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 debt on issue. The end-of-year face value amount of Commonwealth Government Securities on issue subject to the Treasurer's Direction is expected to be around $412 billion in 2015-16 and is expected to increase to $518 billion in 2018-19.

Information is also provided on the major assets and liabilities on the Government's balance sheet. The Government's total stock of assets is estimated to be around $454.7 billion in 2015-16 and increase to $557.0 billion by the end of the forward estimates. Total liabilities are estimated to be around $716.1 billion in 2015-16 and increase to $839.8 billion by the end of the forward estimates.

The Australian Office of Financial Management will manage further sales of the Government's residual holdings of residential mortgage-backed securities through a regular, competitive process. Subject to market conditions, it is estimated that the portfolio could be sold down by the middle of 2016.

DEBT STATEMENT

The Debt Statement provides information on 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 Commonwealth Government Securities (CGS) to investors.

In recent years, the Australian Office of Financial Management (AOFM) has taken the opportunity to lengthen the CGS yield curve. 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. A bias towards longer issuance of new CGS and consideration towards further lengthening the CGS yield curve is expected to continue while market conditions are favourable.

Even when CGS issuance is not required to finance the Government's activities, successive governments have continued to issue CGS, primarily to maintain a liquid sovereign bond 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 that supports 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; it also provides a low-risk investment vehicle.

The AOFM is the agency 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.

All new CGS issuance is undertaken in Australian dollars. There is a very small amount of foreign currency denominated debt securities on issue remaining from issuance undertaken before 1988. Most of these securities mature in March 2017.

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.

Estimates and projections of CGS on issue

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. Changes in the market price of CGS will have an impact on the value of gross and net debt.

Table 1 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 1 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 strategy 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.

1 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation accretion over the life of the security. This amount is not included in the calculation of face value.
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 is not known. The timing of the within-year peak is therefore reported to the given month in the particular year.
3 On 11 December 2013, the Treasurer directed that the maximum face value of CGS that can be on issue is $500 billion.

Table 1: Projections of Commonwealth Government Securities on issue subject to the Treasurer's Direction[(a)]

	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Face value - end of year	367	412	474	497	518
Per cent of GDP	22.9	24.9	27.2	27.0	26.7
Face value - within-year peak(b)	368	431	478	514	539
Per cent of GDP(b)	22.9	26.0	27.4	28.0	27.8
Month of peak(b)	*Jun-15*	*Jun-16*	*Jun-17*	*Jan-18*	*Mar-19*
Market value - end of year(c)	413	460	523	545	565
Per cent of GDP	25.7	27.8	30.0	29.6	29.2

(a) The same stock and securities that was 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 9: 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 2015-16, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be around $412 billion, compared to $413 billion at the 2014-15 MYEFO. Over the forward estimates, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to reach around $497 billion in 2017-18, $16 billion higher than estimated at the 2014-15 MYEFO. It is expected to increase to around $518 billion in 2018-19.

In 2015-16, the face value of CGS on issue is expected to reach a within-year peak of around $431 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of around $539 billion in 2018-19.

Changes in CGS on issue since the 2014-15 MYEFO

Table 2 shows the change in the projected end-of-year face value of CGS on issue between the 2014-15 MYEFO and the 2015-16 Budget.

Table 2: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2014-15 MYEFO to the 2015-16 Budget

