STATEMENT 7: DEBT STATEMENT, ASSETS AND LIABILITIES

This statement includes the Debt Statement and information on the major assets and liabilities on the Government's balance sheet.

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STATEMENT 7: DEBT STATEMENT, ASSETS AND LIABILITIES

OVERVIEW

This statement provides information on current and projected Government debt and the major assets and liabilities on the Government balance sheet.

Net debt as a share of GDP will peak at 18.6 per cent of GDP ($341 billion) in 2017-18, a year earlier than expected at the 2017-18 Mid-Year Economic and Fiscal Outlook (MYEFO), before declining to 18.4 per cent of GDP ($349.9 billion) in 2018-19 and further over the medium term to a projected 3.8 per cent of GDP ($118 billion) in 2028-29.

The end-of-year face value of Commonwealth Government Securities (CGS) on issue subject to the Treasurer's Direction is expected to be around $561 billion in 2018-19, increasing to $578 billion in 2021-22. In the medium term, the total face value of CGS on issue is projected to peak at $596 billion in 2025-26. By the end of the medium term (2028-29), the total face value of CGS on issue is projected to fall to $532 billion.

The Government's total stock of assets is estimated to be around $568 billion in 2018-19 and increase to $649 billion by the end of the forward estimates. Total liabilities are estimated to be around $905.6 billion in 2018-19 and increase to $939 billion by the end of the forward estimates.

DEBT STATEMENT

The Debt Statement provides information on estimated and projected Government net debt, current and projected debt on issue and details of climate spending, including the extent to which this spending has contributed to debt.

Commonwealth Government Securities issuance

The Government finances its activities either through receipts or by borrowing. When receipts fall short of payments, the Government borrows by issuing CGS to investors.

Part of the Treasury, the Australian Office of Financial Management (AOFM), is responsible for issuing CGS and the management of the Government's financing activities. The AOFM currently issues three types of securities:

- **Treasury Bonds:** medium-term to long-term securities with a fixed annual rate of interest payable every six months;
- **Treasury Indexed Bonds (TIBs):** medium-term to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value; and

- **Treasury Notes:** short-term securities generally maturing within six months of issuance. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding flows.

Within these three broad categories of CGS, issuance is undertaken into a limited number of maturities (known as lines). Each of these lines has a fixed maturity date (the date on which the Government repays the principal it has borrowed) and, for Treasury Bonds and TIBs, a coupon rate (the annual fixed interest rate paid on the security).

Concentrating CGS issuance into a limited number of lines (rather than issuing securities with a specific time value, such as 10 years) ensures each line is sufficiently large that it can easily be traded in the secondary market. Strong liquidity in the secondary market is attractive to investors, promotes demand for CGS and assists in lowering borrowing costs.

All outstanding CGS are denominated in Australian dollars and all new CGS issuance is also undertaken in Australian dollars.

The AOFM exercises operational independence in the execution of its duties. Its announced issuance program for each year is therefore determined on the basis of maturing CGS, net new issuance required to fund the Budget and other operational considerations.

Operational considerations often mean that the annual issuance program may not be equivalent to the financing task for a particular year. For example, the AOFM may decide there is merit in partially pre-funding the following year's financing task. Alternatively, the AOFM might choose to smooth issuance across several financial years in order to minimise changes in CGS supply from one financial year to the next.

In recent years, the AOFM has taken the opportunity to lengthen the CGS yield curve through the issuance of 30-year bonds. This has provided for a lower risk profile of maturing debt and has been achieved during a period when borrowing costs have been low by historical standards.

At times when CGS issuance is not required to finance the Government's activities, successive Governments have continued to issue CGS for policy purposes such as to maintain a liquid CGS market.

The Government remains committed to a well-functioning and liquid CGS market. In particular, the Government will focus on ensuring a market of sufficient size to maintain liquidity across the longer yield curve and to support the Treasury Bond futures market.

A well-functioning and liquid CGS market also supports the development of a corporate bond market by providing a risk-free benchmark.

Estimates and projections of key debt aggregates

The level of current and projected Government debt on issue is commonly expressed in one of two ways: gross or net debt.

Gross debt measures the face value of CGS on issue at a point in time. While gross debt is measured in face value terms, estimates and projections of CGS on issue are published in both face value and market value terms in this Statement.

- The **face value** of CGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[1] The total face value of CGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.

- The **market value** of CGS represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices. Consistent with external reporting standards, the market value of CGS on issue is reported on the Australian Government general government sector balance sheet.

Net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements. As net debt incorporates both selected financial assets and liabilities at their fair value, it provides a broader measure of the financial obligations of the Commonwealth than gross debt.

Not all government assets or liabilities are included in the measurement of net debt. For example, neither the Government's unfunded superannuation liability nor the equity holdings of the Future Fund are accounted for in net debt.

Estimates and projections of net debt

Table 1 contains estimates and projections of net debt to the end of the forward estimates period.

In 2018-19, net debt is expected to be $349.9 billion. Net debt is projected to peak at 18.6 per cent of GDP in 2017-18, a year earlier than expected at the 2017-18 MYEFO, and then fall over the forward estimates. Over the medium term, net debt is projected to decline to 3.8 per cent of GDP ($118 billion) in 2028-29.

