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.

CONTENTS

STATEMENT 7: DEBT STATEMENT, ASSETS AND LIABILITIES

DEBT STATEMENT

The Debt Statement provides information on current and projected debt on issue and details of climate spending and 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.

Even 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. A well-functioning CGS market supports the Treasury Bond futures markets (used by financial institutions to manage interest rate risk), supports the corporate bond market by providing a risk-free benchmark, and provides a low-risk investment vehicle.

The Australian Office of Financial Management (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- to long-term securities with a fixed annual rate of interest payable every six months;

Treasury Indexed Bonds (TIBs): medium- 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. Maintaining a limited number of liquid lines 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 net debt.

Table 1 contains projections of the face value (end-of-year and within-year peak) and the market value (end-of-year) of CGS on issue.

As required by the *Charter of Budget Honesty Act 1998*, Table 1 reports projections of CGS on issue subject to the Treasurer's Direction. The Treasurer's Direction specifies the maximum face value of stock and securities that can be on issue.

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.

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

	2013-14	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b	$b
Face value - within-year peak(b)	330	370	410	450	470
Per cent of GDP(b)	20.8	22.7	24.0	25.1	25.0
Month of peak(b)	*Jun-14*	*Apr-15*	*Jun-16*	*Feb-17*	*Jan-18*
Face value - end of year	320	360	390	430	440
Per cent of GDP	20.2	22.1	22.8	24.0	23.4
Market value - end of year(c)	340	380	420	460	470
Per cent of GDP	21.5	23.3	24.6	25.6	25.0

(a) The face and market value of CGS published in this table are rounded to the nearest $10 billion.
(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: 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 2014-15, the face value of CGS on issue is expected to reach a within-year peak of around $370 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of around $470 billion in 2017-18.

Changes in CGS on issue since the 2013-14 MYEFO

Table 2 shows the change in the projected end-of-year face value of CGS on issue, between the 2013-14 MYEFO and the 2014-15 Budget.

Table 2: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2013-14 MYEFO to the 2014-15 Budget

	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
Total face value of CGS on issue subject to the Treasurer's direction as at 2013-14 MYEFO	310	360	400	430
Factors affecting the change in face value of CGS on issue from 2013-14 MYEFO to 2014-15 Budget				
Receipts decisions	0.0	-0.7	-1.9	-2.8
Receipts variations	1.4	-2.4	0.6	-1.2
Payment decisions	0.5	-1.0	-4.0	-7.6
Payment variations	1.1	-0.2	-1.8	4.4
Net investments in financial assets(a)	4.7	-0.3	3.6	8.5
Total face value of CGS on issue subject to the Treasurer's direction as at 2014-15 Budget	320	360	390	430

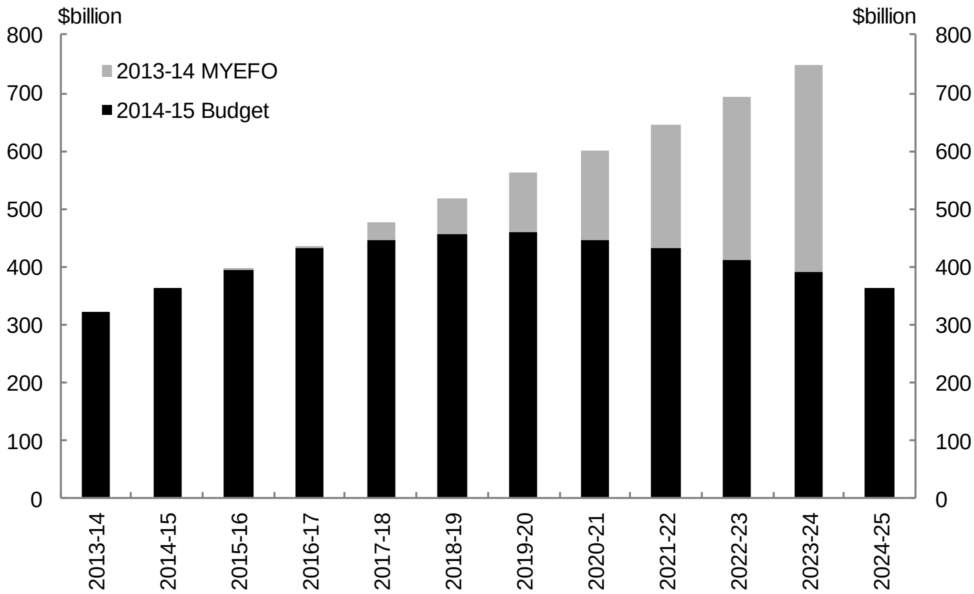
(a) Change in net cash flows from investments in financial assets for policy and liquidity purposes.
Note: End of year data. Projections of the face value of CGS on issue are published to the nearest $10 billion. As such, numbers do not add due to rounding.

