

# annual report 2002-03



# our vision

“To be the Fund of Choice for the Public Sector.”

In support of our vision, the GESB pursued strategies to:

- optimise the level of return from the funds under management;
- develop a comprehensive range of superannuation and retirement products;
- provide a superior level of service;
- work with stakeholders for our members; and
- continually improve the way we do business and deliver services.

TO THE HON NICK GRIFFITHS LLB MLC

Minister for Housing and Works; Racing and Gaming; Government Enterprises; Land Information.

In accordance with Section 66 of the *Financial Administration and Audit Act 1985*, we hereby submit for your information and presentation to Parliament, the Annual Report of the Government Employees Superannuation Board for the financial year ended 30 June 2003.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985*.



P.J. HARVEY  
CHAIRMAN

29 August 2003



M. DOLIN  
EXECUTIVE DIRECTOR

29 August 2003

# Contents

## Report on Operations

The GESB profile	2
The year at a glance	3
Chairman and Chief Executive Officer's foreword	5
Strategic management – Dynamic management in a dynamic environment	7
Output 1 – A range of competitive products that are attractive and relevant to the GESB's clients	8
Output 2 – Client focused service	13
Output 3 – Active external support	15
Output 4 – Appropriate and progressive organisational culture	17
Key member related statistics	19
Composition of the Board	20
Corporate governance statement	22
Organisational structure	27
Compliance requirements	28
Specific compliance requirements	29

## Financial Report 2002/03

Performance Indicators	32
Financial Statements	43
Appendices:	
1. Schemes design	94
2. Investment schedules	99
3. Outcome, outputs and performance information	105
4. Legislation administered	109
5. 2003/04 Budget Estimates	110
Publications	
Contact Details	

# The GESB Profile

**As the largest Western Australian based superannuation fund manager, the Government Employees Superannuation Board manages over \$3.3 billion and has a membership of over 260,000 current and former public sector workers.**

The GESB's role and functions have been established by the *State Superannuation Act 2000* and *State Superannuation Regulations 2001*. The Act requires the GESB to act in the best interests of its members. The statutory authority assists the Board to perform its functions which include:

- Managing the Government's Superannuation Fund;
- Administering the schemes comprising the Fund;
- Providing members with a range of superannuation and retirement products and services; and
- Providing information, advice and assistance to the Minister and the Treasurer regarding superannuation and related issues.

The following six schemes are administered by the GESB.

- West State Super is an accumulation type superannuation scheme established to comply with the provisions of the Commonwealth's *Superannuation Guarantee (Administration) Act 1992*. It is open to new members.
- Gold State Super is a defined benefit, lump sum superannuation scheme that has been closed to new members since 1995.

- The Pension Scheme was the Government's original superannuation scheme and has been closed to new members since 1986. It provides a salary linked unit based pension for retiring members.
- The Provident Account, is a lump sum scheme for persons who were not eligible to join the Pension scheme. This scheme was also closed to new members in 1986.
- Retirement Access is a lump sum draw down facility that enables retiring members to keep their funds in a superannuation environment with the GESB, while retaining the ability to access their funds by drawing down lump sums.
- Retirement Income is an allocated pension that enables retiring members to keep their funds in a superannuation environment with the GESB, while retaining the ability to access their funds via periodical payments.

Various avenues are provided to members to access the GESB. The GESB's offices are conveniently located in Perth's CBD where it has a call centre staffed to answer members' queries. In addition, regular information seminars are held for members in metropolitan and regional areas of the State, which facilitate direct interaction with members.

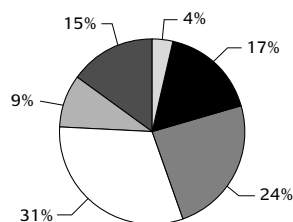
The GESB continues to respond to the dynamic and changing superannuation environment. It regularly updates its strategic direction to meet the emerging challenges of member demands through providing high levels of service to members and maintaining effective relationships with stakeholders, including Government and employer agencies.

The GESB adopts a rigorous, considered and balanced investment approach using some of the world's pre-eminent investment managers, whilst at the same time providing the majority of members with an opportunity to choose their preferred investment strategy. As an indicator of the success of this approach, the GESB's overall investment performance continues to exceed that of industry and peer average performance.

A summary of the GESB performance in all areas of operations for 2002/03 is provided below, and are further detailed in the remainder of this Annual Report. The GESB's operations are audited by the Auditor General.

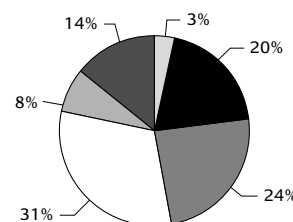
# The Year 2002/03 at a Glance

## PORTFOLIO COMPOSITION 2001/02



■ Cash	4%
■ Fixed Interest	17%
■ Australian Equities	24%
■ Offshore Equities	31%
■ Indexed Bonds	9%
■ Property	15%

## PORTFOLIO COMPOSITION 2002/03



■ Cash	3%
■ Fixed Interest	20%
■ Australian Equities	24%
■ Offshore Equities	31%
■ Indexed Bonds	8%
■ Property	14%

## Investment Performance

### Highlights

- The West State Super Balanced Plan, the Plan frequently adopted by members, achieved a gross return of 1.76%, exceeding the Plan's industry benchmark of 1.16%.
- Funds under management increased by \$0.3 billion to a total of \$3.3 billion representing a 10% increase.
- All the Readymade West State Super Investment Plans exceeded industry benchmark returns.
- The performance of the Gold State Super and Pension schemes also exceeded their industry benchmarks.
- Investment Plans were established for the two new retirement products: Retirement Access and Retirement Income.

### Progress against Priorities

- Further diversification in asset class portfolio managers was achieved through the appointment of additional small capitalisation managers and listed property managers.
- Tight control over investment expenses was maintained, as measured by the Management Expense Ratio (MER).
- A private equity investment strategy was approved by the Board for development.

## Superannuation Products

### Highlights

- Two retirement products were made available to members for the first time. Retirement Access and Retirement Income offer members the opportunity to keep their funds in the GESB after leaving the public service or retiring.
- Partner contributions can now be made into West State Super. Members can make superannuation contributions for their married, defacto or same sex partners.
- Member satisfaction with West State Super remained steady at 66% while satisfaction with Gold State Super was measured at 76%.
- The option to make voluntary contributions was extended to all members.

### Progress against Priorities

- Retirement Access, a product which provides a facility to 'draw down' superannuation funds after retirement was introduced.
- Retirement Income, an allocated pension product, was introduced.
- Partner Contribution accounts were introduced.

## Client Focused Service

### Highlights

- Member satisfaction with the service provided by the GESB remained steady at 78%.
- Employer satisfaction with the service provided by the GESB remained steady at 88%.
- As part of the ongoing focus on employer relationship management, the GESB increased personal contact and service to employer agencies. Over 700 visits were undertaken compared to 369 in the previous year.
- The GESB introduced the "Super Information Kiosk". The kiosk enables members to access the latest information about our products, services and their account balance.
- West State Super historical contributions data was placed on a secure web site, for employer agencies to view on behalf of their employees and to ensure that data submitted by employers is correct.
- Member contact increased with 384 member education seminars conducted during the year compared to 242 in the previous year. 7,896 members attended these seminars.

### Progress against Priorities

- Personal contact with members and employers was increased.
- New features for users, including weekly unit price reporting, were provided on the web site.
- The Customer First program was developed, encompassing both Customer Relationship Management and e-Business strategies.
- Members and employers were informed of new products and ongoing services.

# The Year 2002/03 at a Glance

## Active External Support

### Highlights

- The Treasurer formally endorsed the GESB's Statement of Corporate Intent for 2002/03 and the Strategic Development Plan for 2002/03 to 2006/07.
- The Superannuation Consultative Group continued to deal with complex policy issues, including superannuation, family law and salary packaging.
- The GESB monitored the superannuation environment and advised on policy issues that were important and relevant for both members and the State.
- New regulations were introduced to enable the supply of new products and services to members.

### Progress against Priorities

- The GESB developed and gained Ministerial agreement to a Strategic Development Plan for 2002/03 to 2006/07 and a Statement of Corporate Intent for 2002/03.
- Regulations were developed to enable the supply of new products and services to members.

## Appropriate and Progressive Organisational Culture

### Highlights

- A People Focus Strategy was initiated, to drive the effective delivery of the GESB's Strategic Direction.
- A new financial management system was implemented to improve the accounts payable, accounts receivable, general ledger, fixed assets and cash management processes.
- A new Program Management Framework was introduced.
- A three-year Strategic Information Technology Business Plan was developed.
- The GESB 2001/02 Annual Report was awarded the Margaret Nadebaum Gold Award at the 2002 WS Lonnie Awards and a Bronze Award at the 2002 Australasian Reporting Awards.

### Progress against Priorities

- The primary computing infrastructure was relocated to a Class 1 Data Centre.
- The GESB's Equal Employment Opportunity and Diversity Plans were revised.
- The implementation of the three-year Strategic Information Technology Plan commenced.
- The Leadership Development Program commenced during 2002/03.

### General

- Overall member satisfaction with the GESB decreased slightly, 59% compared to the previous year's result of 62%.
- The number of member accounts in the Fund decreased slightly (about 7000) to 260,690. This was mainly due to rationalisation of member accounts and retiring members.

# Joint Chairman and Chief Executive Officer's Foreword



Chief Executive Officer, Michele Dolin and Chairman, Phil Harvey

*“With the launch of Retirement Access and Retirement Income, the GESB now offers members an opportunity to keep their funds with the GESB after retirement.”*

We are pleased to present the Annual Report for the GESB, our first since being appointed in March 2003 and July 2003, respectively. The overview of the year's activities and outcomes is provided both to meet our reporting obligations to the Minister and the Government, and for the interest of members.

The investment results for the year ended 30 June 2003 reflect a difficult global economic and political environment. For the GESB, the first three-quarters of the year resulted in generally negative returns, with more positive results in the final quarter lifting the annual returns generally to positive territory. All of the Readymade Investment Plans provided annual returns in excess of their respective benchmarks.

The majority of members received positive investment returns as a result of effective performance of our investment strategy. Over 92% of West State Super members invest in the Balanced Plan, which performed strongly against similar options offered by other funds, around half of which reported negative returns.

The Balanced Plan net investment return of +1.48% considerably exceeded the median Balanced return of -1.7% in the 2002/03 Mercer Pooled Fund survey and the average Balanced return reported in the InTech Performance Survey of -0.25%.

In response to strong member demand, two retirement options were added to the existing range of superannuation products. With the launch of Retirement Access and Retirement Income, the GESB now offers members an opportunity to keep their funds with the GESB after retirement.

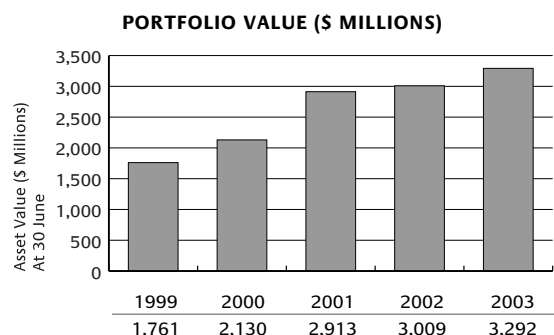
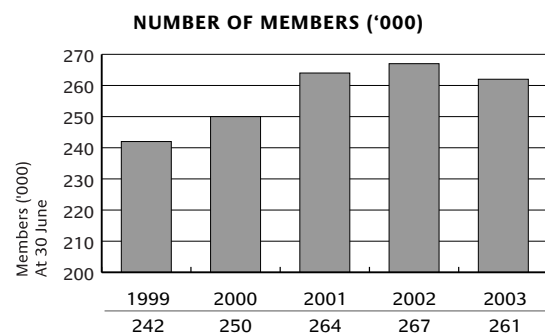
In addition, legislative changes in 2002/03 means that members can now open one of the GESB's competitive superannuation accounts for their married, defacto or same sex partners. Through partner contributions, state public sector workers can provide access for their partners to all of the GESB's superannuation and retirement products and services as a member in their own right.

In December 2002, a program of one-on-one information sessions with members at their workplaces was introduced and the number of free member seminars conducted was increased. The response from members to these information sessions has been very positive.

The links with employer agencies are vital to the proper management of members' superannuation. To ensure that the level of service offered to employer agencies was kept at a high level, the GESB offered regular employer briefings, seminars and education programs.

Member services were further enhanced when a new web site was established during the year to enable the public sector employers of the GESB's members to view and download West State Super historical contribution details between July 1992 and June 2000 on line on behalf of members.

Operational performance was supported by the introduction of a new Enterprise Management Accounting System in July 2002 with improved financial management and reporting.



During the year, a new Strategic Plan for the period 2003/04 to 2007/08 was developed through a process of research and consultation, which included extensive analysis of industry, competitor and member information. This was an involved and comprehensive process and has resulted in a greater understanding of the drivers that shape and influence the superannuation industry.

There were some significant changes to the composition of the Board during the year. We take this opportunity to thank Fiona Harris, who retired as Chairman on 6 March 2003, for her contribution over the past five years. The very positive changes in the GESB during that time, particularly in the areas of corporate governance and member services, were due in no small part to her tireless efforts.

Other Board members to leave during the year, or shortly thereafter, were Bill Hassell and Diane Robertson. Bill had been a Board member for three years and Diane for nine years. Our sincere thanks go to them for their contributions to the GESB during their terms as Board members.

Derek Spray joined the Board as Member Director on 4 July 2003 and we look forward to his contribution over the next three years. Michele Dolin commenced as Chief Executive Officer and an Employer Director of the GESB on 28 July 2003 for a five year term.

Peter Farrell, who had been the GESB's Executive Director since 1992, retired on 4 July 2003 after a long and very distinguished career of public service to the people of Western Australia. Peter made an invaluable contribution to the GESB, in all aspects of its operations, and we acknowledge his contribution with much gratitude.

Finally, we take this opportunity to thank the Minister for Government Enterprises, the Hon Nick Griffiths and his staff for their support and guidance during the year.

Phillip Harvey  
Chairman

Michele Dolin  
Chief Executive Officer

# Strategic Management

## Dynamic Management in a Dynamic Environment

### Our Vision

To be the Fund of Choice for the Public Sector.

### Government Required Outcome

The Government Employees Superannuation Fund and Schemes are managed in the best interests of members.

### Our Mission

To provide quality superannuation services to the Western Australian Public Sector.

The GESB's Government Desired Outcome, as specified in the *State Superannuation Act 2000* and the *State Superannuation Regulations 2001*, is to manage the State's superannuation fund and its schemes in the best interests of members. The GESB is also required to provide information and advice to our Minister and the Treasurer. The GESB's Government Outcome statement, vision and mission are stated in the table below.

This Outcome has been pursued for the past several years using four strategic outputs, which are also described below. This Annual Report provides a summary of performance against the outputs including performance results and significant achievements. The results reflect a high standard of performance in relation to these outputs. The majority of members continued to receive above-industry-average investment returns and all clients, including members and employers, continued to receive high levels of customer service.

During the year, the GESB reviewed its strategic direction. It identified objectives to reflect members' changing needs and its status as a Government Business Enterprise. These objectives relate to improving the range of superannuation products, increasing member contributions and seeking to achieve a dynamic, responsive, viable and sustainable organisation.

The table below reflects the structure of the GESB's Corporate Strategic Plan. It was used as the basis for performance reporting during the year. It is also the basis for the structure of this Annual Report.

#### Desired Output 1 - External

**A range of competitive products that are attractive and relevant to the GESB's clients.**

Action: Develop a range of products that meet our members' needs.

#### Desired Output 2 - External

**Client focused service.**

Action: Provide services that exceed client expectations and needs, and that cultivate client loyalty and satisfaction.

#### Desired Output 3 - Internal

**Active external support.**

Action: Gain support from stakeholders who will actively endorse and support our products and initiatives and promote the GESB as the 'Fund of Choice'.

#### Desired Output 4 - Internal

**Appropriate and progressive organisational culture.**

Action: Develop a progressive culture that enables the GESB to meet client needs.

# Output 1

A range of competitive products that are attractive and relevant to the GESB's clients

## Sound Investment Performance

A recovery in equity markets towards the end of the year resulted in an improvement in the GESB's investment returns in the year to 30 June 2003 compared to the previous financial year.

The total investment portfolio increased in size over the year, from \$3.0 billion to \$3.3 billion with \$1.6 billion attributable to the defined benefit schemes and the balance representing West State Super, Retirement Income and Retirement Access schemes.

It should be noted that the GESB's investment benchmarks used throughout this Annual Report, were based on industry standards and recommended by its asset consultant. Details of the benchmarks can be found at Appendix 2.

### West State Super Diversified Plan

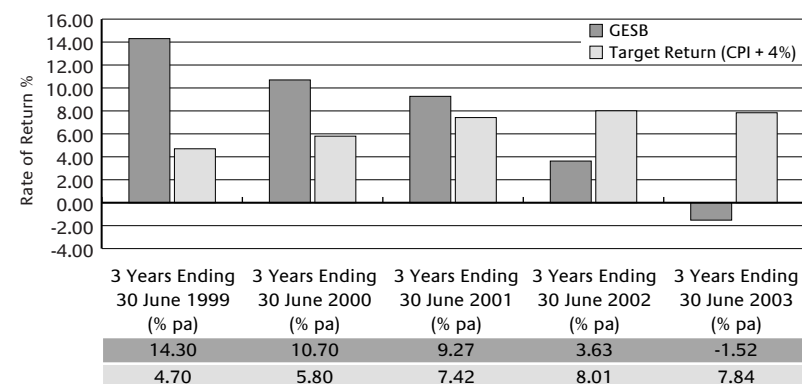
#### WEST STATE SUPER DIVERSIFIED PLAN PERFORMANCE (GROSS) – 1 & 2 YEARS (% PA)

	Cash	Cons.	Balanced	Growth
Plan 1 Yr	5.28%	5.75%	1.76%	-0.86%
Benchmark 1 Yr	4.97%	5.47%	1.16%	-1.60%
Plan 2 Yrs	4.90%	3.87%	-0.42%	-3.31%
Benchmark 2 Yrs	4.82%	3.47%	-1.04%	-4.02%

Within the West State Super scheme, the Balanced Plan (the predominant Plan adopted by members) produced a gross return of 1.76%. This represents a marked turnaround from last year's negative return and was achieved despite another challenging and volatile year in financial markets. On a relative basis, the Balanced Plan exceeded its benchmark by 0.60%. In addition, the Balanced Plan's net return compares very favourably to a survey of leading industry peer funds, which achieved a median return of -1.7%<sup>1</sup>.

### Gold State Super and Pension Scheme

#### GOLD STATE SUPER AND PENSION SCHEME – ROLLING 3 YEAR PERFORMANCE



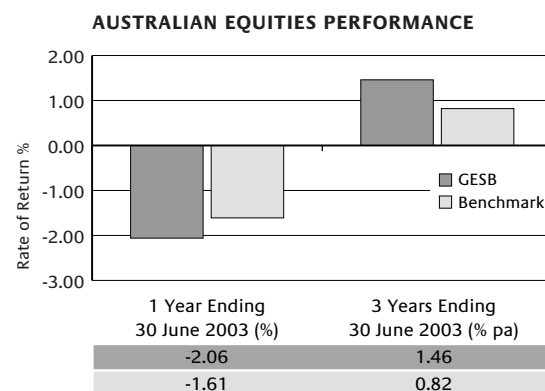
Gold State Super and the Pension scheme invest in a common fund. That fund achieved a return of -1.14%, exceeding its composite benchmark return by 0.11%. This return is pleasing considering the median peer Balanced plan reported a lesser return in 2003<sup>1</sup>. The result was due in part to an overweight property allocation. In addition to the performance benchmark, the Gold State Super and Pension scheme also have the investment objective of exceeding the CPI by 4% per annum over rolling three year periods, as shown in the graph above. As can be seen in the graph, during periods when a negative investment return environment has prevailed, it has been considerably more difficult to meet this objective.

<sup>1</sup> Mercer Pooled Fund Survey - June 2003. Return of median Balanced Pooled Fund net of fees and taxes.

## Asset Class Performance

The performance of the various asset classes are set out below. Details of asset class performance over the last five financial years, relative to the index benchmarks, are shown in Appendix 2.

### Australian Equities

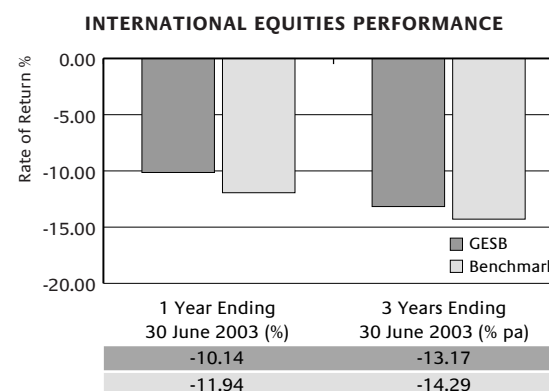


Despite a final quarter rally of 6%, the Australian equity market ended the 2002/03 year with a modest negative return. The first half of the year was characterised by volatile, but range-bound trading with the market lacking clear macro direction from offshore. Performance picked up markedly towards the end of the year, following the Iraq conflict.

At 30 June 2003, the GESB's allocation to Australian equities was \$794 million or 24% of the investment portfolio.

During the year the GESB terminated a small capitalisation manager. As part of its ongoing endeavour for portfolio diversification, two new specialist small capitalisation managers were appointed. As at 30 June 2003, the Australian equity portfolio comprised three externally managed active broad market portfolios benchmarked to the S&P / ASX 200 Index, two externally managed active portfolios of small capitalisation stocks benchmarked to the S&P / ASX Small Ordinaries Index, and an internally managed passive portfolio benchmarked to the S&P / ASX 100 Index.

### International Equities



Despite the challenges of another negative and volatile year in international equities, the GESB's fund managers performed very well in relative terms, exceeding the benchmark by 1.80%.

Most of the decline in international equities was experienced early in the 2002/03 financial year and was attributable to concerns about global and political instability. The build-up to the Iraq conflict gave rise to a further sell-off before a market rally in the final quarter of the year.

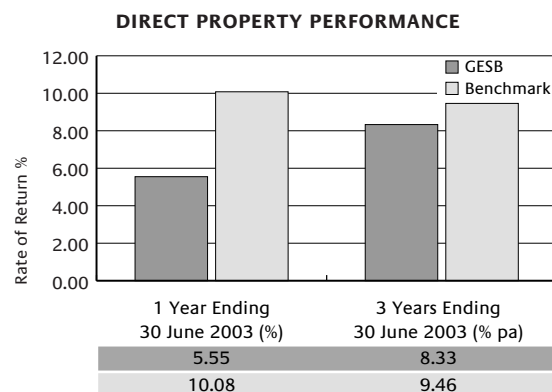
During the year the GESB terminated an emerging markets manager. As at 30 June 2003, the international equity portfolio comprised a core passive manager, two active US equity managers, and two active international ex-US equity managers.

At year's end, \$1,026 million or 31% of the portfolio was invested in international equities.

The GESB maintains a permanent foreign currency hedge over approximately 50% of the international equities portfolio. The hedge, which is managed by the GESB's passive international equities manager, provided partial insulation from the strongly appreciating Australian dollar during the 2002/03 financial year.

A private equity strategy for both Australian and International Equities was approved in principle by the Board during the year, but was not implemented prior to 30 June 2003.

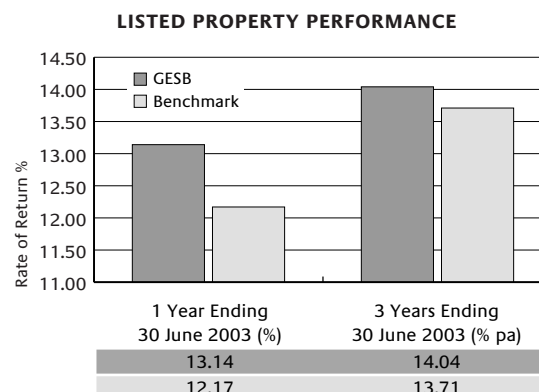
## Direct Property



The GESB's direct property portfolio performed well relative to other growth asset classes, but it did not keep pace with the more diversified property benchmark.

One of the Board's property assets, 10 Kings Park Road, was divested early in the financial year.

## Listed Property



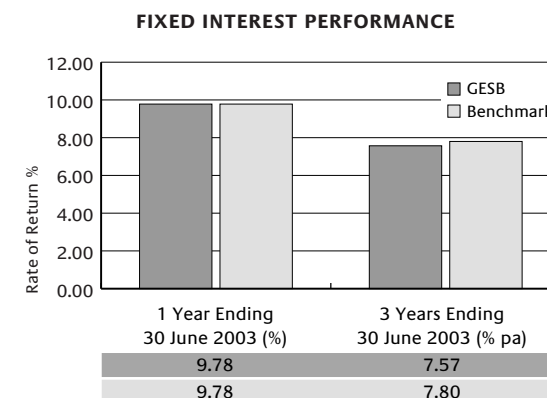
*Note: The performance of listed property is reported over a two year period and not a three year period as this asset class was commenced in June 2001.*

The listed property sector again led all major asset classes, maintaining a three year run of double digit returns. For the most part, the sector's gains have reflected concurrent declines in long-term bond yields. However, towards the end of the year the upward momentum was sustained by takeover activity rather than any fundamental interest rate factors.

During the year a listed property trust manager was terminated and two new managers introduced. At 30 June 2003, the portfolio comprised of two active managers and a passive manager.

The GESB's fund managers performed solidly, achieving an aggregate return of 1.0% in excess of the asset class benchmark.

