

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

ANSWERS TO QUESTIONS ON NOTICE

Department/Agency: Parliamentary Budget Office

Topic: Alternative financing mechanisms

Senator: Mr Hill

Question reference number:

Type of question: Written

Date set by the committee for the return of answer: 02 September 2021

Number of pages: 4

Question:

Mr HILL: If I recall—and this is really technical stuff, so it's hard to hold in your head—in the case of the Inland Rail corporation, it's a profitable corporation that ordinarily has returned dividends to government, so that was one of the issues. In that example, there would be some calculations of impact, whereas I think the NBN, when it was in its construction phase, was not valued on that cash-flow basis, so it wouldn't have been possible in that instance until the valuation basis was changed. Is that broadly correct? The Auditor-General, I think, explained in quite tortuous detail the two different valuation methodologies that he can use for those kinds of projects.

Dr Helgeby: Certainly NBN only recently changed—I think it was a year or two years ago; I can't remember exactly—to a discounted cash-flow basis, because it was a startup and you really didn't have much sense about how this thing might work in detail over a period of time—how the cash flows would work. When you are choosing the valuation method, there's a strong need to have clarity before you use discounted cash flow, as it needs to be the preferable and more robust means of valuing something. In the case of ARTC and inland rail, I'll just go back to that point: there's Inland Rail, the project, but the equity is paid to ARTC, which is a viable business.

Mr HILL: Yes, okay. That makes sense. Could you just take on notice—or just give a bit of reflection after the hearing if there are any extra suggestions—whether in some circumstances, such as the Inland Rail, it might be sensible to also provide some transparency in the budget papers—if, as Senator Scarr said, we were looking at disaggregating some of the major investments—about the impact on future cash flows and dividends to government.

Answer:

The Australian Rail Track Corporation (ARTC) is a statutory corporation owned by the Government of Australia. ARTC, like most corporations, is subject to the financial reporting requirements specified in the *Corporations Act 2001*. These do not require an entity to include project-level financial reports, such as for the Inland Rail project.

Many corporations do, however, elect to provide information (financial and other) beyond that required by the relevant Australian Accounting Standards, although the nature of the business may mean that it is not possible to accurately separate the various projects from each other. This may happen, for example, because of equipment, labour or other resources are shared between projects.

The PBO does not have visibility or expertise sufficient to determine if the Inland Rail project could be reported on separately from other projects within ARTC.

The PBO notes, however, that Inland Rail and Adelaide to Tarcoola rail projects have been funded by the Australian Government through equity injections:

Australian Rail Track Corporation Ltd (ARTC): Operates and manages standard gauge rail track across Australia and is responsible for construction of the Inland Rail project. The Australian Government has entered into agreements with ARTC to provide equity financing of up to \$9.3 billion for delivery of the Inland Rail and Adelaide to Tarcoola rail projects. A total of \$940.8 million in equity payments have been made under these agreements to 30 June 2020 including \$425.7 million in 2019–20 (\$290.7 million in 2018–19).

Department of Infrastructure, Transport, Regional Development and Communications, 2019-20 Annual Report (page 168)

The issues raised in the current inquiry, and in the hearing, was whether Parliament may consider that, if public funding is specified at a project level, then it would also be appropriate for financial reporting to occur at the project level.

The PBO considers that there is scope for Government budget estimates reporting to provide more transparency on planned or forecast equity injections into particular projects, such as Inland Rail. The Government has announced an amount for total equity injections into the Inland Rail project:

The Australian Government will invest up to \$14.5 billion in equity, enabling the Australian Rail Track Corporation (ARTC), to deliver a stronger Inland Rail by 2027.

Moving ahead with Inland Rail 2020 (page 3)

These equity cash flows are included in Budget cash flows, under the heading *Cash flows from investments in financial assets for policy purposes* (2021-22 Budget Paper 1, page 313). This item is published in aggregate only, so it is not possible to determine the yearly profile of the equity funding for Inland Rail incorporated into the Budget.

The forecast cash flows are also included in the *Portfolio Budget Statement* for the *Department of Infrastructure, Transport, Regional Development and Communications*.

The Inland Rail equity financing component of the cash flows is not separately identified.

In its table of possible enhancements for budget reporting of ‘alternative financing’ mechanisms (p23), the PBO made suggestions relating to new and existing projects.

