

# Annual Report

04

2003-2004



In support of our vision, GESB pursued competitive performance in:

- **Investment Performance**

Maximising investment returns for members through diversified and cost effective investments that outperform benchmarks.

- **Member Services**

Matching market with our range of products and services and providing members with the service standards they expect.

- **Cost Management**

Driving cost efficiency and process improvements throughout the business.

- **People Management**

Aligning our efforts and capabilities and maintaining momentum for our strategic direction.

## Our Values

- **Members first**
- **Own it - take responsibility**
- **Teamwork**
- **Innovation**
- **Delivery**
- **Value Others**

### 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 2004.

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



**P.J. HARVEY**  
CHAIRMAN

31 August 2004



**M. DOLIN**  
CHIEF EXECUTIVE OFFICER

31 August 2004

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## GESB Profile

As the largest Western Australian based superannuation fund manager, the Government Employees Superannuation Board (GESB) manages over \$4 billion for the benefit of more than 254,000 members.

GESB's executive team has strong financial services experience and our investment team are professional investment managers. In developing an investment strategy in the best interest of members, GESB draws on the global research of independent asset consultants and uses their expertise to select and monitor specialist Australian and international fund managers. GESB's scale of funds under management delivers benefits to members through cost effective investments and by allowing broader diversification across and within asset classes than would otherwise be possible. This professional approach has consistently delivered above benchmark returns at low cost.

GESB's members come from all over Western Australia and include current and former public sector employees and their partners. Our members work or have worked in a large range of public sector organisations and our research shows they have varying needs in superannuation. GESB is committed to helping members prepare for retirement with a range of defined benefit and accumulation type schemes and to invest in retirement with lump sum or allocated pension products.

Members can obtain information and advice about their superannuation or retirement plans from GESB by phone, email, our website and publications, or by coming in person to our centrally located offices in Perth's CBD. Personal interviews for more detailed information about our products may also be arranged. In addition, members can access further education and advice through our regular information seminars in metropolitan and regional areas of the State.

## Joint Chairman and Chief Executive Officer's Foreword



We are pleased to report on GESB's activities for the financial year ended 30 June 2004.

Just prior to the end of the financial year a significant milestone was achieved, with GESB's investment assets exceeding \$4 billion for the first time. Investments of this size necessarily have an international reach. Hence, we begin this report with a brief comment on the world financial markets and the legislative environment in which GESB operated during 2003/04.

World and Australian financial markets continued to improve during the year. After relatively weak investment returns for some time after the tragedy of 11 September 2001, 2003/04 saw a welcome pick-up in United States growth and a generally better global outlook. In particular, "equity" and "listed property securities" asset classes performed well during the year.

The Commonwealth Parliament passed several important legislative amendments for the financial services industry, including choice of fund, increases in co-contributions, reductions in the surcharge tax and introduction of portability.

GESB monitored these developments closely, providing advice about them to our Minister and other parts of Government. A Superannuation Discussion Group was established during the year, expanding GESB's liaison with relevant Government agencies to discuss superannuation and related matters.

For GESB, this year was one of both change and consolidation in response to a changing superannuation industry and our commitment to the delivery of quality products and services to members. Existing assumptions were questioned, priorities reviewed and actions taken to focus on those matters needing the most immediate attention. Board members and GESB staff agreed that there was a need to match market performance in investments, member services, cost management and people management. Also, we considered in some depth the challenges and opportunities expected to arise in the longer term. A strategic direction was set, and a strategic plan developed, based on GESB's expected business and market environment in the next five years. We established three "planning horizons" spanning the next five years. The first planning horizon was set as at June 2005. By then, we plan to match market across all aspects of our business, and will continue to build a strong performance culture.

During the year, some significant changes were made to GESB's organisation structure. Two new divisions - Marketing and Finance - were created. A number of new senior management positions, including Chief Financial Officer, General Manager Marketing and General Counsel, were established. Larry Rudman was appointed as Chief Financial Officer, Collene Hansen as General Manager Marketing and Julie Athanasoff as General Counsel. We welcome them to GESB and look forward to their contributions.

There were also some important changes made during the year to strengthen internal audit activities. KPMG was appointed to undertake GESB's internal audit functions. Audit has a critical role to play in an organisation like GESB, and we believe this change will strengthen the traditional audit functions and assist in improving management more generally.

During the year, a particular emphasis was placed on ensuring that members approaching retirement age had easier and greater access to the details of GESB's two retirement products - Retirement Income (RI) and Retirement Access (RA). As a result, three new types of retirement seminars were conducted - a "Retirement Options" seminar, providing information on key features of GESB's retirement products; a "Retirement Planning" seminar, giving an overview of the retirement planning process and a retirement seminar specifically for Gold State Super members.

Feedback from members on the value of these seminars has been very positive. The seminars have proven to be a valuable source of information for members as they plan for retirement, and have been a key factor in members choosing to invest in Retirement Access and Retirement Income. The percentage of funds retained in RA and RI increased to 33% of eligible benefits for the year to 30 June 2004 from 17% for the year to 30 June 2003.

Another major initiative to improve member services was further developed during the year. Known as the "Customer First" project, it is intended to provide employers (i.e. Government agencies) with on-line facilities to transmit data to GESB, and members with on-line access to enquire about their accounts. The necessary technical infrastructure was installed and new security arrangements were embraced, ready for a phased implementation in 2004/05.

GESB's investment performance for 2003/04 was the best since 1997, with over 75% of all our benchmarks being equalled or exceeded. Investments were further diversified during the year by:

- Selling 50% of Central Park, thereby achieving the desired property strategic asset allocation in the Gold State Super/Pension Scheme component of the Fund;
- Introducing private equity investments as part of the "Australian Share" and "International Share" asset classes, in order to provide greater diversity and enhanced returns over the medium to longer term; and
- Implementing a global bonds strategic allocation, in June 2004, due to the reduction in opportunities in the domestic fixed interest bond markets.

A particular emphasis was placed on cost management, with new reports developed to enable better monitoring of GESB's financial and non-financial operations. Our cost allocation model was reviewed and modified to ensure all costs were properly allocated to the various business activities. With the assistance of the internal and external auditors, GESB has made considerable progress in addressing reconciliation issues and other outstanding audit matters.

Our annual survey of staff satisfaction showed that, while staff were generally satisfied with working in GESB, some improvements are still required. Closer alignment of business plans with strategic priorities and implementation of a

more effective performance management process has been welcomed by staff - and contributed to our sound performance this year.

As part of a series of reviews of performance across Government, the Auditor General tabled a report in Parliament on 30 June 2004 about GESB's performance. The Auditor General reported that the two areas directly impacting members - i.e. investing funds and paying benefits - were effectively managed by GESB. The report identified areas for improvement in containing administration costs, processing contributions and regulatory supervision by Government. The report provides a valuable independent assessment of GESB's performance.

There have been no other membership changes to GESB's Board during the year, since the appointments of Michele Dolin and Derek Spray in July 2003. Board member Harvey Collins was granted a leave of absence of four months to act as interim CEO of Western Power. In addition to its focus on investment performance and service delivery to members, the Board reviewed its corporate governance framework and continued to expand its professional development program. We take this opportunity to thank our fellow Directors for their contribution and commitment throughout the year.

The emphasis this year has been on building on our solid foundation of sound and reliable investment management and administration. Over the next year the emphasis will be on consolidating the improvements made this year, and ensuring all the fundamentals are in place to enable GESB to move ahead with new and improved services to members. With a clear focus on its strategic direction, and alignment of organisational effort with the Board's strategic priorities, GESB is looking forward to providing members with an even more competitive range of products and services in 2004/05.

Our thanks go to all staff for their enthusiasm and effort in making the strategic and organisational changes happen. To all of them, on behalf of the Board, we extend our sincere appreciation.

Finally, we also thank the Minister for Government Enterprises, the Hon Nick Griffiths and his staff for their strong interest in GESB and in superannuation matters generally, and for their support and guidance during the year.



**PHIL HARVEY**  
CHAIRMAN

31 August 2004



**MICHELE DOLIN**  
CHIEF EXECUTIVE OFFICER

31 August 2004

# Performance Highlights

## Investment Performance

- Funds under management increased from \$3.3 billion to \$4.2 billion, representing an increase of 28%.
- West State Super Balanced Plan, the plan adopted by 92% of members, achieved a gross return of 13.90%, exceeding the plan's industry benchmark of 13.58%.
- Investment Management Expense Ratio of 0.30% outperformed the target of 0.33%.

## Member Services

- Gold State Super member satisfaction with GESB increased to 83%.
- Regular briefings played an important part in increasing employer satisfaction with GESB to almost 95%.
- The proportion of eligible benefits retained in Retirement Income and Retirement Access increased significantly from 17% for the year to 30 June 2003 to 33% for the year to 30 June 2004.

## Cost Management

- Monitoring and evaluation of performance was improved through enhanced financial and non-financial performance reporting.
- Budgeting process was improved through better alignment with strategic planning.

## People Management

- Job performance and staff development were aligned with GESB's strategic priorities through personal business plans.
- Greater alignment of organisational structure to GESB's strategic priorities, including the creation of two new divisions: Finance and Marketing.



# Strategic Direction

During the year, GESB's vision and mission were restated to reflect our focus on members. We seek to achieve our vision through offering superannuation and related products and services which meet the expectations and needs of members.

<b>Our Vision</b>	<b>To improve the long term financial security of our members</b>
<b>Our Mission</b>	<b>To provide a competitive range of superannuation and related products and services that are preferred by our members</b>

Four corporate objectives underpin our vision and mission. Our corporate objectives focus on delivering competitive returns to members within acceptable levels of risk and cost, in an environment that is service oriented and productive, and in which our people can develop.<sup>1</sup>

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## **Corporate Objective 1:**

### **Competitive Performance in Investment**

GESB adds value for members through the professional and prudent management of our investments.

Investment performance is assessed against the dimensions of returns, risk and cost.

GESB aims to consistently deliver above benchmark returns at low cost within agreed risk levels.

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## **Corporate Objective 2:**

### **Competitive Performance in Member Services**

As a member based organisation, member services are of primary importance.

Member services are assessed against the extent to which GESB matches market in products and services.

GESB aims to match market in terms of product range, product features, price and service.

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## **Corporate Objective 3:**

### **Competitive Performance in Cost Management**

The costs associated with management of the Fund and schemes directly impact on fees charged to members.

Our performance in cost management is assessed through relevant industry benchmarks and peer comparisons, with a particular focus on the key areas of information and communication technologies, data processing efficiency and maintaining a disciplined alignment of resources to strategic initiatives.

GESB aims to match market in the cost of superannuation administration, corporate administration, particularly information technology, and investments. GESB aims to invest appropriately for future growth.

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## **Corporate Objective 4:**

### **Competitive Performance in People Management**

GESB recognises that high performing organisations require a high performing workforce.

Our performance in people management is assessed through our capacity to attract and retain quality staff, aligning their effort to the strategic priorities and providing professional and career development opportunities.

GESB aims to match market in workforce management practices in the financial services industry.

<sup>1</sup> For information about how GESB's corporate objectives align to the Government Desired Outcome and Outputs, refer to Appendix 1.

# Corporate Overview

## Enabling Legislation

GESB was established under the *Government Employees Superannuation Act 1987* and was continued as the same legal entity under the *State Superannuation Act 2000* when the previous Act was repealed. GESB is a body corporate with perpetual succession and a crown agency. Proceedings may be taken by or against GESB in its corporate name.

The functions of GESB are to:

- Administer the *State Superannuation Act 2000*.
- Manage the Government Employees Superannuation Fund (the Fund).
- Administer the schemes comprising the Fund.
- Provide information, advice, and assistance to the Minister and Treasurer on matters relating to superannuation.
- Provide members with other superannuation and retirement products and services in accordance with the *State Superannuation Regulations 2001*.
- Perform any other functions conferred under any other written law.

In carrying out these functions GESB is to, as far as practicable, act in the best interests of members.

GESB has power to do all things necessary or convenient to be done for, or in connection with, the performance of these functions including the following:

- Acquiring, holding, dealing with and disposing of property of any sort.
- Entering into a contract or arrangement with any person under which that person is to provide professional, technical or other assistance to GESB; or do for GESB anything that GESB could do; and pay out of the Fund fees charged by the person in accordance with the contract or arrangement.
- Entering into a contract or arrangement with any person under which GESB is to provide products and services to that person and charge fees for providing those products and services.
- Promoting and marketing GESB and its activities, products and services.
- Conducting research.
- Producing and publishing information.
- Doing anything that a body corporate may do.

GESB administers the following six schemes in accordance with the *State Superannuation Act 2000* and *State Superannuation Regulations 2001*:

- West State Super is a market linked 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.
- Retirement Access enables retiring members to keep their funds in a concessional tax environment with GESB while retaining the ability to access their funds by drawing down lump sums as required.
- Retirement Income is an allocated pension that enables retiring members to keep their funds with GESB in a concessional tax environment, while receiving flexible periodic payments.
- 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.

## Composition of the Board



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

Chairman

Mr Harvey was appointed to the Board for a term of five years from 7 March 2003 to 6 March 2008.

Mr Harvey is the Chairman of LNG Ltd. He is a Fellow of the Institute of Company Directors and was formerly a Fellow of the Institution of Engineers, Australia. He has been President of the Rotary Club of Perth, and is a Board Member of United Way, Western Australia.

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

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, from where he retired from full - time employment in 2001. Mr Harvey has a strong background in business development, leadership and change management.



**Matt Farrell (BSc, Dip Ed, MAIP, FAICD)**

Deputy Chairman, Member Director

Mr Farrell was first elected to the Board on 8 February 1996 and his term expires on 7 February 2005. His position as Deputy Chairman of the Board is concurrent with his term of office.

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 Fellow of the Australian Institute of Company Directors, is a member of the Australian Institute of Physics and a member of the Industrial Relations Society of Western Australia.



**Harvey Collins (BBus, FCPA, FSIA, FAICD)**

Employer Director

Mr Collins was appointed to the Board for a term of three years from 15 October 2001 to 13 October 2004.

Mr Collins has a strong background in banking and finance, as a former General Manager and Chief Financial Officer for Challenge Bank Limited and Director for the listed investment company, Chieftan Securities Limited. He is also currently Chairman of HBF Health Funds Inc. In addition, he conducts corporate, business and financial advisory work.

He holds a Bachelor of Business (Distinction) from the WA Institute of Technology and a Post-Graduate Diploma in Financial Studies, University of Strathclyde, Glasgow, UK. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Society of Certified Practising Accountants, and a Fellow of the Securities Institute of Australia. He has served as Western Australian State Chairman and a National Council member of the Securities Institute.



**Michele Dolin (BA, MA, MBA, FAICD, FAIM, FAIFB)**

Employer Director

Ms Dolin was appointed to the Board for a term of five years from 22 July 2003 to 7 July 2008.

In addition, Ms Dolin was appointed as Chief Executive Officer of the Government Employees Superannuation Board on 28 July 2003.

Prior to this appointment, Ms Dolin's career had been in the financial services sector with a focus on strategy, finance, IT, HR and operations. As a finance sector executive, Ms Dolin held a number of senior executive appointments with leading financial institutions. She was first appointed a General Manager with Challenge Bank Ltd in 1989 and later held General Manager positions with Westpac Banking Corporation and BankWest. Prior to banking, Ms Dolin was with Price Waterhouse and Colonial Mutual.

Ms Dolin holds a Master of Business Administration Degree from Melbourne University and a Master of Arts Degree from Michigan State University as well as a Bachelor of Arts Degree from the University of Maryland. She is a fellow of the Australian Institute of Company Directors, the Australian Institute of Management and the Australian Institute of Finance and Banking.



**Cheryl Robertson (MAICD)**

Employer Director

Ms Robertson was appointed to the Board for a term of five years from 4 March 2003 expiring on 9 February 2008.

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

With 17 years experience in the IT industry, her areas of expertise lie in management, sales, marketing, IT training and systems engineering. She is a Member of the Information, Communications and Technology advisory board for the Minister for Industry, Technology, Tourism and State Development, a Committee Member for the WA Government Broadband Advisory Group and the Industry Development Advisory Group Branch, and a Board Member of the Australian Computer Society Foundation. Ms Robertson was also previously E-Commerce Executive Director for the Australian Information Industry Association WA.



**Derek Spray**

Member Director

Mr Spray was elected to the Board for a term of three years commencing on 4 July 2003 expiring on 3 July 2006.

Mr Spray is currently Special Projects Consultant with the Department of Justice and is a Community and Public Sector Union/CSA Councillor.

He has 40 years experience in the IT industry (20 years private sector and 20 years public sector), and has broad industry experience which includes insurance and finance industries. His areas of expertise lie in information systems management, business operations management and product management.

Mr Spray was born in England, educated at Hastings Grammar School and Chelsea College, University of London and migrated to Australia in 1981.



**Peter Thomson (MAICD)**

Member Director

Mr Thomson was elected to the Board for a term of three years from 17 September 2002 expiring on 16 September 2005.

Mr Thomson is currently the Administrator for the Liquor Hospitality and Miscellaneous Union and has an accounting background which includes experience as a small business proprietor and as the accountant at the City of Bunbury and mentoring Aboriginal business ventures with the Aboriginal Business Development Corporation. Mr Thomson has completed the Certificate of Superannuation Management.

# Corporate Governance

The Board of Directors (the Board) of GESB is committed to achieving a high standard of corporate governance to ensure that GESB achieves its vision, mission and corporate objectives.

## Board of Directors

The Board comprises seven directors. The Board sets, monitors and reviews the strategic direction of GESB and performs GESB's functions under the *State Superannuation Act 2000* (SSA). It is responsible to the Minister for Government Enterprises.

## Board appointments and elections

Directors are appointed or elected under section 8 of the SSA as follows:

- The Chairman is an independent Director appointed by the Governor on the nomination of the Minister after consultation with representative unions.
- Three Directors are appointed by the Governor of the State of Western Australia as "Employer Directors".
- Three Directors are elected as "Member Directors" via elections conducted by UnionsWA under the *State Superannuation Regulations 2001*.

The Chairman and 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. If a casual vacancy occurs in the office of a Member Director, the Minister may appoint a member to fill the vacancy after consultation with representative unions until the new Member Director is elected. The Minister may remove a Director in accordance with section 6(2) of the SSA.

## Composition of the Board of Directors

The members of the Board during 2003/04 are identified in the Annual Report. Since the appointments in July 2003 of Ms Michele Dolin as an Employer Director and Chief Executive Officer and Derek Spray as a Member Director, there have been no other changes to Board membership.

# Meetings

The Board meets on a monthly basis. During 2003/04 the number of meetings attended by each Director is indicated:

Director	No. of meetings held	No. of meetings attended
<b>Mr Phil Harvey</b> Chairman	12	11
<b>Mr Matt Farrell</b> Deputy Chairman Member Director	12	11
<b>Mr Harvey Collins <sup>(1)</sup></b> Employer Director	12	7
<b>Ms Michele Dolin</b> Employer Director	12	12
<b>Ms Cheryl Robertson</b> Employer Director	12	11
<b>Mr Derek Spray</b> Member Director	12	11
<b>Mr Peter Thomson</b> Member Director	12	11

<sup>(1)</sup> Mr Harvey Collins took a leave of absence to act as the interim Chief Executive Officer at Western Power from 23 February 2004 to 30 June 2004. Mr Collins attended all seven Board meetings which were held prior to his leave of absence.

## Material Interests

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 resolution in the absence of the Director that the Board is satisfied that the interest should not disqualify the Director from considering or voting on the matter.

## Directors' Duties

Under the *Statutory Corporations (Liability of Directors) Act 1996*, the Directors have the same fiduciary relationship with GESB and the same duties to GESB to act with loyalty and good faith, as a director of a company under the *Corporations Act 2001*. The Directors also have a duty:

- To act honestly in the performance of the functions of his or her office.
- To exercise the degree of care and diligence that a reasonable person in the position of the Director would reasonably be expected to exercise in GESB's circumstances.
- Not to make improper use of his or her position, or information acquired by virtue of his or her position, to gain directly or indirectly, an advantage for himself or herself or for any other person or to cause detriment to GESB.

## Director Education

The Directors recognise that they must develop and maintain the knowledge required to perform their duties and ensure their knowledge of superannuation, investment and corporate governance related issues remains up to date. The Board has developed a Board Directors' education program for this purpose.

