



**GOVERNMENT
SUPERANNUATION FUND
AUTHORITY**



**Statement of Performance
Expectations**

1 July 2016

2016

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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 and the Policies.

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 aims 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 by 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.

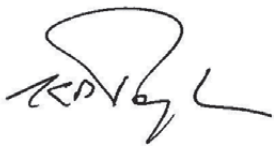
The additional investment risk is primarily global equity risk and the Authority diversifies into other sources of additional return. It engages skilled active managers where they can add value after allowing for additional fees and costs.

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 Authority. 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 completion of 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.



K Taylor
Chairman



C Tarrant
Chairman, Audit & Risk Review Committee

5 May 2016

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

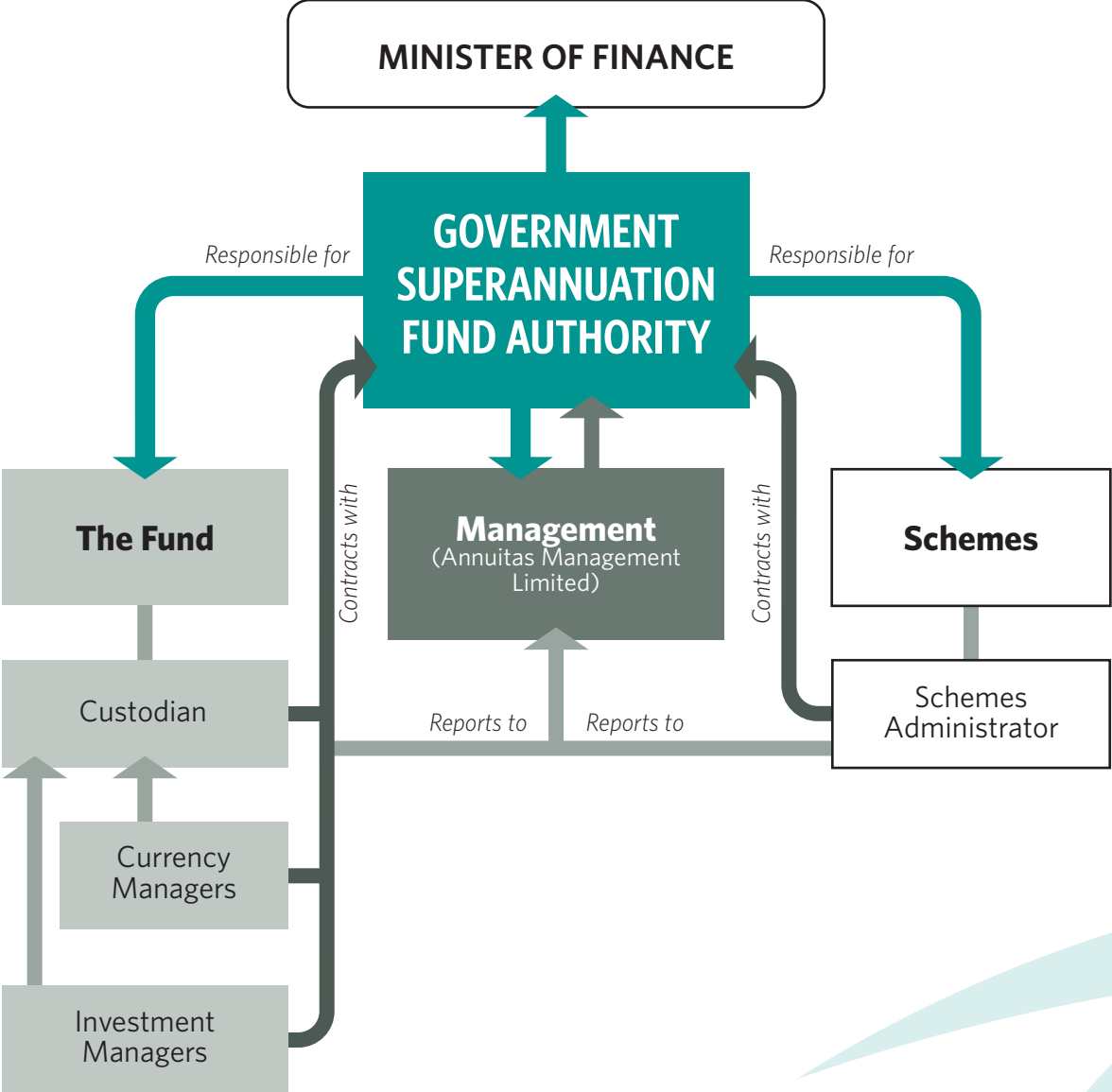
- Management of the investment assets of the GSF.

