Appendix B: Assets and Liabilities

The Australian Government's major assets and liabilities

Assets

The Government's total assets are estimated to be $757.6 billion in 2021-22, increasing to $887.1 billion by the end of the forward estimates.

The Government's financial assets[1] are estimated to be $566.0 billion in 2021-22, increasing to $659.6 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $191.6 billion in 2021-22, increasing to $227.5 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 31 December 2021, the average return has been 8.3 per cent per annum against the benchmark return of 6.6 per cent. For the 12 month period ending 31 December 2021, the Future Fund's return was 19.1 per cent. The Future Fund was valued at $203.6 billion as at 31 December 2021.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 9B.1 shows changes in the asset allocation of the Future Fund since 30 June 2021.

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

Table 9B.1: Asset allocation of the Future Fund

Asset class	31 December 2021 $m	31 December % of Fund	30 June 2021 $m	30 June 2021 % of Fund
Australian equities	15,449	7.6	16,805	8.5
Global equities				
Developed markets	*31,871*	*15.7*	*35,806*	*18.2*
Emerging markets	*15,656*	*7.7*	*18,002*	*9.1*
Private equity	34,255	16.8	34,485	17.5
Property	13,149	6.5	11,707	5.9
Infrastructure & Timberland	16,309	8.0	14,548	7.4
Debt securities	14,250	7.0	12,982	6.6
Alternative assets	28,405	14.0	26,547	13.5
Cash	34,239	16.8	25,942	13.2
Total Future Fund assets	203,583	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.

Since inception, the Government has contributed $20.0 billion to the MRFF fulfilling the commitment in the 2014-15 Budget to grow the MRFF to $20.0 billion through annual credits. There are no further credits scheduled for the MRFF.

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

Since inception to 31 December 2021, MRFF investments have returned 4.7 per cent per annum against a benchmark return of 2.5 per cent per annum. The MRFF was valued at $22.3 billion as at 31 December 2021.

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 31 December 2021, the DCAF had received credits totalling $27.8 billion. Since inception to 31 December 2021, $14.1 billion has been paid from the DCAF.

The investments of the DCAF are managed by the Future Fund Board. The Treasurer and Minister for Finance have set an Investment Mandate for the DCAF, which 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 31 December 2021, the DCAF's return was 0.1 per cent against the benchmark return of 0.3 per cent. The DCAF was valued at $14.9 billion as at 31 December 2021.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Government established the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) 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 Treasurer and Minister for Finance have set an Investment Mandate for the ATSILSFF, which 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.

For the 12-month period ending 31 December 2021, the ATSILSFF has returned 10.7 per cent against a benchmark return of 5.5 per cent. The ATSILSFF was valued at $2.2 billion as at 31 December 2021.

Future Drought Fund

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

The FDF was seeded with the uncommitted balance of the Building Australia Fund (BAF) – approximately $4.0 billion. The BAF was abolished on the establishment of the FDF. 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 Treasurer and Minister for Finance have set an Investment Mandate for the FDF, which 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.

For the 12-month period ending 31 December 2021, the FDF has returned 10.8 per cent against the benchmark return of 5.5 per cent. The FDF was valued at $4.7 billion as at 31 December 2021.

Emergency Response Fund

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

The ERF was seeded with the uncommitted balance of the Education Investment Fund (EIF) — approximately $4.0 billion. The EIF was abolished on establishment of the ERF. 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 Treasurer and Minister for Finance have set an Investment Mandate for the ERF, which 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.

For the 12-month period ending 31 December 2021, the ERF has returned 10.8 per cent against the benchmark return of 5.5 per cent. The ERF was valued at $4.8 billion as at 31 December 2021.

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 provided $29.5 billion in equity to NBN Co, with the final contributions made in 2017-18.

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 $12.1 billion of the loan as at 28 February 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 CEFC will also administer the $1.0 billion Grid Reliability Fund, when established, to support investment in new energy generation, storage and transmission infrastructure.

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.

Liabilities

The Government's total liabilities are estimated to be $1.4 trillion in 2021-22, increasing to $1.7 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 $284.2 billion and approximately $432.6 billion at 30 June 2050.

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 continue growing (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.