



**Australian Government**  
**Department of Finance**



Department of Finance

Submission to the  
Joint Committee of Public Accounts and Audit

Inquiry into Alternative Financing Mechanisms

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## 1. Introduction

- 1.1 The Department of Finance (Finance) welcomes the opportunity to contribute to the Joint Committee of Public Accounts and Audit's (JCPAA's) Inquiry into alternative financing mechanisms including the following Parliamentary Budget Office (PBO) report:
- Parliamentary Budget Office Report No. 01/2020 *Alternative Financing of Government Policies — Understanding the Fiscal Costs and Risks of Loans, Equity Injections and Guarantees*<sup>1</sup>.
- 1.2 This submission provides contextual information, addressing a number of areas relevant to the Inquiry's terms of reference, including:
- the reporting framework;
  - Government funding through equity investments, public policy loans and guarantees; and
  - transparency of approaches to Government funding.

## 2. The reporting framework

- 2.1 The *Public Governance, Performance and Accountability Act 2013* (PGPA Act)<sup>2</sup> and the *Corporations Act 2001*<sup>3</sup> mandate<sup>4</sup> the application of Australian Accounting Standards (AAS) for annual financial statements and the *Charter of Budget Honesty Act 1998* (the Charter)<sup>5</sup> requires the application of Government Finance Statistics (GFS) and AAS for Budget reports. AAS and GFS standards have been largely aligned or 'harmonised' at the whole of government and general government sector (GGS) levels since 2009, through the application of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*<sup>6</sup>. Where there are material differences between AAS and GFS, AASB 1049 requires that these differences be disclosed in notes to the financial statements. AASB 1055 *Budgetary Reporting*<sup>7</sup> requires entity and Australian Government financial statements to explain major variances to Budget.
- 2.2 All government expenditure is subject to the requirements of the PGPA Act.
- 2.3 The PGPA Act requires the Australian Government to prepare monthly financial statements in a form consistent with budget estimates. The monthly statements comply with AAS.
- 2.4 The PGPA Act requires the Auditor-General to provide an opinion as to whether the annual financial statements of Commonwealth entities and the Australian Government comply with AAS.

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<sup>1</sup> [Parliamentary Budget Office – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)

<sup>2</sup> [Public Governance, Performance and Accountability Act 2013](#)

<sup>3</sup> Section 296 [https://www.legislation.gov.au/Details/C2017C00269/DownloadCorporations Act 2001](https://www.legislation.gov.au/Details/C2017C00269/DownloadCorporations%20Act%202001) (volume 2) – for Commonwealth controlled companies

<sup>4</sup> Sections 48 and 42 [https://www.legislation.gov.au/Details/C2017C00269/DownloadPGPA Act](https://www.legislation.gov.au/Details/C2017C00269/DownloadPGPA%20Act) - for the Consolidated Financial Statements and financial statements of individual Commonwealth entities

<sup>5</sup> Section 12(3) *Charter of Budget Honesty Act 1998*

<sup>6</sup> AASB 1049 Whole of Government and General Government Sector Financial Reporting, AASB Website: [aasb.gov.au](https://aasb.gov.au)

<sup>7</sup> AASB 1055 Budgetary Reporting, AASB Website: [aasb.gov.au](https://aasb.gov.au)