## Compensation and remuneration

Directors are entitled to the remuneration and allowances determined by the responsible Minister on the recommendation of the Minister for Public Sector Management. In accordance with Government policy, Directors who are public sector employees are not paid additional remuneration for sitting on the Board. The Chief Executive Officer's remuneration is set by the Salaries and Allowances Tribunal.

## Corporate Governance Policy Framework

The Board has adopted a Corporate Governance Policy Framework, which comprises governance policies in relation to:

- The Board's vision and its corporate objectives in respect of GESB.
- The relationship between the Board and management. These policies provide that the Chief Executive Officer is accountable to the Board for achieving the strategies and objectives set by the Board.
- Limitations placed on the CEO's authority.
- The Board, including the role and conduct of the Board, Board Committees, Chairman and CEO, and Board performance assessment.

Each policy is subject to annual review by the Board. Compliance with the policies is monitored on an ongoing basis.

## Ethical Standards

The Board acknowledges the need for, and continued maintenance of high standards of ethical conduct for 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. A separate Code of Conduct for the Board has also been established under the governance policies.

## Risk and Compliance Management

During 2003/04, GESB strengthened the risk management program covering strategic, business and project risks in line with Australian Standard 4360:1999 and The Association of Superannuation Funds of Australia Ltd's Best Practice Paper 19.

GESB also implemented a revised Compliance Framework in accordance with the guidelines provided in the Australian Standard Compliance Program 3806:1998 to ensure GESB complies with all applicable laws.

## State Sustainability Strategy

GESB will:

- Examine triple bottom line reporting as part of our balanced scorecard approach to managing performance.
- Continue to improve recycling and energy-saving practices in the spirit of the Sustainability Code of Practice for Government Agencies.
- Monitor the development and performance of Socially Responsible Investments as a discrete asset class.



## Board Committees

Three Board Committees assist the Board to carry out its duties - the Audit Committee, the Corporate Governance Committee and the CEO Performance Committee. The conduct of each committee is governed by their respective charters and/or more generally by the Board's governance policy on the role of Board Committees.

### Audit Committee

The Audit Committee assists the Board in carrying out its responsibility to exercise due care, diligence and skill in relation to GESB's financial and performance reporting, application of accounting policies, financial management, internal control systems, business policies and practices, compliance with applicable laws and regulations, and monitoring and controlling of business risks.

The members of the Audit Committee during 2003/04 and the number of meetings which they attended is indicated in the table:

Director	No. of meetings held	No. of meetings attended
Mr Matt Farrell		
Chairman	5	5
Mr Harvey Collins <sup>(1)</sup>	3	3
Mr Phil Harvey <sup>(1)</sup>	2	2
Ms Cheryl Robertson	5	3

<sup>(1)</sup> Mr Harvey Collins took a leave of absence to act as the interim Chief Executive Officer at Western Power from 23 February 2004 to 30 June 2004. During that period Mr Phil Harvey was appointed as a member of the Audit Committee in his place.

### Corporate Governance Committee

The Corporate Governance Committee reviews and informs the Board of corporate governance issues. It maintains a comprehensive Corporate Governance Policy Framework and ensures the corporate governance policies conform with best practice to the extent practicable. It also monitors corporate governance compliance and instigates action to address areas of non-compliance.

The members of the Corporate Governance Committee during 2003/04 and the number of meetings which they attended is indicated below:

Director	No. of meetings held	No. of meetings attended
Mr Phil Harvey		
Chairman	3	3
Ms Michele Dolin	3	3
Mr Peter Thomson	3	3

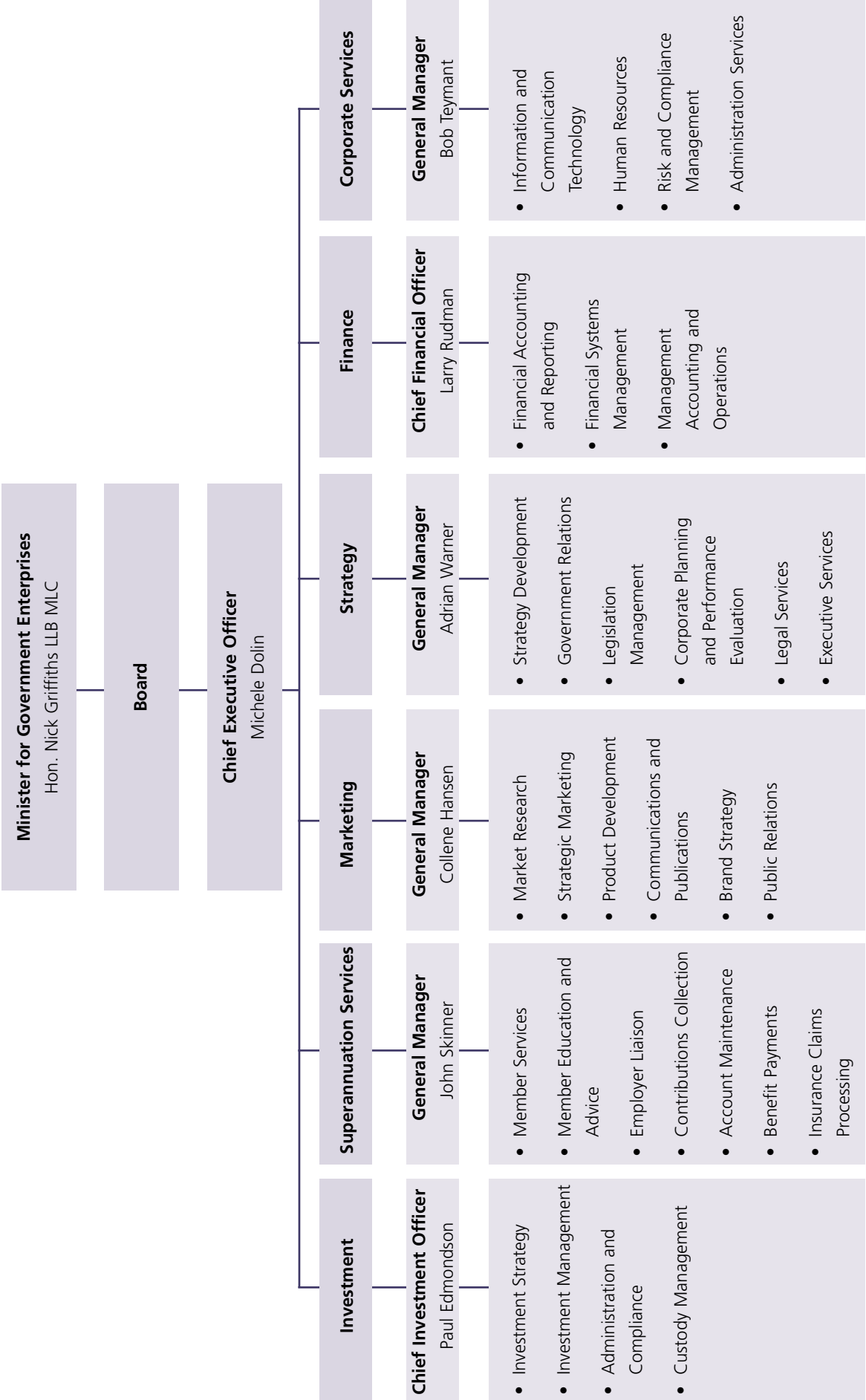
### CEO Performance Committee

The Board's CEO Performance Committee monitors the CEO's performance in accordance the governance policies on CEO Authority Limits.

The members of the CEO Performance Committee and the number of meetings which they attended in respect of the 2003/04 period is indicated below:

Director	No. of meetings held	No. of meetings attended
Mr Phil Harvey		
Chairman	1	1
Mr Matt Farrell	1	1
Mr Harvey Collins	1	1

Organisational Structure as at 30 June 2004



# Compliance Requirements

GESB is required to comply with a range of Commonwealth and State Legislation. Appendix 4 contains the complete list of the legislation impacting on GESB.

The following sets out information required by legislation to be included in the Annual Report.

## Compliance Statement

In the administration of the Government Employees Superannuation Fund, the Board has complied in all material aspects with the requirements of the *State Superannuation Act 2000*, *State Superannuation Regulations 2001*, *Financial Administration and Audit Act 1985* and other relevant written law.


The Board has exercised controls, implemented procedures and conducted appropriate internal assessments designed to provide a reasonable level of assurance regarding the extent to which legal compliance has occurred.

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.



**P J HARVEY**  
CHAIRMAN

31 August 2004



**M DOLIN**  
DIRECTOR  
CHIEF EXECUTIVE OFFICER

31 August 2004

## Heads of Government Agreement

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

The Commonwealth has recognised that the 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 Income Policy as reflected in the relevant Federal legislation.

GESB monitors adherence to the agreement on behalf of the State Government and provides advice to Government on the need for any changes to the scheme rules to ensure the State Government continues to meet its commitments under the agreement. GESB also liaises with and provides information to relevant Commonwealth agencies as required under the agreement.

## Freedom of Information

GESB provides members with access to all of their personal and account information without the need to make a formal Freedom of Information application in accordance with the *Freedom of Information Act 1992*.

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

## Compliance with Public Sector Standards in Human Resource Management

In performing its functions, GESB has complied with the Public Sector Standards in Human Resource Management, the Western Australian Public Sector Code of Ethics and GESB's Code of Conduct.

One complaint alleging a breach of the Public Sector Standards in Human Resource Management was lodged. The matter was resolved internally in accordance with the first stage of the Public Sector Standards Breach Procedures.

GESB's Code of Conduct has been made available to all GESB staff and hard copies are distributed to new employees on induction.

Compliance with the Standards and Codes was reviewed via an internal audit of the Staff Treatment Policy in October 2003.

## Equal Employment Opportunity / Youth Outcomes / Diversity

In 2003/04, the proportion of females in the organisation remained steady at 55%. However, the number of women working at senior levels has increased and therefore, the equity index, which looks at the distribution of females across all levels of the workforce, increased from 67 to 88. An index figure under 100 still indicates a relative concentration of females at the lower levels, however GESB is comfortably ahead of the 2005 Whole of Government target of 65.

Diversity targets were exceeded in the areas of employment of people from culturally diverse backgrounds at 10% as compared to the 2005 Whole of Government target of 6.7%. Employment figures for people with disabilities remained at 1.4%. Youth employment decreased from 5.2% to 4.3%, below the target of 5.5%.

## Disability Services Act

A Disability Services Plan was incorporated into GESB's Equity and Diversity Plan. Achievements during the year included training and employment opportunities for our vision impaired employees. To complement these opportunities, equipment such as a Braille, JAWS (a voice feedback program) and scanners were purchased or updated to enable these employees to undertake a wider range of activities and tasks.

The introduction of the Concept Personnel Payroll software package has enabled staff to view details of their employment entitlements via an on-line Webkiosk. The kiosk has been particularly useful for GESB's vision impaired staff as it has allowed them (through the use of a Braille and Jaws) to view leave balances and apply for leave as well as a range of other entitlements.

Our emergency evacuation plan was changed to ensure the safety of all staff including those with disabilities.

All policies, procedures and some manuals are available electronically via our Intranet site which enables vision-impaired employees to access them.

## Electoral Act

Section 175ZE of the *Electoral Act 1907* requires the disclosure of details of expenditure incurred during the year for advertising, market research, polling, direct mail and media advertising.

	2001/02	2002/03	2003/04	
<b>Advertising/Marketing Agencies</b>				
Cogent	Nil	Nil	\$1,423 <sup>1</sup>	
Core Marketing Group	\$112,689	\$70,536	\$75,198	
JDA	\$150,023 <sup>2</sup>	\$204,791 <sup>3</sup>	\$2,646 <sup>4</sup>	
REB	Nil	Nil	\$22,548	
Marketforce	Nil	Nil	\$30,038 <sup>5</sup>	
<b>Market Research Organisations</b>				
Research Solutions	\$106,820	\$179,142	\$202,852	
TNS	Nil	Nil	\$17,666	
Polling Organisations	Nil	Nil	Nil	
<b>Direct Mail Organisations</b>				
Zipform	\$102,000 <sup>6</sup>	\$36,525 <sup>7</sup>	\$3,875 <sup>8</sup>	
<b>Media Advertising Organisations</b>				
Marketforce Productions	\$43,050	\$36,675	\$14,948	
Media Decisions	\$3,955	\$14,315	\$1,121	
<b>Total</b>	<b>\$518,537</b>	<b>\$541,984</b>	<b>\$372,315</b>	

1. Excludes printing costs of \$34,034
2. Excludes printing costs of \$153,000
3. Excludes printing costs of \$265,713
4. Excludes printing costs of \$250,330
5. Excludes printing costs of \$131,423
6. Excludes postage costs of around \$102,000  
- estimate only specific cost not available
7. Excludes postage costs of \$30,778
8. Excludes postage costs of \$2,609

## Record Keeping Plans

A Record Keeping Plan was developed and forwarded to the State Records Office for approval in accordance with the *State Records Act 2000*. To support the implementation of the plan, a Record and Document Management strategy was also developed.

## Public Interest Disclosure

Public interest disclosure policy and procedures were developed and a Public Interest Disclosure Officer was appointed in compliance with the *Public Interest Disclosure Act 2003*.

## Waste Paper Recycling

As a tenant and part-owner in the Central Park building, GESB participated in a waste paper recycling program. In 2003/04, the Central Park VISY Recycling Program recycled 288 tonnes of paper, plastic, cardboard and glass.

## Energy Smart

Although GESB is not required to comply with the Energy Smart Initiative, we supported its principles as part of our tenancy and part-ownership in the Central Park building. Central Park was awarded 4.5 stars out of a possible five stars for its energy efficiency under the Australian Building Greenhouse Rating Scheme. In addition, the building's environmental policy included a paper recycling program, a CFC management program, microbial control and cooling tower water management. Central Park also used Western Power's green power initiative, NaturalPower.

## Investment Performance

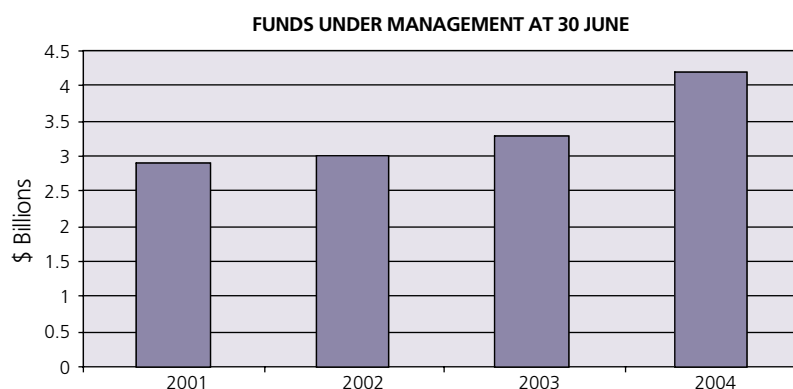
GESB aims to consistently deliver above benchmark returns at low cost within agreed risk levels.

Relevant Government Desired Output:

Output 1: A range of competitive products that are attractive and relevant to GESB's clients <sup>2</sup>

Strong performances from local and overseas share markets substantially boosted GESB's overall returns in 2003/04, reversing the poor equity market returns from the previous two financial years.

The total investment portfolio increased by 28% over the year from \$3.3 billion to \$4.2 billion. The defined benefit schemes accounted for \$1.8 billion with the balance representing West State Super, Retirement Income and Retirement Access schemes.



GESB's investment benchmarks used throughout this Annual Report are based on industry standards as recommended by our asset consultant.

### West State Super

#### West State Super Diversified Plan Performance (Gross) - 1 & 3 Years

	Cash	Conservative	Balanced	Growth
Plan 1 Year	5.56	8.49	13.90	16.65
Benchmark 1 Year	5.30	7.85	13.58	16.52
Plan 3 Years (%pa)	5.12	5.38	4.14	2.93
Benchmark 3 Years (% pa)	4.98	4.91	3.61	2.39

All West State Super Diversified Plans exceeded their asset class benchmark for this year. Perhaps more importantly, they have also outperformed their benchmarks on a three year rolling basis.

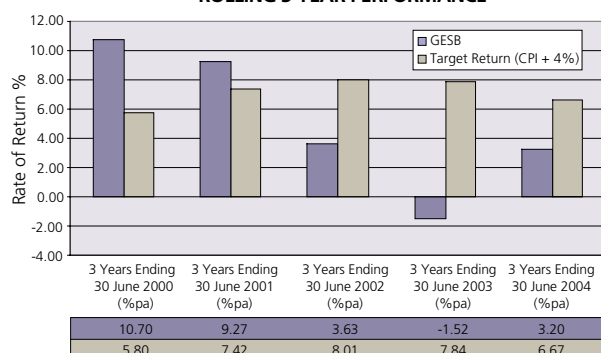
Within West State Super, the Balanced Plan (the plan adopted by 92% of members) produced a gross return of 13.90%, a significant improvement on last year's 1.76%. Importantly, the Balanced Plan's three year performance of 4.14% per annum exceeded its benchmark by 0.53% pa, and compares favourably to the top quartile of leading industry peer funds<sup>3</sup>.

<sup>2</sup> Further information regarding GESB's Government Desired Outputs and how they are linked to the Government Desired Outcome is detailed in Appendix 1.

<sup>3</sup> Comparison of West State Super Balanced Plan's Performance with Mercer's Pooled (Balanced) Fund Survey Median Returns.

## Gold State Super and Pension Scheme

**GOLD STATE SUPER AND PENSION SCHEME  
- ROLLING 3 YEAR PERFORMANCE**

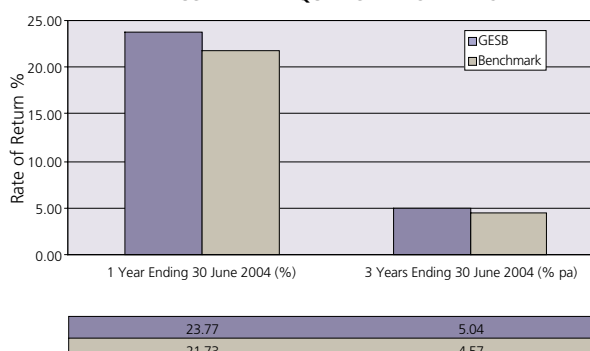


The assets of the defined benefits schemes, Gold State Super and the Pension Scheme, are pooled into a single plan and are invested with a common asset allocation. That plan achieved a gross return of 16.27% over the year and slightly outperformed its composite benchmark which returned 16.25%. Over a three year period the plan achieved a return of 3.20% pa, comfortably exceeding its benchmark by 0.66% pa and compared very favourably with the industry peer fund median return. Gold State Super and Pension Scheme have a longer term objective of exceeding the CPI by 4% per annum over rolling three year periods. Strong returns from shares and property over the last 12 months have improved recent performance against this target.

The performance of the various asset classes is set out below. Details of asset class performance over the last three financial years, relative to the index benchmarks, are shown in Appendix 3.

## Asset Class Performance

**AUSTRALIAN EQUITIES PERFORMANCE**



### Australian Equities

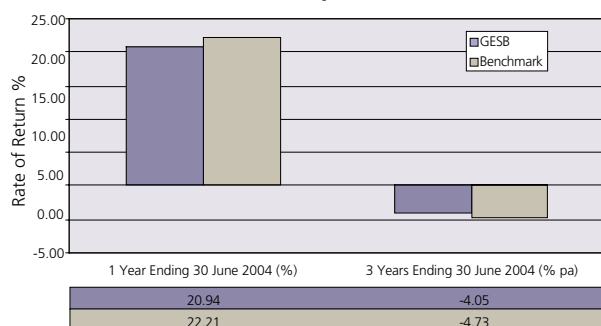
The Australian equity market achieved its best return since 1996/97 with the S&P/ASX 300 Accumulation Index gaining 21.7% in 2003/04. The market's strength was driven by cyclically-sensitive sectors, particularly resources. Sector gains were led by information technology (+55.5%), energy (+41.0%) and materials (+32.6%). Size also proved a factor during the year with small capitalisation stocks (+26.8%) outperforming their large capitalisation peers (+21.4%).

GESB's Australian equity managers capitalised on the market's positive momentum, out-performing the S&P/ASX 300 Accumulation Index by 2.0% over the year.

As at 30 June 2004, GESB's allocation to Australian equities was \$1,087 million or 25.8% of the investment portfolio.

