

A. Entity responses

As mandated in Section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the Treasurer and Minister for Trade and Investment and the Under Treasurer.

We also provided a copy of the report to the following entities and gave them the option of providing a response:

- QIC Limited
- Queensland Treasury Corporation.

We provided a copy of this report to the Premier and Minister for the Olympics; the Minister for Resources; the Director-General, Department of Resources; and the Director-General, Department of the Premier and Cabinet for their information.

This appendix contains the detailed responses we received.

The heads of these entities are responsible for the accuracy, fairness, and balance of their comments.



Comments received from Under Treasurer, Queensland Treasury



Queensland Treasury

Our Ref: 05319-2021
Your Ref: PRJ02776

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
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Email: QAO.Mail@qao.qld.gov.au

Dear Mr Worrall

Thank you for your email of 15 November 2021 to the Honourable Cameron Dick MP, Treasurer and Minister for Trade and Investment and myself, seeking formal feedback by 6 December 2021 on the report to Parliament on the Queensland Future Fund (QFF). I have been asked to respond on the Treasurer's behalf.

Your proposed report recommends that the *Queensland Future Fund Act 2020* (QFF Act) be amended to require:

1. Financial statements to be prepared, audited, and made publicly available for each fund created under the *Queensland Future Fund Act 2020*. These requirements could be based on those included in section 7 of the *NSW Generations Funds Act 2018*.
2. Additional information to be included within an annual report for the Queensland Future Fund prepared by the Treasurer, including:
 - the governance arrangements of the Queensland Future Fund
 - the activities and performance of key investments in the fund
 - public disclosure of the audited financial information of the fund.

I note your *State Finances 2020 Report 15: 2020-21* tabled 18 March 2021 included a similar recommendation. Consistent with the former Under Treasurer's response, I advise section 7 of the QFF Act addresses this recommendation.

Section 7 Information about Queensland Future Fund to be included in annual financial statements.

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The department's annual financial statements prepared under the *Financial Accountability Act 2009*, section 62 for a financial year must include the following information about the QFF:

- details of contributions made to the fund in the financial year
- details of payments made from the fund in the financial year, including the purpose of each payment
- whether the payment was made in compliance with this Act.

Your recommendation suggests Queensland Treasury (Treasury) should prepare financial statements as New South Wales (NSW) does for the Generations Fund, however, the QFF is structured in a different manner to NSW's fund. The NSW fund has been set up as a stand-alone entity with its own balance sheet and operating statement and has directly invested in assets.

In contrast, the QFF is a financial instrument on the Treasury Administered balance sheet in the form of a Fixed Rate Note with Queensland Treasury Corporation (QTC). It is not an entity of itself and does not therefore warrant separate financial statements. Extensive reporting is provided in Treasury's Annual Report consistent with the nature of this investment.

The QFF has been audited by yourself as part of Treasury's financial statements with information provided as per section 7 of the QFF Act.

Relevant extracts from the Queensland Treasury Annual Report, tabled in Parliament on 29 September 2021, are enclosed for transparency and include:

- details of the strategic asset allocation of the underlying trusts managed by Queensland Investment Corporation (QIC).
- the Strategic Investment Advisory Board governance in relation to the QIC trusts
- disclosure of movements in the Fixed Rate Note during the year (as per the QFF Act) including contributions, withdrawals, earnings, market value adjustments
- the closing balance of the Debt Retirement Fund Fixed Rate Note is fair valued based on the underlying market value of the Debt Retirement Fund portfolio held by QTC.

If you require any further information, please contact [redacted] who will be pleased to assist.

Yours sincerely



Leon Allen
Under Treasurer

3 / 12 / 2021

Encl. (1)



Administered

Queensland Future Fund

The government has established the Queensland Future Fund (QFF) to support Queensland's future economic success. The Debt Retirement Fund (DRF) is the first fund established under the *Queensland Future Fund Act 2020* (QFF Act 2020) with the purpose of debt reduction. The QFF DRF will hold state investments for future growth to be used to offset state debt when assessing Queensland's credit rating.

The QFF DRF investment on Queensland Treasury's balance sheet takes the form of a Fixed Rate Note with Queensland Treasury Corporation (QTC). The QFF DRF is backed by investments in Queensland Investment Corporation (QIC) trusts held on QTC's balance sheet. The investment objectives, strategies and policies of these QIC trusts are advised by the State Investment Advisory Board (SIAB).

In 2020–21, assets contributed to the QFF DRF totalled \$7.7 billion and included a \$6 billion investment in Queensland Titles Registry, \$1.5 billion from the surplus assets held to support the Defined Benefit Scheme and \$206 million in securities held by the State.

The QFF DRF transferred the contributed assets listed above to QTC. On receipt, QTC transferred the contributed assets to QIC managed trusts. In consideration of the back to back transfers, QTC issued the QFF DRF fixed rate note to Queensland Treasury, and QIC issued units in the QIC trusts (referred to as the DRF asset portfolio) to QTC.

Interest from the DRF is quarantined and reinvested in the DRF asset portfolio.

QIC has been appointed as investment manager to implement the investment objectives set by SIAB for the DRF portfolio. Rebalancing of the DRF asset portfolio occurred following the initial asset contributions to the fund.

The actual asset allocations of the QIC trust investments for the DRF portfolio as at the reporting date are:

	30 June \$M
Defensive assets	
Cash	2,731.1
Fixed interest	584.5
Growth assets	
Equities	2,116.6
Diversified alternatives	–
Unlisted assets	
Infrastructure	1,605.4
Private equities	359.6
Real estate	345.0
	7,742.2

Only the Treasurer has the power to authorise or make payments from QFF DRF under section 10 of the *QFF Act 2020*. Payments from the DRF may be made only for repayment of the state's debt and paying fees or expenses relating to the administration of the fund. No withdrawals were made from the DRF for debt repayment in 2020–21.