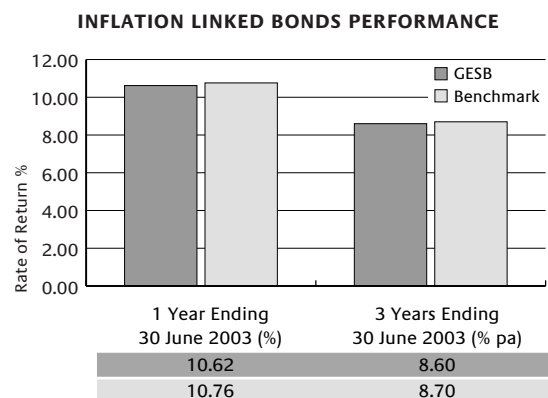
## Fixed Interest



The Australian fixed interest market experienced a positive year with yields generally declining by about 1% across the yield curve. The Commonwealth Government 10 year bond yield contracted from 6.06% to 5.02%, falling as low as 4.75% late in the year. The strength of the Australian bond market was due in no small part to the general weakness and volatility in the equity market and the relative appeal of Australian bonds to offshore investors.

The fixed interest portfolio accounts for 20% of the GESB's investment assets or \$645 million. As at 30 June 2003, it comprised of two externally managed active portfolios, a financing arrangement over a Western Australian Education Department building, and an investment in SMHL Origination Fund No. 3. The portfolio returned 9.78% equalling the asset class benchmark.

## Inflation Linked Bonds

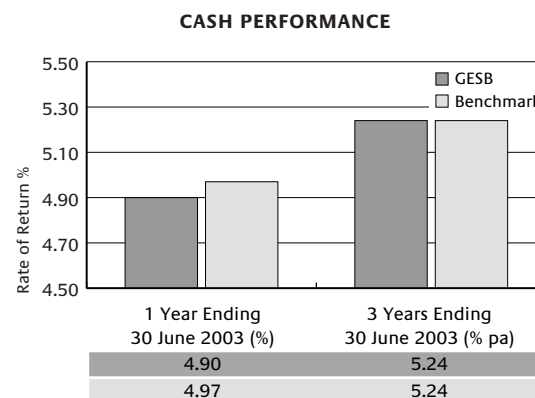


Having lagged the nominal market for most of the year, the inflation linked sector gained a little over 4% in the final quarter of the year to close with a return of almost 10.8%. Much of the performance came following the Federal Government's Budget announcement that it would cease issuing inflation linked bonds.

The portfolio returned 10.62% relative to the market benchmark of 10.76%. The modest under-performance reflected costs associated with the ongoing transition from internal to external portfolio management early in the year.

The GESB's inflation linked bonds are managed under separate active and passive portfolios.

## Cash



The cash portfolio slightly under-performed its benchmark, returning 4.90% for the year. It amounted to \$107 million or 3% of investment assets at year's end. The GESB retained a specialist passive cash mandate and late in the year introduced a diversified cash strategy to enhance future returns.

### Looking Ahead

- Consideration will be given to the possible introduction of international small capitalisation equities.
- The property diversification strategy will be continued.
- A private equity strategy will be progressed.
- The GESB will complete a review of global bonds and credit.

# Superannuation and Retirement Products

Our members have diverse and individual financial needs. During the year, the GESB responded to those needs by providing a range of progressive and flexible products for members.

## More Retirement Options for our Members

In response to strong member demand, the GESB added two retirement options to complement its superannuation product range. Until recently, members were unable to keep their super savings with the GESB following retirement. During the year, the GESB offered members a way to keep their money in the GESB after retirement.

Retirement Access was launched in July 2002. It allows members to invest their money in the Fund with the option to withdraw lump sums as required. With the launch of Retirement Income on 19 March 2003, members could also secure an allocated pension providing a flexible, regular income stream. Retirement Income and Retirement Access offer members a single low fee, a choice of Investment Plan, and full access to their money at any time.

The GESB's new retirement options enable members to stay with the GESB after retirement knowing their investments are secure, while obtaining sound investment returns.

## More Options for Members and their Partners

On 13 March 2003, the GESB announced a new service for members – Partner Contributions – so that members could make superannuation contributions on behalf of their married, defacto or same sex partners.

Partner Contributions have enabled members to grow their joint retirement savings with their partner and, in many cases, receive a number of tax benefits. It also provided access for their partners to all of the GESB's superannuation and retirement products and services as a member in their own right.

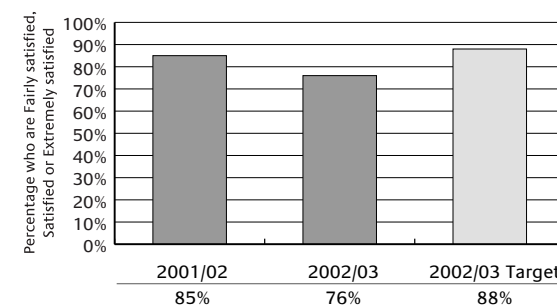
During the year, the State Government approved changes to the scheme rules to allow members who leave or have left the WA State Public Sector to make voluntary contributions to their superannuation. Prior to this change, members who ceased working for the State Public Sector could no longer actively make voluntary contributions to their super with the GESB. This change to the legislation effectively meant that from June 2003 the GESB could accept personal contributions from all members who have an unpaid account in the GES Fund.

Other amendments to the Fund rules during the year were designed to assist members in the event of unforeseen circumstances, such as division of super entitlements should there be a marriage breakdown or early release of super payments on compassionate grounds.

## More Responsive to Members' and Employers' needs

Market research was conducted during the year with both members and employer agencies, enabling the GESB to monitor perceptions of its performance. The results of the market research highlighted the need for the GESB to be more responsive to the needs of its members.

## GOLD STATE SUPER MEMBER SATISFACTION WITH THEIR SCHEME



## Looking Ahead

- The GESB will continue to develop progressive, secure and flexible products to suit the changing needs of members during their working life and upon retirement. In 2003/04, the GESB will implement the MY Plan investment option into both Retirement Income and Retirement Access.

# Output 2

## Client Focused Service

During the year, the GESB continued to provide high levels of client service, which was reflected in the service satisfaction results from the two main client groups - members and employers. The amount of client contact increased over the previous year and the timeliness of service was maintained.

### **Improved Services for Members**

A greater focus on personal contact and education of members continued in 2002/03, with 1,404 member interviews conducted and 7,896 members participating in the GESB's education program. It included seminars on investment education, retirement options, and retirement planning, as well as scheme-specific topics. Induction seminars for new members were also conducted regularly at employer workplaces.

'Super Information Kiosk' was launched during the year. It is a program of one-on-one information sessions with members conducted at employer workplaces. After its inception, there was a steady increase in the number of sessions offered and in member attendance. In addition, a new web site was launched which provided easier navigation for members. It included new features such as West State Super weekly unit prices and on-line seminar bookings.

A dedicated team was established within the Member Services Centre to deal with enquiries received concerning the changes in Family Law implemented during the year. The team received and actioned 446 requests from members and non-member partners for information about this matter.

In the Superannuation Operations area, there was an increased focus on reviewing processes and procedures to ensure work was processed in a timely and accurate manner and to contain costs.

### **Employer Relationship Management**

As part of the ongoing focus on employer relationship management, the Employer Service Team increased personal contact and service to employer agencies. Greater emphasis was placed on visits to employer agencies. Over 700 visits to employer agencies were completed, representing an increase of over 330 compared to the previous year. Other activities included service promise visits, briefing sessions, employer representative forums, agency reviews, and the distribution of new member induction kits to employers.

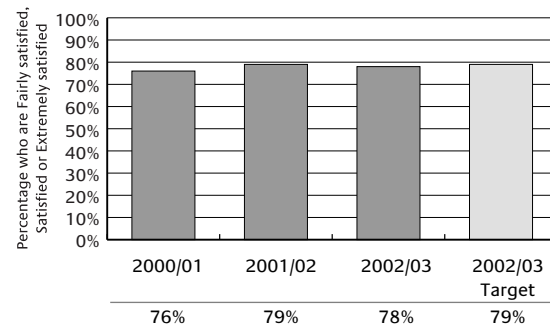
Employer agencies also continued to be provided with publications of 'HR Super Star' and 'Super Smart'. 'HR Super Star' is a publication aimed at human resource managers and includes issues such as salary packaging and planning for retirement, whereas 'Super Smart' provides advice to payroll staff and covers operational issues, such as payroll processing and superannuation guarantee information. A new secure web site facility was developed to allow employer agencies to view West State Super historical contributions details on line on behalf of their employees, for the period 1 July 1992 to 30 June 2000.

### **High Level of Employer Satisfaction Maintained**

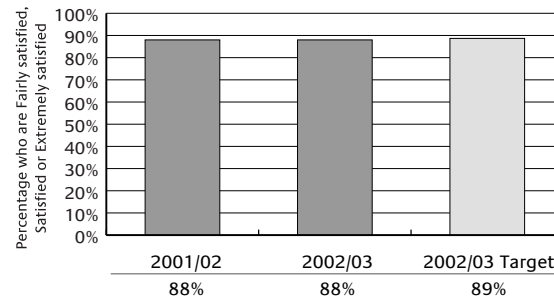
A survey of employer agencies was conducted in November 2002 to determine their levels of satisfaction with the GESB service. Following significant increases in levels of satisfaction with service over the previous two years, the level of satisfaction with the GESB service plateaued in 2002/03 at 88%. Employer satisfaction was generally highest for employer contact activities such as employer briefings, seminars and education programs. A single point of contact, provided through Employer Relationship Managers, courtesy of staff and their willingness to resolve issues continued to generate improvements in employer satisfaction.

During the year increased emphasis was placed on providing a broader range of services to regional clients. Consultative meetings were held with employer representatives in a number of regional centres, which helped to fine-tune the strategy and prioritise key activities from a client perspective. This included an increase in the number of member information sessions. A total of 32 regional workplace seminars were conducted covering all regional areas. In addition, a number of retirement seminars were held in regional areas for the first time.

#### MEMBER SATISFACTION WITH GESB SERVICE



#### EMPLOYER SATISFACTION WITH GESB SERVICE



*Note: The 2002/03 target of 68% for Employer Satisfaction with the GESB Service reported in the 2001/02 Annual Report is incorrect. The correct target should have been 89%.*

#### ... And if There Is a Problem

Confidential investigations were conducted into every complaint received, and a response was provided on completion of the investigation. All complaints were monitored and evaluated.

#### Looking Ahead

- The GESB will continue to improve its web site facilities.
- Regular employer briefings will continue.
- The information collected from the complaints received will be used to assist in improving the delivery of products and services.
- The Customer First program, an e-Business and Customer Relationship Management initiative, will be implemented.

# Output 3

## Active External Support

### Working with Stakeholders for Members

The GESB continued to work with Commonwealth and State agencies, unions and employers on whole of Government superannuation issues that could affect its members or the State. The GESB also monitored the legislative and policy environment and consulted on, and progressed changes to, legislation and regulations.

As part of the GESB's commitment to being up to date and aware of all pertinent issues, the GESB carried out extensive research and intelligence gathering, analysed, and commented on the superannuation environment as it affected the GESB and the State.

This environmental scanning enabled the GESB to keep abreast of contemporary policy issues that were of importance for both its members and the State. This year the issues included:

- Choice of superannuation fund, portability, surcharge reduction and co-contributions legislation;
- Senate Committee reports on planning for retirement, adequacy of tax arrangements for superannuation and the taxation treatment of overseas transfers for members of funds;
- Proposed Commonwealth policies on safety of superannuation monies and superannuation splitting; and
- Reports by regulators on topics such as the standard of financial planning advice available in Australia and guidelines for the superannuation industry on using performance figures in advertisements.

Better retirement outcomes for the GESB's members and due consideration of Commonwealth changes to superannuation policy resulted from this work with stakeholders and scanning of the environment. The GESB was also asked to assist the Department of Premier and Cabinet on Commonwealth/State issues such as international treaties affecting superannuation.

#### **Flexible Legislative Framework Results in Change**

The GESB's flexible legislative framework meant that in 2002/03 it was able to make important changes to its schemes by implementing changes to the *State Superannuation Regulations 2001*. These amendments enabled the introduction of Retirement Income in March 2003 without the need for new legislation. Another package of regulations was gazetted on 13 June 2003 to enable the payment of partner contributions (including same sex couples), voluntary contributions to West State Super by inactive members and the early release of benefits on compassionate grounds to West State Super members.

Such changes would not have been possible in the timeframe without the flexibility to incorporate changes through regulations. The process to introduce and amend the regulations required consultation with other public sector agencies and unions to ensure an open, transparent and timely process.

In December 2002, the Commonwealth changes to the Superannuation and Family Law legislation took effect to enable the splitting of superannuation benefits at the time of a relationship breakdown. The GESB liaised

with other public sector funds in Australia, the Commonwealth and actuaries, and obtained agreement on specific issues affecting Western Australia's public sector schemes.

#### **Superannuation Consultative Group**

The GESB has identified the need for a coordinated approach to be taken when addressing superannuation issues. The Superannuation Consultative Group (SCG) has met regularly since January 2001. It includes representatives from the Department of Premier and Cabinet (DPC), the Department of Treasury and Finance (DTF), the Department of Consumer and Employment Protection (DOCEP) and the Salaries and Allowances Tribunal (SAT). The SCG identifies, examines and provides comment to relevant bodies on superannuation issues. The SCG also facilitates the sharing of expertise and information between public sector agencies. During 2002/03, the SCG met three times to consider superannuation issues having a whole of Government impact, such as phased retirement and salary packaging in West State Super.

#### **Salary Packaging**

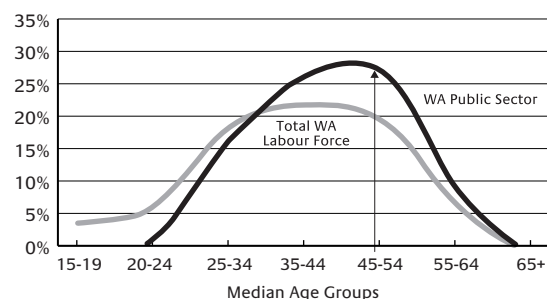
Compulsory employer contributions for members in West State Super who salary sacrifice are calculated on the member's gross salary. In the past, employer contributions were calculated on the member's net salary. This change was applied retrospectively from 17 February 2001, when the new *State Superannuation Regulations 2001* became law, and is consistent with accepted practices in the private sector.

The GESB actively informed members, unions and employers of this decision and what it meant for them. The GESB also worked with employers and the DTF to provide details of the amount of funding required for employer contribution top-ups to meet the requirements of this change. Arrangements were also made to update relevant policies within Government to reflect the new salary packaging arrangements.

### Phased Retirement

Phased retirement could provide an opportunity for mature age employees to remain in the workforce and 'ease' their way into retirement. It generally involves employees reverting to part-time and/or lower ranked positions prior to retirement. State Government departments would be able to offer older employees with valued skills phased retirement without the employee reducing his/her future superannuation entitlement. Phased retirement strategies are considered important because of the expected loss of skilled middle and senior management in the next several years due to the ageing population.

**CURRENT PUBLIC SECTOR EMPLOYEES AGE PROFILE**



The GESB joined a working group on 14 May 2003 to develop a proposal for the different options available for implementing phased retirement policies. DOCEP, together with the DPC and the GESB, commenced research as to whether there is an existing framework which could be used to implement such policies. The GESB provided feedback on the proposals and its application to each of the superannuation schemes.

### Judicial and Parliamentary Pension Arrangements

The Judicial and Parliamentary Pension arrangements continued to be administered by the GESB. Western Australia is one of only two states in Australia where the Parliamentary Pension arrangements are closed to new members. The superannuation entitlements for new Members of Parliament are now based on employer contributions to an accumulation scheme comparable to community standards.

In February 2003, State judges won an exemption from paying the Commonwealth's superannuation surcharge tax following a decision by the High Court. At the time of the decision the Commonwealth said that it would look at ways to ensure the legislation applied equally across all groups that are over the relevant income thresholds. At 30 June 2003, the States were still awaiting further information from the Commonwealth about the proposed solutions.

### New Accountability Framework

Although not required by legislation, the GESB prepared a draft Strategic Development Plan for 2002/03 to 2007/08 and draft Statement of Corporate Intent for 2003/04 and submitted these to the Minister for consideration. This is consistent with the recommendation of the Machinery of Government Taskforce, that the new accountability framework applicable to commercialised Government business enterprises should be extended to all Government business enterprises and the GESB.

Following a review of its functions, confirmation was received that the GESB is to remain a statutory authority. This review determined that the GESB met the key criteria to remain a statutory authority including the need for independence, the use of external funding to meet the objectives of the governing legislation and the need to operate within an increasingly competitive market.

### Looking Ahead

- The GESB will continue to work with central agencies, employer agencies and stakeholders.
- The GESB will investigate superannuation solutions to support phased retirement.
- The GESB will continue to progress changes to regulations to further enhance schemes to the benefit of our members.
- The GESB will continue to consolidate all superannuation policies across the Government for ease of use by employers and members.

# Output 4

## Appropriate and Progressive Organisational Culture

### Developing the GESB Team

During the year, the GESB commenced the preparation of a People Focus Strategy, to drive the delivery of the strategic direction through the most effective use of its people. This strategy will identify the implications of its corporate strategies for the ways in which the GESB leads and develops its people and will articulate a recommended organisational response to these issues. In the first phase of the project, the GESB implemented the Concept HR Management Information System to provide improved management reporting, and streamlined HR administrative processes.

As part of the People Focus Strategy, twelve staff commenced the Leadership Development Program for middle managers. This program followed several successful programs involving 44 staff during 2002/03, which resulted in the delivery of several action learning projects, which added value to the business.

The GESB worked with the CPSU/CSA to implement the GESB Agency Specific Agreement, effective 1 January 2003 and which preserved certain entitlements of GESB staff, including extended flexi-time arrangements and ongoing additional support for study assistance to support their professional development.

A major focus during 2002/03 has been on cross-training within operational teams, which enhanced the knowledge and skills of GESB staff and therefore enabled them to better support the GESB's clients. This also led to improvements in the organisation's culture, by demonstrating to staff that the GESB was committed to achieving best practice use of resources

whilst encouraging them to embrace the concepts of flexibility and adaptability.

Three administrative trainees were appointed for one year under the Central Apprenticeship Services Program, which supports the State Government's Public Sector Traineeships Employment Strategy.

#### NUMBER OF EMPLOYEES AS AT 30 JUNE:

Employees (FTE)	2001	2002	2003
Permanent	138	150	161
Contract	42	35	33
Total	180	185	194

### A Healthy and Safe Workplace

For the third year in succession in 2002/03, all staff members were offered access to influenza vaccines, as part of a series of events to improve employee wellness. The rate of unscheduled absences continued to improve compared to previous years.

There were three occurrences recorded during the year resulting in time loss of one day or more, one less occurrence than in 2001/02. This resulted in some worker's compensation payouts during the year.

#### HEALTH AND SAFETY INDICATORS:

Compensation payments	\$11,892
Occupational Health & Safety costs	\$12,475
Number of occurrences	3
Worker's compensation premium	\$58,207

### Improved Resource Management

An enhanced approach to business planning was initiated in 2002/03, following the Board's endorsement of the GESB's strategic direction. The revised process improved the alignment of outputs, activities and projects to the strategic direction. The resultant draft 2003/04 budget was incorporated into the Strategic Development Plan and the Statement of Corporate Intent.

The corporate Performance Management Framework was also improved during the year, to unify the measurement and management of performance at a range of levels within the organisation.

### Improved Financial Management

A new Enterprise Management Accounting System was implemented to improve financial management, and internal and external reporting. It also delivered on-line procurement, a user-friendly database inquiry tool, electronic interfaces, and on-line reporting and query capabilities.

The new financial system complemented and improved the capability for unitisation of the fund and cost allocation reporting. Enhancements were also made to the cost allocation methodology for superannuation schemes. A budgeting component commenced development during this year, and will eventually replace the existing budgetary system.

### **Program and Project Management**

A Program Management Framework was developed to improve the processes used to achieve strategic outcomes. The benefits management process within the Framework will facilitate the achievement of the GESB's strategic objectives through providing a common methodology for prioritising, evaluating, reporting and communicating projects, ensuring project benefits are realised, ensuring program/project benefits are aligned to the organisation's key objectives and strategies.

In addition, the benefits process will provide a more realistic view of what benefits will be achieved by a program/project, identify how benefits interrelate with others, manage benefits in accordance with the approved business case and review benefits to ensure greater accuracy in evaluating a program/project outcome.

### **Strategic Approach to Information Management**

The GESB commenced the implementation of a three-year Strategic Information Technology (IT) Business Plan during 2002/03. The Strategic IT Business Plan developed an overarching Enterprise Architecture to establish a framework to direct IT endeavours and initiatives in support of the overall corporate direction. The major components of the framework are the Ideal Business Model, the Information Architecture, the Business Systems Architecture and the Technology Architecture.

The Customer Relationship Management, e-Business and enterprise information management strategies were developed in accordance with the Strategic IT Business Plan.

The IT outsourcing alliance continued to provide scalable support through the provision of application development, technology infrastructure and IT help desk services.

### **Looking Ahead**

- Further improvements in the budgeting process will be implemented.
- Customer Relationship Management and e-Business will be initiated. The Internet based e-Business system will facilitate transaction processing with employers and provide easier account information access to members.
- The GESB plans to explore opportunities for added value through further outsourcing.

# Key Member Related Statistics

## Total fund membership at 30 June

	1999	2000	2001	2002	2003
West State Super	170,370	180,585	206,037 <sup>1</sup>	211,491	207,866
Gold State Super	41,349	39,627	29,031 <sup>2</sup>	27,703	26,287
Gold State Super Deferred	N/A	N/A	16,728 <sup>3</sup>	16,122 <sup>4</sup>	14,556
Retirement Access	N/A	N/A	N/A	N/A	248
Retirement Income	N/A	N/A	N/A	N/A	18
Non-Contributory (3%) Scheme	17,605	16,975	N/A	N/A	N/A
Pension Scheme (current contributors)	894	800	730	654	591
Pension Scheme (pension recipients)	12,228	11,892	11,665	11,350	11,119
Provident Account	6	6	6	5	5
Total	242,452	249,885	264,197	267,325	260,690 <sup>5</sup>

1. Gold State Super members who previously rolled money in from other schemes had that amount credited to their Gold State Super membership. To facilitate the introduction of the Member Investment Choice initiative (to which rolled in amounts are subject), these amounts were transferred to a West State Super account for that member. Where the Gold State Super member did not at that time have a West State Super account, a new account was established. These are included in the count of West State Super memberships.
2. In 2001, the GESB changed the structure of Gold State Super to enable separate reporting of current and deferred memberships. The count in Gold State Super prior to 2001 includes members with either a current or deferred membership, whereas in 2001 only current members are included.
3. Gold State Super Deferred includes all members with only deferred benefits arising from Gold State Super including those previously reported as Non-Contributory (3%) Scheme members.
4. The Gold State Super Deferred membership was incorrectly stated in the 2001/02 Annual Report and the amended figure is shown here.
5. The fall in membership levels in 2002/03 was due to data correction, which removed 8,000 members with zero balances.

## Inactive members at 30 June<sup>6</sup>

	1999	2000	2001	2002	2003
West State Super	81,723	88,280	99,670 <sup>7</sup>	99,695	123,357
Gold State Super Deferred	N/A	N/A	16,728	16,122 <sup>8</sup>	14,556
Total	81,723	88,280	116,398	115,817	137,923

6. Inactive members are members who have recently *not* received payments from or made contributions to their superannuation accounts.
7. Gold State Super Deferred includes all members with only deferred benefits arising from Gold State Super including those previously reported as Non-Contributory (3%) Scheme members.
8. The Gold State Super Deferred membership was incorrectly stated in the 2001/02 Annual Report and the amended figure is shown here.

## Membership overview at 30 June

	Female	Male	Total
West State Super	138,509	69,357	207,866
Gold State Super	11,341	14,946	26,287
Gold State Super Deferred	7,695	6,861	14,556
Retirement Access	106	142	248
Retirement Income	6	12	18
Pension Scheme	5,339	6,371	11,710
Provident Account	3	2	5
Total	162,999	97,691	260,690 <sup>9</sup>

9. The fall in membership levels in 2002/03 was due to data correction, which removed 8,000 members with zero balances.

# Composition of the Board

Phil Harvey (BE (Hon), BCom, Grad Dip NAAC)

## **Chairman**

Phil Harvey was appointed Chairman of the GESB for a term of five years from 7 March 2003.

Mr Harvey was educated at Claremont Primary School, Perth Modern School and the University of WA, where he completed degrees in engineering and commerce.

Mr Harvey has had a long and distinguished career in the WA energy industry.

Beginning as a junior transmission line design engineer in 1966, he worked in many aspects of energy planning and supply, and was appointed Deputy Commissioner and a Board Member of SECWA in 1986. In 1994 he was appointed Chief Executive Officer of AlintaGas, where he retired from full-time employment in 2001. Mr Harvey has a strong background in business development, leadership and change management.

Mr Harvey is a Fellow of the Institute of Company Directors, a Board member of United Way Australia and was formerly a Fellow of the Institution of Engineers, Australia. For 2002/2003 he was the President of the Rotary Club of Perth.

Matt Farrell (BSc Dip Ed)

## **Deputy Chairman, Member Director**

Mr Farrell is an Industrial Advocate with the State School Teachers' Union of Western Australia. He is a former Vice President of the Union and has been actively involved in the union movement for many years.

He holds a Bachelor of Science degree, a Diploma of Education and a Post-Graduate Diploma in Applied Physics. He is a member of the Australian Institute of Physics and of the Industrial Relations Society of Western Australia.

Mr Farrell is currently the Chairman of the Audit Committee and is presently serving his third three year term as a Member Director to 7 February 2005.

Harvey Collins (BBus FCPA FSIA FAICD)

## **Employer Director**

Mr Collins is Chairman of HBF Health Funds Inc, and a non-executive Director of Chieftain Securities Limited and several private companies. He was an Executive Director of Chieftain Securities from 1997 until June 2002 and Chief Financial Officer of Challenge Bank Limited from 1992 to 1996.

Mr Collins holds a Bachelor of Business (Distinction). He is a Fellow of the Australian Institute of Company Directors, Australian Society of Certified Practising Accountants and Securities Institute of Australia.

He is currently serving his first three year term as an Employer Director, which expires on 13 October 2004.



The GESB board and Executive Director from left to right: Peter Thomson, Peter Farrell – Executive Director (until 14 July 2003), Diane Robertson, Cheryl Robertson, Phil Harvey – Chairman, Harvey Collins and Matt Farrell.

