

# STATEMENT 7: DEBT STATEMENT, ASSETS AND LIABILITIES

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

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# STATEMENT 7: DEBT STATEMENT, ASSETS AND LIABILITIES

## OVERVIEW

This statement provides information on current and projected Government net debt. Net debt is expected to be \$354.9 billion (19.5 per cent of GDP) in 2017-18. Net debt is projected to peak at 19.8 per cent of GDP in 2018-19, before declining over the medium term to a projected 8.5 per cent of GDP (\$255.8 billion) in 2027-28.

The end-of-year face value of Commonwealth Government Securities (CGS) on issue subject to the Treasurer's Direction is expected to be around \$537 billion in 2017-18 and is expected to increase to \$606 billion in 2020-21. By the end of the medium term (2027-28), the total face value of CGS on issue is projected to rise to \$725.0 billion.

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 \$533.2 billion in 2017-18 and increase to \$619.2 billion by the end of the forward estimates. Total liabilities are estimated to be around \$851.3 billion in 2017-18 and increase to \$930.6 billion by the end of the forward estimates.

## DEBT STATEMENT

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

### Commonwealth Government Securities issuance

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

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

**Treasury Bonds:** medium- 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

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

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.

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

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

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

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

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

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

## Estimates and projections of key debt aggregates

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

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

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

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

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

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

## Estimates and projections of net debt

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

In 2017-18, net debt is expected to be \$354.9 billion. Over the forward estimates, net debt is projected to peak at 19.8 per cent of GDP in 2018-19. Over the medium term, net debt is projected to decline to 8.5 per cent of GDP (\$255.8 billion) in 2027-28.

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

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**Table 1: Liabilities and assets included in net debt from 2016-17 to 2020-21**

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
<b>Liabilities included in net debt</b>					
Deposits held	217	217	217	217	217
Government securities	546,915	584,562	624,701	646,987	641,691
Loans	15,685	15,065	14,955	15,066	15,216
Other borrowing	1,609	1,569	1,527	1,482	1,435
<b>Total liabilities included in net debt</b>	<b>564,426</b>	<b>601,414</b>	<b>641,399</b>	<b>663,752</b>	<b>658,559</b>
<b>Assets included in net debt</b>					
Cash and deposits	3,408	3,411	3,452	3,991	4,179
Advances paid	54,073	72,083	88,567	101,390	93,622
Investments, loans and placements	181,854	170,989	174,267	183,656	194,589
<b>Total assets included in net debt</b>	<b>239,335</b>	<b>246,483</b>	<b>266,287</b>	<b>289,037</b>	<b>292,390</b>
<b>Net debt</b>	<b>325,091</b>	<b>354,931</b>	<b>375,112</b>	<b>374,715</b>	<b>366,169</b>

**Changes in net debt since the 2016-17 MYEFO**

Table 2 shows the drivers of change in net debt between the 2016-17 MYEFO and the 2017-18 Budget.

Net debt is estimated to increase across the forward estimates compared with the 2016-17 MYEFO. This is partly due to an increase in the market value of CGS owing to lower average yields. The increase is also partly a result of the updated ABS cat. no. 5514.0 *Government Finance Statistics: Concepts, Sources and Methods* classification change of Australia's International Development Association and Asian Development Fund subscriptions from 'advances paid' to 'equity investments' within the general government sector balance sheet. This has resulted in an increase in net debt of approximately \$8 billion.

The classification change impacting net debt has no impact on the Government's net financial worth as Australia's International Development Association and Asian Development Fund subscriptions continue to contribute towards this measure.

