



**Government
of South Australia**

TRS20D2618

Hon Stephen Mullighan MP
Member for Lee
Unit 1, 62 Semaphore Road
SEMAPHORE SA 5019

Treasurer
Level 8
State Administration Centre
200 Victoria Square
Adelaide SA 5000
GPO Box 2264
Adelaide SA 5001
DX 56203 Victoria Square
Tel 08 8226 1866
treasurer.dtf@sa.gov.au

lee@parliament.sa.gov.au

A handwritten signature in cursive script that reads 'Stephen'.

Dear Mr Mullighan

APPLICATION UNDER THE FREEDOM OF INFORMATION ACT 1991

I refer to your application made under the *Freedom of Information Act 1991* (the Act), dated 5 August 2020. .

Your application seeks access to:

"All minutes, briefings and correspondence titled 'Unfunded Superannuation Liability Analysis' as described on the Objective document management system, between 9 April and 5 August 2020."

The prescribed legislative timeframe to determine this application has expired and is now deemed to have refused you access to documents relevant to your application. I refer to my letter dated 18 August 2020 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 3 documents were identified as answering the terms of your application.

I grant you access in full to 1 document; a copy of which is enclosed.
I grant you access in part to 1 document; a copy of which is enclosed.
I refuse you access in full to 1 document.

Document Released in Full

Document 2

Document Released in Part

Document 1

Document Refused in Full

Document 3

Document Released in Part

Document 1 is a briefing prepared by the Department of Treasury and Finance (DTF) for my information. Document 1 contains information on investment strategies but also details of opportunities under consideration, forecasting, proposals and other information regarding Funds SA's management of the funds. This is of commercial value to Funds SA and if disclosed, would become available for widespread use amongst competing institutional investors and asset owners which would destroy or at least diminish any advantage Funds SA may have over them in aiming to achieve the highest return and managing liquidity and risk. Further, the release may cause investment opportunities to be lost or negatively impacted.

Document 1 is also an internal working document as it contains material comprising advice and recommendations which were obtained or prepared for the purpose of decision making functions of Funds SA. It is important that Funds SA is able to provide full and frank briefings in documents provided to the Treasurer and non-exempt agencies.

Funds SA needs to be in a position where it can provide full and frank briefings in respect of investment strategies, policies and operations of Funds SA to the Treasurer, to ensure that public sector superannuation funds and funds of prescribed public authorities are managed appropriately, and any risks identified at an early stage.

Whilst there is a strong public interest in government accountability and transparency, there is the competing public interest to ensure that full and frank advice can occur in confidence. It is necessary that I'm appropriately informed and updated on these matters.

I therefore determine this exempt pursuant to clauses 7, 9 and 15 to the Act.

Document Refused in Full

Document 3 contains information about Funds SA's investment strategies, which are trade secrets which have been formulated in order to achieve the highest return possible for Fund SA's clients and are of key importance and of significant value to its activities.

I therefore determine this information exempt pursuant to clause 7(1)(a).

Document 3 not only contain investment strategies but also details of opportunities under consideration, forecasting, proposals and other information regarding Funds SA's management of the funds. This is of commercial value to Funds SA and if disclosed, would become available for widespread use amongst competing institutional investors and asset owners which would destroy or at least diminish any advantage Funds SA may have over them in aiming to achieve the highest return and managing liquidity and risk. Further, the release may cause investment opportunities to be lost or negatively impacted.

I therefore determine this information exempt pursuant to clause 7(1)(b).

Clients, investment managers, advisers and other third parties engaged by Funds SA have an expectation that their interactions remain confidential. They deal with Funds SA on the understanding that Funds SA is an exempt agency under the FOI Act. If this information is disclosed, this could result in parties being reluctant to do business with or provide information to Funds SA. This would hinder their ability to meet its objective and functions under its enabling legislation and be of detriment to Fund SA's clients.

I therefore determine this information exempt pursuant to clause 7(1)(c).

If disclosed, would have the effect of advertising these matters to their competitors. This would destroy or at least diminish any opportunities Funds SA may have and would benefit its competitors.

Document 3 is an internal working document as it contains material comprising advice and recommendations which were obtained or prepared for the purpose of decision making functions of Funds SA. It is important that Funds SA is able to provide full and frank briefings in documents provided to the Treasurer and non-exempt agencies.

