NSW GOVERNMENT RESPONSE

Debt Retirement Fund

INTRODUCTION

The Government acknowledges the issues raised by the Legislative Council Standing Committee on State Development in its review of the NSW Generations (Debt Retirement) Fund. These issues include:

- the fiscal and economic climate the State now faces is very different to when the Debt Retirement Fund (DRF) was set up
- the DRF presents risks to the State's Budget, credit rating and confidence in government if current policy settings remain unchanged
- management of the DRF and the approach to contributions need to take into account the Government's broader role of delivering services to the people of New South Wales in a fiscally prudent way, the expected economic and fiscal climate and contributions be strongly informed by surpluses
- there should be more transparent reporting about contributions to the DRF and the DRF's impact on Budget outcomes.

The Government supports, either in whole or in part, the committee's recommendations. As outlined in the 2023-24 Budget, the Government will temporarily suspend contributions to the DRF in 2023-24 while it considers how to remodel the fund to better serve the people of NSW in the current economic climate. Further, the Budget now shows an underlying Budget result that excludes the DRF's net investment returns, to improve transparency.

As outlined in the *NSW Generations Funds Act 2018* the DRF's purpose is to provide funding for reducing the debt of the State in accordance with the principles of sound financial management set out in section 7 of the *Fiscal Responsibility Act 2012*.

This debt retirement aspect of the DRF's policy settings supports the State's long-term fiscal position and provides for intergenerational equity by keeping debt at sustainable levels over the long term.

While the Government will consider the DRF's policy settings with respect to contributions and repaying debt in the context of the State's broader needs, there is no intention to change the DRF's legislated purpose or its ring-fencing.

The DRF has returned an average 6.4 per cent per annum since first set up in late 2018, adding around $3.6 billion.

The risks and opportunities the DRF present should be managed in a way that supports the State's fiscal settings over the long term, recognising Government's broader role of service delivery across a range of policy areas. The DRF is one of a suite of funds managed by TCorp that the Government is investigating to see if greater efficiencies, improved returns and lower risk can be achieved through pooling of funds.

RESPONSE TO RECOMMENDATIONS

Recommendation 1

That the NSW Government adopt an approach to managing the Debt Retirement Fund that incorporates the needs of the state more broadly.

Supported

The DRF presents both risks and opportunities to the State's fiscal position. The State is also responsible for delivering a broad range of services to the people of New South Wales.

The DRF needs to be managed in a way that contributes to the State's fiscal strength over the long-term so that the State can continue delivering services in a financially sustainable way. The Treasurer is investigating alternative approaches for managing contributions to, and redemptions from, the DRF and has suspended contributions to the DRF during 2023-24.

The Government does not intend to change the DRF's policy purpose of being a source of funds to retire State debt, nor its ring-fenced nature.

Recommendation 2

That the NSW Government adopt an approach to contributions to the Debt Retirement Fund that reflects the current and expected economic and fiscal climate, and is strongly informed by surpluses.

Supported in principle

The Government is pausing contributions into the DRF for 2023-24 pending further consideration of the DRF's policy settings with respect to contributions. This is expected to reduce the State's gross debt by $7.7 billion.

Recommendation 3

That the NSW Government report on future contributions to the fund more clearly and specifically in future budget papers, including in the 2023-2024 Budget.

Supported

Starting from the 2023-24 Budget, additional to the headline Budget Result the Government will also show an underlying Budget Result that excludes the DRF's net investment returns to provide a more transparent picture of the State's finances.

For the purposes of reporting an underlying Budget result, 'net investment returns' are the returns earned by the DRF, less any implied interest on notional borrowing costs associated with the DRF.