

GOVERNMENT  
SUPERANNUATION FUND  
AUTHORITY

G S F E A

Statement of Intent  
for the year commencing 1 July 2006

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## Introduction

The Government Superannuation Fund Authority (**the Authority**) was established in 2001 to manage and administer the assets of the Government Superannuation Fund (**GSF, the Fund**) and the Government Superannuation Fund Schemes (**GSF Schemes**) in accordance with the Government Superannuation Fund Act 1956 and subsequent amendments (**the Act**). The Authority is an autonomous Crown entity under the Crown Entities Act 2004 (**Crown Entities Act**).

The Authority's mandate is set out in the Act and the Crown Entities Act.

The Crown Entities Act requires the Authority to prepare a Statement of Intent (**SOI**) each year. In addition, Section 15N of the Act requires the Authority to include in its SOI some specific comments on the expected performance of the Fund over the next financial year, as well as the risks to that performance and steps being taken to manage those risks.

The Authority's SOI for the year commencing 1 July 2006, is prepared pursuant to Part 4 of the Crown Entities Act.



Basil Logan, Chairman



David May, Deputy Chairman  
22 June 2006

## From the Chairman

On behalf of the Government Superannuation Fund Authority Board (**the Board**), I am pleased to present the Statement of Intent (**SOI**) of the Authority for the year commencing 1 July 2006.

The purpose of the SOI is to summarise the objectives of the Authority, set out the strategies developed to meet these objectives and how the Authority's performance can be measured. The Authority's performance against the SOI is reviewed each year in its Annual Report.

This is the first SOI issued under the requirements of the Crown Entities Act 2004. The SOI contains a profile of the GSF and the GSF Schemes, and information on the strategies and organisational development of the Authority.

In accordance with the Act, the Authority's mission is to use best practice to manage the Fund and administer the GSF Schemes with the prime objectives of enabling:

- returns to be maximised without undue risk;
- the Crown's contribution to GSF to be minimised; and
- the needs and reasonable expectations of its stakeholders to be met.

Efficient management of the Fund and the GSF Schemes will contribute towards improving the Crown's overall economic position. This will be achieved by minimising the cost of the Crown's contribution to GSF by maximising the return on the assets of the Fund over the long term, without undue risk, and by ensuring sustainable, cost effective management of the GSF Schemes to enable accurate assessment, payment and reporting of members' entitlements.

Over the long term, the Authority believes its Investment Strategy will deliver returns significantly in excess of the after-tax returns from New Zealand Government Stock (NZGS). From the establishment of the Authority in 2001 to the end of May 2006, the Investment Strategy has delivered an after tax return of 5.3% per annum, compared to the after tax return of NZGS of 4.2% per annum.

Key tasks to be achieved over the three years, that will contribute towards our mission and objectives, include:

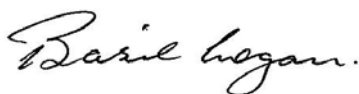
- regularly reviewing the Investment Strategy and making changes as appropriate. This involves ensuring the Investment Strategy continues to meet the requirements of the Act and is consistent with the Authority's Investment Beliefs and the key investment assumptions, used in developing the Strategic Asset Allocation, continue to be reasonable and appropriate;

- developing appropriate responses to the 1 April 2007 investment taxation changes. It is apparent now that the taxation changes will mean that the current Investment Performance Measure, as detailed in the SOI, will no longer be achievable. Under the current Strategic Asset Allocation and taxation provisions, the forecast return on the Fund's assets in the 2006/2007 year would have been 6.5%, or NZGS +2.5%. Under the proposed taxation changes, which take effect from 1 April 2007 and assuming no change to the Strategic Asset Allocation, the projected return is 6.3%, a reduction of 0.2%. In future, when the tax changes apply for a full year, the shortfall will be approximately 0.8% per annum.

The range of responses may include a change to the Strategic Asset Allocation or asset classes held by the Fund, a change to the target level of risk (Risk Parameter) or a change in the Investment Performance Measure;

- investigating alternative asset classes and managers, with the view of identifying suitable investments that, when combined with existing asset classes, contribute towards increasing returns and/or reducing risk for the Fund;
- ensuring that the custody arrangements for the Fund's assets are properly maintained;
- ensuring investment managers' ongoing competency through monitoring and assessment;
- reviewing the Authority's investments against the Board's Policies, Standards and Procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community and assessing emerging internationally recognised standards for "ethical investment";
- reviewing and monitoring the administration of the GSF Schemes by the schemes administrator to ensure contributions are collected, entitlements are paid accurately and in a cost effective and timely manner, and service levels are met;
- implementing the requirements of the New Zealand equivalents to the International Financial Reporting Standards (NZIFRS);
- evaluating the outcome of the statutory review of the Authority and responding accordingly; and
- enhancing the organisation's skills, capabilities and competence.

For more detail about our operations we invite you to visit our website at [www.gsfa.govt.nz](http://www.gsfa.govt.nz).



Basil Logan, **Chairman**



## The Authority's Operating Environment

This section provides an overview of the Authority and its operating environment and begins with a description of the Fund and the GSF Schemes.

The functions of the Authority are to manage and administer the assets of the Fund and the GSF Schemes in accordance with the Act.

### The Fund and the GSF Schemes

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

The GSF 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 GSF Schemes:

General	Members of Parliament
Armed Forces	Masters
Police	Judges and Solicitor General
Prison Officers'	

Currently the GSF Schemes have some 70,000 members, made up of nearly 22,000 contributors and more than 48,000 annuitants. It is expected that entitlements will continue to be paid by the Fund for the next 60 years. Each of the GSF Schemes is registered as a superannuation scheme under the Superannuation Schemes Act 1989.

Contributors contribute a defined percentage of their salaries to the Fund on a regular basis. In return, they receive a retiring allowance based on average superable salary for the last five years of contributory service, years of service and age at retirement.

Certain non-Crown employers contribute the balance of the accruing cost of their employees' retirement entitlements to the Fund.

The Crown, as an employer, meets its share of its employees' retirement entitlements as they fall due for payment. Thus, the GSF Schemes are only partially funded, with the accumulated employee contributions, investment returns and employer contributions (from non-Crown employers) being deemed by the Government Actuary to be sufficient to meet 27% of the entitlements at present (25% from 1 July 2006).

The total level of Crown contributions required in future years is calculated by subtracting the projected Net Assets of the Fund (B) from the Projected Past Service Liabilities (A).

Projections prepared by the Government Actuary, as at 28 February 2006, are set out in the table below:

**TABLE 1: PROJECTED UNFUNDED PAST SERVICE LIABILITIES (\$million)**

	28 Feb 2006	30 June 2009	30 June 2011
Projected Past Service Liabilities (A)	15,298 (Actual)	15,184	14,889
Projected Net Assets (B)	3,737 (Actual)	4,002	4,107
Projected unfunded past service liabilities (A - B)	<b>11,561 (Actual)</b>	<b>11,182</b>	<b>10,782</b>

The Unfunded Past Service Liabilities are recorded in the Crown's financial statements.

## The Authority

The Authority was established in 2001 to manage and administer the assets of the Fund and the GSF Schemes in accordance with the Act. The Authority became an autonomous Crown entity under the Crown Entities Act. Before 2001, the Fund and the GSF Schemes were managed by a government department.

The Authority's mandate is set out in the Act and the Crown Entities Act.

A Board, established by the Act, is the governing body of the Authority and determines the business of the Authority, either directly or by delegation.

Before the Authority was established in 2001, the Fund was invested entirely in New Zealand fixed interest securities and investment performance was measured against the NZX New Zealand Government Stock Gross Index. This investment strategy kept risk to a minimum, but it resulted in lower returns over the long term than if the Fund had been invested in a diverse portfolio. This also meant that the Crown needed to make greater contributions to the entitlements payable by the GSF Schemes.

