

Australian Government

Future Fund

future fund
annual report
2005-06

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ISBN 0 642 74311 8

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Designed by

Giraffe Visual Communication Management – www.giraffe.com.au

Printed by

New Millennium Print, Canberra

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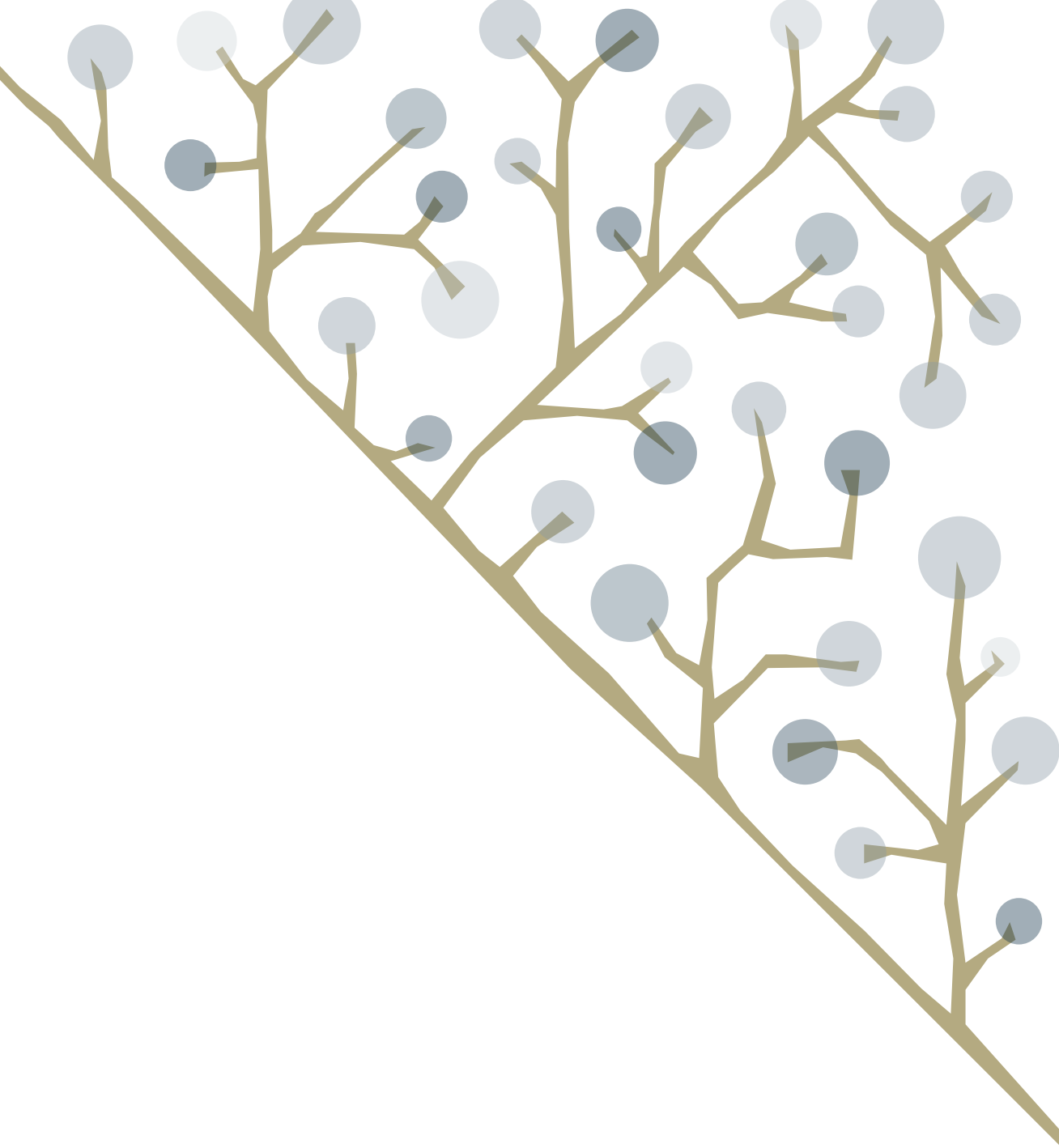
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review of future fund board of guardians and future fund management agency



25 October 2006

Senator the Hon. Nick Minchin
Minister for Finance and Administration
Parliament House
CANBERRA ACT 2600

Dear Minister

As the Minister with nominated responsibility for the Future Fund, I have pleasure in presenting to you the first Annual Report of the Future Fund Board of Guardians and the Future Fund Management Agency for the year ending 30 June 2006 for presentation to the Parliament.

The report has been prepared in accordance with section 81 of the *Future Fund Act 2006* (the Act). Subsection 81(3) of the Act requires you to ensure a copy of the report is tabled in each House of the Parliament within 15 sitting days of that House receiving the report.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'David Murray'.

David Murray
Chairman
Future Fund Board of Guardians

Future Fund Board of Guardians

Review by Chairman of the Future Fund Board of Guardians

The Future Fund was established to make provision for unfunded superannuation liabilities that will become payable during the period when an ageing population is likely to place significant pressure on the Australian Government's finances. The Future Fund Board of Guardians (the Board) is required to seek to maximise the return earned on the Fund over the long-term, consistent with international best practice for institutional investment and subject to its obligations under the *Future Fund Act 2006* (the Future Fund Act) and the Investment Mandate given by the responsible ministers.

The government's intention to establish a board of governance with independence from government is clearly expressed in the Bill's Explanatory Memorandum:

"The Future Fund Board of Guardians was established as a body corporate to provide a separate legal entity from the government with statutory responsibility for managing the investments of the Fund at arms length from government. The Board will hold investments in its own name and on behalf of the Commonwealth illustrating that the Board will take investment decisions independent of the Commonwealth but with the Commonwealth retaining beneficial ownership of the Fund at all times."

Results – since inception

The government transferred \$18 billion in seed capital to the Future Fund on 5 May 2006, following proclamation effective 3 April 2006. With the pre-requisites for long term investment (including the appointment of asset consultants, investment managers, a custodian, skilled staff and operating systems) not yet in place, the funds have been invested with the Reserve Bank of Australia (RBA) for periods not exceeding six months – adopting the RBAs official cash rate as an interim performance benchmark.

The tables below present summary figures consolidating the income statements and balance sheets for departmental and administered items as presented in the full financial statements contained in Part 4 of this Annual Report. The part year results for the Future Fund for the period from 3 April 2006 to 30 June 2006 (Table 1) indicate a net operating surplus of \$163.042 million. With the Future Fund receiving the seed capital on 5 May 2006, this result represents an effective annual gross return of 5.97 per cent relative to the effective annual benchmark return of 5.88 per cent. Given the short period of investment (less than two months) and that the Fund was still undergoing transition, these results are not indicative of the future returns of the Fund. As anticipated in the Investment Mandate, they are lower than the long-term benchmark. Nevertheless, they represent a positive real rate of return.

Table 1: Future Fund Income statement from
3 April 2006 to 30 June 2006

	2006 \$'000
Income	
Interest & other gains (1)	163,692
Total income	163,692
Expenses	
Employees	115
Remuneration of Board of Guardians	161
Administration expenses	374
Total expenses	650
Operating Result	163,042

(1) The total includes \$25,000 worth of audit services provided free of charge by the Australian National Audit Office (ANAO). This amount is also included in expenses.

Table 2: Future Fund Balance Sheet as at
30 June 2006

	2006 \$'000
Income	
Cash	4,773
Receivables	42
Investments	18,046,000
Accrued revenues	112,459
Plant, equipment & intangibles	43
Total assets	18,163,317
Liabilities	
Suppliers & other payables	223
Employee & Board remuneration provisions	52
Total liabilities	275
Net Assets	18,163,042
Equity	
Contributed equity	18,000,000
Accumulated results	163,042
Total equity	18,163,042

Policy and Mandate

The Future Fund Act enables the Australian Government, as manager of the economy and owner of the Fund, to give strategic guidance to the Board while preserving the Board's role in managing the investment 'at arm's length' from government.

In accordance with the requirements of the Future Fund Act, the Investment Mandate was formally issued to the Board on 4 May 2006 and came into effect on 22 May 2006. The Investment Mandate articulates the government's expectations on how the Fund will be invested and managed by the Board. Using these directions, the Board prepared an Interim Investment Policy for the intervening period. This Policy will apply until such time as the necessary prerequisites are established for undertaking investment functions in accordance with a longer term strategic asset allocation.

Establishment

From 3 April 2006, when the Future Fund Act commenced, until 30 June 2006 (the period end of the annual report), much concerted effort has gone into establishing the basic operating requirements for the Board and the Future Fund Management Agency (the Agency). This has included commencing recruitment of significant personnel, securing premises in Melbourne and setting up technology. Once personnel and basic infrastructure are in place, the Future Fund will have a solid foundation for its future development and growth.

A summary of compliance with section 81 of the Future Fund Act is provided in Part 3 – Management and Accountability.

Recognition

Since 2005, much inspiration and effort has gone into translating the government's vision, of a dedicated financial asset fund to meet unfunded liabilities, into a reality. While clearly there is still a long way to go before the Fund is fully established, it is important to acknowledge those who undertook the early ground breaking work.

In particular, I would like to acknowledge the significant contribution made by the officers of the Department of the Treasury in developing the policy and legislative framework that defined the purpose and broad investment powers of the Future Fund. The officers of the Department of Finance and Administration and the Future Fund Interim Management Group, headed by Mr Rob Barnes, are also to be acknowledged for guiding the initial administrative arrangements for the Future Fund. Together, these officers have established the platform for a new and exciting investment fund.

Board of Guardians

As Chairman, I could not have asked for a stronger team of colleagues to work with on the Board, both in terms of their collective expertise in investment management and corporate governance as well as their commitment to the Future Fund. I look forward to continued productive relations as we work through the many issues that lie ahead.

On behalf of the Board, I wish to express appreciation to Mr Robert Elstone for his role as a founding member of the Board, and regret that he will no longer be working with the Board given his resignation to take up the appointment of Chief Executive Officer and Managing Director of the Australian Stock Exchange. Mr Elstone is acknowledged by the Board for his vision as an early proponent of the idea of establishing the Future Fund.

Future

Going forward, once the necessary pre-requisites are in place, the Board will determine the longer term strategic asset allocation of the Fund. An important immediate priority will be the development of an investment philosophy that will set the direction for translating the goals and parameters of the Future Fund into investment policies and strategies.

There are four factors which will affect the ability of the Fund to meet its objective of covering the Australian Government's superannuation liabilities:

- the sufficiency of the seed capital and further credits, plus investment returns in the early years
- whether the size of the Australian Government's unfunded superannuation liability remains within the original expectations of the government
- the adequacy of investment returns in domestic and international markets over the longer term, and
- continuing reinvestment of all earnings until the liability is matched or the earliest drawdown date of 2020 is reached.

The Future Fund will operate, with efficiency and effectiveness, as an 'at arm's length' asset investment fund with responsibility for managing funds that remain at all times in the beneficial ownership of the Australian Government. The Board will give further guidance on the governance arrangements by which its powers will be both executed and delegated, taking into account the operating and risk environment, to enhance the prospects for the Future Fund's long-term success.



David V Murray

Chairman
Future Fund Board of Guardians

25 October 2006



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part 1: future fund overview

Future Fund

The *Future Fund Act 2006* (the Future Fund Act) commenced on 3 April 2006 and established the Future Fund, the Future Fund Board of Guardians (the Board) and the Future Fund Management Agency (the Agency). The object of the Future Fund Act is to strengthen the Australian Government's long-term financial position.

The Future Fund will make provision for unfunded superannuation liabilities that will become payable at a time when an ageing population is likely to place significant pressure on the Australian Government's finances. The legislation quarantines the Fund, the balance of the special account and other investments, for the ultimate purpose of paying unfunded superannuation liabilities, and covering expenses associated with the investment and administration of the Fund.

Unless stated otherwise, throughout the report the Future Fund refers to both the Future Fund Board of Guardians and the Future Fund Management Agency.

