

CHAPTER 5: ASSET AND LIABILITY MANAGEMENT

5.1 NET WORTH

The Government's capital investment strategy is aimed at increasing the Government's capacity to deliver services to the community to achieve desired social and economic outcomes. The services delivered and assets acquired are funded from taxes, Commonwealth grants, debt and accumulated funds of the Government.

The Statement of Financial Position provides details of all Government assets (including infrastructure and other long-life assets) and of the liabilities (including debt and employee entitlements) incurred in funding the assets and services.

New South Wales Total Public Sector net worth (i.e. total assets less total liabilities) has increased from \$63.9 billion as at 30 June 1994 to \$72.2 billion as at 30 June 1998. This comprised \$125.6 billion of total assets less \$53.4 billion of liabilities. Net worth is expected to increase to approximately \$73.5 billion as at 30 June 1999.

The net worth of the General Government Sector as at 30 June 1998 was \$31.3 billion, and is expected to increase by 7.7 percent to \$33.7 billion at 30 June 1999 and by 35.8 percent from 30 June 1998 to 30 June 2003. This increase reflects the Government's commitment to maintain the net worth of the General Government in real terms and to enhance the capacity to deliver services to the community.

Table 5.1: General Government Sector Statement of Financial Position 1998-2003, as at 30 June

	1998	1999	2000	2001	2002	2003
	Actual	Revised	Budget	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
ASSETS						
Current Assets						
Cash	1,803	860	672	345	1,007	1,289
Investments	967	1,100	1,028	1,001	955	1,044
Receivables	2,070	1,719	1,700	1,802	1,865	1,949
Inventories	122	136	149	170	150	159
Other	12	48	56	57	58	57
Total Current Assets	4,974	3,863	3,605	3,375	4,035	4,498
Non-Current Assets						
Property, plant and equipment	59,307	60,912	62,309	63,475	64,825	66,308
Investments	2,586	2,697	2,803	3,001	3,174	3,423
Receivables	2,721	2,779	2,956	3,088	3,231	3,377
Inventories	109	115	117	115	118	107
Other	539	573	599	632	667	702
Total Non-Current	65,262	67,076	68,784	70,311	72,015	73,917
Total Assets	70,236	70,939	72,389	73,686	76,050	78,415
LIABILITIES						
Current Liabilities						
Accounts Payable	1,743	1,557	1,586	1,620	1,675	1,791
Borrowings	3,346	5,446	3,667	5,109	2,198	4,272
Employee Entitlements	378	819	849	871	995	1,073
Superannuation	1,450	...	...	...	1,220	1,196
Other	967	383	391	400	406	406
Total Current	7,884	8,205	6,493	8,000	6,494	8,738
Non-Current Liabilities						
Borrowings	13,595	13,662	14,283	11,286	12,926	10,669
Employee Entitlements	2,688	2,460	2,582	2,688	2,688	2,730
Superannuation	10,323	8,056	8,301	9,101	8,684	8,509
Other	4,458	4,839	4,841	4,939	5,102	5,267
Total Non-Current Liabilities	31,064	29,017	30,007	28,014	29,400	27,175
Total Liabilities	38,948	37,222	36,500	36,014	35,894	35,913
NET WORTH	31,288	33,717	35,889	37,672	40,156	42,502
Equity						
Reserves	9,560	9,768	9,770	9,764	9,758	9,752
Accumulated Funds	21,728	23,949	26,119	27,908	30,398	32,750
TOTAL EQUITY	31,288	33,717	35,889	37,672	40,156	42,502

Table 5.1 shows the projected trend in the composition of the net worth of the General Government Sector from 1998 to 2003. This shows both an estimated increase in total assets and a decrease in total liabilities. This will be achieved by expected sustained General Government surpluses over the forward estimate period

5.2 ASSET MANAGEMENT

The increase in General Government total assets primarily reflects an increase in infrastructure and other long-life physical assets (fixed assets), which comprise 85 percent of the General Government total assets as at 30 June 1999. These fixed assets are projected to increase by 2.3 percent (\$1.4 billion) from 30 June 1999 to \$62.3 billion as at 30 June 2000.

This increase in total assets reflects the Government's capital investment strategy to increase the Government's capacity to deliver services to the community. This investment plays a key role in the growth and development of the State economy by providing the basic infrastructure required by industry and for urban and rural development throughout New South Wales. In addition, it provides essential social, cultural and recreational facilities and simultaneously creates employment.

The increase in the value of infrastructure assets also reflects the Government's strategies to minimise the "whole of life" cost of assets. Whole of life costs include both the cost of capital investment and all maintenance costs.

This strategy stresses that capital investments must be linked to the objectives of the agency and the overall strategy of the Government, including non-acquisition options. It also recognises that maintenance costs can exceed the original acquisition cost. Agencies are therefore required to implement asset maintenance plans to properly maintain the physical assets in accordance with the Government's fiscal strategy, and develop long-term strategies to minimise the cost of maintenance over the life of the assets.

