STATEMENT 6: 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 6: 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 in 2019-20 is expected to be $361 billion, representing 18 per cent of GDP. By 2022-23, net debt is expected to decline to $326.1 billion (14.4 per cent of GDP). Net debt is then projected to be eliminated over the medium term (2029-30).

The end-of-year face value of Australian Government Securities (AGS)[1] on issue subject to the Treasurer's Direction is expected to be around $560 billion in 2019-20, increasing to around $569 billion in 2022-23. Total AGS on issue declines to $416.8 billion by the end of the medium term (2029-30).

The Government's total assets are estimated to be $611 billion in 2019-20, increasing to $699.7 billion by the end of the forward estimates. Total liabilities are estimated to be $944.3 billion in 2019-20 increasing to $967.2 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.

Australian 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 AGS to investors.

The Australian Office of Financial Management (AOFM) is responsible for issuing AGS and managing 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;

1 Previously referred to as Commonwealth Government Securities.

- **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 AGS, 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 AGS 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 be more readily traded in the secondary market. Strong liquidity in the secondary market is attractive to investors and intermediaries, promotes demand for AGS and assists in lowering borrowing costs. All AGS issuance is 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 AGS, net new issuance required to fund the Budget and 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 AGS supply from one financial year to the next.

The AOFM conducts regular buyback tenders for Treasury Bonds shorter than those comprising the primary three year Treasury Bond futures contract. The buybacks are funded by issuance of a corresponding face value amount of longer-dated Treasury Bonds. This operation assists the AOFM in its cash management task ahead of bond maturities and contributes to an orderly and efficient Treasury Bond market.

In recent years, the AOFM has taken the opportunity to lengthen the AGS yield curve to include a 30-year benchmark. This has provided for a lower risk profile of maturing debt, further broadened the investor base, and has been achieved during a period when borrowing costs have been low by historical standards.

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

The Government remains committed to maintaining a well-functioning and liquid AGS 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 and other important benchmarks.

A well-functioning and liquid AGS market also supports the development of state government and corporate bond markets 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 AGS on issue at a point in time. While gross debt is measured in face value terms, estimates and projections of AGS on issue are published in both face value and market value terms in this Statement.

- The **face value** of AGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[2] The total face value of AGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.
- The **market value** of AGS 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 AGS 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 the Government's unfunded superannuation liability is not accounted for in net debt.

2 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.

Estimates and projections of net debt

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

In 2019-20, net debt is expected to be $361 billion (18 per cent of GDP) and is then projected to decline to $326.1 billion (14.4 per cent of GDP) in 2022-23.

Table 1: Liabilities and assets included in net debt from 2018-19 to 2022-23

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	381	381	381	381	381
Government securities(a)	608,637	619,463	622,539	625,368	620,508
Loans	16,742	16,731	16,779	16,990	17,162
Other borrowing	1,499	1,466	1,438	1,393	1,342
Total liabilities included in net debt	**627,260**	**638,042**	**641,138**	**644,132**	**639,393**
Assets included in net debt					
Cash and deposits	7,563	5,342	5,467	5,230	6,482
Advances paid	71,008	83,302	89,462	93,927	95,250
Investments, loans and placements	175,216	188,358	196,703	211,727	211,594
Total assets included in net debt	**253,787**	**277,002**	**291,632**	**310,885**	**313,326**
Net debt	**373,473**	**361,040**	**349,506**	**333,248**	**326,067**

(a) Government securities are presented at market value.

Changes in net debt since the 2018-19 MYEFO

Table 2 shows the drivers of the change in net debt between the 2018-19 MYEFO and the 2019-20 Budget.