Future Fund Board of Guardians

The Board is collectively responsible for the investment of the Fund and is accountable to the government for the safekeeping and performance of the assets of the Fund. As such, the Board's primary role is to provide strategic direction for the investment of the Fund, including the development of an investment strategy that adheres to the obligations under the Future Fund Act and the Investment Mandate.

The Board is a body corporate with perpetual succession and is a separate legal identity from the Australian Government. The roles and responsibilities of the Board are set out in the enabling legislation.

The government announced its decision to appoint Mr David Murray as Chairman of the Board on 6 November 2005. Subsequently, on 30 March 2006 the government announced the appointment of Mr Jeffrey Browne, Ms Susan Doyle, Mr Robert Elstone, Dr John Mulcahy, Mr Brian Watson and Mr Trevor Rowe AM to the Board.

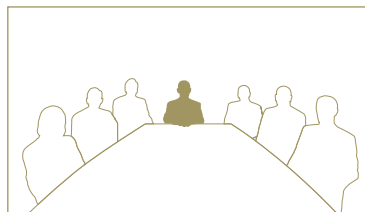
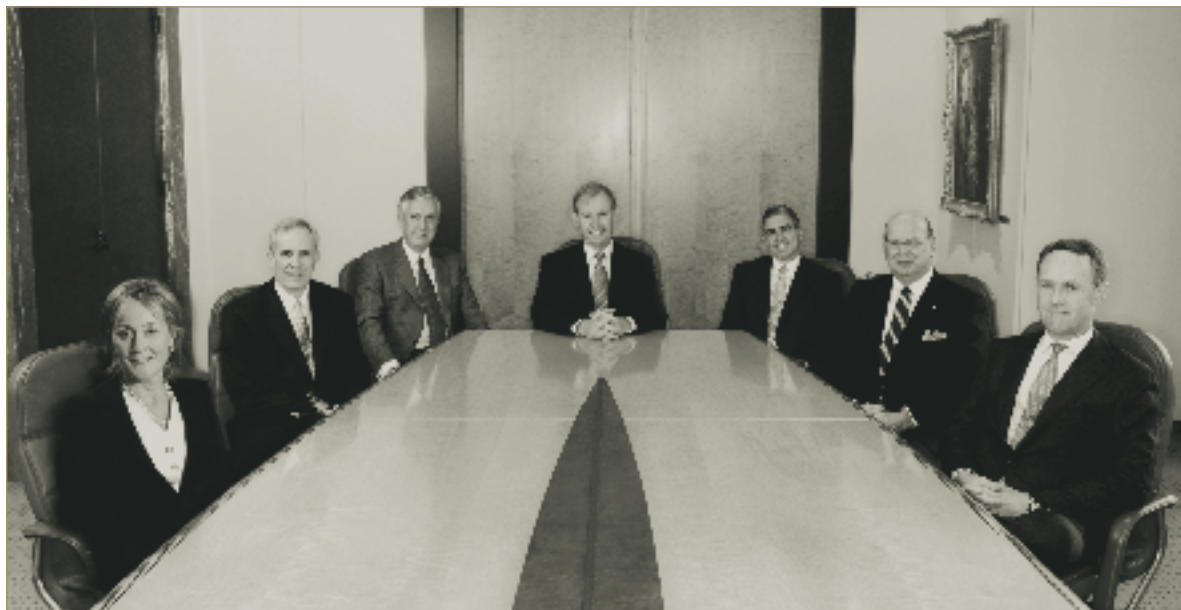
The government has selected the Board members for their expertise in investment management and corporate governance. The appointees are all professionals of significant standing in their fields of expertise and they bring substantial experience to the Board.

Mr Browne, Dr Mulcahy and Mr Rowe AM were appointed for a period of five years while Ms Doyle, Mr Elstone and Mr Watson were appointed for three years. The periods of the appointments were determined by the Treasurer and the Minister for Finance and Administration (as the responsible ministers) and are on a part-time basis. On 6 July 2006, Mr Robert Elstone resigned from the Board after being appointed Chief Executive Officer (CEO) and Managing Director of the combined Australian Stock Exchange and Sydney Futures Exchange.

The Remuneration Tribunal has determined (as set out in Remuneration Tribunal Determination 2006/03 of 6 April 2006) an annual remuneration of \$150,000 for the Chair and \$75,000 for members of the Board, with their official travel entitlement at tier 1.

Following the commencement of the legislation on 3 April 2006, the Board members were formally appointed and met for the first time on 5 April 2006.

Board profiles



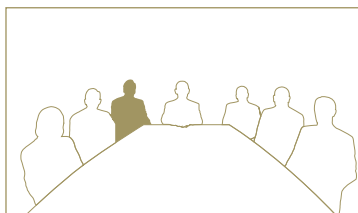
Mr David Murray

Appointed 3 April 2006 to 2 April 2011

Following commencement of the enabling legislation, Mr David Murray was appointed Chairman on 3 April 2006.

Mr Murray had 39 years' experience working with the Commonwealth Bank of Australia (CBA), particularly in the role of Chief Executive Officer, which he held from 1992 until his retirement in 2005. Mr Murray has substantial experience in the finance and banking sector and considerable knowledge of financial markets.

Mr Murray also has strong corporate governance credentials, having guided CBA through a number of major changes, including its privatisation in 1996. In 2003, Mr Murray was awarded the Centenary Medal for his contributions in the areas of banking and corporate governance.

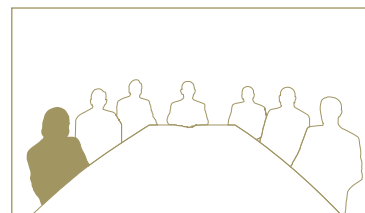


Mr Jeffrey Browne

Appointed 3 April 2006 to 2 April 2011

Mr Jeffrey Browne was appointed on 3 April 2006. Mr Browne was a Partner (New York) and Managing Partner of Australian Offices (Melbourne and Sydney) in the legal firm Sullivan & Cromwell until recently, and has extensive

experience in capital market transactions. Mr Browne has also acted for the Commonwealth and state governments, mainly in relation to international bond offerings and privatisations.

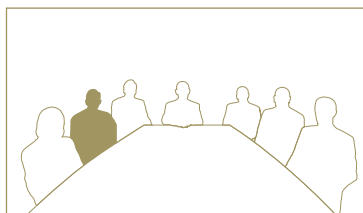


Ms Susan Doyle

Appointed 3 April 2006 to 2 April 2009

Ms Susan Doyle was appointed on 3 April 2006. Ms Doyle is Chair of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme, and Deputy Chair and Chair of the Audit Committee of the South Australian Water Corporation. Ms Doyle had an extensive

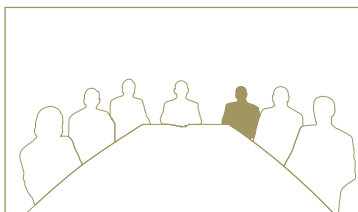
executive career in the funds management industry, particularly in the equities and fixed interest sectors, working with Commonwealth Funds Management, Suncorp Metway and Insurance Australia Group.



Mr Robert Elstone

Appointed 3 April 2006, resigned 6 July 2006

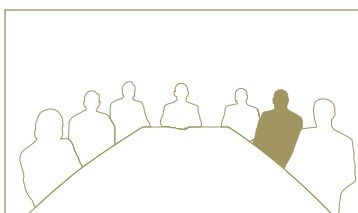
Mr Robert Elstone was appointed on 3 April 2006. At that time, Mr Elstone was the Managing Director of Sydney Futures Exchange Corporation, the holding company for the Sydney Futures Exchange and related entities, and a non-executive Director and Chairman of the Risk Committee of the National Australia Bank. Mr Elstone has extensive experience in the corporate world and particular experience in the derivative markets. Prior to 2000, Mr Elstone held senior management positions with Pioneer International Ltd, Air New Zealand, Elders IXL and Paribas Group Australia. On 6 July 2006, Mr Robert Elstone resigned from the Board after being appointed Chief Executive Officer and Managing Director of the combined Australian Stock Exchange and Sydney Futures Exchange.



Dr John Mulcahy

Appointed 3 April 2006 to 2 April 2011

Dr John Mulcahy was appointed on 3 April 2006. Dr Mulcahy is Chief Executive Officer and Managing Director of Suncorp. Dr Mulcahy has broad corporate experience and expertise in retail financial services having held a number of senior roles in the Commonwealth Bank including Group Executive, Investment and Insurance Services and previously the positions of Chief Executive of Lend Lease Property Investment Services and Chief Executive of Civil and Civic.

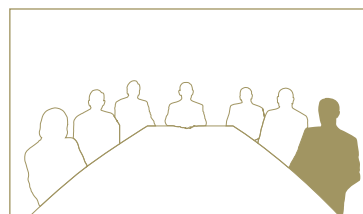


Mr Trevor Rowe AM

Appointed 3 April 2006 to 2 April 2011

Mr Trevor Rowe AM was appointed on 3 April 2006. Mr Rowe is Chairman, Investment Banking, Rothschild Australia Limited. Mr Rowe has been the Chairman of the Queensland Investment Corporation since 2001, Chairman of the United Group Limited since 2002, Chancellor of Bond University since 2003 and a Director of the Australian Stock Exchange Limited since 2002. He was also a member of the Takeovers Panel from 2000 to

2003 and has been a member of the Foreign Affairs Council since 2000. He has substantial experience and expertise in financial management, investments and corporate governance.



Mr Brian Watson

Appointed 3 April 2006 to 2 April 2009

Mr Brian Watson was appointed on 3 April 2006. Mr Watson is Executive Chairman of Georgica Associates Pty Limited, an independent private equity investment management firm. Prior to establishing Georgica Associates in 2002, Mr Watson spent 16 years with JP Morgan & Co in a number of senior roles, including Global Head of Equity Capital Markets and Global Head of Private Equity, both based in New York, and Chairman of JP Morgan Australia. Mr Watson is also Chairman of the Australian Government's Pooled Development Funds Registration Board and was Chairman of the government's Venture Capital Industry Review, which was conducted in 2005.

Corporate governance

The Minister for Finance and Administration is the ‘nominated’ minister for the purposes of the Future Fund Act and shares joint responsibility for the Agency with the Treasurer as ‘responsible’ ministers. The CEO of the Agency reports, and is accountable, to the responsible ministers.

The Chairman of the Board is also the CEO of the Agency and under the responsible ministers, is accountable for managing the agency. The Chairman is appointed on a part-time basis and is expected, as a normal administrative arrangement, to delegate responsibility for the day-to-day operations of the Agency to a General Manager.

Part 4 of the Future Fund Act details the governance requirements of the Board including in relation to:

- functions
- meetings and resolutions without meetings
- reporting obligations
- duties of Board members, and
- managing conflicts of interest.

Detailed governance policies are being developed to give practical effect to these requirements.

The Board makes investment decisions within the parameters of an Investment Mandate – as issued by the government – and issues investment policies to the Agency. The Board is given the opportunity to comment and table in Parliament any comments on the Investment Mandate. The Agency carries out the investment decisions of the Board.

Report on Board meetings

Table 3: Board and Board Committee meeting attendance 2005–06

Board member	Attended	Eligible to attend
David Murray	3	3
Jeffrey Browne	3	3
Susan Doyle	2	3
Robert Elstone	3	3
John Mulcahy	3	3
Trevor Rowe	3	3
Brian Watson	3	3

Future Fund investments

The Board is required under section 18 of the Future Fund Act to seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment and subject to its obligations under the Future Fund Act and any directions given by the responsible ministers under subsection 18(1) or subclause 8(1) of Schedule 1 of the Future Fund Act.

In line with subsection 18(1) of the enabling legislation, the government issued the Board with the first Investment Mandate for the Future Fund.

Investment Mandate

On 4 May 2006, the Treasurer and the Minister for Finance and Administration jointly issued to the Future Fund the Investment Mandate Directions 2006 as required by the Future Fund Act (see Appendix A). These directions, which commenced on 22 May 2006, give guidance to the Board in relation to its investment strategy for the Future Fund as detailed below.