Funds SA needs to be in a position where it can provide full and frank briefings in respect of investment strategies, policies and operations of Funds SA to the Treasurer, to ensure that public sector superannuation funds and funds of prescribed public authorities are managed appropriately, and any risks identified at an early stage.

I therefore determine this exempt pursuant to clause 9.

The funds in respect of which Funds SA has investment responsibility include funds belonging to the state and those of prescribed public authorities. If this information is made public the consequences could include Funds SA losing an advantage it has over its competitors and this could affect the value of the funds under management. Further, third parties dealing with Funds SA have an expectation that their dealings are confidential due to Funds SA being an exempt agency. Release of Funds SA documents may cause third parties to be deterred from dealing with them. This would also have an impact on the value of the funds.

I therefore determine this exempt pursuant to clause 15(a)(b).

Again, if Document 3 was disclosed, this could potentially cause Funds SA to lose an advantage over its competitors and cause investment opportunities to be lost or negatively affected. It would also substantially hinder Fund SA's ability to meet its legislated objective of achieving the highest return possible for its clients.

Disclosure could also adversely affect the operation of Fund SA in that, as an exempt agency, disclosure of the information it provides to my office, in the absence of any broader context could lead to misinformed conclusions and criticism.

I therefore determine this exempt pursuant to clause 16(1)(a)(b).

Exemptions

Clause 7 – Documents affecting business affairs concerning

- (1) *A document is an exempt document—*
- (a) *if it contains matter the disclosure of which would disclose trade secrets of any agency or any other person; or*
 - (b) *if it contains matter—*
 - (i) *consisting of information (other than trade secrets) that has a commercial value to any agency or any other person; and*
 - (ii) *the disclosure of which—*
 - (A) *could reasonably be expected to have an adverse effect on those affairs or to prejudice the future supply of such information to the Government or to an agency; and*
 - (B) *would, on balance, be contrary to the public interest; or*
 - (c) *if it contains matter—*
 - (i) *consisting of information (other than trade secrets or information referred to in paragraph (b)) concerning the business, professional, commercial or financial affairs of any agency or any other person; and*
 - (ii) *the disclosure of which—*
 - (A) *could reasonably be expected to have an adverse effect on those affairs or to prejudice the future supply of such information to the Government or to an agency; and*
 - (B) *would, on balance, be contrary to the public interest.*

Clause 9 — Internal Working Documents

- (1) *A document is an exempt document if it contains matter—*
- (a) *that relates to—*
 - (i) *any opinion, advice or recommendation that has been obtained, prepared or recorded; or*
 - (ii) *any consultation or deliberation that has taken place, in the course of, or for the purpose of, the decision-making functions of the Government, a Minister or an agency; and*
 - (b) *the disclosure of which would, on balance, be contrary to the public interest.*

Clause 15 – Financial and property interests

A document is an exempt document if it contains matter the disclosure of which—

- (a) *could reasonably be expected to have a substantial adverse effect on the financial or property interests of the State or an agency; and*
- (b) *would, on balance, be contrary to the public interest.*

Clause 16 – Agency operations

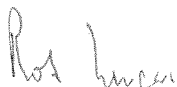
- (1) *A document is an exempt document if it contains matter the disclosure of which—*
- (a) *could reasonably be expected—*
 - (iv) *to have a substantial adverse effect on performance of agency's functions and contrary to public interest*

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the Act.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: <https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars>. Please visit the website for further information.

If you require any further information, please contact Vicky Cathro on 8226 9769.

Yours sincerely



Hon Rob Lucas MLC
Principal Officer

6 March 2021

Att.