The key priorities of the State's capital investment strategy for 1999-2000 and future years are:

- ◆ Ongoing investment in the State's infrastructure;
- ◆ The Roads and Traffic Authority's investment in the improvement of the State's road network;
- ◆ A 12 year construction plan to transform the State's public transport network for the next century.
- ◆ Major hospital projects, including the rebuilding of Nepean Hospital and the redevelopment of Blacktown, Mt Druitt and Sutherland Hospitals. In addition, rural hospitals are to be completed at Tweed Heads, Broken Hills, Coffs Harbour and Dubbo; and
- ◆ Completion of Olympic facilities and sports venues.

5.3 ASSET ACQUISITION BUDGET INITIATIVES BY POLICY AREA

Law, Order and Public Safety

Asset acquisitions will increase by 84.3 percent in real terms from 1996-97 to \$263 million in 1999-2000, with an increase of 15.6 percent in real terms (\$35.6 million) projected for 1999-2000. This mainly reflects large increases in the police program. Other increases include a considerable increase for Corrective Services for the construction of new gaols and other gaol redevelopments, as well as new fire stations and expansion of equipment.

Education

Asset acquisitions fluctuate in line with overall priorities, the availability of Commonwealth funding, the need for new educational facilities and the ongoing requirements for the upgrading of existing infrastructure.

Expenditure on the education program will increase by \$35.9 million (14 percent in real terms) to \$292.4 million in 1999-2000. The increase in 1999-2000 mainly reflects expenditure on the Sydney Conservatorium High School and the Conservatorium of Music and an increase in the construction of new primary and secondary school buildings.

Health

NSW Health's asset acquisition program provides for the replacement and maintenance of health facilities and equipment with a written down replacement value of almost \$5 billion. In addition, the program supports the redistribution of health facilities to growth areas of the State and it enables the upgrading of facilities in line with modern health care practices.

The 1999-2000 Budget maintains a high level of construction activity of \$449.2 million. Significant projects include the replacement of Hickman House at Wollongong Hospital, the Central Sydney Resource Transition Program, construction of a new hospital at Coffs Harbour and the redevelopment of major hospitals at Campbelltown, Camden, Blacktown, Mt Drutt and Nepean.

The program allows for the commencement of a number of new works including the Shoalhaven redevelopment and the second stage of the Multi-Purpose Services program.

Social and Community Services

Asset acquisitions will total \$33.2 million in 1999-2000, a real increase of 8.7 percent. The largest component of this relates to capital projects to be undertaken by the Department of Community Services.

Expenditure by the Department of Community Services has increased by over 50 percent in real terms since 1996-97. A further real increase of 7.1 percent to \$29.3 million is estimated for 1999-2000, primarily reflecting the Department's upgrading works at its residential facilities, Year 2000 rectification works and the introduction of a centralised Call Centre.

Housing, Water, Sewerage and the Environment

Asset acquisitions between 1996-97 and 1999-2000 have declined by \$129.2 million in real terms, or 69 percent. This has been due mainly to the completion of Olympic housing and accommodation projects. Further, it is offset by capital grants for housing expenditure to Public Trading Enterprise Sector agencies.

In 1998-99, there was a decline in asset acquisitions of \$87.9 million in real terms, or 66 percent. These was largely offset by capital grants for housing expenditure to the Public Trading Enterprise.

In 1999-2000, asset acquisitions are expected to increase by \$13.2 million in real terms, or 29 percent. This reflects a \$2 million increase in coastal land acquisitions by the Department of Urban Affairs and Planning and a \$15.7 million increase in other land purchases. This increase is offset by reduced acquisitions by the Sydney Harbour Foreshore Authority of \$4.5 million reflecting the completion of development projects.

Recreation and Culture

Over the period 1996-97 to 1999-2000, asset acquisitions are expected to decline by \$43.9 million (13.6 percent in real terms), although movements between years have fluctuated. The overall decline and the annual fluctuations reflects the completion or near completion of many Olympic and related projects.

Expenditure peaked in 1997-98 at \$634.6 million (an increase of 96.3 percent in real terms) with construction of the Royal Agriculture Society's new premises at Homebush Bay.

Agriculture, Forestry and Fishing

Asset acquisitions will be \$31.7 million for 1999-2000. This represents an increase of 26.5 percent between 1996-97 and 1999-2000. The key factors for this increase are \$3.7 million for water reform related expenditure and additional water infrastructure works, particularly dam safety enhancements carried out by the Department of Land and Water Conservation.

Mining, Energy and Construction

Over the four years to 1999-2000, asset acquisitions are expected to decrease by \$2.6 million or 49.8 percent in real terms. In 1998-99, there was a higher level of asset acquisitions due to the commencement of information technology upgrades and office rationalisation works undertaken by Building and Construction Industry Long Service Leave Payments Corporation and the Department of Fair Trading and major extensions to the Department of Mineral Resources core mineral library at Londonderry.

