New South Wales Auditor-General's Report

Financial Audit

Volume Ten 2014

Focusing on Treasury and Finance
(including Superannuation and Insurance)

audit office
OF NEW SOUTH WALES

The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Ten of my 2014 report.

Grant Hehir
Auditor-General
28 November 2014

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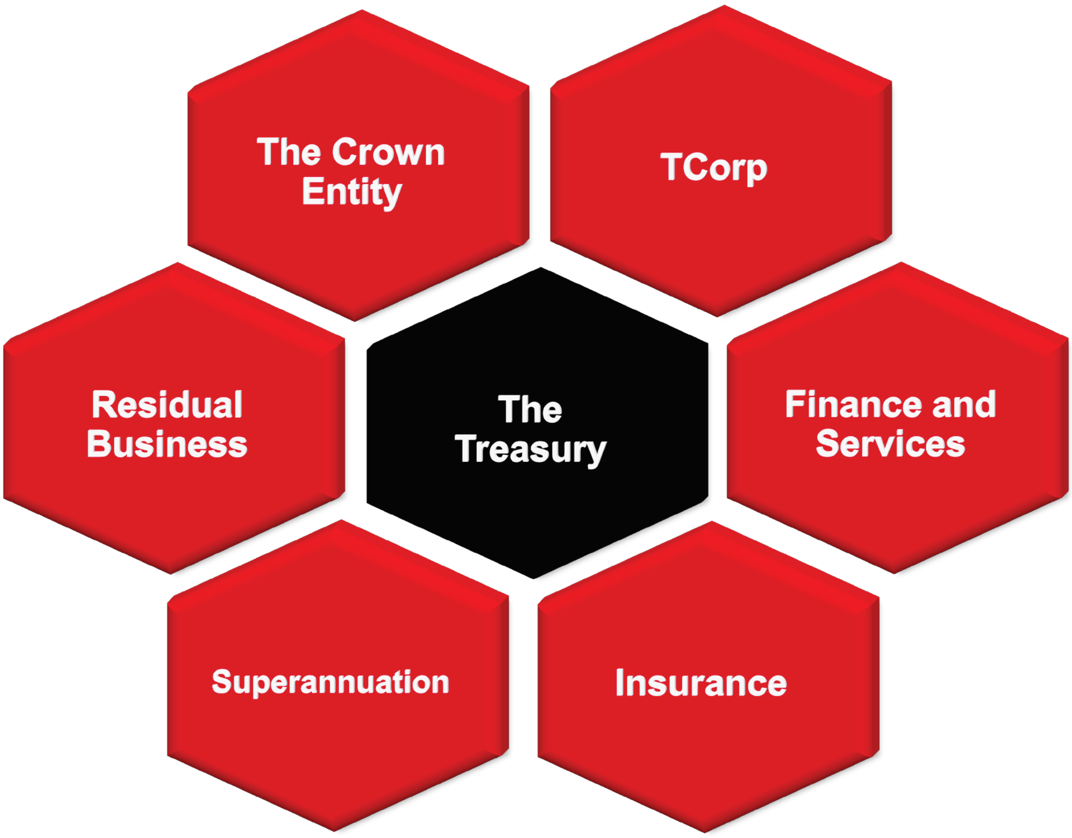
Part One

Section One

Treasury and Finance

Executive Summary

The Treasury and Finance cluster provides leadership in financial management across the public sector and is the lead for achieving the NSW 2021 goals to rebuild State finances, place downward pressure on the cost of living and increase the competitiveness of doing business in New South Wales.



This volume sets out the results of the 30 June 2014 financial statement audits of the Treasury and Finance Cluster.

The report has three focus areas:

- Treasury and Finance
- Superannuation
- Insurance.

Superannuation and Insurance are commented on later in this volume.

Treasury and Finance Agencies

This section covers the following agencies:

- The Treasury
- Crown Entity
- New South Wales Treasury Corporation (TCorp)
- Office of Finance and Services
- Other smaller and residual agencies.

Unqualified audit opinions were issued on 30 agencies' financial statements. The Ministerial Holding Corporation audits for 30 June 2013 and 2014 are still in progress. 2012 was the first year financial reports were prepared by the Corporation. Difficulties were experienced in verifying opening balance transactions and fair value measurements, causing delays. Both reports are expected to be completed by 31 December 2014.

Treasury and Finance Agencies

Lead Agencies	Responsibilities
The Treasury	• State's Financial resource management • Economic and fiscal policy and direction • Driving public sector accountability
The Crown Entity	• State liability management • Central financial services
Office of Finance and Services	• State taxation administration • Procurement • Public works • Land and Property information • Shared Services • Consumer protection • ICT Strategy
TCorp	• Management of the State's Debt • Investment services to the State • AAA rated
Other	• State Records Authority • Waste Assets Management Corporation • Government Property NSW • For other agencies see Appendix Four

This report provides Parliament and other users of the financial statements with an analysis of the Treasury and Finance agencies results and key observations in the following areas:

- Financial and Performance Reporting
- Financial Controls
- Governance
- Service Delivery.

Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Confidence in public sector decision making, financial management and transparency is enhanced when financial and performance reporting is accurate, timely and clear.

Analysis of the financial and performance reporting of the Treasury and Finance agencies in 2013-14 shows:

- agencies required to comply with early close procedures did so within specified timeframes. The procedures are proving effective in improving accuracy and timeliness of financial reporting
- reported misstatements across the agencies are reducing. The Crown Entity had the most misstatements by number and value, but these more than halved in 2013-14
- total combined expenses were within three per cent of budgeted expenses for Treasury and Finance's general government sector agencies.

Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of entity policies. They are essential for quality and timely decision making, effective financial management and other desired outcomes. The 2013-14 audits identified:

- a few high risk matters, but confirmed internal controls were generally sound
- twenty information technology issues (58 in 2012-13). None were high risk and 12 concerned information security.

Governance

Governance refers to the framework of rules, relationships, systems and processes where authority is exercised and controlled. It includes the systems the entities and those charged with governance use and are held to account by others.

- The Treasury and Finance cluster was established on 23 April 2014 with the Treasury designated as the principal agency in the cluster. Overarching governance is maturing as the machinery of government changes are fully assessed across the cluster
- governance at the agencies is well established and compliance with the principles of TPP 09-05 'Internal Audit and Risk Management for the NSW Public Sector' is strong
- The Treasury is implementing a financial management transformation program to improve the quality and timeliness of financial reporting, financial governance arrangements and the budgeting performance framework
- eleven instances of corrupt behaviour were reported to the Independent Commission Against Corruption during 2013-14.

Service Delivery

Service delivery is improved if service requirements are clear, targets are set, comprehensive management information exists and there is clear authority and accountability.

The Treasury and Finance cluster provides leadership in financial management across the public sector and is the lead for achieving the NSW 2021 goals to rebuild State finances and place downward pressure on the cost of living and increase the competiveness of doing business in New South Wales. Key outcomes in 2013-14 include:

- the State maintaining its AAA credit rating
- the budget achieving a surplus
- maintaining expenditure growth below long term revenue growth
- the Office of Finance and Services collecting revenue of $22.0 billion for the State.

Recommendations

The Treasury should:

1. determine appropriate governance arrangements before major change to clusters take effect.

The Rental Bond Board should:

2. review its accounting treatment for rental bonds and confirm how they should be reported.

The Long Service Corporation should:

3. develop strategies and improve business processes to identify possible revenue losses and ensure all revenue is brought to account.

The Waste Assets Management Corporation should:

4. monitor government policies and announcements then re-estimate its carbon pricing obligations and receivables when this can be done with sufficient accuracy.

Agencies should:

5. implement measures to improve the accuracy of budgets
6. establish formal disaster recovery plans where self-assessments identified deficiencies in plans for key financial systems.

Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Confidence in public sector decision making, financial management and transparency is enhanced when financial and performance reporting is accurate, timely and clear.

Quality and Timeliness of Financial Reporting and Early Close Procedures

There were no significant deficiencies in the quality of financial reporting of the Treasury and Finance lead agencies for 2013-14.

The agencies were broadly successful in performing early close procedures. Reporting timetables set out in the early close circular were met and financial statements were submitted for audit by agreed dates. The early close procedures contributed to achieving the reduced timetable and completing the audits within earlier deadlines.

The 'TC14-02 Mandatory early close procedures for 2014' defined minimum requirements for early close procedures, including:

- preparing pro-forma financial statements
- resolving prior year unresolved and new and emerging issues
- reconciliation of agreed key account balances
- improved management review and accountability by conducting meaningful variance analysis at early close date.

An indicator of effective early close procedures is fewer misstatements in the financial statements submitted for audit. Reported misstatements fell from 64 in 2011-12 to 26 in 2013-14 - refer Appendix Three. All material misstatements were corrected in the financial statements before they were issued.

The Crown Entity was the only agency with misstatements exceeding $2.0 million, as shown in the table below. No misstatements exceeded $150 million, while five exceeded $5.0 million (12 in 2012-13).

Year ending 30 June	Number of misstatements	
	2014	2013
The Crown Entity		
$5 - $10 million	1	4
$10 -$15 million	1	--
$15 - $50 million	1	2
$50 - $100 million	1	3
$100 - $150 million	1	--
$150 + million	--	3
Total misstatements	**5**	**12**

Source: Audit results of the Crown Entity (audited).

Key Issues from Financial Audits

Cross City Tunnel

Previous Reports to Parliament have commented on an objection to a tax assessment of approximately $63.3 million for duty, interest and penalty tax levied on the acquirer of the Cross City Tunnel. The Supreme Court decided in favour of the acquirer, Cross City Tunnel Motorway, on 9 August 2013.

During 2013-14, the acquirer went into voluntary administration and the Office of Finance and Services impaired the stamp duty receivable of approximately $63.3 million at 30 June 2013.

The Chief Commissioner lodged an appeal following the decision in favour of the taxpayer. This was denied and the assessment was reversed in full by the Office of Finance and Services, giving effect to the Supreme Court decision.

Rental Bond Board Bonds

The Rental Bond Board prepared its 2013-14 financial statements on the basis it holds rental bonds of $1.1 billion in trust. As a result, it does not record the bonds as assets or a corresponding liability on its balance sheet. In 2012-13, the Crown Solicitor recommended the legislation governing the Rental Bond Board be reviewed and amended to clarify whether the Rental Bond Board holds the bonds in trust or not. This will remove uncertainty around who controls these funds and will enable the appropriate accounting treatment to be determined.

Proposed 'Wind up' of Residual Business Management Corporation (RBMC)

The Treasurer approved the wind up of RBMC in November 2013.This is expected to occur within the next 12 months. The Corporation transferred property assets and liabilities to other public sector agencies during the financial year.

An emphasis of matter paragraph was included in the audit opinion to draw attention to the fact the financial statements were not prepared on a going concern basis due to the intention to liquidate the company. Instead, the financial statements were correctly prepared on a liquidation basis.

Sale or Lease of Cobbora Coal Mine Development

On 1 July 2013, the NSW Treasurer restated the Government's commitment to sell or lease the Cobbora Coal Project. On 6 August 2014, expressions of interest were called by the NSW Government for the sale of the mine. Bids were due in early November 2014. If the Government decides to proceed with the sale, contracts are expected to be completed by December.

Repeal of *Clean Energy Act 2011* and Carbon Pricing Mechanism

On 17 July 2014, the *Clean Energy Act 2011* was repealed, abolishing the Carbon Pricing Mechanism from 1 July 2014. Legal opinion obtained by the Waste Assets Management Corporation (WAMC) indicates it is liable for carbon pricing obligations and it should settle the final carbon price liability for 2013-14 by 2 February 2015.

WAMC collects all of its carbon pricing obligations from its customers. Its 30 June 2014 financial statements include an estimated liability for carbon pricing of $8.6 million with a corresponding receivable from its customers. The carbon pricing estimate was based on several assumptions and management judgements.

With the expected changes to estimating the carbon pricing obligations, it is not clear the estimated liability and receivable are appropriate. The Australian Government's Minister for the Environment is expected to provide clarification on estimating carbon pricing obligations.

Changes to the liability will not impact the net results or the net assets reported in the financial statements of WAMC at 30 June 2014.

Recommendation

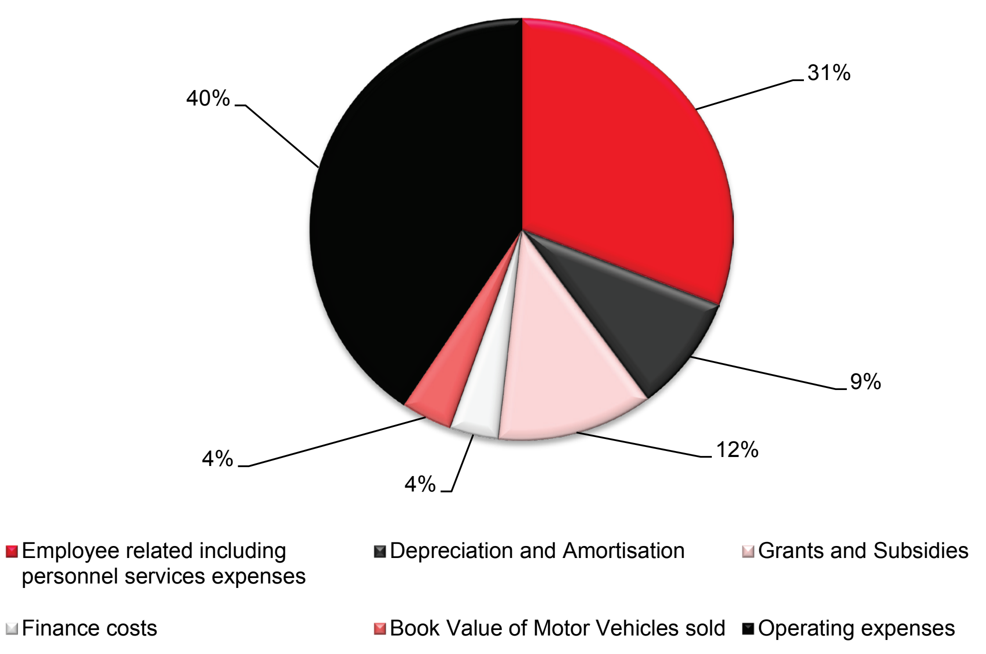
WAMC should monitor government policies and announcements then re-estimate its carbon pricing obligations and receivables when this can be done with sufficient accuracy.

The repeal of carbon tax is discussed in Volume Five of the Auditor-General's Report to Parliament 2014, focusing on Electricity and Water.

Total Agency Expenditure

The graph below shows the major expense categories and total operating expenses within the Treasury and Finance agencies.

Total Operating Expenses Across the Agencies



Source: Financial statements of cluster agencies 2014 (audited).

Employee expenses are a significant expense within the agencies, accounting for $795 million or 31 per cent of total expenses of $2.6 billion. Grants and subsidies of $307 million represent 12 per cent, closely followed by depreciation and amortisation of $232 million, representing nine per cent of total operating expenses. The book value of motor vehicles sold, $100 million, represents the sale of Statefleet cars maintained by Office of Finance and Services. Operating expenses were 40 per cent which comprised legal costs, administrative charges, lease expense, consultants, maintenance and other expenses.

Combined performance against budget

The following tables compare actual financial results against original budgets for agencies which report budget figures in their audited financial statements.

Appendix Two compares the actual agency results against original budgets.

	2014 Actual $'000	2014 Budget $'000	% Change
Abridged statement of comprehensive income - year ended 30 June			
Employee expenses	736,649	771,900	(5)
Other expenses and losses	1,537,268	1,559,842	(1)
Total expenses	**2,273,917**	**2,331,742**	**(2)**
Grant and contributions	622,330	621,277	--
Other revenue	1,778,160	1,756,985	1
Total revenue	**2,400,490**	**2,378,262**	**1**
Gains on disposal	**11,943**	**18,729**	**(36)**
Other (losses)	**(1,343)**	**(300)**	**348**
Net result	**137,173**	**64,949**	**111**
Total Other comprehensive Income	127,916	--	--
Total comprehensive income	**265,089**	**64,949**	**308**
Abridged statement of financial position - at 30 June			
Current assets	1,115,863	979,052	14
Non-current assets	3,961,821	3,911,535	1
Total assets	**5,077,684**	**4,890,587**	**4**
Current liabilities	1,384,286	1,350,843	2
Non-current liabilities	1,647,859	1,470,594	12
Total liabilities	**3,032,145**	**2,821,437**	**7**
Net assets	**2,045,539**	**2,069,150**	**(1)**
Extract from statement of cash flows - year ended 30 June			
Purchases of property, plant and equipment	**(264,409)**	**(311,311)**	(15)

Source: Financial statements of cluster agencies (audited).

Employee expenses are five per cent less than budget due primarily to administrative changes in the cluster and efforts to meet the labour expense cap.

Total comprehensive income was higher than budget mainly because superannuation actuarial gains and losses and movements in property valuations were not estimated and included in the budgeted figures. The variation includes a superannuation actuarial gain for the Office of Finance and Services of $76.0 million and a property valuation movement of $47.0 million for Government Property NSW.

Total assets varied by less than four per cent from budget.

Total Liabilities were seven per cent above the original budget mainly due to the *Government Sector Employment Act 2013* transferring staff from the Safety Return to Work and Support to the Office of Finance and Services, and increases in provisions for employee entitlements.

Agency performance against budget

While the combined budget performance was substantially within estimates, improvements are required in budgeting at the individual agency level. The table in Appendix Two compares the 2013-14 actual results to original budget. The Rental Bond Board was the only agency that performed substantially within estimate for both the Statement of Comprehensive Income and the Balance Sheet. The Office of Finance and Services and Government Property NSW were substantially within estimate for the Statement of Comprehensive Income, but their balance sheet estimations were impacted by actuarial estimations of liabilities and valuation movements in properties. All other agencies need to improve their budget estimations.

Recommendation

Treasury and Finance agencies need to implement measures to improve the accuracy of budgets.

Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of entity policies. They are essential for quality and timely decision making, effective financial management and other desired outcomes.

Internal Controls

Audits involve performing procedures to obtain sufficient evidence to support the amounts and disclosures in financial statements. The procedures depend on the auditor's judgement, including an assessment of the risks of material misstatements in the financial statements. When assessing the risks, the auditor considers internal controls relevant to the preparation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. Breakdowns and weaknesses in internal controls significantly increase the risk of fraud and error.

The audits of the Treasury and Finance agencies did not identify significant weaknesses in internal controls, and identified two high risk matters.

High Risk Matters

Accounting Treatment of Rental Bonds

The Rental Bond Board prepared financial statements on the basis it holds rental bonds of $1.1 billion in trust. It, therefore, does not recognise assets or corresponding liabilities for these bonds on its balance sheet.

In 2012-13, the Crown Solicitor recommended the legislation governing the Rental Bond Board be reviewed and amended to clarify whether the Rental Bond Board holds the bonds in trust or not. This will remove uncertainty around who controls these funds and will enable the appropriate accounting treatment to be determined.

Recommendation

The Board should review its accounting treatment for rental bonds and confirm how they should be reported.

Long Service Levy Income from Building and Construction Industry

Since 2011-12, issues have been raised around internal controls that ensure all Long Service Levy income is correctly calculated and recognised.

The lack of integrated business processes and an appropriate core system to support the Corporation increases the likelihood of loss of revenue in the Building and Construction Industry Long Service Levy.

Recommendation

The Corporation should develop strategies and improve business processes to identify possible revenue losses and ensure all revenue is brought to account.

Moderate Risk Issues

The following common issues/recommendations arose during the 2013-14 audits:

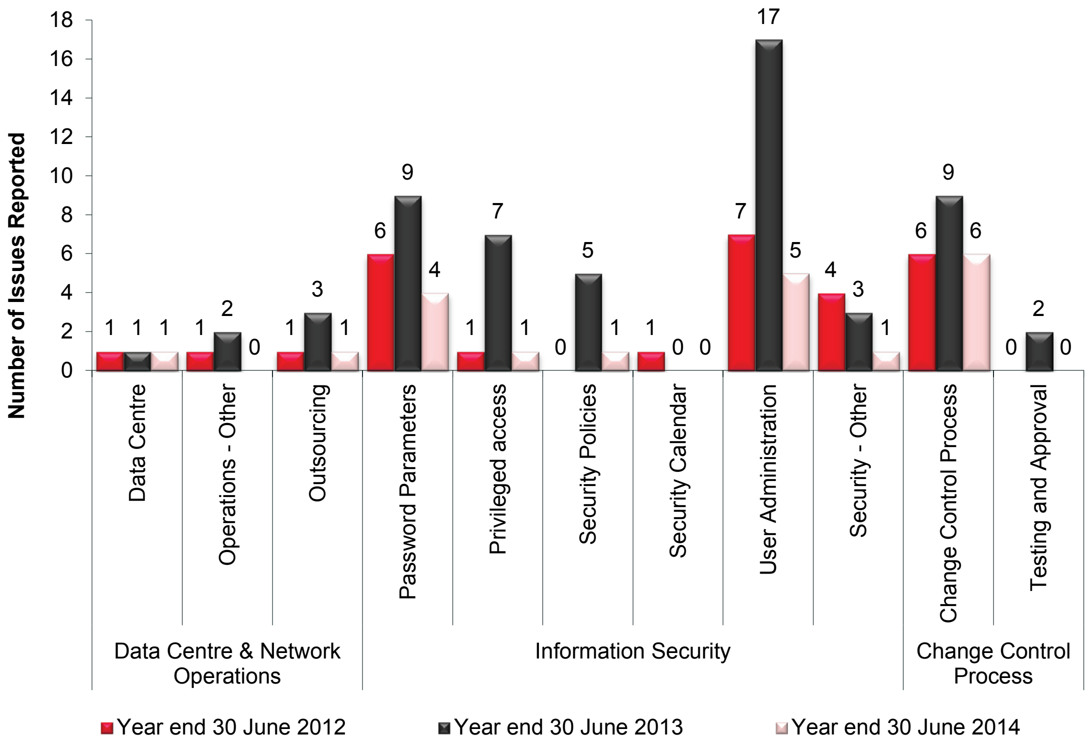
- process improvements are needed to prepare clear and timely reconciliations
- review processes for some key account reconciliations need to be strengthened
- process improvements are needed to provide quality and timely work papers
- process improvements are needed to identify commitments for year-end reporting
- issues with lease agreements need to be addressed – renew expired leases, clarify lease terms.

Information Technology

Information system audits focused on the information technology (IT) processes and controls supporting the integrity of financial data used to prepare agencies' financial statements. In 2013-14, 20 IT issues (58 in 2013) were identified in the Treasury and Finance agencies.

Thirty per cent of these IT issues were previously reported in 2012-13, and all but one related to information security. Information security issues may expose agencies to security attacks and may result in data integrity issues, fraud, privacy breaches and identity theft.

ITGC Issues Reported by Category - Treasury and Finance



Information security issues accounted for 60 per cent of the IT issues identified in 2013-14.

Forty-two per cent of these related to user administration, mostly relating to inadequate periodic user reviews for financial systems. This increases the risk of unauthorised or inappropriate access to financial systems.

Thirty-three per cent related to password settings for financial systems not complying with agencies' policies and better practice standards. Weak password settings increase the risk of security attacks, data integrity issues, privacy breaches and identity theft.

Change control weaknesses have remained an area of concern over recent years, accounting for 30 per cent of all IT issues. Change control weaknesses may result in changes to financial systems not being appropriately authorised or adequately tested. This increases the risk of financial systems not operating in line with business requirements and data integrity issues.

Disaster Recovery Planning

In 2013-14, 13 agencies self-assessed their disaster recovery planning and testing capabilities.

Three agencies reported they had not established formal disaster recovery plans for some key financial systems.

Agencies may not be capable of successfully recovering and restoring financial processes and systems in the event of a disaster.

Recommendation

Agencies should establish formal disaster recovery plans where self-assessments identified deficiencies in plans for key financial systems.

Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems the entities and those charged with governance use and are held to account by others.

Cluster established

The Treasury and Finance cluster was established on 23 April 2014 under the *Administrative Arrangements (Administrative Changes – Ministers and Public Service Agencies) Order 2014* with The Treasury as the principal agency. The new cluster brought The Treasury and the Office of Finance and Services together. The head of the cluster is the Secretary of Treasury.

Overarching agency governance

The cluster's overarching governance arrangements are maturing as the machinery of government changes are fully realised. Delays in implementing effective overarching governance may expose the cluster to avoidable risks.

Changes to cluster arrangements should be accompanied by change management plans, including appropriate governance and reporting frameworks.

Recommendation

The Treasury should determine appropriate governance arrangements before major change to clusters take effect.

Monthly Chief Financial Officer (CFO) forums are held between The Treasury and the CFO's of principal agencies in each cluster. The forums aim to facilitate open dialogue between The Treasury and cluster agencies, and promote engagement and collaboration in the development of whole-of-government financial management solutions. 2013–14 year was the first full year of these forums.

The authority, autonomy and accountability of the cluster Chief Finance Officer's (CFO) role is not clear. The Government should support the role of the cluster CFO to improve financial management, reporting and accountability.

Agency specific governance

Lead agencies have audit and risk committees, internal audit and other risk management functions. They support smaller agencies through sub-committees and access to their risk management services.

Audit and Risk Committees

The Treasury's audit and risk committee also oversees the following entities:

- Treasury, including the Crown Entity
- State Rail Authority Residual Holding Corporation
- Liability Management Ministerial Corporation
- Lotteries Assets Ministerial Holding Corporation
- Electricity Assets Ministerial Holding Corporation
- Ports Assets Ministerial Holding Corporation
- Port Botany Lessor Company Pty Ltd
- Port Kembla Lessor Company Pty Ltd
- Port of Newcastle Lessor Pty Ltd.

The Office of Finance and Services has an exception from one of the core requirements of the TC 09/05 Internal Audit and Risk Management Policy for NSW Public Sector for the Rental Bond Board and Fair Trading Administration Corporation. These are oversighted by the Office of Finance and Services' audit and risk committee. A separate sub-committee oversights the NSW Government Telecommunications Authority and the State Records Authority.

For smaller agencies, full compliance with the policy would impose unreasonable administrative and cost burdens. Ministerial approvals confirming the departures from the policy requirements have been obtained.

Risk Management

The Treasury

The Treasury manages its risks through an audit and risk management function. Highlights from this function's activities in 2013-14 included:

- implementing a new Principal and Shared Arrangements Agreement and corresponding Audit and Risk Committee Charters.
- rolling out the 2012–13 communication strategy (linked to the Risk Framework and Policy) across Treasury
- implementing an annual procedure for the review and implementation of the executive-level risk register and related treatment plans
- reviewing all documentation used by Treasury's internal audit and risk team, and publishing about 30 new and revised documents and templates in April 2014.

New South Wales Treasury Corporation (TCorp)

TCorp has an organisation wide approach to risk management. All levels within TCorp contribute to the framework and detailed systems and processes that identify, control, monitor and report on risk.

TCorp has an Executive Risk and Compliance Committee (ERiCC). This is a management committee, which reports to the Chief Executive. It is charged with ensuring Board policies are embedded in business practice and appropriate levels of supervision, controls, procedures, monitoring and training exist within the business units. ERiCC's activities are oversighted by the Audit and Risk Committee. Risk management objectives are supported by management committees, which oversee market and operational risk exposures and activities.

TCorp has a Risk and Compliance department, which is a centralised function responsible for the day-to-day monitoring of Board policies, client mandates, management procedures and other risk matters identified as potentially requiring attention. The department is responsible for daily reporting to management, monthly reporting to the ERiCC and the Board, and quarterly reporting to the Audit and Risk Committee.

Office of Finance and Services (OFS)

The OFS has an Enterprise Risk Management Framework, which complies with the core requirements of Treasury's Internal Audit and Risk Management Policy for the NSW Public Sector (Policy and Guidelines Paper TPP09-05) and AS/NZS ISO 31000: Risk Management Principles and Guidelines. OFS is in the first stages of a phased implementation of new enterprise risk management software (ERMS) covering workers compensation, incident reporting, risk management, audit and quality control.

The OFS reports quarterly on top strategic risks to the Acting Chief Executive, the executive team and the Audit and Risk Committee so those charged with governance have visibility of the Offices' risk profile.

Legislative Changes

Government Sector Employment Act 2013

On 24 February 2014, the former *Public Sector Employment and Management Act 2002* was repealed and the *Government Sector Employment Act 2013* (GSE Act) was enacted.

Following this, the Treasury prepared guidance for NSW public sector agencies on the financial implications of agency restructures. The implications arise from:

- existing reporting entities and control relationships being abolished and new ones established
- transfers of assets and liabilities from abolished agencies to new or existing agencies with effect from the date the GSE Act commenced
- consequential changes to budget allocations, taxation and systems.

The guidance was provided to help agencies adapt to their new administrative structures quickly, maintain early reporting regimes and comply with various tax and other financial obligations during a period of significant administrative change.

Financial Management Transformation

The Treasury is implementing a Program of Financial Management Transformation (FMT), to reform financial management in New South Wales. Over the coming years FMT program will reform the legislative framework by re-writing the *Public Finance and Audit Act 1983* and other relevant legislation.

The FMT program aims to revise financial governance arrangements and the budgeting performance framework, and provide Government with greater transparency and understanding of agency expenditures. More information on the FMT program is provided in Volume Four of the Auditor-General's Report to Parliament 2014.

Fraud Control

In 2013-14, the Office of Finance and Services reported ten matters to the Independent Commission against Corruption (ICAC). It advises the ICAC has responded and will take no further action. The Treasury reported one matter to the ICAC, while no matters were reported by TCorp and the Crown Entity.

Service Delivery

The achievement of Government outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not-for-profit sectors. Commissioning involves agencies assessing their needs, determining priorities, designing and sourcing appropriate services, and monitoring and evaluating performance.

Performance Information

The Treasury and Finance Cluster is the lead for the following *NSW 2021* Goals:

Rebuild State finances (Goal 2)

Place downward pressure on the cost of living (Goal 5)

Increase the competitiveness of doing business in NSW (Goal 4)

Key service delivery responsibilities for achieving the goal to rebuild State finances (Goal 2), include:

- developing and implementing the State's fiscal and revenue strategies
- managing the State's Budget process and reporting on the State's finances
- monitoring agency savings targets and initiatives
- providing revenue administration services, managing fines and debt on behalf of the Crown, commercial clients and other NSW Government agencies, taking enforcement action and administering benefit services
- managing the NSW land and property registration system, and providing titling, valuation, surveying, mapping and spatial services.

The Treasury performance measures contributing to Rebuilding State's finances (Goal 2)

Key Performance Measures	Details	Target	2014	2013	2012	2011	2010
Effective Balance Sheet management	Maintaining a Triple-A credit rating	Triple A	**Triple A**	Triple A	Triple A	Triple A	Triple A
Improved Financial Management and Controls	Keeping the State Budget in surplus	Budget result	**$1,247m**	$(1,731)m	$660m	$1,340m	$989m
Improved efficiency and effectiveness of expenditure	Maintain expense growth below long term revenue growth	Growth below average revenue growth of 5.6%	**4.6%**	6.00%	5.90%	5.90%	7.30%
Reform Revenue	NSW total State General Government revenue per capita to be less than the average for the other states	NSW ≤ Other States	**NSW $8,767** **Others $9,171**	NSW $8,166 Others $8,782	NSW $8,112 Others $9,190	NSW $7,927 Others $8,830	NSW $7,910 Others $8,542
Improve Public Trading Enterprise performance	Commercial government business agencies achieving an appropriate rate of return on equity	Increased number of agencies	**5**	2	3	3	4
Advice on efficiency and effectiveness of public sector agencies	% of required government businesses with a signed Statement of Corporate Intent	100%	**SOCS 100%** **All 68%**	SOCS 100% All 79%	SOCS 100% All 84%	SOCS 100% All 50%	SOCS 100% All 79%
Budget Management	Treasury's general government expenses estimation variation compared with Other Treasuries (ABS basis)	NSW ≤ Other States	**NSW 0%** **Others 0%**	NSW (1%) Others 1%	NSW (2.3)% Others 0.7%	NSW 1.90% Others 1.2%	NSW 2.60% Others 3.4%
Infrastructure asset management and procurement	% of state physical assets covered by a Total Asset Management Plan submission for nominated agencies	100%	**100%**	100%	100%	100%	98%

Source: The Treasury Annual Report (Unaudited).