1 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation growth over the life of the security. This amount is not included in the calculation of face value.

Table 1: Liabilities and assets included in net debt from 2017-18 to 2021-22

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	218	218	218	218	218
Government securities	568,924	594,437	610,885	593,896	604,177
Loans	16,095	16,090	16,002	16,120	16,283
Other borrowing	1,588	1,534	1,482	1,427	1,365
Total liabilities included in net debt	**586,825**	**612,280**	**628,588**	**611,661**	**622,043**
Assets included in net debt					
Cash and deposits	5,363	5,875	4,969	5,848	5,285
Advances paid	60,228	73,041	82,682	68,053	72,063
Investments, loans and placements	180,232	183,513	196,902	203,506	225,424
Total assets included in net debt	**245,822**	**262,429**	**284,552**	**277,407**	**302,772**
Net debt	**341,003**	**349,851**	**344,036**	**334,254**	**319,270**

Changes in net debt since the 2017-18 MYEFO

Table 2 shows the drivers of the change in net debt between the 2017-18 MYEFO and the 2018-19 Budget.

Net debt is estimated to decrease across the forward estimates compared with the 2017–18 MYEFO. This improvement is driven by lower levels of CGS on issue due to changes in the financing requirement reflecting improvements in the underlying and headline cash balances, and a fall in the market value of CGS due to higher average yields.

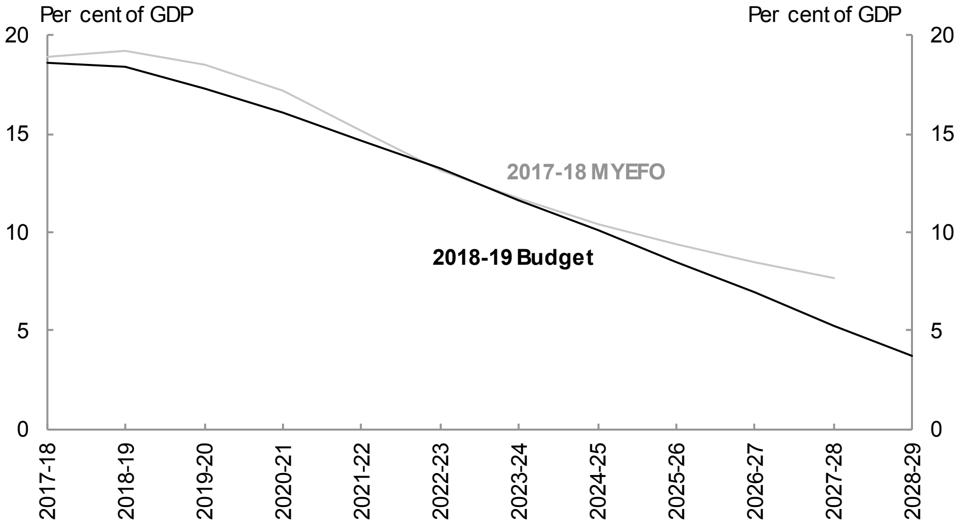
Table 2: Net debt — reconciliation from the 2017-18 MYEFO to the 2018-19 Budget

	2017-18	2018-19	2019-20	2020-21
	$b	$b	$b	$b
Net debt as at 2017-18 MYEFO	**343.8**	**363.2**	**365.2**	**355.3**
Changes in financing requirement	-1.3	-7.6	-13.4	-17.1
Impact of yields on CGS	-10.1	-10.3	-10.1	-9.5
Asset and other liability movements	8.6	4.6	2.4	5.6
Cash and deposits	*-1.0*	*-1.5*	*0.2*	*-0.7*
Advances paid(a)	*2.8*	*4.4*	*3.9*	*5.3*
Investments, loans and placements	*6.2*	*1.0*	*-2.2*	*0.5*
Other movements	*0.6*	*0.7*	*0.5*	*0.5*
Total movements in net debt from 2017-18 MYEFO to 2018-19 Budget	**-2.8**	**-13.3**	**-21.1**	**-21.0**
Net debt as at 2018-19 Budget	**341.0**	**349.9**	**344.0**	**334.3**

(a) Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were reclassified in the 2017-18 Budget from 'advances paid' to 'equity — investments' at fair value on the general government sector balance sheet. This has resulted in higher net debt across the forward estimates.

Net debt is projected to decline over the medium term to 3.8 per cent of GDP ($118 billion) in 2028-29 (Chart 1). Net debt is projected to be 5.2 per cent of GDP ($156 billion) in 2027-28, lower than projected net debt of 7.7 per cent of GDP in 2027-28 at the 2017-18 MYEFO. The improvement in net debt since the 2017-18 MYEFO is primarily due to a decline in CGS on issue owing to an increase in the underlying cash balance across the medium term.

Chart 1: Net debt projected to 2028-29



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2026-27.
Source: Treasury projections.

Estimates and projections of CGS on issue

Table 3 contains projections of the face value (end-of-year and within-year peak)[2] and the market value (end-of-year) of CGS on issue.

The *Commonwealth Inscribed Stock Act 1911* (CIS Act) requires the Treasurer to issue a direction to the AOFM stipulating the maximum face value of relevant CGS that may be on issue.[3] As required by the *Charter of Budget Honesty Act 1998*, Table 3 reports projections of CGS on issue subject to the Treasurer's Direction.