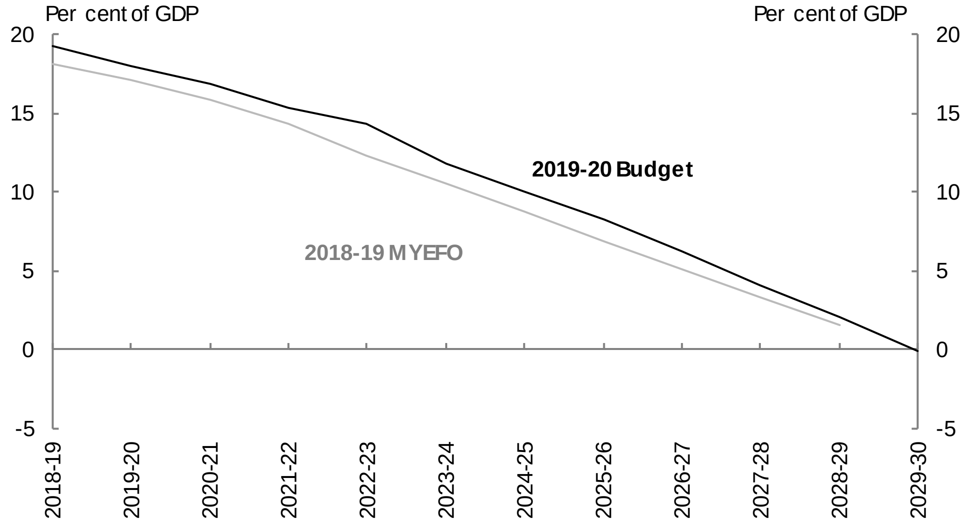
Consistent with the 2018-19 MYEFO, net debt is expected to decrease across the forward estimates but is higher than at MYEFO reflecting a rise in the market value of AGS due to lower yields.

Table 2: Net debt — reconciliation from the 2018-19 MYEFO to the 2019-20 Budget

	Estimates		Projections	
	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b
Net debt as at 2018-19 MYEFO	**351.9**	**343.4**	**329.9**	**312.6**
Changes in financing requirement	2.3	-0.3	2.5	4.2
Impact of yields on AGS	20.0	19.2	18.5	16.9
Asset and other liability movements	-0.8	-1.2	-1.4	-0.4
Cash and deposits	*-1.7*	*0.8*	*0.5*	*0.6*
Advances paid	*1.7*	*0.9*	*0.6*	*0.8*
Investments, loans and placements	*-0.8*	*-3.1*	*-2.4*	*-1.7*
Other movements	*0.1*	*0.2*	*-0.1*	*-0.2*
Total movements in net debt from 2018-19 MYEFO to 2019-20 Budget	**21.5**	**17.6**	**19.6**	**20.7**
Net debt as at 2019-20 Budget	**373.5**	**361.0**	**349.5**	**333.2**

Net debt is projected to decline from 19.2 per cent of GDP ($373.5 billion) in 2018-19 to 0 per cent of GDP (-$1.2 billion) by the end of the medium term (2029-30) (Chart 1). Net debt is projected to be 2.1 per cent of GDP ($63.9 billion) in 2028-29, higher than projected net debt of 1.5 per cent of GDP in 2028-29 at the 2018-19 MYEFO. The change in net debt since the 2018-19 MYEFO is primarily due to a rise in the market value of AGS due to lower yields.

Chart 1: Net debt projected to 2029-30



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2029-30.
Source: Treasury projections.

Estimates and projections of AGS on issue

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

The *Commonwealth Inscribed Stock Act 1911* (CIS Act) requires the Treasurer to issue a direction stipulating the maximum face value of relevant AGS that may be on issue.[4] As required by the *Charter of Budget Honesty Act 1998*, Table 3 reports projections of AGS 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. 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.

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

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

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

	Estimates		Projections	
	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b
Face value - end of year	560	567	573	569
Per cent of GDP	27.9	27.3	26.4	25.0
Face value - within-year peak(b)	573	580	585	585
Per cent of GDP(b)	28.6	27.9	26.9	25.8
Month of peak(b)	*Apr-20*	*May-21*	*Dec-21*	*Apr-23*
Market value - end of year(c)	619	623	625	621
Per cent of GDP	30.9	30.0	28.8	27.3

(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 AGS on issue are therefore subject to considerable uncertainty.
(c) The Treasurer's Direction applies only to the face value of AGS on issue. This table shows the equivalent market value of AGS 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 AGS on issue.
Source: Australian Office of Financial Management.

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

In 2019-20, the end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to be around $560 billion, compared with $558 billion at the 2018-19 MYEFO. The end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to reach around $569 billion in 2022-23.