Chart 1 shows the projected end-of-year face value of CGS on issue, as at the 2013-14 MYEFO and the 2014-15 Budget, over the medium term.

The published 2013-14 MYEFO face value of CGS on issue figure of $667 billion in 2023-24 did not include a cap on tax receipts. The projection for MYEFO in Chart 1 includes a 23.9 per cent of GDP cap on tax receipts, increasing the face value of CGS on issue projected to $748 billion in 2023-24.

In comparison, at 2014-15 Budget CGS on issue is projected to be $389 billion in 2023-24, an improvement of $359 billion. By 2024-25, the projected end-of-year face value of CGS on issue is expected to reach $362 billion.

Chart 1: Total face value of CGS on issue 2013-14 MYEFO vs 2014-15 Budget



Note: A tax-to-GDP cap of 23.9 per cent has been applied to these projections. This is the average tax-to-GDP ratio in the years post-GST and pre-GFC. MYEFO tax-cap projection was not published at MYEFO.
Source: Australian Office of Financial Management and Treasury projections.

Over the medium term, the majority of the decrease in the face value of CGS on issue since MYEFO can be attributed to an improvement in the underlying cash balance as a result of policy decisions.

Further details on the changes to the underlying cash balance since the 2013-14 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Changes in net debt since the 2013-14 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 2013-14 to 2017-18

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	182	182	182	182	182
Government securities	346,648	387,772	421,424	460,519	475,214
Loans	9,608	13,436	12,707	12,717	12,640
Other borrowing	1,524	1,376	1,276	1,175	1,149
Total liabilities included in net debt	**357,963**	**402,766**	**435,590**	**474,593**	**489,185**
Assets included in net debt					
Cash and deposits	3,004	2,480	2,764	2,760	3,080
Advances paid	39,737	45,145	52,454	61,294	70,021
Investments, loans and placements	117,371	128,753	134,010	149,258	151,884
Total assets included in net debt	**160,111**	**176,378**	**189,228**	**213,313**	**224,985**
Net debt	**197,851**	**226,388**	**246,362**	**261,280**	**264,200**

Net debt in 2014-15 is estimated to decrease by $4.7 billion since the 2013-14 MYEFO to $226.4 billion. From 2014-15 to 2016-17, net debt is lower compared to the 2013-14 MYEFO. This is primarily driven by the higher value of investments held by the Government in newly established funds and other deposits. Changes in the financing requirement have also resulted in a small reduction of net debt. These decreases are partially offset by the impact of lower average yields compared to those at the 2013-14 MYEFO, which increases the market value of Commonwealth Government Securities on issue.

Table 4: Net debt — reconciliation from the 2013-14 MYEFO to the 2014-15 Budget

	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
Net Debt as at 2013-14 MYEFO ($b)	191.5	231.1	259.1	280.5
Changes in financing requirement	5.7	-0.8	-3.9	-3.7
Impact of lower yields on CGS	5.9	6.2	6.3	6.1
Asset and other liability movements	-5.3	-10.2	-15.1	-21.6
Total movements in Net Debt from 2013-14 MYEFO to 2014-15 Budget ($b)	*6.3*	*-4.7*	*-12.7*	*-19.2*
Net Debt as at 2014-15 Budget ($b)	197.9	226.4	246.4	261.3

Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 8 May 2014.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 8 May 2014	
	Face value	Market value(a)
	$m	$m
Treasury Bonds	295,136	313,738
Treasury Indexed Bonds	20,540	26,474
Treasury Notes	1,000	990
Total CGS subject to Treasurer's Direction(b)	316,676	341,202
Other stock and securities	2,548	4,773
Total CGS on issue	**319,225**	**345,975**

(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, outlined in subsection 51JA(2A) of the Commonwealth Inscribed Stock Act 1911, are:

- stock and securities issued in relation to money borrowed under the *Loan (Temporary Revenue Deficits) Act 1953*;
- stock and securities loaned by the Treasurer under a securities lending arrangement under section 5BA of the *Loans Securities Act 1919*, or held by or on behalf of the Treasurer for the purpose of such an arrangement;
- stock and securities invested under subsection 39(2) of the *Financial Management and Accountability Act 1997*; and
- stock and securities on issue as at the start of 13 July 2008, other than Treasury Fixed Coupon Bonds.

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. There are currently 20 Treasury Bond lines on issue, with a weighted average term to maturity of around 5.8 years and the longest maturity extending to April 2033.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 8 May 2014 $m	Timing of interest payments(a)		
6.25	15-Jun-14	13,299	Twice yearly	15 Jun	15 Dec
4.50	21-Oct-14	12,000	Twice yearly	21 Oct	21 Apr
6.25	15-Apr-15	14,798	Twice yearly	15 Apr	15 Oct
4.75	21-Oct-15	13,900	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	17,200	Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	19,900	Twice yearly	21 Jan	21 Jul
3.25	21-Oct-18	5,500	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	19,647	Twice yearly	15 Mar	15 Sep
4.50	15-Apr-20	19,197	Twice yearly	15 Apr	15 Oct
5.75	15-May-21	20,999	Twice yearly	15 May	15 Nov
5.75	15-Jul-22	17,500	Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	20,600	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	13,900	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	11,200	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	7,700	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	11,700	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-29	6,500	Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	6,600	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 currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. There are currently 7 TIB lines on issue, with a weighted average term to maturity of around 9.6 years and the longest maturity extending to August 2035.

Table 7: Treasury Indexed Bonds (TIBs) on issue

Coupon Per cent	Maturity	On issue as at 8 May 2014 $m	Timing of interest payments(a)				
4.00	20-Aug-15	1,157	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.00	21-Nov-18	2,539	Quarterly	21 Nov	21 Feb	21 May	21 Aug
4.00	20-Aug-20	4,973	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	3,400	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	5,450	Quarterly	20 Sep	20 Dec	20 Mar	20 June
2.50	20-Sep-30	3,150	Quarterly	20 Sep	20 Dec	20 Mar	20 June
2.00	21-Aug-35	2,400	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 8 May 2014 was $1 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 8 May 2014 ($m)	Timing of interest payment	
8-Aug-14	500	At maturity	8 Aug
24-Oct-14	500	At maturity	24 Oct

Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

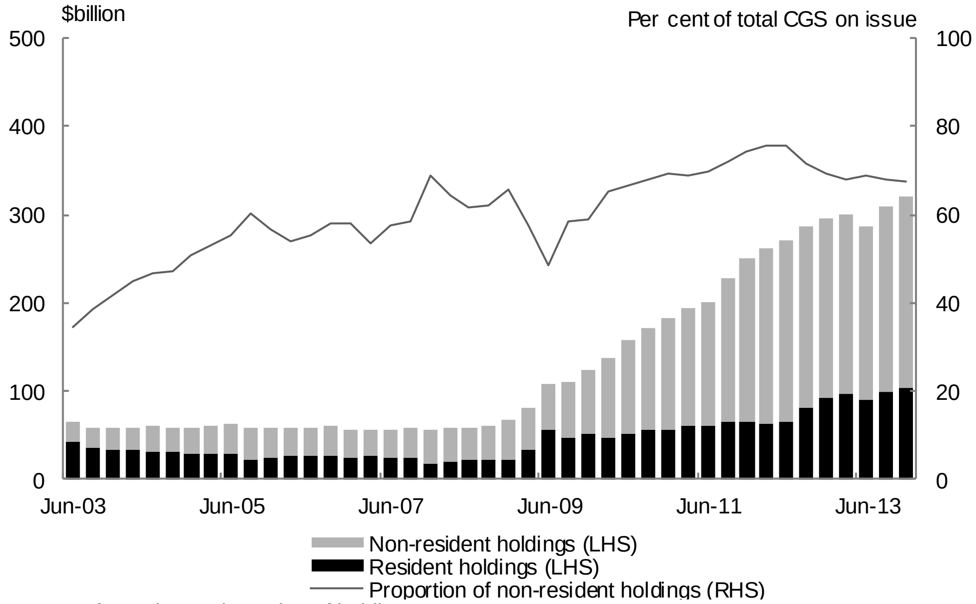
The sale of CGS is not restricted to Australian residents. As at the December quarter 2013, 67.5 per cent of total CGS on issue were held by non-residents of Australia (Chart 2).