The above works have largely been completed and, as a result, most agencies in this policy area will have reduced asset acquisition programs in 1999-2000.

Transport and Communication

Between 1996-97 and 1999-2000, asset acquisitions for Transport and Communications are projected to increase by \$170 million, representing a real increase of 18.3 percent. For 1999-2000, funding for asset acquisitions is forecast to increase by \$86 million, representing a real increase of 8.5 percent.

The increase between 1998-99 and 1999-2000 relates primarily to increased expenditure on road network development (\$121 million) and the Office of Information Technology mainly in connection with Olympic Radio Network handsets (\$42 million). Expenditure on road, rail and other transport infrastructure at Homebush Bay will significantly decrease by \$119 million in 1999-2000 as site preparations near completion in readiness for the Olympic and Paralympic Games.

Other Economic Services

Asset acquisitions in the Other Economic Services policy area are relatively minor, and therefore subject to sharp variations when a new project is commenced or completed. The projected 17.8 percent decrease in asset acquisitions is primarily the result of the completion of several projects.

General Public Services

Asset acquisitions in this area are comparatively small. Over the period 1996-97 to 1999-2000, asset acquisitions will increase by an estimated \$8.2 million (22.1 percent in real terms). Growth of \$20.2 million (46.2 percent in real terms) in 1998-99 is mainly due to expenditure on information technology projects in the Office of State Revenue, Department of Public Works and Services and The Legislature.

5.4 GENERAL GOVERNMENT LIABILITY MANAGEMENT

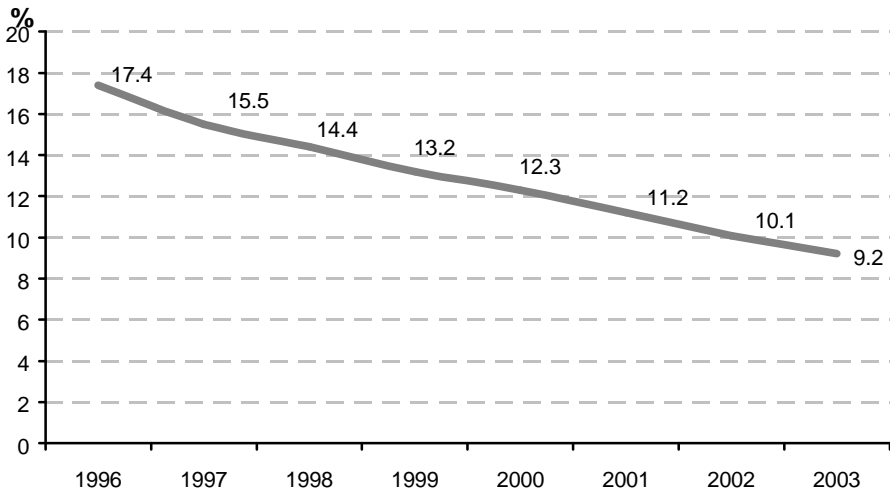
The decrease in net financial liabilities as shown in Table 5.2 primarily reflects the Government's fiscal strategy aimed at reducing General Government net debt to sustainable levels by 30 June 2005 and eliminating unfunded superannuation liabilities by 2045.

Table 5.2: General Government Projected Statement of Net Financial Liabilities, as at 30 June

	1999 Revised \$m	2000 Budget \$m	2001 Estimate \$m	2002 Estimate \$m	2003 Estimate \$m
Gross Debt					
Borrowings	19,108	17,950	16,394	15,124	14,941
	19,108	17,950	16,394	15,124	14,941
Financial Assets					
Cash	860	672	345	1,007	1,289
Investments	3,798	3,831	4,002	4,129	4,467
Advances	1,554	1,564	1,534	1,507	1,430
	6,212	6,067	5,881	6,643	7,186
Net Debt	12,896	11,883	10,513	8,481	7,755
Unfunded Superannuation	8,056	8,301	9,101	9,904	9,705
Net Debt and Superannuation Liabilities	20,952	20,184	19,614	18,385	17,460
Other Financial Liabilities and (Assets)					
Other Employee Entitlements	3,279	3,431	3,559	3,683	3,803
Payables	1,557	1,586	1,620	1,675	1,791
Insurance and Other Liabilities	5,222	5,232	5,339	5,508	5,673
Other Receivables and Prepayments	(3,006)	(3,155)	(3,418)	(3,653)	(3,960)
	7,052	7,094	7,100	7,213	7,307
Net Financial Liabilities	28,004	27,278	26,714	25,598	24,767

Since June 1996 General Government Sector net financial liabilities have fallen significantly as a percentage of GSP, as shown in Chart 5.1.

