



Auditor-General for Australia
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16 August 2021

Ms Lucy Wicks
Chair
Joint Committee of Public Accounts and Audit
Email: jcpaa@aph.gov.au

Dear Ms Wicks

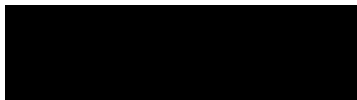
Inquiry into alternative financing mechanisms

The Australian National Audit Office (ANAO) report [*Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020*](#), tabled 17 December 2020, includes an analysis of investments in public corporations and concessional loans you may find relevant to the Joint Committee of Public Accounts and Audit inquiry into alternative financing mechanisms. An extract of this analysis is provided at Attachment A.

Should the Committee require further information in relation to this matter, my office would be pleased to provide you with a briefing at a time convenient to you or appear as a witness at a hearing.

To arrange a briefing, please contact our External Relations area at external.relations@anao.gov.au.

Yours sincerely



Grant Hehir

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Auditor-General Report No. 25 of 2020–21 [Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020](#) (Extract: Chapter 1, pages 24 – 28)

Government Financing Through Loans and Equity

Investments for policy purposes

1.25 The Australian Government reports on a number of fiscal aggregates including net operating balance and underlying cash. These aggregates exclude cash or accounting movements that are of an investment or financing nature, in particular, investments made for policy purposes and the fair value losses on these investments.

1.26 A number of investments made for policy purposes have elements of economic and social benefits in addition to providing commercial returns. There may be some benefits in segregating the commercial and non-commercial portions of the investments to better reflect the implications on key fiscal aggregates. The Parliamentary Budget Office in Report no.01/2020 examined trends in the use of alternative financing arrangements and explained how these arrangements relate to the Commonwealth budget and identified possible enhancements to budget reporting to support public understanding.³

1.27 Two key items included in investments made for policy purposes are investments in public corporations and concessional loans.

Investment in public corporations (General Government Sector)

1.28 The Government has increased its investments in Commonwealth controlled entities. Consistent with reporting requirements, these investments do not impact net operating balance or underlying cash, as described in paragraph 1.25 above.

1.29 The majority of these investments are in entities that provide a positive real return to the Commonwealth and are therefore classified as equity injections.⁴ The impact of the operations are not reflected in underlying cash unless dividends are received from the entities. The ongoing valuations of these entities are reflected in net worth. If the valuation of these entities deteriorates (for example as a result of accumulating losses or the valuation of future cash flows associated with assets procured through equity injections being less than their purchase costs), the deterioration in the position will be reflected in the General Government Sector's net worth but not impact on the underlying cash even if the deterioration was a predictable result of a non-commercial policy decision. Table 1.3 shows investments made in Commonwealth entities where the equity contributed is greater than \$300.0 million (excluding Snowy Hydro Limited which was purchased from the NSW and Victorian State Governments). The itemised list at Table 1.3 makes up 34 per cent of equity investments in public corporations. Investments in new or start up corporations are usually valued at their net assets until they exit the start-up phase, which can be a number of years. This may result in a value temporarily lower than the capital contributed as the capital is applied to the operations of the new business.

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Table 1.3: Commonwealth Entities contributed equity, net assets and GGS fair value

Entity	Contributed Equity \$000	Net assets \$000	Fair value (GGS) \$000
NBN	29,500,000	2,100,000	13,768,000
WSA Co Pty Ltd	1,099,165	203,755 ^a	628,755 ^a
Australian Rail Track Corporation ^b	3,544,093	2,826,466	2,919,700
Australian Naval Infrastructure Pty Ltd	1,188,423	1,182,173	1,182,173
Australian Postal Corporation	400,000	2,203,100	2,593,000
Moorebank Intermodal Company	452,285	295,156	323,593

Note a: The differential in these values is due to the land transferred held under finance lease by WSA Co Pty at nil value. The land has a value for GGS purposes.

Note b: Included as significant contributions are due in coming years.

Source: ANAO analysis of 2019–20 CFS and entity financial statements.

Concessional loans

1.30 There has been a continual growth in loans provided by Government, with a large proportion of these loans being concessional. Concessional loans are loans provided on favourable terms, for example, the interest rate may be below the current market rate for loans of similar risk.

