



**Government  
of South Australia**

# Police Superannuation Board

## **2019-20 Annual Report**

SA Police Super  
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Date presented to Minister: 30 September 2020

To:

Hon. R Lucas, MLC

Treasurer

This annual report will be presented to Parliament to meet the statutory reporting requirements of Section 15 of the *Police Superannuation Act 1990* and the requirements of Premier and Cabinet Circular *PC013 Annual Reporting*.

This report is verified to be accurate for the purposes of annual reporting to the Parliament of South Australia.

Submitted on behalf of the Police Superannuation Board by:



(G Barton)

**Presiding Member**

**Police Superannuation Board**

30/09/2020



(J Gesty)

**Manager**

**Police Super**

30/09/2020

## From the Presiding Member

The Police Superannuation Board has the responsibility for the administration of the Police Superannuation Scheme (the Scheme) in accordance with the Police Superannuation Act 1990. The management of the Scheme's investments is the responsibility of Superannuation Funds Management Corporation of South Australia (Funds SA).

The Scheme was closed to new entrant police officers in 1990 and as at 30 June 2020 had a total membership of 2,830 (contributors, preserved members and pension recipients). The Board approved claims for invalidity benefits from six members during 2019-2020. The finalised claims were for total and permanent invalidity benefits. There were five new temporary disability pensions approved during the same period.

Pensions are paid on a fortnightly basis throughout the year and lump sum benefit payments to members were generally paid within two to seven days of members' exit dates from the Scheme. Excellent service delivery, including personal interviews, home visits, telephone, email and written responses to numerous enquiries and regular articles and information has been well established as a hallmark of the Scheme.

Police Super appointed a new manager (Jarrad Gesty) which along with his staff have continued to maintain the effectiveness and efficiency of the Scheme through process review and change, innovation and excellent service delivery. Importantly, working relationships with all of the Board's service providers are of a high order.

I would like to thank the Board and Police Super staff for their support and hard work through the year and their ability to enable remote working with minimal member impact as a result of COVID-19.



(G Barton)

**Presiding Member**

**Police Superannuation Board**



(J Gesty)

**Manager**

**SA Police Super**

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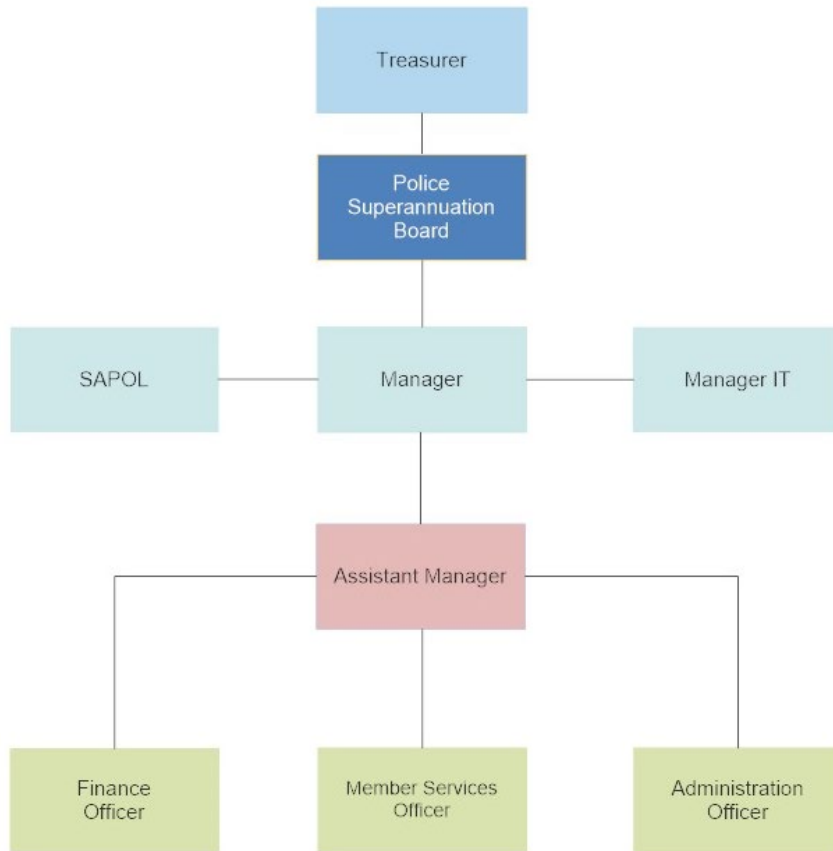
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## Overview: about the agency