While the investment earnings of the Fund have no influence on GSF Scheme member entitlements, they influence the amount of the Crown's contribution.

To help minimise the Crown's contribution to GSF (and ultimately contribute to improving the Crown's overall economic position), the Authority developed a new Investment Strategy, based on investing the assets of the Fund in a diverse portfolio of investment assets and investment management techniques.

The Authority has adopted an outsourcing model for the key activities of schemes administration and investment management (including custody of the Fund's assets).

The Authority has appointed:

- Datacom Employer Services Limited as the administrator of the GSF Schemes;
- JP Morgan Chase Bank as the global custodian for the Fund. The custodian is responsible for the safekeeping of the assets of the Fund, settling transactions, and reporting on the performance and compliance of the investment managers appointed by the Authority;
- nine specialist investment management organisations to undertake day-to-day investment decisions and specific buy and sell decisions in a range of fixed interest, equities and property securities, and two to undertake currency hedging.

#### **New Zealand Equities**

AllianceBernstein New Zealand Limited  
Tower Asset Management Limited

#### **New Zealand Fixed Interest**

AllianceBernstein New Zealand Limited  
AMP Capital Investors (New Zealand) Limited

#### **International Equities**

AMP Capital Investors (New Zealand) Limited  
Assure Funds Management Limited

#### **International Fixed Interest**

Pacific Investment Management Company LLC  
Wellington Management Company LLP  
Goldman Sachs Asset Management International Limited

#### **International Property**

AMP Capital Investors (New Zealand) Limited  
LaSalle Investment Management (Securities) L.P.  
Deutsche RREEF America REIT II, Inc

#### **Currency Hedging**

State Street Global Advisors Australia Limited  
ANZ National Bank Limited



In addition, two organisations and two international relations advisers have been appointed to assist the Authority meet the Act's requirement to invest the Fund in a manner consistent with "avoiding prejudice to New Zealand's reputation as a responsible member of the world community". The parties appointed by the Authority are:

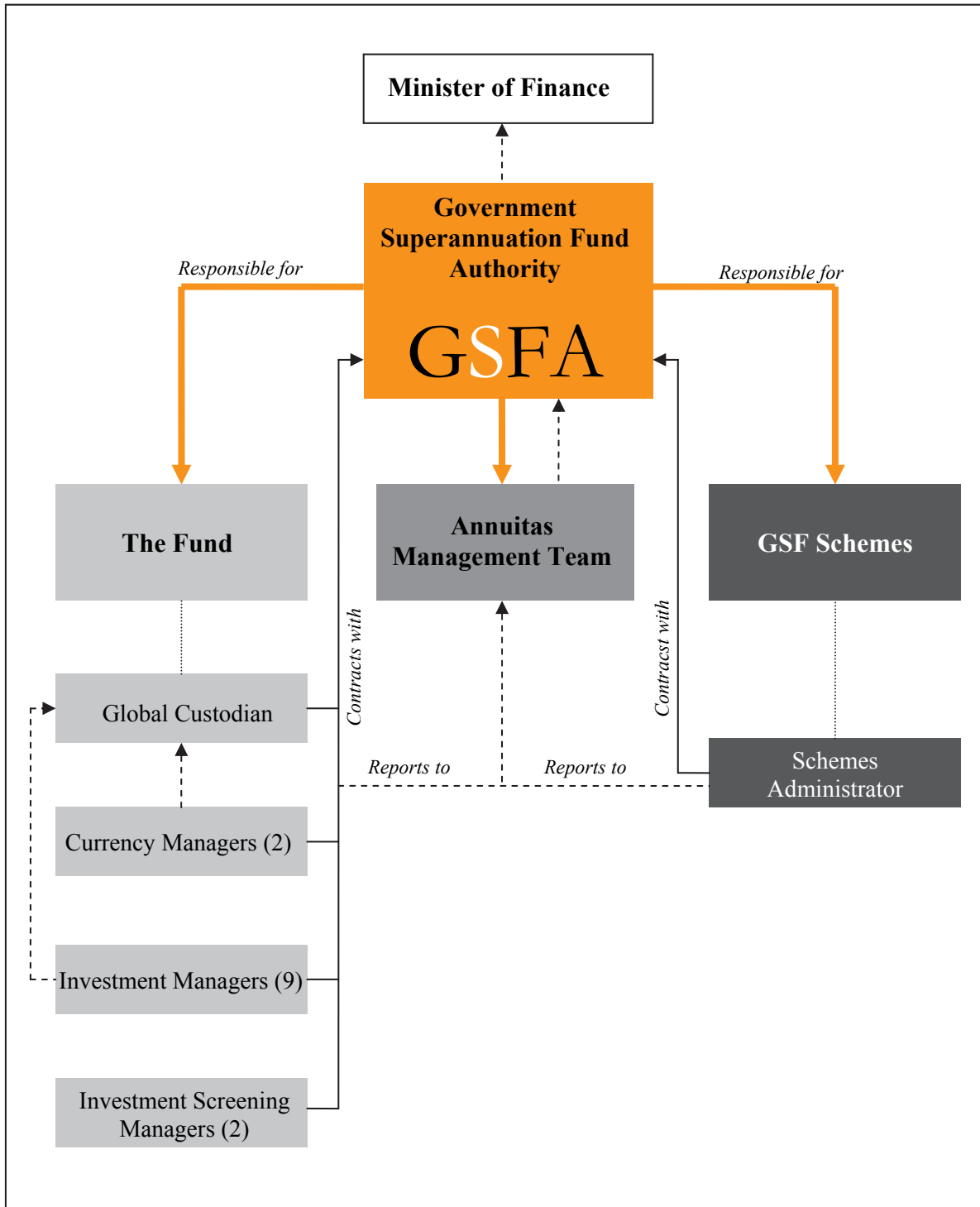
Innovest Strategic Value Advisors  
Sustainable Investment Research Institute Pty Ltd (SIRIS)  
Michael Powles  
Hilary Willberg

The Authority and the Board of Trustees of the National Provident Fund (**NPF**) have formed a joint venture company, Annuitas Management Limited (**Annuitas**). Each organisation has entered into a management services agreement (**MSA**) with Annuitas.

The main function of Annuitas is to provide staff (**Management**) who act in management and secretarial roles on behalf of the Authority and NPF. The MSA between the Authority and Annuitas contains delegations of authority to enable staff appointed by Annuitas to carry out the day-to-day management of the Authority's investment, custody and schemes' administration arrangements. Each month the Board receives reports from Management on all decisions made and matters determined under the delegations of authority.

The joint venture with NPF is seen to be the most appropriate way of providing the management and support required by the Board. The GSF and NPF schemes are closed to new members and both organisations have adopted an outsourced model for the major functions of investment, custody and schemes administration. Annuitas allows economies of scale and higher quality resourcing than could be justified if each organisation operated on a standalone basis.

**DIAGRAM 1: STRUCTURE OF THE GOVERNMENT SUPERANNUATION FUND AUTHORITY AND ITS OPERATIONS**



## Nature and Scope of Functions

The Authority's functions, as set out in Section 15D of the Act, are to manage and administer the assets of the Fund and the GSF Schemes, in accordance with the Act.

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 of Finance has the power to add to the Authority's functions and may direct the Authority to have regard to Government policy relating to its functions and objectives. The Minister may also direct the Authority in investing the Fund to meet the Government's expectations as to the Fund's performance, including the Government's expectations as to 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 Authority's functions are reflected in the Outputs for which the Authority receives funding from the Crown. The Outputs provided by the Authority fall into the following broad categories:

- management of the GSF assets (the Fund);
- management of the GSF Schemes, including the agreement between the GSF Authority and the schemes administrator; and
- interpretation of the provisions in the Act and exercising discretionary powers (set out in the Act).