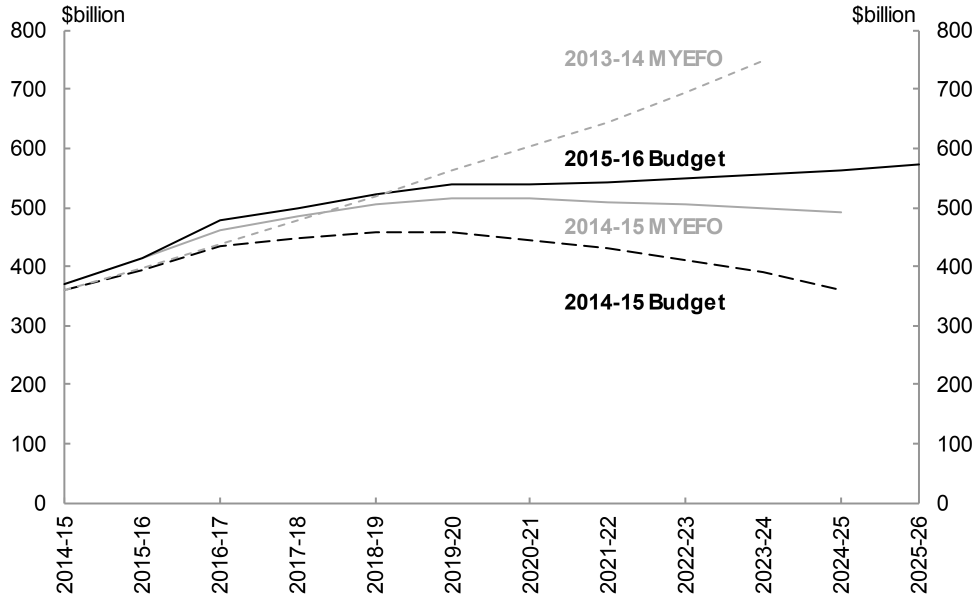
	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b
Total face value of CGS on issue subject to the Treasurer's Direction as at 2014-15 MYEFO	367	413	459	481
Factors affecting the change in face value of CGS on issue from 2014-15 MYEFO to 2015-16 Budget (a)				
Cumulative receipts decisions	0.0	0.4	0.0	-0.8
Cumulative receipts variations	2.2	7.2	14.3	21.3
Cumulative payment decisions	0.6	4.7	7.7	10.1
Cumulative payment variations	-2.1	-7.5	-11.9	-17.4
Cumulative change in net investments in financial assets(b)	0.0	-3.6	7.2	4.2
Other contributors	-0.6	-1.8	-1.7	-1.4
Total face value of CGS on issue subject to the Treasurer's Direction as at 2015-16 Budget	367	412	474	497

(a) Cumulative impact of decisions and variations from 2014-15 to 2017-18. 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 face value of CGS on issue is projected to rise to $573 billion by 2025-26, reflecting a modestly weaker underlying cash balance, and its associated higher public debt interest expense, accumulating over the medium term. In 2023-24, the face value of CGS on issue is projected to reach $555 billion, some $112 billion less than the $667 billion projected at the 2013-14 MYEFO. This improvement would be even greater compared with the 2013-14 MYEFO, if the original scenario had assumed taxes were capped at 23.9 per cent of GDP (that is, assuming future tax relief).

The projected face value of CGS on issue is shown in Chart 1.

Chart 1: Face value of CGS on issue projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap.
Source: Australian Office of Financial Management and Treasury projections.

Further details on the changes to the underlying cash balance since the 2014-15 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Changes in net debt since the 2014-15 MYEFO

Australian Government general government sector 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.

Table 3: Liabilities and assets included in net debt from 2014-15 to 2018-19

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	211	211	211	211	211
Government securities	418,307	464,298	527,453	550,072	569,504
Loans	10,347	14,148	13,607	13,502	13,400
Other borrowing	1,545	1,428	1,352	1,290	1,242
Total liabilities included in net debt	**430,409**	**480,084**	**542,624**	**565,074**	**584,357**
Assets included in net debt					
Cash and deposits	3,144	3,435	4,187	4,988	5,709
Advances paid	45,874	52,901	63,368	73,722	84,896
Investments, loans and placements	131,157	137,947	161,712	162,641	168,306
Total assets included in net debt	**180,175**	**194,282**	**229,268**	**241,352**	**258,911**
Net debt	**250,234**	**285,802**	**313,356**	**323,723**	**325,447**

Net debt is estimated to increase by $6.2 billion to $285.8 billion in 2015-16, compared with the 2014-15 MYEFO. From 2015-16 to 2017-18, net debt is higher compared with the 2014-15 MYEFO. This is primarily driven by higher levels of Commonwealth Government Securities, owing to changes in the financing requirement and a decrease in average yields compared to those at the 2014-15 MYEFO. Lower yields increase the market value of Commonwealth Government Securities on issue.

Table 4: Net debt — reconciliation from the 2014-15 MYEFO to the 2015-16 Budget

	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b
Net debt as at 2014-15 MYEFO ($b)	244.8	279.6	304.4	315.8
Changes in financing requirement	-2.3	-4.2	11.3	10.7
Impact of lower yields on CGS	11.0	11.8	12.0	11.7
Asset and other liability movements	-3.3	-1.3	-14.3	-14.5
Cash and deposits	0.7	0.7	-0.4	-0.6
Advances paid	0.3	0.0	-1.4	-2.9
Investments, loans and placements	-1.0	-3.2	-13.2	-11.5
Other movements	-3.4	1.1	0.7	0.6
Total movements in net debt from 2014-15 MYEFO to 2015-16 Budget	*5.4*	*6.2*	*9.0*	*8.0*
Net debt as at 2015-16 Budget ($b)	250.2	285.8	313.4	323.7

Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 5 May 2015.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 5 May 2015	
	Face value	Market value
	$m	$m
Treasury Bonds (a)	325,886	359,263
Treasury Indexed Bonds (a)	24,316	33,279
Treasury Notes (a)	5,500	5,481
Total CGS subject to Treasurer's Direction(a)(b)	355,702	398,024
Other stock and securities	2,536	4,930
Total CGS on issue	**358,238**	**402,954**

(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 was 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.
Source: Australian Office of Financial Management.