- 2.5 AAS are issued by the Australian Accounting Standards Board (AASB) and include International Financial Reporting Standards as adopted in Australia for use by the not-for-profit sector and other specific standards. The AASB has concluded that application of AAS results in financial statements “containing relevant and reliable information about the transactions, other events and conditions to which they apply”<sup>8</sup>.
- 2.6 GFS are developed by the International Monetary Fund and are issued for Australian Government use by the Australian Bureau of Statistics (ABS).
- 2.7 All Australian Government financial statements are consistent with the Uniform Presentation Framework<sup>9</sup> (UPF). The UPF is a national agreement designed to provide consistent presentation of government financial information by the Australian, state and territory governments on a basis broadly consistent with AASB 1049.
- 2.8 Investments for policy purposes are reflected in the Australian Government’s financial statements, consistent with the requirements of AAS and GFS. AAS and GFS require government funding to be classified on the basis of its economic substance, rather than its legal form.
- 2.9 Equity and loan transactions result in recognition of financial assets to the government and an increase in balance sheet liabilities from borrowing to fund the transactions.
- 2.10 Equity and loan funding is generally provided to an entity as needed. Successive funding payments are assessed as financial assets or grants when made. These payments are not retrospectively reclassified if the expectation of recovery changes.

### 3. Government funding through equity investments, public policy loans and guarantees

- 3.1 Decisions about funding through equity investments, public policy loans and guarantees are made at an individual program level, based on the Government’s objectives.
- 3.2 In 2020, Finance published the Commonwealth Investment Framework<sup>10</sup> (CIF) to support policy development where funding approaches such as equity, loans and guarantees are the most appropriate to achieve desired policy objectives.
- 3.3 Grants are an additional way in which government may fund programs. Grant programs assume the Government will receive no return of the amount outlaid and are widely used to achieve policy objectives by providing funding for service delivery, capacity building, research or infrastructure.
- 3.4 The Government can fund programs by providing loans or by taking an equity interest. Equity interests are normally in the form of shares.

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<sup>8</sup> Paragraph 8 AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, AASB Website: [aasb.gov.au](https://www.aasb.gov.au)

<sup>9</sup> [Uniform Presentation Framework](#)

<sup>10</sup> [Commonwealth Investment Framework](#)

- 3.5 Equity investments or loans may be appropriate where the Government believes it requires a return of its investment. For example,
- Equity investments may be made where the Government decides that it wants a more active role in the management of the resulting activity.
  - Loans may be provided if the Government requires a return on investment, but does not want to take an active part in the management of the resulting activity.
- 3.6 For expenditure to be classified as equity, it is necessary that the investment be expected to be recovered in real terms, by generating a return at least equal to the projected long-term inflation rate. Where this criterion is not met, the expenditure would be classified as a grant. Equity investments are fully disclosed in the financial statements of the portfolio entity that has policy responsibility, within the entity's Annual Report. When financial information is consolidated at the whole of government level, related equity transactions are netted out (eliminated), in the same way as other types of transactions between entities within government.
- 3.7 For expenditure to be classified as a loan there must be a contract requiring repayment and an expectation that payment consistent with the contractual terms will be received. A loan is concessional where the Government provides more favourable loan terms than the borrower could obtain in the marketplace (typically, interest at less than the market rate). If there is no reasonable expectation a loan will be repaid, it is accounted for as if it were a grant.
- 3.8 Loan programs are fully disclosed in the financial statements of the portfolio entity that has policy responsibility, within the entity's Annual Report. In addition to financial reporting disclosures, portfolio entities report program details in their corporate publications, including key performance indicators (KPIs) and achievements against these KPIs. Information on major loan programs is also included in the Statement of Risks published at Budget<sup>11</sup> and the Mid-Year Economic and Fiscal Outlook<sup>12</sup> (MYEFO).
- 3.9 Further information regarding the impact of expenditure including through public policy loans and equity investments on the key budget aggregates, such as net operating balance (NOB), fiscal balance (FB), net debt, headline cash balance (HCB) and underlying cash balance (UCB) is available in *General Principles for Recognition of Expenditure in Budget Aggregates (RMG 117)*<sup>13</sup>.

### *Equity investments*

- 3.10 A government equity investment occurs where the Government becomes an owner or part owner of a business, usually through the purchase of shares in an entity outside the GGS (such as public financial corporations, public non-financial corporations or private sector entities). Examples of equity investments include government funding of Australia Post, NBN Co Limited (NBN) and Moorebank Intermodal Company.

