STATEMENT 6: DEBT STATEMENT, ASSETS AND LIABILITIES

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

CONTENTS

STATEMENT 6: DEBT STATEMENT, ASSETS AND LIABILITIES

OVERVIEW

This Statement provides information on estimated and projected Government net debt. Net debt is expected to be $326.0 billion (18.9 per cent of GDP) in 2016-17. Net debt is projected to peak at 19.2 per cent of GDP in 2017-18, before declining over the medium term to a projected 9.1 per cent of GDP ($264 billion) in 2026-27.

The end-of-year face value of Commonwealth Government Securities (CGS) on issue subject to the Treasurer's Direction is expected to be $497 billion in 2016-17 and is expected to increase to $581 billion in 2019-20. By the end of the medium term (2026-27) the total face value of CGS on issue is projected to rise to $640 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 $509.6 billion in 2016-17 and increase to $593.1 billion by the end of the forward estimates. Total liabilities are estimated to be $810.6 billion in 2016-17 and increase to $909.2 billion by the end of the forward estimates.

DEBT STATEMENT

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

Commonwealth Government Securities issuance

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

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

Treasury Notes: short-term securities generally maturing within six months of issuance. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding flows.

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

Within these three broad categories of CGS, issuance is undertaken into a limited number of maturities (known as lines). Each of these lines has a fixed maturity date (the date on which the Government repays the principal it has borrowed) and, for Treasury Bonds and TIBs, a coupon rate (the annual fixed interest rate paid on the security).

Concentrating CGS issuance into a limited number of lines (rather than issuing securities with a specific time value, such as 10 years) ensures each line is sufficiently large that it can easily be traded in the secondary market. Strong liquidity in the secondary market is attractive to investors, promotes demand for CGS, and assists in lowering borrowing costs.

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; it also provides a low-risk investment vehicle.

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.[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.

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.

1 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.

In 2016-17, net debt is expected to be $326.0 billion, compared to $316.5 billion at the 2015-16 MYEFO. Over the forward estimates, net debt is projected to peak at 19.2 per cent of GDP in 2017-18. This peak is higher than expected at the 2015-16 MYEFO, when net debt was expected to peak at 18.5 per cent of GDP in 2017-18. Over the medium term, net debt is projected to decline to 9.1 per cent of GDP ($264 billion) in 2026-27.

Table 1: Liabilities and assets included in net debt from 2015-16 to 2019-20

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	218	218	218	218	218
Government securities	476,999	549,537	594,439	614,904	628,828
Loans	16,425	15,739	15,732	15,731	15,643
Other borrowing	1,569	1,458	1,356	1,310	1,244
Total liabilities included in net debt	**495,211**	**566,952**	**611,745**	**632,163**	**645,933**
Assets included in net debt					
Cash and deposits	3,512	4,874	3,440	3,160	2,688
Advances paid	52,782	62,637	72,852	83,557	95,356
Investments, loans and placements	153,233	173,479	188,611	189,073	192,823
Total assets included in net debt	**209,526**	**240,990**	**264,903**	**275,790**	**290,867**
Net debt	**285,684**	**325,962**	**346,842**	**356,373**	**355,066**

Changes in net debt since the 2015-16 MYEFO

Table 2 shows the drivers of the change in net debt between the 2015-16 MYEFO and the 2016-17 Budget.