During the year, GESB established a small allocation to Australian private equity via a fund-of-fund managed by Macquarie Funds Management. As at 30 June 2004, the Australian equity portfolio comprised three externally managed active broad market portfolios, two externally managed active portfolios of small capitalisation stocks, an internally managed passive portfolio and a specialist private equity fund.

### INTERNATIONAL EQUITIES PERFORMANCE



### International Equities

International equity markets staged a strong comeback in 2003/04 after three years of negative returns. The MSCI World ex Australia Index (in local currencies) gained 20.2% with all major regional markets generating double-digit returns. Japan was the best of the major markets, adding 32%. Key European markets rebounded strongly after several years of underperformance, resulting in an aggregate return of 19.8%. US stocks (+19.1%) performed strongly in the first half of the year, but momentum waned in the second half.

During the year, GESB re-established an allocation to emerging markets with the appointment of two new managers. An additional US equity manager was introduced and an allocation to global private equity was made via a fund-of-funds managed by Macquarie Funds Management. As at 30 June 2004, the international equity portfolio comprised a core passive manager, three active US equity managers, two active international ex-US equity managers, two emerging markets managers and a specialist private equity fund.

At the year's end, \$1,415 million or 33.7% of the portfolio was invested in international equities. Though GESB's managers fell short of the asset class benchmark in 2003/04, the rolling three year return remains ahead of benchmark.

GESB maintains a permanent foreign currency hedge over approximately 50% of the international equities portfolio. The hedge is managed by GESB's passive international equities manager.

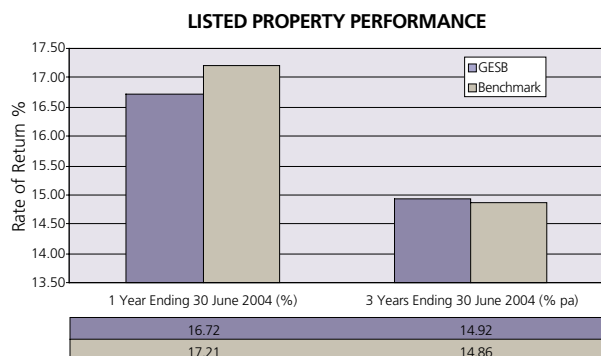
### DIRECT PROPERTY PERFORMANCE



### Direct Property

Consistent with the objectives of GESB's property diversification strategy, the sale of 50% of Central Park was successfully negotiated and settled during the year. The transaction was important in order to deliver improved diversification of GESB's property assets and mitigate overall portfolio risk. Another significant outcome from the transaction was the restoration of strategic asset allocation weights consistent with long-term objectives.

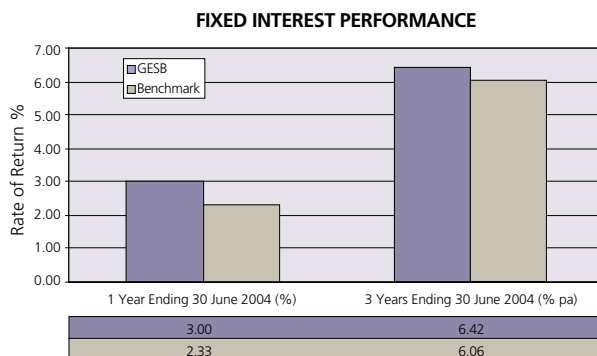




### Listed Property Securities

The listed property sector defied the weakness in other defensive asset classes and equity sectors in 2003/04 to post a return of 17.2%, as measured by the S&P/ASX 300 Property Accumulation Index. This represents the fifth consecutive year of double-digit returns by this asset class. The listed property sector's strong outperformance can be attributed almost entirely to a hectic year of merger and acquisition activity, the largest of which was the merger of the Westfield Group entities.

As at 30 June 2004, the listed property sector comprises two active managers and a passive manager. In a challenging year for the sector, GESB's listed property managers under-performed the asset class by 0.49%, but slightly exceeded the benchmark over the rolling three year period to 30 June 2004.



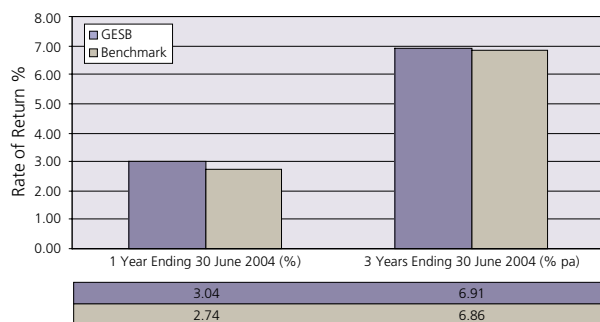
### Fixed Interest

In an environment of higher risk tolerance and rising interest rates, the Australian fixed interest sector reported its lowest return since 1996/97. The UBSWA Composite Bond Index rose by just 2.33% with longer dated Australian bond yields rising in unison with global markets. The Australian Commonwealth Government 10 year bond ended the year yielding 5.87%, up from 5.01% 12 months earlier. On the official interest rate front, the Reserve Bank adopted a measured response to the resilient Australian economy, tightening official interest rates in two moves from 4.75% to 5.25% in 2003/04.

Towards the end of the year GESB implemented a significant restructuring of the debt asset classes. The introduction of global bonds resulted in funds being reassigned within the debt sector. As a result, the Australian fixed interest portfolio now accounts for 10.0% of GESB's investment assets or \$421.5 million. As at 30 June 2004, it comprised two externally managed active portfolios, a financing arrangement over a Western Australian Education Department building, and an investment in SMHL Origination Fund No. 3 (Members Equity).

In a challenging year for the asset class, GESB's Australian fixed interest managers had a very good year, exceeding the asset class benchmark by 0.67%.

INFLATION LINKED BONDS PERFORMANCE



### Inflation Linked Bonds

Australian inflation linked bonds, as measured by the UBSWA Inflation Linked Bond Index, returned 2.74% in 2003/04. The inflation linked sector marginally outperformed the nominal market, but returns were constrained by fairly benign inflationary expectations. The Commonwealth Government 10 year indexed bond closed the year yielding a real 3.32%, up from 3.08% as at 30 June 2004.

As mentioned in the fixed interest section, the debt assets within GESB's portfolio were significantly restructured during the year, resulting in a de-allocation of funds from the Australian inflation linked sector. The asset class represented 4.4% (\$185.2m) of the total portfolio at year's end.

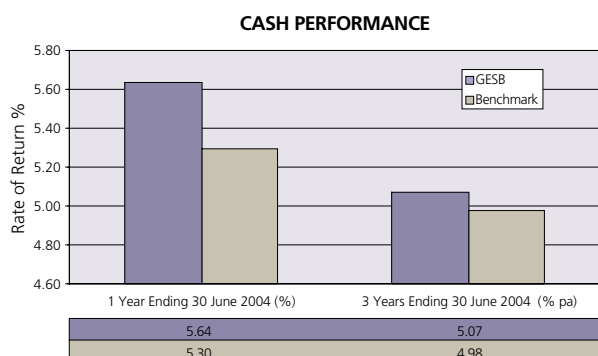
GESB's inflation linked bonds are managed under separate active and passive portfolios. Relative performance was sound with GESB's managers exceeding asset class benchmark by 0.33%.

GLOBAL BONDS PERFORMANCE



### Global Bonds

Towards the end of 2003/04, GESB effected a restructuring of the debt asset classes with the establishment of an allocation to global bonds. The introduction of global bonds continues GESB's strategy of asset class diversification across the portfolio. Two active managers were appointed and funding of these managers occurred through May and June 2004. Given that funding occurred very late in the year, performance contributions and comparisons for 2003/04 are not material or meaningful. The asset class represented 13.1% (\$553.1m) of the total portfolio at year's end.



## Cash

Cash rates moved slightly higher during 2003/04 with the UBS Bank Bill Index returning 5.30%. The cash portfolio amounted to \$125.5 million or 3% of investment assets at year's end. Relative performance improved considerably with a full year's contribution from the enhanced cash product outperforming the asset class benchmark by 0.34%.

## Looking Ahead:

GESB intends to consolidate recent strategic initiatives in the investments area by:

- Implementing an Australian equity review.
- Continuing the implementation of the private equity strategy.
- Reviewing the property diversification strategy following the successful sale of 50% of Central Park.

# Member Services

GESB aims to match market in terms of product range, product features, price and service.

Relevant Government Desired Outputs<sup>4</sup>:

Output 1: A range of competitive products that are attractive and relevant to GESB's clients

Output 2: Client-focussed Service

## Retirement Access and Retirement Income

Retirement Access and Retirement Income were first introduced in 2002 and 2003 respectively. Both of these products offer members a single low fee, choice of investment plan and full access to their money at any time. Fees and charges for retirement products offered in the market are often complex but Retirement Access and Retirement Income keep it simple and are competitively priced. These market competitive options enable members to rest easy if they choose to retain their investments with GESB in retirement.

During 2003/04, members' take up of these products increased significantly. In particular, the proportion of eligible benefits retained within Retirement Access and Retirement Income increased from 17% for the year to 30 June 2003 to 33% for the year to 30 June 2004.

To assist members in planning for retirement and managing their savings during retirement, GESB provides regular newsletters and specialised seminars.

## Greater understanding of members' needs

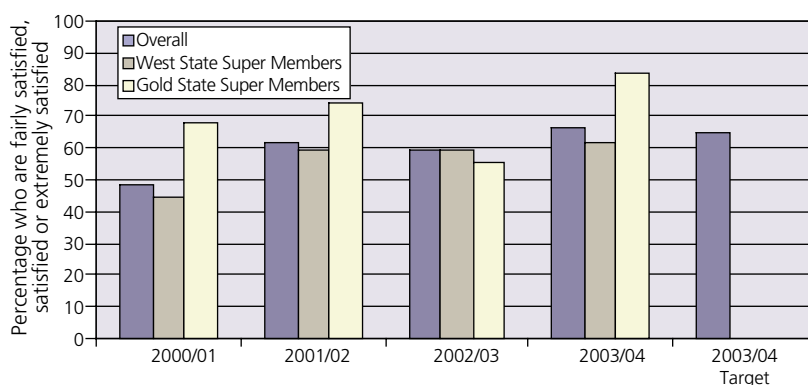
GESB's ongoing research program continues to assist GESB to develop a better understanding of members' needs and expectations at different stages of their lives, particularly in their immediate pre-retirement phase. Findings from the research enabled GESB to shape more informative and relevant education seminars and publications. The program provided more information on the types of products GESB should offer to match market and meet members' needs.

A forecasting model for contributions, benefits, memberships and balances was developed and allowed GESB to better anticipate future needs. The model provided valuable input into the strategic planning process and has helped to determine GESB's strategic initiatives over the next five years.

Qualitative and quantitative market and service quality research programs with members and employers continued to assist in the evaluation of GESB's performance. The service quality research extended the sample previously used to include past as well as current public sector employees.

Member research results for December 2003 for active West State Super and Gold State Super members showed a high degree of consistency with previous research. Gold State Super members' satisfaction improved following a dip in 2002, as did West State Super members, albeit to a lesser extent.

**MEMBERS' OVERALL SATISFACTION WITH GESB**



<sup>4</sup> Further information regarding GESB's Government Desired Outputs and how they are linked to the Government Desired Outcome is detailed in Appendix 1.

## Communicating with Members

The Member Education Team regularly contacted employers to identify education needs and arrange seminars at members' workplaces including video conferencing for employers in remote communities. The team also assisted employers by regularly attending inductions for new employees and supplying information on West State Super and Gold State Super.

Specifically tailored education seminars were developed for members thinking of retiring. GESB offered three types of retirement seminars as well as co-contribution seminars. The Retirement Options seminars educate members about GESB's retirement products. The full-day Retirement Planning seminars provide an overview of the retirement planning process, allocated pensions, social security and tax issues as well as lifestyle choices. GESB also offered a special Gold State Super Retirement Seminar customised to Gold State Super members nearing retirement. The feedback from members indicated that they were extremely satisfied with the seminar content and, in particular, their educational value.

In addition to GESB's existing services to members, nine fact sheets were developed for Gold State Super members. The nine fact sheets cover the following areas:

- Gold State Super overall scheme details.
- Going part-time.
- Taking unpaid leave.
- Super and tax.
- Super and divorce.
- Super and insurance.
- Growing your super with salary sacrifice.
- Resigning from the WA public sector.
- Super and redundancy.

GESB educated members on salary sacrificing, partner contributions and co-contributions through the Hands on Investor newsletter.

A program to analyse the effectiveness and appropriateness of GESB's contact with members and employers was undertaken. The program identified a number of internal process changes such as redesigning benefit payment forms to further enhance the overall customer experience.

The Judicial and Parliamentary Pension arrangements continued to be administered by GESB. As at 30 June 2004, there were 53 current members of the Parliamentary Pension Scheme and 100 retired members and partners of deceased Members of Parliament. There were 41 current members of the Judges Pension Scheme and 40 retired members and partners of deceased Judges.

## New Complaints Management Framework

A Complaints Management Framework was implemented in accordance with Australian Standard 4269 in line with the Premier's Circular 2004/04 entitled "Whole of Government Complaint Management Strategy". The framework establishes a uniform process of managing, recording, responding to and reporting complaints. Additionally, this framework enables GESB to identify opportunities to improve services to members through formal and informal complaints. For example, a more streamlined process, implemented for the early release of superannuation benefits on compassionate and financial hardship grounds, stemmed from member complaints.

## Insurance Claims Management

A review of GESB's claims management by independent consultants recommended changes to the disability claims management approach. The consultants found a number of areas where significant improvements could be made to specific tasks to simplify the process for members and improve overall claims management.

A review of insurance premiums was also conducted and the recommendations will be implemented in 2004/05.

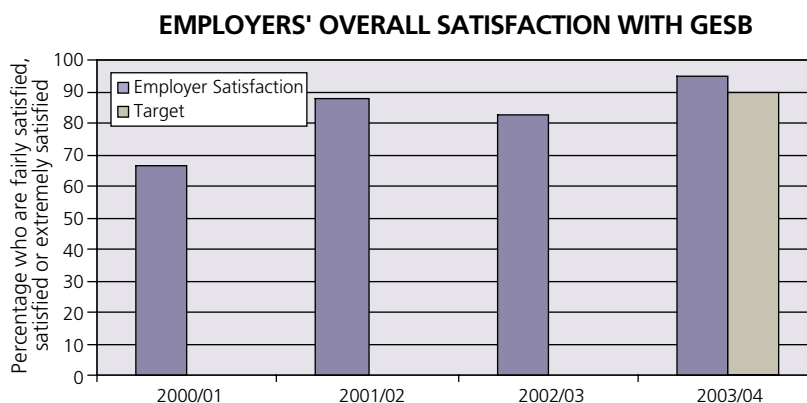
## e-Business

The Customer First Program implementation commenced in January 2004. The program's aim is to provide members access to on-line account balances, provide benefit quote calculations, make investment switches and to obtain a wide range of information such as transaction history, statements and unit prices. Members will have on-line access to their details and accounts in the second half of 2004, while the full implementation of the project is scheduled for early 2005. In addition, employers will be able to validate their data before sending it to GESB, which we expect will ensure better quality of the data received.

## Working with Employers

Overall results from the employer satisfaction survey showed a marked improvement since implementing the survey in 2000. GESB now has a positive relationship with the majority of employer contacts, who are generally well satisfied with the service they are receiving. Employer Relationship Managers are important in maintaining GESB's high standards of service to employers.

As part of the ongoing focus on employers, Employer Relationship Managers regularly visited agencies on an informal basis to discuss the superannuation issues facing their agencies. Other activities included regular briefing sessions, employer representative forums, and the distribution of new member induction kits. Publications were also provided to agency payroll staff, which cover operational issues, such as scheme rules for member contributions and superannuation guarantee information.



## Working with Stakeholders

Changes to the *State Superannuation Regulations 2001* were approved in August 2003 to expand the Treasurer's discretionary powers to grant benefits in special circumstances. The catalyst for change was the case of Visiting Medical Practitioners whose memberships of West State Super were determined to be invalid, despite having accounts established. Through regulation changes, the Treasurer was able to validate their membership. The rules of the Pension Scheme were also amended to allow funding obligations for certain statutory authorities and TAFE colleges to be transferred to the Consolidated Fund.

Further changes to the regulations were made in June 2004 to improve our processes for managing applications for early release of superannuation benefits from both Gold State Super and West State Super on compassionate or severe financial hardship grounds in accordance with the Commonwealth's *Superannuation Industry (Supervision) Regulations 1994*. This change to the Regulations means that the Board is now responsible for approving early releases of benefits on compassionate or financial hardship grounds, making the process quicker and more straightforward for our members when faced with difficult financial or personal circumstances.

A phased retirement working group, which consisted of policy officers from key central agencies, developed a proposal for different options to implement phased retirement policies. Phased retirement is increasingly being seen as an important element in addressing the issues raised by an ageing population. The Superannuation Consultative Group also met to consider whole of Government impacts of phased retirement as well as a clean break approach to Superannuation and Family Law.

A new quarterly forum, the Superannuation Discussion Group, was established by GESB and the Department of Treasury and Finance to discuss strategic superannuation issues at the executive level, thereby assisting both agencies in carrying out their roles and responsibilities in relation to superannuation. The Superannuation Discussion Group will be particularly important as GESB works through the findings and recommendations of the Auditor General's Performance Report over the next 12 months.

## Looking Ahead:

GESB intends to build on strategic initiatives in the member services area by:

- Focussing research on deepening knowledge of the market and member segments.
- Expanding industry and market research capabilities.
- Expanding and enhancing the range of products to match market.
- Enhancing information and publications for members.
- Continuing to develop and maintain strong relationships with employers and stakeholders.
- Implementing on-line services via the Internet.

### Key member related statistics

Some members hold more than one type of account within the Fund. As at 30 June 2004, the Fund had 254,093 individual members, who held 291,621 separate accounts.

#### Total member accounts as at 30 June

	2003	2004
West State Super	207,866	217,568
Gold State Super (contributors)	26,287	24,898
Deferred Accounts <sup>1</sup>	38,191	37,257
Retirement Access	248	485
Retirement Income	18	163
Pension Scheme (contributors)	591	530
Pension Scheme (pension recipients)	11,119	10,716
Provident Account	5	5
<b>Total Member Accounts</b>	<b>284,325</b>	<b>291,621</b>

#### Member accounts by gender as at 30 June 2004

	Female	Male	Total
West State Super	145,211	72,357	217,568
Gold State Super	10,730	14,168	24,898
Deferred Accounts	18,416	18,841	37,257
Retirement Access	205	280	485
Retirement Income	69	94	163
Pension Scheme	5,248	5,997	11,245
Provident Account	3	2	5
<b>Total Member Accounts</b>	<b>179,882</b>	<b>111,739</b>	<b>291,621</b>

1. Deferred Accounts include those previously reported as Gold State Super Deferred and Non-Contributory (3%) Scheme, as well as transferred benefits from the Pension Scheme or other predecessor public sector funds. Many members with these accounts also hold Gold State Super and/or West State Super accounts, and their Deferred Accounts were not reported in previous years. Reporting all deferred accounts separately is consistent with the development of the new cost allocation model, allowing greater clarity in understanding costs at the account level.



# Cost Management

## Strategic Direction

In response to a rapidly changing superannuation industry, Board and management examined the steps needed over the next five years to fulfil GESB's corporate objectives. The vision and mission were clarified to reflect a greater emphasis on members and their long term financial well-being. Corporate objectives were also revised in line with the vision and mission. The focus is on delivering competitive performance in the areas of investment, member services, cost management and people management.

In order to achieve the corporate objectives, GESB developed strategies and strategic initiatives to be implemented in three planning horizons over the next five years. These strategies represent priorities for GESB during each of the three horizons. The first horizon focuses on building a performance focus and meeting market performance in investments, member services, cost management and people management. The second horizon looks at extending GESB's business and outperforming the market. The third horizon encompasses broader corporate objectives and longer-term goals.

The strategies were used as the basis for prioritising expenditure in the budgeting cycle and ensured alignment of resource allocation with strategic priorities.

## Financial Management

In the 2003 Audit Opinion, the Office of the Auditor General issued a control qualification with respect to ineffective bank reconciliations during the year and the continuation of the 2002 qualification regarding the receipt of Gold State Super Equivalent monies. However, both of these issues were noted as not impacting on the fair presentation of the financial statements and were resolved prior to 30 June 2003.