Chart 5.1: General Government Net Financial Liabilities as percentage of Gross State Product, as at 30 June



Source: NSW Treasury

Further details in regard to the State's major liabilities are provided in the following sections. Debt liability trends are shown on the basis of incorporating the superannuation conversion offer and also on an underlying basis (excluding the conversion offer).

5.5 GENERAL GOVERNMENT NET DEBT MANAGEMENT

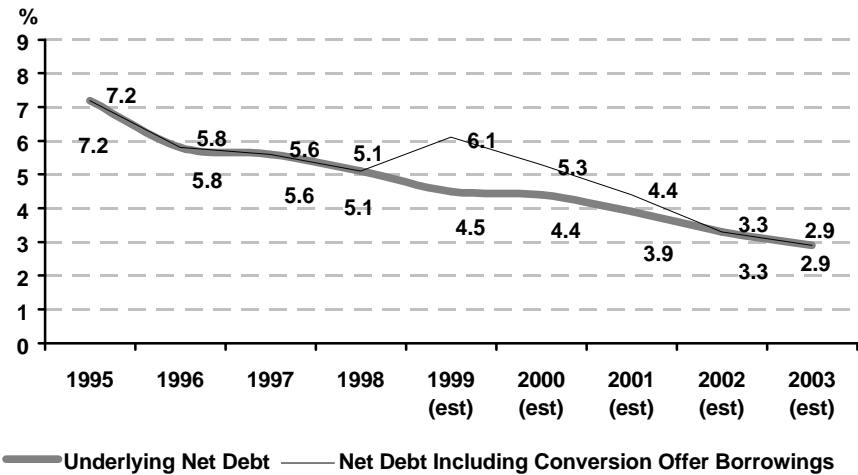
As shown in Table 5.3, General Government net debt has fallen by approximately \$1.8 billion for the four-year period ended 30 June 1998. The ratio of General Government net debt to GSP has fallen from 7.2 percent to 5.1 percent as shown in Chart 5.2.

The reduction in net debt since 1995 was achieved principally by using the equity restructure receipts from the electricity distribution industry and other agencies and TAB sale proceeds to repay General Government debt. Further, the estimated reduction in 1999 reflects the utilisation of the forecast Budget surplus for debt redemption. This is consistent with the principles set out in

the General Government Debt Elimination Act to reduce net debt and to manage it in a prudent manner.

Over the five-year period from 30 June 1998 to 30 June 2003, General Government net debt is expected to continue to reduce with the net debt to GSP ratio falling to 2.9 percent.

Chart 5.2: General Government Net Debt as percentage of Gross State Product, as at 30 June*

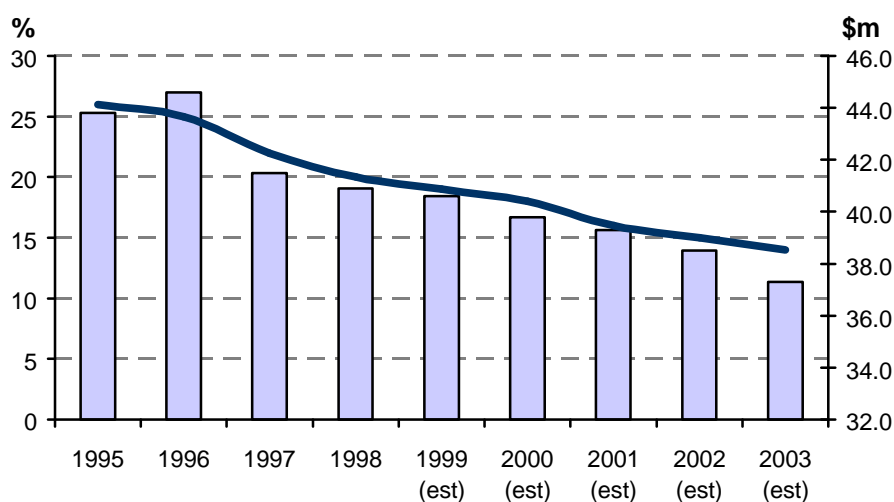


*Source: NSW Treasury

5.6 STATE NET FINANCIAL LIABILITIES

For the four-year period ended 30 June 1999, the net financial liabilities of New South Wales are projected to decline by more than \$3 billion. This liability reduction trend is illustrated in Chart 5.3.

Chart 5.3: State Net Financial Liabilities as percentage of Gross State Product, as at 30 June



*Net financial liabilities shown as dollars in columns, and shown as a percentage of gross state product in line.
Source: NSW Treasury*

5.7 STATE NET DEBT

Trends in State Net Debt

The ratio of Public Sector net debt to GSP is expected to decline from 11.8 percent to 6.2 percent for the eight-year period ending 30 June 2003, as shown in Chart 5.4.

