

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 62

Topic: Accounting Treatment of Net Debt

Hansard Page: E75-76 (02/06/2010)

Senator JOYCE asked:

Senator JOYCE—Without being too pedantic, I want to jump back into your accounting treatment of net debt. What is the current outstanding public service liability?

Mr Ray—For?

Senator JOYCE—It is about \$125 billion or something, isn't it?

Mr Ray—The superannuation liability?

Senator JOYCE—How much are we actually—

Mr Ray—It is disclosed in the—

Senator JOYCE—Maybe it is \$130 billion now.

Mr Ray—The actual number is probably not in here.

Senator JOYCE—I am trying to do this from memory. It was \$125 billion. It may be up to \$132 billion or something.

Mr Ray—This is an estimate, not an actual. The estimate for the end of 2009-10 is \$123 billion, in round numbers.

Senator JOYCE—How much have we got in the Future Fund?

Mr Ray—I do know that.

Senator JOYCE—Is it \$65 billion or something like that?

Mr Ray—Ms Harris will get it for you.

Ms Harris—As at 30 March 2010 the Future Fund had total assets of \$67.6 billion.

Senator JOYCE—What is our liability?

Mr Ray—It is \$123 billion. That is an estimate.

Senator JOYCE—Where is that \$56 billion liability booked? Seeing that we are putting the assets—

Mr Ray—We book it in net financial worth. I think we have discussed this before. It is precisely for this reason that the government in its medium-term fiscal strategy looks to net financial worth not to net debt.

Senator JOYCE—What is the net financial worth of the government's position in 2012-13?

Mr Ray—In 2012-13 it is negative 11.1 per cent of GDP.

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Senator JOYCE—What is that as a number?

Mr Ray—It is \$173.8 billion.

Senator JOYCE—Dollars out the back door.

Mr Ray—I do not want to say ‘out of the back door’, but negative.

Senator JOYCE—Negative 11 per cent.

Mr Ray—It has been negative for as long as the series has been kept.

Senator Sherry—Including under the previous government, obviously.

Senator JOYCE—How do you define ‘booking the asset’ in your net debt position when you are not booking the liability in the same process?

Mr Ray—We do not book all of the assets for the Future Fund in net debt. Some of the assets of the Future Fund, the equity fundings and the Telstra holding, are not booked in net debt, and their other alternative assets. Sorry, I take that back. I think alternative assets may be in net debt.

Senator JOYCE—How much is in alternative assets?

Mr Ray—I think \$7 billion.

Senator JOYCE—But they are not in net debt?

Mr Ray—I have to take that on notice because again this is beyond my account expertise. Someone will help me. I have a feeling it might be in net debt but I do not know. But the equity holdings and the Telstra holdings are not in net debt. They are in net financial worth.

Senator JOYCE—So where is the accounting standard that says specifically that you can take up an asset but you do not recognise the eminent liability in the same assessment?

Mr Ray—Senator, if you want to have a detailed conversation about accounting standards you would need to talk to the accountants in the Department of Finance rather than to us.

Senator JOYCE—In my perusal of AASB 1049, I notice that in fact it specifically precludes a corridor approach, so how did you manage to do it?

Senator Sherry—As Mr Ray has already indicated, it is a matter for the Department of Finance.

Senator JOYCE—It calls into question the whole statement of where your net debt is.

Senator Sherry—It is a matter for the Department of Finance, Senator.

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Answer:

- Net debt is a specific statistical term defined in the “ABS GFS Manual” – full title Australian System of Government Finance Statistics – Concepts Sources and Methods, prepared independently by the Australian Bureau of Statistics and based on international GFS requirements.
- GFS is one of the two systems the government needs to comply with in its financial reporting. The GFS Manual is the “appropriate accounting standard” in this situation because the other system (Australian Accounting Standards or AAS) does not contain definitions for a range of government-specific statistics, such as net debt.
- The definition of net debt is on page 259 of the ABS GFS Manual – “It is equal to (deposits held plus proceeds from advances plus borrowing) minus (cash and deposits plus investments plus advances outstanding).”
- This equates to all government interest bearing liabilities – not just government securities – less the sum of those assets which are cash and deposits, advances paid, and investments loans and placements.
- While the GFS definition of net debt is a very technical definition and is supported by further definitions of each of its components that closely prescribe what is included and what is not included, the net debt concept could be paraphrased in simple terms as the amounts the government has borrowed, less the sum of cash and amounts borrowed from the government.