

# **Chapter 7:**

## **ASSET AND LIABILITY MANAGEMENT:**

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## **7.1 ASSET AND LIABILITY MANAGEMENT STRATEGIES**

The key elements of the Government's asset and liability management strategies were incorporated in the General Government Debt Elimination Act. This Act gives legislative backing for the following asset and liability strategies and targets for the General Government Sector.

### Asset Management -

- to maintain or increase net worth (ie net assets) in real terms; and
- to properly maintain long-lived physical assets with each agency developing an asset maintenance plan which identifies all assets, sets out a maintenance program for each asset or group of assets, reports on any deferred maintenance requirements and establishes a funding program.

### Liability Management -

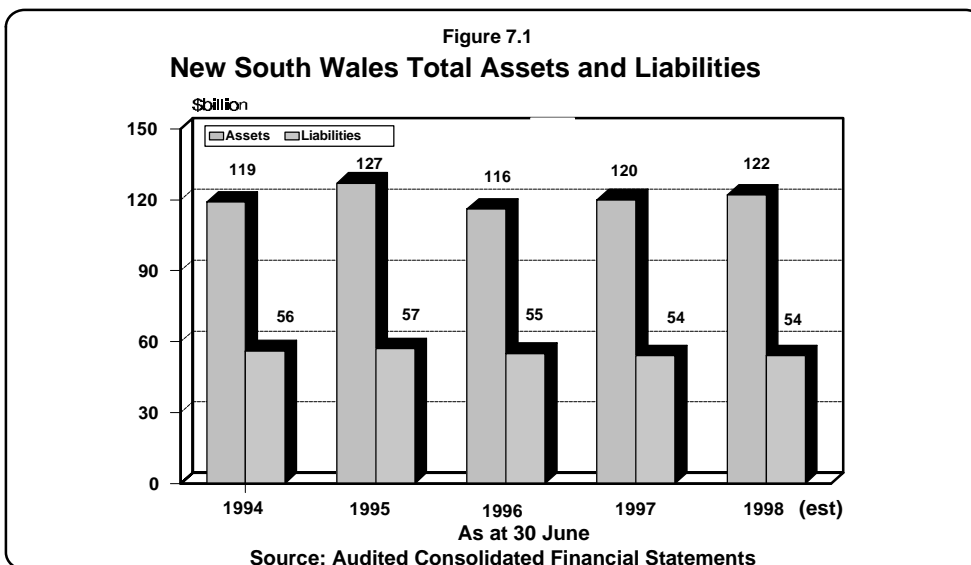
- to stabilise General Government net debt by ensuring a sustainable General Government budget surplus within the next three years and thereafter to eliminate by the year 2020 General Government net debt;
- to gradually move towards full funding of current employer superannuation liabilities and to make regular contributions toward past service unfunded liabilities to extinguish unfunded superannuation liabilities by 2044-45; and
- to efficiently manage the General Government debt portfolio and superannuation leading to lower debt servicing and superannuation costs.

## 7.2 NEW SOUTH WALES NET WORTH

New South Wales Total Public Sector net assets increased from \$63.9 billion to \$66.0 billion over the three years to 30 June 1997, an increase in net worth of over \$2.1 billion for the period (refer Figure 7.1).

This 3.3 per cent increase in net worth reflects a reduction in liabilities of nearly \$1.6 billion and an increase in assets of more than \$500 million. The transfer in 1995-96 of nearly \$6.2 billion of regional road assets from the State's balance sheet to local councils in fact disguises the underlying growth in assets and net worth over this period. Excluding the roads transfer, net worth increases over the period by around \$8.3 billion or 13 per cent.

Net assets are forecast to increase a further \$2.0 billion by 30 June 1998 - to \$68 billion.



This trend is also evident in the General Government Sector, where net worth has increased by \$3.319 billion, from \$21.503 billion at June 1996 to \$24.822 billion at June 1997.

This trend of increasing net worth at both the total State level and for the General Government Sector reflects successful implementation of sound asset and liability strategies to maintain or increase net worth by maintaining the assets of the State whilst reducing the liabilities.

Projections for the financial position as at 30 June 1998 and 30 June 1999 show that the net worth of the General Government Sector will continue to increase, to approximately \$27.0 billion and \$28.9 billion, respectively.

## 7.3 ASSET MANAGEMENT

The State's total assets at 30 June 1997 were \$119.921 billion (including \$64.479 billion in the General Government Sector). These State assets are primarily physical non-current assets valued at \$103.332 billion, but also include cash, receivables, investments and inventories. The physical non-current assets comprise -

- \$52.871 billion of infrastructure assets
- \$44.944 billion of land and buildings, and
- \$5.517 billion of plant and equipment.

These physical non-current assets of the State and the General Government Sector are recognised in the audited Consolidated Financial Statements of the NSW Public Sector and the Public Accounts respectively. They are valued at current values and are regularly revalued to provide a reliable measurement of their current worth (refer Figure 7.2).

Infrastructure assets include assets such as water and sewerage networks, roads and railways, and electricity networks. Land and buildings include schools, hospitals and public housing and buildings. However, land under roads is not included in these figures as there is currently no methodology to reliably determine the values. The Roads and Traffic Authority estimates that land under roads is worth \$14.702 billion.

