

# Further consideration of responses to the Statutory Funds Management Consultation Paper

Issues paper

<b>Document title</b>	Issues paper: Further consideration of responses to the Statutory Funds Management Consultation Paper
<b>Contact details</b>	Department of Treasury and Finance
<b>Approved by</b>	Under Treasurer
<b>Date approved</b>	

## Abbreviations and acronyms

Acronyms	Full form
CHA	Central Holding Authority
DTF	Department of Treasury and Finance

## Glossary

Term	Definition
JANA	JANA Investment Advisors Pty Ltd, an independent asset consultancy.
Risk appetite	The amount of risk an entity is willing to accept or retain in order to achieve its objectives.
Statutory fund	Refers to each of the following funds: <ul style="list-style-type: none"> <li>• Conditions of Service Reserve</li> <li>• Motor Accident Compensation Fund</li> <li>• Portable Construction Industry Long Service Leave Fund</li> <li>• Agents Licensing Fidelity Guarantee Fund</li> <li>• Legal Practitioners Fidelity Fund</li> <li>• the Workers Compensation Nominal Insurer</li> <li>• Mining Remediation Fund</li> </ul>

## Contents

Abbreviations and acronyms.....	2
Glossary .....	2
Background .....	3
Objective .....	4
Key issues raised during initial consultation.....	4
1. Governance, and management structure and composition .....	4
2. Investment of the statutory funds .....	5
3. Setting of risk appetite.....	6
4. Reporting and monitoring .....	6
How to provide feedback .....	7
Next steps .....	7

## Background

In May 2021, the Northern Territory Government approved the public release of a consultation paper proposing a new investment management framework for the following seven statutory funds:

- Conditions of Service Reserve
- Motor Accident Compensation Fund
- Portable Construction Industry Long Service Leave Fund
- Agents Licensing Fidelity Guarantee Fund
- Legal Practitioners Fidelity Fund
- the Workers Compensation Nominal Insurer
- Mining Remediation Fund

Consultation with internal and external stakeholders was held from June to mid July 2021. Multiple face-to-face briefings were held between 11 June and 16 July 2021, and nine submissions were received from stakeholders directly impacted by the proposed framework, and five from other parties.

The previous consultation paper proposed the development of a new fund management framework, with funds to be held in an account within the Central Holding Authority (CHA). A separately identifiable subaccount would be established for each of the statutory funds that would be managed by a single fund manager and a single expert investment committee. This mirrors the current structure of CHA, which already holds a number of investment and liability subaccounts. Each subaccount, one for each statutory fund, would continue to be used only to meet the obligations for which it was established under legislation; this will not change.

The proposed management arrangement is intended to reduce duplication of administrative and board investment oversight functions, and achieve greater investment efficiencies. It is not proposed to disturb

the broader administrative roles of the various boards (outside of investment oversight) or regulatory and industry functions currently supported by the funds (that is, the purpose of the funds), which will remain codified in legislation.

## Objective

The objective of this second phase of consultation is to consider, in the event that a new investment management framework is implemented:

- the most efficient way for individual boards to maintain input into key decisions made by the investment committee
- an appropriate oversight structure to ensure the investment committee is responsive to key stakeholders of the individual funds.

To achieve this objective, the Department of Treasury and Finance (DTF) is seeking further engagement and feedback from affected stakeholders on issues that arose from the initial consultation process.

## Key issues raised during initial consultation

### 1. Governance, and management structure and composition

One aspect of feedback from the first round of consultation related to the governance of the proposed investment management framework and how the boards of the current funds could be assured their priorities would be satisfactorily recognised by the proposed single investment committee.

Issues for consideration include:

- Composition of the investment committee – representative or independent? skills mix?
- Size of the investment committee

#### Composition

- The new investment committee could be made up of representatives from the boards of the seven statutory funds.
  - If this model is adopted, membership of the investment committee could be broadly representative of each of the current funds, or it could be based on the members' expertise.
- Alternatively, the new investment committee could be independently constituted.
  - This model would require the committee to engage formally and regularly with each board to ensure boards had the opportunity to provide feedback on their priorities and preferences, and discuss fund performance.
  - It would also require an appropriate mix of skills and experience, including experience with investment and financial markets, and independence from stakeholders.

#### Committee size

- The Australian Institute of Company Directors recommends between 6 and 12 members for a public sector board.
- If a board is too large, decision-making can be more difficult and board members may not all meaningfully engage in discussions and deliberations.

- Board size can affect the efficiency of decision-making and needs to be such that achieving a quorum is not problematic, the workload can be spread across members, and required skills and competencies are included.

## Consultation questions

- How should the new investment committee be structured?
- What would be an appropriate size for the new investment committee?
- If representatives from the existing boards made up the investment committee, how should representatives be selected?
  - Should the relative size of the fund be a relevant consideration?
  - To what extent should industry-specific skills or affiliations, tertiary qualifications, and professional experience and expertise be relevant considerations?
  - How should the essential criterion of independence in board membership be met?