The proportion of CGS held by non-residents remains around historically high levels, having risen significantly since 2009. This is likely to have been driven by the build-up of foreign currency reserves in some countries, and the increasing tendency for these 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. This is also contributing to demand for the Australian dollar.

The confidence in the Australian sovereign debt market and the overall subdued global growth outlook has likely contributed to the favourable yields for Australian sovereign debt.

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.

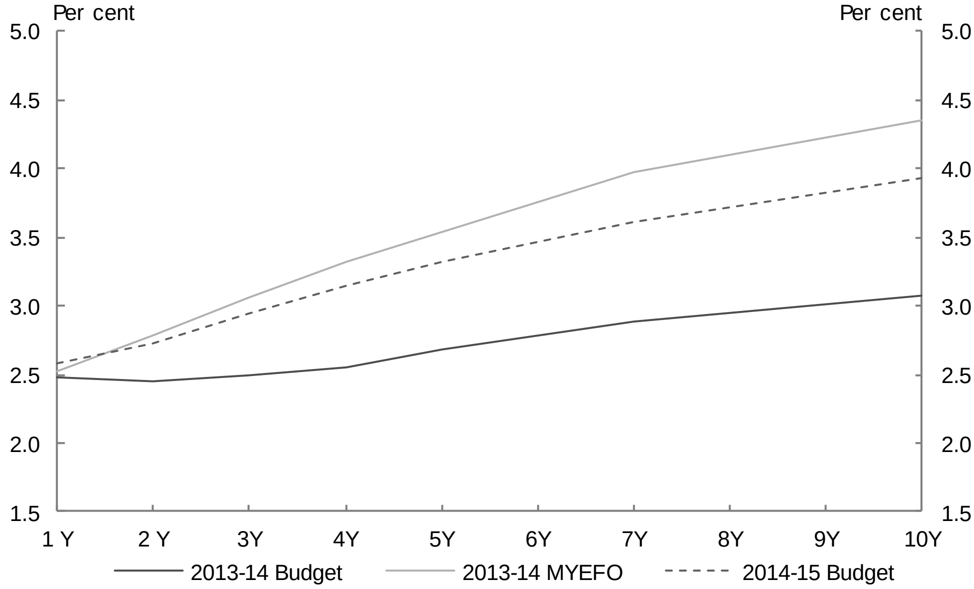
Estimates of the interest payments and expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- 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 2014-15 Budget result in a weighted average cost of borrowing of around 3.7 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 3.9 per cent at the 2013-14 MYEFO. Chart 3 shows the yield curve assumptions underpinning the 2013-14 Budget, 2013-14 MYEFO and 2014-15 Budget.

Chart 3: Yield curve assumptions from 2013-14 to 2017-18



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 2014-15 are estimated to be $14.2 billion, of which $13.5 billion relates to CGS on issue (Table 9).

