

South Australian Superannuation Scheme

Financial report
for the year ended
30 June 2021



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**To the Presiding Member
South Australian Superannuation Board
South Australian Superannuation Scheme**

Opinion

I have audited the financial report of the South Australian Superannuation Scheme for the financial year ended 30 June 2021.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the South Australian Superannuation Scheme as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The consolidated financial report comprises:

- a Statement of Financial Position as at 30 June 2021
- an Income Statement for the year ended 30 June 2021
- a Statement of Changes in Member Benefits for the year ended 30 June 2021
- a Statement of Changes in Equity for the year ended 30 June 2021
- a Statement of Cash Flows for the year ended 30 June 2021
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Presiding Member of the South Australian Superannuation Board, the Chief Executive, State Superannuation Office and the Director Finance, State Superannuation Office.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of the South Australian Superannuation Scheme. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive, State Superannuation Office and members of the South Australian Superannuation Board for the financial report

The Chief Executive, State Superannuation Office is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive, State Superannuation Office is responsible for assessing the entity's ability to continue as a going concern, taking into account any policy or funding decisions the government has made which affect the continued existence of the entity. The Chief Executive, State Superannuation Office is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the assessment indicates that it is not appropriate.

The members of the South Australian Superannuation Board are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 20AB(2) of the *Superannuation Act 1998*, I have audited the financial report of the South Australian Superannuation Scheme for the financial year ended 30 June 2021.

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

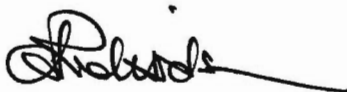
- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South Australian Superannuation Scheme's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive, State Superannuation Office
- conclude on the appropriateness of the Chief Executive, State Superannuation Office's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive, State Superannuation Office and the Presiding Member of the South Australian Superannuation Board about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

23 September 2021

South Australian Superannuation Scheme

Statement of Financial Position as at 30 June 2021

| | Note | 2021 \$000 | 2020 \$000 |
|--|------|--------------------|--------------------|
| Assets | | | |
| Cash and cash equivalents | 16 | 9 472 | 28 964 |
| Contributions receivable | 5 | 1 116 | 1 130 |
| Receivables | 6 | 5 017 | 4 528 |
| Investments | 7 | 5 282 288 | 4 612 448 |
| Total Assets | | 5 297 893 | 4 647 070 |
| Liabilities | | | |
| Benefits Payable | | 10 561 | 27 262 |
| Payables | 9 | 2 323 | 105 |
| Total liabilities excluding member benefits | | 12 884 | 27 367 |
| Net assets available for member benefits | 18 | 5 285 009 | 4 619 703 |
| Member benefits | | | |
| Defined benefit member liabilities | | 8 165 734 | 8 424 560 |
| Defined contribution member liabilities | | 600 169 | 554 488 |
| Total member benefits | 4 | 8 765 903 | 8 979 048 |
| Total net assets/(liabilities) | | (3 480 894) | (4 359 345) |
| Equity | | | |
| Defined benefits that are (under) funded | | (3 480 894) | (4 359 345) |
| Total Equity | | (3 480 894) | (4 359 345) |

The statement of financial position should be read in conjunction with the accompanying notes.

Income Statement for the year ended 30 June 2021

| | Note | 2021 \$000 | 2020 \$000 |
|--|------|------------------|-----------------|
| Changes in investments measured at fair value | | 1 056 704 | (22 058) |
| Interest revenue | | 5 | 39 |
| Other revenue | | 43 | - |
| Total revenue | | 1 056 752 | (22 019) |
| Investment expenses | 10 | (18 302) | (33 787) |
| Higher education expense | 13 | (8 342) | (8 971) |
| Administration expenses | 11 | (7 924) | (4 308) |
| Total expenses | | (34 568) | (47 066) |
| Result from superannuation activities | | 1 022 184 | (69 085) |
| Net change in defined benefit member liabilities | | (30 980) | 67 007 |
| Allocation (from)/to defined contribution members accounts | | (112 753) | 4 251 |
| Net operating result | | 878 451 | 2 173 |

The income statement should be read in conjunction with the accompanying notes.

South Australian Superannuation Scheme

Statement of Changes in Member Benefits for the year ended 30 June 2021

| 2021 | Note | Defined Benefit Component \$000 | Defined Contribution Component \$000 | Totals \$000 |
|---|------|--|---|------------------|
| Opening balance as at 1 July 2020 | | 8 424 560 | 554 488 | 8 979 048 |
| Contributions for Past Service Liability | 14 | 416 064 | - | 416 064 |
| Employer contributions | 15 | 27 264 | - | 27 264 |
| Public Authority employer contributions | | 31 824 | - | 31 824 |
| Member contributions | | 189 | 10 378 | 10 567 |
| Transfers from other super entities | | 3 | 466 | 469 |
| Net contributions | | 475 344 | 10 844 | 486 188 |
| Benefits to members | | (765 150) | (77 916) | (843 066) |
| Net benefits allocated, comprising: | | | | |
| Net investment income | | - | 113 041 | 113 041 |
| Administration fees | | - | (288) | (288) |
| Net change in member liabilities | | 30 980 | - | 30 980 |
| Closing balance as at 30 June 2021 | | 8 165 734 | 600 169 | 8 765 903 |

| 2020 | Note | Defined Benefit Component \$000 | Defined Contribution Component \$000 | Totals \$000 |
|---|------|--|---|------------------|
| Opening balance as at 1 July 2019 | | 8 818 519 | 624 520 | 9 443 039 |
| Contributions for Past Service Liability | 14 | 383 140 | - | 383 140 |
| Employer contributions | 15 | 30 853 | - | 30 853 |
| Public Authority employer contributions | | 37 159 | - | 37 159 |
| Member contributions | | 655 | 11 567 | 12 222 |
| Transfers from other super entities | | 3 | 527 | 530 |
| Net contributions | | 451 810 | 12 094 | 463 904 |
| Benefits to members | | (778 762) | (77 875) | (856 637) |
| Net benefits allocated, comprising: | | | | |
| Net investment income | | - | (3 956) | (3 956) |
| Administration fees | | - | (295) | (295) |
| Net change in member liabilities | | (67 007) | - | (67 007) |
| Closing balance as at 30 June 2020 | | 8 424 560 | 554 488 | 8 979 048 |

The statement of changes in member benefits should be read in conjunction with the accompanying notes.