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 5 May 2015, there were 21 Treasury Bond lines on issue, with a weighted average term to maturity of around 6.6 years and the longest maturity extending to April 2037.

Since late 2010-11, the AOFM has taken advantage of favourable market conditions to lengthen the CGS yield curve and bias issuance into longer maturities, while still lowering the cost of borrowing significantly. 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.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 5 May 2015 $m	Timing of interest payments(a)		
4.75	21-Oct-15	13,899	Twice yearly	21 Oct	21 Apr
4.75	15-Jun-16	21,900	Twice yearly	15 Jun	15 Dec
6.00	15-Feb-17	21,096	Twice yearly	15 Feb	15 Aug
4.25	21-Jul-17	18,900	Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	20,500	Twice yearly	21 Jan	21 Jul
3.25	21-Oct-18	12,800	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	21,447	Twice yearly	15 Mar	15 Sep
2.75	21-Oct-19	11,000	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	20,397	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	2,000	Twice yearly	21 Nov	21 May
5.75	15-May-21	21,599	Twice yearly	15 May	15 Nov
5.75	15-Jul-22	18,200	Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	21,300	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	22,200	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	17,500	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	15,500	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	14,400	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-29	9,700	Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	9,800	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	4,250	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	7,500	Twice yearly	21 Apr	21 Oct

(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 Treasury Indexed Bonds (TIBs) currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 5 May 2015, there were 7 TIB lines on issue, with a weighted average term to maturity of around 8.6 years and the longest maturity extending to August 2035.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 5 May 2015 $m	Timing of interest payments(a)				
4.00	20-Aug-15	1,152	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.00	21-Nov-18	4,239	Quarterly	21 Nov	21 Feb	21 May	21 Aug
4.00	20-Aug-20	4,964	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	4,490	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	5,843	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.50	20-Sep-30	3,293	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	2,850	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 5 May 2015 was $5.5 billion. Table 8 lists the Treasury Notes currently on issue. Treasury Notes do not pay a coupon, but they are issued at a discount — the face value received at maturity is higher than the price paid at issuance.

Table 8: Treasury Notes on issue

Maturity	On issue as at 5 May 2015 $m	Timing of interest payment	
12-Jun-15	3,500	At maturity	12 Jun
7-Aug-15	2,000	At maturity	7 Aug

Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

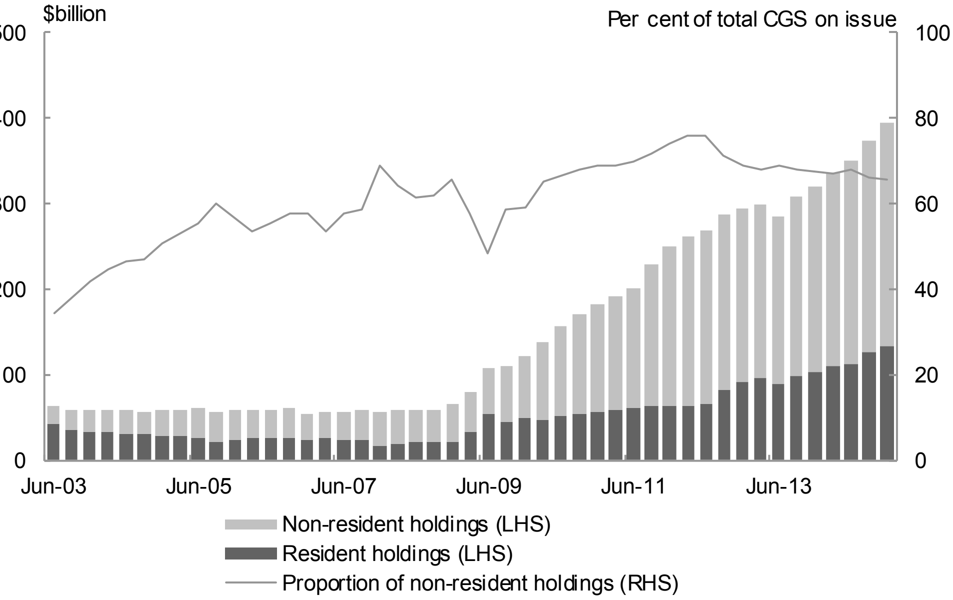
The sale of CGS is not restricted to Australian residents. As at the December quarter 2014, 65.9 per cent of total CGS on issue were held by non-residents of Australia (Chart 2).

