



LOCAL GOVERNMENT
SUPERANNUATION SCHEME

ANNUAL REPORT



 FUTURE
PLUS
FINANCIAL SERVICES

1997-1998



annual report contents

Chairperson's Overview	5-7
Trustee	8
Mission Statement	9
Highlights	11
Investment Review	13-17
SECTOR REVIEW	13
PORTFOLIO RISKS	15
FUTUREPLUS ACCUMULATION SCHEME (POOL A)	15
FUTUREPLUS EXECUTIVE SCHEME (POOL A)	15
FUTUREPLUS RETIREMENT SCHEME & DEFINED BENEFIT SCHEMES (POOL B)	17
Member Services	19-21
FUTUREPLUS FINANCIAL SERVICES	19
IMPROVED MEMBER SERVICES	19
WORK-SITE VISITS	19
SCHEME MANAGEMENT	21
EXPANDING THE RANGE OF PRODUCTS	21
COMPLAINTS	21
ENQUIRIES, HELP & ADVICE	21
FURTHER INFORMATION	21
Future Directions	23-25
COMMITMENT TO THE MISSION STATEMENT	23
THE 1997/98 YEAR IN REVIEW	23
1998/99 STRATEGY	25
KEY FOCUS AREAS	25
Changes to Super	27
TRUST DEED AMENDMENTS & RECENT DEVELOPMENTS	27
Statutory Information Pool A	29-47
Statutory Information Pool B	49-63



annual report **chairperson's overview**



Peter Woods, OAM, BA, M Litt, MACE

On behalf of the Directors of the Trustee, I am pleased to present the Annual Report of the Local Government Superannuation Scheme.

The Local Government Superannuation Scheme, which was established by the New South Wales Government, became fully operational on 1 July 1997. The Scheme was established to improve efficiencies and to deliver better service to both members and employers. Today, I am proud to report that the Local Government Superannuation Scheme has delivered on both these objectives.

As this is the first Annual Report of the Local Government Superannuation Scheme, I thought it appropriate to explain a few fundamental points.

There are actually two Local Government Superannuation Schemes: Local Government Superannuation Scheme Pool A, and Local Government Superannuation Scheme Pool B.

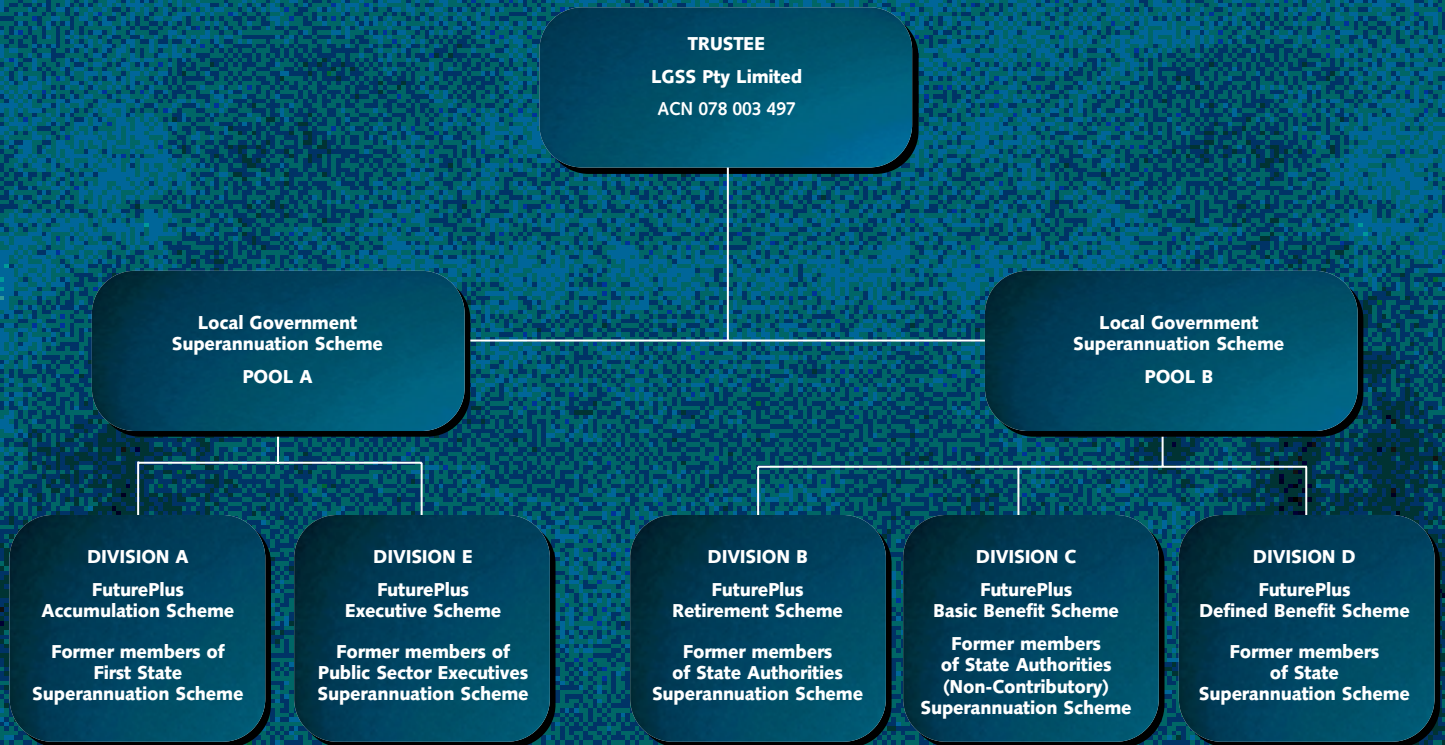
In general, the members of the Pool A Scheme are local government employees who were members of the First State Superannuation Scheme or the Public Sector Executives Superannuation Scheme. The Trustee for those two Schemes was the FSS Trustee Corporation.

The Local Government Pool A Scheme in turn has two divisions: the Accumulation Scheme, which replicates the First State Superannuation Scheme, and the Executive Scheme, which mirrors the Public Sector Executives Superannuation Scheme.

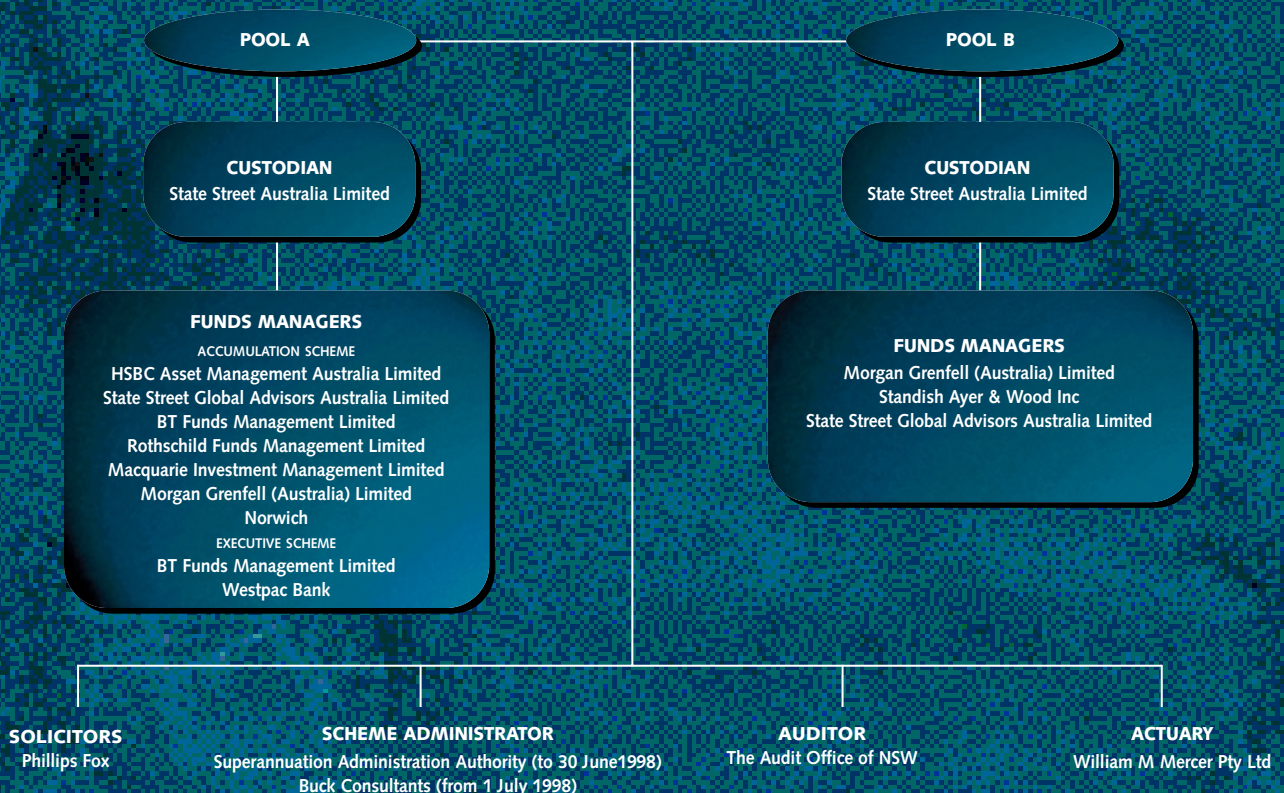
Similarly, the members of the Pool B Scheme are local government employees who were members of either the State Authorities Superannuation Scheme, State Superannuation Scheme, and/or State Authorities (Non-Contributory) Scheme. The Trustee for those Schemes was the SAS Trustee Corporation. Pool B has three divisions which replicate their respective predecessor schemes.



LOCAL GOVERNMENT SUPERANNUATION SCHEME



SERVICE PROVIDERS TO THE SCHEMES



The two Schemes were kept separate and specific individual divisions within each Scheme were created in order to ensure that the superannuation entitlements of every employee were retained intact, along with the rights and obligations of their employers in respect of those member benefits.

The main difference between the Schemes is that Pool A is an Accumulation Scheme, whereas Pool B is a Defined Benefit Scheme. This calls for distinctly different investment policies and strategies, and for the assets of each Scheme to be entirely separate. Other than that, from the Trustee Board's point of view, there are many similarities between the requirements of the Pool A and Pool B Schemes. Accordingly, they are collectively referred to as the "Local Government Superannuation Scheme".

There is one Trustee Board for both Schemes: LGSS Pty Limited. This structure is schematically depicted opposite.

Naturally, the first year was very challenging for both the Trustee Board and staff. I am delighted to be able to report that those challenges were more than satisfactorily met.

I am also pleased to report that the two Local Government Superannuation Schemes strengthened their financial positions during the first year of operation. This was achieved by long-term investment and administration strategies strongly focused on increasing the benefits to members.

While a superannuation scheme is, by definition, a long-term undertaking, I am very pleased to be able to report that strong investment returns were achieved in almost every division in this, our first year.

Measured against peer group schemes or against the superannuation industry generally, our Scheme's performance during 1997/98 gives us a strong base from which we can enhance the retirement benefit outcomes for all stakeholders.

The Scheme's administration was restructured to provide a greater range of services to both members and employers. In order to achieve this, basic scheme administration was transferred to Buck Consultants, while member service was taken in-house.

This was done because the Trustee Board decided that those functions of superannuation schemes which are best outsourced are done in a very competitive market and are closely monitored by staff of the Trustee Board. On the other hand, those functions which are best conducted in-house are done so on a very commercial basis.

I would like to thank my fellow Board members for the commitment they have shown to the demanding tasks of the first year of operations.

I would also like to thank all our staff for their enthusiasm in overcoming the challenges which arose during the year.

We remain committed to improving upon the sound base of the Scheme and will continue to find and maximise efficiencies in operations. We look forward to meeting the challenges of superannuation in the future and will strive to obtain the very best results on behalf of all of our members.



Peter Woods, OAM, BA, M Litt, MACE

Chairperson

Local Government Superannuation Scheme

December 1998

The Trustee is LGSS Pty Limited. The Directors of the Trustee for the year to 30 June 1998 were:



David Campbell

Appointed by Local Government Association of New South Wales

Deputy Chairperson, LGSS Pty Limited; Lord Mayor of Wollongong; Executive Member, Local Government Association of New South Wales; Chairperson Illawarra Regional Development Board.



Edward Carolan OAM

Appointed by Local Government Association of New South Wales

Councillor, Canterbury City Council; Executive Member, Local Government Association of New South Wales; Chairperson, Local Government Recycling Co-Operative.



Gary De Courcey BA LLB

Representing Local Government Engineers Association

Senior Industrial Officer, Local Government Engineers Association (LGEA) and the Association of Professional Engineers, Scientists and Managers of Australia (APESMA).



George Humphries

Representing Federated Municipal and Shire Council Employees Union of Australia (NSW Division)

President, Federated Municipal and Shire Council Employees Union of Australia (NSW Division); Director, Western Sydney Waste Planning & Management Board; Federal Executive Member, Australian Services Union (ASU).



John (Jack) Merchant

Representing Federated Municipal and Shire Council Employees Union of Australia (NSW Division)

General Secretary, Federated Municipal and Shire Council Employees Union of Australia (NSW Division); National Senior Chairperson, Australian Services Union (ASU); Former Trustee member, ASU Superannuation Scheme.



Ian Robertson BA

Representing Environmental Health and Building Surveyors' Association of NSW

Secretary/Treasurer, The Environmental Health and Building Surveyors' Association of NSW (HABSA); Member, Local Government Reform Task Force.



John Wearne

Appointed by Shires Association of NSW
Former Senior Vice-President, Australian Local Government Association; Immediate Past President, Shires Association of New South Wales; Councillor, Bingara Shire Council; Board Member, Australia Day Council of NSW.



