Statement of Corporate Intent
2012/13

GESB (Government Employees Superannuation Board)
April 2012
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Executive Summary

This is the Government Employees Superannuation Board’s (GESB’s) 2012/13 Statement of Corporate Intent (SCI).

It provides information on –

- the environment in which GESB will operate in 2012/13;
- how GESB will continue to work with the State in implementing the State Government’s superannuation reforms;
- GESB’s corporate objectives;
- the initiatives GESB will pursue during the next twelve months in order to achieve those objectives; and
- GESB’s key performance targets.

GESB’s purpose is to improve the long term financial well-being of its members. This is consistent with the State Superannuation Act 2000 and GESB’s core values. GESB’s primary objective is to deliver value to members and employers within the Government’s policy framework.

GESB seeks to deliver value to its members through above market-average investment returns while diversifying investment risk, at below industry-average costs while delivering a high level of member services.

In addition to managing its core business, GESB will be allocating resources through 2012/13 to work with the State Government to implement the Government’s superannuation reforms outlined in Putting Members First - A Review of Superannuation Arrangements for the WA Public Sector. (The Whithear Report). The majority of the recommendations have been implemented already, including the introduction of Choice of Superannuation Fund (‘Choice’) on the 30th March 2012.

The review of administration services, with a view to procure a third party provider, will have a significant impact on GESB’s business model if it proceeds. GESB will need to maintain service standards to members and continue to deliver sound investment returns whilst also working towards the potential transition. Retaining staff during this time will be critical. It is understood that GESB’s operations will be used as the basis for the public sector comparator, to assist with the evaluation of the tenders. Any decision to appoint a third party provider will be required to ensure that value is delivered to members and be in their best interests.

GESB will also be progressing with implementation of another State reform issue, to ‘arrange for GWM Pty Ltd to be wound up’. This will be achieved through the supply of complex financial advice services to members from an external provider whilst retaining simple advice services to members within the GESB framework.

GESB’s financial forecasts for 2012/13, which are presented in this SCI, show projected funds flows, balance sheet position, budgeted expenses and capital investment that will enable GESB to continue to comply with industry standards to maintain core systems, and to efficiently deliver services to its members. The financial outcomes for future years, including the potential impacts that will flow from implementation of the Whithear recommendations, are presented in the Strategic Development Plan (SDP).
1. Industry Overview

GESB is a State Statutory Authority which administers a number of Exempt Public Sector Superannuation Scheme (EPSSS) in the Australian superannuation industry. An EPSSS is a scheme that the Commonwealth has agreed to exempt from the Superannuation Industry (Supervision) Act 1993 (SIS Act) governing legislation. This is in recognition of the complexities associated with, and the relevant State laws governing, public sector schemes.

The Australian superannuation industry comprises around 360 funds, 31 million accounts, half a million self managed funds (representing 31% of all assets) and $1.3 trillion in funds under management as at September 2011.\(^1\) Assets under management increased by only 2.0% over the 12 months from September 2010 as a result of volatile investment markets, which are continuing to have an impact on the industry. The superannuation industry is forecast to grow at around 9.0% per annum and is expected to increase to $3.0 trillion by 2020.\(^2\)

The industry is characterised by regulatory and product complexity, large volumes of manual transactions, increasing competition and commoditisation, and changing economies of scale through industry and account consolidation.

There is significant growth in demand for post retirement products and education and financial advice as a result of an ageing population. This is a particular issue for GESB with the ageing WA public sector workforce.

Several major industry reviews have been progressed which will result in the greatest reforms to the industry since compulsory superannuation was introduced. The most significant of these is the Cooper review into superannuation. The Commonwealth Government's objectives in progressing this reform are to:

- increase efficiency in the system through electronic and standardised transactions;
- improve the level of overall fund governance through standards and regulation;
- reduce the number of superannuation accounts per individual; and
- reduce investment costs in default funds through legislated, simplified product design.

GESB meets many of these objectives with strong fund governance, efficient electronic contribution processing, account consolidation programs, effective risk management and sound long-term net returns.

The superannuation industry is expected to change significantly during the next 3 - 5 years with rapid consolidation of superannuation funds and individual member accounts. Consolidation of funds has led to a decrease in the number of funds from 872 in June 2006 to 361 in September 2011 and APRA predict that that the current number of funds will reduce by almost 50% as funds merge to achieve scale in the face of the Federal Government's Stronger Super reform.\(^3\) A driver to this consolidation is the need for funds to have sufficient administration and investment scale to operate efficiently with diversified portfolio risk.

The number of member accounts has already decreased from 33 million to 31 million accounts as a result of the amendment of the Superannuation (Undeclared money and lost members) Act 1999 which came into effect in 2007.\(^1\)

Superannuation administrators will need to invest to accommodate the Commonwealth's Super Stream electronic processing objective and MySuper default fund. In addition, capital investment to accommodate fund mergers together with revenue reduction from a decline in the number of accounts will place significant financial pressure on administrators who have not already invested in electronic contribution processing. There will be increased fee competitiveness and fee transparency under the MySuper product.

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\(^1\) APRA Quarterly Superannuation Performance – September 2011, published December 2011;  
\(^2\) DEXX&R Market Projections Report, January 2012  
\(^3\) APRA Annual Superannuation Bulletin, June 2010, published January 2011
The Commonwealth Treasury is currently consulting with the State and Territory Treasuries to determine what aspects of the resulting Stronger Super initiative will apply to the EPSSS. This will be achieved through amendments to the Heads of Government Agreement (HoGA) which have been drafted and are currently subject to a process of consultation. This is an important platform from which the State and GESB can consider future responses to the Stronger Super reforms.

The Commonwealth Government has also announced reforms in response to the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into financial products and services in Australia. The objectives of the Future of Financial Advice (FoFA) reforms are to increase transparency and ensure that financial advisers act in the best interests of their clients. These reforms will cover the availability of low-cost 'simple (personal) advice' within the ASIC licence framework. GESB will continue to monitor and assess this issue against our current operations.

At a State level, in March 2010, Cabinet endorsed 18 recommendations from the Whithear Report which are now the State Government superannuation reforms. These reforms include implementing Choice of fund for WA public sector employees, reviewing the provision of superannuation administration services and encouraging members with accounts under $10,000 to consolidate into other funds. They also include closing GESB's financial advice subsidiary, changes to reserving and funding, and new governance arrangements. Most of the Whithear Report recommendations have already been implemented, however the potential procurement of administration services and the wind-up of GESB Wealth Management are still outstanding.

External changes at both a Commonwealth and State level present a range of emerging issues for the industry and GESB, related primarily to scale economies, liquidity, the impact of regulatory changes and the impact of sub-scale administration or investment on costs and risks to members.
2. Overview of GESB

2.1. Heads of Government Agreement (HoGA)

The State of Western Australia is a signatory to the HoGA with the Commonwealth in respect of all its public sector superannuation schemes. Under the HoGA, in recognition of the circumstances surrounding the GES schemes (such as the complex nature of the defined benefit schemes, the public accountability of the schemes, the State laws governing the schemes Constitutional Protection and State prudential controls), the Commonwealth agreed to exempt the GES schemes from the relevant Commonwealth governing legislation for superannuation funds, i.e. SIS Act.

As a consequence, the SIS Act provides that exempt public sector superannuation schemes, such as the GES schemes, are deemed to be complying superannuation funds for superannuation guarantee purposes under the Superannuation Guarantee (Administration) Act 1992 and for income tax purposes under the Income Tax Assessment Act 1936.

In return for these exemptions, the State Government agreed to ensure that members' accrued benefits will be fully protected and that the GES schemes will conform to the principles of the Commonwealth's Retirement Income Policy. The incorporation of some of these principles is evident in the State Superannuation Act 2000 (SSA) and State Superannuation Regulations 2001 (SSR).