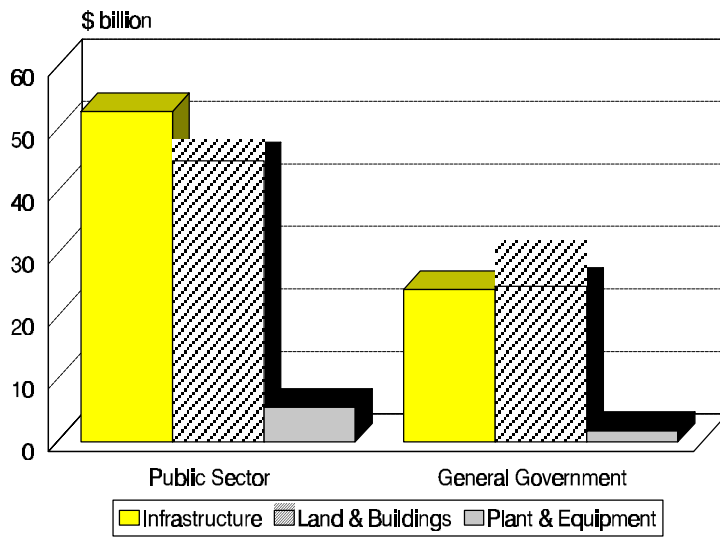
These physical non-current assets are being managed under the Government's total asset management policy. The objective of this policy is to ensure that services are efficiently provided to taxpayers to meet their needs. Efficiency is enhanced by minimising the 'whole of life' cost of assets, including the cost of capital investment and the maintenance of the assets over their useful lives.

This policy stresses that capital investment must be linked to both the objectives of the agency and to the overall strategy of the government, including consideration of private sector involvement. It also recognises that the cost of maintaining an asset can exceed the initial purchase price, and therefore greater management of maintenance can lead to significant reductions in costs over the medium to long term.

Agencies are required to implement asset maintenance plans that set out a maintenance program for each asset or grouping of assets and identify the funding requirements. The objective is to develop long term maintenance strategies which are appropriate to the service delivery objectives of the agency, yet at the same time minimise the cost of maintenance over the life of the assets.

This overall government policy has been incorporated into the General Government Debt Elimination Act as a fiscal principle for the General Government Sector.

Figure 7.2  
**Physical Non-Current Assets**  
as at 30 June 1997



## 7.4: LIABILITY MANAGEMENT

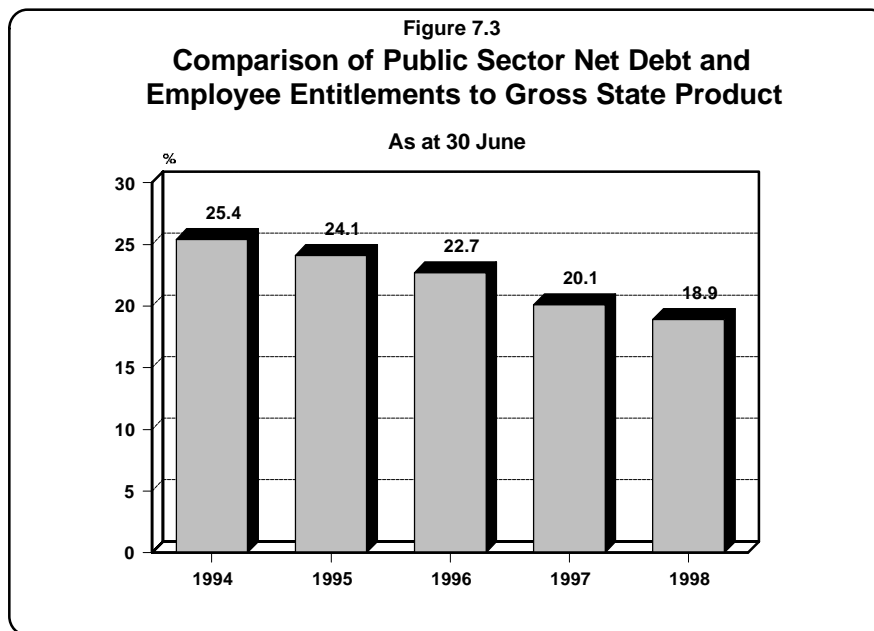
The main components of the State's liabilities are borrowings and employee entitlements (see Table 7.1). These liabilities have fallen both in absolute terms and as a percentage of Gross State Product for the three-year period ended 30 June 1997.

**Table 7.1: Public Sector Total Liabilities as at 30 June**

|                          | 1994          | 1995          | 1996          | 1997          | 1998 (est)    |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
|                          | \$m           | \$m           | \$m           | \$m           | \$m           |
| Borrowings (a)           | 30,915        | 31,874        | 28,728        | 28,690        | 28,400        |
| Employee Entitlements    | 17,761        | 18,311        | 19,330        | 16,807        | 16,900        |
| Other                    | 6,848         | 7,266         | 7,428         | 8,452         | 8,500         |
| <b>Total Liabilities</b> | <b>55,524</b> | <b>57,451</b> | <b>55,486</b> | <b>53,949</b> | <b>53,800</b> |

