Statutory fund management – Consultation Paper

Consultation paper – June 2021

NORTHERN TERRITORY GOVERNMENT

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1.0	June 2021		First version

Acronyms	Full form
ALFGF	Agents Licensing Fidelity Guarantee Fund
CHA	Central Holding Authority
COSR	Conditions of Service Reserve
CPI	consumer price index
AGD	Department of the Attorney-General and Justice
DITT	Department of Industry, Tourism and Trade
DTF	Department of Treasury and Finance
LPFF	Legal Practitioners Fidelity Fund
MAC	Motor Accident Compensation
MRF	Mining Remediation Fund
WCNI	Workers Compensation Nominal Insurer

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Purpose

There are currently a number of discrete, separately managed investment funds that have been established by the Territory Government under different legislative frameworks. These funds are used to finance Territory Government liabilities, as well as a range of regulatory and industry functions, which sit under the portfolio responsibility of three government agencies: the departments of Treasury and Finance (DTF), Industry, Tourism and Trade (DITT) and the Attorney-General and Justice (AGD).

These funds are:

- Conditions of Service Reserve (COSR)
- Motor Accident Compensation (MAC) Fund
- Portable Construction Industry Long Service Leave Fund
- Agents Licensing Fidelity Guarantee Fund (ALFGF)
- Legal Practitioners Fidelity Fund (LPFF)
- the Workers Compensation Nominal Insurer, (WCNI)
- Mining Remediation Fund (MRF).

The statutory fund project proposes to reorganise the financial management of the discrete funds as well as introduce legislation to establish the single funds management framework, which would be the responsibility of the Treasurer and DTF. Each separate account will continue to be used to meet the obligations for which it was established, as this will not change. The new management arrangement would reduce duplication of both administrative and board investment oversight functions. The current funds/investment responsibilities of the various boards will become the responsibility of the new fund manager and investment committee (see Figure 1.0).

This will:

- reduce duplication of both administrative and board investment oversight functions, reducing red tape
- achieve savings in investment management arrangements, including lowering investment fees
- improve investment returns through both the increased economies of having larger investment scale and better leveraging the Territory's exemption from Commonwealth taxation.

In addition, the new management arrangements would require more regular reporting of fund assets and liabilities, add a requirement for actuarial reviews of liabilities and increase governance to ensure consideration is provided to the long-term sustainability of the funds, balanced against the short-term consideration of funding applications.

Importantly, the reforms are not intended to consider the broader administrative roles of the various boards that currently manage the different funds (outside of investment oversight) or the regulatory and industry functions supported by the funds.

While the existing boards would continue with their current range of responsibilities (with the exception of investment oversight), the newly created investment committee would be responsible for providing financial reporting to the boards, to ensure they continue to meet their fiduciary responsibilities.

Consultation process

The Territory Government invites interested parties to make written submissions on the matters outlined in the consultation paper. Written submissions received by **30 June 2021** will be carefully considered by DTF and used to inform decision-making.

All written submissions will be treated as public, published on the consultation website[1] unless clearly marked as 'CONFIDENTIAL'. Non-confidential comments and submissions may also be referred to or quoted in reports prepared by DTF. Access will not be provided to confidential submissions unless it is required under the *Information Act 2002*.

Key dates

June 1 2021	Consultation paper released for consultation
June 1 – June 30	Engagement with stakeholders
30 June 2021	Final day for written submissions

Contact details

Written submissions should be made to DTF by:

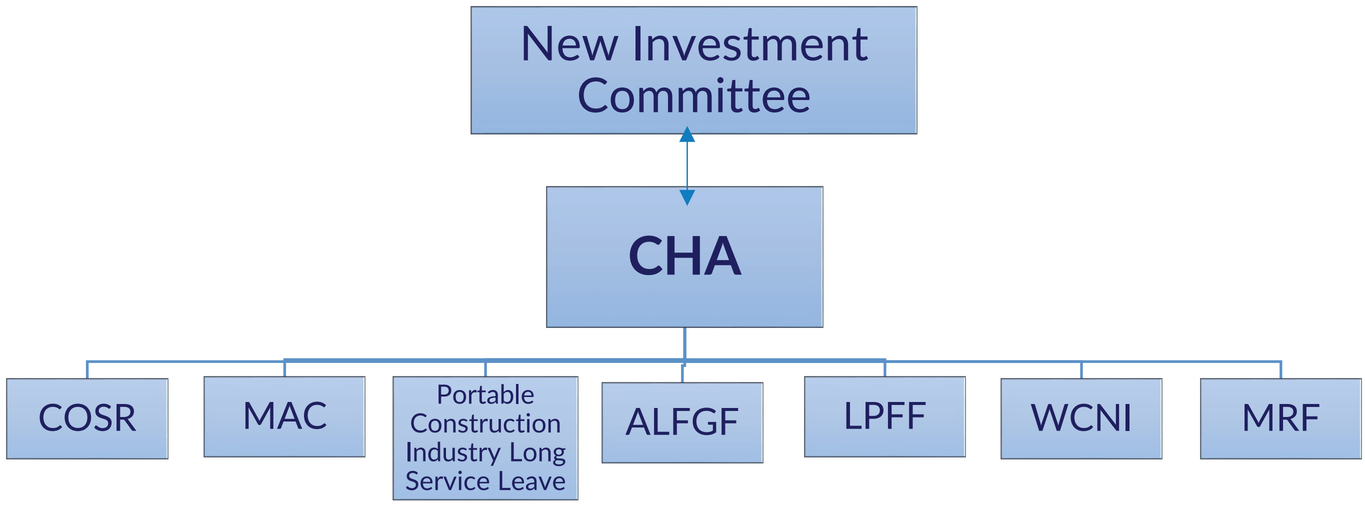
Email	Enquiries.DTF@nt.gov.au
Mail	Department of Treasury and Finance Statutory Fund Management GPO Box 154 DARWIN NT 0801
Hand delivery	Department of Treasury and Finance Statutory Fund Management Level 14, Charles Darwin Centre 19 The Mall DARWIN NT 0800