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 12-13 (**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
- avoiding 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 maximising returns over the long term 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 2016/2017

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 2016/2017

The Authority's forecast return for the Target Portfolio for the year ended 30 June 2017 is 5.9% before tax and after investment costs (see Table 1 on page 6). The forecast return for the Reference Portfolio is 5.2% (this is 2.3% above the expected return on NZ Government Stock (3.9%)).

The Target Portfolio is forecast to return 0.7% (\$21 million) more than the Reference Portfolio, before tax and after investment costs, owing to the Fund's alternative market exposures and active management strategies.

This translates to forecast investment income of \$225 million, including valuation changes and after investment costs.

Table 1: Projected Investment Performance for the year ended 30 June 2017

	Target Portfolio		Reference Portfolio	
	\$m	Return % pa	\$m	Return % pa
Investment Performance				
Gross Investment Income	256	6.7	219	5.6
Total Investment Costs	31	0.8	15	0.4
Net Investment Income	225	5.9	204	5.2
Tax	50	1.3	46	1.2
Forecast Net Investment Income after Tax	175	4.6	158	4.0
Investment Costs				
Investment Management Fees	27	0.69	11	0.29
Custody Expenses	1	0.03	1	0.03
Overheads (share of Authority's operating expenses)	3	0.07	3	0.05
Total Investment Costs	31	0.79	15	0.37

Outputs and Performance Measures

In addition to setting the Investment Objective, the Authority sets specific outputs and performance measures for investment. These 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 2016/2017 year the Authority has adopted 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"> Fund return compared to the return of NZ Government Stock over rolling 10 year periods. Volatility of Fund returns and drawdown versus expected levels. 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). All measured with reference to independent market valuations by the custodian and assessed by the Authority's investment management staff.

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

Outputs	Measures
Put in place a sound investment strategy consistent with the SIPSP and the Authority's Beliefs.	<ul style="list-style-type: none"> 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. Independent statutory review every 5 years.
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"> Avoidance of any negative ESG issues. Advice to investment managers on policies and exclusions. Updated exclusion list. Participation in engagements with companies that lead to positive change in behaviour.
Ensure the Authority complies with the GSF Act.	<ul style="list-style-type: none"> Conclusions of in-house legal compliance programme developed with advice from the Authority's legal adviser.

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 2016

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
Alternative Assets	19.7	0.0
Total	100.0	100.0
Foreign Currency Exposure	(20.0)	(20.0)

The assumed returns from each asset class are set out in Table 3 on page 10 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	7.6	6.6	17.3
New Zealand Equities	8.8	7.5	19.3
Global Fixed Interest	3.6	3.1	4.4
Alternative Assets	5.8	n/a	Varies
Total Portfolio	6.7	5.6	11.2

- 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 2016 are projected from actual 31 January 2016 values.
- The actual portfolio will vary from the Target Portfolio on account of fluctuations in relative market values but it is rebalanced monthly to within tolerance bounds of the Target Portfolio. The actual portfolio may also be tilted towards cheap asset classes and away from expensive ones when the value differences are considered relatively extreme. There is no allowance in the forecasts for these sources of variance.
- Projected entitlement payments withdrawn from the Fund investments are \$10 million per month.
- Taxation assumptions are summarised in Table 4 (see page 11).

Table 4: Taxation Assumptions

Asset Class	Tax Treatment
International Equities and most Alternative Assets	28% on 5% of the average value of the portfolios during the year.
New Zealand Equities	28% on dividends, allowing for imputation credits of 80% of the maximum imputation credits
Global Fixed Interest and some Alternative Assets	28% on accounting profit or loss.

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 2015, the Schemes had 60,561 members, made up of 14,594 contributory members and deferred annuitants (eg. members who have elected to receive their entitlements from a future date) and 45,967 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 22.3% of the entitlements at present (24.3% from 1 July 2016).

