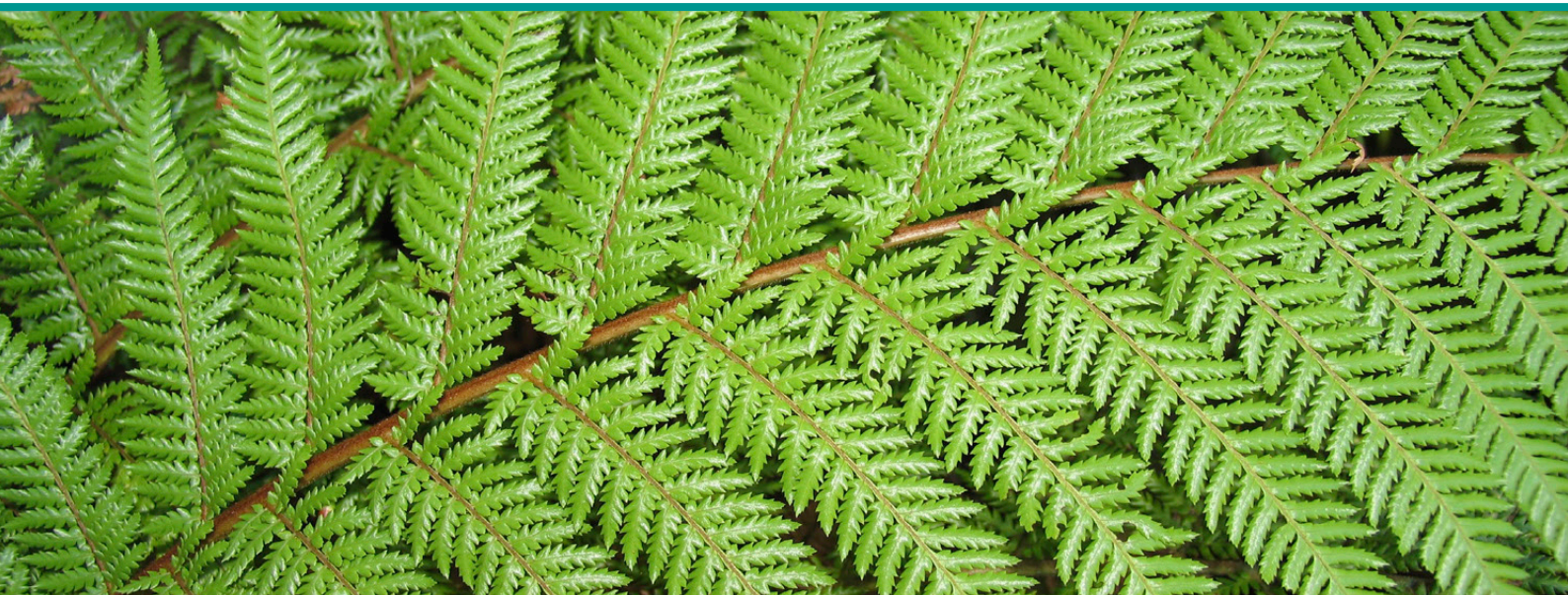


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SPE 2015



**GOVERNMENT  
SUPERANNUATION FUND  
AUTHORITY**



**Statement of Performance  
Expectations**

1 July 2015

**2015**



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# Statement from the Board

The Government Superannuation Fund Authority (**the Authority**) is an autonomous Crown Entity established under the Government Superannuation Fund Act 1956 (**the Act**).

The functions of the Authority are to manage and administer the Government Superannuation Fund (**GSF** or **the Fund**) and the GSF superannuation schemes (**the Schemes**) in terms of the Act.

The Fund has an actuarial deficit in that its assets are significantly less than the gross liabilities of the Schemes. The deficit exists primarily because, over the years, successive governments have elected not to pay employer contributions on behalf of their staff. Instead, governments provided funding as entitlements were paid. The Authority places reliance on the provisions in the Act for the Minister of Finance (**Minister**) to ensure that sufficient funds are available, or will be available, to the Fund to pay entitlements as they fall due.

In carrying out its functions, the Authority has established two desired outcomes:

1. To contribute to an improvement in the Crown's overall economic position by endeavouring to minimise the Crown's contributions to the Fund.
2. To meet the needs and reasonable expectations of stakeholders.

The Authority seeks to improve the Crown's overall economic position and meet the needs and reasonable expectations of the Crown, as a key stakeholder of the Fund, by maximising the returns of the Fund within acceptable levels of risk and controlling costs.

The members of the Schemes and the employer contributors to the Schemes are also key stakeholders of the Fund. The Authority has determined the needs and reasonable expectations to be as follows:

- Members - for entitlements to be calculated correctly, consistent with the Act and the policies maintained by the Authority, and to be paid on time.
- Employers - for contributions to be minimised.

These objectives and strategies are outlined in more detail in the sections on Investment and Schemes.

The Authority takes a long term view when developing its investment strategy because the Fund is expected to pay entitlements for the next 50 years. The Fund's investment objectives and strategy are based on following Best Practice Portfolio Management.

It has adopted an Investment Objective and strategy that involves taking additional investment risk to improve the Crown's position compared to investing solely in New Zealand Government Stock.

The additional investment risk is primarily global equity risk and the Authority diversifies away into other sources of additional return and engages skilled active managers where they can add value after allowing for additional fees and costs.

The Authority's investment strategy is benchmarked against a Reference Portfolio, which is a simple, notional portfolio that would be expected to achieve the investment objective by investing only in major, liquid, public markets at low cost. This helps define the strategy's risk and is used to assess the contribution to the Fund's performance of decisions by the Fund's management. Active investment managers have been employed broadly by the Fund since 2008 and have added value net of incremental fees.

A key initiative in the early part of the forecast four year period is the construction and implementation of a new business system to administer the Schemes.

The Authority reports on how it has performed relative to its objective in the Annual Reports of the Authority and the Fund.

More information on the Authority and its policies and operations is available on our website at [www.gsfa.govt.nz](http://www.gsfa.govt.nz).