The Treasury is performing favourably against most measures.

New South Wales Treasury Corporation (TCorp) – Rebuilding State's finances

TCorp is the central financing authority for the NSW Public Sector. It raises funds in financial markets, which it lends to government agencies. The breakup of loans to government clients is shown below.

At 30 June	2014 $'000	2013 $'000
NSW Public Sector clients		
Crown Entity	29,039,916	26,225,667
Electricity sector	23,480,278	21,902,270
Transport sector	2,175,543	1,760,840
Water sector	8,529,231	8,127,766
Other sectors	1,251,980	1,269,987
Universities	43,524	44,147
Total loans to government clients	**64,520,472**	**59,330,677**

Source: TCorp audited financial statements.

Loans to clients comprise financial accommodation on simple interest, fixed interest, floating rate or inflation indexed bases. The market value of loans issued to government clients increased to $64.5 billion this year.

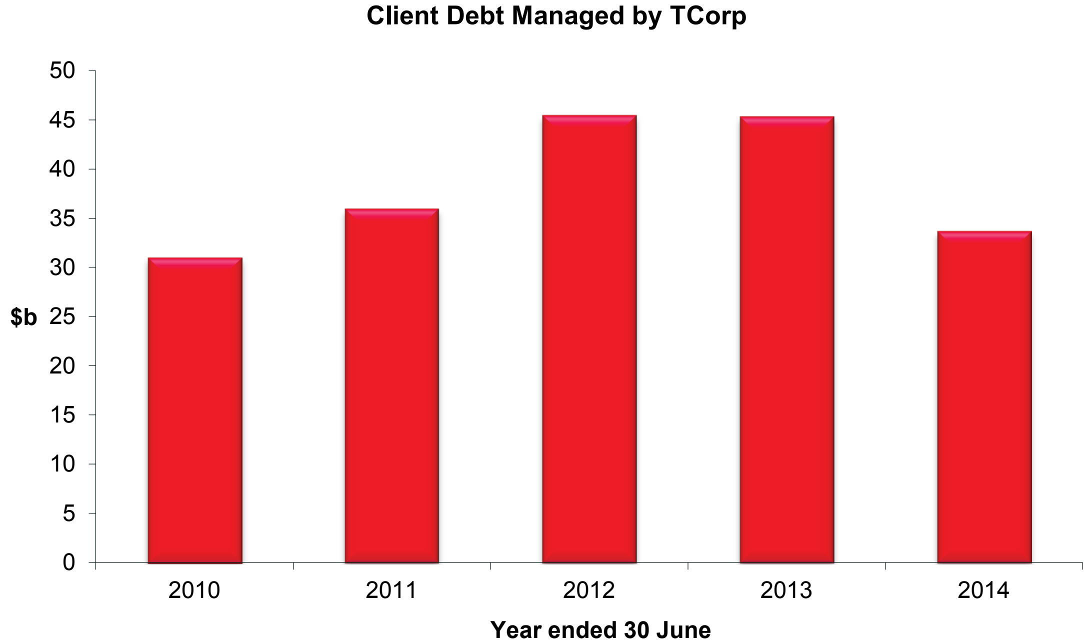
Loans to NSW public sector clients and universities are guaranteed by the NSW government. Of the amounts above, $59,493 million ($56,777 million) is scheduled to mature more than 12 months from the balance date.

TCorp's annual borrowing programme is driven by the funding needs of NSW public sector clients. TCorp seeks to meet these needs by providing funding at the lowest possible cost through efficient issuance and maximising value from the State's AAA credit rating.

TCorp raised $6.7 billion in new borrowings via its funding programme in 2013-14. These borrowings are used to fund investment in infrastructure and maintain appropriate levels of liquidity within TCorp. While the growth in borrowings was higher than in the previous year, it remained lower than recent years because the proceeds from asset transactions, such as the long-term lease of the Port of Newcastle, were used to repay debt and defer the immediate borrowing needs of the Crown Entity.

TCorp Debt and Funds Managed

TCorp managed 17 client debt portfolios at 30 June 2014 with a combined value of $33.8 billion ($45.4 billion). The largest portfolio was Treasury's $28.5 billion ($25.7 billion) Crown debt portfolio. Total debt managed by TCorp over the last five years is shown in the table below.



The decrease in the value of debt under management in 2013-14 was due to two clients in the electricity sector moving to 'advisory only' portfolios. For these clients, TCorp provides advice on liability management strategies, debt benchmarks and market execution strategies, but the clients make the execution decisions themselves.

TCorp is responsible for managing the interest rate risk on managed portfolios. Over 2013-14, interest rates traded in a range well below long term averages. This provided opportunities in the year to lengthen client debt portfolios. In particular, the strong rally in interest rates over the last quarter enabled clients to lengthen debt at rates slightly above the low point experienced during the GFC. The historically low rate also reflected the impact of the significant contraction in the TCorp to Commonwealth Bond spread, which occurred over the year.

Lengthening debt maturity profiles enabled clients to lock in historically low interest rates and minimise the State's refinancing risk. It has been noted that this strategy has been very supportive of the State's AAA credit rating.

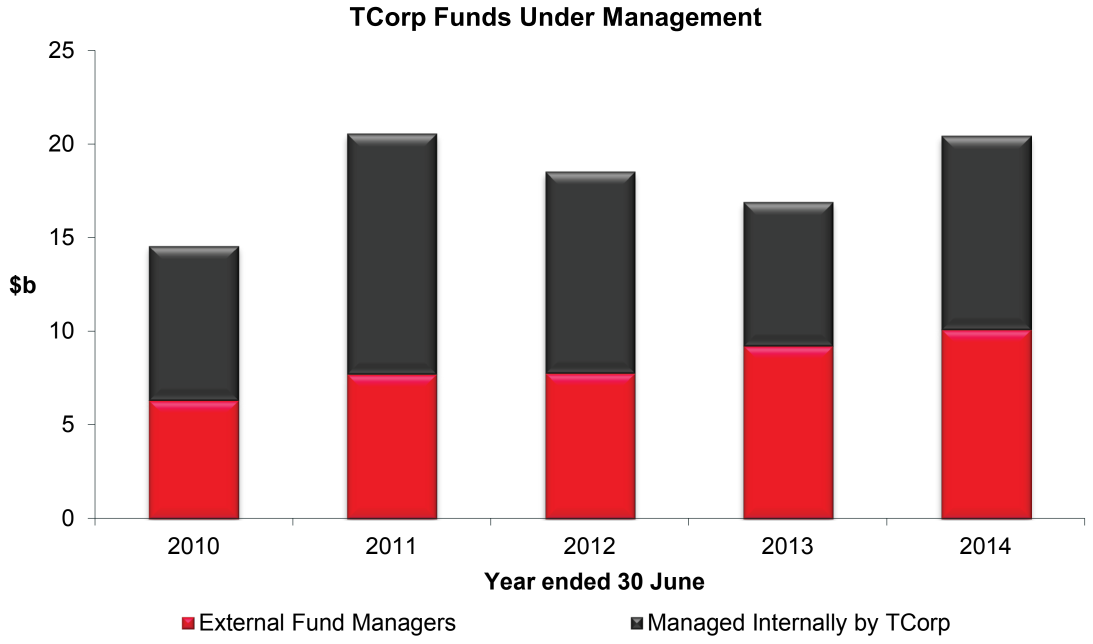
Funds Under Management Increased in 2013-14

TCorp manages client investments through Hour-Glass investment products and discrete client mandates. Cash and fixed income Hour-Glass sectors are primarily managed internally while other sectors are outsourced to external fund managers.

At 30 June 2014, the value of funds managed internally by TCorp under both arrangements increased to $10.4 billion ($7.7 billion at 30 June 2013). The increase was largely due to increases in assets invested through discrete client mandates.

The value of funds under management or administration by TCorp is expected to increase to around $65.0 billion as a result of the amalgamation of the investment operations of TCorp, SAS Trustee Corporation and Safety, Return to Work and Support.

Total funds under management (discrete client mandates and Hour-Glass investment products) at 30 June managed by TCorp and external fund managers over the last five years is shown below.



Source: TCorp audited financial statements 2010-2014.

Asset Management – Discrete Client Mandates

TCorp takes a conservative approach to credit risk, consistent with the risk profile of client mandates. Its decisions around portfolio construction, timing of investments and security selection significantly influence investment returns. During 2013-14, investment returns on most client portfolios met or outperformed benchmarks.

Asset Management – Hour-Glass Investment Products

Hour-Glass Investment Products are managed funds established to meet the investment needs of public sector agencies. They provide public sector agencies with access to investment portfolios aligned to their specific risk appetite.

TCorp provided the following information about its Hour-Glass Investment Facilities performance.

Year ended 30 June	2014	2013	2012	2011
Hour-Glass Cash Facility return %pa	2.92	3.69	4.90	5.37
Benchmark index return %pa	2.68	3.28	4.70	4.98
Total market value $m 30 June	**2,120.00**	**3,023.00**	**4,113.00**	**3,747.00**
Hour-Glass Strategic Cash Facility return %pa	3.23	4.16	5.02	5.58
Benchmark index return %pa	2.68	3.28	4.70	4.98
Total market value $m 30 June	**1,482.00**	**2,166.00**	**1,955.00**	**1,724.00**
Hour-Glass Medium-term Growth Facility return %pa	7.65	10.74	4.28	7.13
Benchmark return %pa	7.58	9.56	4.69	7.06
Total market value $m 30 June	**107.00**	**194.00**	**183.00**	**231.00**
Hour-Glass Long-term Growth Facility return %pa	13.49	20.55	(0.73)	8.51
Benchmark return %pa	13.57	18.79	0.61	8.43
Total market value $m 30 June	**662.00**	**1,300.00**	**1,142.00**	**1,202.00**

Source: New South Wales Treasury Corporation (unaudited).

Benchmarks are market index returns, which are not adjusted for management fees and expenses. Hour-Glass returns are reported net of fees.

Office of Finance and Services Taxation management – Rebuilding State's finances (Goal 2)

Measures of effectiveness and efficiency in tax administration are shown below.

Year ended 30 June	Target 2014	Actual 2014	Actual 2013	Actual 2012	Actual 2011
Revenue collected as a percentage of budget (%)	98	104	98	101	100
Cost to collect $100 of tax revenue ($)	≤ 0.49	0.48	0.49	0.49	0.52
Cost to collect $100 of fine revenue ($)	≤ 10.25	9.42	10.09	12.22	12.74
Total overdue tax debt as a percentage of total revenue (%)	≤ 1.5	1.1	1.3	1.3	1.5

Source: Office of Finance and Services annual report (unaudited).

The Office of Finance and Services collected the following taxes.

Year ended 30 June	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m
Payroll tax	8,109	7,872	7,661	7,279	7,049
Duties	7,849	6,255	5,323	5,481	5,183
Land tax	2,389	2,371	2,387	2,323	2,335
Gaming and racing	1,709	1,698	1,658	1,617	1,347
Fines	521	514	377	338	331
Other	1,444	1,183	1,041	1,153	1,054
Total	**22,021**	**19,893**	**18,447**	**18,191**	**17,299**

Source: Office of Finance and Services (unaudited).

Information on state revenue trends including taxation, fines and regulatory fees are reported in Volume Four of the Auditor-General's Report to Parliament 2014.

Land and Property Information managing the property system – Rebuilding the State's finances (Goal 2)

The Land and Property Information division provides titling, valuation, surveying, mapping and spatial services to the people of New South Wales. The services underpin the property industry of New South Wales and include the statutory functions of the Registrar-General, Surveyor-General and Valuer-General. The division's performance indicators are shown below.

Year ended 30 June	Target 2015	Actual 2014	Actual 2013	Actual 2012	Actual 2011
Total valuations completed (millions)	2.5	2.5	2.5	2.5	2.4
Documents lodged	846,600	844,355	739,002	722,243	719,000
Plans lodged	11,500	9,987	9,186	8,833	9,948

Source : Office of Finance and Services (unaudited).

Place downward pressure on the cost of living (Goal 5)

The Office of Finance and Services contributed to this goal by providing tax concessions and the 'First Home-Buyers Scheme' on purchases of newly constructed homes by making up to $35,000 available to eligible home-buyers.

Increase the competitiveness of doing business in NSW (Goal 4)

The payroll tax threshold was increased from $689,000 to $750,000 from 1 July 2013, meaning around 1,300 fewer businesses had to pay payroll tax and the remaining had their payroll tax bill cut by an average of $3,325 in 2013-14. The Office also increased the payroll tax rebate from $4,000 to $5,000 for each new job supported under the 'Jobs Action Plan'.

Other cluster activities

Shared Services

In April 2014, the NSW Government invited the shared services community to register interest and outline a new delivery model for ServiceFirst to deliver more efficient outcomes and better value for NSW taxpayers. The aim is to achieve value for money and to explore whether a different delivery model could lead to better outcomes, reduced costs and increased productivity. The responses to the Registration of Interest (ROI) were assessed to identify vendors that could provide shared services to government. The process is expected to be completed by late 2014.

ICT Strategy

Last year OFS had not sufficiently developed key performance indicators (KPI) around implementation progress and key service delivery of the ICT strategy.

In 2013-14, OFS has released its NSW Government ICT Strategy Implementation update and provided implementation progress. The update would benefit from further development of statistical and descriptive performance measures.

Government Property Register

Government Property NSW (GPNSW) is responsible for the Government Property Register (GPR).

GPNSW introduced processes to manage the Property Register including:

- requesting agencies for details of land and property holdings by June of each year
- agencies reply to the request by August of each year
- issuing a report to an agency detailing any differences between the agency holdings and the Property Register by September of each year
- agencies update the Property Register and/or asset register and/or titling system as appropriate.

Under the Premier’s Memorandum M2012-20 ‘Government Property NSW (previously State Property Authority) and Government Property Principles’, agencies can retain the proceeds of any real property sale occurring after 30 June 2014 up to the Property Register valuation amount. Agencies should include information on property values in the Property Register to avoid the possibility of losing the proceeds of any property sales.

Despite the processes introduced by GPNSW there is a risk that the Property Register will not be an accurate and complete record of agency property holdings.

All agencies, under the Premier’s Memorandum M2012-20 ‘Government Property NSW and Government Property Principles’ and the Act are required to cooperate with GPNSW in mapping all real property asset data to the Property Register.

Part One

Section Two

Appendices

Appendix One - Summary Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Surplus/(deficit)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
The Treasury**	61,195	39,784	42,548	26,006	96,368	91,316	91,701	89,787	4,666	1,525
New South Wales Treasury Corporation	78,184,228	72,737,043	78,042,928	72,605,062	140,685	172,066	44,547	45,253	67,287	88,645
Office of Finance and Services	1,774,890	1,582,196	1,830,861	1,647,088	1,404,590	1,450,986	1,476,495	1,553,942	(82,512)	(114,315)
Residual Business Management Corporation	51	12,109	--	9,060	521	590	526	802	(5)	(212)
Lotteries Assets Ministerial Holding Corporation	--	--	--	--	--	--	--	--	--	--
Ports Assets Ministerial Holding Corporation	167,725	137,773	348	126	29,947	792	20,608	1,254	9,399	1,055
Electricity Assets Ministerial Holding Corporation	75,766	--	50,541	--	316	--	6,905	--	(6,589)	--
Port Kembla Lessor Pty Limited	14,120	13,139	103	--	3,808	77	2,930	2,465	878	(28,398)
Port Botany Lessor Pty Limited	131,048	124,635	197	108	27,535	9,816	19,297	14,754	8,238	1,750,141
Liability Management Ministerial Corporation	57,795	35,690	11	16	22,130	20,684	20	(48)	22,110	20,732
State Rail Authority Residual Holding Corporation	--	--	--	--	--	--	--	--	--	--
Cobbora Holding Company Pty Limited	167,902	173,913	4,177	11,457	24,312	6,609	23,044	101,587	1,268	(98,106)
Cobbora Rail Company Pty Limited	--	--	--	--	--	--	--	--	--	--
Cobbora Coal Mine Pty Limited	--	--	--	--	--	--	--	--	--	--
Long Service Corporation	912,734	772,447	825,772	777,563	219,120	232,553	127,042	97,813	92,078	134,740
Treasury Corporation Division of the Government Service	7,012	6,424	7,012	6,424	23,232	21,673	23,264	22,086	(32)	(413)

Appendix One - Summary Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Surplus/(deficit)	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
TCorp Nominees Pty Limited	2	2	2	2	--	--	--	--	--	--
NSW Architects Registration Board	1,796	1,673	187	228	1,281	1,142	1,117	1,098	164	44
State Records Authority of New South Wales	950,517	892,023	4,633	4,301	75,201	21,829	21,802	20,922	53,384	908
Board of Surveying and Spatial Information	586	650	23	65	556	547	577	539	(21)	8
Motor Vehicle Repair Industry Authority	8,419	7,183	30	68	3,346	3,184	2,072	1,935	1,274	1,248
Rental Bond Board	65,775	66,577	2,244	4,557	58,273	57,856	56,762	54,670	1,511	3,186
Teacher Housing Authority of New South Wales	152,079	159,313	4,291	7,052	17,213	17,345	21,084	18,777	(4,953)	(1,945)
Financial Counselling Trust Fund	8,990	10,203	13	14	395	505	1,607	1,620	(1,212)	(1,115)
Fair Trading Administration Corporation	19,021	17,186	5,341	3,620	1,270	779	1,156	699	114	80
Telecommunications Authority	75,904	65,724	8,838	4,637	42,383	38,019	36,371	33,941	5,979	2,942
Ministerial Holding Corporation***	--	--	--	--	--	--	--	--	--	--
Port of Newcastle Pty Ltd #	20,511	--	31	--	116	--	1,991	--	453,133	--
Waste Assets Management Corporation	121,895	115,173	101,796	85,964	107,915	87,587	117,025	99,289	(9,110)	(11,702)
Government Property NSW	1,087,053	1,055,892	325,728	341,253	494,861	467,724	479,487	423,403	36,597	59,385
Total	**84,067,014**	**78,026,752**	**81,257,655**	**75,534,671**	**2,795,374**	**2,703,679**	**2,577,430**	**2,586,588**	**653,646**	**1,808,433**

Port of Newcastle Lessor Pty Ltd prepared its first financial statements in 2014.

** Crown Entity transactions are included within the Treasury total state sector balances and commented upon in Volume Four of the Auditor-General's Report to Parliament 2014.

*** Ministerial Holding Corporation 2013 audit was still in progress at the time of report. As such, both 2013 and 2014 figures not available.

Appendix Two - Performance Against Budget

	The Treasury		Office of Finance and Services		Port Assets Ministerial Corporation		Liability Management Ministerial Corporation		Long Service Corporation	
	2014 actual $000	2014 budget $000	2014 actual $000	2014 budget $000	2014 actual $000	2014 budget $000	2014 actual $000	2014 budget $000	2014 Actual $000	2014 Budget $000
Abridged statement of comprehensive income - year ended 30 June										
Employee expenses	62,113	70,158	637,076	663,387	--	--	--	--	6,779	7,269
All other expenses	29,588	21,233	839,419	855,138	20,608	18,184	20	55	120,263	131,614
Total expenses	**91,701**	**91,391**	**1,476,495**	**1,518,525**	**20,608**	**18,184**	**20**	**55**	**127,042**	**138,883**
Grants and contributions	77,724	76,884	497,613	495,586	2,000	--	16,709	16,709	--	--
Other revenue	18,644	16,475	906,977	1,012,531	27,947	32,798	5,421	2,997	219,120	142,089
Total revenue	**96,368**	**93,359**	**1,404,590**	**1,508,117**	**29,947**	**32,798**	**22,130**	**19,706**	**219,120**	**142,089**
Gains/(loss) on disposal	**(1)**	**--**	**(6,343)**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Other gains/(losses)	**--**	**--**	**(4,264)**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Net result	**4,666**	**1,968**	**(82,512)**	**(10,408)**	**9,339**	**14,614**	**22,110**	**19,651**	**92,078**	**3,206**
Total other comprehensive income/(expense)*	203	--	75,960	--	--	--	--	--	--	--
Total comprehensive income/(expense)	**4,869**	**1,968**	**(6,552)**	**(10,408)**	**9,339**	**14,614**	**22,110**	**19,651**	**92,078**	**3,206**
Abridged statement of financial position - at 30 June										
Current assets	42,749	28,616	740,594	686,331	2,177	5,497	102	105	82,234	62,388
Non-current assets	18,446	5,692	1,034,296	1,087,251	165,548	144,126	57,693	54,925	830,500	755,867
Total assets	**61,195**	**34,308**	**1,774,890**	**1,773,582**	**167,725**	**149,623**	**57,795**	**55,030**	**912,734**	**818,255**
Current liabilities	17,365	13,709	749,874	798,613	348	--	11	55	524,449	463,691
Non-current liabilities	25,183	3,515	1,080,987	924,985	--	--	--	--	301,323	350,464
Total liabilities	**42,548**	**17,224**	**1,830,861**	**1,723,598**	**348**	**--**	**11**	**55**	**825,772**	**814,155**
Net assets	**18,647**	**17,084**	**(55,971)**	**49,984**	**167,377**	**149,623**	**57,784**	**54,975**	**86,962**	**4,100**
Abridged statement of cash flows - year ended 30 June										
Purchases of property, plant and equipment	(3,914)	(350)	(238,192)	(288,281)	--	--	--	--	(47)	(50)

Appendix Two - Performance Against Budget

	State Records Authority of New South Wales		Rental Bond Board		Government Property NSW		Total		
	2014 Actual $000	2014 Budget $000	2014 Actual $000	2014 Budget $000	2014 Actual $000	2014 Budget $000	2014 Actual $000	2014 Budget $000	2014 Variance $m
Abridged statement of comprehensive income - year ended 30 June									
Employee expenses	10,877	11,531	--	--	19,804	19,555	736,649	771,900	(35,251)
All other expenses	10,925	8,156	56,762	56,171	459,683	469,291	1,537,268	1,559,842	(22,574)
Total expenses	**21,802**	**19,687**	**56,762**	**56,171**	**479,487**	**488,846**	**2,273,917**	**2,331,742**	(57,825)
Grants and contributions	4,616	5,189	--	--	23,668	26,909	622,330	621,277	1,053
Other revenue	70,585	15,065	58,273	58,842	471,193	476,188	1,778,160	1,756,985	21,175
Total revenue	**75,201**	**20,254**	**58,273**	**58,842**	**494,861**	**503,097**	**2,400,490**	**2,378,262**	22,228
Gains/(loss) on disposal	**(15)**	**--**	**--**	**--**	**18,302**	**18,729**	**11,943**	**18,729**	(6,786)
Other gains/(losses)	**--**	**--**	**--**	**--**	**2,921**	**(300)**	**(1,343)**	**(300)**	(1,043)
Net result	**53,384**	**567**	**1,511**	**2,671**	**36,597**	**32,680**	**137,173**	**64,949**	72,284
Total other comprehensive income/(expense)*	4,778	--	--	--	46,975	--	127,916	--	127,916
Total comprehensive income/(expense)	**58,162**	**567**	**1,511**	**2,671**	**83,572**	**32,680**	**265,089**	**64,949**	200,200
Abridged statement of financial position - at 30 June									
Current assets	16,870	14,673	65,775	66,176	165,362	115,266	1,115,863	979,052	136,811
Non-current assets	933,647	992,587	--	--	921,691	871,087	3,961,821	3,911,535	50,286
Total assets	**950,517**	**1,007,260**	**65,775**	**66,176**	**1,087,053**	**986,353**	**5,077,684**	**4,890,587**	187,097
Current liabilities	4,542	4,408	2,244	--	85,453	70,367	1,384,286	1,350,843	33,443
Non-current liabilities	91	50	--	--	240,275	191,580	1,647,859	1,470,594	177,265
Total liabilities	**4,633**	**4,458**	**2,244**	**--**	**325,728**	**261,947**	**3,032,145**	**2,821,437**	210,708
Net assets	**945,884**	**1,002,802**	**63,531**	**66,176**	**761,325**	**724,406**	**2,045,539**	**2,069,150**	(23,611)
Abridged statement of cash flows - year ended 30 June									
Purchases of property, plant and equipment	(1,322)	(321)	--	--	(20,934)	(22,309)	(264,409)	(311,311)	46,902

Source: Financial statements (audited).

* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

Actual v Budget Indicator

- Variance below 2 per cent of budget
- Variance betw een 2 and 5 per cent of budget
- Variance greater than 5 per cent of budget

Appendix Three - Audit Results and Reported Misstatements for the year

Audit Results and Reported Misstatements

	Audit result		Reported misstatements for the year ended 30 June			
Agency	**Modified opinion**	**Number of significant matters**	**2014**	**2013**	**2012**	**2011**
The Treasury	No	--	3	3	3	5
New South Wales Treasury Corporation	No	--	--	--	--	--
Office of Finance and Services	No	1	3	2	7	21
Residual Business Management Corporation	EOM	--	1	--	4	2
Lotteries Assets Ministerial Holding Corporation	No	--	--	--	--	**
Ports Assets Ministerial Holding Corporation	No	--	--	2	****	****
Electricity Assets Ministerial Holding Corporation	No	--	--	--	****	****
Port Kembla Lessor Pty Limited	No	--	--	1	****	****
Port Botany Lessor Pty Limited	No	--	--	1	****	****
Liability Management Ministerial Corporation	No	--	--	--	--	--
State Rail Authority Residual Holding Corporation	No	--	--	--	--	--
Cobbora Holding Company Pty Limited	No	--	1	1	4	--
Cobbora Rail Company Pty Limited	No	--	--	--	--	--
Cobbora Coal Mine Pty Limited	No	--	--	--	--	--
Long Service Corporation	No	--	--	--	7	4
Treasury Corporation Division of the Government Service	No	--	--	--	--	--

Appendix Three - Audit Results and Reported Misstatements for the year

	Audit result		Reported misstatements for the year ended 30 June			
Agency	Modified opinion	Number of significant matters	2014	2013	2012	2011
NSW Architects Registration Board	No	--	3	1	1	--
State Records Authority of New South Wales	No	--	1	4	4	5
Board of Surveying and Spatial Information	No	--	1	--	1	1
Motor Vehicle Repair Industry Authority	No	--	--	--	1	--
Rental Bond Board	No	1	--	--	1	1
Teacher Housing Authority of New South Wales	No	--	--	--	3	2
Financial Counselling Trust Fund	No	--	1	--	2	--
Fair Trading Administration Corporation	No	--	2	1	2	--
New South Wales Government Telecommunications Authority	No	--	--	--	1	--
Port of Newcastle Lessor Pty Ltd *	No	--	1	--	--	--
TCorp Nominees Pty Ltd	No	--	--	--	--	--
Ministerial Holding Corporation***	***	***	***	***	***	***
Waste Assets Management Corporation	No	--	3	2	3	6
Government Property NSW	No	--	1	1	6	1
Crown Entity	No	--	5	12	14	13

* Port of Newcastle Lessor Pty Ltd prepared its first financial statements in 2014.

** The Lotteries Corporation prepared its financial statements for the first time in 2012.

*** MHC prepared its 2012 financial statements for the first time in 2012 which was qualified. As at date, MHC 2013 audit is still in progress.

**** The Ports Assets Ministerial Holding Corporation, Electricity Ministerial Holding Corporation, Port Kembla Lessor Pty Ltd, Port Botany Lessor Pty Ltd prepared their first financial statements in 2013.

Appendix Four - Cluster Information

Entity	Website
The Treasury	www.treasury.nsw.gov.au
Crown Entity	www.treasury.nsw.gov.au/insure/Crown_Entity
New South Wales Treasury Corporation	www.tcorp.nsw.gov.au/html
Office of Finance and Services	finance.nsw.gov.au
Residual Business Management Corporation	www.treasury.nsw.gov.au/About_Us/Who_We_Are
Lotteries Assets Ministerial Holding Corporation	www.treasury.nsw.gov.au/About_Us/Who_We_Are
Ports Assets Ministerial Holding Corporation	www.treasury.nsw.gov.au/About_Us/Who_We_Are
Electricity Assets Ministerial Holding Corporation	www.treasury.nsw.gov.au/About_Us/Who_We_Are
Port Kembla Lessor Pty Limited	www.treasury.nsw.gov.au/About_Us/Who_We_Are
Port Botany Lessor Pty Limited	www.treasury.nsw.gov.au/About_Us/Who_We_Are
Liability Management Ministerial Corporation	www.treasury.nsw.gov.au/About_Us/Who_We_Are
State Rail Authority Residual Holding Corporation	www.treasury.nsw.gov.au/About_Us/Who_We_Are
Cobbora Holding Company Pty Limited	www.cobbora.com
Cobbora Rail Company Pty Limited	www.cobbora.com
Cobbora Coal Mine Pty Limited	www.cobbora.com
Long Service Corporation	www.longservice.nsw.gov.au
Treasury Corporation Division of the Government Service	www.tcorp.nsw.gov.au/html
TCorp Nominees Pty Limited	www.tcorp.nsw.gov.au/html
NSW Architects Registration Board	www.architects.nsw.gov.au
State Records Authority of New South Wales	www.records.nsw.gov.au
Board of Surveying and Spatial Information	www.bossi.nsw.gov.au
Motor Vehicle Repair Industry Authority	www.fairtrading.nsw.gov.au/ftw/Tradespeople/Motor_repairers_and_insurers.page
Rental Bond Board	www.fairtrading.nsw.gov.au/About_us/How_Fair_Trading_works/Statutory_authorities_and_advisory_bodies.html#Rental_Bond_Board
Teacher Housing Authority of New South Wales	www.tha.nsw.gov.au
Financial Counselling Trust Fund	www.fairtrading.nsw.gov.au/ftw/About_us/Our_services/Grants/Financial_counselling_services_program.page
Fair Trading Administration Corporation	www.fairtrading.nsw.gov.au/About_us/How_Fair_Trading_works/Statutory_authorities_and_advisory_bodies.html#Fair_Trading_Administration_Corporation
New South Wales Government Telecommunications Authority	telco.nsw.gov.au
Ministerial Holding Corporation	finance.nsw.gov.au
Port of Newcastle Lessor Pty Ltd	http://www.newportcorp.com.au/site
Waste Assets Management Corporation	www.wamc.nsw.gov.au
Government Property NSW	property.nsw.gov.au

Part Two

Section One

Superannuation

Executive Summary

Introduction

This report sets out the results of the financial statement audits of the NSW Government superannuation entities for the year ended 30 June 2014. All twenty-one audit opinions on the financial statements were unqualified.

The Audit Office also issued twelve unqualified opinions on regulatory/compliance assurance engagements for the year ended 30 June 2014.

NSW Government Superannuation Industry Snapshot

The NSW Government superannuation entities manage, administer and invest superannuation assets for many NSW public sector employers and employees.

A snapshot of operations for the year ended 30 June 2014 is shown below.