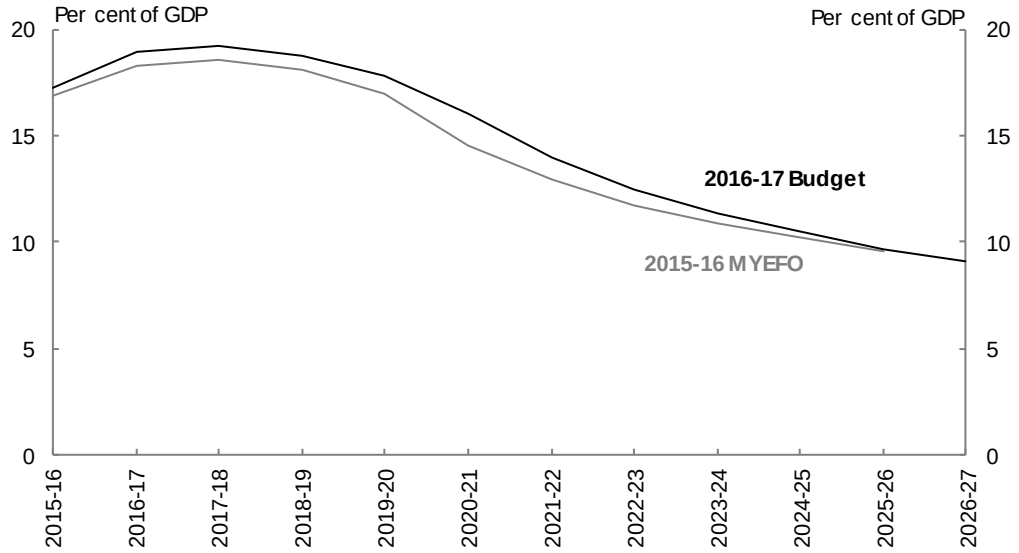
Net debt is estimated to increase across the forward estimates compared with the 2015-16 MYEFO. This increase is primarily driven by higher levels of CGS on issue owing to changes in the financing requirement, and an increase in the market value of CGS owing to lower average yields. These factors are partially offset by the higher value of investments held by the Government.

Table 2: Net debt — reconciliation from the 2015-16 MYEFO to the 2016-17 Budget

	2015-16 $b	2016-17 $b	2017-18 $b	2018-19 $b
Net debt as at 2015-16 MYEFO ($b)	**278.8**	**316.5**	**336.4**	**346.6**
Changes in financing requirement	-2.0	8.8	17.4	12.6
Impact of yields on CGS	6.6	6.9	6.6	6.0
Asset and other liability movements	2.3	-6.3	-13.5	-8.8
Cash and deposits	*0.4*	*-1.4*	*0.0*	*0.3*
Advances paid	*0.4*	*0.7*	*0.3*	*0.2*
Investments, loans and placements	*1.3*	*-5.7*	*-14.0*	*-9.6*
Other movements	*0.2*	*0.1*	*0.2*	*0.3*
Total movements in net debt from 2015-16 MYEFO to 2016-17 Budget	**6.9**	**9.4**	**10.4**	**9.8**
Net debt as at 2016-17 Budget ($b)	**285.7**	**326.0**	**346.8**	**356.4**

Net debt is projected to decline over the medium term to 9.1 per cent of GDP ($264 billion) in 2026-27 (Chart 1). Net debt is projected to be 9.7 per cent of GDP ($266 billion) in 2025-26, broadly in line with projected net debt in 2025-26 at the 2015-16 MYEFO.

Chart 1: Net debt projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
Source: Treasury projections

Estimates and projections of CGS on issue

Table 3 contains projections of the face value (end-of-year and within-year peak)[2] and the market value (end-of-year) of CGS on issue.

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

	2015-16 $b	2016-17 $b	2017-18 $b	2018-19 $b	2019-20 $b
Face value - end of year	425	497	542	565	581
Per cent of GDP	25.7	28.9	30.0	29.8	29.2
Face value - within-year peak(b)	437	498	542	566	593
Per cent of GDP(b)	26.5	28.9	30.0	29.9	29.8
Month of peak(b)	*Jun-16*	*Jun-17*	*Jun-18*	*Mar-19*	*Apr-20*
Market value - end of year(c)	472	545	590	610	624
Per cent of GDP	28.6	31.7	32.6	32.2	31.4

(a) 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.
(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 also shows the 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 total amount of CGS on issue and 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 is not known. The timing of the within-year peak is therefore reported to the given month in the particular year.
3 On 11 December 2013, the Treasurer directed that the maximum face value of CGS that can be on issue is $500 billion.