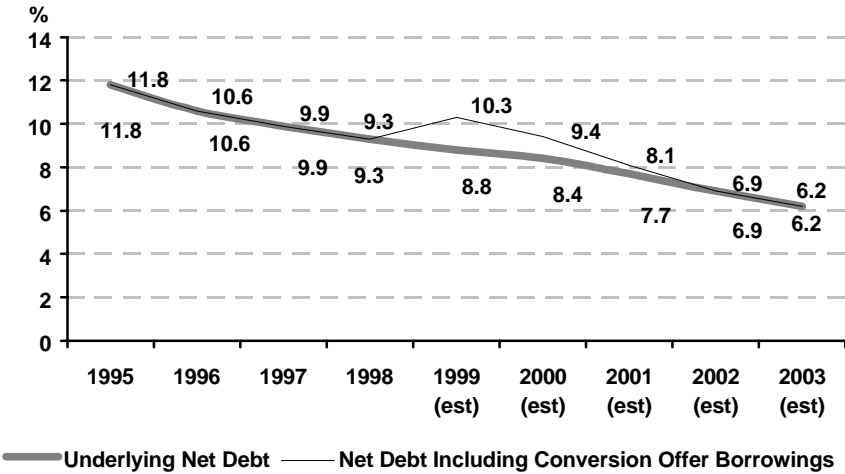
Table 5.3: Public Sector Net Debt As At 30 June

	1995 <i>Actual</i> \$m	1996 <i>Actual</i> \$m	1997 <i>Actual</i> \$m	1998 <i>Actual</i> \$m	1999 <i>Revised</i> \$m
GENERAL GOVERNMENT SECTOR					
Commonwealth					
Financial Agreement	2,539	2,189	1,771	289	281
Specific Purpose advances	1,947	1,908	1,868	1,809	1,768
State					
Treasury Corporation and Other	14,259	13,588	14,675	15,953	14,699
General Govt Gross Debt	18,745	17,685	18,314	18,051	16,748
Financial Assets	6,841	7,343	7,709	7,931	7,115
General Government Net Debt	11,904	10,342	10,605	10,120	9,632 ♦
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	9,743	11,303	10,637	10,184	10,185
Financial Assets	2,371	2,619	3,110	2,593	2,312
Public Trading Enterprise Net Debt	7,372	8,684	7,527	7,591	7,873
PUBLIC FINANCIAL ENTERPRISE SECTOR					
Gross Debt	6,282	2,236	3,085	3,571	5,477
Financial Assets	5,966	2,291	2,459	2,636	4,389
Public Financial Enterprise Net Debt	316	(55)	626	935	1,088
Underlying Net Debt	19,592	18,971	18,758	18,646	18,593
Superannuation Conversion Offer	...	...	...	...	3,264
Total Net Debt	...	...	...	...	21,857

* Table prepared in accordance with ABS standards

♦ Net of effect of superannuation conversion offer.

Chart 5.4: NSW Public Sector Net Debt as percentage of Gross State Product, as at 30 June



Source: NSW Treasury

Management of State Net Debt

Table 5.3 shows that whilst State net debt has reduced by approximately \$1 billion, the net debt of both the Public Trading Enterprise Sector and the Financial Enterprises Sector have increased for the four-year period ended 30 June 1998 and that further increases are expected for the year ended 30 June 1999.

The increase in Public Trading Enterprise Sector net debt reflects the equity restructure payments to the Crown made in order to establish appropriate debt/equity ratios and cash levels. Public Financial Enterprise Sector net debt has increased because Treasury Corporation (TCorp) is sometimes required to repurchase securities in the financial markets in order to ensure the liquidity of TCorp stocks.

This activity in a falling interest rate environment involves the repurchase and refinancing of bonds with higher capital values but lower interest rates, compared to the old bonds.

Under the provisions of the Treasury Corporation Act 1983, TCorp is responsible for the raising of loans on behalf of all New South Wales Public Sector organisations.

TCorp raises funds through the issue of inscribed stock and promissory notes in Australia, and issues of bonds and commercial paper overseas. All borrowings are Government guaranteed. Issues of domestic term stock are concentrated into “benchmark” lines which, because of their volume and the market support provided by TCorp, are the most liquid and actively traded in the Australian market, with the exception of Commonwealth Government bonds. With the benefit of the New South Wales Government guarantee and the State’s AAA credit rating, TCorp is able to borrow at very competitive interest rates.

TCorp is currently contracted by Treasury to actively manage the Crown debt portfolio in order to minimise the cost of debt within risk parameters acceptable to the Government. The current objectives for Crown debt portfolio management are to:

- ◆ minimise the market value of debt over the medium term;
- ◆ minimise variations from cash budget estimates of Crown debt cost for the current and three forward year estimates; and
- ◆ regularly review Treasury Corporation’s debt management performance by reference to a relevant and easily understood benchmark.