2.2. Our Business – Nature and Scope

GESB is a State Government owned superannuation and retirement services entity that manages an investment portfolio of $12.8 billion (as at 29 February 2012). Some 80% ($10.5bn) of this fund is managed for members in market linked schemes where members bear the investment risk. A $2.4 billion investment portfolio is managed for the State to support its defined benefit liabilities.

GESB manages superannuation accounts and investments for more than 325,000 current and former WA public sector workers. As at 29 February 2012 GESB maintained a workforce of 200 FTEs. The forecast for the end of 2011/12 is 210 FTEs and 215 FTEs for 2012/13*.

GESB's total assets increased 16% in the 2010/11 financial year, compared with only 11.5%1 growth in the overall Australian market due to continued sound investment performance, high levels of member contributions and the retention of retirement benefits.

In 2010/11, GESB received contributions of $2.0 billion and a net funds flow of around $950 million. Contributions are forecast to be $1.8 billion in 2011/12, however net funds flow are projected to reduce to $593 million in 2011/12 and to around $227m in 2012/13 due to increasing retirements and the introduction of Choice of Superannuation Fund for WA public sector employees. GESB currently retains 65% of retirement benefit payments within its allocated pension product and this is expected to decline to 55% when complex financial advice services are provided by a third party. GESB’s funds under management relative to market is projected to marginally decrease as a result of the factors mentioned above.

*Note: The additional 5 FTEs in 2012/13 include 2 FTEs transferred from Treasury to manage the Parliamentary and Judges Scheme, and 2 specialist administration and 1 legal FTE for reform.
GESB’s investment framework operates in accordance with Prudential Guidelines approved by the Treasurer. GESB is currently in the process of finalising updated guidelines with the Department of Treasury (Treasury) which are consistent with governing legislation.

The schemes that GESB manages are governed under State laws, in particular the SSA\(^4\) and SSR\(^5\). While some public sector funds in other states have become Commonwealth regulated, GESB manages its schemes under State regulation.

GESB’s primary functions under the SSA (section 6 (1) (a) – (f)), include to:

- Manage the Fund;
- Provide information, advice and assistance to the Minister and the Treasurer on matters relating to superannuation;
- Provide or facilitate provision of products and services to members of schemes administered by the Board and Employers;
- Provide a service of receiving superannuation contributions paid by Employers and crediting them to the Fund or remitting them on behalf of Employers to other funds;
- Administer the schemes or select and appoint external administrators of the schemes and monitor their administration; and
- So far as practicable, provide information to members regarding their rights and entitlements under the schemes.

Key activities undertaken by GESB include:

- processing account transactions;
- providing financial and retirement education through metro and regional seminars, printed and electronic communication;
- assisting members via phone, face-to-face, mail, email or on-line; and

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\(^4\) State Superannuation Act 2000
\(^5\) State Superannuation Regulations 2001
delivering personal financial advice related to members' interests in GESB schemes under an ASIC licensed framework. GESB Wealth Management (GWM) is the GESB owned subsidiary entity which currently holds an Australian Financial Services Licence.

Under the State Government superannuation reforms, many of these activities will be tendered for possible provision by commercial administration and advisory companies. It is anticipated that these activities may transition to a commercial supplier in 2013/14, with resource and workflow impacts also being felt in the 2012/13 financial year. Transition to an external provider of complex advice may occur by the end of the second quarter of 2012.

GESB is primarily a self-funded agency, though it draws on the Consolidated Account to fund the operational costs of administering the State’s defined benefit schemes, other Government related activity including the cost of Government relations, and reform related costs. Income is generated through:

- account administration fees debited to accounts for members of market linked schemes;
- investment management fees from member funds of market linked schemes;
- insurance administration fees from member insurance premiums; and
- financial advice fees charged directly to members.

In relation to the market linked schemes, the net excess of income over costs is transferred to an operational risk reserve.

From July 2011 the State’s share of benefit payments is met from the recoupment rate, and expenses related to administration and government relations are met through a separate appropriation which is subject to annual agreed budget. This is one of the State Government superannuation reforms implemented in 2011/12.

GESB maintains insurance cover for risk events through RiskCover which provides $300 million cover for general and professional liability which includes fraud or operating risk events and maintains Directors & Officers liability cover through the open market. Business insurance does not protect against investment volatility. The Board also mitigates risk through a system of internal controls.

Operating under the SSA, GESB is accountable to the Treasurer. GESB operates within prudent cost ratios and risk reserving, delivering low-cost products and services to members and the State.

In 2011/12, GESB was again recognised in the industry, and by members and employers:

- 1st quartile ranking for GESB Super’s default Balanced Growth Plan’s returns (1 year) and above median (3 years)\(^6\)
- Winner Best Customer Service and Disclosure of Fees awards (Investment Trends July 2011)\(^7\)
- Ranked 1st in Keeping members informed (Investment Trends July 2011)\(^8\)
- Ranked in the Top 3 for Superannuation education services and Quality of statements/reports (Investment Trends July 2011)\(^6\)
- Winner of the WA Contact Centre of the Year award and ranked in the top 5 contact centres in Australia for 50 seats (ATA 2011 awards)
- Lowest quartile for fees for accumulation & retirement products (SuperRatings, ChantWest)
- Awarded highest industry ratings for accumulation & retirement products (‘Platinum Rating’ from SuperRatings, ‘5 Apples’ from ChantWest)
- Awarded ‘5 year Platinum Performance’ rating for GESB Super & Retirement Income (RI) by SuperRatings for 5 consecutive years holding Platinum rating

\(^6\) SuperRatings, Fund Crediting Rate Survey, Feb 2012
\(^7\) Investment Trends, Member Sentiment and Communications Report July 2011
2.3. Fund Overview

GESB has an investment management portfolio of $12.8 billion (as at 29 February 2012) which includes a $2.4 billion portfolio whereby the State assumes investment risk to support its defined benefit liabilities. The remaining $10.4 billion or (80% of the investment portfolio) is held in market linked schemes where members bear investment risk for their chosen investment plan. The Board determines an appropriate investment strategy for each investment plan, within guidelines issued by the Treasurer, to achieve the targeted long-term net return objectives for these members.

a Schemes Profile

b Guarantees

The State guarantees to pay every benefit payable under a scheme, including the accumulation, retirement and defined benefit schemes. This is particularly relevant for members of the State’s defined benefit schemes which are not fully funded.

The State does not guarantee any particular investment performance for members of the retirement and accumulation schemes. The State does guarantee that there are sufficient assets and liquidity to pay an accrued benefit when it is due and payable. The guarantee, together with the Operational Risk Reserve, protects the Fund and members’ benefits in the event of loss as a result of an operational risk event.

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8 TNS Global, GESB Employer Research, May 2011.
9 Painted Dog, GESB Member Experience Research, Dec 2011
10 Painted Dog, GESB Member Satisfaction Research, June 2011
11 GESB Marketing Statistics, 29 February 2012
12 State Superannuation Act 2000, Division 5, Sections 31 and 32
c Membership

The median age of GESB’s active membership base is 45 years of age compared to 39 years of age for the WA non-public sector workforce. Nearly 65,000 members are currently of retirement age. However, approximately 75,000 members in the untaxed West State Super accumulation scheme do not reach retirement age for at least another 25 years. Generally as members get closer to retirement and/or accumulate substantial account balances they become more engaged with their superannuation and have higher requirements for advice services, transaction processing and usage of the call centre and website.

2.4. Purpose

GESB’s purpose is to **improve the long term financial well-being of our members**.