GESB continued to monitor the reconciliation issues closely and arranged for an independent review of reconciliations during the year. This review showed that the reconciliations for 2003/04 were not up to date. After applying additional resources to the reconciliation activities, key account balances were reconciled as at 30 June 2004. The bank reconciliation was completed as at 30 June 2004 and a process established to ensure that the reconciliation is completed in a timely fashion on a monthly basis.

Enhancements were made to the Enterprise Management Accounting System to improve its integration with the administration system.

The development of an improved budgeting system integrated with Oracle Financials was postponed until 2005 to allow for a more comprehensive review of alternatives. Improvements to the budgeting process were still achieved through better integration with the strategic planning process. GESB's budget for 2004/05 is within the agreed target of not exceeding the 2003/04 budget, plus CPI. The cost increases in previous years were largely due to investment in technology to enhance GESB's administration, member services and product suite in line with industry standards. Whilst West State Super fees have risen, they are still competitive with similar schemes in Australia.

A significant focus of this year was to improve GESB's financial and non-financial performance reporting to enable better monitoring of performance and evaluation of the progress against priorities. Improvements to the financial reporting included the development of a monthly Statement of Changes in Net Assets, a Statement of Net Assets and supporting variance analysis to provide a comprehensive overview of GESB's finances. In terms of non-financial reporting, a cascading approach to planning documents across organisational levels and the development of strategic performance indicators has reduced duplication of effort and has improved the quality of information received from Divisions. A balanced scorecard format was adopted for the presentation of organisational performance. The balanced scorecard provides a way of comprehensively measuring and monitoring GESB's performance in terms of member services, product, finance and operations as well as organisational capacity.

## Business Continuity Management

The implementation of a Business Continuity Management (BCM) strategy was approved by the Executive in January 2004, in response to an internal check of GESB's current practices and regulatory and audit imperatives. The aim of the strategy was to ensure continued service to members during a business interruption or disaster whilst protecting GESB's credibility and image. The strategy covered business impact analysis, corporate and divisional BCM strategies, corporate and divisional BCM response plans, BCM awareness and testing. Testing of the BCM response plans, in line with the Australian Standard HB 221:2003, was undertaken in June 2004.

## Program and Project Management

A Program Management Framework was implemented in July 2003. The Framework consists of a common methodology and an integrated set of resources, techniques and tools, documentation standards and governance frameworks for prioritising, evaluating, reporting and communicating projects. The purpose of the Framework is to ensure that projects are properly assessed in a consistent manner and monitored regularly. The benefits achieved so far through the implementation of the Framework include a reduction of small projects, reuse of data across projects, integration with the IT outsourcing alliance Project Office, which delivered a cost savings of \$60,000, more robust business cases and compliance with audit requirements.

## Strategic Information and Systems Management

Benchmarking of information technology costs against peer financial services providers commenced during the year with the aim of bringing GESB's technology expenditure in line with others in the industry. The benchmarking exercise in conjunction with an external review of the IT service delivery model enabled GESB to make initial cost adjustments for 2004/05.

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

Options for further outsourcing of IT assets and management were reviewed during the year and considered by the Board. Further investigation into these options will be conducted in 2004/05.

The implementation of an information security framework commenced in line with the Australian Standard 17799:2001. The focus on information security recognises the increasing reliance on e-business by GESB and addresses concerns raised by the Auditor General about the security of on-line service delivery across the State Government. In addition, the importance of information security management has been recognised by the Office of E-Government as they have advised agencies to implement an information security framework congruent with the Australian Standard 17799.

## Looking Ahead:

GESB intends to build on strategic initiatives in the cost management area by:

- Refining performance management and reporting, focussing on more proactive cost management.
- Enhancing capabilities for financial analytics, forecasting and business modelling.
- Implementing system improvements to the Oracle Financial System.
- Strengthening risk and compliance management.
- Developing a comprehensive information infrastructure to maximise delivery of member services and products.

# People Management

## Developing GESB's Team

The People Focus strategy was implemented to identify immediate changes that could be made to align our people management practices with corporate objectives, and to develop our key strategic capabilities.

Clear lines of responsibility and accountability for delivery of strategic initiatives were established. As a result, a new management structure for GESB has come into effect with the creation of new Divisions of Marketing and Finance, transfer of a range of functions and sub-functions between areas to consolidate lines of responsibility and accountability, and improved efficiency in staffing several functions.

These changes recognise the importance of finance and marketing in GESB's competitive approach to operations for the benefit of members, stakeholders and overall management of the business.

Other key components of the People Focus strategy include reviews of performance management, rewards and recognition, leadership capability, succession management and organisational culture.

A new Personal Business Planning process was implemented in consultation with staff. The introduction of this process was part of an approach to create a performance focussed culture across GESB. All staff were involved in developing agreed work outcomes and appropriate behaviours and clarifying how each branch assists in the accomplishment of corporate objectives. The outcome was that all staff members now have personal business plans that are aligned with GESB's strategic plan. Staff development initiatives were also linked to the personal business planning process to ensure that GESB's training dollar optimises staff development and transfer of learning to the workplace.

Over the year, GESB implemented a range of targeted training for staff including in-house informal information sessions aimed at broadening and refreshing staff superannuation knowledge. PS 146 was introduced for relevant member services staff consistent with the standards required by Australian Securities and Investments Commission for Commonwealth regulated funds. Whilst the *Financial Service Reform Act 2001* (Commonwealth) does not apply to GESB, some of the criteria and training were adopted in line with industry practice. A formalised strategy for cross training within the superannuation operations area was also implemented. The strategy focussed mainly on the key risk areas within each team and a training manual was developed.

The final stage of the Leadership Development Program for middle managers was completed in October 2003, with participants providing presentations of their projects to senior managers. The group was made up of many new staff members who found the networking opportunities created by the program an additional bonus to the session content.

## Organisational Culture Survey

GESB's third organisational culture survey found that GESB's culture was perceived to be externally focussed and results oriented. Organisational strengths included a highly supportive environment, flexible work practices, good working conditions, employer-supported study and allowances for outside commitments. The survey identified potential areas for improvement such as the more consistent application of policies, and greater recognition for employees' efforts. The survey measured culture using the Quinn model of competing values and also included other dimensions such as organisational climate, job satisfaction, employee commitment, attitudes to change and intention to leave the organisation. Nearly 75% of GESB's employees completed the voluntary survey.

## Number of Employees as at 30 June

Employees (FTE)	2001	2002	2003	2004
Permanent	138	150	161	151
Contract	42	35	33	38
<b>Total</b>	<b>180</b>	<b>185</b>	<b>194</b>	<b>189</b>

There was one industrial matter, which proceeded to a Section 44 conference at the Industrial Commission, but did not progress further.

There was one grievance claim, which after investigation, was resolved in GESB's favour.

### **A Healthy and Safe Workplace**

For the fourth year running in 2003/04, all staff members were offered access to influenza vaccines. The proportion of staff who took up the offer for the influenza vaccine increased compared to last year.

A diverse range of lunchtime wellness sessions were made available to staff including talks on menopause and HRT, men's health and stroke. Many staff were involved in the "Walk there to find 30" combined breakfast and early morning walk. Corporate sport was offered at lunchtime including ten pin bowling, touch rugby, volleyball and pétanque. Staff members also recently attended the Central Park Health Fair where they could participate in a range of health checks and have access to Health and Fitness consultants. In addition, staff aged 50 and over were invited to a whole day retirement planning seminar which included social security issues, lifestyle choices, taxation and retirement options.

The Occupational Health and Safety Committee, including both employee and management representatives, met regularly to identify workplace hazards and to suggest appropriate solutions.

While there were no new occurrences in 2003/04, GESB continued payments to staff with previous injuries.

#### **Health and Safety Indicators**

Compensation payments	\$3,259
Occupational Health and Safety costs	\$3,775
Number of occurrences	0
Worker's compensation premium	\$116,482

### **Looking Ahead**

GESB intends to build on strategic initiatives in the people management area by:

- Continuing to embed the Personal Business Planning process and conducting a mid-year review of personal business plans.
- Implementing a culture change program to develop a flexible and adaptive culture.
- Developing a leadership competency model to be used as a tool for assessing and developing our current and future leaders.

# Financial Report 2003/04

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## 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 2004, and the financial position as at 30 June 2004.

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.



**LARRY RUDMAN**  
PRINCIPAL ACCOUNTING OFFICER  
CHIEF FINANCIAL OFFICER

23 September 2004



**M DOLIN**  
DIRECTOR  
CHIEF EXECUTIVE OFFICER

23 September 2004



**P J HARVEY**  
CHAIRMAN

23 September 2004

## STATEMENT OF CHANGES IN NET ASSETS THE YEAR ENDED 30 JUNE 2004

	Notes	2004 \$'000	2003 \$'000
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE FINANCIAL YEAR</b>		2,706,392	2,387,359
<b>REVENUE FROM ORDINARY ACTIVITIES</b>			
<b>Investment Income</b>			
Realised Income	2	132,040	123,258
Realised Changes in Net Market Value of Investment Assets	2	96,799	(54,864)
Unrealised Changes in Net Market Value of Investment Assets	2	294,906	(57,018)
		523,745	11,376
Less: Investment Expenses	2	(10,207)	(8,373)
		513, 538	3,003
<b>Superannuation Income</b>			
Contributions			
Members		130,325	111,300
Employer	4a	749,583	724, 223
Rollover into Retirement Products		5,321	1,851
Inward Transfer from Other Funds		79,934	62,404
Other Income	4c	254	260
		965,417	900,038
<b>Total Revenue from Ordinary Activities</b>		1,478,955	903,041
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>			
Superannuation Benefit Payments	4b	490,452	512,430
Administration Expenses	9	24,538	21,230
Changes in Net Market Value of Other Assets	9	5,148	5,992
Loan Interest	16	40,308	41,443
<b>Total Expenses from Ordinary Activities</b>		560,447	581,095
<b>TAX EXPENSE</b>	10	(5,678)	(2,913)
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR</b>		3,619,222	2,706,392

TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

## STATEMENT OF NET ASSETS AS AT 30 JUNE 2004

	Notes	2004 \$'000	2003 \$'000
<b>Assets</b>			
Investment Assets	2	4,209,365	3,289,666
Property Plant and Equipment	12	15,040	18,308
Sundry Debtors	13	32,057	28,516
Future Income Tax Benefit	10	27	34
Prepayments		2,569	2,346
<b>Total Assets</b>		<b>4,259,058</b>	<b>3,338,870</b>
<b>Liabilities</b>			
Contributions Paid in Advance		2,423	2,307
Unpaid and Accrued Liabilities		6,355	4,817
Sundry Creditors	13	36,994	14,132
Provision for Employee Entitlements	14	2,571	2,274
Provision for Superannuation Liabilities	15	2,851	3,585
Interest Bearing Liabilities	16	584,611	602,416
Current Tax Liabilities	10	3,753	2,906
Deferred Tax Liabilities	10	278	41
<b>Total Liabilities</b>		<b>639,836</b>	<b>632,478</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>3,619,222</b>	<b>2,706,392</b>

TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES



# Notes to and forming part of the Financial Statements for the Year Ended 30 June 2004

## 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 1985* 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 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) Measurement of investment 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.
- Derivatives are measured at net market value.

### (c) Measurement of other non-current assets

Fixtures, fittings, equipment and software are carried at the written down value and depreciated over expected useful life not exceeding five years, which is considered a reasonable approximation of market value.

For Computer Software Development Projects covering several financial years, subject to meeting predetermined criteria, costs are accumulated as "Works in Progress" until finalised and in production, at which time costs are capitalised and amortised over the estimated "useful life" of the software application.

Items costing less than \$500 are expensed in the year of acquisition.

#### **(d) Income tax expense**

The *Commonwealth Income Tax Assessment Act* and Regulations were amended on 30 June 1997 declaring the Government Employees Superannuation (GES) 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

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 1993* and accordingly is entitled to concessional tax treatment at the rate of 15%.

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 GESB is performed by the Australian Taxation Office (ATO). Effective 1 July 2002, payment arrangements for this tax liability can be made through GESB upon instructions from members. Members may instruct 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, GESB will issue a cheque payable to the ATO on behalf of the member.

#### **(e) Revenue recognition**

Investment revenue and superannuation 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 (GES) Fund**

The GES Fund is comprised of six superannuation schemes (GES schemes), namely:

**West State Super** – is a market linked 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.

**Retirement Access** – enables retiring members to keep their funds in a concessional tax environment with GESB while retaining the ability to access their funds by drawing down lump sums as required.

**Retirement Income** – is an allocated pension that enables retiring members to keep their funds with GESB in a concessional tax environment, while receiving flexible periodic payments.

**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.

**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.

Section 16 of the *State Superannuation Act 2000*, requires 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, the Pension Scheme, Retirement Access and Retirement Income. The valuation of accrued benefits for Gold State Super, West State Super, the Pension Scheme, Retirement Access and Retirement Income 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, West State Super, Retirement Access and Retirement Income* – full vesting from inception.

### **(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**

GESB is the sole unit-holder and beneficiary of the SB Investment Trust. The trust has assets of less than \$2,000 and no liabilities 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 "Employee Benefits" (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** - 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**

GESB's interest in joint ventures has been brought to account by including in the accounts of the Fund, 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.

#### **(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 include 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 GESB is performed by the ATO. 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 to changes in presentation for the current year.

**NOTE 2: INVESTMENT INCOME & ASSETS  
INVESTMENT INCOME**

	2003/2004			2002/2003		
	Realised Income \$'000	Realised Changes in Net Market Value \$'000	Unrealised Changes in Net Market Value \$'000	Realised Changes in Net Market Value \$'000	Unrealised Changes in Net Market Value \$'000	Total \$'000
<b>INTERNALLY MANAGED PORTFOLIO</b>						
Fixed Interest	494	-	(276)	807	(44)	574
Cash	742	-	3	1,263	-	1,261
Shares - Australian Equities	12,779	601	45,443	9,352	(507)	(2,592)
<b>Total Internally Managed</b>	14,015	601	45,170	11,422	(551)	(757)
<b>EXTERNALLY MANAGED PORTFOLIO</b>						
Fixed Interest	30,426	(4,020)	(3,117)	29,891	9,378	49,639
Inflation Linked Bonds	9,580	(1,580)	(1,230)	10,433	3,459	26,483
Shares - Australian Equities	22,752	36,930	78,294	19,378	(27,489)	(9,002)
Shares - International Equities	20,242	61,158	150,566	17,101	(47,935)	(93,373)
Cash	2,495	2,546	1,663	707	3,188	4,244
Property (Listed and Direct)	32,223	581	20,382	34,326	5,086	34,142
Global Bonds	307	583	3,178	-	-	-
<b>Total Externally Managed</b>	118,025	96,198	249,736	111,836	(54,313)	12,133
<b>TOTAL INVESTMENT INCOME (i)</b>	132,040	96,799	294,906	123,258	(54,864)	11,376
<b>Less: Investment Expenses</b>						
External Fund Management fees	7,041	-	-	6,069	-	6,069
Custody Fees	1,103	-	-	813	-	813
General Administration Costs	478	-	-	294	-	294
Investment Administration Costs (ii)	1,585	-	-	1,197	-	1,197
<b>Total Investment Expenses</b>	10,207	-	-	8,373	-	8,373
<b>NET INVESTMENT INCOME</b>	121,833	96,799	294,906	114,885	(54,864)	3,003

(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 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.

## INVESTMENT ASSETS

	Notes	30 June 2004 Net Market Values \$'000	30 June 2003 Net Market Values \$'000
<b>INTERNALLY MANAGED PORTFOLIO</b>			
Fixed Interest		3,755	5,934
Shares – Australian Equities		380,399	236,826
Cash	(c)	20,560	13,535
Sub-Total		404,714	256,295
<b>EXTERNALLY MANAGED PORTFOLIO</b>			
Fixed Interest	(a)	407,669	629,380
Inflation Linked Bonds		185,249	247,480
Shares - Australian Equities		706,192	557,171
Shares - International Equities		1,414,841	1,025,775
Property (Listed and Direct)	(b)	412,107	466,200
Cash	(c)	125,525	107,365
Global Bonds		553,068	-
Sub-Total		3,804,651	3,033,371
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>4,209,365</b>	<b>3,289,666</b>

### (a) Externally Managed Portfolio

The majority of the external investments is comprised of 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

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 Perron Investments	Car Parking and Park Management	29.903%
Public Car Park	AMP Society Ltd Perron Investments	Car Parking	29.111%
Tower	Perron Investments	Tenancy Management	50.000%

	30 June 2004 \$'000	30 June 2003 \$'000
<b>(c) Cash</b>		
Macquarie Investment Management Ltd	65,258	57,245
WA Treasury Corporation	10,516	3,514
Super Member's Home Loan	10,044	10,021
SB Investment Trust	2	2
Macquarie Treasury Fund	60,265	50,118
<b>Total Cash</b>	<b>146,085</b>	<b>120,900</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 GESB's Investment Division.

The Board obtains regular reports from each investment manager and from its asset consultants, Russell Investment Group 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. GESB makes use of derivative financial instruments through internally managed investments and also through the portfolios held by its external managers.

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

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

- In the view of 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. GESB shall have sufficient physical stock and bought synthetic or derivative instruments to cover its sold position); and
  - These instruments may not be used to gear the underlying position.

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

Under the investment strategy of 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 to leverage the investment portfolio.

In line with the organisation's market value accounting policy, derivatives are valued on a marked-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.

As at 30 June 2004 the significant derivative positions held by GESB's external managers were as follows:

	Notional Principal Amounts		Net Market Value	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Australian Fixed Interest Futures	779,441	627,623	779,372	627,033
Australian Share Price Index Futures	27,697	10,327	27,846	10,110
International Share Price Index Futures	104,394	-	105,304	-
Exchange Traded Options	5,659	-	5,704	-
Forward Foreign Exchange Contracts	-	-	(15,876)	18,846
Interest Rate Swaps	-	-	87	11
	917,191	637,950	902,437	656,000

#### (b) Credit Risk

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

- i) 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;
- ii) Interest rate swap contracts and forward rate agreements which are limited to favourable contracts to the extent of the next interest receipt due;
- iii) The total credit risk for exchange traded options is limited to the amount carried on the balance sheet; and
- iv) The credit risk in relation to futures contracts is the amount of margin calls paid.

GESB minimises credit risk by undertaking transactions with a large number of debtors in various countries. GESB does not have any significant exposure to any individual counterparty or industry other than the Government of Western Australia in respect of GESB's unfunded superannuation liability.

#### (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.

GESB invests in financial assets for the primary purpose of obtaining a return on investments. 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.



GESB's exposure to interest rate movements on those investments as at 30 June 2004 is as follows:

30 June 2004	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	
ASSETS						
Investments						
Cash at Call	140,468	-	-	-	-	140,468
Fixed Interest Bonds	-	4,357	203,137	195,290	-	402,784
Inflation Linked Bonds	-	-	18,417	133,408	-	151,825
Discount Securities	-	296,796	-	-	-	296,796
Convertible Notes	-	-	-	-	-	-
Floating Rate Notes	-	1,021	7,361	55,117	-	63,499
Indexed Annuity	-	-	1,711	29,406	-	31,117
Education Building Financing Loan	-	3,755	-	-	-	3,755
Non Interest Bearing Investments	-	-	-	-	3,200,383	3,200,383
Futures	-	-	-	-	922	922
Options	-	-	-	-	264	264
Forward Foreign Exchange	-	-	-	-	(15,876)	(15,876)
Investment Receivables	-	-	-	-	31,323	31,323
Property, Plant and Equipment	-	-	-	-	15,040	15,040
Sundry Debtors	-	-	-	-	32,057	32,057
Other Assets	-	-	-	-	2,595	2,595
	140,468	305,929	230,626	413,221	3,266,708	4,356,952
Weighted average interest rate	4.0%	4.5%	5.0%	4.1%		
LIABILITIES						
Contribution Paid in Advance	-	-	-	-	2,423	2,423
Unpaid & Accrued Benefits Due	-	-	-	-	6,355	6,355
Provision for Employee Entitlements	-	-	-	-	2,571	2,571
Term Loan	-	19,042	90,352	475,217	-	584,611
Provision for Superannuation Liabilities	-	-	-	-	2,851	2,851
Investment Payables	-	-	-	-	97,894	97,894
Sundry Creditors	-	-	-	-	36,994	36,994
Provision For Tax	-	-	-	-	4,031	4,031
	-	19,042	90,352	475,217	153,119	737,730
Weighted average interest rate	0.0%	6.8%	6.8%	6.8%		
Net Financial Assets (Liabilities)	140,468	286,887	140,274	(61,996)	3,113,589	3,619,222

Other fixed interest rate investments include 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 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 GESB's investment. The investment has been split between fixed interest and property investments by GESB to more accurately reflect the nature of the investment. The investment is recorded at valuation based upon the future discounted cash flows over the remaining period of the ground lease.