South Australian Superannuation Scheme

Statement of Changes in Equity for the year ended 30 June 2021

| | Note | 2021 \$000 | 2020 \$000 |
|--|------|--------------------|--------------------|
| (Under) funded benefits opening balance 1 July | | (4 359 345) | (4 361 518) |
| Net operating result | | 878 451 | 2 173 |
| (Under) funded benefits closing balance 30 June | | (3 480 894) | (4 359 345) |

The statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows for the year ended 30 June 2021

| | Note | 2021 \$000 | 2020 \$000 |
|--|-----------|------------------|------------------|
| GST recoup | | 568 | 300 |
| Other income | | 5 | 48 |
| Higher education expenses | | (8 342) | (8 971) |
| Administration expenses paid | | (6 289) | (4 677) |
| Net cash flows from operating activities | 16 | (14 058) | (13 300) |
| Receipts from the sale of investments from Funds SA | | 1 250 981 | 854 008 |
| Payments to Funds SA for the purchase of investments | | (882 419) | (421 764) |
| Net cash flows from investing activities | | 368 562 | 432 244 |
| Employer contributions | | 27 121 | 30 839 |
| Past service liability contributions | | 415 995 | 384 133 |
| Commonwealth and Public Authorities contributions | | 33 039 | 37 361 |
| Member contributions | | 10 556 | 12 159 |
| Transfers from other superannuation entities | | 466 | 300 |
| Pension benefits to members | | (653 162) | (638 466) |
| Benefit payments to members | | (208 011) | (222 713) |
| Net cash flows from financing activities | | (373 996) | (396 387) |
| Net change in cash | | (19 492) | 22 557 |
| Cash at the beginning of the financial period | | 28 964 | 6 407 |
| Cash at the end of the financial period | 16 | 9 472 | 28 964 |

The statement of cash flows should be read in conjunction with the accompanying notes.

South Australian Superannuation Scheme

Notes to the Financial Statements

1. Objectives and funding

(a) *South Australian Superannuation Scheme*

The South Australian Superannuation Scheme (the Scheme) is a voluntary superannuation scheme which exists pursuant to the *Superannuation Act 1988* (the Act). It previously existed in different forms under various other legislation. The Act provides for superannuation benefits for persons employed by the South Australian Government and other prescribed persons and makes provisions for the families of such persons. It is not available to Members of Parliament, the judiciary or to police officers who are each provided for under separate legislation.

Contributors to the Scheme may be either old scheme contributors, who are entitled to a pension based benefit, or new scheme contributors who are entitled to a lump sum based benefit. The old scheme contributors segment of the Scheme was closed to new members in May 1986. The new scheme contributors segment of the scheme was closed to new members in May 1994.

Contributors make contributions from after tax salary based on a percentage of their salary, with the standard contribution rate being between 5 and 6 per cent. Contributors may elect to vary their contribution rate in accordance with section 23 of the Act. A contribution account is maintained for each contributor. If a member ceases to contribute they will be automatically covered by the Southern State Superannuation Scheme (Triple S), to meet the minimum requirements of the Commonwealth legislation. At this point the member will be recognised as a Triple S member and their Scheme account will be maintained to reflect the contribution points previously accrued.

Since October 1989, the Act has required that contributions be paid to the Treasurer, who in turn deposits those contributions into the South Australian Superannuation Fund (the Fund), which is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

The Act requires the Fund to be treated as being made up of two divisions, being the Old Scheme Division and the New Scheme Division. Each division consists of the contributions and the accretions arising from the investment of those contributions in respect of relevant old or new scheme contributors. Consistent with the accounts of the Fund, the accounts of the Scheme are also maintained in respect of each division.

The Scheme is an exempt public sector superannuation scheme and operates on a not-for-profit basis.

(b) *South Australian Superannuation Board*

The Act charges the South Australian Superannuation Board (the Board), a body corporate, with responsibility for all aspects of the administration of the Act except for the management and investment of the Fund. The Act also provides the Board with the necessary powers to administer the Scheme. The Board has contracted the Department of Treasury and Finance (DTF) to provide administrative services in accordance with the Act. A portion of the administrative costs are recovered from the Scheme. The Board's financial report provides the total administration cost paid to DTF.

Under the Act, the Board is required to determine rates of return to be credited to each division of the Fund, with those rates being credited to each contribution account at the end of the financial year. In determining the rate to be applied, the Act requires that the Board have regard to the net rate of return achieved by Funds SA for each division of the Fund.

(c) *Superannuation Funds Management Corporation of South Australia*

Funds SA is a South Australian Government Entity established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Funds SA Act). Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Scheme's funds, reference should be made to the Fund and the South Australian Superannuation Scheme Contribution Account (the Account) in the annual report of Funds SA. The investment assets, liabilities, income and expense contained in this financial report are related to the investment activities of Funds SA.

(d) *Funding arrangements*

Under section 20B of the Act, any payment made to a contributor must be made out of the Consolidated Account or a Special Deposit Account with DTF established for that purpose. The Treasurer may subsequently reimburse the Consolidated Account or Special Deposit Account from the Fund the proportion of any such payment charged against the contributor's contribution account. The prescribed proportion of that payment or benefit payments to be charged to the old scheme contributor's accounts is determined by the Board in accordance with section 47C and 47D of the Act. During the year ended 30 June 2021 all payments were made from the Special Deposit Account. Employer contributions for the year have been made at the rate determined by the scheme actuary.

The Treasurer may also seek reimbursement of the employer portion of any such payments from certain employer bodies under agreements made between the Treasurer and/or the Board and those employer bodies. The employer portion of benefits is met from the Account established by the Treasurer to record employer superannuation contributions. The employer portion of payments may be in relation to State Government Departments, Statutory Authorities and former State Government employees now employed by the Commonwealth Government. Employer contributions for these agencies were 26 per cent (2020: 26 per cent) for old scheme contributors and 14.75 per cent (2020: 14.75 per cent) for new scheme contributors.

Funding for the employer portion of payments met from the Account is from monies deposited under arrangements with respective employers. Monies deposited in the Account are invested and managed by Funds SA but do not form part of the Fund. The Treasurer seeks reimbursement from the Account balances as benefits are paid. The arrangements with employers are:

South Australian Superannuation Scheme

(i) State government departments

State government departments pay fortnightly employer contributions to the Treasurer for their emerging superannuation liabilities that are deposited by the Treasurer into the Account. Details on employer contributions from State Government Departments are detailed in Note 15.

Since 30 June 1994 the Government has commenced a process of funding its accrued past service superannuation liabilities. The amounts the Government transferred into the Account are at Note 14. Current Government policy is that it will continue to pay contributions to the Account to meet the accrued past service liability so the liability will be fully funded by 30 June 2034.

(ii) Statutory authorities

Where the employer proportion of a payment relates to Statutory Authorities, three different funding arrangements exist. These arrangements are made by the Board, which has entered into agreements with individual authorities pursuant to section 5 of the Act. The terms agreed in any such arrangements must be approved by the Treasurer. The three arrangements are:

- *State government liability for statutory authorities*
These authorities have made arrangements with the Board to fund their emerging superannuation liabilities by making regular payments to the Treasurer based on an actuarial assessment. These monies are deposited in the Account. In addition, the Government has commenced a process of funding the past service superannuation liability for these authorities as outlined in Note 1(d)(i).
- *Employer contribution accounts*
Certain public sector employers have made arrangements with the Board to fund their superannuation liabilities by making regular payments to the Treasurer based on an actuarial assessment performed every three years. The Treasurer deposits these monies in the Account into what are referred to as the Employer Contribution Accounts. The Treasurer seeks reimbursement from the Employer Contribution Account balances as benefits are paid.