K B Taylor  
**Chairman**



A K Kerr  
**Chairman, Audit & Risk Review Committee**

**May 2015**

# The Authority

## Nature and Scope

The Authority was established in 2001 to manage and administer the assets of the Fund and the Schemes in accordance with the Act.

The Authority Board, established by the Act and appointed by the Minister, governs the Authority and determines its business either directly or by delegation.

The Authority oversees the management of the Fund and the Schemes and has outsourced the day to day activities in relation to Schemes administration and investment management, including custody of the Fund's assets.

The Authority's organisational structure is set out in Diagram 1 on page 4.

## Functions and Operations

The Authority's functions are to manage and administer the Fund and the Schemes in accordance with the Act and the policies. All decisions relating to the business of the Authority are made under the authority of the Board, in accordance with section 25 of the Crown Entities Act.

The Minister has the power to add to the Authority's functions and may issue formal directions to the Authority on Government policy relating to its objectives and activities. The Minister may also issue formal directions to the Authority on the Government's expectations as to the Fund's performance, including the Government's expectations for risk and return, or not to invest in a specified investment or class of investments to which the Crown already has a direct or indirect exposure, for the purpose of limiting that exposure. No directions have been received from the Minister in terms of these powers.

The key activities of the Authority fall into the following two broad categories:

### Investment

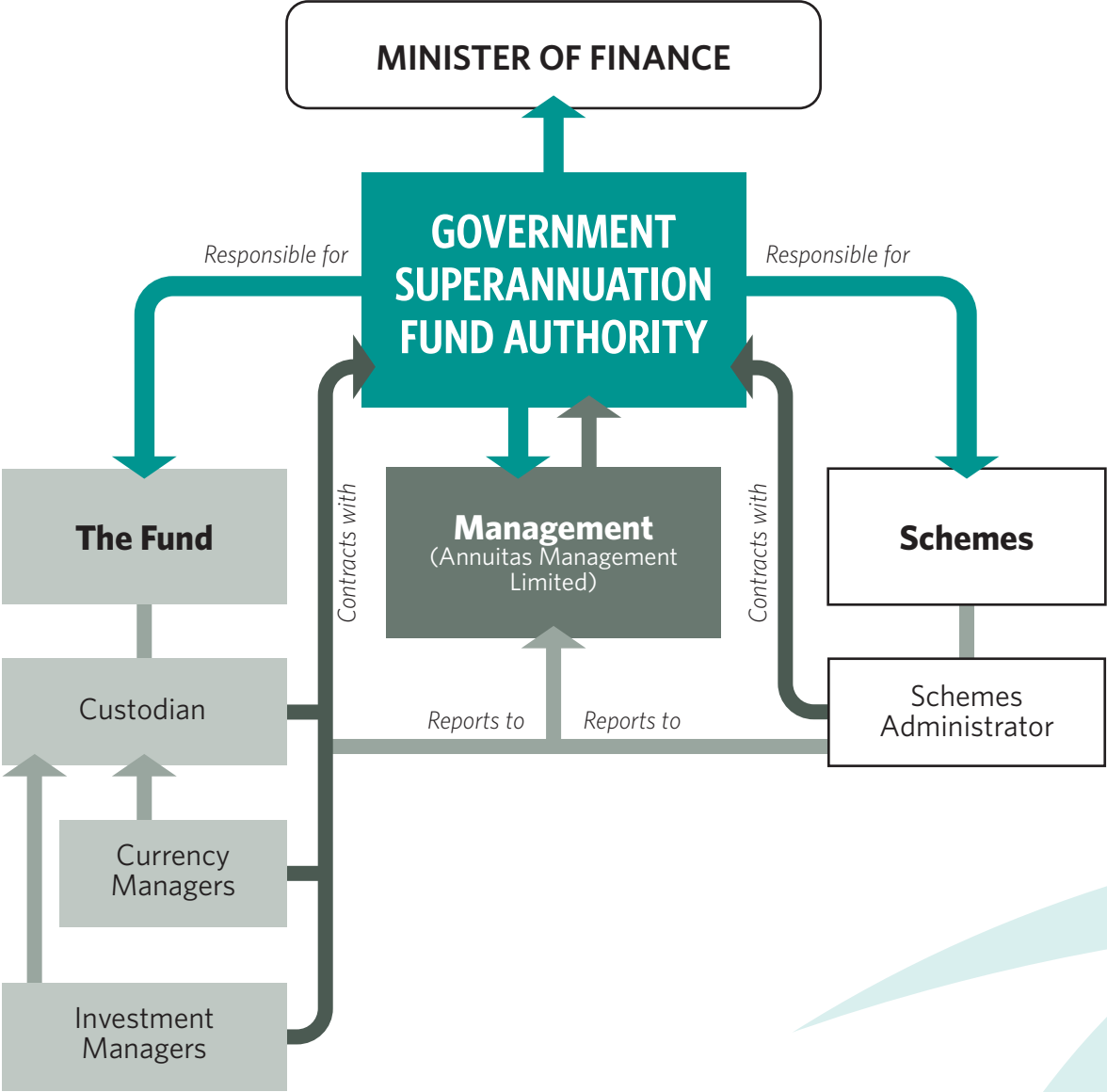
- Management of the investment assets of the GSF.

### Schemes

- Management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator.
- Interpretation of the provisions in the Act and the policies and exercise of discretionary powers (set out in the Act).

Details on the outputs and performance measures for these activities can be found on pages 6-8 (**Investment**) and 13-14 (**Schemes**).

**Diagram 1: Structure of the Government Superannuation Fund Authority and its operations**





# Investment

## Objectives and strategy

The Authority's investment responsibilities under the Act are to:

- invest the Fund on a prudent, commercial basis, in a manner consistent with best practice portfolio management;
- maximise returns without undue risk to the Fund as a whole; and
- avoid prejudice to New Zealand's reputation as a responsible member of the world community.

The Authority meets these responsibilities by developing and implementing:

- principles for best practice portfolio management;
- an investment strategy centred on a defined return objective over the long term and within a defined risk limit; and
- responsible investment policies to meet the requirement to avoid prejudice.

How the Authority does this is described in its Statement of Intent 2014.