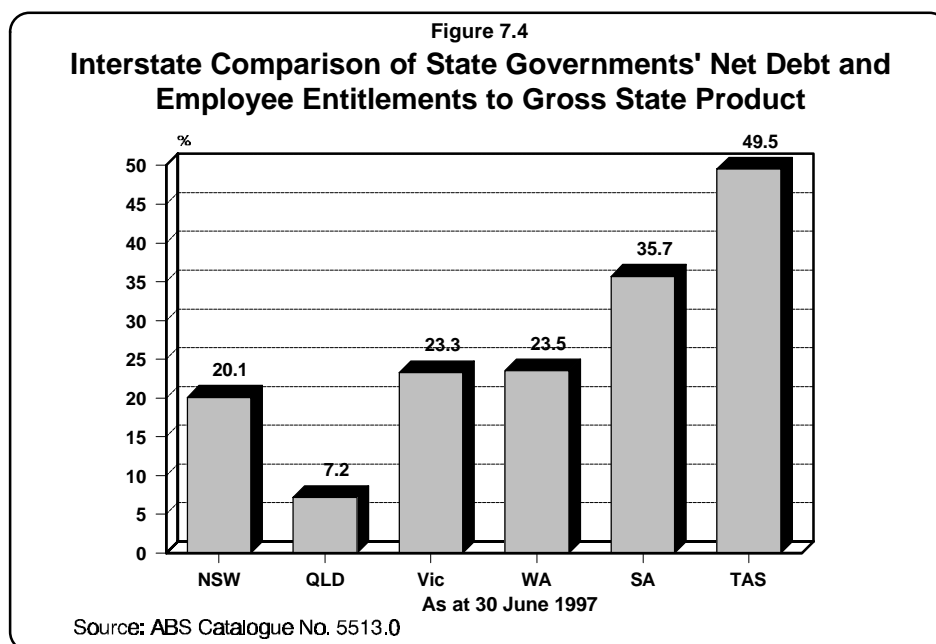
(a) Gross debt.

Since June 1994 Public Sector net debt and employee entitlement liabilities as a percentage of GSP have fallen significantly as shown in Figure 7.3.



The New South Wales financial position continues to compare very favourably with other States, including Victoria whose credit rating was recently upgraded to AAA by Standard and Poor's.

Although the total of Victoria's net debt and unfunded employee entitlements at \$30.8 billion (as at 30 June 1997) is lower than the New South Wales equivalent figure of \$36.0 billion in absolute terms, as a percentage of GSP the New South Wales ratio is significantly lower at 20.1 per cent compared to 23.3 per cent for Victoria (refer Figure 7.4).



Similarly, on a per capita basis, the liability is \$5,700 per person in New South Wales compared to almost \$6,700 per person in Victoria.

New South Wales' net worth (total assets minus total liabilities) of \$66 billion is also significantly higher than Victoria's \$20.8 billion because Victoria has largely financed its debt reductions from asset sale proceeds. New South Wales' net worth is forecast to increase further by 30 June 1998 to \$68 billion.

## 7.5: DEBT POSITION

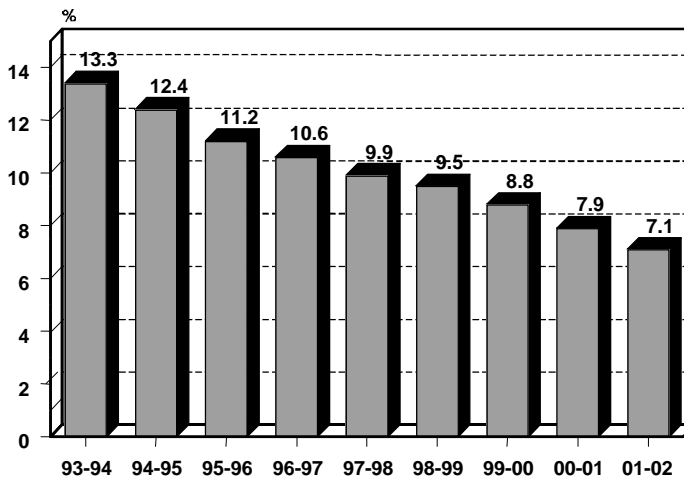
New South Wales Public Sector net debt is forecast to fall by \$1.170 billion over the four-year period to June 1998 (see Table 7.2). The ratio of public sector net debt to GSP is expected to decline from 13.3 per cent to 7.1 per cent for the eight year period ended 30 June 2002 (see Figure 7.5).

The underlying debt reduction for the period approximates \$2 billion when regard is had to the market operations of TCorp which have resulted in net debt, as measured on a current capital basis, increasing by over \$900 million since 30 June 1996.

In the financial markets it is necessary to reposition securities to preserve the liquidity of the stock and ensure lowest possible interest rates are achieved. This activity in a falling interest rate environment involves the repurchase and refinancing of bonds with higher current capital value compared to the “old” bonds repaid. The market value of the bonds however remains unchanged.

A certain amount of such activity takes place each year in the course of TCorp’s market support operations, i.e. issuing debt, interacting with the market to foster liquidity, consolidating benchmark lines. During 1996-97 however the financial impact was large, resulting in a \$604 million increase in TCorp’s net debt, because TCorp bought back former “benchmark” 2001 12 per cent bonds and replaced them with higher capital value but lower interest rate issues.