Cheryl Robertson (MAICD)

**Employer Director**

Ms Robertson was appointed Employer Director, for a term of five years expiring on 9 February 2008.

Ms Robertson is State Manager of Sun Microsystems Australia, an international IT company.

With 16 years experience in the IT industry, her areas of expertise lie in management, sales, marketing, IT training and systems engineering.

Ms Robertson is a member of several WA Government Advisory groups including the Information, Communications and Technology (ICT) Advisory Forum, the Broadband Advisory Group and the Industry Development Advisory Group.

Diane Robertson (MBA)

**Member Director**

Ms Robertson has been President of the Community and Public Sector Union and Civil Service Association (WA) since 1993 and is employed in the Western Australian Public Service.

Ms Robertson holds a Masters degree in Business Administration, and qualifications in Management and Industrial Relations as well as a certificate of Trustee Practice. She is a member of the Advisory Committee to Edith Cowan University's School of Management.

Ms Robertson is the Chairperson of two other Western Australian companies in the insurance and finance industries, and is a member of the Board of Management of Unions WA Welfare Rights and Advocacy Service.

Appointed to the Board as a Member Director in 1994, her current term expired on 3 July 2003.

Peter Thomson (MAICD)

**Member Director**

Mr Thomson was appointed the Administrator for the Liquor Hospitality and Miscellaneous Workers Union in May 2002. He has an accounting background, which includes experience as a small business proprietor, accountant at the City of Bunbury and the provision of a mentoring service on Aboriginal business ventures with the Aboriginal Business Development Pty Ltd.

Mr Thomson was appointed to the Board as a Member Director on 17 September 2002 and his first term expires on 16 September 2005.

# Corporate Governance Statement

## Introduction

This statement outlines the main Corporate Governance practices that are in place at the Government Employees Superannuation Board (GESB).

## Body Corporate

The GESB is a Western Australian Statutory Authority and a Crown agency, constituted under the *State Superannuation Act 2000* as a body corporate with perpetual succession and a Common Seal. Proceedings may be taken by or against the Board in its corporate name.

## The Board

The GESB is governed by a Board of seven directors including the Chairman, and has legislative authority to perform the following functions:

- administer the *State Superannuation Act 2000*;
- manage the GES Fund;
- administer the schemes;
- provide information, advice and assistance to the Minister for Government Enterprises and the Treasurer on matters relating to superannuation;
- provide other products and services in accordance with the Regulations; and
- perform any functions conferred under any other written law.

The Board sets and reviews the strategic direction and establishes the policies of the GESB, and is accountable to the Government of Western Australia.

## Powers of the Board

The Board may do all things necessary or convenient in connection with the performance of its functions, including the following:

- acquire, hold, deal with and dispose of property of any sort;
- enter into a contract or arrangement with any person under which that person is to provide professional, technical or other assistance to the Board; or do for the Board anything that the Board could do, and pay out of the Fund fees charged by the person in accordance with the contract or arrangement;
- enter into a contract or arrangement with any person under which the Board is to provide products and services to that person and charge fees for providing those products and services;
- promote and market the Board, its activities, products and services;
- conduct research;
- produce and publish information; and
- do anything else that a body corporate may do.

## The Organisation

The CEO is accountable to the Board for the performance of the GESB. The CEO employs staff to assist in the management and administration of the GESB, and to support the Board in the performance of its functions. The roles of senior staff and management groups throughout the organisation are specified in a Management Framework document. All management accountability aggregates to the CEO, who in turn is accountable to the Board.

The Board communicates the results it expects and the ethical and prudential limits within which the organisation must operate to the CEO, through Board governance policies. These policies encompass all areas of the Board's business.

Compliance with Board policies was monitored during the year through a formal policy compliance programme. During the year, the organisation complied with all Board policies.

### Board Composition, Appointments and Meetings

Membership of the Board is determined in accordance with Section 8 of the *State Superannuation Act 2000* and the following principles:

- the Board comprises seven directors including the Chairman;
- the Chairman is an independent Board director appointed by the Governor on the nomination of the Minister;
- three Board directors are appointed by the Governor as Employer directors;
- three Board directors are elected as Member directors via elections conducted by UnionsWA;
- Employer directors are appointed for a term not exceeding five years. Member directors are elected for a term not exceeding three years. All Board directors are eligible for re-appointment or re-election;
- there is no maximum age for Board directors;
- the Board meets on a monthly basis and a quorum is five directors;
- Board resolutions require five or more directors to vote in favour of it;
- the conditions under which the Minister may remove a Board director from office are set out in section 6(2), Schedule 1 of the Act.

### Board Directors

Name	Position(s)	First Appointed	Term Expires	2002/03 Meetings	Attended
Mr Phil Harvey	Chairman	7 March 2003	6 March 2008	4	4
Ms Fiona Harris	Chairman	7 March 2000	6 March 2003	7	7
	Employer Director	8 August 1995	6 March 2000		
Mr Matt Farrell	Deputy Chairman	23 July 2002	7 February 2005	11	11
	Member Director	8 February 1996	7 February 2005		
Mr Harvey Collins	Employer Director	15 October 2001	14 October 2004	11	11
Mr Peter Farrell <sup>1</sup>	Employer Director	1 January 1990	9 February 2003	6	6
Mr William Hassell	Employer Director	2 May 2000	1 May 2003	9	9
Ms Cheryl Robertson	Employer Director	4 March 2003	9 February 2008	4	4
Ms Diane Robertson	Member Director	4 July 1994	3 July 2003	11	10
Mr Peter Thomson	Member Director	17 September 2002	16 September 2005	10	8

<sup>1</sup> Mr Peter Farrell's term as Employer Director expired on 9 February 2003. Mr Farrell remained as Executive Director until 4 July 2003.

## Board Committees

During 2002/03 three Board Committees assisted the Board to carry out its duties – the Audit Committee, the Corporate Governance Committee and the CEO Performance Committee. The conduct of the Committees is governed by their respective charters, and more generally by the Board’s governance policy, “Role of Board Committees”. The Audit and Corporate Governance Committees each met four times during 2002/03. The CEO Performance Committee met once during 2002/03.

### Audit Committee

Name	Position	2002/03 Meetings	Attended
Mr Matt Farrell	Chairman	4	4
Ms Fiona Harris	Member to March 2003	3	3
Mr Harvey Collins	Member	4	4
Ms Cheryl Robertson	Member from March 2003	1	0

In March 2003, the Board appointed Ms Cheryl Robertson to replace Ms Fiona Harris on the Committee.

The external audit of the GESB is conducted by the Office of the Auditor General.

Internal Audit focuses on working with management to continually improve the GESB’s business undertakings, and to provide reasonable assurance that activities are carried out effectively and efficiently in accordance with sound business practices and all legal requirements. Internal Audit has adopted a proactive and consulting role to advise up front on issues relating to enterprise risks, business processes and information systems. Internal Audit is managed internally with the bulk of audits being conducted under contract by external service providers.

The Audit Committee has responsibility for:

- ensuring a framework is in place to identify and manage business risks; detecting and managing exposure to fraud and corrupt practices; safeguarding GESB assets and assuring business continuity;
- ensuring that there is an appropriate control culture;
- ensuring that financial statements and policies are appropriate and comply with the relevant accounting standards;
- ensuring compliance with statutory responsibilities and sound business practices;
- strategic management of the Internal Audit function;
- reviewing the scope of audits to be undertaken and assessing the findings and recommendations reported; and
- liaising with external auditors.

### Corporate Governance Committee

The Board’s Corporate Governance Committee reviews and informs the Board of corporate governance issues and maintains a comprehensive policy framework for the appropriate corporate governance of the Board and the GESB. The Committee met four times during the year.

In March 2003, the Board appointed Mr Phil Harvey to replace Ms Fiona Harris on the Committee.

Name	Position	2002/03 Meetings	Attended
Mr William Hassell	Chairman	4	4
Ms Fiona Harris	Member to March 2003	3	3
Mr Phil Harvey	Member from March 2003	1	0
Ms Diane Robertson	Member	4	4

### CEO Performance Committee

The Board's CEO Performance Committee monitors the CEO's performance in accordance with the Board's CEO Authority Limits policies. The Committee met once during the year.

In March 2003, the Board appointed Mr Phil Harvey to replace Ms Fiona Harris as Chairman of the Committee.

Name	Position	2002/03 Meetings	Attended
Ms Fiona Harris	Chairman to March 2003	1	1
Mr Matt Farrell	Member	1	1
Mr Harvey Collins	Member	1	1

### Corporate Governance Policy Framework

The Board operates under a corporate governance framework based on the principles of John Carver's policy governance model. The Board's policies clarify the respective roles and responsibilities of the Board, the organisation, and the relationship between them.

Each Board governance policy is subject to specific annual review, and compliance with the Board's policies is monitored on an ongoing basis.

### Professional Advice

Board directors are entitled, with the prior approval of the CEO, to obtain such resources and information from the GESB, including direct access to management and professional advisers, as they may require to carry out their duties as Board directors.

Board directors are also entitled, with the prior approval of the Chairman, to seek independent professional advice at the expense of the GESB to assist them to carry out their duties as Board directors. The policy of the Board is that any such advice be made available to all Board directors.

### Remuneration

Board directors are entitled to the remuneration and allowances determined by the Minister on the recommendation of the Minister for Public Sector Management. In accordance with Government policy, Board directors who are public sector employees are not paid additional remuneration for sitting on the Board.

The CEO's remuneration is set by the Salaries and Allowances Tribunal.

Since January 2003, remuneration for GESB employees has been determined by the Public Service General Agreement 2003. Prior to January 2003, remuneration for GESB employees was determined by a collective Enterprise Bargaining Agreement, or individual Workplace Agreement, or by contract arrangements under the *State Superannuation Act 2000*.

### Internal Control and Risk Management

The Board has overall responsibility for the GESB's internal control environment. To provide assurance the control environment is of the standard required for GESB business operations, controls have been put in place in the form of:

- an Audit Committee comprising three non-executive Board directors;
- an Internal Audit and Assurance function that facilitates and monitors risk management and ensures that the internal control structure is maintained at an acceptable standard;
- formal planning processes where proposed strategic and operational business activities are considered by the Board prior to commencement;
- formal processes for formulation and reporting of administration and capital budgets, together with consideration by the Board prior to the allocation of funding;
- an integrated framework of controls based on formal procedures and appropriate delegations of financial and other authorities to the CEO;
- regular reporting to the Board on both financial and non-financial areas of business operations;
- a Risk Management policy and framework;
- a Compliance framework;

- a Fraud Management policy and framework;
- a Program Management Office to provide the Board with assurance that major projects are business focused, well-managed, and provide business benefits. This includes regular monitoring of projects and reporting to the Board; and
- regular audit appraisals of business activities through a well-resourced and effective Internal Audit function.

### **Ethical Standards**

The Board acknowledges the need for, and the continued maintenance, of high standards of Corporate Governance practices and ethical conduct by Board directors, management and staff. A Code of Conduct has been established and adopted for management and staff consistent with the Public Sector Code of Ethics. Board directors are required to comply with its Code of Conduct for Board directors, which supplements the Board's Conflict of Interest Register.

### **Director Related Responsibilities**

The Government Employees Superannuation Board is a Corporation for the purposes of Part 2 of the *Statutory Corporations (Liability of Directors) Act 1996*, and accordingly Board directors are subject to the same fiduciary responsibilities and duties of loyalty and good faith owed by Directors of companies incorporated under the Corporations Law.

In accordance with the *State Superannuation Act 2000* (Schedule 2, clause 11), Board directors must not take part in deliberations or vote on a matter in which they have a material interest, unless the Board has passed a special resolution (under Schedule 2, clause 12). Material interest is defined in Schedule 2, clause 9 of the Act.

The Board has adopted a policy regarding disclosure of material interests that requires Board members to make an annual declaration each year disclosing any material interests, specifically:

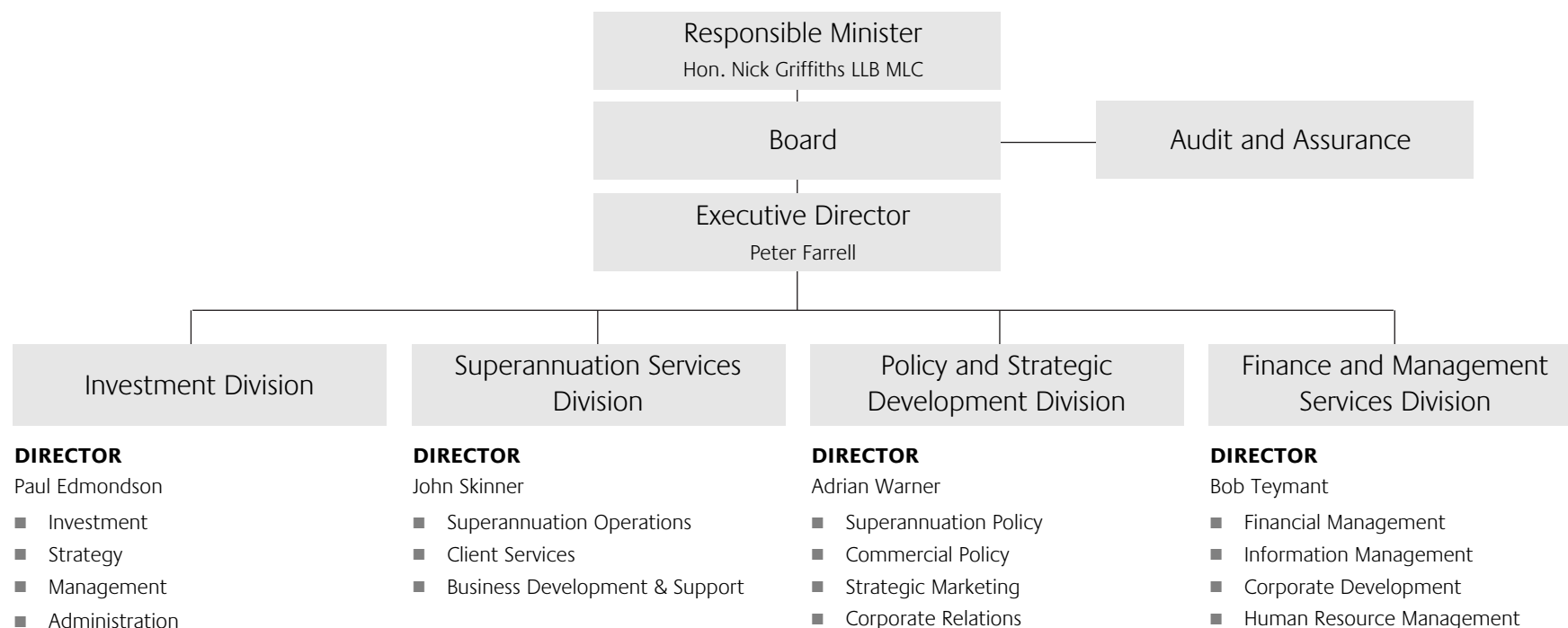
- securities (sale or purchase) to which they are entitled (within the Corporations Law meaning of the concept);
- transactions in respect of all securities quoted on the Australian Stock Exchange (ASX) if the person is regarded as being entitled to a material holding in the relevant corporation; and
- directorships.

A director's interest includes those held by associates, including spouses, family companies and trusts. A material holding is considered to be 5% or more of the issued securities of a particular class of a listed corporation, or such lower level as deemed appropriate by the Board in particular circumstances.

All Board directors have disclosed any material interests.

# Organisational Structure

as at 30 June 2003



The GESB Directors from left to right: Bob Teymant, Paul Edmondson, John Skinner, Peter Farrell – Executive Director (until 4 July 2003), Adrian Warner.

*Note: Following Peter Farrell's retirement as Executive Director on 4 July 2003, Michele Dolin was appointed as Executive Director/CEO on 28 July 2003.*

# Compliance Requirements

## Compliance with Legislation

The GESB is required to comply with a range of Commonwealth and State Legislation. Where required by Government, more detailed information has been provided about specific compliance.

The *State Superannuation Act 2000* and the *State Superannuation Regulations 2001* govern the administration of the Government Employees Superannuation Fund and the six superannuation schemes administered by the Board that collectively comprise the Fund.

## Compliance with the Public Sector Standards in Human Resource Management

- In the administration of the Government Employees Superannuation Fund, the GESB has complied with the Public Sector Standards in Human Resource Management, the WA Public Sector Code of Ethics and the GESB Code of Conduct.
- No claims of breaches of the Standards or Codes were lodged during the year.
- The GESB Code of Conduct has been made available to staff via the Intranet, and copies have been distributed to new staff on induction.
- Compliance with the Standards and Codes was reviewed via self-assessment. This included a desk audit of HR policies and procedures in September 2002 and an internal audit of the Staff Treatment Policy in April 2003.

## Compliance Statement

In the administration of the Government Employees Superannuation Fund, with the exception of the matters noted below which had no financial impact on the GESB or other stakeholders, the Board has complied in all material aspects with the requirements of the *State Superannuation Act 2000* and the *State Superannuation Regulations 2001* and other relevant written law.

The Board has exercised controls which provide reasonable assurance that the receipt and expenditure of monies, the acquisition and disposal of public property and incurring of liabilities have been in accordance with legislative provisions. The Board has complied with the Public Sector Standards in Human Resource Management and the Western Australian Public Sector Code of Ethics. It has put in place procedures and conducted appropriate internal assessments designed to ensure such compliance.

At the date of signing we are not aware of any circumstances which would render the particulars of this statement to be misleading or inaccurate.

Note:

1. Receipt of monies in contravention of the *State Superannuation Act 2000*, referred to in the auditor's opinion for the year ended 30 June 2002, was remedied during the reporting year. However, until the new arrangements were put in place the Board was unable to comply with the specific provision of the *State Superannuation Act 2000* for that part of the year.
2. A new financial system was introduced on 1 July 2002 and difficulties were experienced with the bank reconciliation module which prevented full reconciliations being carried out until April 2003. Full reconciliation of the bank account was achieved at 30 June 2003.



P J HARVEY  
CHAIRMAN  
29 August 2003



M DOLIN  
EXECUTIVE DIRECTOR  
29 August 2003

# Specific Compliance Requirements

## Heads of Government Agreement

The Western Australian State Government is a signatory to a Heads of Government Agreement with the Commonwealth in respect of the schemes administered by the GESB, whereby the schemes are exempted from the *Superannuation Industry (Supervision) Act 1993* and the *Superannuation (Resolution of Complaints) Act 1993*.

The Commonwealth has recognised that controls over these schemes are already extensive and subject the GES Fund to a significant level of prudential control and public and government scrutiny. In return the State Government has made the commitment that the accrued benefits of members will be fully protected and that the exempt schemes will conform to the principles of the Commonwealth's Retirement Incomes policy as reflected in relevant Federal legislation. Under the agreement the State Government has opted to allow members of exempt schemes access to the Superannuation Complaints Tribunal.

## Freedom of Information

The GESB provides members with access to their membership files without the need to make a formal Freedom of Information application.

An Information Statement that provides background on the operations of the Board, description of the documents held and the way in which the public can access the information is readily available on the GESB's web site.

## Equal Employment Opportunity/Youth Outcomes/Diversity

In 2002/03, the representation of females in the organisation was 55%, and the equity index result of 67 was better than the GESB's published target of 60. This means that the distribution of females in the organisation is still somewhat compressed at the lower levels, but is an improvement over previous years.

Another encouraging result for the organisation was the total of 5.2% youth employment, which meant the GESB was very close to its target of 5.5%. Diversity targets were exceeded in the areas of youth employment, and employment of people from culturally and linguistically diverse backgrounds. The GESB's figures for employment of people with disabilities (1.4%) were below the target figure of 2.5% for 2002/03, but are higher than our 2001 actual figure of 0.5%.

## Electoral Act

Section 1757ZE of the *Electoral Act 1907* and the *Treasurer's Instruction 903* require the disclosure of details of expenditure incurred during the year for advertising, marketing, market research, polling, direct mail and media advertising.

	2001/02	2002/03
<b>Advertising/Marketing Agencies</b>		
JDA	\$150,023 <sup>1</sup>	\$204,791 <sup>2</sup>
Core Marketing Group	\$112,689	\$70,536
<b>Market Research Organisations</b>		
Research Solutions	\$106,820	\$179,142
Polling Organisations	Nil	Nil
<b>Direct Mail Organisations</b>		
Zipform	\$102,000 <sup>3</sup>	\$36,525 <sup>4</sup>
<b>Media Advertising Organisations</b>		
Marketforce Productions	\$43,050	\$36,675
Media Decisions	\$3,955	\$14,315
<b>Total</b>	<b>\$518,537</b>	<b>\$541,984</b>

1. Excludes printing costs \$153,000

2. Excludes printing costs \$265,713

3. Estimate excludes postage costs of around \$102,000

4. Excludes postage costs of \$30,778

## Waste Paper Recycling

As a tenant and owner of the Central Park building, in 2002/03, the waste paper recycling program continued. Since the start of 2002, the VISY Recycling Program recycled 313.71 tonnes of paper, plastic, cardboard and glass during 2002/03.

This page has been left blank intentionally.

# Financial Report 2002/03

## Contents

PERFORMANCE INDICATORS	32
FINANCIAL STATEMENTS	43
APPENDICES	
1. Schemes Design	94
2. Investment Schedules	99
3. Outcome, Outputs and Performance Information	105
4. Legislation Administered	109
5. 2003/04 Budget Estimates	110

# PERFORMANCE INDICATORS

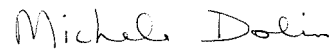
## Certification of the Performance Indicators

We hereby submit the performance indicators of the Government Employees Superannuation Board to provide a measure of the Board's effectiveness and efficiency in achieving its outcome in 2002/03.

In our opinion the key effectiveness and efficiency indicators are based on proper records, are relevant and appropriate, and fairly represent the performance of the Government Employees Superannuation Board for the financial year ending 30 June 2003.



P J HARVEY  
CHAIRMAN  
8 October 2003



M DOLIN  
EXECUTIVE DIRECTOR  
8 October 2003

# Key Performance Indicators

The key performance indicators in this report are produced in order to evaluate the GESB's performance in achieving the Government Desired Outcome in 2002/03. Included are key effectiveness and efficiency performance indicators required by the *Financial Administration and Audit Act 1985*. The key effectiveness indicators provide information on the extent to which the Government Desired Outcome has been achieved through the funding and production of agreed outputs. The key efficiency indicators relate outputs to the level of resource inputs required to produce them. The key performance indicators are audited by the Office of the Auditor General.

The Report on Operations for Output 1 and Output 2 includes other relevant measures that provide an overview of performance during 2002/03.

A comprehensive Performance Management System has been established that enables ongoing monitoring of performance. The following indicators outline the GESB's success in meeting its Desired Outcome and delivering its products and services, as defined by the output statements.

## Government Desired Outcome

The *State Superannuation Act 2000* indicates that the Government Desired Outcome is:

***“The Government Employees Superannuation Fund and Schemes are managed in the best interests of members”***

In achieving the Desired Outcome, the GESB aims to deliver to members a range of competitive products that are attractive and relevant, and to provide members with a level of customer service that meets their expectations. The following key performance indicators measure the effectiveness of achieving the above outcome.

## Effectiveness Indicators

Through ongoing research, the GESB works closely with its stakeholders to deliver improvements in superannuation products and services.

For the past three years, the GESB has undertaken extensive strategic research amongst members. The aims of the research are to monitor the changes in attitudes and perceptions of members towards the GESB and the attractiveness and relevance of its products in terms of product offering, fees and charges, investment returns and customer service. The surveys have been conducted by an independent research agency.

To conduct the Members Strategic Research in 2002/03, the research agency was provided a randomly generated sample of 15,000 West State Super and Gold State Super members and their contact details. Of the 527 active members contacted, 500 members responded, representing a response rate of 94.9%.

The sample size of 500 ensured that the results were representative and stable and provided an excellent basis for segmentation. This sample provides an accuracy of  $\pm 5\%$  at the 95% level of significance.

Sample	Accuracy at the 95% Confidence Level
Member Survey	
2001/02: 508	$\pm 5\%$
2002/03: 500	$\pm 5\%$

The questionnaire was designed to provide as much comparison with the benchmark surveys as possible while meeting the objectives of the follow-up surveys.

## 1. Members' Overall Satisfaction with the GESB

Percentage who are fairly satisfied, satisfied or extremely satisfied	2000/01	2001/02	2002/03	2002/03 Target*	2003/04 Target*
Overall	48%	62%	59%	63%	65%
West State Super Members	44%	60%	59%		
Gold State Super Members	68%	74%	55%		

\* 2003/04 targets have not been set for the above individual categories.

The overall score of member satisfaction with the GESB for 2002/03 was statistically similar to last year's score. Overall satisfaction is strongly influenced by the satisfaction of members with their respective schemes. Overall satisfaction of West State Super members was similar to 2002/03. This is a pleasing result in view of the impact that weak equities markets worldwide have had on fund performance.

Gold State Super members showed significantly reduced satisfaction overall and specifically in the areas of informative seminars and product flexibility. Gold State Super members' satisfaction with their scheme also decreased significantly. Further research and education is required to better address the specific needs of this group.

## 2. Proportion of Members who Value their Relationship with the GESB

Rating 7 or More out of 10	2000/01	2001/02	2002/03	2002/03 Target*	2003/04 Target*
Overall	33%	42%	36%	44%	47%
West State Super Members	27%	38%	31%		
Gold State Super Members	64%	64%	61%		

Average Score Out of 10	2000/01	2001/02	2002/03
Overall	5.3	5.9	5.4
West State Super Members	5.1	5.6	5.3
Gold State Super Members	6.7	7.1	6.8

\* 2003/04 targets have not been set for the above individual categories.

Similar to the preceding year, Gold State Super members continued to value their relationship with the GESB more highly in 2002/03 than did West State Super members. Factors driving West State Super members' value scores included perceptions of fund performance and management and customer service attributes. Perceptions of the GESB as having good financial managers and providing good returns declined from 2001/02, possibly reflecting the poor investment environment.

Gold State Super members' value scores are most strongly influenced by customer service attributes, followed by perceptions of fund performance and management. Compared to 2001/02, Gold State Super members were less satisfied with the level of scheme flexibility and availability of informative seminars in 2002/03.