## COMPARATIVES

	Fixed Interest Rate					Total
	Floating Interest Rate	1 Year or less	1-5 years	Over 5 years	Non Interest Bearing	
30 June 2003	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<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
Other Assets	-	-	-	-	49,204	49,204
	49,828	160,713	358,373	455,648	2,314,308	3,338,870
<b>Weighted average interest rate</b>	1.4%	4.7%	4.8%	4.1%		
<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>	0.0%	6.8%	6.8%	6.8%		
<b>Net Financial Assets (Liabilities)</b>	49,828	142,908	273,891	(44,481)	2,284,246	2,706,392

### (d) Currency Risk Exposures

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

In GESB's agreement with its external managers, the management of currency risk is covered in some detail. 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.

GESB's exposure as at 30 June 2004 to foreign exchange rate movements on its international investments is as follows:

<b>30 June 2004</b>	<b>US Dollar A\$'000</b>	<b>Euro A\$'000</b>	<b>Japanese Yen A\$'000</b>	<b>British Pound A\$'000</b>	<b>Other A\$'000</b>	<b>Total A\$'000</b>
Gross investment amounts denominated in foreign currency	705,887	268,903	80,729	95,972	121,147	1,272,638
Less: Amount effectively hedged	(543,311)	(235,503)	(78,462)	(85,778)	(59,806)	(1,002,860)
<b>Net exposure</b>	<b>162,576</b>	<b>33,400</b>	<b>2,267</b>	<b>10,194</b>	<b>61,341</b>	<b>269,778</b>

<b>COMPARATIVES</b>	<b>US Dollar A\$'000</b>	<b>Euro A\$'000</b>	<b>Japanese Yen A\$'000</b>	<b>British Pound A\$'000</b>	<b>Other A\$'000</b>	<b>Total A\$'000</b>
<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)
<b>Net exposure</b>	<b>59,929</b>	<b>23,552</b>	<b>3,345</b>	<b>2,596</b>	<b>32,857</b>	<b>122,279</b>

#### **(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). 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 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.

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 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

	2004 \$'000	2003 \$'000
<b>4a: Employer contributions</b>		
<b>Pension Scheme</b>		
Employer's Share of Pensions	216,096	213,368
<b>Gold State Super</b>		
Employer Contributions – Recoup Agencies	38,180	39,831
Recoup Past Service Liabilities	12,979	13,650
Recoup Consolidated Fund Portion of Lump Sum Benefits	122,360	143,719
	173,519	197,200
<b>West State Super</b>		
Employer Contributions	301,792	255,479
Recoup Treasury Unfunded Liabilities	58,176	58,176
	359,968	313,655
<b>Total Employer Contributions</b>	749,583	724,223
<b>4b: Superannuation benefit payments</b>		
<b>Pension Scheme</b>		
Pensions	224,166	221,240
Commutation Lump Sums	1,316	1,812
Refunds of Contributions & Interest	669	707
Interest on Deferred Refunds	-	15
	226,151	223,774
<b>Gold State Super</b>		
Retirement	109,219	148,380
Disability	31,181	36,125
Retrenchment/Death	12,883	11,725
	153,283	196,230
<b>West State Super</b>		
Retirement	64,369	68,501
Disability	10,789	7,603
Retrenchment/Death	8,212	4,273
	83,370	80,377
<b>Retirement Access</b>	24,894	11,999
<b>Retirement Income</b>	2,754	50
	27,648	12,049
<b>Total Superannuation Benefits Payments</b>	490,452	512,430
<b>4c: Other income</b>		
<b>Benefit Payment Fee</b>	225	260
<b>Other</b>	29	-
<b>Total Other Income</b>	254	260

## NOTE 5: LIABILITY FOR ACCRUED BENEFITS

The latest valuation of accrued benefits was undertaken by GESB's actuary, Mercer Human Resource Consulting Pty Ltd, as part of their comprehensive investigation of the Fund as at 30 June 2004 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
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000
<b>Gross Accrued Benefits</b>	3,763,207	3,465,197	2,281,582	1,677,340	2,576,599	2,707,592	59,986	29,482	32,889	3,496	8,714,263
											7,883,107

### LIABILITY FOR ACCRUED BENEFITS RELATED TO FUNDED LIABILITIES

The liability for accrued benefits of the Fund, related to funded liabilities as at 30 June 2004, was calculated by 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
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000
<b>Accrued Liability Relate to Funded Liabilities</b>	1,274,207	1,196,197	1,696,971	1,074,924	96,599	103,592	59,986	29,482	32,889	3,496	3,160,652
											2,407,691

## 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 Department of Treasury and Finance, 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 2004 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.

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
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000
<b>Unfunded Liabilities in respect of Completed Membership</b>	2,489,000	2,269,000	584,611	602,416	2,480,000	2,604,000	-	-	-	-	5,553,611
											5,475,416

The unfunded liability in respect of West State Super stands at \$585m as at 30 June 2004. 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, insurance claims and future administration costs as set out below.

### Summary

	Gold State Super		West State Super		Pension Scheme		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>West State Super General Reserve</b>	-	-	29,023	37,065	-	-	29,023	37,065
<b>Minimum Benefit Guarantee Reserve</b>	-	-	10,000	-	-	-	10,000	-
<b>Loan Interest Accrual Reserve</b>	-	-	-	(8,522)	-	-	-	(8,522)
<b>Investment Fluctuation Reserve</b>	255,000	166,362	-	-	-	-	255,000	166,362
<b>Insurance Fluctuation Reserve</b>	-	5,000	2,000	5,000	-	-	2,000	10,000
<b>Administration Reserve</b>	85,000	106,000	-	-	1,544	-	86,544	106,000
<b>Total Reserves at 30 June</b>	340,000	277,362	41,023	33,543	1,544	-	382,567	310,905

## Movement in Reserves

	Gold State Super		West State Super		Pension Scheme		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
West State Super General Reserve								
Balance 1 July	-	-	37,065	42,334	-	-	37,065	42,334
Transfer from Loan Interest Accrual Reserve	-	-	(8,522)	(217)	-	-	(8,522)	(217)
Miscellaneous adjustment	-	-	-	(152)	-	-	-	(152)
Investment earnings	-	-	7,165	(419)	-	-	7,165	(419)
(Under)/Over recovery of Administration costs	-	-	(1,347)	(2,965)	-	-	(1,347)	(2,965)
Transfer from/(to) Insurance Fluctuation Reserve	-	-	6,992	2,584	-	-	6,992	2,584
Applied against Minimum Benefit Guarantee	-	-	-	(4,100)	-	-	-	(4,100)
Transfer to Minimum Benefit Guarantee Reserve	-	-	(12,330)	-	-	-	(12,330)	-
Balance at 30 June	-	-	29,023	37,065	-	-	29,023	37,065
Minimum Benefit Guarantee Reserve								
Balance 1 July	-	-	-	-	-	-	-	-
Transfer from West State Super General Reserve	-	-	12,330	-	-	-	12,330	-
Applied against Minimum Benefit Guarantee	-	-	(2,330)	-	-	-	(2,330)	-
Balance at 30 June	-	-	10,000	-	-	-	10,000	-
Loan Interest Accrual Reserve								
Balance 1 July	-	-	(8,522)	(8,739)	-	-	(8,522)	(8,739)
Transfer to West State Super General Reserve	-	-	8,522	217	-	-	8,522	217
Current year movement in accrual	-	-	-	-	-	-	-	-
Balance at 30 June	-	-	-	(8,522)	-	-	-	(8,522)
Investment Fluctuation Reserve								
Balance 1 July	166,362	66,000	-	-	-	3,000	166,362	69,000
Amount (utilised)/credited during current year	88,638	100,362	-	-	-	(3,000)	88,638	97,362
Balance at 30 June	255,000	166,362	-	-	-	-	255,000	166,362

**Insurance Fluctuation Reserve**

Balance 1 July  
Amount (utilised)/credited during current year  
Surplus for the year  
Transfer from/(to) West State Super General Reserve

**Balance at 30 June****Administration Reserve**

Balance at 1 July  
Amount (utilised)/credited during current year

**Balance at 30 June**

	Gold State Super		West State Super		Pension Scheme		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
5,000	5,000	5,000	5,000	5,000	-	-	10,000	10,000
(5,000)	-	-	-	-	-	-	(5,000)	-
-	-	-	3,992	2,584	-	-	3,992	2,584
-	-	-	(6,992)	(2,584)	-	-	(6,992)	(2,584)
-	5,000	5,000	2,000	5,000	-	-	2,000	10,000
106,000	-	-	-	-	-	-	106,000	-
(21,000)	106,000	-	-	-	1,544	-	(19,456)	106,000
85,000	106,000	-	-	-	1,544	-	86,544	106,000

**West State Super General Reserve**

This represents the balance of the investment surplus accumulated prior to the introduction of member investment choice.

**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 greater than the balance of the member's account at the exit date.

As at 30 June 2004, if all members had exited West State Super at that date, the amount that would be payable under the guarantee would have been \$23.8m (2003, \$46.7m). 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.



### **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 the Department of Treasury and Finance, which funds the unfunded liabilities for West State Super, 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 returns. At present the Pension Scheme does not have sufficient assets to fully finance an investment fluctuation reserve. West State Super 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 Fluctuation Reserve**

This reserve is intended to provide some protection against future adverse claims experience.

### **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. The cost of administering Gold State Super and the Pension Scheme are funded by GESB, while a substantial portion of the gross accrued benefits for these schemes are unfunded.

**NOTE 6: VESTED BENEFITS**

Australian Accounting Standard AAS25 requires the disclosure of vested benefits as at 30 June 2004. The latest determination of vested benefits was undertaken by 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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Vested Benefits	3,947,093	3,779,118	2,305,387	1,724,016	2,576,599	2,377,237	59,986	29,482	32,889	3,496	8,921,954	7,913,349

The liability for vested benefits of the Fund related to funded liabilities as at 30 June 2004 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:

Vested Benefits Related to Funded Liabilities	Gold State Super		West State Super		Pension Scheme		Retirement Access		Retirement Income		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	1,372,093	1,278,186	1,720,776	1,121,600	96,599	103,592	59,986	29,482	32,889	3,496	3,282,343	2,536,356

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

West State Super 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 1987* (Gold State Super and West State Super) and the *Superannuation and Family Benefits Act 1938* (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.

The employer contribution rate for 2003/04 for contributory members was 12% (2002/03: 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 2003/04 was assessed at 70.59% (2002/03: 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 1938*, 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 GESB and these are credited direct to a Department of Treasury and Finance 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 *Superannuation Guarantee (Administration) Act 1992* (Commonwealth). 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 GESB with a fixed income stream over a period of twenty years. As a result, GESB was able to fully fund West State Super accounts and introduce Member Investment Choice from 1 July 2001. To achieve this, 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.

## NOTE 9: ADMINISTRATION EXPENSES

Details of administration expenses incurred by GESB during the year ended 30 June 2004 are set out below:

		2003/04 Actual \$	2003/04 Budget \$	Variance Actual to Budget \$	Variance Actual to Budget %	2002/03 Actual \$	Variance Actual To Actual \$	Variance Actual to Actual %
Employment Expenses	(i)	14,329,934	13,696,094	633,840	4.6	12,766,595	1,563,339	12.2
Professional Fees (actuarial, legal, medical, audit and consultancy fees)	(ii)	1,812,606	1,799,598	13,008	0.7	1,480,461	332,145	22.4
Information Technology Costs	(iii)	5,546,327	4,331,566	1,214,761	28.0	4,240,919	1,305,408	30.8
Accommodation Costs	(iv)	1,732,505	1,737,348	(4,843)	(0.3)	1,562,794	169,711	10.9
Other Administration Costs	(v)	3,081,960	3,747,290	(665,330)	(17.8)	2,954,167	127,793	4.3
		26,503,332	25,311,896	1,191,436	4.7	23,004,936	3,498,396	15.2
Less:								
Investment Administration Costs	(vi)	(1,585,022)	(1,780,000)	194,978	(11.0)	(1,196,657)	(388,365)	32.5
Recoup of costs incurred in the administration of the Parliamentary Superannuation Scheme and Judicial Pension Scheme	(vii)	(379,988)	(388,990)	9,002	(2.3)	(578,286)	198,298	(34.3)
Total Administration Costs Excluding Changes in Net Market Value of Other Assets		24,538,322	23,142,906	1,395,416	6.0	21,229,993	3,308,329	15.6
Changes in Net Market Value of Other Assets	(viii)	5,147,745	7,182,000	(2,034,255)	(28.3)	5,992,368	(844,623)	(14.1)
<b>Total Schemes Administration Costs</b>		<b>29,686,067</b>	<b>30,324,906</b>	<b>(638,839)</b>	<b>(2.1)</b>	<b>27,222,361</b>	<b>2,463,706</b>	<b>9.1</b>

### 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 \$250,000, whichever is smaller.

#### (i) Employment Expenses

(a) 2003/04 Actual to Previous Years Actual (Increased cost \$1,563,339)

- Restructure in the current year leading to the creation of a number of new positions in 2003/04.
- Reclassification of capital expenditure to recurrent, based on a review of the criteria for capitalisation of expenditure related to information systems implementation projects.
- The GESB Agency Specific Agreement commencing 1 January 2003 resulted in a salary increase of 2.3% for the current year over the prior year.

*(b) 2003/04 Actual to Budget (Increased cost \$633,840)*

- Reclassification of capital expenditure to recurrent, based on a review of the criteria for capitalisation of expenditure related to information systems implementation projects.
- Restructure in the current year leading to the creation of a number of new positions in 2003/04.

**(ii) Professional Fees**

*2003/04 Actual to Previous Years Actual (Increased cost \$332,145)*

- Reclassification of capital expenditure to recurrent, based on a review of the criteria for capitalisation of expenditure related to information systems implementation projects.
- Expenditure on Internet Security review within GESB completed in 2003/04.
- Includes higher costs incurred on medical consultancy costs for medical claims cases.

**(iii) Information Technology Costs**

*(a) 2003/04 Actual to Previous Years Actual (Increased cost \$1,305,408)*

- Reclassification of capital expenditure to recurrent, based on a review of the criteria for capitalisation of expenditure related to information systems implementation projects.

*(b) 2003/04 Actual to Budget (Increased cost \$1,214,761)*

- Reclassification of capital expenditure to recurrent based, based on a review of the criteria for capitalisation of expenditure related to information systems implementation projects.

**(iv) Accommodation Costs**

*2003/04 Actual to Previous Years Actual (Increased cost \$169,711)*

- Higher lease costs for 2003/04 as per lease agreement.

**(v) Other Administration Costs**

*2003/04 Actual to Budget (Decreased cost \$665,330)*

- Lower financial adjustment costs relating to improved accuracy and timeliness of transaction processing.
- Savings in office supplies and consumable expenditure.
- Deferred expenditure in member communication such as printing, postage, courier, library and reference materials.

**(vi) Investment Administration Costs**

*(a) 2003/04 Actual to Previous Years Actual (Increased cost of \$388,365)*

- Increase in administration expenditure due to increased investment activities.
- Impact of changes in cost allocation model.

*(b) 2003/04 Actual to Budget (Decreased cost \$194,978)*

- Cost increases constrained by internal cost management strategies.

**(vii) Recoup of Costs Incurred in the Administration of the Parliamentary Superannuation Scheme and the Judicial Pension Scheme**

*2003/04 Actual to Previous Years Actual (Decreased Recoup \$198,298)*

- Impact of changes in cost allocation model.

**(viii) Changes in Net Market Value of Other Assets**

*(a) 2003/04 Actual to Budget (Decreased cost \$2,034,255)*

- Lower capital expenditure compared to budget (\$4.25m).
- Realignment adjustment for over-depreciation in previous years.

*(b) 2003/04 Actual to Previous Years Actual (Decreased cost of \$844,623)*

- Realignment adjustment for over-depreciation in previous years.

**NOTE 10: TAXATION**

	2004 \$'000	2003 \$'000
<b>Income Tax Expense</b>		
Changes in net assets before tax	918,508	321,946
Changes in net assets related to constitutionally protected scheme	(854,583)	(287,547)
Total change in net assets related to Retirement Products	63,925	34,399
Prima facie income tax expense calculated at 15% (2003 15%) on the net surplus/(deficit) from ordinary activities	9,589	5,159
Increase in income tax expense due to		
- Benefits paid	5,262	1,804
- Non deductible expenses	87	17
- Over provision for income tax expense in current year	129	-
- Under provision for income tax expense in prior year	8	-
Decrease in income tax expense		
- Income from Managed Portfolio	(410)	(7)
- Members' contributions	(5,453)	(3,578)
- Transfers in	(3,439)	(466)
- Imputation credits	(95)	(17)
Income Tax Expense	5,678	2,913
<b>Current Tax Liabilities</b>		
<i>Provision for current income tax</i>		
Balance at beginning of year	2,906	-
Income tax paid – current period	(1,524)	-
Income tax paid – prior period	(2,934)	-
Current year's income tax provision	5,277	2,906
Under provision for prior period	28	-
	3,753	2,906
<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	20	5
Unrealised capital gains	258	36
	278	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	27	34
	27	34

## NOTE 11: APPORTIONMENT OF NET ASSETS

Section 16 of the *State Superannuation Act 2000* requires 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 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. 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.

### (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:

	2004 \$'000	2003 \$'000
Gold State Super	1,699,913	1,473,559
West State Super	1,729,723	1,108,467
Pension Scheme	98,143	93,390
Retirement Access	59,179	28,040
Retirement Income	32,264	2,936
	3,619,222	2,706,392

## 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>2004</b>		<b>2003</b>	
	<b>\$'000</b>		<b>\$'000</b>	
Computer Hardware Costs	4,944		4,786	
Less: Provision for Depreciation	3,755	1,189	2,967	1,819
Computer Software Costs	37,636		25,048	
Less: Accumulated Amortisation	25,648	11,988	9,766	15,282
Office Furniture, Equipment and Renovations	3,963		3,970	
Less: Provision for Depreciation	3,142	821	2,763	1,207
Computer Software Development Projects				
- Works in Progress Costs	1,042	1,042	-	-
	<b>15,040</b>		<b>18,308</b>	

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

<b>2004</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Office Furniture, Equipment and Renovations</b>	<b>Computer Software Redevelopment Projects - Works in Progress Costs</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Carrying amount at start of year</b>	1,819	15,282	1,207	-	18,308
<b>Additions</b>	462	602	104	1,042	2,210
<b>Disposals</b>	(327)	-	(3)	-	(330)
<b>Depreciation/ amortisation expense</b>	(765)	(3,896)	(487)	-	(5,148)
<b>Carrying amount at end of year</b>	1,189	11,988	821	1,042	15,040

<b>2003</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Office Furniture, Equipment and Renovations</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Carrying amount at start of year	1,609	16,066	1,043	18,718
Additions	630	4,571	381	5,582
Disposals	-	-	-	-
Depreciation/amortisation expense	(420)	(5,355)	(217)	(5,992)
Carrying amount at end of year	1,819	15,282	1,207	18,308



## NOTE 13: SUNDRY DEBTORS AND CREDITORS

### (a) SUNDRY DEBTORS

Represented by:	2004 \$'000	2003 \$'000
<b>Investments</b>		
Rent/Interest	516	2,257
Accrued Interest	52	38
	568	2,295
<b>Superannuation Pension Scheme</b>		
Recoup State's Share of Pensions	7,776	4,808
	7,776	4,808
<b>Gold State Super</b>		
Employer Contributions	21,284	18,100
Contribution Arrears	2,076	1,953
	23,360	20,053
<b>West State Super</b>		
Employer Contributions	-	739
	-	739
<b>Other Debtors</b>	353	621
	32,057	28,516

### (b) SUNDRY CREDITORS

Represented by:	2004 \$'000	2003 \$'000
<b>Investments</b>		
Management Fees	2,753	1,755
<b>Gold State Super</b>		
Benefits Due and Payable	7,849	537
Unallocated Receipts	2,006	-
<b>West State Super</b>		
Benefits Due and Payable	7,115	175
Western Australian Treasury Corporation Interest	8,270	8,522
Unallocated Receipts	1,899	-
<b>Retirement Income</b>	305	20
<b>Other Creditors and Accruals</b>	6,797	3,123
	36,994	14,132

#### 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:

	2004 \$'000	2003 \$'000
<b>Current Liability</b>		
Long Service Leave	340	372
Annual Leave	829	838
	1,169	1,210
<b>Non - Current Liability</b>		
Long Service Leave	1,402	1,064
	2,571	2,274
<b>Number of Employees (Head Count)</b>	208	212

#### NOTE 15: PROVISION FOR SUPERANNUATION LIABILITIES

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 GESB in accordance with the rates prescribed within the relevant sections of the *State Superannuation Regulations 2001*. The payment of these employer contributions fully meets 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, 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 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.