**Figure 7.5**  
**NSW Public Sector Net Debt as Percentage of**  
**Gross State Product**



**Table 7.2: Public Sector Net Debt as at 30 June (a)**

|   | 1994          | 1995          | 1996          | 1997          | 1998<br>(est) |
|---|---------------|---------------|---------------|---------------|---------------|
|   | \$m           | \$m           | \$m           | \$m           | \$m           |
| <b>GENERAL GOVERNMENT SECTOR (b)</b>                  |               |               |               |               |               |
| <b>Commonwealth</b>                                   |               |               |               |               |               |
| Financial Agreement                                   | 3,175         | 2,539         | 2,189         | 1,771         | 289           |
| Specific Purpose advances                             | 1,986         | 1,947         | 1,908         | 1,868         | 1,802         |
| <b>State</b>  |               |               |               |               |               |
| Treasury Corporation and Other                        | 18,800        | 14,259        | 13,588        | 14,189        | 14,631        |
| General Govt Gross Debt                               | 23,961        | 18,745        | 17,685        | 17,828        | 16,722        |
| Financial Assets                                      | 11,434        | 6,661         | 7,163         | 6,902         | 6,520         |
| General Government Net Debt                           | 12,527        | 12,084        | 10,522        | 10,926        | 10,202        |
| <b>PUBLIC TRADING ENTERPRISE SECTOR</b>               |               |               |               |               |               |
| Gross Debt  | 9,920         | 9,743         | 11,303        | 10,638        | 9,806         |
| Financial Assets                                      | 2,511         | 2,371         | 2,619         | 3,110         | 1,991         |
| Public Trading Enterprise Net Debt                    | 7,409         | 7,372         | 8,684         | 7,528         | 7,815         |
| <b>PUBLIC FINANCIAL ENTERPRISE SECTOR<br/>(b) (c)</b> |               |               |               |               |               |
| Gross Debt  | ...           | 6,282         | 2,236         | 3,085         | 3,453         |
| Financial Assets                                      | 156           | 6,146         | 2,471         | 2,605         | 2,860         |
| Public Financial Enterprise Net Debt                  | (156)         | 136           | (235)         | 480           | 593           |
| <b>Net Debt</b>                                       | <b>19,780</b> | <b>19,592</b> | <b>18,971</b> | <b>18,934</b> | <b>18,610</b> |

(a) Current Capital Value (i.e. face value less any unamortised discount).

(b) New South Wales Treasury Corporation included in General Government Sector data for June 1994; since then included in Public Financial Enterprise Sector data. TCorp is now classified by the ABS as a Public Financial Enterprise.

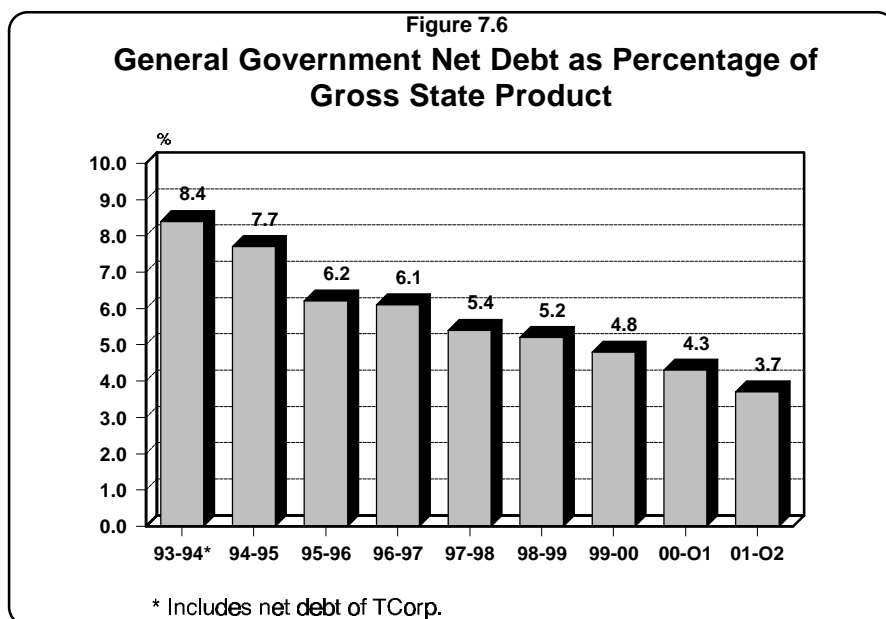
(c) Comprises NSW Treasury Corporation and the Workers Compensation (Dust Diseases) Board.

## General Government Debt Trends

General Government net debt has fallen by approximately \$1.6 billion for the three-year period ended 30 June 1997 with a further fall of around \$724 million expected this financial year. The ratio to GSP has fallen from 8.4 to 5.4 per cent.

The reduction in net debt since 1994 was achieved principally by using the equity restructure receipts from the electricity distribution industry and other agencies to repay General Government debt. The projected position at 30 June 1998 allows for the further reduction in debt made possible through the sale of the TAB. This is consistent with principles set out in the General Government Debt Elimination Act to reduce net debt and to manage it in a prudent manner.

Over the next 4 years, General Government net debt is expected to continue to reduce with the ratio to GSP falling to 3.7 percent. The movement in General Government net debt over the three year period ended 30 June 1997 as well as forecasts for the four year period ending 30 June 2002 are shown in Figure 7.6.



## General Government Interest Costs

General Government Sector interest costs are influenced by average interest rates, portfolio maturity profile, variations in debt levels and the creditworthiness of the State. Both Standard & Poor's and Moody's Investors Service place New South Wales in the highest possible category based on the State's economic strength and the Government's prudent fiscal and financial management. Only Queensland receives the same rating as New South Wales from both credit rating agencies.