### 3. Investment Performance Compared to Benchmarks

The financial return on members' funds is one of a number of key factors in determining the attractiveness of products to members. Through Member Investment Choice, West State Super members are able to take control of their own financial future by deciding on the level of risk and return that meets their individual superannuation needs. The following table shows the performance of the various asset classes compared to established industry benchmarks. Performance across the asset classes was mixed with Listed Property and International Equities comfortably exceeding their benchmark returns while the other asset classes (excluding Direct Property) exhibited neutral performance or narrowly missed their benchmark returns for the year. Detailed commentary on the performance of each of the asset classes can be found elsewhere in this Report.

Sector	Benchmark	2002/03 GESB Gross Return %	2002/03 Benchmark Gross Return %
Cash/Liquidity	UBS Warburg Australian Bank Bill Index	4.90	4.97
Fixed Interest	UBS Warburg Composite Bond Index (All Maturities)	9.78	9.78
Indexed Bonds	UBS Warburg Australian Inflation Linked Bond Index	10.62	10.76
Direct Property	AMP Balanced Property Index	5.55	10.08
Listed Property	S&P/ASX300 Property Accumulation Index	13.14	12.17
Australian Equities	S&P/ASX300 Accumulation Index	-2.06	-1.61
International Equities	International Equity Benchmark	-10.14	-11.94
Total Fund	N/A	0.15	N/A

*Note: Returns within 10 basis points of the benchmark are deemed benchmark-neutral for performance.*

The effectiveness of being able to deliver appropriate investment performance is measured through returns to members in excess of the benchmark. In the second year of Member Investment Choice, six out of the nine West State Super Investment Plans met or exceeded their benchmarks.

The table below shows the actual performance (gross returns) along with the benchmark performance of each Plan (industry benchmark returns weighted by the appropriate strategic asset allocations of the relevant Plan).

The Balanced Plan (the Plan adopted by the great majority of West State Super members) achieved a gross return of 1.76% against the benchmark return of 1.16%. This return compares very favourably with a survey of leading industry peer funds that produced a median return of -1.7%<sup>2</sup>. As such, the Plan's return is considered a commendable outcome in what was another trying year for world financial markets.

<sup>2</sup> Mercer Investment Consulting Pooled Fund Survey – June 2003

West State Super Investment Plan	Benchmark	2002/03 GESB Gross Return %	2002/03 Benchmark Gross Return %
Cash Plan	UBS Warburg Australian Bank Bill Index	5.28	4.97
Conservative Plan	Notional Return on Benchmark Allocation	5.75	5.47
Balanced Plan	Notional Return on Benchmark Allocation	1.76	1.16
Growth Plan	Notional Return on Benchmark Allocation	-0.86	-1.60
MY Plan – Fixed Interest	Notional Return on Benchmark Allocation	9.56	9.69
MY Plan – Inflation Linked Bonds	Notional Return on Benchmark Allocation	10.47	10.64
MY Plan – Listed Properties	Notional Return on Benchmark Allocation	12.93	12.02
MY Plan – Australian Equities	Notional Return on Benchmark Allocation	-2.10	-1.47
MY Plan – International Equities	Notional Return on Benchmark Allocation	-10.12	-11.60

Retirement Access and Retirement Income offer four Readymade Investment Plans. Their returns for the year are provided in the tables below.

Retirement Access Investment Plan	Benchmark	2002/03 GESB Gross Return %	2002/03 Benchmark Gross Return %
Cash Plan	UBS Warburg Australian Bank Bill Index	4.85	4.82
Conservative Plan	Notional Return on Benchmark Allocation	6.91	6.06
Balanced Plan	Notional Return on Benchmark Allocation	5.28	3.40
Growth Plan	Notional Return on Benchmark Allocation	3.34	3.02

Retirement Income Investment Plan	Benchmark	2002/03 GESB Gross Return %	2002/03 Benchmark Gross Return %
Cash Plan	UBS Warburg Australian Bank Bill Index	1.11	1.19
Conservative Plan	Notional Return on Benchmark Allocation	3.34	3.91
Balanced Plan	Notional Return on Benchmark Allocation	5.37	5.57
Growth Plan	Notional Return on Benchmark Allocation	6.04	6.58

*Note: The Retirement Access and Retirement Income Plans were not invested for the full 2002/03 financial year so returns are reported as an annualised value on a 'since inception' basis.*

Being unfunded, defined benefit schemes, Gold State Super and the Pension Scheme are treated as a single scheme for investment purposes. The asset allocation strategy for Gold State Super and the Pension Scheme was largely unchanged to that of the total Fund prior to 1 July 2001. A reduction in the strategic allocation to Cash (from 3% to 2%) and an increase in the strategic allocation to Fixed Interest (from 7% to 8%) was approved by the Board in December 2002. Accordingly, for the purposes of continuity of investment return history, Gold State Super and the Pension Scheme's return is carried forward from the total Fund return.

On a rolling three-year basis, Gold State Super and the Pension Scheme achieved a return of -1.52% per annum (pa), exceeding the benchmark of -1.93% pa. Although under-performing the target investment objective (CPI plus 4% pa over rolling three-year periods) of 7.84%, this portfolio outperformed its nominal benchmark by 0.41% pa over the past three years.

# Output 1:

A Range of Competitive Products that are Attractive and Relevant to the GESB's Clients.

## EFFICIENCY INDICATORS

The following performance indicators identify the GESB's efficiency in providing a range of competitive products to its clients. The cost of administering member accounts and managing investments are the two indicators relevant to this Output.

### 1.1 Average Cost per Member Account of Administering West State Super, Gold State Super, Pension Scheme, Retirement Income and Retirement Access

This indicator measures the direct costs of administering the superannuation schemes and related products including contributions processing, membership account maintenance, benefit payments, and responding to members' inquiries. The result is expressed as an average cost per member for all schemes and products.

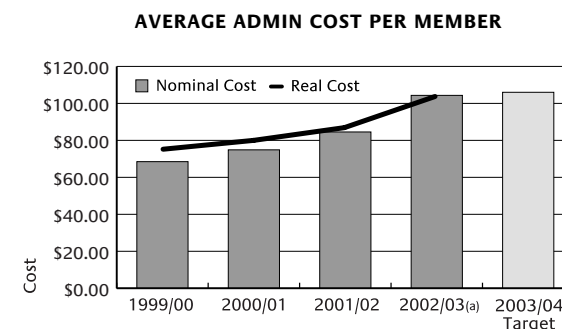
The average cost of administering the schemes per member account for the 2002/03 financial year was \$104.34, an increase of \$18.29 over the previous year in real terms. This increase was the result of several factors including:

- higher levels of depreciation expenses as a result of significant investments in information management systems in the preceding two financial years;
- the set-up cost for the new product – Retirement Income, and the implementation cost for the first year of another new product – Retirement Access;
- increased emphasis on investigating the feasibility of new superannuation-related products and services;
- additional compliance requirements with Federal initiatives in superannuation including partner accounts and family law; and
- a decreased number of member accounts which meant that total administration costs were spread over fewer members.

	1999/00	2000/01	2001/02	2002/03(a)	2002/03 Target	2003/04 Target
Nominal Cost	\$69.09	\$76.38	\$84.36	\$104.34	\$82.00	\$112.08
Real Cost	\$76.69	\$80.20	\$86.05	\$104.34	\$82.00	

(a) This is the base year, so nominal and real cost are the same.

Note: The costs above include the cost of providing support and advice to Government.



## 1.2 Investment Management Cost as a Percentage of Portfolio Mean Value Invested (Management Expense Ratio)

The cost of managing the GESB's investments is quite significant. In addition to direct investment management costs incurred by the GESB, external specialist investment managers are appointed to invest funds in specific asset classes. Both internal and external management costs have been included in measuring this indicator. The indicator reflects the cost of managing investments as a proportion of the average total fund value invested for the year. The lower the proportion, the better the result. This indicator is normally referred to as a Management Expense Ratio (MER).

The MER result for the year was 0.27% which compares favourably, with the target of 0.30%. Although additional expenses were incurred in expanding investment strategies, these costs were largely offset by stringent internal operating cost management.

Management Expense Ratio	%				
	2000/01	2001/02	2002/03	2002/03 Target	2003/04 Target
Management Expense Ratio - Investment Management					
Costs as a Percentage of Portfolio Mean Value Invested	0.33	0.28	0.27	0.30	0.33

*Note: The increase in the expected MER relates to asset class and investment manager diversification strategies including the introduction of Private Equity, International Fixed Interest and Emerging Markets.*

## Output 2:

### Client-focused Service.

#### EFFICIENCY INDICATORS

The GESB is required to keep members informed about their funds and about superannuation matters generally. The efficiency of providing such information services is measured through the following performance indicator.

##### 2.1 Cost per Member Account for the Provision of Information

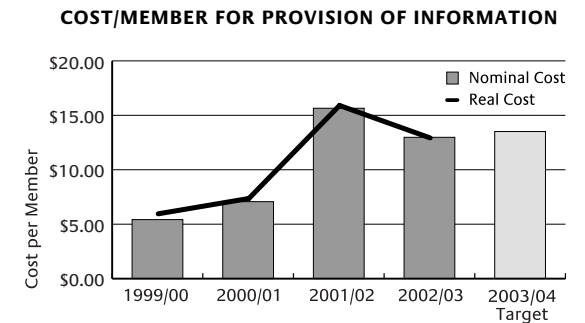
The cost of providing information per member account has decreased in real terms from \$15.96 in 2001/02 to \$12.98 in 2002/03. To some extent this result reflects the refining of the cost calculation method initially used to calculate this cost in 2001/02.

The significant increase in cost in 2001/02 compared to the previous two years reflects a change in the cost calculation method to include the allocation of indirect costs in addition to direct costs for this output.

The target for 2002/03 (\$7.50) was incorrectly based on direct costs only, and should have been amended to reflect full cost. The target for 2003/04 is based on the *expected* full cost (direct and indirect) for this output.

	1999/00	2000/01	2001/02	2002/03(a)	2002/03 Target	2003/04 Target
Nominal Cost	\$5.42	\$7.07	\$15.65	\$12.98	\$7.50	\$13.68
Real Cost	\$6.01	\$7.42	\$15.96	\$12.98	\$7.50	

(a) This is the base year, so nominal and real cost are the same.



# Independent Audit Opinion on Performance Indicators



## AUDITOR GENERAL

**To the Parliament of Western Australia**

**GOVERNMENT EMPLOYEES SUPERANNUATION BOARD  
PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2003**

**Audit Opinion**

In my opinion, the key effectiveness and efficiency performance indicators of the Government Employees Superannuation Board are relevant and appropriate to help users assess the Board's performance and fairly represent the indicated performance for the year ended June 30, 2003.

**Scope**

***The Board's Role***

The Board is responsible for developing and maintaining proper records and systems for preparing performance indicators. The performance indicators consist of key indicators of efficiency and effectiveness.

***Summary of my Role***

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence. An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON  
AUDITOR GENERAL  
October 21, 2003

This page has been left blank intentionally.

# Financial Statements 2002/03

## Certification of the Financial Statements

The accompanying Financial Statements of the Government Employees Superannuation Board, have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records, to present fairly the financial transactions for the year ended 30 June 2003, and the financial position as at 30 June 2003.

At the date of signing, we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



JOHN E O'SULLIVAN, M.A., A.C.A.  
PRINCIPAL ACCOUNTING OFFICER  
8 October 2003



M DOLIN  
EXECUTIVE DIRECTOR  
8 October 2003



P J HARVEY  
CHAIRMAN  
8 October 2003

# Statement of Changes in Net Assets

for the Year Ended 30 June 2003

	Notes	2003 \$'000	2002 \$'000
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE FINANCIAL YEAR</b>		2,387,359	2,309,388
<b>REVENUE FROM ORDINARY ACTIVITIES</b>			
<b>Investment Income</b>			
Realised Income	2	123,258	114,889
Realised Changes in Net Market Value of Investment Assets	2	(54,864)	(21,326)
Unrealised Changes in Net Market Value of Investment Assets	2	(57,018)	(211,215)
		11,376	(117,652)
Less: Investment Expenses	2	(8,373)	(8,398)
		3,003	(126,050)
<b>Superannuation Income</b>			
Contributions			
Members		111,300	113,872
Employer	4a	724,223	631,520
Rollover into Retirement Products		1,851	-
Inward Transfer from Other Funds		62,404	32,456
Other Income	4c	260	269
		900,038	778,117
<b>Total Revenue from Ordinary Activities</b>		903,041	652,067
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>			
<b>Superannuation Benefit Payments</b>	4b	512,430	509,704
<b>Administration Expenses</b>	9	21,230	18,254
<b>Changes in Net Market Value of Other Assets</b>	9	5,992	4,297
<b>Loan Interest</b>	16	41,443	41,841
<b>Total Expenses from Ordinary Activities</b>		581,095	574,096
<b>TAX EXPENSE</b>	10	(2,913)	-
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR</b>		2,706,392	2,387,359

TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

# Statement of Net Assets

as at June 2003

	Notes	2003 \$'000	2002 \$'000
<b>Assets</b>			
Investment Assets	2	3,289,666	3,009,469
Property Plant and Equipment	12	18,308	18,718
Sundry Debtors	13	28,516	19,361
Future Income Tax Benefit	10	34	-
Prepayments		2,346	2,476
<b>Total Assets</b>		3,338,870	3,050,024
<b>Liabilities</b>			
Contributions paid in Advance		2,307	1,431
Unpaid and Accrued Liabilities		4,817	5,124
Sundry Creditors	13	14,132	31,472
Provision for Employee Entitlements	14	2,274	1,974
Provision for Superannuation Liabilities	15	3,585	3,601
Interest Bearing Liabilities	16	602,416	619,063
Current Tax Liabilities	10	2,906	-
Deferred Tax Liabilities	10	41	-
<b>Total Liabilities</b>		632,478	662,665
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		2,706,392	2,387,359

TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

# Notes to and forming part of the Financial Statements

for the Year Ended 30 June 2003

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation of Financial Statements

The financial statements constitute a general purpose financial report which has been prepared in accordance with Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Accounting Standards Board, and UIG Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. The *Financial Administration and Audit Act* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statement of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and to satisfy accountability requirements. If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable, the resulting financial effect, are disclosed in individual notes to these financial statements. There are no such modifications contained within these Statements.

The accounts have been prepared in accordance with the format prescribed under paragraph 22(a) of Australian Accounting Standard-AAS25, "Financial Reporting for Superannuation Plans". This Standard sets out specific reporting requirements for particular reporting entities. This Standard applies to general purpose financial reports of each superannuation plan in the private or public sector that is a reporting entity.

The Government Employees Superannuation Board (GESB) has both defined contribution and defined benefit schemes, the Standard states that in this circumstance the reporting formats applicable to defined benefit schemes should be used. The format adopted by the GESB includes a "Statement of Changes in Net Assets", a "Statement of Net Assets", and "Notes" thereto. No recognition is made on the face of the Financial Statements of amounts accrued to the benefit of members' accounts for any of the schemes.

The accounting policies adopted are consistent with those of the previous year.

### (b) Receipts of monies in contravention of the *State Superannuation Act 2000*

Prior to 4 March 2003, the GESB collected on behalf of the Department of Treasury and Finance (DTF), Gold State Super equivalent contributions from unfunded agencies. Agencies received funds by way of appropriations equivalent to the Gold State Super contribution amounts, which were then paid to the GESB and remitted to the DTF.

The amounts for the year ended 30 June 2002 and the period ended 4 March 2003, in relation to this arrangement were as follows:

	2003 \$'000	2002 \$'000
Opening balance	12,028	-
Received from Unfunded Agencies	76,569	122,633
Returned to the DTF	88,597	110,605
Closing balance	-	12,028

# Notes to and forming part of the Financial Statements

## for the Year Ended 30 June 2003

The amounts received and paid during the year ended 30 June 2003 have not been included in the Statement of Changes in Net Assets, as they do not represent revenues or expenses of the GESB.

The GESB has received advice from the Crown Solicitor's Office that the GESB's governing Act does not permit the receipt or payment of the Gold State Super equivalent amounts into or from the GES Fund on behalf of the DTF. The Crown Solicitor's Office has advised that a similar situation existed in respect of certain arrangements relating to the administration of the Parliamentary Superannuation Scheme and the Judges Pension Scheme.

The GESB and the DTF have worked with the Crown Solicitor's Office to identify a solution that would allow the benefits of the current process to continue without causing a breach of the governing Act. As a result, the above arrangements ceased on 4 March 2003. The unfunded agencies were instructed to thereafter remit all Gold State Super equivalent contributions to a DTF bank account. This account is a subdivision of the Public Bank Account approved under Section 19 of the *Financial Administration and Audit Act*. Similar arrangements have been adopted in respect of the Parliamentary Superannuation Scheme and the Judges Pension Scheme. In all cases the GESB continues to manage the invoicing, receipt and payment functions on behalf of the DTF.

It should be noted that the previous and current arrangements are administrative in nature and have no impact on the GES Fund or members' account balances.

### **(c) Measurement of Assets**

Assets of the Fund have been measured at net market value after allowing for estimated costs of realisation. Changes in the net market value of assets are brought to account in the Statement of Changes in Net Assets, in the period in which they occur.

Market values have been determined as follows:

- Shares in listed companies, government securities and other fixed interest securities, by reference to relevant market quotations at 30 June each year.
- Education Department Building Financing Loan, by an independent qualified consultant.
- Properties, by independent valuations obtained from qualified valuers.
- Units in managed funds, by reference to redemption prices at 30 June each year.
- Fixtures, fittings, equipment and software are carried at the written down value determined in accordance with applicable Income Tax depreciation rates, which are considered a reasonable approximation of market value. For Computer Software Development Projects covering several financial years, costs are accumulated as "Works in Progress" until finalised and in production, at which time costs are amortised over the estimated "useful life" of the software application.

### **(d) Income Tax Expense**

The *Commonwealth Income Tax Assessment Act* and Regulations were amended on 30 June 1997 declaring the Government Employees Superannuation Fund to be a constitutionally protected fund. The following schemes within the Fund are constitutionally protected and therefore exempt from income tax:

- Gold State Super
- West State Super
- Pension Scheme

## Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

Retirement products were introduced for members as taxed schemes within the untaxed GES Fund and are subject to income tax.

Retirement Access commenced on 1 July 2002 and is a complying superannuation fund under the *Superannuation Industry (Supervision) Act 1993* and accordingly is entitled to concessional tax treatment at the rate of 15%.

Retirement Income commenced on 19 March 2003 and is a complying superannuation fund under the *Superannuation Industry (Supervision) Act* and accordingly is entitled to concessional tax treatment at the rate of 15%.

The GESB apportions investment income and expenses to the taxed and non-taxed components of the fund on the basis of the proportion of funds under management. Other expenses are apportioned on the basis of actual or allocated cost.

The Fund adopts the liability method of tax effect accounting.

Income tax expense is calculated on the operating surplus or deficit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried in the statement of net assets as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt or, if relating to tax losses, when realisation is virtually certain.

As a constitutionally protected Fund, the recording, assessment and collection of the superannuation contributions surcharge tax, commonly referred to as the 'contributions surcharge', against members of the Schemes administered by the GESB is performed by the Australian Taxation Office (ATO). Effective 1 July 2002, payment arrangements for this tax liability can be made through the GESB upon instructions from members. Members may instruct the GESB to withhold a portion of their benefits to be held in trust pending the assessment of their tax liability. This amount will be placed in an interest bearing account, earning interest at CPI + 2%. When the tax liability is due, the GESB will issue a cheque payable to the ATO on behalf of the member.

### **(e) Revenue**

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

### **(f) The Government Employees Superannuation Fund**

The Government Employees Superannuation Fund is comprised of five superannuation schemes (GES schemes), namely:

**Gold State Super or "1987 Scheme"** – established under the *Government Employees Superannuation Act 1987* and continued under the *State Superannuation Regulations 2001*, providing a lump sum defined benefit. This scheme was closed to new members effective on 29 December 1995.

**West State Super or "1993 Scheme"** – established under the *Government Employees Superannuation Act 1987* and continued under the *State Superannuation Regulations 2001* to give effect to the provisions of the Commonwealth Government's Superannuation Guarantee (SG) legislative arrangements which came into effect from 1 July 1992.

# Notes to and forming part of the Financial Statements

## for the Year Ended 30 June 2003

**Pension Scheme** – established under the *Superannuation and Family Benefits Act 1938*. Its provisions are deemed to be regulations under the *State Superannuation Regulations 2001*. This scheme was closed to new members on 15 August 1986.

**Retirement Access (RA)** – introduced on 1 July 2002 through amendments to the *State Superannuation Regulations 2001*. It represents a draw down facility for retired members of the GES schemes. It is an accumulation superannuation scheme operating under a similar member investment choice framework as West State Super.

**Retirement Income (RI)** – introduced on 19 March 2003 through amendments to the *State Superannuation Regulations 2001*. It is an allocated pension product for retired members of the GES schemes. It also operates under a member investment choice framework similar to that of West State Super.

Section 16 of the *State Superannuation Act 2000*, requires the GESB to maintain such accounts within the Fund that are considered necessary for the management of the Fund and its separate elements, and provides guidelines for the apportionment of investment income and expenses between those elements of the Fund.

### **(g) Liability for Accrued Benefits**

Accrued benefits are the benefits that the Fund is committed to provide in the future in respect of the membership at the reporting date.

The liability represents the Fund's present obligation to pay benefits to members and other beneficiaries and has been calculated on the present value of expected future payments arising from membership of the Fund up to the reporting date. The amount stated has been determined by reference to expected future salary levels and by application of a market-based, risk adjusted discount rate and appropriate actuarial assumptions.

The liability for accrued benefits is actuarially measured annually for Gold State Super, West State Super and the Pension Scheme. The valuation of accrued benefits for Gold State Super, West State Super and the Pension Scheme at the reporting date was undertaken by the actuary, Mercer Human Resource Consulting Pty Ltd, as part of a comprehensive actuarial review of the Fund.

### **(h) Vested Benefits**

Vested Benefits are the benefits that are not conditional upon continued membership of the Fund and include benefits which members are entitled to receive had they terminated membership at the reporting date.

Under the provisions of the *State Superannuation Act 2000*, member entitlements are vested as follows:

*Pension Scheme* – no vesting rights until retirement at age 55 years or over, or earlier death or disablement, although on redundancy members have an option to elect for either:

- An actuarial deferred pension payable upon attainment of age 55 years, or
- An immediate cash payment including a State subsidy equal to 2.5 times the member's primary unit contributions, or
- A transfer of membership to Gold State Super and retention of their transferred service entitlements.

*Gold State Super and West State Super* – full vesting from day one.

# Notes to and forming part of the Financial Statements

## for the Year Ended 30 June 2003

### **(i) Recognition of Benefits Payable**

All benefit entitlements that were paid or became payable during the financial year have been included within the Statement of Changes in Net Assets. All accrued benefit entitlements that were due and payable as at balance date have also been recognised as a liability within the Statement of Net Assets. Benefits due to members which are not yet payable are not brought to account within the financial statements.

### **(j) SB Investment Trust**

The GESB is the sole unit-holder and beneficiary of the SB Investment Trust. The trust has nominal assets of less than \$2,000 and was a dormant entity during the year.

### **(k) Board Employee Entitlements**

**Long Service and Annual Leave** entitlements have been determined in accordance with the provisions of AAS30 and the revised AASB1028 "Accounting for Employee Entitlements" (June 2001). These entitlements are assessed based on projected future remuneration rates at which the liabilities are expected to be paid. The liability for these entitlements are disclosed as an aggregate amount including related on-costs that arise from employee benefits. Long service leave is calculated on a pro-rata entitlement basis after four years service.

**Sick Leave** – No liability has been raised for sick leave as these entitlements are non vesting, and sick leave taken each reporting period is less than the entitlement accruing in that period.

**Superannuation** – The GESB's employees have an entitlement to superannuation under one of the schemes established under the *State Superannuation Act 2000*.

An unfunded employer liability exists in relation to the employer share of pension entitlements, and the pre-transfer service liability for those employees who transferred to the contributory lump sum scheme (Gold State Super). The liability has been recognised by provision in the Statement of Net Assets at the present value of the future payments, by application of actuarial factors provided for this purpose.

The liability for the superannuation charges under the *State Superannuation Act 2000* relating to members of West State Super and Gold State Super is extinguished by the payment of concurrent employer contributions.

### **(l) Joint Venture Accounting**

The GESB's interest in joint ventures has been brought to account by including in the accounts of the Fund, the GESB's share of the joint ventures' individual items of income and expenditure, and assets and liabilities.

### **(m) Sundry Debtors and Creditors**

Sundry Debtors are recognised at the amount receivable. Sundry Creditors represent liabilities for member benefits due and payable, and the value of goods and services provided to the fund prior to the end of the financial year and which are unpaid.

# Notes to and forming part of the Financial Statements

## for the Year Ended 30 June 2003

### **(n) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Net Assets.

### **(o) Cash and cash equivalents**

Cash and cash equivalents includes deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the Manager's option and are subject to insignificant risk of changes in value.

### **(p) Superannuation Contributions (Surcharge) Tax**

As a constitutionally protected Fund, the recording, assessment and collection of the superannuation contributions tax, commonly referred to as the "contributions surcharge", against members of the Schemes administered by the Government Employees Superannuation Board is performed by the Australian Taxation Office. As a consequence, neither the expense nor the liability for the contributions surcharge has been recognised within these Statements.

### **(q) Comparative Figures**

Where necessary, comparative figures have been adjusted to conform with changes in presentation for the current year.

