



AUDIT BRIEF

13 December 2021

Establishing the Queensland Future Fund

Report 11: 2021–22

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- supports our reports with graphics, tables, and other visualisations, which connect our insights to regions and communities
- conducts investigations into claims of financial waste and mismanagement raised by elected members, state and local government employees, and the public
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The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

13 December 2021

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*.



Brendan Worrall
Auditor-General



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Report on a page

The Queensland Future Fund was established to offset the state's debt

The Queensland Future Fund was established in 2020. The Queensland Future Fund is a framework under which funds may be created. The first of these funds, the Debt Retirement Fund, was established this year. The underlying assets supporting the Debt Retirement Fund are held in several investment trusts. Investments and returns from the Debt Retirement Fund can only be used to reduce state debt. The establishment of the Queensland Future Fund and its Debt Retirement Fund impacted the investments and assets of several government entities. Each entity has reported on its individual financial impacts, but the overall impact across government is not captured in one place. This could be addressed by having separate financial statements for the Queensland Future Fund. Separate financial statements would be comparable to practices in other jurisdictions (such as New South Wales).

Assets contributed to the Debt Retirement Fund

The government transferred assets valued at \$7.7 billion into the Debt Retirement Fund in 2020–21. They included the Queensland Titles Registry business (which manages the land and water titles registries in Queensland and collects fees for managing these registries), shareholdings in Aurizon (formerly QR (Queensland Rail) National), and surplus assets from the defined benefits fund (investments held to meet future superannuation obligations and other long-term liabilities of the state). Not all of the ownership of the Queensland Titles Registry was included in the Queensland Future Fund. Twenty-five per cent of the returns from the Queensland Titles Registry will be used to deliver three initiatives.

Subsequent changes to assets owned by the fund

After the establishment of the Debt Retirement Fund, QIC Limited sold a portion of the Aurizon shares. On the same date as the Queensland Titles Registry business was transferred in, part of the ownership in it was transferred to government superannuation assets and a statutory body in exchange for other more liquid investments. A \$2.1 billion loan was also taken out against the Queensland Titles Registry business. This was to provide liquidity to the fund and support the state's credit rating. On 30 June 2021, the Debt Retirement Fund had a value of \$7.7 billion, which is reported in Queensland Treasury's financial statements and the *Report on State Finances*.

Impact on the Queensland Titles Registry

The Queensland Titles Registry shifted from being part of a government department to being a separate company, owned indirectly by multiple government entities. This move was completed through the passing of the *Queensland Future Fund (Titles Registry) Act 2021*. Employees transferred with the business and can choose to move back to the public sector for a period after this move. The ownership of the business could continue to change over time.

It is too early to determine if the fund has met its objectives

The Treasurer set out the objectives of the fund in the 2021–22 state budget. The fund met the objective of having assets of \$7.7 billion as at 30 June 2021 and improving the net debt to revenue ratio for the state. Other objectives will be measured in the medium to long term.



1. Recommendations

Introduce a statutory requirement for the Treasurer and Queensland Treasury to prepare annual financial statements and provide additional information for funds established under the *Queensland Future Fund Act 2020*

In our *State finances 2020* (Report 15: 2020–21) report to parliament, we recommended that Queensland Treasury amend the *Queensland Future Fund Act 2020* to include a requirement for financial statements to be prepared, audited, and made publicly available for each fund created under the Act. This recommendation was made based on practices seen in other jurisdictions (such as New South Wales) for their future funds. This recommendation was not accepted.

Based on the transactions that occurred within the Queensland Future Fund structure in 2020–21, and the information publicly available on these transactions, we recommend that the Treasurer and Queensland Treasury reconsider this recommendation. Provision of further information would provide information on the activities of the Queensland Future Fund and its investments for the public and assist in the measure of a ‘transparent and open government’.

Specifically, we recommend the *Queensland Future Fund Act 2020* 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* (NSW)
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.

Reference to comments

In accordance with s. 64 of the *Auditor-General Act 2009*, we provided a copy of this report to relevant entities. In reaching our conclusions, we considered their views and represented them to the extent we deemed relevant and warranted. Any formal responses from the entities are in [Appendix A](#).

2. The Queensland Future Fund

This chapter covers the establishment of the Queensland Future Fund, outlines the assets that were initially transferred into it, and explains what has happened to those assets since.

Establishing the fund

In December 2019, the former Deputy Premier and Treasurer announced plans for a Queensland Future Fund. Its design was based on the NSW Generations Fund.