When considering these projections, it is important to note that the AOFM publishes an issuance program for the budget year only. Debt and interest projections beyond the budget year are based on a set of technical assumptions and will vary with changes to these assumptions and budget estimates and projections.

2 End-of-year values are estimates or projections of CGS on issue at 30 June for the particular year. The precise timing of within-year peaks of CGS on issue cannot be determined with a high degree of accuracy. The timing of the within-year peak is therefore reported to the given month in the particular year.

3 On 9 May 2017, the Treasurer directed that the maximum face value of CGS that can be on issue is $600 billion.

Table 3: Estimates and projections of Commonwealth Government Securities on issue subject to the Treasurer's Direction[(a)]

	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b
Face value - end of year	561	578	566	578
Per cent of GDP	29.4	29.0	27.2	26.6
Face value - within-year peak(b)	565	595	603	585
Per cent of GDP(b)	29.6	29.8	28.9	26.9
Month of peak(b)	*Mar-19*	*Apr-20*	*Nov-20*	*Dec-21*
Market value - end of year(c)	594	610	594	604
Per cent of GDP	31.2	30.6	28.5	27.8

(a) The same stock and securities that were excluded from the previous legislative limit is excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
(b) The precise within-year timing of cash receipts and payments is not known. Projected peaks of CGS on issue are therefore subject to considerable uncertainty.
(c) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction. These figures will differ from the estimates and projections published in *Statement 10: Australian Government Budget Financial Statements*, 'Table 2: Australian Government general government sector balance sheet' that refer to total CGS on issue.
Source: Australian Office of Financial Management.

The amount of CGS on issue subject to the Treasurer's Direction is reported weekly on the AOFM website.

In 2018-19, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be around $561 billion, compared with $565 billion at the 2017-18 MYEFO. The end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to reach around $578 billion in 2021-22.

In 2018-19, the face value of CGS on issue is expected to reach a within-year peak of around $565 billion. The face value of CGS on issue is projected to rise to a within-year peak of around $603 billion in 2020-21, although it declines from that by the end of the forward estimates.

Changes in CGS on issue since the 2017-18 MYEFO

Table 4 shows the change in the projected end-of-year face value of CGS on issue between the 2017-18 MYEFO and the 2018-19 Budget.

Table 4: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2017-18 MYEFO to the 2018-19 Budget

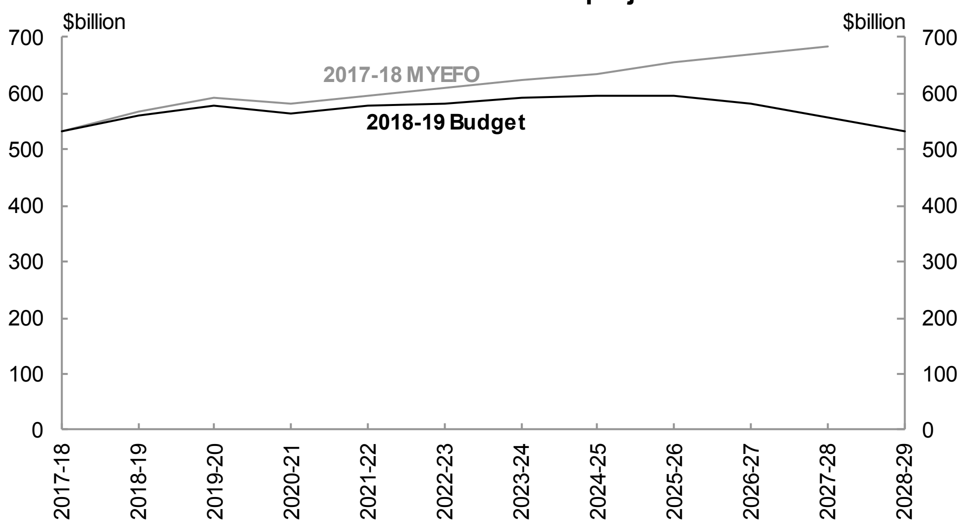
	2017-18	2018-19	2019-20	2020-21
	$b	$b	$b	$b
Total face value of CGS on issue subject to the Treasurer's Direction as at 2017-18 MYEFO	**531**	**565**	**588**	**583**
Factors affecting the change in face value of CGS on issue from 2017-18 MYEFO to 2018-19 Budget(a)				
Cumulative receipts decisions	0.0	-0.9	-0.4	6.2
Cumulative receipts variations	-8.0	-17.8	-25.8	-32.2
Cumulative payment decisions	1.6	3.2	4.1	4.6
Cumulative payment variations	0.7	3.7	5.2	3.8
Cumulative change in net investments in financial assets(b)	2.9	2.3	1.8	-3.9
Other contributors	1.9	5.7	5.0	4.1
Total face value of CGS on issue subject to the Treasurer's Direction as at 2018-19 Budget	**530**	**561**	**578**	**566**

(a) Cumulative impact of decisions and variations from 2017-18 to 2020-21. Increases to payments are shown as positive, and increases to receipts are shown as negative.
(b) Change in net cash flows from investments in financial assets for policy and liquidity purposes.
Note: End of year data.