Details on the contributions for past service liabilities are provided at Note 14.

- *Public authorities accounts (universities)*
Some public authorities make provisions in their own accounts for their future superannuation liabilities and no balances are maintained in the Account. The Treasurer seeks reimbursement from the Account in the first instance and simultaneously seeks reimbursement directly from these authorities as benefits are paid.

The liability for future benefits is funded to the extent of benefits to be reimbursed from the Fund, the Account, and the Public Authorities Accounts referred to in Note 1(d)(ii) above. The liability for future benefits is only partially funded in respect of benefits to be reimbursed from State Government Departments and the State Government liability for Statutory Authorities. The net assets figure shown in this report represents the amount available to meet these future benefits.

2. Significant accounting policies

(a) Basis of accounting

This financial report is a general purpose financial report. The financial statements have been prepared in accordance with relevant Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board, Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987* (PFAA), except as provided below.

This financial report has been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

This financial report is presented in Australian currency and all amounts have been rounded to the nearest thousand dollars (\$000).

The Scheme is a not-for-profit entity for the purpose of preparing financial statements.

(b) Impact of standards and statements not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2021 reporting period. The assessment of the impact of these new standards and interpretations is set out below.

The Board has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations on behalf of the Scheme. There are no Accounting Policy Statements that are not yet effective. The material impacts on the Scheme are outlined below.

AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

The standard applies to reporting periods beginning on or after 1 July 2021. Early adoption is permitted. The standard replaces the reduced disclosure requirements previously included in all Australian Accounting Standards with simplified disclosure requirements which will apply to Tier 2 entities.

AASB 1053 Application of Tiers of Australian Accounting Standards will still apply in conjunction with AASB 1060. Application of AASB 1060 will significantly amend the content of Tier 2 financial reports.

The Scheme is not a Tier 2 financial reporting entity. The Board has assessed the impact of the amendments of AASB 1060, and has determined there will be no impact on the Scheme's financial statements.

South Australian Superannuation Scheme

AASB 2020-2 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

The standard applies to reporting periods beginning on or after 1 July 2021. The standard removes the ability for certain for-profit private sector entities to self-assess their financial reporting requirements and prepare special purpose financial statements (SPFS) when they are required to prepare financial statements that comply with Australian Accounting Standards (AAS).

The Scheme is an exempt public sector superannuation scheme and operates on a not-for-profit basis. The Board has assessed the impact of the new standard on the Scheme, and has determined there will be no impact on the Scheme's financial statements.

AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts

The standard applies to reporting periods beginning on or after 1 January 2021. The standard amends AASB 4 Insurance Contracts (August 2015) and AASB 17 Insurance Contracts (July 2017) as a result of the issuance of International Financial Reporting Standards Amendments to IFRS 17 and extension of the temporary exemption from applying IFRS 9.

The Scheme has no insurance contracts. The Board has assessed the impact of the new standards on the Scheme, and has determined there will be no impact on the Scheme's financial statements.

AASB 2021-1 Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities

The standard applies to reporting periods beginning on or after 1 July 2021. Earlier application is permitted, provided that AASB 1060 is also applied to the same period. The Standard amends new elements of AASB 1053 and amends AASB 1060 for first-time application to provide not-for-profit entities with optional relief from presenting comparative information in the notes to the financial statements where the entity did not disclose the comparable information in its most recent previous general purpose financial statements. This relief is only applicable where AASB 1060 is early adopted.

Amendments to AASB 1053 highlight that the relief set out in Appendix E of AASB 1053 is available only to for-profit private sector entities.

The Scheme operates on a not-for-profit basis and is not adopting AASB 1060. The Board has assessed the impact of the new standard on the Scheme, and has determined there will be no impact on the Scheme's financial statements.

(c) Financial assets and liabilities

(a) Classification

The Scheme classifies its financial assets and financial liabilities into the categories below in accordance with AASB 9.

Financial assets and liabilities held for trading

These assets are acquired principally for the purpose of generating a profit from short-term fluctuation in price. All derivatives are classified as held for trading. Derivative financial instruments entered into by the Scheme, if any, do not meet the hedge accounting criteria as defined by AASB 9. Consequently hedge accounting is not applied by the Scheme.

Financial instruments designated at fair value through profit or loss upon initial recognition

These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with risk management and investment strategies of the Fund.

Other financial liabilities

This category includes all financial liabilities, other than those classified at fair value through profit or loss. Other financial liabilities are measured at their nominal amounts. Amounts are generally settled within 30 days of being recognised as other financial liabilities. Given the short-term nature of other financial liabilities, the nominal amount approximates fair value.

(b) Recognition

The Scheme recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Scheme commits to purchase or sell the asset.

(c) Initial Recognition

Financial assets and financial liabilities at fair value through profit and loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in the income statement.

Receivables and liabilities (other than those classified at fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Scheme recognises the difference in the income statement, unless specified otherwise.

(d) Subsequent measurement

After initial measurement, the Scheme measures investments at fair value through profit or loss. Subsequent changes in the fair value of those investments are recorded as 'changes in investments measured at fair value' through the income statement. Interest earned is recorded in 'Interest revenue'.

South Australian Superannuation Scheme

(e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Scheme.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Scheme uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. Refer to note 7.

(f) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above.

(g) Receivables and payables

Receivables are carried at nominal amounts due that approximate fair value. Receivables are normally settled within 30 days. Payables are carried at nominal amounts that approximate fair value. They represent liabilities for goods and services provided to the Scheme prior to the end of the financial year that are unpaid, and for which the Scheme is obliged to make future payments in respect of the purchase of these goods or services.

(h) Benefits payable

Benefits payable are valued at fair value and relate to members who have ceased employment and provided the Scheme with appropriate notification on or prior to 30 June 2021 but paid after 30 June 2021. These also include pension payments payable on or prior to 30 June 2021 but paid after 30 June 2021.

(i) Revenue recognition

The specific recognition criteria described below must be met before revenue is recognised:

Changes in fair values

Changes in the fair value of investments invested with Funds SA are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point. All changes are recognised in the income statement.

Interest

Interest revenue on cash and other financial assets carried at fair value is recorded according to the terms of the contract and recognised in the income statement.

(j) Taxation

The Scheme is a constitutionally protected superannuation fund in terms of Section 295-15 of the *Income Tax Assessment Act 1997*, Regulation 995-1.04 (Schedule 4) and is exempt from income tax. Therefore no income tax has been brought to account in this financial report.

(k) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; or
- When 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 part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the ATO are classified as operating cash flows.

(l) Foreign currency

The functional and presentation currency of the Scheme is Australian dollars, which is the Scheme's primary currency. The Scheme's performance is evaluated and its liquidity managed in Australian dollars. Therefore, the Australian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

South Australian Superannuation Scheme

(m) Investments

Funds SA provides investments measured at fair value. Below is the basis for valuation of these investments.

(i) Inflation Linked Securities A

The Inflation Linked Securities A portfolio invests in discretely managed portfolios and internal inflation linked securities. Discretely managed portfolios are invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date.