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<sup>11</sup> Refer page 245, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>12</sup> Refer page 69, <https://archive.budget.gov.au/2020-21/myefo/download/myefo-2020-21.pdf>

<sup>13</sup> RMG 117 [https://www.finance.gov.au/general-principles-recognition-expenditure-budget-aggregates-rmg-117/General principles for the recognition of expenditure in budget aggregates](https://www.finance.gov.au/general-principles-recognition-expenditure-budget-aggregates-rmg-117/General%20principles%20for%20the%20recognition%20of%20expenditure%20in%20budget%20aggregates)

- 3.11 Many government equity investments are for public policy purposes. When the Government makes equity investments, it maintains a degree of control over its investment as a shareholder, to facilitate the achievement of public policy goals and protect the investment itself.
- 3.12 Equity investments are most commonly used to address a market gap where there is a shortfall from other parties or where there are risks that the private sector is unwilling to take and where the Government is seeking the ability to influence the strategic delivery of policy objectives.
- 3.13 Investments for policy purposes are reflected in Australian Government financial statements, consistent with AAS requirements. The Auditor-General examines compliance with AAS through financial statement audits.
- 3.14 For example, the Government's investment in NBN is reported as an investment in the annual financial statements in the Annual Report of the Department of Infrastructure, Transport and Regional Development and Communications (DITRDC) and in the GGS financial statements of the Australian Government's Budget and Consolidated Financial Statements (CFS). The assets, liabilities, revenues and expenses of NBN are consolidated into the whole of government statements in the CFS.
- 3.15 The Government's equity investments are reported in the Budget:
- on the GGS Balance Sheet under the *Equity investments* line item<sup>14</sup>; and
  - on the GGS Cash Flow Statement in the *Net cash flows from investments in financial assets for policy purposes*<sup>15</sup>.
- 3.16 *Net cash flows from investments in financial assets for policy purposes* (both equity investments and loans) are disaggregated further in the note *Reconciliation of general government sector underlying and headline cash balance estimates*<sup>16</sup>.

### Public Policy Loans

- 3.17 Commercial loans can be used to bridge a commercial finance market gap. An example where government commercial loans could be used is where the volume of private finance required is more than that available at the time the project is needed or is not available upfront because there is an expectation that private finance would be available later (following a de-risking of certain upfront risks).
- 3.18 Concessional loans are used to support policy objectives where private financing is not available or is unaffordable. A loan is concessional where the government provides more favourable loan terms than the borrower could obtain in the marketplace (typically, interest at less than the market rate).

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<sup>14</sup> Table 10.2, page 311, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>15</sup> Table 10.3, page 313, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>16</sup> Table 3.7, page 88, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

- 3.19 All loans the Government makes are public policy loans. They are reported in the Budget in:
- the GGS Balance Sheet in *Advances paid*<sup>17</sup>; and
  - the GGS Cash Flow Statement in *Net cash flows from investments in financial assets for policy purposes*<sup>18</sup>.
- 3.20 *Accounting for Concessional Loans* (RMG 115)<sup>19</sup> provides guidance to Commonwealth entities in accounting for concessional loans.

