LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON ECONOMIC DEVELOPMENT AND TOURISM
JEREMY HANSON MLA (CHAIR), MICHAEL PETTERSSON MLA (DEPUTY CHAIR), SUZANNE ORR MLA, MARK PARTON MLA

Inquiry into referred 2015–16 Annual and Financial Reports
ANSWER TO QUESTION ON NOTICE 20
27 February 2017

Asked by Alistair Coe MLA:

Chief Minister, Treasury and Economic Development Directorate 2015-16 Annual Report, Economic and Financial Management, Output 2.2

In relation to: the superannuation return adjustment for 2015-16

1. How was the estimated outcome for the superannuation return adjustment for 2015-16 calculated in the 2016-17 budget (published in June 2016)?
2. How was the actual outcome for the superannuation return adjustment for 2015-16 calculated in the 2016-17 budget review (published in February 2017)?
3. What is the difference between the superannuation return adjustment for 2015-16 in the 2016-17 budget review and the investment capital gains contained in the Superannuation Provision Account for 2015-16? If there is a difference, what explains this?

Mr Andrew Barr MLA: The answer to the Member's question is as follows:–

As set out in the 2016-17 Budget Papers under the Government Finance Statistics (GFS) reporting framework investment income such as interest, dividends and distributions ("investment income") are included as transactional revenue in the net operating balance ("NOB") whereas capital gains on financial assets are not included as transactional revenue in the NOB. The total superannuation expense is however included in the NOB. This framework therefore understates investment revenue and overstates the net superannuation expense related to the defined benefit superannuation liability.

Therefore, in order to reflect the total estimated investment revenue for the superannuation investment assets, the Superannuation Return Adjustment ("SRA") recognises the estimated capital gain component of the investment return revenue and includes this in the Headline Net Operating Balance ("HNOB").

Together the SRA and the investment income estimates (together "investment revenue") equate to the long-term target investment return objective of CPI+5%. To enable a comparable assessment of the financial performance over time, the HNOB reflects the long-term target investment return objective in the annual budget estimates as well as annual actual outcomes.

Under the Australian Accounting Standards ("AAS") reporting framework all investment earnings, including capital gains or losses are recognised in the operating result and the SRA is not relevant.

- The consolidated Territory financial statements are prepared and audited in accordance with the AAS reporting framework, not the adjusted HNOB.
- The HNOB is used for budget presentation and comparable budget outcome purposes.

Table 1 below outlines the Superannuation Provision Account investment revenue estimates for the Budget and actual outcome periods requested. This information reflects the required AAS presentation as reflected in the SPA Budget Statement and SPA audited financial statements.

Table 1: Superannuation Provision Account (SPA) Investment Revenue Estimates

$millions	**2015-16 Budget[1]**	**2015-16 Est. Outcome[1]**	**2015-16 Actual[2]**	**2016-17 Budget[1]**	**2016-17 Budget Review[3]**
Income	129.7	94.3	112.9	100.6	93.6
Capital Gains	131.4	8.8	(10.6)	163.6	237.8
Expense	(5.0)	(5.4)	(6.1)	(5.0)	(4.8)
SPA Net Revenue	**256.1**	**97.7**	**96.2**	**259.2**	**326.6**

1 Page 289, Budget Statement B, Budget 2016-17

2 Page 16, Chief Minister, Treasury and Economic Development Directorate Annual Report 2015-16, Volume 2.2

3 Budget Statements are not presented for Budget Review, SPA budget review estimates are reflected in page 69, 2016-17 Budget Review

Table 2 provides a reconciliation between the SPA AAS investment revenue estimates and the consolidated General Government Sector ("GGS") HNOB presentation that incorporates the SRA.

Table 2: GGS HNOB Superannuation Return Adjustment Reconciliation

$millions	**2015-16 Budget[1]**	**2015-16 Est. Outcome[2]**	**2015-16 Actual[3]**	**2016-17 Budget[2,3]**	**2016-17 Budget Review[3]**
Income	129.7	94.3	112.9	100.6	93.6
Expense	(5.0)	(5.4)	(6.1)	(5.0)	(4.8)
NOB Net Revenue	**124.7**	**88.9**	**106.8**	**95.6**	**88.8**
SRA	131.4	165.9	148.0	163.6	170.8
HNOB Net Revenue	**256.1**	**254.8**	**254.8**	**259.2**	**259.6**

1 Page 29, 2015-16 Budget Paper No. 3

2 Page 3, 2016-17 Budget Paper No. 3

3 Page 26, 2016-17 Budget Review

1. Change from 2015-16 Budget to 2015-16 Estimated Outcome

   The 2015-16 Budget estimate for SPA net investment revenue (CPI+5%) was $256.1 million which included a capital gain estimate of $131.4 million (Table 1). The SRA in the 2015-16 Budget was $131.4 million to match the capital gain revenue (Table 2).