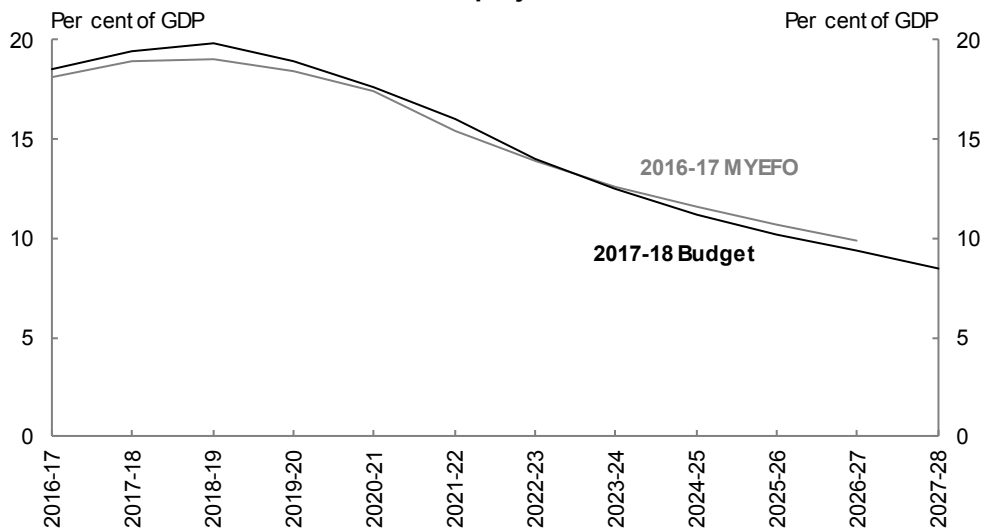
**Table 2: Net debt — reconciliation from the 2016-17 MYEFO to the 2017-18 Budget**

	2016-17 \$b	2017-18 \$b	2018-19 \$b	2019-20 \$b
<b>Net debt as at 2016-17 MYEFO (\$b)</b>	<b>317.2</b>	<b>343.0</b>	<b>359.0</b>	<b>363.8</b>
Changes in financing requirement	1.9	-3.9	1.6	-0.2
Impact of yields on CGS	4.8	5.1	4.9	4.7
Asset and other liability movements	1.2	10.8	9.6	6.4
<i>Cash and deposits</i>	-0.5	-0.4	0.2	0.0
<i>Advances paid(a)</i>	5.9	6.0	4.0	2.0
<i>Investments, loans and placements</i>	-4.5	5.1	5.3	4.2
<i>Other movements</i>	0.2	0.1	0.0	0.2
<b>Total movements in net debt from 2016-17 MYEFO to 2017-18 Budget</b>	<b>7.9</b>	<b>11.9</b>	<b>16.1</b>	<b>10.9</b>
<b>Net debt as at 2017-18 Budget (\$b)</b>	<b>325.1</b>	<b>354.9</b>	<b>375.1</b>	<b>374.7</b>

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

Net debt is projected to decline over the medium term to 8.5 per cent of GDP (\$255.8 billion) in 2027-28 (Chart 1). Net debt is projected to be 9.4 per cent of GDP (\$265.9 billion) in 2026-27, lower than projected net debt of 9.9 per cent of GDP in 2026-27 at the 2016-17 MYEFO.

**Chart 1: Net debt projected to 2027-28**



### Estimates and projections of CGS on issue

Table 3 contains projections of the face value (end-of-year and within-year peak)<sup>2</sup> 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.<sup>3</sup> As required by the *Charter of Budget Honesty Act 1998*, Table 3 reports projections of CGS on issue subject to the Treasurer's Direction.

When considering these projections, it is important to note that the AOFM publishes an issuance 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.

**Table 3: Estimates and projections of Commonwealth Government Securities on issue subject to the Treasurer's Direction<sup>(a)</sup>**

	2017-18	2018-19	2019-20	2020-21
	\$b	\$b	\$b	\$b
Face value - end of year	537	579	603	606
Per cent of GDP	29.5	30.6	30.5	29.2
Face value - within-year peak(b)	537	579	616	649
Per cent of GDP(b)	29.5	30.6	31.1	31.2
<i>Month of peak(b)</i>	<i>Jun-18</i>	<i>Jun-19</i>	<i>Apr-20</i>	<i>May-21</i>
Market value - end of year(c)	580	620	643	642
Per cent of GDP	31.8	32.8	32.5	30.9

(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.

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

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



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In 2017-18, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be around \$537 billion, compared to \$539 billion at the 2016-17 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 \$606 billion in 2020-21.

In 2017-18, the face value of CGS on issue is expected to reach a within-year peak of around \$537 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of around \$649 billion in 2020-21.

**Changes in CGS on issue since the 2016-17 MYEFO**

Table 4 shows the change in the projected end of year face value of CGS on issue between the 2016-17 MYEFO and the 2017-18 Budget.