To meet this purpose GESB provides superannuation administration and member services, financial advice, and other ancillary products and services for its members. GESB also provides investment services for members and the State with effective diversification to deliver sound, risk adjusted, long-term net returns.

In meeting its purpose GESB aims to provide the best value, quality service fund available for current and former WA public sector employees. This is consistent with its governing legislation, the SSA, which requires GESB to act, as far as is practicable, in the best interests of members while performing its functions.
2.5. Strategic Objectives – State and Corporate

State Policy Initiatives

The State Government’s major superannuation policy initiatives to be actioned in 2012/13 include the:

- implementation of the remaining Whithear Report recommendations;
- determination of a policy response to the Commonwealth’s Stronger Super initiatives; and
- implementation of remittance of unclaimed/lost super monies to the ATO.

Corporate Goal

GESB’s corporate goal is to deliver value to members and employers within Government’s policy framework.

Value to members means providing efficient and competitive superannuation and retirement products and services with above market-average, risk controlled net returns, with highly rated member services.

Value to employers means servicing employers through workplace education and advice programs and support around choice.

Efficient administration and competitive investment returns, with appropriate risk management, are delivered within the State Government policy framework.

These outcomes will continue to be achieved through a focus on members, efficient operations, and people management, underpinning GESB’s sustainable financial performance.

Within these strategic themes, GESB’s corporate objectives are:

- **Competitive investment returns**: efficient and competitive superannuation and retirement products and services with above market average risk based returns;
- **Prudent cost management**: prudent management of our cost base;
- **Effective risk management**: manage our business responsibly; and
- **Capable people**: build a performance culture focused on member value.

Our Values

GESB is a values-based organisation. Our values are:

- **Put members first** – We are committed to improving our members’ long-term financial well-being through understanding their needs and considering their interests in everything we do.
- **Sustainable performance** – We pride ourselves on being knowledgeable and insightful. We make balanced decisions for the long term. We think ahead and always look for ways to improve our performance at every level.
- **Achieve together** – We partner with our members, inspiring confidence in their future through education and advice. We are positive and energetic in the way we provide services to our members and the State, and in the way we manage their monies.
- **Act with integrity** – We make responsible decisions based on thorough analysis and make a point of sharing our knowledge. We approach every aspect of our work ethically and accountably. We operate transparently and with full accountability. We demonstrate our sense of responsibility on a daily basis, by ‘taking ownership’ of members’ issues and seeing enquiries through to ensure a satisfactory outcome.
2.6. Corporate Responsibilities

At all times, GESB operates to achieve its purpose under prudent commercial principles, the specific requirements of its governing legislation and broader responsibilities of good corporate citizenship. GESB's corporate responsibilities include:

- **State Regulatory Compliance.** The SSA governs the powers and functions of the Board and responsibilities toward members. The SSR set out the rules of the superannuation schemes.

- **State Government Policy.** As a government trading enterprise, GESB acts in accordance with relevant State Government legislation and policies.

- **Heads of Government Agreement (HoGA).** Schemes managed by GESB are exempt from the Commonwealth governing legislation for superannuation funds (the Superannuation Industry Supervision Act 1993) but, under the HoGA with the Commonwealth, these schemes are to conform to the principles of the Commonwealth's Retirement Income Policy.

- **Commonwealth Regulatory Compliance.** GESB aligns to Commonwealth regulatory requirements as a matter of best practice, where practicable. A subsidiary entity, GESB Wealth Management (GWM) Pty Ltd, currently delivers financial advisory services, under an Australian Financial Services Licence and complies with the Corporations Act. The Treasurer has confirmed that GWM can continue to operate as a going concern under the scope of the approval granted by the then Treasurer on 28 November 2006 until the outcome of the tender for administration services is known. However, GESB is currently progressing the Whithear recommendation to wind up GWM and will identify one or more suitable 3rd parties to deliver complex financial advice related to a member's interest in GESB schemes.

- **Competition and Consumer Act.** GESB manages compliance with the Australian Consumer Law in the Competition and Consumer Act (2010) through policies, procedures and internal legal review.

2.7. The Board

As a statutory authority, the GESB Board has powers and functions under the SSA and has a statutory obligation as far as practicable to act in members' best interests. GESB is ultimately accountable to the Treasurer.

Under Statutory Corporations (Liability of Directors) Act (1995) GESB's directors are required to owe the corporation similar duties to those owed by directors under the Commonwealth Corporations Act. The Board, in serving the corporation, must serve the interests of its members.

The Board is responsible for the overall governance and performance of GESB in accordance with the SSA. The Board has responsibility for all matters relating to the operation of GESB. In governing GESB, the Board sets the values and standards and ensures that GESB's obligations to its members and other stakeholders are understood and met.

In carrying out its responsibilities, the Board undertakes to act honestly, fairly and diligently to create and build value for members, having regard to the interests of all stakeholders including members, employers, employees, the State, suppliers and the broader community.

The Board comprises a Chairman, three Employer Directors and three Member Directors.

2.8. The Treasurer

Recent amendments to the SSA have combined the previously separate function of Minister and Treasurer, with these now resting with the Hon C. Christian Porter, MLA as Treasurer.

The Treasurer has a role in matters that affect the financial rights and obligations of the State along with the general operation of GESB. Specific responsibilities of the Treasurer under the SSA include (but are not restricted to):

- approving Prudential Guidelines that cover the nature of investments that the Board can make;
• approving the appointment of Investment Managers;
• approving GESB’s Statement of Corporate Intent (SCI) & Strategic Development Plan (SDP);
• approving & certifying changes to regulations;
• directing the Board; and
• directing employers around superannuation practice and procedures.
3. Performance Targets

3.1. Key Results Areas

Major initiatives and key business activities in 2012/13 are aligned with GESB’s six key result areas:

1. Member service and engagement
2. Employer service and engagement
3. Net benefit to members
4. Financial performance
5. Efficient operations
6. Engaged people

GESB will continue to deliver good value to members and the State and be self-sustaining.

The key result areas have been revised to reflect GESB’s focus on providing net benefits to members through sound investment returns, low fees and through increased member engagement in their superannuation. GESB is also focussed on providing ongoing support to employers, particularly during and following the introduction of Choice. Maintaining appropriately skilled staff during the process of reviewing administration services is important in order for GESB to continue to deliver services to members and employers. Services to members must also be delivered efficiently and GESB continues to review its operating costs in order to ensure administration costs remain low.

In 2012/13 GESB’s total cost to asset ratio is forecast to reduce to 0.63% - below the target objective from the Cooper Review for a MySuper product of 0.66% and in line with the forecast for 2011/12 of 0.63%. The total cost to asset ratio is a key measure together with (risk appropriate) returns as these two measures provide the end net value to both members and the State. GESB’s total cost to asset ratio and member net value are key measures into the future as the provision of administration services is reviewed and relative investment scale potentially declines.

Historical & Projected Funds under Management

Net funds flow and relative investment scale will be impacted by the introduction of Choice of Superannuation Fund, external provision of complex financial advice services and increasing number of retirements from an ageing public sector workforce.