Over the medium term, the total face value of CGS on issue is projected to peak at $596 billion in 2025-26 and then fall to $532 billion by 2028-29. The face value of CGS on issue is projected to reach $558 billion by 2027-28, around $126 billion less than the $684 billion projected at the 2017-18 MYEFO (Chart 2). The reduction in the total face value of CGS across the medium term is largely driven by an improvement in the underlying cash balance, and its associated interest expense accumulating over the medium term.

Further details on the changes to the underlying cash balance since the 2017-18 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Chart 2: Face value of CGS on issue projected to 2028-29



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2026-27.
Source: Australian Office of Financial Management and Treasury projections.

Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 1 May 2018.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 1 May 2018	
	Face value	Market value
	$m	$m
Treasury Bonds(a)	485,284	513,020
Treasury Indexed Bonds(a)	33,184	42,667
Treasury Notes(a)	3,000	2,991
Total CGS subject to Treasurer's Direction(a)(b)	521,467	558,679
Other stock and securities	2,469	4,549
Total CGS on issue	**523,937**	**563,228**

(a) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction.
(b) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
Source: Australian Office of Financial Management.

Treasury Bonds

Table 6 lists Treasury Bonds currently on issue, as well as the associated annual interest rate (coupon) and the timing of coupon payments. As at 1 May 2018, there were 24 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.4 years and the longest maturity extending to March 2047.

Since late 2010-11, the AOFM has lengthened the CGS yield curve and biased issuance into longer maturities, including the issue of a 30-year bond. This increases the average maturity and duration profile of the AOFM's debt portfolio — thereby lowering variability in future debt servicing costs and reducing refinancing risk. Sustained high levels of demand for sovereign bonds have resulted in the costs of borrowing being significantly lower than historical experience, notwithstanding the yield curve lengthening and associated issuance bias.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 1 May 2018 $m	Timing of interest payments(a)		
3.25	21-Oct-18	12,975	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	16,399	Twice yearly	15 Mar	15 Sep
2.75	21-Oct-19	19,988	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	27,174	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	26,800	Twice yearly	21 Nov	21 May
5.75	15-May-21	30,199	Twice yearly	15 May	15 Nov
2.00	21-Dec-21	17,800	Twice yearly	21 Dec	21 Jun
5.75	15-Jul-22	25,000	Twice yearly	15 Jul	15 Jan
2.25	21-Nov-22	10,500	Twice yearly	21 Nov	21 May
5.50	21-Apr-23	24,100	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	25,500	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	27,900	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	32,400	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	29,700	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-27	28,000	Twice yearly	21 Nov	21 May
2.25	21-May-28	25,900	Twice yearly	21 May	21 Nov
2.75	21-Nov-28	23,500	Twice yearly	21 Nov	21 May
3.25	21-Apr-29	21,700	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-29	9,600	Twice yearly	21 Nov	21 May
4.50	21-Apr-33	13,900	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	6,950	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	11,200	Twice yearly	21 Apr	21 Oct
3.25	21-Jun-39	6,300	Twice yearly	21 Jun	21 Dec
3.00	21-Mar-47	11,800	Twice yearly	21 Mar	21 Sep

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Indexed Bonds

Table 7 lists TIBs currently on issue, as well as the associated annual interest rate (coupon) and the timing of coupon payments. As at 1 May 2018, there were 8 TIB lines on issue, with a weighted average term to maturity of around 9.0 years and the longest maturity extending to August 2040.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 1 May 2018 $b	Timing of interest payments(a)				
1.00	21-Nov-18	2.36	Quarterly	21 Nov	21 Feb	21 May	21 Aug
4.00	20-Aug-20	5.11	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	5.84	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	7.19	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
0.75	21-Nov-27	3.60	Quarterly	21 Nov	21 Feb	21 May	21 Aug
2.50	20-Sep-30	4.34	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	3.80	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.25	21-Aug-40	3.40	Quarterly	21 Aug	21 Nov	21 Feb	21 May

(a) Where the timing of an interest payment falls on a non-business day the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Notes

The face value of Treasury Notes on issue as at 1 May 2018 was $3 billion. Table 8 lists the Treasury Notes currently on issue. Treasury Notes do not pay a coupon, but they are issued at a discount to their face value.

Table 8: Treasury Notes on issue

Maturity	On issue as at 1 May 2018 $m	Timing of interest payment	
22-Jun-18	2,500	At maturity	22 Jun
24-Aug-18	500	At maturity	24 Aug

Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

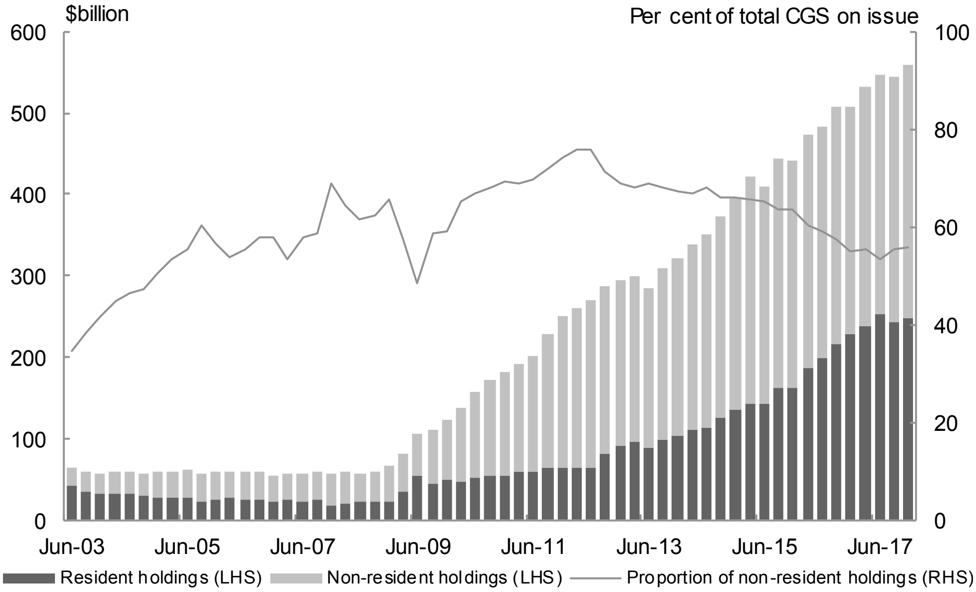
As at the December quarter 2017, non-residents of Australia held 56 per cent of total CGS on issue (Chart 3).

The proportion of CGS held by non-residents declined from a peak of around 76 per cent in 2012. Net buying of CGS by non-residents has continued to be positive, though it has not matched the rate of issuance. Domestic investors have absorbed the balance during the period.

Investment in CGS by non-resident investors reflects confidence in the Australian sovereign debt market, owing to the relative strength of Australia's public finances, its governance and institutional arrangements and the Australian economy more broadly. That the Australian dollar remains a liquid currency on global markets is also a factor that has facilitated non-resident investment activity in the CGS market.

CGS yields remain relatively attractive compared with similarly rated sovereign bonds, particularly in Europe and Japan. This has contributed to emerging demand for longer-term CGS and, in turn, a decline in yields to historically low levels over recent years. To the extent that yields in alternative bond markets may rise relative to CGS yields, this could lead to changing patterns of CGS non-resident ownership with specific changes being difficult to predict.

Chart 3: Non-resident holdings of Commonwealth Government Securities



Note: Data refer to the market value of holdings.
Source: ABS cat. no. 5302.0 and Australian Office of Financial Management.

Interest on CGS

The interest costs related to CGS are presented in these statements in both cash and accrual accounting terms. The difference between the cash interest payments and accrual interest expense generally relates to the timing of when the interest cost is recognised.

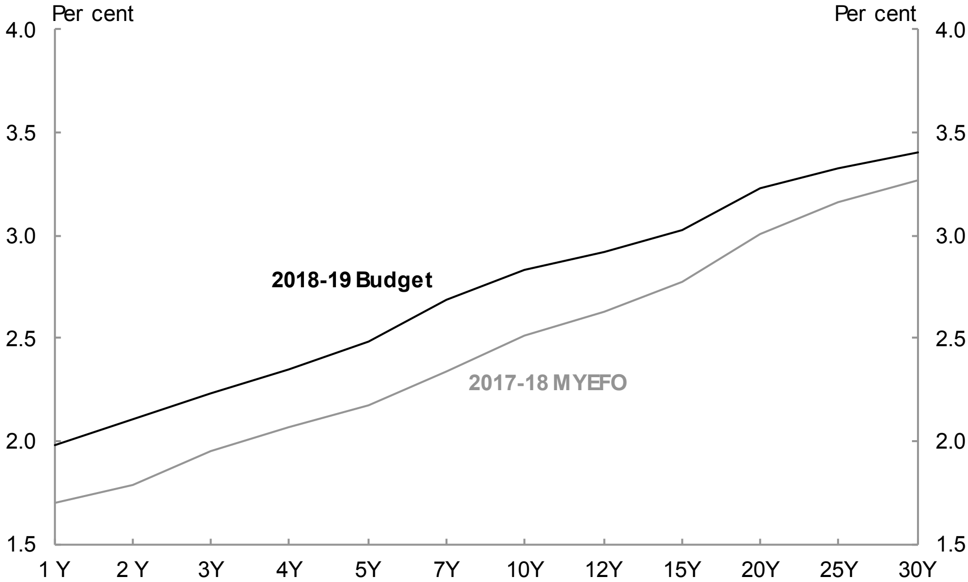
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather when it is actually paid.

Estimates of the interest payments and expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- CGS already on issue uses the actual interest rates incurred at the time of issuance; and
- the expected future issuance of CGS is based on the prevailing market rates across the yield curve at the time of a budget estimates update.

The assumed market yields for the 2018-19 Budget result in a weighted average cost of borrowing of around 2.8 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.5 per cent at the 2017-18 MYEFO. Chart 4 shows the yield curve assumptions underpinning the 2017-18 MYEFO and 2018-19 Budget.

Chart 4: Yield curve assumptions from 2017-18 to 2020-21



Source: Australian Office of Financial Management.

The Government's interest payments and expense over the forward estimates mostly relate to the cost of servicing the stock of CGS on issue.