In 2019-20, the face value of AGS on issue subject to the Treasurer's Direction is expected to reach a within-year peak of around $573 billion. In 2022-23, this is projected to rise to a within-year peak of $585 billion.

Changes in AGS on issue since the 2018-19 MYEFO

Table 4 shows the change in the projected end-of-year face value of AGS on issue subject to the Treasurer's Direction between the 2018-19 MYEFO and the 2019-20 Budget.

Table 4: Projected AGS on issue subject to the Treasurer's Direction — reconciliation from the 2018-19 MYEFO to the 2019-20 Budget

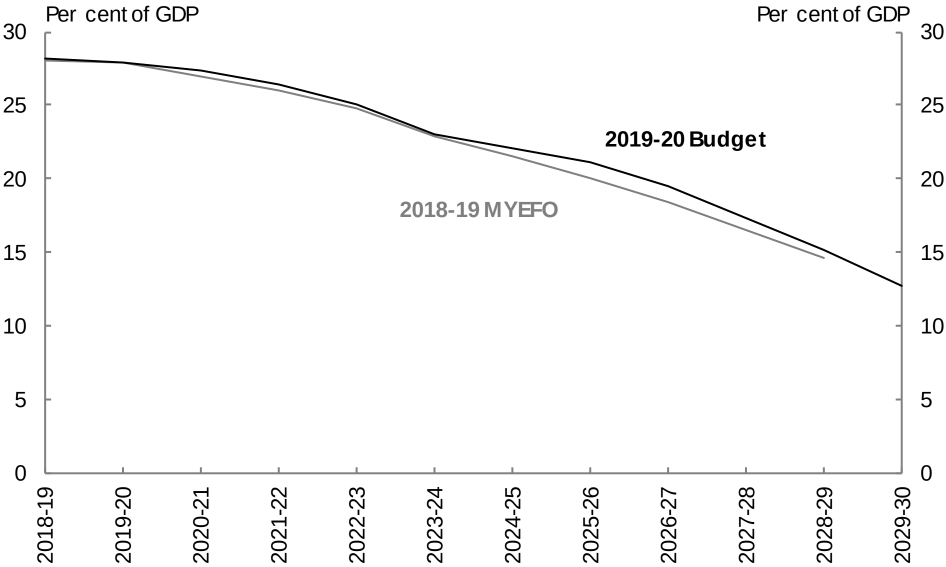
	Estimates		Projections	
	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b
Total face value of AGS on issue subject to the Treasurer's Direction as at 2018-19 MYEFO	**542**	**558**	**563**	**567**
Factors affecting the change in face value of AGS on issue from 2018-19 MYEFO to 2019-20 Budget(a)				
Cumulative receipts decisions	-0.1	1.1	1.2	-0.5
Cumulative receipts variations	-3.0	-3.7	0.3	5.8
Cumulative payment decisions	3.0	4.6	7.3	10.5
Cumulative payment variations	-3.7	-9.3	-14.6	-20.4
Cumulative change in net investments in financial assets(b)	5.0	10.1	12.4	13.6
Other contributors	2.1	-1.3	-2.7	-3.3
Total face value of AGS on issue subject to the Treasurer's Direction as at 2019-20 Budget	**545**	**560**	**567**	**573**

(a) Cumulative impact of decisions and variations from 2018-19 to 2021-22. 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.

The total face value of AGS on issue (gross debt) is projected to fall from 28.1 per cent of GDP ($546 billion) in 2018-19 to 12.8 per cent of GDP ($416.8 billion) by 2029-30 (Chart 2). The face value of AGS on issue is projected to reach 15.1 per cent of GDP ($469.4 billion) by 2028-29, higher than the 14.6 per cent of GDP projected at the 2018-19 MYEFO. The increase in the total face value of AGS across the medium term is largely due to movements in the projected underlying cash balance.

Further details on the changes to the underlying cash balance since the 2018-19 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Chart 2: Face value of AGS on issue projected to 2029-30



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2029-30.
Source: Australian Office of Financial Management and Treasury projections.

Breakdown of AGS currently on issue

Table 5 provides a breakdown of the AGS on issue by type of security as at 22 March 2019.