GESB uses a balanced scorecard approach to performance measurement. The key performance indicators in this report measure value delivered to members, sustainability and quality of delivery of services. These include key effectiveness and efficiency performance indicators, as required by the Financial Management Act 2006.
The following measures and targets have been set for GESB’s key result areas for 2012/13:

<table>
<thead>
<tr>
<th>Key Result Area</th>
<th>Key Performance / Indicator</th>
<th>3M</th>
<th>6M</th>
<th>Budget</th>
<th>Expected</th>
<th>Actual</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Benefit to Members</td>
<td>Absolute investment returns v targets&lt;sup&gt;1&lt;/sup&gt;</td>
<td>n/a</td>
<td>n/a</td>
<td>Above median</td>
<td>Above median</td>
<td>Below target</td>
<td>Above median</td>
</tr>
<tr>
<td></td>
<td>WSS default plan 3 year net return quartile&lt;sup&gt;2&lt;/sup&gt;</td>
<td>3M</td>
<td>Above median</td>
<td>Above median</td>
<td>Above median</td>
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<tr>
<td></td>
<td>GESB Super default plan 3 yr net return quartile&lt;sup&gt;2&lt;/sup&gt;</td>
<td>3M</td>
<td>Above median</td>
<td>Above median</td>
<td>Above median</td>
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<tr>
<td></td>
<td>WSS default plan fee quartile&lt;sup&gt;2&lt;/sup&gt;</td>
<td>12M</td>
<td>Top quartile</td>
<td>Top quartile</td>
<td>Top quartile</td>
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<tr>
<td></td>
<td>GESB Super default plan fee quartile&lt;sup&gt;2&lt;/sup&gt;</td>
<td>12M</td>
<td>Top quartile</td>
<td>Top quartile</td>
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**Financial Performance**
- Funds under Management: M = $14.1bn
- Net Funds Flow: M = $227m
- Cost-to-Assess ratio: M = 0.63%

**Member Service and Engagement**
- Member Satisfaction: 12M = 80%
- Member retention retirement rate (inc TTR): M = 80%

**Employer Service and Engagement**
- Employer Engagement: 12M = 85%

**Efficient Operations**
- Administration cost per accumulation account: 3M = $123
- Administration cost per defined benefit account: 3M = $232

**Engaged People**
- Staff Satisfaction: 3M = 55%
- Staff Turnover<sup>3</sup>: M = <20%

Notes:
1. Absolute investment returns to be measured against Board approved timeframes.
2. The plans are underperforming their absolute investment return (CPI+) targets. This is a reflection of the market impact of the global financial crisis and is consistent with the experience of most super funds.
3. “Above median” is the top 50% of all superannuation fund’s returns as reported by SuperRatings ‘Fund Crediting Rate survey’.
4. “Top quartile” is the lowest 25% of all superannuation funds’ total investment and administration fees as reported by SuperRatings ‘Benchmark Report’.
5. Member Satisfaction is measured by the Member Satisfaction survey conducted annually by Painted Dog on behalf of GESB.
6. Employer Engagement is measured by the Employer Satisfaction survey conducted annually by TNS on behalf of GESB.
7. Increases in the Administration cost per account are a function of general admin cost increases and a reducing number of accounts. Account numbers are forecasted to decrease 11% over 2012/13. The factors influencing administration costs are contained in Section 6.6.c. in this document. According to SuperRatings, GESB’s overall cost per account as at 30 June 2011 compared to the industry was recorded as being in the 2<sup>nd</sup> quartile, between median cost and the top quartile (least expensive) cost.
8. Staff turnover includes both unplanned and planned staff turnover. The 2010/11 ratio is not available. The forecast for 2011/12 is the actual YTD turnover rate at 29th February 2012.

**Key assumptions for 2012/13 budget:**
- Projections include assumptions around investment performance, salary increases and member behaviour. Any variations between these and actual performance could impact GESB’s key result areas.
- Gross investment returns are assumed to be 8.1% for 2012/13 and are based on individual assets class returns provided by GESB’s asset consultants – Mercer Investment Nominees Limited. This return is based on an investment strategy assuming liquidity and volatility impacts from choice of fund. Modelling indicates that if investment returns were 5% in 2012-13 closing funds under management would be $13.7bn.
- For the cost to asset ratio, costs include operating and investment management expenses and income includes all fee and investment management revenue.
- GWM is a self-funding subsidiary entity. Costs incurred by the entity are paid from revenue received from advice fees.
- Investment management costs include manager out-performance fees.
- GESB continues to be default fund for most WA public sector employers.
- 23,500 transfers of ‘lost’, small inactive accounts to the ATO in 2012/13.
- Choice member attrition factored in from 30 March 2012 for the first 12 months at 9%, halving each year for the next 3 years.
- Operational Risk Reserve target range is 50-60 basis points of market linked FuM.
3.2. Administration Efficiency Dividend

Application of the 5% administration expense efficiency dividend meant GESB had an expense target of $51.4m for 2011/12. That target is expected to be achieved with an administration expense forecast for 2011/12 of $48.9m (includes administration, reform and depreciation costs).

In order to maintain efficiency dividend savings into 2012/13, cost increases would need to be limited to 3.64% from the $51.4m target established for 2011/12. The 3.64% increase is derived from a combination of WPI and CPI increases, resulting in a target of $53.3m for 2012/13, which is a 9% increase from the expected result for 2011/12. The budget for 2012/13 will meet this target and is supplemented by a $0.5m budget to cover the transfer of the Parliamentary & Judges Pension Scheme from Treasury resulting in an overall administration expense budget of $53.8m for 2012/13.

On the 17 April 2012, the Treasurer announced an efficiency dividend to be applied to discretionary spending for 2012/13 and the subsequent three financial years. This efficiency dividend is not reflected in the financial forecasts or key result areas contained within this document.
4. Major Programs of Work - 2012/13

GESB has a strong risk management and compliance culture that ensures protection of fund assets. In 2012/13, GESB remains committed to continuing to provide efficient, low-cost superannuation and retirement products and services that meet our members' and the State's needs in a sustainable and responsible manner. GESB will continue working with the State to implement the State superannuation reform in 2012/13 and will also ensure we are compliant with relevant Federal legislation changes.

GESB will invest $2.95m in capital programs during 2012/13, primarily for core operating systems and database upgrades. These upgrades will ensure continued service delivery to members as well as mitigating any risk to operating capability arising from the expiry of vendor support and legislative changes. These upgrades will also facilitate efficiencies in account processing and any potential transition of administration systems to an external provider. Capital expenditure is depreciated in accordance with accounting standards, reflected in administration expenses by scheme, and recovered through fees and charges.

4.1. State Government Reform

GESB will continue working to assist the State to implement its superannuation reforms in 2012/13. Of the 10 project streams related to the State legislative changes, only 2 will remain outstanding - the potential procurement of administration services and the wind-up of GWM.

The Superannuation Reform Implementation Steering Group (SRISG) will continue to oversee the implementation of these initiatives, whilst the GESB Board is the accountable body with specific powers under State Superannuation legislation.

GESB and Treasury will continue working together to update the Heads of Government Agreement (HoGA) to reflect the State's position on Federal Government reform initiatives introduced under Stronger Super.

The administration and associated costs of the Parliamentary and Judges Superannuation Scheme will also be transferred from Treasury back to GESB to manage in 2012/13. The administration costs related to this scheme will be recouped from Treasury.

Choice of Fund

Choice of fund for Public Sector employees was introduced on the 30th March 2012. GESB's forecast member attrition rates for the first 12 months following Choice are around 9% (equating to around $640m rolling out), which is the main initiative impacting funds under management for 2012/13.

GESB is also expecting that around 15% of new employees joining the WA public sector will not choose GESB as their superannuation fund. Increased roll outs and reduced contributions from new and exited members are expected to cause net funds flow to be negative for 7 months post Choice, but positive overall for the year.

If Choice attrition rates are 4.5% in the first 12 months instead of 9%, net funds flow would be $400m higher by the end of 2012/13. The longer term impact on GESB's schemes from Choice is a lower net funds flow and a lower membership base.

GESB's objectives for Choice are to ensure all members make an informed choice and to minimise attrition of active members. In addition to business as usual communication activities such as statement mailings, GESB will continue with its programme of targeted communication to active members in 2012/13.
Review of Administration Services

The commencement of Choice from 30 March 2012 and the trend to consolidate small and inactive accounts may possibly have an impact on GESB's ability to maintain economies of scale for administration services.