## Forecast Service Performance for 2015/2016

The two outcomes established by the Authority for investment are to:

- contribute to an improvement in the Crown's overall economic position by endeavouring to minimise the Crown's contribution to the Fund; and
- meet the needs and reasonable expectations of stakeholders – employer contributions to be minimised.

## Investment Performance Expectations for 2015/2016

The Authority's forecast return for the Fund for the year ended 30 June 2016 is 6.8% before tax and after investment costs (see Table 1 on page 6). This return is equivalent to an expected return of 3% above the return on NZ Government Stock.

The forecast includes an additional 2.5% return from investing in global equity markets, as reflected in the Fund's Reference Portfolio, plus 0.5% added value from alternative market exposures and active management strategies. These increase the Fund's expected return compared with the Reference Portfolio and lower the probability of significant loss. The Target Portfolio is forecast to return 0.5% (\$16 million) more than the Reference Portfolio, before tax and after investment costs.

This translates to forecast investment income, including valuation changes, of \$273 million.

**Table 1: Projected Investment Performance for the year ended 30 June 2016**

	Target Portfolio		Reference Portfolio	
	\$m	Return % pa	\$m	Return % pa
<b>Investment Performance</b>				
Gross Investment Income	305	7.6	265	6.5
NZ Government Stock		3.9		3.9
Total Investment Costs	31	0.8	8	0.2
<b>Net Investment Income</b>	<b>273</b>	<b>6.8</b>	<b>257</b>	<b>6.3</b>
Tax Paid	52	1.3	50	1.2
<b>Forecast Net Investment Income after Tax</b>	<b>221</b>	<b>5.6</b>	<b>207</b>	<b>5.1</b>
<b>Investment Costs</b>				
Investment Management Fees	27	0.65	5	0.13
Custody Expenses	2	0.04	1	0.02
Overheads (share of Authority's operating expenses)	3	0.06	2	0.05
<b>Total Investment Costs</b>	<b>31</b>	<b>0.8</b>	<b>8</b>	<b>0.20</b>

## Outputs and Performance Measures

In addition to setting the Investment Objective, the Authority sets specific outputs and performance measures for investment. These will assist the Authority to achieve the investment outcomes it has established. Some outputs are ongoing, while others reflect specific projects that may be completed over a period beyond one year.

For the 2015/2016 year the Authority has identified the following service performance outputs and performance measures for investment:

Outputs	Measures
Manage investments to maximise returns over the long term, without undue risk to the Fund as a whole, in accordance with best practice portfolio management.	<ul style="list-style-type: none"> <li>Fund return compared to the expected return over rolling 10 year periods.</li> <li>Volatility of Fund returns and drawdown versus expected levels.</li> <li>Actual performance (returns and assessed risk) compared to the Reference Portfolio over rolling 3 years to determine the added value of alternative asset exposures and active management (net of additional fees and costs).</li> <li>All measured with reference to independent market valuations by the custodian and assessed by the Authority's investment management staff.</li> </ul>

Outputs	Measures
<p>Endeavour to achieve competitive investment costs justified by value added.</p>	<ul style="list-style-type: none"> <li>▪ Comparison of investment managers' actual performance against contracted mandates and representative benchmarks, measured independently by the custodian and assessed by the Authority's investment management staff, with monthly management reporting and quarterly reporting to the Board.</li> <li>▪ Comparison of expected and actual value added, in terms of excess return (net of additional costs) and/or reduced risk, versus the Reference Portfolio.</li> <li>▪ Annual comparison of the Fund's performance and cost structure with those of similar organisations, prepared by independent party.</li> <li>▪ Independent statutory review every 5 years.</li> </ul>
<p>Monitor individual investment managers to ensure compliance with contracted mandates and, where appropriate, out-performance against benchmarks.</p>	<ul style="list-style-type: none"> <li>▪ External review by independent adviser and regular reviews by the Authority's investment management staff.</li> </ul>
<p>Maintain a Statement of Investment Policies, Standards and Procedures (SIPSP) that meet best practice.</p>	<ul style="list-style-type: none"> <li>▪ Periodic review by independent adviser to assess whether the SIPSP meets best practice and is relevant.</li> </ul>
<p>Comply with the SIPSP.</p>	<ul style="list-style-type: none"> <li>▪ No unauthorised variations from the SIPSP (which may be varied by the Board from time to time) identified on annual review.</li> <li>▪ Actual asset allocation rebalanced monthly to within rebalancing tolerances set out in the SIPSP.</li> <li>▪ Investment manager risk remains in line with expectation by comparing investment managers' actual risk profiles against expected risk.</li> <li>▪ Review of custodian's performance against key performance indicators quarterly to determine that it meets its Service Level Agreement.</li> <li>▪ No direct investments that breach the Responsible Investment policies set out in the SIPSP.</li> <li>▪ All investments in collective investment vehicles (CIVs) in accordance with Responsible Investment policies in the SIPSP.</li> <li>▪ CIVs notified of the Board's Responsible Investment policies.</li> <li>▪ Measured by internal and external review.</li> </ul>

Outputs	Measures
Put in place a sound investment strategy consistent with the SIPSP and the Authority's Beliefs.	<ul style="list-style-type: none"> <li>▪ Board review of the investment strategy, including the key investment and taxation assumptions, at least annually that confirms the strategy is consistent with the SIPSP and the Authority's Beliefs.</li> </ul>
Collaborate with other CFIs to monitor environmental, social and governance (ESG) risks of investments, engage with companies with negative ESG issues, encourage integration of ESG issues into investment arrangements where consistent with financial objectives, and maintain a list of excluded investments.	<ul style="list-style-type: none"> <li>▪ Avoidance of any negative ESG issues.</li> <li>▪ Advice to investment managers on policies and exclusions.</li> <li>▪ Updated exclusion list.</li> <li>▪ Participation in engagements with companies that lead to positive change in behaviour.</li> </ul>
Ensure the Authority complies with the GSF Act.	<ul style="list-style-type: none"> <li>▪ Conclusions of in-house legal compliance programme developed with advice from the Authority's legal adviser.</li> </ul>

## Significant Assumptions used in the Forecast of the Fund

- The Authority's forecast investment return is based on expected average ten year returns for each asset class held. The volatility of market prices for risky assets like equities, however, means that the actual return in any given year may vary widely from the ten year average. The range of potential annual average returns over rolling ten year periods is also much narrower than for any single year.
- The Authority manages the Fund to a Target Portfolio which includes investment activities aimed at improving risk-adjusted return compared to the Reference Portfolio. Table 2 below shows the assumed asset allocations for the Target Portfolio and the Reference Portfolio.