Peter Woods OAM, BA, M Litt, MACE

Appointed by Local Government Association of NSW

Chairperson, LGSS Pty Limited; President, Local Government Association of New South Wales; Mayor of Concord; President, International Union of Local Authorities (IULA) - Asia Pacific Region; Chairperson, University of Canberra Local Government Advisory Committee; Member, Board of Environment Protection Authority of NSW; Director, Inner Sydney Waste Board.

annual report **mission statement**

Local Government Superannuation Scheme

The main purpose of the superannuation Scheme is to provide security for the future of members when they leave the workforce due to retirement, resignation or disablement, as well as security for members' beneficiaries in the event of their death.

This is to be achieved by:

- Targeting appropriate investment returns subject to designated risk levels.
- Operating the Scheme to reduce the costs of superannuation.
- Enhancing the overall benefits available to Scheme members.

The Scheme is to recognise, at all times, that it is a service to both employers and members, and this service focus is to be demonstrable in all activities of the Scheme.

TRUSTEE COMMITMENT

- Always acting in the best interests of members.
- Continually improving the level of service offered.
- Delivering first-class products and services to members.

In giving this commitment, the Trustee shall act faithfully and exercise sound discretion in carrying out all duties.

The Trustee will act with prudence, discretion and intelligence, giving consideration to the Scheme's long-term objectives, and will consider the probable income, as well as the probable safety of the capital invested.

The Trustee Board will ensure:

- The investment policies are in writing and assets are diversified.
- The investment decisions are made with skill and care.
- Investment performance will be monitored and expense controlled.
- No prohibited transactions shall be entered into.

The Trustee Company and its Board assumed responsibility for the Scheme on 1 July 1997, with its mission to make the Scheme relevant for its key stakeholders.

The Board is responsible for five benefit divisions, and set about the process of establishing objectives and examining the level of service provided by all suppliers appointed to the Scheme.

As part of the creation of the Scheme, the Board entered into a funds management agreement with Axiom Funds Management Limited – now Morgan Grenfell (Australia) Limited – for the management of the Pool B assets, and a scheme administration arrangement with Superannuation Administration Authority.

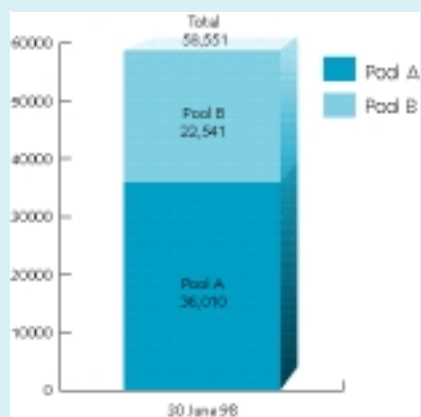
To assist with the early objective setting, the Board established a number of Committees to assist with the early heavy workload:

- An *Investment Committee* to receive submissions and to refine investment strategy and management of the investment pools.
- An *Administration Committee* to examine aspects of the administration of the Scheme.
- A *Joint Committee* (with the Energy Industries Superannuation Scheme) to assess tenders for Scheme administration.

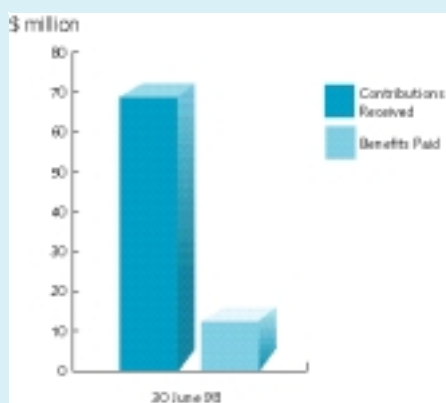


annual report highlights

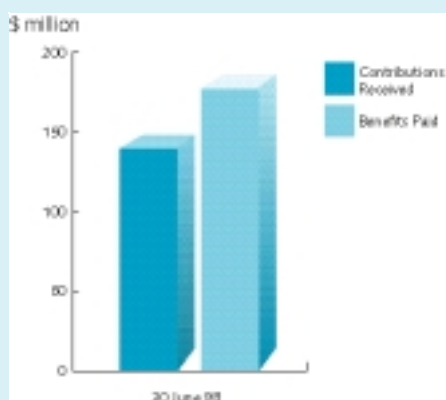
LGSS MEMBERSHIP



POOL A Contributions & Benefits



POOL B Contributions & Benefits



The Local Government Superannuation Scheme was established in 1997 with a commitment to improving the long-term benefit to members' retirement incomes.

Promote and reinforce the Scheme as a service to members

A comprehensive work-site visits programme, designed to keep members and employers abreast of developments within the Scheme, was initiated.

The key priority of service to members was reinforced with member newsletters and, in July 1998, the establishment of a dedicated call centre to deal directly with member enquiries.

Trust Board to establish appropriate investment objectives

A detailed examination of the longer-term investment goals for the Divisions within the Scheme led to the establishment of investment profiles designed to achieve those goals.

High performance benchmarks, encouraging the achievement of those goals, were put in place to ensure optimum performance was sought.

Total costs of operation are targeted at appropriate levels

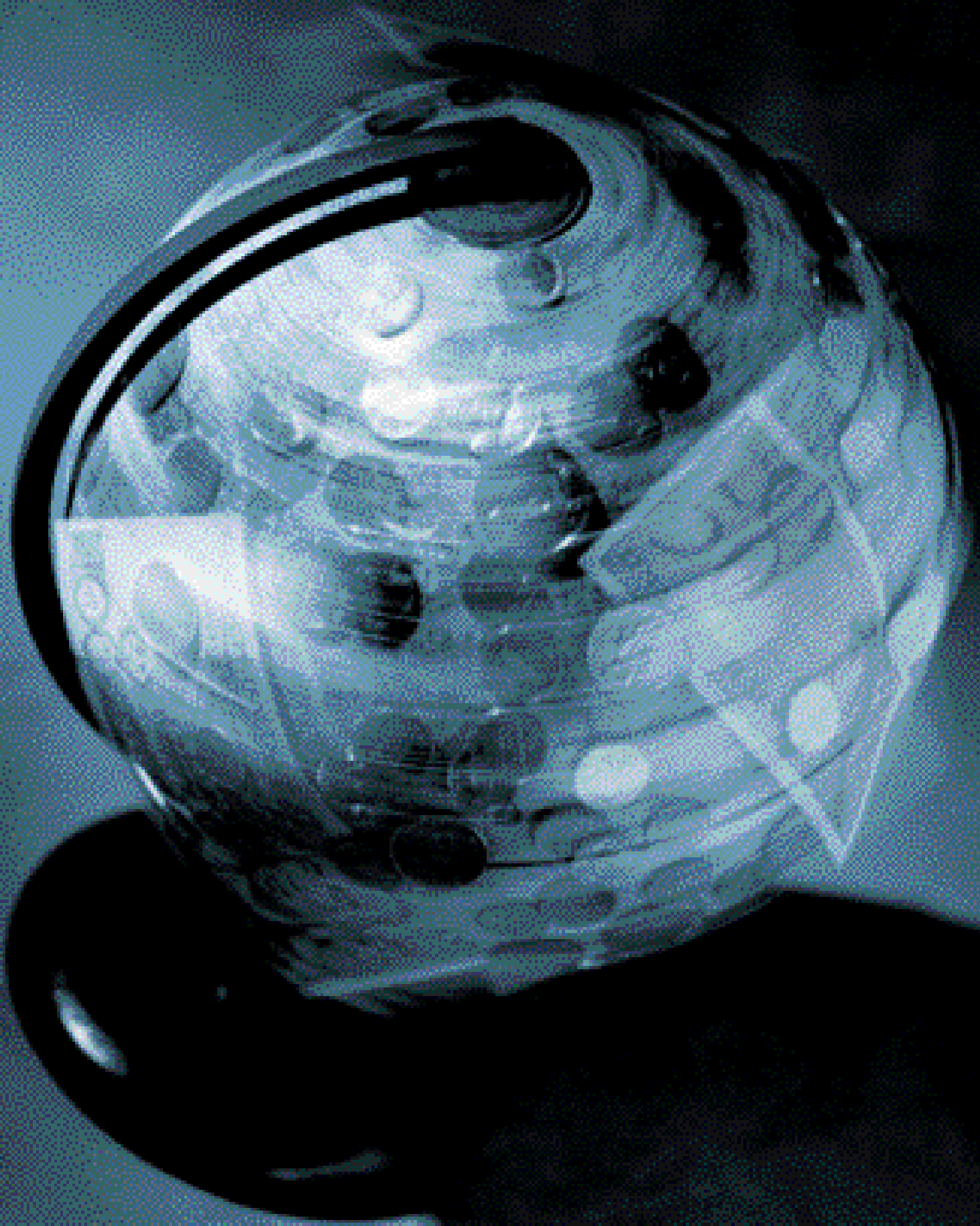
Apart from acting to improve the efficiencies of existing operations, the objective of keeping a cap on costs to ensure that members receive the optimum benefit from the Scheme was actively pursued for the 1997/98 year, and as a platform for further reductions in future years.

POOL A

- The Scheme had 36,010 members as at 30 June 1998.
- Scheme assets grew to \$228.5 million as at 30 June 1998.
- Contributions received totalled \$68.4 million.
- Members received \$12.3 million in benefits over the year to 30 June 1998.

POOL B

- The Scheme had 22,541 members as at 30 June 1998.
- Scheme assets grew to \$2.39 billion as at 30 June 1998.
- Contributions received totalled \$139.3 million.
- Members received \$176.7 million in benefits over the year to 30 June 1998.



annual report **investment review**

Investment markets in 1997/98 experienced extreme turbulence. The initial effects of imbalances in some Asian countries at the start of the year translated into region-wide, and then world-wide, concerns as the year progressed.

While inflation, as measured by the Consumer Price Index, was reasonably well-behaved, an emerging world-wide view that asset price deflation may be in train grew as the year progressed.

The Scheme came into existence on 1 July 1997, with Axiom Funds Management Limited (now Morgan Grenfell (Australia) Ltd) as the sole funds manager for the Defined Benefit divisions, and with a range of fund managers for the Accumulation divisions.

The funds' management contract with Morgan Grenfell was a pre-condition of the establishment of the Scheme and contained arrangements which allow Morgan Grenfell to manage the assets for five years, from 1 July 1997 to 30 June 2002. Part of that asset pool can, however, be allocated to other funds managers in each of those five years.

While Morgan Grenfell had the mandate to manage the assets, the Scheme established the set of investment instructions by which Morgan Grenfell was to operate, and the Scheme, after detailed assessment, established asset allocations which were appropriate to its membership.

The Trustee has received a Fund Reference Risk Management Statement and a Detailed Risk Management Statement from each Investment Manager. These statements summarise the Managers' principles, policies and procedures relating to the use of derivatives. The Trustee is satisfied that these are in accord with the Scheme's investment strategies.

SECTOR REVIEW

International Equities

International Equities proved to be the major asset class performer during 1997/98.

Even though bouts of chronic weakness were experienced in some of the Asian and other smaller emerging markets, the major markets of the US and Europe produced significant gains.

To these market movements, severe weakness in the Australian Dollar – which saw it fall against the USD from 74.4¢ at the start of the year

to 61.5¢ at the end of the year – also added a significant increase in the value of offshore investments.

The Morgan Stanley Capital International (MSCI) Index, on an unhedged basis, rose 42.2% over the twelve months to 30 June 1998.

Australian Equities

Australian Equities had a reasonably difficult year. Early strong gains were offset by a significant bout of nervousness in October 1997, and the latter part of the year was eroded by concern about the flow-on effects of the problems in the Asian economies.

Despite major floats during the year – part of Telstra, NSW TAB and the AMP Society – the All Ordinaries Accumulation Index finished the year only 1.6% higher.

International Bonds

The same deflationary cycle which boosted domestic bonds also influenced the performances on bond markets world-wide, with International Bonds recording good gains.

In addition, the fall in the Australian Dollar boosted the returns of offshore assets, with the JPM World Government Bond Index showing a rise of 31.4% for the twelve months.

Australian Bonds

The emerging view of a deflationary trend world-wide, flowing from the effects of Asia, spurred interest rates to move lower over the course of the year.

This prompted Australian bond portfolios to record good gains during 1997/98. The Warburg Dillon Reed Government Bond Index rose 11.3%, whereas the broader Composite Bond Index recorded a good gain of 10.9% for the year.

Listed Property Trusts

Listed property trusts performed well, with the ASX listed property trust index rising 10.0% for the year. This was due to the relative "safe-haven" of the property market during the turbulence in the more liquid equity markets during 1997/98. This reflected not only the yield characteristics of the underlying properties themselves, but also of the increased weightings from institutions flowing to this form of holding property within portfolios.

Cash

The Bank Bill Index again delivered strong real returns for the investor, rising 5.1% for 1997/98.