The Whithear Report noted this issue and included a recommendation to avoid the potential for an adverse impact on administration costs to members and the State by procuring administration services from a specialist external provider.

GESB will work with Treasury to progress the review of administration services for all State superannuation schemes currently administered by GESB. The expression of interest (EOI) for the potential outsourcing of GESB administration services is expected to be released to the market around June 2012. If the related tender for administration services proceeds and results in the selection of a 3rd party provider, the transition of GESB administration is likely to begin in the second half of 2013.

Although, if such a decision were made, the actual transition to an external administration provider, and therefore the major impact on GESB's operations, will likely occur in 2013/14. There will be considerable resource and cost implications for GESB and significant risks (in particular the loss of key people before transition) to manage in 2012/13. It will be important to stabilise GESB during this period so that it can cope with the likely changes and contribute constructively to the structuring of the ongoing organisation. The risk to GESB and the State if the organisation is not transitioned effectively are potentially, a decline in the quality of services to members, reduced investment performance in comparison to peers and/or increases in costs to the State and members leading to a rise in complaints, member exits and adverse media commentary.

GESB has commenced the development of a significant change management strategy that will, if required, be implemented through the course of a transition.

Reform implementation costs for 2012/13 have been reflected in this year's financial forecasts.
A Public Sector Comparator (PSC) will be developed by Treasury to provide a qualitative assessment and a quantitative measure of value for money expected from accepting a private sector proposal to deliver superannuation administration services compared to public sector provision. Resources from GESB will be allocated to work with Treasury to assist in the development of the methodology and provide the necessary data for the PSC. The GESB Board and the Under Treasurer will authorise the PSC.

GESB Wealth Management (GWM) Pty Ltd

GESB began operating GESB Wealth Management (GWM) Pty Ltd trading as GESB Financial Advice (GFA) in April 2007. GFA provides both simple and complex financial advice services to GESB members solely regarding their interest in GESB’s schemes. The Whithear report recommended that GWM be wound up and that GESB should provide ‘simple advice’ to members without the need for a subsidiary organisation.

In 2011/12 the Treasurer at the request of the GESB Board, confirmed that GWM could continue to provide financial advice to members until the tender process for administration services is completed. However following a review on the potential outlook for GWM, the GESB Board approved in March 2012 the provision of complex financial advice services from a third party provider prior to the completion of administration tender process in order to provide continuity of financial advice services to members.

Small accounts consolidation

The Whithear Report contained a recommendation to implement streamlined processes for current and former public sector employees to transfer small superannuation holdings to other superannuation funds with a target of at least 70% reduction in accounts with balances under $10,000. A communications programme to inform inactive, small balance account holders about the benefits of account consolidation was conducted from May to September 2011, with an 13% response rate (7,482 accounts) as at December 2011.

While the primary activity for this initiative has ceased, there are other initiatives that are being progressed that will contribute to achieving further reductions in small account holdings, such as Government initiatives to consolidate lost accounts and inactive, small balance accounts. These initiatives are discussed in detail in the State and Commonwealth Superannuation Reform sections. The implementation of Choice is also likely to result in an overall reduction in existing and new accounts. GESB has commenced a separate project to comply with the Commonwealth legislative requirements for lost member reporting and remitting to the Australian Tax Office (ATO) as required by October 2012. This could result in a reduction of around 30,000 lost member accounts with balances less than $200 in 2012/13.

4.2. Commonwealth Superannuation Reform

There are four elements to the Federal Government Stronger Super reform package with a commencement date of 1 July 2013 for the major elements of each reform – MySuper, SuperStream, Governance and Future of Financial Advice (FoFA).

The Heads of Government Agreement (HoGA) is being amended by the various States to reflect the principles of the package for the various public sector schemes. This may require the States and their EPSSS to broadly comply with the principles of the Commonwealth’s retirement income policy, including those related to Stronger Super. It is up to each State however to determine what, if any, specific elements they may adopt. It is expected GESB may be required to commit resources in 2012/13 to ensure it remains compliant with relevant legislation and are prudently managing risk to the State by ensuring our products and services reflect policy and legislative changes stemming from the reform. GESB is working with Treasury to determine what, if any, elements of the Federal Government reforms should be adopted and will advise the Treasurer accordingly. The States are currently well advanced in finalising the updated HoGA.

GESB is also currently conducting a gap analysis to determine our readiness to comply with the reforms. Further details surrounding the Stronger Super and FoFA legislation are required before GESB can fully understand all the implications of the reform however, GESB is well placed to deal with any required changes and is in regular contact with systems’ vendors.
It is also worth noting other pending Federal Government changes impacting superannuation funds:

- Legislation has been drafted to increase the Superannuation Guarantee from 9% to 12% of an employee's earnings with initial increments of 0.25 percentage points on 1 July 2013 and on 1 July 2014. Further increments of 0.5 percentage points will apply annually up to 2019/20, when the SG rate will be set at 12 per cent;

- The removal of age limits for Superannuation Guarantee contributions. Impact of this change on GESB members is minimal as GESB does not have age limits; and

- The Bill for low income earners government contribution has been passed through Parliament. This legislation does not allow members of untaxed/constitutionally protected funds to take advantage of this initiative.

**MySuper**

To remain as a default fund to employers, regulated super funds need to have a MySuper (simple, low cost default superannuation product) compliant product to receive default SG contributions. Legal opinion from the State Solicitors Office is that WA public sector employers are not subject to this section of the SG Act and can therefore make default SG contributions to a public sector super fund that does not have a MySuper product.

Without an absolute need to have a MySuper product, a decision on whether GESB offers such a product will depend on other matters including the ability for members to easily compare super funds. Any decision on this will be made by the Treasurer on the advice of Treasury, consistent with the HoGA.

The impact of any changes is likely to be minimal as GESB Super and WSS already meet most of the MySuper fees and insurance product requirements. However, a new investment option or rebadging of the existing default investment option may be required.

**SuperStream**

The objective of the SuperStream initiative is to make the processing of everyday transactions easier, cheaper and faster. As with MySuper, this initiative is likely to have minimal impact given that GESB has already implemented electronic contributions receipting and a clearing house in accordance with industry data standards. Some systems changes may be required for ATO reports and auto consolidation.

**Governance**

The objective of the Governance stream of Stronger Super is to strengthen the governance, integrity and regulatory settings of the superannuation system. While this potentially has minimal impact on GESB, further detail regarding the legislation is required.

**FoFA**

The first tranche of the FoFA reforms will be implemented from 1 July 2012 however, compliance will not be required until 1 July 2013.

The objectives of the FoFA reforms are to increase transparency and ensure that financial advisers act in the best interests of their clients. GESB already adopts most of the FoFA standards with a fee for service operating model. However, impacts are being assessed as part of GESB's gap analysis review and the standards will be considered in determining the best approach for the provision of complex financial advice to members when GWM Pty Ltd is being wound up.

**Consolidating super accounts and reuniting lost super**

While not part of Stronger Super, Unclaimed Super Monies is an additional piece of State Government reform introduced in July 2010. From October 2012, GESB members which have been inactive for 5 years and have an account balance less than $200 must be remitted to the ATO. It is estimated this will affect around 30,000 GESB members in 2012/13 though have minimal impact on FuM or net expense reduction.
Consolidation is a key theme of the Commonwealth Government's superannuation Stronger Super reform. From 1 January 2014, consolidation of member accounts less than $1,000 that have not received a contribution or a roll over for 2 years will be facilitated by providing details of these accounts to members’ current funds. The threshold may be increased to $10,000 later in 2014.