To illustrate the issues, if the PBO suggestions had been in place for the equity provided to Inland Rail, the following items would have been published in the subsequent budget update: the full value of the equity injection, expected rate of return at inception, the key assumptions underpinning that expected return, and the expected impact on fiscal aggregates such as net financial worth.

If the injection were then revalued, the Final Budget Outcome could include this in a table of revaluations, separated into those for newly acquired financial assets and those for existing financial assets. There would also have been a discussion of the drivers of revaluations, along with a summary of all Commonwealth Government financial assets that have had cumulative equity injections of greater than \$200 million, which would show the cumulative equity injected and the most recent fair value estimate of the entity.

The yearly profile for equity injections into the Inland Rail project may be subject to commercial-in-confidence considerations, in which case some of that information would have been entered as not for publication (‘nfp’).

In addition to the suggestions on page 23 of the PBO paper, other projects and programs, such as the equity and loan funding for the NBN, or the financial flows related to HELP loans, may also be candidates for budget reporting in a manner analogous to that used for the DisabilityCare Australia Fund. The presentation of that Fund is reproduced below from the 2021-22 *Portfolio Budget Statement* for the *Department of Finance* (page 29). This table provides a detailed reconciliation of planned and/or forecast financial stocks and flows.

Other than for security and commercial-in-confidence considerations, the PBO does not see any barrier to presenting similar financial information for all programs funded through ‘alternative financing’ mechanisms.

Please see the answer to QoN 2 for more information.

Table 2.2.1.1: DisabilityCare Australia Fund (DCAF) – Estimates of fund balances

	2020-21	2021-22	2022-23	2023-24	2024-25
	Estimated	Budget	Forw ard	Forw ard	Forw ard
	actual		estimate	estimate	estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
DisabilityCare Australia Fund (a)					
Opening balance	16,507,380	14,962,851	14,646,155	14,829,059	15,218,717
Revenue and gains					
Additional Medicare Levy - equity (b)	4,712,500	4,965,000	5,210,000	5,472,500	-
Investment earnings and gains	94,902	72,488	71,786	72,845	75,982
Expenses					
Management fees	(13,785)	(12,232)	(12,138)	(12,310)	(12,645)
Transfers to reimburse accounts for DisabilityCare Australia expenditure (c)					
Commonw ealth - equity	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)
States and Territories - expense	(2,338,146)	(1,341,952)	(1,086,744)	(1,143,377)	-
Closing balance	14,962,851	14,646,155	14,829,059	15,218,717	11,282,054

(a) The DCAF consists of the DCAF Special Account and investments of the DCAF. The investments are managed by the Future Fund Board of Guardians. The special account is used to record all transactions relating to the DCAF, including interest and Medicare levy proceeds received and payments.

(b) The Commonwealth agreed to credit the DCAF with money raised from the increase in the Medicare levy for 10 years to fund the additional costs of delivering the National Disability Insurance Scheme (NDIS) (formerly DisabilityCare Australia). This 10 year period concludes in 2023-24.

(c) The transfers relate to reimbursing the Commonwealth and the States and Territories for the costs of the operations of the NDIS.

Note: The expenses figure does not include losses made on investments; rather this amount has been applied against investment earnings and gains.

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

ANSWERS TO QUESTIONS ON NOTICE

Department/Agency: Parliamentary Budget Office

Topic: Alternative financing mechanisms

Senator: Mr Hill

Question reference number:

Type of question: Written

Date set by the committee for the return of answer: 02 September 2021

Number of pages: 3

Question:

Mr HILL: If I recall—and this is really technical stuff, so it's hard to hold in your head—in the case of the Inland Rail corporation, it's a profitable corporation that ordinarily has returned dividends to government, so that was one of the issues. In that example, there would be some calculations of impact, whereas I think the NBN, when it was in its construction phase, was not valued on that cash-flow basis, so it wouldn't have been possible in that instance until the valuation basis was changed. Is that broadly correct? The Auditor-General, I think, explained in quite tortuous detail the two different valuation methodologies that he can use for those kinds of projects.

Dr Helgeby: Certainly NBN only recently changed—I think it was a year or two years ago; I can't remember exactly—to a discounted cash-flow basis, because it was a startup and you really didn't have much sense about how this thing might work in detail over a period of time—how the cash flows would work. When you are choosing the valuation method, there's a strong need to have clarity before you use discounted cash flow, as it needs to be the preferable and more robust means of valuing something. In the case of ARTC and inland rail, I'll just go back to that point: there's Inland Rail, the project, but the equity is paid to ARTC, which is a viable business.