The proportion of CGS held by non-residents has risen significantly since 2009 and remains around historically high levels. This appears to reflect an increased tendency for global foreign reserves to be invested outside of the major currencies (such as the yen, the US dollar and the euro).

The historically high proportion of non-resident holdings of CGS is also likely to have been driven by a rise in investor confidence in the Australian sovereign debt market, owing to the relative strength of Australia's public finances and the Australian economy more broadly.

CGS yields remain relatively attractive against a backdrop of low government bond yields globally. Along with strong investor confidence in the Australian sovereign debt market, this has contributed to longer-term CGS yields falling to historically low levels in recent years.

Chart 2: Non-resident holdings of Commonwealth Government Securities



Note: Data refer to the market value of holdings.
Source: ABS Catalogue Number 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.

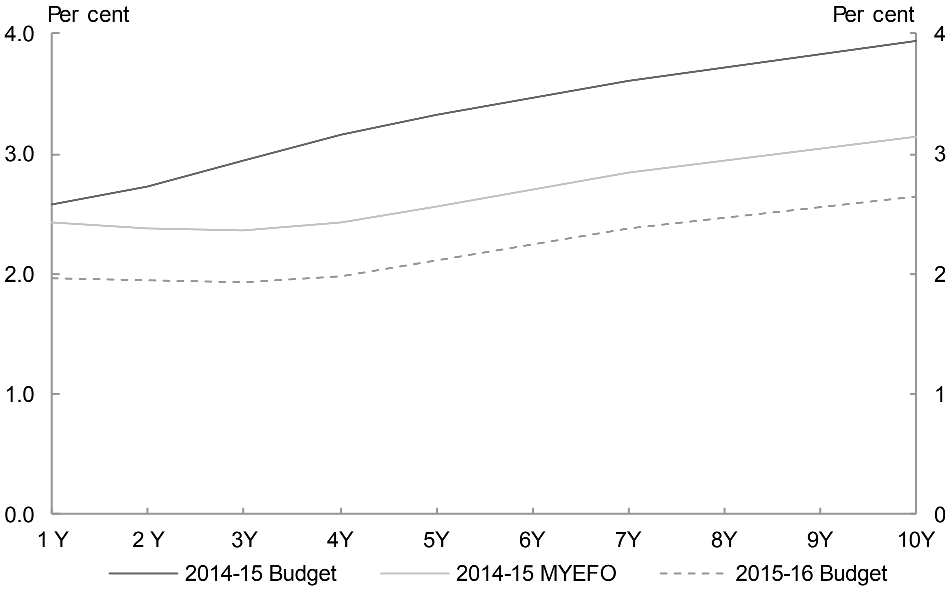
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather when they are actually paid.

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 at the 2015-16 Budget result in a weighted average cost of borrowing of around 2.5 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.9 per cent at the 2014-15 MYEFO. Chart 3 shows the yield curve assumptions underpinning the 2014-15 Budget, 2014-15 MYEFO and 2015-16 Budget.

Chart 3: Yield curve assumptions from 2014-15 to 2018-19



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, and are expected to increase over the forward estimates as a result of the projected rise in CGS on issue.

The Government's total interest payments in 2015-16 are estimated to be $15.0 billion, of which $14.5 billion relates to CGS on issue (Table 9).

Table 9: Interest payments and interest expense

	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
Interest payments on CGS(a)	13,512	14,455	14,980	15,535	16,587
Per cent of GDP	0.8	0.9	0.9	0.8	0.9
Total interest payments(a)	14,037	14,953	15,464	16,028	17,070
Per cent of GDP	0.9	0.9	0.9	0.9	0.9
Interest expense on CGS(b)	14,450	15,560	16,454	16,845	17,363
Per cent of GDP	0.9	0.9	0.9	0.9	0.9
Total interest expense(b)	15,915	17,270	19,040	19,652	20,141
Per cent of GDP	1.0	1.0	1.1	1.1	1.0

(a) Interest payments are a cash measure, with the relevant amount recognised in the period in which the interest payment is made.
(b) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.

