

## Finance

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The Finance Section is responsible for the management of the ILC's finances and:

- preparing policy advice to the Board and senior management on a range of audit-related and financial matters
- preparing and analysing a range of financial information for the ILC Board and senior management, the Department of Finance and Administration and the Parliament, through the Minister for Reconciliation and Aboriginal and Torres Strait Islander Affairs
- statutory financial reporting.

During the year the Finance Section undertook the implementation of the Goods and Services Tax and towards the end of the reporting period commenced a review of the ILC's Financial Information System needs.

### Consultants

The ILC contracts a number of consultants to provide specialist professional services including legal advice, property valuations and commercial property negotiations. Where appropriate, consultancies and outsourcing of projects are subject to a competitive bid process based on a "value for money" approach. A list of all consultants contracted during the 2000-01 financial year is located in Appendix 5.

The ILC has four prominent service agreements with the following providers:

- **Australian Government Solicitors Office (AGS)** – the ILC purchases a variety of land tenure types throughout Australia and finds it necessary to engage professional services to assist in the conveyancing process and other aspects of land law. Collaborating with the ILC's own solicitor, AGS undertakes on behalf of the ILC the legal requirements of the conveyancing process (preparation of transfer documents, title and other relevant searches, specific legal advice relating to tenure issues etc).
- **Australian Valuation Office (AVO)** – the ILC Board in December 1999 reconfirmed that the ILC will purchase land based on an independent market valuation, and will not pay a price that exceeds the valuation for any parcel of land approved for purchase. The AVO

provides the majority of the ILC's valuation services under a non-exclusive Service Agreement.

- **Knight Frank Price Waterhouse Pty Ltd (KFPW)** – this service agreement covers commercial property negotiations and servicing of the ILC's office accommodation requirements.
- **American Express International Travel Services/Ansett Airlines** travel services and booking arrangements are covered under this service agreement.

### **Indemnities and Insurance Premiums for Officers**

Comcover is the Commonwealth Government's insurable managed fund. The fund covers agencies within the general Government sector, including those covered by the *CAC Act* and the *Financial Management and Accountability Act*. All organisations within the general Government sector belong to the fund unless specifically exempted.

Accordingly, all ILC general liabilities, property, plant and equipment, including that of its subsidiaries, are insured through Comcover. Total insurance premiums for 2000-01 were \$123,379 of which \$52,657 was the cost of general liability insurance including \$29,792 for Directors and Officers insurance.

### **Directors of Subsidiaries**

The current Directors and Officers insurance policy extends cover to all ILC subsidiary companies.

### **ILC Investments**

The ILC needs to manage its surplus funds by way of investment in order to provide the financial resources for land acquisition and land management and other authorised activities and has been managing its own investment portfolio. The ILC Board has adopted a risk management strategy for its invested funds. The strategy seeks to manage risk through investment diversification and the application of investment policies. Diversification is achieved by placing funds available for investment at the commencement of each financial year with three fund managers. The ILC retains the management of the balance of the investment portfolio.

At the Board meeting in June 2000 the Board supported the recommendation to appoint three fund managers—Westpac Investment

Management Pty Ltd, JB Were Capital Markets Ltd and Lazards Investment Management Pacific Co.

During the reporting period the ILC placed a total of \$110 million principal with the three fund managers. The initial contracts for the fund managers were for 12 months, however the ILC has recently extended the initial two contracts until March 2002 so that all three contracts expire at the same time.

The target investment profile is a balanced portfolio (ie 25% in growth products and 75% in non- growth products).

At the June 2001 A&RM Committee meeting, the Committee agreed to the appointment of an independent consultant to review the ILC's investment objectives and strategy by:

- clarifying longer term goals
- determining restraints
- assisting the Board to clearly define a statement of investment objectives
- developing a strategic asset allocation to achieve objectives.

The ILC has continued to receive returns on investments in excess of selected benchmarks. The yield on ILC investments as at 30 June 2001 was 5.9% (weighted average yield, as of 30 June 2000, was 6.7%).

### **Investment Restrictions and Legislative Requirements**

When considering its investment portfolio the ILC needs to refer to a number of Acts.

#### ***ATSIC Act 1995***

The ILC has power to invest its money so long as the investment is 'necessary or convenient' for the purpose of the performance of the functions of the ILC (section 191H(1)).