   Following the 2014-15 audited outcome and flow on impacts, SPA investment revenue was adjusted down from $256.1 million to $254.8 million (Table 2). This reduction is also included in the SPA capital gains estimate (Table 1).

   For the 2015-16 Estimated Outcome, actual SPA net investment revenue was estimated to be $97.7 million (an estimated return of approximately 3%), which included $94.3 million in investment income and $5.4 million in expenses (Table 1). The SRA for the 2015-16 HNOB estimated outcome of $165.9 million was calculated as HNOB net revenue of $254.8 million less NOB net revenue of $88.9 million ($94.3 million income less $5.4 million in expense) (Table 2).

2. 2015-16 Actual Outcome

The actual outcome for SPA investment revenue was $96.2 million, or a return of 2.66% net of fees, with investment income of $112.9 million and expenses of $6.1 million, or net investment income of $106.8 million (Table 1). The actual outcome for the SRA for 2015-16 HNOB of $148.0 million was calculated as HNOB net revenue of $254.8 million (return of CPI+5%) less NOB net revenue of $106.8 million (Table 2).

The investment revenue on the superannuation assets is volatile from year to year and therefore the budget practice since 2006-07 is to reflect an annual long term investment return estimate of CPI+5%. This practice is to smooth the investment revenue recognised over each financial year in line with the long term investment return objective so as to minimise the impact on budget planning and to provide an accurate assessment of the longer-term sustainability of the budget position.

While the SRA included in the 2015-16 HNOB was higher than actual capital gain revenue (SPA AAS result), there have been years previously where the reported SRA in the HNOB was lower than actual SPA capital gain revenue, supporting the approach to minimise annual volatility in estimates and results.

Over the past seven financial years, from 2009-10 to 2015-16, the SPA has budgeted for approximately $1.339 billion in net investment revenue and has recognised $1.601 billion in actual net investment revenue. Over this same period the HNOB has recognised total net investment revenue of $1.323 billion.

The difference of reported actual net investment revenue of $278 million is because the HNOB has recognised $435.6 million in capital gain revenue (total SRA) whereas the SPA has recognised $714.3 million in actual capital gains.

Table 3: Superannuation Return Adjustment Reconciliation since 2009-10

$millions	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Total**
SPA AAS Actual								
Income	79.7	163.6	173.9	103.5	157.7	129.6	112.9	**920.8**
Capital Gain/(Loss)	120.4	52.6	(147.3)	263.1	253.6	182.5	10.6	**714.3**
Expense	3.3	3.9	3.9	4.4	4.1	8.1	6.1	**33.9**
Net Return $	**196.8**	**212.2**	**22.7**	**362.2**	**407.2**	**303.9**	**96.2**	**1,601.2**
Net Return %	10.66%	10.51%	1.19%	14.20%	15.80%	10.18%	2.66%	
HNOB Actual								
Income	79.7	163.6	173.9	103.5	157.7	129.6	112.9	**920.8**
SRA	63.4	(4.5)	1.1	72.5	45.5	109.6	148.0	**435.6**
Expense	3.3	3.9	3.9	4.4	4.1	8.1	6.1	**33.9**
Net Return $	**139.8**	**155.1**	**171.1**	**171.6**	**199.1**	**231.0**	**254.8**	**1,322.5**
Net Return %	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	

3. 2016-17 Budget Review

The 2016-17 estimated outcome for SPA net investment revenue was increased to $326.6 million (an estimated return of approximately 9.5%) from the original budget estimate of $259.2 million (an estimated return of CPI+5%, or 7.5%) reflecting the performance of global share markets (Table 1). The SRA for the 2016-17 HNOB estimated outcome of $170.8 million was calculated as HNOB net revenue of $259.6 million less NOB net revenue of $88.8 million ($93.6 million income less $4.8 million in expense) (Table 2), maintaining the long-term estimated return of CPI+5%.

Approved for circulation to the Standing Committee on Economic Development and Tourism

Signature: Andrew Barr Date: 15.3.17

Mr Andrew Barr MLA
Treasurer