

TREASURY CORPORATION AMENDMENT BILL 2015**SUPERANNUATION ADMINISTRATION AMENDMENT (INVESTMENT MANAGEMENT AND OTHER MATTERS) BILL 2015****STATE INSURANCE AND CARE GOVERNANCE AMENDMENT (INVESTMENT MANAGEMENT) BILL 2015**

Bills introduced on motion by Ms Gladys Berejiklian, read a first time and printed.

Ms GLADYS BEREJIKLIAN (Willoughby—Treasurer, and Minister for Industrial Relations) [8.05 p.m.]: I move:

That the bills be now read a second time.

I am pleased to be joined in the House by Coalition colleagues, the shadow Treasurer and the shadow Minister for Finance, Services and Property as I introduce these cognate bills, which are a culmination of a number of years of work. This legislation will tidy up what in essence is important reform that has taken place. In June 2015 the New South Wales Government finished a four-year project to amalgamate the State's key funds management activities in the New South Wales Treasury Corporation, or TCorp. This has made the New South Wales central financing authority, or TCorp, a top 10 Australian investment manager, with more than \$70 billion in funds under management. The three cognate bills will cement the changes that have taken place, tidy up provisions and ensure that TCorp and New South Wales two single largest guardians of financial assets—SAS Trustee Corporation, or State Super, and Insurance and Care NSW [icare]—can get the most out of the new and positive arrangements. The bills will save taxpayers' money and help TCorp to earn higher investment returns on the \$70-plus billion in funds under management.

All three cognate bills include amendments that help the Government to monitor the financial performance of, and risks taken by, the agencies. That will boost confidence, which is so critical, among TCorp, State Super and icare's customers. The aim is to realise scale, which consolidating the managed funds obviously will do, and gain benefits from the efficiency of consolidation into a larger fund, which will remove duplication and standardise funds management processes. The whole-of-portfolio view that TCorp now will be capable of providing will be an essential element in enhancing our State's financial risk management. Together, the Treasury Corporation Amendment Bill 2015, the State Insurance and Care Governance Amendment (Investment Management) Bill 2015 and the Superannuation Administration Amendment (Investment Management and Other Matters) Bill 2015 will ensure that the full benefits of the reform can be realised, including the potential to achieve superior returns.

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The legislation as it currently stands does not allow the agencies and the State to gain full advantage of the potential benefits and efficiencies. The proposed amendments remove these constraints. They will bring a number of benefits. They will improve governance at TCorp to match its increased responsibilities as the Government's key financial services authority. They will help lower the costs of managing the agencies' funds and potentially give capacity for higher investment returns over time. They will clarify the responsibilities of agency directors and they will improve the Government's oversight powers and help provide a whole-of-government view of key financial assets and liabilities and the associated risks.

While TCorp is to be the central investment manager for the funds controlled by State Super and icare, the ultimate responsibility for determining investment strategy for these funds will remain with

State Super and icare and their respective boards. This is an important point to reiterate: The respective boards will maintain their right over key decisions, as will management within those entities in their prerogative to exercise decision-making. TCorp will perform all the agreed activities required to implement that investment strategy. The efficiency benefits of the proposed reforms will come from increased scale and from improved business processes. The only direct impact of the reforms on governance at the three agencies will be a potentially expanded TCorp board, which will be positive. Staff resource requirements at the three agencies will not substantially change and the composition of the State Super and Insurance and Care boards will remain unchanged.

I now turn to the proposed amendments in greater detail. The Treasury Corporation Amendment Bill 2015 contains amendments to the Treasury Corporation Act 1983 which relate mainly to enhancing governance arrangements at TCorp. Obviously, with an increase in funds under management this is an appropriate and critical reform. New section 4A allows up to three additional independent directors to be appointed to support and expand the board's skills mix. This section also allows an independent chair to be appointed, if required. This will ensure the required expertise is available for the important responsibility of managing TCorp's significantly expanded funds management responsibilities. I take this opportunity to thank the chief executive of TCorp and the board for their financial management responsibilities for the State.

New section 4C allows the board to delegate functions and responsibilities to subcommittees. Not only does this represent good governance practice; it is also prudent, given TCorp's expanded responsibilities. New section 13A allows the New South Wales Government to issue financial risk management orders, imposing prudential or other requirements on TCorp where necessary or desired—again a critical reform. This enhances the Government's ability to meet its oversight responsibilities for the agency with a defined mechanism by which we can set standards for the agency to meet. This measure will help us ensure that TCorp is managing State assets and liabilities in a way that meets relevant Commonwealth requirements. It will also improve the State's ability to manage financial risk.

I now turn to the Superannuation Administration Amendment (Investment Management and Other Matters) Bill 2015 which will amend the Superannuation Administration Act 1996. The changes will free up government resources and reduce State Super's costs—something that will ultimately benefit members. We are making changes in section 51 that mean that the State Super Trustee needs to consider the role the employer plays in funding super benefits. This is important, given the State and other smaller employers, bear considerable responsibilities for State Super's defined benefit liabilities.