Section 191F of the *Act* sets out general criteria relating to the ILC's performance of its functions, which are relevant to how it invests its funds. The section states that:

- (1) The Indigenous Land Corporation must act in accordance with sound business principles whenever it performs its functions on a commercial basis.

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### ***Commonwealth Authorities and Companies Act 1997***

Section 18(3) relates to the banking and investment functions of the Government. Under this section the ILC would be restricted to investing money:

- on deposit with a bank
- in securities of the Commonwealth or of a State or Territory
- in securities guaranteed by the Commonwealth, a State or a Territory
- in any other manner approved by the Treasurer.

However, section 193K of the *Audit (Transitional and Miscellaneous) Amendment Act 1997* and section 193K(1) of the *ATSIC Act* states that subsection 18(3) of the *CAC Act* does not apply to the Indigenous Land Corporation.

However the board takes a very conservative investment view.

### **Purchasing**

For the purpose of performing the ILC's functions, the Corporation must give priority to the following:

- ensuring, as far as practical, that Aboriginal persons or Torres Strait Islanders derive social or cultural benefits as a result of those functions
- ensuring that the Indigenous Land Corporation has access to the skills and resources required to perform its functions
- maximising the employment of Aboriginal persons and Torres Strait Islanders
- maximising the use of goods and services provided by businesses owned or controlled (whether directly or indirectly) by Aboriginal persons or Torres Strait Islanders. (section 191F).

The ILC's purchasing policy is consistent with the principles of Commonwealth Procurement Guidelines: Core Policies and Principles. The principles that underpin ILC's procurement activities include:

- value for money
- open and effective competition
- ethics and fair dealing
- accountability and reporting
- national competitive industry development.

The ILC works through a system of procurement that ensures that the above principles are followed.

**Asset Management**

The ILC maintains registers for all assets and other portable and attractive items. Adequate insurance is maintained on all assets. A stocktake of all assets is undertaken at least annually.

**Goods and Services Tax**

GST legislation overrides the tax exempting provision of the *ATSIC Act*, which results in the ILC being subject to the tax. The ILC must manage its GST obligations and comply with the GST legislation on the same basis as any private sector organisation.

The ILC was GST compliant from 1 July 2000. To achieve this the ILC:

- registered for Australian Business Numbers and the GST
- addressed all critical transition issues including contracts, prepayments, supply of rights and periodic or progressive supplies
- updated all accounting systems and processes
- reviewed record keeping processes to ensure they will comply with GST requirements
- analysed the effect of GST on cash flows and pricing including ensuring that any price changes are in accordance with guidelines
- updated financial reporting to comply with Urgent Issues Group Abstract 31 – Accounting for the Goods and Services Tax
- developed a contingency plan in the event that the management information and payment systems fail to report satisfactorily.

Since the 1 July 2000, the ILC has undertaken ongoing monitoring and review of its compliance with the New Tax System and completed all statutory reporting within the prescribed timeframes.

One issue still outstanding is the GST consequences of grants of land made by the ILC under section 191D(1)(a) of the *ATSIC Act* 1989.

A private ruling of the Australian Taxation Office (ATO) dated 28 May 2001 states that a grant of land by the ILC to an Aboriginal corporation is made for consideration, the consideration being the Aboriginal corporation's obligations under the deed of grant of land. As such, the grant of land is subject to GST.

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The reasoning behind the decision is that GST is payable on taxable supplies. Whether or not a supply is a taxable supply is determined in accordance with the tests set out in the GST legislation.

The ILC has sought clarification from the ATO on a range of issues arising out of the tax ruling.

### **Financial Indicators**

The following represent some highlights of the Financial Statements for the year ended 30 June 2001:

- the revenue received from the Land Fund for the year ended 30 June 2001 was \$51.7million (2000: \$50.7m)
- the ILC spent \$12.8m on direct land acquisition in 2000/01 (2000: \$25m)
- as at 30 June 2001 the ILC held \$38.7m in assets pending transfer to Aboriginal or Torres Strait Islander corporations (2000: \$46.4m)
- during the year the ILC divested assets held for transfer of \$19.2m (2000: \$26.6m)
- the market value of investments held as at 30 June 2001 was \$123m (2000: \$94.7m)

Detailed financial information is located in the ILC's Financial Statements.