The key activities of the Authority are investment management (including custody of the Fund's assets) and schemes administration.

## Investment Management

The Act states that all property comprising the Fund must be held for the purpose of paying the entitlements, that are payable under the Act, and for the purpose of carrying out the Authority's functions.

Section 15J(2) of the Act sets out the Authority's responsibilities with respect to investment of the Fund. Specifically, the Act requires that the Authority must:

*“... invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with -*

- (a) best-practice portfolio management; and*
- (b) maximising return without undue risk to the Fund as a whole; and*

- (c) *avoiding prejudice to New Zealand's reputation as a responsible member of the world community."*

Under the Act, "invest" means "to carry on any activity, do any act, or enter into any transaction that the Authority considers to be for the purpose, directly or indirectly, of:

- enhancing or protecting the value of the Fund; and
- managing, or enabling the management of, the Fund."

The Act also requires that "the Authority must establish, and adhere to, investment policies, standards, and procedures for the Fund that are consistent with its duty to invest the Fund on a prudent, commercial basis, in accordance with Section 15J". The Authority must review its policies, standards, and procedures at least annually.

In terms of these provisions the Authority prepared a Statement of Investment Policies, Standards and Procedures (SIPSP) in 2002 and the last annual review was completed in May 2006. The current version of the SIPSP is included on the Authority's website [www.gsfa.govt.nz](http://www.gsfa.govt.nz).

## GSF Schemes

The Authority is responsible for managing and administering the GSF Schemes in accordance with the Act. The Act sets out the basis for calculation of entitlements, payable to the members of the GSF Schemes, and specifies a number of procedural matters.

The schemes administration function is outsourced to Datacom Employer Services Limited (**Datacom**). Datacom is responsible for:

- the collection and processing of contributions to the Schemes;
- maintenance of member records;
- calculating, notifying, processing and paying of all entitlements and options under the GSF Schemes;
- maintaining toll-free lines and a Help-Desk to log and process all oral and written enquiries; and
- maintaining the financial records of the Schemes.

All interpretation issues and determinations, arising under the Act, must be referred by Datacom to the Authority for a decision.

In terms of Section 19 of the Act the Authority must, when exercising its discretionary powers in relation to the GSF Schemes, act in accordance with the GSF Statement of Provisions, Policies and Procedures (**the Statement of Policies**). The Statement of Policies is published on the Authority's website [www.gsfa.govt.nz](http://www.gsfa.govt.nz).

If there is any doubt – either by Datacom or any contributor/beneficiary – about any matter (for example the amount of any entitlement, how an entitlement has been calculated, length of service etc) the Authority can be approached to give a determination.

If the person concerned disagrees with or is dissatisfied with the Authority's decision or determination, he/she can appeal to the Appeals Board. The Appeals Board is an independent body and members are appointed by the Minister of Finance.

Booklets are published by the Authority that provide information on the GSF Schemes and are made available to members on request by Datacom, or can be downloaded by members from the Authority's website [www.gsfa.govt.nz](http://www.gsfa.govt.nz). The booklets are reviewed and updated on a regular basis.

The Authority's website also provides access to reports and policy documents published by the Authority, including the annual reports and the Statement of Policies.

# Objectives, Performance Measurement and Strategies

## Government Outcome and Contributions by the Authority

Government Outcome:

- efficient management of the assets and liabilities of the GSF will contribute to improvement in the Crown's overall economic position.

The Authority contributes by:

- minimising the Crown's contribution to GSF by maximising the return on the assets of the Fund over the long term, without undue risk; and
- ensuring sustainable, cost-effective management of the GSF Schemes to enable accurate assessment, payment and reporting of members' entitlements;

within a best practice framework.

## Investment

### Four key components

The framework for the Authority's investment operations has four key components:

1. Investment Objective
2. Investment Performance Measure
3. Risk Parameter
4. Investment Strategy

#### *1. Investment Objective*

To minimise the Crown's contribution to GSF by maximising the return on the assets of the Fund over the long term, without undue risk, and within a best practice framework.

#### *2. Investment Performance Measure*

The performance of the Fund will be assessed by comparing the after tax return with the NZX New Zealand Government Stock Gross Index return (after tax), plus 2.5% per annum, measured over rolling 10 year periods.

This performance measure will be reviewed at least annually, taking into account changes in the investment and tax environment in which the Authority operates<sup>1</sup>.

It is already clear that the impact on the Fund of the proposed taxation changes will result in under performance of the current Investment Performance Measure. Estimates of the level of financial impact of the proposed taxation changes are set out in *Estimating the return on Fund assets for 2006/2007*. The Authority will review the impact of the changes on the Investment Strategy, Risk Parameter and Investment Performance Measure as soon as the legislation is passed. As any changes to the Authority's investment operations are expected to occur at the same time as we will be preparing the 2007 SOI, they will be fully reported in that publication.

### 3. Risk Parameter

Having no more than a 1 in 10 chance in any one year of a loss in the total Fund being greater than \$100 million (after tax).

In seeking to maximise return for the Fund over the longer term, the Authority accepts a specified level of investment risk in exchange for a reasonable expectation of excess returns over the returns from Government Stock. As noted above, the Risk Parameter will be reviewed when the tax change legislation is passed.

### 4. Investment Strategy

To develop, implement and maintain a diversified, efficient and well managed investment portfolio for the Fund.

#### Why the Authority focuses on the long term

The Board takes a long-term view of its investment performance as the Fund is expected to exist for at least 60 years. For that reason, the Authority has determined the investment return over rolling 10 year periods is the key performance measure. It is important to recognise that there is greater volatility and uncertainty about returns over 1 year than 10 year periods. As a result, returns in any particular year are not necessarily indicative of the long term investment performance of the Fund.

#### Implementation of the Investment Strategy

The Investment Performance Measure, Risk Parameter and Investment Strategy are inter-related components, affected by the taxation and investment environment that the Authority operates in.

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<sup>1</sup> The Government has announced changes, to be implemented on 1 April 2007, to the way gains on New Zealand, Australian and international shares are taxed. The changes include the removal of tax payable on gains on New Zealand and Australian equities, for portfolio investment entities, and amendments to the tax payable on gains made on international equities (excluding Australia).

In determining the Investment Performance Measure, the Board concurrently decides the Risk Parameter and the efficient use of this investment risk (ie the implementation of the Investment Strategy).

The Investment Strategy is implemented by:

- developing an asset allocation (**the Strategic Asset Allocation or SAA**) that is expected to meet the Investment Objective, Investment Performance Measure and the Risk Parameter;
- regularly reviewing the SAA. This involves checking that the key investment assumptions, used to develop the SAA, continue to be reasonable and appropriate and ensuring the SAA continues to meet the requirements of the Act and the Investment Objective, and is efficient in terms of the return expected for the Risk Parameter. Independent advice may be obtained, and subjected to peer review;
- reviewing the four key components at least annually, but immediately following taxation changes or a material change to investment markets. The range of responses may include a change to the SAA or asset classes held by the Fund, a change to the target level of risk for the Fund (Risk Parameter) and/or a change in the Investment Performance Measure;
- regularly reviewing investment markets to determine whether asset classes should be added to, or deleted from the SAA, or whether the composition and style of management of an asset class should be changed; and
- where active management of an asset class has been determined by the Board to be appropriate appointing investment managers, who are assessed to be capable of consistently adding value above their benchmark indices, and regularly reviewing the performance of those managers under a mandate set by the Authority that does not unduly restrain their ability to add value.

In April 2006, the Board approved, in principle, an allocation to 'alternative' asset classes of up to 15% of total assets, subject to identifying suitable investments and managers. The Board commenced implementation of this decision by evaluating implementation options for a 3% allocation to collateralised commodity futures. Other asset classes to be investigated include hedge funds, private equity and infrastructure. Further work on this project will be undertaken in the year ending 30 June 2007.