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

NOTE 2: INVESTMENT INCOME & ASSETS

**INVESTMENT INCOME**

	2002/2003				2001/2002			
	Realised Income \$'000	Realised Changes in Net Market Value \$'000	Unrealised Changes in Net Market Value \$'000	Total \$'000	Realised Changes in Realised Income \$'000	Unrealised Changes in Net Market Value \$'000	Net Market Value \$'000	Total \$'000
<b>INTERNALLY MANAGED PORTFOLIO</b>								
Fixed Interest	807	(44)	(189)	574	1,063	-	(281)	782
Inflation Linked Bonds	-	-	-	-	9,513	4,150	57	13,720
Cash	1,263	-	(2)	1,261	-	-	-	-
Shares - Australian Equities	9,352	(507)	(11,437)	(2,592)	8,601	(13,699)	(19,994)	(25,092)
<b>Total Internally Managed</b>	<b>11,422</b>	<b>(551)</b>	<b>(11,628)</b>	<b>(757)</b>	<b>19,177</b>	<b>(9,549)</b>	<b>(20,218)</b>	<b>(10,590)</b>
<b>EXTERNALLY MANAGED PORTFOLIO</b>								
Fixed Interest	29,891	9,378	10,370	49,639	26,348	4,844	(132)	31,060
Inflation Linked Bonds	10,433	3,459	12,591	26,483	1,637	5	3,044	4,686
Shares - Australian Equities	19,378	(27,489)	(891)	(9,002)	15,222	(5,980)	(12,495)	(3,253)
Shares - Overseas Equities	17,101	(47,935)	(62,539)	(93,373)	18,210	(14,785)	(194,024)	(190,599)
Cash	707	3,188	349	4,244	2,229	2,284	445	4,958
Property (Listed and Direct)	34,326	5,086	(5,270)	34,142	32,066	1,855	12,165	46,086
<b>Total Externally Managed</b>	<b>111,836</b>	<b>(54,313)</b>	<b>(45,390)</b>	<b>12,133</b>	<b>95,712</b>	<b>(11,777)</b>	<b>(190,997)</b>	<b>(107,062)</b>
<b>TOTAL INVESTMENT INCOME (i)</b>	<b>123,258</b>	<b>(54,864)</b>	<b>(57,018)</b>	<b>11,376</b>	<b>114,889</b>	<b>(21,326)</b>	<b>(211,215)</b>	<b>(117,652)</b>
<b>Less: Investment Expenses</b>								
External Fund Management Fees	6,069	-	-	6,069	5,733	-	-	5,733
Custody Fees	813	-	-	813	1,125	-	-	1,125
General Administration Costs	294	-	-	294	321	-	-	321
Investment Administration Costs (ii)	1,197	-	-	1,197	1,219	-	-	1,219
<b>Total Investment Expenses</b>	<b>8,373</b>	<b>-</b>	<b>-</b>	<b>8,373</b>	<b>8,398</b>	<b>-</b>	<b>-</b>	<b>8,398</b>
<b>NET INVESTMENT INCOME</b>	<b>114,885</b>	<b>(54,864)</b>	<b>(57,018)</b>	<b>3,003</b>	<b>106,491</b>	<b>(21,326)</b>	<b>(211,215)</b>	<b>(126,050)</b>

(i) Total investment income includes realised income, realised and unrealised changes in net market value. Realised investment income represents the actual receipts and accruals of interest, property rentals, dividends and income from managed funds. Realised changes in net market value represents the increase in value of realised investment assets from the beginning of the year to the date of sale. Unrealised changes in net market value represents the net unrealised gains/(losses) on revaluation of investments at year end.

(ii) In prior years investment administration costs have been included within the GESB's general administration costs. However, these costs are directly related to the management of Investment funds and are included in the calculation of the Management Expense Ratio. As a result it is more appropriate that these costs be separately identified within Investment Expenses.

# Notes to and forming part of the Financial Statements

for the Year Ended 30 June 2003

## INVESTMENT ASSETS

	Notes	30 June 2003 Net Market Values \$'000	30 June 2002 Net Market Values \$'000
<b>INTERNALLY MANAGED PORTFOLIO</b>			
Fixed Interest		5,934	10,629
Shares – Australian Equities		236,826	255,743
Cash		13,535	17,019
Sub-Total		256,295	283,391
<b>EXTERNALLY MANAGED PORTFOLIO</b>			
Fixed Interest	(a)	629,380	496,741
Inflation Linked Bonds		247,480	275,997
Shares - Australian Equities		557,171	470,346
Shares - Overseas Equities		1,025,775	940,232
Property (Listed and Direct)	(b)	466,200	451,603
Cash	(c)	107,365	91,159
Sub-Total		3,033,371	2,726,078
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>3,289,666</b>	<b>3,009,469</b>

### (a) Externally Managed Portfolio

The majority of the external investments represent individual investment pools managed by Australian based Fund Managers, via the National Custodian Services. See Appendix 2 of the Annual Report for the list of Investment Managers.

### (b) Joint Ventures

The GESB is a participant in the following joint ventures associated with its Central Park Property holding:

	Other Participants	Activity	GESB's Interest
Tenant Car Park and Park	AMP Society Ltd Perpetual Trustees of Victoria Ltd	Car Parking and Park Management	59.806%
Public Car Park	AMP Society Ltd.	Car Parking	58.222%

# Notes to and forming part of the Financial Statements

for the Year Ended 30 June 2003

	30 June 2003 \$'000	30 June 2002 \$'000
<b>(c) Cash</b>		
Macquarie Investment Management Ltd	57,245	79,592
WA Treasury Corporation	3,514	11,565
Super Member's Home Loan	10,021	17,019
SB Investment Trust	2	2
Macquarie Treasury Fund	50,118	-
<b>Total Cash</b>	<b>120,900</b>	<b>108,178</b>

## NOTE 3: FINANCIAL INSTRUMENT DISCLOSURES

The Investment Division, under the direction of the Board, develops and manages the overall allocation of assets and manages any funds that are invested internally (other than cash held for liquidity purposes). It raises and makes recommendations on issues which it believes should be considered by the Board. It also provides investment administration services for the portfolio in conjunction with the external custodian. The Board has developed a detailed investment policy, which sets out the strategies to be adopted to achieve a target rate of return. Under this policy, external specialist managers have been appointed and are monitored internally by the GESB's Investment Division.

The Board of Directors obtains regular reports from each investment manager and from its asset consultants, Frank Russell Company Pty Ltd, on the nature of the investments and their associated risks, including the receipt of formal Risk Management Statements as required by the Australian Prudential Regulation Authority.

### (a) Use of derivative financial instruments

A derivatives transaction is a contract whose value depends on (or derives from) the value of an underlying instrument, reference rate or index. Derivatives are usually separated into three generic classes; forwards, options and swaps, although individual products may combine the features of more than one class. The principal features of each of these classes are summarised below. The GESB makes use of derivative financial instruments through internally managed investments and also through the portfolios held by its external managers.

The GESB has detailed guidelines regarding the use of synthetic and derivative instruments, which must be adhered to by the GESB itself and its external managers. The guidelines state that:

The GESB may use synthetic and derivative instruments to manage exposures arising out of the GESB's investment strategy providing that:

- In the view of the GESB or its external managers, the use of the synthetic or derivative instrument will lead to the acquisition/disposal of the asset at a more favourable price than by a transaction in the physical market; and/or
- The use of the synthetic or derivative instrument enhances the risk/return profile of the portfolio subject to the following conditions:
  - The portfolio will not be net short (ie. the GESB shall have sufficient physical stock and bought synthetic or derivative instruments to cover its sold position); and
  - These instruments are not to be used for speculative purposes, that is, these instruments may not be used to gear the underlying position.

## Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

In addition to the above general conditions the GESB's guidelines also contain more detailed guidance with respect to specific types of synthetic or derivative instruments.

Under the investment strategy of the GESB, derivatives are principally used as an effective alternative to physical assets and to gain access to, or allow flexibility in financial markets, in order to manage and structure the Fund's investment portfolio to achieve a desired level of total exposure to various asset classes. Derivatives are not utilised in a speculative manner nor are they permitted to leverage the investment portfolio.

In line with the organisation's market value accounting policy, derivatives are valued on a mark-to-market basis, which involves the calculation and recognition of unrealised gains and losses on all current positions. Accordingly the Financial Statements reflect all unrealised gains and losses on derivatives.

At 30 June 2003 the significant derivative positions held by the GESB's external managers were as follows:

	<b>Notional Principal Amounts</b>		<b>Net Market Value</b>	
	<b>2003 \$'000</b>	2002 \$'000	<b>2003 \$'000</b>	2002 \$'000
Australian Fixed Interest Futures	627,623	342,536	627,033	342,803
Australian Share Price Index Futures	10,327	4,344	10,110	4,241
Exchange Traded Options	-	-	-	-
Forward Foreign Exchange Contracts	-	-	18,846	(13,961)
Interest Rate Swaps	-	-	11	-
Forward rate agreements	-	-	-	-
	<b>637,950</b>	<b>346,880</b>	<b>656,000</b>	<b>333,083</b>

### (b) Credit Risk

The GESB's exposure to credit risk is indicated by the carrying amount of its assets, except for its exposure on:

- The full amount of the foreign currency it pays when settling a forward exchange contract, should the counterparty not pay the currency amount it is committed to deliver to the Fund.
- Interest rate swap contracts and forward rate agreements which are limited to favourable contracts to the extent of the next interest receipt due;
- The total credit risk for exchange traded options is limited to the amount carried on the balance sheet; and
- The credit risk in relation to futures contracts is the amount of margin calls paid.

The GESB minimises credit risk by undertaking transactions with a large number of debtors in various countries.

The GESB does not have any significant exposure to any individual counterparty or industry other than the Government of Western Australia in respect of the GESB's unfunded superannuation liability.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## (c) Interest Rate Risk

Interest rate risk is the risk of loss due to a change in market and economic conditions, resulting in a change in interest rates. This risk is managed by a combination of duration analysis and derivative positions to enhance the interest rate performance of the investment portfolio.

The GESB invests in financial assets for the primary purpose of obtaining a return on investments. The GESB's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in the market interest rates.

The GESB's exposure to interest rate movements on those investments at 30 June 2003 was as follows:

	Fixed Interest Rate					Total \$'000
	Floating Interest Rate \$'000	1 Year or less \$'000	1-5 years \$'000	Over 5 years \$'000	Non Interest Bearing \$'000	
<b>30 June 2003</b>						
<b>ASSETS</b>						
<i>Investments</i>						
Cash at call	49,828	-	-	-	-	49,828
Fixed Interest Bonds	-	11,667	319,492	210,081	-	541,240
Inflation linked Bonds	-	1,180	23,136	185,916	-	210,232
Discount Securities	-	147,866	-	-	-	147,866
Convertible Notes	-	-	85	258	-	343
Floating Rate Notes	-	-	7,362	33,345	-	40,707
Indexed Annuity	-	-	2,364	26,048	-	28,412
Education building financing loan	-	-	5,934	-	-	5,934
Non Interest Bearing Investments	-	-	-	-	2,265,104	2,265,104
<i>Other Assets</i>	-	-	-	-	49,204	49,204
	49,828	160,713	358,373	455,648	2,314,308	3,338,870
<b>Weighted average interest rate</b>	<b>1.4%</b>	<b>4.7%</b>	<b>4.8%</b>	<b>4.1%</b>		
<b>LIABILITIES</b>						
Contribution paid in Advance	-	-	-	-	2,307	2,307
Unpaid & Accrued Benefits Due	-	-	-	-	4,817	4,817
Provision for Employee Entitlements	-	-	-	-	2,274	2,274
Term Loan	-	17,805	84,482	500,129	-	602,416
Provision for Superannuation Liabilities	-	-	-	-	3,585	3,585
Sundry creditors	-	-	-	-	17,079	17,079
	-	17,805	84,482	500,129	30,062	632,478
<b>Weighted average interest rate</b>	<b>0.0%</b>	<b>6.8%</b>	<b>6.8%</b>	<b>6.8%</b>		
<b>Net Financial Assets (Liabilities)</b>	<b>49,828</b>	<b>142,908</b>	<b>273,891</b>	<b>(44,481)</b>	<b>2,284,246</b>	<b>2,706,392</b>

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

Other fixed interest rate investments include loans made to private organisations secured under Government guarantee and specific purpose arrangements for a superannuation members' home loans program. These securities have been recorded at net market value determined in accordance with prevailing rates.

The Education Department Building, which was financed by the GESB, is a mixture between a fixed interest and a property investment. The building was constructed on land leased from the Crown. At the expiration of the ground lease term on 30 June 2005, the property will revert to the Crown. The rental charge on the building is calculated in order to amortise the cost of the development and incorporate an effective rate of return on the GESB's investment. The investment has been split between fixed interest and property investments by the GESB to more accurately reflect the nature of the investment. The investment is recorded at valuation based upon the future discounted cash flow over the remaining period of the ground lease.

## COMPARATIVES

**30 June 2002**

### ASSETS

#### Investments

Cash at call

Fixed Interest Bonds

Inflation linked Bonds

Discount Securities

Floating Rate Notes

Indexed Annuity

Education building financing loan

Non Interest Bearing Investments

Other Assets

### Weighted average interest rate

### LIABILITIES

Contribution paid in Advance

Unpaid & Accrued Benefits Due

Provision for Employee Entitlements

Term Loan

Provision for Superannuation Liabilities

Sundry creditors

### Weighted average interest rate

### Net Financial Assets (Liabilities)

	Fixed Interest Rate					
	Floating Interest Rate \$'000	1 Year or less \$'000	1-5 years \$'000	Over 5 years \$'000	Non Interest Bearing \$'000	Total \$'000
Cash at call	58,294	-	-	-	-	58,294
Fixed Interest Bonds	-	4,067	201,905	203,375	-	409,347
Inflation linked Bonds	-	1,658	13,902	214,496	-	230,056
Discount Securities	-	144,979	-	-	-	144,979
Floating Rate Notes	-	-	1,537	23,515	-	25,052
Indexed Annuity	-	-	-	39,930	-	39,930
Education building financing loan	-	-	7,851	-	-	7,851
Non Interest Bearing Investments	-	-	-	-	2,093,960	2,093,960
Other Assets	-	-	-	-	40,555	40,555
	58,294	150,704	225,195	481,316	2,134,515	3,050,024
<b>Weighted average interest rate</b>	<b>2.1%</b>	<b>5.1%</b>	<b>5.7%</b>	<b>4.6%</b>		
Contribution paid in Advance	-	-	-	-	1,431	1,431
Unpaid & Accrued Benefits Due	-	-	-	-	5,124	5,124
Provision for Employee Entitlements	-	-	-	-	1,974	1,974
Term Loan	-	16,648	78,992	523,423	-	619,063
Provision for Superannuation Liabilities	-	-	-	-	3,601	3,601
Sundry creditors	-	-	-	-	31,472	31,472
		16,648	78,992	523,423	43,602	662,665
<b>Weighted average interest rate</b>	<b>0.0%</b>	<b>6.8%</b>	<b>6.8%</b>	<b>6.8%</b>		
<b>Net Financial Assets (Liabilities)</b>	<b>58,294</b>	<b>134,056</b>	<b>146,203</b>	<b>(42,107)</b>	<b>2,090,913</b>	<b>2,387,359</b>

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## (d) Currency Risk Exposures

Currency risk is the risk of fluctuation in the value of overseas investments which are denominated in foreign currencies. The GESB, in consultation with its asset consultants, has diversified its overseas portfolio. The GESB believes that the long term benefits from investing overseas outweigh the effect of possible short-term currency fluctuations.

In the GESB's agreement with its external managers, the management of currency risk is covered in some detail. The GESB's international asset managers are able to use transactions such as currency forward contracts and swaps in order to hedge the currency exposure of the Fund. The terms of such contracts must not exceed one year, during which time 100% of the contract commitment must be covered at all times by cash, debt or equity securities denominated in the currency or one highly correlated with the currency sold forward.

Currency risk is managed on an ongoing basis by regular monitoring of the performance of the appointed investment managers.

The GESB's exposure at 30 June 2003 to foreign exchange rate movements on its international investments was as follows:

	US Dollar A\$'000	Euro A\$'000	Japanese Yen A\$'000	British Pound A\$'000	Other A\$'000	Total A\$'000
<b>30 June 2003</b>						
Gross investment amounts denominated in foreign currency	363,153	93,769	43,476	60,400	73,237	634,035
Less: Amount effectively hedged	(303,224)	(70,217)	(40,131)	(57,804)	(40,380)	(511,756)
Net exposure	59,929	23,552	3,345	2,596	32,857	122,279

## COMPARATIVES

	US Dollar A\$'000	Euro A\$'000	Japanese Yen A\$'000	British Pound A\$'000	Other A\$'000	Total A\$'000
<b>30 June 2002</b>						
Gross investment amounts denominated in foreign currency	440,400	142,529	74,307	96,678	83,088	837,002
Less: Amount effectively hedged	(256,593)	(68,332)	(43,711)	(51,313)	(36,608)	(456,557)
Net exposure	183,807	74,197	30,596	45,365	46,480	380,445

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## (e) Market Risk

Market risk relates to the risk of loss due to a change in market and economic conditions (eg. interest rate change, share price fluctuations or exchange rate fluctuations). The GESB invests in Australian and overseas equities, fixed interest securities, property and other financial securities and therefore is exposed to market risk on all of its investment assets.

## (f) Net Fair Values of Financial Assets and Liabilities

Net fair values of financial assets and liabilities are determined by the GESB after being adjusted for any transaction costs necessary to realise the asset and include any accrued interest. Transaction costs may include taxes, duties, fees, brokerage and commissions.

No financial assets are recognised or carried in excess of their net fair value.

Disclosures of hedges of anticipated future transactions are provided by the Fund Manager.

The GESB does not enter into or hold any commodity contracts.

## (g) Unitised Investments

The investment managers of unitised investment vehicles have investments in a variety of investment instruments, including derivatives that expose the GESB's investments to a variety of investment risks, including market risk, credit risk, interest risk and currency risk.

## NOTE 4: EMPLOYER CONTRIBUTIONS, BENEFIT PAYMENT AND OTHER INCOME

### 4a: Employer contributions

	2003 \$'000	2002 \$'000
<b>Pension Scheme</b>		
Employer's Share of Pensions	213,368	210,952
<b>Gold State Super</b>		
Employer Contributions – Recoup Agencies	39,831	36,349
Recoup Past Service Liabilities	13,650	8,120
Recoup Consolidated Fund Portion of Lump Sum Benefits	143,719	120,299
	197,200	164,768
<b>West State Super</b>		
Employer Contributions	255,479	204,796
Recoup Treasury Unfunded Liabilities	58,176	51,004
	313,655	255,800
<b>Total Employer Contributions</b>	<b>724,223</b>	<b>631,520</b>

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

**4b: Superannuation benefit payments**

	<b>2003 \$'000</b>	2002 \$'000
<b>Pension Scheme</b>		
Pensions	221,240	219,169
Commutation Lump Sums	1,812	1,496
Refunds of Contributions & Interest	707	649
Interest on Deferred Refunds	15	1
	223,774	221,315
<b>Gold State Super</b>		
Retirement	148,380	166,118
Disability	36,125	37,042
Retrenchment/Death	11,725	7,910
	196,230	211,070
<b>West State Super</b>		
Retirement	68,501	66,027
Disability	7,603	7,520
Retrenchment/Death	4,273	3,772
	80,377	77,319
<b>Retirement Access</b>	11,999	-
<b>Retirement Income</b>	50	-
<b>Total Superannuation Benefits Payments</b>	512,430	509,704

**4c: Other income**

	<b>2003 \$'000</b>	2002 \$'000
<b>Benefit Payment Fee</b>	260	269
<b>Total Other Income</b>	260	269

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## NOTE 5: LIABILITY FOR ACCRUED BENEFITS

The latest valuation of accrued benefits was undertaken by the GESB's actuary, Mercer Human Resource Consulting Pty Ltd, as part of their comprehensive investigation of the Fund as at 30 June 2003, in accordance with the provisions of Section 17 of the *State Superannuation Act 2000*.

### GROSS ACCRUED BENEFITS

The liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries, and has been calculated on the basis of the present value of payments expected to occur in respect of those obligations which arise from membership of the Fund up to measurement date. The amount stated has been determined by adding the liability for accrued benefits related to funded liabilities and the unfunded liabilities in respect of completed membership (see below).

	Gold State Super		West State Super		Pension Scheme		Retirement Access		Retirement Income		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Gross Accrued Benefits</b>	3,465,197	3,415,589	1,677,340	1,390,801	2,707,592	2,748,372	29,482	-	3,496	-	7,883,107	7,554,762

### LIABILITY FOR ACCRUED BENEFITS RELATED TO FUNDED LIABILITIES

The liability for accrued benefits of the Fund related to funded liabilities as at 30 June 2003, was calculated by the GESB's actuary and determined by reference to expected future salary levels and by application of market-based, risk-adjusted discount rates appropriate to the expected investment returns of the Fund and other relevant actuarial assumptions.

This value may be compared to the net assets of the Fund for the purpose of considering the financial position of the Fund as at balance date. Details of this liability are set out below:

	Gold State Super		West State Super		Pension Scheme		Retirement Access		Retirement Income		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Accrued Liability Relate to Funded Liabilities</b>	1,196,197	1,255,589	1,074,924	771,738	103,592	101,372	29,482	-	3,496	-	2,407,691	2,128,699

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## UNFUNDED LIABILITIES IN RESPECT OF COMPLETED MEMBERSHIP

A proportion of member benefits is only funded by employers upon the emergence or payment of member entitlements.

The DTF, for their own purposes, has determined the value of the unfunded liabilities of employers (ie. the Government) which have arisen in respect of membership of the Fund up to 30 June 2003, based on advice from the actuarial firm, PricewaterhouseCoopers Securities Ltd. The PricewaterhouseCoopers Securities Ltd valuation of unfunded liabilities adopts a different discount rate to that adopted for funded liabilities. The discount rate adopted is a long-term Government guaranteed security rate.

The GESB's actuary considered it appropriate that these values be taken as the amount of the Fund's unfunded liabilities in respect of completed membership as these amounts will not be funded from the Fund's investments. These values are as follows:

	Gold State Super		West State Super		Pension Scheme		Retirement Access		Retirement Income		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Unfunded Liabilities In Respect of Completed Membership</b>	2,269,000	2,160,000	602,416	619,063	2,604,000	2,647,000	-	-	-	-	5,475,416	5,426,063

The unfunded liability in respect of West State Super stands at \$602m as at 30 June 2003. An agreement was reached with the State Government that this unfunded amount would be discharged over a 20 year period commencing 15 July 2001.

## RESERVES

In addition to the above funded liabilities, the actuary recommends that the schemes retain a portion of their assets as explicit reserves against investment fluctuations, mortality deterioration and insurance claims as set out below.

Summary	Gold State Super		West State Super		Pension Scheme		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Minimum Benefit Guarantee Reserve</b>	-	-	37,065	42,334	-	-	37,065	42,334
<b>Loan Interest Accrual Reserve</b>	-	-	(8,522)	(8,739)	-	-	(8,522)	(8,739)
<b>Investment Fluctuation Reserve</b>	166,362	66,000	-	-	-	3,000	162,899	69,000
<b>Mortality Deterioration Reserve</b>	-	-	-	-	-	-	-	-
<b>Insurance Claim Reserve</b>	5,000	5,000	5,000	5,000	-	-	10,000	10,000
<b>Administration Reserve</b>	106,000	-	-	-	-	-	106,000	-
<b>Total Reserves at 30th June</b>	277,362	71,000	33,543	38,595	-	3,000	310,905	112,595

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

Movement in Reserves	Gold State Super		West State Super		Pension Scheme		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Minimum Benefit Guarantee Reserve</b>								
Balance 1st July	-	-	42,334	46,000	-	-	42,334	46,000
Transfer from Loan								
Interest Accrual Reserve	-	-	(217)	2,567	-	-	(217)	2,567
Miscellaneous adjustment	-	-	(152)	1,455	-	-	(152)	1,455
Investment earnings	-	-	(419)	(2,119)	-	-	(419)	(2,119)
(Under)/Over recovery of								
Administration costs	-	-	(2,965)	(5,693)	-	-	(2,965)	(5,693)
Transfer from Insurance Reserve	-	-	2,584	2,301	-	-	2,584	2,301
Applied against Minimum								
Benefit Guarantee	-	-	(4,100)	(2,177)	-	-	(4,100)	(2,177)
<b>Balance at 30 June</b>	-	-	37,065	42,334	-	-	37,065	42,334
<b>Loan Interest Accrual Reserve</b>								
Balance 1 July	-	-	(8,739)	-	-	-	(8,739)	-
Transfer to Minimum Benefit								
Guarantee Reserve	-	-	217	(2,567)	-	-	217	(2,567)
Current year movement in accrual	-	-	-	(6,172)	-	-	-	(6,172)
<b>Balance at 30 June</b>	-	-	(8,522)	(8,739)	-	-	(8,522)	(8,739)
<b>Investment Fluctuation Reserve</b>								
Balance 1 July	66,000	253,000	-	-	3,000	14,000	69,000	267,000
Amount (utilised)/credited								
during current year	110,362	(187,000)	-	-	(3,000)	(11,000)	97,362	(198,000)
Transfer to Minimum								
Benefit Guarantee Reserve	-	-	-	-	-	-	-	-
<b>Balance at 30 June</b>	166,362	66,000	-	-	-	3,000	166,362	69,000

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

Movement in Reserves	Gold State Super		West State Super		Pension Scheme		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Mortality Deterioration Reserve</b>								
Balance 1 July	-	-	-	-	-	10,000	-	10,000
Amount (utilised)/credited during current year	-	-	-	-	-	(10,000)	-	(10,000)
<b>Balance at 30 June</b>	-	-	-	-	-	-	-	-
<b>Insurance Claim Reserve</b>								
Balance at 1 July	5,000	5,000	5,000	5,000	-	-	10,000	10,000
Surplus for the year	-	-	2,584	2,301	-	-	2,584	2,301
Transfer to Minimum Guarantee Reserve	-	-	(2,584)	(2,301)	-	-	(2,584)	(2,301)
<b>Balance at 30 June</b>	5,000	5,000	5,000	5,000	-	-	10,000	10,000
<b>Administration Reserve</b>								
Balance at 1 July	-	-	-	-	-	-	-	-
Amount (utilised)/credited during current year	106,000	-	-	-	-	-	106,000	-
<b>Balance at 30 June</b>	106,000	-	-	-	-	-	106,000	-

## Minimum Benefit Guarantee Reserve

Under the West State Super rules, each member is guaranteed a benefit equal to the greater of the balance of their account at the date of exit and the balance of their account as at 30 June 2001 indexed by CPI plus 2% to the exit date. The minimum benefit guarantee reserve is designed to fund any amounts payable under this guarantee which are the greater than the balance of the member's account at the exit date.