FUTUREPLUS ACCUMULATION SCHEME: INVESTMENT OPTIONS, OBJECTIVES & STRATEGIES

INVESTMENT OPTIONS	HIGH GROWTH	DIVERSIFIED	BALANCED	CAPITAL GUARDED	CASH PLUS
PURPOSE	For the highest growth above inflation in the longer term.	For real investment growth above inflation over longer periods.	For real growth above inflation over the medium term.	For short-term investment with good security and some potential for growth.	For very short-term investments.
OBJECTIVES	<ul style="list-style-type: none"> To target a real rate of return of 7.0% per annum over a five-year period. For the chance of a negative return in any one year to be 1 in 45. 	<ul style="list-style-type: none"> To target a real rate of return of 6.1% per annum over a five-year period. For the chance of a negative return in any one year to be 1 in 55. 	<ul style="list-style-type: none"> To target a real rate of return of 5.4% per annum over a five-year period. For the chance of a negative return in any one year to be 1 in 7. 	<ul style="list-style-type: none"> To target a real rate of return of 4.5% per annum over a five-year period. For the chance of a negative return in any one year to be 1 in 13. 	<ul style="list-style-type: none"> To target a real rate of return of 1.7% per annum over a five-year period. For the chance of a negative return in any one year to be nil.
STRATEGY	High Growth usually invests about 90% of its funds in traditional growth assets such as Australian and international shares and property.	The Diversified strategy usually invests about 70% in growth assets such as Australian and international shares and property and 30% in assets that produce income such as fixed interest securities.	The Balanced strategy usually invests about 50% in growth assets such as Australian and international shares and 50% in assets that produce income such as fixed interest securities.	The Capital Guarded strategy usually invests about 70% in assets that produce income such as fixed interest securities and 30% in growth assets such as Australian and international shares.	The Cash Plus strategy invests 100% of available assets in short-term securities such as cash deposits and bank, government and semi-government securities.
ASSET ALLOCATION	Australian Equities: 36% International Equities: 41% Property: 14% Australian Fixed Interest: 3% International Fixed Interest: 3% Cash: 3%	Australian Equities: 32% International Equities: 29% Property: 10% Australian Fixed Interest: 19% International Fixed Interest: 5% Cash: 5%	Australian Equities: 23% International Equities: 21% Property: 8% Australian Fixed Interest: 36% International Fixed Interest: 7% Cash: 6%	Australian Equities: 14% International Equities: 12% Property: 5% Australian Fixed Interest: 44% International Fixed Interest: 11% Cash: 14%	Australian Equities: 0% International Equities: 0% Property: 0% Australian Fixed Interest: 0% International Fixed Interest: 0% Cash: 100%
INVESTMENT EARNINGS FOR YEAR TO 30 JUNE 1990 (AFTER TAX)	Actual Earnings: 14.0% Inflation: 1.0% Real Earnings: 13.0%	Actual Earnings: 11.5% Inflation: 1.0% Real Earnings: 10.5%	Actual Earnings: 10.3% Inflation: 1.0% Real Earnings: 9.3%	Actual Earnings: 9.2% Inflation: 1.0% Real Earnings: 8.2%	Actual Earnings: 4.1% Inflation: 1.0% Real Earnings: 3.1%

Note: The earnings rate credited to members is the actual earnings of each option after adjusting for investment costs.

FUTUREPLUS RETIREMENT SCHEME: INVESTMENT OPTIONS, OBJECTIVES & STRATEGIES

INVESTMENT OPTIONS	RETIREMENT FUND	STABLE CAPITAL FUND	CASH MANAGEMENT ACCOUNT
OBJECTIVES	The Retirement Fund's objective is to achieve moderately high and consistent returns over the medium to long term while at the same time reducing the probability of a negative return in the short term.	The Stable Capital Fund's objective is to achieve a competitive and relatively stable pattern of returns over the short term, while at the same time reducing the probability of a negative return for any one year. The fund also aims to provide a higher return than that available from Australian Bonds over the medium term.	The Cash Management Account is designed for short-term or transitional use with the emphasis on capital protection.
STRATEGY	The Retirement Fund's strategy is to grow the value of the investment over periods of five years or more by investing in a range of investment types with higher exposure to growth investments (such as shares and property) whose market prices do not reflect their long-term value and are expected to appreciate over time.	The Stable Capital Fund's investment strategy is to provide a higher return on the investment than the returns available from cash or bonds over periods of three years or more, by having limited exposure to growth investments such as shares and property.	The Cash Management Account invests 100% of its funds in liquid assets.
ASSET ALLOCATION	Australian Equities: 32.8% International Equities: 20.3% Property: 11.1% Australian Bonds: 14.7% International Bonds: 5.8% Liquid Assets: 15.3%	Australian Equities: 13.0% International Equities: 4.1% Property: 5.9% Australian Bonds: 45.4% International Bonds: 6.0% Indexed Bonds: 5.6% Liquid Assets: 20.0%	Liquid Assets: 100%
INVESTMENT EARNINGS FOR YEAR TO 30 JUNE 1990 (AFTER TAX)	Actual Earnings: 6.5% Inflation: 1.0% Real Earnings: 5.5%	Actual Earnings: 5.6% Inflation: 1.0% Real Earnings: 4.6%	Actual Earnings: 2.2% Inflation: 1.0% Real Earnings: 1.2%

Note: The earnings rate credited to members is the actual earnings of each option after adjusting for investment costs.

PORTFOLIO RISKS

Superannuation investment is focused on the medium to long term. It is designed to deliver strong real returns above inflation and ahead of the growth in wages. Investment strategies are therefore biased towards assets whose value is likely to grow in line with general economic trends.

To ameliorate the impact of being too exposed to any specific event risk, the investment strategy must also be adequately diversified, both in terms of general asset classes of securities and of the fund manager who manages those assets.

At the same time, the Trustee Board recognised that asset returns can be variable month-to-month and year-to-year. This variability, or volatility, of asset returns has been an historical feature of investment markets, and will continue to be a feature into the foreseeable future.

While the strategic investment settings of the Scheme's assets are designed to achieve the longer term real rate of investment returns sought, the Trustee Board is also mindful of the need to respond to short-term investment market behaviour, if such a tactical positioning of the portfolio is required.

This dual focus, both on the longer-term strategies designed to exceed the actuarial rates of return (for the Defined Benefit divisions) and therefore to enhance the financial security of the Scheme, and on the shorter-term tactical response to particular market events, is expected to continue to deliver superior investment outcomes that would be available from alternate investment arrangements.

FUTUREPLUS ACCUMULATION SCHEME (POOL A)

The FuturePlus Accumulation Scheme offers members a choice of five different investment options: High Growth, Diversified, Balanced, Capital Guarded and Cash Plus. The five options provide for a wide range of investment strategies ranging from high risk, with expected high returns over time, to a low risk/low return strategy.

If a member does not choose an option, a default option is chosen depending on the member's age. Members with account balances less than \$1,000 are automatically invested in the Cash Plus strategy. Other members who do not make a choice are automatically invested as follows:

- Members under 45: Diversified.
- Members aged 46-54: Balanced.
- Members aged 55 and over: Capital Guarded.

The investment objectives and strategies for each of the five Accumulation Scheme investment options are detailed in the chart opposite.

Fees & charges

The following fees are debited from members' accounts where applicable:

- A management fee of 75 cents per week.

- \$5 per month for insurance (while the Employer makes contributions to the Scheme).
- A \$20 switching fee applies to a member's second and any subsequent optional investment switching in any financial year.
- A \$20 benefit payment fee applies on leaving the Scheme.

The Government's 15% contributions tax is deducted from Employer contributions to the Scheme. The additional surcharge tax for high income earners is deducted from the accounts of affected members.

If a member's account balance is less than \$1,000, FuturePlus ensures that any management fees deducted from that account do not exceed the interest earned on the account balance in any financial year. This means that a member's account balance cannot be reduced because of management fees.

FUTUREPLUS EXECUTIVE SCHEME (POOL A)

The FuturePlus Executive Scheme offers members a choice of three different investment options: Retirement Fund, Stable Capital Fund and Cash Management Account. Members may choose to invest in one or more of these options.

The three options provide a range of investment strategies and are managed by two investment managers. The Retirement and Stable Capital Fund options have their funds invested by BT Funds Management Limited. The Cash Management option has its funds invested in the Westpac Cash Management Account.

The investment objectives and strategies for each of the three Executive Scheme investment options are detailed in the chart opposite.

Fees & charges

Administration fees are set by the Trustee at the level needed to recover actual costs. They are charged on a monthly basis to a member's account.

At the time of printing, they were:

- A management fee of \$6.33 per month (plus disbursements) for a contributing member.
- A management fee of \$3 per month (plus disbursements) for a non-contributing member.
- The cost of Additional Benefit insurance.
- A \$30 switching fee applies to a member's second and any subsequent optional investment switching in any financial year.
- A \$30 benefit payment fee applies on leaving the Scheme.

The Government's 15% contributions tax is deducted from Employer contributions to the Scheme. The additional surcharge tax for high income earners is deducted from the accounts of affected members. ▶

NET INVESTMENT EARNINGS (AFTER TAX) FOR YEAR ENDED 30 JUNE 1998

FUTUREPLUS ACCUMULATION SCHEME	High Growth	14.0%
	Diversified	11.5%
	Balanced	10.3%
	Capital Guarded	9.2%
	Cash Plus	4.1%
FUTUREPLUS EXECUTIVE SCHEME	Retirement Fund	6.5%
	Stable Capital Fund	5.6%
	Cash Management Account	2.2%
FUTUREPLUS RETIREMENT SCHEME	Standard	14.3%
FUTUREPLUS DEFINED BENEFIT SCHEME	Standard	14.3%

ACCUMULATION SCHEME

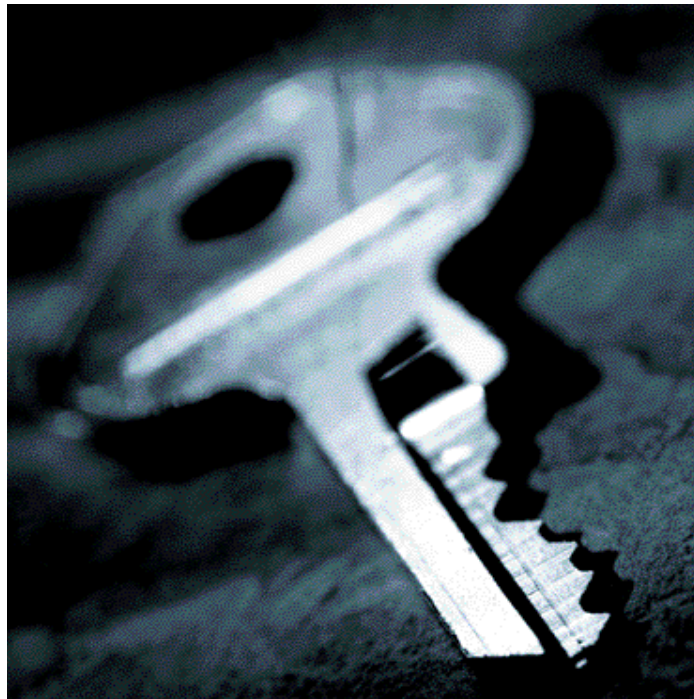
Performance report for the year ended 30 June 1998

Sector Returns	0	10%	20%	30%	40%	Benchmark
Australian Equities	Actual Return 2.4%					All Ordinaries Accumulation Index
	Index Return 1.6%					
International Equities	Actual Return 40.4%					MSCI World Equity Index (ex Australia) unhedged in AUD
	Index Return 42.2%					
Australian Fixed Interest	Actual Return 9.1%					SBC Government Bond Index
	Index Return 10.9%					
International Fixed Interest	Actual Return 9.7%					Salomon Bros. World Bond Index. Fully hedged in AUD
	Index Return 11.0%					
Property	Actual Return 7.9%					Listed Property Trust Accumulation Index
	Index Return 10.0%					
Cash	Actual Return 5.4%					SBC Australian Bank Bill Accumulation Index
	Index Return 5.1%					

DEFINED BENEFIT SCHEME

Performance report for the year ended 30 June 1998

Sector Returns	0	10%	20%	30%	40%	Benchmark
Australian Equities	Actual Return 3.8%					All Ordinaries Accumulation Index
	Index Return 1.6%					
International Equities	Actual Return 41.3%					MSCI World Equity Index (ex Australia) unhedged in AUD
	Index Return 42.2%					
Australian Fixed Interest	Actual Return 10.8%					SBC Government Bond Index
	Index Return 11.3%					
Index Linked Securities	Actual Return N/A					SBC Australian Capital Indexed Bond Index
	Index Return N/A					
Property	Actual Return 18.1%					75% AMP "P" Units 25% Listed Property Trust Accumulation Index
	Index Return 9.6%					
Cash	Actual Return 7.2%					SBC Australian Bank Bill Accumulation Index
	Index Return 5.1%					



FUTUREPLUS RETIREMENT SCHEME & DEFINED BENEFIT SCHEMES (POOL B)

Investment Objectives

- To target a real rate of return of 6.5% per annum over a five-year period.
- For the chance of a negative return to be less than 1 in 5.
- To ensure there is a greater than 70% likelihood that there will be 105% of members' benefits at the end of five years.

Investment Strategy

To meet the investment objectives, the Trustee has determined that the Pool should be invested in a diversified investment portfolio with an emphasis on growth assets such as shares and property.

The Trustee has established guidelines for the Pool's investment managers. Performance benchmarks, encouraging the achievement of the investment objectives, were put in place to ensure optimum performance.

Investment Returns

For the year to 30 June 1998, the investments performed extremely well, showing an actual return of 14.3% (Inflation: 1%; Real Earnings: 13.3%).

Note: The earnings rate credited to members is the actual earnings of each option after adjusting for investment costs.

Assets

The Scheme is obliged to continue a previous investment management agreement. Axiom Funds Management Limited – now Morgan Grenfell (Australia) Ltd – will manage the Pool B assets for five years from 1 July 1997 to 30 June 2002. Part of the Pool can be allocated to other managers in each of those five years.

The Trustee has received a Fund Reference Risk Management Statement and a Detailed Risk Management Statement from each

Investment Manager. These statements summarise the Managers' principles, policies and procedures relating to the use of derivatives. The Trustee is satisfied that these are in accord with the Scheme's investment strategies.

As at 30 June 1998, the Pool's investment managers and the percentage of the Pool's assets they manage are tabled below.