Internally managed inflation linked securities, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at balance date was performed by an independent valuer.

(ii) Property A

The Property A portfolio comprises two sub sectors:

Listed Property Trusts

These investments comprise arrangements whereby professional fund managers are appointed under an investment management agreement to manage and invest in listed property securities and real estate investment trusts. Investments in this sub-sector are in pooled funds and have been valued in accordance with the valuations supplied by the managers.

Unlisted property vehicles

The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.

(iii) Australian Equities A

The Australian Equities A portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.

(iv) International Equities A

The International Equities A portfolio comprises investments in equities listed on international share markets, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at balance date where applicable.

(v) Short Term and Long Term Fixed Interest

The Short Term and Long Term Fixed Interest portfolios have exposure to domestic and global debt instruments and are managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.

(vi) Diversified Strategies Growth A

The Diversified Strategies Growth A portfolio comprises investments in Australian and international private equity funds and Australian and international pooled funds, which are invested and managed by external managers. The valuation of private equity investments is based on the most recent valuation performed by the fund managers plus or minus cash flows between the last valuation date and the reporting date. Both Australian and international private equity valuations are generally in accordance with the International Private Equity and Venture Capital Valuation Guidelines (December 2018). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable. The Coronavirus Special Valuations Guidance March 2020 have been applied in this financial year.

(vii) Diversified Strategies Income

The Diversified Strategies Income portfolio comprises investments in discretely managed investments and Australian and international pooled funds, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(viii) Cash

Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.

(ix) Socially Responsible Investment

The Socially Responsible Investment option actively incorporates the consideration of environmental, social and governance factors in their investment decisions and also avoids investing in companies operating in areas of high negative social impact. Previously the Socially Responsible investment option was externally managed by the product provider AMP Capital. As of February 2021, the Socially Responsible Investment is being managed by Funds SA.

South Australian Superannuation Scheme

(n) Operation of investment portfolio

Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA (refer Note 1 (c)). Funds SA operates a multi layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2021, Funds SA managed eight distinct investment options each differing by strategic asset allocation:

- High Growth
- Growth (closed 3 February 2021)
- Balanced
- Moderate
- Conservative
- Capital Defensive
- Cash
- Socially Responsible Investment

During the financial year all of the above investment options were available to members for assets invested in the South Australian Superannuation Fund Account (New Scheme Division). The assets of the South Australian Superannuation Fund Account (Old Scheme Division) and the South Australian Superannuation Scheme Contribution Account are invested in the Defined Benefit (DB) High Growth Strategy.

Growth to Balanced transition

In August 2020, Super SA and Funds SA undertook a review into the default option. A key change was to increase the Long-Term Strategic Asset Allocation (LTSAA) levels of growth assets within the default Balanced option from 65 per cent to 75 per cent. This change included altering the LTSAA and range for the Growth investment option by increasing the exposure to growth assets. While originally expecting this change to be implemented over multiple years, recent shifts within investment markets have meant the Growth option LTSAA change occurred more quickly than anticipated and resulted in the Growth investment option having growth asset allocations resembling those of the High Growth investment option. The Balanced option has a similar risk profile to the previous LTSAA of the Growth option before the review, with a LTSAA of 75 per cent growth assets. The Growth investment option ceased to be available to investors with all Growth option investments transitioned into the Balanced investment option on 3 February 2021.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to each of the investment options discussed in the preceding paragraphs.

(o) Member liabilities

Member liabilities are measured at the amount of accrued benefits.

Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed, as at the reporting date, to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due.

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date.

(p) Significant accounting judgements, estimates and assumptions

The preparation of the Scheme's financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been presented to be consistent with current period disclosures.

Fair value of investments

When the fair values of the investments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including a discounted cash flow model. The inputs in these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to establish fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Changes in assumptions about these factors could affect the reported fair value of these investments.

Valuation of defined benefits member liabilities

The amount of member liabilities in relation to defined benefits has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions include member turnover, future investment returns, pension indexation rates, mortality rates and future salary increases. Due to the complexities involved in the valuation and its long term nature, defined benefit member liabilities are highly sensitive to changes in these assumptions. Assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the actuary considers an investment portfolio that reflects the opportunities reasonably available to the Scheme in the investment markets, and also reflects the Scheme's actual investments and investment strategy in respect of defined benefit member liabilities.

The mortality assumption is based on publicly available mortality tables. Future salary increases are based on the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

South Australian Superannuation Scheme

(q) Climate change financial risks

The Board acknowledges the likelihood of upcoming climate risk disclosure requirements, such as those that may be recommended by the draft Australian Prudential Regulation Authority (APRA) Prudential Practice Guide CPG229 Climate Change Financial Risks. The Board will work towards appropriate disclosures in the 2021-22 financial year.

3. Defined contribution member liabilities

The employee funded, defined contribution component for new scheme contributors has an accrued liability that is the balance of the employees' contribution accounts as at the end of the financial year. These accounts are valued using unit prices that are determined by the underlying investment movements.

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure the member liabilities. Unit prices are updated twice weekly.

Refer to Note 17 for the Scheme's management of the investment risks.

4. Defined benefit member liabilities

The Scheme engages Mr Geoffrey Keen, Fellow of the Institute of Actuaries of Australia from Brett & Watson Pty Ltd to measure the defined benefits members' liabilities and the employer funded defined benefit component in respect of new scheme contributors.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the reporting date and payable to members on retirement, resignation, death and disability. For the old scheme contributors and the employer funded defined benefit component in respect of new scheme contributors, the accrued liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to 30 June 2021.

The expected future benefit payments have been determined using the 2019 triennial review assumptions relating to mortality, disability, withdrawal, preservation and retirement. The actuarial valuation of member liabilities of the South Australian Superannuation Scheme is undertaken annually, as at the end of each financial year.

The key assumptions used to determine the values of accrued benefits were:

- The future rate of investment earnings (net of investment taxes and fees): 6.5 per cent per annum (2020: 6.5 per cent);
- The future rate of salary growth: 2.5 per cent per annum (2020: 2.5 per cent); and
- Long term inflation (CPI): 2.0 per cent per annum (2020: 2.0 per cent).

The defined benefit members' liabilities have changed in the current financial year as a result of salary increases and additional service accrual. Note, the defined contribution values are included in the tables below for comparison.

| | Defined Benefit \$000 | Defined Contribution \$000 | 2021 Total \$000 | Defined Benefit \$000 | Defined Contribution \$000 | 2020 Total \$000 |
|---|-----------------------------|----------------------------------|------------------------|-----------------------------|----------------------------------|------------------------|
| Member liabilities | 8 165 734 | 600 169 | 8 765 903 | 8 424 560 | 554 488 | 8 979 048 |
| | | | 2021 | | | 2020 |
| | Old Scheme \$000 | New Scheme \$000 | Total \$000 | Old Scheme \$000 | New Scheme \$000 | Total \$000 |
| SA Superannuation Fund | 1 110 437 | 600 169 | 1 710 606 | 1 145 739 | 554 488 | 1 700 227 |
| SA Superannuation Scheme contribution account: | | | | | | |
| Employer contribution accounts | 1 081 945 | 286 206 | 1 368 151 | 1 116 334 | 289 872 | 1 406 206 |
| SA Government employer account | 4 918 642 | 510 449 | 5 429 091 | 5 072 230 | 528 334 | 5 600 564 |
| Public authorities | 253 927 | 4 128 | 258 055 | 264 832 | 7 219 | 272 051 |
| | 7 364 951 | 1 400 952 | 8 765 903 | 7 599 135 | 1 379 913 | 8 979 048 |

The Board has a number of steps in place to manage the risks associated with the defined benefits. The Board has appointed external consulting actuaries to advise on the risks, including establishing suitable funding objectives.