In 2016-17, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be $497 billion, compared to $486 billion at the 2015-16 MYEFO. The end-of year face value of CGS on issue subject to the Treasurer's Direction is expected to reach at $581 billion in 2019-20.

In 2016-17, the face value of CGS on issue is expected to reach a within-year peak of $498 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of $593 billion in 2019-20.

Changes in CGS on issue since the 2015-16 MYEFO

Table 4 shows the change in the projected end of year face value of CGS on issue between the 2015-16 MYEFO and the 2016-17 Budget.

Table 4: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2015-16 MYEFO to the 2016-17 Budget

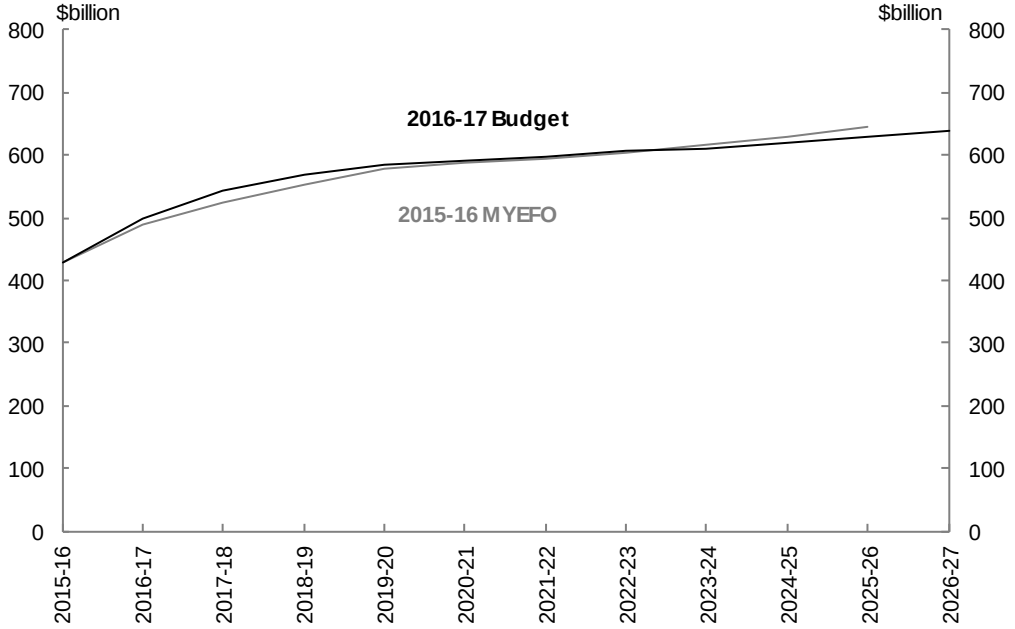
	2015-16 $b	2016-17 $b	2017-18 $b	2018-19 $b
Total face value of CGS on issue subject to the Treasurer's Direction as at 2015-16 MYEFO	426	486	523	549
Factors affecting the change in face value of CGS on issue from 2015-16 MYEFO to 2016-17 Budget(a)				
Cumulative receipts decisions	-0.4	1.3	1.0	1.2
Cumulative receipts variations	7.3	9.7	13.4	16.8
Cumulative payment decisions	0.6	2.0	1.9	3.1
Cumulative payment variations	-4.0	-5.6	-5.4	-8.5
Cumulative change in net investments in financial assets(b)	-3.9	3.1	10.1	4.4
Other contributors	-1.1	0.1	-1.8	-1.3
Total face value of CGS on issue subject to the Treasurer's Direction as at 2016-17 Budget	425	497	542	565

(a) Cumulative impact of decisions and variations from 2015-16 to 2018-19. Increases to payments are shown as positive, and increases to receipts are shown as negative.
(b) Change in net cash flows from investments in policy and liquidity purposes.
Note: End of year data.

The total face value of CGS on issue is projected to rise to $640 billion by 2026-27. The face value of CGS on issue is projected to rise to $629 billion by 2025-26, around $18 billion lower than the $647 billion projected at the 2015-16 MYEFO (Chart 2), driven by lower assumed yields across the medium term.