**Table 4: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2016-17 MYEFO to the 2017-18 Budget**

	2016-17 \$b	2017-18 \$b	2018-19 \$b	2019-20 \$b
<b>Total face value of CGS on issue subject to the Treasurer's Direction as at 2016-17 MYEFO</b>	496	539	576	601
<b>Factors affecting the change in face value of CGS on issue from 2016-17 MYEFO to 2017-18 Budget(a)</b>				
Cumulative receipts decisions	-0.1	-2.0	-5.3	-12.3
Cumulative receipts variations	1.7	1.3	2.8	3.0
Cumulative payment decisions	1.5	5.7	10.3	14.2
Cumulative payment variations	-2.0	-3.0	-4.0	-8.5
Cumulative change in net investments in financial assets(b)	0.5	-5.2	-0.4	5.0
Other contributors	1.2	1.5	0.2	0.5
<b>Total face value of CGS on issue subject to the Treasurer's Direction as at 2017-18 Budget</b>	499	537	579	603

(a) Cumulative impact of decisions and variations from 2016-17 to 2019-20. Increases to payments are shown as positive, and increases to receipts are shown as negative.

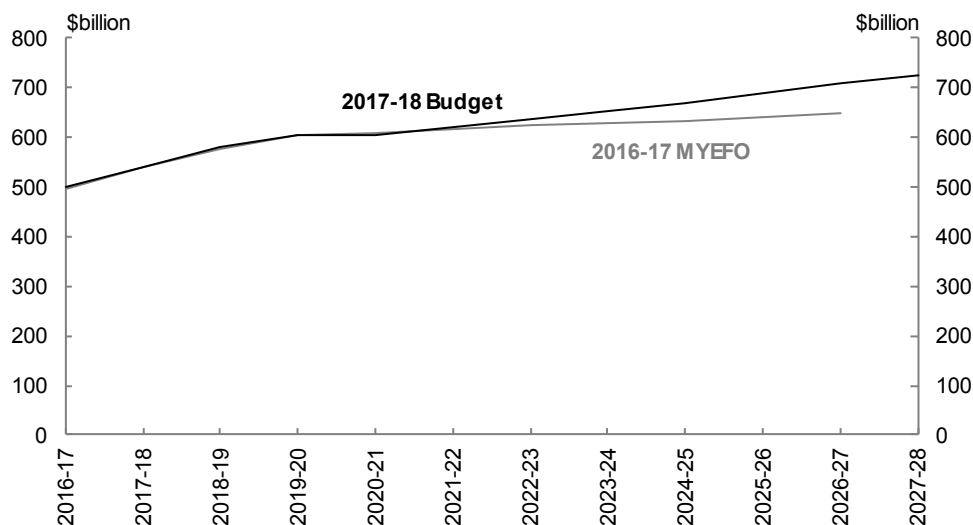
(b) Change in net cash flows from investments in financial assets for policy and liquidity purposes.

Note: End of year data.

The total face value of CGS on issue is projected to rise to \$725.0 billion by 2027-28. The face value of CGS on issue is projected to reach \$708.8 billion by 2026-27, around \$60.8 billion more than the \$648.0 billion projected at the 2016-17 MYEFO (Chart 2). This reflects an assumption of continuing to build the assets of the Future Fund.

Further details on the changes to the underlying cash balance since the 2016-17 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

**Chart 2: Face value of CGS on issue projected to 2027-28**



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2022-23.  
Source: Australian Office of Financial Management and Treasury projections.

### Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 4 May 2017.

**Table 5: Breakdown of current Commonwealth Government Securities on issue**

	On issue as at 4 May 2017	
	Face value	Market value
	\$m	\$m
Treasury Bonds (a)	453,244	487,544
Treasury Indexed Bonds (a)	30,366	39,646
Treasury Notes (a)	3,500	3,490
<b>Total CGS subject to Treasurer's Direction(a)(b)</b>	<b>487,110</b>	<b>530,680</b>
Other stock and securities	2,470	4,643
<b>Total CGS on issue</b>	<b>489,579</b>	<b>535,323</b>

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

(b) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.

Source: Australian Office of Financial Management.

### Treasury Bonds

Table 6 lists Treasury Bonds currently on issue, as well as the associated annual interest rate (the coupon) and the timing of coupon payments. As at 4 May 2017, there were 24 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.3 years and the longest maturity extending to March 2047.