Table 9: Interest payments

	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Interest payments on CGS	13,235	13,515	14,786	15,535	16,352
Per cent of GDP	0.8	0.8	0.9	0.9	0.9
Total interest payments	13,935	14,174	15,442	16,188	17,011
Per cent of GDP	0.9	0.9	0.9	0.9	0.9

The Government's interest expenses in 2014-15 are estimated to be $15.6 billion, of which $14.7 billion relates to CGS on issue. In the 2013-14 MYEFO, interest expenses in 2014-15 were estimated to be $16.4 billion, of which $15.0 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

	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Interest expense	14,396	15,551	17,072	18,327	19,011
Per cent of GDP	0.9	1.0	1.0	1.0	1.0
Interest expense on CGS	*13,429*	*14,707*	*16,133*	*17,156*	*17,875*
Interest income	3,445	4,229	4,731	5,128	5,565
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest expense	10,952	11,322	12,341	13,199	13,446
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

Climate spending

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

Table 11: Climate spending from 2013-14 to 2017-18

	2013-14	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b	$b
Climate spending(a)	5.75	1.25	0.75	0.60	0.50

(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 will provide incentives to support abatement activities across the economy;
- funding for the Department of Industry to support Australian Renewable Energy Agency legacy functions;
- the free permit buyback facility provided as part of the Jobs and Competitiveness Programme and the Energy Security Fund, noting these programmes will be abolished from 2014-15; and
- previously committed expenditure from the Biodiversity Fund and the Clean Technology Programmes, noting these programmes will no longer be eligible for new applications beyond 2013-14.

The slight increase in climate spending in 2013-14 is primarily due to additional investment by the Clean Energy Finance Corporation since MYEFO.

Impact of climate spending on debt

Receipts and debt are not specifically allocated to particular spending programmes. In this context, there are multiple approaches that could be taken to consider the extent to which spending on climate change has contributed to debt.

One approach is to assume 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. Table 12 shows the impact of climate change spending on debt using this approach.

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

	2013-14	2014-15	2015-16	2016-17	2017-18
Climate spending ($b)	5.75	1.25	0.75	0.60	0.50
Total spending ($b)	417.2	419.3	437.0	459.5	479.4
Climate spending (per cent of total spending)	1.4	0.3	0.2	0.1	0.1
Change in face value of CGS from previous year ($b)	63	40	30	40	20
Contribution to change in face value of CGS from climate spending ($b)	0.86	0.12	0.05	0.05	0.02

(a) The calculation of 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) Calculations of the change in the face value of CGS on issue use data from 2013-14 onwards rounded to the nearest $10 billion and are total CGS on issue.

Recurrent and capital spending

In the 2013-14 MYEFO, the Government made a commitment to enhance disclosure in the 2014-15 Budget on the proportion of the budget[2] allocated to recurrent and capital spending.