Further details on the changes to the underlying cash balance since the 2015-16 MYEFO can be found in Statement 3: Fiscal Strategy and Outlook.

Chart 2: Face value of CGS on issue projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
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 26 April 2016.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 26 April 2016	
	Face value	Market value
	$m	$m
Treasury Bonds (a)	389,587	425,282
Treasury Indexed Bonds (a)	27,116	35,367
Treasury Notes (a)	4,000	3,981
Total CGS subject to Treasurer's Direction(a)(b)	420,703	464,629
Other stock and securities	2,484	4,709
Total CGS on issue	**423,187**	**469,338**

(a) The Treasurer's Direction applies only to the face value of CGS on issue. This table also shows the 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 CIS Act, 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 58 of the *Public Governance, Performance and Accountability Act 2013*; 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. As at 26 April 2016, there were 22 Treasury Bond lines on issue, with a weighted average term to maturity of around 6.6 years and the longest maturity extending to June 2039.

Since late 2010-11, the AOFM has incrementally lengthened the CGS yield curve while the cost of borrowing has been low by historical standards. This increases the average maturity and duration profile of the AOFM's debt portfolio, thereby lowering variability in future debt servicing costs and reducing refinancing risk.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 26 April 2016 $m	Timing of interest payments(a)		
4.75	15-Jun-16	15,900	Twice yearly	15 Jun	15 Dec
6.00	15-Feb-17	21,096	Twice yearly	15 Feb	15 Aug
4.25	21-Jul-17	18,900	Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	20,500	Twice yearly	21 Jan	21 Jul
3.25	21-Oct-18	18,100	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	22,947	Twice yearly	15 Mar	15 Sep
2.75	21-Oct-19	20,700	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	23,397	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	12,600	Twice yearly	21 Nov	21 May
5.75	15-May-21	22,299	Twice yearly	15 May	15 Nov
5.75	15-Jul-22	21,400	Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	21,300	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	24,700	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	26,100	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	27,500	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	23,700	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-27	8,500	Twice yearly	21 Nov	21 May
3.25	21-Apr-29	11,500	Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	10,400	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	5,550	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	8,500	Twice yearly	21 Apr	21 Oct
3.25	21-Jun-39	4,000	Twice yearly	21 Jun	21 Dec

(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. As at 26 April 2016, there were seven TIB lines on issue, with a weighted average term to maturity of around 9.3 years and the longest maturity extending to August 2040.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 26 April 2016 $m	Timing of interest payments(a)				
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	4,940	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	6,393	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.50	20-Sep-30	3,443	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	3,050	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.25	21-Aug-40	1,550	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 26 April 2016 was $4 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

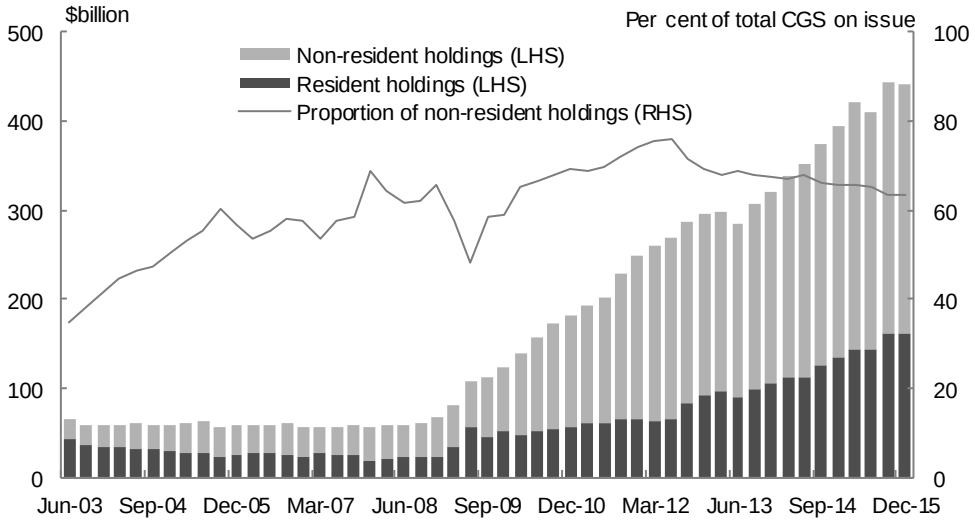
Maturity	On issue as at 26 April 2016 $m	Timing of interest payment	
3-Jun-16	1,500	At maturity	3 June
29-Jul-16	500	At maturity	29 Jul
26-Aug-16	2,000	At maturity	26 Aug