## Guarantees

- 3.21 A guarantee is a promise whereby the Government assumes responsibility for the debt, or performance obligations, of another party on default of its obligation.
- 3.22 There may be different policy reasons for providing a guarantee. For example, a financial guarantee may be provided to strengthen the recipient's credit profile to enable private financing instead of requiring direct Government financing.
- 3.23 By underwriting the risks that the private sector is unsuited or unwilling to bear, Government can "crowd-in" financing to projects earlier or to projects that would otherwise have difficulty in obtaining private financing (whether at all or on reasonable terms) by enhancing the credit profile of a third party or project.
- 3.24 The Government issues both contractual and non-contractual guarantees.
- 3.25 Contractual guarantees are recognised as financial liabilities with an impact on FB, AAS operating result and net and gross debt, as well as UCB if paid. If a payment is probable for a contractual guarantee it has an impact on UCB in the year the payment is expected.
- 3.26 Legislative and other non-contractual guarantees are recognised as liabilities if they are reliably measurable and it is probable a payment will be made. Non-contractual guarantees recognised as liabilities have an impact on FB and AAS operating results and net and gross debt. As with contractual liabilities, if a payment is probable for a non-contractual guarantee it has an impact on UCB in the year the payment is expected.
- 3.27 Legislative and other non-contractual guarantees that are not reliably measurable or probable to result in a payment are classified as contingent liabilities and disclosed in the relevant entity's financial statements. Contingent liabilities with a value of over \$20 million in any one year or \$50 million over the forward estimates are reported in the Budget Statement of Risks<sup>20</sup>.
- 3.28 *Indemnities, Guarantees and Warranties by the Commonwealth* (RMG 414)<sup>21</sup> provides guidance on granting and accounting for indemnities, guarantees or warranties on

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<sup>17</sup> Table 10.2 page 311, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>18</sup> Table 10.3 page 313, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>19</sup> RMG115 [Accounting for Concessional Loans](#)

<sup>20</sup> Page 245, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>21</sup> RMG 414 [Indemnities, Guarantees and Warranties by the Commonwealth](#)

behalf of the Commonwealth.

- 3.29 Information on the impact of these expenditures on the key budget aggregates is available in *General Principles for Recognition of Expenditure in Budget Aggregates (RMG 117)*<sup>22</sup>.

## 4. Transparency of approaches to Government funding

- 4.1 Corporate publications of entities provide a broad range of detail on Government policies and programs, including in entity Annual Reports, entity financial statements, Portfolio Budget Statements (PBS) and Corporate Plans.
- Entity annual financial statements include extensive disclosures on financial assets, including valuation methods, valuation adjustments, assessment of financial risks and for loans held at amortised cost, expected credit losses.
- 4.2 The CFS, prepared by Finance, and audited by the Auditor-General, provide the annual, end-of-year financial statements for the Commonwealth public sector and present the consolidated results for the Commonwealth as well as disaggregated information on the various sectors of government.
- 4.3 Budget documents provide a range of financial aggregates in addition to UCB, including several balance sheet aggregates. These include FB and HCB<sup>23</sup>; NOB, net debt and gross debt<sup>24</sup>; net financial worth and net worth<sup>25</sup>; and AAS operating result<sup>26</sup>.
- 4.4 PBO Report No. 01/2020 *Alternative Financing of Government Policies — Understanding the Fiscal Costs and Risks of Loans, Equity Injections and Guarantees* (PBO Report) acknowledges the increased transparency of Commonwealth Budget reporting<sup>27</sup>. The PBO Report suggests that the use of financing arrangements other than grants by the Commonwealth has been increasing and that the full cost of these initiatives is not always shown in the UCB. In particular, the PBO found that impacts from revaluations can be significant and may not be clearly shown in Budget documentation.
- 4.5 The PBO Report makes suggestions to further increase transparency for non-grant financing arrangements. PBO's suggested enhancements and Finance's assessment of the current reporting arrangements for each proposal are outlined in Attachment A.
- 4.6 A summary of the location of detailed information available, as an example from the PBO Report, for the NBN, the Higher Education Loan Program and Australian Rail Track Corporation, is provided at Attachment B.