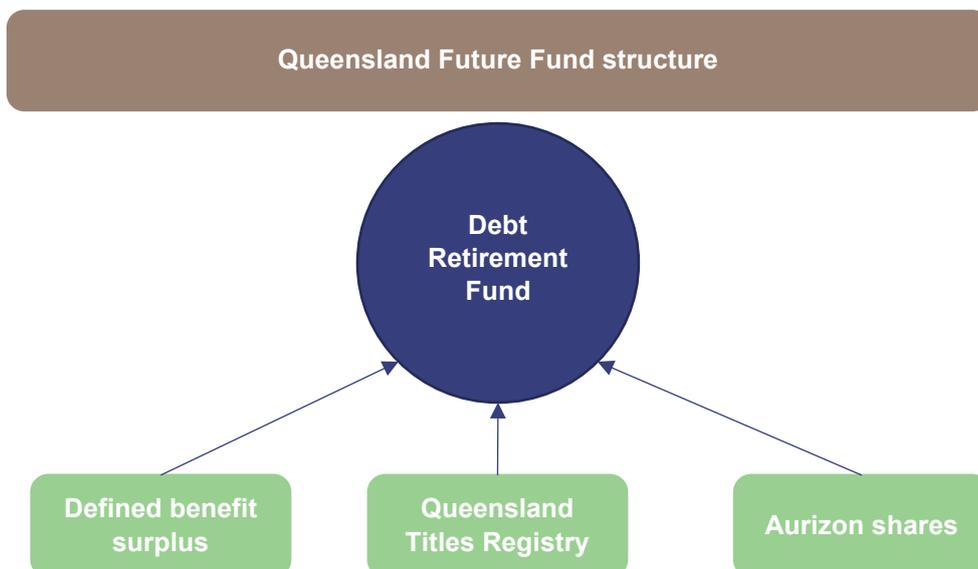
The Queensland Future Fund was established in August 2020 under the *Queensland Future Fund Act 2020*, which outlines the administration, oversight, and reporting required. It also creates a new category of assets, known as ‘prescribed’ assets, which must always be held in state ownership. Any assets not included as a prescribed asset may be externally owned.

The Queensland Future Fund is not an investment fund in itself. It provides the structure under which individual funds can be created to hold assets for managing the state’s debt or for other purposes. The first individual fund set up under this structure is the Debt Retirement Fund. The underlying assets supporting the Debt Retirement Fund are held in several investment trusts. The assets and returns from the Debt Retirement Fund can only be used to reduce the state’s debt.

[Appendix B](#) provides details of the legislation that passed through parliament to set up the Queensland Future Fund.

Further details of the fund were provided in the 2021–22 state budget. Figure 2A outlines the Queensland Future Fund structure and the assets the government announced for the Debt Retirement Fund in the budget.

Figure 2A
Structure of the Queensland Future Fund and its Debt Retirement Fund



Source: Compiled by the Queensland Audit Office.



Managing the Queensland Future Fund and its Debt Retirement Fund involves several entities across government, as shown in Figure 2B.

Figure 2B
Government entities involved in managing the fund

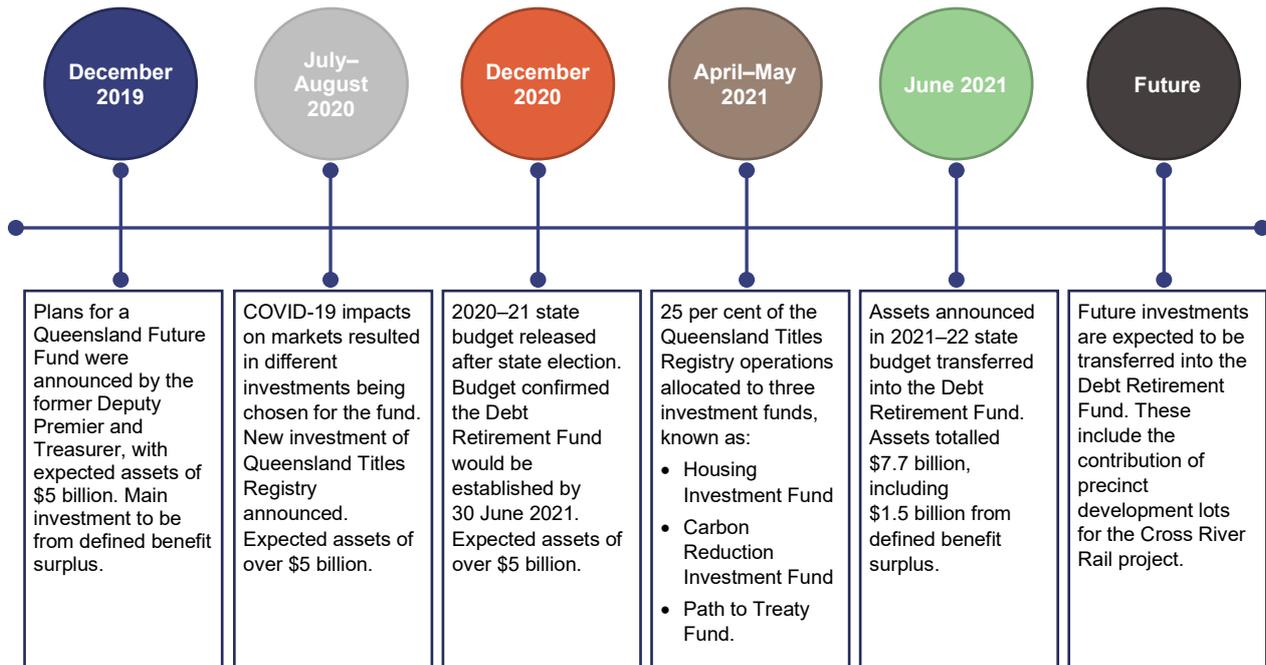


Source: Compiled by the Queensland Audit Office.

Establishing the Debt Retirement Fund

Figure 2C shows the main steps involved in establishing this fund.