### 7.3: Trends in Cash Interest Costs

|   | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|   | \$m     | \$m     | \$m     | \$m     | \$m     | \$m     | \$m     | \$m     | \$m     |
| Debt Costs -                            |         |         |         |         |         |         |         |         |         |
| Commonwealth Loans                      | 507     | 463     | 349     | 313     | 285     | 106     | 104     | 92      | 87      |
| Other Loans                             | 1,232   | 1,258   | 1,380   | 1,107   | 1,228   | 1,170   | 1,196   | 1,024   | 948     |
|   | 1,739   | 1,721   | 1,729   | 1,420   | 1,513   | 1,276   | 1,300   | 1,116   | 1,035   |
| Debt Cost/General Government Receipts % | 8.8     | 8.4     | 8.0     | 6.0     | 6.2     | 5.1     | 5.1     | 4.2     | 3.7     |

The decline in interest payments since 1995-96 reflects both the reduction in interest rates and debt levels. Interest rate falls have a lagged effect on debt costs, reducing interest costs as new debt is raised and existing debt matures.

The increase in 1997-98 interest costs was a result of variations to the debt portfolio maturity profile that resulted in a higher level of cash payments.

## **Debt Managers Performance**

Under the provisions of the Treasury Corporation Act 1983, TCorp has been given the responsibility for the raising of loans on behalf of all New South Wales Public Sector organisations.

TCorp raises funds through the issue in Australia of inscribed stock and promissory notes, as well as overseas issues of bonds and commercial paper. 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 strength of the New South Wales Government guarantee and a 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 Crown portfolio debt management objectives are -

- minimise the market value of debt over the medium term;
- ensure there are no material variations, plus or minus two per cent, from Crown debt cost cash budget estimates for the current and three forward estimates; and
- regularly review Treasury Corporation's debt management performance by reference to a relevant and easily understood benchmark.

A debt management memorandum of understanding has been signed, effective 1 July 1997, in order to formalise the governance relationship between TCorp and New South Wales Treasury. The agreement provides for three portfolio risk parameters, being a modified range of +/- 0.75 years around the benchmark duration range of 2.9 to 3.3 years, a maximum limit of 30 per cent for the portfolio's floating rate exposure and agreement that TCorp not exceed an agreed debt servicing cost figure without prior Treasury approval.

## **Risk/return review**

As part of Treasury's ongoing continuous improvement program, Bankers Trust Risk Management Advisory was engaged to undertake an independent external review of the institutional and operational arrangements relating to the debt management of the Crown portfolio and the benchmarks used for measuring the performance of TCorp.

The review, which was completed in March 1997, analysed the existing governance framework, arrangements and practices, the contractual arrangements between Treasury and TCorp and other issues such as role and responsibilities, performance measurement, approach towards market risk, etc.

Treasury's Debt Management Committee has resolved to expand the review of market risk. Macquarie Risk Advisory Services Limited was engaged in May 1998, following a tender process, to advise Treasury of appropriate risk/return strategies, after taking into account Government policy and Crown portfolio debt management objectives.

## **7.6 SUPERANNUATION POSITION**

The Government is committed to the gradual reduction and eventual elimination of New South Wales Public Sector unfunded superannuation liabilities by continuing to fund superannuation liabilities in accordance with a long term funding strategy.

Some major adjustments to employer superannuation accounts in 1996-97 have contributed towards a \$2.6 billion reduction in unfunded liabilities as at 30 June 1997, compared to the previous year. These adjustments are explained later in this chapter.

This substantial reduction in unfunded liabilities has been taken into account in the Budget estimates for superannuation funding, to accord with the current timeframe for extinguishing total New South Wales Public Sector unfunded superannuation liabilities.

### **LIABILITY MANAGEMENT STRATEGIES**

Current strategies for the effective management of the State's Public Sector superannuation liabilities are directed towards the reduction and eventual elimination of the State's unfunded superannuation liabilities. This will be achieved by -

- gradual implementation of full funding of accruing superannuation liabilities in respect of current service of public sector employees; and
- regular contributions towards past service unfunded liabilities.

These strategies are consistent with the principles set out in the General Government Debt Elimination Act.

The annual accruing superannuation expense, measured in nominal dollars, of General Government Budget-dependent agencies will be fully funded by around 2019-20. Until then, their unfunded liabilities (expressed in nominal dollars) will increase gradually. In real-terms, however, unfunded liabilities of these agencies are falling and will continue to do so in the future. This is reflected in Figure 7.7 which shows that in real-terms unfunded liabilities have peaked and will decrease gradually over the long-term.

An important factor underlying the forecast decrease in real unfunded liabilities is the large payments into superannuation during the three years to 30 June 1998. Over this period, total employer contributions (expressed in 30 June 1998 dollars) were around \$1 billion greater than for the previous three-year period.

## **NEW SOUTH WALES PUBLIC SECTOR SCHEMES**

Over the last decade, there has been a general move in the public sector throughout Australia away from expensive and inflexible defined benefit superannuation schemes towards less costly, more flexible accumulation schemes. Consequently, defined benefit schemes have been closed to new entrants in most Australian jurisdictions.