### Our strategic focus

<p><b>Our Purpose</b></p>	<p>The Police Superannuation Board (the Board) was established in June 1990 under the Police Superannuation Act 1990.</p> <p>The Board has the responsibility for the administration of the Police Superannuation Scheme (the Scheme) in accordance with the Police Superannuation Act 1990. The management of the Scheme's investments is the responsibility of Superannuation Funds Management Corporation of South Australia (Funds SA). The Scheme provides defined pension/lump sum benefits to police officers who commenced employment with SAPOL on or before 1 June 1990. Police officers who commenced employment with SAPOL after 1 June 1990 are members of the Southern State Superannuation Scheme which is administered by Super SA.</p>
<p><b>Our Vision</b></p>	<p>The Board's vision is to provide members of the Scheme with quality superannuation services, including effective and efficient service delivery, together with readily accessible, relevant information and assistance.</p>
<p><b>Our Values</b></p>	<p><b>The Board's values are to:</b></p> <ul style="list-style-type: none"> <li>• act in members' best interests.</li> <li>• act with fidelity in all matters concerning the administration of the scheme.</li> <li>• deliver accurate, effective and informative communications on superannuation matters to members in a timely manner.</li> <li>• provide a fair and reasonable appeal and resolution of complaints process.</li> </ul>
<p><b>Our functions, objectives and deliverables</b></p>	<p><b>The Board's objectives are to:</b></p> <ul style="list-style-type: none"> <li>• provide leadership in the operation, management and administration of the Scheme.</li> <li>• provide serving members and superannuants with high quality superannuation services and ensure customer satisfaction.</li> <li>• provide timely, accurate, relevant and meaningful communications to serving members and superannuants.</li> <li>• oversee the management and financial reporting framework requirements of the Scheme.</li> <li>• develop and maintain practical policies and procedures which ensure compliance with all legislative and administration requirements.</li> </ul>

**Our organisational structure**



Section 9(3) of the Police Superannuation Act 1990 enables the Board to make use of the staff or facilities of an administrative unit of the SA Public Sector, with the approval of the Minister of that administrative unit. SA Police Super, a branch of SAPOL, provides administrative services to the Board. The annual budget for the Board’s administration costs is presented to the Board each year for its approval. The Board’s service level contract with the Commissioner of Police sets out specific services provided to the Board by SAPOL.

## Board Membership as at 30 June 2020

During 2019-2020 the Board met eleven times and the current Board and Deputy members are listed below:

Mr G A Barton	Appointed as Presiding Member by the Governor on the Minister's nomination (Deputy Member Ms A Pearce) (Appointment to 29 October 2020)
Superintendent K L Howie	Appointed as Member by the Governor on the Minister's nomination (Deputy Member Superintendent J Thomas) (Appointment to 29 October 2020)
Mr F Pit	Appointed as Member by the Governor on the Minister's nomination (Deputy Member Mr N Smith) (Appointment to 1 June 2021)
Sergeant B H Zimmermann	Appointed as Member by the Governor on the nomination of the Police Association of South Australia (Deputy Member Senior Constable First Class M Kent) (Appointment to 29 October 2020)
Senior Constable M J Carroll	Appointed as Member by the Governor on the nomination of the Police Association of South Australia (Deputy Member Senior Sergeant First Class T Milne) (Appointment to 29 October 2020)

## **Changes to the agency**

During 2019-20 there were no changes to the agency's structure and objectives as a result of internal reviews or machinery of government changes.

## **Our Minister**

The Hon Rob Lucas MLC, Treasurer, oversees the administration of SA Police Super.

## **Legislation administered by the agency**

*Police Superannuation Act 1990.*

## **Other related agencies (within the Minister's area/s of responsibility)**

On behalf of the Board, SA Police Super is responsible for managing the day to day operations of the Scheme in line with Police Superannuation Act 1990. Funds are managed by specialist investment manager, Funds SA. Funds SA manages the investments for the Scheme in accordance with section 11 of the Police Superannuation Act 1990 and the provisions of the Superannuation Funds Management Corporation of South Australian Act 1995. The current service level agreement between Funds SA and the Board was executed in April 2019. Funds SA provides this service under legislation. The agreement is reviewed on a three yearly basis or when a significant change occurs.



## **The agency's performance**

### **Performance at a glance**

Overview of the year ended 30 June 2020

- Total funds under management with Funds SA as at 30 June 2020 was \$1.94 billion, compared with \$1.98 billion as at 30 June 2019.
- The assets of the Scheme are invested by Funds SA under the defined benefit investment strategy.
- The net investment return from Funds SA for the Scheme as at 30 June 2019 was -1.2 percent.
- The total membership of the Scheme was 2,830 as at 30 June 2020 compared with 2,860 as at 30 June 2019.

### **Agency specific objectives and performance**

#### Targets 2020-21

- Conduct a review of office structure to ensure the best service is provided to members efficiently

## Financial performance

### Other financial information

The Scheme is made up of the Police Employer Account and the Fund Account for the purpose of funding pension and lump sum benefit payments as they arise.

### Police Employer Account

Since 1994 the State Government has adopted a strategy to fund its accruing and accrued past service superannuation liabilities by 30 June 2034. During 2019-2020, the State Government transferred \$72.7 million into the Employer Account (\$59.5 million in 2018-2019) to meet its past service superannuation liabilities in respect of the Scheme.

