s employing agency.

Chart 21: Number of complaints and ministerials processed



# Scheme financial statements

Independent Audit report from ANAO  
Financial Statements  
AAS25 Actuarial Statement



**Public Sector 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 the Public Sector Superannuation Scheme for the year ended 30 June 2004 as set out on pages 2 to 20 attached. 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 you.

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 28(1)(b) of the *Superannuation Act 1990*; and
- (ii) The financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the net assets of Public Sector Superannuation Scheme as at 30 June 2004 and the changes in net assets for the year ended 30 June 2004.

*(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 Public Sector 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, 121A, 122, 124, 125, 152, 153, 154;
  - 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

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 BARTON ACT  
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- (b) complied with the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* that are subject to audit (to the extent applicable); and
- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the *Corporations Act 2001* and Regulations:
- Sections 1012A, 1012B, 1012F, 1012G(3), 1012H(2), 1012I, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9); and
- Regulation 7.9.32(3); and
- (d) adhered to the Guidelines for preparing risk management statements ("Guidelines") issued by APRA in Circular ILD.7 on Derivatives (to the extent applicable)
- for the year ended 30 June 2004; and
- (e) complied with the requirement to prepare and lodge the respective returns comprising the APRA Annual Return.

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

My procedures with respect to Regulation 6.17 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 the 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 trustees under the Guidelines contained in APRA Circular ILD.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 trustees. 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, the *Financial Sector (Collection of Data) Act 2001* 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, the *Financial Sector (Collection of Data) Act 2001* 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 Public Sector Superannuation Scheme has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001* and Regulations and applied the Guidelines specified above for the year ended 30 June 2004.

AUSTRALIAN NATIONAL AUDIT OFFICE



Ian P. Goodwin  
Executive Director

Delegate of the Auditor-General

Canberra  
7 September 2004

## Public Sector Superannuation Scheme

### Statement by the Trustee of the Public Sector Superannuation Scheme ('The Scheme')

The Trustee hereby states that in its opinion:

- (a) the attached financial statements of the Public Sector 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 2004) Orders* to the extent that the latter is not inconsistent with the former;
- (b) the attached financial statements of the Public Sector Superannuation Scheme show a true and fair view of the net assets of the Scheme as at 30 June 2004 and the changes in net assets of the Scheme for the year ended 30 June 2004;
- (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 PSS Board in accordance with sub-section 28(1)(b) of the *Superannuation Act 1990* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;
- (e) the financial statements have been prepared based on properly maintained financial records; and
- (f) the operations of the Fund were conducted in accordance with the *Superannuation Act 1990*, the Trust Deed establishing the Scheme and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed at Canberra this 7th day of September 2004 in accordance with a resolution of members of the PSS Board as Trustee of the Scheme.



S. Doyle  
Chairman



W. Hall  
Member

PSS Board

PUBLIC SECTOR SUPERANNUATION SCHEME

Statement of Changes in Net Assets  
For the Year Ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Net assets available to pay benefits at the beginning of the financial year		5 004 227	4 468 238
<b>Add:</b>			
Revenue from ordinary activities			
<b>Net investment revenue</b>			
Interest		48 828	59 054
Dividends		302 502	133 372
Other investment income		3 066	1 314
Changes in net market values	4	477 851	(36 672)
Less: Direct investment expenses	5c	<u>(13 336)</u>	<u>(10 260)</u>
		<u>818 911</u>	<u>146 808</u>
<b>Contribution revenue</b>			
Member contributions	5a	453 518	421 488
Employer contributions	5a	202 661	178 048
Appropriation from Consolidated Revenue Fund	5b	165 343	142 310
Transfers from the Commonwealth Superannuation Scheme	7	<u>1</u>	<u>1 138</u>
		<u>821 523</u>	<u>742 984</u>
<b>Total revenue from ordinary activities</b>		<u>1 640 434</u>	<u>889 792</u>
<b>Less:</b>			
Expenses from ordinary activities			
General administration expenses	1k, 5c	(2 503)	(2 378)
<b>Benefits paid</b>	5b	<u>(337 450)</u>	<u>(313 560)</u>
<b>Total expenses from ordinary activities</b>		<u>(339 953)</u>	<u>(315 938)</u>
<b>Total revenue less expenses and benefits paid before income tax</b>		<u>1 300 481</u>	<u>573 854</u>
Income tax (expense)/benefit	6	<u>(101 051)</u>	<u>(37 865)</u>
<b>Total revenue less expenses and benefits paid after income tax</b>		<u>1 199 430</u>	<u>535 989</u>
<b>Net assets available to pay benefits at the end of the financial year</b>		<u><u>6 203 657</u></u>	<u><u>5 004 227</u></u>

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME

Statement of Net Assets  
As at 30 June 2004

	Note	2004 \$'000	2003 \$'000
<b>Investments</b>	1c		
Cash and short term deposits		143 237	113 803
Australian money market		629 050	108 409
Australian fixed interest		487 418	502 238
International fixed interest		224 095	587 172
Australian equity investments		2 170 174	1 401 077
International equity investments		1 927 068	1 409 978
Unlisted property trusts		745 991	694 667
Pooled superannuation trusts		9 413	95 780
Currency contracts		( 68 041)	92 047
Other investments		13 819	( 1 323)
<b>Total investments</b>		<u>6 282 224</u>	<u>5 003 848</u>
<b>Other assets</b>			
Cash at bank		54 536	53 694
Consolidated Revenue Fund Special Account		-	27
Interest receivable		11 795	16 718
Dividends receivable		13 700	10 710
Trade settlements receivable		24 757	9 620
GST recoverable		76	65
Benefits payable to be funded by Appropriation	5b	2 010	2 447
Amounts due from the CSS Fund	7	1 133	1 668
Deferred tax assets		9 269	5 028
<b>Total other assets</b>		<u>117 276</u>	<u>99 977</u>
<b>Total assets</b>		<u>6 399 500</u>	<u>5 103 825</u>
<b>Less: Liabilities</b>			
Benefits payable	5b	26 870	28 620
Trade settlements payable		59 391	23 250
Sundry creditors	8	8 649	9 613
Current tax liabilities		51 733	32 793
Deferred tax liabilities		49 200	5 322
<b>Total liabilities</b>		<u>195 843</u>	<u>99 598</u>
<b>Net assets available to pay benefits</b>	12	<u>6 203 657</u>	<u>5 004 227</u>

The attached notes form part of these financial statements.

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 2004

#### 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 Public Sector 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 PSS Board in accordance with sub-section 28(1)(b) of the *Superannuation Act 1990*.

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.

## PUBLIC SECTOR SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

## 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 Investment 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).

(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 asset 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.

(h) *Benefits Payable*

Benefits payable represents benefits which have been notified 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.

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 2004

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

##### (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 14. 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 PSS Board*

In accordance with a determination issued by the Minister for Finance and Administration pursuant to section 34 of the *Superannuation Act 1990*, those costs of the PSS Board which are related to its responsibilities for the management of the PSS Fund and the investment of its moneys are a charge against the Fund. Fees paid to the Chairman of the PSS Board are also a charge against the Fund. Fees for other PSS Board Members are charged 50% to the Fund and 50% against the PSS 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 PSS Board have been brought to account in the financial statements of the PSS 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. Other debtors and creditors are subject to normal trade credit terms.

**PUBLIC SECTOR SUPERANNUATION SCHEME****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**2. IMPACT OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For reporting periods beginning on or after 1 January 2005, the fund must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Fund's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Fund has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the Fund's performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Fund's financial reports in the future. The potential impacts on the Fund's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as the actual impacts will depend on the particular circumstances prevailing on adoption in the financial year commencing on 1 July 2005.

The key potential implications of the conversion of IFRS on the Fund are as follows:

Income tax will be calculated based on the 'balance sheet' approach, which may result in the carrying value of deferred tax assets and liabilities being different to those determined under current Australian Accounting Standards.

Changes in accounting policies will be recognised by restating comparatives rather than making current adjustments with note disclosure of prior year effects.

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**3. NATURE OF SCHEME AND PRINCIPAL ACTIVITIES**

(a) The Scheme is a defined benefits scheme which provides benefits to its members under the *Superannuation Act 1990* (which has been subsequently amended).

**(b) Member and Employee Numbers**

	2004 #	2003 #
Number of members		
- Contributors	146 786	141 545
- Deferred beneficiaries/preservers	79 945	78 156
- Pensioners	<u>10 093</u>	<u>9 036</u>
	<u>236 824</u>	<u>228 737</u>
Number of employees directly employed to manage the Scheme	<u>19</u>	<u>18</u>

**4. CHANGES IN NET MARKET VALUES**

	2004 \$'000	2003 \$'000
Changes in net market values of investments:		
<b>(a) <i>Investments held at 30 June:</i></b>		
Australian money market	3 146	562
Australian fixed interest	( 9 031)	11 237
International fixed interest	5 092	( 52 081)
Australian equity investments	163 670	( 25 113)
International equity investments	192 850	( 79 808)
Unlisted property trusts	-	26 733
Pooled superannuation trusts	( 3 368)	958
Currency contracts	( 159 755)	24 800
Other investments	<u>( 397)</u>	<u>( 1 877)</u>
	<u>192 207</u>	<u>( 94 589)</u>
<b>(b) <i>Investments realised during the year:</i></b>		
Australian money market	25 527	5 071
Australian fixed interest	( 5 109)	( 3 327)
International fixed interest	( 18 258)	( 9 438)
Australian equity investments	12 725	( 43 269)
International equity investments	18 908	( 204 537)
Unlisted property trusts	3	6
Pooled superannuation trusts	12 939	( 18 648)
Currency contracts	231 669	244 480
Other investments	<u>7 240</u>	<u>87 579</u>
	<u>285 644</u>	<u>57 917</u>
<b>(c) <i>Total changes in net market values of investments</i></b>	<u>477 851</u>	<u>( 36 672)</u>

The net gain on foreign currency contracts for the year was \$71.9m (2003: \$269.3m gain). 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.

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**5. FUNDING ARRANGEMENTS**

**(a) Contributions**

Members contribute to the Scheme at optional rates ranging from a minimum of 2 per cent to a maximum of 10 per cent of salary paid to the member. Employers contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3 percent of salaries paid to the members.