## 2. Investment of the statutory funds

Another aspect of feedback from the first round of consultation related to asset allocation matters, such as selecting and appointing a fund manager, setting investment objectives, meeting the liabilities and cash flow needs of each of the current funds, and how the boards of the current funds could have sufficient input into the proposed single investment committee on these matters. For example, the proposed investment committee could formally seek input from each board on asset allocation matters through meetings at the beginning of each financial year, or as required.

Issues for consideration include:

- In order to achieve the scale-related benefits of the proposed new investment management approach, a cohesive investment strategy across all the funds would be necessary, rather than individual investment strategies for each subaccount.
- Defining the investment objectives and strategic asset allocation (that is, setting the investment strategy) are the most significant drivers of investment outcomes.
- Understanding the required investment return for each fund would be necessary, for example, to maintain real value of the investment portfolio for each fund to meet their respective spending requirements.
- Selecting the fund manager for the new investment management framework would typically give consideration to management style (active versus passive), and the products offered and their associated risks. These factors would directly impact a fund manager's strategic asset allocation decisions.
- The fund manager would take advice from the investment committee, as well as actuarial advice on the appropriate strategic asset allocation to meet the liabilities and cash flow needs of each of the current funds.
- In terms of investment format, each board's subaccount in the new management arrangement would hold a number of units based on their underlying assets, in one or more trusts (similar to the current arrangements with JANA Investment Advisors Pty Ltd).

## Consultation questions

- What is your board's overriding objective regarding its strategic asset allocation?
- Are there other experts who should provide advice on strategic asset allocation?
- Are there any other matters that should be included in determining the proposed new fund's strategic asset allocation?
- Are there any concerns or other factors for consideration to determine each of the existing funds' subaccount in the proposed new investment fund?

## 3. Setting of risk appetite

Another important issue for the proposed new investment committee would be determining the appropriate risk appetite for the new arrangements (that is, the risk that the new fund is willing to accept or retain in order to achieve its return objectives). This would necessarily influence the investment strategy and would need to take into account the liabilities for which each of the current funds were established, actuarial advice on those liabilities, and their cash flow needs.

Each of the existing funds has been established to meet legislated statutory obligations, and therefore are likely to have a broadly comparable risk appetites.

The proposed new investment committee could formally seek input from boards as part of setting its risk appetite through meetings at the beginning of each financial year. A cohesive investment strategy would adopt an agreed risk appetite statement.

## Consultation questions

- What is the risk tolerance of each existing fund, for example, what is each fund's ability to tolerate negative returns?
- Are there any constraints on these funds, for example, do they have minimum liquidity requirements, a peer-relative performance benchmark, operational issues, taxation and regulation issues or requirements?
- In terms of redeeming cash from the funds (in the new management model), what would be an appropriate time period, in business days, for cash to be available in order to meet operational needs and requirements?

## 4. Reporting and monitoring

Regular financial reporting and performance monitoring of the proposed new investment management approach would be essential for accountability purposes, and to enable boards to meet their statutory reporting obligations. Reporting needs to be frequent and robust enough to ensure boards can continue to meet their fiduciary and financial obligations to stakeholders.

For example, quarterly reporting may be sufficient to satisfy the needs of the boards to be apprised of financial performance. Reports would include detailed information by: investment product; month, quarter, year to date; and comparisons to an agreed benchmark.

Representatives of the new investment committee could be available to present at board meetings if required.

## Consultation questions

- What frequency of financial reporting would boards require to ensure they receive sufficient information to meet their fiduciary and financial reporting and performance monitoring obligations? For example, is quarterly reporting sufficient or do boards require monthly reporting? How does this compare with the current frequency and extent of financial reporting?
- What is the required frequency of actuarial investigations (where relevant), for example, annually or triennially, and what is the current approach used by each board?

## How to provide feedback

Please provide your feedback to the issues discussed and consultation questions posed in this paper by **Friday 4 March 2022**.

To provide your feedback:

- send a request for a face-to-face meeting to: [enquiries.dtf@nt.gov.au](mailto:enquiries.dtf@nt.gov.au) or by phone 08 8999 6500
- submit your submission by email to: [enquiries.dtf@nt.gov.au](mailto:enquiries.dtf@nt.gov.au)
- deliver your submission to: Department of Treasury and Finance Executive Secretariat, Level 14, Charles Darwin Centre, 19 The Mall, Darwin NT 0800
- post your submission to: Department of Treasury and Finance, GPO Box 1974, DARWIN NT 0801.

All written submissions will be treated as public unless clearly marked 'CONFIDENTIAL'.

## Next steps

If the proposal to change the management arrangements of statutory funds is approved by government to proceed, there will be further opportunity for the affected boards and agencies to provide their feedback and input on the required legislative amendments.