Queensland Treasury
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	2021 \$'000	2020 \$'000
40 Other financial assets		
Administered on behalf of the whole-of-government		
Queensland Future Fund - Debt Retirement Fund (DRF) - FRN with QTC	7,742,219	..
Reconciliation of movements in the DRF		
Opening balance
Add: Contributions - new investments	7,695,724	..
Less: Investment drawdown
Add: Interest Income reinvested	26,263	..
Add: Gain/(loss) on fair value movement of investments	20,232	..
Closing balance	7,742,219	..

Accounting policy – Other financial assets

Other Financial Assets represent the Queensland Future Fund (QFF) - Debt Retirement Fund Fixed Rate Note with Queensland Treasury Corporation (QTC). The Debt Retirement Fund was established under section 9 of the *Queensland Future Fund Act 2020 (the QFF Act)* as a sub-fund of the Queensland Future Fund for the purpose of providing funding for reducing the State's debt. Funds invested in the DRF are held for future growth and are offset against state debt to support Queensland's credit rating.

Contributions to the DRF include investments directed by the Treasurer to be contributed to the fund and amounts that must be contributed to the fund under another Act. In accordance with the *QFF Act*, payments from the DRF may only be made to reduce the State's debt or pay fees or expenses relating to the administration of the fund.

On 28 April 2021, Queensland Treasury entered into a DRF Fixed Rate Note (FRN) agreement with QTC. Under the agreement, it is intended that assets will be contributed by the State to meet the purpose of the DRF from time to time. The DRF will transfer these contributed assets to QTC and in consideration, QTC will issue the DRF FRN to Queensland Treasury. QTC will invest the contributed assets in the DRF portfolio, which is held in a unit trust arrangement managed by QIC Limited and overseen by the State Investment Advisory Board (SIAB).

The FRN is recognised at FVTPL under AASB 9 *Financial Instruments*. Under the terms of the DRF FRN agreement, interest is calculated on a daily basis on the book value of the DRF FRN with interest capitalised monthly. The interest rate on the DRF FRN is an effective rate of 6.5% per annum. The DRF FRN is valued at the fair value of the DRF asset portfolio. The fair value methodology applied to the FRN is classified as Level 3 in the fair value hierarchy as it is based on the fair value of the corresponding assets in the DRF portfolio, which utilises significant unobservable inputs.

The fair value of the FRN is payable by QTC to Treasury on the termination date and upon payment, the DRF FRN will be cancelled. Treasury may from time to time request a payment of some part of the DRF FRN. In this event, QTC will dispose part of its interest in the DRF portfolio to fund the repayment.

Under section 10 of the *QFF Act*, the Treasurer may direct that specific state assets be contributed to the DRF. The following contributions were made to the DRF in the 2020-21 financial year:

- In March 2021, Queensland Titles Registry Pty Ltd (Titles Registry) was established with shares in the company held by the Under Treasurer on behalf of the State. The Treasurer provided a direction for 75% of the shares in Titles Registry to be contributed to the DRF. The remaining 25% of shares in the company were held by CF to fund other Government priorities.

On 18 June 2021, title registry operations previously performed by the Department of Resources were transferred to Titles Registry in accordance with the *Queensland Future Fund (Titles Registry) Act 2021*. A net liability of \$1.5 million was transferred to Titles Registry by the Department of Resources. On the same day, the DRF transferred its 75% of shares in Titles Registry to QTC. QTC subsequently transferred the holdings in Titles Registry into the DRF asset portfolio invested with QIC and in consideration increased the value of the DRF FRN held by Treasury.

Queensland Treasury
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Note 40 Other financial assets (continued)

The increase in the DRF FRN recognised by Treasury represents the fair value of the 75% shares in Titles Registry. Treasury recorded the shares at cost prior to transfer, this has resulted in a gain on transfer of \$5.991 billion being recognised in the Administered Statement of Comprehensive Income.

- \$1.5 billion from the surplus assets held to support the Defined Benefit Scheme. Treasury received administered equity appropriation to purchase surplus superannuation assets from CF and transfer them to QTC. In exchange for the transferred assets, QTC increased the value of DRF FRN.
- Aurizon shares (\$206 million) – As identified in Note 6, the shares were provided as an in-specie dividend by QTH to Treasury (with the Under Treasurer as the holder of ‘A’ shares). The shares were received through the Controlled books as a ‘Dividends received’ and transferred to QTC as part of the portfolio. A loss of \$205.273 million was recognised in the Controlled Statement of Comprehensive Income for the transfer of the shares to QTC (refer Note 7). In recognising the FRN from QTC associated with the transfer of these shares in the DRF, a gain of \$205.273 million was recognised in the Administered Statement of Comprehensive Income.

Below is a summary of the gain on transfers and fair value movement from the investment in the QFF:

	2021 \$'000
Gain on transfer of Registry shares to QTC	5,991,251
Gain on transfer of Aurizon shares to QTC (notes 6 and 7)	205,973
Gain on fair value movement of the DRF FRN	20,232
Total gain on transfer and fair value movement	6,217,456

Auditor-General’s response

We note the Under Treasurer’s response.

While there are some disclosures on the Queensland Future Fund within the 113 pages of Queensland Treasury’s financial statements and annual report, the annual report disclosures are not audited.

We recognise that the structure of the New South Wales arrangement differs from Queensland, however we highlighted this to demonstrate another jurisdiction’s disclosures in a single location for full transparency and accountability. The Queensland Future Fund is a significant and on-going transaction of government. We recommend separately reporting the future fund arrangement to support transparency and accountability.