**(b) Benefits**

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

Benefits payable by the CRF as at 30 June totalled \$2.0m (2003: \$2.4m). 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 Consolidated Revenue Fund:

	2004 \$'000	2003 \$'000
Gross Appropriation from CRF	310 166	278 410
less: Transfers from Fund to CRF	<u>(144 823)</u>	<u>(136 100)</u>
<b>Net Appropriation</b>	<b><u>165 343</u></b>	<b><u>142 310</u></b>
 <b>PSS Fund</b>		
Lump-sum Benefits	<u>27 284</u>	<u>35 150</u>
 <b>Consolidated Revenue Fund</b>		
Lump-sum Benefits	155 623	145 476
Transfer Values	3 149	4 307
Pensions	149 800	126 925
Other	<u>1 594</u>	<u>1 702</u>
	<u>310 166</u>	<u>278 410</u>
Total benefits paid	<b><u>337 450</u></b>	<b><u>313 560</u></b>

**(c) Costs of Administration**

The *Superannuation Act 1990* requires the Commissioner for Superannuation (through ComSuper) to provide administrative support to the PSS Board to enable the Board to perform its functions under the Act. Under the provisions of the Act, the PSS 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 PSS Board and the Commissioner for Superannuation.

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 2004

#### 5. FUNDING ARRANGEMENTS (Cont.)

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

	2004 \$'000	2003 \$'000
Public Sector Superannuation Scheme	2 503	2 378
PSS Board Administration	1 387	1 315
ComSuper Administration	<u>20 109</u>	<u>18 436</u>
Total	<u><u>23 999</u></u>	<u><u>22 129</u></u>

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

	2004 \$'000	2003 \$'000
Investment Advisors	280	508
Investment Managers	11 324	7 838
Custodian	1 530	1 529
Other	<u>201</u>	<u>379</u>
	13 335	10 254
GST Expense	<u>1</u>	<u>6</u>
Total	<u><u>13 336</u></u>	<u><u>10 260</u></u>

#### 6. INCOME TAX

The taxation liability at 30 June has been calculated on the basis that the PSS 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:

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**6. INCOME TAX (Cont)**

	2004 \$'000	2003 \$'000
Total revenue less expenses and benefits paid before income tax	<u>1 300 481</u>	<u>573 854</u>
Prima facie income tax expense calculated at 15%	195 072	86 078
Add/(Less) Permanent Differences		
Employee contributions	( 67 109)	( 63 223)
Benefits paid	25 816	25 688
Income from Pooled Superannuation Trusts	( 985)	3 421
Imputation credits from franked dividends received	5 614	2 960
Indexation/CGT discount on realised capital gains	( 19 308)	( 10 605)
Reversal of CGT Discount on unrealised losses carried forward	-	12 291
Other	-	1 314
	<u>139 100</u>	<u>57 924</u>
Less: Imputation and foreign tax credits	( 37 424)	( 19 736)
Less: Over provision in prior years	<u>( 625)</u>	<u>( 323)</u>
Income Tax Expense	<u>101 051</u>	<u>37 865</u>
Income tax expense comprises:		
Income tax payable current year	51 732	32 460
Amount paid during 2003-04	14 152	11 410
Movement in deferred income tax provisions	35 792	( 5 682)
Under/over provision in prior year	<u>( 625)</u>	<u>( 323)</u>
	<u>101 051</u>	<u>37 865</u>

**7. TRANSFER OF NET ASSETS TO THE SCHEME FROM THE COMMONWEALTH SUPERANNUATION SCHEME**

Certain former contributors to the Commonwealth Superannuation Scheme who again become members of the Commonwealth Scheme are entitled to elect to transfer to the Public Sector Superannuation Scheme. During the period 1 July 2003 to 30 June 2004 there were no elections made.

As at 30 June 2004 the Ministerial determination to effect the transfers of 2002-03 had not been completed and \$ 1,133,000 has remained as a current receivable of the Scheme.

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

<b>8. SUNDRY CREDITORS</b>	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Investment expenses payable	4 220	3 221
Accrued expenses	352	385
Other	4 077	6 007
	<u>8 649</u>	<u>9 613</u>

**9. AUDITOR'S REMUNERATION**

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
Amounts received or due and receivable by Australian National Audit Office as auditors of PSS:	<u>56 000</u>	<u>52 000</u>

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.

**10. 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 the financial year incurs interest. The scheme rules provide for any outstanding surcharge liability to be recovered from the benefit payable to the member.

A summary of transactions recorded during 2003-04 follows:

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Surcharge Liability Outstanding at start of year	19 262	13 119
Adjustment to opening balance	(5)	661
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	<u>6 587</u>	<u>5 898</u>
Less: Amount paid by members and CRF	<u>25 844</u>	<u>19 678</u>
	<u>(1 929)</u>	<u>(1 336)</u>
Plus: Interest on outstanding surcharge liability at end of year	23 915	18 342
Total Surcharge liability outstanding at end of year	<u>1 404</u>	<u>920</u>
	<u>25 319</u>	<u>19 262</u>

Adjustments were made to the outstanding surcharge liability in prior years. The adjustments reflect the incorrect reporting of outstanding liability in prior years.

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 2003 to 30 June 2004 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.

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**10. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)**

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 the Consolidated Revenue Fund.

**11. FINANCIAL INSTRUMENT DISCLOSURES**

The investments of the Scheme (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. 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.

J P Morgan acts as master custodian on behalf of the Board 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;

(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 Scheme were as follows:

	Notional Principal Amounts		Net Market Value	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Australian Fixed Interest Futures	( 9 985)	-	( 29)	-
International Fixed Interest Futures	( 239)	-	60	-
Australian Share Price Index Futures	18 652	15 316	114	( 392)
Australian Exchange Traded Options	13 864	( 5 112)	13 002	( 3 560)
International Share Price Index Futures	1 016	1 270	4	( 22)
Currency Contracts	2 012 082	2 011 310	( 68 041)	92 047
Total	2 035 390	2 022 784	( 54 890)	88 073

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

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

**(b) Credit Risk**

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represent the 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 \$21.4m (2003: \$14.8m). The Scheme does not have significant exposures to any individual counterparty or industry.

**(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:

	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>30 June 2004</b>						
<b>Assets</b>						
Cash and short term deposits	138 835				4 402	143 237
Australian money market	629 050					629 050
Australian fixed interest		44 147	238 538	162 814	41 919	487 418
International fixed interest			81 352	136 979	5 764	224 095
Australian equity investments					2 170 174	2 170 174
International equity investments					1 927 068	1 927 068
Unlisted property trusts					745 991	745 991
Pooled superannuation trusts					9 413	9 413
Currency contracts					( 68 041)	( 68 041)
Other investments	5 765				8 054	13 819
Other assets	54 536				53 471	108 007
Deferred tax assets					9 269	9 269
<b>Liabilities</b>						
Benefits payable					( 26 870)	( 26 870)
Trade settlements payable					( 59 391)	( 59 391)
Sundry creditors					( 8 649)	( 8 649)
Current tax liabilities					( 51 733)	( 51 733)
Deferred tax liabilities					( 49 200)	( 49 200)
<b>Total</b>	<b>828 186</b>	<b>44 147</b>	<b>319 890</b>	<b>299 793</b>	<b>4 711 641</b>	<b>6 203 657</b>
Weighted average interest rate	5.14%	5.52%	5.32%	5.48%		

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(c) *Interest Rate Risk*

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	111 776				2 027	113 803
Australian money market	108 409					108 409
Australian fixed interest		38 159	247 067	179 823	37 189	502 238
International fixed interest		9 656	239 286	338 230		587 172
Australian equity investments					1 401 077	1 401 077
International equity investments					1 409 978	1 409 978
Unlisted property trusts					694 667	694 667
Pooled superannuation trusts					95 780	95 780
Currency contracts					92 047	92 047
Other investments	2 007				(3 330)	(1 323)
Other assets	53 694				41 255	94 949
Deferred tax assets					5 028	5 028
<b>Liabilities</b>						
Benefits payable					(28 620)	(28 620)
Trade settlements payable					(23 250)	(23 250)
Sundry creditors					(9 613)	(9 613)
Current tax liabilities					(32 793)	(32 793)
Deferred tax liabilities					(5 322)	(5 322)
<b>Total</b>	<b>275 886</b>	<b>47 815</b>	<b>486 353</b>	<b>518 053</b>	<b>3 676 120</b>	<b>5 004 227</b>
Weighted average interest rate	4.27%	3.83%	3.58%	4.51%		

(d) *Currency Risk*

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

30 June 2004	USD A\$'000	JPY A\$'000	GBP A\$'000	EURO A\$'000	Other A\$'000	Total A\$'000
Gross investment amounts denominated in foreign currency	1 025 027	141 539	160 441	252 885	206 207	1 786 099
Amount effectively hedged	(1 338 730)	(130 947)	(166 269)	(297 250)	(146 927)	(2 080 123)
Net Exposure	(313 703)	10 592	(5 828)	(44 365)	59 280	(294 024)

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

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

**(d) Currency Risk**

30 June 2003	USD A\$'000	JPY A\$'000	GBP A\$'000	EURO A\$'000	Other A\$'000	Total A\$'000
Gross investment amounts denominated in foreign currency	1 049 217	211 535	133 772	358 542	148 014	1 901 080
Amount effectively hedged	(1 069 279)	(213 229)	(138 409)	(387 200)	(111 146)	(1 919 263)
Net Exposure	<u>(20 062)</u>	<u>(1 694)</u>	<u>(4 637)</u>	<u>(28 658)</u>	<u>36 868</u>	<u>(18 183)</u>

**(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.

**12. UNALLOCATED INCOME/RESERVE**

As part of the proposed introduction of member investment choice into the PSS, the PSS Board has decided in August 2004 to change its policy for crediting and exit rates. Members will receive all net earnings from 1 July 2003 on exit. For PSS preserved members with a funded accumulation component, a cash option will be offered in December 2004. No crediting rate will be declared for 2003-04.

	2004 \$'000	2003 \$'000
Opening Balance of Reserve	(109 370)	(248 260)
Add: Adjustments for estimates	(6 026)	5 616
Add: Earnings of Fund for the year	745 755	133 274
Less: Earnings allocation to members' accounts	-	-
Closing Balance of Reserve	<u>630 359</u>	<u>(109 370)</u>

The closing balance is a positive reserve and is estimated to represent 11.3% (2003: -2.2%) of the adjusted net assets (net assets plus funded benefits payable) of the Fund as at the 30 June 2004.