[1] https://treasury.nt.gov.au/dtf/

Background

The statutory fund proposal would streamline fund arrangements within the Central Holding Authority (CHA) with a separate account for each of the current independent funds, managed by a single fund manager and with a single investment committee. The funds will continue to be separately identifiable accounts. This structure will continue to mirror the current structure of the CHA, which already holds a number of investment and liability sub-accounts for the Territory. Each separate account, reflecting each separate fund, will be used to meet the obligations for which those funds were established, as this will not change.

Figure 1.0 Proposed Statutory Fund Structure



The COSR is the largest discrete fund held by the Territory Government. COSR is a segregated pool of investments held within the CHA. It holds assets for purposes such as meeting the Territory's long-term superannuation and long service leave liabilities. The COSR is managed by the Northern Territory Treasury Corporation (TCORP). The proposed reform would see the smaller discrete funds managed with COSR, and held within the Central Holding Authority (CHA), achieving streamlined investment management, and greater investment scale and enhanced leverage for the Territory to negotiate lower investment fees.

From an investment management perspective, managing the smaller discrete funds as part of a single fund management arrangement with COSR, under the CHA and being the responsibility of the Treasurer and DTF, with a single oversight committee, would:

(a) reduce red tape and administrative duplication

(b) assist in the negotiation of lower investment fees, effectively increasing the returns on the investments

(c) allow investment managers to better target investment decisions in order to utilise the Territory's exemption from Commonwealth taxation

(d) allow for prudent investment of the funds in order to optimise investment returns and better ensure the funds meet the liabilities to which they relate

(e) increase transparency and reporting around fund balances and expenditure

(f) mitigate the longevity and sustainability risks attached to any single fund over the long term by pooling and achieving economies of scale, providing an enhanced ability to manage risk around the reserves and investment returns of any single fund and its ability to meet ongoing and future liabilities.

Current arrangements

COSR is a fund that supports the Territory Government superannuation liabilities arising from a range of closed defined benefit schemes, including the Commonwealth Superannuation Scheme. COSR funds are managed by two investment managers, on behalf of TCORP.

The MAC fund receives compulsory third-party insurance premiums, paid by Territory motorists when they register their vehicles. These premiums are invested to meet the liabilities arising from motor vehicle accidents in the Territory, including the costs of lifetime catastrophic injuries. The MAC Fund is under the remit of DTF. The MAC fund is managed by Allianz.

The Portable Construction Industry Long Service Leave Fund receives contributions from developers of large construction projects, and is the responsibility of NT Build, a statutory authority with a seven-member board that makes both investment and administrative decisions. NT Build is within the remit of DITT.

The ALFGF collects annual licence and registration fees paid by real estate and conveyancing agents, fines imposed by the Agents Licensing Board, as well as contributions and interest earned on agents' trust accounts. The fund fulfils several purposes, including: providing redress and acting as insurer of last resort for defalcation risk by licensed real estate agents and conveyancers; and funding for industry training, the Commissioner of Residential Tenancies and tenancy advice services. ALFGF is within the remit of DITT and has a five-member board with responsibility for both investment and administrative decisions.

The LPFF collects fees received from legal practitioners for their annual practising certificates as well as interest earned on solicitor trust accounts. It is within the remit of AGD. LPFF has a five-member board. The LPFF is utilised by the Law Society NT and a number of other regulatory bodies established under the *Legal Profession Act 2005* to undertake regulatory oversight of the legal industry, fund community legal centres and for a range of 'public purposes' related to legal education and the legal sector.