In New South Wales, the State Superannuation Scheme (SSS) was closed in 1985; the Police Superannuation Scheme (PSS) in 1988; the State Authorities Superannuation Scheme (SASS) and the State Authorities Non-contributory Superannuation (SANCS) Scheme (otherwise known as the Basic Benefit scheme) in 1992. These closed schemes are the components of the Pooled (Superannuation) Fund.

The Judges Pension Scheme (JPS) and the Parliamentary Contributory Superannuation Scheme (PCSF) are the only defined benefit schemes that remain open to new entrants.

The Commonwealth Government's Superannuation Guarantee (Administration) Act 1992 prescribes the minimum level of superannuation support that must be provided by employers for all employees. The First State Superannuation (FSS) scheme is a fully funded accumulation scheme that was introduced in 1992 to meet these requirements.

## **CURRENT DEVELOPMENTS**

### **Major Adjustments to Employer Accounts**

In 1996-97 the SAS Trustee Corporation brought to account a number of mainly one-off adjustments to individual employer superannuation accounts. Four of these adjustments were collectively called the Tax Allocation Project (TAP) adjustments. In net-terms, they resulted in an increase in employer reserves and a matching decrease in total public sector unfunded liabilities of about \$1.8 billion which makes up the majority of the \$2.6 billion reduction in unfunded liabilities as at 30 June 1997. The adjustments involved -

- the distribution to individual employer reserves of tax credits that had accumulated over the previous 10 years, and are now available to the Pooled Fund (the delay in their allocation being due to the necessity of clearly establishing the taxation status of the Pooled Fund);
- the allocation of a part of the SSS Contributors' Reserve to employer reserves (this adjustment corrected an error which occurred when the Scheme was first disaggregated to form the Contributors' Reserve and employer reserves in 1989);
- an adjustment to employer reserve accounts to accurately reflect investment earnings calculations associated with exit payments relating to members of SASS and SANCS; and

- an adjustment to investment earnings accruing to employers' reserve accounts to reflect the increases in their reserves arising from the adjustments listed above.

The value of accrued benefits was also adjusted to recognise changes in membership numbers and valuation assumptions underlying the actuarial calculations of unfunded liabilities. This resulted in a net decrease in total New South Wales Public Sector unfunded liabilities of around \$500 million.

Unfunded liabilities as at 30 June 1997 also reflect the fact that actual investment earnings of the Pooled Fund were considerably greater than the long-term trend investment rates. This resulted in an increase in employer reserves of around \$350 million compared to what was expected, with a matching decrease in unfunded liabilities.

### **Local Government and Electricity Authorities Schemes**

On 1 July 1997 the Government established by trust deed two new Public Sector superannuation schemes, the Local Government Superannuation Scheme (LGSS) for Local Government employees and the Electricity Industry Superannuation Scheme (EISS) for employees of the six New South Wales electricity distributors and the Electricity Transmission Authority (Transgrid).

Employees of these organisations who were members of New South Wales Public Sector superannuation schemes, had their scheme membership, funds, benefits and rights transferred completely intact to the respective new schemes on 1 July 1997. These new schemes effectively mirror the schemes to which their members formerly belonged.

The establishment of these separate schemes had the effect of transferring from the Pooled Fund about \$3.0 billion of assets and about \$2.6 billion of liabilities. The difference between assets and liabilities is due to the fact that the Local Government and electricity industry employers were about \$400 million overfunded.

### **Review of University Employee Superannuation Costs and Liabilities**

Some employees of universities and former Colleges of Advanced Education in New South Wales have remained members of State Public Sector superannuation schemes, rather than transfer to the Superannuation Scheme for Australian Universities (SSAU).

Under the current cost sharing arrangements between the Commonwealth and New South Wales, the State meets about half of the superannuation costs associated with these employees.

A review of the basis for superannuation cost sharing arrangements with respect to current and future service of university employees has been completed.

A revised methodology for calculating superannuation cost shares has been agreed and should result in a more accurate allocation of costs between jurisdictions. The financial impact on the State's cost share will be known in 1998-99, when the new methodology will be applied to New South Wales for the first time.

It is expected that a separate review will be initiated in 1998-99 to investigate options for the equitable sharing of unfunded superannuation liabilities with respect to past service of university employees.

### **Distribution of Funds in the State Superannuation Scheme Contributors' Reserve**

An independent actuarial investigation was undertaken to determine, amongst other things, the ownership of unallocated funds currently held in the SSS Contributors' Reserve.

The independent actuarial review found that the unallocated balance of the SSS Contributors' Reserve (about \$760 million as at 30 June 1997) will ultimately benefit employers under existing funding arrangements. The SSS is essentially a defined benefit scheme and therefore precludes the notion of a "surplus" in the fund that may be considered as belonging to employees.

It is intended to distribute the unallocated amount to employer reserves during 1998-99. The determination of the appropriate methodology will require actuarial advice. It is expected that this distribution will materially reduce the future level of New South Wales Public Sector unfunded liabilities. The indicative graph of forecast unfunded liabilities at Figure 7.7 incorporates a preliminary estimate of the impact on unfunded liabilities.

### **1997 Triennial Review**

The 1997 Triennial Review into the state and sufficiency of the four closed schemes in the Pooled Fund as at 30 June 1997 is almost complete. The process and methodology used in the Triennial Review incorporated, where appropriate, the recommendations made in an independent actuarial review of the 1994 Triennial Review carried out in 1996-97.