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**13. VESTED BENEFITS**

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

Mercer Actuarial Consultants have advised that the amount of vested benefits at 30 June is \$22.76 billion (2003: \$19.88 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 maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements for indexation of pension payments. No adjustment has been made for the proposed changes to indexation as the legislative changes have not yet occurred.

The vested benefits amount is made up of:

	<b>2004</b> \$million	2003 \$million
Funded Component	5 600	5 140
Unfunded Component	<u>17 156</u>	<u>14 740</u>
	<u><b>22 756</b></u>	<u><b>19 880</b></u>

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

	<b>2004</b> \$million	2003 \$million
Funded Component	5 600	5 140
Net Assets plus Funded Benefits Payable	<u>6 230</u>	<u>5 031</u>
Surplus/(Deficiency)	<u><b>630</b></u>	<u><b>(109)</b></u>

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**14. LIABILITY FOR ACCRUED BENEFITS**

The amount of accrued benefits is the present value of expected future payments which arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component, which will be met from the 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 become payable.

The amount of accrued benefits in respect of the Scheme 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 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:	<b>2002</b> \$billion	1999 \$billion
Funded component	4.7	3.3
Unfunded component	<u>9.1</u>	<u>5.8</u>
	<u><b>13.8</b></u>	<u><b>9.1</b></u>

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

	<b>2002</b> \$billion	1999 \$billion
Funded Component	4.73	3.31
Adjusted Net Assets	<u>4.48</u>	<u>3.48</u>
Surplus/(Deficiency) Reserve	<u><b>(0.25)</b></u>	<u><b>0.17</b></u>

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**15. 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 11(d).

**16. RELATED PARTIES**

**(a) Members of the PSS Board**

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

- S Doyle (Chairman)
- P Reynolds
- W Hall
- S O'Loughlin
- C Manolios
- D Connolly
- D Moore
- J Flitcroft (Alternate for S O'Loughlin)
- D Irons (Alternate for Winsome Hall)
- S Wilson (Alternate for D Moore, C Manolios and D Connolly)

The terms of Mr P Reynolds and Ms C Manolios expired (27 July 03 and 24 July 03 respectively). Ms S Doyle has been appointed as Mr Reynolds replacement effective 28 July 03. Mr D Moore has been appointed as Ms Manolios' replacement effective 9 September 2003.

**(b) Trustee Remuneration**

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

The number of trustees is within the following bands:

	2004	2003
\$60,001 to \$70,000	1	1
\$40,001 to \$50,000	1	0
\$30,001 to \$40,000	1	1
\$20,001 to \$30,000	4	5
\$0 to \$10,000	5	4

The aggregate amount of remuneration paid to trustees during the financial year was \$268,832 (2003: \$253,507). The PSS share of those remuneration expenses was \$109,952 (2003: \$105,952).

**PUBLIC SECTOR SUPERANNUATION SCHEME**

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

For the year ended 30 June 2004

**16. RELATED PARTIES (Cont.)**

**(c) Executive Remuneration**

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

	2004	2003
\$340,001 to \$350,000	1	0
\$300,001 to \$310,000	1	0
\$280,001 to \$290,000	0	1
\$260,001 to \$270,000	1	0
\$250,001 to \$260,000	0	1
\$230,001 to \$240,000	0	1
\$200,001 to \$210,000	1	0
\$180,001 to \$190,000	0	1
\$160,001 to \$170,000	1	0
\$140,001 to \$150,000	0	1
\$120,001 to \$130,000	1	0
\$110,001 to \$120,000	1	0
\$100,001 to \$110,000	2	1

The aggregate amount of total remuneration of the executives shown above is \$1,725,054 (2003: \$1,208,238).

**(d) Associated Entities**

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 1998. The Boards appoints directors, who are current nominated trustees of the CSS and PSS Boards, to manage the company.

**17. CONTINGENT LIABILITIES**

**(a) Investments**

At 30 June the Fund had outstanding investment capital commitments of \$262.4m (2003: \$362.4m).

	2004 \$'000	2003 \$'000
Within 12 months	109 834	111 817
Greater than 12 months but less than 5 years	152 613	198 667
Greater than 5 years	-	51 902
	<u>262 447</u>	<u>362 386</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 on the Scheme.

A 30 June the Fund had potential contingent liabilities of \$0.05m (2003: nil).

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

**Purpose of Report**

The Public 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	13.8	17.4

**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.

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

# MERCER

Human Resource Consulting

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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 PSS 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 PSS 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 PSS.

### 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:

Item	AAS 25	Long Term Cost Report
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.

## 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 PSS as at 30 June 2002.

PSS MEMBERSHIP as at 30 JUNE 2002			
	Male	Females	Total
Number of Contributors	55,170	74,513	129,683
Salaries - Total	\$2,828 m	\$3,394 m	\$6,222 m
- Average	\$51,263	\$45,542	\$47,976
Number of Deferred Beneficiaries	31,407	44,950	76,357
Number of Age Pensioners	3,650	2,932	6,582
Number of Invalidity Pensioners	520	496	1,016
Number of Reversionary Pensioners	116	215	331

## 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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Human Resource Consulting

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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 PSS assets as at 30 June 2002 was \$4,468 million.

## Accrued Benefits

The value of accrued benefits as at 30 June 2002 was \$13.8 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 \$17.4 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 from ANAO  
Financial Statements



## INDEPENDENT AUDIT REPORT

### To the Minister for Finance and Administration

#### Scope

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.

for PSS Board for the year ended 30 June 2004.

The Agency's Chief Executive and Finance Manager are responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

I have conducted an independent audit of the financial report in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of the procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Agency's financial position, and of its performance as represented by the statements of financial performance and cash flows.

GPO Box 707 CANBERRA ACT 2601  
 Centenary House 19 National Circuit  
 BARTON ACT  
 Phone (02) 6263 1300 Fax (02) 6263 7777

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Chief Executive.

#### **Independence**

In conducting the audit, I followed applicable independence requirements of the ANAO, which incorporate Australian professional ethical pronouncements.

#### **Audit Opinion**

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of PSS Board as at 30 June 2004, and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Ian P. Goodwin  
Executive Director

Delegate of the Auditor-General

Canberra  
7 September 2003

PSS Board

Statement by the Chief Executive and Finance Manager

In our opinion, the attached financial statements for the year ended 30 June 2004 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, PSS Board



Barbara Wilson  
Finance Manager  
PSS Board

7 September 2004

PSS Board

Statement of Financial Performance  
for the year ended 30 June 2004

	Notes	2004 \$	2003 \$
<b>REVENUE</b>			
<b>Revenues from ordinary activities</b>			
Revenues from government	4A	4 500	2 000
Sales of goods and services	4B	3 840 882	3 655 658
Interest	4C	-	5 495
<b>Revenues from ordinary activities</b>		<b><u>3 845 382</u></b>	<b><u>3 663 153</u></b>
<b>EXPENSE</b>			
<b>Expenses from ordinary activities</b>			
Employees	5A	1 430 515	1 023 639
Suppliers	5B	2 184 360	2 136 574
Depreciation and amortisation	5C	139 015	153 321
Write-down of assets	5D	18 368	-
<b>Expenses from ordinary activities</b>		<b><u>3 772 258</u></b>	<b><u>3 313 534</u></b>
<b>Operating surplus/(deficit) from ordinary activities</b>		<b>73 124</b>	<b>349 619</b>
<b>Net surplus/(deficit)</b>		<b><u>73 124</u></b>	<b><u>349 619</u></b>
<b>Total changes in equity other than those resulting from transactions with the Australian Government as owners</b>		<b><u>73 124</u></b>	<b><u>349 619</u></b>

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

PSS Board

Statement of Financial Position  
as at 30 June 2004

	Notes	2004 \$	2003 \$
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash	6A	861 911	521 211
Receivables	6B	601 009	547 166
<b>Total financial assets</b>		<u>1 462 920</u>	<u>1 068 377</u>
<b>Non-financial assets</b>			
Plant and equipment	7A	109 459	164 298
Intangibles	7B	7 586	22 550
Leasehold improvements	7C	168 100	197 614
<b>Total non-financial assets</b>		<u>285 145</u>	<u>384 462</u>
<b>TOTAL ASSETS</b>		<u>1 748 066</u>	<u>1 452 839</u>
<b>LIABILITIES</b>			
<b>Provisions</b>			
Employees	8A	213 809	128 671
<b>Total provisions</b>		<u>213 809</u>	<u>128 671</u>
<b>Payables</b>			
Suppliers	8B	654 038	544 380
Other	8C	91 112	70 240
<b>Total payables</b>		<u>745 150</u>	<u>614 620</u>
<b>TOTAL LIABILITIES</b>		<u>958 959</u>	<u>743 291</u>
<b>NET ASSETS</b>		<u>789 107</u>	<u>709 548</u>
<b>EQUITY</b>			
<b>Parent equity interest</b>			
Contributed equity	9	359 929	359 929
Asset revaluation reserve	9	6 435	-
Retained surpluses or accumulated deficits	9	349 619	-
Current year results	9	73 124	349 619
<b>Total parent equity interest</b>		<u>789 107</u>	<u>709 548</u>
<b>TOTAL EQUITY</b>		<u>789 107</u>	<u>709 548</u>
<b>Current assets</b>		1 462 920	1 068 377
<b>Non-current assets</b>		285 145	384 462
<b>Current liabilities</b>		872 421	702 760
<b>Non-current liabilities</b>		86 538	40 531

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

PSS Board

Statement of Cash Flows  
for the year ended 30 June 2004

	Notes	2004 \$	2003 \$
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Goods and services		4 035 183	3 493 724
Interest		-	5 495
Other		347 171	227 542
<b>Total cash received</b>		<u>4 382 354</u>	<u>3 726 761</u>
<b>Cash used</b>			
Employees		1 403 909	950 341
Suppliers		2 345 622	1 921 528
Other		240 492	161 164
<b>Total cash used</b>		<u>3 990 023</u>	<u>3 033 033</u>
<b>Net cash from operating activities</b>	10	<u>392 331</u>	<u>693 728</u>
<b>INVESTING ACTIVITIES</b>			
<b>Cash used</b>			
Purchase of plant and equipment		32 717	43 822
Purchase of computer software		0	15 932
Leasehold improvements		18 914	112 763
<b>Total cash used</b>		<u>51 631</u>	<u>172 517</u>
<b>Net cash used by investing activities</b>		<u>(51 631)</u>	<u>(172 517)</u>
<b>Net increase in cash held</b>		340 700	521 211
Cash at the beginning of the reporting period		521 211	-
<b>Cash at the end of the reporting period</b>		861 911	521 211

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

PSS Board  
 Schedule of Commitments  
 as at 30 June 2004

	Notes	2004 \$	2003 \$
<b>BY TYPE:</b>			
<b>Other commitments</b>			
Operating leases		<u>504 408</u>	<u>531 565</u>
<b>Total other commitments</b>		<u>504 408</u>	<u>531 565</u>
<b>Commitments receivable</b>		<u>( 45 855)</u>	<u>( 48 324)</u>
<b>Net commitments</b>		<u><u>458 553</u></u>	<u><u>483 241</u></u>
<b>BY MATURITY:</b>			
<b>Operating lease commitments</b>			
One year or less		155 664	102 174
From one to five years		<u>302 889</u>	<u>381 067</u>
<b>Net commitments by maturity</b>		<u><u>458 553</u></u>	<u><u>483 241</u></u>

Operating leases include leases for accommodation and motor vehicles.