Benchmark Return

The Board is to adopt an average return of at least the Consumer Price Index + 4.5 to 5.5 per cent per annum over the long term as the benchmark return on the Fund.

During the initial transition period, as the Board develops a long-term strategic asset allocation, a return lower than the benchmark return is expected. In targeting the benchmark return, the Board must determine an acceptable but not excessive level of risk for the Fund measured in terms such as the probability of losses in a particular year.

Limits for holdings of listed companies

The Board must establish a limit for the holdings on any listed company in order to prevent a breach of the statutory limits imposed by sections 21 and 22 of the Future Fund Act.

Telstra Corporation

The Board must not acquire a direct equity holding of voting shares in Telstra Corporation Limited except as a result of a transfer of financial assets by the responsible ministers under clause 6 of Schedule 1 of the Future Fund Act or a gift of financial assets under clause 7 of Schedule 1 of the Future Fund Act.

Board must consider impacts from its investment strategy

In undertaking its investment activities, the Board must act in a way that:

- minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets, and
- is unlikely to cause any diminution of the Australian Government's reputation in Australia and international financial markets.

Corporate Governance

The Board must have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.

Interim Investment Policy

During the establishment period of the Fund, the prerequisites for undertaking investment functions in accordance with a longer term strategic asset allocation will not be in place. These prerequisites include the appointment of asset consultants, investment managers, a custodian, skilled staff and establishment of operating systems. To facilitate the initial investment of monies credited to the Fund, during the period in which the Fund will be establishing its operations, the Board developed an Interim Investment Policy. This policy took effect from the date seed funds were credited to the Fund account.

The objectives of the Interim Investment Policy are to:

- maximise returns from short-term cash investments, adopting the Reserve Bank of Australia's (RBA) overnight official cash rate as the benchmark
- reduce risk by reducing the complexity of internal controls by investing only with the RBA, and
- provide appropriate liquidity to have funds available for acquisition of assets under the longer-term strategic asset allocation once all prerequisites are in place.

Funds credited to the Fund account will be invested in short-term cash investments with the RBA under an investment facility providing for investment through an at-call investment account; and term deposits lodged for terms up to six months.

The Board will make available sufficient funds from the Future Fund to meet the cost and obligations of the Future Fund Management Agency.

Future Fund Management Agency

The Agency was established on 3 April 2006.

The Agency is a statutory agency for the purposes of the *Public Service Act 1999* (the Public Service Act) and is prescribed for the purposes of the *Financial Management and Accountability Act 1997* (the FMA Act). The Chairman of the Board is the Agency head for the purposes of the Public Service Act, and the Chief Executive Officer of the Agency for the purposes of the FMA Act.

The Agency will, directly and through the appointment of external advisers, assist the Board in developing and implementing its investment strategy. It will also provide executive support for the Board and will be responsible for the operational activities associated with the investment of the Fund. In essence, while the Board will decide how the Fund is to be invested, the Agency will be the entity that ensures monies are allocated consistent with those decisions.

The Agency will comprise staff employed under the Public Service Act and will be responsible for engaging external service providers.

Organisational structure

An interim management group including seconded officers from the Department of Finance and Administration has been established to meet operational requirements pending more permanent staffing arrangements. Its role is to put in place provisional arrangements to enable the Agency to ultimately fulfil its statutory obligations of secretariat to the Board and to facilitate the operational activities associated with the day-to-day investment activities of the Fund.

At the time of writing, the process for recruitment of the General Manager was completed. The General Manager however, is yet to commence his appointment. Permanent staffing arrangements for the Agency will be the responsibility of the General Manager.

The Agency will assist the government achieve its policies by contributing to the following outcome.

It is expected that all outputs and activities to be performed by the Agency will be for the purpose of Outcome 1 of the Agency (refer Table 4), including:

- acting on the investment decisions of the Board
- advising the Board on investment options
- providing secretariat support to the Board, and
- undertaking activities involved in the administration and operations of the Agency.

All expenditure incurred by the Agency will be for the purpose of Outcome 1.

Table 4: Agency outcomes and output groups

Outcome	Description	Output groups
Outcome 1		
Enhanced capacity for the Australian Government to offset its unfunded superannuation liabilities	<p>The capacity of the Australian Government to offset its unfunded superannuation liabilities is important for reducing pressure on the Budget in future years when other age-related expense pressures are expected to grow.</p> <p>The Future Fund will accumulate assets for the purpose of offsetting the government's unfunded superannuation liabilities. Through investment in a broad range of financial assets, the Fund will contribute to enhancing the net worth of the Australian Government. Preserving the assets for the time when increasing inter-generational expense pressures are anticipated will enhance the capacity of the government to offset these liabilities and will support inter-generational equity.</p>	To be advised

Appropriations and other funding

In the course of developing legislation to establish the Future Fund, the government agreed that all expenses relating to the Future Fund, including those associated with the administrative functions to be performed by the Agency, would be met from the Future Fund. As a result, the appropriations made for the Agency in the 2005–06 Budget were no longer required. In accordance with the Agency's request, the Minister for Finance and Administration approved a determination reducing the Agency's appropriation on 29 June 2006.

Departmental and Administered Items

The Agency has established two operational bank accounts for the purposes of separating investment-related activities of the Future Fund from the running costs of the Agency. This is consistent with the Agency's financial reporting responsibilities as a FMA Act entity. It also assists to separate the investment and operational aspects of the Future Fund.

The Agency maintains two bank accounts:

- **Future Fund Management Agency Administered receipts and payments account** (the Administered account)

The Administered account received the \$18 billion seed capital and is expected to include cash flows associated with investment activities, related advice and Board remuneration (including disbursements). This account will also provide a mechanism for funding the Agency, as required.

- **Future Fund Management Agency Departmental receipts and payments account** (the Departmental account)

The Departmental account is expected to include cash flows associated with the operational activities of the Agency, such as staff salaries (including disbursements), accommodation costs, office supplies and legal costs.



Future Fund performance
Agency financial performance

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part 2: operations and performance

Future Fund performance

Over the 57 days to 30 June 2006, the Future Fund portfolio earned a gross effective annual return of 5.97 per cent. This compares with an effective annual benchmark rate of 5.88 per cent and an inflation rate, as measured by the underlying consumer price inflation, of 2.9 per cent for 2005-06. Given the short period of investment and that the Fund was still undergoing transition, these results are lower than the long term benchmark, as anticipated in the Investment Mandate. For similar reasons, these results are not indicative of the future return of the Fund.

While seed capital was not received until 5 May 2006, the Future Fund commenced from 3 April 2006. Consequently, a net investment return for the period from 3 April 2006 to 30 June 2006 would present a distorted performance result. Nonetheless, total expenses for the Future Fund of \$0.650 million are low relative to income.

Over this period, the funds were held in cash investments with the Reserve Bank of Australia.

Agency financial performance

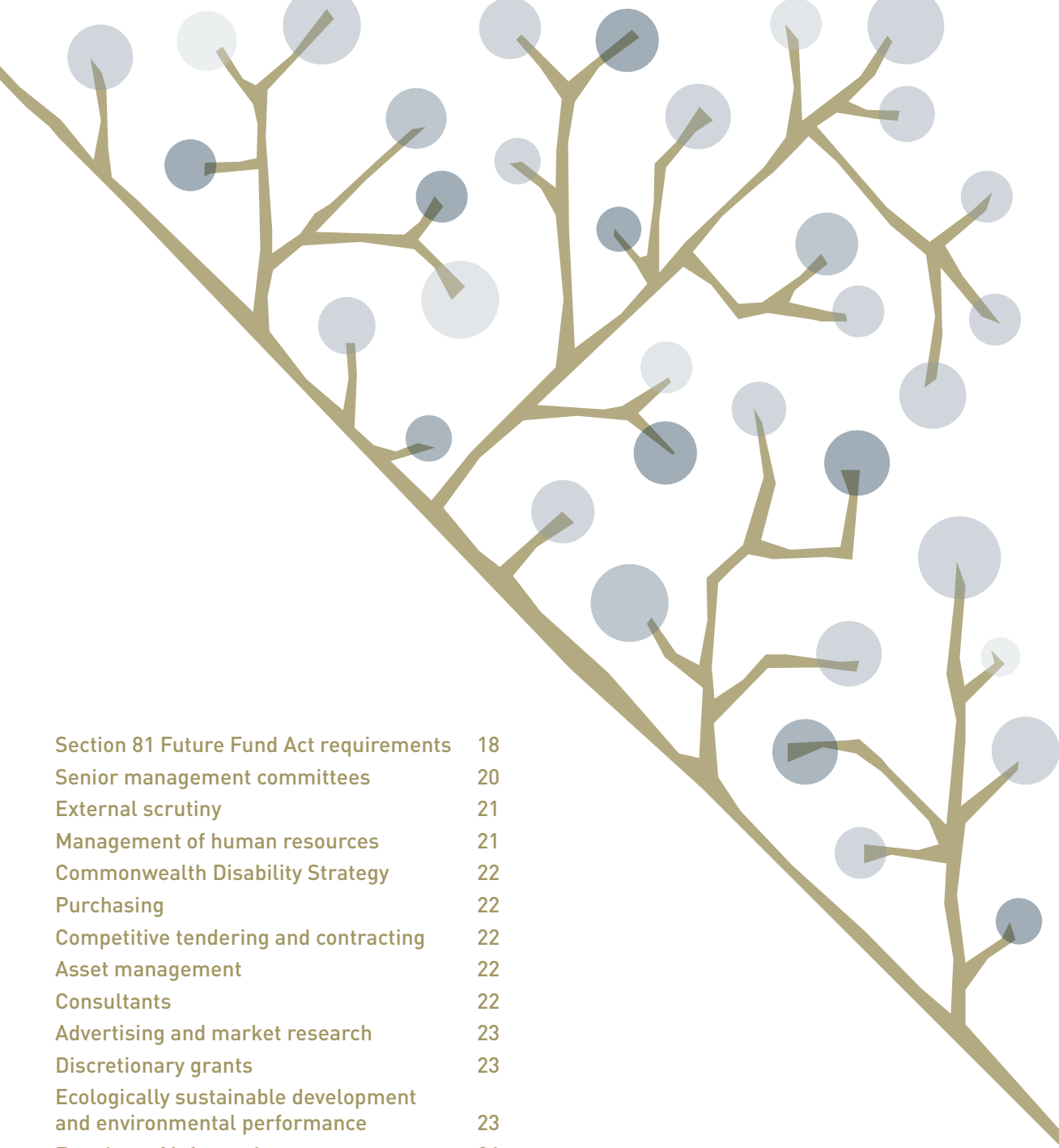
Departmental operating result

Total operating expenses for the period from 3 April 2006 to 30 June 2006 were \$0.457 million. The operating expenses of the Future Fund Management Agency (the Agency) are met by the direct transfer of funds from Administered items.

Administered activities

Total operating revenue for the period from 3 April 2006 to 30 June 2006 was \$163.667 million. This revenue was generated from the investment of the Future Fund seed capital in cash investments.

Total operating administered expenses – excluding the transfer of funds to cover the operating expense of the Agency – were \$0.168 million.



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part 3: management and accountability

Section 81 Future Fund Act requirements

Appropriations and other funding

Table 5 reports on, or cross references, the items required to be included in the Annual Report by section 81(1) of the *Future Fund Act 2006* (the Future Fund

Act). Under section 81(1), the Future Fund Management Agency (the Agency) must prepare and give to the nominated minister a report covering the items listed in 81(1)(a) to (h). Further, subsection 81(2) requires that amounts referred to in paragraphs (1)(d) to (h) are benchmarked.

