

**Senate Economics Legislation Committee**  
**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

2014 - 2015

**Department/Agency: Treasury**

**Question: BET 17-18**

**Topic: Future Fund Earnings**

**Reference: Hansard page no. 70 - 05 June 2015**

**Senator: McAllister, Jenny**

**Question:**

BET 17-18 Senator McALLISTER: I am wondering, given the complexity of the policy area, whether Treasury provided options to government on the appropriate treatment of Future Fund earnings and when they were provided?

Senator Cormann: This is why I wanted to pause you there, because the way you are asking the question assumes that these were options and scenarios that were put to the current government.

Senator McALLISTER: That is indeed my question. Were options and scenarios put to the current government?

Senator Cormann: That is the whole point. If you look at the opening paragraph of the document that you have just read from, there are two key bits. Firstly, in the 2012-13 budget, the government announced its intention to review. The second key bit is that this paper and the outcomes of the consultations, including in relation to the issues that you have just raised, would be put to the government for consideration in the lead-up to the 2012-13 Mid-Year Economic and Fiscal Outlook.

Presumably that was done, because the decision to change the budget treatment from 2020 onwards in the way that we are now having a discussion about was made by the previous Labor government after the consultation but before the last election in the 2012-13 Mid-Year Economic and Fiscal Outlook. So this is not a matter that came before this government in any way, shape or form in terms of policy decisions. The policy decision had already been made and had already been announced and, indeed, it was a decision that was consistent with what was envisaged in the Future Fund Act 2006 when it was first set up.

Senator McALLISTER: Indeed. I am wondering then, Mr Ray, about the delay in implementing that decision. If the evidence provided by the senator is correct, why is it—

Senator Cormann: It is correct.

Senator McALLISTER: I accept that. Can you tell me why it took so long for it to be incorporated into Treasury's practices?

Mr Ray: I might just step through things a little. I do not think it actually is a policy decision—that is the first point. It is about an accounting treatment. It goes back, as the minister said, to 2006—in fact, to the 2005-06 budget. The question that you asked me was about the report to the government from the two former secretaries of finance and the Treasury. That report was actually on a specific question and it was not to do with the treatment from 2020-21. That report was about the question of whether the costs incurred by the Future Fund should be netted off from the underlying cash balance in the more immediate term. So it was about a different question and, if you like, the explicit statement about the accounting treatment pre-dated the report, as the minister said, because it was in the 2012-13 budget. I just wanted to step through the history, if I may.

Senator McALLISTER: Thank you, Mr Ray, that is an important distinction.

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Mr Ray: In terms of the change in the modelling treatment, we are refining our modelling all the time. But, as a general rule, in terms of the longer term projection modelling that we do, the Intergenerational reports are the natural step to work through a lot of these questions in some detail. We worked through this question as we worked on the 2015 Intergenerational report. We started to work on the report back in 2012. That is how long it takes—to think about the modelling, not the writing up of the report.

We have to project Future Fund earnings out there, and we consulted with the Future Fund on how we should think that through and how we should go about it. We do not want our projections of Future Fund earnings to be in any way indicative of what they think they are going to earn—so that is one issue. The change in the accounting treatment is a relatively simple bit.

Senator McALLISTER: I am not sure that it is simple, to the extent that it has obviously attracted quite a lot of attention—and not simply from senators but also from the media observing these things. Isn't it case that Treasury would usually flag or explain a change in the accounting treatment of this kind in a box in the budget papers or in the Intergenerational report?

Senator Cormann: And it was. That is the whole point. If you go to the 2012-13 budget, there was a box at page 9-33. When the change in this accounting treatment was given effect before the last election by the previous government, there was a detailed box which talked about Future Fund earnings and costs and the underlying cash balance. It makes the point very clearly as to why the accounting treatment of Future Fund earnings from 1 July 2020 onwards would be different to the accounting treatment in relation to the underlying cash balance up until 30 June 2020. Indeed, the discussion paper makes that point very clearly, too. It says:

The Future Fund's gross earnings have been excluded from the underlying cash balance since its establishment in 2006. This was on the basis that Future Fund earnings, while accounted for as Government receipts, are not available for recurrent spending but are instead quarantined and reinvested to meet the Government's future public sector superannuation liabilities.