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

**Table 6: Treasury Bonds on issue**

Coupon Per cent	Maturity	On issue as at 4 May 2017		Timing of interest payments(a)		
		\$m				
4.25	21-Jul-17	13,866		Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	17,448		Twice yearly	21 Jan	21 Jul
3.25	21-Oct-18	16,452		Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	21,633		Twice yearly	15 Mar	15 Sep
2.75	21-Oct-19	24,400		Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	26,797		Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	24,500		Twice yearly	21 Nov	21 May
5.75	15-May-21	29,299		Twice yearly	15 May	15 Nov
2.00	21-Dec-21	10,500		Twice yearly	21 Dec	21 Jun
5.75	15-Jul-22	24,100		Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	24,100		Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	25,500		Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	27,900		Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	32,400		Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	28,500		Twice yearly	21 Apr	21 Oct
2.75	21-Nov-27	21,500		Twice yearly	21 Nov	21 May
2.25	21-May-28	16,000		Twice yearly	21 May	21 Nov
2.75	21-Nov-28	12,400		Twice yearly	21 Nov	21 May
3.25	21-Apr-29	15,300		Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	12,100		Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	6,550		Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	9,900		Twice yearly	21 Apr	21 Oct
3.25	21-Jun-39	4,000		Twice yearly	21 Jun	21 Dec
3.00	21-Mar-47	8,100		Twice yearly	21 Mar	21 Sep

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.

Source: Australian Office of Financial Management.

### Treasury Indexed Bonds

Table 7 lists Treasury Indexed Bonds (TIBs) currently on issue, as well as the associated annual interest rate (the coupon) and the timing of coupon payments. As at 4 May 2017, there were 7 TIB lines on issue, with a weighted average term to maturity of around 8.9 years and the longest maturity extending to August 2040.

**Table 7: Treasury Indexed Bonds on issue**

Coupon Per cent	Maturity	On issue as at 4 May 2017		Timing of interest payments(a)				
		\$m						
1.00	21-Nov-18	5,089	Quarterly	21 Nov	21 Feb	21 May	21 Aug	
4.00	20-Aug-20	5,114	Quarterly	20 Aug	20 Nov	20 Feb	20 May	
1.25	21-Feb-22	5,540	Quarterly	21 Feb	21 May	21 Aug	21 Nov	
3.00	20-Sep-25	7,193	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun	
2.50	20-Sep-30	3,743	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun	
2.00	21-Aug-35	3,500	Quarterly	21 Aug	21 Nov	21 Feb	21 May	
1.25	21-Aug-40	2,650	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 4 May 2017 was \$3.5 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 4 May 2017 \$m		Timing of interest payment	
23-Jun-17	2,000		At maturity	23 Jun
25-Aug-17	1,500		At maturity	25 Aug

Source: Australian Office of Financial Management.

### Non-resident holdings of CGS on issue

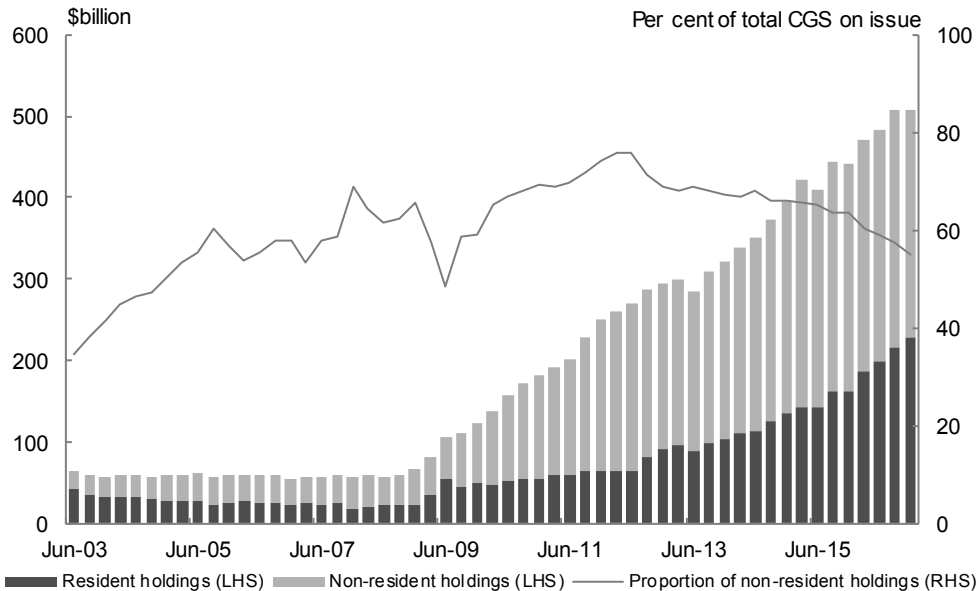
As at the December quarter 2016, non-residents of Australia held 55 per cent of total CGS on issue (Chart 3).