Defined Benefit Superannuation Funds

SAS Trustee Corporation Pooled Fund (STC Pooled Fund)

Accrued members' benefits ($m)	55,904
Net assets available to pay benefits ($m)	40,248
Unfunded liabilities ($m)	15,656
Percentage unfunded (%)	28.0
Number of Members	117,615

Energy Industries Superannuation Scheme (EISS) - Pool B

Accrued members' benefits ($m)	2,388
Net assets available to pay benefits ($m)	2,386
Unfunded liabilities ($m)	2
Percentage unfunded (%)	0.1
Number of Members	4,078

Parliamentary Contributory Superannuation Fund (PCS Fund)

Accrued members' benefits ($m)	363
Net assets available to pay benefits ($m)	258
Unfunded liabilities ($m)	105
Percentage unfunded (%)	28.9
Number of Members	322

Superannuation Administration Corporation (Pillar Administration)

Total revenue ($m)	94
Administration fees received ($m)	75
Total expense ($m)	91
Dividend to Government ($)	1

State Super Financial Services Australia Limited (SSFSL)

Total revenue ($m)	143
Funds under management ($m)	13,947
Total expense ($m)	89
Dividend to Pooled Fund ($m)	30

Energy Industries Superannuation Scheme (EISS) - Pool A

Net assets available to pay benefits ($m)	2,155
Number of Members	17,993

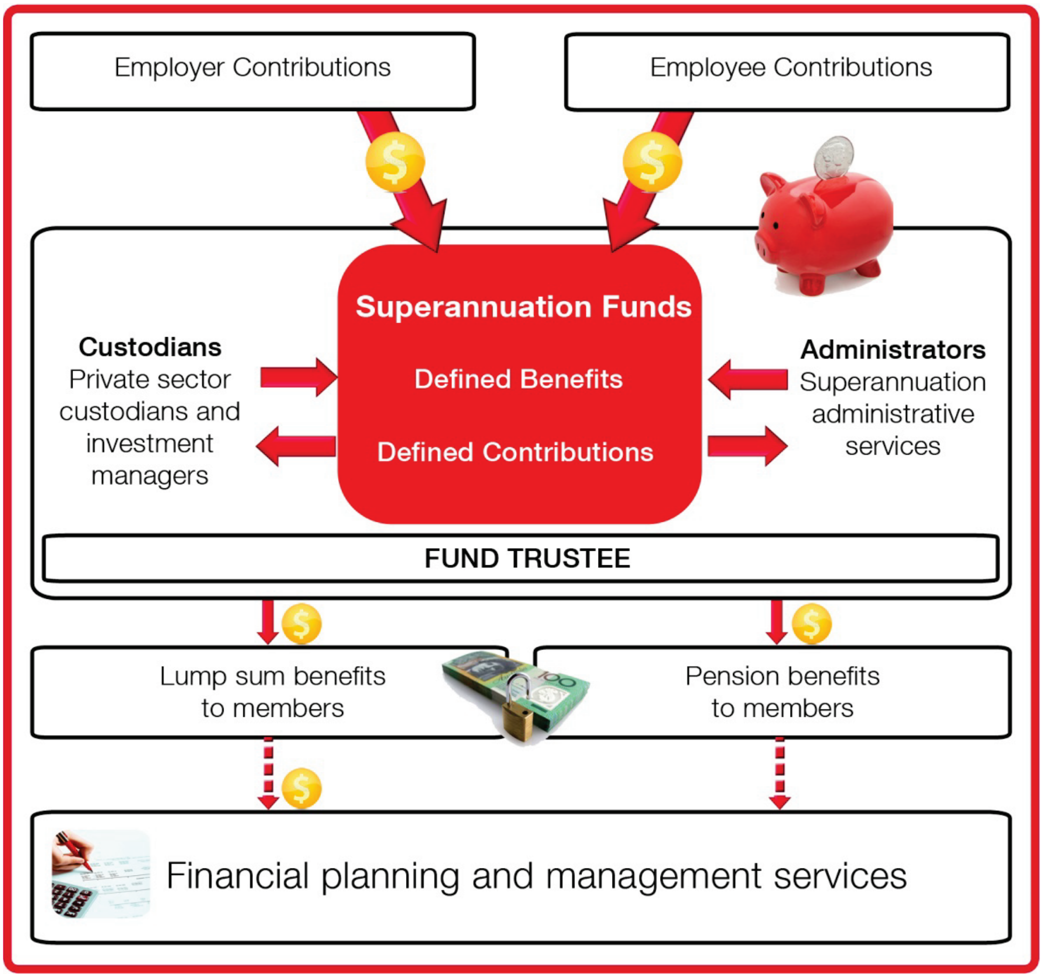
Notes: All accrued members benefits are measured under AAS 25 Financial Reporting by Superannuation Plans.

Many NSW public sector employees are members of the First State Superannuation Scheme and the Local Government Superannuation Schemes. These schemes are not part of NSW Government superannuation funds and are not commented on in this report.

The report also provides Parliament and other users of the financial statements with an analysis of the NSW Government Superannuation entities' results and key observations in the following areas:

- Financial and Performance Reporting and Sustainability
- Governance
- Service Delivery
- Financial Controls.

The transactions, administration and cash flows for the superannuation industry are illustrated below.



Financial and Performance Reporting

Quality and Timeliness of Financial Reporting

The quality of financial reporting by NSW Government Superannuation entities is high.

Entities regulated by the Australian Prudential Regulatory Authority (APRA) will have a reduced reporting timetable from 1 July 2015.

Defined Benefit Superannuation Fund Performance

NSW Government defined benefit superannuation funds are largely invested in growth strategies. These have achieved double figure investment returns over the past two years and outperformed internal benchmarks.

Defined Benefit Superannuation Fund Investments

The value of investments held by the State's three main defined benefit superannuation funds increased by 30 per cent between 30 June 2010 and 30 June 2014. Most investments are held in Australian and International equities.

Defined Benefit Superannuation Liabilities

The total liability of the defined benefit superannuation funds was estimated at $58.7 billion at 30 June 2014. Of this, $15.8 billion was unfunded, a 23 per cent decrease since 30 June 2010.

The discount rate used to estimate superannuation fund liabilities reported by the NSW Government is currently the ten-year Australian Government Bond rate. It may be more appropriate to use the yield on a longer-dated bond due to the long term nature of these obligations.

Superannuation Liabilities of NSW Universities

NSW universities need to carefully consider the financial implications, in particular the associated costs and funding arrangements, of increasing the benefits of employees approaching retirement. This increases the unfunded superannuation liabilities of these universities, which are expected to be funded by the Australian and NSW Governments.

At 30 June 2014, NSW universities had unfunded superannuation liabilities of $2.5 billion, which makes up 16 per cent of the total unfunded liability of the State Authorities Superannuation Trustee Corporation (STC) Pooled Fund.

Benefit Payments

Pension and lump sum benefit payments from the States' defined benefit funds in 2013-14 totalled $4.7 billion, an increase of 39 per cent compared to 2009-10. Eighty one members each received lump sum benefit payments exceeding $1.0 million.

Police 'Hurt on Duty' Benefit Payments and Review Process

During 2013-14, 109 (111 in 2012-13) members retired 'hurt on duty'. In the last two years, 95 'hurt on duty' members were reviewed by the Police Superannuation Advisory Committee. From this review, two members had their pension amended and a further three are being recommended to have their pension amended.

Governance

Prudential Oversight of Exempt Public Sector Funds

The NSW Government should commission a review to assess the most appropriate framework for the prudential oversight of exempt public sector superannuation schemes in New South Wales. The framework should provide clear responsibilities for continued and structured external oversight of these entities.

The STC Pooled Fund and Parliamentary Contributory Superannuation Fund (PCS Fund) are designated as exempt public sector superannuation schemes. They are not subject to the legislative and prudential provisions of the *Superannuation Industry (Supervision) Act 1993* and other associated legislation. Currently, they are only subject to high level oversight by the Office of Finance and Services under the provisions in the Heads of Government Agreement (HOGA). This is not consistent with the degree of oversight in other Australian States.

Funds Amalgamation Project

In March 2014, the NSW Government announced plans to amalgamate the funds management activities of the STC Pooled Fund and Safety, Return to Work and Support (Work Cover) within New South Wales Treasury Corporation (TCorp). Around $65.0 billion of the NSW Governments' financial assets will be centralised to TCorp.

For the amalgamation to be implemented efficiently and effectively, the key stakeholders, STC Pooled Fund Trustees, Work Cover, Treasury and TCorp need to ensure the governance structure, risk management, staffing arrangements and reporting requirements are agreed and closely monitored.

Benefits Paid to Corrupt Former Members of the New South Wales Parliament

The legislation governing the PCS Fund allows for the suspension of pension entitlements of members in limited circumstances. However, this does not apply to members who left parliament before the filing of criminal proceedings.

Upcoming changes to Financial Reporting by Superannuation Entities

Financial reporting in the superannuation industry will be significantly impacted by the new accounting standard, AASB 1056 Superannuation Entities. The presentation of the financial statements, along with the measurement of assets and liabilities, will change under the new standard.

Service Delivery

NSW Government Superannuation entities manage public sector employees' retirement savings for over 140,000 members in defined benefit and contribution funds, and provide financial planning advice and management services to more than 50,000 current and former employees.

Future Operating Model - SSFSL

In 2013-14, SSFSL initiated its Future Operating Model (FOM) Project. The aim of the model is to help SSFSL achieve its vision of becoming the pre-eminent provider in Australia of financial planning and implementation services. It will be delivered in two stages and includes introducing new systems and enhancements to business structures and processes.

Financial Control

Pillar Administration

Pillar has over $95.8 billion of funds under administration for more than 1.1 million members. It performs administration services for six superannuation funds.

In late 2013, the Government commissioned a review into the potential sale of Pillar. There has been no further public announcement by the Government on the future of Pillar.

The Stronger Super reforms, announced by the Australian Government in 2011, required Pillar to implement system modifications. Pillar expects to receive $21.0 million over three years from its clients towards the costs.

Pillar is also in the early stages of an Information Technology Consolidation Project. The NSW Government has contributed $7.0 million to this project. The financial and operational risks of this project are significant.

Recommendations

Financial and Performance Reporting

1. NSW Government superannuation entities, regulated by APRA, should finalise plans to meet the shortened financial and compliance reporting timeframe imposed by APRA. The plans should be developed in conjunction with fund administrators and custodians with appropriate oversight from Boards and Audit Committees.
2. The Treasury, in conjunction with the funds' actuaries, should reconsider the discount rate used to estimate superannuation fund liabilities reported by the NSW Government. The yield on longer-dated Commonwealth Government bonds may more closely reflect the long term nature of the liabilities.

Financial Control

3. Pillar should adopt a strong governance framework for its Information Technology Consolidation Project and closely monitor its progress at all stages.

Governance

4. The NSW Government should commission a review in 2014-15 to assess the most appropriate framework for the prudential oversight of exempt public sector superannuation schemes in New South Wales.
5. Key stakeholders involved in the amalgamation of funds management activities, STC, WorkCover, Treasury and TCorp, need to ensure governance structures, risk management, staffing arrangements and reporting requirements are agreed between all parties and closely monitored to ensure the project is implemented effectively and efficiently, and in line with Government priorities.
6. The NSW Government should review Section 19AA of the PCS Fund legislation to determine if it should apply to former members of parliament subsequently convicted of a serious criminal offence while in office.
7. All NSW Government superannuation entities should reassess the requirements of AASB 1056 Superannuation Entities including:
   - identifying financial reporting issues by 1 July 2015
   - whether the reporting systems of funds, their custodians and administrators, are capable of generating the financial information required by AASB1056.

Financial and Performance Reporting

Financial and performance reporting is an important aspect of good governance. Government decision-making on superannuation matters, including funding levels, and members' investment choices requires accurate and timely information to be effective and to ensure efficient allocation of financial resources. Enhanced transparency ensures superannuation entities' are accountable for their financial and performance outcomes.

Regulatory Framework of Superannuation Industry

The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry, including the superannuation industry. APRA plays a critical role in protecting the financial well-being of the Australian community.

Regulatory requirements of NSW Government superannuation entities include:

- preparing and submitting annual financial statements for audit
- compliance with *Superannuation Industry (Supervision) Act 1993*
- reporting to the Australian Prudential Regulation Authority (APRA)
- compliance with the Australian Securities and Investments Commission's (ASIC) requirements.

Quality and Timeliness of Financial Reporting

Unqualified audit opinions were issued on the NSW Government superannuation entities' 30 June 2014 financial statements. All other compliance and reporting opinions were also unqualified.

The results of the financial and other audits for 30 June 2014 are summarised below.

	Financial audit result	APRA compliance audit result	
Entity*	**Qualified opinion**	**Qualified opinion**	**Reporting timetable achieved**
Defined benefit funds			
STC Pooled Fund	No	No[1]	Yes[1]
EISS Pool B [2]	No	No	Yes
PCS Fund	No	No[1]	Yes[1]
Contribution funds			
EISS Pool A [2]	No	No	Yes
State Super Retirement Fund [2]	No	No	Yes
State Super Investment Fund	No	N/A	N/A
Trustee entities			
State Super Financial Services	No	No	Yes
EISS Pty Limited	No	No	Yes
SAS Trustee Corporation	No	N/A	N/A
Other superannuation entities			
State Super Fixed Term Pension Plan [2]	No	No	Yes
Energy Investment Fund	No	N/A	N/A
Pillar Administration	No	N/A	N/A

* EIF Pty Limited and PCSF Trustee have not been included as they are dormant entities. Unqualified opinions were issued on their financial statements for 30 June 2014.

N/A Not applicable.

1 STC Pooled Fund and PCS Fund are exempt public sector superannuation funds. They are only required to comply with certain APRA Reporting requirements.

2 APRA regulated entities.

Quality of Financial Reporting

The quality of financial reporting by NSW Government superannuation entities is high. The 30 June 2014 audits did not identify any material misstatements. This is a significant achievement and reflects strong internal control environments, including robust and regular review of financial information by management and effective oversight by those charged with governance.

Timeliness of Financial and Other Reporting

NSW Government superannuation entities met the prescribed reporting timetable for financial and other reporting requirements for the year ended 30 June 2014.

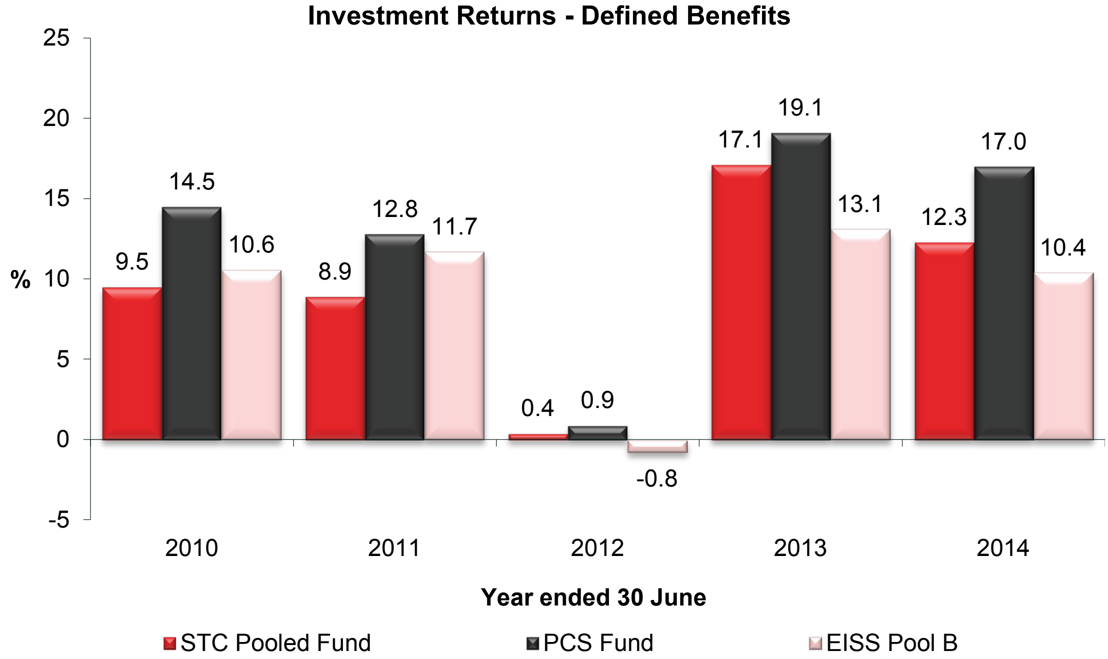
Reporting deadlines for regulated superannuation entities are set by APRA. Following the superannuation industry reforms announced by the Australian Government in 2011, APRA has shortened the reporting timetable from 31 October to 30 September each year, effective from 2015-16. Superannuation entities, administrators, custodians and auditors will need to significantly change processes to meet the prescribed reduced reporting timetable.

Recommendation:

NSW Government superannuation entities, regulated by APRA, should finalise plans to meet the shortened financial and compliance reporting timeframe imposed by APRA. The plans should be developed in conjunction with fund administrators and custodians with appropriate oversight from Boards and Audit Committees.

Defined Benefit Superannuation Funds Performance

NSW Government defined benefit superannuation fund assets are largely invested in growth strategies, which achieved double figure investment returns over the last two years.



Source: Trustees of the STC Pooled Fund, EISS Pool B and PCS Fund (unaudited).

Strong investment performance over the past two years was driven by positive growth in domestic and international equity markets. The gradual recovery of European economies, better than expected market growth in the US and the stability of the Australian market has contributed to the positive outcomes.

Total investment earnings for the three defined benefits funds exceeded $5.2 billion in 2013-14 ($6.6 billion in 2012-13).

The fall in investment earnings in 2013-14 compared to the prior year was mainly due to lower returns in domestic and international equities.

The defined benefit funds' investment return exceeded the internal targets as shown below.

Growth Strategy returns	STC Pooled Fund		PCS Fund		EISS Pool B	
Year ended 30 June	2014	2013	2014	2013	2014	2013
Fund annual return %	12.3	17.1	17.0	19.1	10.4	13.1
Internal target return %	7.5	6.9	15.0*	16.9*	7.0	7.0

* PCS Fund assesses performance against an annual benchmark return based on market performance, rather than using an absolute return target.

Source: Fund Trustee (unaudited).

The three funds advise it is not appropriate to compare investment performance as each has a distinctly different liability stream. The reported investment returns for these funds do not include available tax concessions. These tax concession result in a higher effective return.

STC Pooled Fund and EISS Pool B use an absolute return target to measure investment performance. The STC Pooled Fund investment target is to achieve returns that exceed the consumer price index (CPI) by an average margin of 4.5 to 5.5 per cent per annum. The EISS Pool B's internal target is to achieve returns in line with those determined by the scheme's actuary in the triennial review of the Fund.

The PCS Fund uses a custom benchmark that incorporates exposure in Australian shares, overseas shares, direct property and Australian bonds. Its high risk investment portfolio earned an annual return of 17.0 per cent in 2013-14.

As the funds' liabilities are long term in nature, average annual returns over ten years is a useful measure of performance.

Growth Strategy long term returns Year ended 30 June 2014	STC Pooled Fund	PCS Fund	EISS Pool B
Average annual return over the 10 year period %	7.0	8.3	5.8
Target at 30 June %	7.3	7.2	7.0

Source: Fund Trustee (unaudited).

As shown above, only the PCS Fund met its target over the past ten years.

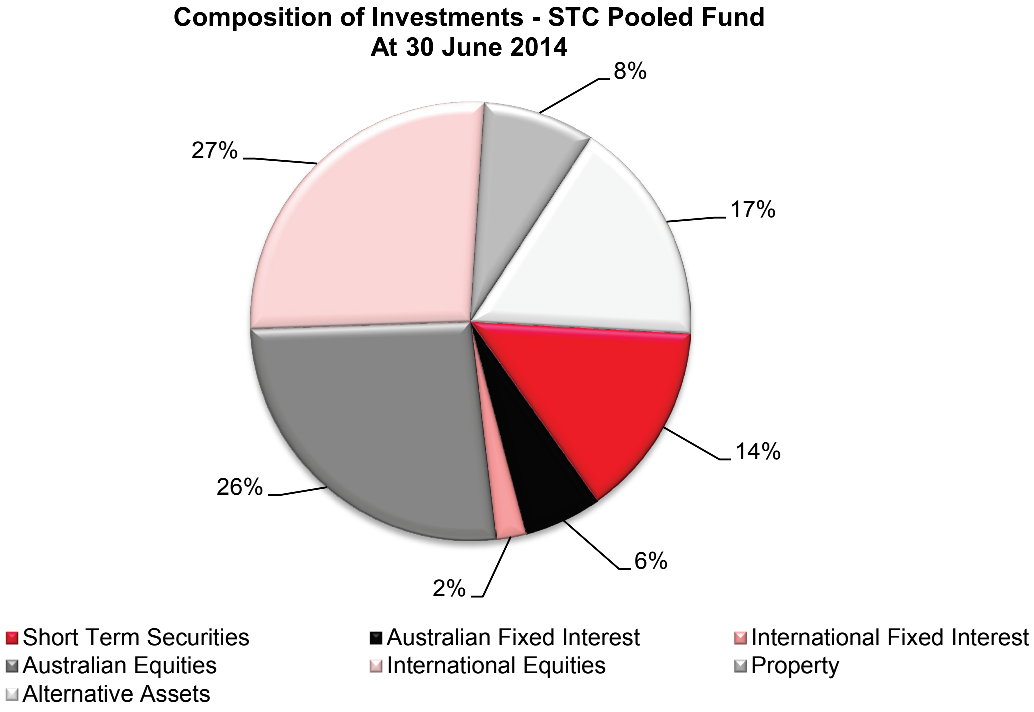
Defined Benefit Superannuation Funds Investments

The values of the investments in the three main defined benefit funds have increased from $32.6 billion at 30 June 2010 to $42.4 billion at 30 June 2014 mainly through strong investment performance.

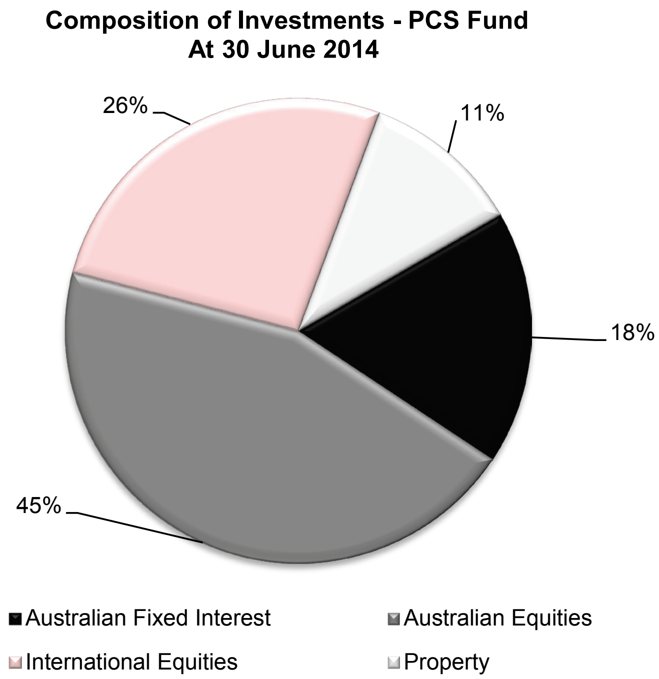
The values of the investments held by the State's three main defined benefit funds have increased from $32.6 billion at 30 June 2010 to $42.4 billion at 30 June 2014. This has occurred mainly through strong investment performance. The performance of each fund is heavily dependent on the allocation of assets into various investment classes. The trustees and investment management teams are actively involved in the asset allocation and portfolio construction for each fund in consultation with external investment consulting firms.

Strategic asset allocation is performed annually to ensure each fund is positioned to achieve its targeted long term growth based on market sentiments. In addition to strategic asset allocation, the investment management teams may use dynamic asset allocation to align asset allocations with short term market movements. Dynamic asset allocation is a short-term risk management strategy to help ensure each defined benefit fund maximises its short-term investment returns during volatile markets movements.

The chart below shows the composition of the investments of the three main defined benefit funds.



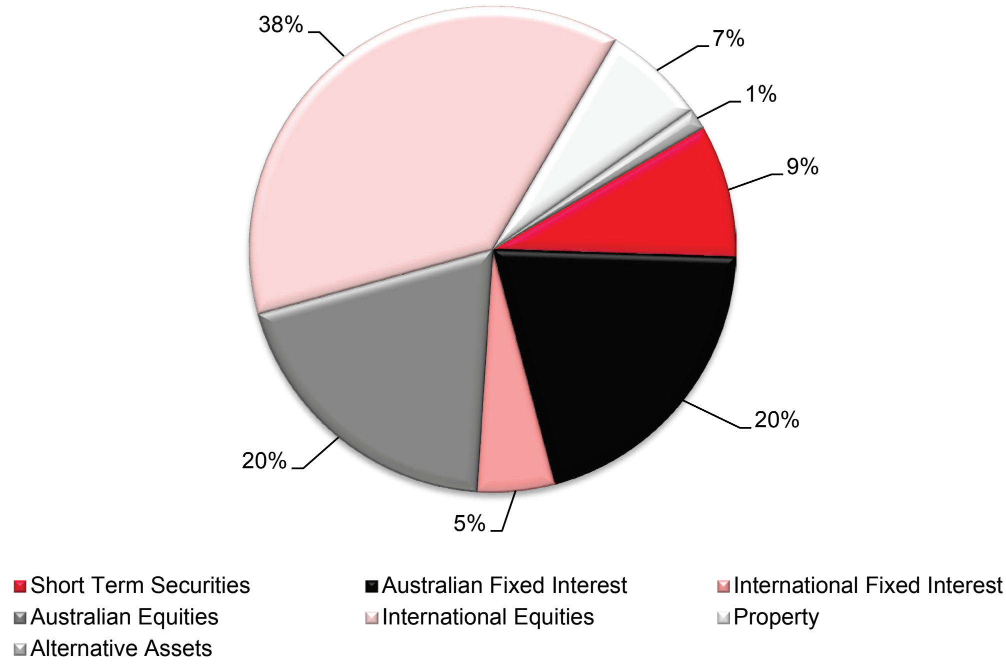
Source: financial statements (audited).



Note: The PCS Fund does not hold investments in short term securities, international fixed interest or alternative assets.

Source: financial statements (audited).

Composition of Investments - EISS Pool B
At June 2014



Source: EISS Pool B Trustee (unaudited).

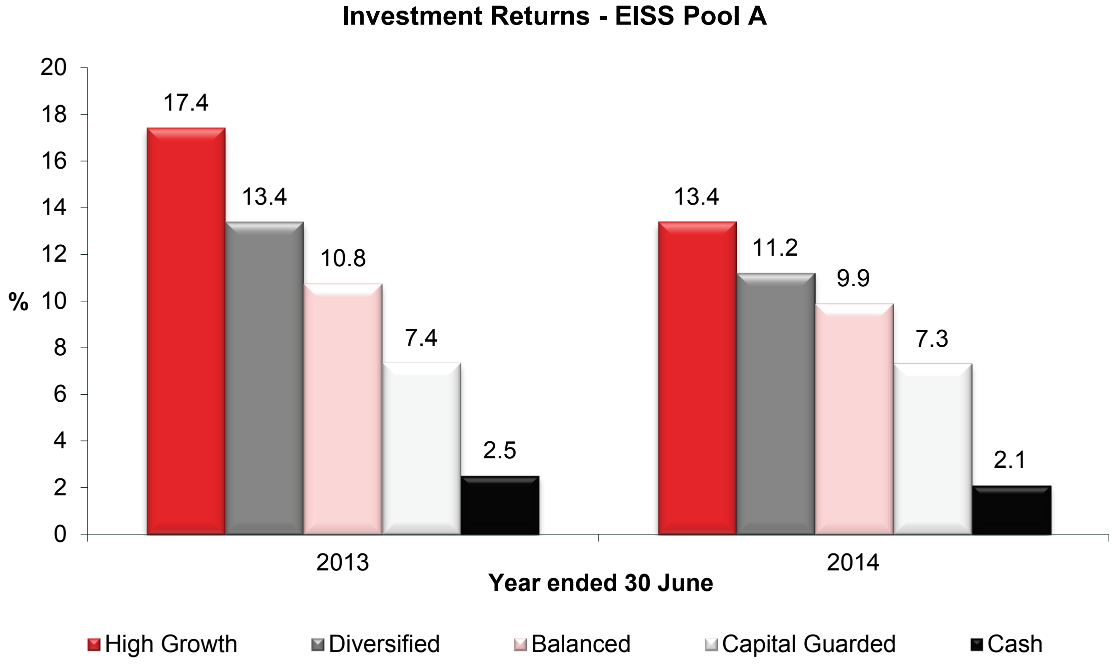
The largest component of investments is in domestic and international equities, making up more than 50 per cent of the total asset allocation.

Sensitivity to equity markets is so significant that a drop of five per cent could potentially result in a decline of approximately three per cent in the value of the total investments. The STC Pooled Fund advises their' exposure to equities is reasonably typical for growth portfolios in the superannuation industry. It advised it also uses risk mitigation strategies across the portfolio to protect capital values during market weakness.

Defined Contribution Performance

The EISS Pool A fund is a defined contribution superannuation scheme. The graph below shows returns for various investment options available to members. All options yielded a lower return in 2013-14, due to the exposure to low yielding fixed income investments during the period.

Management advises a tilt away from fixed income to international equities was effected after the strategic asset allocation in February 2014.



Source: Trustee of EISS Pool A (unaudited).

Funds Management and Investment Returns

State Super Financial Services Australia Limited has two retail investment products:

- State Super Retirement Fund – including State Super Personal Retirement Plan, State Super Tailored Super Plan, State Super Allocated Pension Fund, State Super Flexible Income Plan
- State Super Investment Fund Investment Choice Class A and Class B.

These products have up to nine investment choices for clients with different investor risk profiles, including:

- growth fund
- balanced fund
- capital stable fund
- cash fund
- fixed interest fund
- moderate fund
- Australian equities fund
- international equities fund
- growth plus fund.

The product performance table below shows average returns to investors for each retail investment product.

In 2013-14, the Australian Equities and International Equities investment choices provided returns exceeding 15 per cent for investors in all options for the Retirement Fund and Investment Fund.

The Capital Stable, Cash and Fixed Interest investment choices provided returns of less than six per cent, mostly due to the lower cash and bond rates in 2013-14.

Average return for State Super Retirement Fund and Investment Fund investment choices	Product performance % per annum		
	1 Year*	3 Year*	5 Year*
Growth fund	15.3	10.7	11.2
Balanced fund	11.2	8.4	9.4
Capital stable fund	4.7	4.6	5.2
Cash fund	2.1	2.5	2.9
Fixed Interest fund	5.5	--	--
Moderate fund	8.2	--	--
Growth plus fund	17.3	--	--
Australian equities fund	15.8	--	--
International equities fund	19.2	--	--

* New investment options within the State Super Retirement and Investment Funds were introduced in 2011-12 and on 2 April 2013. As a result, the performance tables only show one year product performance for these new options.

Source: State Super Financial Services Australia Limited (unaudited).

The State Super Fixed Term Pension Plan is a defined benefit plan which closed for applications on 19 September 2004. The plan invests in products developed by Deutsche Bank AG to fund the defined benefits obligations. No performance information is therefore available.

Defined Benefit Superannuation Liabilities

The unfunded defined benefit superannuation liabilities of NSW Government superannuation funds were estimated to be $15.8 billion at 30 June 2014, a reduction of 23 per cent since 30 June 2010.

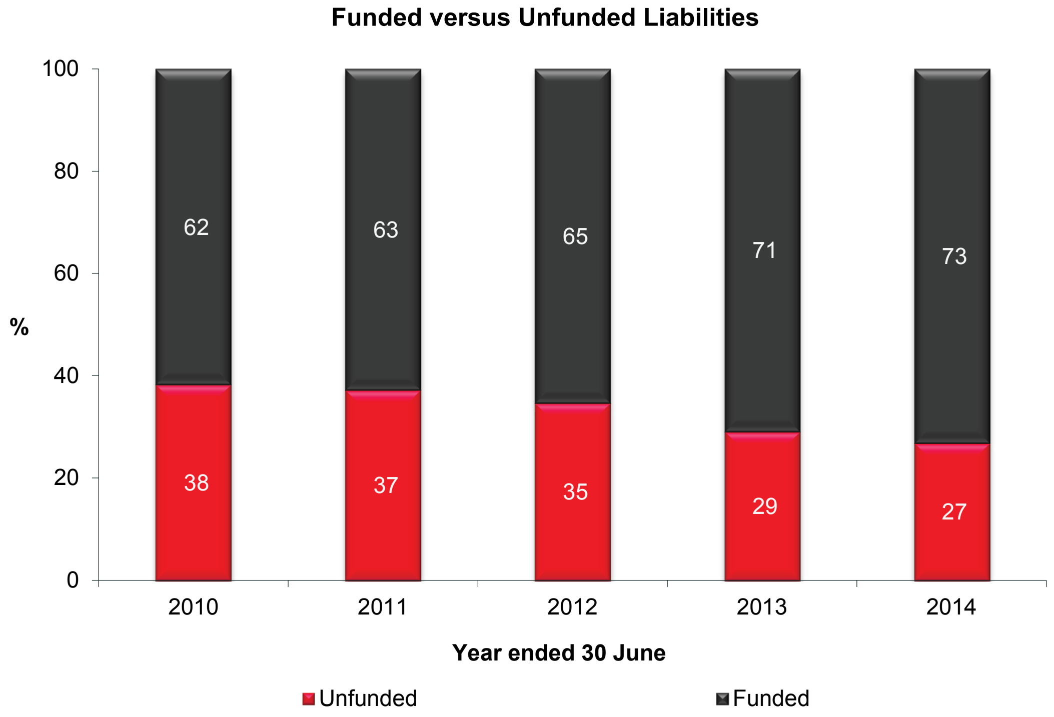
The unfunded defined benefit superannuation liabilities of NSW Government superannuation funds were estimated to be $15.8 billion at 30 June 2014 ($16.9 billion at 30 June 2013).