Table 5: Compliance with Section 81 of the Future Fund Act 2006

<i>Subsection 81(1)(a)</i> The Agency's operations		Refer to Part 4 of the Annual Report <i>Financial Statements</i>
<i>Subsection 81(1)(b)</i> The Board's operations		Refer to Part 4 of the Annual Report <i>Financial Statements</i>
<i>Subsection 81(1)(c)</i> The performance of the investments of the Fund		Refer to Part 2 of the Annual Report <i>Operations and Performance</i>
Total amount debited¹ from the Fund Account for the year ended 30 June 2006	Total	Benchmark
<i>Subsection 81(1)(d) in relation to</i> Paying remuneration and allowances of Board members	\$156,333	The Remuneration Tribunal determined the remuneration and allowances payable to Board Members
<i>Subsection 81(1)(e) in relation to</i> Paying or discharging the costs, expenses and other obligations incurred by the Board under a contract between the Board and an investment manager	zero ²	Not applicable
<i>Subsection 81(1)(f) in relation to</i> Paying remuneration and other employment related costs and expenses, in respect of members of the staff of the Agency	zero ³	Not applicable
<i>Subsection 81(1)(g) in relation to</i> Paying or discharging the costs, expenses and other obligations incurred by the Commonwealth under a contract entered into under section 78 (consultants and persons seconded to the Agency) or 82 (consultants and advisers to the Board)	\$169,772	4
<i>Subsection 81(1)(h) in relation to</i> Paying or discharging the costs, expenses and other obligations incurred by the Commonwealth in connection with the establishment or operation of the Agency	\$279,010 ⁵	4

¹ Amounts reported reflect the cash payments made from the Future Fund Special Account.

² In the interim, the Agency is deemed, by the responsible ministers, to be an investment manager. The Board did not have any contract or pay any costs associated with this arrangement.

³ At 30 June 2006, the Agency did not employ any staff.

⁴ As the payment period is 57 days to 30 June 2006, there is no appropriate benchmark to report.

⁵ Includes capital payments.

Table 6 summarises the total resourcing for the outcome applied by the Future Fund in 2005-06 and budgeted for 2006-07.

Administered recurrent funding is used to meet operating expenses associated with activities managed or overseen by the Future Fund on behalf of the government and include the expenses of the Board of Guardians.

Departmental recurrent funding is used to meet operating expenses, such as employee entitlements and supplier payments.

Capital funding is used to meet the cost of equipment and furnishings for Future Fund premises both initially and into the future.

Table 6: Future Fund resourcing for outcome

	Budget 2005-06 (\$'000)	Actual 2005-06 (\$'000)	Budget 2006-07 (\$'000)
(a) FUNDING FOR RECURRENT PURPOSES			
ADMINISTERED			
Administered appropriations¹			
Annual appropriations	-	-	-
Other receipts			
Special account receipts ¹	1,000	168	7,872
Total appropriations and receipts	1,000	168	7,872
DEPARTMENTAL			
Departmental appropriations¹			
Annual appropriations	-	-	-
Other receipts			
Special account receipts ¹	-	482	-
Total price of departmental outputs	-	482	-
Total resourcing – recurrent purposes	1,000	650	7,872
(b) FUNDING FOR CAPITAL PURPOSES			
ADMINISTERED			
Administered appropriations¹			
Annual appropriations	-	-	-
Other receipts			
Special account receipts ¹	1,000	-	-
Total resourcing – capital purposes	1,000	-	-
Total resourcing for Future Fund Outcome	2,000	650	7,872

¹ The Future Fund receives no annual appropriation. The Future Fund resourcing, both administered and departmental, is sourced from the Fund.

	Budget 2005-06	Actual 2005-06	Budget 2006-07
Average staffing level (number)	2	5	13

Senior management committees

Future Fund Audit Committee

Section 80 of the Future Fund Act has the effect of treating the Future Fund Board of Guardians (the Board) and the Agency as if they were a single entity for certain sections of the *Financial Management and Accountability Act 1997* (the FMA Act). As a result, the Future Fund has established a single audit committee for both the Board and the Agency.

Section 46 of the FMA Act requires that the Chief Executive Officer (CEO) establish and maintain an audit committee. Its purpose is to:

- assist the CEO in ensuring and confirming resolution of all internal and external audit issues
- ensure the maintenance of efficient and effective audit functions and programs, and
- assist in carrying out the CEOs statutory responsibilities in relation to the audit, financial reporting and control framework of the Agency.

The Interim Management Group formed an Audit Committee comprising two independent members, Mr Tony Ayers AC and Mr Mark Bateman, and two internal members, the Interim General Manager and Director of Corporate Services of the Interim Management Group. This Committee works closely with the internal auditors, PriceWaterhouseCoopers.

In addition to the formal responsibilities for audit committees set out in the Finance Minister's Orders, it is foreshadowed that the committee will seek to improve the financial control framework and reporting of the Agency by:

- acting as a forum for review of audit issues, including the Agency's accounting policies
- focusing audit functions on risk management policies, control frameworks and compliance with appropriate standards
- considering the recommendations of all internal and external audits and monitoring the implementation of those recommendations
- providing advice on the selection of the internal auditor, for final decision by the Agency's CEO

- endorsing the framework and initiatives for the review of operational risk within the Agency
- approving and reviewing a Fraud Control Plan
- monitoring developments in legislation, regulations, government policy and accounting standards for their impact on the accountabilities of key stakeholders, and
- reporting to the CEO on findings in relation to the above.

Committee profiles

Mr Tony Ayers AC

Appointed 25 June 2006 to 24 June 2007

Mr Ayers AC was appointed Chairman of the Future Fund Audit Committee on 25 June 2006. Mr Ayers AC has been one of Australia's most influential public servants in recent times, serving as Secretary to several departments including 10 years as Secretary of the Department of Defence from 1988 to his retirement in 1998. Since retirement, Mr Ayers AC has been a member of Audit committees for the Australian Taxation Office and the Department of the Treasury, as well as serving as the Chairman of the Audit Committee for the Attorney-Generals' Department. Mr Ayers AC was awarded Companion of the Order of Australia Medal in 1993 for services to management in the public sector through leadership development and implementation of administrative structure systems and procedures.

Mr Mark Bateman

Appointed 25 June 2006 to 24 June 2007

Mr Mark Bateman was appointed an Audit Committee Member for the Future Fund on 25 June 2006. Mr Bateman is currently the Chief Financial Officer for the Australian Ethical Investment Group (AEIG). During his time, Mr Bateman has implemented a series of corporate governance initiatives that has enabled AEIG to experience significant growth without compromising the integrity of the finance function. Mr Bateman has many years experience as a finance professional with specialist experience in the funds management industry.

Operational Risk Management Committee

Consistent with the requirements of the FMA Act, an Operational Risk Management Committee will be established with responsibility for overseeing the development, implementation and review of the Agency's operational risk management framework. Once completed the risk framework will comprise of Chief Executive Instructions (CEIs) and a Fraud Control Plan. The Fraud Control Plan is compliant with the Commonwealth Fraud Control Guidelines and was in place at the time of writing.

Internal audit

Due to the urgent need to engage internal auditors prior to the end of the financial year, the providers of internal audit services to the Department of Finance and Administration were approached directly. This resulted in PriceWaterhouseCoopers being appointed as internal auditor of the Agency for a period of six months, pending an approach to the market.

External scrutiny

Senate Finance and Public Administration Legislation Committee

The CEO and Chairman of the Board, Mr David Murray, appeared at the May 2006 hearings of the Senate Finance and Public Administration Legislation Committee (Budget Estimates) and gave evidence before the committee.

Judicial decisions

There were no matters in 2005–06 relating to the Agency that were the subject of judicial proceedings, tribunal hearings or consideration by the Ombudsman.

Reports to Auditor General

There were no reports made to the Auditor General in 2005–06 by the Future Fund.

Management of human resources

Agency workforce

The Agency had no permanent staff members at 30 June 2006. The Chairman is the CEO of the Future Fund but is not an employee of the Agency. The Agency was administered by an interim management group, staffed by officers on secondment from Australian Government departments. No performance pay was payable in the 2005–06 financial year.

Australian workplace agreements

Agency employees will be employed under Australian workplace agreements. The employment terms and conditions will be consistent for all staff, with remuneration outcomes based on performance, position and level within the Agency. All agreements will specifically relate to the Australian Public Service Values in the context of setting out expected performance and behaviour.

Remuneration

Staff remuneration is to be reviewed on an annual basis, with adjustments effective at 1 July. Remuneration adjustments are to be based on a combination of movements in independently assessed market rates and individual staff performance.

Occupational health and safety

The Agency will appoint Health and Safety Representatives to assist all future employees meet their obligations under the *Occupational Health and Safety (Commonwealth Employment) Act 1991*.

The Agency will establish an Occupational Health and Safety Committee that is expected to deal with occupational health and safety issues and policies, staff wellbeing, health and safety performance reporting, accommodation issues, and accident and incident reports.

An initial Occupational Health and Safety Policy and associated guidelines have been developed and will be reviewed by the committee once established.

To prevent injuries in the workplace and to enhance the safety of staff members, occupational health and safety considerations are being closely incorporated into the design and fit-out of the Agency's proposed longer-term accommodation in Melbourne.

There were no accidents, injuries or dangerous occurrences reported in 2005–06.

Commonwealth Disability Strategy

The Agency is establishing a Workplace Diversity Program and Disability Action Plan in accordance with the Commonwealth Disability Strategy and section 18 of the *Public Service Act 1999*. These strategies will assist the Agency to eliminate discrimination, and measures will be included in the Agency's CEIs, Australian workplace agreements, business plans, human resource policies and procedures, and operational guidelines.

Purchasing

The Minister for Finance and Administration has exempted the Future Fund from the Commonwealth Procurement Guidelines' (CPGs) mandatory provisions for the procurement of a range of investment and related services. These include investment management, investment advisory, master custody and safekeeping services for the purpose of managing and investing the assets of the Future Fund. The actual purchase of assets is an investment activity and is not covered by the guidelines.

Competitive tendering and contracting

No competitive tendering was undertaken by the Agency from establishment on 3 April 2006 to 30 June 2006. Contractors were engaged to provide secretariat support and information technology strategic design services to the Board and the Agency.

Exempt contracts

No contract in excess of \$10,000 (including Goods and Services Tax) or standing offer has been exempted from being published on AusTender on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982*.

Asset management

The assets of the Future Fund are managed via policies and procedures set out in the CEIs.

Consultants

In line with the principles of the CPGs, the Future Fund's policy on selection and engagement of consultants is based on the principles of:

- value for money
- open and effective competition
- ethics and fair dealing
- accountability and reporting
- national competitiveness and industry development, and
- support for other Australian Government policies.

These guidelines have been included in the Future Fund's CEIs. The Internal Audit Unit conducts probity reviews to help ensure compliance with the general probity principals of the CPGs and CEIs.

Table 7 (next page), prepared on an accrual basis, details consultancy services used by the Agency during the period 3 April 2006 to 30 June 2006 that had a GST-inclusive contract value of \$10,000 or more.

During 2005–06, four ongoing consultancy contracts were entered into, involving total actual expenditure of \$518,319.60.

Table 7: Consultancy services of \$10,000 or more let during 2005–06

Consultant's name	Description	Selection process (a)	Contract price	Justification (b)
APIS	Provision of advice on an information technology strategy for the agency	Panel	\$31,000.00	A – Skills
Phillips Fox	Provision of legal advice on the <i>Freedom of Information Act 1982</i> & privacy legislation	Panel	\$10,819.60	A – Skills
Phillips Fox	Provision of legal advice on contractual matters	Panel	\$16,500.00	A – Skills
Spencer Stuart	Provision of executive search firm services for the senior executive positions of the Future Fund Management Agency	Open tender	\$460,000.00	A – Skills B – Need for specialised or professional skills
Total			\$518,319.60	

Notes: (a) Selection process terms are drawn from the Commonwealth Procurement Guidelines (January 2005).

(b) Justification for decision to use consultancy:

A – Skills currently unavailable within the agency

B – Need for specialised or professional skills

C – Need for independent research or assessment

Advertising and market research

During the 2005-06 financial year, the Agency made no payments to advertising agencies, market research organisations, polling organisations or direct mail organisations.

Discretionary grants

No discretionary grants are administered by the Agency.

Ecologically sustainable development and environmental performance

The Agency leases accommodation from the Department of Finance and Administration.