The proportion of CGS held by non-residents declined from a peak of around 76 per cent in 2012. This appears to have been driven by the net result of a significantly reduced rate at which central banks have been introducing Australian dollars to their reserve portfolios (as many have already done this); a reduction in asset balances for some official reserve managers; and increasing interest in CGS from domestic investors, including Authorised Deposit-taking Institutions and fund managers in particular.

Although the proportion of the CGS market held by non-residents has fallen, the *volume* held by these investors has continued to increase in recent years. Investment in CGS by non-resident investors reflects confidence in the Australian sovereign debt market, owing to the relative strength of Australia's public finances, its governance and institutional arrangements, and the Australian economy more broadly. That the Australian dollar is easily traded on global markets is also a factor that has facilitated non-resident investment activity in the CGS market.

CGS yields remain relatively attractive against a backdrop of low government bond yields globally. This has contributed to emerging demand for longer-term CGS and, in turn, a decline in yields to historically low levels over recent years.

**Chart 3: 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.

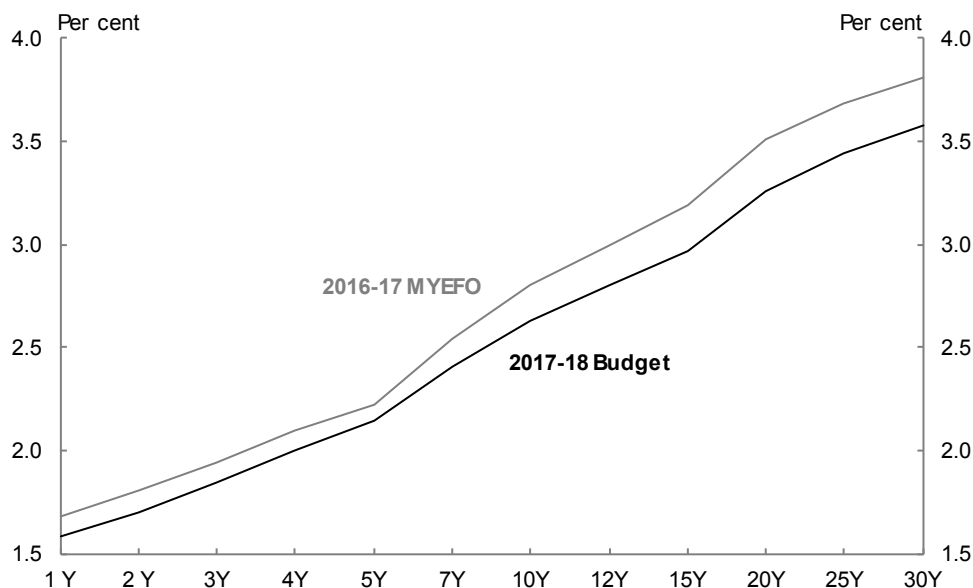
Estimates of the interest payments and expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- 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.

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The assumed market yields for the 2017-18 Budget result in a weighted average cost of borrowing of around 2.6 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.7 per cent at the 2016-17 MYEFO. Chart 4 shows the yield curve assumptions underpinning the 2016-17 MYEFO and 2017-18 Budget.

**Chart 4: Yield curve assumptions from 2016-17 to 2020-21**



Source: Australian Office of Financial Management.

The Government's interest payments and expense over the forward estimates mostly relate to the cost of servicing the stock of CGS on issue, 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 2017-18 are estimated to be \$16.6 billion, of which \$16.3 billion relates to CGS on issue (Table 9).