The portfolio's debt management memorandum of understanding provides for three portfolio risk parameters. These are:

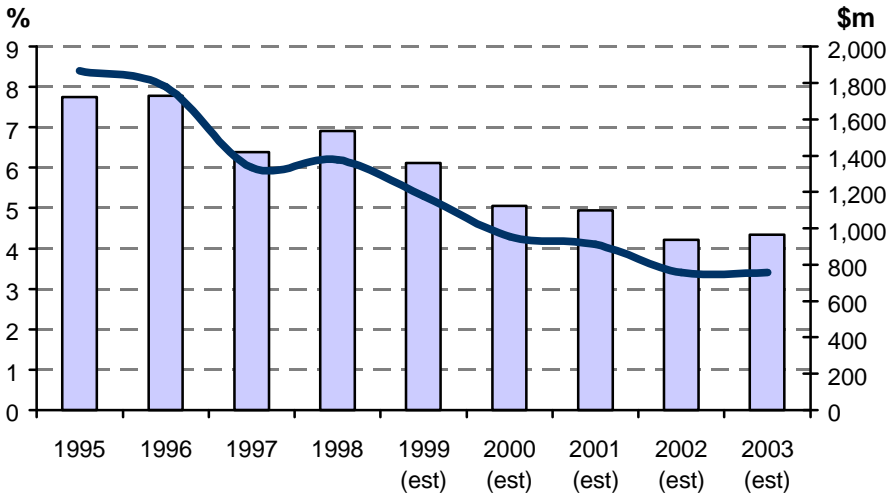
- ◆ a modified duration range of +/- 0.50 years around the benchmark duration range of 3.25 to 3.65 years;
- ◆ a limit of 30 percent for the portfolio's exposure to floating interest rates; and
- ◆ agreement that TCorp not exceed an agreed debt servicing cost figure without prior Treasury approval.

Impact of Debt Management on General Government Interest Expense

Ongoing reductions in net debt have been a key factor in reducing interest costs since 1995 from approximately \$1.7 billion to an estimated \$1.4 billion for 1998-99. The reduction in interest rates, which have a lagged effect on debt servicing costs, has also reduced interest costs as new debt is raised and existing debt matures. Interest costs are expected to decline further, to approximately \$1 billion p.a. by 2002-03, which would represent an average interest cost of approximately 6.5 percent.

As shown in Chart 5.5 below, the ratio of interest costs to State Budget receipts is projected to fall from 8.4 percent to 3.4 percent for the eight-year period ending 30 June 2003.

Chart 5.5: General Government Cash Interest Costs and as Percentage State Budget Receipts as at 30 June



5.8 SUPERANNUATION MANAGEMENT

Unfunded Superannuation Liabilities

The State's unfunded superannuation liability represents the present value of future benefits that its members have accrued during past service (the gross liability) which are not covered by the present value of fund assets.

The unfunded liability is volatile on an annual basis, being largely dependent on equity market movements, which cause actual investment return to vary from the assumed return.

Gross Superannuation Liabilities

The gross liabilities are estimates calculated by the Government Actuary of the present value of the obligations to meet future defined benefits. Estimation is based on numerous assumptions, including salary growth rate, scheme exit rates, form of benefit taken, consumer price index and longevity of beneficiaries.

However, almost all of the total gross liabilities for the State public sector have been capped in real terms by the closure to new members of the major defined benefit schemes.

These scheme closures were as follows:

- ◆ State Superannuation Scheme: 1985;
- ◆ Police Superannuation Scheme: 1988; and
- ◆ State Authorities Superannuation Scheme and State Authorities Non-contributory Superannuation Scheme: 1992.

The Judges' Pension Scheme and the Parliamentary Contributory Superannuation Scheme are the only defined benefit superannuation arrangements that remain open to new entrants.

Since 1989, Senior Executive Service officers have been able to join an accumulation scheme, the Public Sector Executives Superannuation Scheme, and since 1992, all new public sector employees have joined an accumulation scheme, generally First State Superannuation.

Superannuation Conversion Offer

The unfunded liability will be affected by an offer from the Government to members to convert their accrued superannuation pension benefits to lump sums and join the First State Superannuation accumulation scheme. The offer is being made to members of closed defined benefits schemes (the State Superannuation Scheme and the Police Superannuation Scheme) in the first half of the 1999-2000 Budget year. Acceptance of the offer is entirely voluntary. It may attract members because their superannuation will be portable and they will not have to make matching superannuation contributions.

The Crown borrowed \$3,264 million to enable the accelerated payment in 1998-99 of three forward years' of Crown superannuation contributions to the SAS Trustee Corporation (STC) fund.

As a result of borrowing for the conversion offer, General Government net debt has increased by \$3,264 million and net unfunded superannuation liabilities have reduced by \$3,264 million, resulting in no change to the State's liabilities.