This liability, measured under Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25), exists in three closed defined benefit funds:

- STC Pooled Fund
- EISS Pool B
- PCS Fund.

An unfunded defined benefit superannuation liability is the excess of actuarially determined accrued benefits payable to members over the fund’s net assets.

The graph below shows the improvement in the percentage of accrued defined benefit liabilities currently supported by the funds' net assets over the last five years.



Note: Funding measurements calculated under AAS 25 are most relevant for this analysis because they are used by the Government and Trustees when analysing funding levels.

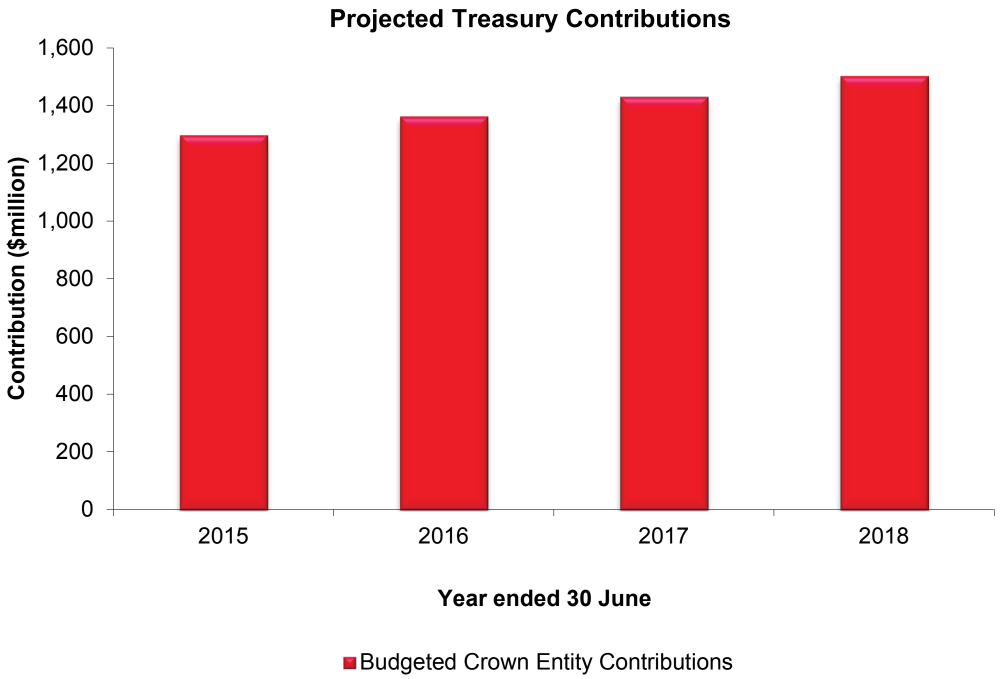
Source: Trustees of the STC Pooled Fund, EISS Pool B and PCS Fund (unaudited).

Unfunded liabilities have fallen from 38 to 27 per cent of the total liability since 2009-10. Between 2012-13 and 2013-14, unfunded liabilities fell 2.5 per cent, from 29.4 to 26.9 per cent. Government and employer contributions totalling $13.0 billion over the past five years along with positive investment returns have influenced this outcome.

Funding of Defined Benefits Schemes

The *Fiscal Responsibility Act 2012* has a target to eliminate unfunded superannuation liabilities in the NSW Total State Sector by 2030.

The graph below shows the 2015-18 forward estimates of contributions the Government proposes making to the STC Pooled Fund. They only include contributions from the Crown Entity, projected to be $5.6 billion, and not contributions from other government employers or members. This is a significant investment of financial resources making it critical for the Fund to have appropriate investment strategies, governance and oversight. Such measures will help ensure the investments are preserved and their value is maximised.



Source: Trustees of the STC Pooled Fund

Employer contributions to the STC Pooled Fund, EISS Pool B and the PCS Fund totalled $1.5 billion in 2013-14, an average of $12,700 per member ($12,500 in 2012-13). This is lower than the $1.6 billion contributed in 2012-13, in part due to members exiting the schemes.

Most contributions to these funds are made by public sector employers. Some contributions come from private sector entities, which have purchased state owned assets, such as electricity, ports and water entities. Employer contribution rates are determined by the Funds' trustees, based on recommendations by actuaries.

Measurement of NSW defined benefit liabilities

Superannuation funds and employer agencies measure and report defined benefit superannuation liabilities differently, as required by the following Australian Accounting Standards:

- *AAS 25 Financial Reporting by Superannuation Plans*: measures liabilities to determine the funds required to discharge cash payment obligations
- *AASB 119 Employee Benefits*: measures the liabilities for financial statement reporting purposes by employers. The unfunded superannuation liability reported in the Total State Sector Financial Statements is measured on this basis.

The two approaches produce significantly different results. In the current economic climate with lower interest rates, the approach under AASB 119 yields a higher liability.

The table below shows how different discount rates used by the two measurement approaches impacts the unfunded liability for the New South Wales Government's three main defined benefit funds. If the Funds do not achieve their long-term expected rates of return (between 7.0 and 8.3 per cent) and instead earn a rate equivalent to the Australian Government bond rate, the unfunded liability increases by $34.2 billion to an estimated $50.0 billion at 30 June 2014.

Summary	AAS 25 Superannuation fund Entities	AASB 119 Employers and NSW Government (b)	Variation
Discount rate	Expected long-term after tax investment earnings rate	Australian Government bond rate	
Discount rate used at 30 June 2014	Between 7.0 and 8.3 per cent	3.6 per cent	Between 3.4 and 4.7 per cent
Total Superannuation liability	$58.7 billion	$90.5 billion	$31.8 billion
Funded liability	$42.9 billion	$40.4 billion	($2.5) billion
Unfunded liability at 30 June 2014 [(a)]	$15.8 billion	$50.0 billion	$34.2 billion

a Includes unfunded superannuation liabilities of NSW universities ($2.5 billion under AAS 25, $5.2 billion under AASB 119 at 30 June 2014). See comment on University liabilities later in this overview.

b Unfunded liabilities of the relevant funds for AASB 119 are sourced from the NSW Total State Sector Accounts 2013-14.

The purpose of AASB 119 is for financial reporting by employer sponsors and the discount rate is more conservative than the rate used under AAS 25. Currently, NSW Treasury requires the ten year Australian Government bond rate to be used to value the liability for AASB 119 purposes. Use of this bond rate may not adequately reflect the longer term nature of the liability. AASB 119 suggests using a discount rate that reflects the estimated timing of benefit payments. Therefore, it may be more appropriate to use longer-dated Commonwealth Bonds as the discount rate.

Recommendation

The Treasury, in conjunction with the funds' actuaries, should reconsider the discount rate used to estimate superannuation fund liabilities reported by the NSW Government. The yield on longer-dated Australian Government bonds may more closely reflect the long term nature of the liabilities.

Superannuation Liabilities of NSW Universities

At 30 June 2014, university members' accrued benefits estimated under AASB 25 were $3.8 billion while the net assets available to pay benefits were $1.3 billion. The percentage of unfunded liabilities (measured using AAS 25) increased to 66.1 per cent (63.1 per cent at 30 June 2013).

In December 2012, an actuarial review of the STC Pooled Fund confirmed that without additional contributions, employer reserves for each university are likely to be exhausted during the period 2014-15 to 2021-22.

At 30 June 2014, unfunded liabilities for university members' increased to $2.5 billion measured using AAS 25 ($2.4 billion at 30 June 2013).

At 30 June	2014	2013
Accrued member benefits measured using AAS 25 ($m)	3,805	3,802
Accrued member benefits measured using AASB 119 ($m)	6,517	5,655
Net assets available to pay benefits, including employer and member reserves ($m)	1,289	1,404
Unfunded liabilities using AAS 25 ($m)	2,516	2,398
Unfunded liabilities using AASB 119 ($m)	5,228	4,366
Percentage unfunded (%) using AAS 25	66.1	63.1
Percentage unfunded (%) using AASB 119	80.2	77.2

Source: Trustee of the STC Pooled Fund (unaudited).

Government Funding of University Superannuation liabilities

The Federal Budget 2014-15, provides for the Australian Government to resume making payments to NSW universities under the Higher Education Superannuation Program subject to agreement with the NSW Government. The resumption of payments will align the arrangements for NSW with other participating states. The NSW Government Budget 2014-15 states the NSW Government will also resume making payments for superannuation shortfalls.

Negotiations between the Australian Government, NSW Government and the universities to finalise arrangements have advanced further. In July 2014, the STC Pooled Fund was informed the parties had reached an in-principle agreement to fund the employer liabilities on an emerging cost basis and a formal Memorandum of Understanding will be signed in the near future setting out the protocols for this funding. At the date of preparing this report, the Memorandum of Understanding had not been signed.

NSW Universities' Member Liabilities in Relation to the Total Fund

The $2.5 billion unfunded liability for university members makes up 16 per cent of the STC Pooled Fund's total unfunded liability, while university members only account for eight per cent of the total membership of the STC Pooled Fund.

NSW universities need to carefully consider the financial implications, in particular the associated costs and funding arrangements, of increasing the employment benefits of employees approaching retirement. This increases the unfunded liabilities of these universities, which are expected to be funded by the Australian and NSW Governments.

Benefit Payment Analysis

Pension and lump sum benefit payments by the STC Pooled Fund, EISS Pool B and PCS Fund were $4.7 billion in 2013-14, an increase of 39 per cent compared to 2009-10.

Benefits paid by the STC Pooled Fund, EISS Pool B and PCS Fund have increased significantly over the last five years. Pension and lump sum benefit payments for 2013-14 were $4.7 billion, an increase of 39 per cent compared to 2009-10.

Benefits paid by EISS Pool B have more than doubled over the last five years and increased on average by eight per cent each year over this period for the STC Pooled Fund. This is illustrated in the table below.

Year ended 30 June	2014	2013	2012	2011	2010
Benefits paid	$m	$m	$m	$m	$m
STC Pooled Fund	4,456	4,051	3,689	3,384	3,258
PCS Fund	25	23	23	24	20
EISS Pool B	189	182	136	136	90
Total	**4,670**	**4,256**	**3,848**	**3,544**	**3,368**

Note: Benefits paid include pension and lump sum benefits.

Source: Financial statements of the STC Pooled Fund, EISS Pool B and PCS Fund (audited).

Benefit payments are increasing primarily because of:

- the ageing profile of contributory members
- the increasing life expectancy of members
- the scheme's rules defining members' benefit entitlements.

The NSW Government closed most defined benefit schemes in the 1980s and 1990s, and the PCS Fund in 2007.

Ageing Profile of Contributory Members

Most contributory and deferred members are nearing retirement age and will be entitled to lump sum and/or pension payments in the next ten years. This will increase total benefit payments over coming years. Modelling conducted by the STC Trustee shows contributory members in STC Pooled Fund are expected to decrease by over 75 per cent to below 10,000 in the next ten years and to fewer than 1,000 by 30 June 2034.

Increase in Life Expectancy

Statistics from the Australian Institute of Health and Welfare show a significant increase in life expectancy for Australians. Between the early 1900s, when the STC Pooled Fund's SSS scheme started, and 2012, life expectancy improved by 24.7 years for men and 25.5 years for women. Considering the retirement age for most defined benefit schemes was fixed at their inception, the gap has grown considerably and is forecast to get larger. This will continue to place upward pressure on the liability profile of the schemes.

Benefits Paid

When a member exits a defined benefit fund, depending on the fund rules, they can choose a lump sum payment, a lifetime pension or a combination of the two.

Lump sum and pension benefit payments are prescribed in the scheme rules and legislation and vary depending on the member's years of service, contribution levels and final salary. These benefit payments are largely funded by employer contributions.

Lump Sum Benefits

Lump sum benefits paid in 2013-14 by the State's three main defined benefit funds are shown below.

Year ended 30 June	Number of benefits 2014	Total value of benefits* 2014 $	Number of benefits 2013	Total value of benefits* 2013 $
Total lump sum benefits paid				
> $1million	81	101,289,312	56	57,448,595
$900,000-$1 million	55	53,331,467	30	22,799,199
$800,000-$899,999	110	93,172,368	58	43,906,650
$700,000-$799,999	211	157,492,268	120	78,953,662
$600,000-$699,999	361	233,045,233	222	129,050,729
$500,000-$599,999	553	301,551,384	439	222,947,610
<$500,000	5,508	964,585,073	5,555	959,930,837
Total	**6,879**	**1,904,467,105**	**6,480**	**1,515,037,282**

* Some small payments may be excluded from the data.

Source: Trustees of the STC Pooled Fund, EISS Pool B and PCS Fund (unaudited).

The table above shows 20 per cent (14 per cent in 2012-13) of members received lump sum payments above $500,000, approximately 49 per cent (37 per cent in 2012-13) of all lump sum benefits paid in 2013-14.

A total of 81 (56 in 2012-13) members received payments exceeding $1.0 million. The average lump sum benefit paid per member was approximately $277,000 ($234,000). The total value of benefits paid was almost $2.0 billion.

Pensions

Pension payments at 30 June 2014 for the three defined benefit funds are shown below.

At 30 June	Number of pensioners 2014	Total value of fortnightly pension 2014 $	Number of pensioners 2013	Total value of fortnightly pension 2013 $
Fortnightly pensions paid				
> $5,000	213	1,271,981	164	976,276
$4,500-$4,999	219	1,034,836	175	824,541
$4,000-$4,499	350	1,480,615	301	1,273,321
$3,500-$3,999	684	2,549,906	580	2,154,626
$3,000-$3,499	1,547	4,951,146	1,222	3,912,944
$2,500-$2,999	4,036	10,879,496	3,293	8,889,732
$2,000-$2,499	9,838	21,811,166	9,186	20,311,046
< $2,000	46,841	57,460,946	47,072	56,437,984
Total	**63,728**	**101,440,092**	**61,993**	**94,780,470**

Source: Trustees of the STC Pooled Fund, EISS Pool B and PCS Fund (unaudited).

In 2013-2014, the total fortnightly pension exceeded $100 million for the first time. The average fortnightly pension payment per fund member was $1,592 ($1,529 in 2012-13). In 2013-14, 1,966 more pensioners received a fortnightly pension greater than $2,000, while pensioners receiving less than this entitlement fell by 231.

Police ‘Hurt on Duty’ Benefit Payments and Review Process

Most members who retire from the Police Superannuation Scheme (PSS) do so under ‘hurt on duty’ provisions in the legislation and receive their entitlements as deemed retirees.

During 2013-14, 109 (111 in 2012-13) members retired ‘hurt on duty’. At 30 June 2014, 69 per cent of all PSS pensioners received a ‘hurt on duty’ pension and their average age was between 50-54 years old.

In 2013-14, the Pooled Fund paid approximately $289 million in ‘hurt on duty’ pensions or an equivalent of $2,440 per ‘Hurt on Duty’ pensioner per fortnight. The fortnightly payment is approximately $848 greater than the average fortnightly pension payment paid to members of STC Pooled Fund.

PSS pensioners can be awarded pensions of 85 per cent or more of their pre-disability salary, if they are totally incapacitated for work outside the Police Force.

In 2013-14, the Police Superannuation Advisory Committee (PSAC) started reviewing police ‘hurt on duty’ pensioners granted 85 per cent or more of their pre-disablement salary as a pension on or after 28 August 2008. These members will be reviewed every five years until age 60 to ensure they remain totally incapacitated for work outside the Police Force.

In 2013-14, the Trustee board commenced a review of police ‘hurt on duty’ pensioners granted 85 per cent or more of their pre-disablement salary as a pension, to ensure they are still totally incapacitated for work outside the Police Force.

The STC Pooled Fund Trustee advises that PSAC has reviewed 95 ‘hurt on duty’ members since the process started. Two members were found to be able to resume some work outside the Police Force and had their pensions amended. The pensions of three others have been recommended for amendment. The Trustee also advises it has commenced an assessment of the effectiveness of the five year review policy, which it expects to complete by 30 September 2015.

Superannuation Agencies Financial Sustainability

This analysis focuses on State Super Financial Services and Pillar Administration. These are for-profit businesses.

As with any well run business, State Super Financial Services and Pillar must manage their finances so they can meet current and future spending commitments, invest in future growth, adapt quickly to emerging threats and remain financially sustainable. To achieve these goals, the entities must generate sufficient surpluses so they can respond to changes in economic conditions and government policy.

Financial Sustainability Indicators

State Super Financial Services

State Super Financial Services	2014	2013	2012	2011	2010
Revenue and expenditure year ending 30 June	**$'000**	**$'000**	**$'000**	**$'000**	$'000
Revenue	143,137	123,847	107,482	100,563	87,668
Expenditure	(89,285)	(78,844)	(58,572)	(52,541)	(48,316)
Net profit before income tax	53,852	45,003	48,910	48,022	39,352
Income tax expense	(16,214)	(13,583)	(14,716)	(14,446)	(11,785)
Net profit after income tax	37,638	31,420	34,194	33,576	27,567
Statement of financial position at 30 June	**$'000**	**$'000**	**$'000**	**$'000**	$'000
Current assets	57,041	50,689	51,761	54,474	46,566
Property plant and equipment	10,334	8,722	6,445	4,532	3,778
Intangibles	10,041	3,334	4,148	1,833	949
Other non-current assets	6,628	6,385	3,032	2,775	3,995
Total liabilities	35,168	27,806	19,176	18,022	15,705
Equity	48,876	41,324	46,210	45,592	39,583
Indicators					
Return on equity	83%	72%	74%	79%	71%
Underlying result	26%	25%	32%	33%	31%
Capital replacement ratio					
- Property, plant and equipment	1.61	2.08	2.22	1.66	0.86
- Intangible assets	6.25	0.76	3.66	2.53	1.60
Revenue growth rate	16%	15%	7%	15%	15%
Return to shareholders	21%	29%	31%	27%	30%

Source: Financial statements (audited).

State Super Financial Services has performed strongly over the last five years. Its return on equity has grown from 71 per cent in 2010 to 83 per cent in 2013-14. Revenue growth has been consistently strong averaging over 13 per cent each year over the period.

State Super Financial Services is implementing a major change program over the next eighteen months to prepare for and deliver its refreshed business strategy. It is expected the changes will position the business to continue generating strong financial outcomes. The transformational project, known as the Future Operating Model, includes new technology and processes, as well as structural changes to the organisational design and teams.

Pillar Administration

Pillar Administration	2014	2013	2012	2011	2010
Revenue and expenditure year ending 30 June	**$'000**	**$'000**	**$'000**	**$'000**	$'000
Revenue	94,245	86,189	78,833	79,475	75,225
Expenditure	(91,300)	(84,639)	(82,281)	(74,357)	(70,720)
Net profit before income tax	2,945	1,550	(3,448)	5,118	4,505
Income tax benefit/(expense)	(236)	15	1,236	(1,313)	(1,390)
Net profit after income tax	2,709	1,565	(2,212)	3,805	3,115
Statement of financial position at 30 June	**$'000**	**$'000**	**$'000**	**$'000**	$'000
Current assets	24,767	19,898	17,180	23,365	21,027
Property, plant and equipment	13,615	12,602	13,646	12,796	12,424
Intangibles	703	673	1,194	2,058	3,633
Other non-current assets	4,480	3,257	3,217	3,182	2,968
Total liabilities	20,979	16,008	14,929	18,881	18,089
Equity	22,586	20,422	20,308	22,520	21,963
Indicators					
Return on equity	13%	8%	(10)	17%	15%
Underlying result	4%	1%	(3)	4%	4%
Capital replacement ratio					
- Property, plant and equipment	1.0	0.7	1.8	2.1	0.5
- Intangible assets	1.8	0.3	0.2	0.3	0.8
Return to government ratio	2%	1%	(2)	5%	4%

Source: Financial statements (audited).

Pillar Administration faces some significant issues following reforms in the superannuation industry and associated legislation. These include a planned upgrade to its core information systems. The company's capital replacement ratio is low and indicates spending on its assets may not have kept pace with the consumption of those assets. The business has generated returns to Government of less than five per cent over the past five years.

Pillar Administration is economically dependent on two key customers. During 2013-14 it received approximately 66 per cent of its total revenue from the STC Pooled Fund and First State Super.

Management advises the STC Pooled Fund and First State Super have recently extended their administration agreements by five years, providing some certainty to Pillar's future business outcomes.

Financial Controls

Appropriate financial controls help ensure efficient and effective use of resources and the implementation and administration of entity policies. They are essential for quality and timely decision making, effective financial management and other desired outcomes.

Financial and Information Technology Controls

The financial audits of NSW Government superannuation entities did not identify any significant internal control deficiencies. All custodians and administrators provided the trustees with audited controls reports that did not identify any major issues.

Disaster Recovery Planning

During 2013-14, Pillar assessed its disaster recovery planning and testing capabilities. It confirmed it had formal disaster recovery plans for key financial systems and had fully tested its disaster recovery capabilities over the last three years.

Funds managed by Pillar Administration

Pillar provides administration services to both public and private sector superannuation funds and the trustees. These services include:

- point of contact for members' and employers' enquiries
- contribution and payment processing
- compliance advice and technical services
- financial and accounting services.

Pillar manages more than one million members and employer accounts on behalf of First State Super, STC Pooled Fund, Public Sector Superannuation accumulation plan (PSSap), and other private superannuation funds, and has over $95.8 billion in funds under administration.

The table below shows the composition of Pillar's memberships and funds.

Clients	Total membership at 30 June 2014	Total membership at 30 June 2013	Funds Under Management at 30 June 2014 ($'000)	Funds Under Management at 30 June 2013 ($'000)
NSW Government Funds	129,976	135,192	40,525,567	38,438,878
Private Sector Funds	1,020,877	1,028,828	55,354,256	47,332,894
Total	**1,150,853**	**1,164,020**	**95,828,823**	**85,771,772**

Source: Pillar administration (unaudited).

Upgrade to IT Systems - Stronger Super reform

The Stronger Super reforms required Pillar to implement major system modifications from 1 July 2013. SuperStream is part of the Stronger Super reform agenda announced by the Australian Government designed to enhance 'back office' processing in the superannuation industry.

Pillar started the systems work in July 2013 and expects to receive $21.0 million over three years from its clients towards the costs. Pillar's disparate and legacy systems make the cost of this upgrade higher than that for administrators which operate a single IT member platform.

The project is tracking in line with the milestones and the budget.

Information Technology Consolidation Project

Pillar's Information Technology (IT) consolidation project includes:

- building an Enterprise Data Warehouse (Phase 1, completed in 2014)
- upgrading and transitioning all back office systems to a fit for purpose platform (Phase II).

The NSW Government contributed $7.0 million towards Phase II of the project in July 2014.

Pillar needs to ensure its project governance arrangements are sufficient to ensure it does not suffer similar cost and schedule overruns experienced by a major private sector superannuation administrator in a recent IT consolidation project. Pillar has opted for a ready-made, off the shelf system rather than building a bespoke product. Pillar should carefully consider the lessons learnt from the failed private sector project to avoid similar issues arising in its project.

Recommendation

Pillar should adopt a strong governance framework for its Information Technology Consolidation Project and closely monitor its progress at all stages.

Government Review on Pillar Administration

On 10 October 2013, the Government announced an external review to investigate future options for Pillar, including a potential sale. The scope of the review included investigating Pillar's capacity to financially manage the Information Technology system upgrades.

There have been no further public announcements by the Government on the future of Pillar.

Reporting of Regulatory and Other Breaches

In the superannuation industry, a breach is defined as a failure to correctly perform or perform on time a process or obligation required under fund rules and policies, contractual requirements or any relevant superannuation legislation.

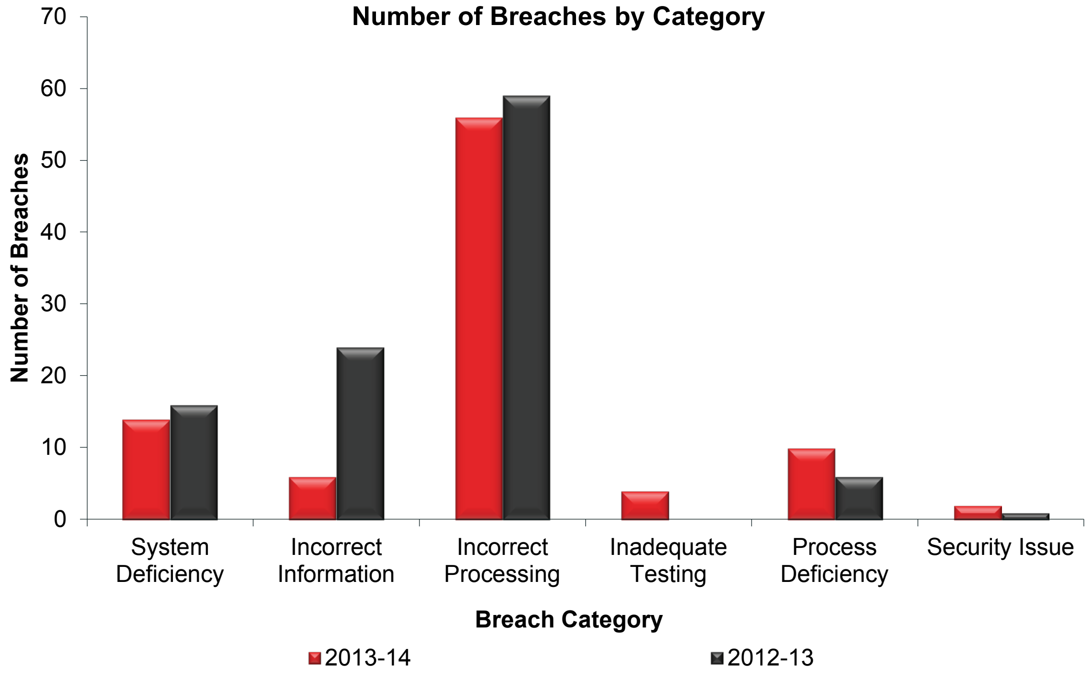
In some instances, breaches must be reported to regulators. For regulated funds, depending on the circumstances, only significant breaches must be reported to APRA and ASIC.

STC Pooled Fund

STC Pooled Fund monitors Pillar Administration's performance on a monthly basis by maintaining statistics of breaches in the following categories:

- system deficiency
- incorrect/inadequate information
- incorrect/inadequate processing
- inadequate testing
- process deficiency
- security issue.

In 2013-14, 92 (106 in 2012-13) new breaches affecting 437 (161) members were recorded. Pillar advises the total compensation paid to members as a result of the breaches was $55,874 ($ nil). The Pooled Fund is not APRA regulated so the breaches were not reported to a regulator.



Source: STC Pooled Fund (unaudited).

In 2013-14, approximately 61 per cent (56 per cent) of all breaches were due to incorrect or inadequate processing by Pillar. The number of breaches in each category remained consistent with the prior year.

EISS

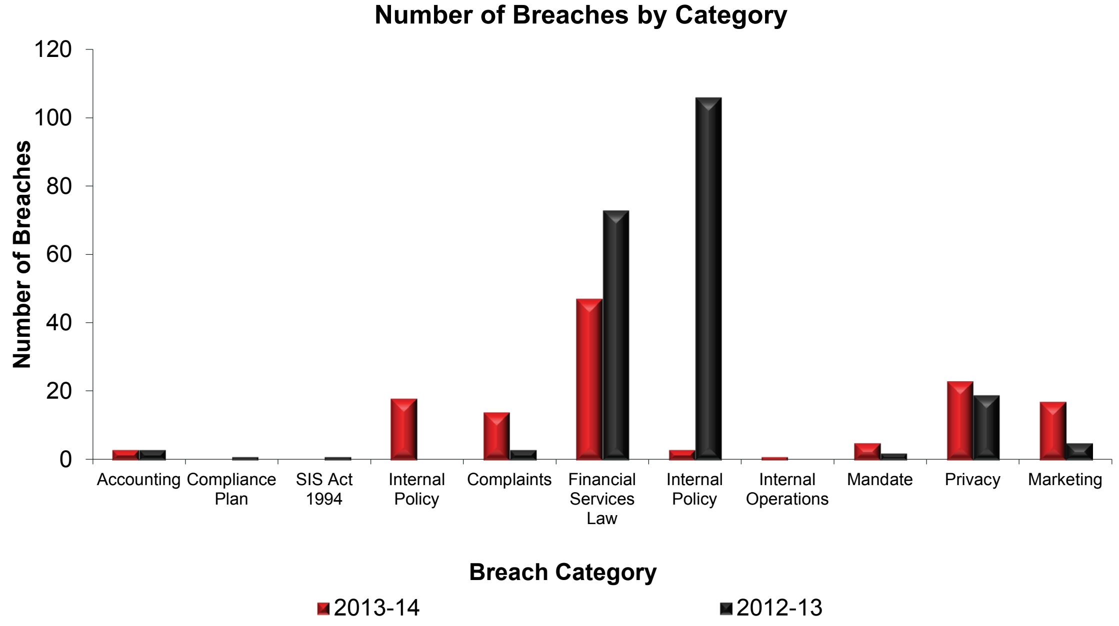
In 2013-14, there were three (four in 2012-13) breaches by the administrator, all affecting the EISS Pool A. Two of the breaches have been actioned and closed.

All breaches were compiled by the Trustee and tabled at the Risk, Audit and Compliance Committee. The breaches were not considered significant.

SSFSL

In 2013-14, there were 128 (218) breaches in eight (11) categories, a significant decrease largely due to improvements in financial planning internal policy.

Around 36 per cent (33 per cent) of breaches related to 'financial planning - financial services law'.



Source: State Super Financial Services Australia (unaudited).

All breaches are reported to the Audit and Risk and Compliance Committee. If a significant breach of financial services law occurs, it is reported to the Board, ASIC and/or APRA and the external auditors.

During 2013-14, one breach was classified as significant and reported to regulatory authorities. The breach related to members not receiving documents from their financial planner more than a month after an appointment. In August 2014, two further breaches were reported to ASIC. These incidents related to financial planners meeting with members and cancelling the appointment in the customer relationship management software to avoid completing procedures required of planners following client meetings.

Management has taken appropriate action to address these matters.

SSFSL is fully owned by the STC Pooled Fund. Given its ownership structure and the services it provides to many current and former NSW Government employees, management must ensure corporate governance, integrity, controls and processes are maintained to the highest standard.

Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems the entities, and those charged with governance, use and are held to account by others.

Regulatory Framework

The Australian superannuation industry manages over $1.8 trillion dollars in retirement savings for Australian workers. Following an expert review in 2010 (The Cooper Review) of Australia's superannuation system, the Australian Government, through APRA, has implemented significant changes for the industry, including strengthening the regulatory and compliance environments, governance and protection of members' monies.

Governing laws and compliance requirements for APRA regulated funds include:

- *Superannuation Industry (Supervision) Act 1993* (SIS Act) and associated regulations
- *Corporations Act 2001* and associated regulations
- *Financial Sector (Collection of Data) Act 2001*
- mandatory prudential and reporting standards
- trust deeds.

