Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 351

Topic: Government’s Balance Sheet

Hansard Page: Written

Senator EGGLESTON asked:

1. There is about $13 billion in student loans on the assets side of the Commonwealth's balance sheet.
   a) How are these assets valued on the Commonwealth's balance sheet?
   b) Are these values at face value, or are they written down to reflect the expected value of the repayments of these assets?
   c) Do these values consider the fact that student loans are generally only lifted at the inflation rate rather than a commercial interest rate?
2. On the assets side of the general government balance sheet, how much constitutes cash or the non-equity investments of the Future Fund, the Building Australia Fund, the Education Investment Fund or the Health Investment Fund?
3. What is the justification for using these cash holdings of the future fund and other funds to offset gross debt?
   We have been advised that the Building Australia Fund for example is holding considerable cash due to imminent drawdowns for the government. But since these "current" liabilities are not recognised on the balance sheet why do we use these assets to offset our gross debt?

Answer:

This question was referred to the Department of Education, Employment and Workplace Relations. The Department has advised that:

(a) The value of the student loans reported in the Australian Government’s Balance Sheet ($12.3 billion made up of $11.5 billion for HECS/HELP loans and $0.8 billion for SFSS loans) is determined by actuarial assessment. Each year the Department of Education, Employment and Workplace Relations engages an actuary to value the loans.

(b) The loans are recorded at their fair value and are accounted for as concessional loans in accordance with the requirements of the Finance Ministers’ Orders for Financial Reporting and Australian Accounting Standard AASB139 – Financial Instruments: Recognition and Measurement. The assessment reflects the face value of debt which is not expected to be repaid and the fair value of the debt which is calculated as the present value of projected future cash flows.

(c) Yes. The assessment of fair value recognises that indexation is based on the Consumer Price Index rather than a real interest rate.

Question 2

This question was referred to the Department of Finance and Deregulation. The Department has advised that:
In the 2010-11 Budget, $64.4 billion of the government's assets were cash or non-equity investments of the Future Fund, the Building Australia Fund, the Education Investment Fund and the Health Investment Fund in 2010-11.

Question 3

The Government is required under the *Charter of Budget Honesty Act 1998* to prepare the Budget papers in accordance with external reporting standards, which, as defined in the Act and also outlined in the budget papers, means the concepts and classifications set out in the ABS' Australian System of Government Finance Statistics (GFS) and the public sector accounting standards developed by the Public Sector Accounting Standards Board.

Net debt is also calculated in accordance with these standards. Net debt is defined in the GFS as equalling deposits held plus proceeds from advances plus borrowing, minus cash deposits plus investments plus advances outstanding. The classification of the assets of the Nation-building Funds and the Future Fund are presented in accordance with these external standards.

The Government's medium term fiscal strategy is to improve net financial worth. Net financial worth is defined by the GFS as equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates all classes of financial assets and liabilities, only some of which are included in net debt.

(Answers to questions 2 and 3 replicate those provided to BET 60).