Non-resident holdings of CGS on issue

The sale of CGS is not restricted to Australian residents. As at the December quarter 2015, 63.5 per cent of total CGS on issue was held by non-residents of Australia (Chart 3). The proportion of CGS held by non-residents rose significantly between 2009 and 2012. The proportion has fallen from historically high levels in 2012 but remains elevated.

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

Chart 3: Non-resident holdings of Commonwealth Government Securities



Note: Data refers to the market value of holdings.
Source: ABS Catalogue Number 5203.0 and the 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 than when they are actually paid.

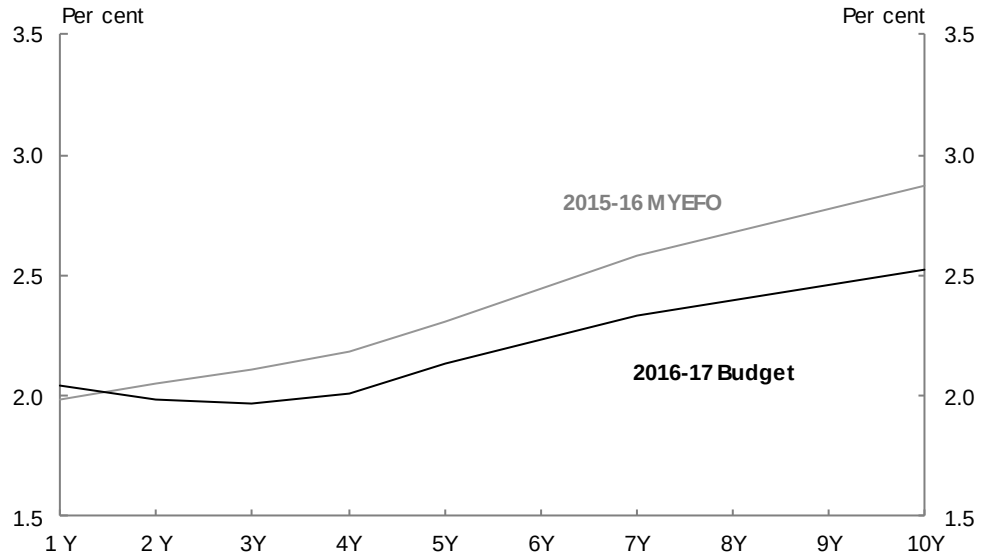
Estimates of the interest payments and interest expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- 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 2016-17 Budget result in a weighted average cost of borrowing of around 2.5 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.7 per cent at the 2015-16 MYEFO. Chart 4 shows the yield curve assumptions underpinning the 2015-16 MYEFO and 2016-17 Budget.

Chart 4: Yield curve assumptions from 2015-16 to 2019-20



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 2016-17 are estimated to be $15.9 billion, of which $15.5 billion relates to CGS on issue (Table 9).

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

	2015-16	2016-17	2017-18	2018-19	2019-20
	$m	$m	$m	$m	$m
Interest payments on CGS	14,450	15,529	16,402	17,608	18,001
Per cent of GDP	0.9	0.9	0.9	0.9	0.9
Interest payments	14,822	15,903	16,826	18,054	18,463
Per cent of GDP	0.9	0.9	0.9	1.0	0.9
Interest receipts	2,842	3,262	3,470	3,829	4,248
Per cent of GDP	0.2	0.2	0.2	0.2	0.2
Net interest payments(b)	11,980	12,642	13,356	14,224	14,215
Per cent of GDP	0.7	0.7	0.7	0.8	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.