The Government's total interest payments in 2018-19 are estimated to be $18.7 billion, of which $18.5 billion relates to CGS on issue (Table 9).

Table 9: Interest payments, interest receipts and net interest payments[(a)]

	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest payments on CGS	16,334	18,471	17,244	17,877	17,189
Per cent of GDP	0.9	1.0	0.9	0.9	0.8
Interest payments	16,586	18,749	17,516	18,151	17,458
Per cent of GDP	0.9	1.0	0.9	0.9	0.8
Interest receipts	3,458	4,257	5,290	5,750	5,283
Per cent of GDP	0.2	0.2	0.3	0.3	0.2
Net interest payments(b)	13,128	14,492	12,226	12,401	12,175
Per cent of GDP	0.7	0.8	0.6	0.6	0.6

(a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.
(b) Net interest payments are equal to the difference between interest payments and interest receipts.

The Government's interest expense in 2018-19 is estimated to be $19 billion, of which $17.8 billion relates to CGS on issue. In the 2017-18 MYEFO, interest expense in 2018-19 was estimated to be $19.3 billion, of which $17.8 billion related to CGS on issue. Table 10 shows the Government's estimated interest expense, interest expense on CGS, interest income and net interest expense over the forward estimates.

Table 10: Interest expense, interest income and net interest expense[(a)]

	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest expense on CGS	17,017	17,781	18,325	18,023	17,782
Per cent of GDP	0.9	0.9	0.9	0.9	0.8
Interest expense	17,931	19,045	20,166	19,545	19,093
Per cent of GDP	1.0	1.0	1.0	0.9	0.9
Interest income	3,663	4,442	5,521	6,062	6,044
Per cent of GDP	0.2	0.2	0.3	0.3	0.3
Net interest expense(b)	14,268	14,603	14,645	13,483	13,049
Per cent of GDP	0.8	0.8	0.7	0.6	0.6

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.
(b) Net interest expense is equal to the difference between interest expenses and interest income.

Over the medium term, yields are assumed to converge to a long-run yield curve based on a ten-year yield of 5 per cent. This has been lowered from the previous assumption of 6 per cent. The change ensures consistency with the discount rate used for valuing the Government's superannuation liability (for further details see the *Liabilities* section). The long-run yield assumption reflects the view that there has been a structural fall in long-term borrowing costs, consistent with the Long Term Cost Report. The impact of this change has been to lower interest expenses, contributing to an improvement in the underlying cash balance.

Climate spending

The Government's climate spending is shown on an aggregated basis in Table 11.

Table 11: Climate spending from 2017-18 to 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b	$b
Climate spending(a)	3.00	1.60	1.60	1.30	1.25

(a) Spending in this table is on a headline cash balance basis — that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with Clean Energy Finance Corporation investments.

The key components of climate spending are:

- the Emissions Reduction Fund, which provides incentives to support abatement activities across the economy;
- the Clean Energy Finance Corporation, which invests in renewable energy, energy efficiency and low emissions technologies; and
- the Australian Renewable Energy Agency, which involves funding to support research and development of renewable energy and related technologies.

The above figures incorporate the Government's decision to make available up to $110 million for an equity investment, if required, to accelerate and secure delivery of a solar thermal project in Port Augusta, South Australia.

Impact of climate spending on debt

Climate spending is financed through either receipts or debt. This Statement assumes that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to the proportion of total spending financed by debt. This is shown in Table 12.

Table 12: Impact on debt — climate spending as a proportion of total spending

	2017-18	2018-19	2019-20	2020-21	2021-22
Climate spending ($b)(a)	3.00	1.60	1.60	1.30	1.25
Total Spending ($b)(b)	482	501	512	504	546
Climate spending (per cent of total spending)	0.6	0.3	0.3	0.3	0.2
Change in face value of CGS from previous year ($b)(c)	31.6	28.6	17.7	-13.1	12.2
Contribution to change in face value of CGS from climate spending ($b)	0.20	0.09	0.06	na	0.03

(a) The calculation of climate spending in this table is on a headline cash balance basis – that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with the Clean Energy Finance Corporation investments.
(b) The calculation of total spending in this table is on a headline cash balance basis — that is, total payments and net cash flows from investments in financial assets for policy purposes.
(c) Calculations of the change in the face value of CGS are calculated using total CGS on issue.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be around $547.3 billion at 30 June 2018, increasing to $568 billion in 2018-19 and $649 billion by the end of the forward estimates.

The Government's financial assets are estimated to be around $406.2 billion at 30 June 2018, increasing to $422.6 billion in 2018-19 and $485.1 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be around $141.1 billion at 30 June 2018, increasing to $145.3 billion in 2018-19 and $163.9 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Investment Mandate for the Future Fund sets a benchmark rate of return of at least CPI plus 4.0 per cent to 5.0 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Future Fund. The Investment Mandate also requires the Board to take an acceptable, but not excessive, level of risk for the Future Fund, measured in terms such as the probability of losses in a particular year.

Since the first contribution to the Future Fund on 5 May 2006, the average return has been 7.7 per cent per annum.