The longer-term accommodation for the Agency will incorporate an Energy Management System that allows monitoring of energy consumption, and independent metering that allows monitoring of water consumption.

Recycling

Once established in longer-term accommodation, the Agency intends to recycle glass, plastics, tins, paper and cardboard products. The staff kitchen facility will use a recycle bin system that simplifies the separation of recyclable items.

Procurement practices

The Agency purchases goods and services in accordance with environmental procurement policy, as set out in the Commonwealth Procurement Guidelines. This ensures goods and services are:

- environmentally sound in manufacture
- re-usable or recyclable
- designed and made for reliability and long life, and
- in line with environmental best practice in energy efficiency and or energy consumption.

The Agency encourages all areas to purchase and use recycled paper and stationery products.

Freedom of information

The Agency was established on 3 April 2006 as a 'prescribed' agency under the FMA Act.

Section 8 of the *Freedom of Information Act 1982* (FOI Act) requires the Agency to publish detailed information about:

- how it is organised and what decision making powers it has
- what arrangements it makes for public involvement in its work
- what types of documents it holds, and
- how the public can obtain access to these documents.

The following information addresses these requirements.

Organisation of the Agency

The Agency's investment operations encompass the execution of instructions received from the Board. Agency activities also encompass risk management and compliance activities, financial reporting and portfolio administration. (See Part 1 of this report for more information about the Agency's functions and activities).

Agency delegations

The Minister for Finance and Administration holds certain delegated powers under the Constitution and the FMA Act (and Regulations to the Act) in relation to Agency management. These powers have been delegated to the CEO of the Agency.

Categories of documents held by the Agency

The Agency holds the following categories of documents. The Agency intends to place an indexed list of its policy file titles on its website every six months.

Representations to portfolio ministers

The Agency holds representations made to the Treasurer and the Minister for Finance and Administration on matters relating to the operation of the Agency and related investment policies.

Working files

The Agency holds files dealing with policy and administration in the investment of funds in accordance with the Investment Mandate and investment policies issued by the Board. The documents on these files include internal and externally-provided investment advice, correspondence, analysis and policy advice by Agency officers and drafts of these and other documents.

Documents on internal departmental administration

Agency documents relating to staff and departmental organisation and operation include personal records, organisation and staffing records, financial and expenditure records, and internal operations such as office procedures and instructions.

Documents open to public access

The Agency's primary published document is its Annual Report which is available on the Agency's website as well as in the printed version. In accordance with the Future Fund Act, the Investment Mandate and investment policies are to be published on the Agency's website.

Facilities for accessing documents

If a member of the public requests a document and access is approved, the Agency will provide copies of documents after the applicant pays any charges.

Freedom of information applications and initial contact points

The Agency's Freedom of Information Coordinator coordinates requests under the FOI Act. Applicants seeking access under the FOI Act to Agency documents should apply in writing to:

FOI Coordinator
Future Fund Management Agency
Locked Bag 20010
MELBOURNE VIC 3001

An application fee of \$30 should accompany requests, or a written request pursuant to subsection 30A(1) of the FOI Act that the application fee be waived. Telephone inquiries should be directed to the Freedom of Information Coordinator, phone (03) 8656 6400, between 9am and 5pm Monday to Friday (except public holidays or public service holidays).

Nominated Agency officers can grant or refuse requests for access to documents under section 23 of the FOI Act. In accordance with section 54 of the FOI Act, an applicant may, within 30 days of receiving notification of a decision under the FOI Act, apply to the CEO of the Agency seeking an internal review of a decision to refuse a request. The prescribed fee of \$40 should accompany this application.

Freedom of information activity

The Agency received no requests for access to documents under the FOI Act in 2005–06.



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part 4: financial statements

For the period from 3 April 2006 to 30 June 2006



Auditor-General for Australia



INDEPENDENT AUDIT REPORT

To the Minister for Finance and Administration

Scope

The financial statements and the Chair of the Board of Guardians' responsibility

The financial statements comprise:

- Statement by the Chair of the Board of Guardians and Chief Financial Officer;
- Income Statement, Balance Sheet and Cash Flow Statement;
- Statement of Changes in Equity;
- Schedule of Commitments;
- Schedule of Administered Items;
- Statement of Activities Administered on behalf of Government; and
- Notes to and forming part of the Financial Statements

of the Future Fund Management Agency and Board of Guardians (Agency and Board) for the period from 3 April 2006 to 30 June 2006.

The Chair of the Board of Guardians is responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Agency and Board, and that comply with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and Accounting Standards and other mandatory financial reporting requirements in Australia. The Chair is also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Agency and Board's financial position, and of its financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Chair.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the financial statements of the Agency and Board:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and

- (b) give a true and fair view of the Agency and Board's financial position as at 30 June 2006 and of its performance and cash flows for the period from 3 April 2006 to 30 June 2006, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.


Ian McPhee

Auditor-General

Sydney

10 August 2006

Statement by the Chair of the Board of Guardians and Chief Financial Officer

In our opinion, the attached financial statements for the period from 3 April 2006 to 30 June 2006 are based on properly maintained records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

Signed



D Murray
Chair

10 August 2006

Signed



A Jackson
Chief Financial Officer

10 August 2006

Income statement *for the period from 3 April 2006 to 30 June 2006*

	Notes	2006 \$'000
INCOME		
Revenue		
Revenue from government	3A	-
Other revenue	3B	432
Total revenues		432
Gains		
Resources received free of charge	3C	25
Total gains		25
TOTAL INCOME		457
EXPENSES		
Employees	4A	115
Suppliers	4B	341
Depreciation and amortisation	4C, 4D	1
TOTAL EXPENSES		457
OPERATING RESULT		-

The above statement should be read in conjunction with the accompanying notes.

Balance sheet *as at 30 June 2006*

	Notes	2006 \$'000
ASSETS		
Financial assets		
Cash	5A	3,721
Receivables	5B	42
Total financial assets		3,763
Non-financial assets		
Infrastructure, plant and equipment	6A,6C	19
Intangibles	6B,6C	24
Total non-financial assets		43
Total assets		3,806
LIABILITIES		
Payables		
Suppliers	7A	148
Other payables	7B	3,611
Total payables		3,759
Provisions		
Employees	8	47
Total provisions		47
Total liabilities		3,806
NET ASSETS		-
EQUITY		
Contributed equity		-
Reserves		-
Accumulated results		-
Total equity		-
Current assets		3,763
Non-current assets		43
Current liabilities		3,806
Non-current liabilities		-

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows *for the period from 3 April 2006 to 30 June 2006*

	Notes	2006 \$'000
OPERATING ACTIVITIES		
Cash received		
Advances from administered items		3,999
Total cash received		3,999
Cash used		
Employees		68
Suppliers		141
GST paid		25
Total cash used		234
Net cash from operating activities	9	3,765
INVESTING ACTIVITIES		
Cash used		
Purchase of property, plant and equipment		20
Purchase of software		24
Total cash used		44
Net cash used by investing activities		44
Net increase in cash held		3,721
Cash at the beginning of the reporting period		-
Cash at the end of the reporting period		3,721

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity *for the period from 3 April 2006 to 30 June 2006*

Item	Accumulated results	Asset revaluation	Contributed equity	Total equity
	2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000
Opening balance as at 3 April 2006	-	-	-	-
Net operating result	-	-	-	-
Net revaluation increment / (decrement)	-	-	-	-
Closing balance as at 30 June 2006	-	-	-	-

The above statement should be read in conjunction with the accompanying notes.

Schedule of commitments *as at 30 June 2006*

	2006 \$'000
BY TYPE	
CAPITAL COMMITMENTS	
Infrastructure, plant and equipment and intangibles	-
Total capital commitments	-
OTHER COMMITMENTS	
Operating leases (a)	3,466
Other commitments (b)	1,565
Total other commitments	5,031
BY MATURITY	
Capital commitments	
One year or less	-
From one to five years	-
Over five years	-
Total capital commitments by maturity	-
Operating lease commitments	
One year or less	671
From one to five years	2,795
Over five years	-
Total operating lease commitments by maturity	3,466
Other commitments	
One year or less	435
From one to five years	1,130
Over five years	-
Total other commitments by maturity	1,565

The above schedule should be read in conjunction with the accompanying notes.

Note: Commitments are GST inclusive.

- (a) At balance date the Future Fund had entered into a heads of agreement over the lease of premises in Melbourne.
- (b) Other commitments relate to contractual obligations for the provision of internal audit services, payroll services, and consultancies.

Schedule of administered items

	Notes	2006 \$'000
Income administered on behalf of government		
For the period from 3 April 2006 to 30 June 2006		
Non-taxation revenue		
Interest	16	163,667
Total revenues administered on behalf of government		163,667
Expenses administered on behalf of government		
For the period from 3 April 2006 to 30 June 2006		
Remuneration of Board of Guardians	17A	161
Suppliers	17B	464
Total expenses administered on behalf of government		625

The above schedule should be read in conjunction with the accompanying notes.

Schedule of administered items *(continued)*

	Notes	2006 \$'000
Assets administered on behalf of government		
As at 30 June 2006		
Financial assets		
Cash	18A	1,052
Receivables	18B	3,567
Investments	18C	18,046,000
Accrued revenues	18D	112,459
Total assets administered on behalf of government		18,163,078
Liabilities administered in behalf of government		
As at 30 June 2006		
Payables		
Suppliers	19A	13
Other payables	19B	18
Total payables		31
Provisions		
Board remuneration	20	5
Total provisions		5
Total liabilities administered on behalf of government		36
Net assets administered on behalf of government		18,163,042
Current assets		18,163,078
Non-current assets		-
Current liabilities		36
Non-current liabilities		-

The above schedule should be read in conjunction with the accompanying notes.

Schedule of administered items *(continued)*

	2006 \$'000
Administered cash flows	
For the period from 3 April 2006 to 30 June 2006	
OPERATING ACTIVITIES	
Cash received	
Interest received	51,208
Total cash received	51,208
Cash used	
Remuneration of Board of Guardians	156
Suppliers	433
Advances for Departmental items	3,567
Total cash used	4,156
Net cash from operating activities	47,052
INVESTING ACTIVITIES	
Cash used	
Term deposits	18,046,000
Total cash used	18,046,000
FINANCING ACTIVITIES	
Cash received	
Amounts credited to Special Account	18,000,000
Total cash received	18,000,000
Net increase in cash held	1,052
Cash at the beginning of the reporting period	-
Cash at the end of the reporting period	1,052

The above schedule should be read in conjunction with the accompanying notes.

Schedule of administered items *(continued)***Administered commitments as at 30 June 2006**

The Future Fund is not aware of any commitments in relation to administered items as of the signing date that require disclosure in the financial statements.

Statement of activities administered on behalf of government

The Future Fund will accumulate assets for the purpose of offsetting the unfunded superannuation liabilities of the Government. Through investment in a broad range of financial assets, the Fund will contribute to enhancing the net worth of the Australian Government. Preserving the assets for the time when increasing intergenerational expense pressures are anticipated will enhance the capacity of the Government to offset these liabilities and will support intergenerational equity.

Note 1 provides details of the objectives of the Future Fund.

Notes to and forming part of the financial statements *for the period from 3 April 2006 to 30 June 2006*

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Note 1: Objectives of the Future Fund

The Future Fund Act 2006 (the Act) commenced on 3 April 2006 and established the Future Fund Special Account (the Fund Account), the Future Fund Board of Guardians (the Board) and the Future Fund Management Agency (the Agency), collectively referred to as the Future Fund. The object of the Act is to strengthen the Commonwealth's long-term financial position.

The Future Fund will make provision for unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth's finances. The legislation quarantines the Fund, the balance of the Fund Account and other investments, for the ultimate purpose of paying unfunded superannuation liabilities and expenses associated with the investment and administration of both the Board of Guardians and by direct transfer from the administered funds the expenses of the Future Fund Management Agency.

Future Fund Management Agency (the Agency)

The Agency is a statutory agency for the purposes of the *Public Service Act 1999* (the Public Service Act) and is prescribed for the purposes of the *Financial Management and Accountability Act 1997* (the FMA Act). The Agency is responsible for implementing the investment decisions made by the Future Fund Board of Guardians (the Board).