**Table 9: Interest payments, interest receipts and net interest payments<sup>(a)</sup>**

	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Interest payments on CGS	14,945	16,263	17,227	17,824	20,055
Per cent of GDP	0.9	0.9	0.9	0.9	1.0
Interest payments	15,251	16,589	17,562	18,163	20,404
Per cent of GDP	0.9	0.9	0.9	0.9	1.0
Interest receipts	3,003	3,233	3,840	4,442	4,898
Per cent of GDP	0.2	0.2	0.2	0.2	0.2
Net interest payments <sup>(b)</sup>	12,248	13,355	13,722	13,721	15,506
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

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

(b) Net interest payments are equal to the difference between interest payments and interest receipts

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The Government's interest expense in 2017-18 is estimated to be \$18.5 billion, of which \$17.1 billion relates to CGS on issue. In the 2016-17 MYEFO, interest expense in 2017-18 was estimated to be \$18.9 billion, of which \$17.2 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<sup>(a)</sup>**

	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Interest expense on CGS	15,978	17,130	18,067	18,678	18,737
Per cent of GDP	0.9	0.9	1.0	0.9	0.9
Interest expense	17,582	18,544	19,797	20,799	20,445
Per cent of GDP	1.0	1.0	1.0	1.1	1.0
Interest income	3,753	4,397	5,470	6,645	7,685
Per cent of GDP	0.2	0.2	0.3	0.3	0.4
Net interest expense	13,828	14,148	14,327	14,153	12,760
Per cent of GDP	0.8	0.8	0.8	0.7	0.6

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.

### Climate spending

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

**Table 11: Climate spending from 2016-17 to 2020-21**

	2016-17	2017-18	2018-19	2019-20	2020-21
	\$b	\$b	\$b	\$b	\$b
Climate spending(a)	2.00	1.60	1.35	1.50	1.20

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

The key components of climate spending are:

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

The above figures incorporate the Government's decision to make available up to \$110.0 million for an equity investment, if required, to accelerate and secure delivery of a solar thermal project in Port Augusta, South Australia.

### Impact of climate spending on debt

Climate spending 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**

	2016-17	2017-18	2018-19	2019-20	2020-21
Climate spending (\$b) (a)	2.00	1.60	1.35	1.50	1.20
Total Spending (\$b) (b)	457	482	500	512	515
Climate spending (per cent of total spending)	0.4	0.3	0.3	0.3	0.2
Change in face value of CGS from previous year (\$b) (c)	80.6	38.9	41.8	24.0	0.1
Contribution to change in face value of CGS from climate spending (\$b)	0.35	0.13	0.11	0.07	0.00

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

(b) The calculation of total spending in this table is on a headline cash balance basis; that is, total payments and net cash flows from investments in financial assets for policy purposes.

(c) Calculations of the change in the face value of CGS are calculated using total CGS on issue.

## THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

### Assets

The Government's total stock of assets is estimated to be around \$517.5 billion at 30 June 2017, increasing to \$533.2 billion in 2017-18 and \$619.2 billion by the end of the forward estimates.

The Government's financial assets are estimated to be around \$381.0 billion at 30 June 2017, increasing to \$393.5 billion in 2017-18 and \$465.4 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be around \$136.5 billion at 30 June 2017, increasing to \$139.7 billion in 2017-18 and \$153.8 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 Government sets an Investment Mandate which gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Future Fund. The Investment Mandate also requires the Board to take an acceptable but not excessive level of risk for the Future Fund, measured in terms such as the probability of losses in a particular year.



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The portfolio of assets has performed well. Since the first contribution to the Future Fund on 5 May 2006, the average return has been 7.7 per cent per annum.

At 31 March 2017, the Future Fund's return for the financial year to date was 5.6 per cent against the existing benchmark of 5.1 per cent. The Future Fund was valued at \$129.6 billion at 31 March 2017.

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 2016.

**Table 13: Asset allocation of the Future Fund**

Asset class	30 June 2016 \$m	31 March 2017 \$m
Australian equities	7,697	8,419
Global equities		
<i>Developed markets</i>	18,712	19,655
<i>Emerging markets</i>	8,960	9,521
Private equity	12,798	13,714
Property	8,559	7,768
Infrastructure and Timberland	8,243	9,907
Debt securities	14,275	14,624
Alternative assets	16,849	19,560
Cash	26,700	26,475
<b>Total Future Fund assets</b>	<b>122,792</b>	<b>129,644</b>

Note: Figures may not sum due to rounding.