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

## PSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2004

#### CONTENTS

#### NOTE

1	Summary of Significant Accounting Policies
2	Adoption of AASB Equivalent to International Financial Reporting Standards from 2005-06
3	Events Occurring after Reporting Date
4	Operating Revenue
5	Expenses from Ordinary Activities
6	Financial Assets
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## PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

## Note 1 Summary of Significant Accounting Policies

## 1.1 Objectives of PSS Board

The PSS Board is established under section 21 of the *Superannuation Act 1990* the 'PSS Act'. The PSS Board administers the Public Sector Superannuation Scheme 'PSS' in accordance with the provisions of the PSS Act and is responsible for the management and investment of the PSS Fund. In its capacity as a prescribed agency under the *Financial Management and Accountability Act 1997*, the PSS Board conducts its activities through the PSS Special Account. The objective of the PSS 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 PSS Board's sole source of income is from external sources and therefore there are no appropriations included.

During the financial year ended 30 June 2004, the PSS Board's activities were funded through:

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

## 1.2 Basis of Accounting

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

These financial statements, which represent the PSS 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 2004) 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 not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments, and the Schedule of Contingencies.

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.

## 1.3 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 proportion that costs incurred to date bear to the estimated total costs of the transaction.

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.

## PSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2004

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

##### *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)

#### **1.4 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.

#### **1.5 Employee Benefits**

##### (a) Benefits

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

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 benefits 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 PSS 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 rates.

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 2004.

##### (c) Separation and Redundancy

Separation and redundancy costs are recognised when the PSS Board has formally identified positions as excess to requirements and no suitable alternative position within the PSS Board is available.

##### (d) Superannuation

The trustees and employees of the PSS Board are eligible to participate to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government as and when falls due.

The PSS Board makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Board's trustees and employees.

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

## PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

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

**1.6 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.

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.

**1.7 Cash**

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

**1.8 Financial Instruments**

Accounting policies for financial instruments are stated at Note 16.

**1.9 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.

**1.10 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).

RevaluationsBasis

Plant and equipment for the year ended 30 June 2004 is carried at fair value. The fair value of plant and equipment has been determined on the basis of a valuation conducted by the Australian Valuation Office as at 30 June 2004.

For all classes of assets, the move from written down cost value to fair value as a basis of valuation has not resulted in a material variation in the carrying value of assets.

Assets which are surplus to requirements are measured at depreciated replacement cost. At 30 June 2004 and 30 June 2003, the PSS Board did not have assets surplus to its requirements.

Frequency

The Finance Minister's Orders require that all plant and equipment assets be measured at up-to-date fair values for the financial year ending 30 June 2005 and subsequent years.

Conduct

All valuations are conducted by an independent qualified valuer.

## PSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2004

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

##### Depreciation/amortisation Policy

Depreciable plant and equipment assets are written-off to their estimated residual values over their useful lives to the PSS Board, using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised at on a straight-line basis over the lesser of 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:

Asset Type	No of years
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 5C.

##### **1.11 Intangibles**

The PSS 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 PSS Board's purchased software is 3 years.

##### **1.12 Taxation**

The PSS 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.

##### **1.13 Insurance**

The PSS 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.

##### **1.14 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.

## PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004**Note 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006**

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply for financial years beginning on or after 1 January 2005. The new standards are the AASB Equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn and will cease to apply to financial years beginning on or after 1 January 2005, but continue to apply in the meantime.

The purpose of issuing AASB Equivalents to IFRSs is to enable Australian entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

It is expected that the Finance Minister will continue to require compliance with the Accounting Standards issued by the AASB, including the AASB Equivalents to IFRSs, in his Orders for the preparation of Agency financial statements for financial years ending 30 June 2006 and subsequent years.

The AASB Equivalents contain certain additional provisions which will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with the IFRSs and therefore the PSS Board will only be able to assert compliance with the AASB Equivalents to the IFRSs.

Existing AASB standards that have no IFRS equivalent will continue to apply, including in particular, *AAS 29, Financial Reporting by Government Departments*.

Accounting Standard *AASB 1047 Disclosing the Impact of Adopting Australian Equivalents to IFRSs* requires that the financial statements for the year ending 30 June 2004 disclose:

- An explanation of how the transition to the AASB Equivalents is being managed, and
- A narrative explanation of the key differences in accounting policies arising from the transition.

The purpose of this Note is to make these disclosures.

*Management of the transition to AASB Equivalents to IFRSs*

The PSS Board has taken the following steps for the preparation towards the implementation of AASB Equivalents:

- The PSS Board's Audit and Risk Management Committee is tasked with oversight of the transition to and implementation of the AASB Equivalents to IFRSs. The Finance Manager is formally responsible to the Audit Committee on progress towards implementation of the AASB Equivalents to IFRSs.
- The following key steps are to be undertaken and deadlines set for their achievement:
  - Identification of all major accounting policy differences between current AASB standards and the AASB Equivalents to IFRSs.
  - Identification of systems changes necessary to be able to report under the AASB Equivalents, including those necessary to enable capture of data under both sets of rules for the financial year ending 30 June 2005, and the testing and implementation of those changes.
  - Preparation of a transitional balance sheet as at 1 July 2004, under AASB Equivalents, within six months of 30 June 2004.
  - Preparation of a AASB Equivalent balance sheet at the same time as the statements for the year ending 30 June 2005 are prepared.
  - Meeting reporting deadlines set by the Department of Finance for balance sheet under AASB Equivalent Standards.

## PSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2004

#### Note 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006 (Cont'd)

- The plan also addresses the risks to successful achievement of the above objectives and includes strategies to keep implementation on track to meet deadlines.

#### *Major changes in accounting policy*

Changes in accounting policies under AASB Equivalents are applied retrospectively, i.e. as if the new policy had always applied. These requirements mean that a balance sheet prepared under the AASB Equivalents must be made as at 1 July 2004, except as permitted in particular circumstances by *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This will enable the financial statements for the year ending 30 June 2006 to report comparatives under the AASB Equivalents also.

Changes to major accounting policies are discussed in the following paragraphs.

#### *Property, plant and equipment*

It is expected that the Finance Minister's Orders (FMOs) will require plant and equipment assets to be measured at up-to-date fair value at the financial year ending 30 June 2005. As the values at which assets are carried as at 30 June 2004 are at fair value at 30 June 2004, these values will stand in the transitional balance sheet as at 1 July 2004.

#### *Impairment of Non-current assets*

The PSS Board's policy on impairment of non-current assets is at Note 1.11.

Under the new AASB Equivalent Standard, these non-current assets will be subject to assessment for impairment and, if there are indications of impairment, measurement of any impairment. (Impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use.) The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the net present value of net cash inflows for for-profit assets of the PSS Board.

#### *Employee benefits*

The provision for long service leave is currently measured at the present value of estimated future cash outflows using market yields as at the reporting date applicable to national government bonds.

Under the new AASB Equivalent standard, the national government bonds will be used unless there is a deep market in high quality corporate bonds, in which case the market yield on such bonds must be used.

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

Note 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006 (Cont'd)

Note 3: Events Occurring after Reporting Date

The PSS Board is not aware of any events after balance date that would give rise to any adjustments as to the values of assets and/or liabilities included in the statement of financial position as at the reporting date or to the revenues and expenses included in the statement of financial performance for the current reporting period.

Note 4: Operating Revenues

	2004	2003
	\$	\$
<i>Note 4A: Revenues from Government</i>		
Resources received free of charge - audit services	4 500	2 000
<b>Total revenues from Government</b>	<u>4 500</u>	<u>2 000</u>
<i>Note 4B: Goods and Services</i>		
PSS Board's share of agency fees collected by ComSuper Administration fees from the PSS Fund	1 387 259	1 314 705
<b>Total sales of goods and services</b>	<u>2 453 623</u>	<u>2 340 953</u>
	<u>3 840 882</u>	<u>3 655 658</u>
<i>Note 4C: Interest Revenue</i>		
Interest on deposits	-	5 495

Note 5: Expenses from Ordinary Activities

<i>Note 5A: Employee</i>		
Wages and salary	1 211 865	873 097
Superannuation	138 259	98 471
Leave and other entitlements	62 028	38 102
Other employee expenses	11 121	11 699
<b>Total employee benefit expenses</b>	<u>1 423 273</u>	<u>1 021 369</u>
Workers compensation premiums	7 242	2 270
<b>Total employee expenses</b>	<u>1 430 515</u>	<u>1 023 639</u>
<i>Note 5B: Supplier</i>		
Goods and services from related entities	560 886	534 350
Goods and services from external entities	1 479 780	1 472 018
Operating lease rentals - accommodation.	143 694	130 206
<b>Total supplier expenses</b>	<u>2 184 360</u>	<u>2 136 574</u>

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

**Note 5: Expenses from Ordinary Activities**

	2004 \$	2003 \$
<i>Note 5C: Depreciation and amortisation</i>		
Depreciation - plant and equipment	69 187	65 504
Amortisation of software	14 964	17 529
Amortisation of leasehold improvements	<u>54 864</u>	<u>70 288</u>
<b>Total depreciation and amortisation</b>	<b><u>139 015</u></b>	<b><u>153 321</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	69 187	65 504
Computer software	14 964	17 529
Leasehold improvements	<u>54 864</u>	<u>70 288</u>
	<b><u>139,015</u></b>	<b><u>153,321</u></b>

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

*Note 5D: Write-down of Assets*

Plant and equipment - revaluation decrement	<u>18 368</u>	-
<b>Total write-down of assets</b>	<b><u>18 368</u></b>	<b><u>-</u></b>

**Note 6: Financial Assets**

*Note 6A: Cash*

Cash on hand and at bank: PSS Special Account	<u>861 911</u>	<u>521 211</u>
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*Note 6B: Receivables*

Goods and services	352 206	385 326
GST receivable from the Australian Taxation Office	114 455	104 020
Other	<u>134 348</u>	<u>57 820</u>
<b>Total receivables</b>	<b><u>601 009</u></b>	<b><u>547 165</u></b>

All receivables are current assets.