The Agency will provide executive support for the Board and will be responsible for the operational activities associated with the investment of the funds contained in the Fund Account. The Agency will also assist the Board in obtaining investment advice and provide the Board with secretariat support. In practice, while the Board will decide how the funds are to be invested, the Agency will be the entity that ensures monies are allocated consistent with those decisions.

Future Fund Board of Guardians

The Board is a body corporate with perpetual succession and is a separate legal identity to the Commonwealth.

In line with subsection 18(1) of the enabling legislation the Government issued the Board with the first Investment Mandate for the Future Fund, effective 22 May 2006. The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Future Fund. The main object of the acquisition by the Board of a financial asset, as an investment of the Fund, is to enhance the ability of the Commonwealth to discharge unfunded superannuation liabilities.

The roles and responsibilities of the Board are set out in the enabling legislation and are similar to those that exist for the trustees of superannuation funds. The Board is collectively responsible for the investment decisions of the Fund and is accountable to the Government for the safekeeping and performance of the assets of the Fund. As such, the Board's primary role is to provide strategic direction to the investment activities of the Fund including the development of an investment strategy that adheres to the Investment Mandate.

Future Fund Investment Mandate Directions 2006

The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Future Fund. The Future Fund Board of Guardians is required under section 18 of the Act to seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under subsection 18(1) or subclause 8(1) of Schedule 1 of the Act.

Investments by the Future Fund will be confined to financial assets.

The continued existence of the Future Fund in its present form, and with its present program is dependent on government policy.

Note 2 : Summary of significant accounting policies

2.1 Basis of preparation of the financial statements

These financial statements comprise the Future Fund Management Agency and the Future Fund Board of Guardians, collectively referred to as the Future Fund, in accordance with Section 80 of the *Future Fund Act 2006*.

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997*, and are a general purpose financial report prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) (being the *Financial Management and Accountability Orders (Financial Statements for reporting periods ended on or after 1 July 2005)*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period; and
- Interpretations issued by the Urgent Issues Group (UIG) that apply for the reporting period.

These financial statements have been prepared on an accrual basis and are in accordance with the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the profit or loss, certain classes of property, plant and equipment and employee entitlements. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard.

Liabilities and assets which are unrecognised in the Balance Sheet are reported in the Schedule of Commitments or where remote or unquantifiable, as contingencies reported at Notes 10 (departmental) and 22 (administered).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets, liabilities and cash flows reported in Schedule of Administered Items and related Notes are accounted for on the same basis and using the same policies as for departmental items, except where otherwise stated.

Significant Accounting Judgements and Estimates

No judgments have been made in applying the accounting policies listed in this note that have a significant impact on the amounts recorded in these financial statements.

2.2 Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS).

Australian Accounting Standards require the Future Fund to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards, these amendments are denoted by year and then number.

The table below illustrates standards and amendments that will become effective for the Future Fund in the future. The nature of the impending change within the table, has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the Future Fund's initial assessment at this date, but may change. The Future Fund intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact.
2006-1	AASB 121	31 Dec 2006	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact.
	AASB7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact.

* Application date is for annual reporting periods beginning on or after the date shown .

2.3 Departmental and administered items

Departmental assets, liabilities, revenues and expenses are those items that are controlled by the Agency including:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from user charging, sale of property assets, etc, where the proceeds are deemed appropriated under section 31 of the *Financial Management and Accountability Act 1997*; and
- employee expenses and other administrative expenses incurred in delivering outputs to government.

Administered assets, liabilities, revenues and expenses are those items which are managed or overseen by the Future Fund on behalf of the government and include the expenses of the Board of Guardians.

The purpose for the separation of administered and departmental items is to enable assessment of the administrative efficiency of the Future Fund in providing goods and services.

Administered items are identified separately in the financial statements by shading.

2.4 Revenue

Revenue from government — appropriations

The full amount of the appropriation for departmental outputs for the year (less any savings offered up at Additional Estimates) is recognised as revenue at their nominal amount, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Other revenue

Other revenue comprises the reimbursement of costs incurred by the Agency and is recognised to the extent which costs have been incurred.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

Dividends are recognised when the right to receive payment is established.

Interest revenue is recognised using the effective interest method.

2.5 Gains

Services and resources received free of charge

Services and resources received free of charge are recognised as revenue when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition are recognised as revenue at their fair value when the asset qualifies for recognition. Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

Other Gains

Gains from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

2.6 Transactions with the government as owner

(a) Credits to Fund Account

From time to time the responsible Ministers may determine that additional amounts are to be credited to the Fund Account. In addition, the responsible Ministers may transfer Commonwealth-owned financial assets to the account.

(b) Debits to Fund Account

Amounts may be debited from the Fund Account in accordance with the purposes of the Fund Account. The main purpose of the Fund Account is to discharge unfunded superannuation liabilities from whichever is the earlier of (a) the time when the balance of the Fund is greater than or equal to the target asset level; (b) 1 July 2020.

2.7 Employee entitlements

Liabilities for services rendered by employees are recognised at the end of the financial year to the extent that they have not been settled. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

(a) Leave

The liability for employee entitlements includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Future Fund is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Agency's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The leave liabilities are calculated on the basis of employees' remuneration at the end of the financial year, adjusted for expected increases in remuneration effective from 1 July 2006. Liabilities for short-term employee benefits (i.e. wages and salaries, annual leave etc, expected to be settled within 12 months from the reporting date) are measured at their nominal amounts.

All other employee benefits are measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. In determining the present value of the liability, the Future Fund has commissioned an actuarial assessment by the Australian Government Actuary of the anticipated attrition rates and pay increases through promotion and inflation. The Australian Government Actuary has recommended the application of the shorthand method, as prescribed by Section 4C of the FMOs, for determining the present value of the long serve leave liability.

(b) Superannuation

Staff of the Future Fund have the choice to contribute to the Commonwealth Superannuation Scheme, Public Sector Superannuation Scheme (Defined Benefit), Public Sector Superannuation Scheme (Accumulation Plan) and other employee nominated schemes.

For any staff who are members of CSS or PSS (Defined Benefit), the Future Fund makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the government of the superannuation entitlements of its employees. The liability for superannuation benefits payable to an employee upon termination is recognised in the financial statements of the Australian Government.

A liability has been recognised at the end of the financial year for outstanding superannuation contributions payable in relation to the final fortnight of the financial year.

2.8 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all risks and benefits incidental to ownership of leased non-current assets. Under operating leases the lessor effectively retains substantially all such risks and benefits.

The Future Fund holds operating leases only. Operating lease payments are charged to the Income Statement on a basis which is representative of the pattern of benefits derived from the leased assets.

2.9 Cash and investments

Cash means notes and coins held and any deposits held at call with a bank. Deposits held with a bank that are not at call are classified as investments. Cash is recognised at its nominal amount.

2.10 Financial Risk Management

The Future Fund activities expose it to normal commercial financial risk. As a result of the nature of the Future Fund's business and internal and Australian Government policies, dealing with the management of financial risk. The Future Fund is exposed to market, credit, liquidity, cash flow and fair value interest rate risk.

2.11 Financial instruments

Accounting policies for financial instruments are stated at Note 15 (Departmental) and Note 23 (Administered).

2.12 Impairment of Financial Assets

Financial assets are assessed for impairment at each balance date.

2.13 Trade Creditors

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

2.14 Acquisition of Assets

Non financial assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

2.15 Infrastructure, plant and equipment

(a) Asset recognition threshold on acquisition

Purchases of infrastructure, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$2,000, which are expensed at the time of acquisition. The asset recognition threshold is applied to each functional asset. That is, items or components that form an integral part of an asset are grouped as a single asset.

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'makegood' provisions in property leases taken up by the Future Fund where there exists an obligation to restore the property to its original condition. These costs are included in the value of the Future Fund's leasehold improvements with a corresponding provision for the 'makegood' taken up.

(b) Revaluations

Basis

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ with the assets' fair values as at the reporting date, in accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment*.

Fair value has been determined as depreciated replacement cost for leasehold improvements and market selling price in an active market for computers, plant and equipment.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of Asset Revaluation Reserve except to the extent that it reverses a previous revaluation decrement of the same asset class. Revaluation decrements for a class of assets are recognised directly through the Income Statement except to the extent that they reverse a previous revaluation increment for that class. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to accumulated results.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Frequency

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ with the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Assets acquired after the commencement of a revaluation are not captured by the revaluation then in progress.

Conduct

All valuations are conducted by an independent qualified valuer.

(c) Impairment of non-current assets

All assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Future Fund was deprived of the asset, its value in use is taken to be its depreciated replacement cost.

(d) Depreciation and amortisation

The depreciable value of plant and equipment assets is written off over the estimated useful lives of the assets to the Future Fund using the straight line method of depreciation. Leasehold improvements are amortised on a straight line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation and amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

The depreciable value of infrastructure, plant and equipment assets is based on a zero residual value.

Depreciation and amortisation expenses have been determined by applying rates to new depreciable assets based on the following useful lives:

Class of depreciable asset	2006
Leasehold improvements	5 years
Computers, plant and equipment	3-5 years
Office equipment	5 years
Furniture	5 years

The aggregate amount of depreciation and amortisation allocated for each class of asset during the reporting period is disclosed at Note 4C and 4D.

2.16 Intangibles

Purchases of computer software are recognised at cost in the Balance Sheet except for purchases costing less than \$10,000, which are expensed at the time of acquisition.

An item of software represents:

- a software licence granted for greater than 12 months; or
- a developed software application.

Developed software is recognised by capitalising all directly attributable internal and external costs that enhance the software's functionality and therefore service potential.

Software assets are amortised on a straight line basis over their anticipated useful lives, being three to five years. Software assets are not subject to revaluation and consequently are carried at cost less accumulated amortisation and any accumulated impairments in the financial statements.

All software assets are assessed for indications of impairment at each reporting date.

2.17 Taxation

The Future Fund is exempt from all forms of taxation except for Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses, assets and liabilities are recognised net of GST, except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables (where GST is applicable).

Receipts and payments in the Statement of Cash Flows are recorded in gross terms (that is, at their GST inclusive amounts).

2.18 Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are presented in the Schedule of Administered Items and related Notes. Except where otherwise stated, administered items are prepared on the same basis of accounting and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Note 3: Income

	2006 \$'000
Note 3A: Revenue from government	
Appropriations	
Departmental outputs	-
Total revenue from government	-
Note 3B: Other revenue	
Reimbursement of expenses from administered items	432
Total other revenue	432
Note 3C: Gains	
Resources received free of charge (ANAO)	25
Total gains	25

Note 4: Expenses

	2006 \$'000
Note 4A: Employee expenses	
Wages and salaries	97
Superannuation	18
Leave and other entitlements	-
Other employee expenses	-
Total employee expenses benefits	115
Workers compensation premium	-
Total employee expenses	115
Note 4B: Supplier expenses	
Provision of goods – external entities	21
Provision of services – external entities	238
Provision of services – related entities	52
Operating lease rentals	30
Total supplier expenses	341
Note 4C: Depreciation	
Depreciation of infrastructure, plant and equipment	1
Total depreciation	1
The aggregate amounts of depreciation expensed during the reporting period for each class of depreciable assets are as follows:	
Computers, plant and equipment	1
Total depreciation	1
Note 4D: Amortisation	
Amortisation of intangibles – computer software purchased	-
Total amortisation	-

Note 5: Financial assets

	2006 \$'000
Note 5A: Cash and cash equivalents	
Departmental	3,721
Total cash and cash equivalents	3,721
Note 5B: Receivables	
GST receivable	42
Other	-
Total receivables	42
Gross receivables are represented by:	
Current	42
Non-current	-
Gross receivables are aged as follows:	
Not overdue	42
Overdue less than 30 days	-

Note 6: Non-financial assets

	2006 \$'000
Note 6A: Infrastructure, plant and equipment	
Computers, plant and equipment – at cost	20
Accumulated depreciation	1
Total infrastructure, plant and equipment (non-current)	19
Note 6B: Intangibles	
Computer software purchased – cost	24
Accumulated amortisation	-
Total intangibles (non-current)	24