Table 5: Breakdown of current Australian Government Securities on issue

	On issue as at 22 March 2019	
	Face value	Market value
	$m	$m
Treasury Bonds(a)	492,550	549,490
Treasury Indexed Bonds(a)	36,427	48,081
Treasury Notes(a)	4,000	3,992
Total AGS subject to Treasurer's Direction(a)(b)	532,976	601,563
Other stock and securities	395	714
Total AGS on issue	**533,372**	**602,277**

(a) The Treasurer's Direction applies only to the face value of AGS on issue. This table shows the equivalent market value of AGS 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.

The difference between face value and market value arises from current yields being lower than coupons which were set when bonds were first issued.

Treasury Bonds

Table 6 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 22 March 2019, there were 24 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.6 years and the longest maturity extending to March 2047.

Since late 2010-11, the AOFM has lengthened the AGS yield curve. This supports increases in the average maturity and duration profile of the AOFM's debt portfolio, thereby lowering variability in future debt servicing costs and reducing refinancing risk.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 22 March 2019 $m	Timing of interest payments(a)		
2.75	21-Oct-19	14,932	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	21,683	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	23,302	Twice yearly	21 Nov	21 May
5.75	15-May-21	30,083	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	16,500	Twice yearly	21 Nov	21 May
5.50	21-Apr-23	24,500	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	26,200	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	28,200	Twice yearly	21 May	21 Nov
2.75	21-Nov-28	25,600	Twice yearly	21 Nov	21 May
3.25	21-Apr-29	27,000	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-29	19,900	Twice yearly	21 Nov	21 May
2.50	21-May-30	15,600	Twice yearly	21 May	21 Nov
4.50	21-Apr-33	13,900	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	7,350	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	12,000	Twice yearly	21 Apr	21 Oct
3.25	21-Jun-39	8,400	Twice yearly	21 Jun	21 Dec
2.75	21-May-41	3,600	Twice yearly	21 May	21 Nov
3.00	21-Mar-47	13,000	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 annual interest rate (the coupon) and the timing of coupon payments. As at 22 March 2019, there were 8 TIB lines on issue, with a weighted average term to maturity of around 10.6 years and the longest maturity extending to February 2050.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 22 March 2019 $m	Timing of interest payments(a)				
4.00	20-Aug-20	3,040	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	6,290	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	7,293	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
0.75	21-Nov-27	4,300	Quarterly	21 Nov	21 Feb	21 May	21 Aug
2.50	20-Sep-30	4,643	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	3,950	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.25	21-Aug-40	3,550	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.00	21-Feb-50	3,750	Quarterly	21 Feb	21 May	21 Aug	21 Nov

(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

Table 8 lists the Treasury Notes currently on issue. The face value of Treasury Notes on issue as at 22 March 2019 was $4 billion. Treasury Notes do not pay a coupon but instead are issued at a discount to their face value.

Table 8: Treasury Notes on issue

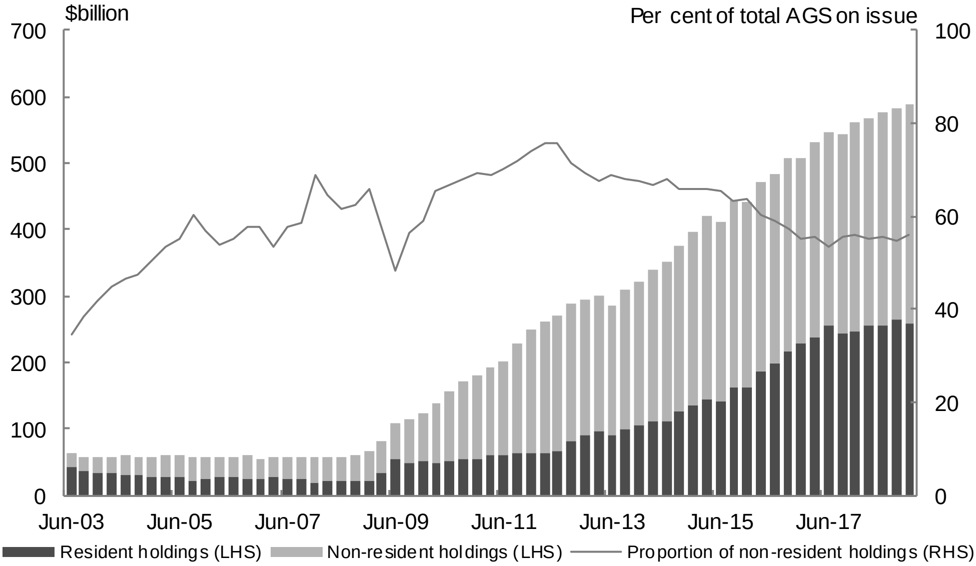
Maturity	On issue as at 22 March 2019 $m	Timing of interest payment	
12-Apr-19	2,500	At maturity	12 Apr
21-Jun-19	1,500	At maturity	21 Jun