Receivables (gross) are aged as follows:

Not Overdue	601 009	547 165
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
60 to 90 days	-	-
Over 90 days	-	-
<b>Total receivables</b>	<b><u>601 009</u></b>	<b><u>547 165</u></b>

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

Note 7: Non-Financial Assets

	2004 \$	2003 \$
<i>Note 7A: Plant and equipment</i>		
At valuation	109 459	277 046
Accumulated depreciation	-	( 112 748)
<b>Total plant and equipment</b>	<u>109 459</u>	<u>164 298</u>

*Note 7B: Intangibles - computer software*

At cost	48 301	48 301
Accumulated amortisation	( 40 715)	( 25 751)
<b>Total intangibles - computer software</b>	<u>7 586</u>	<u>22 550</u>

*Note 7C: Leasehold Improvements*

At valuation	168 100	252 531
Accumulated amortisation	-	( 54 917)
<b>Total leasehold improvements</b>	<u>168 100</u>	<u>197 614</u>

All valuations are independent and are conducted in accordance with the revaluation policy stated at Note 1. The most recent valuation was conducted as at 30 June 2004 by an independent valuer, the Australian Valuation Office.

Movement in Asset Revaluation Reserve:  
Increment for leasehold improvements

6 435      -

Decrement for Plant and Equipment expensed (note 5D):

18 368      -

*Note 7D: 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
As at 1 July 2003:				
Gross book value	277 046	48 301	252 531	577 878
Accumulated depreciation/amortisation	( 112 748)	( 25 751)	( 54 917)	( 193 416)
Net book value	164 298	22 550	197 614	384 462
Assets purchased	32 717		18 914	51 631
Depreciation/amortisation expense	( 69 187)	( 14 964)	( 54 864)	( 139 015)
Net valuation increment/decrement	( 18 368)		6 435	( 11 933)
Disposals	-	-	-	-
<b>As at 30 June 2004</b>				
Gross book value	109 459	48 301	168 100	325 860
Accumulated depreciation/amortisation	-	( 40 715)	-	( 40 715)
<b>Net book value as at 30 June 2004</b>	109 459	7 586	168 100	285 145

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

**Note 8: Provisions and Payables**

	2004 \$	2003 \$
<i>Note 8A: Employee provisions</i>		
Salaries and wages	52 096	31 513
Leave	155 276	93 249
Superannuation	6 437	3 909
<b>Aggregate employee entitlement liability</b>	<b>213 809</b>	<b>128 671</b>
Current	145 032	88 140
Non-current (long service leave)	68 777	40 531
<i>Note 8B: Trade suppliers - current liability</i>		
Trade creditors - unpaid invoices	654 038	544 380
<b>Total trade suppliers - current liability</b>	<b>654 038</b>	<b>544 380</b>
Trade suppliers are classified as:		
Current liabilities	654 038	544 381
Non-current liabilities	-	-
	<b>654 038</b>	<b>544 381</b>
<i>Note 8C: Other Payables</i>		
Lease incentive - non interest bearing	23 681	-
GST payable to ATO	67 431	70 240
	<b>91 112</b>	<b>70 240</b>

## PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

### Note 9: Equity

Note 9A: Analysis of Equity

Item	Accumulated Results		Asset Revaluation Reserve		Contributed Equity		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance as at 1 July	349 619	-	-	-	359,929	-	709 548	-
Net Surplus/deficit	73 124	349 619	-	-	-	-	73 124	349 619
Net revaluation increment	-	-	6 435	-	-	-	6,435	-
<b>Transactions with owner:</b>								
Contributions by owner:								
Restructuring	-	-	-	-	-	359,929	-	359 929
<b>Closing balance as at 30 June</b>	<b>422 743</b>	<b>349 619</b>	<b>6 435</b>	<b>-</b>	<b>359,929</b>	<b>359,929</b>	<b>789 107</b>	<b>709 548</b>
Less: outside equity interests	-	-	-	-	-	-	-	-
<b>Total equity attributable to the Australian Government</b>	<b>422 743</b>	<b>349 619</b>	<b>6 435</b>	<b>-</b>	<b>359,929</b>	<b>359,929</b>	<b>789 107</b>	<b>709 548</b>

## PSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2004

#### Note 9B: Restructuring

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

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

	2004 \$	2003 \$
Total assets recognised	-	365 267
Total liabilities recognised	-	( 5 338)
<b>Net assets assumed</b>	<b>-</b>	<b>359 929</b>

#### **Note 10: 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	861 911	521 211
Statement of Financial Position items comprising above cash: 'Financial asset - Cash'	<b>861 911</b>	<b>521 211</b>

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

Net surplus (deficit)	73 124	349 618
Depreciation/amortisation	139 015	153 321
Write-down of assets	18 368	-
(Increase)/decrease in net receivables	( 53 844)	( 547 165)
Increase/(decrease) in employee provisions	26 606	123 332
Increase/(decrease) in supplier payables	168 187	544 381
Increase/(decrease) in other provisions	20 875	70 240
<b>Net cash from/(used by) operating activities</b>	<b>392 331</b>	<b>693 728</b>

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

**Note 11: Contingent Liabilities and Assets**

The PSS Board had no contingent liabilities or assets as at 30 June 2004.

**Note 12: 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:

	2004	2003
\$100,000 to \$109,999	2	1
\$110,000 to \$119,999	1	-
\$120,000 to \$129,999	1	-
\$140,000 to \$149,999	-	1
\$160,000 to \$169,999	1	-
\$180,000 to \$189,999	-	1
\$200,000 to \$209,999	1	-
\$230,000 to \$239,999	-	1
\$250,000 to \$259,999	-	1
\$260,000 to \$269,999	1	-
\$280,000 to \$289,999	-	1
\$300,000 to \$309,999	1	-
\$340,000 to \$349,999	1	-

The aggregate amount of total remuneration of executives shown above . 1 725 054 1 208 238

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

2004	2003
\$	\$

**Note 13: Remuneration of Auditors**

Financial statement audit services are provided free of charge to the PSS Board.

The fair value of the services provided was: 4 500 2 000

Amounts received or due and receivable by the Australian National Audit Office as auditors of the PSS Fund. 58 000 52 000

**Note 14: Average Staffing Levels**

The average staffing levels for the PSS Board and CSS Board during the year were: 18.68 14.18

**Note 15: 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.

**PSS Board**  
**Notes to and forming part of the financial statements**  
**for the year ended 30 June 2004**

**Note 16: Financial Instruments**

*Note 16A: 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	4A	Cash is recognised at its nominal amount.	The PSS Board does not earn interest on its operational bank account.
Receivables for goods and services	4B	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	6B	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.

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

**Note 16: Financial Instruments**

Note 16B: Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate Maturing In						Non Interest Bearing		Total		Weighted Average Effective Interest Rate			
		2004 \$	2003 \$	1 Year or Less	1 to 5 Years	> 5 Years	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 %	
<b>Financial Assets</b>																	
Cash	6A	-	521 211	-	-	-	-	-	-	-	861 911	-	-	861 911	521 211	n/a	1.9%
Receivables for goods and services	6B	-	-	-	-	-	-	-	-	-	601 009	547 166	-	601 009	547 166	n/a	n/a
<b>Total</b>		-	521 211	-	-	-	-	-	-	-	1 462 920	547 166	-	1 462 920	1 068 377		
<b>Total Assets</b>														1 748 066	1 452 839		
<b>Financial Liabilities</b>																	
Trade creditors	8B	-	-	-	-	-	-	-	-	-	654 038	544 380	-	654 038	544 380	n/a	n/a
<b>Total</b>		-	-	-	-	-	-	-	-	-	654 038	544 380	-	654 038	544 380		
<b>Total Liabilities</b>														958 959	743 291		

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

*Note 16C: Net Fair Values of Financial Assets and Liabilities*

	Notes	2004		2003	
		\$ Total Carrying Amount	\$ Aggregate Net Fair Value	\$ Total Carrying Amount	\$ Aggregate Net Fair Value
<b>Departmental Financial Assets</b>					
Cash	6A	861 911	861 911	521 211	521 211
Receivables for goods and services	6B	601 009	601 009	547 165	547 165
<b>Total financial assets</b>		<b>1 462 920</b>	<b>1 462 920</b>	<b>1 068 376</b>	<b>1 068 376</b>
<b>Financial Assets</b>					
Trade suppliers	8B	654 038	654 038	544 381	544 381
<b>Total Financial Liabilities</b>		<b>654 038</b>	<b>654 038</b>	<b>544 381</b>	<b>544 381</b>

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

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

*Note 16D: Credit Risk Exposures*

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

The PSS 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 17: Special Accounts**

	2004 \$	2003 \$
<b>PSS Special Account (Departmental)</b>		
<i>Legal Authority: Financial Management and Accountability Act 1997, s20</i>		
<i>Purpose: For expenditure relating to:</i>		
<i>- the administration of the PSS Scheme by the PSS Board;</i>		
<i>- the performance of any other function conferred on the PSS Board under legislation; or</i>		
<i>- the management and investment of the PSS Fund by the PSS Board, where a corresponding amount has been or is to be credited to the Account from the PSS Fund in respect of such expenditure.</i>		
Balance carried forward from previous year	521 211	-
Costs recovered from non-government sector		
Services - Rendering of services to external entities	4 035 183	3 493 724
Other receipts:		
Interest Revenue - Interest on deposits	-	5 495
GST refunds received	347 171	227 542
Amount available for expenditure	4 903 565	3 726 761
Expenditure	(4 041 654)	(3 205 550)
<b>Balance carried to next year</b>	<b>861 911</b>	<b>521 211</b>
Represented by		
Cash	861 911	521 211
<b>Total</b>	<b>861 911</b>	<b>521 211</b>