Note 6: Non-financial assets (continued)

	Infrastructure plant & equipment \$'000	Computer software purchased \$'000	Total \$'000
Note 6C: Analysis of infrastructure, plant, and equipment (and Intangibles).			
Reconciliation of the opening and closing balances of infrastructure, plant and equipment and Intangibles.			
As at 3 April 2006			
Gross book value	-	-	-
Accumulated depreciation /amortisation	-	-	-
Net book value as 3 April 2006	-	-	-
<i>Additions:</i>			
Purchases	20	24	44
<i>Disposals:</i>			
Gross value of disposals			
Accumulated depreciation /amortisation of disposals			
<i>Depreciation/amortisation charge for the period</i>	1	-	1
As at 30 June 2006			
Gross book value	20	24	44
Accumulated depreciation /amortisation	1	-	1
Net book value as at 30 June 2006	19	24	43

Note 7: Payables

	2006 \$'000
Note 7A: Supplier payables	
Trade creditors	148
Total supplier payables	148
Total supplier payables are current liabilities	
Note 7B: Other payables	
Advances from administered items	3,567
Accrued expenses	44
Total other payables	3,611

Note 8: Provisions

	2006 \$'000
Note 8: Employee provisions	
Salaries and wages	41
Superannuation	6
Total employee entitlement provision	47
Current	47
Non-current	-

Note 9: Cash flow reconciliation

	2006 \$'000
Reconciliation of operating result to net cash from operating activities:	
Operating result	-
Depreciation and amortisation	1
Net write-down of non-financial assets	-
(Increase) / decrease in receivables	(42)
Increase / (decrease) in employee provisions	47
Increase / (decrease) in other payables	3,611
Increase / (decrease) in supplier payables	148
Net cash from operating activities	3,765

Note 10: Contingent liabilities and assets

Contingencies

The Future Fund is not aware of any quantifiable or unquantifiable contingencies in relation to Departmental items as of the signing date that require disclosure in the financial statements.

Remote contingencies

The Future Fund is not aware as at the signing date of any remote contingencies.

Note 11: Executive remuneration

The number of executives who received or were due to receive total remuneration of \$130,000 or more was nil. Individuals who worked only part of the period were not included within the executive remuneration note if they did not reach the \$130,000 limit despite their annual remuneration being greater than this.

Remuneration means any money, consideration or benefit including wages, salaries, performance pay, accrued leave entitlements (excluding superannuation on-costs), superannuation contributions, the cost of motor vehicles, housing, commuting and allowances. Remuneration does not include reimbursement of out-of-pocket expenses incurred for work related purposes.

Note 12: Remuneration of auditors

Financial statement audit services are provided free of charge to the Future Fund. The fair value of the audit services provided by the Australian National Audit Office was:

	2006
	\$
	25,000

No other services were provided by the Auditor-General.

Note 13: Average staffing level

The average staffing level for the Future Fund during the period was:

	2006
	5

Note 14: Specific payment disclosures

Departmental

No 'Act of Grace' payments were made during the reporting period.

No waivers of amounts owing to the government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* during the reporting period.

No payments were made under the 'Defective Administration Scheme' during the reporting period.

No payments were made under section 73 of the *Public Service Act 1999* during the reporting period.

No payments were made under ex-gratia programs during the reporting period.

Administered

No 'Act of Grace' payments were made during the reporting period.

No waivers of amounts owing to the government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* during the reporting period.

No payments were made under the 'Defective Administration Scheme' during the reporting period .

Note 15: Departmental financial instruments**Note 15A: Terms, conditions and accounting policies**

Financial instruments	Notes	Accounting policies and methods	Nature of underlying instruments
<i>Financial assets</i>		<i>Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.</i>	
Cash at bank	5A	Cash at bank is recognised at nominal amounts. Cash on hand and cash equivalents includes cash at hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to cash and which are subject to an insignificant risk of change in value and bank overdrafts which are repayable on demand.	The Future Fund maintains an operational bank account with the Reserve Bank of Australia. Monies in the account are swept nightly into an at call investment account. Interest earned on the at call investment account is credited to administered items.
Receivables	5B	Receivables are initially recognised at fair value and are subsequently recognised at amounts due less any accumulated impairment.	Receivables primarily comprise amounts due from the Australian Taxation Office for GST paid. Receivables are non-interest bearing.
<i>Financial liabilities</i>		<i>Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.</i>	
Payables and provisions	7,8	Creditors and accruals are recognised at the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that goods or services have been received (and irrespective of having been invoiced).	Amounts comprise trade creditors, advances from administered items, accrued expenses and employee provisions. Advances from administered items are non-interest bearing. Trade liabilities are normally settled on 30 day terms.

Note 15: Departmental financial instruments (continued)
Note 15B: Interest rate risk

The Future Fund's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below:

Financial instrument	Note	Floating Interest Rate	Fixed Interest Rate Maturing in			Non-Interest Bearing	Total	Weighted Average Effective Interest Rate
			1 Year or less	1 to 5 Years	> 5 Years			
		2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 %
Financial assets								
Cash at bank	5A	-	-	-	-	3,721	3,721	NA
Receivables	5B	-	-	-	-	42	42	NA
Total assets		-	-	-	-	3,763	3,763	
Financial liabilities								
Suppliers	7A	-	-	-	-	148	148	NA
Other payables	7B	-	-	-	-	3,611	3,611	NA
Provisions	8	-	-	-	-	47	47	NA
Total liabilities		-	-	-	-	3,806	3,806	

Note 15C: Credit risk exposures

The Future Fund's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet.

Note 15D: Fair values of financial assets and liabilities

The fair value of each class of financial assets and liabilities is equal to their carrying amounts.

Note 16: Income administered on behalf of government

	2006 \$'000
Note 16: Interest	
Interest on cash and deposits at call	51,101
Interest on term deposits	112,566
Total interest revenue	163,667
Total income administered on behalf of government	163,667

Note 17: Expenses administered on behalf of government

	2006 \$'000
Note 17A: Remuneration of Board of Guardians	
Wages and salaries	149
Superannuation	12
Leave and other entitlements	-
Total employee expenses	161
Note 17B: Supplier expenses	
Provision of goods – external entities	20
Provision of services – external entities	12
Provision of services – Future Fund Management Agency	432
Total supplier expenses	464
Total expenses administered on behalf of government	625

Note 18: Assets administered on behalf of government

	2006 \$'000
Note 18A: Cash and cash equivalents	
Administered bank account	1,052
Total Cash	1,052
Note 18B: Receivables	
Advances for departmental items	3,567
Total receivables	3,567
Gross receivables are represented by:	
Current	3,567
Non-current	-
Gross receivables are aged as follows:	
Not overdue	3,567
Overdue less than 30 days	-
Note 18C: Investments	
Term deposits (current)	18,046,000
Total investments	18,046,000
Note 18D: Accrued revenues	
Interest on term deposits	112,459
Total accrued revenues	112,459
Total assets administered on behalf of government	18,163,078

Note 19: Liabilities administered on behalf of government

	2006 \$'000
Note 19A: Supplier payables	
Trade creditors	13
Total supplier payables	13
Total supplier payables are current liabilities	
Note 19B: Other payables	
Accrued expenses	18
Total other payables	18
Settlement is usually made 30 days	

Note 20: Provisions administered on behalf of government

	2006 \$'000
Note 20: Board remuneration provisions	
Salaries and wages	4
Superannuation	1
Total board remuneration provision	5
Current	5
Non-current	-

Note 21: Administered reconciliation table

	2006 \$'000
Administered reconciliation table	
Opening administered assets less administered liabilities as at 3 April 2006	-
Plus: Administered income	163,667
Less: Administered expenses	(625)
Administered transfers to / from Australian Government:	
Amounts credited to special account	18,000,000
Closing administered assets less administered liabilities as at 30 June 2006	18,163,042

Note 22: Administered contingent liabilities and assets

Contingencies

The Future Fund is not aware of any quantifiable or unquantifiable contingencies as of the signing date that require disclosure in the financial statements.

Remote contingencies

The Future Fund is not aware as at the signing date of any remote contingencies.

Note 23: Administered financial instruments

Note 23A: Terms, conditions and accounting policies

Financial instruments	Notes	Accounting policies and methods	Nature of underlying instruments
<i>Financial Assets</i>		<i>Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.</i>	
Cash at bank	18A	Cash at bank is recognised at nominal amounts. Cash on hand and cash equivalents includes cash at hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to cash and which are subject to an insignificant risk of change in value and bank overdrafts which are repayable on demand.	The Future Fund maintains an operational bank accounts with the Reserve Bank of Australia. Monies in the account are swept nightly to a at call investment account. The total interest paid on the at call investment account is recognised in administered items.
Receivables	18B	Receivables are initially recognised at fair value and are subsequently recognised at amounts due less any accumulated impairment.	Receivables comprise prepayments of departmental items.
Investments	18C	Investments in term deposits are recognised at cost. Interest is credited to revenue as it accrues.	Investments comprise term deposits with the Reserve Bank of Australia.
Accrued revenues	18D	Interest on financial assets is credited to revenue as it accrues and not when it is received. Revenue earned but not yet received is recognised as an asset called 'accrued revenues'.	Accrued revenues comprise interest receivable on term deposits and cash at bank.
<i>Financial Liabilities</i>		<i>Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.</i>	
Payables and provisions	19A 19B 20	Creditors and accruals are recognised at the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that goods or services have been received (and irrespective of having being invoiced).	Trade liabilities are normally settled on 30 day terms.

Note 23: Administered financial instruments (continued)**Note 23B: Interest rate risk**

The Future Fund's exposure to interest rate risk and corresponding weighted average effective interest rates for each class of financial asset and financial liability is set out below.

Financial instrument	Note	Floating Interest Rate	Fixed Interest Rate Maturing in			Non-Interest Bearing	Total	Weighted Average Effective Interest Rate
			1 Year or less	1 to 5 Years	> 5 Years			
		2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 %
Financial assets								
Cash at bank	18A	1,052	-	-	-	-	1,052	5.75
Receivables	18B	-	-	-	-	3,567	3,567	NA
Investments	18C	-	18,046,000	-	-	-	18,046,000	5.84
Accrued revenues	18D	-	-	-	-	112,459	112,459	NA
Total assets		1,052	18,046,000	-	-	116,026	18,163,078	
Financial liabilities								
Suppliers	19A	-	-	-	-	13	13	NA
Other payables	19B	-	-	-	-	18	18	NA
Employee provisions	20	-	-	-	-	5	5	NA
Total liabilities		-	-	-	-	36	36	

Note 23: Administered financial instruments (continued)**Note 23C: Credit risk exposures**

The Future Fund's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet.

Note 23D: Fair values of financial assets and liabilities

The fair value of each class of financial assets and liabilities is equal to their carrying amounts.

Note 24: Special accounts**Note 24A: Special accounts: Future Fund Special Account**

Future Fund Special Account

Legal Authority — *Future Fund Act 2006, section 12.*

Purpose — establishment and ongoing operation of the Future Fund.

Disclosures below are on a cash basis and consolidate departmental and administered items.

Future Fund Special Account	2006 \$
Balance carried from previous period	-
Bank interest amounts credited	51,041,096
Appropriations for reporting period	-
Other Receipts:	
Amounts transferred from investment account (a)	166,961
Amounts credited to the special account	18,000,000,000
Total Credits	18,051,208,057
Available for payments	18,051,208,057
Payments made:	
Investments debited from the Special Account (FFA s17)	18,046,000,000
Payments made	
- Employees	67,808
- Remuneration of Board of Guardians	156,333
- Suppliers	166,796
- Purchase of infrastructure, plant and equipment	19,940
- Purchase of software	24,466
Total Debits	18,046,435,343
Balance carried forward to next year (b)	4,772,714
<i>Balance carried forward represented by</i>	
Cash – held by the entity	4,772,714
Total balance carried to next period	4,772,714

(a) The operations of the Future Fund are funded via the investment revenue generated.