**Table 2: Assumed Asset Allocations (%) of the Target Portfolio and the Reference Portfolio as at 30 June 2015**

Asset Class	Target Portfolio	Reference Portfolio
International Equities	54.7	60.0
New Zealand Equities	9.3	10.0
Global Fixed Interest	16.3	30.0
Multi-Asset Class	7.0	N/A
Catastrophe Risk	6.0	N/A
Life Settlements	3.7	N/A
Global Tactical Asset Allocation	3.0	N/A
Foreign Currency Exposure	(20.0)	(20.0)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

The assumed returns from each asset class are set out in Table 3 and include, where appropriate, added value expected from active management of the asset class.

**Table 3: Assumed Returns (%) and Risk (%) for each Asset Class (before tax and before fees)**

Asset Class	Target Portfolio	Reference Portfolio	Risk
International Equities	8.4	7.6	18.1
New Zealand Equities	8.9	7.9	19.7
Global Fixed Interest	4.3	3.8	3.9
Multi-Asset Class	6.8	n/a	7.6
Catastrophe Risk	8.0	N/A	N/A
Life Settlements	6.0	N/A	N/A
Global Tactical Asset Allocation	6.0	N/A	13.0
<b>Total Portfolio</b>	<b>7.6</b>	<b>6.5</b>	<b>12.0</b>

- Investment management fees will differ from those projected due to variances in actual investment returns and performance fees payable to some managers where agreed performance targets are met.
- Currency hedging to New Zealand dollars is in place for all international assets while leaving an overall level of foreign currency exposure the Board considers is prudent. The net currency exposure benchmark is 20% of the Fund's assets while the actual exposure may vary between 5% - 35%.
- Asset values, as at 1 July 2015, are projected from actual 31 January 2015 asset values.
- Total investment costs of \$31.193 million include the projected investment management fees and custody expenses and approximately 70% of the Authority's projected operating expenses. The balance of the Authority's expenses is allocated to Schemes. For the Reference Portfolio assumptions, the Authority's expenses are allocated 50:50 between the Reference Portfolio and the Schemes.
- Projected entitlement payments from the Fund are \$10 million per month.
- Taxation assumptions as summarised in Table 4.

**Table 4: Taxation Assumptions**

Asset Class	Tax Treatment
International Equities Catastrophe Risk Life Settlements Multi-Asset Class	<ul style="list-style-type: none"> <li>▪ 28% on 5% of the average value of the portfolios during the year.</li> </ul>
New Zealand Equities	<ul style="list-style-type: none"> <li>▪ 28% on dividends, allowing for imputation credits of 80% of the maximum imputation credits.</li> </ul>
Global Fixed Interest Global Tactical Asset Allocation	<ul style="list-style-type: none"> <li>▪ 28% on accounting profit or loss.</li> </ul>

# Schemes

## Background

The Schemes were established in 1948 to provide a way for public sector employees to save for their retirement.

The Schemes were closed to new members from 1 July 1992, except for people who were eligible for membership through their employment with certain Pacific Island governments. Membership was closed to these people in 1995.

There are seven Schemes, each of which is registered as a superannuation scheme under the Superannuation Schemes Act 1989.

At 30 June 2014, the Schemes had 62,061 members, made up of 15,702 contributory members and deferred annuitants (eg. members who have elected to receive their entitlements from a future date) and 46,359 annuitants. It is expected that entitlements will continue to be paid by the Fund for the next 50 years or so.

Contributory members contribute a defined percentage of their superable salaries (which may be different to their total remuneration) to the Fund on a regular basis.

In return, they receive a retiring entitlement based on their average superable salary for the last five years of contributory service, years of service and age at retirement.

Certain non Government employers contribute the balance of the accruing cost of their employees' retirement entitlements to the Fund. The Government, as an employer, meets its share of members' retirement entitlements as they fall due for payment. Therefore the Schemes are only partially funded, with the accumulated employee contributions, investment returns and employer contributions (from non Government employers) being deemed by the Authority's Actuary to be sufficient to meet 19.7% of the entitlements at present (22.3% from 1 July 2015).

The actual and projected present values of the Unfunded Past Service Liabilities (**UPSL**) of the Fund have been calculated by the Authority's Actuary in the actuarial valuation, as at 30 June 2014. The results are set out in Table 5. The UPSL values are estimates of the Crown contributions required to meet the past service liabilities of the Fund.

**Table 5: Actual and Projected Unfunded Past Service Liabilities**

	Actual 30 June 2014 \$m	Projected 30 June 2015 \$m	Projected 30 June 2016 \$m
Past Service Liabilities	12,826	12,719	12,602
Net Assets	3,677	3,749	3,820
Unfunded Past Service Liabilities (UPSL)	9,149	8,970	8,782

- The actual and projected unfunded past service liabilities were calculated by the Authority's Actuary in August 2014 using a net of tax investment rate. The UPSL, calculated using a gross discount rate, are recorded in the Crown's financial statements. In estimating the future net assets, the Actuary has assumed there will be no added value from active investment management.

- The Authority is projecting the net assets will be \$3,976 million as at 30 June 2015 and \$4,054 million, as at 30 June 2016 which are greater than projected by the Authority's Actuary at the time of the August 2014 valuation.

In all actuarial valuations since 30 June 2012, the Authority's Actuary has made allowance for continued improvements in mortality (i.e. for annuitants living longer) which has increased the past service liabilities and consequently the UPSL.

The Authority is responsible for managing and administering the Schemes in accordance with the Act. The day to day administration of the Schemes is outsourced to Datacom Employer Services Limited (**Datacom**).

The overall expected costs for Schemes of \$8.021 million includes the expected Schemes administration expenses, amortisation of the new business system, estimated actuarial costs and approximately 30% of the Authority's projected operating expenses (see page 23).