Schedule of Documents

TRS20D2618 - Unfunded Superannuation Liability Analysis

Doc. No.	Date	Description of Document	# of pages	Determination Recommendation	Exemption Clause	Reason
1	29/05/2020	Letter to Treasurer from Chief Executive, Department of Treasury and Finance	3	Released in part	7(1)(a) - Contains trade secrets of any agency or any other person 9(1)(a)(ii) - Contains matter relating to consultation or deliberation for decision-making of the Government, a Minister or an agency & contrary to public interest	
2		Attachment 1 to Document 1	1	Released in full	15(a)(b) - Substantial adverse effect on State financial or property interests & contrary to public interest	
3		Attachment 2 to Document 1	4	Refused in full	7(1)(a) - Contains trade secrets of any agency or any other person 7(1)(b)(i)(ii)(A)(B) - Contains information of commercial value which disclosure would diminish or destroy & contrary to public interest	

Schedule of Documents

Doc. No.	Date	Description of Document	# of pages	Determination Recommendation	Exemption Clause	Reason
					7(1)(c)(i)(ii)(A)(B) - Contains information concerning the business, professional, commercial or financial affairs of any agency or person & contrary to public interest	
					9(1)(a)(i) - Contains matter relating to opinion, advice or recommendation prepared for decision-making of the Government, a Minister or an agency & contrary to public interest	
					9(1)(a)(ii) - Contains matter relating to consultation or deliberation for decision-making of the Government, a Minister or an agency & contrary to public interest	
					15(a)(b) - Substantial adverse effect on State financial or property interests & contrary to public interest	
					16(1)(a)(iv) - Substantial adverse effect on performance of agency's functions & contrary to public interest	

RELEASE

Superannuation Unfunded Liability Scenarios and Budget Impacts

Fully Funded Superannuation by 2036 (no payments 20-21 & 21-22)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net Operating Balance	1,35	(1,54)	(6,58)	(7,80)	(9,11)	(10,51)	(12,01)	(13,61)	(15,33)	(17,16)	(19,13)	(21,23)	(23,48)	(25,89)	(30,80)	(28,56)
Net Lending	1,35	(1,54)	(6,58)	(7,80)	(9,11)	(10,51)	(12,01)	(13,61)	(15,33)	(17,16)	(19,13)	(21,23)	(23,48)	(25,89)	(30,80)	(28,56)
Net Debt	539	1,105	1,116	1,127	1,138	1,148	1,159	1,170	1,181	1,192	1,203	1,214	1,225	1,236	313	(656)

positive indicates improvement in NOB
 positive indicates improvement in NL
 negative is deterioration in net debt

Fully Funded Superannuation by 2040 (no payments 20-21 & 21-22)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	2037-38	2038-39	2039-40
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net Operating Balance	1,35	(1,54)	(6,18)	(8,27)	(10,66)	(13,37)	(16,43)	(19,88)	(23,73)	(28,04)	(32,84)	(38,17)	(44,08)	(50,61)	(60,56)	(53,88)	(46,68)	(38,91)	(30,97)	(21,20)
Net Lending	1,35	(1,54)	(6,18)	(8,27)	(10,66)	(13,37)	(16,43)	(19,88)	(23,73)	(28,04)	(32,84)	(38,17)	(44,08)	(50,61)	(60,56)	(53,88)	(46,68)	(38,91)	(30,97)	(21,20)
Net Debt	539	1,105	1,278	1,460	1,650	1,848	2,056	2,273	2,500	2,738	2,986	3,245	3,515	3,798	3,160	2,488	1,782	1,039	258	(562)

positive indicates improvement in NOB
 positive indicates improvement in NL
 negative is deterioration in net debt

RELEASE IN PART

MINUTE

1/6/2020.
T20/022
T420P1751



Government
of South Australia
Department of Treasury
and Finance

MINUTES forming ENCLOSURE

File T&F16/0654

Doc No A1424462

To The Treasurer

UNFUNDED SUPERANNUATION LIABILITY ANALYSIS

Timing: ROUTINE — For Information only

Recommendations/Issues: It is recommended that you:

- Note we understand that NSW and Victoria may be considering ceasing their past service payments for the next two years and extending the fully funded date for their superannuation liabilities.
- Note how changes to the unfunded superannuation liability, the past service payments and the nominal superannuation interest expense impact on the budget position.
- Given the adverse NOB impact and no difficulty in accessing financial markets at this time there doesn't seem to be any reason to consider deferral of the current 2034 repayment strategy for the unfunded superannuation liability.