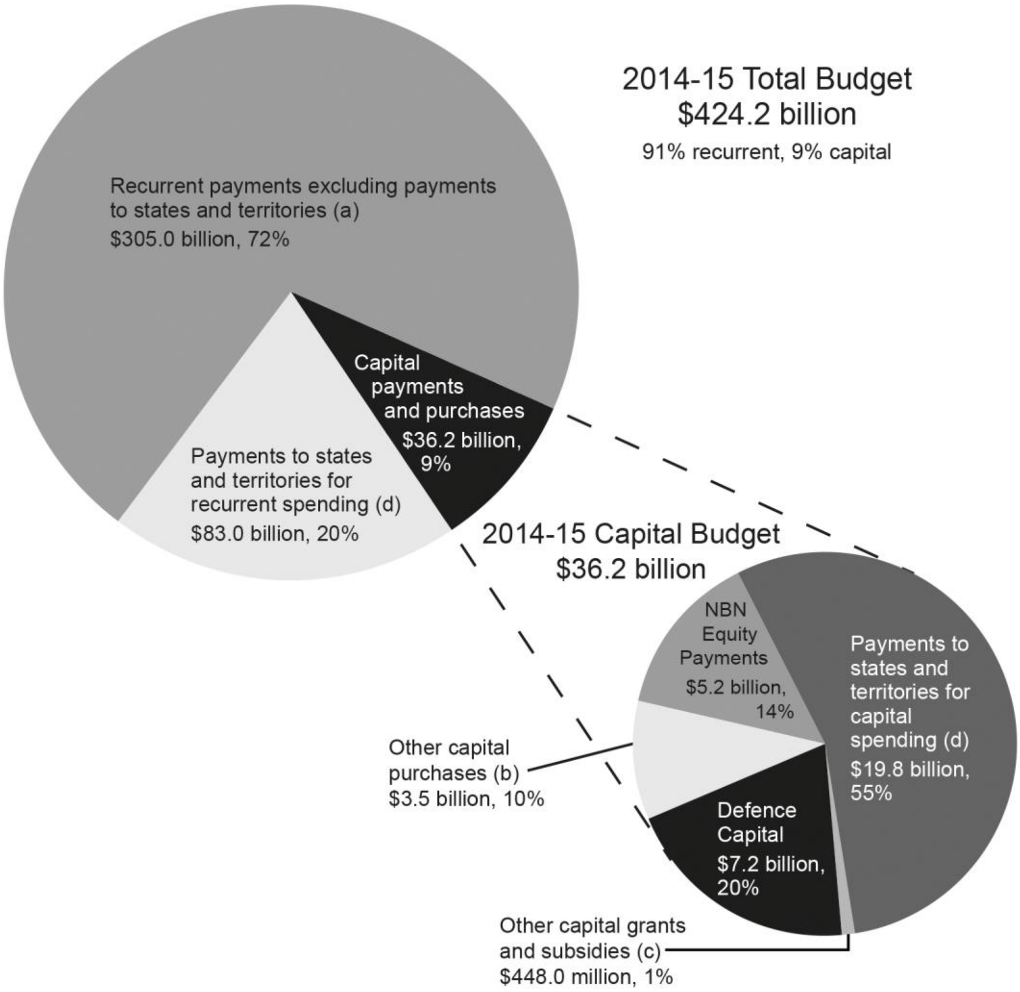
The **recurrent budget** includes pension and income support payments, funding in the areas of health and education (except where funding is allocated to the building of facilities), interest payments on public debt, student loans, and operating costs of the Government including payments to employees.

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 2014-15 year.

2 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 2014-15



(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) Capital grants and subsidies include payments to recipients other than those within the general government, for example local governments.
(d) 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 per cent of total budget spending estimates in 2014-15 is recurrent, and the remaining 9 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.[3] 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 $36.2 billion of the capital budget, around $19.8 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 14 per cent of the capital budget and purchases of defence capital (for example, defence weapons and aircraft) comprises around 20 per cent. Other capital purchases such as software facilities upgrades make up around 10 per cent of the capital budget, with the remaining 1 per cent funding capital loans, grants and subsidies to recipients other than States and Territories.

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 in this budget have been enhanced to encourage discussion and debate beyond the short term about the benefits of funding important investments such as infrastructure.

Building on the presentation of the medium term in the 2013 Pre-Election Economic and Fiscal Outlook, *Budget Statement 3: Fiscal Strategy and Outlook* includes different scenarios of the medium term outlook, for the underlying cash balance, total payments, total receipts and CGS on issue.

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

The Government is investing $50 billion in infrastructure spending over the next 6 years, with this spending included in the forward estimates and medium term projections. The Government's infrastructure spending will also catalyse State and private sector infrastructure investment, bringing total infrastructure spending to over $125 billion.

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3 The proportions of general revenue assistance which fund recurrent and capital spending has been estimated based on past data. Specific purpose payments are split into recurrent and capital in accordance with Government Finance Statistics.

The medium term fiscal projections in this budget include the expenditure on infrastructure by the Commonwealth, but do not take into account the economic benefits of this infrastructure.

When the over $125 billion of additional infrastructure projects catalysed by the Government are completed, they will add one percentage point to the level of GDP.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be around $393.0 billion at 30 June 2014, increasing to $414.6 billion in 2014-15 and $506.1 billion by the end of the forward estimates.