Source: Australian Office of Financial Management.

Non-resident holdings of AGS on issue

As at the December quarter 2018, the proportion of non-residents holdings of AGS was around 56 per cent (Chart 3). This proportion is down from historical highs of around 76 per cent in 2012.

Chart 3: Non-resident holdings of Australian 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 AGS

The interest costs related to AGS 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 AGS on issue include the cost of AGS already on issue and future AGS issuance. The cost of:

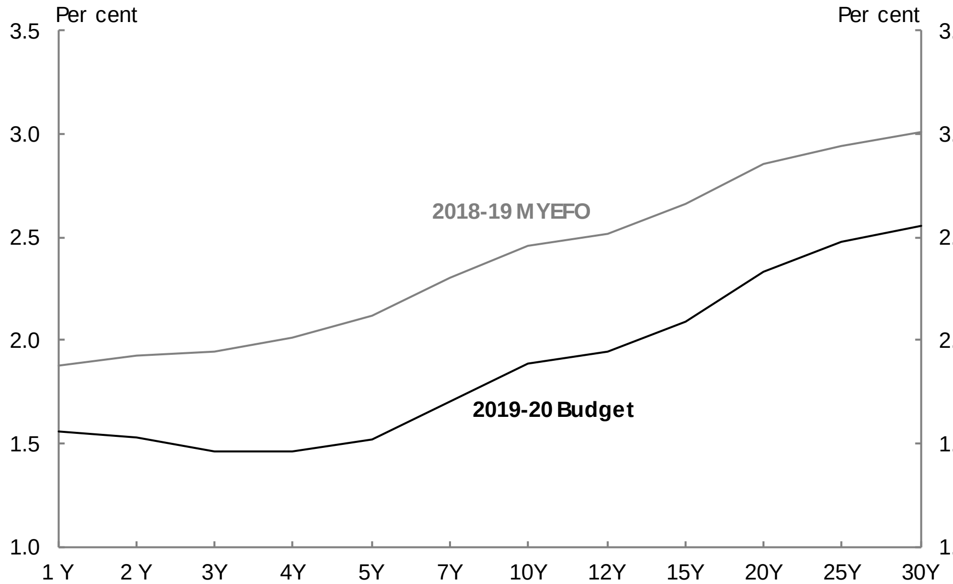
- AGS already on issue uses the actual interest rates incurred at the time of issuance; and

- the expected future issuance of AGS 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 2019-20 Budget result in a weighted average cost of borrowing of around 1.9 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.5 per cent at the 2018-19 MYEFO.

Chart 4 shows the yield curve assumptions underpinning the 2018-19 MYEFO and 2019-20 Budget.

Chart 4: Yield curve assumptions from 2018-19 to 2021-22



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 AGS on issue.

The Government's total interest payments in 2019-20 are estimated to be $16.6 billion, of which $16.4 billion relates to AGS on issue (Table 9).

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

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Interest payments on AGS	18,154	16,398	16,420	15,736	15,214
Per cent of GDP	0.9	0.8	0.8	0.7	0.7
Interest payments	18,491	16,638	16,764	16,090	15,571
Per cent of GDP	1.0	0.8	0.8	0.7	0.7
Interest receipts	4,412	5,701	6,375	6,731	6,897
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest payments(b)	14,079	10,936	10,389	9,359	8,674
Per cent of GDP	0.7	0.5	0.5	0.4	0.4

(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 2019-20 is estimated to be $19.3 billion, of which $17 billion relates to AGS on issue. In the 2018-19 MYEFO, interest expense in 2019-20 was estimated to be $19.7 billion, of which $17.5 billion related to AGS on issue.