The Board also uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Scheme has identified four assumptions (being the discount rate, the rate of salary adjustment, pension indexation rates and mortality rates) for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities.

The assumed discount rate has been determined by reference to the investment returns expected on an investment portfolio that reflects the opportunities reasonably available to the Scheme in the investment markets, and also reflects the Scheme's actual investments and investment strategy in respect of defined benefit member liabilities.

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The other variable about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a material effect, are resignations. The following table outlines the defined benefit liability sensitivity estimates provided by the scheme actuary on the discount rate, salary increase rate, pension indexation rate and mortality rate.

| Scenario | Member liability result ^(a) \$M | Change in member benefit liability \$M | Change in member benefit liability % |
|---------------------------------|---|---|---|
| Base Case | 8 166 | - | - |
| Discount rate plus 0.5% | 7 857 | (309) | (3.8) |
| Discount rate less 0.5% | 8 498 | 332 | 4.1 |
| Salary increase rate plus 0.5% | 8 184 | 18 | 0.2 |
| Salary increase rate less 0.5% | 8 148 | (18) | (0.2) |
| Pension increase rate plus 0.5% | 8 493 | 327 | 4.0 |
| Pension increase rate less 0.5% | 7 859 | (307) | (3.8) |
| Mortality rate plus 10% | 7 999 | (167) | (2.0) |
| Mortality rate less 10% | 8 348 | 182 | 2.2 |

(a) Excludes Lump Sum Scheme accumulation liabilities

The SA Government is responsible for funding the SA Government Employer Account and part of the Employer Contribution Accounts. The remaining liability includes the members fund, commercial entities and the Commonwealth share of the universities.

Vested benefits

Vested benefits are only available by the Old Scheme/New Scheme disaggregation. Vested benefits are benefits that are not conditional upon continued membership of the Scheme, or any factor other than resignation from the Scheme. Vested Benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date.

| | Old Scheme \$000 | New Scheme \$000 | 2021 Total \$000 | Old Scheme \$000 | New Scheme \$000 | 2020 Total \$000 |
|---|---------------------|---------------------|------------------------|---------------------|---------------------|------------------------|
| SA Superannuation Fund | 1 111 435 | 600 169 | 1 711 604 | 1 146 941 | 554 488 | 1 701 429 |
| SA Superannuation Scheme contribution account: | | | | | | |
| Employer contribution accounts | 1 083 802 | 324 027 | 1 407 829 | 1 118 853 | 327 007 | 1 445 860 |
| SA Government employer account | 4 922 377 | 602 337 | 5 524 714 | 5 076 314 | 618 155 | 5 694 469 |
| Public authorities | 253 927 | 4 585 | 258 512 | 264 954 | 7 863 | 272 817 |
| | 7 371 541 | 1 531 118 | 8 902 659 | 7 607 062 | 1 507 513 | 9 114 575 |

5. Contributions receivable

| | 2021 \$000 | 2020 \$000 |
|------------------------|---------------|---------------|
| Member contributions | 266 | 256 |
| Employer contributions | 850 | 874 |
| | 1 116 | 1 130 |

6. Receivables

| | 2021 \$000 | 2020 \$000 |
|-------------------------|---------------|---------------|
| Benefit repayments | 190 | 273 |
| GST recoup from ATO | 180 | 90 |
| Other receivables | 56 | 59 |
| Prepaid benefits | 1 891 | 260 |
| Past service receivable | 194 | 125 |
| Public authorities | 2 417 | 3 658 |
| Temporary disability | 89 | 63 |
| | 5 017 | 4 528 |

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7. Fair value of financial instruments

Classification of financial Instruments under the fair value hierarchy

AASB 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Valuations are the responsibility of the Board. The valuation of investments is performed twice weekly and are subject to quality assurance procedures.

After the checks above have been performed the Board considers the valuation results, including assumptions used in the valuations.

The Board also considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen.

Valuation technique

The Scheme's investments are not quoted in an active market. To ensure fair value can be determined, the Scheme's investment manager, Funds SA, applies due diligence and considers valuation techniques and inputs used in valuing the funds, prior to investing. In measuring fair value, consideration is given to the amounts for which financial assets can be sold, excluding transaction costs. The Scheme classifies these funds as Level 2.

There were no changes in valuation techniques during the year.

| | 2021 | 2020 |
|--|-----------|-----------|
| | \$000 | \$000 |
| Financial assets at fair value through profit or loss - Level 2 | | |
| Level 1 and level 3 are not relevant to the Scheme | | |
| Unlisted managed investment schemes | 5 282 288 | 4 612 448 |
| Funds SA | 5 282 288 | 4 612 448 |

8. Value and movement of investments by investment option

| | 2021 | Movement | 2020 |
|-----------------------------------|------------------|----------------|------------------|
| | \$000 | \$000 | \$000 |
| High Growth A | 8 472 | (14 947) | 23 419 |
| Growth A (closed 3 February 2021) | - | (391 741) | 391 741 |
| Balanced A | 518 518 | 456 022 | 62 496 |
| Moderate A | 22 995 | (1 993) | 24 988 |
| Conservative A | 22 314 | (1 728) | 24 042 |
| Capital Defensive A | 12 694 | 3 168 | 9 526 |
| Cash A | 11 912 | (5 742) | 17 654 |
| Socially Responsible | 1 961 | 1 826 | 135 |
| DB High Growth Strategy | 4 683 422 | 624 975 | 4 058 447 |
| Investments at 30 June | 5 282 288 | 669 840 | 4 612 448 |

9. Payables

| | 2021 | 2020 |
|---------------------------|--------------|------------|
| | \$000 | \$000 |
| Audit fees | 88 | 84 |
| Administration expenses | 2 235 | - |
| Returned benefit payments | - | 21 |
| | 2 323 | 105 |

10. Investment expenses

| | 2021 | 2020 |
|---------------------|--------|--------|
| | \$000 | \$000 |
| Investment expenses | 18 302 | 33 787 |

Investment expenses comprise fees paid to Funds SA. Funds SA advises the amount applicable to the Scheme based on the Scheme's investment. As a result of a Funds SA accounting policy change, effective in the current period, 2020-21 results report direct investment expenses, and exclude any indirect costs of performance and imputed fees. Prior year results are not directly comparable.