As at 30 June 2003, if all members had exited West State Super at that date, the amount that would be payable under the guarantee would have been \$46.7m (2002, \$40.8m). This is the maximum exposure of the fund at that date and is greater/less than the balance of the minimum benefit guarantee reserve at that date. This exposure for each individual member will increase or decrease in the future as follows:

- it will decrease for any contributions made on behalf of the member
- it will increase or decrease to the extent that future earnings of the fund are less than or greater than CPI plus 2%.

It is expected that the value of the guarantee will reduce for active members as contributions are made. It will however remain significant for deferred members.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## Loan Interest Accrual Reserve

The loan interest accrual reserve is in respect of interest accrued on the loan from Western Australian Treasury Corporation at year end. A mismatch occurs for the amount of the accrual as the contribution to be received from Western Australian Treasury which funds the payment of the interest expense has not yet been received at year end and is not accrued in the financial statements. The mismatch reserve is expected to decrease to nil over the life of the arrangement.

## Investment Fluctuation Reserve

The investment fluctuation reserve is designed to assist in smoothing the impact of fluctuations in investment earnings over time and to protect the Fund against a period of sustained poor investment reserves. At present the Pension Scheme does not have sufficient assets to finance an investment fluctuation reserve. The West State Super Scheme does not require an investment fluctuation reserve.

## Mortality Deterioration Reserve

This reserve was created in the past to protect the Pension Scheme against any adverse mortality experience. At present the Pension Scheme does not have sufficient assets to finance a mortality deterioration reserve.

## Insurance Claim Reserve

This reserve is designed to protect the Fund from any losses or unrecognised claims that might arise from its practice of self-insurance for death and disability expense.

## Administration Reserve

This reserve makes provision for future costs of administering the schemes which are not recovered from the members and the future costs of providing advice and assistance to the Government.

## NOTE 6: VESTED BENEFITS

Australian Accounting Standard AAS25 requires the disclosure of vested benefits as at 30 June 2003. The latest determination of vested benefits was undertaken by the GESB's actuary, Mercer Human Resource Consulting Pty Ltd, as part of a comprehensive investigation of the Fund. The levels of vested benefits, as reported by the actuary are as follows:

	Gold State Super		West State Super		Pension Scheme		Retirement Access		Retirement Income		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Gross Vested Benefits</b>	3,779,118	3,527,997	1,724,016	1,431,578	2,377,237	2,323,928	29,482	-	3,496	-	7,913,349	7,283,503

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

The liability for vested benefits of the Fund related to funded liabilities as at 30 June 2003 may be compared to the net assets of the Fund at reporting date for the purpose of considering the financial position of the Fund as at balance date. These values are as follows:

	Gold State Super		West State Super		Pension Scheme		Retirement Access		Retirement Income		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Vested Benefits Related to Funded Liabilities</b>	1,278,186	1,402,026	1,121,600	812,508	103,592	101,372	29,482	-	3,496	-	2,489,680	2,315,906

The discount rate adopted to value vested benefits was the same rate adopted by the GESB's actuary to value funded accrued benefits.

The West State Super Scheme vested benefits are calculated on the assumption that all members exit the scheme on balance date and accordingly includes the full cost of the minimum benefits guarantee.

## NOTE 7: GUARANTEED BENEFITS

The payment of benefits to members or their beneficiaries of the lump sum schemes is guaranteed by the State under Section 31 of the *State Superannuation Act 2000*.

Benefits paid to members and beneficiaries of the Pension Scheme and Provident Account are guaranteed to the extent that Sections 30, 46, 62 and 83AA of the *Superannuation and Family Benefits Act 1938* (continued under section 26 (Transitional and Consequential Provisions) of the *State Superannuation Act 2000*) provide for the State to pay the required employer share of benefits. The Consolidated Fund is permanently appropriated for the purpose of meeting the State's obligations.

## NOTE 8: EMPLOYER FUNDING ARRANGEMENTS

The funding policy adopted by the Government in respect of the Fund is directed at ensuring that benefits accruing to members and beneficiaries are fully funded at the time benefits become payable. As such, the Actuary has considered long-term trends in such factors as scheme membership, salary growth and average market value of Fund assets when advising the Government on employer and employee contribution rates. The employer funding arrangements under the *Government Employees Superannuation (GES) Act* (Gold State Super and West State Super) and the *Superannuation and Family Benefits Act* (Pension Scheme) are summarised as follows:

### (a) Gold State Super

Those employers listed in Division 2 of Schedule 1 of the *State Superannuation Regulations 2002* are required under Regulations 29 and 30 to make concurrent employer contributions direct to the Fund in respect of contributory members who are their employees.

The remaining employers, as listed under Division 1 of Schedule 1 of the *State Superannuation Regulations 2002*, are not required to make concurrent contributions. It is Government policy that these employer liabilities be met from the Consolidated Fund at the time that the benefits become payable to members.

## Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

The employer contribution rate for 2002/03 for contributory members was 12% (2001/02: 12%) of a member's salary, based on a 5% member contribution. The employer contribution rate is proportionately less or more where members elect for a contribution rate of 3%, 4%, 6% or 7% of salary. The Consolidated Fund liability for 2002/03 was assessed at 70.59% (2001/02: 70.59%) of the contributory service benefit and is payable at the time payment is made to the member.

In respect of those members who transferred their membership from the Pension Scheme, the employer liability in relation to service or period of employment constituted as service for the purposes of the *Superannuation and Family Benefits Act*, is calculated at a rate of 12% of final average salary for each year of such service, based upon a 5% member's average contribution rate to the scheme (this rate is proportionately less where a member's average contribution rate is less than 5%). This employer liability becomes payable on the emergence (Division 1, Schedule 1 Employers) or payment (Division 2, Schedule 1 Employers) of the benefit to the member.

In the former case, contributions are unfunded but notional contributions are placed in departmental budgets so that the superannuation component is accurately reflected in an agency's financial statements. The agency forwards the notional Gold State Super contribution to the GESB and these are credited direct to a DTF bank account (refer also to Note 1 (b)).

### **(b) West State Super**

West State Super was established with effect from 1 July 1992 to comply with the provisions of the *Commonwealth Superannuation Guarantee (Administration) Act 1992*. The employer contribution rate payable is determined under Commonwealth legislation. Since 1 July 2002 the rate has been 9%.

In 2001, the State Government agreed to discharge the unfunded liability in West State Super through an amortisation arrangement which provided the GESB with a fixed income stream over a period of twenty years. As a result, the GESB was able to fully fund West State Super accounts and introduce Member Investment Choice from 1 July 2001. To achieve this, the GESB entered into a fixed term borrowing arrangement with the West Australian Treasury Corporation over twenty years and used the funds raised to invest on behalf of members.

### **(c) Pension Scheme**

The Pension Scheme is a unit-based scheme. The level of pension payable is determined by the number of units purchased, the length of service and the final salary of the member. The employer liability is funded only on the emergence of a member's pension benefit entitlement and is recouped fortnightly following the payment of each pension.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## NOTE 9: ADMINISTRATION EXPENSES

Details of administration expenses incurred by the GESB during the year ended 30 June 2003 are set out below:

		<b>2002/03 Actual</b>	<b>2002/03 Budget</b>	<b>Variance Actual to Budget</b>	<b>Variance Actual to Budget</b>	2001/02 Actual	Variance Actual to Actual	Variance Actual to Actual
		\$	\$	\$	%	\$	\$	%
Employment Expenses	(i)	12,766,595	13,205,342	(438,747)	(3.3)	10,750,953	2,015,642	18.7
Professional Fees (actuarial, legal, medical, audit and consultancy fees)	(ii)	1,480,461	1,592,750	(112,289)	(7.0)	1,818,957	(338,496)	(18.6)
Electronic Data Processing Costs	(iii)	4,240,919	4,364,120	(123,201)	(2.8)	4,824,389	(583,470)	(12.1)
Other Administration Costs	(iv)	4,516,962	5,776,687	(1,259,725)	(21.8)	3,763,176	753,786	20.0
		23,004,937	24,938,899	(1,933,962)	(7.8)	21,157,475	1,847,462	8.7
Less:								
Capitalised Operating Costs	(v)	-	-	-	-	(1,284,223)	1,284,223	100.0
Investment Administration Costs	(vi)	(1,196,657)	(712,399)	(484,258)	68.0	(1,219,466)	22,809	1.9
Recoup of costs incurred in the administration of the Parliamentary Superannuation Scheme and Judicial Pension Scheme		(578,286)	(480,000)	(98,286)	20.5	(400,000)	(178,286)	44.6
Administration Costs Excluding Changes in Market Value of Assets		21,229,994	23,746,500	(2,516,506)	(10.6)	18,253,786	2,976,208	16.3
Changes in Net Market Values Other Assets	(vii)	5,992,368	5,959,000	33,368	0.6	4,297,271	1,695,097	39.4
<b>Total Schemes Administration Costs</b>		<b>27,222,362</b>	<b>29,705,500</b>	<b>(2,483,138)</b>	<b>(8.4)</b>	<b>22,551,057</b>	<b>4,671,305</b>	<b>20.7</b>

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## Notes on Major Variances in Administration Expenditure

In accordance with Treasurer's Instruction 945, the following notes are provided where there is 'significant variation' between Actual expenditure and Budget or the prior year's Actual.

'Significant variation' is defined as a variance from Actual or Budget of greater than 10% of total administrative expenditure or \$200,000, whichever is smaller.

### (i) Employment Expenses

#### (a) 2002/03 Current/Previous (Increased cost \$2,015,642)

- Enterprise Bargaining Agreement and Workplace Agreement wage increase.
- Additional staff to support e-business implementation.
- Increased staff for corporate public relations initiative and member service improvements.
- Increased staff to assist in feasibility studies on financial advisory services and organisational structure efficiency.
- There was an increase in funded redeployees in 2002/03.

#### (b) 2002/03 Actual to Budget (Decreased costs \$438,747)

- An amount of \$523,389 in salaries was capitalised as part of product and software development costs.

### (ii) Professional Fees

#### 2002/03 Current/Previous Years Actual (Decreased cost \$338,496)

- Expenditure in 2001/02 included additional actuarial expertise and legal opinion in the context of introducing new superannuation products and managing changes in legislative framework.
- Expenditure on IT support for the newly implemented systems completed in 2000/01.

### (iii) Electronic Data Processing Costs

#### Current/Previous Years Actual (Decreased cost \$583,470)

- Expenditure in 2001/02 included the start-up costs associated with the first year of IT Outsourcing and additional costs for support to the Capital system, Electronic Imaging and Workflow and Member Investment Choice.

### (iv) Other Administration Costs

#### (a) 2002/03 Actual to Budget (Decreased cost \$1,259,725)

- The budget included amounts for the provision of financial advice to members which did not proceed.

#### (b) Current/Previous Years Actual (Increased cost \$753,786)

- Increase due to the postponement of a number of marketing activities from 2001/02 to 2002/03.
- GST irrecoverable higher in 2001/02 (\$367,626) than 2002/03 (\$564,679).
- Increased telecommunication expenditure in 2002/03.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## **(v) Capitalised Operating Costs**

*Current/Previous Years Actual (Decreased cost \$1,284,223)*

- Overhead and support costs are no longer capitalised.

## **(vi) Investment Administration Costs**

*(a) 2002/03 Actual to Budget (Increased cost \$484,258)*

- Higher costs of \$484,258 due to allocation of overhead and support costs to investment administration. Budget estimate does not include allocation of overhead and support cost.

*(b) Current/Previous Years Actual (Increased cost of \$1,196,657)*

- Included as part of overall Administration costs in 2001/02.

## **(vii) Changes in Net Market Values Other Assets**

*Current/Previous Years Actual (Increase cost \$1,695,097)*

- Amortisation of Software Development Expenditure at 33.33% over an increased cost pool.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## NOTE 10: TAXATION

	<b>2003 \$'000</b>	2002 \$'000
<b>Income Tax Expense</b>		
Changes in net assets before tax	321,946	77,971
Changes in net assets related to constitutionally protected scheme	(287,547)	(77,971)
Total change in net assets related to Retirement Products	34,399	-
Prima facie income tax expense calculated at 15% (2002 Nil) on the net surplus/(deficit) from ordinary activities	5,159	
Increase in income tax expense due to		
- Benefits paid	1,804	-
- Non deductible expenses	17	-
Decrease in income tax expense		
- Income from Managed Portfolio	(7)	-
- Members' contributions	(3,578)	-
- Transfers In	(466)	-
- Imputation Credits	(17)	-
Income Tax Expense	2,913	-
<b>Current Tax Liabilities</b>		
Provision for current income tax		
Balance at beginning of year	-	-
Income tax paid		
- Current year	-	-
- Prior year	-	-
Current years income tax provision	2,906	-
	2,906	-

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

	2003 \$'000	2002 \$'000
<b>Deferred Tax Liabilities</b>		
<i>Provision for deferred income tax</i>		
Provision for deferred income tax comprises the estimated expense at the applicable rate of 15% on the following items:		
Accrued income	5	-
Unrealised capital gains	36	-
	41	-
<b>Deferred Tax Assets</b>		
<i>Future income tax benefit</i>		
Future income tax benefit comprise the estimated benefit at the applicable rate of 15% on the following items:		
Capital Losses carried forward	34	-
	34	-

## NOTE 11: APPORTIONMENT OF NET ASSETS

Section 16 of the *State Superannuation Act 2000* requires the GESB to maintain such accounts within the Fund that are considered necessary for the management of the Fund and its separate elements and provides guidelines for the apportionment of investment income and expenses between those elements of the Fund.

Contribution receipts and benefit payments have been directly allocated to the relevant scheme.

Investment income and expenses (Note 2) and Fund administration costs (Note 9) have been apportioned between the schemes as follows:

**(a) Apportionment of Investment Income**

Section 22 of the *State Superannuation Act 2000* provides that the GESB is to allocate earnings derived from the investment of the fund between the schemes in accordance with the Treasurer's guidelines and otherwise as it considers appropriate. The GESB's policy until 1 July 2001 had been to divide the income between the schemes based on the monthly aggregate of the amounts standing to the credit of each scheme during the year. Commencing 1 July 2001 as a result of the introduction of Member Investment Choice, the income attributable to West State Super has been allocated in accordance with the income actually credited to member accounts. The balance of income has been allocated to other schemes and to the West State Super reserves on the same basis as in previous years.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## (b) Apportionment of Administration Expenses

The cost of Fund administration has been allocated between the various Schemes using an activity based costing model.

For the purposes of apportionment of the net assets of the Fund, Government related costs have not been charged against West State Super but have been deducted from the remaining assets of the Fund. Insurance costs have been allocated to schemes based on the number of benefits paid and the average processing time for each benefit.

As a result, the Net Assets of the Fund have been apportioned between the elements of the Fund (ie. Schemes) as follows:

	<b>2003 \$'000</b>	2002 \$'000
Gold State Super	1,473,559	1,473,558
West State Super	1,108,467	810,332
Pension Scheme		
- Pensions	93,123	103,424
- Provident Account	267	296
Retirement Access	28,040	(251)
Retirement Income	2,936	-
	<b>2,706,392</b>	<b>2,387,359</b>

The negative amount shown for Retirement Products in 2002 represents the amount of development and associated costs incurred for the year.

## NOTE 12: FIXED ASSETS

Fixed assets comprise computer hardware and software, computer software development projects and office furniture and equipment. These assets are recorded at written down (depreciated or amortised) values. Details are as follows:

	<b>2003</b>		2002	
	<b>\$'000</b>	<b>\$'000</b>	\$'000	\$'000
Computer Hardware Costs	4,786		4,157	
Less: Provision for Depreciation	2,967	1,819	2,548	1,609
Computer Software Costs	25,048		20,478	
Less: Accumulated Amortisation	9,766	15,282	4,412	16,066
Office Furniture, Equipment and Renovations	3,970		3,588	
Less: Provision for Depreciation	2,763	1,207	2,545	1,043
		<b>18,308</b>		<b>18,718</b>

# Notes to and forming part of the Financial Statements

for the Year Ended 30 June 2003

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

## 2003

	Computer Hardware	Computer Software	Office Furniture, Equipment and Renovations	Total
	\$'000	\$'000	\$'000	\$'000
<b>Carrying amount at start of year</b>	1,609	16,066	1,043	18,718
<b>Additions</b>	630	4,571	381	5,582
<b>Disposals</b>	-	-	-	-
<b>Depreciation/amortisation expense</b>	(420)	(5,355)	(217)	(5,992)
<b>Carrying amount at end of year</b>	1,819	15,282	1,207	18,308

## 2002

	Computer Hardware	Computer Software	Office Furniture, Equipment and Renovations	Total
	\$'000	\$'000	\$'000	\$'000
Carrying amount at start of year	1,653	13,010	890	15,553
Additions	638	6,553	284	7,475
Disposals	(7)	-	(6)	(13)
Depreciation/amortisation expense	(675)	(3,497)	(125)	(4,297)
Carrying amount at end of year	1,609	16,066	1,043	18,718

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## NOTE 13: SUNDRY DEBTORS AND CREDITORS

### (a) Sundry Debtors

Represented by:

	2003		2002	
	\$'000	\$'000	\$'000	\$'000
<b>Investments</b>				
Rents / Interest	2,257		1,863	
Accrued Interest	38		40	
		2,295		1,903
<b>Superannuation Pension Scheme</b>				
Recoup State's Share of Pensions	4,808		4,760	
Overpaid Pensions	-		73	
		4,808		4,833
<b>Gold State Super</b>				
Employer Contributions	18,100		8,000	
Contribution Arrears	1,953		1,878	
Overpaid Benefits	-		95	
		20,053		9,973
<b>West State Super</b>				
Employer Contributions	739		732	
Overpaid Benefits	-		67	
		739		799
<b>Other Debtors</b>		621		1,853
		28,516		19,361

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## (b) Sundry Creditors

Represented by:

### Investments

Management Fees

### Pension Scheme

State's Share of Pension Recoups

### Gold State Super

Benefits Due and Payable

Employer Contributions – Treasury Repayment

### West State Super

Benefits Due and Payable

Western Australian Treasury Corporation Interest

### Retirement Income

### Other Creditors and Accruals

<b>2003</b> <b>\$'000</b>	2002 \$'000
1,755	1,746
-	36
537	3,989
-	14,289
175	497
8,522	8,739
20	-
3,123	2,176
<b>14,132</b>	<b>31,472</b>

## NOTE 14: PROVISION FOR EMPLOYEE ENTITLEMENTS

The provision for employee entitlements for long service leave and annual leave has been calculated by the Actuary, Mercer Human Resource Consulting Pty Ltd, in accordance with the provisions of the revised Accounting Standard AASB 1028.

The value of leave entitlements has been estimated at:

### Current Liability

Long Service Leave

Annual Leave

### Non - Current Liability

Long Service Leave

### Number of Employees (Head Count)

<b>2003</b> <b>\$'000</b>	2002 \$'000
372	347
838	693
<b>1,210</b>	<b>1,040</b>
1,064	934
<b>2,274</b>	<b>1,974</b>
<b>212</b>	<b>180</b>

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## NOTE 15: PROVISION FOR SUPERANNUATION LIABILITIES

The GESB's employees have an entitlement to superannuation under the *State Superannuation Act 2000*.

The Pension Scheme was closed to new members on 15 August 1986. The scheme is unit based with the level of member pension entitlements being determined by the number of units purchased at the date of retirement, recognised service and the member's final salary. The employer liability is funded only on the emergence of each fortnightly pension payment.

Gold State Super and West State Super are concurrently funded by the GESB in accordance with the rates prescribed within the relevant sections of the State Superannuation Regulations 2002. The payment of these employer contributions fully meets the GESB's current superannuation obligations in respect of its employees who are members of these schemes.

In respect of current employees who transferred from the Pension Scheme to Gold State Super, the GESB has an unfunded liability in relation to the period of aggregate service completed prior to transfer. This liability is calculated at the rate of 12% of the employees' final average salary and is payable upon the emergence of the entitlement.

The disclosure required by paragraph 51(e)(i)(B) of AAS 30 in respect of defined benefit superannuation plans sponsored by the employer as being the employer's share of the difference between employees' accrued entitlements and the attributable net market value of the plan's assets, has not been reported. Any actuarial surplus/deficiency, under either of the schemes, is recognised by the State in its whole of government reporting. Any amount thereof that could be attributed to the GESB is not readily available as this information is not maintained at an employer level and the benefit of the disclosure of such information would be exceeded by the costs of deriving it.

The GESB's unfunded superannuation liability has been recognised by provision in the Statement of Net Assets at the present value of the future expected payments, in relation to:

	<b>2003</b> <b>\$'000</b>	2002 \$'000
The value of the employer financed portion of future pension payments to Pension Scheme Members	1,957	1,967
The employer cost of accumulated benefits earned by current employees who are contributors to the Pension Scheme	104	95
The accumulated liability in relation to the transferred service of employees who transferred to Gold State Super	1,524	1,539
	<b>3,585</b>	<b>3,601</b>
	<b>2003</b>	2002
Number of staff who are members of the Pension Scheme	1	1

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

The liability has been established by reference to each employee/pensioner entitlement and application of actuarial factors for determination of the net present value of the GESB's unfunded liability.

The liability for the superannuation charges under the *State Superannuation Act 2000* is extinguished by the payment of employer contributions to the GESB.

## NOTE 16: TERM LOAN FROM WESTERN AUSTRALIAN TREASURY CORPORATION

The Term Loan from Western Australian Treasury Corporation commenced on 30 May 2001 and was incurred to enable the balances on West State Super member's accounts at 1 July 2001 to be fully funded from an investment perspective. This funding was a prerequisite for Member Investment Choice, as all monies had to be available to be invested in accordance with the Plans chosen by members of West State Super.

The loan is unsecured and is repayable in quarterly instalments over 20 years. It bears interest at a fixed rate of 6.5699% p.a., plus a government fee of 0.2000% p.a. The interest brought to account for the period to 30 June 2003 is \$41,442,541 (2002: \$41,480,818).

The loan was entered into following successful negotiations with the State Government in regard to an agreed payment schedule to discharge the unfunded West State Super liability over twenty years. Refer also Note 8.

## NOTE 17: REMUNERATION OF MEMBERS OF THE BOARD AND SENIOR OFFICERS

The total fees, salaries and other benefits received or due and receivable from the GESB or any related body for the financial year by:

	2003 \$	2002 \$
Members of the Board	175,461	164,503
Senior Officers	857,876	777,871

The number of members of the Board whose total fees, salaries and other benefits received or due and receivable for the financial year, falls within the following bands:

	2003	2002
\$1 - \$10,000	1	1
\$10,001 - \$20,000	1	1
\$20,001 - \$30,000	4	3
\$40,001 - \$50,000	1	-
\$50,001 - \$60,000	-	1
	7	6

The Board is comprised of seven Board Directors. During 2002/03, remuneration in accordance with Section 8(2) of the *State Superannuation Act 2000*, was paid to seven Board Members. The remaining two Members of the Board namely, P.J. Farrell and D. Robertson do not receive any fees or other benefits because government policy does not allow such payments to persons in public sector employment.

## Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

The number of Senior Officers whose total of salaries and other benefits received or due and receivable for the financial year, falls within the following bands:

	<b>2003</b>	2002
\$40,001 - \$50,000	-	1
\$100,001 - \$110,000	1	2
\$110,001 - \$120,000	1	1
\$130,001 - \$140,000	1	-
\$170,001 - \$180,000	-	1
\$190,001 - \$200,000	-	-
\$210,001 - \$220,000	-	1
\$220,001 - \$230,000	2	-
	<b>5</b>	<b>6</b>

“Senior Officer” represents a person, by whatever name called, who is concerned with or takes part in the management of the Board, but excludes any person acting in such a position for a limited period.

### NOTE 18: RETIREMENT BENEFITS

In respect of members of the Board and Senior Officers, the following amounts were paid or became payable during the financial year:

	<b>2003</b>	2002
	<b>\$</b>	<b>\$</b>
Members of the Board		
Gold State Super	-	-
West State Super	5,690	12,185
Senior Officers		
Gold State Super	-	76,386
West State Super	-	19,672

### NOTE 19: REMUNERATION OF AUDITOR

The total fee paid or due and payable to the Auditor General for the financial years was as follows:

	<b>2003</b>	2002
	<b>\$</b>	<b>\$</b>
Fee for Audit	150,500	202,000

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## NOTE 20: RELATED PARTY TRANSACTIONS

No related party transactions occurred during the current or previous financial years.

## NOTE 21: WRITE-OFFS

Write-offs of \$18,057 were made during the current financial year. No write-offs were made for the previous financial year.

## NOTE 22: COMMITMENTS

The GESB has a continuing commitment in relation to Outsourced Information Technology services. The financial commitment on this contract depends on the estimated level of base level services per year until the contract termination date on 31 March 2006. The total base level services for 2003/04 and subsequent years has been estimated at \$3.9m per annum.