## Objectives and strategy

The Authority aims to ensure sustainable, cost effective management of the Schemes to enable accurate calculation, payment and reporting of members' entitlements. The Authority does this by ensuring:

- contributions are collected and entitlements are calculated and paid correctly, in terms of the Act and the policies maintained by the Authority (**Policies**), and in a cost effective and timely manner; and
- service levels agreed with the Schemes Administrator are met.

The sustainability of the business system, used for administration of the Schemes, is fundamental to achievement of this strategy. The business system is more than 20 years old and incorporates technology that is no longer in common use in New Zealand. People with relevant technology skills are becoming scarce. While the current business system is stable, and the Authority is confident it will perform adequately in the short term, the Authority is developing a new business system, which will be more comprehensive and sustainable over the longer term.

Also critical in achieving the Schemes' outcome is the performance of the Schemes Administrator, Datacom. The Authority has established and maintains a partnering relationship style with Datacom to ensure all issues relating to the administration of the Schemes are communicated early to the Authority and are managed and resolved in an open and collaborative manner, taking into account the interests of the members of the Schemes and the Crown.

In communicating with members and employers, the Authority seeks to ensure information provided is both of a high standard and timely. This includes information on member entitlements and on the activities of the Authority.

The Authority interprets the provisions of the Act and the Policies, and exercises its discretionary powers, in relation to matters raised by members. The Authority seeks to achieve equity and consistency in its application of the provisions of the Act and the Policies.



## Forecast Service Performance for 2015/2016

The Authority's key activities in relation to the Schemes are:

- the management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator; and
- interpretation of the provisions in the Act and the Policies and exercising discretionary powers (set out in the Act).

These are described in the Statement of Intent 2014 which covers the period from 2014 to 2016. The only change from last year's Statement of Performance Expectations is the objective for the new business system. Whilst under review, we currently expect implementation to commence in 2016.

For 2015/2016 the Authority has identified the following outputs and performance measures to assist in achieving the Schemes' outcome:

- To meet the needs and reasonable expectations of the members and employers as stakeholders.

Outputs	Measures
<p>Accurately calculate and pay entitlements, process contributions correctly and on time.</p>	<ul style="list-style-type: none"> <li>▪ Performance is in line with the key performance indicators (<b>KPIs</b>) set out in the Management Agreement between the Authority and Schemes Administrator. KPIs are:               <ul style="list-style-type: none"> <li>- 100% of all annuities are paid on time;</li> <li>- all contributions are banked on receipt and allocated as soon as verified as being correct;</li> <li>- all transactions are processed correctly;</li> <li>- all routine correspondence is responded to within 5 working days; and</li> <li>- all non-routine correspondence is responded to within 7 working days.</li> </ul> </li> </ul> <p>Performance against KPIs is measured through monthly reporting by the Schemes Administrator, monitored by Management.</p> <ul style="list-style-type: none"> <li>▪ The business system is relevant and supportive of the requirements of the Schemes. Assessed by:               <ul style="list-style-type: none"> <li>- no major loss or corruption of data or functionality;</li> <li>- having an appropriate business continuity plan in place;</li> <li>- the ability to access required data from both the current and new business system; and</li> <li>- implementation of the new business system commencing in 2016.</li> </ul> </li> </ul>

Outputs	Measures
<p>Respond appropriately to stakeholders' inquiries and provide relevant information.</p>	<ul style="list-style-type: none"> <li>▪ Timely responses to all requests for information from Treasury and meeting deadlines measured by:               <ul style="list-style-type: none"> <li>- no requests being received for missing or incomplete information; and</li> <li>- timeframes being met.</li> </ul> </li> <li>▪ Regular updating of website information on Schemes and Investment, sending the annual Chairman's letter to members by the end of September each year and sending member and employer updates.</li> <li>▪ Achieving consistently good satisfaction scores in the major aspects of the biennial survey of members and employers and positive feedback from other stakeholders.</li> <li>▪ Timely processing of appeals. On receipt of an appeal, complete papers are provided to the Appeals Board at least 14 days before each scheduled hearing.</li> </ul>

# Forecast Financial Statements

## Forecast Financial Statements for the five years ending 30 June 2019

### The Fund

- Forecast Income Statement
- Forecast Balance Sheet
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Changes in Net Assets to Net Operating Cash Flows
- Statement of Accounting Policies

### The Authority

- Forecast Income Statement
- Forecast Balance Sheet
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows
- Statement of Accounting Policies and Significant Assumptions

# Government Superannuation Fund

## Forecast Income Statement

Estimate 2014/15 \$000		Forecast 2015/16 \$000	Forecast 2016/17 \$000	Forecast 2017/18 \$000	Forecast 2018/19 \$000
	<b>Increase in assets from</b>				
454,779	<b>Investing activities</b>	305,000	314,000	325,000	335,000
	<b>Operating activities</b>				
(32,543)	Expenses <sup>1</sup>	(39,214)	(41,416)	(41,996)	(42,293)
<b>422,236</b>	<b>Surplus before tax and membership activities</b>	<b>265,786</b>	<b>272,584</b>	<b>283,004</b>	<b>292,707</b>
(24,000)	Tax	(58,919)	(60,590)	(62,371)	(64,269)
<b>398,236</b>	<b>Surplus after tax and before membership activities</b>	<b>206,867</b>	<b>211,994</b>	<b>220,633</b>	<b>228,438</b>
	<b>Membership activities</b>				
748,638	Contributions - Crown	732,900	745,860	756,376	764,641
37,000	Contributions - members	31,000	28,000	25,000	21,000
22,000	Contributions - other entities	20,000	18,000	17,000	15,000
(906,000)	Benefits paid	(913,000)	(925,000)	(935,000)	(944,000)
<b>(98,362)</b>	<b>Net membership activities</b>	<b>(129,100)</b>	<b>(133,140)</b>	<b>(136,624)</b>	<b>(143,359)</b>
<b>299,874</b>	<b>Surplus after tax and after membership activities</b>	<b>77,768</b>	<b>78,854</b>	<b>84,009</b>	<b>85,079</b>
3,676,899	Opening assets available to pay benefits	3,976,773	4,054,540	4,133,395	4,217,404
<b>3,976,773</b>	<b>Net assets available to pay benefits</b>	<b>4,054,540</b>	<b>4,133,395</b>	<b>4,217,404</b>	<b>4,302,483</b>

Note 1

Expenses - this amount is transferred from the Fund to the Authority to meet the investment, scheme administration and operating expenses of the Authority (see page 23).