However, the State's unfunded superannuation liability is expected to reduce by at least \$1 billion over the four-year period ended 30 June 2002 due to two factors:

- ◆ Reduction of past service gross superannuation liabilities resulting from member acceptances of the conversion offer, because the present value of the lump sum offers is less than the present value of future pension benefits; and
- ◆ Faster utilisation of the STC fund's Commonwealth superannuation tax funding credits.

Funding Plan

In accordance with the Government's fiscal strategy, the Government has established target dates, by which time the unfunded liability will be eliminated because the Government's superannuation obligations will be fully funded.

Under this approach, the level of employer contributions required depends on the actuarial estimation of the value of gross liabilities and the rate of investment return expected to be achieved on the financial assets.

The target dates for financial assets to equal remaining gross liabilities are 2022 for Public Trading and Financial Enterprises and 2045 for pension benefit schemes in the General Government Sector. Because the State Authorities Superannuation Scheme provides lump sum benefits, this scheme will need to be fully funded by about 2030, which is the time the last of the current contributors are expected to claim their retirement benefits. Table 5.4 shows the reduction in State Public Sector unfunded superannuation liabilities since 1996.

Table 5.4: Public Sector Unfunded Superannuation Liabilities, as at 30 June

	1996 Actual \$m	1997 Actual \$m	1998 Actual \$m	1999 Revised \$m
General Government Sector				
Past service liabilities	21,613	22,860	24,929	26,242
Financial assets	9,282	11,911	13,741	18,186
Net liabilities	12,331	10,949	11,188	8,056
Public Trading Enterprise Sector (b)				
Past service liabilities	4,692	5,229	5,189	4,970
Financial assets	3,170	4,917	4,979	4,762
Net liabilities	1,522	312	210	208
Public Financial Enterprise Sector				
Past service liabilities	1	1	1	1
Financial assets	...	1	1	1
Net Liabilities	1	...	...	...
Total State Public Sector				
Past service liabilities	26,306	28,090	30,119	31,213
Financial assets	12,452	16,829	18,721	22,949
Net liabilities	13,854	11,261	11,398	8,264
Assets as proportion of past service accrued liabilities	47.3	59.9	62.2	73.5
Rate of change				
Past service liabilities	n/a	6.8	7.2	3.6
Financial assets	n/a	35.2	11.2	22.6
Net liabilities	n/a	(18.7)	1.2	(27.5)

* Adjusted to show the retrospective effect of actuarial and other adjustments.

The proportion of accrued liabilities that are funded has increased significantly, from less than half at 30 June 1996 to more than 70 percent by 30 June 1999.

The large increase in financial assets over the period is a result of a number of factors including higher than expected portfolio investment returns, a higher level of Government employer contributions and the accelerated payment of

Crown contributions in 1998-99 to provide liquid assets for the conversion benefits.

Further, a previously unallocated amount in the State Superannuation Scheme contributors' reserve will be distributed to employer reserves. It is expected that about \$815 million will be credited to the Crown's assets. The transfer of this amount has been incorporated in Table 5.4.

In addition, a number of one-off adjustments to employer asset reserves were made in 1996-97, reflecting recalculation of interest and tax credits for the previous ten years.

Superannuation liabilities for university employees who are still contributors to State public sector superannuation schemes have not been reflected in Table 5.4 because the State does not have a direct superannuation liability. Instead, the State has a liability to the Commonwealth, relating to emerging superannuation costs, which is reported as an other liability (see Section 5.9).

Estimated Unfunded Superannuation Liabilities

The estimated unfunded superannuation liabilities shown in Table 5.5 assumes that 10,000 State Superannuation Scheme and Police Superannuation Scheme contributors will accept the conversion offer and takes into account the cessation of Crown contributions for the three year period ended 30 June 2002.

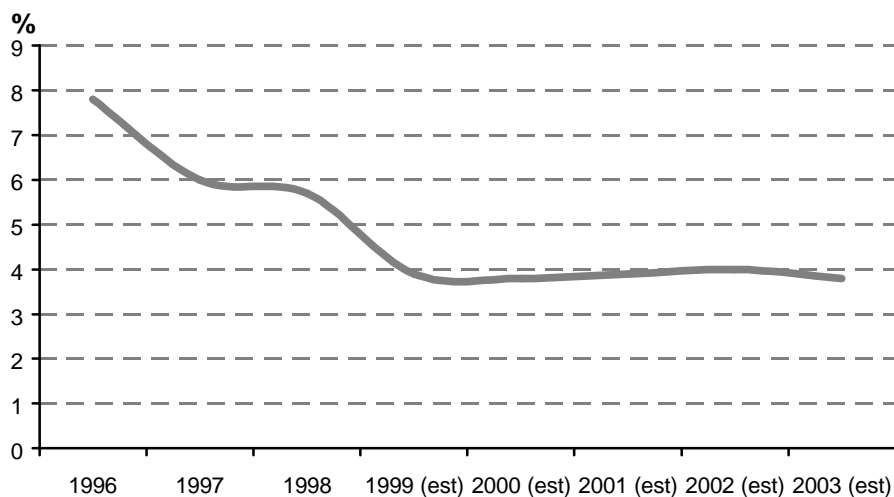
Table 5.5: Public Sector Unfunded Superannuation Liabilities, as at 30 June