**Medical Research Future Fund**

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

**Table 14: Government contributions to the MRFF**

Date	Source(s)	Amount \$m
22 September 2015	Uncommitted balance of the Health and Hospitals Fund (HHF)	1,010
1 December 2015	Savings from the Health portfolio and residual balance of the HHF	2,139
2 August 2016	Savings from the Health portfolio and residual balance of the HHF	1,277
	<b>Total</b>	<b>4,427</b>

Note: Figures may not sum due to rounding

The first credit to the MRFF of \$1.010 billion, which represented the uncommitted balance of the Health and Hospitals Fund (HHF), occurred on 22 September 2015. The second credit of \$2.139 billion, comprising savings from the Health portfolio, and residual amounts from the HHF, was transferred to the MRFF on 1 December 2015. The third credit of \$1.277 billion was made on 2 August 2016 and comprised savings from the Health portfolio and residual amounts from the HHF.

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

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

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

At 31 March 2017, the MRFF's return for the financial year to date was 3.6 per cent against the benchmark of 2.3 per cent. The MRFF was valued at \$4.6 billion at 31 March 2017.

**DisabilityCare Australia Fund**

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

The DCAF is funded by revenue raised from the increase in the Medicare levy of half a percentage point to 2 per cent that was implemented on 1 July 2014. As at 31 March 2017 the DCAF has received credits totalling \$5.9 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.

At 31 March 2017, the DCAF's return for the financial year to date was 2.7 per cent against the benchmark of 2.2 per cent. The DCAF was valued at \$6.2 billion at 31 March 2017.

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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 2017-18, this fixed amount is \$915 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**

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

In May 2015 the Government directed the AOFM to progressively sell down the Commonwealth's holdings of RMBS through a regular competitive auction process, subject to market conditions. Monthly auctions were conducted from June 2015 to October 2015, resulting in total sales of \$458 million in amortised face value terms. As at the end of April 2017, the Government's RMBS portfolio was valued at \$2.1 billion in amortised face value terms.

To achieve value for money for the Commonwealth, the Treasurer's direction gave the AOFM the discretion to not proceed with a sale where an acceptable price could not be achieved. Consistent with this, and against a background of heightened global volatility, no auctions have occurred since October 2015. The AOFM has advised that RMBS auctions will continue to be suspended until further notice. In the absence of any further sales, the amortised face value outstanding of the RMBS portfolio is expected to be less than \$100 million by around the end of 2020.

**National Broadband Network**

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

The Government will provide \$1.5 billion in equity to nbn in 2017-18, moved from 2016-17. The Government's equity contributions are capped at \$29.5 billion.

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The Government has agreed to provide a loan of up to \$19.5 billion to nbn on commercial terms, to be repaid by 30 June 2021. The Government will provide \$9.3 billion in loan drawdowns to nbn in 2017-18.

**Higher Education Loan Programme**

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

The fair value of HELP is estimated to be around \$44.7 billion at 30 June 2017, which is \$2.2 billion higher than projected in the 2016-17 MYEFO. The fair value of HELP is projected to grow to around \$67.0 billion in 2019-20, which is \$7.5 billion higher than estimated in the 2016-17 MYEFO, and to reach \$75.9 billion by the end of the forward estimates.

In this Budget, the Government is delivering a package of measures to improve the sustainability of the higher education system. From 2018, the Government will introduce increased student contributions of 7.5 per cent, to be phased in through an annual 1.8 per cent increase over four years from 2018. An efficiency dividend of 2.5 per cent will be applied to the Commonwealth Grant Scheme (CGS) in 2018 and 2019.

The Government will also be introducing a new set of HELP repayment thresholds from 1 July 2018. The new set of thresholds will contain a minimum repayment threshold on annual income in 2018-19 of \$42,000 with a one per cent repayment rate, and a maximum income threshold of \$119,882 from which a repayment rate of ten per cent applies. From 1 July 2019 onwards, all HELP thresholds will be indexed by the Consumer Price Index (CPI), instead of Average Weekly Earnings (AWE).

**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.

On 23 March 2016, the Government announced that it would retain the CEFC.

## **Liabilities**

The Government's total liabilities are estimated to be around \$809.2 billion at 30 June 2017, increasing to \$851.3 billion in 2017-18 and \$930.6 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 \$175 billion at 30 June 2017 and approximately \$271 billion at 30 June 2050.

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

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

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

While there 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 \$195 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, and members covered by the statutory death and disability arrangement ADF cover.

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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.

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).