In summary, the combination of economic and demographic assumptions adopted in the Review is expected, in net-terms, to result in a marginally lower level of Pooled Fund unfunded liability as at 30 June 1997 than would have been the case under the 1994 Triennial Valuation assumptions.

### **Sale of Axiom Funds Management**

The Government sold Axiom Funds Management to Deutsche Australia Limited in May 1997. This provides the SAS Trustee Corporation with increased flexibility, over the medium-term, in relation to choice of funds manager/s.

Proceeds to the Trustee from the sale of Axiom were \$215 million. Approximately \$105 million of this was distributed directly to employer reserves, which reduced total unfunded liabilities by a corresponding amount.

The balance of the sale proceeds was allocated to employee reserves.

## **LIABILITIES OF NEW SOUTH WALES PUBLIC SECTOR SCHEMES**

In the past, successive Governments have adopted a policy of largely funding public sector superannuation liabilities on an emerging payment basis. That is, the cost of the benefits was met when the benefits were paid. Additionally, some improvements were made to benefits without accompanying increases in employer or employee contributions.

Consequently New South Wales, like the Commonwealth and most other States, has accumulated substantial unfunded liabilities. Total New South Wales Public Sector unfunded liabilities have increased (in nominal dollars) from \$7.7 billion in 1988-89 to \$12.8 billion in 1997-98. A significant majority of these liabilities relates to General Government Sector agencies.

However, current forecasts indicate that the strategies adopted by the Government, including the gradual move towards full funding of employee superannuation entitlements, will result in the level of unfunded liabilities (in real-terms) declining steadily over the long-term until it will be completely extinguished by 2044-45.

The illustrative graph at Figure 7.7 shows General Government Budget-dependent agencies' unfunded liabilities expressed in 30 June 1998 dollars for both historical and forecast years. It shows a growth in unfunded liabilities to around \$14.0 billion in 1995-96 followed by a gradual decline to about \$8.3 billion by 30 June 2009.

This result is based on the Government Actuary's forecasts adjusted to take into account the assumption that the bulk of the unallocated funds in the SSS Contributors' Reserve will be distributed to employer reserves during 1998-99.

The achievement of forecast unfunded liabilities will be conditional on all assumptions underlying the forecast being borne out in practice. However, it is the Government's intention to closely monitor the funding plan and, if necessary, adjust the plan to ensure the target date of 2045 is met.

The forecast level of General Government Budget-dependent agencies' unfunded liabilities in Figure 7.7 shows a \$1.4 billion (in real terms) downturn in 1996-97.

This figure is consistent with a \$2.6 billion (nominal dollars) reduction in total New South Wales Public Sector unfunded liabilities over the same period and also reflects a substantial transfer of unfunded liabilities from the non General Government Sector to the General Government Sector. This transfer was mainly due to the fact that the Crown has assumed the unfunded liabilities of some agencies, which have been restructured, and corporatised in line with the Government's Competition Reform Policy.

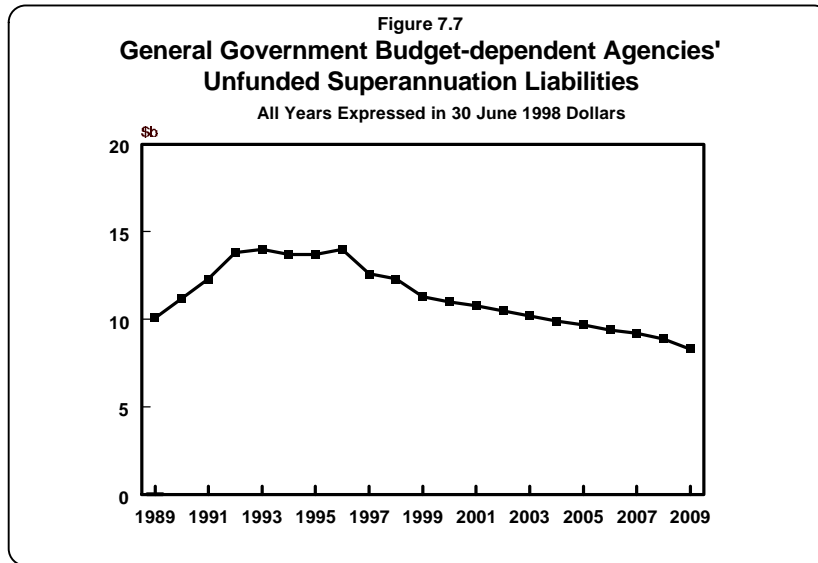


Table 7.4 shows that total public sector unfunded liabilities at June 1998 are expected to decrease by \$52 million compared to June 1997.

**Table 7.4: Net Unfunded Liabilities of NSW Public Sector Superannuation Schemes as at 30 June <sup>(a)</sup>**

|                                     |     | Actual<br>1994 | Actual<br>1995 | Actual<br>1996 | Actual<br>1997 | Estimated<br>Actual<br>1998 <sup>(b)</sup> |
|-------------------------------------|-----|----------------|----------------|----------------|----------------|--|
| General Government Agencies -       |     |                |                |                |                |  |
| Pooled Fund schemes <sup>(c)</sup>  | \$m | 11,476         | 11,837         | 12,764         | 11,514         | 11,562                                     |
| Other <sup>(d)</sup>                | \$m | 774            | 850            | 890            | 916            | 749  |
| Total General Government (e)        | \$m | 12,250         | 12,687         | 13,654         | 12,430         | 12,311                                     |
| PTEs/PFEs                           | \$m | 2,188          | 2,004          | 1,781          | 407            | 474  |
| Total State Public Sector           | \$m | 14,438         | 14,691         | 15,435         | 12,837         | 12,785                                     |
| Proportion of Gross State Product - |     |                |                |                |                |  |
| Total State Public Sector           | %   | 9.8            | 9.3            | 9.2            | 7.2            | 6.8  |
| General Government                  | %   | 8.3            | 8.1            | 8.1            | 7.0            | 6.6  |
| PTEs/PFEs                           | %   | 1.5            | 1.2            | 1.1            | 0.2            | 0.2  |

(a) Figures are in nominal dollars.