SECTOR	MANAGER	% OF POOL B ASSETS
CASH	Morgan Grenfell (Australia) Ltd	4.3%
AUSTRALIAN FIXED INTEREST & INDEX-LINKED SECURITIES	Morgan Grenfell (Australia) Ltd	16.7%
AUSTRALIAN SHARES	Morgan Grenfell (Australia) Ltd	32.4%
	State Street Global Advisors of Australia Limited	3.4%
DEVELOPMENT CAPITAL	LGSS Pty Limited	0.4%
OVERSEAS SHARES	Morgan Grenfell (Australia) Ltd	31.2%
	Standish Ayer & Wood Inc	3.9%
PROPERTY	Morgan Grenfell (Australia) Ltd	7.7%

Fees & Charges

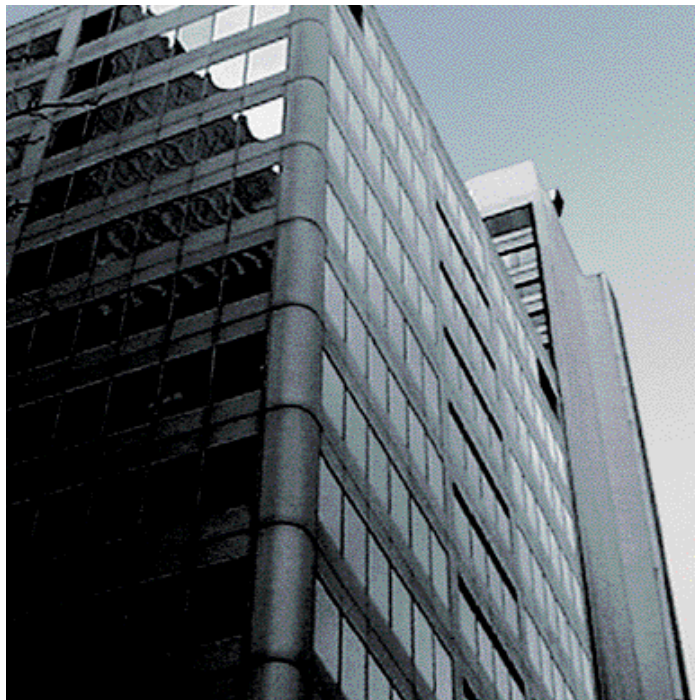
The following fees were debited from members' accounts where applicable:

- A management fee of \$27 for the year to 30 June 1998.
- The cost of Additional Benefit Cover insurance.

Members benefits are reduced by an amount to cover the Government's 15% contributions tax. The additional surcharge tax for high income earners is deducted from the end benefit of affected members at the time of exit from the Scheme.



annual report **member services**



Superannuation is a vital component of providing a viable retirement income for most Australians. Since the introduction of compulsory superannuation contributions, individuals' savings have grown and members of superannuation schemes have tended to take an increasing interest in the outcomes delivered by superannuation schemes.

Although flexibility and service are important for individuals to feel familiar with their superannuation, it is adequate contributions, strong real investment returns, and low administration costs that will determine the ultimate size of the savings that each individual will have on retirement.

With the prospect of Choice of Funds legislation, not only will these factors be important, but adequate information for individuals to make decisions in relation to their savings will be equally important.

Delivering a superior product therefore requires the Trustee not only to meet the investment and cost needs on behalf of members, but also to supply enough information to allow members to maximise their benefits.

FUTUREPLUS FINANCIAL SERVICES

Improving services to members is a key objective of the Trustee. During the year, important steps have been taken to ensure that members are provided with quality assistance and advice.

The Trustee decided to become directly involved with providing member services and established FuturePlus Financial Services Pty Limited (ACN 080 972 630) in conjunction with the Energy Industries Superannuation Scheme. FuturePlus Financial Services provides members with a range of services and aims to enhance the products and services available. FuturePlus Financial Services will further refine and develop product areas for the benefit of employers and members.

IMPROVED MEMBER SERVICES

Superannuation can be quite complicated. To enable members to understand the benefits which FuturePlus provides for them and their families, an in-house advisory service has been established. Its purpose is to ensure that members receive comprehensive advice about their superannuation. There is no charge for this service.

Superannuation Liaison Officers have also been established, within each employer, as the first point of contact for the Scheme.

Additional products are being developed to benefit members further and an allocated pension and a rollover fund will be offered in the near future.

WORK-SITE VISITS

As well as having staff available in the Member Services centre, Field Advisors have been appointed to visit work sites and conduct



information sessions. In 1997-1998, 700 work-site visits were held throughout NSW, giving members the opportunity to raise questions and better understand their superannuation.

The work-site visits not only update members on Scheme developments, but also offer a programme of retirement planning to assist members to maximise their potential benefit.

This, when combined with the call centre, is to supply all existing and prospective Scheme members with enough material to continue to make informed choices about their savings.

SCHEME MANAGEMENT

Scheme management arrangements were reviewed to ensure members were provided with a wide range of services and value for money. The Trustee Board decided to reduce the costs of administration by outsourcing and using those savings to expand the range of member services.

Outsourcing basic administration provides access to superior technology and the advantages of economies of scale arising from using a superannuation administration specialist with a high volume business.

The basic scheme administration, performed by the Superannuation Administration Authority until 30 June 1998, was transferred to Buck Consultants from 1 July 1998.

EXPANDING THE RANGE OF PRODUCTS

Providing an Allocated Pension and Rollover Plan has become necessary to assist members to achieve their retirement goals. This addition to the LGSS stable of products will represent an initial expansion for member services.

COMPLAINTS

The Trustee aims to ensure that members will always receive satisfactory service from FuturePlus and that all enquiries will be promptly attended to. If, however, a member is dissatisfied with the service, a formal complaint can be lodged in writing to: Complaints Resolution Officer, Superannuation Services Company Pty Limited, Level 12, 28 Margaret Street, Sydney NSW 2000. Tel: (02) 9299 3000.

The Complaints Resolution Officer, who maintains a register of all complaints and actions, will consider the complaint on behalf of the Trustee and respond to the member as soon as possible.

If a member is not satisfied with the response or the complaint has not been resolved within 90 days, the member can refer the complaint to the Superannuation Complaints Tribunal, located in Melbourne.

The Tribunal has been established for the purpose of providing totally independent input into disputes which may arise between superannuation funds and their members, former members or beneficiaries. The Tribunal can only consider matters which impact on members personally and not in respect of the overall conduct of

the Scheme. Members may only approach the Tribunal if they have first been through the Scheme's internal complaints procedure.

In exercising its power, the Tribunal cannot alter the provisions of the Trust Deed. All complaints to the Tribunal must be made in writing and at a member's own expense.

The staff at the Tribunal will attempt to resolve the matter by conciliation, which involves assisting members and the Scheme to come to a mutual agreement. However, the Tribunal's capacity to make determinations that are binding on all parties is not currently known due to a recent ruling by the Federal Court. In the meantime, the Tribunal will continue to exercise conciliation powers in relation to complaints.

The contact details are: The Secretary, Superannuation Complaints Tribunal, Locked Bag 3060, GPO Melbourne Vic 3001. Tel: 13 14 34.

ENQUIRIES, HELP & ADVICE

FuturePlus Member Services is the members' enquiry service centre. Any enquiries about the Scheme should be directed to:

FuturePlus Member Services
Ground Floor, 28 Margaret Street, Sydney NSW 2000
Tel 1300 369 901 Fax (02) 9279 4131

Telephone enquiries may be made between 8.30am and 5.30pm Monday-Friday, and personal interviews are available between 9.00am and 4.30pm Monday to Friday.

Written enquiries should be sent to the above address.

Some examples of how members may use the Member Services centre include:

- Enquiries about the amount of benefits, and when they may receive benefits and rollover opportunities.
- Information concerning members' current investment selection and alternatives available to them.
- Advice on the implications of commencing, varying or stopping voluntary member contributions.
- Information concerning death and invalidity insurance options.
- Reviewing copies of Scheme documents such as the audited accounts and the Trust Deed and Rules.

Members are encouraged to use this free service.

FURTHER INFORMATION

The following documents are available for member's inspection:

- The Trust Deed.
- The Scheme accounts and Auditor's report.
- An Actuarial statement and other advice.

Members may access these documents or further information on the Scheme by contacting: Member Services, Ground Floor, 28 Margaret Street Sydney, Sydney 2000.

Tel: 1300 369 901 (8.30am-5.30pm Monday-Friday).



annual report **future directions**



COMMITMENT TO THE MISSION STATEMENT

The Local Government Superannuation Scheme was established in 1997 with a commitment to improving the long-term benefit to members' retirement incomes.

That commitment extends not only to improving the longer term investment outcomes, but to have a scheme which has, as a key priority, enhanced levels of member service and education.

Work-site visits, pre-retirement seminars, and information on how to maximise benefits, go hand-in-hand with efforts to both improve investment returns and to lower administration costs.

Member servicing has changed for the better with the establishment of a call centre (in July 1998) to deal directly with employer and member enquiries. The centre averages over 200 calls a day from the diverse Local Government and Energy Industries membership.

When combined with the product development and enhancement activities which will take place during the 1998/99 financial year, the gains to stakeholders from the establishment of the Local Government Superannuation Scheme will be reinforced further during its second year of operations.

THE 1997/98 YEAR IN REVIEW

After examining the arrangements that the Scheme accepted as part of its establishment, a comprehensive review of both investment objectives and Scheme administration was conducted.

Substantial progress in the 1997/98 year in creating the environment for enhancing the financial security of the Scheme was carefully implemented as a platform for the present and future.

Policies were set in place to make the Scheme relevant and appropriate for the needs of the employers, while an extensive member advisory programme – which involved visiting every Head Office and work site – was implemented to ensure that members had an opportunity to deal direct with the Scheme.

Despite the generally difficult investment environment, including concerns about Asian and then worldwide economies, the Scheme was able to respond creditably to those investment markets in both the Defined Benefit and Accumulation components.

The objectives by the Scheme's Trustee were to establish a good real rate of investment return over the long term to improve the financial security of the Scheme and the returns sought by the members.







The 1997/98 outcomes reflected a solid start to the achievement of the long term targets set by the Trustee.

The review of Scheme administration arrangements, and the need to have arrangements designed to suit the developments of the Scheme, saw member record-keeping move to Buck Consultants from 1 July 1998, while member advisory services were brought in-house. This gave a greater level of control to both employers and members.

The quality of the interaction between the Scheme and its members – through the face-to-face visitation programmes and the access to the Scheme via the call centre – has led to a demonstrable improvement in these areas.

1998/99 STRATEGY

The early difficulties in investment markets that emerged during 1997/98 have continued into the initial period of 1998/99.

General volatility in investment markets is not a new phenomenon, nor will it cease in the future.

The objectives that the Trustee has established recognise that month-to-month, even year-to-year, fluctuations in investment returns are a necessary part of the ongoing management task.

The balance between growth assets and fixed income securities will drive the longer-term outcomes, and maintenance of the current sound financial position of the Scheme. These are appropriate adjuncts to the conservative and proper husbandry of the assets of the Scheme.

The more conservative investment expectations for the current financial year, particularly as a slower world growth scenario unfolds, suggests that the strong performance numbers seen during the 1997/98 year are unlikely to occur again this year. As the global economy again re-gathers momentum, however, a return to sound, albeit unspectacular, investment results are likely to reappear.

In any low investment return environment, policies designed to reduce the costs of funds management and Scheme administration are necessary in both employer and member interests.

Significant multi-year reductions in administration costs were a feature of the changes already in place in the member record keeping/member advisory areas. The allocation of these lower costs is also a significant feature of the maximisation of benefits.

Further offsets to costs via product design, and some cost-recovery product/service improvements, will act to bear down on the operating expenses of the Scheme.

An adequate response to any Choice of Fund legislation – both in terms of product offering and member education – will also help reduce the cost to employers of meeting their superannuation requirements.

KEY FOCUS AREAS

- Internalise and improve the level of member services.
- Create and extend the product range to serve members in the Scheme.
- Improve the efficiency of data collection between Scheme and employers/members.
- Develop a comprehensive information kit to assist employers to meet any obligations under the possible Choice of Funds requirements.
- Better position the Scheme to deliver superior outcomes for employers and members against competitor products.
- Maintain investment objectives/strategies to further enhance medium to long-term financial security of the Scheme.



Your Retirement Goals
Are you saving enough?

annual report **changes to super**

TRUST DEED AMENDMENTS & RECENT DEVELOPMENTS

There have been a number of changes to the Commonwealth superannuation legislation. Where necessary, the Trust Deed and Rules of the Local Government Superannuation Scheme have been amended to accommodate these and other administrative changes.

Spouse Rebate

A rebate of up to \$450 may be available to any taxpayer who makes a contribution to a superannuation fund on behalf of their non-working or low-income spouse.

For more information on how the rebate is calculated or to find out who may be eligible to receive the rebate, please contact FuturePlus Member Services on 1300 369 901.

Preservation

There have been two recent changes to the benefit preservation requirements.

- Previously benefits had to be preserved until at least age 55. This has changed and the preservation age is now between 55 and 60, depending on date of birth.

DATE OF BIRTH	PRESERVATION AGE
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
After 30 June 1964	60

- From 1 July 1999, the amount of an individual's preserved benefit will increase. In addition to those benefits currently subject to preservation, all future contributions and all interest added to an account will have to be preserved in a superannuation or rollover fund until at least the member's preservation age. Details of preserved and cash benefits are advised on the Annual Member Statements.

Superannuation Guarantee rate to 7%, contributions to age 70

There have been two changes to the compulsory Superannuation Guarantee (SG) contributions that an employer is required to make.

- Since 1 July 1997, SG contributions had to be made for employees up to age 70 (previously the contributions cut out at age 65).
- From 1 July 1998, the SG contributions have increased from 6% to 7% of the employee's salary or wage.

Superannuation and Family Law

Prior to the October election, the Government announced its intention to introduce reforms to the treatment of superannuation assets during divorce settlements.

The aim of the reform is to allow the parties involved to reach an agreement on how all the assets, including superannuation, will be split. It is only where the parties can't reach a solution that the Family Court will become involved.

Superannuation Surcharge Tax

The superannuation surcharge tax is a new tax introduced in the August 1996 Federal Budget, which will apply to contributions made after 21/8/96 for some members.

If a member's Adjusted Taxable Income (taxable salary plus surchargeable contributions) was over \$70,000 in 1996/97 or over \$73,220 in 1997/98, this tax will apply. The tax may also apply to a member who has not provided the Trustee with a Tax File Number (TFN).

The surcharge tax ranges from 0-15% and is calculated by the Tax Office. If the tax is to apply, the Tax Office will send an assessment to the Trustee which will pay the amount on the member's behalf. The member's benefit will be reduced by the amount of surcharge tax paid to the Tax Office.