NSW Government superannuation entities, which are exempt public sector funds, are not strictly bound by all the above requirements. These entities are established by legislation in the NSW Parliament and/or a relevant trust deed. The NSW Government has undertaken these entities comply with the principles of the Australian Government's requirements through a Heads of Government Agreement (HOGA).

All superannuation entities have established detailed, formal processes to comply with legislative and compliance obligations, including for financial reporting, risk management, investment governance and reporting.

Prudential Oversight of Exempt Public Sector Funds

The STC Pooled Fund and PCS Fund are designated as exempt public sector superannuation funds under the SIS Act. They are not subject to formal and structured independent prudential oversight. Together the funds have over 117,000 members and hold net assets in excess of $40.5 billion.

Under the HOGA with the Australian Government, the NSW Government ensures the STC Pooled Fund and PCS Fund conform to the principles in the retirement income policies. These include issues relating to preservation standards, member vesting, risk management, trustee and investment governance, reporting to members and the requirements of the APRA Reporting Standards.

Responsibility for monitoring the STC Pooled Fund and PCS Fund's compliance with HOGA is assumed by the NSW Office of Finance and Services.

Regulators of other State superannuation funds

Regulatory environments for other large State superannuation funds are shown below.

State	APRA Regulated	Defined Benefit Superannuation Fund	Prudential Framework Regulator
NSW	No*	STC Pooled Fund, PCS Fund	High level oversight by the NSW Office of Finance and Services
Victoria	No	ESSSuper, Parliamentary Contributory Superannuation Fund	Independent oversight by the Victorian Department of Treasury and Finance
Queensland	Yes	QSuper	APRA

* The EISS Pool B Scheme is APRA Regulated.

QSuper's structure combines the closed defined benefit schemes with the public offer defined contribution fund, which is available to new members. It is a public sector superannuation fund and is APRA regulated.

The Victorian Department of Treasury and Finance (DTF) set a Prudential Superannuation Standard for Victorian Government Superannuation Entities. The standard provides regulatory objectives and reporting requirements for compliance activities, such as risk management, business planning and breach reporting, similar to APRA regulated entities. These regulatory objectives are established and monitored by the DTF to help protect the superannuation benefits of members, even though both ESSSuper and the Victorian Parliamentary Contributory Superannuation Fund are exempt superannuation funds under the SIS Act.

The Victorian Government amended its *Emergency Services Superannuation Act 1986* to strengthen oversight of ESSSuper by requiring compliance with the prudential standards approved by the Victorian Governor in Council from 1 July 2014.

How does New South Wales compare?

Currently, oversight of NSW exempt public sector funds is performed at a high level by the Office of Finance and Services. There are no clear lines of responsibility for independent, external supervision of STC Pooled Fund or the PCS Fund from the NSW Government. The funds have not been subject to the same level of scrutiny, checks and balances or external reviews as APRA regulated entities or other state based funds.

The Superannuation Administration Act 1996 (NSW) requires STC Pooled Fund to exercise its function with regard for the HOGA, but does not define which government agency is responsible for the prudential oversight. This is in sharp contrast from the Victorian model where the reporting lines are clearly articulated.

The approach in New South Wales is incongruent with best practice considering the size of retirement savings being managed by these funds.

The Trustees of the STC Pooled Fund and PCS Fund advises that, while there is no legal requirement for the funds to comply with APRA standards, the trustees are committed to and working towards achieving compliance, where appropriate for a public sector fund. The STC Pooled Fund has implemented most of the requirements of the APRA standards where appropriate.

It is worth noting that EISS and SSFSL are significantly smaller in size than the STC Pooled Fund, yet are both regulated by APRA.

Recommendation

The NSW Government should commission a review in 2014-15 to assess the most appropriate framework for the prudential oversight of exempt public sector superannuation schemes in New South Wales.

APRA Prudential Reviews

APRA completed prudential reviews on EISS and SSFSL during 2013-14, using risk assessment tools called 'Probability and Impact Rating System (PAIRS)' and 'Supervisory Oversight and Response System (SOARS)', to help the regulator:

- make better risk judgements
- respond in a timely manner
- ensure key officers are able to take effective action
- identify problem areas.

SOARS is used to determine how supervisory concerns based on PAIRS risk assessments should be acted upon. It is intended to ensure supervisory interventions are targeted and timely. All APRA-regulated entities subject to a PAIRS assessment are assigned a SOARS stance/rating.

In its reviews of EISS and SSFSL, APRA acknowledged the significant work undertaken by the Trustee and Board, respectively, since the last prudential review. The regulator's detailed reports included some requirements and recommendations for both entities.

Management and the Trustee/Board have formally responded to the findings and are implementing remedial actions.

Funds Amalgamation Project

In March 2014, the NSW Government issued a media release announcing plans to amalgamate the fund management activities of STC Pooled Fund and Safety, Return to Work and Support (WorkCover) within New South Wales Treasury Corporation (TCorp).

The amalgamation will centralise fund management activities for approximately $65.0 billion of NSW Government financial assets within TCorp. It will also consolidate the investment management teams of STC Pooled Fund and WorkCover and their wealth of experience in one agency.

This will bring NSW broadly into line with fund management practices adopted by other Australian State Governments.

Under the arrangement, TCorp will act as the fund manager for much of STC Pooled Fund investments. STC Pooled Fund plans to transfer approximately $33.0 billion of the investments backing the NSW Government's defined benefit liabilities to TCorp. The planned transfer excludes the accumulation component of member funds and assets of universities and the small number of private sector employer sponsors. The value of these funds totalled $7.0 billion at 30 June 2014. STC Pooled Fund may transfer these funds to its controlled entity, State Super Financial Services.

STC Pooled Fund's Trustees recognise the scale of this transformation for the organisation and are implementing processes to achieve the Government's intended outcomes. STC expects implementation of the project to cost over $10.0 million.

The Trustees have fiduciary duties to the members of the STC Pooled Fund and are analysing potential impacts of the project, including clarifying, through a detailed request for information (RFI) with TCorp, its current capabilities, identified gaps, detailed project plans and milestones.

A Transitional Operating Model is being discussed, under which the Trustee expects to continue being responsible for:

- asset liability modelling
- defining of investment beliefs and objectives
- setting and communicating the investment strategy
- developing investment policies
- deciding appointment and termination of investment managers
- risk management of the assets and liabilities
- investment management fee principles for the funds
- developing and implementing processes to manage relationships with external providers
- paying benefits to members when they fall due.

STC Pooled Fund will implement a service agreement with TCorp for outsourcing its investment function.

An independently chaired project steering committee, comprising members from these agencies is formulating the structure, resourcing, timeline and implementation plan for the amalgamation.

Management advises that significant practical issues in implementing the policy efficiently and effectively are being discussed. These include staffing and governance arrangements, reporting requirements and possible inconsistencies between the proposal and the current legislation.

Recommendation

Key stakeholders involved in the amalgamation of funds management activities, STC, WorkCover, Treasury and TCorp, need to ensure governance structures, risk management, staffing arrangements and reporting requirements are agreed between all parties and closely monitored to ensure the project is implemented effectively and efficiently, and in line with Government priorities.

Benefits Paid to Corrupt Former Members of New South Wales Parliament

In October 2014, the NSW Premier announced legislative reforms that will see:

- penalties for politicians who break election funding laws doubled
- the statute of limitation for most of these offenses increased from three to ten years.

The reforms come in the aftermath of several high profile investigations by the Independent Commission Against Corruption (ICAC) in 2014 concerning illegal donations to politicians.

The *Parliamentary Contributory Superannuation Act 1971* (PCS Act) was amended in 2006 by inserting Section 19AA, which allows for suspension of a member's pension entitlement, in limited circumstances, while proceedings for a serious offence are pending against that member. If the member is convicted of a serious criminal offence and criminal proceedings are finalised, the person loses their entitlement to a pension and their net contributions are refunded to them.

The legislation does not apply to members who leave parliament before the filing of criminal proceedings and does not permit the State to recover the employer financed portion of lump sum payments made on retirement. That is, under the current legislation a politician could be found guilty of corruption while in office, and the public will continue to finance the pension.

The Fund Secretary has advised that the trustees of the PCS Fund have received legal advice from the Crown Solicitor and the Solicitor General to the effect that section 19AA of the PCS Act does not effectively define when criminal proceedings are considered to be finalised for purposes of the Act. The trustees are considering asking for amendments to the PCS Act so that it is clear when criminal proceedings are considered to be finalised and therefore the pension entitlement ceases because of a conviction for a serious offence.

Recommendation:

The NSW Government should review Section 19AA of the PCS Fund legislation to determine if it should apply to former members of parliament subsequently convicted of a serious criminal offence while in office.

Financial and Compliance Reporting by Super Fund

The new APRA prudential and reporting standards for the superannuation industry became effective from 1 July 2013. The force of law prudential requirements include six behavioural, seven technical and 35 reporting standards. The prudential standards set out minimum requirements on a range of issues including governance, risk management, investment governance and audit and related matters.

The new APRA obligations have placed additional compliance requirements on regulated superannuation funds. They have resulted in increased costs and expanded the scope for external audit and assurance engagements. The auditors of registrable superannuation entities (RSEs) are now required to perform additional engagements, including providing opinions over controls that ensure compliance with applicable prudential requirements and the provision of reliable data to APRA, as required by the reporting standards.

Upcoming changes to Financial Reporting by Superannuation Entities

Financial reporting in the superannuation industry will be significantly impacted by the new accounting standard, AASB 1056 Superannuation Entities. This standard was released by the Australian Accounting Standards Board in June 2014 and is applicable for the year ending 30 June 2017. The standard must be applied retrospectively and therefore comparative information will be required from 1 July 2015.

The current accounting standard, AAS 25 Financial Reporting by Superannuation Plans, is now over 20 years old. AASB 1056 will address inconsistencies in the current standard, including:

- aligning Australia's superannuation financial reporting with International Financial Reporting Standards (IFRS)
- removing accounting inconsistencies between AAS 25 and requirements in other Australian Accounting Standards for superannuation entities.

The requirements of AASB 1056 will result in substantial changes in the financial reporting by superannuation entities and is expected to provide greater transparency and consistency across the industry. Superannuation funds are increasingly attracting member and public interest in their financial positions, performance and risk profiles. This is due to the volatility in investment markets, concerns about the ageing population, the adequacy of retirement savings and the management and funding of defined benefit liabilities.

Recommendation

All NSW Government superannuation entities should reassess the requirements of AASB 1056 Superannuation Entities including:

- **identifying financial reporting issues by 1 July 2015**
- **whether the reporting systems of funds, their custodians and administrators, are capable of generating the financial information required by AASB1056.**

Service Delivery

NSW Government Superannuation entities manage public sector employees' retirement savings for over 140,000 members in defined benefit and contribution funds, and provide financial planning advice and management services to more than 50,000 current and former employees. Fund members and Government receive high quality services when superannuation entities implement efficient and effective processes that are continuously improved and reviewed.

Fund Membership

Membership of the State's defined benefit funds decreased 3.9 per cent from 126,793 in 2012-13 to 122,015 in 2013-14 due to members exiting the funds.

There are around 18,000 members in the defined contribution fund, EISS Pool A, which has seen a 2.9 per cent decrease from the previous year.

Pooled Fund Membership

Membership continues to decrease in the closed schemes mainly due to members reaching retirement age.

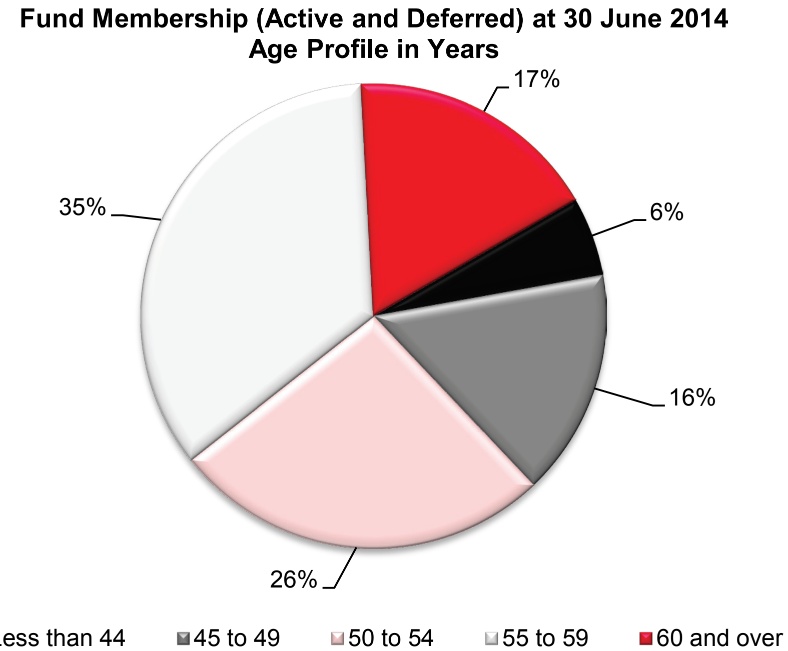
At 30 June	2014	2013	2012	2011	2010
Active members	41,838	47,570	53,317	58,842	64,015
Deferred members *	12,872	13,158	13,420	13,691	14,217
Pensioners	62,905	61,251	59,438	57,893	57,790
Total	**117,615**	**121,979**	**126,175**	**130,426**	**136,022**

* Deferred members are those who are not actively contributing to their superannuation accounts and have not started their pensions or withdrawn their benefit from the schemes.

Source: Trustees (unaudited).

Age Profile of Active and Deferred Members

Over 60 per cent of members are approaching retirement age and 16 per cent have reached the minimum retirement age.

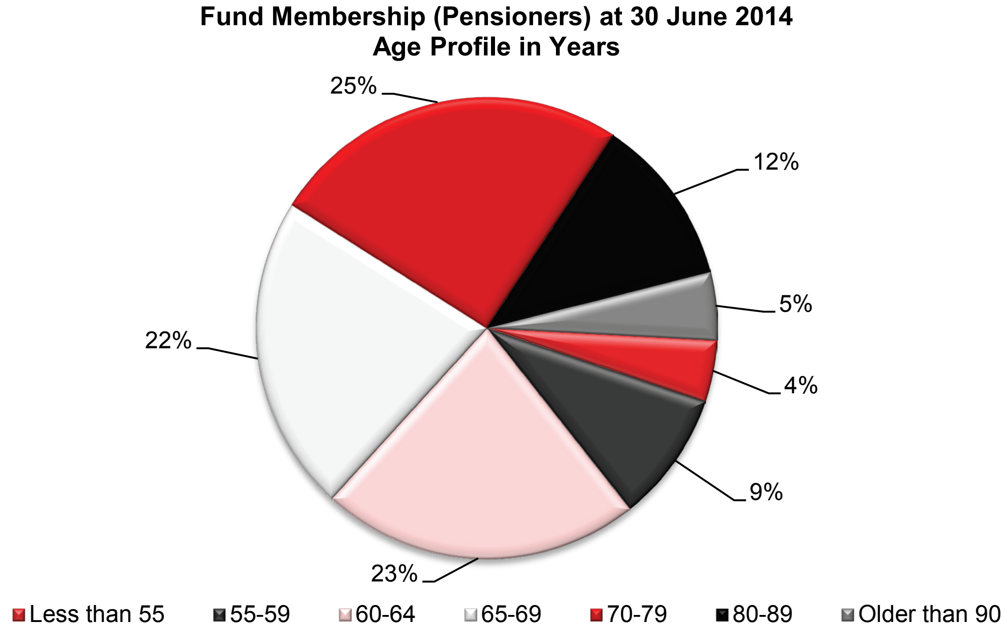


Source: Trustees (unaudited).

The Trustee of the STC Pooled Fund manages liquidity risk, investment asset allocation and the timing of asset acquisitions and disposals to ensure the funds can pay pensions and lump sum benefits when required.

Age Profile of Pensioners

Around 37 per cent (38 per cent in 2012-13) of members in the pension phase are below 65 years old, while 2,974 pensioners are over the age of 90, an increase of six per cent from 2012-13.



Source: Trustees (unaudited).

Of the 62,905 pensioners at 30 June 2014:

- 66 per cent exited the workforce under normal or early retirement conditions (including retrenchment)
- 20 per cent exited through invalid retirement (including police 'hurt on duty' as discussed earlier in this report)
- 14 per cent became entitled to a child or spouse pension after the death of a member.

Parliamentary Contributory Superannuation Fund Membership

The PCS Fund provides superannuation to parliamentarians who were re-elected up until the 2007 election.

At 30 June	2014	2013	2012	2011	2010
Contributory members (a)	42	43	45	47	95
Non-contributory members (b)	1	--	1	1	1
Deferred members (c)	10	10	10	11	4
Suspended pensioners (d)	3	7	7	5	6
Pensioners (e)	266	268	273	279	257
Total	**322**	**328**	**336**	**343**	**363**

a Contributory members - current members of the Legislative Council and Legislative Assembly who are contributing to the Fund. These are considered Active Members.

b Non-contributory members - current members of parliament who elected under Fund legislation to cease making contributions as they had attained 65 years of age and completed 20 years of service. These are considered Active Members.

c Deferred members - either deferred pensioners: former employees of parliament who, under Fund legislation, cannot receive payment of their pensions until they attain the age of 55, or deferred lump sum members: former members of parliament who have elected to keep a lump sum benefit deferred or preserved in the Fund.

d Suspended pensioners - former members of parliament whose pension is suspended under Fund legislation as they later became a member of the Commonwealth or another State Parliament, or a former member of parliament whose pension is suspended under section 19AA of Fund legislation. Under this section, the pension entitlement is suspended while criminal proceeds for a serious offence are pending.

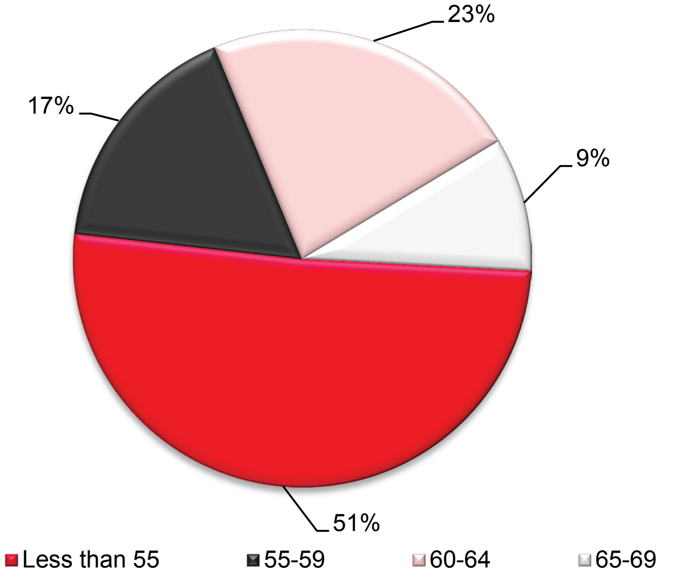
e Pensioners - former members of parliament and spouses and children of deceased members, who are receiving pensions from the Fund.

Source: Trustees (unaudited).

Age Profile of Active and Deferred Members

Of the 53 active and deferred members in the fund, 49 per cent (42 per cent in 2012-13) are over 55 years old.

Fund Membership (Active and Deferred) at 30 June 2014
Age Profile in Years



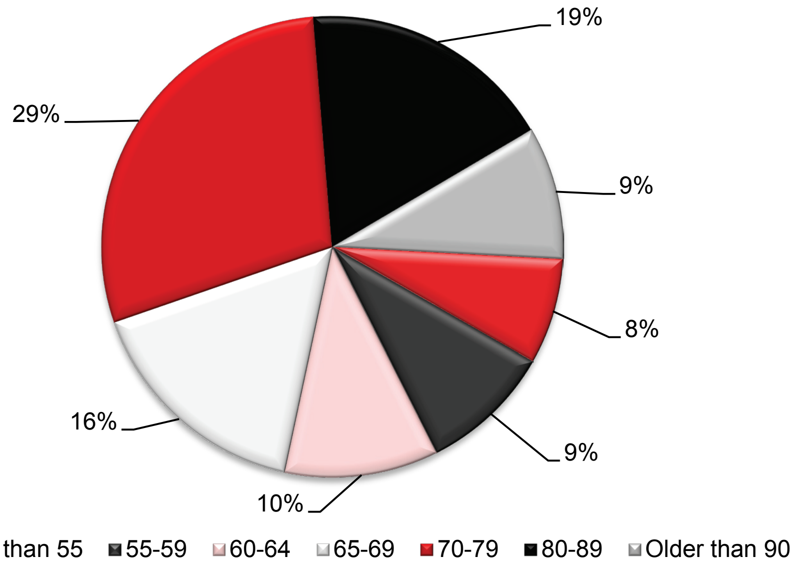
Source: Trustees (unaudited).

As more members retire, the Trustee of EISS will continue to monitor fund liquidity to ensure the fund can pay pensions and lump sum benefits as required.

Age Profile of Pensioners

Pensioners aged less than 55 years decreased from nine per cent in 2012-13 to eight per cent in 2013-14, while those over 80 years old remained at 28 per cent of the total.

Fund Membership (Pensioners - Current and Suspended) at 30 June 2014 Age Profile in Years



Source: Trustees (unaudited).

Energy Industries Superannuation Scheme Fund Membership

The tables below summarise the Energy Industries Superannuation Scheme membership at 30 June each year for the EISS Pool A – Defined Contribution Scheme and Pool B – Defined Benefit Scheme.

EISS Pool A – Defined Contribution Scheme

At 30 June	2014	2013	2012	2011	2010
Active members (contributors)	16,401	17,063	17,308	16,773	16,104
Pensioners	1,592	1,450	1,255	1,133	952
Total	**17,993**	**18,513**	**18,563**	**17,906**	**17,056**

Source: Trustees (unaudited).

EISS Pool B – Defined Benefit Scheme

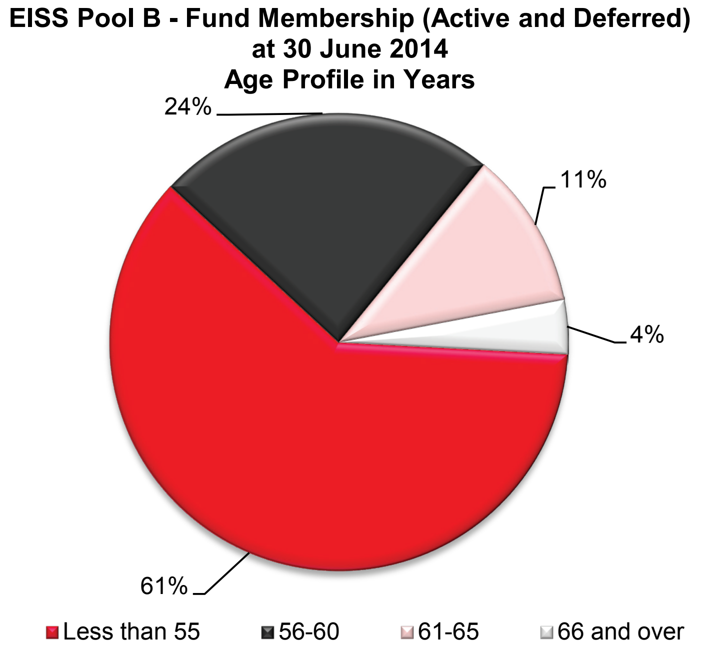
At 30 June	2014	2013	2012	2011	2010
Active members	2,876	3,287	3,581	3,787	4,002
Deferred members *	640	689	707	743	759
Pensioners	562	510	461	429	404
Total	**4,078**	**4,486**	**4,749**	**4,959**	**5,165**

* Deferred members are those who are not actively contributing to their superannuation accounts and have not started their pensions or withdrawn their benefit from the schemes.

Source: Trustees (unaudited).

Age profile of Active and Deferred Members: EISS Pool B

Fifteen per cent of members have reached the normal retirement age of 60, with a further 24 per cent less than five years away from retirement age.

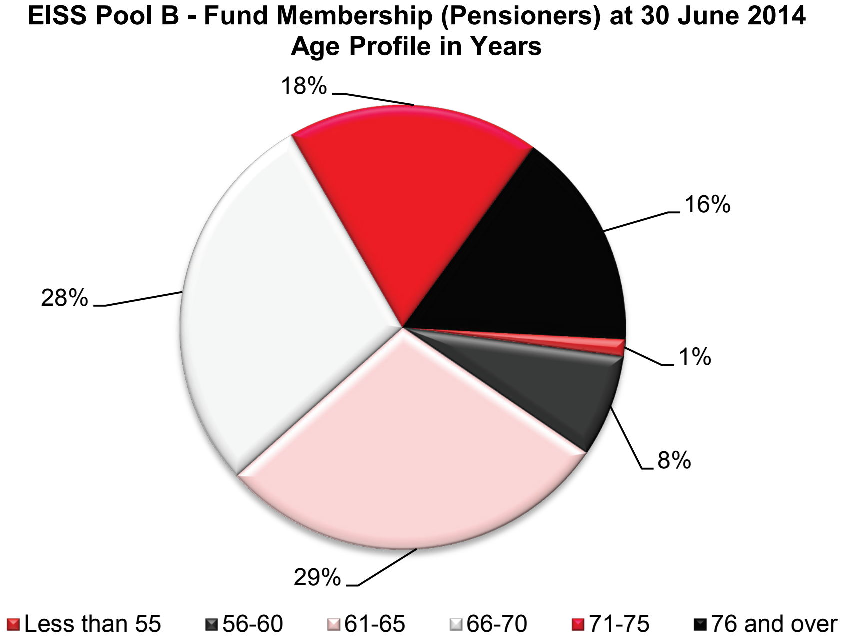


Source: Trustees (unaudited).

The Trustees' expect around 1,200 members (36 per cent) will exit the scheme over the next decade. Over the past three years, membership has decreased at an average rate of six per cent due to the ageing profile of members.

Age Profile of Pensioners

At 30 June 2014, 34 per cent (34 per cent in 2012-13) of EISS Pool B pensioners were older than 70.



Source: Trustees (unaudited).

The total number of Pool B pensioners increased by ten per cent from 510 in 2012-13 to 562 in 2013-14, due to members reaching retirement age.

Administration and Investment Services in Superannuation Funds

Outsourcing

The superannuation industry has a high level of outsourcing, particularly for investment management, administration and custodial activities. Trustees appoint independent custodians of fund assets to perform administrative, accounting, monitoring and reporting functions. They also appoint investment fund managers to invest and manage fund assets in accordance with investment management agreements.

Prudential standards require outsourcing arrangements involving material business activities to have appropriate due diligence, approval and ongoing monitoring. Trustees are responsible for assessing and monitoring these arrangements.

To meet these requirements, the trustees receive reports on the effectiveness of controls in place at material service providers. In 2013-14, the trustees received comprehensive, audited reports from all custodians and administrators, shown below, to demonstrate the operating effectiveness of certain key controls at service entities.

Superannuation Fund	Custodian	Administrator	No. of investment fund managers
Defined benefit superannuation funds			
STC Pooled Fund	JP Morgan, Chase	Pillar Administration	49
Energy Industries Superannuation Scheme-Pool B	The Northern Trust Company (Effective 1 May 2014)	Link Group	17
Parliamentary Contributory Superannuation Fund	NAB	Pillar Administration	9
Defined contribution superannuation funds			
Energy Industries Superannuation Scheme-Pool A	The Northern Trust Company (Effective 1 May 2014)	Link Group	17
State Super Financial Services Group [1]	JP Morgan, Chase [2]	State Super Financial Services	30[3]

1 State Super Financial Services Group comprises State Super Financial Services, State Super Retirement Fund, State Super Investment Funds, and State Super Fixed Term Pension Plan.

2 State Super Fixed Term Pension Plan custodian is managed by Deutsche Bank AG. This fund was closed for applications on the 19 September 2004 and no longer receives contributions. The fund invests in two products developed by Deutsche Bank AG.

3 State Super Financial Services appoint fund managers to manage the different products across the State Super Financial Services Group as noted in (1).

Source: Trustees (unaudited).

Administration and Investment Costs of Superannuation Funds

Outsourcing arrangements increase the cost of third-party investment management and administration services. In the case of defined contribution funds, these costs directly impact the level of returns earned by members.

Administration and investment costs of the three major defined benefit funds are shown below.

Year ended 30 June	Pooled Fund		EISS Pool B		PCS Fund	
	2014	2013	2014	2013	2014	2013
Direct investment fees ($'000) (c)	102,600	95,800	--	--	340	182
Administration costs ($'000) (a)	38,000	34,200	8,895	8,957	606	538
Average Funds Under Management for the year ($'000) (b)	39,228,600	36,280,450	2,252,629	2,046,479	249,483	221,630
Administration cost as a % of FUM	0.10	0.09	0.39	0.44	0.24	0.24
Direct investment fees as a % of FUM (c)	0.26	0.26	--	--	0.14	0.08
Management Expense Ratio – Growth Option (d)	0.32	0.33	0.57	0.83	0.55	0.56

a Includes Trustee and administration costs (source: audited financial statements).

b FUM is average Funds Under Management during the year (unaudited).

c Direct investment fees are not recorded in the financial statements of either EISS Pool A or Pool B due to the structure of their investments. Also, PCS Fund records a lower level of direct investment fees as most of its investment costs are recorded as indirect investment fees offset against returns.

d Management expense ratio for an investment strategy are the expenses incurred for the investments expressed as a percentage of the average net asset value of the strategy. Each fund varies with different investment options.

Administration and investment costs for EISS Pool A, the only accumulation fund, are shown below.

Year ended 30 June	EISS Pool A	
	2014	2013
Administration costs ($'000) (a)	8,897	8,896
Average Funds Under Management for the year ($'000) (b)	1,977,756	1,650,315
Administration cost as a % of FUM (b)	0.45	0.54
Management Expense Ratio – Balanced Option (c)	0.63	0.84

a Includes Trustee and administration costs (source: audited financial statements).

b FUM is average Funds Under Management during the year (unaudited).

c Management expense ratio for an investment strategy are the expenses incurred for the investment expressed as a percentage of the average net asset value of the strategy. Each fund varies with different investment options.

Administration and investment costs for SSFSL funds are shown below.

Year ended 30 June	Retirement Fund		Investment Fund		Pension Plan	
	2014	2013	2014	2013	2014	2013
Administration costs ($'000) [(a)]	140,354	125,704	5,012	4,474	355	356
Average Funds Under Management for the year ($'000) [(b)]	12,376,148	10,553,964	451,967	392,496	24,625	31,507
Administration cost as a % of FUM	1.13	1.19	1.11	1.14	1.44	1.13

a Includes Trustee and administration costs (source: financial statements).

b FUM is average Funds Under Management during the year (unaudited).

The management expense ratio (MER) is an industry recognised ratio on the performance of funds and investment managers. It considers the investment fees incurred per member for the management of investments. Costs included in this ratio are manager fees, performance fees, custody fees, consulting fees, and an administration fee component. The MER for the SSFSL Group was 0.77 in 2013-14 (0.77 in 2012-13). This is not included in the table above for each SSFSL product as only one ratio is calculated for the Group.

While comparisons between funds are difficult due to size variations, NSW Government entities have been able to maintain the MER ratio at relatively consistent levels over the past two years. EISS Pool A and B are the exception where the decrease in the MER reflects lower administration related expenses for the year.

Future Operating Model – SSFSL

In 2013-14, SSFSL initiated its Future Operating Model (FOM) Project to design and implement a new operating model. The aim of the model is to help SSFSL achieve its vision of becoming the pre-eminent provider in Australia of financial planning and implementation services to current and former public sector employees. Continued investment through new technologies is required to maintain competitiveness and performance.

The project will be delivered in two stages:

- release one: emphasis on introducing new capabilities, systems (including state of the art financial planning and customer relationship systems) and enhancements to the existing business structure and processes. It commenced 1 October 2013 with an expected go live date of March 2015. The estimated investment is $25.8 million
- release two: focuses on replacing the legacy registry system and develop digital capabilities to aide members. Expected to commence 1 October 2014 and be completed by December 2015. The expected investment required is $26.1 million.