Table 10 shows the Government's estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

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

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Interest expense on AGS	17,134	17,012	16,599	16,031	15,709
Per cent of GDP	0.9	0.8	0.8	0.7	0.7
Interest expense	18,375	19,264	18,857	17,948	16,994
Per cent of GDP	0.9	1.0	0.9	0.8	0.7
Interest income	4,837	6,009	6,796	7,180	7,605
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest expense(b)	13,538	13,255	12,060	10,767	9,388
Per cent of GDP	0.7	0.7	0.6	0.5	0.4

(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.

Climate spending

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

Table 11: Climate spending from 2018-19 to 2022-23

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Climate spending(a)(b)	1.65	1.70	1.35	1.50	1.70

(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.
(b) These figures do not include expected repayments from the Clean Energy Finance Corporation over the forward estimates.

The key components of climate spending are:

- the Clean Energy Finance Corporation, which invests in renewable energy, energy efficiency and low emissions technologies;
- the Australian Renewable Energy Agency, which supports research and development of renewable energy and related technologies; and
- the Clean Energy Regulator, which administers legislation to reduce carbon emissions and increase the use of clean energy.

The above figures incorporate the Government's decision to provide $3.5 billion over 15 years from 2018-19 for a Climate Solutions package, which provides incentives to support abatement activities across the economy.

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

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Climate spending(a)	1.65	1.70	1.35	1.50	1.70
Total Spending(b)	498	510	523	543	564
Climate spending (per cent of total spending)	0.3	0.3	0.3	0.3	0.3
Change in face value of AGS from previous year(c)	13.8	14.4	7.1	5.8	-4.2
Contribution to change in face value of AGS from climate spending	0.05	0.05	0.02	0.02	na

(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 AGS are calculated using total AGS on issue.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total assets are estimated to be $581.7 billion at 30 June 2019, increasing to $611 billion in 2019-20 and $699.7 billion by the end of the forward estimates.

The Government's financial assets are estimated to be $431.8 billion at 30 June 2019, increasing to $456.4 billion in 2019-20 and $520.4 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $149.9 billion at 30 June 2019, increasing to $154.7 billion in 2019-20 and $179.4 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 its establishment, the average return has been 7.6 per cent per annum against a target of 6.8 per cent.

For the 12-month period ending 31 December 2018, the Future Fund's return was 5.8 per cent against the benchmark of 5.8 per cent. The Future Fund was valued at $147 billion at 31 December 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 2018.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2018 $m	30 June 2018 % of Fund	31 December 2018 $m	31 December 2018 % of Fund
Australian equities	9,753	6.7	8,502	5.8
Global equities				
Developed markets	*26,500*	*18.2*	*23,920*	*16.3*
Emerging markets	*10,609*	*7.3*	*10,706*	*7.3*
Private equity	20,607	14.1	23,266	15.8
Property	9,366	6.4	10,534	7.2
Infrastructure and Timberland	11,728	8.0	12,513	8.5
Debt securities	12,934	8.9	14,790	10.1
Alternative assets	22,390	15.4	21,442	14.6
Cash	21,950	15.1	21,354	14.5
Total Future Fund assets	145,837	100.0	147,026	100.0

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
10 July 2018	Savings from the Health portfolio	2,289
	Total	8,957

Note: Figures may not sum due to rounding.

To date, $9 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.

Earnings available for drawdown from the MRFF are determined by the Future Fund Board of Guardians (the Board) taking into account the requirement to maintain the value of credits to the Fund over the long term. Payments met from drawdowns will be determined through the annual budget process.

The MRFF is managed by the Board. The Treasurer and Minister for Finance and the Public Service 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.

Since inception, MRFF investments have returned 3.3 per cent per annum against a target return of 3.1 per cent per annum. The MRFF was valued at $9.4 billion at 31 December 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 December 2018, the DCAF has received credits totalling $14.3 billion.