The Government's financial assets are estimated to be $279.8 billion at 30 June 2014, increasing to $297.4 billion in 2014-15 and $380.8 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $113.2 billion at 30 June 2014, increasing to $117.2 billion in 2014-15 and $125.3 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, given the extent of uncertainty and volatility in financial markets over the past five years. Since the first contribution to the Future Fund on 5 May 2006, the return has been 6.8 per cent per annum.

At 31 March 2014, the Future Fund's return for the financial year to date was 9.8 per cent.

The Future Fund was valued at $97.6 billion at 31 March 2014**.**

The Future Fund's portfolio has now been substantially invested but will continue to evolve as the Board manages the portfolio in line with its mandate and strategy. Table 13 shows changes in the asset allocation of the Future Fund over 2013-14.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2013	31 March 2014
	$m	$m
Australian equities	8,596	9,972
Global equities	27,473	31,574
Private equity	6,450	7,777
Property	5,354	5,140
Infrastructure	7,231	7,692
Debt securities	13,869	11,532
Alternative assets	14,764	13,295
Cash	5,152	10,592
Total Future Fund assets	88,889	97,573

Asset Recycling Fund

The Asset Recycling Fund (ARF) to be established on 1 July 2014 will provide 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 $5.9 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 and other privatisations.

Drawdowns from the ARF 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.

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.

The BAF and the EIF will be subsequently abolished on 1 January 2015. 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 January 2015 to provide additional funding for medical research from 2015-16, primarily through payments to the National Health and Medical Research Council.

Contributions to the MRFF will come from $1 billion uncommitted funds within the Health and Hospitals Fund (HHF), and the amounts equal to the estimated value of health function savings measures published in the 2014-15 Budget until the Fund reaches a target capital level of $20 billion. That is, every dollar of savings in health in this budget will be given to the MRFF for the next six years, until the MRFF reaches $20 billion.

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. 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 January 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) will be established by 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.

Revenue raised from increasing the Medicare levy by half a percentage point from 1.5 to 2 per cent will be placed into the DCAF from 1 July 2014. The investments of the DCAF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an Investment Mandate for the DCAF which will provide guidance to the Board in relation to its investment strategy for the Fund. The Investment Mandate will outline the benchmark return and the risk profile of the DCAF.

A fixed amount of the money flowing into the DCAF each year will be set aside for the State and Territory governments consistent with the *DisabilityCare Australia Fund Act 2013*. In 2014-15, this fixed amount will be $825 million. Thereafter, the amount to be set aside for the States and Territories in the DCAF will be indexed annually by 3.5 per cent over 10 years.

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

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

Conditions in the Australian securitisation market have improved substantially since the introduction of the AOFM programme. Since September 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 former Government announced on 10 April 2013 that the program would close for new investment.

Conditions have continued to improve since then. More than $25 billion of new RMBS was issued in 2013, the highest in any calendar year since the crisis. Consistent with the ongoing market recovery and increased demand for RMBS, the AOFM has sold close to $850 million (in amortised face value terms) of its holdings over the past 12 months. As at the end of April 2014, the AOFM held $6.7 billion (in amortised face value terms) of RMBS. The amortised face value of RMBS held by the AOFM is projected to be $1.6 billion by the end of 2017-18.

The AOFM and the Treasury will continue to monitor conditions in the RMBS market closely.

National Broadband Network

The Government is changing the National Broadband Network (NBN) to ensure it will be delivered faster and at lower cost to the community. The Government has instructed NBN Co Limited to continue to progress the fibre-to-the-premises, fixed wireless and satellite rollouts while it undertakes a series of reviews to assess current progress and ultimately re-design the rollout of the NBN to Australian communities.

The Government has adopted the recommendation of its Strategic Review to pursue a multi-technology mix rollout for the NBN. This approach incorporates fibre-to-the-premises, fibre-to-the-node, hybrid-fibre coaxial cable, fixed wireless and satellite technologies in the rollout mix.

The Government is also in the process of re-negotiating the Definitive Agreements with Telstra and Optus. These agreements secure access to existing fixed-line infrastructure. Their revision will reflect the Government's changes to the NBN.

