Appendix B: Assets and Liabilities

The Australian Government's major assets and liabilities

Assets

The Government's total assets are estimated to be $766.0 billion in 2022–23, increasing to $891.2 billion by the end of the forward estimates.

The Government's financial assets[36] are estimated to be $560.5 billion in 2022–23, increasing to $655.5 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $205.5 billion in 2022–23, increasing to $235.7 billion by the end of the forward estimates.

Future Fund

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

The Investment Mandate for the Future Fund sets a benchmark rate of return of at least CPI plus 4.0 to 5.0 per cent per annum over the long-term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Future Fund 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.

Between establishment and 30 June 2022, the average return has been 7.8 per cent per annum against the benchmark return of 6.8 per cent. For the 12 month period ending 30 June 2022, the Future Fund incurred a loss of 1.2 per cent against a benchmark return of 10.1 per cent. The Future Fund was valued at $194.4 billion as at 30 June 2022.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 10B.1 shows changes in the asset allocation of the Future Fund since 30 June 2022.

36 Financial assets include loans. Information on Government loans, including the *Higher Education Loan Program*, can be found in *Statement 9: Statement of Risks*.

Table 10B.1: Asset allocation of the Future Fund

Asset class	30 June 2022 $m	30 June 2022 % of Fund	30 June 2021 $m	30 June 2021 % of Fund
Australian equities	15,821	8.1	16,805	8.5
Global equities				
Developed markets	29,194	15.0	*35,806*	*18.2*
Emerging markets	10,590	5.4	*18,002*	*9.1*
Private equity	33,439	17.2	34,485	17.5
Property	13,153	6.8	11,707	5.9
Infrastructure & Timberland	18,459	9.5	14,548	7.4
Debt securities	15,768	8.1	12,982	6.6
Alternative assets	34,505	17.8	26,547	13.5
Cash	23,450	12.1	25,942	13.2
Total Future Fund assets	194,379	100.0	196,825	100.0

Note: Figures may not sum due to rounding.

Medical Research Future Fund

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

The investments of the MRFF are managed by the Future Fund Board. The Investment Mandate for the MRFF 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 to 2.0 per cent per annum, net of costs, over a rolling 10-year term.

Since inception to 30 June 2022, MRFF investments have returned 4.1 per cent per annum against a benchmark return of 2.5 per cent. For the 12-month period ending 30 June 2022, the MRFF's return was 0.1 per cent against the benchmark return of 1.6 per cent. The MRFF was valued at $21.6 billion as at 30 June 2022.

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).

The DCAF is funded by revenue raised from the 0.5 per cent increase in the Medicare levy to 2.0 per cent. As at 30 June 2022, the DCAF had received credits totalling $32.9 billion. Since inception to 30 June 2022, $18.7 billion has been paid from the DCAF.

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

For the 12-month period ending 30 June 2022, the DCAF incurred a loss of 0.4 per cent against the benchmark return of 0.4 per cent. The DCAF was valued at $15.3 billion as at 30 June 2022.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) was established on 1 February 2019 to support payments to the Indigenous Land and Sea Corporation (ILSC).

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

The investments of the ATSILSFF are managed by the Future Fund Board. The Investment Mandate for the ATSILSFF provides broad direction to the Board in relation to its investment strategy. The ATSILSFF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

Since inception to 30 June 2022, ATSILSFF investments have returned 4.3 per cent per annum against a benchmark return of 5.3 per cent. For the 12-month period ending 30 June 2022, the ATSILSFF incurred a loss 0.2 per cent against a benchmark return of 8.1 per cent. The ATSILSFF was valued at $2.1 billion as at 30 June 2022.

Future Drought Fund

The Future Drought Fund (FDF) was established on 1 September 2019 to fund initiatives that enhance future drought resilience, preparedness and response across Australia.

The Fund provides disbursements of $100.0 million per annum, with the first disbursement made in July 2020.

The investments of the FDF are managed by the Future Fund Board. The Investment Mandate for the FDF provides broad direction to the Board in relation to its investment strategy. The FDF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

Since inception to 30 June 2022, FDF investments have returned 7.5 per cent per annum against a benchmark return of 5.6 per cent. For the 12-month period ending 30 June 2022, the FDF incurred a loss of 0.2 per cent against the benchmark return of 8.1 per cent. The FDF was valued at $4.5 billion at 30 June 2022.