If a member's benefit was rolled over from First State Super, an assessment has not yet been received by the Trustee for the 1996/97 year. The Trustee will report these TFN and contribution details for 1997/98 to the Tax Office shortly.

The Trustee expects to receive an assessment for these contributions in 1999. Members who have not given their TFNs to the Trustee, have been asked to submit these to make sure they only pay the surcharge tax if they are high income earners.

6,986.37
5,986.35
6,986.37

x
x

6,986.37
5,986.35
6,986.37

annual report **statutory information**



BOX 12 GPO, SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

To Members of the New South Wales Parliament and the Trustees of the Scheme

(A) Financial Statements

Scope

I have audited the accounts of the Local Government Superannuation Scheme Pool A for the year ended 30 June 1998. The preparation and presentation of the financial report consisting of the accompanying statement of financial position and operating statement, together with the notes thereto, and the information contained therein, is the responsibility of the Trustee of the Scheme. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament and Trustee of the Scheme based on my audit as required by sections 34 and 45(1) of the *Public Finance and Audit Act 1983*.

My audit has been conducted in accordance with the provisions of the Act and Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements so as to present a view which is consistent with my understanding of the Scheme's financial position and results of its operations.

The financial report audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report of the Local Government Superannuation Scheme Pool A presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements, the financial position of the Scheme as at 30 June 1998 and the results of its operations for the year then ended. ▶

(B) Compliance

Scope

I have conducted tests in accordance with Australian Auditing Standards as necessary to provide reasonable assurance as to whether the Local Government Superannuation Scheme Pool A has complied, in all material respects with:

- (a) The relevant requirements of the following provisions (to the extent applicable) of the *Superannuation Industry (Supervision) Act 1993* and Regulations: sections 19(2), 19(3), 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 102, 103, 104, 106, 107, 108, 109, 111, 112, 113, 117, 118, 122, 124, 125, 152, 153, 154, 169; and Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) The Guidelines issued by the ISC on Risk Management Statements For Superannuation Entities Investing In Derivatives (to the extent applicable) for the year ended 30 June 1998.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations. My procedures with respect to the Guidelines consisted of confirming that the relevant Risk Management Statements have been prepared and are broadly consistent with the requirements of the Guidelines. No opinion is expressed on the appropriateness of the Risk Management Statements or whether the Scheme has complied with the procedures set out in the Risk Management Statements.

These tests have not been performed continuously throughout the year, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines apart from those specified. The Scheme Trustee is responsible for ensuring compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines.

The opinion on compliance expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the Local Government Superannuation Scheme Pool A has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines specified above for the year ended 30 June 1998.



A C HARRIS

SYDNEY

24 December 1998

STATEMENT BY THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 1998

Pursuant to Section 41C(1B) and (1C) of the Public Finance and Audit Act, 1983 and in accordance with a resolution of the Board of LGSS Pty Limited, we declare on behalf of the Board that in our opinion:

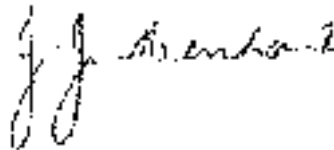
1. The financial statements present a true and fair view of the position of the Local Government Superannuation Scheme Pool A as at 30 June 1998 and transactions for the year then ended; and
2. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit (Statutory Bodies) Regulation, 1995 and the Treasurer's directions.

Further, we are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 22nd day of December 1998.



Director



Director

OPERATING STATEMENT FOR THE YEAR ENDED 30 JUNE 1998

	NOTE	1998 <u>\$'000</u>
Investment Revenue		
Short Term Investments		278
Australian Fixed Interest		937
Australian Equities		1,493
International Investments		1,447
Property Trusts		<u>609</u>
		4,764
Changes in Market Value of Investments		<u>15,267</u>
Total Investment Revenue	8	<u>20,031</u>
Investment Expenses	1(e)	<u>(297)</u>
Net Investment Revenue		<u>19,734</u>
Contribution Revenue		
Employer Contributions		42,193
Member Contributions		<u>26,239</u>
Total Contribution Revenue	9	<u>68,432</u>
Total Revenue		<u>88,166</u>
Benefits Paid		(12,302)
Scheme Administration Expenses	10	(881)
Insurance Premium		<u>(75)</u>
Total Expenses		<u>(13,258)</u>
Operating Result Before Abnormal Item and Income Tax		74,908
Abnormal Item	2	<u>161,589</u>
Operating Result Before Income Tax		236,497
Income Tax Expense	6	<u>(7,983)</u>
Benefits Accrued as a Result of Operations		<u>228,514</u>

The above Operating Statement should be read in conjunction with the accompanying Notes.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 1998

	NOTE	1998 <u>\$'000</u>
Investments		
Short Term Investments		20,120
Australian Fixed Interest		32,570
Australian Equities		43,147
International Investments		46,268
Property Trusts		14,267
Pooled Superannuation Trusts		<u>73,056</u>
Total Investments	3	<u>229,428</u>
Other Assets		
Cash	13	5,375
Receivables	4	<u>2,971</u>
Total Other Assets		<u>8,346</u>
 Total Assets		 <u>237,774</u>
Less:		
Liabilities		
Creditors	5	1,277
Provision for Income Tax	6	6,243
Provision for Deferred Income Tax	6	1,740
 Total Liabilities		 <u>9,260</u>
 Net Assets Available to Pay Benefits		 <u>228,514</u>
 Represented by:		
Liability for Accrued Benefits		
Funds Allocated to Members' Accounts		225,838
Funds Not Yet Allocated to Members' Accounts	7(b)	661
Death or Invalidity Reserve	7(c)	<u>2,015</u>
 Total Liability for Accrued Benefits	 7(a)	 <u>228,514</u>

The above Statement of Financial Position should be read in conjunction with the accompanying Notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 1998

	NOTE	1998 \$'000
		<u>INFLOWS/(OUTFLOWS)</u>
Cash Flows from Operating Activities:		
Contributions Received -		
Employers		42,257
Members		26,239
Transfers from other funds		161,589
Interest Received		1,168
Dividends Received		1,749
Benefits Paid		(12,302)
Scheme Administration Expenses Paid		(952)
Investment Expenses Paid		(137)
Insurance Premiums		(75)
Net Cash Flow from Operating Activities	13	<u>219,536</u>
Cash Flows from Investing Activities:		
Proceeds from Sales of Short Term Investments		72,541
Proceeds from Sales of Australian Fixed Interest		123,524
Proceeds from Sales of Australian Equities		75,167
Proceeds from Sales of International Investments		2,511
Proceeds from Sales of Property Trusts		573
Redemption from Pooled Superannuation Trusts		2,373
Purchases of Short Term Investments		(92,051)
Purchases of Australian Fixed Interest		(155,182)
Purchases of Australian Equities		(118,602)
Purchases of International Investments		(39,059)
Purchases of Property Trusts		(14,565)
Application to Pooled Superannuation Trusts		(71,391)
Net Cash used in Investing Activities		<u>(214,161)</u>
Net Increase in Cash Held		5,375
Cash at the Beginning of the Financial Year		<u>-</u>
Cash at the End of the Financial Year	13	<u>5,375</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying Notes

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1998

1. STATEMENT OF ACCOUNTING POLICIES

The Local Government Superannuation Scheme Pool A ("the Fund") was established under a trust deed and commenced operations on 1 July 1997. It is an accumulation fund and is a superannuation scheme of the LGSS Pty Limited ("LGSS"). LGSS acts as Trustee and holds in trust all assets of the Fund. It consists of Local Government members transferred from the First State Superannuation Fund ("FSS") and the Public Sector Executives Superannuation Fund ("PSES") in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 ("the Act"). Previously, all scheme members were included in the FSS and PSES Funds and the assets were administered by the FSS Trustee Corporation ("FTC") under the Act. The Fund is a reporting entity for accounting and taxation purposes.

Local Government Superannuation Scheme Pool A consists of two divisions. Division A represents members transferred from FSS and Division E represents members transferred from PSES.

Scheme administration services for the Fund were performed by the Superannuation Administration Authority of New South Wales ("SAA"). SAA ceased to act as administrators on 30 June 1998. Buck Consultants commenced administration services effective 1 July 1998.

Division A's custodial activities are provided by State Street Australia Limited. The following fund managers perform the funds management activities:

■ Cash Portfolio	100%	– Morgan Grenfell (Australia) Limited (formerly Axiom Funds Management Limited)
■ Australian Fixed Interest Portfolio	50%	– BT Funds Management Limited
	50%	– Norwich Investment Management Limited
■ International Fixed Interest Portfolio	100%	– Rothschild Funds Management Limited
■ Australian Equity Portfolio	50%	– HSBC Asset Management Australia Limited
	50%	– Morgan Grenfell (Australia) Limited
■ International Equity Portfolio	100%	– State Street Global Advisors Australia Limited
■ Property Trust Portfolio	100%	– Macquarie Investment Management Limited

Division E investments are managed by BT Funds Management Limited. G.I.O. Australia manages the Death or Invalidity Insurance.

SAA, State Street and BT charge management fees for the services provided.

The significant accounting policies which have been adopted in the preparation of the financial statements are set out below.

(a) General System of Accounting Underlying the Financial Statements

The financial statements form a general purpose financial report and are prepared in accordance with the Public Finance and Audit Act, 1983, section 41B of the Public Finance and Audit (Statutory Bodies) Regulation, 1995, and the Treasurer's directions. They also comply with applicable Australian Accounting Standards, and other professional reporting requirements (for example, Urgent Issues Group Consensus Views).

The financial statements are prepared in accordance with AAS 25 "Financial Reporting by Superannuation Plans", the Superannuation Industry (Supervision) Act 1993 and Regulations.

The financial statements are prepared using the accrual method of accounting.

(b) Investments

Division A:

The valuation of each class of investment as at 30 June is determined as follows:

Short Term Investments:	Market rates.
Fixed Interest:	Relevant fixed interest securities markets.
Equities:	Relevant stock exchange official quotation or if unlisted, last sale price.
Property Trusts:	Stock exchange official quotation.

Investments are recorded at balance date at net market value, which comprises market value less estimated costs of disposal. Changes in market values, representing gains or losses, are recognised in the Operating Statement in the year in which they occur.

Division E:

Investments are recorded at balance date at net market value.

Net contributions received from members are invested into pooled superannuation trusts managed by BT Funds Management Limited and into a Cash Management Bank Account with Westpac at the end of each month. Movements in unit redemption values in the pooled superannuation trusts are brought to account in the Operating Statement as changes in net market values. Corresponding investment management expenses are reflected in the unit redemption prices.

Investment requests for the pooled superannuation trusts are effected by purchasing units in the relative trusts based on investment mixes nominated by members. Amounts realised on unit redemptions from complying pooled superannuation trusts are exempt from the capital gains tax provisions of the Income Tax Assessment Act. This is reflected in the unit redemption prices.

(c) Income Tax

LGSS has adopted the liability method of tax effect accounting whereby income tax is regarded as an expense and is calculated on the operating result after allowing for permanent differences.

To the extent that timing differences occur between the time items are recognised in the accounts and when items are taken into consideration in determining taxable income, the net related taxation benefit or liability calculated at current rates is disclosed as a Future Income Tax Benefit or Provision for Deferred Income Tax.

Future Income Tax Benefits are not brought to account unless their realisation is assured beyond reasonable doubt. The amount of these benefits is based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Fund will derive sufficient future assessable income to enable the benefit to be realised and will comply with the conditions of deductibility imposed by law.

(d) Contributions

Member and employer contributions comprise sums received at balance date and do not include amounts relating to the period which may be received subsequent to balance date.

(e) Management Expenses

Scheme Administration expenses, other than expenses of administering the death or invalidity insurance provision of the fund, are charged directly to members' accounts to the extent permissible through legislation.

Death or invalidity insurance expenses are charged directly to the Death or Invalidity Benefit Management Reserve.

Investment Expenses are charged directly against investment revenue.

(f) Liability for Accrued Benefits

The liability for accrued benefits is the present obligation to pay benefits to members and beneficiaries represented by the carrying amount of the Net Assets Available to Pay Benefits.

(g) Foreign Currency Transactions

Foreign currency transactions during the year are converted to Australian dollars at the rate of exchange applicable at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

(h) Superannuation Contributions Surcharge

No provision has been made in these financial statements for the amount of the superannuation contributions surcharge which may be payable by the Fund under the Superannuation Contributions Tax (Assessment and Collection) Act 1997. The Trustee is unable to determine the amount of the surcharge until assessments are received from the Australian Taxation Office.

(i) Year 2000 Software Modification Costs

LGSS has ensured that it has a strategy in place to assess if and to what extent the date change from 1999 to 2000 may affect its activities. LGSS has established a programme to help ensure that the impact of the transition to the year 2000 on LGSS and its members is minimised by seeking to ensure that its significant/core computer hardware, software and/or systems are year 2000 compliant. LGSS does not expect its activities to be significantly impacted by the date change.

(j) Roundings

All values reported in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

(k) Cash Flows

For the purpose of the Statement of Cash Flows, cash represents cash at bank.

(l) Comparative Figures

The Fund commenced as an entity on 1 July 1997; consequently no comparative figures are available.

2. ABNORMAL ITEM

	1998
	\$'000
Transfer of FSS members to the Fund	100,457
Transfer of FSS Dori Reserve to the Fund	1,335
Total Transfer from FSS to the Fund	<u>101,792</u>
Total Transfer of PSES members to the Fund	<u>59,797</u>
TOTAL TRANSFER TO THE FUND	<u>161,589</u>
Income Tax Effect	-

Effective from 1 July 1997 and in accordance with a government policy decision, certain Local Government members were transferred from FSS and PSES to their own superannuation scheme known as Local Government Superannuation Scheme Pool A.

All costs associated with the transfer have been paid by LGSS Pool B Employer reserves.