Management advises project costs have increased since the initial budget due to timing and scope changes. As the project only commenced in 2013-14, analysis of the outcomes, including performance against budget, timelines and objectives will be included in the next year's report.

Part Two

Section Two

Appendices

Appendix One - Summary Financial Information

Defined Benefit Funds

Fund	STC Pooled Fund		EISS - Pool B		PCS Fund	
	2014	2013	2014	2013	2014	2013
	$m	$m	$m	$m	$m	$m
Statement of changes in net assets year ended 30 June						
Net assets available at beginning of financial year	**38,209**	**34,352**	**2,199**	**1,968**	**228**	**200**
Total revenue	**3,599**	**3,386**	**292**	**248**	**31**	**29**
Total expenses	**(4,599)**	**(4,182)**	**(198)**	**(192)**	**(26)**	**(24)**
Increase net market value of investments	3,146	4,777	117	208	22	24
Income tax expense	(106)	(124)	(24)	(33)	--	(1)
Net assets available at end of financial year	**40,248**	**38,209**	**2,386**	**2,199**	**255**	**228**
Statement of net assets at 30 June						
Investments	39,776	37,841	2,343	2,162	249	227
Other Assets	900	673	51	38	10	6
Total assets	**40,676**	**38,514**	**2,394**	**2,200**	**259**	**233**
Total liabilities	**427**	**305**	**8**	**1**	**4**	**5**
Net assets available to pay benefits	**40,248**	**38,209**	**2,386**	**2,199**	**255**	**228**

Source: Financial statements (audited).

Contribution Funds

Fund	EISS - Pool A		State Super Retirement Fund		State Super Investment Fund	
	2014	2013	2014	2013	2014	2013
	$m	$m	$m	$m	$m	$m
Statement of comprehensive income year ended 30 June						
Total revenue	**482**	**500**	**3,154**	**2,835**	**41**	**41**
Total expenses	**(13)**	**(12)**	**(140)**	**(126)**	**(5)**	**(4)**
Income tax benefit/(expense)	(25)	(38)	8	23	--	--
Benefits accrued for the year	**444**	**450**	**3,022**	**2,732**	**36**	**37**
Statement of financial position at 30 June						
Investments	2,131	1,825	13,104	11,138	483	398
Other assets	36	40	483	422	28	27
Total assets	**2,167**	**1,865**	**13,587**	**11,560**	**510**	**425**
Total liabilities	**12**	**14**	**113**	**81**	**10**	**9**
Net assets available to pay benefits	**2,155**	**1,851**	**13,474**	**11,479**	**501**	**416**

Source: Financial statements (audited)

Trustee Entities

Trustee	SAS Trustee Corporation*		EISS Pty Limited*		LGSS Pty Limited	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Statement of comprehensive income year ended 30 June						
Revenue	**38,724**	**34,841**	**16,894**	**17,340**	**37,182**	**37,564**
Employee related expenditure	(5,806)	(3,787)	(3,197)	(2,257)	(9,154)	(7,930)
Administration fees	(23,983)	(25,068)	(7,602)	(8,546)	(17,312)	(19,456)
Professional fees	(3,174)	(3,100)	(2,488)	(2,828)	(3,016)	(2,755)
Other expenses	(5,761)	(2,886)	(3,893)	(3,709)	(7,947)	(7,396)
Total expenses	**(38,724)**	**(34,841)**	**(17,180)**	**(17,340)**	**(37,429)**	**(37,537)**
Profit/(loss) before income tax	**--**	**--**	**(286)**	**--**	**(247)**	**27**
Income tax benefit/(expense)	--	--	729	15	247	(27)
Profit	**--**	**--**	**443**	**15**	**--**	**--**
Other comprehensive income/(expense)	--	--	(443)	--	--	--
Total comprehensive income	**--**	**--**	**--**	**15**	**--**	**--**
Statement of financial position at 30 June						
Cash and cash equivalents	1,021	1,740	5,047	2,218	2,522	620
Other Assets	8,033	5,810	1,444	1,245	5,793	6,343
Total assets	**9,054**	**7,550**	**6,491**	**3,463**	**8,315**	**6,963**
Employee benefits	--#	--#	1,500	969	2,131	1,797
Other payables	9,054	7,550	4,977	2,480	6,182	5,164
Total liabilities	**9,054**	**7,550**	**6,477**	**3,449**	**8,313**	**6,961**
Net assets	**--**	**--**	**14**	**14**	**2**	**2**

Source: Financial statements (audited)

The employee benefits liabilities for SAS Trustee Corporation are nor recorded separately in their financial statements. These liabilities totaled $1.2 million as at 30 June 2014 ($1.2 million in 2012-13).

* These are the company financial statements and not the consolidated entity.

Other Superannuation Entities

Other Superannuation Entities	Pillar Administration		State Super Financial Services Australia Limited		State Super Pension Fixed Term Pension Plan	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Statement of comprehensive income year ended 30 June						
Revenue	**94,245**	**86,189**	**143,137**	**123,847**	**1,876**	**364**
Expenses	**(91,300)**	**(84,639)**	**(89,285)**	**(78,844)**	**(6,801)**	**(6,748)**
Profit/(loss) before income tax	2,945	1,550	53,852	45,003	(4,925)	(6,384)
Income tax benefit/(expense)	(236)	15	(16,214)	(13,583)	--	--
Profit/(loss)	**2,709**	**1,565**	**37,638**	**31,420**	**(4,925)**	**(6,384)**
Statement of financial position at 30 June						
Current assets	24,767	19,898	57,041	50,689	--*	--*
Non-current assets	18,798	16,532	27,003	18,441	--*	--*
Total assets	**43,565**	**36,430**	**84,044**	**69,130**	**23,456**	**28,418**
Current liabilities	17,283	12,437	33,775	26,525	--*	--*
Non-current liabilities	3,696	3,571	1,393	1,281	--*	--*
Total liabilities	**20,979**	**16,008**	**35,168**	**27,806**	**66**	**103**
Net assets	**22,586**	**20,422**	**48,876**	**41,324**	**23,390****	**28,315****

Source: Financial statements (audited)

* State Super Pension Fixed Term Pension Plan and Energy Investment Fund financial statements do not distinguish asset and liability amount into current and non-current.

** These represent the net assets available to pay benefits to members of the plan.

Appendix Two - Financial Sustainability Indicators

Indicator	Formula	Description
Return on Equity %	**Result from Ordinary Activities after Taxation / Average Total Equity**	Measures the return the equity has made for the shareholders on their investment.
Underlying result %	**Adjusted net surplus / Total underlying revenue**	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account one-off or non-recurring transactions. Net result and total underlying revenue is obtained from the comprehensive operating statement and is adjusted to take into account large one-off (non-recurring) transactions.
Capital replacement (ratio)	**Cash outflows for property, plant and equipment and intangibles / Depreciation and amortisation**	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the comprehensive operating statement.
Return to Government, Return to Shareholders (%)	**Dividends plus National Tax Equivalence Income Tax and any Government Guarantee Fee divided by total revenue**	Measures the return on the investment in the entity

Appendix Three - Cluster Information

NSW Government Superannuation Entities Information

Agency	Website
Defined benefit funds	
STC - Pooled Fund	http://www.statesuper.nsw.gov.au/
Energy Industries Superannuation Scheme Pool B	http://www.eisuper.com.au/
Parliamentary Contributory Superannuation Fund	*
Contribution funds	
Energy Industries Superannuation Scheme Pool A	http://www.eisuper.com.au/
State Super Retirement Fund	http://www.ssfs.com.au/
State Super Investment Fund	http://www.ssfs.com.au/
Trustee entities	
SAS Trustee Corporation	http://www.statesuper.nsw.gov.au/
Energy Industries Superannuation Scheme Pty Limited	http://www.eisuper.com.au/
Local Government Superannuation Scheme Pty Ltd	http://www.lgsuper.com.au/
Trustees of the Parliamentary Contributory Superannuation Fund	*
Other superannuation entities	
Superannuation Administration Corporation	http://pillar.com.au/
State Super Financial Services Australia Limited	http://www.ssfs.com.au/
State Super Fixed Term Pension Plan	http://www.ssfs.com.au/
Energy Investment Fund	http://www.eisuper.com.au/
EIF Pty Limited	http://www.eisuper.com.au/

* No website available.

The following entities have not been included in this report and do not have a website:

Agency	Explanation
Macquarie University Professorial Superannuation Scheme Sydney University Professorial Superannuation Scheme	These entities are small, closed defined benefit superannuation funds. The assets and liabilities of these funds are included in the financial statements of the respective universities.
Buroba Pty Ltd Valley Commerce Pty Limited	These are dormant controlled entities of the STC Pooled Fund.
Crown Employees (NSW Fire Brigades Fire Fighting Staff Death and Disability) Superannuation Fund NSW Fire Brigades Superannuation Pty Ltd	These entities are excluded due to its size and unique operations and will not be discussed separately in this Volume.

Part Three

Section One

Insurance

Executive Summary

Introduction

This report sets out the results of the 30 June 2014 financial statement audits of the NSW Government insurance and compensation businesses entities.

The audits resulted in unqualified audit opinions on the financial statements of all entities, except NSW Self Insurance Corporation (SICorp). SICorp's audit opinion was qualified for non-compliance with Australian Accounting Standards applicable to general insurance contracts. SICorp should have applied AASB 1023 'General Insurance Contracts' to the Treasury Managed Fund, which would have increased liabilities by a material amount at 30 June 2014.

New South Wales insurance and compensation entities comprise:

- NSW Self Insurance Corporation (SICorp) – NSW Government's self-insurer for most public sector assets and public sector employees' work related injury or diseases
- WorkCover Authority and Nominal Insurer (trading as the NSW WorkCover Scheme) – WorkCover Authority is the regulator and manager of workers' compensation claims of NSW non-government employers. The Nominal Insurer provides workers' compensation insurance through contracted scheme agents to employers operating in New South Wales
- Compensation agencies – these agencies provide compensation services for motor accident victims (Motor Accidents Authority of New South Wales), severely injured motor accident victims (Lifetime Care and Support Authority of New South Wales), dust diseases (Workers' Compensation (Dust Diseases) Board) and home warranties (Building Insurers' Guarantee Corporation).

A snapshot of the insurance and compensation entities for the year ended 30 June 2014 is shown below.

$24.1 billion outstanding claim liabilities	**$27.6 billion** cash and investments	**113 per cent** funding ratio
$2.9 billion claims paid	**$3.6 billion** premium revenue	**10.2 per cent** return on investment

Financial and Performance Reporting

The NSW WorkCover Scheme's financial position improved significantly over 2013-14 as a result of the 2012 Workers' Compensation Reforms and positive earnings on investments. Some key highlights include:

- a surplus of $2.2 billion ($1.8 billion in 2012-13) and an increase in funding ratio to 118 per cent (102 per cent)
- a 12.5 per cent decrease in premiums collected and a 6.3 per cent decrease in claims paid in 2013-14. Claim payments have fallen by 12 per cent since the implementation of the 2012 Workers' Compensation Reforms
- premiums collected decreased by four per cent and claims paid by three per cent over the last five years
- a fall in outstanding claim liabilities to $12.8 billion at 30 June 2014 ($14.0 billion)
- a 10.3 per cent increase in investment returns in 2013-14 (9.4 per cent increase over the last five years).

WorkCover Authority increased its proactive workplace visits by 82.5 per cent to 18,546 (10, 162). The two areas of focus were the 'High Consequence Low Frequency' program and high risk industries. Findings are regularly reported to the Authority's Board and Safework Australia. The Authority should report performance against targets and by industry in its annual report to improve transparency.

The Lifetime Care and Support scheme reported the greatest proportion, 16.9 per cent, of participants are in the age group 20-24.

New South Wales motorists pay the second highest compulsory third party insurance premiums in the country. An average green slip cost $492 in 2013-14, a decrease of $12 from $504 in 2012-13.

The Dust Diseases Board is verifying data the actuary uses to value outstanding claim liabilities to improve its quality. Analysis of the dependants exit allowance for non-death cessations is not robust enough to support a reliable claims valuation process.

SICorp's net result dropped to $47.7 million in 2013-14 ($675.6 million) because its expenses increased by $596 million. This was due to a $905 million payment of surplus cash to the Crown Entity, offset by reduced claims following the 2012 Workers' Compensation Reforms. SICorp pays to or receives from the Crown Entity any surplus or deficit required to maintain its 'Net Assets Holding Level Policy' target.

Financial Controls

Six of the seven NSW WorkCover Scheme agents' financial returns for the year ended 30 June 2014 were unqualified. One return was qualified due to errors identified in insurance recoveries and unearned premiums. Thirty three ineffective controls were identified across the seven Scheme agents. Some of these were identified last year, but had not been adequately addressed by the Scheme agents.

The NSW WorkCover Scheme's actuary identified areas where the accuracy and consistency of data collected could be improved. While this did not impact the work of the Scheme's actuary significantly, the improvements would reduce uncertainties in the estimates used to value the outstanding claims liability.

Governance

The Parliamentary Standing Committee on Law and Justice issued its ‘Review of the exercise of the functions of WorkCover Authority’. Five of its 26 recommendations related to potential conflicts with WorkCover Authority’s role as both the Nominal Insurer, through its management of the Workers’ Compensation Insurance Fund, and as regulator of the workers’ compensation system.

The Centre for International Economics review of the *Workers’ Compensation Legislation Amendment Act 2012* was completed following the NSW WorkCover Scheme returning to a surplus in 2012-13. The key finding in this report was that it was too early to determine if the improvement in the Scheme’s economic fundamentals was sustainable.

Service Delivery

The eligibility age for the age pension will increase from 65 to 67 from 1 July 2017 to 1 July 2023. The 2014-15 Federal Budget, proposed extending the eligibility age to 70 by 1 July 2035. NSW WorkCover Scheme’s outstanding claims liability at 30 June 2014 does not include any impact from the proposed changes because they have not yet been legislated.

In 2011, the Productivity Commission recommended the establishment of the National Disability Insurance Scheme (NDIS) and National Injury Insurance Scheme (NIIS) schemes. The key objective of the schemes is to improve care and support for those with a significant and permanent disability.

The Australian Government has developed minimum benchmarks for motor vehicle accidents for the NIIS. An independent Australian Government consultant’s report on the NIIS: “Motor Vehicle Accidents” noted that New South Wales meets the minimum national standards and the impact of the scheme would be minimal for the State.

Recommendations

Financial and Performance Reporting

1. The WorkCover Scheme should stress test the Scheme’s financial resilience and develop a strategy to manage the Scheme’s surplus to ensure long-term sustainability. This will inform the Government’s decision making on premiums and benefit levels.
2. WorkCover Authority should benchmark its proactive workplace inspection visits against other Australian states and report performance against targets in its annual report.
3. The Dust Diseases Board should assess the reasonableness of its actuary’s assumptions on the dependants exit allowance to ensure it includes a more robust analysis of non-death cessations for a more accurate assessment of its liabilities.

Financial Controls

4. WorkCover Authority and SICorp should ensure scheme agents design appropriate strategies to address matters identified by their respective auditors as ineffective controls may adversely impact the scheme’s operations.
5. The NSW WorkCover Scheme should ensure data quality issues reported by its actuary are addressed to reduce uncertainties in valuation assumptions and improve monitoring and management of claims portfolio.

Governance

6. WorkCover Authority should develop and implement appropriate policies to ensure adequate governance and transparency over managing its perceived conflicting regulatory and commercial roles.

Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. It is only when people have access to accurate and timely information about what their Government is doing can they hold it to account. Confidence in public sector decision making and transparency is enhanced when financial and performance reporting is accurate, timely and clear.

Government requires accurate and timely financial and performance information from agencies to enable effective financial management and decision making.

Quality of Financial Reporting

The audits of the NSW Government insurance and compensation entities resulted in unqualified audit opinions on the 30 June 2014 financial statements of all entities, except NSW Self Insurance Corporation (SICorp). SICorp's audit opinion was qualified due to non-compliance with Australian Accounting Standards applicable to general insurance contracts. SICorp should have applied AASB 1023 'General Insurance Contracts' to the Treasury Managed Fund, which would have increased liabilities by a material amount at 30 June 2014.

The audit opinions for the Workers' Compensation Nominal Insurer, Lifetime Care and Support Authority and Building Insurer's Guarantee Corporation drew attention to significant uncertainties in estimating outstanding claims liabilities of $12.8 billion, $2.4 billion and $75.6 million respectively. The uncertainties are normal due to the long term nature of the provision and limited participants' experiences to date.

Over the past five years, reported misstatements fell from 41 in 2009-10 to 17 in 2013-14 as shown below.

	Audit result		Reported misstatements for the year ended 30 June				
Agency	**Modified opinion**	**Number of significant matters**	**2014**	**2013**	**2012**	**2011**	**2010**
NSW Self Insurance Corporation	Yes	--	2	7	2	1	6
Nominal Insurer	No	1	4	15	17	18	10
WorkCover Authority	No	--	3	6	14	7	8
Motor Accidents Authority of NSW	No	--	1	6	12	8	3
LifetimeCare and Support Authority of New South Wales	No	--	2	2	12	9	2
Workers Compensation (Dust Diseases) Board	No	--	3	2	11	7	9
Building Insurer's Guarantee	No	--	2	2	6	--	3
Total			**17**	**40**	**74**	**50**	**41**

The highest number of misstatements (74) occurred in 2011-12. In 2011-12, Treasury introduced mandatory early close procedures for all agencies to improve the quality and timeliness of agencies' annual financial statements. The early close procedures have improved the quality of the financial statements, as shown by the 83 per cent fall in misstatements since 2011-12 and early resolution of significant matters.

Timeliness of Financial Reporting

	Early close procedures		Financial statements		Audit	
Agency	**Received by statutory date**	**Days late**	**Received by statutory date**	**Days late**	**Completed by statutory date**	**Days late**
NSW Self Insurance Corporation	Yes	--	Yes	--	Yes	--
Nominal Insurer	Yes	--	Yes	--	Yes	--
WorkCover Authority	Yes	--	Yes	--	Yes	--
Motor Accidents Authority of NSW	Yes	--	Yes	--	Yes	--
LifetimeCare and Support Authority of New South Wales	Yes	--	Yes	--	Yes	--
Workers Compensation (Dust Diseases) Board	Yes	--	Yes	--	Yes	--
Building Insurer's Guarantee Corporation	Yes	--	Yes	--	Yes	--

The NSW Government insurance and compensation entities were broadly successful in performing early close procedures and submitted the financial statements earlier in 2014.

The audits for all seven NSW Government insurance and compensation entities were finalised within the eight week reporting timetable set out in TC 14-02.

Key Financial Information

For the year ended 30 June 2014, NSW Government insurance and compensation entities generated $8.0 billion ($7.8 billion in 2012-13) in revenue and achieved a combined net result of $2.6 billion ($2.9 billion). The value of assets held by the entities totalled $30.6 billion ($27.6 billion) with liabilities of $26.3 billion ($26.0 billion).

	Total assets		Total liabilities		Total revenue		Total expense		Net result	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Cluster lead entity										
NSW Self Insurance Corporation	7,841	7,464	7,010	6,682	2,481	2,514	2,434	1,838	48	676
Nominal Insurer	16,918	15,397	14,359	15,088	3,755	4,042	1,505	2,236	2,250	1,806
WorkCover Authority	330	297	407	378	290	265	285	202	5	60
Motor Accidents Authority of NSW	86	82	66	66	251	160	248	182	3	(22)
LifetimeCare and Support Authority of New South Wales	3,338	2,682	2,404	2,083	762	750	427	367	334	377
Workers Compensation (Dust Diseases) Board	2,067	1,690	2,060	1,681	479	110	480	109	(1)	1

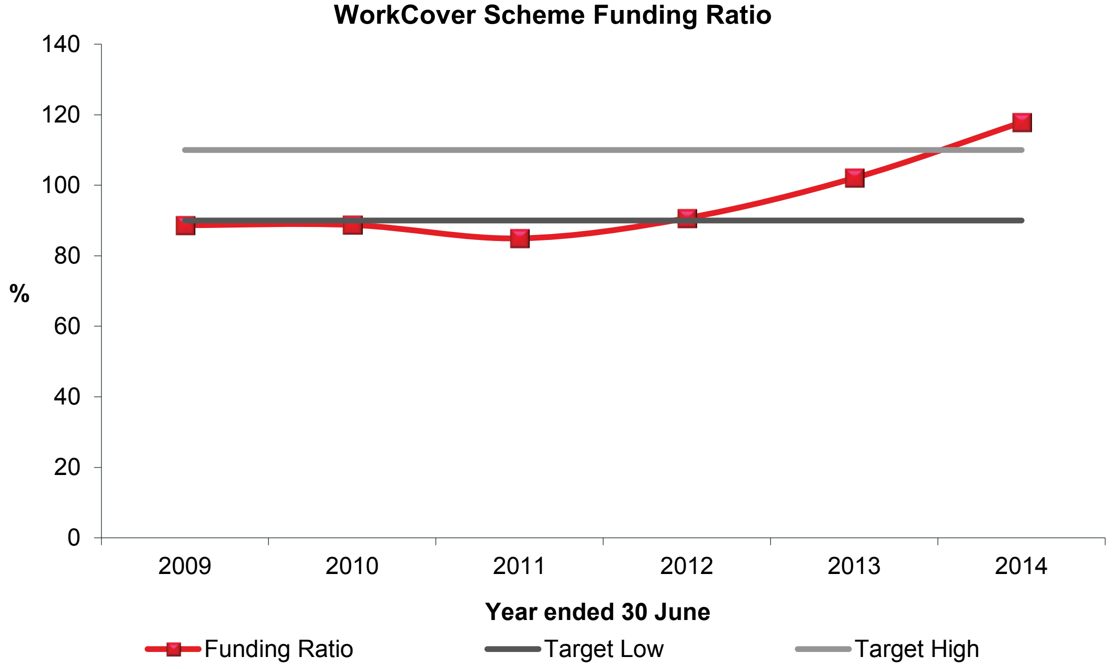
Source: Financial statements (audited).

Key Issues arising from Financial Audits

WorkCover Scheme's Financial Position and Funding Ratio Improved Significantly

The Scheme's financial position continued to improve over 2013-14 as a result of the reforms started in 2012 and positive earnings on investments. The Scheme's surplus was $2.2 billion in 2013-14 ($1.8 billion) and its net assets increased to $2.6 billion ($308 million).

The movement in the Scheme's surplus (represented by the funding ratio) over the last five years is shown below.



Source: WorkCover Scheme audited financial statements 2009-2014.

The Scheme's funding ratio increased to 118 per cent at 30 June 2014 (102 per cent), higher than its target of between 90 and 110 per cent. The funding ratios of similar interstate workers' compensation schemes, the Victorian WorkCover Authority and WorkCover Queensland, were 121 per cent and 157 per cent respectively at 30 June 2014.

In the 2014 actuarial report, the Scheme's actuary noted that while the initial transition of claims to the new benefit structure is complete, there is significant uncertainty as to what a steady-state post-transition Scheme will look like. In the actuary's opinion, the Scheme's financial position will continue to improve without further changes to premiums or benefit levels.

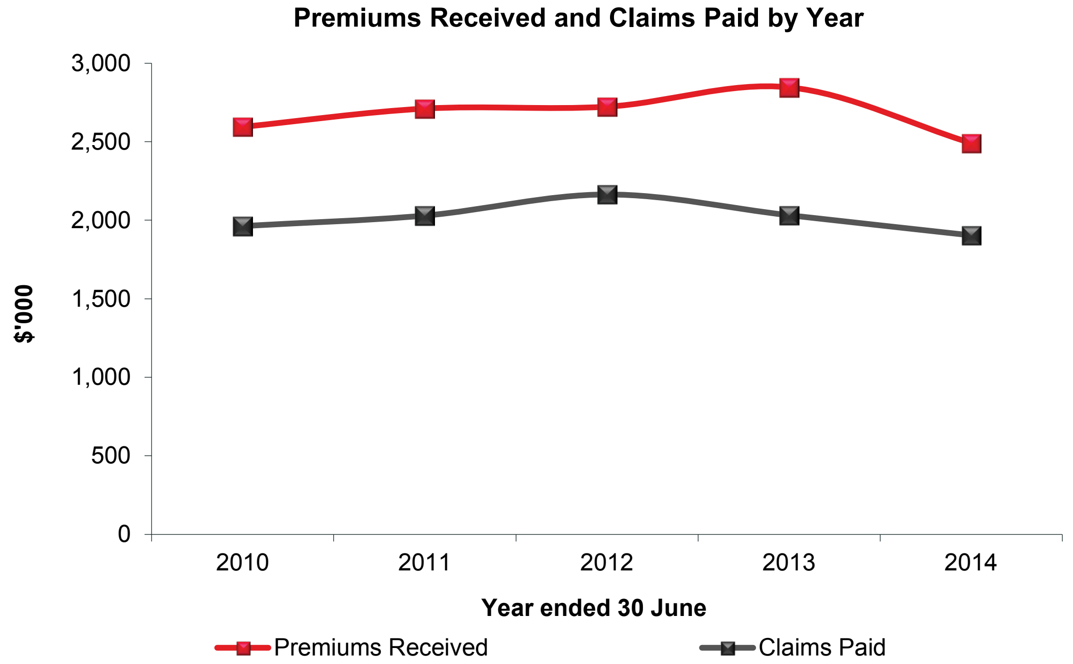
The actuary recommended the Scheme develop strategies to effectively manage future surpluses, including reduced premiums and/or increased benefit entitlements.

Before the reforms were implemented, the actuary noted that the Scheme is not expected to return to surplus before 2021.

The WorkCover Scheme should stress test the Scheme's financial resilience and develop a strategy to manage the Scheme's surplus to ensure long-term sustainability. This will inform the Government's decision making on premiums and benefit levels.

Premiums Collected and Claims Paid are Decreasing

The trends in premiums collected and claims paid for the last five years are shown below.



Source: WorkCover Scheme audited financial statements 2009-2014.

Since 2010, premiums collected by the Scheme decreased by four per cent and claims paid decreased by three per cent.

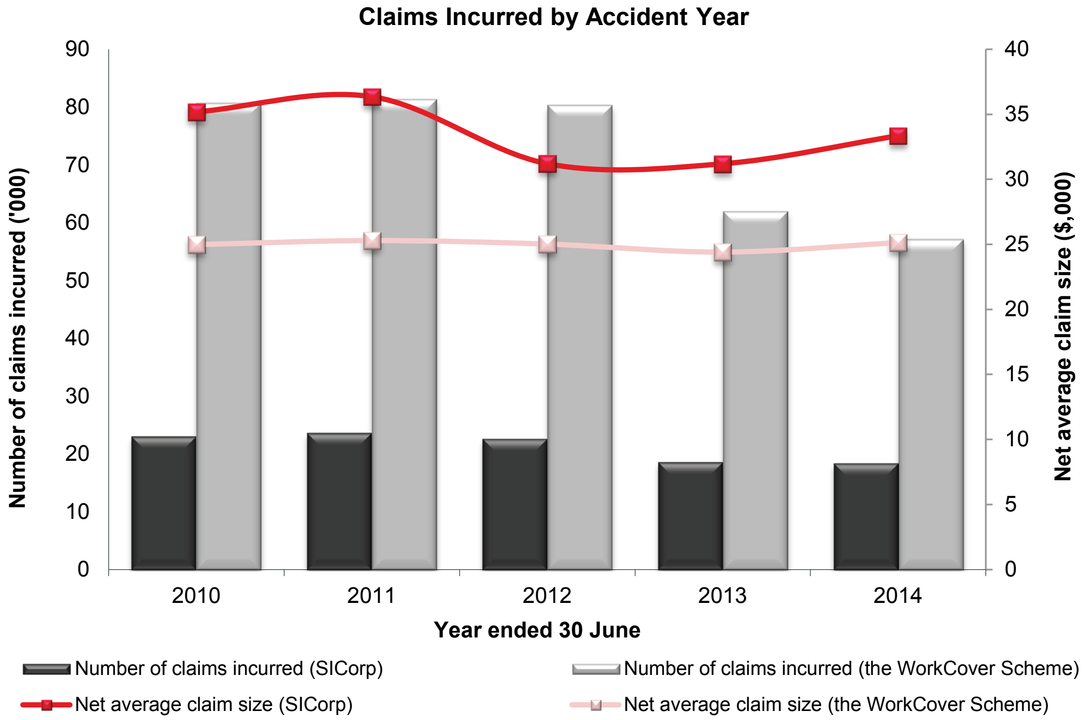
The decrease in premiums collected reflects premium reductions announced by Government in 2013 and 2014. Premiums collected have fallen by 12.5 per cent since 2013.

The 2012 Workers' Compensation Reforms have resulted in a 12 per cent fall in claim payments since they were implemented. Claim payments fell 6.3 per cent in 2013-14.

In June 2014, the New South Wales Government announced changes that increased the number of years benefits are paid to claimants for certain claims made before 1 October 2012. This will increase claim payments in future years.

Workers' Compensation Claims Incurred by Accident Year

The trends in claims incurred and average claim sizes for the WorkCover Scheme and SICorp's Workers' Compensation portfolio are shown below.



Source: 2014 Actuarial reports for Workers' Compensation Nominal Insurer and Treasury Managed Fund - Workers' Compensation portfolio (unaudited).

WorkCover Scheme

The WorkCover Scheme has been responsible for issuing insurance policies and managing workers' compensation claims for New South Wales non-government employers since 1986. The Scheme has dealt with an estimated 2.8 million claims over its life. Claims reported in 2013-14 fell by 12.1 per cent to 57,164, mainly due to the 2012 Workers' Compensation Reforms.

SICorp

SICorp provides insurance cover for approximately 300,590 public sector employees for work-related injury or diseases. It has dealt with 519,480 claims incurred since its inception in 1989.

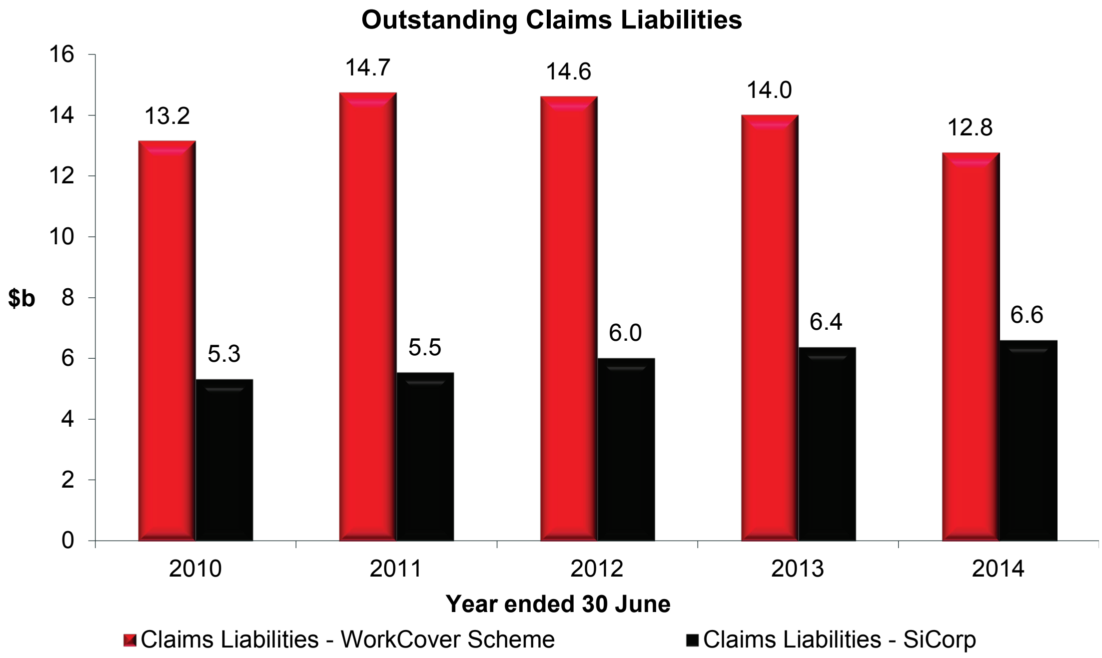
SICorp also provides insurance cover for $156 billion of public sector assets via the Treasury Managed Fund. Insurance cover includes:

- public liability
- property
- motor vehicle
- miscellaneous risk.