It is unclear at this stage however, whether account consolidation is likely to affect constitutionally protected (untaxed) schemes such as West State Super. This matter is being considered by Treasury and may be resolved by amending the HoGA.

Both these initiatives will impact GESB account numbers.

Superannuation Roundtable
The Federal Government has convened a panel to consider superannuation options for working Australians in retirement and to improve certain superannuation concessions with the aim of ensuring more Australians have adequate savings in retirement. It is expected the work of the panel will be completed by December 2012, the outcomes of which may have impacts for GESB.

4.3. Member Service and Engagement
GESB provides a range of superannuation and retirement products as well as member education and advice services. Members can access GESB's information and education services through seminars, over the phone, in printed materials and on-line.

While absolute investment performance has been volatile over the past four years, GESB has still been able to achieve high member satisfaction levels. Underpinning this satisfaction is a high level of trust in GESB. For GESB and the State, one of the key challenges is maintaining satisfaction whilst the organisation is undergoing considerable change as a result of the State and Commonwealth Superannuation reforms. Any changes in the service and engagement model or changes in fees or relative investment performance have the potential for reputation risk.

During 2012/13 GESB has an ongoing focus to maintain our current services to members to retain high member satisfaction and industry recognition of education services. Continuing to provide relatively low cost products and services, and therefore low fees, requires continual improvement in operating efficiency, in addition to maintaining relative scale economies.

Upgrades to GESB’s core systems are now required to ensure that core operating systems such as Capital, ePass (Clearing House), Compass and Oracle Financials receive ongoing vendor support and can comply with any legislative changes (including Stronger Super reforms).

GESB will invest $2.95m in capital programs during 2012/13 primarily to ensure continued service delivery to members. Secondary outcomes for GESB include:

- Ensured system capacity and transferable technology to a 3rd party (if required);
- Improved process efficiency;
- Reduced business risks; and
- Positioning the business to support State and Federal Government superannuation reforms.

4.4. Competitive Investment Performance
Managing investment risk for members and the State is a key responsibility of GESB’s Board. GESB’s prudent approach to portfolio risk has resulted in sound investment returns and competitive investment costs.

In 2012/13, GESB aims to progress the implementation of increased diversification of asset classes and investment strategies. This initiative is designed to diversify the sources of risk and return in the investment portfolio with the goal of building a more robust and stable portfolio. GESB also intends to implement a Medium Term Asset Allocation strategy so as to complement and add flexibility to the existing Strategic Asset Allocation framework which guides GESB’s investment approach.
The Board has agreed to a number of other investment initiatives including:

- A review of plan asset allocations;
- A review of the appropriateness of the default fund structure;
- The completion of the bond strategy restructure;
- A review of the global small cap equity strategy;
- A review of the infrastructure strategy;
- The implementation of the currency hedging strategy restructure; and
- The search and appointment of a panel of transition managers.

4.5. Employer Service and Engagement

Employers from across the Western Australian public sector are key stakeholders in GESB. State Government employers are highly satisfied with GESB's services13, working in partnership with GESB to implement employee retention strategies through superannuation (e.g. transition to retirement strategies). This is particularly important given the ageing demographic profile of the Western Australian public sector and average employee tenure of 7 years in the sector.

GESB will continue to service these stakeholders through work-place education and advice programs throughout metro and regional Western Australia. In addition, GESB will continue to provide support for employers around Choice and the clearing house service to ensure compliance with data standards and maintain transactional efficiencies.

4.6. People Management and Workforce Transition

Ongoing people management strategies of training and leadership development to help improve employee satisfaction will continue throughout 2012/13. This is particularly important to help retain key skills during a time of uncertainty and transition for many staff.

With potential changes to the business likely in 2013 from both the provision of financial advice services by an external party and potentially, the external provision of administration services, GESB has commenced an initiative on workforce transition that will continue into 2013/14. This initiative will focus on:

1. Change management;
2. Ensuring the right skills are retained within GESB until and after the potential transition to an external administration service provider; and
3. Assisting staff through any major organisational restructure that may arise.

5. Risk Management

GESB is governed by the SSA and SSR. It is also subject to relevant State Government guidelines as published from time to time14. Appropriate risk management is an important element of good corporate governance and is a specific requirement under the SIS Act for Registrable Superannuation Entity (RSE) licence holders. Although not a RSE, GESB complies with the spirit of the SIS Act as a matter of best practice and under the HoGA.

GESB operates under a Risk Management Framework and the strategic planning process takes into account GESB's material risks when considering its purpose, corporate objectives, strategic issues and strategic direction. Risks are reviewed quarterly and reported to the Board, and the Audit & Risk Committee.

The level of risk that the organisation is willing to accept to achieve its objectives is determined by the Board. This is articulated as the Board's risk appetite. Annually the Board reviews its strategic direction, material risks and risk appetite.

13 Employer Satisfaction survey results last conducted in June 2011 by TNS
An annual risk review will be conducted shortly. GESB’s current internal and external risk environment will be assessed and material risks that need to be managed will be identified. Management plans will be developed for each material risk and ownership will be allocated as appropriate.

The change environment associated with the implementation of the State and Commonwealth Government superannuation reforms is the premise for GESB’s current principal risks: key person risk with related loss of leadership and loss of capacity consequences, and stakeholder relations.

GESB continues to be proactive in looking at ways to communicate openly with staff to allay any concerns they may have in relation to both the State and Commonwealth reform process. A new organisation structure was recently announced to provide stability during the reform process. Staff retention and succession planning will be maintained.
6. Financial Forecasts

6.1. Financial Statements and Projections

Total funds under management are forecast to increase from a projected $13.1 billion at 30 June 2012 to $14.1 billion at 30 June 2013. Funds under management are reported in the financial statements as investments plus cash and cash equivalents.

6.2. Accounting Policies

GESB has prepared its financial statements in accordance with Australian Accounting Standards, including AAS25 Financial Reporting by Superannuation Plans as amended by AASB 2005-13, Amendments to Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) as applied by the Treasurer’s Instructions (TI) and the SSA.

6.3. Borrowing Arrangements

On 30 May 2001, the Western Australian Treasury Corporation and GESB entered into a $635 million lending facility for a fixed-rate loan. The loan was incurred to enable the balances on West State Super members’ accounts at 1 July 2001 to be fully funded from an investment perspective. This funding was a pre-requisite for GESB to introduce Member Investment Choice from 1 July 2001. The loan is unsecured and is repayable in quarterly instalments over 20 years. It bears interest at a fixed rate of 6.5699% plus a government fee of 0.2% p.a. The interest payment for 2011/12 will be $27.7m; the forecast for 2012/13 is $25.6m. This loan balance will be $390m at June 30th 2012 and will reduce to $357m by June 2013. There is currently a proposal to increase the government fee to 0.7% p.a. This proposed change has not been provided for in our figures.

6.4. State Administration and Services Expense Recovery Process

The costs of administering the State’s defined benefit schemes and providing government services related to superannuation policy were previously recovered through charges to the GES Fund. A revised approach to reserving for and recouping expenses related to State activities, and setting employer contributions from self-funded agencies was implemented in 2011/12 and is expected to stay in place throughout 2012/13.