The following table provides a summary of the activity of the Police Employer Account during 2019-2020.

	2020	2019
	\$,000	\$,000
Opening balance	1,381	1,279
Plus		
Net investment revenue	(16)	104
Past service contributions	72	59
Employer contributions	21	22
Less		
Benefits	83	83
Closing balance	1,375	1,381

The SAPOL employer contribution for future service liabilities during 2019-2020 was 22 percent.

## Police Superannuation Fund Account

The following table provides a summary of the activity of the Fund Account during 2019-2020.

	2020 \$,000	2019 \$,000
Opening balance	596	572
Plus		
Net investment revenue	(6)	45
Member contributions	4	5
Less		
Benefits	27	26
Closing balance	567	596

## Actuarial Review

An actuarial review of the Police Superannuation Scheme as at 30 June 2017 was completed in June 2018. The review looked comparatively at the cost of the Police Employer Account against the proportion of benefits that can be met from the Fund Account. Actuarial reviews are undertaken every three years as required by Section 15 of the Police Superannuation Act 1990.

During 2019-2020 the Police Employer and the Fund Accounts' prescribed proportions of benefit payments for members of the Pension Superannuation Scheme were 76 and 24 percent respectively in line with the recommendations of Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2017. The next actuarial review will be undertaken in 2020.

## Risk management

### Fraud detected in the agency

Category/nature of fraud	Number of instances
Personal identity theft	0
Family member theft	0
Third party Corporate Credit Card Fraudulent Transactions	0

*NB: Fraud reported includes actual and reasonably suspected incidents of fraud.*

### Strategies implemented to control and prevent fraud

SA Police Super reports on the internal control framework to the Board at its meetings each month. SA Police Super maintains a Financial Management Compliance Program, Independent Review and Assessment Reporting Process, Fraud Policy, Risk Management Policy and Plan and a Management Reporting System.

### Public interest disclosure

Number of occasions on which public interest information has been disclosed to a responsible officer of the agency under the *Public Interest Disclosure Act 2018*:

0

Note: Disclosure of public interest information was previously reported under the *Whistleblowers Protection Act 1993* and repealed by the *Public Interest Disclosure Act 2018* on 1/7/2019.

## Reporting required under any other act or regulation

Act or Regulation	Requirement
Police Superannuation Act 1990	Section 31

The Board considered two appeals during 2019-2020 relating to insurance benefits approved in 1999 and 2003. The appeal in relation to the 1999 claim was denied. The Board's decision is currently under review by the South Australian Civil and Administrative Tribunal (SACAT). SACAT has not made a decision on this claim.

The Board has not finalised its decision in respect of the 2003 claim.

Act or Regulation	Requirement
Superannuation (Unclaimed Money and Lost Members) Act 1999 (Cth)	Police Super is required to report and pay unclaimed money entitlements to the ATO. No payments were forwarded to the Australian Taxation Office for 2019-2020 for unclaimed monies or lost members

## Public complaints

### Number of public complaints reported

No written complaints were received by the Board during 2019-2020.

## **Appendix: Audited financial statements 2019-20**



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## To the Presiding Member Police Superannuation Board

### Opinion

I have audited the financial report of the Police Superannuation Scheme for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Police Superannuation Scheme as at 30 June 2020, 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 financial report comprises:

- a Statement of Financial Position as at 30 June 2020
- an Income Statement for the year ended 30 June 2020
- a Statement of Changes in Member Benefits for the year ended 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Presiding Member of the Police Superannuation Board and the Manager, Police Super.

### 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 Police 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 Manager, Police Super and members of the Police Superannuation Board for the financial report**

The Manager, Police Super 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 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 that is free from material misstatement, whether due to fraud or error.

The members of the Police 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*, I have audited the financial report of the Police Superannuation Scheme for the financial year ended 30 June 2020.

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 Police Superannuation Scheme's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager, Police Super
- 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 Manager, Police Super and the Presiding Member of the Police 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.

A handwritten signature in black ink, appearing to read 'Andrew Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson

**Auditor-General**

23 September 2020

## Financial Statements for the year ended 30 June 2020

### Statement of Financial Position as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and Cash Equivalents		896	542
Contributions Receivable		1,807	766
Receivables		8	9
<b>Investments</b>			
Inflation Linked Securities A			-
Property A		332,688	339,712
Australian Equities A		399,541	445,008
International Equities A		600,699	570,032
Diversified Strategies – Growth A		307,415	329,395
Diversified Strategies – Income		250,741	265,656
Cash		51,089	29,326
<b>Total Assets</b>		<b>1,944,884</b>	<b>1,980,446</b>
<b>Liabilities</b>			
Benefits Payable		(3,594)	(2,306)
Payables		(135)	(201)
<b>Total Liabilities Excluding Member Benefits</b>		<b>(3,729)</b>	<b>(2,507)</b>
<b>Net Assets Available for Member Benefits</b>		<b>1,941,155</b>	<b>1,977,939</b>
<b>Member benefits</b>			
Defined Benefit Member Liabilities	3	2,249,709	2,256,847
<b>Total net assets / (liabilities)</b>		<b>(308,554)</b>	<b>(278,908)</b>
<b>Equity</b>			
Defined benefits that are over or (under) funded	3	(308,554)	(278,908)
<b>Total equity</b>		<b>(308,554)</b>	<b>(278,908)</b>