Figure 2C
Timeline for establishing the Debt Retirement Fund

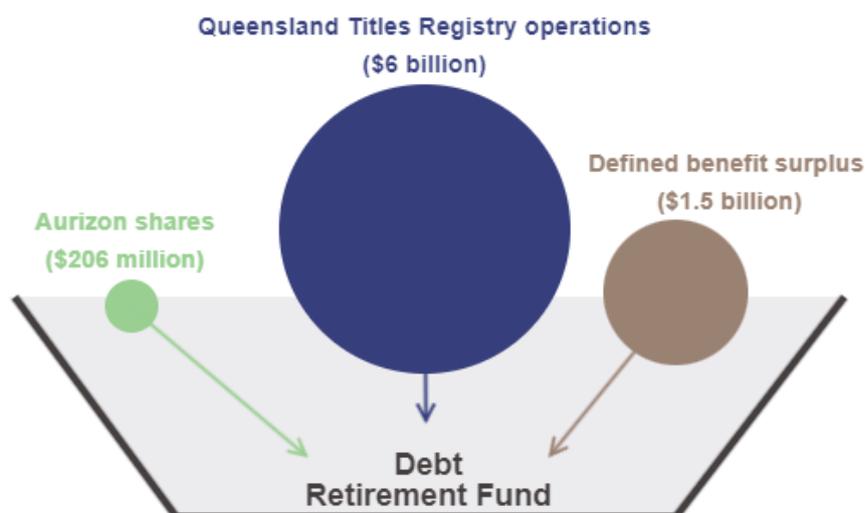


Source: Compiled by the Queensland Audit Office.

Assets initially transferred into the fund

Figure 2D identifies the assets the government contributed to the Debt Retirement Fund. QIC Limited manages these assets on behalf of the state and was involved in the transfer process.

Figure 2D
Assets contributed to the Debt Retirement Fund in 2020–21



Source: Compiled by the Queensland Audit Office.

Transfer and valuation of the Queensland Titles Registry

The Queensland Titles Registry is responsible for the registration of all land-related transactions in Queensland. It also operates other registries including water allocation, foreign land ownership and leasehold registers. In managing these registers, it collects fees for changes to, or searches of, the registers.

The Queensland Titles Registry operations were transferred from the Department of Resources into a company called Queensland Titles Registry Pty Ltd on 18 June 2021. On this date, the Debt Retirement Fund took ownership of 75 per cent of the company, and the state's Consolidated Fund (through three funds) held 25 per cent. QIC Limited currently manages the operations of the Queensland Titles Registry.

The transfer of the Queensland Titles Registry included all assets and liabilities of the operations, as well as employees and employee entitlements. The new owners have the right to the revenue collected by the Queensland Titles Registry for the next 50 years. Future rates charged for registry services are capped under legislation and must be notified to the state (and the public) prior to the start of each financial year.

Those employees who transferred retained the entitlements of the state award under which they were employed, and can choose to return to the public sector within a specified period.

Because the transfer of the Queensland Titles Registry did not involve a public sale, market data was not as readily available as it would be for other asset sales. As a result, the valuation of the Queensland Titles Registry was determined in a process involving external valuers.

The Queensland Titles Registry was valued at \$7.98 billion at 30 June 2021. This value was calculated through a discounted cash flow over 50 years. (A discounted cash flow is used to estimate the future income for the period for which the rights to the revenue are held, in today's dollars.) The Debt Retirement Fund received \$6 billion of this value.

The value was higher than initial estimates and that of titles registries in other states due to the length of time the arrangement covers and the inclusion of property value based transaction fees (a different fee structure compared to other states).

[Appendix C](#) details the process flow of this transaction.

Creation of three investment initiatives

When the 2021–22 state budget was presented to parliament, the value of the Queensland Titles Registry was higher than initial estimates. The government announced it would contribute value greater than the \$6 billion included in the Debt Retirement Fund to three new funds, outside of the Queensland Future Fund structure.

The three funds will be used to fund long-term priorities, including:

- \$1 billion for the Housing Investment Fund
- \$500 million for the Carbon Reduction Investment Fund
- \$300 million for the Path to Treaty Fund.

Returns from the Queensland Titles Registry are allocated to these three initiatives based on their funding allocation above. These funds were not established under the same legislation as the Queensland Future Fund. These investments are held within the state's Consolidated Fund. The creation and establishment of these investment funds will be further explained in our state finances 2021 report.

Surplus assets from the defined benefit fund (government superannuation assets)

The state holds investments to cover the costs of meeting defined benefits for the State Public Sector Superannuation Scheme (QSuper). Historically, the value of these investments has exceeded the value of the defined benefit obligation, resulting in a surplus.

When announcing plans for the Queensland Future Fund in December 2019, the government expected the defined benefit surplus would be up to \$5 billion. However, due to the initial impact of COVID-19 on markets, this surplus reduced. Ultimately, \$1.5 billion was transferred from the defined benefit surplus before 30 June 2021. The defined benefit scheme remained in surplus after this transfer. Under the legislation which established the Queensland Future Fund, the defined benefit fund is required to be fully funded.

[Appendix C](#) details the process flow of this transaction.

Aurizon shares

Queensland Treasury Holdings Pty Ltd, a subsidiary of Queensland Treasury, held 54.9 million shares in Aurizon Limited after the privatisation of QR (Queensland Rail) National in 2010. In April 2021, the shares, valued at \$206 million, were transferred into the Debt Retirement Fund. There is no net impact on Queensland Treasury's overall financial statements from this transfer, as these shares were already recorded in its financial statements prior to the transfer.

