SUPERANNUATION LEGISLATION AMENDMENT BILL 1985

Date Introduced: 23 April 1985
House: Senate
Presented by: Senator the Hon. Peter Walsh, Minister for Finance

Short Digest of Bill

Purpose

To restructure the administration of the Commonwealth Superannuation Fund Investment Trust; to widen its power of investment, and to allow it to employ its own staff.

Background

The administration of the superannuation scheme for Commonwealth employees was extensively modified by the Superannuation Act 1976 (the Principal Act). The Superannuation Board, which previously administered the scheme, was replaced by the Superannuation Fund Investment Trust (SFIT).

The Superannuation Fund (the Fund) is administered by SFIT and composed of employee contributions and investment income. As superannuation benefits become due, the employees contributions, plus interest, are transferred to Consolidated Revenue. The employees superannuation entitlements are paid from Consolidated Revenue as they become due, the Government meeting the difference between the employees contributions and their entitlement. Monies not required to pay superannuation benefits are invested by SFIT. The Principal Act (section 42) and its regulations specify how such monies may be invested. The Fund has assets in excess of $2 billion, and invests approximately $7m per week. In the seven years of operation to 30 June 1983 the average rate of return on investments was 11.78%.[1]

SFIT comprises a full-time chairman and two part-time members. The objectives of SFIT are not currently stated in the Principal Act. However, SFIT has stated, in its 1981/82 Annual Report, that its objective was "... to achieve the highest practicable return to contributors over the long term consistent with investment security".[2] Although the extent of the investment power is open to some
doubt, it appears that SFIT cannot trade in shares or fixed interest securities.[3] A further constraint on SFIT's investment powers has been the 30/20 rule which requires 30 per cent of the Fund's assets to be public securities. Of these public securities, Commonwealth securities must comprise at least 20% of the total assets.

Reviews into SFIT were conducted as a result of remarks made by the Auditor-General in his report on the Financial Statements of SFIT for 1982. In this report, delivered on 11 November 1983, the Auditor-General expressed concern about the management of SFIT and certain investments it had undertaken.[4] The Auditor-General suggested that more detailed enquiries into SFIT were warranted. The Minister announced, on 11 January 1984, that an inquiry into the management and operations of SFIT should be conducted by Mr Monaghan, a Commissioner of the Public Service Board, and the Auditor-General designate. The Monaghan Report was delivered on 30 March 1984 and contained a number of recommendations for the reorganisation of SFIT. A Joint Working Party, comprising representatives of the ACTU, Department of Finance, the Public Service Board, SFIT and private accountants, was established to consider the Monaghan Report on 5 April 1984. The Joint Working Party's Report was delivered in July 1984. This Bill implements various recommendations of the Monaghan and Joint Working Party Reports.

Outline

The Bill implements a number of changes to the administration, organisation and structure of SFIT, the major changes being:

1. A statement of SFIT's functions and duties is inserted. SFIT is to maximise the Fund's earnings and have regard to the need to exercise reasonable care and prudence in its operations. The Minister may advise SFIT of Government policy, but there is no requirement that such policy be followed.

2. The composition of SFIT is to be increased to five members, namely two full-time members, one nominated by the Minister, and one by the ACTU, and three part-time members, two nominated by the ACTU and one by the Minister. Before nomination for membership, the Minister must consult with the ACTU regarding his full-time appointee and the ACTU must consult with the relevant unions for all its appointees.
3. SFIT's investment power is extended to enable it to take any action to control, manage or protect an investment and the return from an investment. This will give SFIT greater operating flexibility and place SFIT on a more equal footing with private superannuation investors. The 30/20 requirement for investment in public securities will also be removed.

4. The Bill also empowers SFIT to employ its own staff and states that the conditions of employment for such staff are to be determined by SFIT with the Minister's approval. At present, SFIT's staff are employed under the Public Service Act by a separate body, namely the Office of the SFIT which is subject to the Minister for Finance and the Public Service Board.

Main Provisions

The statement of SFIT's functions and objectives is inserted by clause 6 of the Bill which inserts a new section 29A in the Principal Act.

The composition of SFIT is extended to five members by clause 7 of the Bill. Clauses 8 to 14 deal with associated matters such as the renumeration and resignation of members of SFIT.

SFIT's investment power is extended by clauses 18 and 19 which also remove the 30/20 public securities requirement.

A new Division 3, which gives SFIT power to employ its own staff, is inserted by clause 22. The new Division also specifies the relationship between such staff and members of the Public Service.

Remarks

The Bill was examined by the Senate Standing Committee on Finance and Government Operations which reported on 15 May 1985. The Committee's major recommendations were:

That ACTU nominees for membership of SFIT be selected from names submitted by the relevant unions.
That the Government's full-time nominee be required to have experience in financial or investment areas.

For further information, if required, contact:

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References

3. Ibid, p.44.