Emergency Response Fund

The Emergency Response Fund (ERF) was established on 12 December 2019 to fund initiatives which enhance future national disaster response and recovery efforts across Australia.

Disbursements from the ERF are limited to $200.0 million in each year that the Government decides to access the fund. This is comprised of up to $150.0 million for emergency response and recovery after a significant or catastrophic natural disaster, and up to $50.0 million to build resilience to prepare for or reduce the risk of future natural disasters.

The investments of the ERF are managed by the Future Fund Board. The Investment Mandate for the ERF provides broad direction to the Board in relation to its investment strategy. The ERF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

Since inception to 30 June 2022, ERF investments have returned 7.5 per cent per annum against a benchmark return of 5.6 per cent. For the 12-month period ending 30 June 2022, the ERF incurred a loss of 0.1 per cent against the benchmark return of 8.1 per cent. The ERF was valued at $4.5 billion as at 30 June 2022.

Disaster Ready Fund

The Government has introduced legislation to rename the Emergency Response Fund as the Disaster Ready Fund and to refocus the Fund as a dedicated ongoing source of funding for natural disaster resilience. Once the legislative changes are enacted, the Disaster Ready Fund would provide up to $200 million per annum for natural disaster resilience initiatives from 1 July 2023.

Housing Australia Future Fund

The Government proposes to establish the Housing Australia Future Fund to create an ongoing funding stream to increase and improve social and affordable housing. Legislation to establish the Fund is expected to be introduced to Parliament in 2022–23.
The investments of the Housing Australia Future Fund will be managed by the Future Fund Board of Guardians.

National Broadband Network

NBN Co Limited's (NBN Co) key objective is to ensure that all Australians have access to fast and reliable broadband, at affordable prices, and at least cost to taxpayers.

The Government has committed $31.9 billion in equity to NBN Co, with the final contributions to be made in 2025-26.

The Government also provided a loan of $19.5 billion to NBN Co on commercial terms, which was fully drawn down in July 2020. In the 2020–21 MYEFO the Government amended the loan agreement and allowed NBN Co to access private debt markets to finance the repayments. NBN Co has repaid $14.0 billion of the loan as at 30 September 2022.

Clean Energy Finance Corporation

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

Under the CEFC Act, the CEFC has been provided $10.0 billion to invest in renewable energy, low emissions technology and energy efficiency projects.

The Government has also provided $500.0 million to the CEFC, to combine with $500.0 million from the private sector, to establish a $1.0 billion Low Emissions Technology Commercialisation Fund.

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

National Reconstruction Fund

The Government will establish through legislation, the National Reconstruction Fund (NRF), to support, diversify and transform Australian industry and the economy.

The NRF will make $15.0 billion of targeted co-investments through independently assessed projects in priority areas including: resources, transport, medical science, renewables and low emission technology, defence capability, enabling capabilities and agriculture, forestry and fisheries sectors.

Rewiring the Nation

The Government will provide $20 billion to establish Rewiring the Nation to expand and modernise Australia's electricity grids. The funding is to provide concessional loans and equity to invest in transmission infrastructure projects that will help strengthen, grow and transition Australia's electricity grids.

Liabilities

The Government's total liabilities are estimated to be $1.3 trillion in 2021–22, increasing to $1.6 trillion by the end of the forward estimates.

The Government's major liabilities are Australian Government Securities on issue (see Statement 7: Debt Statement for further information) and public sector employee superannuation liabilities.

Public sector employee superannuation liabilities

Public sector employee superannuation entitlements relating to past and present civilian employees and military personnel are a financial liability on the Government's balance sheet. By the end of the forward estimates period, the Government's superannuation liabilities are projected to be $298.4 billion and approximately $523.5 billion at 30 June 2060.

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

In preparing the latest Long Term Cost Reports for the civilian and military schemes, the scheme actuaries have determined that a discount rate of 5.0 per cent should be applied.

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

For civilian employees, the major defined benefit schemes are the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan 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, the Defence Forces Retirement Benefits Scheme and the Military Superannuation and Benefits Scheme (MSBS). Following the closure of the MSBS on 30 June 2016, all defined benefit military schemes are now closed to new members. A new military superannuation accumulation scheme, ADF Super, commenced on 1 July 2016. ADF Super is accompanied by a statutory death and disability arrangement ADF cover.

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

As the superannuation liabilities are included in the Government's net worth and net financial worth aggregates, revaluations of the liabilities have an impact on these aggregates.