[Appendix C](#) details the process flow of this transaction.

What has happened to the assets?

As mentioned earlier, the *Queensland Future Fund Act 2020* created the concept of 'prescribed' assets, which must always be held by the state and not sold or transferred into private ownership.

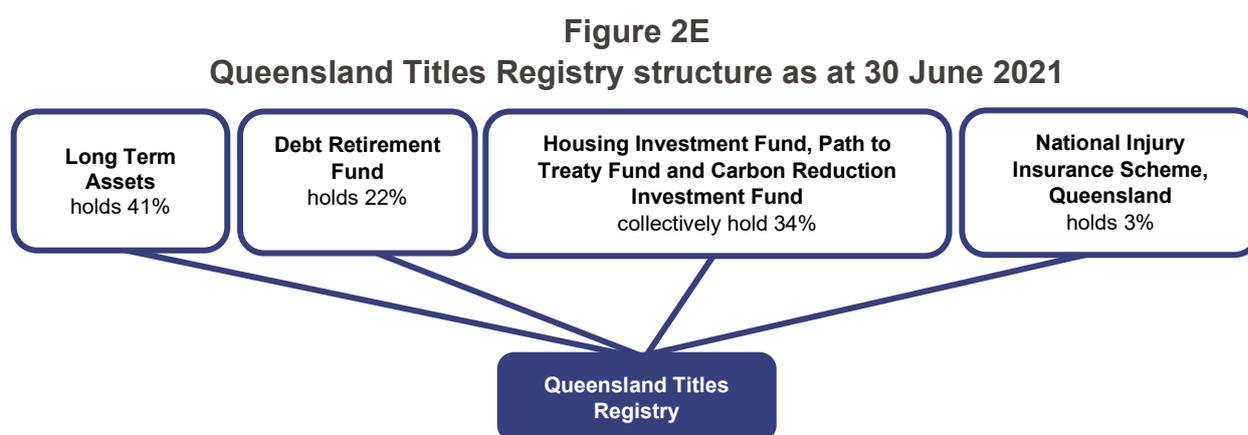
However, the investments transferred into the Debt Retirement Fund during 2020–21 are not prescribed assets, and significant portions of them changed ownership after being placed in the fund, though all of the ownership of Queensland Titles Registry remained with government entities.

This was done to diversify the investments of the Debt Retirement Fund and provide cash for operations.

Several key transactions occurred after the assets were contributed to the fund:

- In May 2021, a portion of the Aurizon shares were sold on the Australian Stock Exchange. This was completed as part of usual trading of investments.
- On the same day the Queensland Titles Registry operations transferred to the Debt Retirement Fund, \$2.1 billion was borrowed. This occurred in a company within the Queensland Titles Registry structure to provide liquidity to the fund and support the state's credit rating.
- The Debt Retirement Fund transferred part of its ownership of the Queensland Titles Registry to other Queensland government funds and entities. In exchange, it received more liquid investments from these entities.

This meant that, as at 30 June 2021, there were four owners of the Queensland Titles Registry, as shown in Figure 2E.



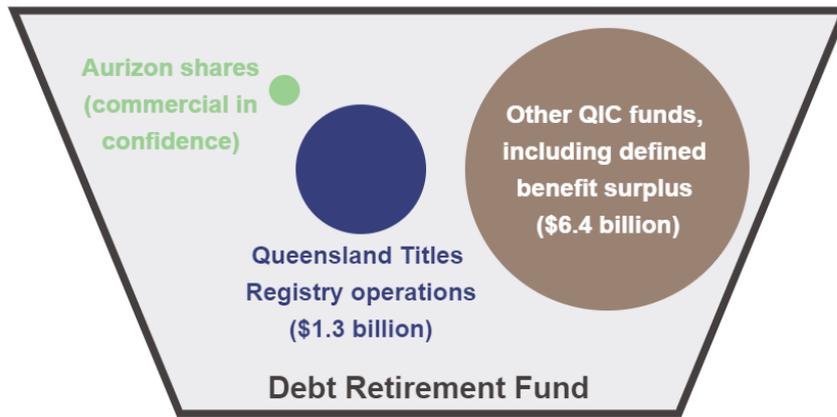
Note: Long Term Assets is the pool of funds held by the government to fund long-term obligations of the state, including the defined benefit fund.

Source: Compiled by the Queensland Audit Office.

While the indirect owners of the Queensland Titles Registry were all government entities as at 30 June 2021, there is no legislative protection under the *Queensland Future Fund Act 2020* or the *Queensland Future Fund (Titles Registry) Act 2021* to prevent some or all of the holdings in the Queensland Titles Registry from being sold to private entities. Agreement of all owners is required for any changes in the ownership structure. A change in ownership may also result in tax obligations for the Queensland Titles Registry.

On 30 June 2021, the Debt Retirement Fund held the remaining portion of Aurizon shares and its holding in the Queensland Titles Registry, which was valued at \$1.3 billion. The remaining value of the fund was invested across other funds QIC Limited manages, including cash, real estate, and private businesses. Figure 2F outlines the assets of the fund as at 30 June 2021.

Figure 2F
Assets in the Debt Retirement Fund as at 30 June 2021



Source: Compiled by the Queensland Audit Office.