**Income Statement for the year ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
<b>Superannuation activities</b>			
Changes in assets measured at fair value		(8,444)	165,419
Other revenue		8	24
<b>Total revenue</b>		<u>(8,436)</u>	<u>165,443</u>
Investment Expense	7	(14,093)	(14,897)
Administrative Expense	6	(815)	(870)
<b>Total Expenses</b>		<u>(14,908)</u>	<u>(15,767)</u>
<b>Profit from superannuation activities</b>		(23,344)	149,676
Net change in defined benefit member liabilities		<u>(6,302)</u>	<u>(70,811)</u>
<b>Net profit/(loss)</b>		(29,646)	78,865

**Statement of Changes in Member Benefits for the year ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
<b>Opening balance as at 1 July</b>		2,256,847	2,209,364
<b>Contribution revenue</b>			
Past service liability contributions		72,715	59,506
Employer contributions		23,571	21,559
Member contributions		4,349	4,964
<b>Total</b>		<u>100,635</u>	<u>86,029</u>
<b>Benefits paid</b>			
Pensions		(97,761)	(90,189)
Commutation lump sums		(6,860)	(7,570)
Lump sums		(9,454)	(11,598)
<b>Total</b>		<u>(114,075)</u>	<u>(109,357)</u>
Net change in defined benefits		<u>6,302</u>	<u>70,811</u>
<b>Closing balance as at 30 June</b>		2,249,709	2,256,847

**Statement of Cash Flows for the year ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Bank interest received		9	25
Administration expenses		(884)	(865)
<b>Net outflows of cash from operating activities</b>		<u>(875)</u>	<u>(840)</u>
<b>Cash flows from investing activities</b>			
Receipts from the sale of investments from Funds SA		87,135	83,375
Payments to Funds SA for the purchase of investments		(72,715)	(59,506)
<b>Net inflows from investing activities</b>		<u>14,420</u>	<u>23,869</u>
<b>Cash flows from financing activities</b>			
Contributions from past service liability		72,715	59,506
Contributions from employer		22,543	21,563
Contributions from members		4,338	4,966
<b>Benefits paid to members</b>			
Pensions		(97,015)	(89,771)
Commutation lump sums		(6,860)	(7,570)
Lump sums		(8,910)	(11,627)
<b>Net outflows from financing activities</b>		<u>(13,190)</u>	<u>(22,933)</u>
<b>Net increase/decrease in cash</b>		355	96
Cash at the beginning of the financial period		542	446
<b>Cash at the end of the financial period</b>		896	542

**Statement of Changes in Equity for the year ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
<b>Opening balance as at 1 July</b>	3	(278,908)	(357,773)
Net operating result		<u>(29,646)</u>	<u>78,865</u>
<b>Closing balance as at 30 June</b>	3	(308,554)	(278,908)

## Notes to and Forming Part of the Financial Statements

### 1. Objectives and Funding

#### (a) Police Superannuation Scheme

The Police Superannuation Scheme (the Scheme) was created pursuant to the *Police Superannuation Act 1990* (the Act). The Act provides defined superannuation benefits for Police Officers who are contributors to the Scheme.

Contributors to the Scheme are members of the Pension Division who are entitled to a pension based benefit. The Pension Division was closed to new members in May 1990.

Pursuant to the Act, contributors make contributions to the Scheme based on a percentage of their salary, with the standard contribution rate being between five and six percent. A contribution account is maintained for each contributor. There are no provisions under the Act for contributing members to purchase additional benefits.

The Act requires that contributions to the Scheme are paid to the Treasurer, who in turn deposits those contributions into the Scheme. The Scheme is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

The Scheme is made up of one division, being the Pension Division. The Pension Division consists of the Fund Old Scheme Account (the Fund) and the Police Employer Account (the Govt) and contributions paid to each account and the accretions arising from the investment of those contributions.

#### (b) Police Superannuation Board

The Police Superannuation Board (the Board), established under the Act, is responsible for the administration of the Scheme. The Act also provides the Board with the necessary powers to administer the Scheme. The Board, with the approval of the relevant Minister, has contracted the South Australia Police Department (SAPOL) to provide administrative services.

Pursuant to the Act, the Board is required to determine a rate of return which is credited to each contribution account within the Fund 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 the investment of the Fund.

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

Funds SA is 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 Fund and the Police Employer Account, reference should be made to the financial report of Funds SA. The investment assets, liabilities, income and expense contained in these financial statements are related to the investment activities of Funds SA, a SA Government entity.