The Government's total interest expense in 2016-17 is estimated to be $18.7 billion, of which $16.6 billion relates 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[(a)]

	2015-16	2016-17	2017-18	2018-19	2019-20
	$m	$m	$m	$m	$m
Interest expense on CGS	15,360	16,643	17,626	18,345	18,683
Per cent of GDP	0.9	1.0	1.0	1.0	0.9
Interest expense	16,774	18,725	19,764	20,539	20,818
Per cent of GDP	1.0	1.1	1.1	1.1	1.0
Interest income	3,506	4,280	4,841	5,775	6,825
Per cent of GDP	0.2	0.2	0.3	0.3	0.3
Net interest expense	13,268	14,445	14,923	14,764	13,993
Per cent of GDP	0.8	0.8	0.8	0.8	0.7

(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 2015-16 to 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20
	$b	$b	$b	$b	$b
Climate spending(a)	0.75	1.30	1.20	1.30	1.25

(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; and
- the Clean Energy Finance Corporation which invests in renewable energy, energy efficiency and low emissions technologies.

Estimates of climate spending have been updated to include the Government's decision to retain the Clean Energy Finance Corporation and the Australian Renewable Energy Agency.

Impact of climate spending on debt

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

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

	2015-16	2016-17	2017-18	2018-19	2019-20
Climate spending ($b) (a)	0.75	1.30	1.20	1.30	1.25
Total spending ($b) (b)	440	465	472	494	515
Climate spending (per cent of total spending)	0.2	0.3	0.3	0.3	0.2
Change in face value of CGS from previous year ($b) (c)	58.5	71.9	45.6	22.9	16.0
Contribution to change in face value of CGS from climate spending ($b)	0.10	0.20	0.12	0.06	0.04

(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.
(b) The calculation of total spending in this table is on a headline cash balance basis; that is, total payments and net cash flows from investments in financial assets for policy purposes.
(c) Calculations of the change in the face value of CGS are calculated using total CGS on issue.

Recurrent and capital spending

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

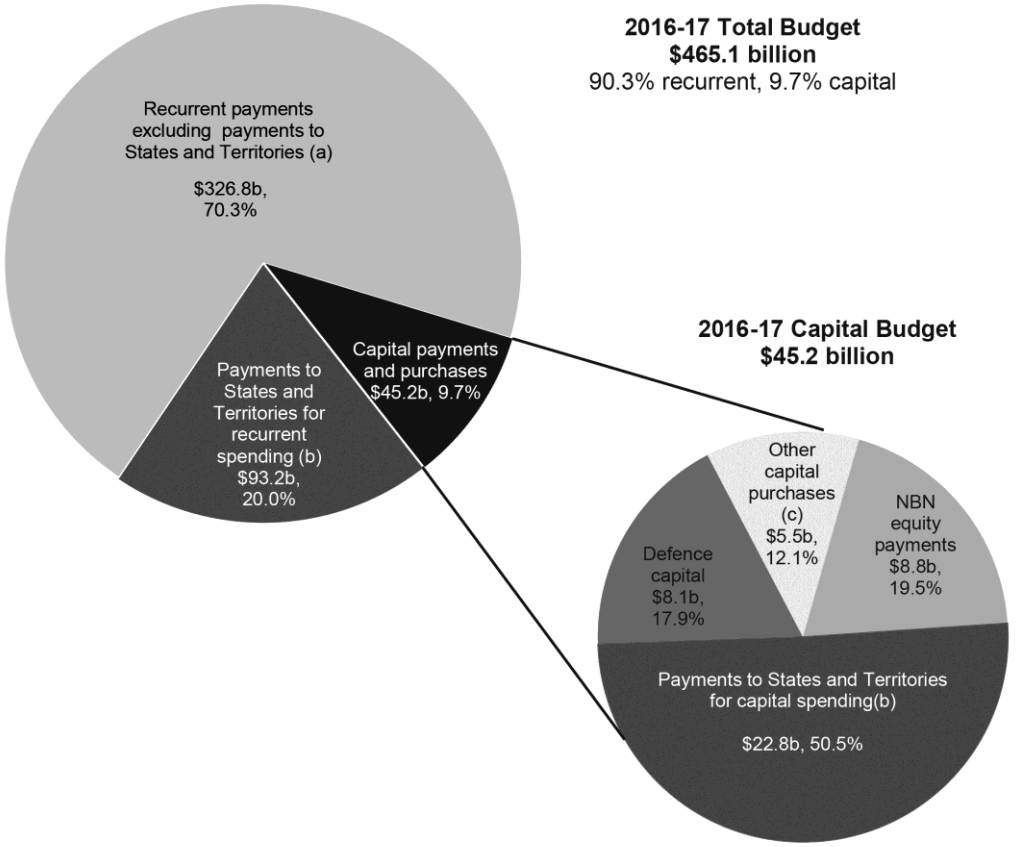
The **recurrent budget** includes pension and income support payments, funding in the areas of health and education (except where funding is allocated to the building of facilities), interest payments on public debt, student loans, and operating costs of the Government including payments to employees.