Noted

Rob Lucas

Hon Rob Lucas MLC
Treasurer

3/6/20

Background

- Superannuation liabilities represent the present value of estimated future benefit payments to defined benefit superannuation scheme members.
- The unfunded superannuation liability as at 30 June 2020 is estimated to be around \$14.5 billion. The estimated liability published in the 2019-20 MYBR for 30 June 2020 was \$14.2 billion. The increase in the unfunded superannuation liability is primarily due to a lower expected earnings rate on superannuation assets for



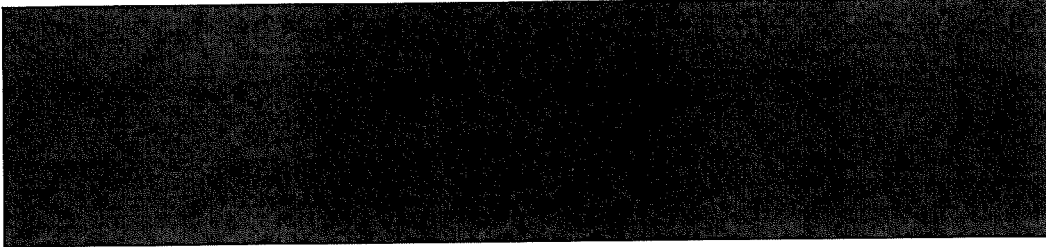
2019-20. At the time of the MYBR the earnings rate was 6% for 2019-20 whereas it is now -3.8% for the year.

- The current funding program aims to have the defined benefit schemes fully funded by 2034. To achieve this, past service payments are made each year.
- The whole of government balance sheet records the:
 - Unfunded superannuation liability, this liability is included in the calculation of net financial worth, net worth and net financial liabilities but it is not included in the calculation of net debt.
 - Past service payment which is a cash payment to reduce the unfunded superannuation liability (this payment increases net debt but does not impact on the NOB).
- The whole of government operating statement records the:
 - Nominal superannuation interest expense. The unfunded superannuation liability is effectively treated as a nominal borrowing and as such a nominal interest expense is calculated and recorded. The quantum of the nominal interest expense is calculated as the unfunded liability at the start of the year multiplied by the risk free interest rate and allowing for the budgeted past service payments during the year. This expense is a deterioration in the NOB and net lending.

Discussion

- We have been informed that several interstate jurisdictions are looking to extend their fully funded superannuation liability dates by ceasing their past service payments over the next 2 years and potentially moving to a fully funded date of 2040.
- In response to this 2 similar scenarios for our unfunded superannuation liability have been modelled to assess the budget impacts, these scenarios are:
 - Ceasing past service payments for the next 2 years and then resuming past service payments which results in a fully funded date of 2036; and
 - Ceasing past service payments for the next 2 years and extending the period to fully fund the superannuation liability to 2039-40.
- Attachment 1 provides a summary of the budget impacts for the 2 scenarios. The budget impacts have been calculated based on a comparison against the current budgeted case of a fully funded superannuation liability by 2034.
- Deferring two years of payments means there is a deterioration in NOB due to the nominal superannuation expenses (on a higher superannuation liability) exceeding the interest savings from lower borrowings to meet the past service payments. There is an initial improvement to net debt as past service payments are not made.
- As part of the analysis the 2 scenarios were run through the credit rating models for S&P and Moody's. There were no changes in the overall baseline scores for South Australia. This result assumes that all other factors / assessments are held constant.

- Funds SA were also consulted and have provided some detailed feedback and comments with regards to the impact on their overall cash flows and investment strategies. This feedback has been included for your information as Attachment 2.



- This adverse net operating budget and funds investment result would be true in all jurisdictions. We believe the likely rationale for considering the deferral of repayments was due to cash management where states believed that they may need this cash if they couldn't raise funds in the bond market. This risk has significantly ameliorated since this idea was raised.
- If improving the NOB impact was the objective of changing superannuation payments then the most beneficial change would be to fully fund the liability immediately (or as soon as possible). A fully funded liability would save around \$60m p.a. in the forward estimates. It would however increase net debt by \$13b. Of course we could not raise an additional \$13b in debt from markets in the short-term in any event.

David Reynolds
CHIEF EXECUTIVE

29 May 2020

Contact Officer:	Paul Williams
Telephone:	8226 2021
Email address	Paul.Williams2@sa.gov.au