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 2015. 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 2015 \$m	Projected 30 June 2016 \$m	Projected 30 June 2017 \$m
Past Service Liabilities	12,679	12,492	12,299
Net Assets	4,087	4,139	4,190
Unfunded Past Service Liabilities (UPSL)	8,592	8,353	8,108

- Numbers may not add due to rounding.
- The actual and projected unfunded past service liabilities were calculated by the Authority's Actuary in August 2015 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 \$3,952 million as at 30 June 2016 and \$3,971 million, as at 30 June 2017 which are less than projected by the Authority's Actuary at the time of the August 2015 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** for the year ended 30 June 2017 of \$8.904 million includes the expected Schemes administration expenses, amortisation of the new business system, estimated actuarial costs and approximately 29% of the Authority's projected operating expenses (see page 22).

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 2016/2017

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 in the Statement of Intent 2014 which covers the period from 2014 to 2018. The only change from last year’s Statement of Performance Expectations is the objective of the new business system being operational by July 2017.

For 2016/2017 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"> ▪ Performance is in line with the key performance indicators (KPIs) set out in the Management Agreement between the Authority and Schemes Administrator. <p>KPIs are:</p> <ul style="list-style-type: none"> - 100% of all annuities are paid on time; - all contributions are banked on receipt and allocated as soon as verified as being correct; - all transactions are processed correctly; - all routine correspondence is responded to within 5 working days; and - all non-routine correspondence is responded to within 7 working days. <p>Performance against KPIs is measured through monthly reporting by the Schemes Administrator, monitored by Management.</p> <ul style="list-style-type: none"> ▪ The business system is relevant and supportive of the requirements of the Schemes. <p>Assessed by:</p> <ul style="list-style-type: none"> - no major loss or corruption of data or functionality; - having an appropriate business continuity plan in place; - the ability to access required data from both the current and new business system; and - the new business system being operational by July 2017.

Outputs	Measures
<p>Respond appropriately to stakeholders' inquiries and provide relevant information.</p>	<ul style="list-style-type: none"> ▪ Timely responses to all requests for information from Treasury and meeting deadlines measured by: <ul style="list-style-type: none"> - no requests being received for missing or incomplete information; and - timeframes being met. ▪ 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. ▪ Achieving consistently good satisfaction scores in the major aspects of the biennial survey of members and employers and positive feedback from other stakeholders. ▪ 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.

Forecast Financial Statements

Forecast Financial Statements for the 2016/2017 year

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

Government Superannuation Fund

Forecast Income Statement

Estimate 2015/16 \$000		Forecast 2016/17 \$000
	Increase in assets from	
54,174	Investing activities	255,680
	Operating activities	
(41,449)	Expenses ¹	(40,444)
12,725	Surplus before tax and membership activities	215,236
(24,827)	Tax	(49,668)
(12,102)	Surplus after tax and before membership activities	165,568
	Membership activities	
733,889	Contributions - Crown	714,400
32,000	Contributions - members	27,000
19,000	Contributions - other entities	17,000
(908,000)	Benefits paid	(905,000)
(123,111)	Net membership activities	(146,600)
(135,213)	Surplus after tax and after membership activities	18,968
4,087,462	Opening assets available to pay benefits	3,952,249
3,952,249	Net assets available to pay benefits	3,971,216

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 22).

Forecast Balance Sheet

Estimate as at 30 June 2016 \$000		Forecast as at 30 June 2017 \$000
3,911,082	Investments	3,958,941
	Other assets	
86,206	Cash and cash equivalents	71,710
88,558	Receivables, prepayments and other assets	55,972
174,764	Total	127,682
4,085,846	Total assets	4,086,623
	Less	
133,597	Other payables	115,407
3,952,249	Net assets available to pay benefits	3,971,216
12,492,000	Estimated actuarial present value of Promised Retirement Benefits	12,299,000
8,539,751	Deficit ²	8,327,784
3,952,249	Net assets available to pay benefits	3,971,216

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 2015, under NZ IAS 26, dated 13 August 2015 (refer page 10). The Authority has projected a lower value for the assets of the Fund than the Actuary as the Authority's forecast includes actual investment performance to 31 January 2016.
- There is no requirement on the Crown to fully fund the Deficit in relation to the Schemes and 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.