**(d) Funding Arrangements**

Pursuant to section 14 of the Act, all benefit payments are met from the Consolidated Account or a Special Deposit Account established for that purpose which is then reimbursed from the Fund and the Police Employer Account within the Pension Division. The Fund proportion is that amount charged against the contributor's contribution account. The prescribed proportion is determined by the Board, in accordance with section 14(3) of the Act, taking into account the most recent actuarial review.

The Treasurer may also seek reimbursement of the employer portion of the benefit payment from the employer contributions made by SAPOL which are deposited into the Police Employer Account. Employer contributions are based on a percentage of salary at rates based on actuarial valuations. The rate for 2019-2020 was 22 percent.

For 2019-2020 the Police Employer Account's and the Fund's prescribed proportions of benefit payments for members of the Scheme were 76 percent and 24 percent respectively in accordance with the recommendations of Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2017. The next review is scheduled for the 2020/2021 financial year with the balance sheet date of 30 June 2020.

For the year ended 30 June 2020 \$22.6 million (\$21.6 million in 2018-2019) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

Since 30 June 1994 the Government adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employer contributions to meet the accruing liability for current employees. For the year ended 30 June 2020 the Government transferred a further \$72.7 million (\$59.5 million in 2018-2019) to the Police Employer Account to meet liabilities in respect of the Scheme.

## 2. Significant Accounting Policies

### (a) Basis of Accounting

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, except as provided below.

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

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

The financial statements were signed by Mr G Barton, Presiding Member and Mr J Gesty, Manager Police Super on 21 September 2020.

### (b) New Accounting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2020 reporting period. The assessment of the impact of these new standards and interpretations is set out below.

#### **AASB16 – Leases**

AASB 16 is first applicable for the year ending 30 June 2020. Assets and liabilities are to be reported on the statement of financial position for all leases with a term of more than 12 months, even if they were previously classified as an operating lease. Police Super has assessed the impact of the new standard and determined it has no material 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 139.

*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, if any, by the Scheme 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) Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- i. The rights to receive cash flows from the asset have expired; or
- ii. The Scheme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- iii. Either:
  - a) the Scheme has transferred substantially all the risks and rewards of the asset, or
  - b) the Scheme has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset



The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

**(d) 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 financial 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.

**(e) 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 assets measured at fair value' through the income statement. Interest earned is recorded in 'Interest revenue'.

**(f) 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 to 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.

**(g) Cash and Cash Equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at bank and in 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.

**(h) 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 when the Scheme becomes obliged to make future payments in respect of the purchase of these goods or services.

**(i) 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 2020 but paid after 30 June 2020. These also include pension payments payable on or prior to 30 June 2020 but paid after 30 June 2020.

**(j) Revenue Recognition**

*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.

**(k) 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.

**(l) 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.

**(m) Foreign Currency**

The functional and presentation currency of the Scheme is Australian Dollars, which is the currency of the primary economic environment the Scheme operates. 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.

**(n) Investments**

**(i) Property A**

The Property A portfolio comprises two sub-sectors:

***Listed property trusts***

The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

***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.

**(ii) 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 the balance date.

**(iii) 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 the 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 the balance date where applicable.

**(iv) Diversified Strategies - Growth A**

The Diversified Strategies - Growth A portfolio comprises investments in domestic (Australian) and overseas private equity funds and domestic (Australian) and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers.

Both domestic and international funds valuations are generally in accordance with the International Private Equity 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 the balance date where applicable.

**(v) Diversified Strategies - Income**

The Diversified Strategies - Income portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. 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 the balance date where applicable.

**(vi) 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.

***(o) 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 (n)). 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 2020, funds of the Scheme were invested in the Defined Benefit option.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to the Defined Benefit investment option discussed in the preceding paragraph.

**(p) Member Liabilities**

Member liabilities are measured at the amount of accrued benefits, with defined benefit member liabilities 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.

**(q) 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 represented 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 (DCF 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 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.

### 3. Liability for Accrued Benefits

The present value of the accrued benefit liabilities of the Scheme has been determined by Ms E Conway, FIAA of Mercer Consulting (Australia) Pty Ltd and is shown below.

The accrued benefit liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to the balance date and were based on membership data as at the balance date.

The expected future benefit payments have been determined using the 2017 triennial review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review's salary promotion scale has also been used, while general salary increases of 2.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. The expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 6.5 percent per annum above CPI has been applied.

This has decreased from the previous financial year. The previous year used general salary increases of 4 percent per annum above the level of increase in the Consumer Price Index (CPI) were allowed for. The expected future benefit payments were discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 7 percent per annum above CPI was applied.