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:

	2004 \$'000	2003 \$'000
The value of the employer financed portion of future pension payments to Pension Scheme Members	1,750	1,957
The employer cost of accumulated benefits earned by current employees who are contributors to the Pension Scheme	113	104
The accumulated liability in relation to the transferred service of employees who transferred to Gold State Super	988	1,524
	2,851	3,585
	2004	2003
Number of staff who are members of the Pension Scheme	1	1

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 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 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 2004 is \$40,308,017 (2002/03: \$41,442,541).

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 GESB or any related body for the financial year by:

	2004 \$	2003 \$
Members of the Board	176,342	175,461
Senior Officers	924,704	857,876

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:

	2004	2003
\$1 - \$10,000	-	1
\$10,001 - \$20,000	1	1
\$20,001 - \$30,000	3	4
\$40,001 - \$50,000	-	1
\$70,001 - \$80,000	1	-
	5	7

The Board is comprised of seven Board Directors. During 2003/04, remuneration in accordance with Section 8(2) of the *State Superannuation Act 2000*, was paid to five Board Directors. However, H. Collins stopped receiving remuneration on the 20 February 2004 as a result of his appointment as acting CEO of Western Power.

The remaining two Directors of the Board namely, M. Dolin and D. Spray, did not receive any director's fees or other director related benefits because government policy prohibits such payments to persons who are in public sector employment.

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:

	2004	2003
\$40,001 - \$50,000	1	-
\$50,001 - \$100,000	1	-
\$100,001 - \$110,000	-	1
\$110,001 - \$120,000	2	1
\$120,001 - \$130,000	1	-
\$130,001 - \$140,000	-	1
\$210,001 - \$220,000	1	-
\$220,001 - \$230,000	1	2
	7	5

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

No senior officers are members of the Pension Scheme. One member of the Board is a member of the Pension Scheme.

In 2003/04, GESB renewed its Directors and Officers Liability insurance policy with Royal Sun Alliance. The premium paid in respect of this insurance was \$46,728 (excluding goods and services tax).

#### 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:

	2004 \$	2003 \$
Members of the Board		
Gold State Super	-	-
West State Super	-	5,690
Senior Officers		
Gold State Super	1,251,762	-
West State Super	-	-

One member of the Board who was also a Senior Officer was paid \$1,251,762 on his retirement in July 2003.

#### NOTE 19: REMUNERATION OF AUDITOR

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

	2004 \$	2003 \$
Fee for Audit	187,682	150,500

#### NOTE 20: RELATED PARTY TRANSACTIONS

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

#### NOTE 21: WRITE-OFFS

Write-offs of \$1,644.47 (2002/03: \$18,057) were made during the current financial year.

#### NOTE 22: COMMITMENTS

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 2004/05 and subsequent year has been estimated at \$2.75m per annum.

GESB maintains two year renewable vehicle leases with State Fleet. The financial commitment on these vehicle leases as at 30 June 2004 is \$62,000.

## NOTE 23: EXPLANATORY STATEMENT

In accordance with Treasurer's Instruction 945, this statement compares 2003/04 Income and Expenditure as shown within the Statement of Operations with:

(a) The 2003/04 Budget figures published in the 2004 Annual Report

(b) The 2003/04 Income and Expenditure figures

	Notes	2003/04 Actual \$'000	2003/04 Budget \$'000	Variance Actual to Budget \$'000	Variance Actual to Budget %	2002/03 Actual \$'000	Variance Actual to Actual \$'000	Variance Actual to Actual %
<b>REVENUE FROM ORDINARY ACTIVITIES</b>								
<b>Investment Income</b>								
Investment Income	(i)	523,745	172,353	351,392	204	11,376	512,369	4,504
Less: Investment Expenses	(ii)	(10,207)	(12,257)	2,050	17	(8,373)	(1,834)	(22)
<b>Net Investment Income</b>		513,538	160,096	353,442	221	3,003	510,535	17,001
<b>Superannuation Income</b>								
<b>Contributions</b>								
Employee	(iii)	130,325	121,000	9,325	8	111,300	19,025	17
Employer								
Pension Scheme		216,096	223,716	(7,620)	(3)	213,368	2,728	1
Gold State Super	(iv)	173,519	184,777	(11,258)	(6)	197,200	(23,681)	(12)
West State Super	(v)	359,968	331,799	28,169	8	313,655	46,313	15
Inward Transfer from Other Funds	(vi)	79,934	30,000	49,934	166	62,404	17,530	28
Rollover into Retirement Products	(vii)	5,321	62,385	(57,064)	(91)	1,851	3,470	187
Other Income		254	-	254	-	260	(6)	(2)
<b>Sub Total</b>		965,417	953,677	11,740	1	900,038	65,379	7
<b>Total Revenue From Ordinary Activities</b>		1,478,955	1,113,773	365,182	33	903,041	575,914	64
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>								
<b>Superannuation Benefits</b>								
Pension Scheme		226,151	245,649	(19,498)	(8)	223,774	2,377	1
Gold State Super	(viii)	153,283	306,100	(152,817)	(50)	196,230	(42,947)	(22)
West State Super	(ix)	83,370	109,800	(26,430)	(24)	80,377	2,993	4
Retirement Access	(x)	24,894	6,239	18,655	299	11,999	12,895	107
Retirement Income	(x)	2,754	-	2,754	-	50	2,704	5,408
<b>Administration Expenses</b>	(xi)	24,538	23,143	1,395	6	21,230	3,308	16
<b>Loan Interest</b>		40,308	40,372	(64)	-	41,443	(1,135)	(3)
<b>Changes in Net Market Value of Other Assets</b>	(xii)	5,148	7,182	(2,034)	(28)	5,992	(844)	(14)
<b>Total Expenses from Ordinary Activities</b>		560,447	738,485	(178,039)	(24)	581,095	(20,649)	(4)
<b>OPERATING RESULT BEFORE TAX FOR THE YEAR</b>		918,508	375,288	543,220	145	321,946	596,562	185

## 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 GESB.

### (i) Investment Income

Income from investments was \$351.4m (204%) higher than budget and \$512.4m (4,504%) higher than last year. This was a result of strong investment performance experienced in the Australian and International capital markets. Details of investment income is included in Note 2.

### (ii) Investment Expenses

Investment expenses were \$1.8m (22%) higher than last year due to strong investment performance in capital markets and additional expenses incurred in expanding investment strategies. Investment expenses were \$2.1m (17%) below budget. Although costs increased over the prior year as explained above, these costs were largely constrained by stringent internal operating cost management.

### (iii) Employee Contributions

Total employee contributions were \$19.0m (17%) higher than last year. Voluntary contributions into West State Super were \$28m (83%) higher than last year. This is largely attributed to the introduction of partner contributions in June 2003 (partner contributions were \$4m for the financial year) and the Federal Government's introduction of co-contributions for low-income earners in June 2004 (Contributions totalled \$8.9m June 2004). This along with continued promotion via member statements and other member communication has contributed to this increase.

### (iv) Employer Contributions (Gold State Super)

Gold State Super was closed to new members with effect from December 1995. The decrease of \$23.7m (12%) in Gold State Super employer contributions in comparison to last year was due to the additional recoup in 2002/03 for previous years contributions and recoup of lump sum benefits paid.

### (v) Employer Contributions (West State Super)

West State Super Employer contributions were \$28.2m (8%) higher than budget and \$46.3m (15%) higher than last year due to an increase in membership and general increase in salaries.

### (vi) Inward Transfer from Other Funds

The higher than expected Inward Transfer from Other Funds (\$79.9m) when compared to budget estimates and to the previous year's actual (\$62.4m) was a result of continued marketing activities in promoting GESB. Inward transfer information is sent with each member statement as well as in new member kits. \$27m was received from members within the pre-retirement age groups, consolidating their superannuation prior to accessing retirement options.

### (vii) Rollover into Retirement Products

Retirement Access and Retirement Income are the new Retirement Products which commenced in 2002/03. A total of \$57.5m was transferred into Retirement Access and \$23.6m into Retirement Income from West State Super and Gold State Super. \$5.3m was also received from external sources. The retirement benefit retention into Retirement Products continues to grow with increased member education. The transfer rate was 33% as compared to 17% for the 2002/03 year.

### (viii) Superannuation Benefits – Gold State Super

The decrease of \$152.8m (50%) in Gold State Super benefit payments compared to budget was due to a lower than expected number of retirements, resignations, deaths and retrenchments.

### (ix) Superannuation Benefits – West State Super

The decrease of \$26.4m (24%) in West State Super payments compared to budget was due to lower than expected number of retirements, resignations, deaths and retrenchments.

**(x) Superannuation Benefits – Retirement Access and Retirement Income**

Total monies paid out during the year was \$27.6m. The increase in the benefit payments for these two products over budget and the last year was due to a strong acceptance of these products in the market. This is reflected by the positive variances indicated in the rollover into these products. A total budget was prepared for Retirement Products as reflected in the 2002/03 budget.

**(xi) Administration Expenses**

Details of administration expenses compared to budget and to 2002/03 are set out in Note 9 to these Statements.

**(xii) Changes in Net Market Value of Other Assets**

As per Note 9 (xi).

**NOTE 24: SEGMENT INFORMATION****PRIMARY REPORTING - BUSINESS SEGMENTS**

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

**West State Super** – is a market linked 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.

**Retirement Access** – enables retiring members to keep their funds in a concessional taxed environment with GESB while retaining the ability to access their funds by drawing down lump sums as required.

**Retirement Income** – is an allocated pension that enables retiring members to keep their funds with GESB in a concessional taxed environment, while receiving flexible periodic payments.

**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.

**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.

**STATEMENT OF CHANGES IN NET ASSETS**

	Pension Scheme \$'000	Gold State Super \$'000	West State Super \$'000	Retirement Access \$'000	Retirement Income \$'000	Scheme Eliminations \$'000	TOTAL \$'000
<b>2004</b>							
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE YEAR</b>	93,390	1,473,559	1,108,467	28,040	2,936	-	2,706,392
<b>REVENUE FROM ORDINARY ACTIVITIES</b>							
Investment Income	13,823	217,827	273,371	6,062	2,453	-	513,536
Superannuation Income							
Contributions							
Member	2,598	66,805	60,922	62,349	31,490	(88,517)	135,647
Employer	216,096	173,521	359,967	-	-	-	749,584
Inward Transfer from							
Other Funds	-	-	79,934	-	-	-	79,934
Other Income	-	30	225	-	-	-	255
<b>Total Revenue From Ordinary Activities</b>	<b>232,517</b>	<b>458,183</b>	<b>774,419</b>	<b>68,411</b>	<b>33,943</b>	<b>(88,517)</b>	<b>1,478,956</b>

**STATEMENT OF CHANGES IN NET ASSETS (continued)**

2004	Pension Scheme \$'000	Gold State Super \$'000	West State Super \$'000	Retirement Access \$'000	Retirement Income \$'000	Scheme Eliminations \$'000	TOTAL \$'000
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>							
Superannuation benefits	226,151	216,039	101,702	32,295	2,784	(88,517)	490,454
Administration Expenses and Changes in Net Market Value of Other Assets	1,613	15,790	11,153	552	578	-	29,686
Loan Interest	-	-	40,308	-	-	-	40,308
<b>Total Expenses from Ordinary Activities</b>	227,764	231,829	153,163	32,847	3,362	(88,517)	560,448
<b>TAXATION</b>	-	-	-	(4,425)	(1,253)	-	(5,678)
<b>OPERATING RESULT FOR THE YEAR</b>	4,753	226,354	621,256	31,139	29,328	-	912,830
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE YEAR</b>	98,143	1,699,913	1,729,723	59,179	32,264	-	3,619,222

**STATEMENT OF NET ASSETS**

2004	Pension Scheme \$'000	Gold State Super \$'000	West State Super \$'000	Retirement Access \$'000	Retirement Income \$'000	TOTAL \$'000
<b>Investment Assets</b>	108,632	1,688,073	2,319,298	60,484	32,878	4,209,365
<b>Other Assets</b>	-	39,386	10,307	-	-	49,693
<b>TOTAL ASSETS</b>	108,632	1,727,459	2,329,605	60,484	32,878	4,259,058
<b>TOTAL LIABILITIES</b>	10,489	27,546	599,882	1,305	614	639,836
<b>NET ASSETS</b>	98,143	1,699,913	1,729,723	59,179	32,264	3,619,222



# STATEMENT OF CHANGES IN NET ASSETS

	Pension Scheme \$'000	Gold State Super \$'000	West State Super \$'000	Retirement Access \$'000	Retirement Income \$'000	Scheme Eliminations \$'000	TOTAL \$'000
<b>2003</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 Changes in Net Market Values Other Assets	1,448	14,242	10,320	635	577	-	27,222
Loan Interest	-	-	41,443	-	-	-	41,443
<b>Total Expenses from Ordinary Activities</b>	225,222	247,429	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)	305,158	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

# STATEMENT OF NET ASSETS

	Pension Scheme \$'000	Gold State Super \$'000	West State Super \$'000	Retirement Access \$'000	Retirement Income \$'000	TOTAL \$'000
<b>2003</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

## **Secondary Reporting - Geographical Segments**

The Fund operates in a single geographical segment, namely the provision of superannuation benefits in Australia. Details of the Fund's 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 2004.

### (2) Name and Qualification of Actuary

The valuation of funded liabilities was undertaken by 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
<b>Gross Vested Benefits</b>	3,947,093	2,305,387	2,576,599	59,986	32,889	8,921,954

The liability for vested benefits of the Fund related to funded liabilities as at 30 June 2004 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 to Funded Liabilities</b>	1,372,093	1,720,776	96,599	59,986	32,889	3,282,343

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>	1,699,913	1,729,723	98,143	59,179	32,264	3,619,222

### (4) Financial Condition of each Scheme as at 30 June 2004

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

#### (a) Pension Scheme

The expected actuarial value of assets for the Pension Scheme exceeds the liabilities allocated to the scheme by approximately \$2 million. At present the Pension Scheme has limited capability 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 remain unaltered and that there is 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 as a result of excellent investment earnings, and that the actuarial value of accrued liabilities was comfortably 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 2004, 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.

### **(5) Reserves**

In addition to the above funded liabilities, 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 liabilities.

### **(6) Fund Summary**

The overall financial position of the Fund at 30 June 2004 is as follows.

<b>Net Assets (Excluding loans)</b>	<b>2004 \$m</b>
Gold State Super	1,700
West State Super	2,323
Pension Scheme	98
Retirement products	91
Total net assets	4,212

#### **Actuarial Liabilities (Inclusive of reserves other than fluctuation reserves)**

Gold State Super	1,359
West State Super	2,306
Pension Scheme	98
Retirement products	93
Total actuarial liabilities	3,856

This means that the Actuary's best estimate is that assets exceed actuarial liabilities and reserves by \$356 million at 30 June 2004, before provision of fluctuation reserves (but allowing for other reserves).

It should be noted that \$24 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 \$356 million exceed the target fluctuation reserves of \$285 million for Gold State Super and the Pension Scheme. A mortality and investment fluctuation reserve has not been provided for the Pension Scheme, due to insufficient available surplus of assets over liabilities.

In the opinion of the Actuary, the GES Fund is in a satisfactory financial condition at 30 June 2004.

## NOTE 26: EVENT SUBSEQUENT TO BALANCE DATE

There are no subsequent events which would cause the financial statements to be misleading in the absence of disclosure.

## NOTE 27: THE IMPACT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

GESB will be required to prepare financial statements using Australian Standards, which comply with International Financial Reporting Standards and their related pronouncements (IFRS), for the reporting periods on or after 1 January 2005.

GESB will report for the first time in compliance with IFRS for the year ended 30 June 2006. IFRS require that entities complying with IFRS for the first time also restate their comparative financial statements using all IFRS except for IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts. Comparatives restated under IFRS will not be reported in financial statements until 30 June 2006.

A formal process has commenced to achieve transition to IFRS, beginning with the year ended 30 June 2006, and consists of three phases as described below.

### Assessment and planning phase:

The assessment and planning phase has produced a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

### Design phase:

The design phase aims to formulate the changes required to existing accounting policies, procedures and systems and processes in order to transition to IFRS. The design phase incorporates:

- formulating revised accounting policies and procedures for compliance with IFRS requirements.
- identifying potential financial impacts as the transition date and for subsequent reporting periods, prior to adoption of IFRS.
- developing revised disclosures to conform to IFRS.
- designing accounting and business processes to support IFRS reporting requirements.
- identifying and planning required changes to financial reporting and business source systems.
- developing training program for staff.

GESB has commenced its design phase, which is expected to be completed during the coming 2004/05 financial year.

### Implementation phase:

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Board to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

The initial assessment of the impact of the introduction of IFRS is that there will be minimal overall impact to GESB's net assets and member balances.

IFRS implementation will have a number of presentation, disclosure, process and system impacts, the greatest of which are in the following areas:

- Disclosing the impact of Adopting Australian Equivalents to IASB standards
- First time adoption of IFRS
- Presentation of financial statements
- Tax effect accounting
- Financial instruments
- Pending standard AASB 119 Employee Benefits



## AUDITOR GENERAL

### INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

#### GOVERNMENT EMPLOYEES SUPERANNUATION BOARD FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

##### 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, 2004 was achieved.

###### Clearing Accounts

The Board could not effectively reconcile a number of general ledger clearing accounts throughout the year and at year-end as the Board's financial management system does not facilitate the identification of individual balances within the clearing accounts.

##### 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 at June 30, 2004 and the changes in net assets for the year ended on that date.

##### 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 and the Notes to the Financial Statements.

**Government Employees Superannuation Board  
Financial statements for the year ended June 30, 2004**

***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', with a stylized, cursive script.

D D R PEARSON  
AUDITOR GENERAL  
September 23, 2004

# Key Performance Indicators (Audited)

## CERTIFICATION OF KEY PERFORMANCE INDICATORS

We hereby submit GESB's key performance indicators to provide measures of effectiveness and efficiency in achieving our Government Desired Outcome in 2003/04.

In the opinion of the Board, the key effectiveness and efficiency indicators are based on proper records, are relevant and appropriate for assisting users to assess the performance of GESB, and fairly represent the performance of GESB for the financial year ending 30 June 2004.



**P J HARVEY**  
CHAIRMAN

23 September 2004



**M DOLIN**  
DIRECTOR  
CHIEF EXECUTIVE OFFICER

23 September 2004



## KEY PERFORMANCE INDICATORS

The key performance indicators in this report are produced in order to evaluate GESB's performance in achieving the Government Desired Outcome in 2003/04. 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 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 2003/04.

## GOVERNMENT DESIRED OUTCOME

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

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

In achieving the Government Desired Outcome, 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.

## KEY PERFORMANCE INDICATORS

For the past four years, GESB has undertaken extensive member research. The aim of the research is to monitor the changes in attitudes and perceptions of members towards GESB and the attractiveness and relevance of products in terms of product offering, fees and charges, investment returns and customer service. The surveys were conducted by an independent research agency.

A stratified random sample of 2,473 active members was selected to ensure that it was completely representative of Gold State Super and West State Super members. Excluding those unable to be contacted or recently left the public sector, 1070 randomly selected active members were contacted by the research agency and 502 members responded, representing a response rate of 47% of eligible active members.

The survey questionnaire was designed to provide as much comparison with the benchmark surveys as possible while meeting the objectives of the follow-up surveys. The sample of 502 respondents ensured that the results were representative and stable and provided an excellent basis for segmentation. The surveyed sample provides a maximum level of error of up to 4.4% at the 95% level of significance.