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11. Administration expenses

| | 2021 | 2020 |
|--|--------------|--------------|
| | \$000 | \$000 |
| Administration expenses ⁽ⁱ⁾ | 7 815 | 4 164 |
| Other expenses ⁽ⁱⁱ⁾ | 109 | 144 |
| | 7 924 | 4 308 |

(i) Administration expenses comprises the costs incurred by the Department of Treasury and Finance in administering the Scheme, which are met in the first instance from the Department of Treasury and Finance Operating Account. The Board recovers a share of the administration cost from the Scheme. In addition the Board recovers the Scheme's share of the Strategic Projects costs \$Nil (2020: \$137 000).

(ii) Other expenses include Auditor's remuneration. Refer note 12.

12. Auditor's remuneration

| | 2021 | 2020 |
|----------------------------|-------|-------|
| | \$000 | \$000 |
| Audit fees paid or payable | 79 | 78 |

Audit fees paid (or payable), \$78 600 GST exclusive (2020: \$78 100), relate to the Auditor-General's Department work performed under the PFAA. No other services were provided by the Auditor General's Department.

13. Higher education superannuation costs

| | 2021 | 2020 |
|---------------------------------------|-------|-------|
| | \$000 | \$000 |
| Higher education superannuation costs | 8 342 | 8 971 |

These amounts are paid to the Commonwealth Government that related to the South Australian share of the 2021 higher education superannuation costs under the Commonwealth – State agreement. This agreement provides that the employer component of the superannuation benefits payable to former employees of South Australian universities who were members of one of the main State Schemes, be shared.

14. Contributions for past service liability

| | 2021 | 2020 |
|---------------|----------------|----------------|
| | \$000 | \$000 |
| SA Government | 415 870 | 378 492 |
| SA Water | - | 4 399 |
| Forestry SA | 194 | 249 |
| | 416 064 | 383 140 |

15. Employer contributions

| | 2021 | 2020 |
|---|---------------|---------------|
| | \$000 | \$000 |
| State government departments | 18 292 | 21 154 |
| Statutory authorities – state government entities | 7 879 | 9 568 |
| Statutory authorities – non-state government entities | 1 093 | 131 |
| | 27 264 | 30 853 |

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16. Reconciliation of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash and deposits in the Scheme's Special Deposit Account held with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to the related item in the statement of financial position as follows:

| | 2021 | 2020 |
|---|-----------------|-----------------|
| | \$000 | \$000 |
| Cash and cash equivalents | 9 472 | 28 964 |
| Reconciliation of operating result to net cash from operating activities | | |
| Net operating result | 878 451 | 2 173 |
| Adjustments for: | | |
| Change in investments measured at fair value | (1 056 704) | 22 058 |
| Investment expenses | 18 302 | 33 787 |
| (Increase) in receivables | (79) | (60) |
| Increase in payables | 2 239 | - |
| Allocation to members' accounts | 143 733 | (71 258) |
| Net flows from operating activities | (14 058) | (13 300) |

17. Financial risk management objectives and policies

The Scheme's investments are managed by Funds SA predominantly by the appointment of investment managers as determined by the Funds SA Board. Each investment manager is required to invest the assets in accordance with the terms of a written mandate. The Funds SA Board has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Scheme's investment strategy. The Funds SA Board obtains regular reports from each manager on the nature of the investments made on its behalf and the associated risks.

The allocation of assets between the various types of financial instruments is determined by the Funds SA Board. Divergence from target asset allocations and the composition of the portfolio is monitored by the Funds SA Board on a regular basis.

The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk.

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Funds SA Board has overall responsibility for the establishment and oversight of the Scheme's investment risk management framework.

The Scheme's investment risk management policies are established to identify and analyse the risks faced by the Scheme including those risks managed by the Scheme's investment managers, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Board receives regular reports from Funds SA concerning compliance with the Scheme's investment objectives.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Scheme's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of a change in foreign exchange rates.

The Scheme's currency risk is managed by Funds SA as investments include assets denominated in foreign currencies.

Funds SA strategic policy for the management of its foreign currency exposure is as follows:

- Foreign currency exposures in the Diversified Strategies Growth Tax-Exempt, Diversified Strategies Income and Long Term Fixed Interest asset classes are fully hedged to Australian dollars.
- Foreign currency exposures over the developed markets component of the International Equities Tax-Exempt and International Equities Passive Tax-Exempt asset classes are 30 per cent hedged to Australian dollars.

For the purpose of managing foreign currency risk, within defined constraints, the exposure to foreign currency can be varied from the strategic policy stated above.

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(ii) Interest rate risk

Interest rate risk is the risk that a movement in interest rates will cause the value of fixed interest securities to deviate from expectations.

The Scheme's interest rate risk is managed by Funds SA, as investments include fixed interest securities.

Funds SA manages interest rate risk through:

- Ensuring asset allocations of different investment products are consistent with the time horizon of each
- The use of specialist external investment managers to manage Funds SA's cash and fixed income portfolios
- The Scheme's receivables and payables are non-interest bearing. The carrying amounts of these assets approximate to fair value.

(iii) Other market price risk

Other market price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the Scheme's financial instruments are valued at fair value with changes in fair value recognised in the income statement, all changes in market conditions will directly affect investment revenue.

The Scheme's other market price risk is managed by Funds SA, as investments include financial instruments exposed to market prices.

Funds SA manages the risk of financial market volatility through the adherence to two principles:

- Ensuring a diversity of exposures to different financial markets and sub markets
- Ensuring asset allocations for different investment options are consistent with the time horizon of each.

(iv) Investments sensitivity analysis

The Funds SA Board has determined that its forecast risk/return profile provides a reasonable measure of the sensitivity of the expected returns in each investment option. The following tables show the standard deviation around expected nominal returns for each investment option.

The Funds SA statistics shown below are averages calculated over 10 years, net of investment management fees and gross of tax. These investment statistics have zero per cent tax rate applied and exclude franking credits.

| | Expected Average Return | Market Risk | Average Funds Under Management | Potential impact of market risk (+/-) on Income Statement |
|-----------------------------------|-------------------------------|----------------|--------------------------------------|--|
| | % | % | \$000 | \$000 |
| 2021 | | | | |
| Investment Option | | | | |
| High Growth A | 7.6 | 10.9 | 15 946 | 1 738 |
| Growth A (closed 3 February 2021) | 7.6 | 10.9 | 195 871 | 21 350 |
| Balanced A | 7.0 | 10.0 | 290 507 | 29 051 |
| Moderate A | 5.6 | 7.2 | 23 992 | 1 727 |
| Conservative A | 4.5 | 5.1 | 23 178 | 1 182 |
| Capital Defensive A | 3.3 | 3.6 | 11 110 | 400 |
| Cash A | 0.3 | 1.0 | 14 783 | 148 |
| Socially Responsible | 6.0 | 10.3 | 1 048 | 108 |
| DB High Growth Strategy | 7.6 | 10.1 | 4 370 935 | 441 464 |
| | | | | Potential impact of market risk (+/-) on Income Statement |
| | Expected Average Return | Market Risk | Average Funds Under Management | |
| | % | % | \$000 | |
| 2020 | | | | |
| Investment Option | | | | |
| High Growth A | 7.7 | 11.1 | 26 275 | 2 917 |
| Growth A | 7.7 | 11.1 | 431 989 | 47 951 |
| Balanced A | 7.2 | 10.1 | 63 127 | 6 376 |
| Moderate A | 6.4 | 7.4 | 24 617 | 1 822 |
| Conservative A | 5.7 | 5.4 | 23 224 | 1 254 |
| Capital Defensive A | 5.0 | 3.8 | 9 167 | 348 |
| Cash A | 3.3 | 1.0 | 11 274 | 113 |
| Socially Responsible | 6.4 | 10.3 | 962 | 99 |
| DB High Growth Strategy | 7.7 | 10.2 | 4 265 857 | 435 117 |

Market risk is a useful historical measure of the variability of returns earned by an investment portfolio. The market risk shown above represents the range at which actual future returns are expected to occur either side of the nominal return approximately two thirds of the time.