#### Accrued Benefits

	2020 \$'000	2019 \$'000
	Pension Division	Pension Division
Changes in the liability for accrued benefits:		
Liability for accrued benefits at 1 July	2,256,847	2,209,364
Add: Contributions revenue	100,635	86,029
Less: Benefits Paid	114,075	109,357
Add: Benefits Expense	6,302	70,811
Liability for accrued benefits at 30 June	2,249,709	2,256,847
Represented by		
Fund Account	539,933	541,647
Police Employer Account	1,709,776	1,715,200
Totals	2,249,709	2,256,847

Pursuant to the Act, actuarial reviews of the Scheme must be conducted every three years to address the cost of the Scheme to Government and the proportion of future benefits that can be met from the Fund. The actuarial reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

During 2019-2020 the funding proportion for the Fund Old Scheme Account was 24 percent and the Government contribution for future service liabilities for 2019-2020 was 22 percent.

The following table illustrates the unfunded liability of the Scheme as at 30 June 2020 and the previous year.

#### Unfunded Liability

	2020 \$'000 Pension Division	2019 \$'000 Pension Division
Liability for accrued benefits at 30 June	2,249,709	2,256,847
Less net assets available to pay benefits at 30 June	1,941,155	1,977,939
Unfunded liability at 30 June	308,554	278,908
Represented by		
Fund Account	(26,421)	(54,600)
Police Employer Account	334,975	333,508
Totals	308,554	278,908

The Government adopted a policy on 30 June 1994 of fully funding its superannuation liabilities with a target of achieving full funding by 2034. To achieve its funding target the Government transfers an amount of past service liability contributions each year to the Scheme in addition to the current employer contributions paid by SAPOL.

#### 4. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Scheme and include benefits which members would be entitled to receive on termination of membership of the Scheme.

When members resign from the Scheme, they have two options. Firstly, they can elect to take cash refunds of their own contributions, accumulated with interest, together with preserved employer benefits as required by Commonwealth Superannuation Guarantee legislation. Alternatively, they can elect to take fully vested, preserved benefits which will be based on their full accrued entitlements at the date of resignation and will be increased during preservation in line with increases in the CPI.

The vested benefits shown below have been determined by Ms E Conway, FIAA of Mercer Consulting (Australia) Pty Ltd based on the assumption that all resignation benefits will be taken in the form of fully preserved benefits. The value of vested benefits has then been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

### Vested Liabilities

	2020 \$'000	2019 \$'000
	Pension Division	Pension Division
Fund Account	569,054	566,247
Police Employer Account	1,801,842	1,792,899
Totals	2,370,896	2,359,146

## 5. Guaranteed Benefits

The following guaranteed superannuation benefits are payable to contributors of the Scheme and are set out in the Act:

- Age retirement lump sum (age 50 to 55).
- Age retirement pension with commutation lump sum option (age 55 and over).
- Age retirement lump sum (age 55 and over).
- Total and permanent incapacity (under age 60), based on contributors age 60 age retirement pension benefit.
- Death benefit pension payable to a surviving eligible spouse (lawful, de facto or same sex) with commutation lump sum option.
- Death benefit pension payable to an eligible child (under age 16 or aged between 17 and 25).
- Death benefit lump sum payable to deceased contributors' estate if not survived by an eligible spouse or child.

## 6. Administration Expenses

Administration expenses incurred by the Board are financed from the Fund Old Scheme Account and the Police Employer Account in the prescribed proportions of 30 and 70 percent respectively, in accordance with section 10(7) of the Act.

Administration expenses incurred by the Scheme for 2019-2020 amounted to \$815,000 (\$870,000 in 2018-2019) of which the Fund's proportion was \$245,000 (\$262,000 in 2018-2019) and the Employer's proportion was \$570,000 (\$608,000 in 2018-2019). Of the \$815,000, \$731,000 (\$762,000 in 2018-2019) was paid to SA Government entities

	Total 2020 \$'000	Total 2019 \$'000
Administration expenses	815	870



## 7. Direct Investment Expenses

The direct investment expenses comprise fees paid to Funds SA. Funds SA advises the amount based on the Scheme's proportionate investment. The fees paid to Funds SA during 2019-2020 are shown below.

	Total 2020 \$'000	Total 2019 \$'000
Direct investment expenses	14,093	14,897

## 8. Remuneration of Board Members

The following are members of the Board who served during 2019-2020, along with the period served.

Board member	Period Served during 2019-2020		
Graeme Barton (APM)	01/07/2019	to	30/06/2020
Keryl Howie (APM)*	01/07/2019	to	30/06/2020
Ferdi Pit	01/07/2019	to	30/06/2020
Bernadette Zimmermann*	01/07/2019	to	30/06/2020
Mark Carroll (APM)*	01/07/2019	to	30/06/2020
Deputy member	Period Served during 2019-2020		
Alannah Pearce*	01/07/2019	to	30/06/2020
Julie Thomas*	01/07/2019	to	30/06/2020
Neil Smith	01/07/2019	to	30/06/2020
Michael Kent*	01/07/2019	to	30/06/2020
Trevor Milne*	01/07/2019	to	30/06/2020

Board and Deputy members remuneration is set according to State Government guidelines for Statutory Authorities.