## NOTE 23: EXPLANATORY STATEMENT

In accordance with Treasurer's Instruction 945, this statement compares 2002/03 Income and Expenditure as shown within the Statement of Operations with:

(a) The 2002/03 Budget figures published in the 2003 Annual Report

(b) The 2002/03 Income and Expenditure figures

	Notes	2002/03 Actual \$'000	2002/03 Budget \$'000	Variance Actual to Budget \$'000	Variance Actual to Budget %	2001/02 Actual \$'000	Variance Actual to Actual \$'000	Variance Actual to Actual %
<b>REVENUE FROM ORDINARY ACTIVITIES</b>								
<b>Investment Income</b>								
Investment Income	(i)	11,376	275,983	(264,607)	(96)	(117,652)	129,028	110
Less: Investment Expenses	(ii)	(8,373)	(9,554)	1,181	12	(8,398)	25	0
<b>Investment Income</b>		<b>3,003</b>	<b>266,429</b>	<b>(263,426)</b>	<b>(99)</b>	<b>(126,050)</b>	<b>129,053</b>	<b>102</b>

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

	Notes	2002/03 Actual \$'000	2002/03 Budget \$'000	Variance Actual to Budget \$'000	Variance Actual to Budget %	2001/02 Actual \$'000	Variance Actual to Actual \$'000	Variance Actual to Actual %
<b>Superannuation Income</b>								
Contributions								
Employee		111,300	105,713	5,587	5	113,872	(2,572)	(2)
Employer								
Pension Scheme		213,368	219,042	(5,674)	(3)	210,952	2,416	1
Gold State Super	(iii)	197,200	185,159	12,041	7	164,768	32,432	20
West State Super	(iv)	313,655	329,529	(15,874)	(5)	255,800	57,855	23
Inward Transfer from Other Funds	(v)	62,404	30,000	32,404	108	32,456	29,948	93
Rollover into Retirement Products	(vi)	1,851	-	1,851	-	-	1,851	100
Other Income		260	-	260	-	269	(9)	(3)
<b>Sub Total</b>		900,038	869,443	30,595	4	778,117	121,921	16
<b>Total Revenue From Ordinary Activities</b>		903,041	1,135,872	(232,831)	(20)	652,067	250,974	38
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>								
<b>Superannuation Benefits</b>								
Pension		223,774	226,230	(2,456)	(1)	221,315	2,459	1
Gold State Super	(vii)	196,230	260,294	(64,064)	(25)	211,070	(14,840)	(7)
West State Super	(viii)	80,377	92,870	(12,493)	(13)	77,319	3,058	4
Retirement Access		11,999	-	11,999	-	-	11,999	100
Retirement Income	(ix)	50	-	50	-	-	50	100
<b>Administration Expenses</b>	(x)	21,230	23,747	(2,517)	(11)	18,254	2,976	16
<b>Loan Interest</b>		41,443	41,529	(86)	-	41,841	(398)	(1)
<b>Changes in Net Market Values</b>								
<b>Other Assets</b>	(xi)	5,992	5,959	33	1	4,297	1,695	39
<b>Total Expenses from Ordinary Activities</b>		581,095	650,629	(69,534)	(11)	574,096	6,999	1
<b>OPERATING RESULT BEFORE TAX FOR THE YEAR</b>		321,946	485,243	(163,297)	(34)	77,971	243,975	313

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## NOTES TO THE EXPLANATORY STATEMENT

The following notes are supplied only where a variance from Budget or prior year's Actuals is greater than 10%, is material and/or deemed significant in the context of the operations of the GESB.

### **(i) Investment Income**

Income from investments was \$264.6m (-96%) lower than budget. This was caused by the adverse economic conditions experienced in the Australian and Overseas capital markets. However, the economic conditions improved in 2002/03, resulting in a \$129.0m (110%) increase in income over that of the previous year. Details on investment income are contained in Note 2 of these Statements.

### **(ii) Investment Expenses**

Investment expenses were \$1.18m (12%) below budget due to efficiency measures in managing this expenditure.

### **(iii) Employer Contributions (Gold State Super)**

Gold State Super was closed to new members with effect from December 1995. The increase of \$32.4m (20%) in Gold State Super employer contributions in comparison to 2001/02 was due to the additional current year recoup from agencies for previous years contributions and recoup of lump sum benefits paid.

### **(iv) Employer Contributions (West State Super)**

West State Super Employer contributions were \$57.8m (23%) higher than last year due to an increase in membership and general increase in salaries.

### **(v) Inward Transfer from Other Funds**

The higher than expected Inward Transfer from Other Funds when compared to budget estimates and to the previous year's actual was a result of the introduction of Member Investment Choice and the marketing activities in promoting GESB.

### **(vi) Rollover to Retirement Access and Retirement Income**

Retirement Access and Retirement Income are the new Retirement Products which commenced in 2002/03. A total of \$42.3m was rolled into Retirement Access and \$3.5m into Retirement Income. \$1.8m of the monies received came from external sources .

### **(vii) Benefit Payments – Gold State Super**

The decrease of \$64.1m (25%) in Gold State Super benefit payments compared to budget was due to a lower than expected number of retirements, resignations, deaths and retrenchments and members transferring their benefits into Retirement Products. The decrease of \$14.8m (7%) in Gold State Super benefit payments when compared to 2001/02 is a result of retiring members transferring their benefits to Retirement Products. Transfers from Gold State Super to Retirement Products are transactions within the fund and are eliminated from the benefits shown in the Financial Statements.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## **(viii) Benefit Payments – West State Super**

The decrease of \$12.5m (135%) in West State Super payments compared to budget was due to lower than expected number of retirements, resignations, deaths and retrenchments. The increase of \$3.1m (4%) in West State Super benefit payments when compared to 2001/02 was due to the higher number of members exiting West State Super in 2002/03.

## **(ix) Payments – Retirement Access and Retirement Income**

Total retirement income paid out during the year was \$50,000.

## **(x) Administration Expenses**

Details of administration expenses compared to Budget and to 2001/02 are set out in Note 9 to these Statements.

## **(xi) Changes in Net Market Value of Other Assets**

The increase in changes in net market value of other assets (\$1.69m) is the result of depreciation charges at 33% on computer software costs incurred in 2001/02 and 2002/03.

## NOTE 24: SEGMENT INFORMATION

### **Primary reporting - Business Segments.**

The business segments of the GESB are organised into the following superannuation schemes.

**Pension Scheme** – a superannuation scheme providing pension benefits to member. The scheme was established under the *Superannuation and Family Benefits Act 1938* and continued under the *State Superannuation Act 2000*. This scheme was closed to new members effective from 15 August 1986.

**Gold State Super** – a superannuation scheme providing lump sum benefits to members on a defined benefit basis. The scheme was established under the *Government Employees Superannuation Act 1987* and continued under the *State Superannuation Act 2000*. This scheme was closed to new members effective from 29 December 1995.

**West State Super** – a superannuation scheme providing lump sum benefits to members on a defined contribution basis and in accordance with the Commonwealth Government's Superannuation Guarantee (SG) legislation. The scheme was established under the *Government Employees Superannuation Act 1987* and continued under the *State Superannuation Act 2000*. This scheme is open to new members.

**Retirement Access (RA)** – introduced on 1 July 2002 through amendments to the *State Superannuation Regulations 2001*. It represents an industry standard form of Draw Down Facility for retired members of the GES schemes. It is an accumulation superannuation scheme operating under a similar member investment choice framework as West State Super.

**Retirement Income (RI)** – introduced on 19 March 2003 through amendments to the *State Superannuation Regulations 2001*. It is an industry standard allocated pension product for retired members of the GES schemes. It also operates under a member investment choice framework similar to that of West State Super.

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

**STATEMENT OF CHANGES IN NET ASSETS**

<b>2003</b>	<b>Pension Scheme \$'000</b>	<b>Gold State Super \$'000</b>	<b>West State Super \$'000</b>	<b>Retirement Access \$'000</b>	<b>Retirement Income \$'000</b>	<b>Scheme Eliminations \$'000</b>	<b>Total \$'000</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE YEAR</b>	103,720	1,473,558	810,332	(251)	-	-	2,387,359
<b>REVENUE FROM ORDINARY ACTIVITIES</b>							
Investment Income	(1,193)	(16,024)	19,217	939	64	-	3,003
Superannuation Income							
Contributions							
Member	2,716	66,254	42,330	42,162	3,668	(43,979)	113,151
Employer	213,368	197,200	313,655	-	-	-	724,223
Inward Transfer from Other Funds	-	-	61,836	568	-	-	62,404
Other Income	-	-	260	-	-	-	260
<b>Total Revenue From Ordinary Activities</b>	214,891	247,430	437,298	43,669	3,732	(43,979)	903,041
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>							
Superannuation benefits	223,774	233,187	87,400	11,999	50	(43,979)	512,430
Administration Expenses and	1,448	14,242	10,320	635	577	-	27,222
Changes in Net Market Values Other Assets							
Loan Interest	-	-	41,443	-	-	-	41,443
<b>Total Expenses from Ordinary Activities</b>	225,222	210,472	132,140	12,634	627	(43,979)	581,095
<b>TAXATION</b>	-	-	-	(2,744)	(169)	-	(2,913)
<b>OPERATING RESULT FOR THE YEAR</b>	(10,330)	(1)	298,135	28,291	2,936	-	319,033
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE YEAR</b>	93,390	1,473,559	1,108,467	28,040	2,936	-	2,706,392

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

**STATEMENT OF NET ASSETS**

<b>2003</b>	<b>Pension Scheme \$'000</b>	<b>Gold State Super \$'000</b>	<b>West State Super \$'000</b>	<b>Retirement Access \$'000</b>	<b>Retirement Income \$'000</b>	<b>Total \$'000</b>
<b>Investment Assets</b>	93,390	1,454,417	1,710,883	28,040	2,936	3,289,666
<b>Other Assets</b>	-	49,204	-	-	-	49,204
<b>TOTAL ASSETS</b>	93,390	1,503,621	1,710,883	28,040	2,936	3,338,870
<b>TOTAL LIABILITIES</b>	-	30,062	602,416	-	-	632,478
<b>NET ASSETS</b>	93,390	1,473,559	1,108,467	28,040	2,936	2,706,392

**STATEMENT OF CHANGES IN NET ASSETS**

<b>2002</b>	<b>Pension Scheme \$'000</b>	<b>Gold State Super \$'000</b>	<b>West State Super \$'000</b>	<b>Retirement Access \$'000</b>	<b>Retirement Income \$'000</b>	<b>Total \$'000</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE YEAR</b>	117,663	1,528,868	662,857	-	-	2,309,388
<b>REVENUE FROM ORDINARY ACTIVITIES</b>						
Investment Income	(5,229)	(67,356)	(52,246)	-	-	(124,831)
Superannuation Income						
Contributions						
Member	3,200	67,733	42,939	-	-	113,872
Employer	210,952	164,768	255,800	-	-	631,520
Inward Transfer from Other Funds	7	32,449	-	-	-	32,456
Other Income	269	-	-	-	-	269
<b>Total Revenue From Ordinary Activities</b>	208,923	165,421	278,942	-	-	653,286

Notes to and forming part of the Financial Statements  
for the Year Ended 30 June 2003

**STATEMENT OF CHANGES IN NET ASSETS (cont.)**

<b>2002</b>	<b>Pension Scheme \$'000</b>	<b>Gold State Super \$'000</b>	<b>West State Super \$'000</b>	<b>Retirement Access \$'000</b>	<b>Retirement Income \$'000</b>	<b>Total \$'000</b>
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>						
Superannuation benefits	221,315	211,070	77,319	-	-	509,704
Administration Expenses and Changes in Net Market Values Other Assets	1,551	9,661	12,307	251	-	23,770
Loan Interest	-	-	41,841	-	-	41,841
<b>Total Expenses from Ordinary Activities</b>	<b>222,866</b>	<b>220,731</b>	<b>131,467</b>	<b>251</b>	<b>-</b>	<b>575,315</b>
<b>OPERATING RESULT FOR THE YEAR</b>	<b>(13,943)</b>	<b>(55,310)</b>	<b>147,475</b>	<b>(251)</b>	<b>-</b>	<b>77,971</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE YEAR</b>	<b>103,720</b>	<b>1,473,558</b>	<b>810,332</b>	<b>(251)</b>	<b>-</b>	<b>2,387,359</b>

**STATEMENT OF NET ASSETS**

<b>2002</b>	<b>Pension Scheme \$'000</b>	<b>Gold State Super \$'000</b>	<b>West State Super \$'000</b>	<b>Retirement Access \$'000</b>	<b>Retirement Income \$'000</b>	<b>Total \$'000</b>
<b>Investment Assets</b>	102,758	1,464,415	1,442,296	-	-	3,009,469
<b>Other Assets</b>	7,753	29,526	3,276	-	-	40,555
<b>TOTAL ASSETS</b>	<b>110,511</b>	<b>1,493,941</b>	<b>1,445,572</b>	<b>-</b>	<b>-</b>	<b>3,050,024</b>
<b>TOTAL LIABILITIES</b>	<b>6,791</b>	<b>20,383</b>	<b>635,240</b>	<b>251</b>	<b>-</b>	<b>662,665</b>
<b>NET ASSETS</b>	<b>103,720</b>	<b>1,473,558</b>	<b>810,332</b>	<b>(251)</b>	<b>-</b>	<b>2,387,359</b>

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## Secondary reporting - Geographical Segments.

The Fund operates in a single geographical segment, namely the provision of superannuation benefits in Australia. Details of the Funds' investment exposure to overseas markets are set out in Note 3(e) above.

## Accounting policy

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in Note 1 and the revised segment reporting accounting standard, AASB 1005 Segment Reporting, which was applied for the first time in the year ended 30 June 2002.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee entitlements and provisions.

## NOTE 25: SUMMARY OF ACTUARIAL REPORT

In accordance with Clause 63 of Australian Accounting Standard AAS 25, the following information is provided in the Actuarial Report on the latest investigation as to the state and sufficiency of the Fund.

The valuation was undertaken in accordance with Section 17 of the *State Superannuation Act 2000* (formerly Section 11 of the *Government Employees Superannuation Act 1987* and Section 30 of the *Superannuation and Family Benefits Act 1938*).

### (1) Effective Date of the Latest Actuarial Investigation

The effective date of the latest valuation was 30 June 2003.

### (2) Name and Qualification of Actuary

The valuation of funded liabilities was undertaken by the GESB's actuary, Mercer Human Resource Consulting Pty Ltd. The valuation of unfunded accrued liabilities was performed by PricewaterhouseCoopers Securities Limited on behalf of the DTF.

### (3) Relationship of Market Value of Net Assets to Vested Benefits

	Gold State Super \$'000	West State Super \$'000	Pension Scheme \$'000	Retirement Access \$'000	Retirement Income \$'000	Total \$'000
Gross Vested Benefits	3,779,118	1,724,016	2,377,237	29,482	3,496	7,866,673

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

The liability for vested benefits of the Fund related to funded liabilities as at 30 June 2003 may be compared to the net assets of the Fund at the reporting date for the purpose of considering the financial position of the Fund. These values are as follows:

	Gold State Super \$'000	West State Super \$'000	Pension Scheme \$'000	Retirement Access \$'000	Retirement Income \$'000	Total \$'000
<b>Vested Benefits Related Funded Liabilities</b>	<b>1,278,186</b>	<b>1,121,600</b>	<b>103,592</b>	<b>29,482</b>	<b>3,496</b>	<b>2,489,680</b>

For the purpose of the actuarial valuation, the Market Value of Net Fund Assets was apportioned between the schemes as follows:

	Gold State Super \$'000	West State Super \$'000	Pension Scheme \$'000	Retirement Access \$'000	Retirement Income \$'000	Total \$'000
<b>Apportionment of Market Value of Net Assets</b>	<b>1,473,559</b>	<b>1,108,467</b>	<b>93,390</b>	<b>28,040</b>	<b>2,936</b>	<b>2,706,392</b>

## (4) Financial Condition of each Scheme as at 30 June 2003

The GESB's actuary reported that in respect of funded liabilities:

### (a) Pension Scheme

The expected actuarial value of liabilities for the Pension Scheme exceeds the assets allocated to the scheme by approximately \$10 million. At present the Pension Scheme does not have sufficient assets to finance an investment fluctuation reserve or mortality deterioration reserve. In view of the fact that this amount is small relative to the total liabilities of the GESB Fund, the Actuary recommended that the level of contributions made by members be unaltered and that there was no requirement to alter the proportion payable by the State in respect of any pension.

### (b) Gold State Super

The Actuary reported that the scheme was in a satisfactory financial position despite another year of negative earnings, and that the actuarial value of accrued liabilities was covered by the assets allocated to the scheme.

The Actuary recommended retention of the existing Employer funding levels and the percentage recouped from the State in respect of benefits paid to members.

### (c) West State Super

The Actuary reported that the value of scheme assets exceeded the value of member balances at 30 June 2003, but was below total vested benefits inclusive of the minimum benefit guarantee in respect of benefits at 30 June 2001. Over the long term, the assets of the Fund are expected to be sufficient to meet benefits from the Scheme as they fall due.

# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

## (5) Reserves

In addition to the above funded vested benefits, the actuary recommended that the schemes maintain a portion of their assets as explicit reserves. The reserves include a reserve for the minimum benefit guarantee, the full cost of which is also included in the valuation of the funded vested benefits.

## (6) Fund Summary

The overall financial position of the Fund at 30 June 2003 is as follows.

	2003 \$ m
<b>Net Assets (Excluding Loans)</b>	
Gold State Super	1,474
West State Super	1,710
Pension Scheme	93
Retirement products	31
Total net assets	3,308
<b>Actuarial Liabilities (Inclusive of Reserves)</b>	
Gold State Super	1,315
West State Super	1,724
Pension Scheme	103
Retirement products	33
Total actuarial liabilities	3,175

This means that the Actuary's best estimate is that assets exceed actuarial liabilities and reserves by \$133 million at 30 June 2003, before provision of investment fluctuation reserves (but allowing for other reserves).

It should be noted that \$47 million of the West State Super liabilities comprises the contingent minimum benefit guarantee. The Actuary expects that most of this amount will not in fact be incurred.

The excess assets of \$133 million are well short of the target investment fluctuation reserve of nearly \$300 million for Gold State Super and the Pension Scheme, but this reflects recent market falls. The purpose of reserves is to absorb these falls and there will be years when reserves fall to a low level as a consequence. The reserve "shortfall" is therefore acceptable.

In the opinion of the Actuary, the GES Fund is in a satisfactory financial condition at 30 June 2003.

## NOTE 26: EVENT SUBSEQUENT TO BALANCE DATE

On 5th September the GESB signed contracts for the sale of 50% of Central Park, a directly owned prime CBD property. The sale price supports the carrying value of the property contained in these financial statements.

# Independent Audit Opinion for the Financial Statements



## AUDITOR GENERAL

**To the Parliament of Western Australia**

**GOVERNMENT EMPLOYEES SUPERANNUATION BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003**

### **Qualifications**

#### **Bank Reconciliation**

The Board did not achieve reconciliation of its bank account to the general ledger throughout the year as there were a significant number of unexplained reconciling items in existence during the year. Subsequent to year-end, the unexplained reconciling items were resolved and an effective reconciliation at June 30, 2003 was achieved.

#### **Receipt of Moneys in Contravention of the State Superannuation Act 2000**

As indicated in Note 1(b) to the financial statements, the Board on behalf of the Department of Treasury and Finance collected payments equivalent to Gold State Superannuation contributions from unfunded agencies and remitted these to the Department of Treasury and Finance. The Board also made payments in respect to the administration of the Parliamentary Superannuation Scheme and Judges' Pensions and recouped these from the Department of Treasury and Finance.

Legal advice obtained last year was that the State Superannuation Act 2000 did not permit the Board to receive or make payments of this nature into or from the Government Employees Superannuation Fund.

This arrangement ceased on March 4, 2003 when appropriate alternative arrangements were put into place.

### **Qualified Audit Opinion**

In my opinion,

- (i) except for the qualifications, the controls exercised by the Government Employees Superannuation Board provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the net assets of the Board at June 30, 2003 and the changes in net assets for the year ended on that date.

## Independent Audit Opinion for the Financial Statements (continued)

### **Scope**

#### ***The Board's Role***

The Board is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Changes in Net Assets, Statement of Net Assets of the Board and the Notes to the Financial Statements.

#### ***Summary of my Role***

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term “reasonable assurance” recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON  
AUDITOR GENERAL  
October 21, 2003

# Appendices

1. Schemes Design	94
2. Investment Schedules	99
3. Outcome, Outputs and Performance Information	105
4. Legislation Administered	109
5. 2003/04 Budget Estimates	110

# Appendix 1

## Schemes Design

The GESB administers three superannuation schemes for State Public Sector workers – West State Super, Gold State Super and the Pension Scheme. The schemes form part of the GES Fund and are untaxed schemes for the purpose of assessing the tax due on benefits paid.

In addition, the GESB has recently introduced two new schemes for retiring members - Retirement Access and Retirement Income. These schemes are taxed schemes within the GES Fund. This means that the tax treatment on their investments is the same as private sector super funds.

The rules of West State Super, Gold State Super, Retirement Access and Retirement Income are contained in the *State Superannuation Act 2000* and *State Superannuation Regulations 2001*. The rules of the Pension Scheme are still contained in the repealed *Superannuation and Family Benefits Act 1938*. The provisions of this Act are deemed to be continued as part of the regulations.

### West State Super

West State Super is an accumulation style scheme that was established with effect from 1 July 1992 to comply with the provisions of the Commonwealth's *Superannuation Guarantee (Administration) Act 1992*.

Earnings are credited to a member's account according to the investment strategy they have chosen, from a range of four Readymade and one 'make your own' Investment Plans. The member may apply to change their choice of strategy at any time at no additional cost.

#### Membership

There are two categories of membership in West State Super – statutory and voluntary. With a few exceptions, all new employees joining the Western Australian State public sector are automatically statutory members. Members of Gold State Super and the Pension Scheme may become voluntary members of West State Super.

#### Contributions

The compulsory (statutory) employer contribution to West State Super is in line with the Commonwealth's Superannuation Guarantee (SG) requirements, being 9% of salary. Members can make additional (voluntary) contributions to the scheme. Members can also make a Partner Contribution on behalf of their partner.

#### Fees

Administration fees and insurance premiums are deducted from West State Super member accounts monthly.

The administration fee for 2002/03 was \$1.15 per week (\$3.90 per month) for an 'active' account, and \$0.90 per week (\$4.98 per month) for an 'inactive' account. An 'active' account is one in which there is at least one transaction per month. A benefit payment fee of \$25.00 also applies.

A range of products and services are provided to members, such as Member Investment Choice, retirement investment options, increased frequency of member statements, Partner Contributions, weekly unit pricing and an increase in member seminars. During 2002/03, there was no change in the administration fees. However, it was decided in 2002/03 that, from 1 July 2003, a modest increase would be applied to the West State Super administration fee. For an active account, this brings the administration fee to \$1.27 per week (\$5.50 per month). For an inactive account, it will be \$0.99 per week (\$4.29 per month).

Insurance premiums are actuarially determined based on the age and gender of the member and the level of insurance cover for the member at the time the charge is levied.

## **Benefits**

On retirement from age 55 years, a member is entitled to a lump sum benefit of an amount equal to their account balance.

Note: A member is guaranteed to receive the higher of either their account balance at retirement, or the equivalent of their account balance at 30 June 2001, indexed at the rate of the Perth Consumer Price Index (CPI) plus two per cent per annum until retirement date.

An additional insured benefit is payable if a member dies or becomes permanently disabled while working, prior to age 60 years.

## **Portability/Preservation**

If a member ceases State Government employment before age 55 years, their benefit will generally be preserved in the Fund.

Alternatively, a preserved benefit can be rolled over to another approved superannuation fund. However, the GESB may require a waiting period of up to 12 months before transferring the benefit. Preserved benefits can be paid before age 55 years if the member dies or becomes permanently disabled.

West State Super members may roll over superannuation benefits from other superannuation funds into the GES Fund.

## **Insurance**

Statutory members (those receiving compulsory employer contributions) receive automatic death and disability cover up to age 60 years.

The insured benefit for a member is based on the number of years remaining to age 60, their average salary over the previous two years (Final Remuneration) and the SG rate. If the member is partially disabled, the insured component is reduced in proportion to their assessed future earning capacity. Insurance cover ceases when a member ceases employment. There is no insurance cover in respect of voluntary contributions.

## **Gold State Super**

Gold State Super is a defined benefit, lump sum scheme in which benefits are expressed as a multiple of final average salary.

## **Membership**

The scheme closed to new members from 30 December 1995. Members include persons who have transferred from the Pension Scheme.

## **Contributions**

The standard member contribution is 5% of salary. This rate can be varied between 3% and 7%, however the average contribution rate cannot exceed 5%. Contributions may be paid under a salary sacrifice arrangement.

Members are able to suspend contributions during periods of recognised unpaid leave such as parental leave and sick leave. Any insured cover above the Minimum lapses while a member is on a period of unrecognised unpaid leave for three months or more, but may be maintained if an insurance premium is paid.

## **Fees**

No separate administration or insurance fees are charged to members as these costs are built into the scheme benefit design.

## **Benefits**

A Gold State Super Contributory Service Benefit is equal to twenty per cent of the member's final remuneration, for each year of full time equivalent service, assuming a 5% average contribution rate. A proportional lower benefit is payable if the average contribution rate is less than 5%. An additional insured benefit is payable if a member dies or becomes permanently disabled prior to age 60 years.

## **Portability/Preservation**

If a member ceases State Government employment before age 55 years, their benefit will generally be preserved in the Fund and indexed at an assumed salary growth factor equal to the Perth CPI rate plus 1% each year.

Preserved benefits are generally payable at age 55 years, or later retirement from the State public sector, but can be paid earlier if a member dies or becomes permanently disabled. Members under 55 may transfer preserved benefits to another fund in cases of retrenchment or voluntary severance, transfer to the private sector, the member's work position is taken over by the Commonwealth Government, or they join their employer's approved alternative scheme. A discount is applied to any transferred benefit to reflect its present value.

## **Insurance**

Gold State Super provides three levels of death and disability cover, Standard, Limited and Minimum. Insured benefits are payable if a member dies or ceases work due to a permanent disability. A medical examination is required for a member to be eligible for Standard or Limited insured cover.

Standard Cover provides maximum cover, that is, an insured benefit that is the equivalent of what they would have received if they had continued as a contributing member of Gold State Super to age 60 years.

Limited Cover provides the same insured benefit as Standard Cover except where the member's death or permanent disability is related to a condition for which a limitation was imposed, in which case the insured benefit is assessed as if they had Minimum cover.

Minimum Cover provides automatic cover to members where a medical examination has not been undertaken. The insured benefit is based on the current SG rate, the member's final remuneration and the length of future service to age 60 years.

If a member is permanently disabled from working in their usual job, but can undertake different employment, a partial and permanent disability benefit may be paid. The insured component of a disability benefit for members with Minimum cover is not based on the level of disablement.

## **Pension Scheme**

The Pension Scheme is a salary linked, unit-based scheme in which the number of units purchased, length of service and final salary determine the benefit payable.