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The dollar value of the potential impact on the income statement arising from the market risk is indicative only. The impacts are not additive across investment asset classes, as each asset class operates in different markets and is subject to different conditions.

Actual movements in returns may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the underlying trusts invest. As a result, historic variations in rates of return are not a definitive indicator of future variations in rates of return.

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme.

The fair value of financial assets, included in the statement of financial position represents the Scheme's maximum exposure to credit risk in relation to those assets. Funds SA is the Scheme's only significant exposure to any individual counterparty or industry. The credit risk is monitored by Funds SA through ongoing reviews of the investment managers.

The Scheme does not have any assets which are past due or impaired and there is no concentration of credit risk other than Funds SA.

(c) Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its payment of benefits to members and liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

For the Scheme's investments, Funds SA manages liquidity risk as follows:

- By giving careful consideration to the expected net cash redemption requirements of Funds SA's clients. The allocation to cash in the strategic asset allocation of each investment product is set at a level sufficient to manage expected cash redemptions.
- A large proportion of each investment product is invested in highly liquid investments such as actively traded equities, unit trusts or securities with short-term maturities.

For the Scheme itself, the liquidity position is monitored on a daily basis. The Scheme's cash and liquidity policy is to have sufficient cash balances to meet anticipated weekly benefit payments, expenses and investing activities.

The following tables summarise the expected maturity profile of the Scheme's financial liabilities based on the earliest date on which the Scheme can be required to pay. The amounts in the table are the contractual undiscounted cash flows.

| | Less than 3 Months | Total | Carrying |
|---------------------------------|-----------------------|---------------------------|-----------------------|
| | | Contractual Cash Flows | Amount Liabilities |
| | \$000 | \$000 | \$000 |
| 2021 | | | |
| Benefits payable | 10 561 | 10 561 | 10 561 |
| Payables ⁽ⁱ⁾ | - | - | - |
| Vested benefits ⁽ⁱⁱ⁾ | 8 902 659 | 8 902 659 | 8 902 659 |
| Total | 8 913 220 | 8 913 220 | 8 913 220 |
| 2020 | | | |
| Benefits payable | 27 262 | 27 262 | 27 262 |
| Payables ⁽ⁱ⁾ | 21 | 21 | 21 |
| Vested benefits ⁽ⁱⁱ⁾ | 9 114 575 | 9 114 575 | 9 114 575 |
| Total | 9 141 858 | 9 141 858 | 9 141 858 |

(i) Payable amounts disclosed here exclude amounts relating to constructive obligations and statutory payables (e.g. Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees).

(ii) Vested benefits have been included in the "Less than 3 months" column, as this is the amount that members could call upon as at balance date. This is the earliest date on which the Scheme can be required to pay members vested benefits, however, members may not necessarily call upon amounts vested to them during this time.

(d) Derivative financial instruments

Derivatives can be defined as financial contracts whose value depends on, or is derived from, assets, liabilities, reference rates or indices. Funds SA uses derivatives to manage portfolio risk and to facilitate the implementation of investment strategies efficiently and cost effectively. Funds SA uses a variety of derivative instruments, such as over the counter swap agreements, forward rate agreements, futures and options.

Derivatives are an authorised investment within certain mandates managed by Funds SA's external investment managers for the purposes described above.

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18. Net assets available for member benefits

AASB 1056 recommends segregation to distinguish between different member accounts based on risk profile. The defined benefit/defined contribution split is a natural disaggregation arising from the different market risk exposures of these member categories. An alternative disaggregation is the segregation into Old Scheme (Pension Scheme) and New Scheme (Lump Sum). The following net assets table shows the splits across these latter accounts and demonstrates net assets available to pay benefits consisting of the combined balances of the Fund and the Account. Movements in the balances of these accounts are detailed below:

| | Old Scheme \$000 | New Scheme \$000 | 2021 Total \$000 | 2020 Total \$000 |
|---|------------------------|------------------------|------------------------|------------------------|
| SA Superannuation Fund Account (employee component) | | | | |
| Funds held at 1 July | 1 490 069 | 541 014 | 2 031 083 | 2 214 099 |
| Contributions | 189 | 10 378 | 10 567 | 12 222 |
| Transfers from other super entities | 3 | 466 | 469 | 530 |
| Changes in investments measured at fair value | 349 177 | 113 008 | 462 185 | (9 757) |
| Interest | 1 | 1 | 2 | 11 |
| Other | - | 43 | 43 | - |
| | <u>349 370</u> | <u>123 896</u> | <u>473 266</u> | <u>3 006</u> |
| Benefits Paid and Payable | 94 783 | 77 916 | 172 699 | 170 347 |
| Investment expenses | 6 016 | 2 015 | 8 031 | 14 433 |
| Administration expenses | 1 777 | 594 | 2 371 | 1 242 |
| | <u>102 576</u> | <u>80 525</u> | <u>183 101</u> | <u>186 022</u> |
| Funds held at 30 June | <u>1 736 863</u> | <u>584 385</u> | <u>2 321 248</u> | <u>2 031 083</u> |
| | | | 2021 | 2020 |
| SA Superannuation Scheme Contribution Account (employer component) | | | \$000 | \$000 |
| Funds held at 1 July | | | <u>2 588 620</u> | <u>2 867 422</u> |
| Employer contributions: | | | | |
| State Government departments | | | 18 292 | 21 154 |
| Statutory Authorities | | | 8 972 | 9 699 |
| Contribution for past service liability | | | <u>416 064</u> | <u>383 140</u> |
| | | | 443 328 | 413 993 |
| Changes in investments measured at fair value | | | 594 519 | (12 301) |
| Bank interest and other revenue: | | | | |
| Public authorities | | | 31 815 | 37 136 |
| Interest | | | 3 | 28 |
| Temporary disability | | | 9 | 23 |
| | | | <u>1 069 674</u> | <u>438 879</u> |
| Benefits paid and payable: | | | | |
| Old scheme contributors | | | 553 839 | 562 015 |
| New scheme contributors | | | <u>116 528</u> | <u>124 275</u> |
| | | | 670 367 | 686 290 |
| Investment expenses | | | 10 271 | 19 354 |
| Higher education superannuation costs | | | 8 342 | 8 971 |
| Administration expenses | | | 5 553 | 3 066 |
| | | | <u>694 533</u> | <u>717 681</u> |
| Funds held at 30 June | | | <u>2 963 761</u> | <u>2 588 620</u> |
| Net assets available for member benefits | | | <u>5 285 009</u> | <u>4 619 703</u> |

19. Coronavirus (COVID-19) impact

Background

COVID-19, which is a respiratory illness caused by a virus, was declared a world wide pandemic by the World Health Organisation in March 2020. COVID-19 has had a significant impact on the domestic and global economy and equity, debt and commodity markets.