Forecast Statement of Cash Flows

Estimate 2015/16 \$000		Forecast 2016/17 \$000
	Cash flows from operating activities	
	<i>Cash provided from</i>	
733,519	Contributions - Crown	714,760
31,799	Contributions - members	27,135
19,409	Contributions - other entities	16,950
83,877	Interest	86,218
	<i>Cash disbursed to</i>	
(907,774)	Benefit payments	(905,000)
12,609	Income tax	(30,429)
(41,185)	Operating expenses	(40,554)
(67,746)	Net cash outflows from operating activities	(130,920)
	Cash flows from investing activities	
	<i>Cash provided from</i>	
2,741,976	Maturities and sales of investment assets	2,530,198
	<i>Cash disbursed to</i>	
(2,893,860)	Purchase of investment assets	(2,413,774)
(151,884)	Net cash inflows from investing activities	116,424
(219,630)	Net (decrease)/increase in cash held	(14,496)
305,836	Opening cash brought forward	86,206
86,206	Closing cash balance	71,710

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

Estimate 2015/16 \$000		Forecast 2016/17 \$000
(135,213)	Net increase in net assets	18,968
	<i>Add/(less) non - cash items</i>	
25,527	<i>Deferred tax</i>	19,539
	<i>Add/(less) movements in working capital items</i>	
20,579	Movement in receivables and prepayments	11,279
(216,515)	Movement in other payables	(18,108)
(195,936)	<i>Total</i>	(6,829)
	<i>Add/(less) items classified as investing activities</i>	
(415)	Movement in accrued interest portion of fixed interest securities	946
26,542	Movement in net investment assets	(170,455)
(6,044)	Movement in investment receivables	(11,405)
217,793	Movement in investment payables	18,316
237,876	<i>Total</i>	(162,598)
(67,746)	Net cash outflows from operating activities	(130,920)

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 Performance Expectations of the Authority commencing on 1 July 2016 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 2017). 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 from the Crown 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 2015/16 \$000		Forecast 2016/17 \$000
41,449	Transfer from the Fund	40,444
44	Other revenue	20
41,493	Total revenue	40,464
3,187	Schemes administration	7,784
34,606	Investment management	28,752
3,700	Operating expenses	3,928
41,493	Total expenses	40,464
-	Net operating result	-

Forecast Balance Sheet

Estimate as at 30 June 2016 \$000		Forecast as at 30 June 2017 \$000
	Tax payers' equity	
-	General funds	-
-	Total tax payers' equity	-
	Represented by	
	Current assets	
288	Cash	284
4,340	Receivables and prepayments	4,230
4,628	Total assets	4,514
	Current liabilities	
4,628	Payables and accruals	4,514
4,628	Total liabilities	4,514
-	Net assets	-

Forecast Statement of Cash Flows

Estimate 2015/16 \$000		Forecast 2016/17 \$000
	Cash flows from operating activities	
	<i>Cash provided from</i>	
41,185	Government Superannuation Fund	40,554
44	Interest	19
	Other	
	<i>Cash disbursed to</i>	
(41,191)	Operating expenses	(40,577)
38	Net cash flows from operating activities	(4)
38	Net increase/(decrease) in cash held	(4)
250	Opening cash brought forward	288
288	Closing cash balance	284

Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows

Estimate 2015/16 \$000		Forecast 2016/17 \$000
-	Net operating result	-
	<i>Add/(less) movements in working capital items</i>	
(128)	(Increase)/decrease in receivables and prepayments	110
166	Increase/(decrease) in payables and accruals	(114)
38	Net cash flows from operating activities	(4)

Government Superannuation Fund Authority

1) Statement of Accounting Policies

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, including Public Benefit Entity Reporting Standard 42, *Prospective Financial Statements (PBE FRS42)*.

These forecast financial statements have been prepared for the Statement of Performance Expectations of the Authority commencing on 1 July 2016 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 2015.

2) Statement of Significant Assumptions

Investment management expenses

Investment management fees (including custody costs) are forecast to decrease from the estimate of \$34.606 million in 2016 to a forecast of \$28.752 million in 2017. This is primarily due to a decrease in forecast investment performance fees.

Schemes administration expenses

The forecast Schemes administration expenses include amortisation 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 2016/2017 year, are \$40.464 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 \$40.444 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 2016, the Crown's share will be 90% (forecast \$36.418 million) and the share to be met from the non-Government employer contributions 10% (forecast \$4.046 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 2016)**