The Government's interest expense in 2015-16 is estimated to be $17.3 billion, of which $15.6 billion relates to CGS on issue. In the 2014-15 MYEFO, interest expense in 2015-16 was estimated to be $17.9 billion, of which $16.0 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

	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Interest expense	15,915	17,270	19,040	19,652	20,141
Per cent of GDP	1.0	1.0	1.1	1.1	1.0
Interest income	3,653	4,083	4,680	5,159	6,184
Per cent of GDP	0.2	0.2	0.3	0.3	0.3
Net interest expense	12,262	13,187	14,360	14,493	13,957
Per cent of GDP	0.8	0.8	0.8	0.8	0.7

Climate spending

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

Table 11: Climate spending from 2014-15 to 2018-19

	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Climate spending(a)	1.35	0.70	0.60	0.50	0.55

(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.

Over the forward estimates, the key components of climate spending are:

- the Emissions Reduction Fund, which is providing incentives to support abatement activities across the economy; and
- funding for the Department of Industry and Science to support Australian Renewable Energy Agency legacy functions.

Estimates of climate spending have been updated to reflect the delay in the passage of legislation to abolish the Clean Energy Finance Corporation and to reflect revised timelines for the delivery of projects administered by the Australian Renewable Energy Agency.

Impact of climate spending on debt

Climate spending may be financed through either receipts or debt. This statement takes the approach of assuming that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to climate spending as a proportion of total spending. This is shown in Table 12.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Climate spending ($b) (a)	1.35	0.70	0.60	0.50	0.55
Total spending ($b) (b)	418.3	440.9	466.0	478.0	504.7
Climate spending (per cent of total spending)	0.3	0.2	0.1	0.1	0.1
Change in face value of CGS from previous year ($b) (c)	50.2	45.1	61.9	23.1	20.8
Contribution to change in face value of CGS from climate spending ($b)	0.16	0.07	0.08	0.02	0.02

(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.

Recurrent and capital spending

In the 2013-14 MYEFO, the Government made a commitment to enhance disclosure on the proportion of the total budget[4] allocated to recurrent and capital spending.

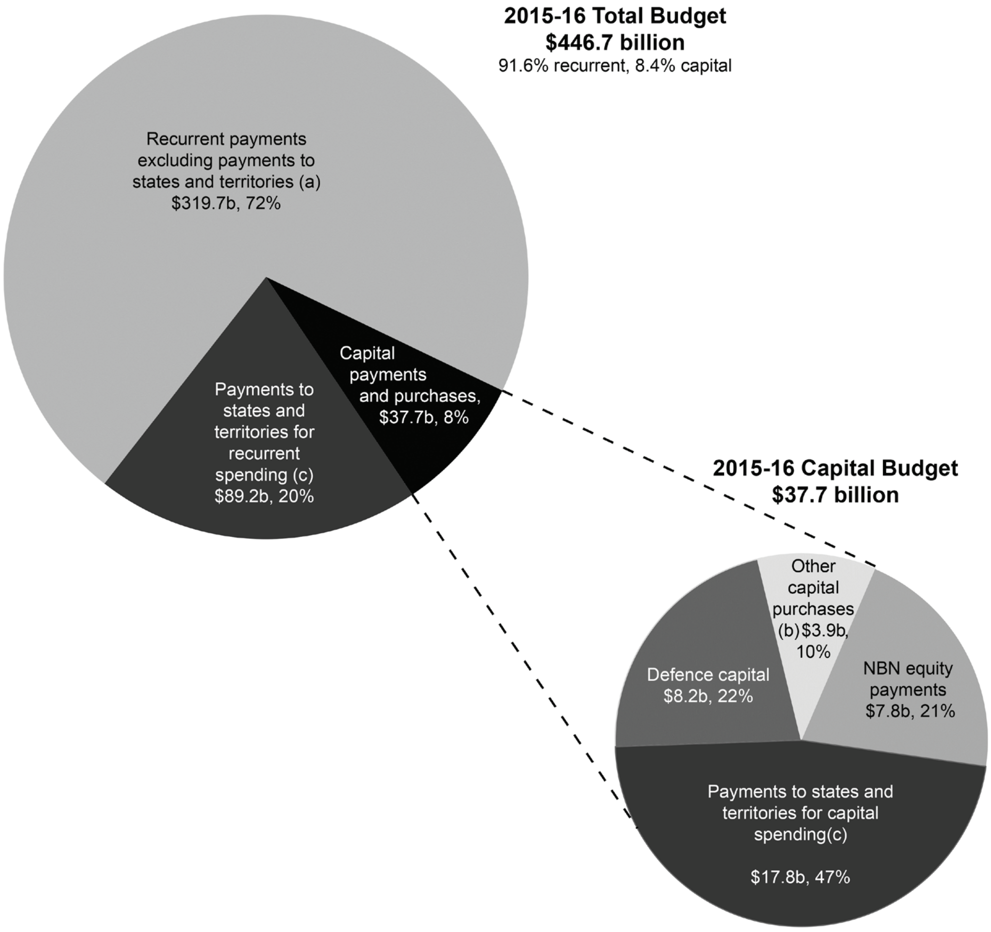
The **recurrent budget** includes pension and income support payments, funding in the areas of health and education (except where funding is allocated to the building of facilities), interest payments on public debt, student loans, and operating costs of the Government including payments to employees.