Responses	Accuracy at the 95% Confidence Level
Member Survey	
2001/02: 508	±5%
2002/03: 500	±5%
2003/04: 502	±5%

## 1. Members' Overall Satisfaction with GESB

Percentage who are fairly satisfied, satisfied or extremely satisfied	2000/01	2001/02	2002/03	2003/04	2003/04 Target	2004/05 Target
Overall	48	62	59	66	65	70
West State Super Members	44	60	59	62		
Gold State Super Members	68	74	55	83		

Overall satisfaction with GESB has improved significantly since 2002/03 and is on target. This is due to a substantial increase in Gold State Super members' satisfaction, which has more than recovered from the previous year's decline. GESB is now providing more specific information to meet Gold State Super members' needs, particularly as many of them approach retirement and show increased interest in their superannuation.

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

Rating 7 or More Out of 10 (%)	2000/01	2001/02	2002/03	2003/04	2003/04 Target	2004/05 Target
Overall	33	42	36	43	47	55
West State Super Members	27	38	31	37		
Gold State Super Members	64	64	61	67		

Average Score Out of 10	2000/01	2001/02	2002/03	2003/04
Overall	5.3	5.9	5.4	6.0
West State Super Members	5.1	5.6	5.3	5.7
Gold State Super Members	6.7	7.1	6.8	7.1

Changes have primarily been driven by West State Super members, whose perceptions improved substantially with the introduction of Investment Choice in 2001. With raised service expectations and poor financial markets, scores slumped slightly in 2002.

Overall value improved again in 2003, based on the key driver, members' perception that GESB understands their needs (evident in increased satisfaction with helpful service staff and informative seminars). A slight increase in West State Super members' knowledge of their scheme also had a positive effect. Value among Gold State Super members is also driven by security, reflecting their increased satisfaction with low fees, no commissions and conservative investment decisions.

### 3. Investment Performance Compared to Benchmarks

#### Performance By Asset Classes

The following table shows the performance of the various asset classes compared to established industry benchmarks. Detailed commentary on the performance of each of the asset classes can be found in the Report on Operations.

Of the eight asset classes shown in the table, six outperformed or matched<sup>5</sup> their industry benchmarks for the year, and growth assets (equities and property) performed strongly with Australian equities and direct property comfortably exceeding benchmark. Listed property and international equities underperformed their benchmark. Over three years, six out of seven asset classes outperformed their industry benchmark with returns more evenly distributed and reinforcing the attraction of adopting a diversified approach to investing.

Asset Class	Benchmark	1 Year GESB Gross Return %	1 Year Benchmark Gross Return %	3 Year GESB Gross Return pa %	3 Year Benchmark Gross Return pa %
Cash/Liquidity	UBS Warburg Australian Bank Bill Index	5.64	5.30	5.07	4.98
Fixed Interest	UBS Warburg Australian Composite Bond Index (All Maturities)	3.00	2.33	6.42	6.06
Inflation Linked Bonds	UBS Warburg Australian Inflation Linked Index	3.04	2.74	6.91	6.86
Global Bonds*	Lehman Brothers Global Aggregate Index	0.91	0.92	N/A	N/A
Direct Property	AMP Balanced Property Index	10.51	9.79	8.47	9.38
Listed Property	S&P/ASX300 Property Accumulation Index	16.72	17.21	14.92	14.86
Australian Equities	S&P/ASX300 Accumulation Index	23.77	21.73	5.04	4.57
International Equities	International Equity Benchmark	20.94	22.21	-4.05	-4.73
<b>Total Fund</b>	<b>N/A</b>	<b>15.30</b>	<b>N/A</b>	<b>3.52</b>	<b>N/A</b>

\* Global bonds introduced in May 2004.

<sup>5</sup> Returns within 10 basis points of the benchmark are deemed benchmark-neutral for performance

## Performance of West State Super Diversified Plans

The effectiveness of being able to deliver satisfactory investment performance is measured through returns to members in excess of the benchmark. Over the three years since the inception of Member Investment Choice (1 July 2001) all nine plans outperformed their benchmarks.

The table 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 majority of West State Super members) achieved a gross return of 13.90% against a benchmark return of 13.58%. Importantly the Balanced Plan's three year performance of 4.14% pa comfortably exceeded its benchmark by 0.53% pa and compares favourably to a survey of industry peer funds.

Investment Plan	Benchmark	1 Year GESB Gross Return %	1 Year Benchmark Gross Return %	3 Year GESB Gross Return pa %	3 Year Benchmark Gross Return pa %
Cash Plan	UBS Warburg Australian Bank Bill Index	5.56	5.30	5.12	4.98
Conservative Plan	Notional Return on Benchmark Allocation	8.49	7.85	5.38	4.91
Balanced Plan	Notional Return on Benchmark Allocation	13.90	13.58	4.14	3.61
Growth Plan	Notional Return on Benchmark Allocation	16.65	16.52	2.93	2.39
MY Plan – Fixed Interest	Notional Return on Benchmark Allocation	3.04	2.39	6.39	6.04
MY Plan – Inflation Linked Bonds	Notional Return on Benchmark Allocation	3.14	2.79	6.92	6.82
MY Plan – Listed Properties	Notional Return on Benchmark Allocation	16.46	16.97	14.83	14.65
MY Plan – Australian Equities	Notional Return on Benchmark Allocation	23.22	21.39	5.12	4.59
MY Plan – International Equities	Notional Return on Benchmark Allocation	20.43	21.85	-3.94	-4.52

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

## Performance of Retirement Products

Retirement Access and Retirement Income offer four diversified investment plans. Their returns for the year are provided in the tables below. The plans have not been in place for three years.

Retirement Access Investment Plan	Benchmark	1 Year GESB Gross Return %	1 Year Benchmark Gross Return %
Cash Plan	UBS Warburg Australian Bank Bill Index	5.56	5.30
Conservative Plan	Notional Return on Benchmark Allocation	8.24	7.85
Balanced Plan	Notional Return on Benchmark Allocation	13.51	13.48
Growth Plan	Notional Return on Benchmark Allocation	16.47	16.50

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

Retirement Income Investment Plan	Benchmark	1 Year GESB Gross Return %	1 Year Benchmark Gross Return %
Cash Plan	UBS Warburg Australian Bank Bill Index	5.52	5.30
Conservative Plan	Notional Return on Benchmark Allocation	8.35	7.85
Balanced Plan	Notional Return on Benchmark Allocation	12.78	13.48
Growth Plan	Notional Return on Benchmark Allocation	15.66	16.50

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

## Gold State Super and the Pension Scheme

Gold State Super and the Pension Scheme are treated as a single plan for investment purposes. This plan achieved a return of 16.27% for the year outperforming the benchmark return of 16.25%. The three year rolling performance was 3.20% underperforming against the targeted investment objective of 6.67% pa (CPI + 4% pa over rolling three year periods). However, this plan outperformed its nominal benchmark by a credible 0.66% pa over the past three years.

## EFFICIENCY INDICATORS

### Output 1: A Range of Competitive Products that are Attractive and Relevant to GESB's Clients

The following performance indicators identify 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

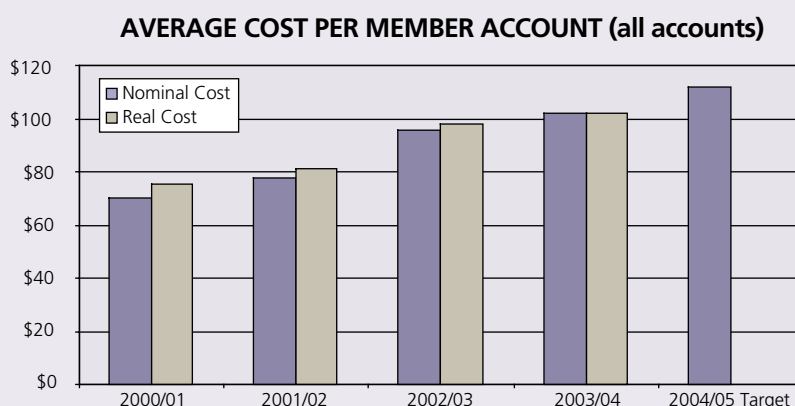
This indicator measures the direct costs of administering the superannuation schemes and related products including contributions processing, membership account maintenance, benefit payments, and responding to members' enquiries. The result is expressed as an average cost per member account for all schemes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

In 2003/04, the way of reporting Deferred Accounts was changed to more accurately reflect the number of member accounts. The Deferred Accounts include those previously reported as Gold State Super Deferred and Non-Contributory (3%) Scheme, as well as transferred benefits from the Pension Scheme or other predecessor public sector funds. Many members with these accounts also hold Gold State Super and/or West State Super accounts, and their Deferred Accounts were not reported in previous years. Therefore, indicators from 2000/01 to 2002/03 have been restated to reflect the impact of including these member accounts. Prior to 2000/01 when a different administration system was in place, the basis for calculating member accounts was treated differently and these indicators have not been restated. The target for 2003/04 has been restated to take into account the Deferred Accounts mentioned above and to account for costs on an expensed basis rather than a cash basis. Actual figures for 2003/04 are reported on an expensed basis.

	2000/01 <sup>1</sup>	2001/02	2002/03	2003/04 <sup>2</sup>	2003/04 Target	2004/05 Target
Nominal Cost (\$)	70.15	77.66	95.67	101.80	104.17	112.02
Real Cost (\$)	75.28	81.36	98.17	101.80		

<sup>1</sup> In 2001, the basis for calculating member accounts changed with the change to a new system and the introduction of Member Investment Choice.

<sup>2</sup> This is the base year, so nominal and real costs are the same.



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

The cost of managing GESB's investments is an important element in assessing investment performance, in addition to having above benchmark returns within agreed risk levels. Besides direct investment management costs incurred by 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. This indicator is normally referred to as a Management Expense Ratio (MER).

Tight control over investment costs and the increase in funds under management contributed to the MER of 0.30% for 2003/04 outperforming its target of 0.33%.

The higher target for 2004/05 reflects the full cost of the domestic and international private equity, Australian equity strategies and the cost of the full year implementation of the global bonds strategy.

Management Expense Ratio	2000/01	2001/02	2002/03	2003/04	2003/04 Target	2004/05 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	0.35

## Output 2: Client-focussed Service

GESB keeps 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 increase in communication costs in 2003/04 resulted primarily from printing of new member materials including Gold State Super fact sheets, "Understand your Statement" inserts and printing of member ID cards for insertion into statement mailings for the introduction of member on-line services.

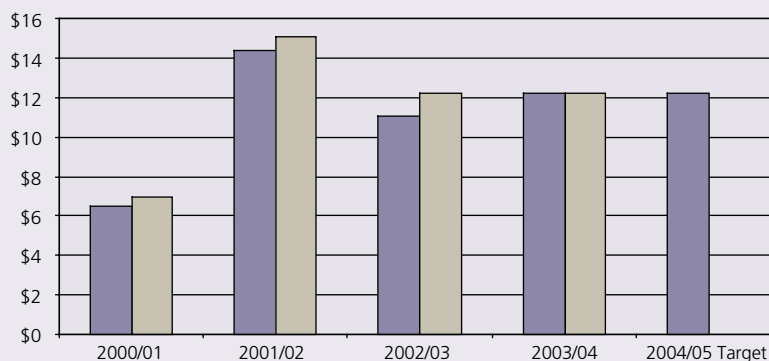
In 2003/04, the way of reporting Deferred Accounts was changed to more accurately reflect the number of member accounts. The Deferred Accounts include those previously reported as Gold State Super Deferred and Non-Contributory (3%) Scheme, as well as transferred benefits from the Pension Scheme or other predecessor public sector funds. Many members with these accounts also hold Gold State Super and/or West State Super accounts, and their Deferred Accounts were not reported in previous years. Therefore, indicators for 2000/01 to 2002/03 have been restated to reflect the impact of including these member accounts. Prior to 2000/01 when a different administration system was in place, the basis for calculating member accounts was treated differently and these indicators have not been restated. The target for 2003/04 has also been restated to take into account the Deferred Accounts mentioned above.

	2000/01 <sup>1</sup>	2001/02	2002/03	2003/04 <sup>2</sup>	2003/04 Target	2004/05 Target
Nominal Cost (\$)	6.49	14.41	11.90	12.71	12.23	12.19
Real Cost (\$)	6.97	15.09	12.21	12.71		

<sup>1</sup> In 2001, the basis for calculating member accounts changed with the change to a new system and the introduction of Member Investment Choice.

<sup>2</sup> This is the base year, so nominal and real costs are the same.

**COST PER MEMBER ACCOUNT FOR THE  
PROVISION OF INFORMATION**







## AUDITOR GENERAL

### INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

### GOVERNMENT EMPLOYEES SUPERANNUATION BOARD PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2004

#### **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, 2004.

#### **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 effectiveness and efficiency.

##### ***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.

D D R PEARSON  
AUDITOR GENERAL  
September 23, 2004

## Performance Indicators (Unaudited)

### Indicators Relevant to Output 1

	2000/01	2001/02	2002/03	2003/04	2003/04 Target	2004/05 Target	Comment
<b>Quality Measures</b>							
Gold State Super Member Satisfaction with Scheme (% who are Fairly Satisfied, Satisfied or Extremely Satisfied)	No Comparable Data	85	76	90	88	90	In line with other Gold State Super indicators, satisfaction with the scheme has recovered significantly since 2002.
West State Super Member Satisfaction with Scheme (% who are Fairly Satisfied, Satisfied or Extremely Satisfied)	No Comparable Data	66	66	67	68	70	Result is statistically similar to previous years. No major initiatives have impacted the West State Super scheme since the introduction of Member Investment Choice in 2001.
Total Fund Investment Performance (%)	2.24	-3.92	0.15	15.30	N/A	N/A	Due to the volatile nature of investment markets, GESB does not attempt to predict shorter term investment returns.
<b>Quantity Measures</b>							
Number of Products Administered	3	12	20	20	22	29	Daily unit pricing program will commence in 2004, which will enable the MY Plan investment option for Retirement Income and Retirement Access to be implemented in the second half of 2004.
West State Super Members by Investment Plan:							Result continues the trend that most members choose or "default" to the Balanced Plan option.
Balanced Plan	-	196,732 (92.4%)	192,289 (91.6%)	200,363 (92.1%)	N/A	N/A	
Conservative Plan	-	645 (0.3%)	692 (0.3%)	741 (0.3%)			
Growth Plan	-	11,638 (5.5%)	11,617 (5.5%)	12,366 (5.7%)			
Cash Plan	-	702 (0.3%)	680 (0.3%)	594 (0.3%)			
MY Plan	-	3,195 (1.5%)	2,276 (1.1%)	3,504 (1.6%)			
Total Investment Portfolio (\$ in Billions)	2.91	3.00	3.29	4.20	N/A	4.58	Whilst GESB doesn't set targets for this indicator, we have included our budget estimate for 2004/05.
<b>Timeliness Measures</b>							
Products Delivered to Market on Time (%)	100	100	100	100	100	100	

## Performance Indicators (Unaudited)

### Indicators Relevant to Output 1

	2000/01	2001/02	2002/03	2003/04	2003/04 Target	2004/05 Target	Comment
<b>Cost Measures</b>							
Average Cost per Member Account (All Accounts) (\$)¹	70.15	77.66	95.67	101.80	104.17	112.02	
Scheme Administration Charge per Active West State Super Member (\$)¹	59.40	59.76	59.80	66.00	65.00	N/A	The 2003/04 target was incorrectly stated in the previous Annual Report and should have been \$66. A strategic pricing review is currently under way which is reviewing the targets for 2004/05.
MER (%)²	0.33	0.28	0.27	0.30	0.33	0.35	

¹ Nominal terms.

² The Management Expense Ratio (MER) is a measure of the efficiency of 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.

## Indicators Relevant to Output 2

	2000/01	2001/02	2002/03	2003/04	2003/04 Target	2004/05 Target	Comment
<b>Quality Measures</b>							
Member Satisfaction with GESB Service (% who are Fairly Satisfied, Satisfied or Extremely Satisfied)	76	79	78	85	81	85	
Employer Satisfaction with GESB Service (% who are Fairly Satisfied, Satisfied or Extremely Satisfied)	No Comparable Data	88	88	95	90	90	
<b>Quantity Measures</b>							
Number of Benefit Payments	14,925	12,595	12,495	12,172	N/A	N/A	
Number of Member Accounts	287,653	290,378	284,325	291,621	N/A	N/A	
<b>Communication with Members</b>							
Seminars Conducted	-	242	384	537	420	470	Increases due to greater member interest in seminars relating to retirement and retirement products.
Seminar Attendance	6,634	5,184	7,896	10,139	N/A	N/A	
Telephone Calls Received	78,731	80,379	82,820	92,329	N/A	N/A	Increase in calls due to new retirement products.
Correspondence Received	5,445	9,258	10,648	10,373	N/A	N/A	
<b>Communication with Members</b>							
Member Interviews	1,014	1,096	1,404	1,970	N/A	N/A	
<b>Communication with Employers</b>							
On-Site Visits	185	369	765	567	700	650	Reduction in employer briefings was due to reduction in number of individual agencies and reduction in administration issues therefore requiring fewer visits.
Briefings	16	15	20	18	21	22	
Total Briefing Attendance	524	575	326	325	N/A	N/A	

## Indicators Relevant to Output 2 (continued)

2000/01	2001/02	2002/03	2003/04	2003/04 Target	2004/05 Target	Comment
<b>Timeliness Measures</b>						
% of Benefit Applications Processed within 5 Working Days	84.1	96.4	95	97.2	95	80 (in 10 Working Days) From 1 July 2004, the tracking procedure changed to the date the documentation reaches GESB not the date correctly completed documentation reaches GESB.
% of Telephone Calls Answered within 30 Seconds	No Comparable Data	90.9	92.3	91	85	85
% of Correspondence Answered within 10 Working Days	No Comparable Data	81	95	99	95	95
<b>Cost Measures</b>						
Cost per Member Account for Provision of Information (\$)¹	6.49	14.41	11.90	12.71	12.23	12.19

¹ Nominal terms.

## Appendices

1. Government Outcome and Outputs
2. Schemes Design
3. Investment Schedules
4. Legislation Administered
5. Inter-Agency Working Groups
6. 2004/05 Budget Estimates

## Appendix 1 - Government Outcome and Outputs

GESB's Government Desired Outcome is specified in the *State Superannuation Act 2000* and the *State Superannuation Regulations 2001*.

<b>Government Desired Outcome</b>	The Government Employees Superannuation Fund and associated schemes are managed in the best interests of members
<b>External Desired Government Outputs</b>	Output 1: A range of competitive products that are attractive and relevant to GESB's clients Output 2: Client-focussed service

This Outcome has been pursued for the past several years using two external Government Desired Outputs and two internal outputs. In 2003/04, the corporate objectives were used as a basis for performance reporting for the second half of the year and therefore, also form the basis for the structure of this Annual Report. The performance against the two external Government Desired Outputs will be reported under the Investment Performance and Member Services objectives. The Cost Management and People Management objectives will replace the two previous internal outputs.

<b>Investment Performance</b>	Output 1: A range of competitive products that are attractive and relevant to GESB's clients
<b>Member Services</b>	Output 1: A range of competitive products that are attractive and relevant to GESB's clients Output 2: Client-focussed service
<b>Cost Management</b>	
<b>People Management</b>	

### The Western Australian Government's Strategic Planning Framework

GESB's corporate objectives are underpinned by its legislative mandate to act in members' best interests. Following the implementation of the State's Strategic Planning Framework, GESB is currently working with the Department of Premier and Cabinet to determine how the State's Strategic Planning Framework applies to GESB and how it interacts with GESB's independent mandate. GESB's contribution to the achievement of the broader strategic outcomes desired by the Government can only occur in the context of the primacy of the interests of members as follows:

<b>Goal</b>	To develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australians by creating the conditions required for investment and growth
<b>Strategic Outcome</b>	Increased gross household income
<b>GESB Contribution</b>	Through maximising members' retirement benefits
<b>Strategic Outcome</b>	A positive economic position that encourages business and consumer confidence
<b>GESB Contribution</b>	Through maximising members' retirement benefits, increased retirement income should give rise to greater confidence on the part of members to consume and this should flow through to increased business confidence

## Appendix 2 - Schemes Design

GESB administers four superannuation schemes for State Public Sector workers - West State Super, Gold State Super, the Pension Scheme and the Provident Account. The fourth scheme, the Provident Account, was closed in 1986 has only 5 remaining members and therefore details of the scheme are not provided.