For the 12 month period ending 31 March 2018, the Future Fund's return was 8.6 per cent against the existing benchmark of 5.8 per cent. The Future Fund was valued at $140.8 billion at 31 March 2018.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 13 shows changes in the asset allocation of the Future Fund since 30 June 2017.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2017 $m	30 June 2017 % of Fund	31 March 2018 $m	31 March 2018 % of Fund
Australian equities	8,002	6.0	8,841	6.3
Global equities				
Developed markets	*19,864*	*14.9*	*27,444*	*19.5*
Emerging markets	*9,229*	*6.9*	*10,597*	*7.5*
Private equity	15,520	11.6	18,047	12.8
Property	8,239	6.2	8,235	5.8
Infrastructure and Timberland	10,714	8.0	10,912	7.8
Debt securities	14,123	10.6	14,039	10.0
Alternative assets	19,746	14.8	21,767	15.5
Cash	28,021	21.0	20,902	14.8

Note: Figures may not sum due to rounding.

Medical Research Future Fund

The Medical Research Future Fund (MRFF) was established on 26 August 2015 to provide additional funding for medical research and medical innovation.

Table 14: Government contributions to the MRFF

Date	Source(s)	Amount $m
22 September 2015	Uncommitted balance of the Health and Hospitals Fund (HHF)	1,010
1 December 2015	Savings from the Health portfolio and residual balance of the HHF	2,139
26 August 2016	Savings from the Health portfolio and residual balance of the HHF	1,277
3 July 2017	Savings from the Health portfolio	2,242
	Total	6,668

Note: Figures may not sum due to rounding.

To date, $6.7 billion has been credited to the MRFF. Remaining credits to the MRFF will consist of the estimated value of health savings published in the 2014−15 Budget, adjusted for the effect of any subsequent associated Government decisions, until the capital value of the MRFF reaches $20 billion. The MRFF is expected to reach a balance of $20 billion in 2020-21.

Net earnings on MRFF capital for a given financial year will be available for drawdown the following financial year. Payments met from drawdowns will be determined through the annual budget process, with the view to preserving the MRFF's capital in perpetuity.

The MRFF is managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the MRFF, which provides broad direction to the Board in relation to its investment strategy. The MRFF Investment Mandate sets a benchmark return of the Reserve Bank of Australia's Cash Rate target plus 1.5 per cent to 2.0 per cent per annum, net of costs, over a rolling 10-year term.

For the 12 month period ending 31 March 2018, the MRFF's return was 4.8 per cent against the benchmark of 3.0 per cent. The MRFF was valued at $7.1 billion at 31 March 2018.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund (DCAF) was established on 1 July 2014 to assist the Commonwealth and the State and Territory governments with spending directly related to the National Disability Insurance Scheme (NDIS). This is consistent with the commitment by governments to roll out the NDIS across Australia.

The DCAF is funded by revenue raised from the increase in the Medicare levy of half a percentage point to 2 per cent that was implemented on 1 July 2014. As at 31 March 2018 the DCAF has received credits totalling $10.1 billion.

The investments of the DCAF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the DCAF, which came into effect from 1 July 2014 and provides guidance to the Board in relation to its investment strategy for the DCAF. The DCAF Investment Mandate sets a benchmark return on the DCAF of the Australian three-month bank bill swap rate plus 0.3 per cent per annum calculated on a rolling 12-month basis (net of fees). In achieving its objectives, the Board must invest in such a way as to minimise the probability of capital losses over a 12-month horizon.

For the 12 month period ending 31 March 2018, the DCAF's return was 2.0 per cent against the benchmark of 2.0 per cent. The DCAF was valued at $10.4 billion at 31 March 2018.

As at 31 March 2018, payments totalling $130 million were made to reimburse those States and Territories that had signed the *National Partnership on DisabilityCare Australian Fund Payments: Initial Payment*. All State and Territory governments will be able to draw down from the DCAF when they meet key conditions, such as agreeing to fully roll out the NDIS and milestones relating to the participation in the scheme of people with significant and permanent disability. The balance of the DCAF, after taking into account allocations to the States and Territories, will be available to the Commonwealth to assist with meeting the Commonwealth's contribution to the NDIS.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Government will establish the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) on 1 July 2018 to support payments to the Indigenous Land Corporation (ILC).

The ATSILSFF will be seeded with the capital of the Aboriginal and Torres Strait Islander Land Account (Land Account) — approximately $2.0 billion. The Land Account will be abolished on the establishment of the ATSILSFF.

The ATSILSFF will be managed by the Future Fund Board of Guardians (the Board). The Treasurer and the Minister for Finance, following consultation with the Minister for Indigenous Affairs and the Board, will set an Investment Mandate for the ATSILSFF. The Investment Mandate will provide strategic guidance to the Board on its expectations for the investment of the ATSILSFF, including the level of risk that the Government is prepared to accept in pursuit of target returns.

Residential mortgage backed securities

During the global financial crisis, the previous Government directed the AOFM to invest in AAA-rated residential mortgage backed securities (RMBS) to support competition from smaller lenders in the residential mortgage and small business lending markets. Between 2008 and 2012, the AOFM purchased around $15.5 billion in high-quality RMBS.