(b) Excluding investments balances, see Note 24C

Note 24B: Special accounts: Other Trust Moneys - Future Fund Management Agency Special Account

The Other Trust Moneys – Future Fund Management Agency Special Account is a Special Public Money account established for the purpose:

- a) disbursing amounts temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth; and
- b) to repay amounts where an Act or other law requires or permits the repayment of an amount received.

The Special Account was established under s20 of the Financial Management and Accountability Act 1997. The Special Account has not been used during the current year and has a nil balance.

Note 24C: Special Accounts: Investment of Public Money

Disclosures below are on a cash basis.

Future Fund Special Account: Investment of Public Money under section 17 of the Future Fund Act		2006 \$
Opening balance		-
Investments made	18,046,000,000	
Interest earned	166,961	
Amounts transferred to operations (a)	(166,961)	
Investments realized	-	
Closing Balance	18,046,000,000	

(a) The operations of the Future Fund are funded via the investment revenue generated.

Note 25: Reporting of outcomes**Note 25: Net cost of outcome delivery**

	Outcome 1 2006 \$'000
<i>Expenses</i>	
Administered expenses (a)	193
Departmental expenses	457
Total expenses	650
<i>Costs recovered from provision of good and services to the non-government sector</i>	
Administered	-
Departmental	-
Total costs recovered	-
<i>Income</i>	
Administered	
Interest	163,667
Other	-
Total administered	163,667
Departmental	
Gains	25
Total departmental	25
Total income	163,692
Net cost (contribution) of outcome	(163,042)

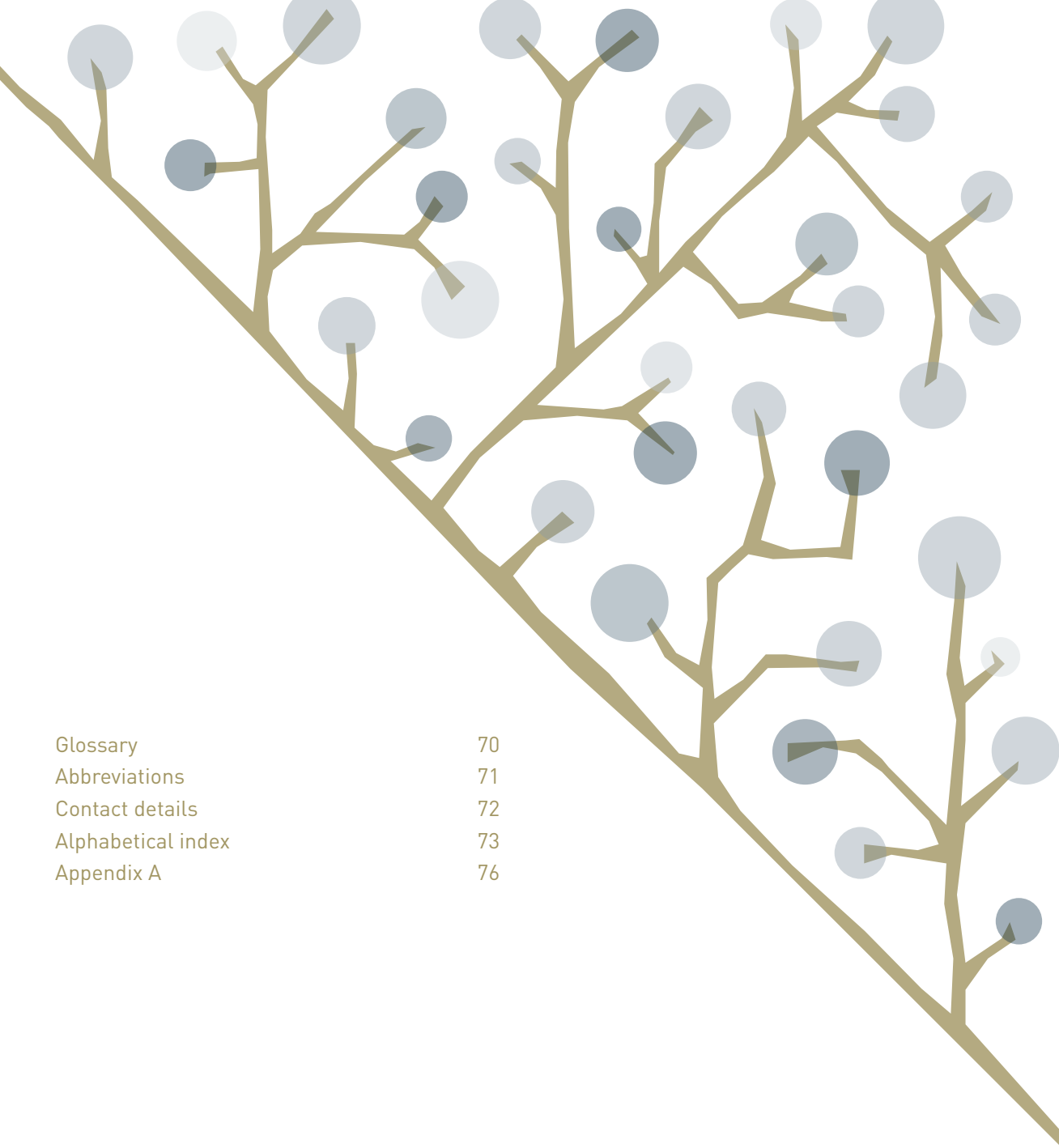
(a) Excludes costs transferred from Departmental items \$432,000
Outcome 1 is described in Note 1.

Note 26: Major departmental revenues and expenses by output group and output

	Output Group 1 Outcome 1 2006 \$'000
Departmental expenses	
Employees	115
Suppliers	341
Depreciation and amortisation	1
Write-down of assets	-
Total departmental expenses	457
Funded by:	
Revenues from government	-
Other revenue	432
Gains	25
Total departmental revenues	457

Note 27: Events occurring after reporting date

There have been no significant events occurring after reporting date that would materially affect these financial statements.



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Glossary

Administered items

Administered assets, liabilities, revenues and expenses are those items which are controlled by the government and managed or overseen by the Future Fund on behalf of the government.

Asset consultants

Asset consultants are specialist advisers who provide expert advice on particular types of asset classes as well as providing advice on investment managers.

Audit committee

An audit committee plays a pivotal role in the governance framework of an organisation. An audit committee is fundamental in assisting the Chief Executive Officer and the Board to:

- ensure all key controls are operating effectively
- ensure all key controls are appropriate for achieving corporate goals and objectives, and
- meet their statutory and fiduciary duties

Australian Accounting Standards Board

The Australian Accounting Standards Board (AASB) is responsible for issuing the Accounting Standards throughout Australia. Accounting Standards are policies providing descriptions of acceptable methods for treating fundamentals of accounting. The AASB took over the role of the Australian Standards Review Board in 1991 and it includes the Australian Equivalents to International Financial Reporting Standards.

Australian workplace agreement

An AWA is an individual written agreement between an employer and employee about terms and conditions of employment, made under the *Workplace Relations Act 1996*.

Body corporate

A body corporate is a corporation or body of people, or even an individual with a legal existence distinct from the individual person(s) making up the corporate entity.

Commonwealth Procurement Guidelines

The Commonwealth Procurement Guidelines provide a policy framework designed to assist government agencies achieve value for money in their procurement activities. They articulate the expectations that exist for officials, or agents conducting procurement on behalf of the Australian Government, in the design, conduct and management of all aspects of government procurement. The guidelines are issued under the *Financial Management and Accountability Regulations 1997*.

Consultancy services

Consultancy services are one particular type of service delivered under a contract for services.

Consultant

A consultant is an entity (individual, partnership or corporation), engaged to provide professional, independent and expert advice or services. Consultants are not employees of the Future Fund and are not paid wages or other employee entitlements.

Corporate governance

Corporate governance is the system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities of participants in the Agency.

Custodian

The custodian is the organisation that has the legal responsibility for the safe keeping of assets, income collection and settlement of trades for a portfolio independent from the asset management function.

Departmental items

Departmental assets, liabilities, revenues and expenses are those items that are controlled by the Agency. These expenses represent the ordinary operating costs of government departments and agencies. They include salaries, operational expenses (including depreciation) and accruing employee entitlements.

Financial Management and Accountability Act 1997

The *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the appropriate management of public money, public property and other Australian Government resources. It sets out the fundamental principles of financial control governing the financial activities of agencies subject to this Act. It applies to Australian Government agencies that do not own money or property in their own right.

Gross return

Gross return is the whole or total return on an investment before any deduction or offsets has been made.

Investment mandate

A series of written directions or instructions surrounding the performance of the investment function of the Future Fund Board of Guardians.

Cash rate

Broadly defined, the term cash rate is used to denote the interest rate which financial institutions pay to borrow or charge to lend funds in the money market on an overnight basis. The cash rate is determined in the money market as a result of the interaction of demand and supply of overnight funds. The Reserve Bank of Australia uses its domestic market operations to influence the cash rate.

Perpetual Succession

Perpetual Seccession is the continuation of a corporation or other organisations existence despite the death of any owner or member.

Risk management

Risk management is the systematic application of procedures and practices to clearly identify, analyse, evaluate, treat and monitor risks associated with an organisation's activities.

Secretariat

A secretariat is an administrative unit responsible for maintaining records and other secretarial duties of an organisation or board.

Seed capital

Seed capital is the amount of money the Australian Government initially provided the Future Fund upon its establishment.

Statutory Agency

A Statutory Agency is a government agency declared by legislation to be a statutory agency for the purposes of the *Public Service Act 1999*. It has the legal status of a corporate body with an independent legal existence.

Abbreviations

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia Medal
AEIG	Australian Ethical Investment Group
AM	Australia Medal
ANAO	Australian National Audit Office
CBA	Commonwealth Bank of Australia
CEIs	Chief Executive's Instructions
CEO	Chief Executive Officer
CPGs	Commonwealth Procurement Guidelines
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FMO	Finance Minister's Orders
FOI Act	<i>Freedom of Information Act 1982</i>
FOI	Freedom Of Information
GST	Goods and Services Tax
RBA	Reserve Bank of Australia

Contact details

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A copy of this document can be located
on the Future Fund website at

<http://www.futurefund.gov.au>

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Appendix A

Future Fund Investment Mandate Directions 2006

Part 1 Preliminary

1. Name of Directions

These Directions are the Future Fund Investment Mandate Directions 2006.

2. Commencement

These Directions commence on 22 May 2006.

3. Definitions

In these Directions:

Act means the *Future Fund Act 2006*.

Fund means the Future Fund.

Board means the Future Fund Board of Guardians.

4. Objective of these Directions

The Future Fund will make provision for unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth's finances.

The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Future Fund. The Future Fund Board of Guardians is required under section 18 of the Act to seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under subsection 18(1) or subclause 8(1) of Schedule 1 of the Act.

These Directions are given under subsection 18(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board.

Investments by the Future Fund will be confined to financial assets.

Part 2 Directions

5. Benchmark return

The Board is to adopt an average return of at least the Consumer Price Index (CPI) + 4.5 to + 5.5 per cent per annum over the long term as the benchmark return on the Fund.

During the initial transition period, as the Board develops a long-term strategic asset allocation, a return lower than the benchmark return is expected.

In targeting the benchmark return, the Board must determine an acceptable but not excessive level of risk for the Fund measured in terms such as the probability of losses in a particular year.

6. Limits for holdings of listed companies

The Board must establish a limit for holdings on any listed company in order to prevent a breach of the statutory limits imposed by sections 21 and 22 of the Act.

7. Telstra Corporation

The Board must not acquire a direct equity holding of voting shares in Telstra Corporation Limited except as a result of a transfer of financial assets by the responsible Ministers under clause 6 of Schedule 1 of the Act or a gift of financial assets under clause 7 of Schedule 1 of the Act.

8. Board must consider impacts from its investment strategy

In undertaking its investment activities, the Board must act in a way that:

- (a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
- (b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

9. Corporate Governance

The Board must have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.