The investments of the DCAF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance and the Public Service 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 December 2018, the DCAF's return was 2.2 per cent against the benchmark of 2.2 per cent. The DCAF was valued at $14.4 billion at 31 December 2018.

As at 31 December 2018, payments totalling $551 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 established the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) on 1 February 2019 to support payments to the Indigenous Land and Sea Corporation (ILSC).

The ATSILSFF was seeded with the capital of the former Aboriginal and Torres Strait Islander Land Account (Land Account) — approximately $2 billion. The Land Account was abolished on the establishment of the ATSILSFF.

The investments of the ATSILSFF are managed by the Future Fund Board of Guardians (the Board). Following consultation with the Minister for Indigenous Affairs and the Board, the Treasurer and the Minister for Finance and the Public Service issued an Investment Mandate for the ATSILSFF, which sets a long-term benchmark return of CPI + 2.0 to 3.0 per cent per annum, net of costs.

Future Drought Fund

The Government will establish the Future Drought Fund (FDF) on 1 July 2019 to fund initiatives that enhance future drought resilience, preparedness and response across Australia.

The FDF will be seeded with the uncommitted balance of the Building Australia Fund (BAF) — approximately $3.9 billion. The BAF will be abolished on the establishment of the FDF. By 2028-29, the FDF is expected to grow to approximately $5 billion through reinvestment of net earnings. The Fund will provide disbursements of $100 million per annum from 1 July 2020.
The investments of the FDF will be managed by the Future Fund Board of Guardians (the Board). Following consultation with the Board, the Treasurer and the Minister for Finance and the Public Service will set an Investment Mandate for the FDF. The Investment Mandate will provide strategic guidance to the Board on the Government's expectations for the investment of the FDF, including the level of risk that the Government is prepared to accept in pursuit of target returns.

Emergency Response Fund

The Government will establish the Emergency Response Fund (ERF) on 1 October 2019 to fund initiatives which enhance future national disaster response and recovery efforts across Australia.

The ERF will be seeded with the uncommitted balance of the Education Investment Fund (EIF) – approximately $3.9 billion. The EIF will be abolished on establishment of the ERF. Potential disbursements from the ERF will be up to $150 million from 2019-20 to 2023-24 following a significant and catastrophic natural disaster in Australia. The ERF will only be drawn down in this way where the Government determines there is a need for additional support in parallel with existing national disaster response programs. From 2023-24, the maximum potential disbursements from the ERF would be restricted to the average value of the annual net realised earnings of the Fund over the previous five years.

The investments of the ERF will be managed by the Future Fund Board of Guardians (the Board). Following consultation with the Board, the Treasurer and the Minster for Finance and the Public Service will set an investment mandate for the ERF. The investment mandate will provide strategic direction to the Board on the Government's expectations for investment of the ERF, including the level of risk the Government is prepared to accept in pursuit of target returns.

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 Co) 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 billion of its $29.5 billion equity contribution to NBN Co in 2017-18.

The Government has agreed to provide a loan of up to $19.5 billion to NBN Co on commercial terms. The Government has agreed to extend the duration of its loan by three years (from 30 June 2021 to 30 June 2024) and to allow NBN Co to access up to $2 billion of private sector debt. The expected drawdown by NBN Co on the Government loan is $5.7 billion in 2019-20.

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 $46.1 billion at 30 June 2019, which is $0.3 billion lower than projected in the 2018-19 MYEFO. The fair value of HELP is projected to grow to around $53.2 billion by 30 June 2022, which is $1.9 billion lower than estimated in the 2018-19 MYEFO, and to reach $55.3 billion by the end of the forward estimates.

The lower than expected growth in the fair value of HELP to 30 June 2019 is largely a result of higher than expected loan repayments.

From 1 January 2020, a combined HELP loan limit will replace the FEE-HELP limit and will include FEE-HELP, VET Student Loans, VET FEE-HELP and HECS-HELP.

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 $922.6 billion at 30 June 2019, increasing to $944.3 billion in 2019-20 and $967.2 billion by the end of the forward estimates.

The Government's major liabilities are AGS 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 $224 billion at 30 June 2019 and approximately $316 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.

Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 5 per cent per annum.

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 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 $251 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).