The **capital budget** comprises loans and other funding made to fund infrastructure, including transport and communications infrastructure; and purchases of defence and other non-financial assets.

Chart 4 below presents a detailed breakdown of recurrent and capital spending for the 2015-16 year.

4 Total budget is defined as all cash outflows within the underlying cash balance and headline cash balance (where identifiable). This is equal to total payments plus investments in financial assets for policy purposes (for example, loans and equity payments).

Chart 4: Recurrent and capital spending as a proportion of the Budget in 2015-16



(a) Recurrent payments excluding payments to states and territories include pension and income support payments, government loans, payments to government employees, payments for goods and services, and grants and subsidies not made for capital purposes.
(b) Other capital purchases include the purchase of land and buildings, software and other facilities.
(c) State and territory payments include payments for general revenue assistance (including Goods and Services Tax payments) and specific purpose payments.

Chart 4 shows that 91.6 per cent of estimated total budget spending in 2015-16 is recurrent, and the remaining 8.4 per cent of the budget is capital.

Of the total budget, 72 per cent comprises recurrent payments such as income support payments, grants and subsidies to recipients other than states and territories, interest payments on public debt, operating costs of the Government, and student loans. Payments to states and territories to fund recurrent spending make up 20 per cent of the budget. This amount includes specific purpose payments to states and territories, including in the areas of health and education, and recurrent spending by the states and territories estimated to be funded through general revenue assistance.

Of the $37.7 billion of the capital budget, around $17.8 billion relates to specific purpose payments to the states and territories for capital purposes and the portion of General Revenue Assistance that is estimated to fund capital spending by the states and territories. Equity payments to NBN Co comprise around 21 per cent of the capital budget and purchases of defence capital (for example, defence weapons and aircraft) comprises around 22 per cent. Other capital purchases such as software facilities upgrades make up around 10 per cent of the capital budget.

Funding for the Infrastructure Growth Package is reflected in payments to states and territories for capital spending (for amounts paid to states and territories) and other capital loans, grants and subsidies (for amounts paid to local governments).

Additional Transparency — Medium-term projections

To improve the transparency of the budget papers, the medium-term projections have been enhanced to encourage discussion and debate beyond the short term about the benefits of funding important investments such as infrastructure.

Budget Statement 7: Forecasting Performance and Scenario Analysis includes alternative scenarios of the medium-term outlook for the underlying cash balance and CGS on issue.

Further, the Budget details the Government's commitment to funding productivity-enhancing infrastructure over the medium term.

The Government is committed to investing over $50 billion in transport infrastructure to 2019-20 (this includes a $3 billion commitment to East West Link that is recorded as a contingent liability), with spending included in the forward estimates and the medium-term projections.

The Government is also investing in a new Northern Australia Infrastructure Facility over five years to help promote private sector participation in major projects necessary for economic development in the north.

The medium-term fiscal projections in this Budget include expenditure on infrastructure by the Commonwealth.

Stronger infrastructure links improve the competitiveness of businesses and increase their ability to provide services to their customers. Businesses will also benefit from the increased investment activity and a more dynamic economy.

The Australian Government's major assets and liabilities

Assets

The Government's total stock of assets is estimated to be around $428.7 billion at 30 June 2015, increasing to $454.7 billion in 2015-16 and $557.0 billion by the end of the forward estimates.

