7.2 ACT GOVERNMENT INVESTMENTS

Overview

This chapter provides details of the Territory's investment arrangements, including investments held within the General Government investment portfolio and the Superannuation Provision Account (SPA) investment portfolio.

Investments of the General Government Sector

Table 7.2.1 outlines the components of investments held by the General Government Sector.

Table 7.2.1
General Government Sector Investments

	2001-02 Est.Outcome $'000	2002-03 Budget $'000	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
Current Investments	704 520	425 674	326 524	371 205	446 087
Non Current Investments	879 336	1 229 134	1 397 053	1 549 348	1 710 528
Total Investments	**1 583 856**	**1 654 808**	**1 723 577**	**1 920 553**	**2 156 615**
Comprising:					
Superannuation Investments	990 947	1 149 035	1 319 354	1 470 149	1 629 829
Territory Investments	282 708	206 659	79 412	90 073	123 517
Investments held on behalf of PTE agencies	29 691	4 225	3 300	2 759	2 639
Insurance Investments	45 321	60 014	76 285	95 010	115 912
Home Loan Portfolio	90 727	111 123	128 180	142 665	154 255
Other Agency Investments	144 462	123 752	117 046	119 897	130 463

Return on Investments

Table 7.2.2 provides the forecast return on investments held by the General Government Sector. Further detail on investment strategies in relation to general government and superannuation investments is provided in the *Significant Investment Holdings* Section within this Chapter.

Table 7.2.2
General Government Sector Investments

	2001-02 Est.Outcome $'000	2002-03 Budget $'000	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
Total Interest Revenue (as per GGS statement)	80 997	65 075	61 013	59 853	62 670
less: Interest payments received on loans from PTEs	21 801	20 898	20 680	20 319	19 895
Interest Revenue (a)	**59 196**	**44 177**	**40 333**	**39 534**	**42 775**
Interest Return on Investments					
Total Investments	1 583 856	1 654 808	1 723 577	1 920 553	2 156 615
Less: non-interest earning investments *	481 603	975 058	1 119 492	1 247 437	1 382 985
Total interest earning investments	1 102 253	679 750	604 085	673 116	773 630
Interest Revenue (a)	59 196	44 177	40 333	39 534	42 775
% Interest return	**6%**	**5%**	**6%**	**6%**	**6%**
Total Return on Investments					
Total Investments	1 583 856	1 654 808	1 723 577	1 920 553	2 156 615
Interest Revenue (a)	59 196	44 177	40 333	39 534	42 775
Dividends	12 000	25 561	30 086	34 545	38 283
Market Gain/Loss on Value of Investments	-50 789	45 164	51 415	58 702	65 194
sub-total Investment returns	20 407	114 902	121 834	132 781	146 252
% Total Investment return	**1%**	**7%**	**7%**	**7%**	**7%**

** such as shares and property investments*

Management of Investments

The Department of Treasury manages the surplus cash balances of the ACT and invests funds in the money market within projected cash flow requirements and established investment policies. The Department is also responsible for the investment portfolio representing the total assets set aside for the Superannuation Provision Account (SPA).

The Department utilises the services of an independent external Investment Advisory Board and an Investment Consultant, Frontier Investment Consulting Limited to develop and implement investment objectives, strategies, benchmarks, funds manager research and appointment and other general investment advice as required.

In November 2001, Commonwealth Custodial Services (CCS) was appointed by the Territory to provide master custodian services to the Territory. CCS will provide the following services:

- Safekeeping; Settlement; Derivatives clearing; Valuation of investments; Accounting reconciliation; Accounting reporting; Mandate compliance reporting; Performance measurement; Performance reporting; Audit; Performance Attribution; Transition of assets; and Tax equivalent reporting.

A full review of all investment arrangements commenced in the year beginning with the SPA investment portfolio. A new Strategic Asset Allocation (SAA) policy for the SPA was developed and endorsed. A fund manager configuration paper that supports the SAA policy is expected to be finalised before 30 September 2002.

SPA investment portfolio will almost certainly achieve a negative return for the year.