Achievement of objectives

The 2021–22 state budget announced the objectives the government wanted to achieve through the Queensland Future Fund. Figure 2G outlines assessment of what progress has been made on these objectives to date.

Figure 2G
Progress in meeting Queensland Future Fund objectives from the 2021–22 state budget

Budget objective	Progress assessment
Provide for debt reduction	As at 30 June 2021, no debt had been paid down from the Queensland Future Fund, because it had only been operating for a short time. The ratio of net debt held by the government compared to the revenue it generates, however, did decrease due to the creation of the Debt Retirement Fund.
Hold state investments for future growth	The assets contributed were those formerly held by the state. A number of these have been partially sold, or transferred to other government entities to increase the liquidity of the Debt Retirement Fund. This was allowed as they were not prescribed assets.
Offset state debt to support Queensland's credit rating	This will be measurable in late 2021, when the first credit rating (since the fund was established) is issued.
Play a material role in the state's management of its debt	This cannot be assessed in the early stages of the Queensland Future Fund. Progress will be measured on this in future years.
Provide a contribution of \$7.7 billion to the Debt Retirement Fund as at 30 June 2021	This was achieved with the transfer of the operations of the Queensland Titles Registry, Aurizon shares, and a portion of the defined benefit surplus.

Source: Compiled by the Queensland Audit Office.

Reporting on financial performance

In its 2020–21 annual report, Queensland Treasury presented information on the Queensland Future Fund relating to:

- contributions made into the fund
- the allocation of the investments in the fund as at 30 June 2021
- the accounting policy for ‘Other financial assets’ (which is how Queensland Treasury records the Queensland Future Fund in its financial statements).

Queensland Treasury also provided information on the strategic asset allocation as at 30 June 2021 and provides some information on the governance of the Queensland Future Fund.

In addition, impacts of the future fund arrangements were disclosed across the financial statements of multiple entities, including the:

- Queensland Treasury Corporation, which recorded the value of the future fund investments (managed by QIC within the Debt Retirement Fund) and the financial instrument issued to Queensland Treasury in return for the investments
- Queensland Treasury Holdings, which recorded the transferred Aurizon shares
- Department of Resources, which recorded the assets and liabilities of the transferred Queensland Titles Registry
- Report on State Finances, which recorded the transferred defined benefit surplus, and shows the overall investment in the Debt Retirement Fund and the three funds (the Housing Investment Fund, Path to Treaty Fund and Carbon Reduction Investment Fund) through its reporting of the results of all state entities. This report also provided information on the establishment and funding of the Debt Retirement Fund
- Debt Retirement Trust, which recorded the value of the underlying investments. (These are audited special purpose financial statements prepared by QIC and are not available publicly.)

All of these financial statements need to be considered in order to fully understand the impact of the Queensland Future Fund across government.

To make the overall impact clearer, Queensland Treasury should prepare separate financial statements for the Queensland Future Fund. This would be comparable to the NSW Generations Fund, which is required to provide a separate annual report, including publicly available and audited financial statements for each of the funds it manages.

Separate financial statements would also provide enhanced accountability to parliament and the public if changes occur in the fund that impact on the investments, particularly ownership of the assets contributed to the fund. This will support the Queensland Government’s measure of an ‘open and transparent government’.

Separate financial statements would provide clear and audited disclosure of the Queensland Future Fund and would align to practices in other jurisdictions.

This recommendation was previously raised in our *State finances 2020* (Report 15: 2020–21) report and was not accepted. We have re-raised this recommendation based on the transactions within the Queensland Future Fund structure in 2020–21 and the disaggregated information available on these activities.



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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
PO Box 15396
CITY EAST QLD 4002

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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Queensland 4001 Australia
Telephone +61 7 3035 1933
Website www.treasury.qld.gov.au
ABN 90 856 020 239

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
Notes to the Financial Statements 2020–21

	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
Notes to the Financial Statements 2020–21

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.