\* In accordance with the Department of the Premier and Cabinet Circular No. 16, Board and Deputy members who are government employees do not receive remuneration for their board membership. Board and Deputy members who are contributors of the Scheme contribute on the same terms as other contributors.

Total remuneration received or due and receivable by Board and Deputy members of the Board in 2019-2020 was \$10,000 (\$10,000 in 2018-2019). Total remuneration included superannuation of \$627 (\$600 in 2018-2019).

The number of Board and Deputy members whose remuneration was within the following bands is as follows:

Total Remuneration	Number of Board and Deputy Members	
	2020	2019
\$1 - \$10,000	3	3

## 9. Related Parties

Related parties of the Police Superannuation Scheme include all key management personnel and their close family members, all Cabinet Ministers and their close family members and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.

### Key management personnel

The key management personnel of the Police Superannuation Board include the Minister for Finance and the governing board members who have responsibility for the strategic direction and management of the Police Superannuation Board.

Compensation	2020 \$'000	2019 \$'000
Salaries and other short-term employee benefits	10	10
Other long-term employee benefits	1	1
Total	11	11

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

### Transactions with other government entities

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

## 10. Remuneration of Auditors

Audit amounts paid or due and payable are paid to the Auditor-General's Department (an SA Government Entity) for the audit of the Scheme. No other services were provided by the Auditor-General's Department.

	Total 2020 \$'000	Total 2019 \$'000
Audit fees paid or due and payable	24	24

2019-20 Audit fees are estimated to be \$23,700 (\$23,700 for 2018-19).

## 11. Coronavirus (COVID-19) impact

### Background

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on the domestic and global economy and equity, debt and commodity markets.

Police Super has considered the impact of COVID-19 and other market volatility 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.

Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how COVID-19 and its social and economic consequences will follow, these matters represent reasonable and supportable forward-looking views as at the reporting date.

### *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 2020 and 2021.

The Police Super Scheme is a closed defined benefit scheme. The SA Police Super Act 1990 – does not allow for the early release of super. As a result, this does not impact Police Super or its members.

### Processes applied

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

- 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 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 Police Super'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 and uncertainty in valuations, the Scheme 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 and transfers within the fair value hierarchy. The Scheme's financial instruments include a portfolio of unlisted equity investments which, in accordance with the Scheme's accounting policies, are measured at FVTPL. The determination of the financial instruments' carrying value included a consideration of the impact of COVID-19.

### *Defined benefit member liabilities*

Given recent market volatility and uncertainty on future investment valuations, the Scheme 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. As a result, the assumptions used this year decreased. Refer to Note 3 for more information.

### *Risk management*

The Scheme's risk management framework continues to be applied across the Scheme's operations. The Scheme 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 Scheme's risk management framework.

The management of liquidity risk is a key element of the Scheme's investment process. Our approach to managing liquidity is approved by the Scheme and implemented by management. The Scheme is focused on the effects of the global COVID-19 pandemic and is monitoring it as it unfolds, specifically:

- Funds SA actively manage the Investment Option in line with its long-term investment strategy;
- Funds SA continue to monitor and respond to global investment markets;
- we manage the Scheme's cash flow on a daily basis;
- we prepare for events that may affect our liquidity position;
- we stress-test the portfolio for a range of possible scenarios.

## 12. Financial Instruments

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

#### **a) Market Risk**

Market risk is the risk that investment returns generated by the different financial markets will be volatile and will underperform long-term expectations over the short / medium term.

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; and
  - ensuring asset allocations for different investment options are consistent with the time horizon of each.

## I. Currency Risk

Currency risk is a 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 A, Diversified Strategies Growth B, Diversified Strategies Income, Long Term Fixed Interest and Inflation Linked Securities B asset classes are fully hedged to Australian dollars.
- Foreign currency exposures over the developed markets component of the International Equities A, International Equities Passive A, International Equities B and International Equities Passive B asset classes are 40% 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.

## II. Interest Rate Risk

Interest rate risk is the risk that a movement in interest rates will cause the value of interest rate sensitive securities to underperform expectations.

Funds SA manages interest rate risk through:

- ensuring asset allocations for different investment options are consistent with the time horizon of each; and
- the use of specialist external investment managers to manage Funds SA's cash and fixed interest portfolios.

## 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 net market value (fair value) with changes in net market 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 products 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 asset class. The following tables show the market risk around expected average returns for each asset class.