6.5. Superannuation Reform Budget

Treasury has endorsed the reform budget expenses to be incurred by GESB in delivering superannuation reform as well as costs associated with providing government services and defined benefits administration.
### 6.6. Projected Financial Statements - GESB

#### a. Statement of Change in Net Assets

<table>
<thead>
<tr>
<th></th>
<th>FORECAST</th>
<th>BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
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<tr>
<td>Net Assets Available To Pay Benefits At The Beginning Of The Financial Year</td>
<td>11,608,115</td>
<td>12,663,311</td>
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<tr>
<td><strong>REVENUE</strong></td>
<td></td>
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<tr>
<td>Investment Revenue</td>
<td></td>
<td></td>
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<tr>
<td>Realised Income</td>
<td>356,092</td>
<td>314,282</td>
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<tr>
<td>Realised Changes in Net Market Value of Investment Assets</td>
<td>125,511</td>
<td>314,282</td>
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<tr>
<td>Unrealised Changes in Net Market Value of Investment Assets</td>
<td>133,108</td>
<td>419,042</td>
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<tr>
<td>Income from Investments a</td>
<td>614,711</td>
<td>1,047,605</td>
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<tr>
<td><strong>Superannuation Revenue</strong></td>
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<tr>
<td>Contributions</td>
<td></td>
<td></td>
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<tr>
<td>Member</td>
<td>462,819</td>
<td>465,022</td>
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<tr>
<td>Employer</td>
<td>1,286,023</td>
<td>1,297,719</td>
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<tr>
<td>Rollover into Retirement Products</td>
<td>548,596</td>
<td>559,595</td>
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<tr>
<td>Inward Transfer from Other Funds</td>
<td>449,347</td>
<td>414,508</td>
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<td>Member Insurance Benefits Received</td>
<td>30,367</td>
<td>37,134</td>
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<td>Other Income</td>
<td>19,696</td>
<td>20,975</td>
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<td><strong>TOTAL REVENUE</strong></td>
<td>2,795,849</td>
<td>2,794,953</td>
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<td></td>
<td>3,410,560</td>
<td>3,842,558</td>
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<td><strong>EXPENSES</strong></td>
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<tr>
<td>Superannuation Benefit Payments b</td>
<td>2,124,968</td>
<td>2,489,121</td>
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<td>Administration Expenses c</td>
<td>39,462</td>
<td>43,271</td>
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<td>Treasury Funded Reform Expenses</td>
<td>1,780</td>
<td>2,466</td>
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<td>Consolidated Account Appropriation Direct Expenses</td>
<td>125</td>
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<td>Group Life Insurance Premiums d</td>
<td>68,073</td>
<td>61,861</td>
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<td>Investment Expenses e</td>
<td>35,933</td>
<td>38,056</td>
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<td>GWM Financial Advice fees</td>
<td>3,296</td>
<td>3,152</td>
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<tr>
<td>Changes in Net Market Value of Financial Liabilities f</td>
<td>(20,082)</td>
<td>0</td>
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<tr>
<td>Changes in Net Market Value of Other Assets</td>
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<td>4,602</td>
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<td>Loan Interest</td>
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<td><strong>TOTAL EXPENSES</strong></td>
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<td>CHANGE IN NET ASSETS BEFORE INCOME TAX</td>
<td>1,125,609</td>
<td>1,174,358</td>
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<td>INCOME TAX EXPENSE</td>
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<td>(80,282)</td>
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<td>CHANGE IN NET ASSETS AFTER INCOME TAX</td>
<td>1,055,196</td>
<td>1,094,076</td>
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<td>Net Assets Available To Pay Benefits At The End Of The Financial Year</td>
<td>12,663,311</td>
<td>13,757,387</td>
</tr>
</tbody>
</table>

#### Notes to the Key Variances:

1. The budgeted investment income figure for 2013 reflects a gross long-term earnings rate of 8.1%.
2. Superannuation benefit payments are forecast to increase in 2012-13 due to members leaving as a result of implementation of Choice of Fund from March 2012.
3. Administration Expenses are forecast to increase due to increased accommodation charges of $1.8m and general expenses inflation.
4. Group Life Insurance premiums are forecast to decrease due to significant reductions in member AIA insurance premiums.
5. Investment expenses are expected to increase in the 2013 budget due to budgeted increases in Funds under Management and implementation of investment strategy.
6. The Western Australia Treasury Corporation loan is reviewed each financial year end and adjusted to market value. GESB does not forecast these revaluation adjustments; the figure in the 2011-12 forecast is a reversal of the 2010-11 adjustment.
b  Statement of Net Assets

<table>
<thead>
<tr>
<th></th>
<th>FORECAST 2012</th>
<th>BUDGET 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
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<tr>
<td>Cash and Cash Equivalents</td>
<td>20,666</td>
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<tr>
<td>Investments</td>
<td>13,056,627</td>
<td>14,118,108</td>
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<tr>
<td>Plant &amp; Equipment</td>
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<td>1,387</td>
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<tr>
<td>Intangible Assets</td>
<td>7,512</td>
<td>5,944</td>
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<td>Receivables</td>
<td>32,486</td>
<td>33,785</td>
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<td>Prepayments</td>
<td>1,870</td>
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<td>Deferred Tax Assets</td>
<td>9,234</td>
<td>9,234</td>
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<tr>
<td>TOTAL ASSETS</td>
<td>13,129,955</td>
<td>14,193,804</td>
</tr>
</tbody>
</table>

| LIABILITIES |              |             |
| Contributions Paid in Advance | 1,551 | 1,613 |
| Unapplied Member Contributions | 3,797 | 3,949 |
| Payables | 47,814 | 49,248 |
| Provision for Employee Entitlements | 4,224 | 4,351 |
| Provision for Post Employment Liabilities | 1,879 | 1,935 |
| Interest Bearing Loans & Borrowings | 380,600 | 357,008 |
| Current Tax Liabilities | 17,779 | 18,312 |
| TOTAL LIABILITIES | 466,644 | 436,416 |

NET ASSETS AVAILABLE TO PAY BENEFITS | 12,663,311 | 13,757,387 |

c  Statement of Administration Expenses

<table>
<thead>
<tr>
<th></th>
<th>FORECAST 2012</th>
<th>BUDGET 2013</th>
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<tr>
<td>Employment Expenses</td>
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<td>23,445</td>
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<tr>
<td>IT Services</td>
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<td>Consultants</td>
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<td>330</td>
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<tr>
<td>Accommodation 1</td>
<td>2,745</td>
<td>4,357</td>
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<tr>
<td>Professional Fees (Actuarial, Legal and Audit)</td>
<td>1,131</td>
<td>1,188</td>
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<tr>
<td>Printing, Postage &amp; Records Management</td>
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<td>2,062</td>
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<td>Promotions and Advertising</td>
<td>803</td>
<td>733</td>
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<tr>
<td>Other Administration costs 2,3</td>
<td>6,181</td>
<td>7,109</td>
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<tr>
<td>TOTAL ADMINISTRATION EXPENSES</td>
<td>42,833</td>
<td>46,644</td>
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</tbody>
</table>

Less Investment Expenses | (3,470) | (3,373) |

ADMINISTRATION EXPENSES AS PER STATEMENT OF CHANGES IN NET ASSETS | 39,462 | 43,271 |

Notes to the Key Variances:

1. Accommodation costs are forecast to increase by $1.8m in 2012-13 due to a scheduled market linked rent review in May 2012.

2. Significant "Other Administration Costs" include training, irrecoverable GST, insurance, contractors and travel.

3. Included in "Other Administration Costs" is an increase in irrecoverable GST of $540k. This increase is the result of a change in legislation.
Application of the 5% administration expense efficiency dividend meant GESB had an expense target of $51.4m for 2011/12. That target is expected to be achieved with an administration expense forecast for 2011/12 of $48.9m (includes administration, reform and depreciation costs).

In order to maintain efficiency dividend savings into 2012/13, cost increases would need to be limited to 3.64% from the $51.4m target established for 2011/12. The 3.64% increase is derived from a combination of WPI and CPI increases, resulting in a target of $53.3m for 2012/13, which is a 9% increase from the expected result for 2011/12. The budget for 2012/13 will meet this target and is supplemented by a $0.5m budget to cover the transfer of the Parliamentary & Judges Pension Scheme from Treasury resulting in an overall administration expense budget of $53.8m for 2012/13.