# Government Superannuation Fund

## Forecast Balance Sheet

Estimate as at 30 June '15 \$000		Forecast as at 30 June '16 \$000	Forecast as at 30 June '17 \$000	Forecast as at 30 June '18 \$000	Forecast as at 30 June '19 \$000
3,927,881	<b>Investments</b>	4,037,572	4,151,251	4,274,931	4,405,196
	<b>Other assets</b>				
171,295	Cash and cash equivalents	171,710	177,707	181,345	172,402
49,553	Receivables, prepayments and other assets	51,870	53,127	47,833	43,616
220,848	<b>Total</b>	223,580	230,834	229,178	216,018
4,148,729	<b>Total assets</b>	4,261,152	4,382,085	4,504,109	4,621,214
	<b>Less</b>				
171,956	Other payables	206,612	248,690	286,705	318,731
3,976,773	<b>Net assets available to pay benefits</b>	4,054,540	4,133,395	4,217,404	4,302,483
12,719,000	<b>Estimated actuarial present value of Promised Retirement Benefits</b>	12,602,000	12,459,000	12,289,000	12,093,000
8,742,227	Deficit <sup>2</sup>	8,547,460	8,325,605	8,071,596	7,790,517
<b>3,976,773</b>	<b>Net assets available to pay benefits</b>	<b>4,054,540</b>	<b>4,133,395</b>	<b>4,217,404</b>	<b>4,302,483</b>

Note 2

Deficit:

- The estimated actuarial present value of Promised Retirement Benefits (Gross Liability) is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered. The present value was calculated by the Authority's Actuary using a net discount rate.
- The Deficit shown in the Forecast Balance Sheet differs slightly from that calculated by the Authority's Actuary in their actuarial valuation of the Fund, as at 30 June 2014, under NZ IAS 26, dated 13 August 2014. The Authority's Actuary projected a lower value for the assets of the Fund compared with the forecast made by the Authority.
- There is no requirement on the Crown to fully fund the Deficit in relation to the Schemes.
- The Crown pays its share of the Deficit on a cash flow (pay as you go) basis.
- Reliance is placed by the Authority on the provisions of section 95 of the Act which requires the Minister to appropriate funds from public money to ensure that sufficient funds are available, or will be available, to pay entitlements as they fall due.
- The surplus in the forecast income statement is lower than the projected surplus in the performance objectives (Table 1) as the Forecast Income Statement includes all the costs for the Schemes administration.

# Government Superannuation Fund

## Forecast Statement of Cash Flows

Estimate 2014/15 \$000		Forecast 2015/16 \$000	Forecast 2016/17 \$000	Forecast 2017/18 \$000	Forecast 2018/19 \$000
	<b>Cash flows from operating activities</b>				
	<i>Cash provided from</i>				
753,572	Contributions - Crown	733,261	745,901	756,669	764,525
36,987	Contributions - members	31,050	28,080	24,900	21,250
22,400	Contributions - other entities	19,950	18,030	17,050	15,050
92,389	Interest	92,491	93,199	94,550	97,414
	<i>Cash disbursed to</i>				
(905,834)	Benefit payments	(913,000)	(925,000)	(935,000)	(944,000)
(52,058)	Income tax	(57,138)	(60,355)	(62,120)	(64,002)
(30,527)	Operating expenses	(39,324)	(41,749)	(42,193)	(42,140)
<b>(83,071)</b>	<b>Net cash outflows from operating activities</b>	<b>(132,709)</b>	<b>(141,894)</b>	<b>(146,114)</b>	<b>(151,903)</b>
	<b>Cash flows from investing activities</b>				
	<i>Cash provided from</i>				
2,892,802	Maturities and sales of investment assets	2,554,230	2,738,182	2,629,620	2,732,013
	<i>Cash disbursed to</i>				
(2,902,083)	Purchase of investment assets	(2,421,105)	(2,590,292)	(2,479,868)	(2,589,053)
<b>(9,281)</b>	<b>Net cash inflows from investing activities</b>	<b>133,125</b>	<b>147,890</b>	<b>149,752</b>	<b>142,960</b>
(92,352)	Net change in cash held	416	5,996	3,638	(8,943)
263,647	Opening cash brought forward	171,295	171,710	177,707	181,345
<b>171,295</b>	<b>Closing cash balance</b>	<b>171,710</b>	<b>177,707</b>	<b>181,345</b>	<b>172,402</b>

# Government Superannuation Fund

## Forecast Reconciliation of Changes in Net Assets to Net Operating Cash Flows

Estimate 2014/15 \$000		Forecast 2015/16 \$000	Forecast 2016/17 \$000	Forecast 2017/18 \$000	Forecast 2018/19 \$000
299,874	Net increase in net assets	77,768	78,854	84,009	85,079
	<i>Add/(less) movements in working capital items</i>				
2,468	Movement in receivables and prepayments	(2,317)	(1,257)	5,294	4,217
18,676	Movement in other payables	34,658	42,074	35,570	29,470
21,144	<b>Total</b>	32,341	40,817	40,864	33,687
	<i>Add/(less) items classified as investing activities</i>				
57	Movement in accrued interest portion of fixed interest securities	1,042	219	(140)	936
(362,915)	Movement in net investment assets	(213,500)	(221,300)	(230,800)	(238,700)
684	Movement in investment receivables	2,391	1,747	(5,114)	(3,589)
(41,915)	Movement in investment payables	(32,751)	(42,231)	(34,933)	(29,316)
(404,089)	<b>Total</b>	(242,818)	(261,565)	(270,987)	(270,669)
<b>(83,071)</b>	<b>Net cash outflows from operating activities</b>	<b>(132,709)</b>	<b>(141,894)</b>	<b>(146,114)</b>	<b>(151,903)</b>

# Government Superannuation Fund

## Statement of Accounting Policies

### Reporting entity and statutory base

The Fund was established by section 13 of the Act. It consists of the assets held in respect of various defined benefit superannuation schemes prescribed in the Act. Pursuant to section 19H of the Act, the Schemes are registered under the Superannuation Schemes Act 1989.