Outstanding Claims Liabilities

Total outstanding claim liabilities were $19.4 billion at 30 June 2014 ($20.4 billion at 30 June 2013). Claim liabilities in the WorkCover Scheme decreased by $1.2 billion mainly due to the 2012 Workers' Compensation Reforms, while claim liabilities in SICorp and others increased by $233 million.

The value of the outstanding claims liabilities at 30 June over the last five years is shown below.



Source: Data extracted from entities' audited financial statements.

WorkCover Scheme

Changes in discount rates used to value outstanding claims liabilities have had a significant impact over the last five years. Decreasing discount rates increased outstanding claims liabilities by $3.5 billion between 30 June 2010 and 30 June 2014.

Changes in actuarial assumptions decreased the outstanding claims liabilities by $1.1 billion in 2013-14, largely due to the 2012 Worker's Compensation Reforms. Over the last five years the liabilities have fallen by $2.7 billion due to changes in actuarial assumptions, as shown below.

Movement in Outstanding Claims Liability Five Year Trend

	2014	2013	2012	2011	2010	Total
Opening Balance 1 July	14,007,375	14,614,990	14,737,322	13,152,072	12,002,212	**12,002,212**
Adjustment arising from changes in:						
- Actuarial Assumptions	(1,134,472)	(513,568)	(2,313,277)	829,096	401,212	**(2,731,009)**
- Discount/Inflation Rates	388,702	131,147	1,818,698	521,159	659,585	**3,519,291**
- Risk Margins	(172,927)	(84,711)	458,547	169,848	123,199	**493,956**
Expected Expenses on Claims Payments	(185,636)	(200,280)	(175,660)	(174,379)	(175,138)	**(911,093)**
Claims Incurred in Current Year	1,739,055	2,067,249	2,242,877	2,263,210	2,096,781	**10,409,172**
Claims Payments	(1,875,099)	(2,007,452)	(2,153,517)	(2,023,684)	(1,955,779)	**(10,015,531)**
Closing Balance 30 June	**12,766,998**	**14,007,375**	**14,614,990**	**14,737,322**	**13,152,072**	**12,766,998**

The Scheme adopted a probability of adequacy (POA) of 80 per cent for 30 June 2014 (80 per cent at 30 June 2013). This is equivalent to a risk margin of 16.2 per cent or $1.7 billion ($1.9 billion in 2013) on top of the central estimate of the outstanding claims liabilities.

The Scheme is not regulated by the Australian Prudential Regulation Authority (APRA), which recommends general insurance schemes operating in a stable environment adopt a minimum POA of 75 per cent, five per cent less than that adopted by the Scheme.

The higher POA adopted by the Scheme reflects the significant uncertainties associated with the reforms to the Scheme. Estimating the financial impact of the reforms requires the Scheme's actuary to make significant actuarial assumptions, which with the passage of time may deviate materially from actual outcomes. Some of the reforms significantly impact behaviour of claimants and providers and will take several years to be accurately assessed.

SICorp

The increase in SICorp's outstanding claim liabilities was due to changes to the workers' compensation regulations in late June 2014. These wound back some changes made to weekly and medical benefits in the 2012 Worker's Compensation Reforms. The discount rate fell from 5.6 to 5.3 per cent and contributed to the increased liability.

SICorp's net result dropped to $47.7 million in 2013-14 ($675.6 million in 2012-13) because its expenses increased by $596 million. This was due to a $905 million payment of surplus cash to the Crown Entity, offset by reduced claims following the 2012 Workers' Compensation Reforms. SICorp pays to or receives from the Crown Entity any surplus or deficit required to maintain its 'Net Assets Holding Level Policy' target. The policy's net asset holding level target is within 105 per cent to 115 per cent of total liabilities.

Outstanding claim liabilities increased to $6.6 billion from $6.4 billion the previous year.

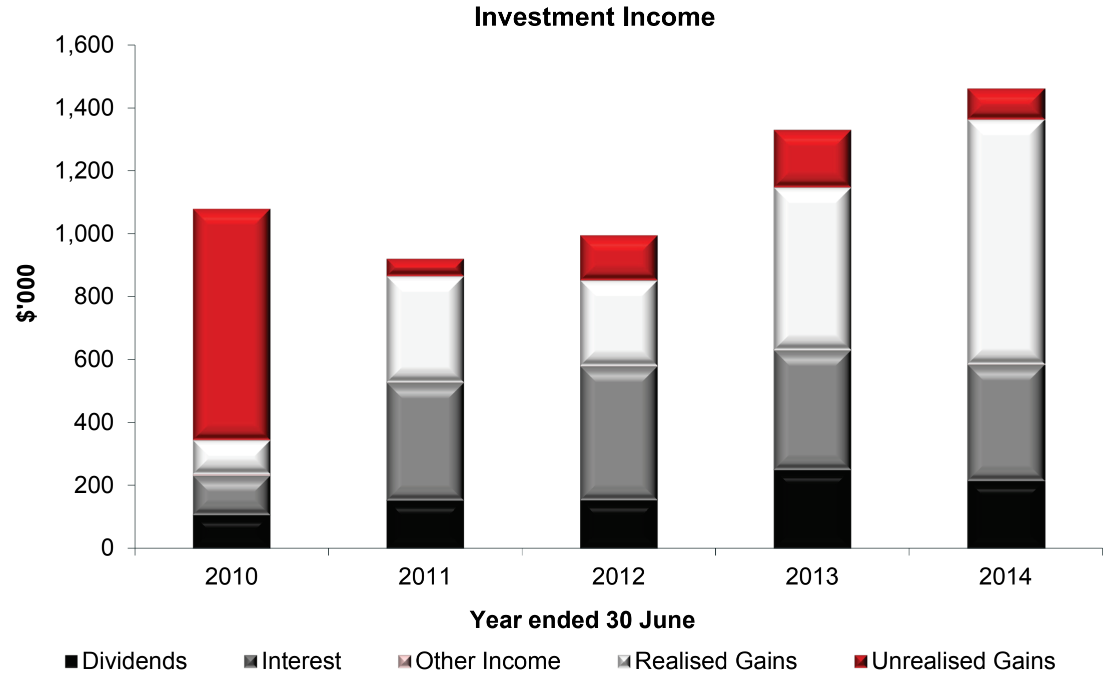
Investment Returns Continue to Improve

WorkCover Scheme

The value of the Scheme's investments increased to $14.9 billion at 30 June 2014 (2013: $13.7 billion), an increase of $4.2 billion since 2010. Significantly higher investment values improved the Scheme's funding ratio.

The Scheme's investments returned 10.3 per cent in 2013-14 and 9.4 per cent over the last five years. Since inception of the fund it has achieved a 6.6 per cent return on investments.

In 2013-14, the Scheme's investment income was $1.5 billion ($1.3 billion). The quantum and composition of the investment income over the last five years is shown below.



Source: WorkCover Scheme audited financial statements 2009-2014.

The Scheme's investments are allocated equally between growth assets (i.e. Australian and international equities) and defensive assets (i.e. cash, fixed interest and inflation-linked bonds). Around 29 per cent of its investments in defensive assets are placed through the New South Wales Treasury Corporation.

Workplace Inspections, Fines and Enforcement Activity

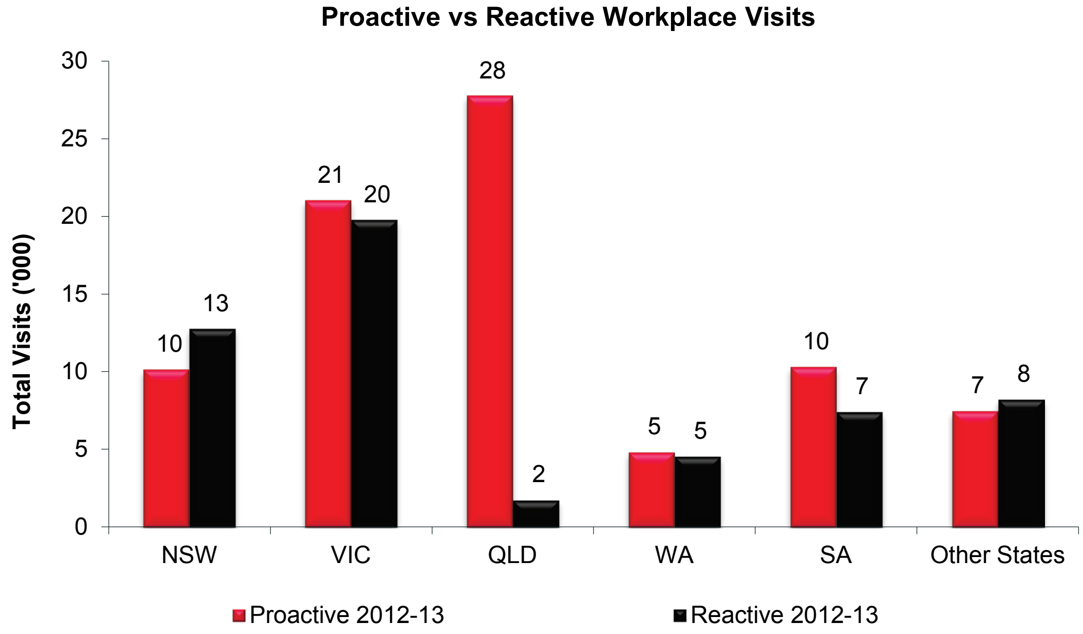
WorkCover Authority should benchmark its proactive workplace inspection visits against other Australian states and report performance against targets in its annual report.

Last year's Report to Parliament recommended WorkCover assess and report, in its annual report, the success of its risk based integrated proactive/reactive prevention programs to better manage workplace incidents for compliance and enforcement. Management responded by reporting on implementation plans and training programs for inspectors and conducting verification audit activities to ensure the community is protected from possible high consequence incidents.

In the past two years, WorkCover commenced some key programs, including the 'High Consequence Low Frequency' (HCLF) program and the 'Focus on Industry' program which are proactive intervention programs designed to reduce workplace fatality, injury, illness and support the return of injured workers to work. HCLF risk areas include major hazard facilities, asbestos and demolition work, explosives, high risk plant, hazardous chemicals usage and bulk storage. There were 2,409 HCLF verification field visits in 2013-14 (2,786 in 2012-13) and 3,362 high risk work licence verification checks.

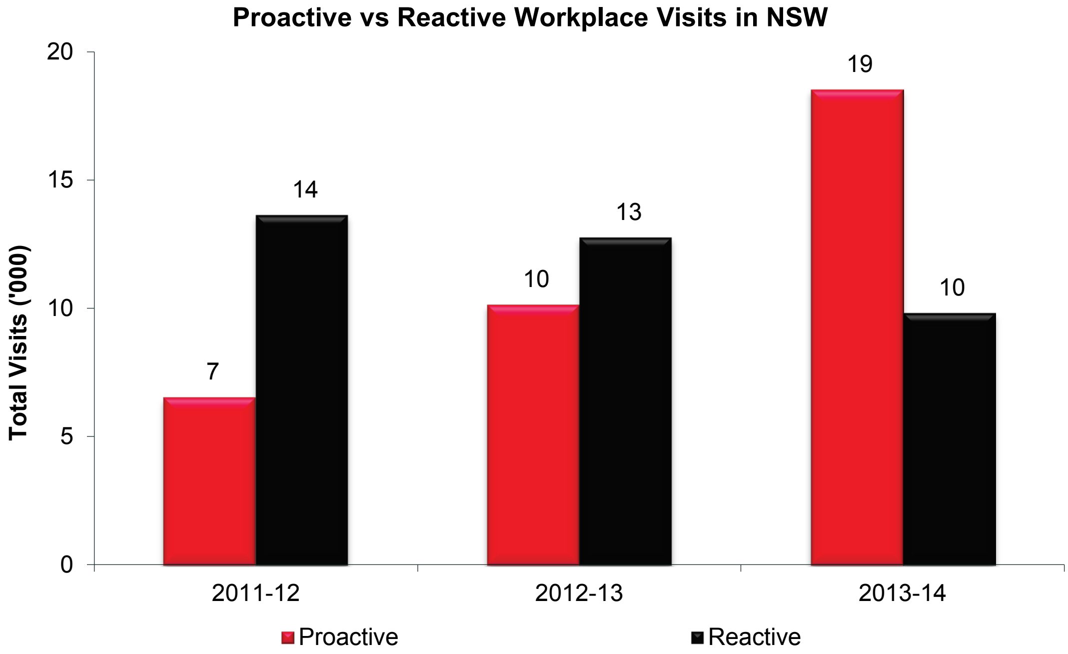
Proactive and Reactive Workplace Visits

A state wide comparison of proactive versus reactive workplace visits in 2012-13 indicates fewer proactive visits in New South Wales than in Victoria, South Australia and Queensland. Workplace visits data for 2013-14 was unavailable when preparing this report.



Source: Safe Work Australia Comparative Performance Monitoring Report 16th Edition (unaudited).

In response to last year's Report to Parliament recommendation, management increased its proactive workplace visits by 82.5 per cent, from 10,162 to 18,546 visits, and by 182.8 per cent over three years.



Source: WorkCover Authority of New South Wales (unaudited).

In line with changes to national legislation and harmonised processes, New South Wales introduced the 'National Framework for a common approach to Work Health and Safety Regulator Event Triaging' to assess incidents notified under Work Health and Safety legislation, and to determine a response. This framework, which applies the principles of the National Compliance and Enforcement Policy, aims to ensure resources are targeted at the areas of greatest risk.

Enforcement Activity

Year ended 30 June	Notices issued			
	2014	2013	2012	2011
Penalty notices [(a)]	55	124	357	588
Prohibition notices [(b)]	498	548	601	834
Improvement notices [(c)]	5,097	6,118	8,859	11,326
Confirmation of 'advice records' replaced with inspection reports from January 2012 [(d)]	6,674	6,690	4,220	2,272

a Issued for offences under the *Occupational Health and Safety Act 2000*, Occupational Health and Safety Regulation 2001, the Occupational Health and Safety (Clothing Factory Registration) Regulation 2001 (from 1 July 2011 to 31 December 2011) and the *Work Health and Safety Act 2011* (from 1 January 2012 to 30 June 2014) where it appears that a person has committed an offence.

b Issued in response to an immediate risk to the health or safety of any person and prohibits the activity until the risk is remedied. These will usually, but not always, constitute a breach of the *Occupation Health and Safety Act 2000* or the Occupational Health and Safety Regulation 2001 (from 1 July 2011 to 31 December 2011) and the *Work Health and Safety Act 2011* (from 1 January 2012 to 30 June 2014).

c Issued in response to apparent breaches of the *Occupation Health and Safety Act 2000*, the Occupational Health and Safety Regulation 2001, the Occupational Health and Safety (Clothing Factory Registration) Regulation 2001 (from 1 July 2011 to 31 December 2011) and the *Work Health and Safety Act 2011* (from 1 January 2012 to 30 June 2014) or for administrative breaches of legislation, to rectify systems of work or hazards which do not pose an immediate risk to the health or safety of any person.

d Encourage employers to examine how they can make improvements to the way they manage workplace safety.

Source: WorkCover Authority of New South Wales (unaudited).

Penalty, Prohibition and Improvement notices issued have continued to fall over recent years. WorkCover attributes this to its increased focus on providing information and advice to employers to help them meet their workplace safety obligations. In addition, changes to the Work Health and Safety legislation have reduced the number of provisions subject to a penalty. The introduction of agreed actions in inspection reports also contributes significantly to the reduction in improvement notices.

Confirmation of 'advice records', which were replaced with inspection reports from January 2012, remained steady as a result of the national harmonisation of WorkCover's workplace health and safety approach to compliance and enforcement. Inspection reports are issued following workplace visits. There were 28,378 workplace visits in 2013-14 (22,944 in 2012-13). In line with NSW 2021's goals, WorkCover implemented structural, functional, cultural and operational changes to ensure its services are co-designed with the community and align to community needs.

Major Workplace Injury Rates

WorkCover

Year ended 30 June	Workplace injuries				
	2013	2012	2011	2010	2009
Incidence rate [(a)]	8	9	9	9	10
Frequency rate [(b)]	5	5	5	5	6
Fatalities	58	55	51	51	75
Permanent incapacity	690	1,766	3,033	3,980	4,302
Number of major employment injuries	33,579	42,129	40,813	41,460	42,858

a Incidence rate measures the number of injuries per 1,000 employees.

b Frequency rate is the number of injuries per million hours worked.

Source: WorkCover Authority of New South Wales (unaudited).

WorkCover monitors changes in incidence rates for major injuries and workplace fatalities to measure the effectiveness of its activities to minimise workplace injury. The latest data released shows 33,579 major employment injuries were reported in 2012-13, a significant decrease from the 42,129 reported in 2011–12.

The agriculture, forestry and fishing industry group had the highest rate of major workplace injuries at 22.0 per 1,000 employees (22.4 per 1,000 employees in 2011-12). Industries with most employment injury fatalities were manufacturing with 15 fatalities, followed by the transport, postal and warehousing industry group with 12 fatalities.

SICorp

Year ended 30 June	Workplace injuries				
	2014	2013	2012	2011	2010
Incidence rate [(a)]	55	57	77	76	80
Fatalities	6	4	6	10	9
Permanent incapacity	1	3	26	42	28

a Incidence rate measures the number of injuries per 1,000 employees.

Source: New South Wales Self Insurance Corporation (unaudited).

The large fall in the incidence rate between 2011-12 and 2012-13 was due to changes in the cover for journey claims. Emergency services workers are still covered for journey claims.

The Treasury Managed Fund (TMF) does not cover state rail/bus and electricity generator workers.

Compulsory Third Party (CTP) Green Slip Reform

The price of a Green Slip comprises:

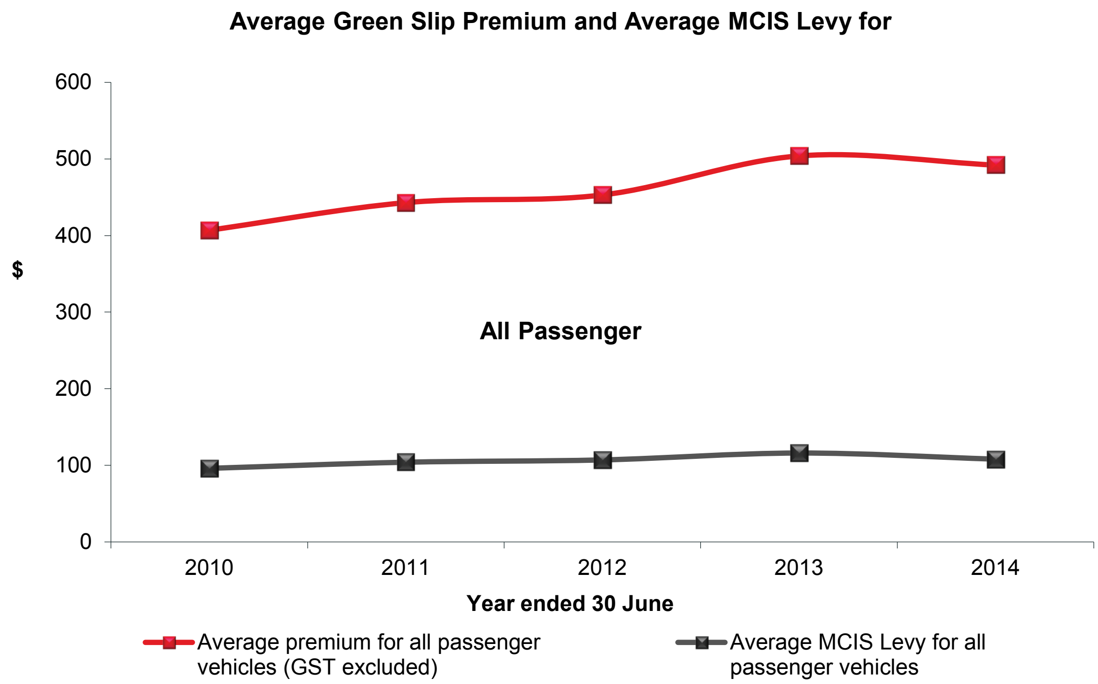
- CTP premiums retained by insurers to pay claims
- the Medical Care and Injury Services (MCIS) levy.

The MCIS levy funds:

- the Lifetime Care and Support Authority to provide care and support for life to catastrophically injured people, with injuries such as severe spinal cord and/or a traumatic brain injury
- the Motor Accidents Authority through a contribution for ambulance, hospital and other services for people injured in a motor vehicle accident.

Green Slip Scheme Efficiency and Affordability

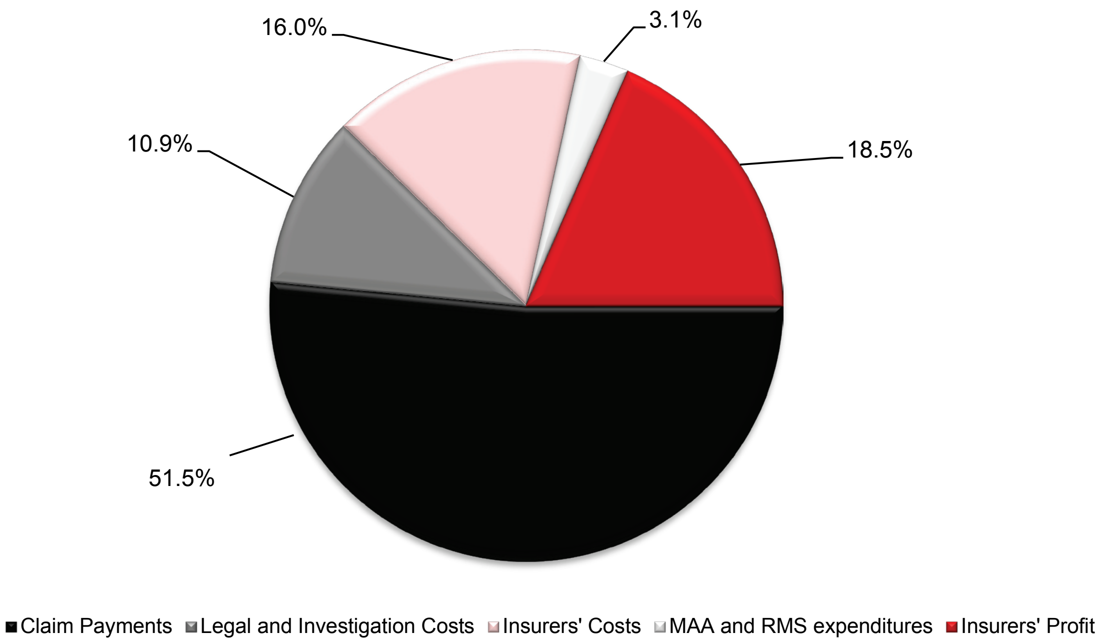
The cost of green slips in New South Wales has decreased since 2012-13. New South Wales motorists pay the second highest premiums in the country with the average green slip costing $492 ($504 in 2012-13). The following graph shows the State's CTP premium has increased by about 20.9 per cent since 2010, while the average MCIS levy decreased by 6.9 per cent in 2013-14 compared to 2012-13. The MCIS levy rate was reduced from 1 January 2014 due to the strong financial position of Lifetime Care and Support Scheme.



Source: Data provided by Motor Accidents Authority (unaudited).

Over the period 2000 to 2013 (latest available information), about 51.5 per cent of the CTP premiums was used to pay claims, 18.5 per cent was retained by insurers as profits, 16.0 per cent covered insurers' costs, and 10.9 per cent was spent on legal and investigation costs. The Motor Accidents Authority (MAA) and Roads and Maritime Service's (RMS) costs make up the remaining 3.1 per cent.

Average NSW CTP Scheme Premium Allocation from 2000 to 2013

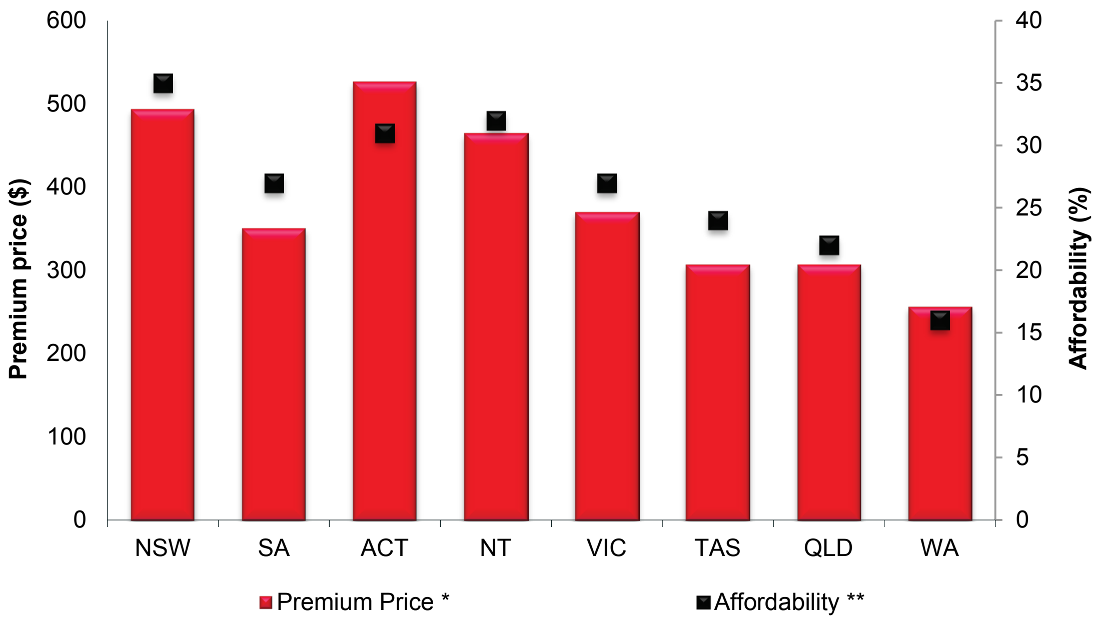


Source: Motor Accidents Authority of New South Wales (unaudited).

One reason for the high premium cost in New South Wales is different benefit scales compared to some other Australian jurisdictions. The break-up of costs in the NSW scheme is shown in the pie chart above.

The chart below compares premium prices and affordability between all states and territories. The Northern Territory, Victoria and Tasmania have no-fault based CTP schemes.

Green Slip Premium Comparison



* CTP premiums quoted are for all passenger vehicles effective 1 February 2013 including levies and duties but excluding GST and Input Tax Credit loadings.

** Affordability - average premium for all passenger vehicles as a percentage of average weekly earnings.

*** ACT CTP premium sourced from NRMA. From 1 July 2013, Suncor commenced offering CTP insurance. There is currently no market share information available to calculate an average premium

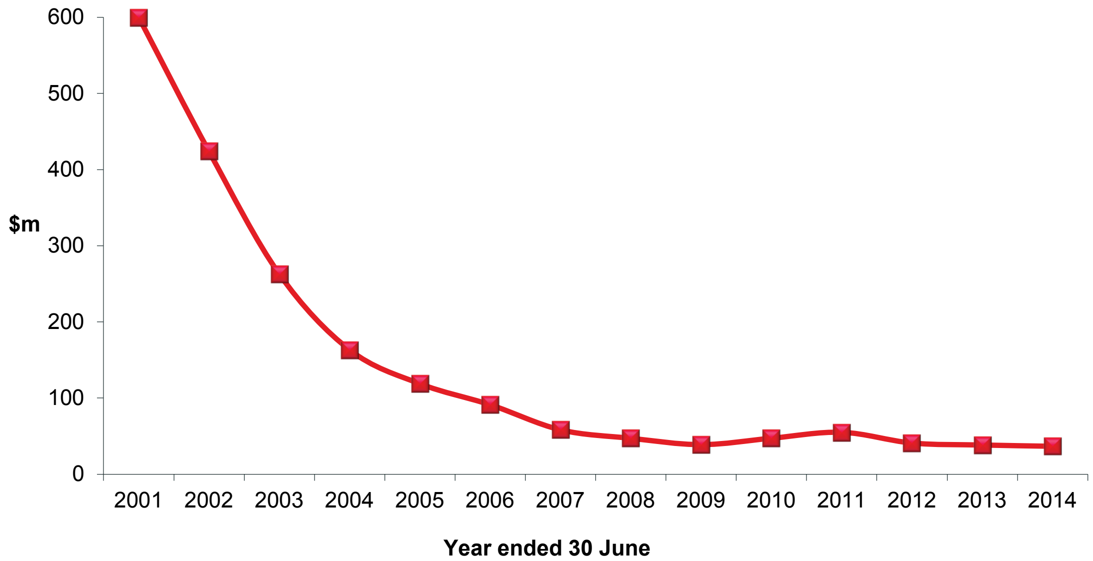
Source: Motor Accidents Authority of New South Wales (unaudited).

MAA Nominal Defendant Claims Management

The MAA, as the Nominal Defendant, is responsible for claims against CTP insurance policies issued by the collapsed HIH. When HIH went into liquidation in 2001, more than 6,000 CTP claims, worth an estimated $600 million, were outstanding. This liability was assumed by the Nominal Defendant.

The Authority receives funding from the Crown Entity to meet payments for outstanding HIH claims. At 30 June 2014, there were four known remaining outstanding claims totalling $36.6 million. Of these claims, the known outstanding liability is mainly for two claimants, both under 18 years old, with Acquired Brain Injury. The liquidation process is coming to an end, and the MAA and WorkCover Authority submitted final claims against the relevant companies on 2 September 2013.

Net Claims Liability



Source: Extracted from audited financial statements of Motor Accidents Authority.

The NSW Government paid $509 million for claims made against HIH-issued CTP insurance policies up to 30 June 2014. Offsetting this, the Government received $336 million in distributions and recoveries from the HIH liquidators and HIH's reinsurers.

Lifetime Care and Support Scheme Participants

Scheme participants are those with spinal cord injuries, moderate to severe brain injuries, multiple amputations, severe burns or blindness resulting from motor vehicle accidents in New South Wales. The scheme had the following participants.

At 30 June	Participant numbers				
	2014	2013	2012	2011	2010
Traumatic brain injury	699	601	502	406	306
Spinal cord injury*	212	179	148	119	79
Other injuries	22	16	10	6	5
Total	**933**	**796**	**660**	**531**	**390**
Represented by:					
Children	106	84	80	63	46
Adults	827	712	580	468	344
Male	255	565	476	374	269
Female	678	231	184	157	121

* Includes participants with combined traumatic brain injury and spinal cord injury.

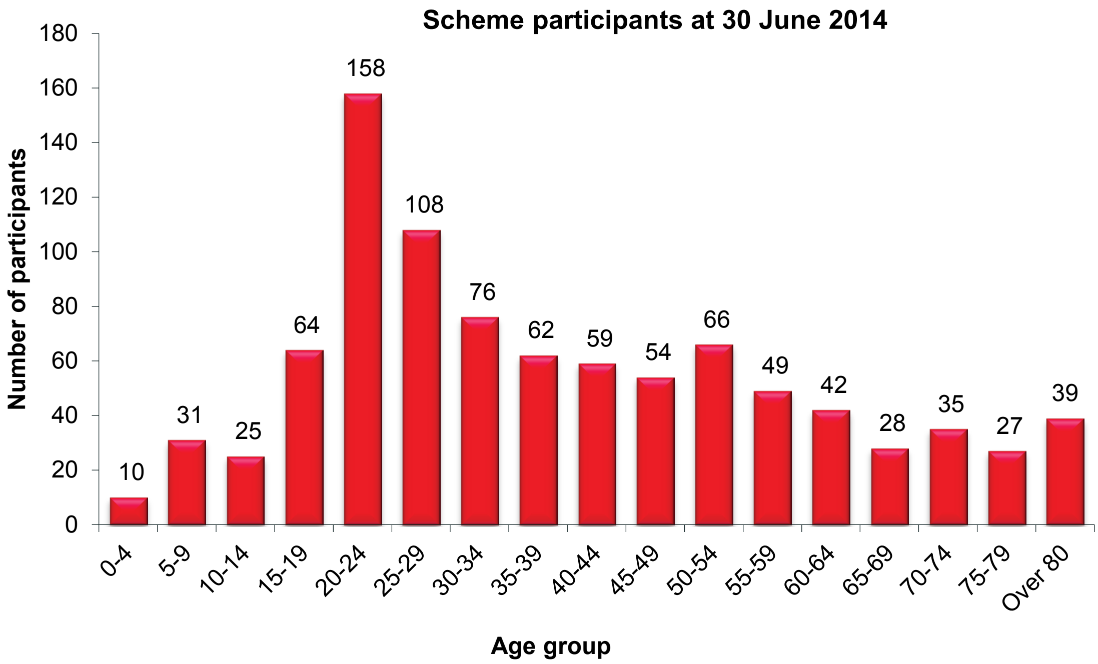
Source: Lifetime Care and Support Authority of New South Wales (unaudited).