All assets of the Fund were transferred in accordance with Trustee agreements.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

3. INVESTMENTS

Investments Held – Division A

	1998					TOTAL \$'000
	CASH PLUS \$'000	CAPITAL GUARDED \$'000	BALANCED \$'000	DIVERSIFIED \$'000	HIGH GROWTH \$'000	
Short Term Investments	8,272	1,203	1,653	5,527	156	16,811
Australian Fixed Interest	-	3,535	8,076	20,849	110	32,570
Australian Equities	-	1,153	5,430	35,133	1,431	43,147
International Investments	-	1,675	6,210	36,665	1,718	46,268
Property Trusts	-	397	1,800	11,518	552	14,267
	8,272	7,963	23,169	109,692	3,967	153,063

Included in the above investments are the following unlisted investments:

	1998 \$'000
Short Term Investments	16,214
Australian Fixed Interest	19,938
Australian Equities	1,100
International Investments	46,268
Property Trusts	14,266
	97,786

Investments Held – Division E

	1998			
	Unit Price \$	Number of Units	Redemption Value \$'000	Increase in Unit Price %
BT Stable Capital Fund	3.714	8,141,053	30,236	5.60
BT Retirement Fund	53.514	800,171	42,820	6.47
Short Term Investments			3,309	
			76,365	

Unit prices are the redemption prices at Balance Date and represent the Net Market Value at that date.

4. RECEIVABLES

	1998 \$'000
Accrued Income	2,000
Investment Sales	899
Amount Receivable – LGSS	71
Other Receivables	1
	2,971

5. CREDITORS

	1998 \$'000
Refunds & Unclaimed Monies	43
Investment Purchases	1,058
Other Creditors	176
	1,277

8. INVESTMENT REVENUE

Division A

	1998 CHANGES IN NET MARKET VALUES			TOTAL \$'000
	INCOME/(LOSS)	HELD AT REPORTING DATE	REALISED DURING THE YEAR	
	\$'000	GAIN \$'000	GAIN/(LOSS) \$'000	
Total Revenue				
Short Term Investments	210	50	320	580
Australian Fixed Interest	937	1,100	369	2,406
Australian Equities	1,493	390	(1,000)	883
International Investments	1,447	9,439	278	11,164
Property Trusts	609	252	31	892
	4,696	11,231	(2)	15,925

Investment Revenue from each investment strategy comprises:

Cash Plus	651	20	142	813
Capital Guarded	(647)	310	48	(289)
Balanced	1,584	1,417	45	3,046
Diversified	3,514	9,074	(224)	12,364
High Growth	(406)	410	(13)	(9)
	4,696	11,231	(2)	15,925

Investment Revenue from each class of investment strategy comprises:

Cash Plus

Short Term Investments	651	20	142	813
	651	20	142	813

Capital Guarded

Short Term Investments	(8)	4	25	21
Australian Fixed Interest	(336)	113	38	(185)
Australian Equities	(188)	11	(25)	(202)
International Investments	(80)	175	9	104
Property Trusts	(35)	7	1	(27)
	(647)	310	48	(289)

Balanced

Short Term Investments	(124)	6	34	(84)
Australian Fixed Interest	504	260	89	853
Australian Equities	538	63	(119)	482
International Investments	516	1,058	38	1,612
Property Trusts	150	30	3	183
	1,584	1,417	45	3,046

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

1998 CHANGES IN NET MARKET VALUES

	INCOME/(LOSS)	HELD AT REPORTING DATE	REALISED DURING THE YEAR	TOTAL
	\$'000	GAIN \$'000	GAIN/(LOSS) \$'000	\$'000
Diversified				
Short Term Investments	(302)	20	116	(166)
Australian Fixed Interest	781	724	241	1,746
Australian Equities	1,316	298	(828)	786
International Investments	1,173	7,826	221	9,220
Property Trusts	546	206	26	778
	3,514	9,074	(224)	12,364
High Growth				
Short Term Investments	(7)	-	3	(4)
Australian Fixed Interest	(12)	3	1	(8)
Australian Equities	(173)	18	(28)	(183)
International Investments	(162)	380	10	228
Property Trusts	(52)	9	1	(42)
	(406)	410	(13)	(9)

Investment revenue includes earnings on unlisted investments as shown below:

	1998 \$'000
Short Term Investments	55
Australian Fixed Interest	108
Australian Equities	105
International Investments	133
Property Trusts	542
	943

Division E

1998 CHANGES IN NET MARKET VALUES

	INCOME	HELD AT REPORTING DATE	REALISED DURING THE YEAR	TOTAL
	\$'000	GAIN \$'000	GAIN \$'000	\$'000
Short Term Investments	68	-	-	68
BT Stable Capital Fund	-	186	1,340	1,526
BT Retirement Fund	-	258	2,254	2,512
	68	444	3,594	4,106

9. EMPLOYER AND MEMBER CONTRIBUTIONS

Compulsory Employer Contributions

The percentage of salary or wages of employees prescribed as the rate of compulsory employer (Superannuation Guarantee) contributions between 1 July 1997 to 30 June 1998 was 6%.

Optional Employer Contributions

Employers may make additional contributions to the Fund for employees in respect of whom compulsory employer contributions are being made.

Optional Member Contributions

Employees as defined in the Act, may make voluntary contributions to the Fund in the form of periodical payments or single payments. Payments include benefits transferred or rolled over from another superannuation fund, approved deposit fund, or retirement savings account.

Investment Strategy Selection

Division A

Members can choose from five different options in determining their investment strategy. If a member subject to member protection has not chosen a particular investment strategy the account balance is invested in the Cash Plus strategy. If a member with an account balance greater than \$1,000 has not chosen a particular investment strategy, an automatic investment strategy selection will be made on the basis of the member's age as shown below.

INVESTMENT STRATEGY	MEMBERS AGE GROUP
High Growth	No automatic allocation. Must be selected by members.
Diversified	Members aged 18 - 45
Balanced	Members aged 46 - 55
Capital Guarded	Members aged 56+
Cash Plus	Automatic strategy for accounts under \$1,000 (subject to 'member protection'). Must be selected by other members.

Division E

Members must elect to invest in BT or Westpac Cash Management. Members electing BT are able to nominate the proportion to be invested in either the BT Stable Capital Fund or BT Retirement Fund.

10. SCHEME ADMINISTRATION EXPENSES

	1998
	\$'000
Included in Scheme Administration Expenses is the following item:	
Audit Fees	52

11. GUARANTEED BENEFITS

No guarantees have been made in respect of any future payments to members concerning accrued benefits.

12. VESTED BENEFITS

Benefits not conditional upon continued membership of the scheme, that is, benefits which members were entitled to receive had they terminated their scheme membership as at 30 June 1998 were \$226,500,375.

13. CASH FLOW INFORMATION**(a) Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	1998
	\$'000
	<hr/>
Cash at Bank	5,375
	<hr/>

The Fund does not have any credit standby arrangements or loan facilities.

(b) Reconciliation of Benefits Accrued as a Result of Operations to Net Cash

	INFLOWS/(OUTFLOWS)
	<hr/>
Flow from Operating Activities	
Benefits Accrued as a Result of Operations	228,514
Less: Changes in Net Market Values	15,267
	<hr/>
	213,247
Changes in Assets and Liabilities:	
Increase in Receivables	(2,971)
Increase in Creditors	1,277
Increase in Provision for Income Tax	6,243
Increase in Provision for Deferred Income Tax	1,740
	<hr/>
Net Cash Flow from Operating Activities	219,536
	<hr/>

14. CONTINGENT LIABILITIES

In managing the investment portfolio the fund managers enter into various types of investment contracts that can give rise to contingent liabilities. These contracts are detailed in Note 16.

15. SEGMENT REPORTING

The Fund operates in the superannuation and investment management industry in New South Wales.

16. FINANCIAL INSTRUMENTS

The information pertaining to financial instruments set out below is made in accordance with the provisions of AAS33 "Presentation and Disclosure of Financial Instruments".

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary instruments (such as receivables, payables and equity securities) and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements and interest rate and currency swaps). The Fund's monies are invested in a variety of financial instruments included in the asset classes summarised in Note 3.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

(i) Terms, Conditions and Accounting Policies

Derivatives are used in managing portfolios as a hedge against market movements in the values of physical assets and as a means of effecting a change in the asset mix of the investment portfolio of the Fund. Derivative instruments currently used are futures contracts, exchange traded options, forward rate agreements and foreign exchange contracts.

All derivative contracts are written against cash, physical securities or other specific commitments and are not leveraged. Derivatives are not used for speculative purposes. These activities are undertaken within authorised and clearly defined limits.

The Fund's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instruments, both recognised and unrecognised, at the balance date, are:

Financial Assets			
Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
Cash and Cash Equivalents		Reflects in Australian dollars the sum of all currencies held. Cash equivalents are short term interest bearing securities held at call.	The average interest rate was 3.75%
Short Term Investments	3	Short term interest bearing securities held at a fixed or indexed interest rate valued at net fair value.	Investments represent deposits at call, which have no fixed maturity date. The effective interest rates are between 4.25% and 5.49%.
Forward Exchange Contracts	16	Unrealised gains and losses on forward foreign exchange contracts are recognised at reporting period. Realised gains and losses are brought to account in the period in which they occur.	The contracts are entered into to hedge certain purchase and sale commitments denominated in foreign currencies. The objective is to match the anticipated future cash flows in foreign currencies and to protect the Fund against future loss from exchange rate fluctuations.
Derivatives	16	Derivatives are measured at net fair value at reporting date. Any unrealised gains or losses are recognised in that reporting period. Realised gains or losses on termination of derivative positions are brought to account in the period in which they occur.	Derivatives are used to gain access to and allow flexibility in the financial markets in order to manage and structure the Fund's investment portfolio.
Receivable for Investments Sold	3	Records that total proceeds from sales physical assets that have been processed, but have not been settled as at balance date.	Sales of investments are settled shortly after the execution of the trade, according to the market convention. Total value of receivables \$898,727.30.
Receivable for Currency Exchanged		Records the total proceeds from currency sales (foreign exchange contracts) that have been processed, but have not been settled as at balance date.	Foreign exchange contracts are entered into to hedge purchase and sale commitments denominated in foreign currencies. Total value \$0.
Dividends Receivable	4	Dividend income due but not yet received on equities/trusts from the date the dividend was announced (ex-date).	Total value \$1,560,697.52.
Interest Receivable	4	Interest income, net of withholding tax and tax refunds, due but not yet received on interest bearing securities.	Total value \$439,277.00.
Investments in Pooled Super Trusts	3	Investments in Pooled Super Trusts are carried at net market value. The basis for their valuation is the closing unit redemption price as at the close of business on the last day of the period. Income is recognised when earned.	
Unlisted Shares	3	The basis for their valuation is the last sale price or calculated underlying value adjusted for transaction costs.	

Financial Liabilities			
Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
Payable for Investments Purchased	5	Records the total payments for the purchase of physical assets that have been processed, but have not settled as at balance date.	Purchases of investments are settled shortly after the execution of the trade, according to market convention. Total value of payables \$1,058,682.62.
Payable for Currency Exchanged		Records the total payments for the purchase of currency (foreign exchange contracts) that have been processed, but have not settled as at balance date.	Foreign exchange contracts are entered into to hedge purchase and sale commitments denominated in foreign currencies. Total value \$0.
Tax	6	The liability for taxation is accounted for in accordance with AAS 3.	The income tax liability is calculated using a tax rate of 15%.

(ii) Credit Risk Exposures

The net market value of financial assets, including derivatives, included in the financial accounts represents the Fund's exposure to credit risk in relation to those assets.

The Fund does not have any significant exposure to any individual counterparty or industry. Its assets are invested by individual investment managers and in specific investment trusts.

(iii) Liquidity Risk Exposures

Liquidity risk is the risk that there are insufficient liquid assets available to pay the beneficiaries of the Fund. This risk is managed by assessing, on both a short term and long term basis, the Fund's cash flow requirements.

(iv) Currency Risk Exposures

Exposure to foreign exchange rate movements at 30 June 1998 is contained in the International Investment Trusts.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

(v) Interest Rate Risk Exposures

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in the market interest rates.

The Fund's exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 1998 are shown as follows. All other financial assets and liabilities are non-interest bearing.

	1998					TOTAL
	MARKET VALUE FIXED INTEREST RATE MATURING					
	FLOATING INTEREST RATE \$'000	WITHIN 12 MONTHS \$'000	1-5 YRS \$'000	OVER 5 YRS \$'000	NON-INTEREST BEARING \$'000	
Assets						
Cash	5,375	-	-	-	-	5,375
Short Term Investments	11,880	10,666	-	-	-	22,546
Receivables	-	-	-	-	2,971	2,971
Bonds	-	-	6,434	8,204	-	14,638
Investment Trusts	-	-	-	-	119,188	119,188
Pooled Superannuation Trusts	-	-	-	-	73,056	73,056
Total Financial Assets	17,255	10,666	6,434	8,204	195,215	237,774
 Weighted Average Effective Interest Rate	4.19%	5.05%	5.29%	5.49%	N/A	
Liabilities						
Creditors	-	-	-	-	1,277	1,277
Tax Payable	-	-	-	-	7,983	7,983
Total Financial Liabilities	-	-	-	-	9,260	9,260

(vi) Net Fair Values Disclosures

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash, cash equivalents and short term investments

The carrying amounts approximate fair value because of their short term maturity.

Non-current investments/securities

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset, adjusted for transaction costs necessary to realise the asset. For investments where there is no quoted market price, the last sale price or calculated underlying value is used, adjusted for transaction costs.