As no final decision has been made by the Board to invest in these alternative asset classes, and the timing of any investment is uncertain, no provision for returns from these asset classes has been made in the forecast financial statements for the Fund for the year ended 30 June 2007.



Section 15M of the Act requires the Authority’s SIPSP to cover ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community. The Authority’s implementation framework for avoiding prejudice has been in place now for approximately two years. The Authority will continue to review its framework for ethical investment in the context of global developments in international standards.

### Investment Beliefs

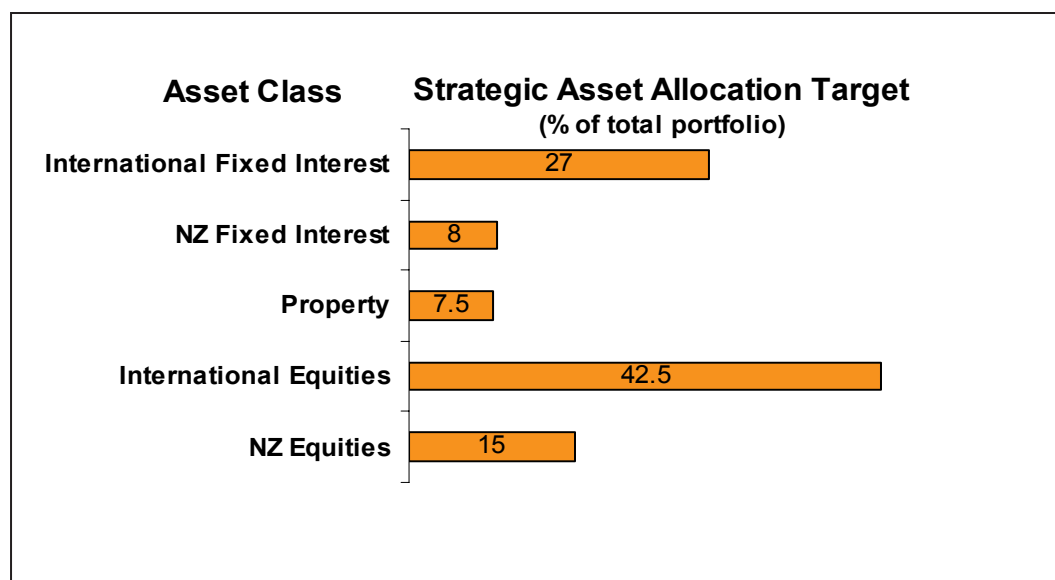
To provide a robust conceptual foundation for its Investment Strategy and to communicate shared values about investment, the Authority has adopted a set of Investment Beliefs:

- higher returns are associated with higher risks;
- setting the Strategic Asset Allocation is the most important investment decision;
- diversification reduces risk;
- market timing is not a reliable source of return because of the short-term unpredictability of returns;
- nevertheless, account should be taken of unusual asset price behaviour;
- control of costs is important; and
- markets vary in their efficiency, and market inefficiencies offer skillful managers the opportunity to add value.

### Strategic Asset Allocation

The Authority’s Investment Strategy has been implemented by progressively shifting the assets to the SAA and putting in place the outsourced investment management structure.

**DIAGRAM 2: CURRENT STRATEGIC ASSET ALLOCATION**



## Further Information

Detailed information on the SAA and investment returns are set out on the Authority's website [www.gsfa.govt.nz](http://www.gsfa.govt.nz).

## GSF Schemes

### Schemes Objective

To ensure sustainable, cost effective management of the GSF Schemes to enable accurate assessment, payment and reporting of members' entitlements.

### How the Authority intends to perform its functions

The Authority will:

- ensure a structure and systems are put in place and maintained to enable the administration of the GSF Schemes to be cost effective, viable and sustainable over the medium term;
- establish and maintain a partnering relationship style with the scheme administration manager to ensure all issues relating to the administration of the GSF Schemes are communicated early to the Authority and are managed and resolved in an open manner, taking into account the interest of the members and the Crown;
- ensure the GSF Schemes are administered in accordance with the Act, with contributions collected and entitlements paid accurately and in a timely manner;
- ensure all members receive a high level of service and are well informed as to their rights as members of the GSF Schemes, and of the activities of the Authority;
- interpret the provisions of the GSF Schemes, and exercise the discretionary powers relating to the GSF Schemes, in accordance with the Act and the Statement of Policies; and
- report to the Minister, as required, and advise the Crown of its financial obligations and the value of the unfunded past service liability of the Fund accurately and in a timely manner.

### Financial and Non-financial Measures

The contract with Datacom sets out Performance Measures which are used by the Authority to monitor and review Datacom's performance. (Examples are set out in the *Forecast Service Performance* section.)

The Authority undertakes rigorous monitoring of Datacom to ensure that contributions are collected, entitlements are paid accurately and in a timely manner, and service levels are met. Monitoring involves both quantitative and qualitative elements.

# Organisational Health and Capability

## Governance

The Board is the governing body of the Authority and is responsible for making all decisions relating to the Fund and the GSF Schemes. The Board has all the powers necessary for managing, and for directing or supervising the management of, the business of GSF.

The Minister of Finance appoints the members of the Board. The members have a wide range of experience and expertise in the investment, financial and business sectors.

The Authority has established a Corporate Governance Statement, which incorporates legislative and regulatory requirements as well as the policies and practices developed by the Board. This statement is available on the Authority's website [www.gsfa.govt.nz](http://www.gsfa.govt.nz).

The key policies and practices developed by the Authority are set out below:

- the Authority's obligations with respect to the Fund and the GSF Schemes are supported by business planning, business risk assessment, management reporting, and arrangements for audit, internal control and compliance, all conducted on a regular basis.
- the Authority regularly reviews its own activities and the activities of Management, to ensure that clear and proper sets of accountabilities remain in effect, delegations are properly implemented and reporting is comprehensive.
- the Board reviews its own performance annually and at all times aims to achieve best-practice.
- the Board has established four committees to advise it on matters relating to the Authority's functions and powers and to perform and exercise the functions and powers of the Board delegated to each committee, as applicable. Committees have written terms of reference and ensure that their activities remain consistent with the Crown Entities Act. The four committees are:
  - Audit and Risk Review
  - Schemes
  - Investment
  - Responsible Investing<sup>2</sup>

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<sup>2</sup> The Responsible Investing Committee has responsibilities related to the implementation of policies to avoid prejudice to New Zealand's reputation as a responsible member of the world community, other ethical issues with respect to the investment of the Fund and the Board's voting policy.

- each committee reviews its performance annually and is also reviewed by the Board.
- the Board meets at least eleven times per annum and ensures that it receives appropriate and reliable reporting on the Fund and the GSF Schemes and the actions of its Management and other service providers.
- the Board regularly considers the resources required for the effective and proper management of the Fund and the administration of the GSF Schemes and acts to ensure that resources available to the Authority, both internally and externally, align with these requirements. The Board aims to use resources of appropriate quality and capacity for its needs, at a reasonable cost. The Board ensures that comprehensive service level agreements are entered into with each external service provider which specify reporting and compliance standards.
- the Board has a systematic compliance programme with its service providers and any breaches of compliance are reported to the Board as these occur.
- the Board has established a risk management programme. The Board is advised on matters of risk management by the Audit and Risk Review Committee.

## Organisational Development

Board members are normally appointed for two terms of three years. Wherever possible the Board, through the Chairman, will look to work with the Minister to ensure an appropriate balance of skills and experience is maintained in the membership of the Board.