There is no impact on the State Super Trustee's ultimate discretion when making investment decisions about the defined benefit assets and the trustee's responsibilities are unchanged with regard to the management of the "member" assets—another key point. This change has absolutely no impact on the fact that the State Super Trustee must put members' best interests first when it is making any decision. We are pleased that this is entrenched in these reforms. The new requirement for the State Super Trustee is a sensible recognition of the employer's role in the funding of defined benefit entitlements and is designed to give appropriate context to the trustees in their consideration of government policy with regard to the members' benefits that are backed by the taxpayer.

The amendments to sections 53, 59 and 61 mean that State Super will be able to allow a delegated agent, such as an investment manager like TCorp, to make a further delegated appointment without the need to refer back to State Super for approval. This is a sensible reform that we encourage to maximise the effective management of State Super's funds. While this may seem a small change, it is this constraint on the State Super Trustee that has created significant administrative costs and it means that the operating model is currently not working efficiently. A key factor in successful funds management is the ability to make speedy decisions and a multiple approval requirement slows down

these decisions, with little or no benefit.

Section 54 allows the responsible Minister, currently the Treasurer, to determine the requirements for appointing investment managers, administrators and custodial service providers. It also allows that Minister to waive, either wholly or partly, the need for State Super to seek consent for such appointments. Currently all investment manager appointments—and State Super has more than 60 different investment managers—require ministerial consent. Similarly, the current requirement impacts on the timely appointment of investment managers, with little or no benefit.

Section 60 means that the Treasurer, with the agreement of the responsible Minister, can require State Super to appoint a mandated investment manager. An investment manager would provide superannuation investment management and/or custodial services, and the manager's role would be defined through an order. This provides further appropriate oversight for the Government. Section 58 will also be amended to make it clear that even if an investment manager is appointed, trustees are still responsible for determining an overarching investment strategy for the State Super funds. I assure members that each board will still retain its decision-making powers in relation to key decisions. In all other respects the duties and obligations of State Super trustees remain unchanged.

Section 60 will also allow the mandated investment manager to appoint a custodian on behalf of State Super, or the Treasurer, with the agreement of the responsible Minister, to mandate a custodian appointment. A single custodian, those who safe keep our financial assets, is important and beneficial for several reasons. First, being able to buy services for the large value of funds managed by TCorp will save all agencies and therefore the State significant money. Secondly, a common custodian will provide the Government with a rich view of the State's financial asset investments, on a whole-of-portfolio basis which will help us to prudently manage the State's balance sheet and financial risks.

New section 127A will enable the State Super Trustee to transfer funds to another superannuation trustee, but only if he or she determines that it is in the best interest of members and the Minister consents. For example, member funds for which the member bears the full investment risk and for which the Government has no ongoing responsibility might be transferred to a reputable open-offer superannuation fund like the State's default accumulation fund, First State Super. Defined benefits, such as pension entitlements, could not form part of any such transfer. In order for a transfer to occur certain conditions would need to be met including maintaining all member rights so that no member could be worse off in the new superannuation fund. There are a number of reasons why the State Super Trustee might think of transferring funds to another trustee—for example, if the size of the pool of funds to be transferred is a comparatively small part of the State Super Pooled Fund, and if the pool is likely to further diminish in size fairly quickly as members leave employment and withdraw their benefits. At some point in the future the State Super Trustee may wish to transfer the remaining funds to a superannuation fund with larger scale and more investment expertise to maximise returns for members.

New section 129A improves the Government's oversight of State Super and helps it enforce other standards. This will not only have risk management benefits but also ensure State Super complies with the Commonwealth's retirement incomes policy by clarifying the Government's expectations. The final cognate bill, the State Insurance and Care Governance Amendment (Investment Management) Bill 2015, amends the State Insurance and Care Governance Act 2015. New section 16B allows the Treasurer, with the agreement of the responsible Minister, to make an order that requires all or part of the icare funds to be managed by a mandated investment manager, and sets out the terms and conditions. This provides further oversight for the Government. New section 260 helps improve the Government's oversight of icare. It will help icare better understand how Commonwealth governance standards, such as those administered by the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission, apply to it and its underlying entities operations.

These bills will help implement the centralised investment management model and ensure the full benefits of the model are realised. They will also modernise the governance arrangements at TCorp to match its new status, and improve government oversight of all three agencies so that we can better manage risks. As I mentioned, this is important reform and these cognate bills will tidy up the current legislation around the important reform process that is already being undertaken to consolidate the \$70 billion of funds under management. The key issue in this reform is that each of the three boards will maintain its right on key decision-making at an independent level. I appreciate that the shadow Treasurer is in the House and I hope that the Opposition will agree with the Government's position on this critical, non-controversial reform. I seek the support of the Opposition in commending the bills to the House.

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Debate adjourned on motion by Mr Michael Daley and set down as an order of the day for a future day.