Mr HILL: Yes, okay. That makes sense. Could you just take on notice—or just give a bit of reflection after the hearing if there are any extra suggestions—whether in some circumstances, such as the Inland Rail, it might be sensible to also provide some transparency in the budget papers—if, as Senator Scarr said, we were looking at disaggregating some of the major investments—about the impact on future cash flows and dividends to government.

CHAIR: Can I just add to that: I also ask that you look, in addition to any benefits, at any drawbacks that you might see.

Answer:

One of the purposes of the PBO is “to improve public understanding of budget and fiscal policy issues” (Parliamentary Service Act 1999, Section 64B). The PBO’s report *Alternative Financing* is one of our products aimed at improving transparency and understanding of the Budget.

The benefit of greater transparency is the potential for better decision making, and an improved ability for Parliament and civil society to scrutinise decisions already made.

The report is framed from the perspective that, in order to improve financial decision making, it is important to have reliable information in which can be used to answer a number of key questions, such as:

- How much will this purchase cost, now and into the future?
- What is the expected return?
- What additional risks come with this purchase?
- What can we learn from similar previous purchases?

“When parliamentarians and society ... consider policies for the nation, similar considerations can aid the decision-making process. Ideally, information relevant to answering these questions would be available and accessible as policy proposals are considered and debated. When alternative financing arrangements are employed in policies, however, these questions can be more difficult to answer.” (page 17 of the *Alternative Financing* report)

While the budget papers provide much information at an aggregate level, more detail is required when considering potential programs and assessing existing programs.

The aggregate amounts presented in the Budget papers bring together the impacts of many different components.

Given that these components exist in the underlying data, and that electronic publication does not limit the extent of possible publication, the PBO sees no impediment, other than security or commercial confidentiality, to publishing as much relevant, accessible information as possible where the methods of funding government policy are complex.

To illustrate the opportunities, here are three simple relevant examples where publishing additional, disaggregated information may assist Parliament in scrutinising policy:

- forecast dividend and interest income, each of which are included only at the aggregate level in the Budget financial statements;
- forecasts for the balance sheet item, *Investment, Loans and Placements*, the largest asset reported, which currently has almost no further breakdown in the Budget, but which includes much of the value of the Future Fund and other government funds; and
- forecasts for the balance sheet item, *Investments in Other Public Sector Entities*, for which there is no further detail in the Budget but includes the Reserve Bank of Australia, the NBN and the Australian Rail Track Corporation.

In addition to these general points, the *Alternative Financing* report identifies several specific items where additional information would improve understanding of the budget and enhance decision making and evaluation. These are reproduced below (page 23 of the report).

In the PBO’s view, for items that the Parliament considers significant, program and project level forecasts, estimates and outcomes would ideally be provided on an *ongoing* basis, as the programs and projects evolve. This would be at least annual, and not only at the time of initial consideration.

Table 4: Possible enhancements to budget reporting – summary

<i>The expected financial impacts of new policies</i>	<p>Measure descriptions could include:</p> <ul style="list-style-type: none"> • <i>for loans</i>, the total expected size of the loan program; an estimate of the amount of debt that is not expected to be repaid; and detail on the terms of the loan • <i>for equity injections</i>, the full value of the equity injection; the expected rate of return at inception; the key assumptions underpinning the expected return on the equity injection; and the expected impact on fiscal aggregates, such as net financial worth • <i>for all policies using alternative financing</i>, the public debt interest associated with the measure.
<i>The expected financial impacts of ongoing programs</i>	<p>When revaluations are expected or ‘known’, budget documents could include:</p> <ul style="list-style-type: none"> • a detailed breakdown of forecast revaluations • the forecast effect of revaluations on net financial worth by policy area • forecast revaluations at a program level, where the expected revaluation is greater than \$200 million over the forward estimates period. <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"> • a table showing the total potential exposure and expected value of exposure associated with each quantifiable government guarantee.
<i>The outcomes of existing and historical policy</i>	<p>The Final Budget Outcome could include:</p> <ul style="list-style-type: none"> • revaluations, separated into those for newly acquired financial assets and for existing financial assets • discussion of the drivers of revaluations, such as changes in market prices, exchange rates, and actuarial revaluations • 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.

Note: In making these suggestions, the PBO is not in a position to assess the practicality of the timing of publication of this additional information in budget papers.

Please see the answer to QoN 1 for related information.