

EXPLANATORY STATEMENT

Issued by authority of the Treasurer and the Minister for Finance

DisabilityCare Australia Fund Act 2013

DisabilityCare Australia Fund Investment Mandate Directions 2014 made under section 29(1) of the DisabilityCare Australia Fund Act 2013.

The *DisabilityCare Australia Fund Act 2013* (the Act) enables the creation of the DisabilityCare Australia Fund (the Fund) from 1 July 2014.

All revenue raised from increasing the Medicare levy (from 1.5 per cent per annum to 2.0 per cent per annum of a person's taxable income) from 1 July 2014 will be credited into the Fund. The purpose of the Fund is to invest the revenues from the Medicare levy increase to enhance the Commonwealth's ability to reimburse the State and Territories and the Commonwealth for the expenditure in relation to the *National Disability Insurance Scheme Act 2013*.

The Future Fund Board of Guardians (the Board) is responsible for deciding how to invest the Fund.

Section 29 of the Act provides that the responsible Ministers (the Minister for Finance and the Treasurer) may give the Board written directions about the performance of its DisabilityCare Australia Fund investment functions. These directions are known as the *DisabilityCare Australia Fund Investment Mandate Directions 2014* (Investment Mandate).

The directions, in the form of the Investment Mandate, provide guidance to the Board, in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act, and any written directions given by the Responsible Ministers under the Act.

The responsible Ministers are able to review the Investment Mandate, in consultation with the Board, including in relation to any material changes to either investment conditions or the cashflow position of the Fund.

Exemption from disallowance and sunseting regime

The Investment Mandate is a legislative instrument, however section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument (item 41 of the table in subsection 44(2) of the *Legislative Instruments Act 2003*).

Part 6 of the *Legislative Instruments Act 2003*, provides for sunseting. Item 46 of the table in subsection 45(2) of the *Legislative Instruments Act 2003* provides that Part 6 does not apply to Ministerial directions to any person or body. As such, Part 6 of the *Legislative Instruments Act 2003* (sunseting) does not apply to this legislative instrument.

Investment Mandate

For the purpose of this Investment Mandate, the Government has directed the Board to aim to achieve a return on the Fund of the Australian three month bank bill swap rate plus 0.3 per cent per annum, calculated on a rolling twelve month (net of fee) basis. This benchmark return is subject to the Board being able to meet the two primary objectives – sufficient liquidity to meet payments from the Fund, and minimising the probability of capital losses over a twelve month period.

The Government has an obligation to the Australian community to make decisions that are economically and fiscally responsible. It is the expectation of the Government that in managing the investments of the Fund, the Board should minimise disruption to the operation of domestic financial and credit markets and act in a manner that minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets.

The Board is also required to act in a manner that is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

Consultation

The Board, the Future Fund Management Agency and the Department of the Treasury were consulted in the drafting of the Investment Mandate.

Commencement

Under section 29(10) of the Act, the Investment Mandate comes into effect 15 days after the legislative instrument has been signed by the responsible Ministers.

Statement of Compatibility with Human Rights

As section 42 of the *Legislative Instruments Act 2003* does not apply to this instrument, a Statement of Compatibility with Human Rights is not required under section 9 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.