Observations from the scheme participant profile are shown below.

- Children – 11.4 per cent (11 per cent) of the scheme participants are children who will require lifelong treatment and attendant care.
- Young people – 23.8 per cent (30 per cent) of the scheme participants were aged between 15 and 24 years of age at 30 June 2014. This group is disproportionately high with the largest number of participants, which illustrates the critical importance of road safety initiatives for young people in all respects of road use.
- Older people entering the scheme – 18.3 per cent (17 per cent) of scheme participants were 60 years of age or older at the time of their injuries.
- Motorcycle riders – 20.4 per cent (23 per cent) of scheme participants sustained their injuries in motorcycle accidents.

At 30 June 2014, Lifetime Care and Support Authority's liability for participants' care and support services was $2.4 billion ($2.1 billion at 30 June 2013). The LTCSA's actuary estimates liabilities will be $4.3 billion by 30 June 2018, based on claim incidence and other assumptions. Investment returns and additional levy revenues generated from CTP insurance premiums collected by licensed insurers in accordance with notices issued are anticipated to offset the increase in liabilities.

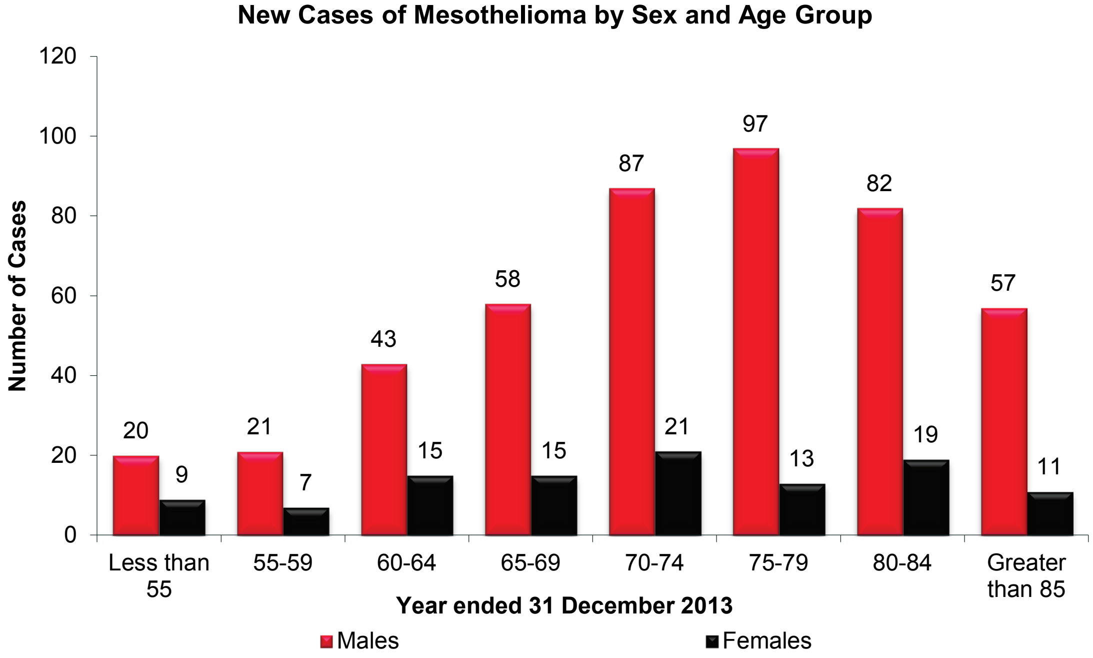
The following graph demonstrates the age profile of scheme participants at 30 June 2014.



Source: Lifetime Care and Support Authority of New South Wales (unaudited).

Asbestos-Related Diseases and Claims

The NSW State-wide Asbestos Plan was initiated in 2013 with the aim of ensuring safe management of asbestos and reducing the incidence of asbestos-related diseases. The incidence of asbestos-related diseases, due to past unsafe practices when working with asbestos, is not expected to peak until after 2013.



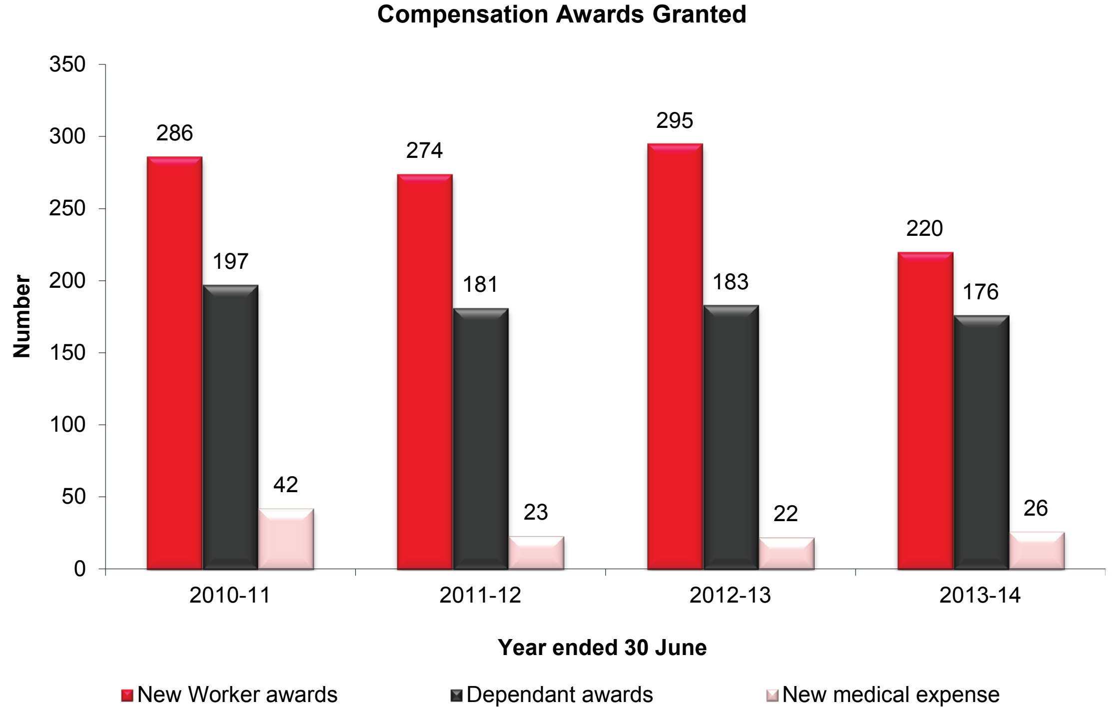
Source: Australia Mesothelioma Registry, Third Annual Report - Mesothelioma in Australia 2013 (unaudited).

According to the Australian Mesothelioma Registry, most asbestos exposures are occupational exposures; but non-occupational exposures are increasingly common. Of respondents to the Australian Mesothelioma Registry survey, 39.1 per cent provided no information to suggest they had an occupational exposure. The most common non-occupational exposures to asbestos were from home renovations.

The Workers' Compensation (Dust Diseases) Board provides a no-fault compensation scheme for past and present workers who have developed a dust disease for occupational exposure to asbestos as a worker in New South Wales and for their dependants. It also conducts health monitoring and supports awareness, education and research work.

In 2013-14, the Workers' Compensation (Dust Diseases) Board provided compensation benefits to 3,957 claimants (3,961 in 2012-13) including 1,081 workers (1,128) and 2,876 dependants of deceased workers (2,833). In 2013-14, it paid $87.7 million in compensation benefits ($87.9 million), including $9.1 million ($10.9 million) in health care and funeral benefits.

The graph below shows new compensation awards granted in each of the past four years.



Source: Dust Diseases Board Annual Report (unaudited).

The Dust Diseases Board should assess the reasonableness of its Actuary's assumptions on the dependants exit allowance to ensure it includes a more robust analysis of non-death cessations for a more accurate assessment of its liabilities.

The outstanding claims liability for known and future claims at 30 June 2014 was estimated at $2.0 billion ($1.7 billion in 2013). Actuarial assumptions used to value the outstanding claims liability were changed to reflect the best estimate of expenditure required to settle the liability. The Board's actuary made a significant change in the dependant mortality assumption resulting in an increased liability of $96.0 million. However, it is unclear if the dependant exit rates used to calculate the outstanding liabilities are reliable because specific allowance for non-death cessations, such as remarriages was not properly considered.

The Board is verifying data for all dependant beneficiaries. The exercise is expected to be completed before the next determination of dust disease levy rates and will help actuarial assessment of dependant withdrawal rates for non-death causes.

Financial Controls

Appropriate financial controls help ensure the efficient and effective implementation and administration of Government and agency policies in the achievement of agency outcomes.

Financial Controls

2013-14 Audit Observations

Scheme agents' audit results	The design and implementation of controls over premium invoicing, collections, claims processing and payments across the NSW WorkCover Scheme and NSW Self Insurance Corporation (SICorp) agents can be improved.
Data integrity for actuarial valuation	The accuracy, consistency and completeness of data used by the NSW WorkCover Scheme actuary for valuing outstanding claim liabilities can improve.

NSW WorkCover Scheme Agents' Audit Results – Ineffective Internal Controls

The NSW WorkCover Scheme outsources premium and claims management functions to seven scheme agents. The Scheme appoints independent auditors to confirm each agent has effective controls in place throughout the year for the following activities:

- premium invoicing and collection
- claims processing and payments
- other reporting and quality assurance functions.

The controls testing strategy covers three years with controls tested annually. The current triennium was completed at 30 June 2014.

In 2013-14, thirty three ineffective controls were identified across the seven scheme agents, ranging from one to ten deficiencies in each agent. Scheme agents' auditors noted some ineffective controls were reported in the prior year, indicating scheme agents had not adequately addressed the deficiency.

SICorp Scheme Agents' Audit Results

The NSW Self Insurance Corporation Scheme (SICorp) outsources premium and claims management functions to five scheme agents. In 2013-14, SICorp Scheme's independent auditors did not identify any significant deficiencies in the design and operation of internal controls.

Scheme Agent Audit Results – Qualified Financial Returns

Scheme agents prepare financial returns at 30 June which disclose the income (premiums collected) and expenses (claims paid) for the year.

For the year ended 30 June 2014, five SICorp and six WorkCover Scheme agents' financial returns received unqualified independent auditor's reports. The financial return for one WorkCover Scheme agent was qualified due to errors in insurance recoveries and unearned premiums. These errors did not materially impact on the Scheme's financial statements for 30 June 2014.

WorkCover Authority and SICorp should ensure Scheme agents design appropriate strategies to address matters identified by their respective auditors as ineffective controls may adversely impact the Scheme's operations.

Improvements Required to Data Provided to the Scheme's Actuary

The NSW WorkCover Scheme's actuary noted some data used to value outstanding claims liabilities was not collected in a comprehensive, accurate and consistent manner.

While the data issues did not significantly impact the actuary's work, poor quality data collection processes could have significant implications on the certainty of valuation estimates. Good quality data is also essential for effective monitoring and financial management of the Scheme.

The Scheme's actuary also noted the absence of key data to enable effective monitoring of aspects of the 2012 Workers' Compensation Reforms is a major weakness in the current governance of the Scheme.

The NSW WorkCover Scheme should ensure data quality issues reported by its actuary are addressed to reduce uncertainties in valuation assumptions and improve monitoring and management of the claims portfolio.

Sargood Centre Governance Arrangement

The Sargood Centre is a joint project between ERF Industries Pty Limited, Ability Australia Foundation and Lifetime Care and Support Authority (LTCSA) to provide a life learning campus with residential care services for people with spinal cord injuries.

Last year's Report to Parliament recommended LTCSA respond to risks identified in the Sargood Centre independent assessment report. The most significant risks relate to the viability of the Centre and its governance arrangements. Management has satisfactorily progressed the recommendations during the year.

Governance

Governance refers to 'the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled in agencies. It includes the systems public sector agencies and those charged with governance use and are held to account by others.

Governance

2013-14

Recommendations from Parliamentary Standing Committee on Law and Justice

- **resolve the potential conflict of interest arising from the multiple roles performed by WorkCover Authority**
- **restore lifetime medical benefits for all injured workers**
- **pay reasonable fees for legal practitioners acting for injured workers**
- **review mechanisms to ensure compliance with return to work provisions.**

Observations by The Centre for International Economics (CIE) Statutory Review

- **early signs of financial success due to the reform but difficult to predict if sustainable**
- **risk of change in future claiming patterns**
- **inconsistencies in applying the legislative amendment.**

Conflicts of Interest Issues Raised by the Parliamentary Standing Committee on Law and Justice

The Parliamentary Standing Committee on Law and Justice issued its 'Review of the exercise of the functions of the WorkCover Authority' on 17 September 2014. The report contained 26 recommendations relating to the activities of the NSW WorkCover Scheme, the WorkCover Authority and the WorkCover Independent Review Office.

One of the central issues explored by the Committee was the potential for conflicts of interests arising from WorkCover's responsibilities for the workers' compensation scheme and work health and safety legislation. The potential conflicts arise because the *Workers' Compensation Act 1987* gives the WorkCover Authority the power to act for the Nominal Insurer.

WorkCover's role as Nominal Insurer, through its management of the Workers Compensation Insurance Fund, and as regulator of the workers' compensation scheme, is of particular interest.

As regulator, WorkCover is responsible for ensuring compliance with the relevant workers' compensation legislation through education, engagement and enforcement, while as Nominal Insurer, it is responsible for the commercial roles of managing funds and appointing scheme agents, which issue insurance policies and manage claims.

Five of the Committee's recommendations relate to managing the conflicts of interest issue and include a recommendation that the Government consider establishing a separate agency to clearly segregate the roles of regulator and nominal insurer in the workers' compensation system.

The Government's response to the recommendations is due by 17 March 2015.

WorkCover Authority should develop and implement appropriate policies to ensure adequate governance and transparency over managing its perceived conflicting regulatory and commercial roles.

Statutory Review of the *Workers' Compensation Legislation Amendment Act 2012* - Centre for International Economics

The Centre for International Economics (CIE) issued its Statutory Review of the *Workers' Compensation Legislation Amendment Act 2012* in July 2014. This review was required when the NSW WorkCover Scheme returned to surplus.

The key findings from the review are shown below.

- There are early signs of financial success, with a large swing in the financial performance of the workers' compensation system in New South Wales, and notable premium reductions for those under the Nominal Insurer Scheme.
- It is too early to determine that the improvement in economic fundamentals is sustainable. Part of the improvement is due to the amendments, which have driven large falls in claim numbers and expenditure, although some of the financial turnaround is linked to rebounding investment returns.
- The dip in claiming behaviour is unexplainable by the amendments alone, and there are several risks that claiming patterns will change and benefit payments will rise. There are also new system costs generated by the amendments related to claims management and dispute resolution, not reflected in Scheme liabilities.
- There are also some gaps and inconsistencies in the application of the amendments, and some equity considerations that detract from the spirit of the guiding principles for reform.
- A review of the seven guiding principles finds that some lack specificity and some are unmet. The principles considered most appropriate relate to ensuring optimal insurance arrangements, the competitiveness of premiums, promoting recovery and return to work, guaranteeing long-term support for the seriously injured, reducing regulatory burden, and discouraging payments that do not contribute to recovery and return to work.
- To better achieve these principles, more needs to be done to address barriers to return to work, reduce the administrative burden, improve the ease of navigation through the system, and improve the fairness and equity of benefits and the process for review.

The key findings of the Centre for International Economics are a valuable input to be considered by the NSW Government when setting the future direction of the WorkCover Scheme.

Service Delivery

The achievement of Government outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not-for-profit sectors. Commissioning involves the process by which agencies assess their needs, determine priorities, design and source appropriate services, and monitor and evaluate performance.

Service Delivery	
2013-14 Audit Observations	
WorkCover Scheme Service Delivery	• **Scheme agents' remuneration increased by 44 percent over the last five years** • **in 2013-14, scheme agents' remuneration was 19.6 percent (15.9 percent) of earned premiums** • **potential deterioration in workplace injury damages experience in claims valuation** • **the proposed increase in retirement age in the 2014 federal budget creates an upward pressure on claim liabilities.**
National Disability Insurance Scheme (NDIS) and National Injury Insurance Scheme (NIIS)	• **the impact of changes in the NDIS/ NIIS scheme is minimal for New South Wales.** • **the proposed funding for these schemes is not yet determined or agreed.**

NSW WorkCover Scheme Agent Expenses are Increasing

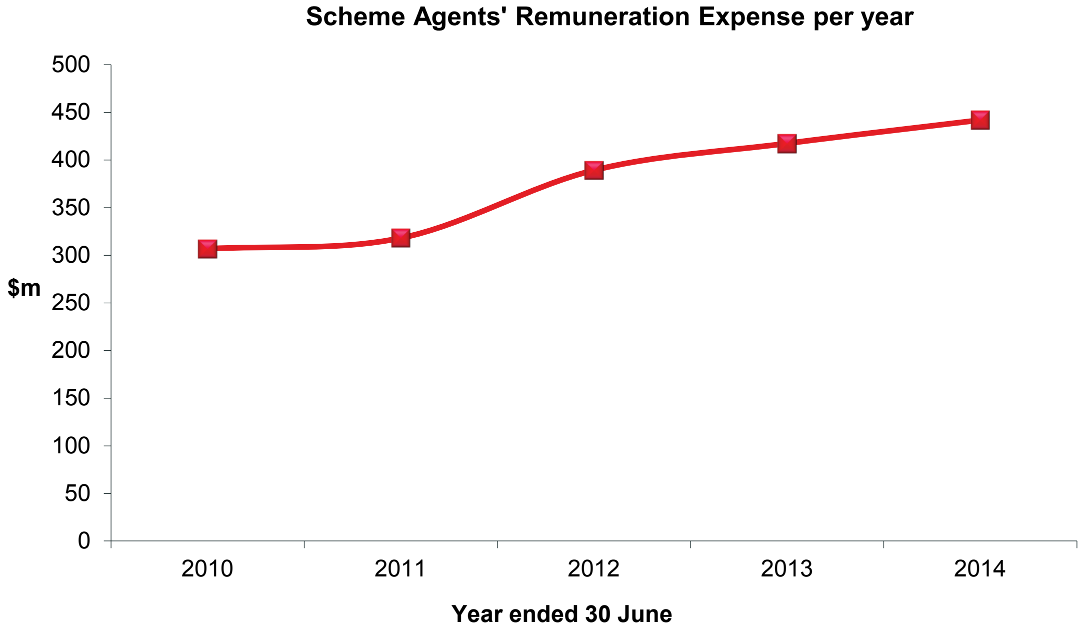
All NSW WorkCover Scheme activities relating to premium collection and claims management were performed by the following scheme agents in 2013-14:

- Allianz Australia Workers' Compensation (NSW) Limited
- CGU Workers' Compensation (NSW) Limited
- Employers Mutual NSW Limited
- Gallagher Bassett Services Pty Ltd
- GIO General Limited
- QBE Workers' Compensation (NSW) Limited
- Xchanging Integrated Services Australia Pty Ltd (trading as 'Xchanging').

Existing contracts with the scheme agents expire on 31 December 2014, but have a one year option exercisable by the Nominal Insurer. WorkCover Authority has commenced a tender process to appoint scheme agents under new contracts from January 2015. The seven existing agents and one new potential provider were invited to submit tenders.

Under the current contracts, agent remuneration comprises a fixed amount plus incentive remuneration when KPI linked targets are met or exceeded. Scheme agents are also paid for additional activities not covered under the original contracts, including activities related to implementing the reforms to the Scheme.

Over the last five years, scheme agents' remuneration increased by 44 per cent to $442 million in 2013-14 from $307 million in 2009-10, as shown below.



Source: WorkCover Scheme audited financial statements 2009-2014.

A significant increase occurred in 2011-12 due to a one-off review of WorkCover scheme agents' contractual arrangements. The review was carried out to ensure agents recover the costs of operations to reduce the risk of poor claims management. Subsequently, the increases have been mainly due to additional contract work to implement the 2012 Workers' Compensation Reforms.

Scheme agent expenditure represents 19.6 per cent (15.9 per cent) of earned premiums reported by the Scheme and is the largest cost after claims incurred.

Amalgamation of Investment Operations

In March 2014, the Government announced it intends to amalgamate the funds management activities of New South Wales Treasury Corporation, SAS Trustee Corporation and Safety, Return to Work and Support.

Responsibility for the investment objectives, risk management and asset allocation within each entity will be retained by each entity's Board.

The new approach is expected to deliver long-term financial and non-financial benefits through increased scale and a common administration platform. It is also expected to deliver a 'whole of portfolio' view of the financial assets managed by each entity for the State.

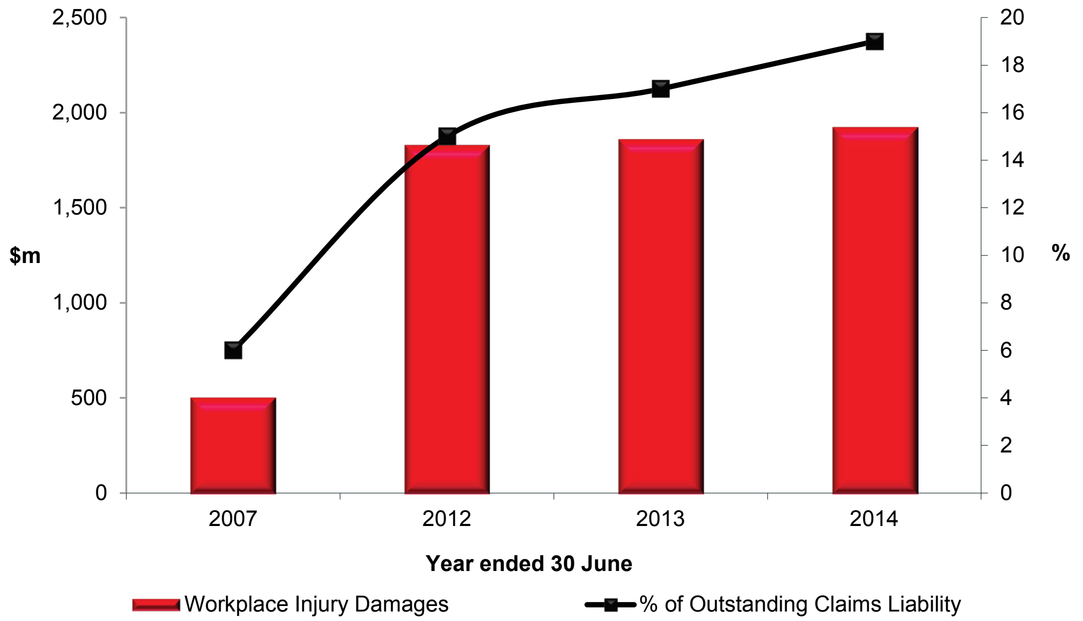
The NSW WorkCover Scheme is implementing the new arrangements and a working group has been established to facilitate the transition. The working group includes representatives from each entity mentioned above.

The transition to the new investment arrangements is expected to occur in 2014-15.

Workplace Injury Damages Claims Remain a Key Focus Area

The estimated liability for Workplace Injury Damages has increased substantially over recent years to $1.9 billion at 30 June 2014 (2013: $1.8 billion), or 19 per cent of the total outstanding claims liabilities (16 per cent). In 2007, the liability was only $508 million or six per cent of the total liability. The growth in the liability has been steady over recent years, but significant when compared to 2007, when the Workers' Compensation Amendment (Transitional) Regulation 2007 came into effect. This allowed workers to claim certain compensation not previously allowed under the Workers' Compensation regulation 2003.

Growth in Workplace Injury Damages



While the increase in the Workplace Injury Damages liability over time appears justified by emerging experience, there is a risk the workplace injury damages experience may deteriorate due to the reforms to the NSW WorkCover Scheme. Tightening entitlements to weekly benefits and medical benefits for less-seriously injured workers may push claimants towards workplace injury damages to increase their claim size or ensure some form of compensation for the period beyond five years.

Similarly, the reduction in legal activity associated with 'Permanent Impairment' and 'Pain and Suffering' (also known as Statutory Non-Economic Loss benefits) may see legal firms target workplace injury damages more strongly.

The Scheme's actuary has not allowed for any potential future deterioration in workplace injury damages experience as there is no evidence of this at this stage. However, the actuary has identified unfavourable scenarios, any one of which may increase the claims liabilities by $200 million or more.

Attempts to Maximise Claims

The 2013 Report to Parliament commented that some savings achieved by the reforms were reversed due to a court ruling reinstating access to 'Permanent Impairment' and 'Pain and Suffering' benefits based on pre-reform entitlements.

The NSW WorkCover Scheme appealed the initial court decision in the High Court of Australia. On 16 May 2014, the High Court overturned the decision of the lower court resulting in a $297 million decrease in the outstanding claims liabilities for these benefits and associated legal costs at 30 June 2014.

While this matter was found in favour of the Scheme, there is a risk that unexpected legal outcomes relating to the interpretation of the legislative reforms may adversely impact the Scheme's liabilities and increase costs.

Savings from Work Capacity Tests are now reflected in Outstanding Claims Liabilities

Work Capacity Tests inform decisions about an injured workers' capacity to work and their entitlement to weekly benefit payments. Injured workers with some capacity to work must make a reasonable effort to do so or their weekly payments may be suspended or ceased.

The 2013 Report to Parliament commented that successful implementation of work capacity tests could significantly reduce the outstanding claims liability by lowering weekly and medical claim costs as workers, with some work capacity, become ineligible for benefits or only eligible for lower partial incapacity benefits. Last year, the Scheme's actuary estimated the potential impact of work capacity tests on the claims liability could range from a saving of $500 million to additional costs of $200 million.

The actuary's claims valuations in previous years did not allow for the possible impact of work capacity tests and the potential for these to lead to fewer people remaining on weekly benefits over time.

Work capacity tests are now part of the claims management process and appear to be contributing to the significantly better experience in weekly payments observed in 2013-14. The favourable experience has resulted in the actuary adjusting the valuation assumptions to take this into account.

Increases in the Eligibility Age for the Pension will Increase Outstanding Claims Liability

The eligibility age for the age pension will increase from 65 to 67 from 1 July 2017 to 1 July 2023. The 2014-15 Federal Budget proposed extending the eligibility age to 70 by 1 July 2035. The Scheme's outstanding claims liability at 30 June 2014 does not include any impact from the proposed changes because it has not yet been legislated.

If legislated, the increase in the retirement age will place upward pressure on the Scheme's liabilities, as some benefits are not paid until retirement. The Scheme's actuary has estimated a $350 million impact on the liability at 30 June 2014 due to the increased duration of weekly medical benefits and an increase in the size of work injury damages settlements.

National Disability Insurance Scheme (NDIS) and National Injury Insurance Scheme (NIIS)

In August 2011, the Productivity Commission recommended the establishment of the NDIS and NIIS schemes. The Commission recommended separate schemes to:

- reduce the cost of the NDIS through a fully funded insurance accident scheme
- use existing institutions and expertise of accident compensation schemes
- deter risky behaviour and reduce local risks that contribute to accidents
- cover a broader range of health costs associated with catastrophic injuries, such as acute care and rehabilitation services.

A key objective of both schemes is to improve care and support for those with a significant and permanent disability. They are not expected to entirely replace current systems, but rather to sit alongside the accident compensation systems and mainstream services in each state.

The main elements of the schemes are shown below.

NDIS

Purpose

National scheme to deliver support services for people with significant and permanent disability.

Eligibility

Tier 1: All Australian residents

Tier 2: People with disability and carers

Tier 3: People who require a high level of care or are in targeted early intervention groups

NIIS

Purpose

State-based schemes providing no fault coverage for long term care and support for 'catastrophic' injuries.

Eligibility

New catastrophic injuries caused by:

- Motor vehicle accidents
- Workplace accidents
- Medical accidents
- General accidents (occurring in the home or community)

Eligibility into the scheme will be defined by minimum benchmarks that each jurisdiction must meet.

National Injury Insurance Scheme

The scheme will provide no-fault insurance coverage for all victims of catastrophic injury resulting from motor vehicle, workplace, medical and other accidents. Eligibility into the scheme is defined by minimum benchmarks, which each jurisdiction must meet. Where jurisdiction benchmarks do not meet the national standard, the jurisdiction will have to fund the NDIS costs for some catastrophically injured participants once the NDIS commences from 1 July 2015.

The Australian Government is working with states and territories to develop the NIIS as a federated model of separate, state-based no-fault schemes that provide lifetime care and support for people who have sustained a catastrophic injury. The NIIS will build on existing state and territory accident compensation schemes to complement NDIS (previously DisabilityCare Australia). The current implementation status is as follows:

Injury type	Current implementation status
Motor vehicle accidents	Minimum benchmarks have been developed. The commencement date for a NIIS for motor vehicle accidents aligns with the commencement of DisabilityCare Australia in each jurisdiction.
Workplace accidents, medical accidents and general accidents	The Australian Government is continuing to work with states and territories on a NIIS for individuals who are catastrophically injured in these types of accidents.

The NSW Government is working with other states and territories to develop a comprehensive scheme for catastrophic injuries to ensure the positive design of the Lifetime Care and Support Authority scheme is maintained.

Each state's compliance with the national motor vehicles accident benchmark is shown below.

State	Currently meets the NIIS national benchmark – motor vehicle accidents
New South Wales	Yes
Victoria	Yes
Queensland [1]	No
South Australia	Yes
Western Australia [2]	No
Tasmania [3]	No
Australian Capital Territory	Yes
Northern Territory [4]	No

1 Still reviewing policy and cost of implementing the minimum benchmarks.

2 Has not agreed to the minimum benchmarks, but has committed to consider them.

3 Current no-fault motor vehicles scheme, which excludes serious offences and therefore does not fully meet the minimum benchmarks. The Tasmanian scheme will not be expanded to remove the exclusion of claimants injured while committing a serious traffic offense and meet the minimum benchmarks, so will fund NIIS support costs.

4 Currently a Bill is before the Parliament for this scheme to be amended to meet the minimum benchmarks.

Source: PricewaterhouseCoopers' Report on the National Injury Insurance Scheme: Motor Vehicle Accidents (April 2014).

The NIIS is proposed to be funded through additional premiums on top of relevant insurance policies through increased CTP premiums. This has not yet been agreed. As the New South Wales benchmark meets the minimal national standard, any impact would be minimal.

Part Three

Section Two

Appendix

Appendix One - Cluster Information

Agency	Website
Cluster lead entity	
NSW Self Insurance Corporation	https://riskinsite.nsw.gov.au
Nominal Insurer	http://www.workcover.nsw.gov.au
WorkCover Authority	http://www.workcover.nsw.gov.au
Motor Accidents Authority of NSW	http://www.maa.nsw.gov.au/
LifetimeCare and Support Authority of New South Wales	http://www.lifetimecare.nsw.gov.au/
Workers Compensation (Dust Diseases) Board	http://www.ddb.nsw.gov.au
Building Insurer's Guarantee Corporation	http://www.fairtrading.nsw.gov.au/ftw/About_us/How_Fair_Trading_works/Protection_schemes_and_systems/Building_insurers_guarantee_corporation.page

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