PSS Board

Notes to and forming part of the financial statements  
for the year ended 30 June 2004

Note 18A: Net Cost of Outcome Delivery

	Outcome 1		Total
	2004 \$	2003 \$	
<b>Departmental Expenses</b>	<b>3 772 258</b>	<b>3 313 534</b>	<b>3 772 258</b>
<i>Costs recovered from provision of goods and services to the non-government sector</i>			
Departmental	2 453 623	2 340 953	2 453 623
<b>Total costs recovered</b>	<b>2 453 623</b>	<b>2 340 953</b>	<b>2 453 623</b>
<i>Other external revenues</i>			
Departmental	0	5 495	0
Interest on cash deposits	1 387 259	1 314 705	1 387 259
Goods and services revenue from related entities	4 500	2 000	4 500
Other	1 391 759	1 322 200	1 391 759
<b>Total other external revenues</b>	<b>(73 124)</b>	<b>(349 619)</b>	<b>(73 124)</b>
<b>Net cost/(contribution) of outcome</b>			<b>(349 619)</b>

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 18B: Major Classes of Departmental Revenues and Expenses by Outputs

	Output Group 1.1		Outcome 1 Total
	2004 \$	2003 \$	
<b>Departmental expenses</b>	<b>1 430 515</b>	<b>1 023 639</b>	<b>1 430 515</b>
Employees	2 184 360	2 136 574	2 184 360
Suppliers	139 015	153 321	139 015
Depreciation and amortisation	18 368	0	18 368
Other expenses	3 772 259	3 313 543	3 772 259
<b>Total departmental expenses</b>	<b>4 500</b>	<b>2 000</b>	<b>4 500</b>
<b>Funded by:</b>	<b>3 840 882</b>	<b>3 655 658</b>	<b>3 840 882</b>
Revenues from Government	0	5 495	0
Sale of goods and services	3 845 382	3 663 153	3 845 382
Other non-taxation revenues			
<b>Total departmental revenues</b>			<b>3 845 382</b>

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

## PSS Board

### Notes to and forming part of the financial statements for the year ended 30 June 2004

#### **Note 19: Additional Information**

The PSS Board is established under section 21 of the *Superannuation Act 1990*. The Board is responsible for the administration of the Public Sector Superannuation Scheme and the management and investment of the PSS Fund. The Board has offices in Canberra and Sydney.

#### **Registered Office and Principal Place of Business:**

10th Floor  
12 Moore Street  
CANBERRA ACT 2601  
Tel: (02) 6263 6999

## Appendices

- A: PSS in brief
- B: Organisation chart—Executive unit
- C: Functional chart
- D: Changes to legislation
- E: Departments and approved authorities
- F: Eligible superannuation schemes
- G: Freedom of Information
- H: Publications
- I: Contact officer
- J: Compliance
- K: Staffing overview
- L: Consultancies
- M: Commonwealth Disability Strategy
- N: Glossary

# Appendix A: PSS in brief

## Investment

Table A1: Asset allocation

SECTOR/TYPE at 30 June 2004		Holdings	
	INVESTMENT MANAGER	\$M	%
<b>AUSTRALIAN SHARES</b>		<b>2,068.7</b>	<b>32.9%</b>
Index	Colonial First State Investments Limited	220.5	3.5%
Active	Balanced Equity Management Pty Ltd	465.6	7.4%
	Barclays Global Investors Australia Limited	136.2	2.2%
	Concord Capital Limited	247.7	3.9%
	GMO Australia Limited	265.5	4.2%
	Investors Mutual Limited	93.9	1.5%
	JB Were Asset Management Limited	244.9	3.9%
	452 Capital Pty Limited	193.1	3.1%
Alternative	Various*	201.3	3.2%
<b>INTERNATIONAL SHARES</b>		<b>1 628.9</b>	<b>25.9%</b>
Index	Vanguard Investments Australia Ltd	153.2	2.4%
Active	AXA Rosenberg Investment Management Asia Pacific Limited	258.3	4.1%
	BIAM Australia Pty Ltd	266.2	4.2%
	Marathon Asset Management (Australia) Limited	228.5	3.6%
	Marvin & Palmer Associates, Inc	219.0	3.5%
	Rexiter Capital Management Limited	74.4	1.2%
	Wellington International Management Company Pte Limited	307.1	4.9%
	Various*	122.2	2.0%
Alternative	Various*	122.2	2.0%
Currency Overlay	State Street Global Advisors Limited	n/a	n/a
<b>AUSTRALIAN BONDS</b>		<b>478.2</b>	<b>7.6%</b>
Index	Colonial First State Investments Limited	458.2	7.3%
	Other*	20.0	0.3%
<b>INTERNATIONAL BONDS</b>		<b>328.9</b>	<b>5.2%</b>
Active	BlackRock Financial Management, Inc	126.1	2.0%
	Bridgewater Associates, Inc	125.0	2.0%
	Delaware International Advisors Ltd	62.9	1.0%
	Other*	14.9	0.2%
<b>MARKET NEUTRAL FUNDS</b>		<b>333.4</b>	<b>5.3%</b>
Active	Financial Risk Management Ltd	100.3	1.6%
	Harris Alternatives LLC	146.6	2.3%
	Mesirow Advanced Strategies Inc	86.5	1.4%
Currency Overlay	State Street Global Advisors Limited	n/a	n/a
<b>PROPERTY</b>		<b>655.0</b>	<b>10.5%</b>
Active	Colonial First State Property Limited	448.9	7.2%
	AMP Life Limited	103.4	1.7%
	Deutsche Bank Group	102.7	1.6%
<b>CASH</b>		<b>785.7</b>	<b>12.6%</b>
Index	Colonial First State Property Limited	571.1	9.1%
Active	Colonial First State Investments Limited	129.1	2.1%
	Macquarie Investment Management Limited	129.1	2.1%
	Other*	-43.6†	-0.7%†
<b>TOTAL INVESTMENTS (post fees and pre tax)</b>		<b>6,278.8</b>	<b>100%</b>

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

† This represents the unrealised profit/loss from the Fund's currency hedges.

**Table A2: Fund Investments**

Sector	Holdings at	Proportion	Holdings at	Proportion
	30 June 03	of Scheme	30 June 04	of Scheme
	\$m	%	\$m	%
Australian Shares	1 506.4	30.0%	2 068.7	32.9%
International Shares	1 333.4	26.6%	1 628.9	25.9%
Australian Bonds	491.7	9.8%	478.2	7.6%
International Bonds	638.2	12.7%	328.9	5.2%
Market Neutral Hedge Funds	96.4	1.9%	333.4	5.3%
Property	756.1	15.1%	655.0	10.5%
Cash	198.3	3.9%	785.7	12.6%
<b>Total Fund Investments</b>	<b>5 020.5</b>	<b>100%</b>	<b>6 278.8</b>	<b>100.0%</b>

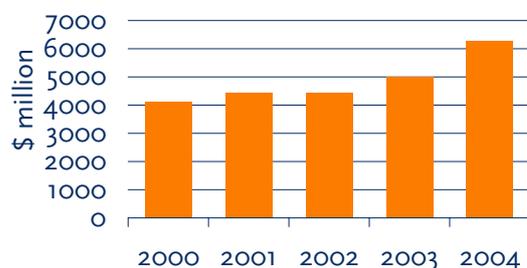
**Table A3: Fund Performance**

Sector	One-year performance		Three-year performance		Five-year performance	
	Portfolio	B'mark*	Portfolio	B'mark*	Portfolio	B'mark*
	%	%	%	%	%	%
Australian Shares	23.5	22.1	6.4	4.3	9.4	7.4
International Shares	22.6	20.2	-0.2	-5.6	1.8	-2.3
Australian Bonds	2.7	2.3	6.1	6.1	6.4	6.4
International Bonds	4.7	3.3	5.2	4.0	n/a	n/a
Market Neutral Hedge Funds	10.7	8.6	n/a	n/a	n/a	n/a
Property	10.6	12.3	9.9	11.1	10.6	10.9
Cash	5.5	5.3	4.9	5.0	5.3	5.3
<b>Total Fund</b>	<b>14.2</b>	<b>14.6</b>	<b>3.5</b>	<b>1.4</b>	<b>5.3</b>	<b>3.6</b>

\* See notes at page 39.

## Fund investments

**Chart A1: Fund size at 30 June for past five years**



**Table A4: Fund size at 30 June for past five years**

FINANCIAL YEAR	Value \$m	Change %
1999–00	4 126.9	18.8
2000–01	4 433.9	7.4
2001–02	4 451.5	1.0
2002–03	5 020.5	12.8
2003–04	6 278.8	25.1