B. Legislation underpinning the Queensland Future Fund

Figure B1
Legislation underpinning the Queensland Future Fund

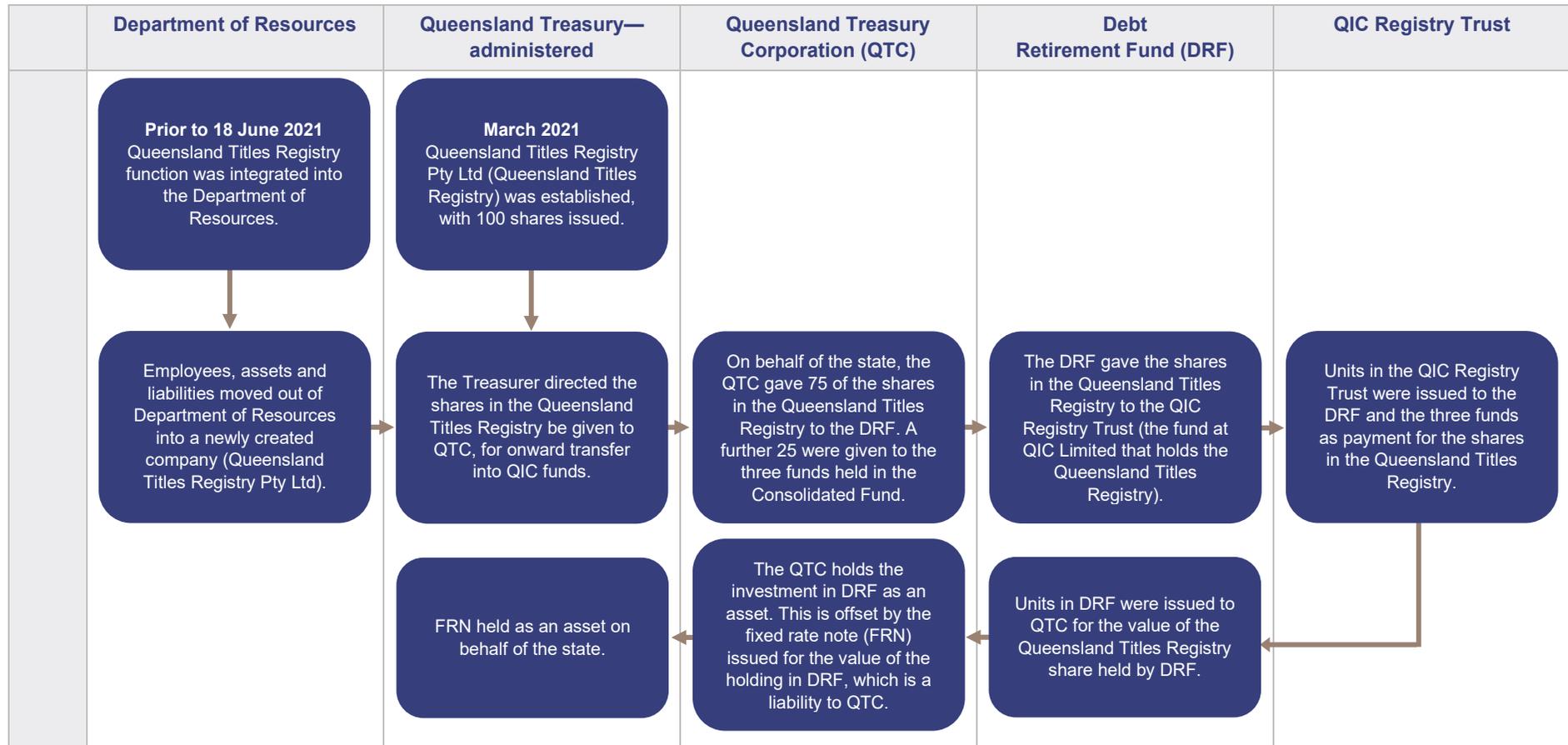
Legislation	Date of assent	Purpose
<i>Queensland Future Fund Act 2020</i>	20 August 2020	<p>The <i>Queensland Future Fund Act 2020</i> established the Queensland Future Fund, including the overarching administration, oversight and reporting. It also established the first Queensland Future Fund—the Debt Retirement Fund. The Act outlined what payments may be made to and from this fund.</p> <p>The Act created the concept of a ‘prescribed state asset’. A prescribed state asset, if contributed to the Debt Retirement Fund, is required to be held by the state indefinitely and cannot be disposed of.</p> <p>A new fund could be added in future by amending the legislation to include a new division. In addition to establishing the new fund, this division would state its purpose, and set out the terms that apply specifically to that fund.</p>
<i>Queensland Future Fund (Titles Registry) Act 2021</i>	2 June 2021	<p>The <i>Queensland Future Fund (Titles Registry) Act 2021</i> was passed to allow the functions of the Queensland Titles Registry to move from a department to a corporation, which enabled its contribution into the Debt Retirement Fund.</p> <p>The Queensland Titles Registry was not transferred into the Debt Retirement Fund as a prescribed state asset under this legislation.</p>

Source: Compiled by Queensland Audit Office.



