

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Additional Budget Estimates Hearing – February 2009

Future Fund Management Agency

Finance and Deregulation Portfolio

Outcome 1, Output 1.1

Topic: Future Fund - Accountability

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Senator PARRY asked:

All right, I will accept that, Minister. I will place my final question on notice, if there is anything to provide on notice. If there are any accountability measures, that gives us comfort that the board is accountable to some degree for correct investment strategy especially now that we have the non-escrow shares in Telstra which can be sold on the market and funds invested in any other strategy or other form. So I am sure that the committee would appreciate any information on accountability measures you wish to provide, and I am happy to take it on notice.

Answer:

The Future Fund Board of Guardians (the Board) and the Future Fund Management Agency (the Agency) were both established by the *Future Fund Act 2006* (the Act). The Act, under section 15, sets out the objects of the Future Fund and subsequently that the Board has the responsibility to invest amounts in accordance with the Act and has the power to do all things necessary and convenient to be done in connection with the performance of its functions.

Board members are appointed by the responsible Ministers, in this case the Treasurer and the Minister for Finance and Deregulation (Finance Minister), and these appointments may be terminated if the responsible Ministers are satisfied that the performance of the Board member has been unsatisfactory for a significant period.

The Investment Mandate, established under Part 3 of the Act, sets out the Government's expectations for how the Future Fund will be invested and managed by the Board and establishes a benchmark return objective. The Act, under section 24, requires that the Board must formulate investment policies, with regards to the investment strategy of the Future Fund, the benchmarks and standards for assessing the performance of the Future Fund and the risk management of the Future Fund. The Board must ensure that the investment policies are consistent with the Investment Mandate and the Board must take all reasonable steps to ensure that they comply with their investment policies. These policies are also published on the internet in accordance with the Act.

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Under Division 6 of the Act, the Board is required to provide the nominated Minister, in this case the Finance Minister, a report or information on any specified matters relating to the performance of the Board. In addition, section 81 of the Act, requires the Chair of the Board to report annually on the operations and performance of the Board and Agency during the financial year. The annual report must include information pertaining to the performance of the investments and amounts debited. In addition the Board releases a quarterly update on the investment program, summarising the investment allocation at the end of the previous quarter and the investment returns generated.

In that regard, Part 4 Division 7 of the Act requires that the Board members must exercise their powers with an appropriate degree of care and diligence and do so in good faith in the best interests of performing the functions of the Board. The Act prohibits the improper use of the position or information obtained as a Board member and prescribes a number of civil and criminal penalty provisions, with additional reference to the application of the *Commonwealth Authorities and Companies Act 1997*, should a Board member fail to act in accordance with the Act.

The Agency, as set out under Division 2 of the Act, is responsible for making such arrangements as are necessary to give effect to the decisions of the Board. The Agency is a prescribed Agency for the purposes of the *Financial Management and Accountability Act 1997*, which provides a framework for the proper management of public money and property. Staff of the Agency are employed under the *Public Service Act 1999*, which enshrines a code of conduct for all Australian Public Service employees. The code of conduct requires that all employees must act with care and diligence and must comply with all applicable Australian laws.