On the 17 April 2012, the Treasurer announced an efficiency dividend to be applied to discretionary spending for 2012/13 and subsequent three financial years. This efficiency dividend is not reflected in the financial forecasts or key result areas contained within this document.

d  Capital Expenditure

<table>
<thead>
<tr>
<th></th>
<th>FORECAST 2012</th>
<th>BUDGET 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Furniture, Equipment &amp; Renovations</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Intangible Assets comprising computer software costs and development projects</td>
<td>1,841</td>
<td>2,900</td>
</tr>
<tr>
<td>Total Capital Expenditure</td>
<td>1,891</td>
<td>2,950</td>
</tr>
</tbody>
</table>

Notes to the Key Variances:

1. GESB capital investment will focus on scheduled upgrading of core systems including Capital - member administration platform, Oracle – Accounting application and Compass & EIW – Member services support applications. These upgrades are to maintain ongoing vendor support.

e  Cost Allocations

The total budgeted expenses (in $000's) for 2012/13 of $53,802, which include Administration Expenses (before allocation to investment expenses) of $46,644 (refer table c), Treasury funded costs of $2,466 (refer table a) and Depreciation of $4,692 (refer table a) are allocated based on GESB’s Activity Based Costing allocation model as follows:

<table>
<thead>
<tr>
<th></th>
<th>FORECAST 2012</th>
<th>BUDGET 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Expenses</td>
<td>3,470</td>
<td>3,373</td>
</tr>
<tr>
<td>GESB Wealth Management</td>
<td>3,653</td>
<td>3,368</td>
</tr>
<tr>
<td>Superannuation Reform</td>
<td>2,222</td>
<td>2,893</td>
</tr>
<tr>
<td>Redeployments</td>
<td>177</td>
<td>0</td>
</tr>
<tr>
<td>Government Relations</td>
<td>218</td>
<td>179</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,052</td>
<td>3,251</td>
</tr>
<tr>
<td>GESB Super</td>
<td>7,243</td>
<td>8,315</td>
</tr>
<tr>
<td>West State Super</td>
<td>17,013</td>
<td>18,145</td>
</tr>
<tr>
<td>Retirement Income</td>
<td>1,970</td>
<td>2,219</td>
</tr>
<tr>
<td>Retirement Allocated Pension</td>
<td>44</td>
<td>38</td>
</tr>
<tr>
<td>Gold State</td>
<td>8,413</td>
<td>9,666</td>
</tr>
<tr>
<td>Pension Scheme</td>
<td>1,486</td>
<td>1,813</td>
</tr>
<tr>
<td>Parliamentary &amp; Judges</td>
<td>12</td>
<td>551</td>
</tr>
<tr>
<td>Total Administration Expenses</td>
<td>48,874</td>
<td>53,802</td>
</tr>
</tbody>
</table>

Notes to the Key Variances:

1. The significant increases to the defined benefit scheme cost allocations are due to normal inflation linked increases, allocation of increased accommodation charges, increased member services costs linked to increased defined benefit call centre contacts and increased administration charges due to revision of allocations to reflect effort expended (previously allocated by account number).
Consolidated Account Appropriation

The following table details GESB’s costs to fund Government Services and DB administration which are recouped from Consolidated Account Appropriation.

<table>
<thead>
<tr>
<th></th>
<th>FORECAST 2012</th>
<th>2013 BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Government Services – Superannuation Reform</td>
<td>125</td>
<td>0</td>
</tr>
<tr>
<td>Redeployment ¹</td>
<td>177</td>
<td>0</td>
</tr>
<tr>
<td>Government Relations</td>
<td>218</td>
<td>179</td>
</tr>
<tr>
<td>Government Services – Government Relations</td>
<td>395</td>
<td>179</td>
</tr>
<tr>
<td>Gold State Administration Expenses</td>
<td>8,413</td>
<td>9,665</td>
</tr>
<tr>
<td>Pension Scheme Administration Expenses</td>
<td>1,486</td>
<td>1,813</td>
</tr>
<tr>
<td>Parliamentary &amp; Judges Administration Expenses ²</td>
<td>12</td>
<td>551</td>
</tr>
<tr>
<td>DB Administration</td>
<td>9,911</td>
<td>12,030</td>
</tr>
<tr>
<td><strong>Consolidated Account Appropriation</strong></td>
<td><strong>10,431</strong></td>
<td><strong>12,209</strong></td>
</tr>
</tbody>
</table>

Notes to the Key Variances:
1. Redeployment costs will be financed through Superannuation Reform expenses in 2012-13
2. The increase in Parliamentary & Judges Administration Expenses is reflecting the transfer of this function from Treasury to GESB.
g  Treasury Funded Reform Expenses

The following table details GESB's costs to fund superannuation reform which are Treasury funded.

<table>
<thead>
<tr>
<th></th>
<th>FORECAST 2012</th>
<th>BUDGET 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Superannuation Reform Direct expenses</td>
<td>1,780</td>
<td>2,466</td>
</tr>
<tr>
<td>Superannuation Reform Indirect expenses</td>
<td>317</td>
<td>427</td>
</tr>
<tr>
<td>Treasury Funded Reform Expenses</td>
<td>2,097</td>
<td>2,893</td>
</tr>
</tbody>
</table>

h  Accumulation Scheme - Contribution to Operational Risk Reserves

<table>
<thead>
<tr>
<th></th>
<th>FORECAST 2012</th>
<th>BUDGET 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>West State Super</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>45,968</td>
<td>47,415</td>
</tr>
<tr>
<td>Expenses</td>
<td>(41,386)</td>
<td>(43,806)</td>
</tr>
<tr>
<td>Scheme Contribution to / Deduction from Reserves before Investing Activity</td>
<td>4,582</td>
<td>3,607</td>
</tr>
<tr>
<td>Contribution to Reserves form Investing Activity</td>
<td>9,989</td>
<td>10,633</td>
</tr>
<tr>
<td>Total Contribution to / Deduction from Reserves</td>
<td>14,571</td>
<td>14,239</td>
</tr>
<tr>
<td>GESB Super</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>8,865</td>
<td>9,595</td>
</tr>
<tr>
<td>Expenses</td>
<td>(10,805)</td>
<td>(12,207)</td>
</tr>
<tr>
<td>Scheme Contribution to / Deduction from Reserves before Investing Activity</td>
<td>(1,940)</td>
<td>(2,612)</td>
</tr>
<tr>
<td>Contribution to Reserves form Investing Activity</td>
<td>1,240</td>
<td>1,459</td>
</tr>
<tr>
<td>Total Contribution to / Deduction from Reserves</td>
<td>(700)</td>
<td>(1,153)</td>
</tr>
<tr>
<td>Retirement Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>7,410</td>
<td>9,394</td>
</tr>
<tr>
<td>Expenses</td>
<td>(5,330)</td>
<td>(6,374)</td>
</tr>
<tr>
<td>Total Contribution to / Deduction from Reserves</td>
<td>2,080</td>
<td>3,020</td>
</tr>
<tr>
<td>Retirement Allocated Pension</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>197</td>
<td>199</td>
</tr>
<tr>
<td>Expenses</td>
<td>(94)</td>
<td>(89)</td>
</tr>
<tr>
<td>Total Contribution to / Deduction from Reserves</td>
<td>103</td>
<td>110</td>
</tr>
<tr>
<td>Total Accumulation Contribution to / Deduction from Reserves</td>
<td>16,054</td>
<td>16,216</td>
</tr>
</tbody>
</table>

Note:
The Board has noted the projected loss on GESB Super and will review the situation once the impact of Choice of Fund is clearer and the review of administration services has been finalised.