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<sup>22</sup> RMG 117 [General Principles for Recognition of Expenditure in Budget Aggregates](#)

<sup>23</sup> Table 3.2 Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>24</sup> Table 3.1 Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>25</sup> Table 3.9 Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>26</sup> Table 10.1 Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>27</sup> Page 2, PBO Report No. 01/2020, [Parliamentary Budget Office – Parliament of Australia \(aph.gov.au\)](#)



PBO Proposal		Current reporting arrangements
<p>The expected financial impacts of new policies</p>	<p>Measure descriptions could include:</p> <ul style="list-style-type: none"> <li>• for loans, the:                             <ul style="list-style-type: none"> <li>• total expected size of the loan program;</li> <li>• an estimate of the amount of debt that is not expected to be repaid;</li> <li>• and detail on the terms of the loan</li> </ul> </li> <li>• for equity injections:                             <ul style="list-style-type: none"> <li>• the full value of the equity injection;</li> <li>• the expected rate of return at inception;</li> <li>• the key assumptions underpinning the expected return on the equity injection; and</li> <li>• the expected impact on fiscal aggregates, such as net financial worth</li> </ul> </li> <li>• for all policies using alternative financing, the public debt interest associated with the measure.</li> </ul>	<p>Measures are reported in Budget Paper 2<sup>28</sup> (budget measures) and in the MYEFO<sup>29</sup>.</p> <p>Finance notes that:</p> <ul style="list-style-type: none"> <li>• the measure descriptions disclose the full amount of proposed loan or equity funding and refer to relevant Ministerial press releases for further details (unless commercial-in-confidence)                             <ul style="list-style-type: none"> <li>• where loans are concessional, the value of the concession, which includes default risk for which the government is not compensated by interest payments, is included in the FB and AAS operating result impact.</li> <li>• where loans are on commercial terms the interest rate compensates the government for default risk (these risks are not separately reported in the Budget).</li> <li>• any initial difference between equity funding amounts initially invested and the fair value of purchased equity is reflected in the FB impact (equity investments are carried at fair value under AASB 9 <i>Financial Instruments</i><sup>30</sup>).</li> </ul> </li> <li>• further information can also be obtained from the relevant entity's budget documentation, such as PBS. Information on expected project returns is available in the annual corporate plans of Government Business Enterprises (GBEs).</li> </ul> <p>Costing conventions are that PDI is not allocated to specific measures, given it is the global cost of borrowing for the whole of government.</p> <p>Details of borrowers, amounts loaned and interest rates on loans or loan programs with an outstanding balance of over \$200 million are shown in the Budget Statement of Risks<sup>31</sup>.</p>

<sup>28</sup> Budget Paper No 2 2021-22, [https://budget.gov.au/2021-22/content/bp2/download/bp2\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp2/download/bp2_2021-22.pdf)

<sup>29</sup> Appendix A MYEFO 2020-21, <https://archive.budget.gov.au/2020-21/myefo/download/myefo-2020-21.pdf>

<sup>30</sup> AASB 9 Financial Instruments, AASB Website: [aasb.gov.au](https://www.aasb.gov.au)

<sup>31</sup> Pages 292-295, table 9-3, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

PBO Proposal		Current reporting arrangements
<p>The expected financial impacts of ongoing programs</p>	<p>When revaluations are expected or ‘known’, budget documents could include:</p> <ul style="list-style-type: none"> <li>• a detailed breakdown of forecast revaluations</li> <li>• the forecast effect of revaluations on net financial worth by policy area</li> <li>• forecast revaluations at a program level, where the expected revaluation is greater than \$200 million over the forward estimates period.</li> </ul> <p>To improve the transparency of the risks associated with government guarantees, the Statement of Risks could include:</p> <ul style="list-style-type: none"> <li>• a table showing the total potential exposure and expected value of exposure associated with each quantifiable government guarantee.</li> </ul>	<p>In some circumstances, individual forecasts of revaluations of loans, equity and guarantees would be impracticable as these are influenced by a variety of factors, including valuation method and external market conditions, which are difficult to estimate.</p> <p>The CFS provide details of actual revaluations for both the GGS and Australian Government. For example, the CFS<sup>32</sup> provides details on asset write downs and asset revaluations respectively. Further details are provided in entity financial statements.</p> <p>In relation to potential and expected exposures from government guarantees:</p> <ul style="list-style-type: none"> <li>• guarantees that arise from contractual obligations are recognised as financial liabilities and expenses under AASB 9 and have an FB and AAS operating result impact.</li> <li>• non-contractual guarantees which are probable and quantifiable are recognised as provisions at their expected value under AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i><sup>33</sup> and have an FB and AAS operating result impact.</li> <li>• most non-contractual guarantees however are either not probable or are unquantifiable and are disclosed as contingent liabilities under AASB 137 in entity financial statements and in the CFS.</li> </ul> <p>Material contingencies are disclosed in Budget Paper 1 (Statement of Risks)<sup>34</sup>.</p>