The Fund is managed by the Authority. The Authority was established as a Crown entity by section 15A of the Act and became an autonomous Crown entity under the Crown Entities Act 2004.

As the primary objective of the Fund is to make a financial return, the Authority has determined the Fund is a profit oriented entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**).

### Basis of preparation

#### **Statement of Compliance**

The forecast financial statements meet the requirements of section 15N of the Act and comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**).

The forecast financial statements also comply with New Zealand equivalents to NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards (**IFRS**).

These forecast financial statements have been prepared for the Statement of Intent of the Authority commencing on 1 July 2015 and for the Minister. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

#### **Measurement Base**

The forecast financial statements have been prepared on the basis of historical cost with the exception that certain assets and liabilities are measured at fair value.

#### **Functional and presentation currency**

The reporting currency of the Fund is New Zealand dollars. All values are rounded to the nearest thousand dollars (**\$000**). The functional currency of the Fund is New Zealand dollars.

### Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of changes in net assets, net assets and cash flows, have been consistently applied:



#### **a. Reporting requirements**

The forecast financial statements have been drawn up in accordance with NZ IAS 26: Accounting and Reporting by Retirement Benefit Plans, and with the provisions of relevant legislative requirements.

#### **b. Investments**

Investments are recorded on a trade date basis and are stated at fair value.

#### **c. Promised retirement benefits**

The actuarial present value of promised retirement benefits is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered.

#### **d. Financial instruments**

The Fund is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, receivables and payables. Financial instruments, including derivatives that are hedges of specific assets, are recognised on the same basis as their underlying hedged assets.

All financial instruments are recognised in the Balance Sheet and all revenues and expenses in relation to financial instruments are recognised in the Income Statement.

Investments are recorded at fair value and all other financial instruments are shown at their estimated fair value.

#### **e. Receivables**

Receivables are carried at amortised cost.

Assets that are stated at amortised cost, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised as the difference between the asset's carrying amount and the present value of the recoverable amount.

#### **f. Other assets**

Other assets include capitalised expenditure on the business system. The business system will be amortised over ten years from completion (expected to be in the year ended 30 June 2016). Amortisation will be recovered from the Authority as the user of the business system.

#### **g. Investment income and expenses**

Dividend income is recorded on the ex-dividend date. Interest is recorded on an accrual basis.

Gains and losses on the sale of equities are determined by using the average cost of equities sold and are recorded on the settlement date.

All realised and unrealised gains and losses, at the end of the year (including those arising on translation of foreign currencies), are included in the Income Statement.

Costs of administration of the Fund, including investment management and custodian fees, are paid out of the Fund and recovered in accordance with section 15E of the Act.

#### **h. Operating revenue**

In terms of section 15E(1) of the Act, the administration expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. The employer subsidy payments made to the Fund by the Crown and other employers includes a share of the expenses.

#### **i. Contributions and benefits**

Contributions are recognised in the Income Statement, when they become receivable, resulting in a financial asset for amounts receivable from both members and employers.

Entitlements are recognised in the Income Statement when they become payable.

## **j. Taxation**

For tax purposes, the Fund is classified as a portfolio investment entity (**PIE**). Income taxation expense includes both the current year's provision and the income tax effects of temporary differences (if any).

Since the Fund became a PIE there have been no temporary differences. The Fund is not registered for Goods and Services Tax.

## **k. Statement of Cash Flows**

The following are the definitions of the terms used in the Statement of Cash Flows:

- Cash and other cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund and its managers invest as part of its day to day cash management. All balances have an original maturity of less than three months.
- Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments include securities not falling within the definition of cash, including cash flows from the settlement of forward foreign exchange contracts.
- Operating activities include all transactions and other events that are not investing or financing activities.

## **l. Consolidation**

The Fund's financial statements include the Judges' Superannuation Account and the Parliamentary Superannuation Account.

## Changes in accounting policies

There are no significant changes in accounting policies.

# Government Superannuation Fund Authority

## Forecast Income Statement

Estimate 2014/15 \$000		Forecast 2015/16 \$000	Forecast 2016/17 \$000	Forecast 2017/18 \$000	Forecast 2018/19 \$000
32,543	Transfer from the Fund	39,214	41,416	41,996	42,293
37	Other revenue	20	8	8	8
<b>32,580</b>	<b>Total revenue</b>	<b>39,234</b>	<b>41,424</b>	<b>42,004</b>	<b>42,301</b>
3,176	Schemes administration	6,822	7,326	6,834	5,902
25,594	Investment management	28,504	30,043	31,096	32,213
3,810	Operating expenses	3,908	4,055	4,074	4,186
<b>32,580</b>	<b>Total expenses</b>	<b>39,234</b>	<b>41,424</b>	<b>42,004</b>	<b>42,301</b>
-	<b>Net operating result</b>	-	-	-	-

## Forecast Balance Sheet

Estimate as at 30 June '15 \$000		Forecast as at 30 June '16 \$000	Forecast as at 30 June '17 \$000	Forecast as at 30 June '18 \$000	Forecast as at 30 June '19 \$000
	<b>Tax payers' equity</b>				
-	General funds	-	-	-	-
-	<b>Total tax payers' equity</b>	-	-	-	-
	<i>Represented by</i>				
	<b>Current assets</b>				
744	Cash	660	654	692	683
5,383	Receivables and prepayments	3,196	3,607	4,401	5,265
<b>6,127</b>	<b>Total assets</b>	<b>3,856</b>	<b>4,261</b>	<b>5,093</b>	<b>5,948</b>
	<b>Current liabilities</b>				
6,127	Payables and accruals	3,856	4,261	5,093	5,948
<b>6,127</b>	<b>Total liabilities</b>	<b>3,856</b>	<b>4,261</b>	<b>5,093</b>	<b>5,948</b>
-	<b>Net assets</b>	-	-	-	-