The Board sets aside two days per year, one for strategic planning and the other for a workshop. During the strategic planning day the Board reviews its Mission Statement and objectives in the context of the investment and superannuation environment. It assesses whether its strategies remain appropriate and the capabilities of the organisation to achieve the strategies. In particular, the Board reviews the robustness and sustainability of systems and technology and assesses whether appropriate resources and skills are in place for the Authority and Management to be best placed to achieve their accountabilities and responsibilities.

The workshop provides an opportunity for the Board and Management to receive presentations and discuss contemporary issues and new approaches relating to investment management, or other parts of the GSF business. Board members are encouraged to take advantage of training opportunities available in superannuation and investment.

The Authority maintains close working relationships with other Crown Financial Institutions and, whenever possible, seeks to leverage off their experience on matters of mutual interest.

Management of the Fund's assets and schemes administration will continue to be outsourced to specialist organisations. The key element of an outsourcing model is to ensure each contracted manager, where appropriate, has in place a well planned and tested business continuity plan, including a disaster recovery programme (**DRP**). This is particularly important in the key areas of custody and schemes administration. DRPs operated by the schemes administrator and custodian are tested on a regular basis and reported to the Board.

As both the Authority and NPF employ an outsourced model for the major functions of administering and managing groups of large superannuation schemes the Management team at Annuitas is small. Senior managers are responsible for the key functions of Investment, Schemes, Finance and Chief Executive, and back-up support is maintained to reduce the key person risk. Management is responsible for the identification and implementation of appropriate strategies for the Authority to meet its obligations, under the Act, and its operating objectives.

Each year performance objectives are set for each of the key functions and senior managers, and progress on achieving these objectives is monitored by the Board on a regular basis.

The Board of Annuitas has a key role to resolve any conflicts or priority issues that may arise between the Authority and NPF. It has not been necessary for the Annuitas Board to exercise this function as Management has been able to manage the workloads, achieve the performance objectives and meet deadlines to the satisfaction of the Authority Board and the NPF Board.

The Chief Executive is responsible for the development and training of all staff to ensure that they are best placed to achieve their accountabilities and responsibilities to the Authority. To achieve this, the Chief Executive develops and implements individual training and personal development programmes for each staff member with the overall objectives of maintaining a high level of knowledge of investment and schemes issues, and of best practice in superannuation and investment.

## Consultation and Reporting to the Minister

### Matters requiring consultation with the Minister

The Authority is required to consult with the Minister on the following matters:

- the method for calculating interest on contributors contributions, where the contributor is discharged or released from the regular forces in circumstances where no retiring allowance is payable (Section 71K(b) of the Act);
- approval of any class of transactions which involve either:
  - borrowing money;
  - mortgaging or charging any of the real property of the Fund, whether present or in the future, as security; or
  - entering into a derivative transaction, or amending the terms of that transaction (where derivative transaction includes swaps, options, futures and any combination of those things); and
- approval to operate Bank Accounts outside the provisions set out in Section 158 of the Crown Entities Act.

Approvals have been sought and granted for some of the matters outlined above. With regards to derivative transactions, the Minister has approved that the Authority's investment managers may enter into financial transactions where the use of those is consistent with the Authority's SIPSP.

No approvals have been sought from the Minister with respect to Section 71K(b), or to borrow money and mortgage real property.

### Reporting to the Minister

The accounts of the Authority and the Fund are maintained and reported in accordance with the Act and the Crown Entities Act. The Act requires the Authority to report to the Minister on the Fund at intervals and include any information that the Minister requires. In addition to the annual reports of the Authority and the Fund information is provided to the Minister for inclusion in the Crown's budget and economic updates. This includes the salaries of contributors and their contribution history, which is provided to the Government Actuary so that the unfunded past service liability can be calculated and reported in the Crown's financial statements.

The Treasury also reports to the Minister on a quarterly basis, following consultation with the Authority, on the Fund's investment performance and on key operational issues.

## Processes in Relation to Acquisitions

Section 141 of the Crown Entities Act requires the Authority to report on any processes to be followed for the purpose of Section 100 (Acquisitions of shares or interests in companies, trusts and partnerships).

The Authority believes that the intention of Section 100 is to cover situations where the Authority buys shares to facilitate an acquisition strategy. The Authority has no plans to acquire shares for this purpose.

A key element of the Authority's business is the purchase and sale of shares for investment and trading purposes. In carrying out its activities, the Authority is bound by Sections 15B and 15K of the Act.

Under Section 15B(6) of the Act, the Authority may subscribe for, acquire, or hold shares, or any other securities issued by a company, if the company provides scheme administration, investments services for any part of the Fund or the provision of secretariat or other services to the Authority.

In terms of Section 15B(6) the Authority and NPF have formed a joint venture company, Annuitas. The functions of Annuitas are described in *The Authority's Operating Environment*.

Section 15K of the Act requires that "the Authority must use its best endeavours to ensure that the Fund does not control any other entity or hold a percentage of the voting rights in any other entity that would require it to seek control of that entity". The requirements of this section have been met by the Authority.

## Forecast Service Performance for 2006/2007

### Output Class – Management of the Government Superannuation Fund

The expenses of the Authority, relating to the management and administration of the Fund and the GSF Schemes, are recovered from the Fund in accordance with Section 15E of the Act.

The Fund recovers the payments to the Authority partly from non-Crown employer contributions and partly from the Crown (under a Permanent Legislative Authority (**PLA**) and a Non-Departmental Output Class (**NDOC**) appropriation).

The Fund receives funding from the non-Crown Scheme Employers and the Crown at proportions determined by the Government Actuary. The Crown currently provides approximately 81% of the Authority's expenditure reimbursed by the Fund through the PLA and NDOC.

Expenses related to investment management, custody arrangements and fees for implementing processes for avoiding prejudice to New Zealand's reputation are recovered from the PLA.

The other expenses of the Authority, including the fee paid to Annuitas, are funded through the NDOC. Activities covered by the NDOC include:

- management of the GSF assets (the Fund);
- management of the GSF Schemes, including the agreement between the GSF Authority and the schemes administrator; and
- interpretation of the provisions in the Act and exercising discretionary powers (set out in the Act).

Crown funding for the 2006/2007 year is estimated at \$10.4 million, made up of \$6.2 million through the PLA and \$4.2 million through the NDOC. (See the Forecast Statement of Financial Performance for the Authority).

### Investment Management

Forecast measures and standards for output delivery for the 2006/2007 year are to:

- ensure the Authority adheres to its SIPSP and records all changes to its policies, standards and procedures in this document;
- ensure the safe custody of the Fund's assets;



- regularly review the Investment Strategy and make changes as appropriate. This will involve ensuring the key investment assumptions, used in developing the SAA, are reasonable and appropriate and the Investment Strategy continues to meet the requirements of the Act and is consistent with the Authority's Investment Beliefs;
- develop appropriate responses to the 1 April 2007 investment taxation changes. The range of responses may include a change to the SAA or asset classes held by the Fund, a change to the target level of risk (Risk Parameter) or a change in the Investment Performance Measure;
- investigate alternative asset classes and managers, with the view of identifying suitable investments that, when combined with existing asset classes, contribute towards increasing returns and/or reducing risk for the Fund;
- monitor the custodian's performance in accordance with the requirements of the custody agreement to ensure that the quality of service and the accuracy and timeliness of reports on the Fund are maintained;
- monitor the investment managers' capabilities to ensure they remain appropriate and that the managers have the resources and ability to meet the performance requirements over the long term, as specified in investment management agreements; and
- review investments to ensure compliance with the requirement to "avoid prejudice to New Zealand's reputation as a responsible member of the world community".

### Estimating the return on Fund assets for 2006/2007

While the Investment Strategy established by the Authority is based on maximising returns over the long term, Section 15N of the Act requires the Board to set out expectations about the performance of the Fund over the 2006/2007 financial year in sufficient detail to enable meaningful assessment against those expectations at the end of the financial year. For the purposes of meeting the requirement of the Act, it is appropriate to estimate the return for 2006/2007 based on the longer term assumptions used by the Authority to set the SAA.