C. Transaction process flows

Figure C1
Timeline for ownership of the Queensland Titles Registry Pty Ltd

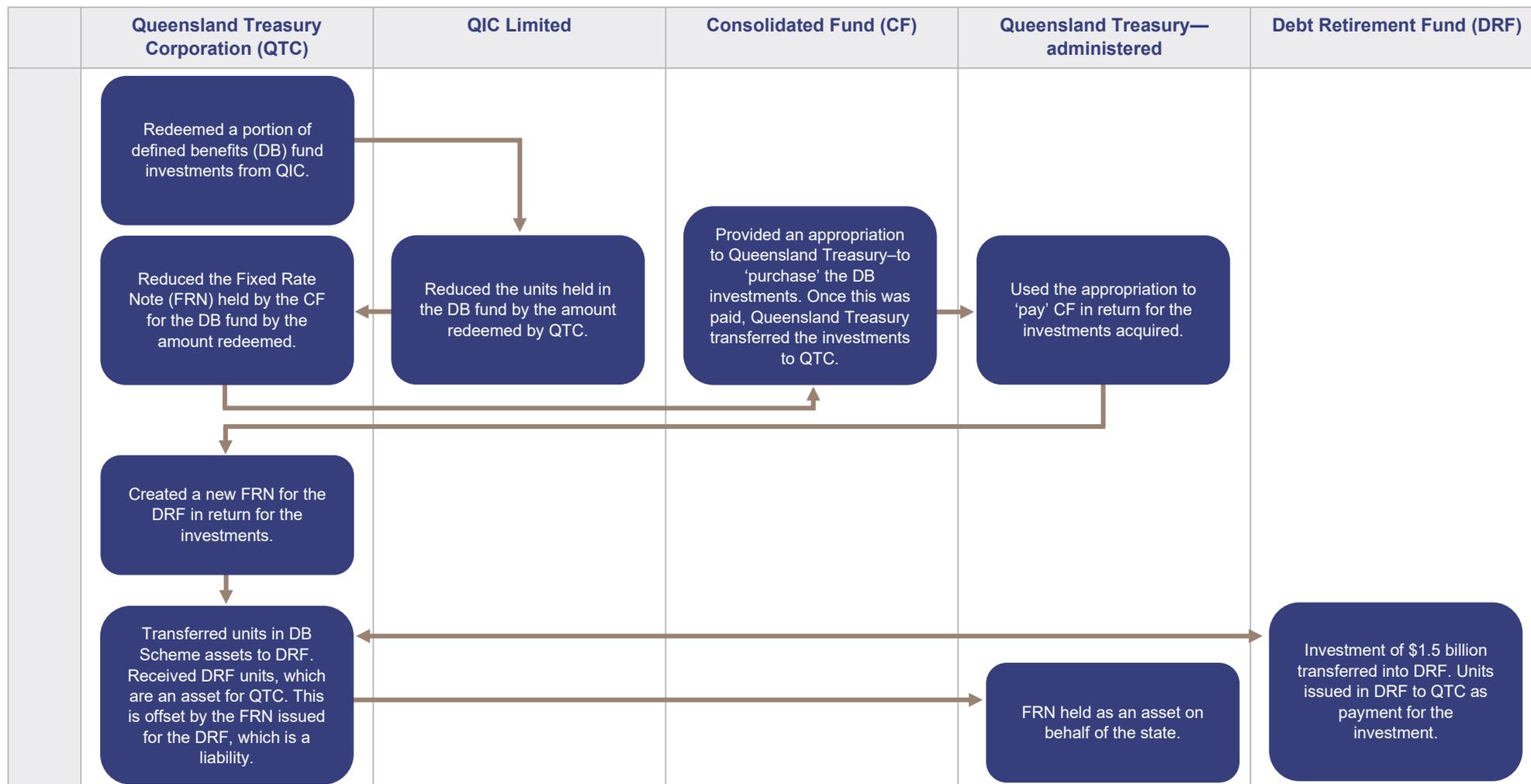


Notes: Fixed rate note (FRN)—a secured loan to another party where the interest rate is a fixed value. The FRN is typically backed by an asset as security for the loan.
 Unit—an instrument issued to represent the holding in an investment fund. The fund issues the units to the holders to represent what portion of the fund they are entitled to.
 The Debt Retirement Fund (DRF) refers to the underlying assets, which are held in several investment trusts.

Source: Compiled by the Queensland Audit Office from Queensland Treasury information.



Figure C2
Transfer of surplus assets held to support the Defined Benefits Scheme (DB Scheme)