## **Membership**

The Pension Scheme was closed to new members in 1986.

## **Contributions**

Members nominate a retirement age of either 60 or 65 years, and this determines the cost of units. The maximum number of units for which a member may contribute is based on their salary. Additional units are allocated each year at the member's birthday if there has been an increase in salary. At age 60 years members can determine the value of their pension and make no further contributions. The pension is not payable until the member's eventual retirement.

**Fees**

No separate administration or insurance fees are charged to members as these costs are built into the scheme benefit design

**Benefits**

A lifetime fortnightly pension is generally payable on retirement on or after age 55 years, with the pension entitlement at this age set at approximately 45% of the member's salary at the date of retirement. The maximum pension is approximately 60% of final salary, if retirement occurs at the member's elected retiring age and provided other service requirements have been met. On retirement, members may elect to commute part of their pension entitlement to a lump sum. Pensions are indexed each April and October in line with any increases in the Perth CPI.

If a member resigns before attaining age 55 years, they are entitled to a benefit comprising a refund of personal contributions plus interest, plus an employer funded lump sum entitlement equivalent to that payable if they had been a member of West State Super since 1 July 1992.

Pension Scheme members who are retrenched or transferred to the private sector on or after 12 June 1995 and are under the age of 55, have the option of a pro rata pension payable from age 55 years. Alternatively, they may transfer to Gold State Super, where they will receive a lump sum benefit equal to 12% of final salary for each year of their State Government service.

**Insurance**

If a member retires on invalidity grounds, a pension equal to that payable if they had retired at their elected retiring age, is paid. Commutation is not permitted with an Invalid Pension. On the death of a contributor, a pension equal to two thirds of the member's retirement pension is payable to their widow/er or de facto partner.

**Retirement Access**

Retirement Access is an accumulation style scheme that was established with effect from July 2002. It is an 'approved deposit fund' and is available to Gold State Super and West State Super members who want to manage their lump sum in early retirement.

Earnings are credited to a member's account according to the earnings of the Investment Plan they have chosen from a range of four Readymade Investment Plans. These Plans mirror those available to members of West State Super. The member may apply to change their Investment Plan at any time at no additional cost.

**Membership**

Generally, Gold State Super and West State Super members who are eligible to receive their superannuation benefit and are aged under 65 can transfer their accounts to Retirement Access. Pension Scheme retirees may also transfer any commuted lump sum component of their pension to Retirement Access.

**Contributions**

Only superannuation benefits that are immediately accessible can be transferred to Retirement Access.

Members are able to invest additional lump sum contributions into Retirement Access.

**Fees**

A single annual management fee of up to 1.2% of assets is charged subject to the Investment Plan selected by the members.

### **Benefits**

With Retirement Access, members can access some or all of their funds at any time. There is no limit on the number of withdrawals made, providing each withdrawal is \$1,000 or more. The remaining funds stay invested in the scheme.

Members can only leave their money in Retirement Access until age 65, unless they are either:

- Between 65 and 75 years and working at least 10 hours a week; or
- Over 75 years and working at least 30 hours a week.

A Retirement Access account can be closed at any time by withdrawing the full balance, or by transferring the whole balance to another fund to, for example, purchase a regular income stream, such as an allocated pension. On death, the balance of the account will be paid to the member's estate.

### **Retirement Income**

Retirement Income is an allocated pension that was introduced on 19 March 2003. It is available to Gold State Super, West State Super and Retirement Access members who are looking for a regular income stream in retirement.

Earnings are credited to a member's account according to the Investment Plan they have chosen from a range of four Readymade Investment Plans. These Plans mirror those available to members of West State Super. The member may apply to change their Investment Plan at any time at no additional cost.

### **Membership**

Generally, a Retirement Income account can be opened by Retirement Access, West State Super or Gold State Super members who have retired and are aged over 55. There are also other circumstances in which an account may be opened, for example, by a member aged under 55 who is entitled to a disability benefit. Pension Scheme retirees may also transfer any commuted lump sum component of their pension to Retirement Income.

### **Contributions**

The minimum entry amount is \$30,000. Additional superannuation with funds other than the GESB, may be transferred into the GES Fund before investing in Retirement Income.

Once the Retirement Income account is opened, members cannot make additional contributions or roll-in money from other funds into an existing plan. However, they may establish an additional Retirement Income account with a minimum opening balance of \$10,000.

### **Fees**

A single annual management fee of up to 1.2% of assets is charged subject to the Investment Plan selected by the member.

### **Benefits**

Members choose the level of pension payments they require between the minimum and maximum amounts set by Commonwealth Government laws. Payments can be made monthly, quarterly or annually and the frequency can be changed at any time.

Additional lump sum payments of \$1,000 or more can be withdrawn at any time.

With Retirement Income, members can close the account at any time simply by withdrawing all the funds. On death, the balance of the account is paid to the member's estate or reversionary pensioner.

## Appendix 2

### Investment Schedules

#### Investment Portfolio Composition

The table below presents the split of assets in the investment portfolio for the last two years as at 30 June.

	2001/02			2002/03		
Sector	\$M	Total \$M	Total %	\$M	Total \$M	Total %
<b>Cash</b>						
Externally Managed	96.6			107.4		
Treasury	11.6	108.2	3.6	3.5	110.9	3.4
<b>Fixed Interest</b>						
Internally Managed	10.7			5.9		
Externally Managed	496.7	507.4	16.8	639.4	645.3	19.6
<b>Australian Equities</b>						
Internally Managed	255.7			236.8		
Externally Managed	470.4	726.1	24.1	557.2	794.0	24.1
<b>International Equities</b>						
Externally Managed	940.2	940.2	31.2	1,025.8	1,025.8	31.2
<b>Inflation Linked Bonds</b>						
Externally Managed	276	276	9.2	247.5	247.5	7.5
<b>Property</b>						
Externally Managed	451.6	451.6	15.1	468.1	468.1	14.2
<b>Total</b>		3,009.5	100.0		3,291.6	100.0

## Asset Allocation Variation

**Year-End Asset Allocations for each of the Readymade West State Super Plans and Gold State Super and Pension Strategy relative to the Strategic Asset Allocation (SAA) – 30 June 2003**

	%				
Asset Class	Gold State Super	Cash	Conservative	Balanced	Growth
Cash	2.2	100.0	2.0	2.0	2.0
SAA	2.0	100.0	2.0	2.0	2.0
Fixed Interest	8.0	0.0	63.1	33.1	18.1
SAA	8.0	0.0	63.0	33.0	18.0
Inflation Linked Bonds	10.3	0.0	5.0	5.0	5.0
SAA	10.0	0.0	5.0	5.0	5.0
Australian Equities	28.3	0.0	10.0	20.1	25.0
SAA	30.0	0.0	10.0	20.0	25.0
International Equities	32.3	0.0	15.0	30.0	40.0
SAA	35.0	0.0	15.0	30.0	40.0
Property	18.9	0.0	4.9	9.8	9.9
SAA	15.0	0.0	5.0	10.0	10.0
<b>Growth/Defensive</b>	80/20	0/100	30/70	60/40	75/25

**Year-End Asset Allocations for each of the West State Super MY Plan Asset Classes – 30 June 2003**

	%				
<b>Asset Class</b>	<b>My Plan Fixed Interest</b>	<b>My Plan Inflation Linked Bonds</b>	<b>My Plan Australian Equities</b>	<b>My Plan International Equities</b>	<b>My Plan Property</b>
Cash	2.0	2.0	2.0	2.0	2.0
SAA	2.0	2.0	2.0	2.0	2.0
Fixed Interest	98.0	0.0	0.0	0.0	0.0
SAA	98.0	0.0	0.0	0.0	0.0
Inflation Linked Bonds	0.0	98.0	0.0	0.0	0.0
SAA	0.0	98.0	0.0	0.0	0.0
Australian Equities	0.0	0.0	98.0	0.0	0.0
SAA	0.0	0.0	98.0	0.0	0.0
International Equities	0.0	0.0	0.0	98.0	0.0
SAA	0.0	0.0	0.0	98.0	0.0
Property	0.0	0.0	0.0	0.0	98.0
SAA	0.0	0.0	0.0	0.0	98.0

*SAA: Strategic Asset Allocation*

**Year-End Asset Allocations for each of the Retirement Access Plans –  
30 June 2003**

	%			
Asset Class	Cash	Conservative	Balanced	Growth
Cash	100.0	2.0	2.0	2.0
SAA	100.0	2.0	2.0	2.0
Fixed Interest	0.0	63.1	33.1	18.1
SAA	0.0	63.0	33.0	18.0
Inflation Linked Bonds	0.0	5.0	5.0	5.0
SAA	0.0	5.0	5.0	5.0
Australian Equities	0.0	10.0	20.0	25.0
SAA	0.0	10.0	20.0	25.0
International Equities	0.0	15.0	30.0	40.0
SAA	0.0	15.0	30.0	40.0
Property	0.0	4.9	9.9	9.9
SAA	0.0	5.0	10.0	10.0
<b>Growth/Defensive</b>	<b>0/100</b>	<b>30/70</b>	<b>60/40</b>	<b>75/25</b>

*SAA: Strategic Asset Allocation*

**Year-End Asset Allocations for each of the Retirement Income Plans –  
30 June 2003**

	%			
Asset Class	Cash	Conservative	Balanced	Growth
Cash	100.0	2.0	2.0	2.0
SAA	100.0	2.0	2.0	2.0
Fixed Interest	0.0	63.1	33.1	18.1
SAA	0.0	63.0	33.0	18.0
Inflation Linked Bonds	0.0	5.0	5.0	5.0
SAA	0.0	5.0	5.0	5.0
Australian Equities	0.0	10.0	20.0	25.0
SAA	0.0	10.0	20.0	25.0
International Equities	0.0	15.0	30.0	40.0
SAA	0.0	15.0	30.0	40.0
Property	0.0	4.9	9.9	9.9
SAA	0.0	5.0	10.0	10.0
<b>Growth/Defensive</b>	<b>0/100</b>	<b>30/70</b>	<b>60/40</b>	<b>75/25</b>

*SAA: Strategic Asset Allocation*

## External Fund Managers

Manager	Type of Asset
Cash	Macquarie Investment Management Ltd Western Australian Treasury
Australian Equities	Contango Asset Management Ltd* AMP Henderson Global Investors Portfolio Partners Ltd Jenkins Investment Management Limited* SG Hiscock and Company*
International Equities	State Street Global Advisors Aust Ltd The Putnam Advisory Company, LLC Alliance Capital Management Ltd Fidelity International Limited Wellington Management Company, LLC
Fixed Interest	Super Members Home Loans Credit Suisse Asset Management (Australia) Ltd UBS Asset Management (Australia) Ltd
Inflations Linked Bonds	AMP Henderson Global Investors Credit Suisse Asset Management (Australia) Ltd
Listed Property	SG Hiscock and Company* Deutsche Asset Management (Australia) Ltd Vanguard Investments Australia Ltd*
Direct Property	Jones Lang LaSalle

\* These external fund managers were appointed in 2002/03.

### Asset Class Benchmark Comparison – Year(s) ending 30 June 2003

	%		% pa			
Asset Class	1 Year		2 Years		3 Years	
	GES Fund	Benchmark	GES Fund	Benchmark	GES Fund	Benchmark
Australian Equities	(2.1)	(1.6)	(3.2)	(3.1)	1.5	0.8
International Equities	(10.1)	(11.9)	(14.6)	(15.9)	(13.2)	(14.3)
Direct Property	5.6	10.1	7.5	9.2	8.3	9.5
Listed Property	13.1	12.2	14.0	13.7	N/A	N/A
Inflation Linked Bonds	10.6	10.8	8.9	9.0	8.6	8.7
Fixed Interest	9.8	9.8	8.2	8.0	7.6	7.8
Cash	4.9	5.0	4.8	4.8	5.2	5.2

### Benchmarks

The table below shows the performance benchmarks used for each of the GESB's asset classes.

Australian Equities	S&P ASX 300 Accumulation Index
International Equities	A composite of the regional portfolios ex Australia including emerging markets 50% hedged in AUD
Direct Property	AMP Balanced Property Units
Listed Property	S&P/ASX 300 Property Trusts Accumulation Index
Inflation Linked Bonds	UBS Warburg Australian Inflation Linked Index
Fixed Interest	UBS Warburg Australian Composite Bond Index – All Maturities
Cash	UBS Warburg Australian Bank Bill Index

# Appendix 3

## Outcome, Outputs and Performance Information

### GOVERNMENT DESIRED OUTCOME

The *State Superannuation Act 2000* indicates that the 'Government Desired Outcome' for the GESB is as follows:

"The Government Employees Superannuation Fund and Schemes are managed in the best interests of members."

The GESB aims to meet the Government Desired Outcome through two specific outputs, the results of which are detailed below:

#### Output 1:

A range of competitive products that are attractive and relevant to the GESB's clients.

#### Description:

The GESB will develop a range of products that are attractive and competitive to clients in an environment of choice.

#### Measures:

	2000/01	2001/02	2002/03	2002/03 Target	2003/04 Target	Reason for significant variation
<b>Quality Measures</b>						
Gold State Super Member Satisfaction with Scheme (% who are Fairly satisfied, Satisfied or Extremely Satisfied)	No Comparable Question	85	76	88	88	Gold State Super satisfaction with the scheme has decreased significantly. Important drivers for this group are those to do with service and product range/flexibility.
West State Super Member Satisfaction with Scheme (% who are Fairly satisfied, Satisfied or Extremely Satisfied)	No Comparable Question	66	66	68	68	
Total Fund Investment Performance (%)	2.24	-3.92	0.15	N/A	N/A	

	2000/01	2001/02	2002/03	2002/03 Target	2003/04 Target	Reason for significant variation
<b>Quantity Measures</b>						
Number of Products Administered	3	12	20	17	22	Increase attributed to the introduction of Retirement Access and Retirement Income (each with Investment Plans)
West State Super Members by Investment Plan:						
Balanced Plan	-	196,732	192,289	N/A	N/A	
Conservative Plan	-	645	692			
Growth Plan	-	11,638	11,617			
Cash Plan	-	702	680			
MY Plan	-	3,195	2,276			
Total Investment Portfolio (\$ in Billions)	2.91	3.00	3.29	N/A	N/A	
<b>Timeliness Measures</b>						
Products Delivered to Market on Time (%)	100	100	100	100	100	
<b>Cost Measures</b>						
Administration Cost per Scheme Member (\$) <sup>(a)(b)</sup>	83.15	88.92	109.77	82.00	117.76	
Scheme Administration Charge per Active West State Super Member (\$) <sup>(a)</sup>	59.40	59.76	59.80	59.80	65.00	
MER <sup>3</sup> (%)	0.33	0.28	0.27	0.30	0.33	

*(a) Nominal terms.*

*(b) Total cost of administering West State Super, Gold State Super and the Pension Scheme.*

<sup>3</sup> The Management Expense Ratio (MER) is a measure of the efficiency of the GESB's investment management activities on behalf of the members. The measure expresses the total cost of implementing investments as a percentage of the total portfolio invested. Therefore, the lower the percentage, the better the performance.

**Output 2:**

Client-focused service

**Description:**

Provide services that exceed client expectations and needs in order to cultivate client loyalty and satisfaction.

**Measures:**

	2000/01	2001/02	2002/03	2002/03 Target	2003/04 Target	Reason for significant variation
<b>Quality Measures</b>						
Member Satisfaction with the GESB Service (% who are Fairly Satisfied, Satisfied or Extremely Satisfied)	76	79	78	79	81	
Employer Satisfaction with the GESB Service (% who are Fairly Satisfied, Satisfied or Extremely Satisfied)	No Comparable Question	88	88	68	90	The 2002/03 target of 68% for Employer Satisfaction with the GESB Service reported in the 2001/02 Annual Report is incorrect. The correct target should have been 89%.
<b>Quantity Measures</b>						
Number of Benefit Payments	14,925	12,595	12,495	N/A	N/A	
Number of Members	264,197	267,325	260,690	N/A	N/A	
<b>Communication with Members</b>						
Seminars Conducted	-	242	384	400	420	
Seminar Attendance	6,634	5,184	7,896	N/A	N/A	A significant increase due to the greater emphasis placed on member education during the year.
Telephone Calls	78,731	80,379	82,820	N/A	N/A	This increase can be attributed to a number of initiatives including increased member education and the introduction and marketing of new products which also involved some direct marketing campaigns.
Correspondence Received	5,445	9,258	10,648	N/A	N/A	
Member Interviews	1,014	1,096	1,404	N/A	N/A	

	2000/01	2001/02	2002/03	2002/03 Target	2003/04 Target	Reason for significant variation
Communication with Employers						
On-Site Visits	185	369	765	700	700	The reduction in Employer Briefing attendance is the result of the increased number of on-site visits that took place during the year.
Briefings	16	15	20	21	21	
Total Briefing Attendance	524	575	326	N/A	N/A	
Timeliness Measures						
% of Claims Processed within 5 Working Days	84.1	96.4	95	95	95	
% of Telephone Calls Answered within 30 Seconds	No Comparable Question	90.9	92.25	85	85	
% of Correspondence Answered within 10 Working Days	No Comparable Question	81	95	95	95	
Cost Measures						
Cost per Member for Provision of Information \$(a)	7.07	15.65	7.61	7.50	7.50	

(a) Nominal terms.

# Appendix 4

## Legislation Administered

During 2002/03, the GESB was directly responsible for administering the following State legislation:

- State Superannuation Act 2000
- State Superannuation Regulations 2001

### State Legislation Impacting on Activities

As a State public sector entity and employer, the GESB was responsible for complying with a wide range of State legislation, which primarily sets minimum prudential standards of conduct. These were:

- Anti-Corruption Commission Act 1988
- Commercial Tenancy (Retail Shops) Agreement Act 1985
- Corporations (Western Australia) Act 1990
- Disability Services Act 1993
- Electoral Act 1907
- Electronic Transactions Act 2003
- Equal Opportunity Act 1984
- Fair Trading Act 1987
- Financial Administration and Audit Act 1985
- Freedom of Information Act 1992
- Guardianship and Administration Act 1990
- Interpretation Act 1984
- Industrial Relations Act 1979
- Judges Salaries and Pensions Act 1950
- Library Board of Western Australia Act 1951
- Minimum Conditions of Employment Act 1993
- Occupational Health Safety and Welfare Act 1984
- Parliamentary Commissioner Act 1971
- Parliamentary Privileges Act 1891

- Parliamentary Superannuation Act 1970
- Public and Bank Holidays Act 1972
- Public Interest Disclosure Act 2003
- Public Sector Management Act 1994
- Salaries and Allowances Act 1975
- State Supply Commission Act 1991
- State Trading Concerns Act 1916
- Statutory Corporations (Liability of Directors) Act 1996
- Workers' Compensation and Rehabilitation Act 1981
- Workplace Agreements Act 1993

### Commonwealth Legislation Impacting Directly on Activities

The Commonwealth legislative compliance requirements during 2002/03 mainly related to the imposition and collection of taxation, and comprised the following:

- Bankruptcy Act 1966
- Charter of the United Nations Act 1945
- Child Support (Registration and Collection) Act 1988
- Copyright Act 1968
- Family Law Act 1975
- Income Tax Assessment Act 1936
- Sex Discrimination Act 1984
- Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997

- Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Imposition Act 1997
- Superannuation Guarantee (Administration) Act 1992
- Superannuation (Resolution of Complaints) Act 1993
- Veterans' Entitlements Act 1986

### Commonwealth Legislation Impacting Indirectly on Activities

- Superannuation Industry (Supervision) Act 1993
- Financial Services Reform Act 2001

# Appendix 5

## 2003/04 Budget Estimates

The budget estimates in this report are produced in order to enhance GESB's financial management and reporting and are required by the *Financial Administration and Audit Act 1985*. The budget estimates were developed based on the following assumptions:

- The GESB would not be operating in a choice of fund environment due to the uncertainty currently surrounding this issue.
- The investment earnings for 2003/04 were based on the estimated rates of return for each asset class provided by the GESB's asset consultants.
- The investment income from 2004/05 onwards was calculated using a real rate of return of 5.4% on the portfolio balance at the beginning of the year and an inflation rate of 2.5%.
- The superannuation contributions, recoups and benefits were based on a model provided by William M Mercer which uses actuarial calculations based on historical receipt and payment trends.
- The depreciation expenses would remain relatively constant in real terms at approximately 21% of total administrative expenses.

	2002/03 Actual \$'000	2003/04 Budget Estimate \$'000	2004/05 Budget Estimate \$'000	2005/06 Budget Estimate \$'000	2006/07 Budget Estimate \$'000
<b>REVENUE FROM ORDINARY ACTIVITIES</b>					
<b>Investment Income</b>					
Investment Income	11,376	172,353	284,903	327,904	364,131
Less: Investment Expenses	(8,373)	(10,477)	(10,050)	(10,258)	(10,470)
	3,003	161,876	274,853	317,646	353,661
<b>Superannuation Income</b>					
Contributions:					
Employee					
Employer	111,300	121,000	125,000	128,900	115,538
- Gold State Super	39,831	31,679	28,094	24,489	21,707
- West State Super	255,739	273,855	302,430	330,930	338,239
Retirement Products	1,851	62,385	88,840	118,100	115,407
Recoup State Share of Pensions	213,368	223,716	228,516	231,016	233,016
Recoup CF and Past Service	157,369	153,098	159,481	162,534	168,547
Recoup Treasury Unfunded Liability – West State Super	58,176	57,944	57,944	57,944	57,944
Inward Transfer from Other Funds	62,404	30,000	31,000	32,000	32,720
	900,038	953,677	1,021,305	1,085,913	1,083,118
<b>Total Revenue from Ordinary Activities</b>	903,041	1,115,553	1,296,157	1,403,560	1,436,780

	2002/03 Actual \$'000	2003/04 Budget Estimate \$'000	2004/05 Budget Estimate \$'000	2005/06 Budget Estimate \$'000	2006/07 Budget Estimate \$'000
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>					
<b>Superannuation Expenses</b>					
<b>Benefit Payments:</b>					
- Pension Scheme	223,774	245,649	246,285	246,923	247,563
- Gold State Super	196,230	306,100	322,100	338,000	324,204
- Retirement Products	12,049	6,239	8,884	11,810	11,541
- West State Super	80,377	109,800	122,100	134,400	137,424
<b>Administration Expenses</b>	21,230	24,697	25,701	26,234	26,715
<b>Changes in Net Market Values of Other Assets</b>	5,992	7,182	8,115	9,267	6,715
<b>Interest on Loan</b>	41,443	40,372	39,134	37,811	36,396
<b>Total Expenses from Ordinary Activities</b>	581,095	740,038	772,319	804,445	790,558
<b>BENEFIT ACCRUED AS A RESULT OF ORDINARY OPERATIONS</b>	2,706,392	3,032,458	3,556,296	4,155,412	4,801,634

	2002/03 Actual \$'000	2003/04 Budget Estimate \$'000	2004/05 Budget Estimate \$'000	2005/06 Budget Estimate \$'000	2006/07 Budget Estimate \$'000
<b>ASSETS</b>					
Investments	3,289,666	3,602,889	4,109,392	4,690,824	5,314,962
Sundry Debtors	28,516	20,411	20,158	19,805	19,592
Property and Equipment	18,308	16,239	14,890	12,732	13,486
Prepayments	2,346	2,226	1,993	1,760	1,527
<b>TOTAL ASSETS</b>	3,338,836	3,641,766	4,146,433	4,725,121	5,349,567
<b>LIABILITIES</b>					
Unpaid & Accrued Liabilities	4,817	5,394	5,409	5,424	5,439
Sundry Creditors	19,348	12,756	12,291	11,895	11,547
Provision for Employees Entitlements	2,274	2,289	2,335	2,381	2,429
Provision for Superannuation Liabilities	3,585	4,277	4,534	4,806	5,094
Interest Bearing Liabilities	602,416	584,611	565,569	545,204	523,424
<b>TOTAL LIABILITIES</b>	632,440	609,307	590,137	569,710	547,932
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	2,706,392	3,032,458	3,556,296	4,155,412	4,801,634

## Publications

The regular publications listed below are continually reviewed and updated to ensure the very latest information is available for clients. They are provided to assist members in understanding their options and entitlements and, to assist employer agencies in meeting their superannuation obligations.

### Regular Publications

- Salary Packaging for West State Super members
- Salary Packaging for Gold State Super members
- +Some - personal Top-Up Contributions
- 1Place – consolidation of super
- Client Services Charter
- West State Super Member Booklet
- Investment Guide – for West State Super members
- Hands On Investor
- Understand Your Statement

- Quarterly Investment Performance Report
- Monthly Investment Performance figures
- Investment Choice – Fact Sheet
- Employer Easy Reference Guide
- HR Super Star
- Super Smart

### Web site

**[www.gesb.wa.gov.au](http://www.gesb.wa.gov.au)** an alternative to the printed publications, accessible 24 hours a day, 7 days per week

### Web site publications:

- Annual Reports for past four years
- Freedom of Information Statement
- Previous issues of Employer newsletters and Member reports
- News updates

### New Publications

#### ***For Employer agencies:***

- Salary and Allowances Guide – guide to assess the components of an employee's income that should be included as salary for superannuation purposes.

#### ***For Members:***

- Retirement Options – explains the benefits of our two retirement options
- Retirement Income Brochure – explains the benefits and features of Retirement Income
- Retirement Access Brochure - explains the benefits and features of Retirement Access
- Understand Your Statement – Retirement Access
- Partner Contributions Brochure – explains the benefits and features of making partner contributions
- Investment Team Brochure – a profile of our investment team
- West State Super Schedule of Fees – explains the fees and charges applicable to West State Super

## Contact Details

Government Employees Superannuation Board  
Level 4, Central Park, 152 St Georges Terrace  
Perth, Western Australia 6000  
Telephone: (08) 9263 4111

Member Services Centre 13 43 72  
Facsimile: 1 800 300 067  
E-mail: [memberservices@gesb.wa.gov.au](mailto:memberservices@gesb.wa.gov.au)

Hours of Business:  
8:00am – 5:00pm Monday to Friday  
Web site: [www.gesb.wa.gov.au](http://www.gesb.wa.gov.au)

ABN 43 418 292 917