The Authority's expectations on the performance of the Fund for the 2006/2007 year are set out in the Forecast Statement of Changes in Net Assets. The forecast takes into account the proposed taxation changes, which take effect from 1 April 2007. The forecast surplus after tax and before membership activities of \$231 million represents a return of 6.3% on the average net assets, a shortfall of 0.2% against the Investment Performance Measure. When the taxation changes apply for a full year the shortfall will be approximately 0.8% per annum. As noted in the *Investment Management* section above developing appropriate responses to the taxation changes is an output for the 2006/2007 year.

Under the current SAA and taxation provisions the forecast surplus would have been 6.5%, and would have met the Investment Performance Measure.

The volatility of investment markets means that the forecast increase in assets from investing activities, included in the Forecast Statement of Changes in Net Assets, is inherently uncertain over short term periods. The forecast for increase in assets from investing activities is dependent on assumptions with respect to returns from each asset class, the effect of any changes to the SAA of the Fund and the impact of tax changes. Actual returns from each asset class in the year may vary significantly from the long term return assumptions.

### Significant Assumptions used in the Forecast for the Fund

- the gross pre tax investment returns for each asset class are as follows:

International Equities	9.0%
New Zealand Equities	8.9%
International Property	8.3%
New Zealand Fixed Interest	6.0%
International Fixed Interest	6.0%
Cash	5.4%
- currency hedging is in place for international equities, international property and international fixed interest. No provision has been made, in the forecast financial statements, for changes in currency as currency movements cannot be predicted with accuracy in the short term;
- asset values as at 1 July 2006 are estimated using 31 May asset values and projected returns to 30 June 2006;
- the Fund will qualify as a Portfolio Investment Entity (**PIE**) under the proposed taxation changes;

- taxation of gains on equities are summarised in the table below:

**TABLE 2: CURRENT AND FUTURE TAXATION ASSUMPTIONS**

	<b>Current taxation treatment of gains to 31/3/2007</b>	<b>Assumed future taxation treatment of gains 1/4/2007 – 30/6/2007</b>
International equities (excluding Australia)	0% (the Fund is currently invested in passive vehicles with binding IRD rulings, exempting gains from tax)	33% on 85% of gains
New Zealand equities	33%	0%
Australian equities	0% (the Fund is currently invested in passive vehicles with binding IRD rulings, exempting gains from tax)	0%

- entitlement payments out of the Fund will be \$10 million per month rising to \$12 million per month and totalling \$134m over the year.

## GSF Schemes

Forecast measures and standards for output delivery for the 2006/7 year are:

- the schemes administrator's performance will be monitored in accordance with the performance standards included in the schemes administration management agreement between the Authority and Datacom, including service levels to contributors, annuitants, and employers and other key performance standards.

Examples of the performance standards are set out below:

- 70% of all correspondence (except for requests for entitlement quotes, or entitlement calculations or recalculations) to be responded to within 3 working days of receipt;
- 70% of all requests for entitlement quotes, or entitlement calculations or entitlement recalculations, to be responded to within 5 working days of receipt;
- 100% of all annuities to be paid on due date;
- 70% of all other payments to be paid within 3 working days of receipt of all requirements; and
- all contributions to be banked on receipt, and allocated as soon as identified to the correct Scheme, to the correct employer where they are employer contributions, and to the correct member account once reconciled to contribution data

Datacom is also required to ensure it has in place a Business Continuity Plan (**BCP**) which is in accordance with best industry practice. The BCP is required to be tested periodically and reviewed annually.

Performance standards are reviewed from time to time to ensure they remain appropriate and relevant.

- the Statement of Policies will be maintained and, subject to consultation with interested parties, amended to record any policy changes made by the Authority;
- submissions from Datacom will be dealt with in accordance with the Act and the Statement of Policies. All submissions to be responded to within five working days;
- appeals against decisions made by, or on behalf of, the Authority will be responded to in accordance with the Act. The Authority's reports to the Appeals Board will be provided at least 14 days before each scheduled hearing date;
- sufficient funding will be provided to Datacom to ensure all entitlement payments are able to be made as they become due;
- actuarial data on the Fund, required for the Crown financial statements, will be provided in accordance with the timetable agreed with Treasury; and
- communications will be sent to contributors, annuitants, and employers regarding the activities of the Authority and the performance of the Fund.

## Organisation

Forecast measures and standards for output delivery for the 2006/2007 year are:

- maintain and report on the Authority's and Fund's accounts in accordance with the Act and the Crown Entities Act; and
- evaluate the outcome of the statutory review of the Authority and respond accordingly.

## Risk Management

A summary of the Board's assessment of the key risks to the business, including the key risks to the performance of the Fund, and actions being taken by the Authority to manage those risks are set out below.

### Investment Risks

RISK	ACTION TO MANAGE
<b>Investment strategy and asset allocation are inappropriate</b>	<ul style="list-style-type: none"> <li>▪ Diversify the assets and management techniques of the Fund.</li> <li>▪ Seek professional advice on the Investment Strategy and Strategic Asset Allocation.</li> <li>▪ Peer reviews of advice.</li> <li>▪ Review annually the Statement of Investment Policies, Standards and Procedures, as required by Section 15L of the Act.</li> </ul>
<b>Poor performance of investment managers:</b>	<ul style="list-style-type: none"> <li>▪ Careful selection of investment managers based on demonstrated ability.</li> <li>▪ Diversification among managers.</li> <li>▪ Mandates for active managers based on best practice portfolio management.</li> <li>▪ Regular monitoring and review of manager performance.</li> <li>▪ Management agreements, which provide for dismissal at the discretion of the Authority.</li> </ul>
<b>Overall investment management risk.</b>	<ul style="list-style-type: none"> <li>▪ Specific mandate for each investment manager, based on best practice portfolio management.</li> <li>▪ Constraints to govern credit and liquidity risks.</li> <li>▪ Use of a custodian to monitor transactions, report on performance and monitor compliance of investment managers with mandates.</li> <li>▪ A comprehensive Statement of Investment Policies, Standards and Procedures developed and enforced by the Authority.</li> <li>▪ A clear separation of functions between investment management, custody, and overall supervision.</li> </ul>

<b>RISK</b>	<b>ACTION TO MANAGE</b>
<p><b>Currency risk, for example the risk that the Fund will lose value through adverse exchange rate movements</b></p>	<ul style="list-style-type: none"> <li> <p>■ The engagement of a currency manager to hedge a specified percentage of the international equities currency exposure to the New Zealand dollar.</p> <p>The Board has determined to increase the hedge ratio for international equities from its current level of 75% pre tax to 120% pre tax (this equates to an after tax level of 80% taking into account the current non-taxable nature of the gains from investment in international equities). This hedge ratio assumes continuing investment in passive products with no tax payable on gains on international equities and will be reviewed once the taxation changes are finalised.</p> </li> <li> <p>■ The engagement of a currency manager to hedge 100% pre tax of the United States dollar exposure to international fixed interest to the New Zealand dollar (the benchmark for international fixed interest being 100% hedged pre tax to the United States dollar).</p> </li> <li> <p>■ The engagement of a currency manager to hedge 100% pre tax of the foreign currency exposure to international property to the New Zealand dollar.</p> </li> </ul>
<p><b>The assumed gross pre tax investment returns for each asset class are not achieved</b></p>	<ul style="list-style-type: none"> <li> <p>■ The Authority has adopted a diversified asset allocation strategy for the Fund and has appointed investment managers, based on demonstrated ability. However, the volatility of investment markets means that the projected return from the Fund is inherently uncertain. Actual returns from each asset class over the next year may vary significantly from the long term return assumptions used in calculating the increase in assets from investing activities.</p> </li> </ul>
<p><b>Major structural changes to investment markets and/or taxation environment</b></p>	<ul style="list-style-type: none"> <li> <p>■ Neither of these risks is within the control of the Authority. However, the Authority will take into account changes in these risks in its reviews of the Strategic Asset Allocation and Investment Strategy.</p> </li> </ul>

## Risks relating to the Fund's Liabilities

The Fund's liabilities arise from the defined benefit schemes specified in the Act. Risks that may affect the projected liabilities include:

- movements in the consumers' price index (all retiring allowances and spousal annuities are CPI indexed);
- the rate of increase in contributors' salaries, especially as it affects the last five years of contributory service;
- the discount rate used to value the liabilities;
- factors affecting retirement or cessation of contributors, including state sector restructuring and privatisations;
- patterns of entitlement selection on retirement; and
- mortality rates.