In addition, GESB has introduced two new schemes for retiring members - Retirement Access and Retirement Income.

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* and are continued under section 29(c) of the *State Superannuation Act 2000*.

### WEST STATE SUPER

West State Super is a defined contribution 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 diversified plans or from an alternative asset allocation under the MY Plan option. A 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) requirement, 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 2003/04 was \$1.27 per week (\$5.50 per month) for an 'active' account, and \$0.99 per week (\$4.29 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.

'Membership Protection' applies to West State Super accounts, which means that administration fees for West State Super members with account balances of less than \$1,000 at 30 June cannot exceed investment earnings paid during the year.

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**

Where a member ceases State Government employment before age 55 years, their benefit can be preserved in the Fund or can be rolled over to another complying superannuation fund.

West State Super members may roll over superannuation benefits from other superannuation funds into their West State Super accounts.

## **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 remuneration.

## **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.

## **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 20% 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**

Where 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, following retirement from the State public sector, but can be paid earlier if a member dies or becomes permanently disabled. Members under age 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.

Gold State Super members may roll over superannuation benefits from other superannuation funds into a West State Super account.

## **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, their account benefit to date plus an insured benefit that is the equivalent of the additional benefit they would have accrued 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.

Where a member is permanently disabled from working in their usual job, but has the capacity to undertake different employment, a partial and permanent disability benefit may be paid. The insured component of a disability benefit is based on their loss in income earning capacity.

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.

## **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.

Where the pensioner dies and is survived by a spouse or defacto partner, that person is entitled to a reduced pension equal to two thirds of the member's notional pension value at their date of death.

Where 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 age 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 an employer - financed lump sum benefit equal to 12% of final salary for each year of their State Government service plus the sum of their personal contributions and interest to the Pension Scheme.

### **Insurance**

Where a member retires on invalidity grounds, they receive a pension as 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 a lump sum market linked roll over facility and is available to Gold State Super and West State Super members who want to manage their lump sum in retirement.

Earnings are credited to a member's account based on the investment plan they have chosen from a range of four diversified 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 the scheme.

### **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 depending on 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 account balance, or by transferring the whole account 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 and 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 based on the investment plan they have chosen from a range of four diversified 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 GESB, may be transferred into the 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 depending on 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 alternatively, the member may nominate a dependent to receive a reversionary pension.

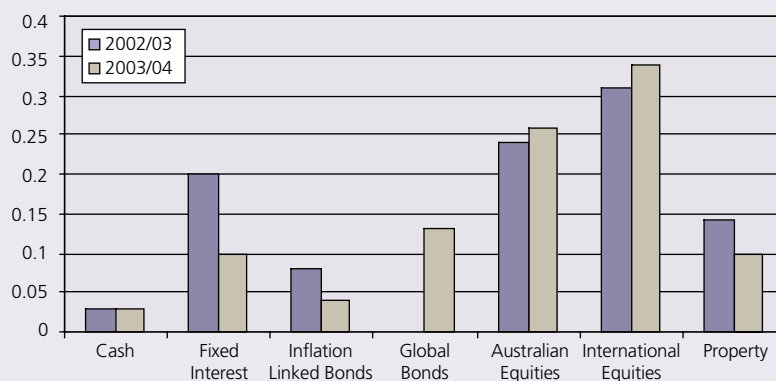
## Appendix 3 - Investment Schedules

### Investment Portfolio Composition

The table below presents the split of assets in the investment portfolio for the last two years as at 30 June 2004.

Sector	2002/03			2003/04		
	\$M	Total \$M	Total %	\$M	Total \$M	Total %
<b>Cash</b>						
Externally Managed	107.4			125.5		
Western Australian Treasury Corporation	3.5	110.9	3.4	10.5	136.0	3.2
<b>Fixed Interest</b>						
Internally Managed	5.9			3.8		
Externally Managed	639.4	645.3	19.6	417.7	421.5	10.0
<b>Inflation Linked Bonds</b>						
Externally Managed	247.5	247.5	7.5	185.2	185.2	4.4
<b>Global Bonds</b>						
Externally Managed	N/A	N/A	N/A	553.1	553.1	13.1
<b>Australian Equities</b>						
Internally Managed	236.8			380.4		
Externally Managed	557.2	794.0	24.1	706.2	1,086.6	25.8
<b>International Equities</b>						
Externally Managed	1,025.8	1025.8	31.2	1,414.8	1,414.8	33.7
<b>Property</b>						
Externally Managed	468.1	468.1	14.2	412.4	412.4	9.8
<b>Total</b>		<b>3,291.6</b>	<b>100</b>		<b>4,209.6</b>	<b>100</b>

INVESTMENT PORTFOLIO COMPOSITION



## Strategic Asset Allocations

Strategic Allocations for the West State Super Diversified Plans and Gold State Super/Pension Scheme relative to the Strategic Asset Allocation as at 30 June 2004

Asset Class	Gold State Super/Pension Scheme	Cash	%		Growth
			Conservative	Balanced	
Cash	2.0	100.0	2.0	2.0	2.0
SAA	2.0	100.0	2.0	2.0	2.0
Fixed Interest	5.0	0.0	30.0	15.0	8.0
SAA	5.0	0.0	30.0	15.0	8.0
Inflation Linked Bonds	5.0	0.0	4.0	4.0	4.0
SAA	5.0	0.0	4.0	4.0	4.0
Global Bonds	7.8	0.0	34.0	19.0	11.0
SAA	8.0	0.0	34.0	19.0	11.0
Australian Equities	32.2	0.0	10.0	20.0	25.0
SAA	32.0	0.0	10.0	20.0	25.0
International Equities	38.4	0.0	15.0	30.0	40.0
SAA	38.0	0.0	15.0	30.0	40.0
Property	9.5	0.0	5.0	10.0	10.0
SAA	10.0	0.0	5.0	10.0	10.0
Growth/Defensive	80/20	0/100	30/70	60/40	75/25

SAA: Strategic Asset Allocation

Year-End Asset Allocations for the West State Super MY Plan Asset Classes as at 30 June 2004

Asset Class	My Plan Fixed Interest	My Plan Inflation Linked Bonds	% My Plan Australian Equities	My Plan International Equities	My Plan Property
<b>Cash</b>	2.0	2.0	2.0	2.0	2.0
SAA	2.0	2.0	2.0	2.0	2.0
<b>Fixed Interest</b>	98.0	0.0	0.0	0.0	0.0
SAA	98.0	0.0	0.0	0.0	0.0
<b>Inflation Linked Bonds</b>	0.0	98.0	0.0	0.0	0.0
SAA	0.0	98.0	0.0	0.0	0.0
<b>Global Bonds</b>	0.0	0.0	0.0	0.0	0.0
SAA	0.0	0.0	0.0	0.0	0.0
<b>Australian Equities</b>	0.0	0.0	98.0	0.0	0.0
SAA	0.0	0.0	98.0	0.0	0.0
<b>International Equities</b>	0.0	0.0	0.0	98.0	0.0
SAA	0.0	0.0	0.0	98.0	0.0
<b>Property</b>	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 the Retirement Access Plans as at 30 June 2004

Asset Class	Cash	% Conservative	Balanced	Growth
<b>Cash</b>	100.0	2.0	2.0	2.0
SAA	100.0	2.0	2.0	2.0
<b>Fixed Interest</b>	0.0	30.0	15.0	8.0
SAA	0.0	30.0	15.0	8.0
<b>Inflation Linked Bonds</b>	0.0	4.0	4.0	4.0
SAA	0.0	4.0	4.0	4.0
<b>Global Bonds</b>	0.0	34.0	19.0	11.0
SAA	0.0	34.0	19.0	11.0
<b>Australian Equities</b>	0.0	15.0	30.0	40.0
SAA	0.0	15.0	30.0	40.0
<b>International Equities</b>	0.0	10.0	20.0	25.0
SAA	0.0	10.0	20.0	25.0
<b>Property</b>	0.0	5.0	10.0	10.0
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 the Retirement Income Plans as at 30 June 2004

<b>Asset Class</b>	<b>Cash</b>	<b>% Conservative</b>	<b>Balanced</b>	<b>Growth</b>
<b>Cash</b>	100.0	2.0	2.0	2.0
SAA	100.0	2.0	2.0	2.0
<b>Fixed Interest</b>	0.0	30.0	15.0	8.0
SAA	0.0	30.0	15.0	8.0
<b>Inflation Linked Bonds</b>	0.0	4.0	4.0	4.0
SAA	0.0	4.0	4.0	4.0
<b>Global Bonds</b>	0.0	34.0	19.0	11.0
SAA	0.0	34.0	19.0	11.0
<b>Australian Equities</b>	0.0	15.0	30.0	0.0
SAA	0.0	15.0	30.0	40.0
<b>International Equities</b>	0.0	10.0	20.0	25.0
SAA	0.0	10.0	20.0	25.0
<b>Property</b>	0.0	5.0	10.0	10.0
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

Note: The Strategic Asset Allocations for Retirement Access and Retirement Income were changed effective January 2004. Changes were made to the Australian equity (increased) and International equity (decreased) allocations to optimise for tax and/or franking credit benefits in Australian equities.



## External Fund Managers as at 30 June 2004

Type of Asset	Manager
Cash	Macquarie Investment Management Ltd Western Australian Treasury Corporation
Australian Equities	Contango Asset Management Ltd AMP Capital Investors Ltd Portfolio Partners Ltd Jenkins Investment Management Limited SG Hiscock and Company Macquarie Investment Management Ltd*
International Equities	State Street Global Advisors Aust Ltd The Putnam Advisory Company, LLC Alliance Capital Management Ltd Fidelity International Ltd Wellington Management Company, LLP Macquarie Investment Management Ltd* Genesis Fund Managers Limited* GMO Australia Ltd* Goldman Sachs Asset Management International*
Fixed Interest	ME Portfolio Management Limited Credit Suisse Asset Management (Australia) Ltd UBS Asset Management (Australia) Ltd
Inflations Linked Bonds	AMP Capital Investors Ltd Credit Suisse Asset Management (Australia) Ltd
Global Bonds	Pacific Investment Management Company (PIMCO)* Wellington Management Company, LLP*
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 2003/04.

## Asset Class Benchmark Performance Comparison - Year(s) ending 30 June 2004

Asset Class	%		% pa			
	1 Year		2 Years		3 Years	
	GES Fund	Benchmark	GES Fund	Benchmark	GES Fund	Benchmark
Cash	5.6	5.3	5.3	5.1	5.1	5.0
Australian Equities	23.8	21.7	10.1	9.4	5.0	4.6
International Equities	20.9	22.2	4.3	3.7	-4.1	-4.7
Fixed Interest	3.0	2.3	6.3	6.0	6.4	6.1
Inflation Linked Bonds	3.0	2.7	6.8	6.7	6.9	6.9
Global Bonds*	0.9	0.9	N/A	N/A	N/A	N/A
Listed Property	16.7	17.2	14.9	14.7	14.9	14.9
Direct Property	10.5	9.8	8.0	9.9	8.5	9.4

\* Global bonds return is since inception (May 2004).

## Benchmarks

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

Cash	UBS Warburg Australian Bank Bill Index
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
Fixed Interest	UBS Warburg Australian Composite Bond Index - All Maturities
Inflation Linked Bonds	UBS Warburg Australian Inflation Linked Index
Global Bonds	Lehman Brothers Global Aggregate Index 100% AUD Hedged
Listed Property	S&P/ASX 300 Property Trusts Accumulation Index
Direct Property	AMP Balanced Property Units Index

## Appendix 4 - Legislation Administered

During 2003/04, GESB was directly responsible for administering the following State legislation:

- State Superannuation Act 2000
- State Superannuation Regulations 2001
- Superannuation and Family Benefits Act 1938

### State Legislation Impacting on Activities

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

- Administration Act 1903
- Anti-Corruption Commission Act 1988 (repealed)
- Corruption and Crime Commission Act 2003
- 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
- Industrial Relations Act 1979
- Interpretation Act 1984
- Judges Salaries and Pensions Act 1950
- Library Board of Western Australia Act 1951
- Minimum Conditions of Employment Act 1993
- Occupational Safety and Health Act 1984
- Parliamentary Commissioner Act 1971
- Parliamentary Privileges Act 1891
- Parliamentary Superannuation Act 1970
- Pay-roll Tax Assessment Act 2002
- Public and Bank Holidays Act 1972
- Public Interest Disclosure Act 2003
- Public Sector Management Act 1994
- Salaries and Allowances Act 1975
- State Records Act 2000
- State Supply Commission Act 1991
- State Trading Concerns Act 1916
- Statutory Corporations (Liability of Directors) Act 1996
- Workers' Compensation and Rehabilitation Act 1981

### **Commonwealth Legislation Impacting Directly on Activities**

The Commonwealth legislative compliance requirements during 2003/04 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
- Privacy Act 1988
- 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
- Trade Practices Act 1974
- Veterans' Entitlements Act 1986

### **Commonwealth Legislation Impacting Indirectly on Activities**

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

## Appendix 5 - Inter-Agency Working Groups

### Superannuation Consultative Group

#### Objective of group:

Superannuation issues may impact across Western Australian State public sector agencies that have a policy advisory role within Government. GESB has identified the need for a coordinated approach to be taken when addressing these issues.

#### Activities of Group:

The Superannuation Consultative Group (SCG) examines superannuation issues that are impacting or have the potential to impact on the State's public sector. This includes consideration of:

- The implications of current or proposed Commonwealth/State regulatory frameworks, such as the treatment of superannuation for taxation purposes.
- The implications of current or proposed Commonwealth policy and inter-governmental agreements, such as the Commonwealth's Retirement Incomes Policy and the Heads of Government Agreement on Superannuation.
- The implications of current or proposed State government policy for public sector superannuation arrangements, such as the impact of the State's unfunded superannuation liability.
- Changes within the broader superannuation industry, such as national regulatory requirements and superannuation arrangements and incentives for workers.

#### Composition of Group:

The SCG is composed of representatives from GESB, Department of Treasury and Finance, Department of Premier and Cabinet, Department of Consumer and Employment Protection and the Salaries and Allowances Tribunal.

### Superannuation Discussion Group

#### Objective:

Effective and informed high level discussion of superannuation issues that impact on prudential framework of the Government Employees Superannuation Fund and the State's finances and members of GESB.

#### Activities of Group:

The Superannuation Discussion Group meets regularly to discuss and exchange information on superannuation issues that have impact or have the potential to impact on GESB and the Department of Treasury and Finance, and their Ministers. This includes consideration of:

- Issues that impact members of GESB's superannuation schemes.
- Issues pertaining to the prudential supervision of the Government Employees Superannuation Fund.
- The implications of current or proposed Commonwealth policy and intergovernmental agreements, such as the Commonwealth's Retirement Incomes Policy and the Heads of Government Agreement on Superannuation.
- The implications of current or proposed State government policy that may impact the State's superannuation liabilities.
- Implications and changes to non-superannuation Commonwealth policy that impacts both GESB and the Department of Treasury and Finance (for example, the National Competition Policy).
- Issues that may impact on the finances of the State generally.

#### Composition of the Group:

The Group is composed of representatives from GESB, the Department of Treasury and Finance and the Minister for Government Enterprises' Office.

## Appendix 6 - Budget Estimate 2004/05

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

- The total number of member accounts (including active and deferred) will remain constant for 2004/05.
- The superannuation contributions, recoups and benefits were based on a model provided by Mercer Human Resource Consulting, which uses calculations based on historical receipt and payment trends using a straight-line method.
- Estimates of rollovers into Retirement Access and Retirement Income, redemptions and drawdowns are based on a forecasting model developed originally by KPMG and refined by GESB.
- The consumer price index (CPI) of 2.5% per annum has been applied to forward expenditure estimates - except investments, which has a different index applied.
- The increase in investment expenses is assumed to be 6.0% per annum, based on the expected growth in the level of the Funds Under Management, which is driven by investment income, capital growth and superannuation contributions.
- Investment income from 2003/04 onwards has been calculated using an estimated average gross rate of return of 7.63% on the projected portfolio balance at the beginning of the year.
- The split of investment income between realised income, realised and unrealised net changes in net market value is based on historical trends for the previous two years, using a straight line approach.
- Loan liability, repayments and interest expense as per the Western Australian Treasury Corporation Loan Schedules.
- Only the Retirement Access and Retirement Income Schedules are taxed.

	2004/05 Budget Estimate \$'000
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE FINANCIAL YEAR</b>	3,394,846
<b>REVENUE FROM ORDINARY ACTIVITIES</b>	
<b>Investment Income</b>	
Realised Income	161,341
Realised Changes in Net Market Value of Investment Assets	75,303
Unrealised Changes in Net Market Value of Investment Assets	78,259
	314,903
Less: Investment Expenses	(13,673)
	<b>301,230</b>
<b>Superannuation Income</b>	
Contributions:	
Members	120,600
Employers	756,319
Rollover into Retirement Products	165,360
Inward Transfer from Other Funds	41,800
Other Income	537
	<b>1,084,616</b>
<b>Total Revenue from Ordinary Activities</b>	<b>1,385,846</b>

	2004/05 Budget Estimate \$'000
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>	
Superannuation Benefit Payments	672,240
Administration Expenses	26,111
Depreciation/Amortisation	6,860
Loan Interest	38,992
Tax Expense	25,832
<b>Total Expenses from Ordinary Activities</b>	<b>770,035</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT END OF FINANCIAL YEAR</b>	<b>4,010,657</b>

	2004/05 Budget Estimate \$'000
<b>ASSETS</b>	
Investment Assets	4,585,008
Cash	5,000
Sundry Debtors	22,992
Prepayments	2,100
Future Income Tax Benefit	34
Property Plant and Equipment	14,795
<b>TOTAL ASSETS</b>	<b>4,629,929</b>
<b>LIABILITIES</b>	
Contributions Paid in Advance	2,691
Unpaid & Accrued Benefits Due	5,297
Provision for Employee Entitlements	2,389
Provision for Superannuation Liability	3,767
Sundry Creditors	13,686
Current Tax Liabilities	25,832
Interest Bearing Liabilities	565,569
Deferred Tax Liability	41
<b>TOTAL LIABILITIES</b>	<b>619,272</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>4,010,657</b>

## Publications and Contacts

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

#### For Members

- +Some - personal Top-Up Contributions
- 1Place - consolidation of super
- Gold State Super Essentials - explains the benefits and features of Gold State Super
- Going Part-Time
- Growing Your Super with Salary Sacrifice
- Hands on Investor for West State Super and Gold State Super members
- Hands on Retirement for Retirement Access and Retirement Income members
- Investment Choice Brochure
- Investment Guide - for West State Super members
- Investment Team Brochure - a profile of our Investment Team
- Partner Contributions Brochure - explains the benefits and features of making partner contributions
- Performance Watch - Quarterly Investment Performance Report
- Resigning from the WA Public Sector
- Retirement Access Brochure - explains the benefits and features of Retirement Access
- Retirement Income Brochure - explains the benefits and features of Retirement Income
- Retirement Income Comparison Sheet - for comparison with other Allocated Pensions
- Retirement Options Brochure - explains the benefits of our two retirement options
- Schedule of Fees - explains the fees and charges applicable to Retirement Income and Retirement Access
- Schedule of Fees - explains the fees and charges applicable to West State Super
- Taking Unpaid Leave
- Understand Your Statement - Retirement Access and Retirement Income
- Understand Your Statement - West State Super and Gold State Super
- West State Super Member Booklet
- Your Super and Tax
- Your Super and Divorce
- Your Super and Insurance
- Your Super and Redundancy



### **For Employer Agencies**

- Employer Easy Reference Guide
- HR Super Star
- Super Smart
- Salary and Allowances Guide - guide to assess the components of an employee's income that should be included as salary for superannuation purposes.

### **General Publications**

- Web site publications
- Annual Reports for past four years
- Client Services Charter
- Freedom of Information Statement
- Monthly Investment Performance figures
- Previous issues of Employer newsletters and Member reports
- News updates

### **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

### **Contact Details**

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Perth, Western Australia 6000

Telephone: (08) 9263 4111

Member Services Centre 13 43 72

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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)**

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