(b) Unfunded liability figures are based on NSW Government Actuary's 1998 estimate.

(c) Comprised of SSS, SASS, PSS and SANCS.

(d) Includes JPS, PCSF and State's share of NSW university employees' unfunded liabilities.

(e) Figures up to 30 June 1997 relate to General Government Budget-dependent agencies only.

Total New South Wales Public Sector net unfunded liabilities have declined from 9.8 per cent of GSP in 1994 to an estimated 6.8 per cent in 1998. As a result of the Government's current policy regarding the management of superannuation liabilities, this trend is expected to continue over the long-term.

Table 7.5 shows the average cost to employers of the major New South Wales Public Sector superannuation schemes based on 1997-98 actuarial estimates.

**Table 7.5: Employer Cost of Major New South Wales Public Sector Superannuation Schemes**

| Scheme                                  | Employer Cost as a Percentage of Salary |
|---|---|
| First State Superannuation Scheme       | 6.0 to 9.0 ~                            |
| State Authorities Superannuation Scheme | 9.8 *                                   |
| State Superannuation Scheme             | 13.4 *                                  |
| Police Superannuation Scheme            | 13.4 *                                  |

~ Currently 6.0 per cent increasing to 7.0 per cent on 1 July 1998 and to 9.0 per cent by the year 2002.

\* Does not include 3 per cent entitlement under Basic Benefit Scheme.

## SUPERANNUATION FUNDING

### General Government Budget-dependent Agencies

Table 7.6 provides a breakdown of payments made by the Crown into New South Wales Public Sector superannuation schemes for the period 1994-95 to 1998-99. The total payment in 1998-99 is projected to be \$1,405.7 million, which is a decrease of \$56.6 million compared to 1997-98. The reductions in 1997-98 and 1998-99 have been made possible by the significant fall in the level of unfunded liabilities, which occurred in 1996-97 and are consistent with the Government's long-term funding plan objective of extinguishing unfunded liabilities by 2044-45.

**Table 7.6: Crown Payments into New South Wales Public Sector Superannuation Schemes**

|                                   | Actual         | Actual         | Actual         | Estimated         | Estimate       |
|-----------------------------------|----------------|----------------|----------------|-------------------|----------------|
|                                   | 1994-95        | 1995-96        | 1996-97        | Actual<br>1997-98 | 1998-99        |
|                                   | \$m            | \$m            | \$m            | \$m               | \$m            |
| First State Superannuation Scheme | 150.7          | 194.2          | 237.6          | 255.0             | 301.0          |
| The Pooled Fund <sup>(a)</sup>    | 846.8          | 884.6          | 1,221.8        | 1,167.7           | 1,060.9        |
| Other <sup>(b)</sup>              | 34.5           | 35.1           | 36.9           | 39.6              | 43.8           |
| <b>TOTAL <sup>(c)</sup></b>       | <b>1,032.0</b> | <b>1,113.9</b> | <b>1,496.3</b> | <b>1,462.3</b>    | <b>1,405.7</b> |

(a) Includes SSS, SASS, PSS and SANCS schemes.

(b) Includes JPS, PCSF and the State's share of the unfunded liabilities associated with university employees in New South Wales.

(c) Excludes agencies whose superannuation payments are paid from Government subsidies and hypothecated revenues (e.g. Roads and Traffic Authority).

A key element of the Government's strategy to reduce unfunded superannuation liabilities over the medium-term is to make cash contributions into the four closed Pooled Fund superannuation schemes at levels that are greater than emerging benefit payments.

### **Non Budget-dependent Agencies**

Consistent with the Government's overall liability management strategy, non General Government agencies, General Government agencies not dependent on the Budget and commercial activities of General Government Budget-dependent agencies are required to fully fund their current service costs which represent the employers' obligation in respect of employees' service during the year (ie current service). This is achieved by making employer superannuation contributions at rates equal to the full funding multiples which are actuarially determined every three years.

An additional requirement placed on these authorities is to develop a plan to fully fund their superannuation liabilities arising from employees' past service, over a period not exceeding 30 years and taking into account the age profile of fund members. Most authorities have complied with this requirement resulting in a reduction in unfunded liabilities over time, as shown at Table 7.4.

## **7.7: OTHER LIABILITIES**

The major liability in this category is the provision for outstanding insurance claims.

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 being workers compensation, motor vehicle, property, public liability and miscellaneous. Insurable risk administration is outsourced with the current manager, GIO Australia, being reappointed for a further five-year term in 1997.

The Treasury Managed Fund has in recent years, in line with all other insurers and self-insurers, experienced a large increase in premiums and provisioning for outstanding insurance claims.

The Government is presently considering a package of further workers' compensation reforms.