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

Chart 5 below presents a detailed breakdown of recurrent and capital spending for the 2016-17 year.

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

Chart 5: Recurrent and capital spending as a proportion of the Budget in 2016-17



(a) Recurrent payments excluding payments to the 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) State and Territory payments include payments for general revenue assistance (including Goods and Services Tax payments) and specific purposes payments.
(c) Other capital purchases include the purchase of land and buildings, software and other facilities.

Chart 5 shows that 90.3 per cent of estimated total budget spending in 2016-17 is recurrent, and the remaining 9.7 per cent of the budget is capital.

Of the total budget, 70.3 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 20.0 per cent of the budget. This amount includes specific purpose payments to States and Territories, including in the areas of health and education, and recurrent spending by the States and Territories estimated to be funded through general revenue assistance.

Of the $45.2 billion of the capital budget, around 50.5 per cent 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 19.5 per cent of the capital budget and purchases of defence capital (for example, defence weapons and aircraft) comprises around 17.9 per cent. Other capital purchases such as software facilities upgrades make up around 12.1 per cent of the capital budget.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be $465.4 billion at 30 June 2016, increasing to $509.6 billion in 2016-17 and $593.1 billion by the end of the forward estimates.

The Government's financial assets are estimated to be $342.6 billion at 30 June 2016, increasing to $383.4 billion in 2016-17 and $453.4 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $122.9 billion at 30 June 2016, increasing to $126.2 billion in 2016-17 and $139.7 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 return of at least CPI plus 4.5 per cent to 5.5 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Fund. The Investment Mandate also requires the Board to take an acceptable but not excessive level of risk for the Fund, measured in terms such as the probability of losses in a particular year.

The portfolio of assets has performed well. Since the first contribution to the Future Fund on 5 May 2006, the average return has been 7.4 per cent per annum.

At 31 March 2016, the Future Fund's return for the financial year to date was 0.2 per cent. The Future Fund was valued at $117.4 billion at 31 March 2016.

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 2015.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2015 $m	31 March 2016 $m
Australian equities	7,957	7,629
Global equities		
Developed markets	*20,629*	*17,899*
Emerging markets	*11,034*	*8,594*
Private equity	12,609	11,474
Property	6,980	8,316
Infrastructure and Timberland	8,751	8,330
Debt securities	11,467	13,314
Alternative assets	14,904	14,938
Cash	22,890	26,885
Total Future Fund assets	117,222	117,378

Note: Data may not sum due to rounding

Asset Recycling Fund

The Asset Recycling Fund (ARF) was announced in the 2014-15 Budget. It is intended to be 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. Legislation to establish the ARF has not yet passed the Parliament.

The ARF will be seeded with $7 billion of capital from uncommitted balances of the Building Australia Fund (BAF) and Education Investment Fund (EIF). Further contributions to the Fund will be made from proceeds from the sale of Medibank Private, to be credited on 1 July 2017, and other privatisations.