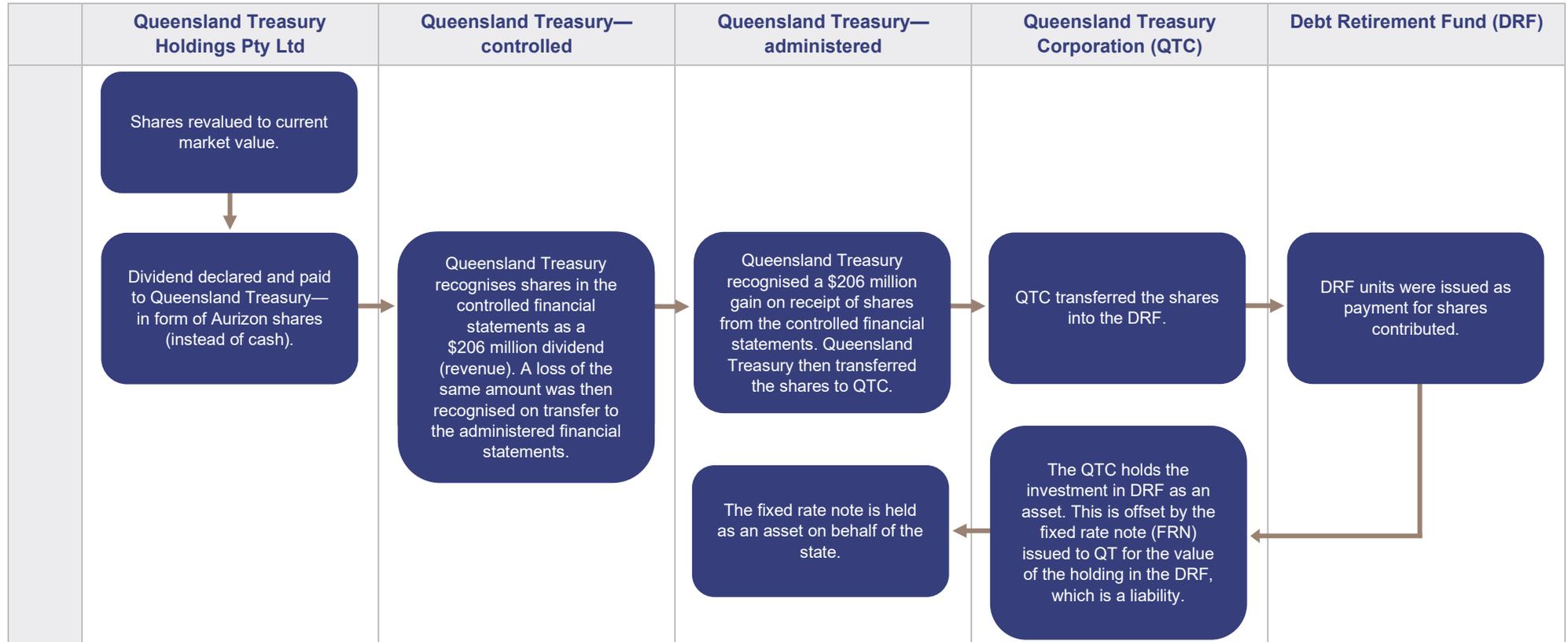


Note: There were two transfers from the DB Scheme. The first was in April 2021 and the second in June 2021.
 Appropriation—monies or another asset (in this case, the QIC investments) allocated to an entity for an official use.

Source: Compiled by the Queensland Audit Office from Queensland Treasury information.



Figure C3
Transfer of Aurizon shares



Notes: The above transactions all occurred at the end of April 2021.

Controlled financial statements—one of the two statements prepared by many departments (including Queensland Treasury). The controlled statements represent activities that the department can direct and control as part of its own activities.

Administered statements—the second statement prepared by departments. Items in the administered statements represent activities and balances that the department undertakes on behalf of the state as a whole, and typically are not under the direction or discretion of the department.

Source: Compiled by the Queensland Audit Office from Queensland Treasury information.



D. Financial impacts of the Queensland Future Fund

This is an extract from the financial records of the entities significantly impacted by the establishment of the funds. It shows the impact of the above transfers on their financial statements.

Figure D1
Financial impacts of the Queensland Future Fund

	Queensland Treasury —controlled (\$ million)	Queensland Treasury —administered (\$ million)	Consolidated Fund (\$ million)	Department of Resources (\$ million)	Queensland Treasury Corporation (\$ million)	Queensland Treasury Holdings Pty Ltd (\$ million)	Debt Retirement Trust (\$ million)
Revenue impacts							
Dividends received	206						
Gain on transfer in of investments held at fair value through profit or loss		6,196					
Gain on fair value movement of investments held at fair value through profit or loss		20			49		48
Interest income		26					
Expense impacts							
Net loss on investment held at fair value through profit or loss	206					64	
Administration fees					3		8
Interest expense					26		
Net change in fair value of financial liabilities at fair value through profit or loss					20		
Distributions to unit holders							41
Impact on operating profit/(loss)		6,242				(64)	(0.6)
Asset impacts							
Cash and cash equivalents							106
Receivables							48
Financial assets at fair value through profit or loss		7,742	(1,500)		7,742	(270)	7,594



	Queensland Treasury —controlled (\$ million)	Queensland Treasury —administered (\$ million)	Consolidated Fund (\$ million)	Department of Resources (\$ million)	Queensland Treasury Corporation (\$ million)	Queensland Treasury Holdings Pty Ltd (\$ million)	Debt Retirement Trust (\$ million)
Property, plant and equipment				(0.3)			
Intangible assets				(2,369)			
Liability impacts							
Financial liabilities at fair value through profit or loss					7,742		6
Distributions payable							41
Payables							7
Impact on net assets as at 30 June 2021		7,742	(1,500)	(3)		(270)	7,694
STATEMENT OF CHANGES IN EQUITY							
Equity injections/(decreases)		1,500	(1,500)	(3)			
Retained earnings— Dividends paid						(206)	
Retained earnings— impact on profit/(loss)		6,242				(64)	
Impact on equity		7,742	(1,500)	(3)		(270)	
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS							
Units issued on transfer of assets							7,696
Decrease in net assets attributable to unit holders							(0.6)
Redemptions							(0.7)
Impact on assets attributable to unitholders							7,694

Note: totals may not add due to rounding.

Source: Compiled by Queensland Audit Office.

E. How we prepared the audit brief

About this audit brief

The purpose of this audit brief was to provide a summary of the process by which the Queensland Future Fund was established and the key elements of its structure as at 30 June 2021.

Our focus was on the following key questions:

- What did the structure and key investments of the Queensland Future Fund look like as at 30 June 2021?
- What was the process undertaken to establish the Queensland Future Fund up to 30 June 2021?
- Who is impacted by and interested in the Queensland Future Fund?
- What reporting will the government provide publicly on the Queensland Future Fund as at 30 June 2021, and possibly in the future?

Entity subject to the audit

Queensland Treasury.

Our approach

Performance engagement

This audit has been performed in accordance with the *Auditor-General Auditing Standards*, incorporating, where relevant, the standards on assurance engagements issued by the Auditing and Assurance Standards Board.

The audit:

- reviewed documents and data provided by Queensland Treasury as part of the 30 June 2021 financial statement audit
- reviewed publicly available information
- referred to the Queensland Audit Office's *State finances 2020* (Report 15: 2020–21)
- referred to the 30 June 2021 annual reports/financial statements of the following entities
 - Queensland Treasury
 - Queensland Treasury Corporation
 - Department of Resources
 - Queensland Treasury Holdings Pty Ltd
 - Consolidated Fund (Report on State Finances)
 - Debt Retirement Trust.





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