The Government's financial assets are estimated to be around $309.9 billion at 30 June 2015, increasing to $332.6 billion in 2015-16 and $422.0 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be around $118.8 billion at 30 June 2015, increasing to $122.1 billion in 2015-16 and $135.0 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 return of at least CPI plus 4.5 per cent to 5.5 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 Fund. The Investment Mandate also requires the Board to take an acceptable but not excessive level of risk for the Fund, measured in terms such as the probability of losses in a particular year.

The portfolio of assets has performed well. Since the first contribution to the Future Fund on 5 May 2006, the return has been 8.2 per cent per annum.

At 31 March 2015, the Future Fund's return for the financial year to date was 15.1 per cent. The Future Fund was valued at $117.0 billion at 31 March 2015.

The Board continues to focus on maintaining clear objectives and manages the portfolio in line with its mandate and strategy. Table 13 shows changes in the asset allocation of the Future Fund since 30 June 2014.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2014 $m	31 March 2015 $m
Australian equities	9,565	9,618
Global equities		
Developed markets	23,451	24,345
Emerging markets	9,840	11,077
Private equity	8,481	11,274
Property	5,475	7,227
Infrastructure and Timberland	8,326	7,942
Debt securities	11,344	11,576
Alternative assets	13,729	16,069
Cash	11,375	17,834
Total Future Fund assets	101,586	116,964

Note: Data may not sum due to rounding.

Asset Recycling Fund

The Australian Government remains committed to its 2014-15 Budget decision to establish the Asset Recycling Fund (ARF), a dedicated vehicle for providing funding and financial incentives primarily to the states and territories to invest in infrastructure, including under the Asset Recycling Initiative.

The ARF will be seeded with $6.8 billion of capital from uncommitted balances of the Building Australia Fund (BAF) and Education Investment Fund (EIF). Further contributions to the Fund will be made from proceeds from the sale of Medibank Private, to be credited on 1 July 2016, and other privatisations.

Drawdowns from the ARF for payments relating to the Infrastructure Growth Package will be made from capital and net earnings. Such drawdowns will primarily fund payments to states and territories through the Council of Australian Governments (COAG) Reform Fund, governed by the National Partnership Agreements that will include those for the Asset Recycling Initiative and Land Transport Infrastructure Projects. Pending the establishment of the ARF, the Australian Government will enable funding for infrastructure investments under the Infrastructure Growth Package by providing funding of $2.1 billion in 2015-16 through existing appropriation mechanisms.

The ARF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an investment mandate for the Fund which will provide broad direction to the Board in relation to its investment strategy.

Once the ARF is established and the uncommitted balances of the BAF and EIF are transferred to the ARF, the BAF and the EIF will be abolished. Remaining committed milestone payments of the BAF and EIF will be transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the relevant department.

Medical Research Future Fund

The Government will establish the Medical Research Future Fund (MRFF) on 1 August 2015 to provide additional funding for medical research from 2015-16.

Contributions to the MRFF will come from $1 billion uncommitted funds in the Health and Hospitals Fund (HHF), and the estimated value of health savings from the Health portfolio until the Fund reaches a target capital level of $20 billion. The MRFF is still expected to reach $20 billion in 2019-20.

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. In 2015-16, $10 million will be distributed by bringing forward some of the earnings that would otherwise be made available in 2016-17. The capital of the Fund will be preserved in perpetuity.

The MRFF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an investment mandate for the Fund which will provide broad direction to the Board in relation to its investment strategy.

The HHF will be abolished on 1 August 2015. Remaining committed milestone payments of the HHF will be transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the Department of Health.

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 8 May 2015 the DCAF has received credits totalling $2.5 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 Fund. The DCAF Investment Mandate sets a benchmark return on the Fund 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.

A fixed amount of the money flowing into the DCAF each year is set aside (commencing from 2014-15) for the State and Territory governments consistent with the DisabilityCare Australia Fund Act 2013. In 2015-16, this fixed amount is $854 million, which was indexed by 3.5 per cent from the previous financial year. This amount will continue to be indexed annually by 3.5 per cent until 2023-24.

The State and Territory governments will be able to draw down from the DCAF when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme. 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.

Residential mortgage-backed securities

The Government will progressively sell down its residential mortgage-backed securities (RMBS) holdings subject to market conditions. As at the end of April 2015, the Government's RMBS portfolio was valued at $4.6 billion in amortised face value terms. Subject to market conditions, it is estimated that the portfolio could be sold down by the middle of 2016.

During the global financial crisis, the previous Government directed the AOFM to invest in high-quality AAA-rated RMBS to support competition from smaller lenders in residential mortgage and small business lending markets. As a result, the AOFM directly invested around $15.5 billion in high-quality RMBS.