Super SA has considered the impact of COVID-19 and provided advice to the Board in preparing its financial statements. Given the dynamic and evolving nature of COVID-19 as well as limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Scheme's assets and liabilities may arise in the future. Any such impacts will be accounted for in future accounting periods.

The impact of COVID-19 on the macroeconomic outlook, including an explanation of the matters considered in determining the Scheme's assumptions in the valuation of defined benefit member liabilities, is outlined in Note 4 to the financial statements. Given the relative uncertainty of the impact of COVID-19 and its social and economic consequences, these assumptions represent reasonable and supportable forward looking views as at the reporting date.

South Australian Superannuation Scheme

COVID-19 Early Release of Superannuation Scheme

On 22 March 2020 the Australian Government announced the COVID-19 Early Release of Superannuation Scheme (ERS) as a temporary measure to stimulate the Australian economy. This scheme allowed eligible members to access up to \$10 000 of their superannuation in both financial years 2019-20 and 2020-21.

The Scheme does not permit the release of current contributors' defined benefits on hardship and compassionate grounds including COVID-19; however, they can take money from any rollover account (if such an account exists). The total rollover balance at 30 June 2021 comprises an insignificant proportion of the overall defined benefit liabilities and as such, any payments that could be made under the Government's COVID-19 Early Release Scheme are immaterial.

For the year ended 30 June 2021 there was \$Nil (2020: \$25 000) paid in Lump Sum member benefits under the ERS.

Processes applied

In preparing these financial statements the Board considered the impact of COVID-19 in the:

- evaluation of any areas of judgment or estimation uncertainty in addition to those disclosed above;
- adoption of significant assumptions and market inputs used in:
 - valuing the Scheme's investments (in particular, unlisted investments);
 - valuing the Scheme's defined benefit member liabilities; and
 - preparing disclosures for the fair value of financial assets and liabilities and financial risk management;
- review of external market communications to identify other COVID-19 related impacts;
- review of public forecasts and experience from previous economic downturns;
- assessment of the fair value of the Scheme's assets and liabilities;
- stress testing scenarios, which are an integral component of the Board's risk management framework, to assess the potential impacts of the COVID-19 pandemic on the Scheme's portfolio valuation and liquidity; and
- determination of the completeness and appropriateness of financial statement disclosures.

Consideration of the Statement of Financial Position and further disclosures

Key items within the statement of financial position and related disclosures impacted by COVID-19 are as follows:

Financial instruments at fair value through profit and loss

Given recent market volatility, Funds SA as the Scheme's investment manager reviewed the appropriateness of inputs to its valuation of financial instruments as well as performing out of cycle valuations. The impact of changes in valuation inputs has also been considered in terms of the classification of financial instruments in the fair value hierarchy, transfers within the fair value hierarchy and the sensitivity analysis. The Scheme's investments include a portfolio of unlisted equity investments which, in accordance with the Scheme's accounting policies, are measured at fair value. The determination of investments carrying value included a consideration of the impact of COVID-19.

Defined benefit member liabilities

Given recent market volatility, the Board on the advice of consulting actuaries reviewed the appropriateness of the significant assumptions used in its valuation of defined benefit member liabilities and disclosures of changes in these assumptions and the impact these may have on the Scheme's defined benefit deficit.

The likely main financial impact of the COVID-19 pandemic on the Scheme is if future investment returns were to be significantly reduced. The assumed investment return both in the long term and for the year ending 30 June 2020 was made to allow for the likely impact of the COVID-19 pandemic, with no further changes being required to be made for the year ending 30 June 2021. While the assumed CPI inflation rate was reduced in 2019-20, the assumed investment return was also reduced by the same amount, offsetting the impact of the reduced CPI inflation rate. No change to either the CPI inflation rate or the assumed investment return rate was required for 2020-21. Refer to Note 4 for more information.

Risk management

The Board's risk management framework continues to be applied across the Scheme's operations. The Board continues to monitor the impact of COVID-19 on the Scheme's risk profile. Non financial risks emerging from global movement restrictions, and remote working by our staff, counterparties and service providers have been identified, assessed, managed and governed through timely application of the Board's risk management framework.

The Board is focused on the effects of the global COVID-19 pandemic and is monitoring it as it unfolds, specifically:

- The Board manages the Scheme's cash flow on a daily basis, and prepares for events that may affect the liquidity position;
- The Investment Manager, Funds SA, actively manages investments in line with the long-term investment strategy, and monitors and responds to movements in global investment markets; and
- Funds SA stress-test liquidity for a range of possible scenarios.

20. Segment information

The Scheme operates in one reportable segment, being the provision of benefits to members. The Scheme also operates from one reportable geographic segment, being Australia, from where its activities are managed. While the Scheme operates from Australia only, the Scheme, through its investment manager Funds SA, has investment exposures in different countries and across different industries. Revenue derived from interest and the realised and unrealised changes from the different segments is reflected in the value of investments.

South Australian Superannuation Scheme

21. Related parties

(a) Key management personnel

The key management personnel of the Scheme includes the Treasurer, Board members and the Chief Executive and the five members of the Executive Group, State Superannuation Office who have responsibility for the strategic direction and management of the Scheme.

(b) Compensation

All key management personnel are compensated by the Department of Treasury and Finance or the Board, therefore their compensation is disclosed in the respective financial reports.

(c) Transactions with key management personnel and other related parties

There were no transactions requiring disclosure for key management personnel or related parties.

(d) Transactions with other government entities

There were no significant transactions with government entities other than those disclosed elsewhere in the financial statements.

22. Events after the reporting period

There were no significant events after the reporting period.

South Australian Superannuation Scheme

Certification of the financial report

We certify that the:

- Financial statements of the South Australian Superannuation Scheme:
 - are in accordance with the accounts and records of the Scheme;
 - comply with relevant Treasurer's instructions;
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the Scheme at the end of the financial year and the result of its operations and cash flows for the financial year.
- Internal controls employed by the Scheme for the financial year over its financial reporting and its preparation of financial statements have been effective.



Gregory Boulton AM
PRESIDING MEMBER
SA SUPERANNUATION BOARD



Dascia Bennett
CHIEF EXECUTIVE
STATE SUPERANNUATION OFFICE



Mark Hordacre
DIRECTOR FINANCE
STATE SUPERANNUATION OFFICE

Date 19/9/21.....