The key initiatives for 2002-03 are:

- implementing the new SPA investment objectives and strategy which will include a full review of all existing external fund manager appointments; and
- completing a full review of the investment objectives and strategies for the General Government investment portfolio.

Significant Investment Holdings

General Government Investment Portfolio

The cash of the general government not required for immediate expenditure is currently invested in a cash enhanced fund and a domestic fixed interest fund. These investment funds comprise the cash balance from the Territory Public Account and the cash held by ACT Government Departments. Territory Authorities and Territory Owned Corporations have the option of transferring funds to Treasury for investment.

A specialist external funds manager manages these funds on behalf of the Territory.

The key investment objective for these funds is to achieve returns greater than the cash rate. General government funds are invested in ‘defensive’ assets such as cash and high grade fixed interest bonds. The estimated nominal return for the portfolio for the 2001-02 financial year is 4.70%. The General Government investment portfolio was largely unaffected by the global recession experienced during the year as its exposure is limited to domestic cash and a small allocation to domestic fixed interest. It is expected that returns for 2002-03 will be significantly higher as a result of the increasing domestic interest rates arising from the Reserve Bank of Australia’s monetary policy determinations. It is estimated that the full year return in 2002-03 will be in the order of 5.50%.

Superannuation Provision Account Investment Portfolio

Funds are set aside in the Superannuation Provision Account (SPA) to assist the Government in meeting its long-term employer superannuation obligations. These funds are invested in accordance with an established asset allocation strategy that takes into account the long-term nature of the SPA liabilities and projected cashflow requirements.

These funds are managed by a number of specialist external funds managers. These include Australian Equities, International Equities, Australian Fixed Interest and Australian Property.

The key investment objective of the Superannuation Provision Account (SPA) is to achieve a long-term annual rate of return averaging 5% real (net of fees). This reflects the actuarially assumed earnings rate necessary to achieve a long-term objective of a 90% level of funding of the Territory employer superannuation liability by 2039-40.

A revised Strategic Asset Allocation (SAA), consistent with the investment objective, was endorsed during the year that will result in a much higher percentage of the total portfolio (85%) being invested in growth assets (such as equities and property) and a much smaller percentage (15%) of the portfolio being invested in defensive assets (such as cash and fixed interest investments). The previous SAA was 64% growth and 36% defensive. This new SAA will be implemented during 2002-03.

The change to the SAA is expected to yield significantly higher long-term earning rates than under the present SAA and is essential if the investment objective of 5% real is to be achieved in the medium to long term.

Due to the terrorist events of 11 September 2001 in the United States and the global recession, financial markets and, consequently investment returns had an adverse impact. This affected the SPA in particular due to the portfolio's exposure to equity markets and will almost certainly result in a negative return for the year. However, due to a higher than usual proportion of investment being held in cash (in anticipation of the review) the impact on the SPA was less than might otherwise be the case.

The following table (7.2.3) illustrates the estimated asset allocation break up of the SPA at 30 June 2002 and the estimated portfolio structure following the implementation of the new SAA as at 30 June 2003.

Table 7.2.3
Asset Allocation - Superannuation Investment Portfolio

	2001-02	2002-03
Cash	19%	1%
Australian Property	4%	10%
Australian Fixed Interest	32%	7%
Australian Equities	23%	30%
Australian Private Equity	-	5%
International Fixed Interest	-	7%
International Equities	22%	35%
International Private Equity	-	5%
TOTAL	**100%**	**100%**

Other Significant Investment Holdings

Investments of the ACT Insurance Authority are also managed by the Department of Treasury. Amounts included at Table 7.2.1 identify the increasing allocation of claims provisioning to cover future liabilities. For example, as medical malpractice and public liability claims can take a number of years to be paid, these funds can be set aside for investment purposes.

The investments of the Authority ensure that the Territory is able to meet the cost of its insurable claims and losses in an orderly, timely and cost effective manner, and protect the Territory's budget from the risk of substantial claims.

Another significant investment holding is that of the Home Loan Portfolio, also managed by the Department of Treasury. The level of investment reflects the repayment of home loans by clients, which are used to offset and repay historical debt relating to the original financing of the Home Loan Scheme.