**2020**

<b>Investment asset class</b>	<b>Average Return</b>	<b>Market Risk</b>	<b>Potential impact of market risk (+/-) on Income Statement</b>
	<b>%</b>	<b>%</b>	<b>+/- \$000</b>
Cash	1.1	1.0	402
Property A	4.9	9.0	30 258
Australian Equities A	9.4	18.1	76 432
International Equities A	8.0	17.7	103 610
Diversified Strategies Growth A	8.9	13.4	42 666
Diversified Strategies Income	6.1	6.1	15 750

**2019**

<b>Investment asset class</b>	<b>Average Return</b>	<b>Market Risk</b>	<b>Potential impact of market risk (+/-) on Income Statement</b>
	<b>%</b>	<b>%</b>	<b>+/- \$000</b>
Cash	3.3	1.0	231
Inflation Linked Securities A	4.2	7.0	583
Property A	6.3	9.3	29 799
Australian Equities A	7.3	17.9	83 782
International Equities A	7.4	15.5	83 040
Diversified Strategies Growth A	8.3	12.0	35 282
Diversified Strategies Income	6.2	7.2	19 163

The statistics shown above are averages calculated over 10 years, net of investment management fees and gross of tax. These investment statistics have zero percent tax rate applied and exclude franking credits.

Market risk is a useful historical measure of the variability of returns earned by an investment portfolio.

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.

**2020**

<b>Investment Option</b>	<b>Sensitivity variable</b>	<b>Standard Deviation</b>	<b>Expected Nominal Return</b>	<b>Change in Investment assets \$'000</b>
Define Benefit	Nominal standard deviation	10.1%	7.6%	196,159
<b>Total</b>				<b>196,159</b>

**2019**

<b>Investment Option</b>	<b>Sensitivity variable</b>	<b>Standard Deviation</b>	<b>Expected Nominal Return</b>	<b>Change in Investment assets \$'000</b>
Define Benefit	Nominal standard deviation	10.2%	7.7%	201,871
<b>Total</b>				<b>201,871</b>

**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 net market 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. The Scheme does not have any significant exposure to any individual counterparty or industry. The credit risk is monitored by Funds SA through ongoing reviews of the investment managers.

The Schemes Credit Risk is with 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.

The management of liquidity risk is a key element of the Scheme's investment process. Our approach to managing liquidity is approved by the Scheme and implemented by management. Even though the Early Release of Super provisions do not impact Police Super we are focused on the effects of the global COVID-19 pandemic and are monitoring it as it unfolds, specifically:

- Funds SA actively manage the Investment Option in line with its long-term investment strategy;
- Funds SA continue to monitor and respond to global investment markets;
- we manage the Scheme's cash flow on a daily basis;
- we prepare for events that may affect our liquidity position;
- we stress-test the portfolio for a range of possible scenarios.

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

- Firstly, 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 option is set at a level sufficient to manage expected cash redemptions.
- Secondly, a large proportion of each investment option is invested in highly liquid investments such as actively traded equities, unit trusts or securities with short-term maturities.
- Thirdly, monitoring the liquidity of the fund on a daily basis to ensure prospective client cash outflows and switches can be met.

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.

<b>30 June 2020</b>	<b>Less than 3 months</b>	<b>Total Contractual Cash Flows</b>	<b>Carrying Amount Liabilities</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Benefits payable	3,594	3,594	3,594
Payables	135	135	135
Vested benefits <sup>(i)</sup>	2,370,896	2,370,896	2,370,896
<b>Total</b>	<b>2,374,625</b>	<b>2,374,625</b>	<b>2,374,625</b>

<b>30 June 2019</b>	<b>Less than 3 months</b>	<b>Total Contractual Cash Flows</b>	<b>Carrying Amount Liabilities</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Benefits payable	2,306	2,306	2,306
Payables	201	201	201
Vested benefits <sup>(i)</sup>	2,359,146	2,359,146	2,359,146
<b>Total</b>	<b>2,361,653</b>	<b>2,361,653</b>	<b>2,361,653</b>

<sup>(i)</sup> 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) Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<b>Financial assets at fair value through profit or loss</b> <i>(Level 1 and level 3 are not relevant to the Scheme)</i>	<b>Level 2</b> <b>\$'000</b>
<b>30 June 2020</b>	
Unlisted managed investment schemes	
Funds SA	<u>1,942,172</u>
	<u>1,942,172</u>
<b>30 June 2019</b>	
Unlisted managed investment schemes	
Funds SA	<u>1,979,129</u>
	<u>1,979,129</u>

**e) Derivative financial instruments**

Derivatives can be defined as financial contracts whose value depend on, or are 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 and exchange-traded futures.

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

**13. Subsequent Events**

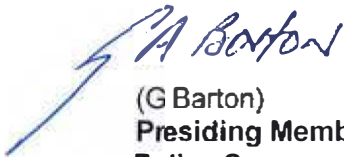
No significant events after the balance sheet date.

## Certification of the Financial Report for 30 June 2020

We certify that the:

- financial statements of the Police Superannuation Scheme:
  - are in accordance with the accounts and records of the authority; and
  - comply with the relevant Treasurer's instructions; and
  - comply with relevant accounting standards; and
  - present a true and fair view of the financial position of the Scheme as at 30 June 2020 and the result of its operations and cash flows for the financial year.

Internal controls employed by the Police Superannuation Scheme over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



(G Barton)  
**Presiding Member**  
**Police Superannuation Board**  
21/09/2020



(J Gesty)  
**Manager**  
**Police Super**  
21/09/2020