1.31 The Higher Education Loan Program (HELP) is the largest Australian Government concessional loan program which is recorded by the Department of Education, Skills and Employment but is managed by the Australian Taxation Office.

1.32 HELP provides financial assistance to students to remove up-front cost barriers to tertiary education through income contingent loans. These loans are indexed to CPI and repayments are linked to the ability to pay based on income thresholds.

1.33 When HELP loans are issued, they are recorded as an asset for accounting purposes at the amount the Government expects to be repaid. The amount not expected to be repaid is classified under 'Other economic flows' in the Operating Statement. Other economic flows mainly include revaluations of asset and liabilities. Under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, other economic flows are included in some, but not all, fiscal aggregates reported in the CFS. In particular, they are not included in net operating balance and underlying cash. HELP loan amounts not expected to be repaid are not included in these two key fiscal aggregates.

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1.34 The amounts not expected to be repaid (due to being income contingent) on new student loans each financial year since 2015–16 are provided in Table 1.4.

Table 1.4: Amounts not expected to be repaid on new HELP loans

	2015– 16	2016– 17	2017– 18	2018– 19	2019– 20
	(\$b)	(\$b)	(\$b)	(\$b)	(\$b)
Debts not to be repaid (new loans)	(2.0)	(1.9)	(1.3)	(1.2)	(1.1)

Source: Australian Government Actuary reports.

1.35 The policy of making HELP and other student loans income contingent has a significant cost to the Australian Government. The fair value of student loans at 30 June 2020 was \$50.6 billion compared to the nominal value of the loans of \$69.5 billion. The difference between the nominal value and the fair value include the \$17.6 billion that is not expected to be repaid and the impact of the yield curve movement based on 2019–20 actuarial assessment.⁵ The \$17.6 billion reflects the accumulated cost to the Government of the making the loans and is not being reflected in the key fiscal aggregates of underlying cash and net operating balance.

1.36 Since 2016–17, three new corporate Commonwealth entities have been established with the purpose of issuing concessional loans. These are in addition to the HELP loans managed by the Australian Taxation Office and other key Commonwealth entities providing loans and debt management being:

- Export Finance Australia (EFA) (formerly Export Finance Investment Corporation) was established in its current form as a separate Commonwealth Entity in 1991. EFA has well-recognised expertise and a track record in providing and managing a significant loan portfolio in pursuit of its objectives to support Australian based companies seeking to grow internationally and overseas infrastructure development.
- Australian Office of Financial Management (AOFM) was established in 1999 and undertakes debt management activities including the issuance of Government securities, such as, Treasury Bonds and Treasury Indexed Bonds. AOFM has extensive experience in the issuance, management and administration of debt

1.37 The new entities are the National Housing Financing and Investment Corporation (NHFIC), established 30 June 2018, the Regional Investment Corporation (RIC) established 8 March 2018 and the Northern Australia Infrastructure Facility (NAIF) established 1 July 2016. NHFIC provides finance to the community housing sector and uses EFA to provide loan management services and other administrative support. In the year ended 30 June 2020, NHFIC raised \$877 million through a bond issue to fund the significant portion of the loans issued. NHFIC reports the loan transactions in its financial statements and is exposed to the counterparty risks.

1.38 In contrast the NAIF and the RIC do not report loan balances and the primary objective of these entities is to assess loans for infrastructure projects and farm business loans which the Departments of Industry, Science, Energy and Resources and the Department of Agriculture, Water and the Environment respectively enter into. The loans are reported in these departments' financial statements. Due to the structure of the arrangements with each department, neither NAIF nor RIC is

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exposed to the counterparty risk arising from the loans. The RIC engages Bendigo Bank as a third party provider to provide loan management services. The NAIF utilises the services of Export Finance Australia to provide back office administrative support.

1.39 During the 2019–20 financial year, these entities have either issued or recommended loans as set out in Table 1.5 below.

Table 1.5: Loan transactions during 2019–20

Entity	Number of loans	Summary of loan transactions 2019–20
Northern Australia Infrastructure Facility	11	Eleven loan commitments of up to \$1.4 billion.
National Housing Finance Investment Commission	7	NHFIC advanced \$882.0 million in loans and committed a further \$68.7 million as at 30 June 2020.
Regional Investment Corporation	635	\$715.0 million approved during 2019–20. For the period ended 30 June 2020, \$396.0 million was advanced across loans that were approved in the 2018–19 and 2019–20 financial years.