None of the above risks is within the control of the Authority. The Authority will, however, ensure that accurate and timely actuarial projections are made of the liabilities in accordance with the requirements of the Minister of Finance.

RISK	ACTION TO MANAGE
<p><b>The provisions for the schemes are not complied with and discretions relating to the schemes are inappropriately applied</b></p>	<ul style="list-style-type: none"> <li>▪ Monitoring the performance of Datacom and the resolution of any issues of interpretation of the legislation.</li> <li>▪ Ensuring all discretionary decisions are exercised in accordance with the Statement of Provisions, Policies and Procedures.</li> <li>▪ Ensuring any changes to the Statement of Provisions, Policies and Procedures are made only after taking into account the interests of relevant persons, including the Crown, in accordance with the Act.</li> </ul>

## Schemes Administration Risks

Administration of the Schemes is carried out by Datacom in accordance with an agreement that expires on 25 April 2011. Schemes administration is heavily dependent on the information technology system owned by the Authority.

RISK	ACTION TO MANAGE
<p><b>Poor performance by Datacom Employer Services Limited</b></p>	<ul style="list-style-type: none"> <li>▪ Having a detailed schemes administration management agreement in place with Datacom, backed by a parent company guarantee.</li> <li>▪ Maintaining a close liaison with Datacom.</li> <li>▪ Monitoring Datacom's performance against the key performance standards.</li> <li>▪ Carrying out an annual survey that assesses, amongst other things, the level of satisfaction of members and employers with the service provided by Datacom.</li> <li>▪ Taking remedial action on any issues identified in the survey.</li> </ul>
<p><b>Serious information technology problems</b></p>	<ul style="list-style-type: none"> <li>▪ Ensuring any system modifications are approved by the Authority and that the system is well maintained.</li> <li>▪ Ensuring that Datacom has in place back up systems and a fully tested BCP and DRP and that systems reliability is regularly monitored. The information technology hardware and operating software were upgraded and/or replaced in December 2003 to ensure the ongoing availability of maintenance support from the suppliers.</li> </ul>



## Forecast Financial Statements

Forecast Financial Statements for the year ending 30 June 2007:

The Authority:

- Forecast Statement of Financial Performance;
- Forecast Statement of Financial Position;
- Forecast Statement of Cash Flows;
- Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows; and
- Statement of Accounting Policies.

The Fund:

- Forecast Statement of Changes in Net Assets;
- Forecast Statement of Net Assets;
- Forecast Statement of Cash Flows;
- Forecast Reconciliation of Net Changes in Net Assets to Net Operating Cash Flows; and
- Statement of Accounting Policies.

# Government Superannuation Fund Authority - Forecast Financial Statements

## Forecast Statement of Financial Performance

Estimate 2005/06 \$000		Forecast 2006/07 \$000
12,654	Transfer from the Government Superannuation Fund	12,771
702	Other revenue	556
<b>13,356</b>	<b>Total revenue</b>	<b>13,327</b>
2,263	Schemes administration	2,400
7,664	Investment management	7,664
3,429	Operating expenses	3,263
<b>13,356</b>	<b>Total expenses</b>	<b>13,327</b>

## Forecast Statement of Financial Position

Estimate as at 30 June 2006 \$000		Forecast as at 30 June 2007 \$000
-	<b>Tax payers' equity</b>	-
-	General funds	-
<b>-</b>	<b>Total tax payers' equity</b>	<b>-</b>
	Represented by	
	<b>Current assets</b>	
130	Cash	170
2,045	Receivables and prepayments	2,170
<b>2,175</b>	<b>Total assets</b>	<b>2,340</b>
	<b>Current liabilities</b>	
2,175	Payables and accruals	2,340
<b>2,175</b>	<b>Total liabilities</b>	<b>2,340</b>
<b>-</b>	<b>Net assets</b>	<b>-</b>

# Government Superannuation Fund Authority - Forecast Financial Statements - continued

## Forecast Statement of Cash Flows

Estimate 2005/06 \$000		Forecast 2006/07 \$000
	<b>Cash flows from operating activities</b>	
	<i>Cash was provided from</i>	
13,267	Government Superannuation Fund	12,646
16	Interest	11
686	Other	545
	<i>Cash was disbursed to</i>	
(14,203)	Operating expenses	(13,162)
<b>(234)</b>	<b>Net cash flows from operating activities</b>	<b>40</b>
(234)	Net (decrease) increase in cash held	40
364	Opening cash brought forward	130
<b>130</b>	<b>Closing cash balance</b>	<b>170</b>

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

Estimate 2005/06 \$000		Forecast 2006/07 \$000
-	<b>Net operating result</b>	-
	<i>Add (less) movements in working capital items</i>	
613	Decrease (increase) in receivables and prepayments	(125)
(847)	(Decrease) increase in payables and accruals	165
<b>(234)</b>	<b>Net cash flows from operating activities</b>	<b>40</b>

# Government Superannuation Fund Authority Statement Of Accounting Policies and Significant Assumptions

## 1. Reporting entity and statutory base

The Government Superannuation Fund Authority (“the Authority”) was established as a Crown entity by Section 15A of the Government Superannuation Fund Act 1956 as amended (“the Act”). The core business of the Authority is to manage and administer the Government Superannuation Fund (“the Fund”) and the GSF Schemes.

The Fund was established by Section 13 of the Act. It consists of various defined benefit superannuation schemes (the GSF Schemes) as prescribed in the Act. A separate financial report has been prepared for the Fund. Pursuant to Section 19H of the Act, the GSF 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.

## 2. Measurement base

The Forecast Financial Statements have been prepared in accordance with Section 142 of the Crown Entities Act 2004.

The Forecast Financial Statements are prepared on the historical cost basis. The reporting currency is in New Zealand dollars.

## 3. 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. Revenue and expenses are recognised on an accrual basis.

(b) *Goods and services tax*

The Authority is principally an exempt supplier in respect of Goods and Services Tax ("GST"), as it manages superannuation schemes. Transactions relating to the lease of levels 3 and 4 of 33 Bowen Street, Wellington are subject to GST. From 1 January 2005, GST was 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. GST is included in expenditure.

(c) *Statement of Cash Flows*

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

(d) *Taxation*

As a public authority, in terms of the Income Tax Act 1994, the Authority is exempt from income tax.

(e) *Accounting for associates*

The Authority has a 50% ownership in Annuitas Management Limited ("Annuitas"). Staff employed by Annuitas act in management and secretarial roles on behalf of the Authority. The Authority does not equity account for Annuitas as this is deemed to be immaterial.

#### 4. Changes in accounting policies

All policies have been applied on bases consistent with those used in the year ended 30 June 2006.

Accounting policies may be subject to change when the Authority implements the New Zealand equivalents to the International Financial Reporting Standards from 1 July 2007.