## Scheme membership

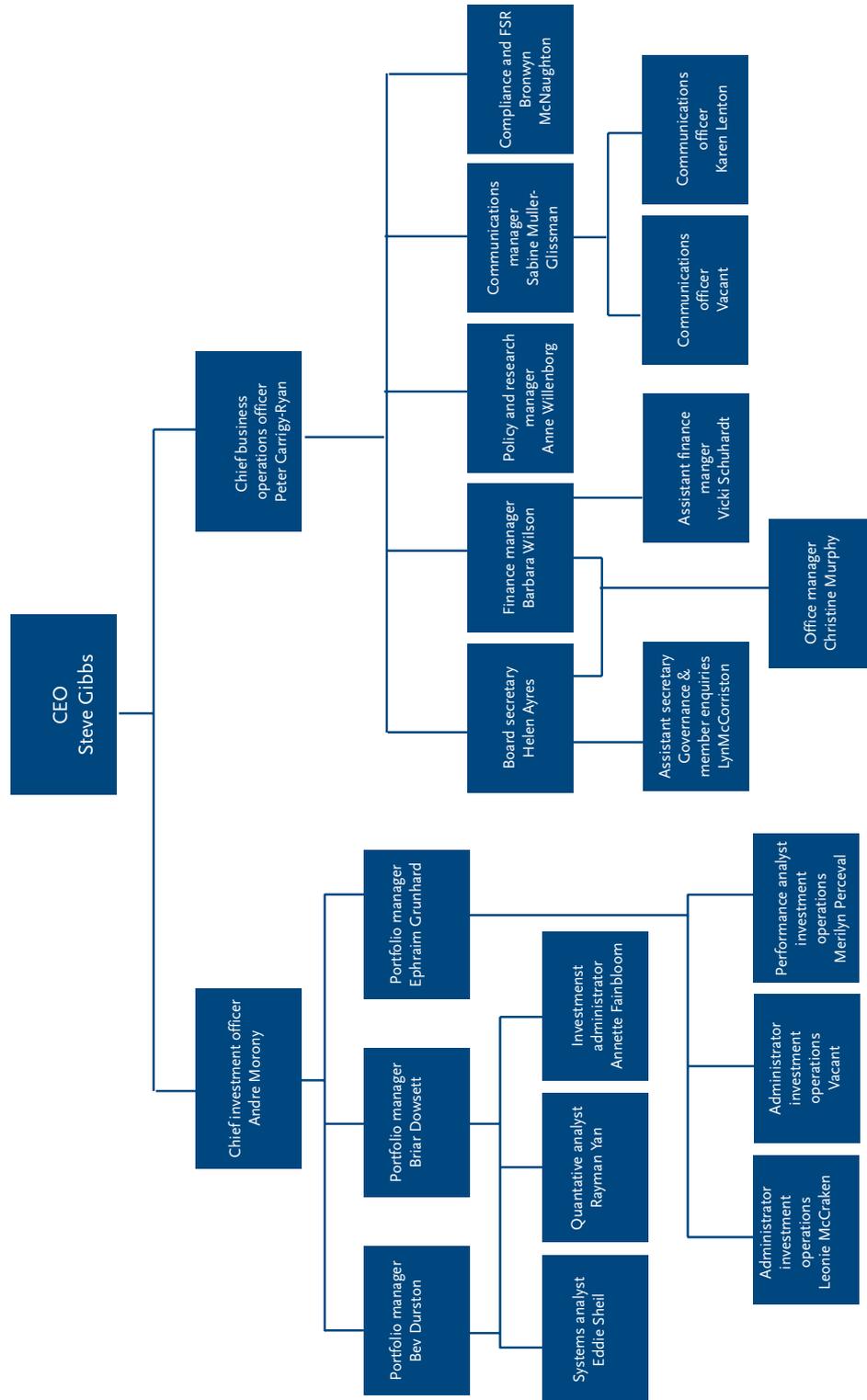
**Table A5: Scheme membership**

Contributors at 30 June	2003	2004	Increase/ (Decrease)
Male	60 009	62 284	2 275
Female	81 536	84 502	2 966
Total	141 545	146 786	5 241
Total member contributions	\$421.5m	\$453m	\$31.5m
Contributor exits	2002–03	2003–04	
Age retirement	1 058	1 300	242
Retrenchment (Involuntary and Sale of Assets)	875	840	(35)
Invalidity	157	159	2
Death	107	102	(5)
Resignation / other	8 615	8 352	(263)
Total	10 812	10 753	(59)
Preserved Benefit Members at 30 June	2003	2004	
Total	78 156	79 945	1 789
Preserved benefit claims	2002–03	2003–04	
Age	618	685	67
Invalidity	14	15	1
Death	58	60	2
Early release (financial hardship) and Other	1 480	1 406	(74)
Total	2 170	2 166	(4)
Pensions in force at 30 June	2003	2004	
Age retirement	2 317	2 915	598
Involuntary retirement	5 158	5 479	321
Invalidity retirement	1 168	1 261	93
Spouse and orphans	393	438	45
Total	9 036	10 093	1 057
Pensions paid	\$127m	\$150m	\$23m
Average yearly pension	\$14 047	\$15 644	\$1 597

# Appendix B: Organisation chart—Executive unit

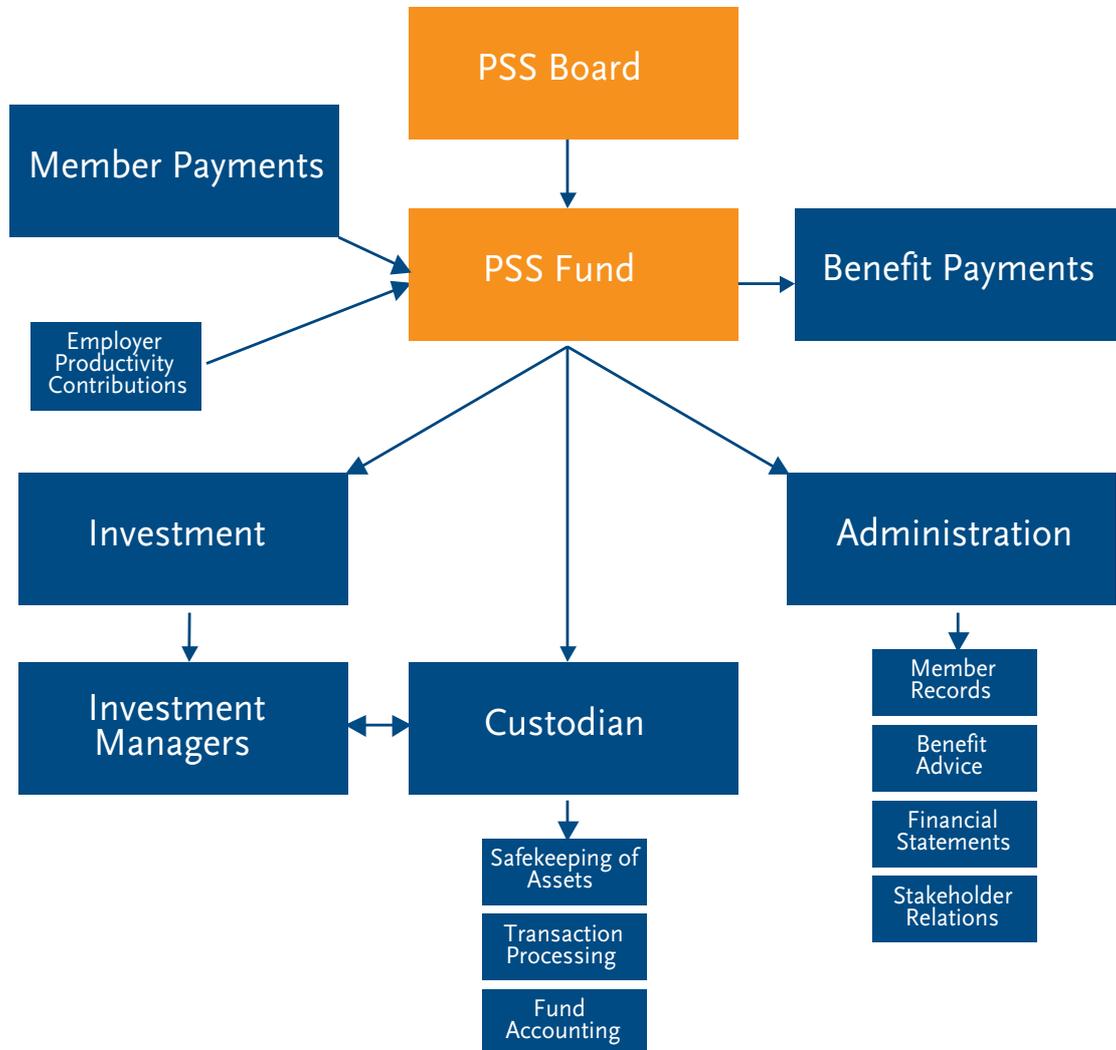
Illustration 3: Organisation chart

PSS/CSS Executive unit organisation chart 2003–2004



# Appendix C: Functional chart

Illustration 4: Functional chart



## Appendix D: Changes to legislation

### Family Law amendments

The *Superannuation Legislation Amendment (Family Law and Other Matters) Act 2004* came into force on 18 May 2004. These amendments allowed for the creation of a separate interest in favour of a non-member spouse where the member's superannuation is split pursuant to the *Family Law Act 1975*.

The Family Law (Superannuation) (Methods and Factors for Valuing Particular Superannuation Interests) Approval 2003 (Volume 1) as prepared on 18 May 2004, sets out methods and factors for interests of members in the PSS and CSS.

The Family Law (Superannuation) (Provision of Information—Public Sector Superannuation Scheme) Determination 2004 provides rules as to when the Trustee of the PSS must provide information.

The Twenty-First Amendment of the Public Sector Superannuation Scheme Trust Deed commenced on 18 May 2004 and makes consequential changes to the PSS rules for family law superannuation splitting.

### Other Legislative Amendments

The Nineteenth Amendment of the Public Sector Superannuation Scheme Trust Deed, commencing on 1 July 2003, introduced a change to the Surcharge Deduction Amount.

The Twentieth Amendment of the Public Sector Superannuation Scheme Trust Deed applies to changes for new employees and is to commence on 1 July 2005.

The Twenty-Second Amendment of the Public Sector Superannuation Scheme Trust Deed provides rules for the new PSS Accumulation Scheme, which will come into operation on 1 July 2005. In addition, this amendment makes further changes to the Surcharge Cap.

The *Superannuation Legislation (Commonwealth Employment) Repeal and Amendment Act (No.1) 2003* makes changes affecting the benefits of PSS members, such as providing greater options regarding involuntary retirement. However, the amendments affect CSS more significantly than PSS.

The *Financial Services Reform Act 2001* provides for a new licensing and disclosure regime for financial service providers. The new law is aimed at improving the quality of service and advice provided to consumers of financial products. The PSS obtained its Australian Financial Services License on 20 January 2004.

The *Superannuation Government Co-Contribution For Low Income Earners (Consequential Amendments) Act 2003* commenced on 12 November 2003. This legislation enables the Government to contribute to the superannuation of low-income earners.

## Appendix E: Departments and approved authorities

At 30 June 2004 the following departments and approved authorities were employers of people who were eligible to contribute to the PSS.