In May 2015, the Government directed the AOFM to progressively sell down the Commonwealth's holdings of RMBS through a regular competitive auction process, subject to market conditions. Monthly auctions were conducted from June 2015 to October 2015, resulting in total sales of $458 million in amortised face value terms.

To achieve value for money for the Commonwealth, the Treasurer's direction gave the AOFM the discretion to not proceed with a sale where an acceptable price could not be achieved. Consistent with this, and against a background of heightened global volatility, auctions were suspended in November 2015.

Improvements in market conditions allowed the AOFM to restart RMBS auctions in November 2017. Four monthly auctions, totalling around $1.5 billion in amortised face value terms, were conducted between November 2017 and February 2018, resulting in the complete divestment of the Government's remaining RMBS investments.

National Broadband Network

The National Broadband Network (NBN) will deliver fast and affordable broadband to all Australians. The Government has instructed NBN Co Limited (nbn) to complete the NBN using the technology best matched to each area of Australia to ensure that the NBN is delivered as soon as possible and at least cost to taxpayers.

The Government provided the final $2.0 billion of its $29.5 billion equity contribution to nbn in 2017-18.

The Government has agreed to provide a loan of up to $19.5 billion to nbn on commercial terms, to be repaid by 30 June 2021. The Government will provide $6.7 billion in loan drawdowns to nbn in 2017-18.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) comprises concessional loans to students that enable them to defer payment of fees for diploma level and above courses, which are paid back once the loan recipient is earning an income above a certain level.

The fair value of HELP is estimated to be around $42.4 billion at 30 June 2018, which is $0.8 billion lower than projected in the 2017-18 MYEFO. The fair value of HELP is projected to grow to around $51.2 billion in 2020-21, which is $5.4 billion lower than estimated in the 2017-18 MYEFO, and to reach $54.2 billion by the end of the forward estimates.

The reduction to the fair value of HELP is largely a result of a reduction in expected student numbers accessing VET Student Loans and higher education courses and higher than expected loan repayments in 2017-18.

From 1 July 2018, repayment thresholds will be revised under the HELP, including a minimum threshold of $45,000 with a 1 per cent repayment rate and a maximum threshold of $131,989 with a 10 per cent repayment rate.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) was established as a Commonwealth Authority in August 2012 through the *Clean Energy Finance Corporation Act 2012* (CEFC Act).

Under the CEFC Act the CEFC has been provided $10 billion to invest in renewable energy, low emissions technology and energy efficiency projects.

The CEFC continues to invest funds and manage its investments. Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

Liabilities

The Government's total liabilities are estimated to be around $872.5 billion at 30 June 2018, increasing to $905.6 billion in 2018-19 and $939 billion by the end of the forward estimates.

The Government's major liabilities are CGS on issue and public sector employee superannuation liabilities.

Public sector employee superannuation liabilities

Public sector employee superannuation entitlements relating to past and present civilian employees and military personnel are a financial liability on the Government's balance sheet. The Government's superannuation liabilities are estimated to be around $216 billion at 30 June 2018 and approximately $315 billion at 30 June 2050.

These liabilities represent the present value of future unfunded superannuation benefits and are based on an actuarially determined discount rate. The long-term nature of the unfunded superannuation liabilities requires the use of a discount rate that best matches the duration of the liabilities. The use of a long-term discount rate for budget purposes avoids the volatility that would occur by using current market yields on Government bonds, which continually change. The value recorded on the balance sheet is highly sensitive to the discount rate used.

In preparing the latest Long Term Cost Reports for the civilian and military schemes, which will be released publicly, the scheme actuaries have determined that a discount rate of 5 per cent per annum should be applied. This is lower than the rate of 6 per cent applied in previous Budgets and reflects the actuaries' view that long-term borrowing costs have decreased.

The decrease in the discount rate is the primary cause of the $35 billion increase to the estimated unfunded superannuation liabilities at 30 June 2018 since MYEFO 2017-18. This change has no impact on the underlying entitlements of scheme members.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. However, the Future Fund was established in 2006 to help finance the Government's unfunded superannuation liabilities.

For civilian employees, the major defined benefit schemes are the Commonwealth Sector Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan (PSSap) was introduced on 1 July 2005 and provides fully funded accumulation benefits for new civilian employees from that date.

For military personnel, the defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme (DFRDB), the Defence Forces Retirement Benefits Scheme (DFRB) and the Military Superannuation and Benefits Scheme (MSBS). Following the closure of the MSBS on 30 June 2016, all defined benefit military schemes are now closed to new members. A new military superannuation accumulation scheme, ADF Super, commenced on 1 July 2016. ADF Super is accompanied by a statutory death and disability arrangement ADF cover.

While there have not been any new members to the public service and military defined benefit schemes since closure in 2005 and 2016 respectively, the value of the Government's unfunded superannuation liabilities is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP. It is forecast to reach $244 billion by the end of the forward estimates. The increase in the liabilities partly results from the time value of money which recognises future benefits being closer to maturity each year. It also results from the accruing entitlements to current members of the civilian and military defined benefit schemes, and members covered by the statutory death and disability arrangement ADF cover.

As the superannuation liabilities are included in the Government's net worth and net financial worth aggregates, revaluations of the liabilities have an impact on these aggregates (see *Statement 9: Australian Government Budget Financial Statements* for further information about budget aggregation).