	Actual			Revised	Estimate			
	1996	1997	1998	1999	2000	2001	2002	2003
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
General Government								
STC schemes	12,119	10,685	10,975	7,808	8,051	8,850	9,651	9,442
Judges	147	194	195	221	229	236	243	250
Parliamentary	65	70	18	27	21	15	8	10
Subtotal	12,331	10,949	11,188	8,056	8,301	9,101	9,904	9,705
Public Trading and Financial Enterprises								
STC schemes	1,523	312	362	389	300	300	400	400
Electricity Scheme (surplus)			(152)	(181)	(136)	(91)	(46)	...
TOTAL	13,854	11,261	11,398	8,264	8,465	9,310	10,258	10,105

* Adjusted to show the retrospective effect of actuarial and other adjustments.

As shown in Chart 5.6, unfunded superannuation liabilities in 2000 will be halved as a proportion of GSP, compared with their level in 1996.

Chart 5.6: State Public Sector Net Superannuation Liabilities, as at 30 June as percentage of Gross State Product



Source: NSW Government Actuary and W M Mercer

SUPERANNUATION CONTRIBUTIONS

Table 5.6: Crown Superannuation Annual Cash Contributions to 30 June

	1996 \$m	1997 \$m	1998 \$m	<i>Estimate</i>				
				1999 \$m	2000 \$m)	2001 \$m)	2002 \$m)	2003 \$m)
Defined benefit								
Closed schemes	866	1,021	1,145	4,301	...	...	...	1,238
Open schemes	17	18	23	23	25	28	29	30
Accumulation								
First State Super plus SSS/PSS conversion to FSS	194	238	273	350	371	449	476	568
	...	...	...	...	22	51	53	62
TOTAL	1,077	1,277	1,441	4,674	418	528	558	1,898

The high and rising level of Government employer contributions over the period shown, after allowance for the accelerated payment of Crown contributions for the conversion offers, reflects the Government's objective of moving towards full funding of superannuation liabilities.

FSS contributions will grow rapidly in the short term because of the increase in employer contributions from the current 7 percent of salary to 8 percent of salary from 1 July 2000, and then to 9 percent of salary from 1 July 2002.

There is also a longer term labour turnover influence, the gradual replacement of retiring public sector employees who are members of the closed defined benefit schemes by new recruits who join an accumulation scheme.

In addition, eligible contributors who accept the conversion offers will join First State Superannuation.

5.9 INSURANCE AND OTHER LIABILITY MANAGEMENT

Insurance Management

In order to manage New South Wales Government insurance risks a managed fund approach has been adopted. The Treasury Managed Fund provides a systematic, comprehensive and coordinated risk management and self insurance arrangement for members, across the five basic classes of risk, which are workers' compensation, motor vehicle, property, public liability and miscellaneous. Insurable risk administration is outsourced and the current administrator, GIO Australia, was reappointed in 1997 for a further three-year term.

Risk/Return Review

Treasury engaged Tillinghast - Towers Perrin in June 1998 to undertake a detailed risk/return review of Insurance Ministerial Corporation investment policies and procedures. The review included assessments in regard to short and long-term investment objectives, return volatility of various asset

allocations, Treasury's risk profile, IMC/TCorp asset management agreement and recommendations in regard to appropriate benchmarks for each asset class.

The report's recommendations are currently being implemented in conjunction with Treasury Corporation with a view to increasing investment return from an improved strategic asset allocation.

Commonwealth – State Sharing of Superannuation Costs

Some university employees remain as contributors to the closed State public sector superannuation schemes. The universities are financially responsible for making the employer contributions required for these employees.

To the extent universities are publicly funded, the Commonwealth Government provides such funding. Commonwealth funding includes an amount provided for university employer superannuation contributions.

Under funding arrangements negotiated at the time that the Commonwealth Government assumed responsibility for funding universities, New South Wales is obliged to reimburse the Commonwealth Government for a proportion of universities' emerging superannuation costs relating to past service of members of the closed State public sector schemes.

The State has no direct financial obligation for the superannuation liabilities of universities. The liability is to the Commonwealth Government. Payments to the Commonwealth Government have been fairly stable in recent years at about \$18 million per annum. The annual payment is forecast to rise to about \$21 million by 2002-03.

The Government Actuary's preliminary estimate of the present value of the State's accrued liability for the annual reimbursements to the Commonwealth Government is approximately \$350 million at 30 June 1999.