17. RELATED PARTY INFORMATION

The Trustee of the Fund is the LGSS Pty Limited. The names of the directors of LGSS Pty Limited in office during the year ended 30 June 1998 are as follows:-

Mr D Campbell	(appointed 26.3.97)
Mr E Carolan OAM	(appointed 26.3.97)
Mr J Wearne	(appointed 26.3.97)
Mr P Woods OAM	(appointed 26.3.97)
Mr G De Courcey	(appointed 26.3.97)
Mr G Humphries	(appointed 26.3.97)
Mr J Merchant	(appointed 26.3.97)
Mr I Robertson	(appointed 26.3.97)

1998

\$'000

(a) Remuneration Received or Due and Receivable by Directors of EISS (For both Pool A and Pool B)

Directors

295,747

(b) Number of Directors included in these figures are shown in their relevant income bands

Numbers

Remuneration (including superannuation contributions) of:

\$30,000-\$39,999

7

\$50,000-\$59,999

1

8

(c) Transactions entered into during the year with Directors and their related entities:

There have been no transactions between these directors and the Fund, except for the payment to the directors for services rendered in relation to their duties as directors of LGSS, and for the reimbursement of administration costs incurred by the directors whilst attending to Trustee business.

(d) Transactions with Other Related Parties:

Superannuation Services Company Pty Limited, a company owned 50% by LGSS in trust for the Fund, received from LGSS, administrative support on a cost basis which is included as part of Scheme Administration Expense in the Statement of Changes in Net Assets.

- End of Audited Financial Statements -



annual report **statutory information**



BOX 12 GPO, SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

To Members of the New South Wales Parliament and the Trustees of the Scheme

(A) Financial Statements

Scope

I have audited the accounts of the Local Government Superannuation Scheme Pool B for the year ended 30 June 1998. The preparation and presentation of the financial report consisting of the accompanying statement of net assets and statement of changes in net assets, together with the notes thereto, and the information contained therein, is the responsibility of the Trustee of the Scheme. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament and Trustee of the Scheme based on my audit as required by sections 34 and 45(1) of the *Public Finance and Audit Act 1983*.

My audit has been conducted in accordance with the provisions of the Act and Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements so as to present a view which is consistent with my understanding of the Scheme's net assets and the changes in net assets during the year.

The financial report audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report of the Local Government Superannuation Scheme Pool B presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements, the net assets of the Scheme as at 30 June 1998 and the changes in net assets for the year then ended. ▶

(B) Compliance

Scope

I have conducted tests in accordance with Australian Auditing Standards as necessary to provide reasonable assurance as to whether the Local Government Superannuation Scheme Pool B has complied, in all material respects with:

- (a) The relevant requirements of the following provisions (to the extent applicable) of the *Superannuation Industry (Supervision) Act 1993* and Regulations: sections 19(2), 19(3), 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 102, 103, 104, 106, 107, 108, 109, 111, 112, 113, 117, 118, 122, 124, 125, 152, 153, 154, 169; and Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) The Guidelines issued by the ISC on Risk Management Statements For Superannuation Entities Investing In Derivatives (to the extent applicable) for the year ended 30 June 1998.

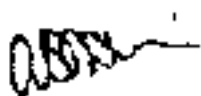
My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations. My procedures with respect to the Guidelines consisted of confirming that the relevant Risk Management Statements have been prepared and are broadly consistent with the requirements of the Guidelines. No opinion is expressed on the appropriateness of the Risk Management Statements or whether the Scheme has complied with the procedures set out in the Risk Management Statements.

These tests have not been performed continuously throughout the year, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines apart from those specified. The Scheme Trustee is responsible for ensuring compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines.

The opinion on compliance expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the Local Government Superannuation Scheme Pool B has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines specified above for the year ended 30 June 1998.



A C HARRIS

SYDNEY

24 December 1998

STATEMENT BY THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 1998

Pursuant to Section 41C(1B) and (1C) of the Public Finance and Audit Act, 1983 and in accordance with a resolution of the Board of LGSS Pty Limited, we declare on behalf of the Board that in our opinion:

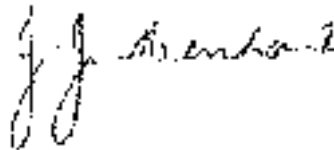
1. The financial statements present a true and fair view of the position of the Local Government Superannuation Scheme Pool B as at 30 June 1998 and transactions for the year then ended; and
2. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit (Statutory Bodies) Regulation, 1995 and the Treasurer's directions.

Further, we are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 22nd day of December 1998.



Director



Director

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 1998

	NOTE	1998 \$'000
Net Assets Available to Pay Benefits at Beginning of Financial Year		-
Contribution Revenue		
Employer Contributions		97,147
Member Contributions		42,157
Contribution Revenue	8	139,304
Investment Revenue		
Short Term Securities		2,429
Australian Fixed Interest		25,932
Australian Equities		31,491
International Investments		24,759
Property Trusts		14,266
		98,877
Changes in Market Values		249,341
Investment Revenue	7	348,218
Investment Expenses		(7,774)
Net Investment Revenue		340,444
Other Revenue		8,077
Total Revenue		487,825
Benefits Paid	9	(176,749)
Scheme Administration Expenses	10	(7,743)
Increase in Net Assets Before Abnormal Item and Income Tax		303,333
Abnormal Item	2	2,136,696
Increase in Net Assets Before Income Tax		2,440,029
Income Tax Expense	4	(54,472)
Increase in Net Assets Available to Pay Benefits After Income Tax		2,385,557
Net Assets Available to Pay Benefits at End of Financial Year	11	2,385,557

The above Statement of Changes in Net Assets should be read in conjunction with the accompanying Notes.

STATEMENT OF NET ASSETS AS AT 30 JUNE 1998

	NOTE	1998 <u>\$'000</u>
Investments		
Short Term Securities		180,183
Australian Fixed Interest		402,603
Australian Equities		839,079
International Investments		873,670
Property Trusts		187,036
Total Investments		<u>2,482,571</u>
Other Assets		
Cash		29
Receivables	3	<u>22,325</u>
Total Other Assets		<u>22,354</u>
Total Assets		2,504,925
LESS:		
Liabilities		
Reserve Units		16
Creditors	5	64,880
Provisions	6	<u>54,472</u>
Total Liabilities		<u>119,368</u>
Net Assets Available to Pay Benefits	11	<u>2,385,557</u>

The above Statement of Net Assets should be read in conjunction with the accompanying Notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1998

1. STATEMENT OF ACCOUNTING POLICIES

The Local Government Superannuation Scheme Pool B ("The Fund") was established under a trust deed and commenced operations on 1 July 1997. It consists of Local Government members transferred from the State Authorities Superannuation Scheme ("Division B"), the State Authorities Non-contributory Superannuation Scheme ("Division C") and the State Superannuation Scheme ("Division D") in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 ("the Act"). Previously, all scheme members were included in the Pooled Fund and the assets were administered by the SAS Trustee Corporation ("STC") under the Act. Since the Local Government members separated from the Pooled Fund on 1 July 1997, LGSS Pty Limited ("LGSS") acts as trustee and holds in trust all assets of the Fund.

Scheme administration services for the Fund were performed by the Superannuation Administration Authority of New South Wales ("SAA"). SAA ceased to act as administrators on 30 June 1998. Buck Consultants Pty Limited commenced administration services effective 1 July 1998.

The Fund's custodial activities are provided by State Street Australia Limited ("State Street"). The following fund managers perform the funds management activities:

■ Cash Portfolio	100%	– Morgan Grenfell (Australia) Limited
■ Australian Fixed Interest Portfolio	100%	– Morgan Grenfell (Australia) Limited
■ Australian Equity Portfolio	90.5%	– Morgan Grenfell (Australia) Limited
	9.5%	– State Street Global Advisors Australia Limited
■ International Equity Portfolio	89.0%	– Morgan Grenfell (Australia) Limited
	11.0%	– Standish Ayer & Wood & Inc
■ Property Trust Portfolio	100%	– Morgan Grenfell (Australia) Limited

SAA and State Street charge management fees for the services provided.

The schemes of the Fund were established under and are governed by various Acts of the New South Wales Parliament. The Division C and Division D Schemes are defined benefit schemes while the Division B Scheme comprises both a defined benefit component and a defined contribution component. All the schemes are closed to new members. The fund is the reporting entity for financial reporting and taxation purposes.

The significant accounting policies which have been adopted in the preparation of the financial statements are set out below.

(a) General System of Accounting Underlying the Financial Statements

The financial statements form a general purpose financial report and are prepared in accordance with the Public Finance and Audit Act, 1983, section 41B of the Public Finance and Audit (Statutory Bodies) Regulation, 1995, and the Treasurer's directions. They also comply with applicable Australian Accounting Standards and other professional reporting requirements (for example, Urgent Issues Group Consensus Views).

The financial statements are prepared in accordance with AAS 25 "Financial Reporting by Superannuation Plans", the Superannuation Industry (Supervision) Act 1993 and Regulations.

The financial statements are prepared using the accrual method of accounting.

(b) Investments

Investments are recorded at balance date at net market value, which comprises market value less estimated costs of disposal. Changes in market values, representing gains or losses, are recognised in the Statement of Changes in Net Assets in the year in which they occur.

The valuation of each class of investment as at 30 June is determined as follows:

Short Term Securities:	Market rates.
Fixed Interest:	Relevant fixed interest securities markets.
Equities:	Relevant stock exchange official quotation or if unlisted last sale price.
Property Trusts:	Stock exchange official quotation.

(c) Foreign Currency Transactions

Foreign currency transactions during the year are converted to Australian dollars at the rate of exchange applicable at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

(d) Income Tax

LGSS has adopted the liability method of tax effect accounting whereby income tax is regarded as an expense and is calculated on the operating result after allowing for permanent differences.

To the extent that timing differences occur between the time items are recognised in the accounts and when items are taken into consideration in determining taxable income, the net related taxation benefit or liability calculated at current rates is disclosed as a Future Income Tax Benefit or Provision for Deferred Income Tax.

Future Income Tax Benefits are not brought to account unless their realisation is assured beyond reasonable doubt. The amount of these benefits is based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Fund will derive sufficient future assessable income to enable the benefit to be realised and will comply with the conditions of deductibility imposed by law.

(e) Liability for Accrued Benefits

An actuarial valuation of accrued benefits of the membership of each scheme as at 30 June 1998 was undertaken by William M Mercer. The results are based on valuation assumptions consistent with the requirements of AAS 25 "Financial Reporting by Superannuation Plans".

AAS 25 requires that a "market-determined risk-adjusted discount rate" be applied as the valuation interest rate in the calculation of the value of the accrued benefits. The 1997 triennial valuation economic assumptions have been used as they are considered to closely reflect long term economic conditions. The following short and long term economic assumptions have been used for these calculations, and also for the employer liability calculations.

	1997/98 % PA	1998/99 % PA	1999/2000 % PA	THEREAFTER % PA
Valuation Interest Rate	7.00	7.00	7.00	7.00
Salary Growth Rate	3.70	4.00	4.00	5.00
CPI Rate	1.10	2.00	2.50	3.25

The projected unit credit method has been used by the actuaries to value the accrued benefits for the Division B, Division C and Division D Schemes. The accrued benefits of the schemes are derived from the value of expected benefits arising in each future year divided in the ratio of duration of service to the valuation date to the duration of service to the year in which the benefit is expected to be payable.

The present value of expected future benefit payments has been determined by discounting the gross benefit payments at a current, market-determined, risk-adjusted discount rate appropriate to the Fund. In all schemes, accumulations of member contributions have, where appropriate, been included in full. Also, for all schemes, future pension entitlements have been included in full in the calculation of accrued benefits.

(f) Vested Benefits

Vested benefits are benefits, which are not conditional upon continued membership of the schemes administered by LGSS, and are the benefits which members were entitled to receive had they terminated their membership as at 30 June 1998.

(g) Management Expenses

Management expenses charged to the Fund comprise:

- Investment Expenses: These are charged directly against investment revenue.
- Scheme Administration Expenses: These are charged to employers and members on the basis of membership numbers.

(h) Reserve Units

Reserve Units are units held by certain Division D Scheme members. They represent units purchased in advance at a rate which is the "rate for age" at the date purchased with an option to convert to full rate units in the Division D Scheme at any future date. On conversion they are no longer recognised as a liability but as part of member funds.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

(i) Year 2000 Software Modification Costs

LGSS has ensured that it has a strategy in place to assess if and to what extent the date change from 1999 to 2000 may affect its activities. LGSS has established a programme to help ensure that the impact of the transition to the year 2000 on LGSS and its members is minimised by seeking to ensure that its significant/core computer hardware, software and/or systems are year 2000 compliant. LGSS does not expect its activities to be significantly impacted by the date change.

(j) Superannuation Contributions Surcharge

No provision has been made in these financial statements for the amount of the superannuation contributions surcharge which may be payable by the Fund under the Superannuation Contributions Tax (Assessment and Collection) Act 1997. The Trustee is unable to determine the amount of the surcharge until assessments are received from the Australian Taxation Office.

(k) Roundings

All values reported in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

(l) Comparative Figures

The Fund commenced as an entity on 1 July 1997; consequently no comparative figures are available.

2. ABNORMAL ITEM

	1998 \$'000
Transfer from the Pooled Fund	2,136,696
Income tax Effect	-

Effective from 1 July 1997 and in accordance with a government policy decision, certain Local Government members were transferred from the Pooled Fund to their own superannuation scheme known as Local Government Superannuation Scheme Pool B. All assets of the Fund were transferred in accordance with Trustee agreements. The establishment costs relating to the transfer amounted to \$982,589 and were paid out of the Fund's Employer Reserves.

All assets of the Fund were transferred in accordance with Trustee agreements.

3. RECEIVABLES

Contributions Receivable	2,801
Other Receivables	2
Investment Sales	7,527
Accrued Income	11,978
Prepayments	17
	22,325

4. INCOME TAX

The prima facie tax on the Increase in Net Assets after Abnormal Item is reconciled to the Income Tax Expense as follows:

Prima facie tax on the Increase in Net Assets at 15%	
(Less)/Plus net tax effect of permanent differences:	366,004
Transfers of member balances	(320,504)
Non-assessable contributions	(5,423)
Non-deductible benefit payments	26,512
Death or invalidity insurance deduction	(799)
Anti-detriment deduction	(260)
Gross-up of franked dividends and WHT	1,917
Exempt income	(338)
Non-deductible expenditure	16
Non-assessable pension related investment income	(870)
Eligible infrastructure bonds	(3)
Adjustment on transfer of assets	934
Imputation and foreign tax credits	(12,714)
Income Tax Expense	54,472

The Income Tax Expense comprises:

Current Income Tax Provision	22,370
Deferred Income Tax Provision	32,102
	54,472

The Fund is exempt from tax on investment income set aside for the payment of pensions.