Conditions in the Australian securitisation market have improved substantially since the introduction of the AOFM programme. Since late 2012, private demand for securitisation had increased to the extent that the AOFM was not required to provide any direct investment in new RMBS deals. Given the improvement in the market, the previous Government announced on 10 April 2013 that the program would close for new investment.

Conditions have continued to improve since then. Around $29 billion of new RMBS was issued in 2014, the largest volume in any calendar year since the crisis. Smaller lenders are able to fund their new lending by securitisation, with over $10 billion of primary RMBS issuance by non-major lenders since September 2014.

The RMBS market is now functioning well and no longer needs Government support. Moreover, a progressive sale of RMBS is expected to support the market by providing regular pricing benchmarks to a relatively opaque market.

National Broadband Network

The National Broadband Network (NBN) will deliver fast, affordable broadband to all Australians. The Government has instructed NBN Co Limited to complete the NBN using a multi-technology mix (including fibre-to-the-premises, fibre-to-the-node, hybrid-fibre coaxial cable, and wireless and satellite technologies), to ensure the NBN is delivered as soon as possible and at least cost to taxpayers.

On 14 December 2015, the Government announced that is has successfully renegotiated the Definitive Agreements with Telstra and Optus. These agreements secure access to existing fixed-line infrastructure that could be used to rollout the NBN faster and at lower cost.

In the 2015-16 Budget, $2.6 billion in equity payments for NBN Co have been brought forward to 2015-16 and 2016-17 from 2017-18. This is to reflect the launch and scale of new network technologies. The Government's equity contributions are capped at $29.5 billion.

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 earning an income above a certain level.

The fair value of HELP is estimated to be around $30.2 billion at 30 June 2015, which is $0.4 billion lower than projected in the 2014-15 MYEFO. The fair value of HELP is projected to grow to around $52.9 billion in 2017-18, which is $0.9 billion higher than estimated in the 2014-15 MYEFO, and to reach $62.7 billion by the end of the forward estimates.

This growth is largely a result of the estimated underlying increase in university commencements over the forward estimates, deregulation of the higher education sector, the reduction in subsidies for Commonwealth supported places, and increased demand for VET FEE-HELP.

From 1 January 2016, the Government will fully deregulate higher education by removing fee caps and expanding the demand-driven system to bachelor and sub-bachelor courses at all approved higher education providers. Supported students will continue to be able to defer the costs of their studies through HELP.

In addition, from 1 January 2016, the Government will rebalance student and Commonwealth contributions towards a new student's course fees by reducing subsidies for Commonwealth-supported places by 20 per cent on average.

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).

The CEFC Act provides the CEFC with $10 billion over five years to invest in renewable energy, low-emissions technology and energy efficiency projects.

Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

The Government has announced that it will abolish the CEFC.

Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament. The Government will honour all payments that are necessary as part of meeting our contractual obligations to committed investments. These obligations will be met from the CEFC's existing funding, which will be transferred to a new CEFC transitional special account.

Liabilities

The Government's total liabilities are estimated to be around $660.0 billion at 30 June 2015, increasing to $716.1 billion in 2015-16 and $839.8 billion by the end of the forward estimates.

The Government's major liabilities are CGS on issue and public sector employee superannuation liabilities. For further information on CGS on issue, see the Debt Statement.

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 liability is estimated to be around $167 billion at 30 June 2015 and approximately $282 billion at 30 June 2050.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. 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). The DFRDB and DFRB are closed to new members. Legislation is being prepared which would close the MSBS to new members from 1 July 2016, with a new military accumulation scheme with death and disability arrangements to be established.

While there will not be any civilian or military defined benefit schemes available to new members from 1 July 2016, the value of the Government's unfunded superannuation liability is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP — and is forecast to reach $194 billion by the end of the forward estimates. The increase in the liability 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.

An actuarially-determined discount rate is used to estimate the present value of future unfunded superannuation benefits. The long-term nature of the unfunded superannuation liability requires the use of a discount rate that best matches the duration of the liability. The value recorded on the balance sheet is highly sensitive to the discount rate used. 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. Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 6 per cent per annum. This rate is in the context of a long-term assumed rate of CPI inflation of 2.5 per cent per annum.

Civilian defined benefit schemes

Changes in member behaviour, including members increasing their member contributions and increasingly taking more of their benefit as a pension rather than as a lump sum, have also increased the liability in 2014-15 by around $4 billion compared to previous projections for the 2014-15 Budget.

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