Drawdowns from the ARF for payments relating to the Infrastructure Growth Package will be made from capital and net earnings. Such drawdowns will primarily fund payments to States and Territories through the Council of Australian Governments (COAG) Reform Fund, governed by the National Partnership Agreements that will include those for the Asset Recycling Initiative and Land Transport Infrastructure Projects. Pending the establishment of the ARF, the Australian Government will enable funding for infrastructure investments under the Infrastructure Growth Package by providing funding of $2.5 billion in 2016-17 through existing appropriation mechanisms.

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

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

Medical Research Future Fund

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

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. Remaining credits to the Fund will consist of the estimated value of health function savings published in the 2014-15 Budget including 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. The capital of the Fund will be preserved 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 HHF was abolished on 29 October 2015. Remaining committed milestone payments of the HHF have been transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the Department of Health.

DisabilityCare Australia Fund

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

The DCAF is funded by revenue raised from the increase in the Medicare levy of half a percentage point to 2 per cent that was implemented on 1 July 2014. As at 3 May 2016 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.

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 2016-17, this fixed amount is $884 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 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 announced its intention 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 2016, the Government's RMBS portfolio was valued at $2.9 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. Against a background of heightened global volatility, in November 2015 the AOFM exercised its discretion to suspend, until further notice, the regular auction process. 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 a multi-technology mix (including fibre to the premises, fibre to the node, hybrid fibre coaxial cable, and wireless and satellite technologies), to ensure the NBN is delivered as soon as possible and at least cost to taxpayers.

The Government will provide $8.8 billion in equity to nbn in 2016-17, including $0.4 billion moved from 2015-16. The Government's equity contributions are capped at $29.5 billion.

Higher Education Loan Programme

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

The fair value of HELP is estimated to be $37.1 billion at 30 June 2016, which is $0.2 billion lower than estimated in the 2015-16 MYEFO. The fair value represents the total accumulated HELP debt adjusted to take account of bad and doubtful debts (amounts not expected to be repaid); and deferral costs (the difference between the present value of repayments and the present value of repayments had a risk-free interest rate been applied, noting that HELP debts are indexed to inflation). The fair value of HELP is projected to grow to $60.2 billion in 2018-19, which is $1.5 billion lower than estimated in the 2015-16 MYEFO. It is projected to reach $69.2 billion by the end of the forward estimates.

The Government has announced, in this Budget, that it will delay the implementation of the higher education reforms announced in the 2014-15 Budget and the 2014-15 MYEFO by an additional year to undertake further consultation. Higher education funding arrangements for 2017 will remain in line with currently legislated arrangements. The Government will also not proceed with the deregulation of university fees announced in the 2014-15 Budget. These changes are driving the lower HELP projections in this Budget compared to those estimated at MYEFO.

The Government is currently undertaking consultation on a redesign of the VET FEE-HELP scheme, following the release of a discussion paper on 29 April 2016. A redesigned VET FEE-HELP scheme is aimed at improving the integrity and sustainability of the scheme.

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 $730.4 billion at 30 June 2016, increasing to $810.6 billion in 2016-17 and $909.2 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 $169 billion at 30 June 2016 and approximately $263 billion at 30 June 2050.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. For civilian employees, the major defined benefit schemes are the Commonwealth Sector Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan (PSSap) was introduced on 1 July 2005 and provides fully funded accumulation benefits for new civilian employees from that date.

For military personnel, the defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme (DFRDB), the Defence Forces Retirement Benefits Scheme (DFRB) and the Military Superannuation and Benefits Scheme (MSBS). The DFRDB and DFRB are closed to new members. MSBS will be closed to new members from 1 July 2016. A new military superannuation accumulation scheme, ADF Super, will commence 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.

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

Lower salary growth assumptions in the short term, as determined by the scheme actuary, is the major driver in the decrease in the civilian schemes liability in 2015-16 by $3.6 billion compared to projections in the 2015-16 Budget.

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