

— Exclusive

# Future Fund props up budget surpluses

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Federal budget surpluses will be propped up by \$17 billion of expected investment earnings by the Future Fund, following an accounting change in Canberra.

Almost 40 per cent of the government's \$45 billion of projected surpluses over the next four years were forecast in the April federal budget to be delivered by the \$154 billion sovereign wealth fund, *The Australian Financial Review* can reveal.

Under a budget accounting shake-up by Labor's then-finance minister Penny Wong in 2012, from July 2020 onwards the Future Fund's net earnings will top up the federal budget's underlying cash balance for the first time.

The accounting alteration highlights the strong investment performance of the Future Fund.

Its latest portfolio update to be released on Monday shows an average 10.4 per cent annual return over the past decade – significantly above its 6.5 per cent target.

## Topping up the budget bottom line

Yet the padding out of the budget bottom line by the fund also raises questions about whether the government-owned investment institution is masking the fiscal performance of politicians in Canberra.

The fund's profits will not count towards the Morrison government's acclaimed return to surplus, forecast to be \$7.1 billion in 2019-20.

But beyond that, the little-noticed accounting change by the former Labor government and adopted by the Coalition is anticipated to boost the budget bottom line by more than \$5 billion each year.

Since the fund's inception under former Liberal federal treasurer and now Future Fund chairman Peter Costello, the earnings by the investment vehicle have not been included in the budget's underlying cash balance.

Mr Costello set up the fund as Treasurer in 2006 to pay for the unfunded pension liabilities of public servants.

Commenting on the release of the fund's March quarter results, Mr Costello said: "The Future Fund continues to make good progress on its objective to strengthen the government's long-term financial position.

"Recent budget papers show the contribution its earnings will make to the budget bottom line from 1 July 2020.

"Its assets also reduce government net debt and add to the government's net financial worth."

As well as chairing the Future Fund, Mr Costello is chairman of Nine, owner of *The Australian Financial Review*.

Separately, a report by parliament's independent fiscal watchdog said the federal government's net debt could be as much as \$70 billion higher if the Future Fund's investments were accounted for differently in the Commonwealth budget.

Almost half of the \$154 billion Future Fund's investments are made via collective investment vehicles, such as equity-like assets in private equity and infrastructure, and are currently deducted from the government's gross debt.

However, if the sovereign wealth fund held the same equity investments directly, under budget accounting rules they would not reduce the government's reported net debt to the current \$373 billion, the Parliamentary Budget Office said.

The watchdog's report last month called into question the appropriateness of the longstanding net debt frameworks adopted under Coalition and Labor governments and suggested a review is warranted and greater transparency required in the budget to report the holdings of government investment funds.

"Net debt is now quite sensitive to the investment strategy adopted by the Future Fund given the significant value of assets under management," the PBO said.

"While the Future Fund is managed independently from government under a legislated investment mandate, the choice of assets purchased by the Future Fund can have a material impact on net debt.

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