1998
\$'000

5. CREDITORS

Superannuation Benefits	5,040
Investment Purchases	32,221
Amounts Payable - LGSS	640
Other Creditors	26,979
	64,880

6. PROVISIONS

Income Tax	22,370
Deferred Income Tax	32,102
	54,472

7. INVESTMENT REVENUE

1998 CHANGES IN NET MARKET VALUES

	INCOME	HELD AT REPORTING DATE	REALISED DURING THE YEAR	TOTAL
	\$'000	GAIN/(LOSS) \$'000	GAIN/(LOSS) \$'000	\$'000
Short Term Securities	2,429	455	12,806	15,690
Australian Fixed Interest	25,932	897	-	26,829
Australian Equities	31,491	202	(1,017)	30,676
International Investments	24,759	163,141	56,281	244,181
Property Trusts	14,266	16,576	-	30,842
Total Investment Revenue	98,877	181,271	68,070	348,218

Investment revenue includes earnings on unlisted investments of \$1,240,410.

8. EMPLOYER AND MEMBER CONTRIBUTIONS

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Employer Contributions	79,196	17,436	515	97,147
Member Contributions	41,729	-	428	42,157
Total Contributions	120,925	17,436	943	139,304

Member and Employer contributions for each of the schemes are determined on the bases described below.

(a) Division B Scheme

Member Contributions: Each member elects to contribute between 1% and 9% of salary.

Employer Contributions: Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice.

(b) Division C Scheme

Member Contributions: As the Scheme is 100% employer funded, there are no member contributions.

Employer Contributions: Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice.

(c) Division D Scheme

Member Contributions: Each member contributes on a "rate for age" basis to individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% of salary.

Employer Contributions: Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice.

9. BENEFITS PAID

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Benefits paid	166,919	9,280	550	176,749

10. SCHEME ADMINISTRATION EXPENSES

	1998 \$'000
Included in Scheme Administration Expenses are the following items:	
Audit Fees	53

11. NET ASSETS

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Balance at Beginning of Financial Year	-	-	-	-
Transfer from the Pooled Fund	1,952,593	157,777	26,326	2,136,696
Increase in Net Assets	169,906	74,892	4,063	248,861
Balance at End of Financial Year	2,122,499	232,669	30,389	2,385,557
Comprising:				
Member Reserves	731,366	-	9,226	740,592
Employer Reserves	1,346,938	122,857	21,163	1,490,958
Death or Invalidation Reserves (1)	267	-	-	267
Preserved Benefit Reserves (2)	43,928	109,812	-	153,740
Net Assets Available to Pay Benefits	2,122,499	232,669	30,389	2,385,557

(1) The Death or Invalidation Reserve represents accumulated funds available to provide death or invalidity cover to members for the months during which they have public sector employment. The reserve balance is the excess of member premiums over benefits paid.

(2) The Preserved Benefit Reserve represents member account balances that, on the election of the member or by default, are to remain with the Fund following the member's exit from employment in the public sector.

12. ACCRUED BENEFITS

(a) Liability for Accrued Benefits

	1998		
	ACCRUED BENEFITS \$'000	NET ASSETS AVAILABLE TO PAY BENEFITS \$'000	OVER/(UNDER) FUNDED \$'000
Division B Scheme	1,701,160	2,122,499	421,339
Division C Scheme	165,390	232,669	67,279
Division D Scheme	25,142	30,389	5,247
	1,891,692	2,385,557	493,865

(b) Movement in the Liability for Accrued Benefits

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Balance at Beginning of Financial Year	-	-	-	-
Transfer from the Pooled Fund	1,952,593	157,777	26,326	2,136,696
Less: Benefits Paid	(166,919)	(9,280)	(550)	(176,749)
	1,785,674	148,497	25,776	1,959,947
(Decrease)/Increase in Accrued Benefits	(84,514)	16,893	(634)	(68,255)
Balance at End of Financial Year	1,701,160	165,390	25,142	1,891,692

13. VESTED BENEFITS

	1998		
	ACCRUED BENEFITS \$'000	NET ASSETS AVAILABLE TO PAY BENEFITS \$'000	OVER/(UNDER) FUNDED \$'000
Division B Scheme	1,264,696	2,122,499	857,803
Division C Scheme	193,361	232,669	39,308
Division D Scheme	17,385	30,389	13,004
	1,475,442	2,385,557	910,115

14. FINANCIAL INSTRUMENTS

The information pertaining to financial instruments set out below is made in accordance with the provisions of AAS33 "Presentation and Disclosure of Financial Instruments".

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary instruments (such as receivables, payables and equity securities) and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements and interest rate and currency swaps).

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

(i) Terms, Conditions and Accounting Policies

Derivatives are used in managing portfolios as a hedge against market movements in the values of physical assets and as a means of effecting a change in the asset mix of the investment portfolio of the Fund. Derivative instruments currently used are futures contracts, exchange traded options, forward rate agreements and foreign exchange contracts.

All derivative contracts are written against cash, physical securities or other specific commitments and are not leveraged. Derivatives are not used for speculative purposes. These activities are undertaken within authorised and clearly defined limits.

The Fund's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instruments, both recognised and unrecognised, at the balance date are as follows:

Financial Assets			
Recognised Financial Instruments	Statement of Net Assets Notes	Accounting Policies	Terms and Conditions
Cash and Cash Equivalents		Reflects in Australian dollars the sum of all currencies held. Cash equivalents are short term interest bearing securities held at call.	Effective interest rates are between -0.27% and 4.75%
Short Term Investments		Short term interest bearing securities held at a fixed or indexed interest rate valued at net fair value.	Investments represent deposits at call, which have no fixed maturity date. The effective interest rates are between 5.07% and 5.23%.
Fixed Interest Investments		Longer term interest bearing securities held at a fixed or indexed interest rate valued at net fair value.	Effective interest rates are between 4.53% and 5.41%.
Derivatives	14	Derivatives are measured at net fair value at reporting date. Any unrealised gains or losses are recognised in that reporting period. Realised gains or losses on termination of derivative positions are brought to account in the period in which they occur.	Derivatives are used to gain access to and allow flexibility in the financial markets in order to manage and structure the Fund's investment portfolio.
Forward Exchange Contracts	14	Unrealised gains and losses on forward foreign exchange contracts are recognised at reporting period. Realised gains and losses are brought to account in the period in which they occur.	The contracts are entered into to hedge certain purchase and sale commitments denominated in foreign currencies. The objective is to match the anticipated future cash flows in foreign currencies and to protect the Fund against future loss from exchange rate fluctuations.
Receivable for Investments Sold	3	Records that total proceeds from sales physical assets that have been processed, but have not been settled as at balance date.	Sales of investments are settled shortly after the execution of the trade, according to the market convention. Total value of receivables \$7,526,524.16.
Receivable for Currency Exchanged		Records the total proceeds from currency sales (foreign exchange contracts) that have been processed, but have not been settled as at balance date.	Foreign exchange contracts are entered into to hedge purchase and sale commitments denominated in foreign currencies. Total value \$361,772,345.23.
Dividends Receivable	3	Dividend income due but not yet received on equities/trusts from the date the dividend was announced (ex-date).	Total value \$5,661,638.01.
Interest Receivable	3	Interest income, net of withholding tax and tax refunds, due but not yet received on interest bearing securities.	Total value \$6,050,077.03.
Unlisted Investments	14	The basis of valuation is the last sale price or calculated underlying value adjusted for transaction costs.	

Financial Liabilities			
Recognised Financial Instruments	Statement of Net Assets Notes	Accounting Policies	Terms and Conditions
Payable for Investments Purchased	5	Records the total payments for the purchase of physical assets that have been processed, but have not settled as at balance date.	Purchases of investments are settled shortly after the execution of the trade, according to market convention. Total value of payables \$32,221,193.57.
Payable for Currency Exchanged		Records the total payments for the purchase of currency (foreign exchange contracts) that have been processed, but have not settled as at balance date.	Foreign exchange contracts are entered into to hedge purchase and sale commitments denominated in foreign currencies. Total value \$361,772,345.23.
Tax	4	The liability for taxation is accounted for in accordance with AAS 3.	The income tax liability is calculated using a tax rate of 15%.

(ii) Unlisted investments

Included in investments are unlisted investments with a market value of \$165,103,850.

(iii) Credit Risk Exposures

The net market value of financial assets, including derivatives, included in the financial accounts represents the Fund's exposure to credit risk in relation to those assets.

The Fund does not have any significant exposure to any individual counterparty or industry. Its assets are invested by individual investment managers and in specific investments trusts.

(iv) Liquidity Risk Exposures

Liquidity risk is the risk that there are insufficient liquid assets available to pay the beneficiaries of the Fund. This risk is managed by assessing, on both a short term and long term basis, the Fund's cash flow requirements.

(v) Derivatives

At 30 June 1998, the notional principal amounts and net fair value of derivatives held by the Fund are as follows:

	Notional Principal Amounts 1998 \$'000	Net Market Value 1998 \$'000
1 month to 3 months		
Australian Share Price Index Futures	1,886	71

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

(vi) Currency Risk Exposures

The exposure at 30 June 1998 to foreign exchange rate movements on international investments is shown below.

United States Dollars (USD)

	USD \$'000	OTHER \$'000	TOTAL \$'000
International Investments	431,295	446,628	877,923
Amounts Effectively Hedged	1,976	(3,059)	(1,083)
Net Exposure	433,271	443,569	876,840
Per Cent Hedged	(0.5)%	0.7%	0.1%

Other Position

	1998	
	USD \$'000	TOTAL \$'000
Forward Foreign Exchange Contract Receivable	29,542	29,542
Forward Foreign Exchange Contract Payable	(316,061)	(316,061)
Net Exposure	(286,519)	(286,519)

As disclosed above the Fund had entered into forward foreign exchange contracts at balance date. The contracts are carried at their net market value. The obligations arising under these contracts will be realised in less than three months from the balance sheet date.

(vii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Fund's investments are subject to interest rate rises and the return on the investments will fluctuate in accordance with movements in the market interest rates.

The Fund's exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 1998 are shown as follows. All other financial assets and liabilities are non-interest bearing.

	MARKET VALUE FIXED INTEREST RATE MATURING					
	FLOATING INTEREST RATE \$'000	WITHIN 12 MONTHS \$'000	1-5 YRS \$'000	OVER 5 YRS \$'000	NON-INTEREST BEARING \$'000	TOTAL \$'000
Assets						
Cash and Cash Equivalents - Australia	46,634	-	-	-	-	46,634
Cash and Cash Equivalents - International	4,257	-	-	-	-	4,257
Short Term Deposits - Australia	-	121,229	-	-	8,399	129,628
Australian Fixed Interest	-	42,341	102,903	257,364	-	402,608
Convertible Notes - Australia	-	-	470	1,946	-	2,416
International Fixed Interest	-	-	-	247	-	247
Australian Equities	-	-	-	-	1,023,363	1,023,363
International Equities	-	-	-	-	873,418	873,418
Cash	29	-	-	-	-	29
Receivables	-	-	-	-	22,325	22,325
Total Financial Assets	50,920	163,570	103,373	259,557	1,927,505	2,504,925
Weighted average interest rate	4.33	5.09	5.40	4.56	N/A	
Liabilities						
Creditors	-	-	-	-	64,880	64,880
Reserve Units	-	-	-	-	16	16
Provisions	-	-	-	-	54,472	54,472
Total Financial Liabilities	-	-	-	-	119,368	119,368

(viii) Net Fair Values Disclosures

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash, cash equivalents and short term investments

The carrying amounts approximate fair value because of their short term maturity.

Non-current investments/securities

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset, adjusted for transaction costs necessary to realise the asset. For investments where there is no quoted market price, the last sale price or calculated underlying value is used, adjusted for transaction costs.

15. RELATED PARTY INFORMATION

The Trustee of the Fund is the LGSS Pty Limited. The names of the directors of LGSS Pty Limited in office during the year ended 30 June 1998 are as follows:-

Mr D Campbell	(appointed 26.3.97)
Mr E Carolan OAM	(appointed 26.3.97)
Mr J Wearne	(appointed 26.3.97)
Mr P Woods OAM	(appointed 26.3.97)
Mr G De Coursey	(appointed 26.3.97)
Mr G Humphries	(appointed 26.3.97)
Mr J Merchant	(appointed 26.3.97)
Mr I Robertson	(appointed 26.3.97)

1998

\$'000

(a) Remuneration Received or Due and Receivable by Directors of LGSS (For both Pool A and Pool B):

Directors

295,747

(b) Number of Directors included in these figures are shown in their relevant income bands:

Numbers

Remuneration (including superannuation contributions) of:

\$30,000 - \$39,999

7

\$50,000 - \$59,999

1

8

(c) Transactions entered into during the year with Directors and their related entities:

There have been no transactions between these directors and the Fund, except for the payment to the directors for services rendered in relation to their duties as directors of LGSS, and for the reimbursement of administration costs incurred by the directors whilst attending to Trustee business.

(d) Transactions with Other Related Parties:

Superannuation Services Company Pty Limited, a company owned 50% by LGSS in trust for the Fund, received from LGSS, administrative support on a cost basis which is included as part of Scheme Administration Expense in the Statement of Changes in Net Assets.

16. SEGMENT REPORTING

The Fund operates in the superannuation and investment management industry in New South Wales.

17. CONTINGENT LIABILITIES

In managing the investment portfolio State Street enters into various types of investment contracts that can give rise to contingent liabilities. Investment contracts are detailed in Note 14.

- End of Audited Financial Statements -