Reflecting these changes, NBN Co's equity requirements have been revised. Equity from the Government in 2013-14 has reduced from $3.5 billion to $3.4 billion. Over the life of the project, the Government's equity contribution to NBN Co will be capped at $29.5 billion.

Higher Education Loan Program

The Higher Education Loan Program (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 value of HELP is estimated to be around $25.2 billion at 30 June 2014, which is $0.3 billion lower than projected in the 2013-14 MYEFO. The value of HELP is projected to grow to $43.6 billion in 2016-17, which is around $2.1 billion higher than estimated in the 2013-14 MYEFO, and to reach $51.4 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, and the reduction in subsidies for Commonwealth supported places.

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 Australian 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 $579.4 billion at 30 June 2014, increasing to $626.6 billion in 2014-15 and $733.4 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. As set out in Box 1, the Government's superannuation liability is estimated to be around $157 billion at 30 June 2014 and $243 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 major defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation and Benefits Scheme (MSBS). The DFRDB was closed to new entrants in 1991.

The Government has decided to close the MSBS from 1 July 2016 (see Box 1).

The Government has also decided to enhance the indexation of Defence Forces Retirement and Benefits (DFRB) Scheme and DFRDB benefit payments from 1 July 2014 for superannuants aged 55 and over. This has increased the unfunded liability by $5.1 billion at 1 July 2014.

Even though the civilian and military schemes will all be closed 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 $181 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

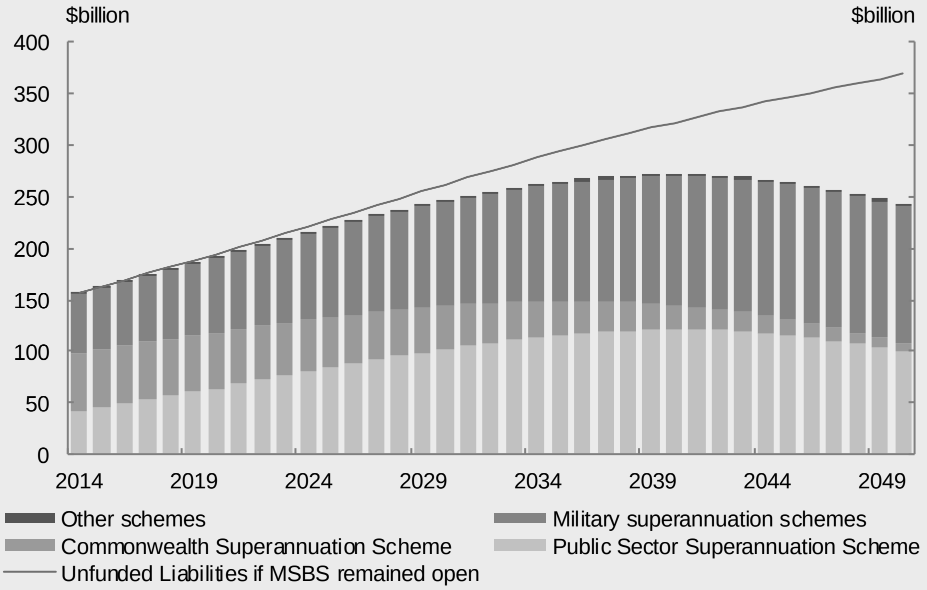
Changes in member behaviour, including members increasing their member contributions and increasingly taking more of their benefit as a pension rather than as a lump sum, have also increased the liability in 2013-14 by around $3 billion compared to previous projections.

Box 1: Policy changes to military superannuation arrangements

The Government's decision to close the MSBS to new military personnel from 1 July 2016 will reduce the Government's unfunded liability by $126 billion by 2050.

Chart 5 below shows, without the policy change, the Government's projected unfunded superannuation liability would be $369 billion by 2050. As a result of the decision to close the MSBS, the Government's unfunded superannuation liability is projected to be $243 billion by 2050.

Chart 5: Decrease in projected defined benefit superannuation liabilities as a result of the closure of the MSBS



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 Note 1 in *Statement 9: Australian Government Budget Financial Statements*).