<sup>32</sup> Notes 4 and 7, [Consolidated Financial Statements 2019-20](#)

<sup>33</sup> AASB 137 Provisions, Contingent Liabilities and Contingent Assets, AASB Website: [aasb.gov.au](http://aasb.gov.au)

<sup>34</sup> Statement 9, table 9.2, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

PBO Proposal		Current reporting arrangements
<p>The outcomes of existing and historical policy</p>	<p>The Final Budget Outcome could include:</p> <ul style="list-style-type: none"> <li>• revaluations, separated into those for newly acquired financial assets and for existing financial assets</li> <li>• discussion of the drivers of revaluations, such as changes in market prices, exchange rates, and actuarial revaluations</li> <li>• a summary of all Commonwealth Government financial assets that have had cumulative equity injections of greater than \$200 million. This should show the cumulative equity injected and the most recent fair value estimate of the entity.</li> </ul>	<p>The CFS provides details of actual revaluations for both the GGS and Australian Government<sup>35</sup>. Explanation of significant balances and movements from the prior year are included in these notes as necessary. Note 9B <i>Financial Instruments</i> in the 2019-20 CFS also provides an analysis of the sensitivity of financial assets to revaluations due to movements in market parameters.</p> <p>AAS and the Australian Government’s accounting policies generally require newly acquired assets to be recognised at fair value, so these are not revalued.</p> <p>Under GFS, equity and loan revaluations are treated as Other Economic Flows and identified in the GGS sector operating statement<sup>36</sup> where material:</p> <ul style="list-style-type: none"> <li>• downward revaluations of loans are included in the AAS operating result, but not FB.</li> <li>• revaluations of equity investments, apart from administered investments, are also included in the AAS operating result.</li> </ul> <p>Details of individual valuations of material loans and equity are included in the relevant entity Annual Report in the financial statements. Cumulative equity injections are shown in the Statement of Changes of Equity in GBE financial statements.</p> <p>Where the Government invests in a GBE, the initial cash investment is equal to the fair value of the entity. Subsequent measurement using discounted cash flow or net assets will depend of the availability of reliable information on future cash flows.</p>

<sup>35</sup> Note 4 and 7, [Consolidated Financial Statements 2019-20](#)

<sup>36</sup> Table 10.1, page 309-310, Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

*NBN*

- Funding for the NBN was announced as a capital measure in the 2011-12 Budget<sup>37</sup>.
- NBN's valuation is reported annually in the financial statements contained within the DITRDC Annual Report.
- Loan funding provided for NBN to complete the rollout was announced in the 2016-17 MYEFO<sup>38</sup>.
- The extension of the loan was announced in the 2018-19 MYEFO<sup>39</sup>.
- The loan balance is also published in the DITRDC annual financial statements<sup>40</sup> and information on the interest rate and term is outlined in the Budget Statement of Risks<sup>41</sup>.
- The 2019-20 DITRDC annual financial statements,
  - show that at 30 June 2019, NBN was valued at \$8.7 billion<sup>42</sup>, based on its net assets, against \$29.5 billion in equity invested<sup>43</sup>. Revaluations are shown in aggregate in the Budget papers.
  - show that the most recent NBN valuation of \$13.8 billion was made on the basis of expected future cash flows (discounted cash flows).
  - provide a detailed explanation of the valuation method used to arrive at fair value.
- The estimated 2020-21 investment in NBN is shown in the DITRDC PBS<sup>44</sup>.

