



Policy costing

National Disability Insurance Scheme (NDIS) Future Fund	
Party:	Australian Labor Party
Summary of proposal: This proposal would invest \$1.6 billion in a new fund managed by the Future Fund Board of Guardians mandating a target rate of return equivalent to the consumer price index (CPI) plus 2.0 to 3.0 per cent per year, net of investment fees. The principal and net earnings would be drawn down to fund future National Disability Insurance Scheme expenses in the event that these exceeded the level budgeted for. Unspent earnings would be reinvested into the fund. The proposal would have effect from 1 July 2019.	

Costing overview

This proposal would be expected to increase the fiscal balance by \$153 million and the underlying cash balance by \$155 million over the 2019-20 Budget forward estimates period. There would be a decrease in the headline cash balance by \$1,706 million over the same period. On a fiscal balance basis, this impact reflects an increase in public debt interest (PDI) costs of \$108 million associated with increased Commonwealth Government borrowing to fund the initial \$1.6 billion investment, and an increase in departmental expenses of \$32 million. These increases in expenditure are more than offset by an increase of \$293 million in cash earnings from the fund.

A breakdown of the financial implications from 2019-20 to 2029-30 is provided at [Attachment A](#). This proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period.

Consistent with Parliamentary Budget Office (PBO) Guidance 02/2015, PDI expense impacts have been included in this costing because this proposal involves the recognition of financial assets and liabilities.

The implications for the fiscal balance are marginally different from the underlying cash balance due to timing differences in the PDI expense impacts. The headline cash balance differs from the fiscal and underlying cash balances due to the initial capital injection into the proposed fund, and the treatment of capital gains, which do not increase the fiscal and underlying cash balances, but do increase the headline cash balance when they are recognised.

The initial capital injection is specified, and therefore certain, and management costs for the fund are relatively certain. The net financial implications of the proposal are very sensitive to the projected rates of return, and the timing and magnitude of future National Disability Insurance Scheme expenses in excess of those budgeted for. Situations of persistent and sizeable upward revisions in the National Disability Insurance Scheme expenses could make the required rate of return difficult to achieve.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	14	40	45	54	153
Underlying cash balance	15	41	45	54	155
Headline cash balance	-1,614	-29	-31	-32	-1,706

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Required legislation, including investment mandates, would be completed by the start date of the proposal.
- The contributions made to the proposed fund would increase the Commonwealth Government’s borrowing requirement.
- The initial capital committed for the proposed fund would be gradually drawn down and invested over the 2019-20 financial year.
- The proposed fund would have management fees as a share of funds under management comparable to but slightly higher than those of the Medical Research Future Fund.
 - This reflects the higher rate of return required for the new fund.
- Actual National Disability Insurance Scheme expenses would be equal to those budgeted for each year. While principal and net earnings would be available for draw down to fund future National Disability Insurance Scheme expenses over the costing horizon, no drawdowns are projected.
 - In addition, should the National Disability Insurance Scheme expenses exceed budget amounts at some point in the future and, at that point in time, the Commonwealth Government’s cost of borrowing be lower than the expected rate of return for the new fund, it may be appropriate to borrow to fund the overspend rather than draw down from the fund.
- The specified rate of return for the proposal, averaging 5.4 per cent annually over the period to 2029-30, is achievable.
 - A proportion of the proposed fund would be invested in relatively liquid assets so that they could be readily made available for draw down.
- The proportion of cash earnings and capital gains from the proposed fund would be consistent with the 2019-20 Budget assumption for the Medical Research Future Fund of 90 per cent and 10 per cent respectively.
 - Capital gains would be recognised in each year.

Methodology

The initial capital under the proposal was as specified. Total annual earnings were estimated by applying the target rate of return to the opening balance of the fund in each year. Total earnings less management costs were reinvested as per the specification, increasing the asset base for the subsequent years. The revenue impact on the fiscal and underlying cash balances does not include the estimated 10 per cent of returns accruing as capital gains. The impact on the headline cash balance shows the full return to the fund.

Expenses incurred by the Future Fund Board of Guardians for the direct costs of managing the fund were estimated based on the size of the fund and estimated management fees.

PDI expenses were estimated based on the total impact of the proposal.

All estimates have been rounded to the nearest \$1 million.

Data sources

The Department of Finance provided the 2019-20 Budget Medical Research Future Fund model.

The Treasury provided the 2019 Pre-election Economic and Fiscal Outlook economic parameters.

Attachment A – National Disability Insurance Scheme (NDIS) Future Fund – financial implications

Table A1: National Disability Insurance Scheme (NDIS) Future Fund – Fiscal balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Revenue													
Total – revenue	36	77	84	95	104	114	125	137	150	164	180	293	1,268
Expenses													
Total – departmental expenses	-7	-7	-8	-9	-10	-11	-12	-13	-14	-15	-17	-32	-122
Total (excluding PDI)	29	70	76	86	94	103	113	124	136	149	163	261	1,146
PDI impacts	-15	-30	-31	-32	-32	-34	-35	-36	-38	-39	-84	-108	-406
Total (including PDI)	14	40	45	54	62	69	78	88	98	110	79	153	740

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

Table A2: National Disability Insurance Scheme (NDIS) Future Fund – Underlying cash balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
Total – receipts	36	77	84	95	104	114	125	137	150	164	180	293	1,268
Payments													
Total – departmental payments	-7	-7	-8	-9	-10	-11	-12	-13	-14	-15	-17	-32	-122
Total (excluding PDI)	29	70	76	86	94	103	113	124	136	149	163	261	1,146
PDI impacts	-14	-29	-31	-32	-32	-33	-35	-36	-38	-39	-81	-106	-401
Total (including PDI)	15	41	45	54	62	70	78	88	98	110	82	155	745

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.

A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

Table A3: National Disability Insurance Scheme (NDIS) Future Fund – Headline cash balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
Total – receipts	40	86	94	106	116	127	139	152	167	182	200	326	1,409
Payments													
<i>Administered</i>													
<i>Initial fund</i>	-1,600	-	-	-	-	-	-	-	-	-	-	-1,600	-1,600
<i>Reinvestment</i>	-33	-79	-86	-97	-106	-116	-127	-139	-153	-167	-183	-294	-1,287
Total – administered	-1,633	-79	-86	-97	-106	-116	-127	-139	-153	-167	-183	-1,894	-2,887
Total – departmental	-7	-7	-8	-9	-10	-11	-12	-13	-14	-15	-17	-32	-122
Total – payments	-1,640	-86	-94	-106	-116	-127	-139	-152	-167	-182	-200	-1,926	-3,009
Total (excluding PDI)	-1,600	-	-	-	-	-	-	-	-	-	-	-1,600	-1,600
PDI impacts	-14	-29	-31	-32	-32	-33	-35	-36	-38	-39	-81	-106	-401
Total (including PDI)	-1,614	-29	-31	-32	-32	-33	-35	-36	-38	-39	-81	-1,706	-2,001

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.