# Government Superannuation Fund Authority

## Forecast Statement of Cash Flows

Estimate 2014/15 \$000		Forecast 2015/16 \$000	Forecast 2016/17 \$000	Forecast 2017/18 \$000	Forecast 2018/19 \$000
	<b>Cash flows from operating activities</b>				
	<i>Cash provided from</i>				
30,527	Government Superannuation Fund	39,324	41,749	42,193	42,140
37	Interest	20	8	8	8
	Other				
	<i>Cash disbursed to</i>				
(30,226)	Operating expenses	(39,428)	(41,763)	(42,163)	(42,157)
<b>338</b>	<b>Net cash flows from operating activities</b>	<b>(84)</b>	<b>(6)</b>	<b>38</b>	<b>(9)</b>
338	Net change in cash held	(84)	(6)	38	(9)
406	Opening cash brought forward	744	660	654	692
<b>744</b>	<b>Closing cash balance</b>	<b>660</b>	<b>654</b>	<b>692</b>	<b>683</b>

## Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows

Estimate 2014/15 \$000		Forecast 2015/16 \$000	Forecast 2016/17 \$000	Forecast 2017/18 \$000	Forecast 2018/19 \$000
-	<b>Net operating result</b>	-	-	-	-
	<i>Add/(less) movements in working capital items</i>				
(2,016)	(Increase)/decrease in receivables and prepayments	2,187	(411)	(794)	(864)
2,354	Increase/(decrease) in payables and accruals	(2,271)	405	832	855
<b>338</b>	<b>Net cash flows from operating activities</b>	<b>(84)</b>	<b>(6)</b>	<b>38</b>	<b>(9)</b>

# Government Superannuation Fund Authority

## Statement of Accounting Policies and Significant Assumptions

### Reporting entity and statutory base

The Authority was established as a Crown entity by section 15A of the Act. The core business of the Authority is to manage and administer the Fund and the Schemes (see below).

The Fund was established by section 13 of the Act. It consists of various defined benefit superannuation schemes as prescribed in the Act. A separate financial forecast has been prepared for the Fund. Pursuant to section 19H of the Act, the Schemes are registered under the Superannuation Schemes Act 1989.

The forecast financial statements have been prepared on the basis that the Authority is a going concern. The Authority is an Autonomous Crown Entity for legislative purposes and, as the primary objective is not to make a financial return, the Authority has designated itself a Public Benefit Entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**).

### Basis of preparation

#### Statement of compliance

The forecast financial statements have been prepared in accordance with section 142 of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**). The forecast financial statements comply with other applicable Financial Reporting Standards, as appropriate for Public Benefit Entities.

These forecast financial statements have been prepared for the Statement of Intent of the Authority commencing on 1 July 2015 and for the Minister. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period are likely to vary from the information presented.

#### Measurement base

The forecast financial statements are prepared on the historical cost basis.

#### Functional and presentation currency

The reporting currency of the Authority forecast financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (**\$000**). The functional currency of the Authority is New Zealand dollars.

### Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position, and cash flows, have been consistently applied:

#### a. Forecast figures

The forecast figures have been prepared in accordance with generally accepted accounting practice, and are consistent with the accounting policies adopted by the Authority for the preparation of the financial statements.

## **b. Revenue and expenses**

Revenue and expenses are recognised on an accrual basis.

Revenue is measured at the fair value of consideration received/or receivable. Revenue from the Fund is recognised as earned and reported in the financial period to which it relates.

Expenses paid in foreign currency are recorded at the rates of exchange prevailing at the date of the transactions and there are no currency gains or losses.

## **c. Goods and Services Tax**

The Authority makes principally exempt supplies for Goods and Services Tax (GST), as it manages superannuation schemes. GST is imposed on imported services if those services would be a taxable supply in New Zealand. The affected transactions for the Authority are fees incurred in relation to the custody of assets and investment reports undertaken overseas. GST on services is not reclaimable and GST is therefore included in expenditure.

## **d. Statement of Cash Flows**

The Forecast Statement of Cash Flows has been prepared using the direct approach.

## **e. Taxation**

As a Public Authority, in terms of section CW 38(2) of the Income Tax Act 2007, the Authority is exempt from income tax.

## **f. Accounting for Joint Ventures**

The Authority has a 50% ownership in Annuitas Management Limited (Annuitas). Staff employed by Annuitas act in management roles on behalf of the Authority. Reimbursement of Annuitas costs, calculated on a time basis, are included in the operating expenses of the Authority. The Authority does not equity account for Annuitas as this is deemed to be immaterial.

## Changes in accounting policies

All policies have been applied on bases consistent with those used in the year ended 30 June 2014.

## Investment management expenses

Investment management fees (including custody costs) are forecast to increase from the estimate of \$25.594 million in 2015 to a forecast of \$28.504 million in 2016. This is primarily due to an increase in forecast investment performance fees.

## Schemes administration expenses

The forecast Schemes administration expenses include reimbursement to the Fund for amortised expenditure on the business system owned by the Fund.

## Recovery of expenses

The forecast expenses of the Authority, for the management and administration of the Fund and the Schemes for the 2015/2016 year, are \$39.234 million. These expenses, net of other revenue of \$0.020 million are recovered from the Fund in accordance with section 15E of the Act.

The Fund then recovers payments made to the Authority (forecast at \$39.214 million) partly from the Crown under a Permanent Legislative Authority and partly from non Government employer contributions.

The payments to the Authority by the Fund are recovered from the Crown and from non Government employer contributions in proportions determined by the Appointed Actuary. The Authority's appointed Actuary has determined that, from 1 July 2015, the Crown's share will be 89% (forecast \$34.900 million) and the share to be met from the non Government employer contributions 11% (forecast \$4.313 million).

**The expenses of the Authority include:**

- Management of the GSF assets (**the Fund**).
- Expenses related to investment management, custodial arrangements and fees for implementing processes for avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- Management of the Schemes, including the agreement between the Authority and the Schemes Administrator (Datacom).
- Interpretation of the provisions of the Act and the Policies and the exercising of discretionary powers (set out in the Act).
- The fee paid to Annuitas under the management services agreement between the Authority and Annuitas.













**Statement of Performance Expectations  
(SPE 2015)**