<sup>37</sup> Page 342, 2011-12 Budget Paper No. 2

<sup>38</sup> Page 103, [2016-17 MYEFO](#)

<sup>39</sup> Page 113, [2018-19 MYEFO](#)

<sup>40</sup> [DITRDC 2019-20 Annual Report \(infrastructure.gov.au\)](#), page 161

<sup>41</sup> Page 293, 2021-22 Budget, [Budget Paper No 1](#)

<sup>42</sup> Note 4.1D, page 166, [2019-20 DITRDC Annual Report](#)

<sup>43</sup> Page 127, [NBN 2019-20 Annual Report](#)

<sup>44</sup> Table 3.8, page 97, [DITRDC 2021-22 Portfolio Budget Statements](#)

### *The Higher Education Loan Program*

- The PBO Report notes that a significant number of Higher Education Loan Program (HELP) loans (16% in 2018-19)<sup>45</sup> were not expected to be repaid. This is reflected in the fair value of the loans and net financial worth, but defaults are classified as revaluations with no impact on UCB or FB.
- Finance notes that the HELP accounting policy changed in the 2020-21 Budget and now includes the initial recognition of expected defaults on HELP loans in FB. This has brought the accounting treatment for HELP loans in line with other Government concessional loans and improved Budget transparency.
- The estimated value of HELP loans is shown under the Advances paid line item in the Budget balance sheet<sup>46</sup>. The net cash outlay each year on HELP and other student loans, changes in the fair value of existing loans and indexation are also shown in the Budget as well as in the Department of Education, Skills and Employment's (DESE) PBS<sup>47</sup>.
- The fair value of HELP loans, key valuation assumptions made, fair value adjustments and interest revenue are disclosed in detail in the DESE 2019-20 Annual Report<sup>48</sup> along with an analysis of HELP default rates compared to budget<sup>49</sup>.

### *Australian Rail Track Corporation (ARTC)*

- The PBO Report uses ARTC's Inland Rail to illustrate the risk of revaluations<sup>50</sup>. The Report notes the Australian Government's investment in Inland Rail was assessed as equity on the basis of the return to ARTC and on a standalone basis, Inland Rail would not cover its costs. The report noted this would likely result in a downward revaluation to ARTC.
- Finance notes that:
  - Inland Rail is integral to ARTC and is not an unrelated social program.
  - The 2015 ARTC Inland Rail Business Case<sup>51</sup> notes that Inland Rail would generate cash flows to offset the initial capital outlay in nominal terms after approximately 42 years. The timeframe for returns reflects the unique nature of rail infrastructure assets, with the Business Case assuming a 50 year appraisal period and 100 year economic life for the rail assets.
  - The Government expects to earn a real rate of return on its investment (i.e. above the long-term inflation rate). The Government's investment in ARTC to deliver Inland Rail recognises the long-term nature of its return.

<sup>45</sup> Page 15, PBO Report No. 01/2020 [Parliamentary Budget Office – Parliament of Australia \(aph.gov.au\)](http://aph.gov.au)

<sup>46</sup> Table 10.2, page 311 and note 13 Advances paid and other receivables, page 334, 2021-22 Budget, [Budget Paper No 1](#)

<sup>47</sup> Table 3.8, page 95 [2021-22 DESE Portfolio Budget Statements](#)

<sup>48</sup> Page 43 and note G1.2, page 157, [DESE 2019-20 Annual Report](#)

<sup>49</sup> Page 43, [DESE 2019-20 Annual Report](#)

<sup>50</sup> Page 18, PBO Report No. 01/2020 [Parliamentary Budget Office – Parliament of Australia \(aph.gov.au\)](http://aph.gov.au)

<sup>51</sup> Page 20, [2015 ARTC Inland Rail Business Case](#)