Investments held by the portable long service leave fund, ALFGF and LPFF are currently separately managed by JANA Implemented Consulting in the JANA Moderate Trust (a diversified portfolio of investments with a with a 70% (growth) 30% (defensive) asset mix). By achieving economies of scale, fee discounts can be negotiated. The JANA Moderate Trust is a diversified portfolio of investments across asset classes and investment managers that aims to grow real capital value over time with a moderate level of expected volatility. JANA aims to earn (over rolling 10-year periods) a return (before fees and expenses) that exceeds the return of the consumer price index plus 3 to 4% per annum, which is in line with the risk/return objectives defined for each fund.

The WCNI manages a fund that is held as cash by AGD and overseen by a management committee. The fund comprises levies paid by insurance companies and operates as the insurer of last resort for workers compensation where employees have not been covered by insurance or are under-insured. It is the responsibility of WorkSafe NT within the remit of AGD.

The MRF holds non-refundable mining security levies paid by mining companies (calculated at 1% of the security paid under their mining authorisation). The purpose of the MRF is to hold money in trust to be used to minimise or rectify environmental impacts from legacy mines where either no mining security, or inadequate security, is held. The MRF is managed as cash within DITT.

Benefits of the proposal

CHA already holds the long service leave and workers compensation liabilities for all government agencies, as well as all government borrowings and a range of government investments. It would be logical to bring other government investment funds into the CHA under a single management arrangement, with separately identifiable accounts. This is similar to the recent approach of government to centralise human resources, procurement and IT functions in the Department of Corporate and Digital Development, to achieve efficiencies and improved service delivery across government. There will be a range of accounting and technical issues to address to achieve the new fund management arrangement.

The proposal is to create a single fund arrangement within CHA, with a separate sub-account for each function, managed by a single fund manager and single investment committee. The discrete accounts will continue to service the liabilities and functions to which they relate. This will not change. The proposal is a 'back office' change to how the funds are invested and managed, not the purposes to which the funds are allocated.

The proposal will streamline administrative and board investment oversight functions, and has the objective of achieving savings in investment management arrangements and earning higher investment returns through both the efficiencies of greater investment scales and better leveraging the Territory's exemption from Commonwealth taxation.

The investment oversight functions of multiple boards will be streamlined into a single investment committee, of members with deeper expertise creating efficiencies and enabling the opportunity to negotiate more favourable investment management fees. A single investment committee with responsibility for all of the government funds management arrangements, asset allocation decisions, risk tolerance and return objectives, is best practice from a governance and accountability perspective. We seek stakeholder views on the composition and membership of the single investment committee.

The new arrangements would require more regular reporting of fund assets and liabilities to the public, require actuarial reviews of liabilities and increase governance to ensure consideration is provided to the long-term sustainability of the funds, balanced against the short-term funding applications. DTF would be responsible for this reporting responsibility, including ensuring regular reporting to the boards. DTF and the single investment committee would be responsible for providing regular financial reporting to the boards, to ensure they continue to meet their fiduciary responsibilities.

This type of reform has been achieved in other states. For example, in New South Wales (NSW), , a three-way merger between the NSW Treasury Corporation, NSW State Super and the old NSW Work Cover will create a single fiduciary fund for superannuation and insurance. Victoria has a long-standing Victorian Funds Management Corporation and Queensland has the Queensland Investment Corporation.

The statutory fund proposal will allow for prudent investment of the funds to optimise investment returns and better ensure the funds meet the liabilities to which they relate. The WCNI Fund and MRF are currently held in bank accounts earning a very low rate of interest (currently 0.1% per annum, which is less than CPI increases). This represents a lost opportunity for the Territory.

Risk management

DTF recognises that there are a broad range of internal and external (to government) stakeholders who are part of the current arrangements: administrators, board members and recipients of fund monies. This consultation process is intended to provide a forum for affected parties to provide feedback and raise any matters relevant to the proposal and its objectives. This will then form part of further advice to government.

Should the proposed reform proceed, amendments will be made to several pieces of existing legislation (the *Motor Accidents (Compensation) Commission Act 2014*, the *Construction Industry Long Service Leave and Benefits Act 2005*, the *Agents Licensing Act 1979*, the *Return to Work Act 1986*, the *Legal Profession Act 2006* and the *Mining Management Act 2001*) to reorganise the financial management of the discrete funds as well as introduce legislation to establish the single management framework, which would be the responsibility of the Treasurer and DTF.

Conclusion

The objectives of the proposal are to achieve:

- a reduction in red tape
- better investment returns and negotiation of lower investment fees
- better targeting of investments to utilise the Territory's exemption from Commonwealth taxation
- enhanced ability to manage the investments to better ensure the funds meet the liabilities and obligations to which they relate
- increased transparency and reporting of fund balances and expenditure
- greater focus on the long-term sustainability of the funds, balanced against the short-term consideration of funding applications.

DTF is seeking feedback on the statutory fund proposal and the composition of the single investment committee.