### 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 Hostels  
Aboriginal and Torres Strait Islander Commercial Development Corporation  
ACTEW Corporation Ltd  
Adelaide Symphony Orchestra Pty Ltd  
Albury Wodonga Development Corporation  
Anglo—Australian Telescope Board  
Australia Council  
Australia Foundation for Culture and the Humanities Ltd  
Australian Broadcasting Corporation  
Australian Capital Territory  
Australian Dairy Corporation  
Australian Film Commission  
Australian Film, Television and Radio School  
Australian Fisheries Management Authority  
Australian Institute of Aboriginal and Torres Strait Islander Studies  
Australian Institute of Family Studies  
Australian Institute of Marine Science  
Australian International Hotel School  
Australian Marine Science and Technology Limited  
Australian Maritime Safety Authority  
Australian National Training Authority  
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  
Civil Aviation Safety Authority  
Commonwealth Scientific and Industrial Research Organisation (CSIRO)  
Cotton Research and Development Corporation  
Dairy Research and Development Corporation  
Export Finance and Insurance Corporation  
Fisheries Research and Development Corporation  
Forest and Wood Products Research and Development Corporation  
Grains Research and Development Corporation  
Health Insurance Commission  
Health Services Australia Ltd  
High Court of Australia  
Horticultural Research and Development Corporation  
Indigenous Land Corporation  
Land and Water Resources Research and Development Corporation  
Law Courts Limited  
Legal Aid Commission (ACT)  
Melbourne Symphony Orchestra  
Murray Darling Basin Commission

National Gallery of Australia  
National Registration Authority for Agriculture and Veterinary Chemicals  
National Standards Commission  
NEPC Service Corporation  
Nuclear Safety Bureau  
Pig Research and Development Corporation  
Private Health Insurance Administration Council  
Private Health Insurance Complaints Commissioner  
Queensland Orchestras Pty Ltd  
Rural Industries Research and Development Corporation  
Snowy Mountains HydroElectric 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  
West Australian Symphony Orchestra Holdings Pty Ltd

## Appendix F: Eligible superannuation schemes

A Transfer Value may be paid to a superannuation scheme which has been declared by the Minister for Finance and Administration and the Board to be an eligible superannuation scheme for the purposes of the Public Sector Superannuation (PSS) 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:  
Army and Air Force Canteen Service Superannuation Scheme;  
Australian Wool Corporation Provident Fund;  
AUSSAT Superannuation Fund;  
AV Super (previously known as the CAA Staff Superannuation Fund);  
Gladstone Area Water Board Staff Superannuation Scheme;  
Gladstone Port Authority Staff Superannuation Scheme;  
Gold Coast Waterways Staff Superannuation Scheme;  
Government Officers' Superannuation Scheme (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 G: Freedom of Information

## Freedom of Information

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

PSS members made 42 requests for access to documents during 2003–04. Of these requests, 39 were granted in full and one partial release granted. There was one request refused. The requests took an average of 1.2 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 Reporting and Parliamentary Liaison Unit  
ComSuper  
PO Box 22  
Belconnen ACT 2616  
Facsimile: (02) 6272 9802  
Telephone: (02) 6272 9080  
TTY: (02) 6272 9827  
Email: [foi@comsuper.gov.au](mailto:foi@comsuper.gov.au)  
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 2003–04*.

## Decision-making powers

The decision making powers of the PSS Board are set out in clause 3 of the PSS Trust Deed. The authority for the PSS Board to delegate its powers and functions is contained in clause 12 of the PSS Trust Deed. The PSS Board retains full responsibilities in relation to fund investment and invalidity assessment.

## FOI internal procedures

All requests for documents are referred to ComSuper's Corporate Reporting 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 Reporting and Parliamentary Liaison Unit.

Requests for internal review of FOI decisions are also referred to the Unit. They are then forwarded to the Reconsideration section where they are investigated by Executive Level 1 officers prior to submission to the PSS Board for decision under section 54 of the FOI Act.

## **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 Reporting and Parliamentary Liaison Unit  
ComSuper  
PO Box 22  
Belconnen ACT 2616  
Tel: (02) 6272 9080  
Fax: (02) 6272 9802  
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 PSS, 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 PSS 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 PSS website.

## Appendix H: Publications

The Board publishes the following publications as well as a series of fact sheets for the benefit of members.

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

### Publications

Product Disclosure Statement

The PSS Super Book

New Starter Kit

Service Charter of our Administrator ComSuper

Taxation Concessions—Deductible Amounts & Superannuation Pension Rebates

Taxation of Lump Sum and Pension Benefits

Mini report 2004—Take a walk into the Future

Annual member statement pack 2002–03

### Fact sheets

Additional Death and Invalidity Cover

Changing from Full-time to Part-time

Contributing to the PSS

Co-contribution for Members Earning Less than \$40,000 p.a.

Death Benefits

Family Law and Your Super

Getting Info Online

Invalidity Benefits

Leave Without Pay

The MAC Report on Organisational Renewal

Maximum Benefit Limits

Multiple PSS Memberships

Pensions for an Eligible Spouse

Post Retirement Marriages

Preserving Your Benefit

Reasonable Benefit Limits (RBLs)

Revised PSS Exit Rate Policy

Rolling Money into the PSS

Retrenchment Benefits

Salary Reductions and your super

Superannuation Contributions Surcharge

Transfer of Performance Based Pay

Using Average Weekly Ordinary Time Earnings

All of these publications are available from information officers on 13 23 66 or online at [www.pss.gov.au](http://www.pss.gov.au) or can be obtained from Personnel Officers; from National Mailing and Marketing on telephone (02) 6269 1000 or facsimile (02) 6260 2770.

## Appendix I: Contact officer

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 PSS 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.pss.gov.au](http://www.pss.gov.au)

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

## Appendix J: Compliance

While this report is not a Departmental annual report, the Board has endeavoured to comply with the 'Requirements for Annual Reports', where applicable. Details of ComSuper's operations are provided in the Commissioner for Superannuation Annual Report 2003–04.

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## Appendix K: Staffing overview

### Staffing profile

Table K1: Staff numbers at 30 June 2004

Employment Category	Male	Female	Total
Staff employed jointly by the PSS and CSS Boards	7	14	21

### Non-salary benefits

The PSS Board offers all staff a variety of non-salary benefits that are individually negotiated. Examples of benefits that may be packaged include leased motor vehicles, laptop computers, professional membership fees and additional superannuation.

Benefits that may be included in a salary package are those that attract either no Fringe Benefits Tax (FBT) or a concessional rate of FBT.

### Performance pay

During 2003–04, the PSS Board paid a total of \$52 075 in performance bonuses to 8 staff. The average performance bonus paid was therefore \$6 509.

## Appendix L: Consultancies

The PSS 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 PSS 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 PSS 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 2003–04, the Board also employed three investment advisors: Towers Perrin, JANA Investment Advisors and Wilshire Australia, together with Chase Manhattan Bank (trading as JPMorgan) as their master custodian. The total amount paid to investment managers, advisors and the custodian during the year was \$13 134 000.

### Board administration consultancies

#### Policy

The Board's policy on selection and engagement of consultants is based on the core principles set out in the Commonwealth Procurement Guidelines (CPGs):

- value for money;
- open and effective competition;
- ethics and fair dealing;
- accountability and reporting;
- national competitiveness and industry development; and
- support for other Australian Government policies.

The following table provides details of consultancies jointly engaged by the PSS Board and CSS Board during 2003–04 with a contract value, GST inclusive, of \$10 000 or more.

#### Selection Method Categories

The selection methods used for consultancies are categorized as follows:

**Open tender:** public tenders are sought from the marketplace using national and major metropolitan newspaper advertising.

**Select tender:** tenders are invited from a short list of competent suppliers.

## Justification Categories

**Technical:** need for access to the latest technology.

**Skill:** need for specialized skills.

**Ind:** need for an independent view.

## Board administration consultancies

During 2003–04 the CSS and PSS Boards jointly engaged the following consultancies.

**Table L1: Board administration consultancies**

Consultant Name	Description	Value \$	Selection Method	Principal Justification
Allens Arthur Robinson	Legal advice on various Fund investments	25 468	Select Tender	Skill
Adcorp Green	Communications development and advice	322 353	Select Tender	Skill
Blake Dawson Waldron	Legal advice on investments and scheme administration	39 014	Select Tender	Skill
Bronwyn McNaughton	Assist the Boards in meeting ASIC, APRA and other compliance requirements	42 254	Select Tender	Skill
Cath King & Associates	Taxation advice and taxation compliance services in respect of the Boards and Funds	104 753	Select Tender	Skill
Cost Effective Measurement	Benchmarking services in respect of the Funds	22 000	Select Tender	Skill
Corporate Governance International	Proxy voting services	49 500	Select Tender	Skill
Ernst & Young, Sydney	Internal audit advice	69 975	Select Tender	Skill
Ernst & Young, Canberra	Development and preparation of Board's Fraud Control Plans	14 701	Select Tender	Skill
Ferrier, Hodgson	Review of CSS Fund investment transactions	270 506	Select Tender	Ind
Grant Samuel Corporate Finance	Advice regarding certain Fund investments	15 400	Select Tender	Skill
Mallesons	Legal advice on various Fund investments and scheme administration matters	92 922	Select Tender	Skill
Morris Walker	Communications development and advice. Preparation of annual publications	469 700	Select Tender	Skill
Peter Carrigy-Ryan	Advice on compliance and other ad hoc matters	89 499	Select Tender	Skill
PricewaterhouseCoopers	Taxation advisory and tax agent services to the Boards and Funds	296 904	Select Tender	Skill
Rice Walker Actuaries	Actuarial advice in respect of the CSS Fund	17 050	Select Tender	Skill
<b>Total PSS and CSS Consultancies</b>		<b>1 941 999</b>		

## Appendix M: Commonwealth Disability Strategy

Within the framework of the Commonwealth Disability Strategy, the PSS 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
- a complaints/grievance mechanism, including access to external mechanisms, is in place to address issues and concerns raised about performance.

In conjunction with its administrator, ComSuper, the PSS 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 Orima Research.

The PSS 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 an HTML-based website which allows access to readers for the visually-impaired.

Through ComSuper, PSS 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 PSS Board Executive Unit offices and ComSuper's offices provide wheel chair access and facilities.

# Appendix N: Glossary

## 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>
ADIC	Additional Death and Invalidity Cover
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
CMAPS	Confidential Medical and Personal Statement
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>
Finance	Department of Finance and Administration
DQI	Data Quality Index
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 Fund 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 Poors
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 (tele-typewriter)

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