Funds in Court
Interest Rates & Operational Costs
2020 - 2021

Interest Credited for Funds held in Court 2020 - 2021

Pursuant to sections 113(14) and (15) of the *Supreme Court Act* 1986 the Senior Master, with the approval of the Chief Justice, declared the following interest rates for funds held in Court on 31 May 2021 and for funds paid out of Court from 1 June 2021 to 30 May 2022:

Common Fund No. 1 [CF-1]	0.05% *per annum*
- Interim Rate	0.05% *per annum*
Common Fund No. 2 [CF-2]	
- For beneficiaries with funds invested in both CF-2 and Common Fund No. 3 [CF-3] as at 1 June 2020	1.65% *per annum*
- For other beneficiaries with funds invested in CF-2 only	1.85% *per annum*
- Interim Rate	Equivalent to the Cash Rate Target as fixed by the Reserve Bank of Australia from time to time, but not more than 4% *per annum*.

Note: Funds paid into CF-1 represent "non-award" funds. Funds paid into CF-2 represent funds held on behalf of people under a legal disability.

Separate Interest Rates Declared for CF-2

The Act permits no means for recovery of the operational costs of CF-3. As no cost recovery from the returns of CF-3 is possible, separate rates of interest are fixed by the Senior Master in respect of CF-2.

Fixing different rates of interest is possible, with the approval of the Chief Justice, pursuant to section 113(15) of the Act.

Office Administration Expenses

Section 113(18) of the Act allows the Senior Master to pay from the Common Funds' Guarantee and Reserve Account [G&R] the administration expenses of the Office. G&R is also intended to serve as a prudential safeguard for the investments of the Common Funds.

G&R is applied to meet all administration expenses[1], including the salaries and on-costs of all staff employed in the Office. During the Financial Year 1 July 2020 to 30 June 2021, those expenses totalled approximately $12.5 million. The interest which G&R produced met approximately one seventh of this cost. The bulk of the balance was made up by fixing rates of interest in respect of CF-2, pursuant to sections 113(14) and (15) of the Act, which are slightly less than the income actually produced by the investments of the Common Fund.

The income produced by CF-2 investments during the 2020/21 Financial Year meant that a gross interest rate of approximately 3.03% could have been paid. The following table summarises cost recovery conducted over the last five years:

[1] Not including depreciation. See also note 2 below.

	Year Ended 30 June 2017	Year Ended 30 June 2018	Year Ended 30 June 2019	Year Ended 30 June 2020	Year Ended 30 June 2021
Actual Office Operational Expenses	$9.94M	$10.30M	$10.89M	$11.77M	$12.53M
Gross CF-2 Interest Rate (%p.a.)	4.48%	3.78%	3.49%	3.42%	3.03%
Amount of interest transferred from CF-2 to G&R	(0.93% for CF-2 only) (1.13% for CF-2 & CF-3)	(0.93% for CF-2 only) (1.13% for CF-2 & CF-3)	(0.79% for CF-2 only) (0.99% for CF-2 & CF-3)	(1.02% for CF-2 only) (1.22% for CF-2 & CF-3)	(1.18% for CF-2 only) (1.38% for CF-2 & CF-3)
CF-2 Interest Rate actually paid (%p.a.) - CF-2 only - CF-2 & CF-3	 3.55% 3.35%	 2.85% 2.65%	 2.70% 2.50%	 2.40% 2.20%	 1.85% 1.65%

Administration Expense Ratio

The above figures only show the amount of interest transferred from CF-2 to G&R to cover FIC's operating expenses.

The figure used by FIC to indicate the total cost of administering beneficiary's funds is called the Administration Expense Ratio [AER]. The AER is defined as being:

$$\frac{\textit{total operating expenditure, excluding depreciation, for the financial year}}{\textit{total financial assets, including property, at the end of the financial year}}$$

The FIC AER for the last five financial years is:

Financial Year	AER
2016-2017	0.58%
2017-2018	0.56%
2018-2019	0.54%
2019-2020	0.60%
2020-2021	0.59%

[2] Following a query from the FIC Audit Committee, independent actuarial advice was sought to investigate whether period depreciation should be included in the calculation of the annual AER. Although it became evident that there was no standard definition of expense ratios, the actuary and FIC's internal auditors agreed that the AER be calculated without the inclusion of period depreciation charges in the G&R administration expenses and applied against the total net assets. The calculation was applied to all published past administration expenses and AERs for consistency and comparison.