That reality changes as of 1 July 2020. As the previous government indicated in its 2012-13 budget and again in Labor's 2012-13 MYEFO, as was always envisaged, from 1 July 2020 onwards 'earnings will be available to meet the government's recurrent superannuation spending, and both costs and earnings will be included in the underlying cash balance.' That was a statement in the 2012-13 MYEFO. To have done otherwise would have meant that you would have excluded one part of the equation. Obviously, taking into account the expenditure, you would be representing an inaccurate position of the underlying cash balance if you excluded the cash revenue that is available for you to meet some of those liabilities.

Senator McALLISTER: Mr Ray, notwithstanding this explanation, this is the first budget in which these numbers have been included in the projections around the underlying cash balance. I am wondering whether you provided a draft box to the Treasurer's office when you were preparing the budget papers to explain this.

Mr Ray: We do not normally get into what draft material we may or may not have provided.

Senator Cormann: Why don't we take it on notice for you and see whether we can assist you.

I cannot recollect having seen a draft box, but it was of course very explicitly presented in the 2012-13 budget, in the 2012-13 MYEFO and in the Intergenerational report earlier this year.

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So it was not new information, as such. When you say that this is the first time that this was reflect, that is not quite right. It was first reflected in terms of the medium to long-term forecast in the Intergenerational report.

Senator McALLISTER: Yes, Senator Cormann. However, we just had a conversation about how chart 1 has been adjusted from previous charts to incorporate all this information. It is actually the first time that this material has been presented and incorporated into this chart.

Senator Cormann: It has also been part of the chart in the Intergenerational report, and that is being done so that we have an apples with apples comparison. If we had not made the adjustment to previous trajectories in these lines for 2013-14 MYEFO and the 2014-15 budget and so on then the comparison would not have been valid.

Senator McALLISTER: I entirely agree, but it is the first time that that has happened, and I am asking about—

Senator Cormann: In the budget?

Senator McALLISTER: However, we are going to take this on notice. We are going to get some information. I think I can hand to Senator Ketter now, Chair.

Senator KETTER: Thank you. Mr Ray, in terms of the impact of the Future Fund earnings on the budget bottom line down the track, can you provide the committee with the Future Fund earnings in each year from 2021.

Mr Ray: I am happy to take that on notice.

Senator KETTER: You might also want to take this on notice. Can you give us an idea of the magnitude of the Future Fund earning beyond the forward estimates.

Senator Cormann: From an underlying cash balance point of view, this is only material appearing beyond the forward estimates, because manifestly the accounting treatment reflecting the changed reality from 1 July 2020 only starts on 1 July 2020, which is not just one year but two years out of the current forward estimates period.

Senator KETTER: Would it be a safe assumption that it would be at least \$4 billion a year, given that the earning figure for 2018-19 is around that?

Senator Cormann: We have taken that on notice.

Mr Ray: That is the 2018-19 number.

Senator Cormann: You asked in the period beyond the forward estimates. Obviously, the change in treatment, which was initiated by the previous government, already comes into effect from 1 July 2020, when the earnings from the Future Fund become available to meet relevant government liabilities. We have taken that question on notice, and we will provide the information on notice.

Senator KETTER: Notwithstanding you are taking some of that on notice, Mr Ray, would you be able to give us some idea of how much the Future Fund earnings contribute to surpluses in the years 2020 to 2025.

Senator Cormann: That is a different way of asking the same question, and I have already taken that on notice.

#### **Answer:**

BET 17-18 No additional material explaining the treatment of Future Fund earnings was drafted in the preparation of the Budget documentation. The approach to modelling the

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Future Fund was described in detail on pages 135 to 136 of the 2015 Intergenerational Report, which was released on 5 March 2015.

Projected net Future Fund earnings average 0.2 per cent of GDP per year, from 2020-21 to the end of the medium term (2025-26).

These projections are based on a number of technical assumptions which are outlined in the 2015 Intergenerational Report, and should not be taken to be a reflection of expected future activities of the Fund or decisions of the Future Fund Board of Guardians.