Source: ANAO analysis provided by entities and 2019–20 annual reports.

1.40 There is a significant overhead cost associated with establishing and maintaining a commonwealth entity irrespective of the size of that entity. For the period ended 30 June 2020, the reported number of staff, Key Management Personnel (KMP) and board members for each of the entities discussed above is set out in Table 1.6 including the total employee expenses cost and reported cost of KMP.

Table 1.6: 2019–20 summary of expenditure relating to employees, KMP and board members

Entity	Total FTE	Total Employee Expenses (\$'000)	No. of KMP	No. of Board members ^a	Total KMP remuneration (\$'000)
Australian Office of Financial Management	44	7,026.0	1	Does not have a board	435.0
Export Finance Australia	107.5	18,100.0	15	7	3,307.0

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Entity	Total FTE	Total Employee Expenses (\$'000)	No. of KMP	No. of Board members ^a	Total KMP remuneration (\$'000)
Northern Australia Infrastructure Facility	22.4	7,544.0	11	7	1,704.6
National Housing Finance Investment Commission	28	5,371.0	8	7	1,066.1
Regional Investment Corporation	30	4,417.8	10	5	1,045.0

Note a: Board members are included in the number of KMP.

Source: ANAO analysis of 2019–20 annual reports.

Table 1.7: Definitions of terms used

Name	Definition
Net operating balance	This is calculated as income from transactions minus expenses from transactions. It is equivalent to the change in net worth arising from transactions.
Operating result	Income less expenses, excluding the components of other comprehensive income. Also known as 'profit and loss'.
Other economic flows	Changes in the volume or value of an asset or liability that do not result from transactions (e.g. revaluations).
Comprehensive result	Total change in net worth before transactions with owners in their capacity as owners. Also known as 'total change in net worth'.
Fiscal balance	The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result

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Name	Definition
	reflects a net lending position and a negative result reflects a net borrowing position. Also known as net lending/ (borrowing).
Net worth	Assets less liabilities and shares/contributed capital.
Net debt	Net debt is equal to gross debt minus the stock position in financial assets corresponding to debt instruments.
Net financial worth	Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.
Government securities	All securities issued by the Australian Government at tenders conducted by the AOFM. They comprise Treasury bonds, Treasury notes, Treasury indexed bonds and, previously, Treasury adjustable rate bonds.
Investments for policy purposes	Acquisitions of financial assets for policy purposes are distinguished from investments by the underlying government motivation for acquiring the assets. Where assets are acquired for the purpose of implementing or promoting government policy (e.g. loans to assist industry development), the acquisition of the assets is treated as being for policy purposes. Acquisition of financial assets for policy purposes includes government policies encouraging the development of certain industries or assisting citizens affected by natural disaster.
Cash surplus/ deficit	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less the value of assets acquired under finance leases and similar arrangements.
Underlying cash balance	Net cash receipts from operations (excluding net Future Fund earnings), less net capital investment (including by finance lease).

Source: Australian Bureau of Statistics (2015). Australian System of Government Finance Statistics: Concepts, Sources and Methods; AASB 101 *Preparation of Financial Statements*, paragraph 5 and 7; AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, Appendix A; and Reserve Bank of Australia (2017). Glossary RBA. [online] Available at: <https://www.rba.gov.au/glossary/> [Accessed 23 November 2020].

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³ Parliamentary Budget Office Report no.1/2020, available from [https://www.aph.gov.au/About Parliament/Parliamentary Departments/Parliamentary Budget Office/Publications/Research reports/Alternative financing of government policies](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Alternative_financing_of_government_policies) (accessed on 23 November 2020).

⁴ Department of Finance, *Finance Advice Paper*, July 2018, available from <https://www.finance.gov.au/sites/default/files/2019-10/advice-paper-general-principles-for-recognition-of-expenditure.pdf> [accessed on 23 November 2020].

⁵ Australian Government Actuary Report: Reporting for Help Receivable for 2019–20