# Government Superannuation Fund - Forecast Financial Statements

## Forecast Statement of Changes in Net Assets

Estimate 2005/06 \$000		Forecast 2006/07 \$000
	<b>Increase in assets from:</b>	
399,302	<b>Investing activities</b>	284,291
	<b>Operating activities</b>	
12,654	Operating revenue	12,771
	<b>Operating expenses</b>	
<u>(12,654)</u>	Funding the GSF Authority	<u>(12,771)</u>
399,302	Surplus before tax and membership activities	284,291
<u>(13,469)</u>	Tax	<u>(53,277)</u>
<b><u>385,833</u></b>	<b>Surplus after tax and before membership activities</b>	<b><u>231,014</u></b>
	<b>Membership activities</b>	
690,097	Contributions - Government	577,972
74,587	Contributions - members	65,164
16,095	Contributions - Other entities	15,636
<u>(961,222)</u>	Benefits paid	<u>(782,660)</u>
<b><u>(180,443)</u></b>	<b>Net benefits paid</b>	<b><u>(123,888)</u></b>
<b>205,390</b>	<b>Net increase in net assets</b>	<b>107,126</b>
<u>3,521,408</u>	Opening assets available to pay benefits	<u>3,726,798</u>
<b><u>3,726,798</u></b>	<b>Net assets available to pay benefits</b>	<b><u>3,833,924</u></b>

# Government Superannuation Fund

## - Forecast Financial Statements - continued

### Forecast Statement of Net Assets

<b>Estimate as at 30 June 2006 \$000</b>		<b>Forecast as at 30 June 2007 \$000</b>
3,756,442	<b>Investments</b>	3,841,193
	<b>Other assets</b>	
10,000	Cash at bank	10,000
73,924	Receivables and prepayments	94,408
83,924		104,408
<b>3,840,366</b>	<b>Total assets</b>	<b>3,945,601</b>
	<b>Less</b>	
110,974	Other payables	109,283
2,594	Benefits accrued	2,394
113,568		111,677
<b>3,726,798</b>	<b>Net assets available to pay benefits</b>	<b>3,833,924</b>

# Government Superannuation Fund

## - Forecast Financial Statements - continued

### Forecast Statement of Cash Flows

<b>Estimate</b> <b>2005/06</b> <b>\$000</b>		<b>Forecast</b> <b>2006/07</b> <b>\$000</b>
	<b>Cash flows from operating activities</b>	
	<i>Cash was provided from</i>	
699,422	Contributions - Government	589,818
74,317	Contributions - members	64,417
18,411	Contributions - other entities	18,047
83,080	Interest	126,524
827	Other	842
	<i>Cash was disbursed to</i>	
(960,113)	Benefits payments	(782,003)
(20,716)	Income tax	(57,264)
(13,267)	Operating expenses	(12,646)
<b>(118,039)</b>	<b>Net cash outflows from operating activities</b>	<b>(52,265)</b>
	<b>Cash flows from investing activities</b>	
	<i>Cash was provided from</i>	
6,356,528	Maturities and sales of investment assets	6,301,382
101	Mortgage repayments	40
	<i>Cash was disbursed to</i>	
(6,246,312)	Purchase of investment assets	(6,249,157)
<b>110,317</b>	<b>Net cash inflows from investing activities</b>	<b>52,265</b>
(7,722)	Net (decrease) increase in cash held	-
17,722	Opening cash brought forward	10,000
<b><u>10,000</u></b>	<b>Closing cash balance</b>	<b><u>10,000</u></b>



# Government Superannuation Fund

## - Forecast Financial Statements - continued

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

<b>Estimate</b> <b>2005/06</b> <b>\$000</b>		<b>Forecast</b> <b>2006/07</b> <b>\$000</b>
205,390	<b>Net increase in net assets</b>	107,126
	<i>Non-cash items</i>	
10,488	Increase (Decrease) in deferred tax liability	(7,880)
(13)	Capitalised interest	(12)
<u>4</u>	Mortgage management expense	<u>3</u>
10,479		(7,889)
	<i>Add (less) movements in working capital items</i>	
151,345	Decrease (increase) in receivables and prepayments	(27,915)
(16,442)	(Increase) decrease in tax receivables	3,893
(265,505)	(Decrease) increase in other payables	6,189
<u>(132)</u>	(Decrease) increase in benefits accrued	<u>(200)</u>
(130,734)		(18,033)
	<i>Add (less) items classified as investing activities</i>	
441	Decrease (increase) in accrued interest portion of fixed interest bonds	441
(316,651)	Decrease (increase) in net market values of investment assets	(157,314)
(150,971)	(Decrease) increase in investment receivables	29,206
<u>264,007</u>	Decrease (increase) in investment payables	<u>(5,802)</u>
(203,174)		(133,469)
<u><b>(118,039)</b></u>	<b>Net cash outflows from operating activities</b>	<u><b>(52,265)</b></u>

# Government Superannuation Fund - Statement Of Accounting Policies

## 1. Reporting entity and statutory base

The Government Superannuation Fund (“the Fund”) was established by Section 13 of the Government Superannuation Fund Act 1956 (“the Act”). It consists of the assets held in respect of various defined benefit superannuation schemes (the GSF Schemes) prescribed in the Act. Pursuant to Section 19H of the Act, the GSF Schemes are registered under the Superannuation Schemes Act 1989.

The Fund is managed by the Government Superannuation Fund Authority (“the Authority”). The Authority was established as a Crown entity by Section 15A of the Act.

## 2. Measurement base

The Forecast Financial Statements have been prepared as required by Section 15N of the Act.

The Forecast Financial Statements are prepared on the historical cost basis. The reporting currency is in New Zealand dollars.

## 3. 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) *Reporting requirements*

The Forecast Financial Statements have been drawn up in accordance with Financial Reporting Standard FRS-32: *Financial Reporting by Superannuation Schemes*, and with the provisions of relevant legislative requirements.

(b) *Valuation of term investments*

Term investment assets are valued as follows:

<u>Type</u>	<u>Method</u>
NZ Government Stock	Net market value
Equities	Net market value
Other bonds and debt securities	Net market value
Local Authority bonds	Net market value
Mortgages	Realisable value
Property securities	Net market value

(c) *Valuation of interest rate contracts*

Cross currency and interest rate swaps are stated at net market value.

(d) *Financial instruments*

The Fund may invest in various derivative financial instruments with off-balance sheet risks to manage, lessen, hedge or protect against movements in the value of underlying assets. These include foreign exchange contracts, swaps, financial futures and options.

Instruments not taken up as hedging transactions are valued at market rates ruling at the reporting date. Off balance sheet instruments taken up as hedges are accounted for on the same basis as related exposures.

The following methods have been used to estimate the fair value of each major class of financial instrument:

<b>Financial instrument</b>	<b>Method</b>
Cash and call deposits	Realisable value
Short term investments	Net market value
Term investments	Net market value
Mortgages	Realisable value
Receivables and prepayments	Realisable value
Creditors	Realisable value

(e) *Investment income and expenses*

Dividend income is recorded on the ex-dividend date. Interest, rent and operating revenue are 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, are included in the Forecast Statement of Changes in Net Assets.

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.

(f) *Taxation*

Income taxation expense includes both the current year's provision and the income tax effects of timing differences, calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised where there is virtual certainty of realisation.

*(g) Statement of Cash Flows*

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

*(h) Consolidation*

The Forecast Financial Statements include the Judges' Superannuation Account and the Parliamentary Superannuation Account.

#### 4. Changes In accounting policies

There are no significant changes in accounting policies. All policies have been applied on bases consistent with those used in the year ended 30 June 2006.

Accounting policies may be subject to change when the Authority implements the New Zealand equivalents to the International Financial Reporting Standards for the Fund, from 1 July 2007.



